



**Metropolitan Transportation Authority**

# Audit Committee Meeting

## April 2015

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### Committee Members

J. Sedore Jr., Chair

F. Ferrer

R. Bickford

C. Moerdler

A. Saul

**Audit Committee Meeting**  
**2 Broadway - 20th Floor Board Room**  
**New York, NY 10004**  
**Wednesday, 4/29/2015**  
**8:30 - 10:00 AM ET**

**1. PUBLIC COMMENTS PERIOD**

**2. APPROVAL OF MINUTES - JANUARY 20, 2015**

*Minutes of January 20, 2015 meeting - Page 4*

**3. AUDIT COMMITTEE WORK PLAN**

*2015 - 2106 WORKPLAN - Condensed - Page 7*

*2015 - 2016 WORKPLAN - Detailed - Page 9*

**4. 2014 FINANCIAL STATEMENTS - DRAFT**

**a. METROPOLITAN TRANSPORTATION AUTHORITY**

*MTAHQ Financial Statements 2014 - DRAFT - Page 14*

**b. MTA LONG ISLAND RAIL ROAD**

*LIRR Financial Statements 2014 - DRAFT - Page 126*

**c. METRO-NORTH COMMUTER RAILROAD COMPANY**

*MNCR Financial Statements 2014 - DRAFT - Page 175*

**d. TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY**

*TBTA Financial Statements 2014 - DRAFT - Page 220*

**e. MTA BUS COMPANY**

*MTABUS Financial Statements 2014 - DRAFT - Page 284*

**f. FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**

*FMTAC Financial Statements 2014 - DRAFT - Page 326*

**g. NEW YORK CITY TRANSIT AUTHORITY**

*NYCTA Financial Statements 2014 - DRAFT - Page 350*

**h. STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY**

*SIRTOA Financial Statements 2014 - DRAFT - Page 414*

## **5. MTA CONSOLIDATED FINANCIAL STATEMENTS - MANAGEMENT REVIEW**

## **6. FINANCIAL INTEREST REPORTS**

*Financial Interest Reports - 2015 for Calendar Year 2014 - Page 453*

*Financial Disclosure Statement - 2015 for Calendar Year 2014 - Page 454*

## **7. ETHICS AND COMPLIANCE PROGRAM**

*2015 Ethics and Compliance Presentation - Page 456*

## **8. DDCR COMPLIANCE MONITORING & PERFORMANCE MEASURES**

*DDCR 2015 Contract Close-Out Status - Page 467*

## **9. EXECUTIVE SESSION**

**MINUTES OF MEETING  
AUDIT COMMITTEE OF THE BOARD  
TUESDAY, JANUARY 20, 2015 – 2:45 P.M.  
5TH FLOOR BOARD ROOM  
347 MADISON AVENUE**

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The following were present:

**Honorable:**

**James L. Sedore  
Fernando Ferrer**

**Robert Bickford  
Andrew Albert**

**M. Fucilli - MTA  
R. Foran - MTA**

**L. Kearse - MTA  
P. Kane - MTA**

**M. Fritz - Deloitte  
G. Friedrich - Deloitte  
M. Malloy - Deloitte  
J. Strohmeyer- Deloitte**

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**1. PUBLIC COMMENTS PERIOD**

There were no public speakers.

**2. APPROVAL OF MINUTES**

The minutes of the November 19, 2014 Audit Committee meeting were approved.

**3. AUDIT COMMITTEE WORKPLAN**

The work plan for April and November was amended to include a briefing from the MTA Diversity Officer on the status of performance measures on compliance monitoring by the Department of Diversity and Civil Rights. The Agenda for the next meeting in April will include: a review by Deloitte on the results of their audit of the 2014 Financial Statements, a briefing by the Chief Compliance Officer on the Financial Interest Reports and agency compliance with the ERM guidelines and a review of the agency claims and litigations in Executive Session.

**4. INDEPENDENT ACCOUNTANTS' REVIEW REPORT – 3<sup>RD</sup> QUARTER 2014**

Mike Fritz (Deloitte) indicated that their review noted no adjustments and no changes in the accounting policies and principles and concluded that the report fairly represents the MTA financial condition and results of operation for the nine-month period, September 30, 2014. The Chair read a note to the financial statements that stated “auctions for all of the \$287,325 of auction bonds as of 9/30/14 had been falling” and inquired if such situation has a financial impact to MTA. Bob Foran (MTA) explained the meaning of failed auctions and said that MTA has disposed of risky rate bonds investments. In response to the Committee inquiry, Bob Foran confirmed that the remaining rate bond investments are the ones with satisfactory return results. The Chair commented that Financial Statements were pretty close to the Financial Plan, considering that the plan was based on budget.

A motion was made and seconded to approve the 3rd Quarter 2014 financial statements.

## **5. 2013 PENSION PLAN AUDITS**

Mike Fritz (Deloitte) discussed the report that was handed to the Committee pertaining to the audit of the financial statements of various pension plans which were provided earlier to the Committee in draft form. He said their audit of the various pension plans was done in accordance with Generally Accepted Auditing Standards and that the financial statements of the various pension plans were in conformity with Generally Accepted Accounting Principles. He stated that there was no “emphasis of matter paragraphs” in any of the financial reports other than the required supplementary information required by the Government Auditing Standards Board related to the funding of the pension plans. He indicated that the audited financial reports are for the plan year ended December 31, 2013 and explained the timing of the report was late as the actuary information for the plans was not received until the September/October timeframe. He said that the plans’ internal controls, accounting estimates, fair market values of investments, the annual required contribution as determined by the actuaries and the actuarial values of the plan assets and liabilities were reviewed during the audit. He also indicated that financial statements contained no uncorrected misstatements and no adjustments were made as a result of their audit. He further indicated that the significant accounting policies and actuarial valuations included in the financial statements were consistent with what have been in the past; however, that will change next year with the adoption of GASB 67 as it related to the recording of unfunded liabilities in the financial statements. He said that there were no disagreements with management with respect to policies and procedures put in place nor were there consultations with other accountants relative to the established procedures. Finally, he explained that the statement regarding a “significant difficulty encountered in performing the audit” was about the delay in receiving the information from the MTA’s actuary which resulted in the delay in the issuance of the financial reports.

The Committee inquired, and was assured by financial management, that the agenda materials usually provided to the committee separately from the agenda book such as the pension plan financial statements are going to be incorporated electronically into agenda package via Directors’ Desk.

A motion was made and seconded to accept the audit reports on the various pension plans for the year ended December 31, 2013.

## **6. INFORMATION TECHNOLOGY REPORT**

Sid Gellineau (MTA Chief Information Officer) provided the Committee with an update on the major IT enterprise-level strategies and initiatives: (1) the IT Consolidation which became live effective January 1, 2015 and (2) the IT Transformation, which he said is a significant undertaking requiring large scale restructuring of service delivery, process, organization, technology and finances - an endeavor involving a headcount of 1,000 and an operating budget of \$240 million. He cited better leveraging of IT resources and talents as early benefits of the transformation. He discussed the MTA IT Strategic Plan and noted that the IT Vision and Goals are aligned with the corporate priorities set by the Chairman of the MTA. He also cited the IT accomplishments in 2014 as well as during the pre-consolidation period, which included, among others, the establishment of a Transformation Roadmap, obtaining agreements and working successfully with the labor unions, the development of MTA-wide Governance procedures and the cost reductions resulting from e-mail rationalization and the consolidation of multiple wide area networks. He explained the flow chart on IT Governance, noting IT governance and oversight interactions for IT and the BSC occur at all management levels. Finally, he enumerated to the Committee the six key challenges the MTA IT Office faces and the performance measures it established to monitor achievement in each of fourteen initiatives it is currently undertaking.

7. **2014 YEAR-END REPORT AND 2015 PROPOSED AUDIT PLAN**

The Auditor General (AG) briefed the Committee on Audit Services' achievements during 2014. Overall, Audit Services made 759 audit recommendations for improvement with a total dollar impact of \$78.9 million. Savings identified were from: revenue enhancements; review of operating contracts; audit of vendor invoices; and expense reductions in employee benefits and healthcare costs. On the contract side, savings were achieved from cost proposal audits which ensured contracts presented for Board approval have the lowest price and cost reductions related to Bus procurements, 2<sup>nd</sup> Avenue Subway and the No. 7 Line Extension. Additionally, the Sandy audit unit that was established in 2014 completed 30 projects, made 93 recommendations, including requiring adjustments to Sandy costs totaling \$38 million, all of which were reported to the Sandy Oversight Committee that was established with the approval of the Audit Committee. The key audits performed by the Sandy audit unit included the Montague Subway Tunnel, FTA Funding and the Green Point Tube. The AG presented the 2015 Audit Plan and described that the plan was developed, through a formal risk assessment, performed in accordance with the Institute of Internal Audit standards. The AG indicated that the results of the risk assessment when applied to the Audit Services resources identified 165 audits for 2015. A snapshot of the types of audits for 2015 was presented which included, among others: validating the Superstorm Sandy costs; and performing audits in Agency Operations, Capital Budgeting, Medical Services, TAB System Implementation and closeout audits of Fulton Center and No. 7 Line Projects. The AG informed the Committee that an internal quality assurance review conducted in accordance with policies found Audit Services to be in compliance with policy guides and applicable professional standards. Finally, the AG noted that Audit Services will continue to coordinate its Plan and audit activities with the external auditors, the State and City auditors and the MTA IG.

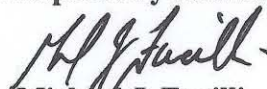
At the conclusion of the AG's presentation, the Committee asked Lamond Kears (MTA Chief Compliance Officer) as to three major risks that the Committee needs to be concerned about. Lamond said the three would be in the area of: (1) IT Transformation and data security; (2) Procurement and Treasury, and (3) Knowledge transfer and succession planning as key management and senior managerial employees retire from the agency.

A motion was made and approved to accept the Audit Services' 2015 Audit Plan.

8. **MOTION TO ADJOURN**

A motion was made and seconded to adjourn the meeting.

Respectfully submitted,

  
Michael J. Fucilli  
Auditor General

## 2015 - 2016 AUDIT COMMITTEE WORK PLAN

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### I. RECURRING AGENDA ITEMS

#### Responsibility

Approval of Minutes	Committee Chair & Members
Audit Work Plan	Committee Chair & Members
Pre-Approval of Audit and Non-Auditing Services	As Appropriate
Follow-Up Items	As Appropriate
Status of Audit Activities	Auditor General/MTA IG/ Chief Compliance Officer/ Chief Financial Officers/ Controllers/External Auditor/As Appropriate
Executive Sessions	As Appropriate

### II. SPECIFIC AGENDA ITEMS

#### April 2015

Financial Statements w/Audit Representation Letters	External Auditor/CFOs/Controllers
Contingent Liabilities/Third Party Lawsuits (Executive Session)	General Counsels/External Auditor
Financial Interest Reports	Chief Compliance Officer
Ethics and Compliance Program	Chief Compliance Officer
Enterprise Risk Management Update	Chief Compliance Officer
DDCR Performance Measures (new)	Chief Diversity Officer

#### June 2015

Quarterly Financial Statements – 1 <sup>st</sup> Quarter 2015	External Auditor/CFOs
Single Audit Report	External Auditor/CFOs
MTAAS Audit Plan Status Report	Auditor General
Investment Compliance Report	External Auditor
Management Letter Reports	External Auditor/CFOs/Controllers
GASB 67 and 68 (New)	External Auditor/CFOs/Controllers

## September 2015

Quarterly Financial Statements – 2 <sup>nd</sup> Quarter 2015	External Auditor/CFOs
Compliance with the Requirements of the Internal Control Act	Agency ICOs/Chief Compliance Officer
Appointment of External Auditors	CFOs/Controllers
Review of MTA/IG's Office	External Auditor/IG
Enterprise Risk Management Update	Chief Compliance Officer
DDCR Performance Measures (new)	Chief Diversity Officer

## November 2015

### Responsibility

MTA Enterprise Risk Management and Internal Control Guidelines	Chief Compliance Officer
Annual Audit Committee Report	Audit Committee
Review of Audit Committee Charter	Committee Chair
Audit Approach Plans/Coordination with External Auditors	External Auditor
Open Audit Recommendations	Agency ICOs/Chief Compliance Officer
Security of Sensitive Data	Chief Information Officer

## January 2016

Quarterly Financial Statements – 3 <sup>rd</sup> Quarter 2015	External Auditor/CFOs
Pension Audits	External Auditor
2015 Audit Plan Status Report	Auditor General
2016 Audit Plan	Auditor General
Information Technology Report	Chief Information Officer
DDCR Performance Measures (new)	Chief Diversity Officer



# 2015 - 2016 AUDIT COMMITTEE WORK PLAN

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## Detailed Summary

### **I. RECURRING AGENDA ITEMS**

#### Approval of Minutes

Approval of the official proceedings of the previous month's Committee meeting.

#### Audit Work Plan

A monthly update of any edits and/or changes in the work plan.

#### Pre-Approval of Audit and Non-Auditing Services

As appropriate, all auditing services and non-audit services to be performed by external auditors will be presented to and pre-approved by the Committee.

#### Follow-Up Items

Communications to the Committee of the current status of selected open issues, concerns or matters previously brought to the Committee's attention or requested by the Committee.

#### Status of Audit Activities

As appropriate, representatives of MTA's public accounting firm or agency management will discuss with the Committee significant audit findings/issues, the status of on-going audits, and the actions taken by agency management to implement audit recommendations.

#### Executive Sessions

Executive Sessions will be scheduled to provide direct access to the Committee, as appropriate.

### **II. SPECIFIC AGENDA ITEMS**

## Detailed Summary

### **APRIL 2015**

#### Financial Statements and Audit Representation Letters

The agency CFOs/Controllers will be available to the Committee to answer any questions regarding the submission of their audit representation letters to the external audit firm. The MTA public accounting firm will review the results and conclusions of their examination of the 2014 Financial Statements.

#### Contingent Liabilities and Status of Third Party Lawsuits

The General Counsels from each agency, along with representatives from D&T, will review in Executive Session the status of major litigation that may have a material effect on the financial position of their agency, or for which a contingency has been or will be established and/or disclosed in a footnote to the financial statements. In addition, the Committee will be briefed on the status of third party lawsuits for which there has been minimal or sporadic case activity.

#### Financial Interest Reports

The MTA Chief Compliance Officer will brief the Committee as to the agencies' compliance with the State Law regarding the filing of Financial Interest Reports (FIRs), including any known conflicts of interest.

#### Ethics and Compliance Program

The MTA Chief Compliance Officer will brief the Committee on selected aspects of the MTA Ethics Program.

#### Enterprise Risk Management Update

The MTA Chief Compliance Officer will brief the Committee on the status of agency compliance with the ERM guidelines and any new or emerging risk.

#### DDCR Performance Measures (New)

The MTA Chief Diversity Officer will brief the Committee on the status of the performance measures and compliance monitoring used by the Department of Diversity and Civil Rights in tracking critical tasks.

### **JUNE 2015**

#### Quarterly Financial Statements – 1<sup>st</sup> Quarter 2015

Representatives of MTA's public accounting firm, in conjunction with appropriate agency management, will discuss the interim financial statement that was prepared for the first quarter of 2015.

#### Single Audit Report

Representatives of MTA's public accounting firm will provide the results of their Federally- and State-mandated single audit reviews at the MTA and NYC Transit.

#### MTAAS Audit Plan Status Report

A briefing by Audit Services that will include a status of the work completed as compared to the audits planned for the year, a summary of the more significant audit findings, results of audit follow-up, and a discussion of the other major activities performed by the department.

#### Investment Compliance Report

Representatives of the MTA's public accounting firm will provide a review of MTA's compliance with the guidelines governing investment practices.

#### Management Letter Reports

Reports will be made by the MTA's public accounting firm on the recommendations made in the auditors' Management Letter for improving the accounting and internal control systems of the MTA and its agencies. The report will also include management's response to each Management Letter comment. The response will describe the plan of action and timeframe to address each comment. In addition, the report will contain a follow-up of prior years' open recommendations conducted by the external audit firm.

### GASB 67 and 68 (New)

The Committee will be briefed by the MTA public accounting firm, along with the agency Controllers, on the implication of Governmental Accounting Standards Board (GASB) 67 and 68 to the accounting and financial reporting of pension plans MTA-wide.

## **SEPTEMBER 2015**

### Quarterly Financial Statements - 2<sup>nd</sup> Quarter 2015

Representatives of MTA's public accounting firm, in conjunction with appropriate agency management, will discuss the interim financial statement that was prepared for the second quarter of 2015.

### Compliance with the Requirements of the Internal Control Act

The Committee will be briefed by the MTA Chief Compliance Officer and Agency Internal Control Officers on the results of the All-Agency Internal Control Reports issued to the NYS Division of the Budget as required by the Government Accountability, Audit and Internal Control Act.

### Appointment of External Auditors

The Audit Committee will review the appointment of the independent auditor for MTA HQ and all the agencies. As part of this process, the Auditor General has reviewed and provided to the Committee, and will retain on file, the latest report of the firm's most recent internal quality control review.

### Review of the MTA Inspector General's Office

Representatives of MTA's public accounting firm will provide the results of their review of the MTA/IG's operation to ensure compliance with applicable office regulations, rules, policies and procedures.

### Enterprise Risk Management Update

The MTA Chief Compliance Officer will brief the Committee on the status of agency compliance with the ERM guidelines and any new or emerging risk.

### DDCR Performance Measures (New)

The MTA Chief Diversity Officer will brief the Committee on the status of the performance measures and compliance monitoring used by the Department of Diversity and Civil Rights in tracking critical tasks.

## **NOVEMBER 2015**

### Review of MTA Enterprise Risk Management and Internal Control Guidelines

These MTA-wide guidelines were adopted by the Board in November 2011, pursuant to Public Authority Law Section 2931. The Audit Committee is required to review these Guidelines annually. The MTA Chief Compliance Officer will brief the Committee with respect to agency compliance with these guidelines and answer any questions and offer additional comments, as appropriate.

### Annual Audit Committee Report

As a non-agenda information item, the Audit Committee will be provided with a draft report which outlines the Audit Committee's activities for the 12 months ended July 2015. This report is prepared

in compliance with the Audit Committee's Charter. After Committee review and approval, the Committee Chair will present the report to the full MTA Board.

#### Review of Audit Committee Charter

The Committee Chair will report that the Committee has reviewed and assessed the adequacy of the Audit Committee Charter and, based on that review, will recommend any changes for 2015. The review will also show if the Committee's performance in 2015 adequately complied with the roles and responsibilities outlined in its Charter (i.e. monitoring and overseeing the conduct of MTA's financial reporting process; application of accounting principles; engagement of outside auditors; MTA's internal controls; and other matters relative to legal, regulatory and ethical compliance at the MTA).

#### Audit Approach Plans/Coordination with External Auditors

Representatives of MTA's public accounting firm will review their audit approach for the 2015 year-end agency financial audits. This review will describe the process used to assess inherent and internal control risks, the extent of the auditor's coverage, the timing and nature of the procedures to be performed, and the types of statements to be issued. In addition, the impact of new or proposed changes in accounting principles, regulations, or financial reporting practices will be discussed.

#### Open Audit Recommendations

The MTA Chief Compliance Officer and Agency Internal Control Officers will report to the Committee on the status of audit recommendations previously accepted by their respective agency.

#### Security of Sensitive Data

The MTA Chief Information Officer will make a presentation to the Committee on the security of sensitive data at the MTA, including a discussion on mobile device security.

### **JANUARY 2016**

#### Quarterly Financial Statements – 3<sup>rd</sup> Quarter 2015

Representatives of the MTA public accounting firm, in conjunction with appropriate agency management, will discuss the interim financial statement that was prepared for the third quarter of 2015.

#### Pension Audits

Representatives of the MTA public accounting firms will provide the results of their reviews of the pension plans that are managed and controlled by MTA HQ, Long Island Rail Road, Metro-North and NYC Transit.

#### 2015 Audit Plan Status Report

A briefing by Audit Services that will include a status of the work completed, a summary of the more significant audit findings, and a discussion of the other major activities performed by the department.

#### 2016 Audit Plan

A discussion by Audit Services of the areas scheduled to be reviewed in 2016 as well as the guidelines and policies that were used to assess audit risk and their application in the development of the audit work plan.

#### Information Technology Report

The MTA Chief Information Officer will brief the Committee on the activities of the MTA IT for the past year, including its accomplishments, strategies and plans for the current year.

#### DDCR Performance Measures (New)

The MTA Chief Diversity Officer will brief the Committee on the status of the performance measures and compliance monitoring used by the Department of Diversity and Civil Rights in tracking critical tasks.

# Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Consolidated Financial Statements as of and  
for the Years Ended December 31, 2014, and 2013  
Required Supplementary Information,  
Supplementary Information and  
Independent Auditor's Report

DRAFT

**METROPOLITAN TRANSPORTATION AUTHORITY**  
**(A Component Unit of the State of New York)**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Members of the Board of  
Metropolitan Transportation Authority

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated statements of net position of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of December 31, 2014 and 2013, and the related consolidated statements of revenues, expenses, and changes in net position and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the MTA's consolidated financial statements as listed in the table of contents.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the MTA's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the MTA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated net position of the MTA as of December 31, 2014 and 2013, and the respective changes in the consolidated net position and consolidated cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



### ***Emphasis of a Matter***

As discussed in the notes to the consolidated financial statements, the MTA is a component unit of the State of New York. The MTA requires significant subsidies from, and has material transactions with, The City of New York, the State of New York, and the State of Connecticut, and depends on certain tax revenues that are economically sensitive. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 25, the Schedules of Pension Funding Progress on page 106, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 107 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the MTA's consolidated financial statements. The Schedule of Financial Plan to Financial Statements Reconciliation, Schedule of Consolidated Reconciliation Between Financial Plan and Financial Statements, and Schedule of Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements for the year ended December 31, 2014, are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements.

The Schedule of Financial Plan to Financial Statements Reconciliation, Schedule of Consolidated Reconciliation Between Financial Plan and Financial Statements, and Schedule of Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements for the year ended December 31, 2014, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

April 29, 2015

**METROPOLITAN TRANSPORTATION AUTHORITY**  
**(A Component Unit of the State of New York)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(\$ In Millions)**

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**1. OVERVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS**

***Introduction***

This report consists of five parts: Management's Discussion and Analysis ("MD&A"), Consolidated Financial Statements, Notes to the Consolidated Financial Statements, Required Supplementary Information, and Supplementary Information.

***Management's Discussion and Analysis***

This MD&A provides a narrative overview and analysis of the financial activities of the Metropolitan Transportation Authority and its consolidated subsidiaries and affiliates (the "MTA" or "MTA Group") for the years ended December 31, 2014 and 2013. This management discussion and analysis is intended to serve as an introduction to the MTA Group's consolidated financial statements. It provides an assessment of how the MTA Group's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the MTA Group's overall financial position. It may contain opinions, assumptions, or conclusions by the MTA Group's management that must be read in conjunction with, and should not be considered a replacement for, the consolidated financial statements.

***The Consolidated Financial Statements***

The Consolidated Statements of Net Position, which provide information about the nature and amounts of resources with present service capacity that the MTA Group presently controls (assets), consumption of net assets by the MTA Group that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the MTA Group has little or no discretion to avoid (liabilities), and acquisition of net assets by the MTA Group that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position.

The Consolidated Statements of Revenues, Expenses, and Changes in Net Position, which provide information about the MTA's changes in net position for the period then ended and accounts for all of the period's revenues and expenses, measures the success of the MTA Group's operations during the year, and can be used to determine how the MTA has funded its costs.

The Consolidated Statements of Cash Flows, which provide information about the MTA Group's cash receipts, cash payments and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities.

***Notes to the Consolidated Financial Statements***

The notes provide information that is essential to understanding the consolidated financial statements, such as the MTA Group's accounting methods and policies, details of cash and investments, employee

benefits, long-term debt, lease transactions, future commitments and contingencies of the MTA Group, and information about other events or developing situations that could materially affect the MTA Group's financial position.

#### ***Required Supplementary Information***

The required supplementary information provides information concerning the MTA Group's progress in funding its obligation to provide pension benefits and postemployment benefits to its employees.

#### ***Supplementary Information***

The supplementary information provides a series of reconciliations between the MTA Group financial plan and the consolidated statements of revenues, expenses and changes in net position.

## **2. FINANCIAL REPORTING ENTITY**

The Metropolitan Transportation Authority ("MTA" or "MTA Group") was established under the New York Public Authorities Law and is a public benefit corporation and a component unit of the State of New York whose mission is to continue, develop, and improve public transportation and to develop and implement a unified public transportation policy in the New York metropolitan area.

#### **MTA Related Groups**

- Metropolitan Transportation Authority Headquarters ("MTAHQ") provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the related groups listed below.
- The Long Island Rail Road Company ("MTA Long Island Rail Road") provides passenger transportation between New York City ("NYC") and Long Island.
- Metro-North Commuter Railroad Company ("MTA Metro-North Railroad") provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway") provides passenger transportation on Staten Island.
- First Mutual Transportation Assurance Company ("FMTAC") provides primary insurance coverage for certain losses, some of which are reinsured, and assumes reinsurance coverage for certain other losses.
- MTA Capital Construction Company ("MTA Capital Construction") provides oversight for the planning, design and construction of current and future major MTA system-wide expansion projects.
- MTA Bus Company ("MTA Bus") operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.

- MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, FMTAC, MTA Capital Construction, and MTA Bus, collectively are referred to herein as MTA. MTA Long Island Rail Road and MTA Metro-North Railroad are referred to collectively as the Commuter Railroads.
- New York City Transit Authority (“MTA New York City Transit”) and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”), provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority (“MTA Bridges and Tunnels”) operates seven toll bridges, two tunnels, and the Battery Parking Garage, all within the five boroughs of New York City.

### 3. CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following sections discuss the significant changes in the MTA Group’s financial position as of and for the years ended December 31, 2014 and 2013. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, the information contained within the summaries of the consolidated financial statements and the various exhibits presented were derived from the MTA Group’s consolidated financial statements. All dollar amounts (except where otherwise expressly noted) are in millions.

#### **Total Assets and Deferred Outflows of Resources, Distinguished Between Capital Assets, Other Assets and Deferred Outflows of Resources**

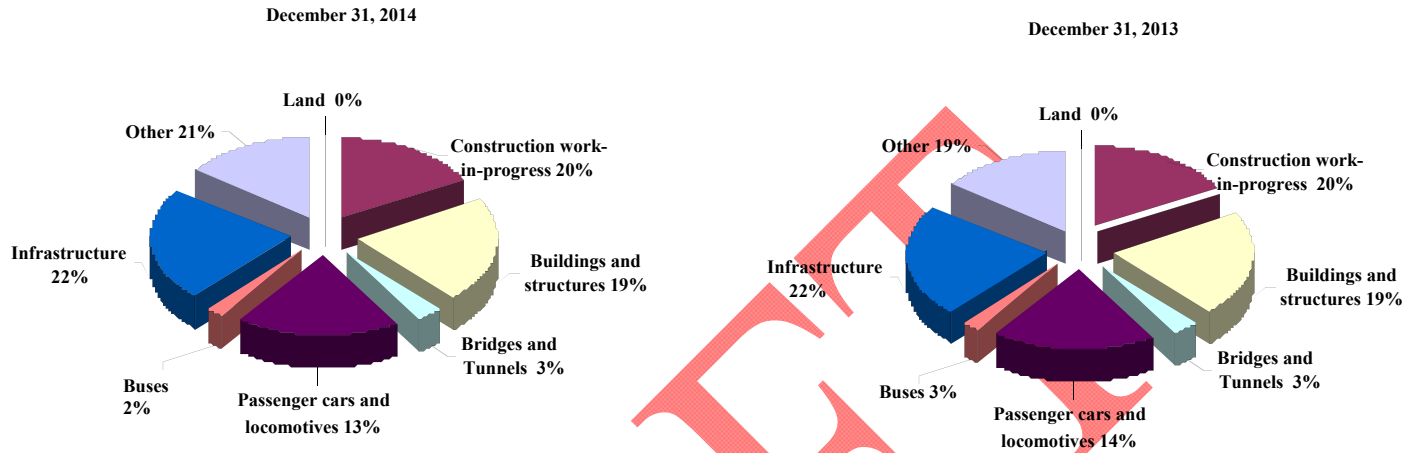
Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of buses, equipment, passenger cars, and locomotives.

Other Assets include, but are not limited to: cash, restricted and unrestricted investments, State and regional mass transit taxes receivables, and receivables from New York State.

Deferred outflows of resources reflect: changes in fair market values of hedging derivative instruments that are determined to be effective, and unamortized loss on refunding.

	December 2014	December 2013	December 2012	Increase/(Decrease)	
(In millions)				2014 - 2013	2013 - 2012
Capital assets — net (see Note 6)	\$ 59,060	\$ 56,729	\$ 54,231	\$ 2,331	\$ 2,498
Other assets	8,502	8,215	8,233	287	(18)
Deferred outflows of resources	<u>1,066</u>	<u>980</u>	<u>630</u>	<u>86</u>	<u>350</u>
Total assets and deferred outflows of resources	<u>\$ 68,628</u>	<u>\$ 65,924</u>	<u>\$ 63,094</u>	<u>\$ 2,704</u>	<u>\$ 2,830</u>

## Capital Assets, Net



### *Significant Changes in Assets and Deferred Outflows of Resources Include:*

#### December 31, 2014 versus December 31, 2013

- Net capital assets increased at December 31, 2014 by \$2,331. This increase is attributable to net increases in other capital assets of \$1,826, infrastructure for \$880, buildings and structures for \$631, construction work-in-progress of \$508, passenger cars and locomotives for \$435, bridges and tunnels for \$202, buses for \$34 and land for \$25. The net increases were offset by a net increase in accumulated depreciation of \$2,210. Some of the more significant projects contributing to the net increase included:
  - Continued progress on the East Side Access, Second Avenue Subway and Number 7 Extension Project.
  - Infrastructure work including:
    - Repairs and improvements continued at four facilities, namely Robert F. Kennedy Bridge, the Bronx-Whitestone Bridge, the Throgs Neck Bridge and the Verrazano-Narrows Bridge;
    - Switch replacement and power distribution equipment at the Brooklyn-Battery Tunnel, upper and lower level toll plazas; and
    - Ventilation system upgraded and installed at various facilities.
  - Continued improvements made to the East River Tunnel Fire and Life Safety project for 1<sup>st</sup> Avenue, Long Island City and construction of three Montauk bridges.
  - Passenger station rehabilitations continued for Penn Station and East Side Access Passenger station. Various signal and communication projects incurred by the MTA New York City Transit. Rehabilitation of 70 stations, provision of full Americans with Disability Act (ADA) accessibility at 23 stations, replacement of 20 escalators at various stations.



- Other assets increased by \$287. The major items contributing to this change include:
  - An increase in current and non-current net receivables of \$35 derived mainly from:
    - An increase in due from State and regional mass transit taxes of \$51.
    - An increase in due from Federal and State Governments for capital projects of \$76.
    - A decrease in due from other State and local assistance of \$9.
    - A decrease in other various receivables of \$101 resulting from a decrease in New York State service contract bonds of \$63, a reduction of reinsurance recoverable losses for Hurricane Irene from FMTAC of \$29 and a decrease in other receivables of \$9.
  - An increase in other current and non-current assets of \$319 derived from:
    - An increase in advance to defined benefit pension trust of \$321 primarily from additional pension funding by MTA Long Island Rail Road of \$308 and by MTA Metro-North Railroad of \$14.
    - An increase in material and supplies of \$59 due largely to increases in MTA New York City Transit of \$38 and cumulative increases in other Agencies of \$21 for maintenance material requirements for vehicles and facilities.
    - An increase in prepaid expenses and other current asset of \$41 due largely to prepayment of insurance premiums of \$33 and a prepayment to NYSHIP by MTA Metro-North Railroad of \$8.
    - A decrease in cash of \$47 from net cash flow activities.
    - A decrease in derivative fuel hedge assets of \$27 as a result of changes in the current fair market value.
    - A decrease in other various assets of \$28 due to amortization of advances to Defined Benefit Pension Plan.
  - A decrease in investments of \$67 derived from:
    - A decrease in restricted investments of \$73 resulting from the use of funds for capital projects.
    - A decrease in unrestricted investments of \$3, due primarily to the usage of operating funds for agency operations and lower Mortgage Recording Tax and Mobility Tax collections.
    - An increase in capital lease related investments of \$9 due to a net increase in collateral funds related to capital leases.
- Deferred outflows of resources increased by \$86 due to an increase in fair market value of derivative instruments of \$196 (See Notes 2 and 8), offset by a decrease in the loss on refunding of debt of \$110.

#### December 31, 2013 versus December 31, 2012

- Net capital assets increased at December 31, 2013 by \$2,498. This increase is attributable to net increases in construction work-in-progress of \$1,583, other capital assets for \$1,341, buildings and structures for \$878, infrastructure for \$567, acquisition of buses for \$117, bridges and tunnels increase by \$59, passenger cars for \$24, and land for \$3. The net increases were offset by a net increase in accumulated depreciation of \$2,074. Some of the more significant projects contributing to the net increase included:
  - Continued progress on East Side Access, Second Avenue Subway and Number 7 Extension Project.
  - Infrastructure work including:
    - Roadway drainage, fire lines and ceiling repairs at three facilities, namely Robert F. Kennedy Bridge, the Bronx-Whitestone Bridge, and the Verrazano-Narrows Bridge;

- Switch replacement and power distribution equipment at the Brooklyn-Battery Tunnel, upper and lower level toll plazas; and
  - Ventilation system upgraded and installed at various facilities.
- Track rehabilitation and replacement on the East River Tunnel and construction of three Montauk bridges.
- Passenger station intermodal transfer Fulton Street Transit Center underpass finishes and installation of Automated Fare Collection equipment, platforms, roof and canopy replacement at various stations including the South Ferry Terminal.
- Various signal and communication projects incurred by the MTA New York City Transit Authority on the Flushing Line, Church and Lexington Avenues, MTA Long Island Rail Road related Centralized Traffic Control System and Positive Train Control System.
- Other assets decreased by \$18. The major items contributing to this change include:
  - A decrease in current and non-current net receivables of \$211 derived mainly from:
    - A decrease in the amounts due from New York State and regional mass transit taxes of \$19.
    - An increase in amounts due from other State and local assistance of \$59.
    - A decrease in amounts due for capital related activities of \$8.
    - A decrease in other various receivables of \$243 primarily from decreases in New York State service contract bonds of \$54, Tropical Storm Sandy insurance recoverable of \$65 and other receivables of \$124.
  - An increase in investments of \$759 derived from:
    - An increase in restricted investments of \$179 due primarily to higher debt service funds and an increase in proceeds from a line of credit.
    - An increase in unrestricted investments of \$982 due primarily to funds received for capital and a reduced use of funds for agency operations.
    - A decrease in capital leases related investments of \$402 due to the termination of the Philip Morris and Hillside capital leases in 2013.
  - A decrease in other current and non-current assets of \$566 derived from:
    - A decrease from an accounting change required by the adoption of GASB Statement No. 65 which requires that bond issue costs be expensed in the period incurred. At December 31, 2013, prior year accumulated bond issue costs of \$552 are now reflected as a restatement of prior year net position.
    - A decrease in unamortized losses on debt refunding of \$119 now reflected in deferred outflows of resources.
    - An increase in cash of \$125
    - A decrease in other various current and non-current assets of \$20.
- Deferred outflows of resources increased by \$350 due to an accounting change required by the adoption of GASB Statement No. 65, which required that unamortized losses on refunding of debt be shown as deferred outflow of resources. At December 31, 2013, \$645 of unamortized losses on debt refundings are now reflected as deferred outflows of resources. Offsetting this accounting change was a decrease in the change in fair market value of derivative instruments of \$295 (See Note 2 and 8).

## Total Liabilities and Deferred Inflows of Resources, Distinguishing Between Current Liabilities, Non-Current Liabilities and Deferred Inflows of Resources

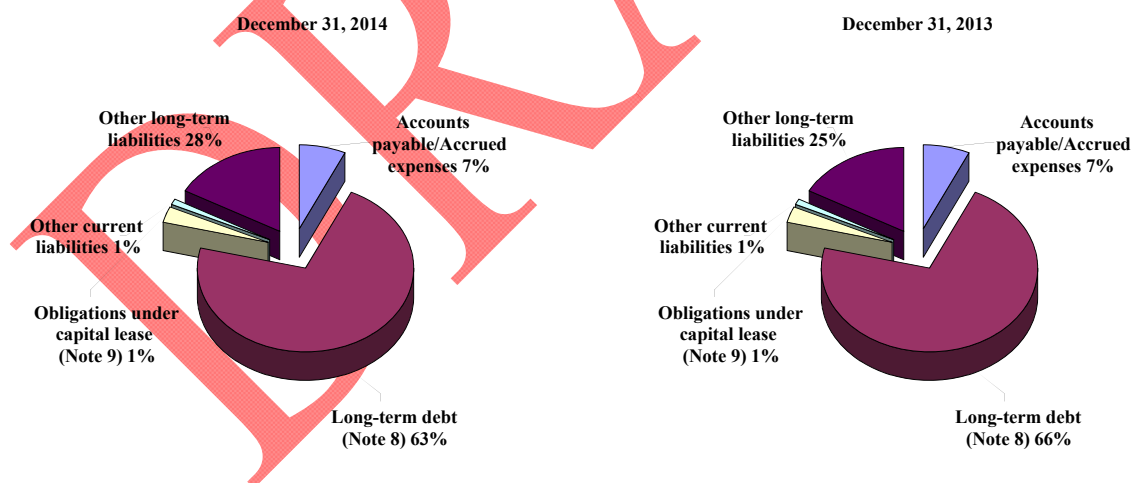
Current liabilities include: accounts payable, accrued expenses, current portions of long-term debt, capital lease obligations, pollution remediation liabilities, unredeemed fares and tolls, and other current liabilities.

Non-current liabilities include: long-term debt, capital lease obligations, claims for injuries to persons, post-employment benefits and other non-current liabilities.

Deferred inflows of resources reflect unamortized gains on refunding.

	December 2014	December 2013	December 2012	Increase/(Decrease)	
(In millions)				2014 - 2013	2013 - 2012
Current liabilities	\$ 5,273	\$ 5,142	\$ 4,304	\$ 131	\$ 838
Non-current liabilities	50,038	46,577	43,111	3,461	3,466
Deferred inflows of resources	35	-	-	35	-
Total liabilities and deferred inflows of resources	<u>\$55,346</u>	<u>\$51,719</u>	<u>\$47,415</u>	<u>\$ 3,627</u>	<u>\$ 4,304</u>

### Total Liabilities



### Significant Changes in Liabilities Include:

#### December 31, 2014 versus December 31, 2013

Current liabilities increased by \$131. The major items contributing to this change include:

- An increase in accounts payable of \$28 primarily due to timing of payments.



- A decrease in accrued expenses of \$43 due to:
  - An increase in interest payable of \$6 due to issuance of new bonds in 2014.
  - A decrease in accrued salaries, wages, vacation and payroll taxes of \$168 due largely to a decrease in MTA New York City Transit of \$218 for retroactive wages related to TWU union contract negotiations recorded in 2013 and cumulative decreases in other Agencies of \$53 related to retroactive wage payments. The decrease was offset by increases for MTA Long Island Railroad of \$11 for represented employees that have not settled their contracts as of December 2014 and for MTA Metro-North Railroad of \$92 for retroactive wage adjustments covering employees from 2011-2014.
  - An increase in the current portion of retirement and death benefits of \$13 primarily due to a revised actuarial calculation for the MTA New York City Transit for the New York City Employees' Retirement System ("NYCERS").
  - An increase in the current portion of estimated liabilities from injuries to persons of \$41 as a result of changes in actuarially determined insurance reserve requirements.
  - An increase in other various accrued expenses of \$65 primarily due to accrued vacation and sick pay benefits of \$37 and other accrued expenses of \$28.
- An increase in the current portion of long-term debt of \$99 due to new debt issuances.
- An increase in unearned revenues of \$25 due largely to increases in MTA New York City Transit for unbilled paratransit reimbursements of \$17 and a reserve for unexpired metrocards of \$4.
- An increase in derivative fuel hedge liability of \$48 due to change, in market value.
- A decrease in various other current liabilities of \$26.

Noncurrent liabilities increased by \$3,461. The major items contributing to this increase include:

- An increase in postemployment benefits other than pension liability ("OPEB") of \$2,039 due to funding shortfalls of the actuarial required contribution ("ARC") (See Note 5).
- An increase in long-term debt of \$1,056 due to the issuance of MTA Transportation Revenue Bonds, Series 2014A, Series 2014B, Series 2014C, Series 2014D, MTA Bridges and Tunnels General Revenue Bonds, Series 2014A and MTA Bridges and Tunnels General Revenue Bond Anticipation Notes, Series 2014A (See Note 8). This increase was offset by retirements and debt payments as of December 31, 2014.
- An increase in derivative liabilities of \$172 due to changes in fair market value.
- An increase in the noncurrent portion of estimated liabilities arising from injuries to persons of \$156 resulting from changes in actuarially determined liabilities.
- An increase in other various non-current liabilities of \$38.

Deferred inflows of resources increased by \$35 due to a gain from MTA's exercise of its early redemption rights on certain transit and commuter facilities revenue bonds previously defeased and escrowed to maturity.

December 31, 2013 versus December 31, 2012

Current liabilities increased by \$760. The major items contributing to this change include:

- A decrease in accounts payable of \$124 due to timing of payments.
- An increase in accrued expenses of \$838 due largely to:
  - An increase in interest payable of \$6 due to new bond issuances in the later part of 2012 and in 2013.
  - An increase in accrued salaries, wages and payroll taxes of \$227 due to timing of payments and estimated retroactive wages due to TWU union contract negotiations.
  - An increase in the current portion of retirement and death benefits of \$158 as a result of a revised actuarial calculation for the New York City Employees' Retirement System ("NYCERS").
  - An increase in the current portion of estimated liabilities from injuries to persons of \$77 as a result of changes in actuarially determined insurance reserve requirements (See Note 11).
  - An increase in other accrued expenses of \$344 due to timing of payments.
- An increase in unearned revenues of \$27 derived from an increase in unused fare cards sold by MTA New York City Transit and an increase in advertisement prepayments.
- An increase in the current portion of long-term debt of \$92 due to new debt issuances.

Noncurrent liabilities increased by \$3,466. The major items contributing to this increase include:

- An increase in postemployment benefits other than pensions ("OPEB") of \$1,873 as a result of actuarial determined calculations as required by GASB Statement No. 45 (See Note 5).
- An increase in long-term debt of \$2,079 due to the issuance of MTA Transportation Revenue Bonds, Series 2013A, 2013B, 2013C, 2012D, and 2013E; MTA Bond Anticipation Notes, Series 2013A, MTA Bridges and Tunnel Subordinate Revenue Refunding Bonds, Series 2013A, and MTA Bridges and Tunnel General Revenue Refunding Bonds, Series 2013B and 2013C. (See Note 8). Also contributing to the increase in long-term debt was a re-class of accumulated losses on debt refunding of \$459 from long-term debt to Deferred Outflows of Resources as required by the adoption GASB Statement No. 65. The increase was offset by retirements and debt refundings in 2013.
- An increase in the noncurrent portion of estimated liabilities arising from injuries to persons of \$176 as a result of changes in actuarially determined liabilities.
- A decrease in retirement and death benefits liabilities of \$37 due to advanced payment to the pension trust for MTA Long Island Rail Road Additional Plan.
- A decrease in long-term lease obligations of \$309 due to the terminations of the Philip Morris and Hillside capital leases as well as lease payments incurred in January 2013 (See Note 9).

- A decrease in derivative liabilities of \$291 due to changes in fair market value.

A decrease in other long-term liabilities of \$25 due primarily to the termination of the Philip Morris capital lease.

**Total Net Position, Distinguishing Among Net Investment in Capital Assets, Restricted Amounts, and Unrestricted Amounts**

	December 2014	December 2013	December 2012	Increase/(Decrease)	
(In millions)				2014 - 2013	2013 - 2012
Net investment in capital assets	\$ 22,944	\$ 22,020	\$ 21,156	\$ 924	\$ 864
Restricted for debt service	434	478	417	(44)	61
Restricted for claims	167	135	176	32	(41)
Restricted for other purposes	1,011	906	1,220	105	(314)
Unrestricted	<u>(11,274)</u>	<u>(9,334)</u>	<u>(7,290)</u>	<u>(1,940)</u>	<u>(2,044)</u>
Total Net Position	<u>\$ 13,282</u>	<u>\$ 14,205</u>	<u>\$ 15,679</u>	<u>\$ (923)</u>	<u>\$ (1,474)</u>

***Significant Changes in Net Position Include:***

December 31, 2014 versus December 31, 2013

At December 31, 2014, total net position decreased by \$923 when compared with December 31, 2013. This change is comprised of net non-operating revenues of \$5,201 and appropriations, grants and other receipts externally restricted for capital projects of \$1,754. This increase is offset by operating losses of \$7,878.

The net investment in capital assets increased by \$924. Funds restricted for debt service, claims and other purposes increased by \$93 in the aggregate, while unrestricted net position decreased by \$1,940.

December 31, 2013 versus December 31, 2012

At December 31, 2013, total net position decreased by \$1,474 when compared with December 31, 2012. This change is comprised of net non-operating revenues of \$4,822 and appropriations, grants and other receipts externally restricted for capital projects of \$1,565. This increase is offset by operating losses of \$7,309 and a restatement of beginning net position of \$552 as a result of adopting GASB Statement No 65.

The net investment in capital assets increased by \$864. Funds restricted for debt service, claims and other purposes decreased by \$294 in the aggregate, while unrestricted net position decreased by \$2,044.

**Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Position**

<b>(In millions)</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>Increase/(Decrease)</b>	
				<b>2014 - 2013</b>	<b>2013 - 2012</b>
Operating revenues					
Passenger and tolls	\$ 7,385	\$ 7,152	\$ 6,570	\$ 233	\$ 582
Other	585	547	497	38	50
Total operating revenues	7,970	7,699	7,067	271	632
Non-operating revenues					
Grants, appropriations and taxes	5,775	5,389	5,088	386	301
Other	789	793	511	(4)	282
Total non-operating revenues	6,564	6,182	5,599	382	583
Total revenues	14,534	13,881	12,666	653	1,215
Operating expenses					
Salaries and wages	5,416	4,944	4,708	472	236
Retirement and other employee benefits	2,738	2,620	2,554	118	66
Postemployment benefits other than pensions	2,523	2,378	2,216	145	162
Depreciation and amortization	2,266	2,181	2,150	85	31
Other expenses	2,906	2,792	2,466	114	326
Operating expenses	15,849	14,915	14,094	934	821
Net (recoverables) /expenses related to asset impairment	(1)	93	(132)	(94)	225
Total operating expenses	15,848	15,008	13,962	840	1,046
Non-operating Expense					
Interest on long-term debt	1,358	1,357	1,340	1	17
Change in fair value of derivative financial instruments (Note 8)	(1)	(5)	(1)	4	(4)
Other net non-operating expenses	6	8	94	(2)	(86)
Total non-operating expenses	1,363	1,360	1,433	3	(73)
Total expenses	17,211	16,368	15,395	843	973
Appropriations, grants and other receipts externally restricted for capital projects	1,754	1,565	2,392	189	(827)
Change in net position	(923)	(922)	(337)	(1)	(585)
Net position, beginning of year	14,205	15,679	16,016	(1,474)	(337)
Restatement of beginning net position	-	(552)	-	552	-
Net position, end of year	\$ 13,282	\$ 14,205	\$ 15,679	\$ (923)	\$ (1,474)

*Revenues and Expenses, by Major Source:*

Years ended December 31, 2014 versus 2013

- Total operating revenues increased by \$271.
  - Fare and toll revenue increased by \$233 due to higher ridership and vehicle crossings for the year ended December 31, 2014 when compared to year ended 2013, and due to system wide fare and toll increases that took place in March 2013.
  - Other operating revenues increased by \$38. The increase was due primarily to an increase in paratransit reimbursement of expenses from New York City and from advertising revenues collected on behalf of all agencies.
- Total non-operating revenue increased by \$382.
  - Total grants, appropriations, and taxes were higher by \$386 for the year ended December 31, 2014.
  - Tax supported subsidies from New York State increased by \$218, due to increases from Mass Transportation Trust Fund for \$92 and Metropolitan Mass Transportation Operating Assistance for \$49, Payroll Mobility Tax for \$67 and MTA Aid Trust Account for \$10.
  - Tax supported subsidies from New York City increased by \$170, from Urban Tax for \$169 and Mortgage Recording Tax for \$1.
  - Other subsidies decreased by \$2 from New York State service contract subsidy by \$3 offset by an increase in Build America Bond subsidy of \$1.
- Other non-operating revenues decreased by \$4 due primarily to lower reimbursement from the Federal Transit Administration (“FTA”) and the Federal Emergency Management Agency (“FEMA”) relating to Tropical Storm Sandy of \$137. Other non-operating income decreased by \$14. The decrease was offset by higher reimbursement from Connecticut Department of Transportation of \$35 for the MTA Metro-North Railroad, from New York City of \$110 for MTA Bus and MTA Staten Island Railway, and from Station Maintenance and Use assessments of \$2.
- Labor costs increased by \$735. The major changes within this category are:
  - Salaries and wages increased by \$472, due largely to increases in MTA Long Island Railroad of \$151, MTA Metro-North Railroad of \$130, and MTA New York City Transit of \$137, other agencies increase by \$54, all related to wage rate increases and retroactive labor contract settlements.
  - Postemployment benefits other than pensions increased by \$145 from changes in actuarial estimates.
  - Retirement and employee benefits increased by \$118 due to increased rates for health and welfare plans and to higher Workers’ Compensation reserve requirements based on current actuarial calculations.
- Non-labor operating costs increased by \$105. The variance was due to:

- Increase in electric power and fuel of \$32 due to higher fuel cost.
- Increase in depreciation by \$85 due to additional facilities placed into service.
- Increase in material and supplies by \$58 mainly due to ongoing maintenance and repairs for transit and commuter systems.
- Increase in professional service contracts by \$11 due largely to an increase in professional services across the Agencies of \$31 offset by a reduction in the Workers' Compensation Board fees for MTA New York City Transit of \$20.
- Increase in maintenance and other operating contracts by \$56, mainly from MTA New York City Transit for \$18, MTA Long Island Railroad for \$12, MTA Metro-North for \$8 and MTA Bridges and Tunnels for \$13 as a result of higher facility repairs and maintenance services.
- Increase in pollution remediation projects by \$7 for MTA Long Island Railroad due to the Jamaica Capacity and Hicksville Station Improvement projects for \$19 offset by a decrease in pollution remediation costs expensed in accordance with the provisions of GASB Statement No. 49 by MTA New York City Transit of \$12.
- Increase in other business expenses by \$7.
- Decrease in insurance expenses by \$11. FMTAC's premium earned is recorded in the insurance category as a reduction of expenses. FMTAC earned premium from Owner Controlled Insurance Programs ("OCIP") and Excess Loss Policy of \$25. All other agencies insurance expenses increased by \$14.
- Decrease in claims expense arising from injuries to persons by \$45 primarily due to prior year estimated reserves recorded by FMTAC of \$34 and MTA Metro-North Rail Road claims of \$33 related to the May 2013 New Haven Line and December 2012 Spuyten-Duyvil train derailments. A comparable amount was not recorded in 2014. This was offset by an increase in claims of \$22 based on current actuarial calculations.
- Decrease in paratransit service contracts by \$1.
- Decrease in net recoverables/expenses of \$94 due to impairments recorded in prior year, and no additional impairments being recorded in the current year.
- Total net non-operating expenses increased by \$3 due to:
  - Interest on long-term debt increase by \$1.
  - Change in fair value of derivative financial instruments increase by \$4.
  - Other non-operating expenses decrease by \$2.
- Appropriations, grants and other receipts externally restricted for capital projects increased by \$189, mainly due to an increase in the availability of Federal grants and MTA bonds for capital projects.



Year ended December 31, 2013 versus 2012

- Total operating revenues increased by \$632.
  - Fare and toll revenue increased by \$582 primarily due to system wide fare and toll increases that took place in March 2013.
  - Other operating revenues increased by \$50. The increase was due primarily to paratransit reimbursement of expenses from New York City and from advertising revenues collected in 2013 on behalf of all agencies.
- Total non-operating revenue increased by \$583.
  - Total grants, appropriations, and taxes were higher by \$301 for the year ended December 31, 2013. The major increase is derived from higher tax supported subsidies by \$386 and from Mobility Tax increase by \$256. This was offset by a decrease in subsidy revenues including urban tax and special aid in the amount of \$266, a decrease from New York State subsidy for service contract bonds defeased by \$67 and a decrease in Build America Bond subsidy of \$8.
  - Other non-operating revenues increased by \$282, which mainly reflects a grant relief subsidy from the Federal Transit Administration and Federal Emergency Management Agency in the amount of \$162 and transfer of revenue funds to cover capital expenditures of \$132. There was an increase in subsidy from Connecticut Department of Transportation of \$8 offset by a decrease in subsidy from New York City of \$20 for MTA Bus and MTA Staten Island Railway.
- Total operating expenses increased by \$1,046.
  - Labor costs increased by \$464. The major changes within this category are:
    - Salaries and wages increased by \$236 due to increase in overtime cost at MTA New York City Transit and estimated retroactive wage accruals due to TWU union contract negotiations.
    - Increase in retirement and employee benefits of \$66 due to higher health insurance rates.
    - Postemployment benefits other than pensions increased by \$162 as a result of changes in actuarial estimates.
  - Non-labor operating costs increased by \$582. The unfavorable variance was due to:
    - Increase in net impairment loss and related expenses of \$225. As of December 31, 2013, Tropical Storm Sandy related repair and clean-up revenues were \$87. Other asset impairment expense includes \$6 related to MTA Metro-North Railroad train derailments on May 17, 2013 in Bridgeport, Connecticut and on December 1, 2013, north of the Spuyten Duyvil station in the Bronx. Included in the increase is a net gain of \$132 recorded in December 2012 that was a result of an estimated \$775 in probable insurance recovery for losses offset by storm related impairment losses of \$643. A comparable amount was not recorded in 2013.

- Increase in electric power and fuel of \$21 due to higher fuel cost.
- Increase in depreciation by \$31 due to additional facilities coming on line.
- Increase in material and supplies by \$40.
- Increase in claims expense arising from injuries to persons by \$153.
- Increase in other business expenses of \$63. The increase is primarily due to higher operating expenses of \$22 and \$41 re-classified as maintenance and other operating contracts.
- Increase in paratransit service contracts by \$8 and maintenance and other operating contracts by \$18.
- Increase in insurance by \$28.
- Increase in professional service contracts of \$6.
- Decrease in pollution remediation projects by \$11.
- Total non-operating expenses decreased by \$73.
  - The decrease of \$86 in other non-operating expenses was primarily from the loss of subsidy from New York State for Service Contract Bonds. The bonds were defeased in 2012.
  - Interest on long-term debt increased by \$17.
  - Change in fair value of derivative financial instruments decreased by \$4.
- Appropriations, grants and other receipts externally restricted for capital projects decreased by \$827, mainly due to a decrease in Federal funding for capital projects.

#### **4. OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS**

##### ***Economic Conditions***

Metropolitan New York is the most transit-intensive region in the United States. A financially sound and reliable transportation system is critical to the region's economic well-being. The MTA's business consists of urban subway and bus systems, suburban rail and bus systems, and bridge and tunnel facilities, all of which are affected by many different economic forces. In order to achieve maximum efficiency and success in its operations, the MTA must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Preliminary MTA system-wide utilization in the fourth quarter of 2014 improved compared with the fourth quarter of 2013, with ridership up by 11.2 million trips (1.6%), and vehicle traffic at MTA Bridges and Tunnels facilities increased by 1.5 million crossings (2.05%). On a year-to-date basis, system-wide ridership was higher by 37.7 million (1.40%), and vehicle crossings were higher by 1.8 million (0.6%), reflecting primarily the continued improvement in the regional economy.



The average level of seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2014 than in 2013 by 87.3 thousand jobs (up 2.2%). On a quarter-to-quarter basis, New York City employment has increased in each of the last sixteen quarters – the last decline occurred in the third quarter of 2010 – and is higher than at any time since 1950, when non-agricultural employment levels for New York City were first recorded by the Bureau of Labor Statistics.

The employment gain for New York City in the second quarter is consistent with an improving national economy; fourth quarter Real Gross Domestic Product (“RGDP”) grew at an annualized rate of 2.6%, according to the most recent advance estimate released by the Bureau of Economic Analysis. The increase primarily reflected contributions from personal consumption expenditures, exports, state and local government spending, non-residential fixed investment, and private inventory investment, partially offset by a decline in federal government spending and an increase in imports. Fourth quarter RGDP growth slowed relative to third quarter growth as federal government spending, non-residential fixed investment and exports fell, while imports rose. The national economy has now grown in twenty of the last twenty-two quarters.

The New York City metropolitan area’s price inflation of 0.6% was lower than the national average of 1.0% in the fourth quarter of 2014. A 7.8% fall in the price of energy products dampened the overall rise in consumer prices: the Consumer Price Index (“CPI”) exclusive of energy products increased by 1.5% in the New York-New Jersey-Long Island area. Consistent with the fall in overall energy prices, spot prices for New York Harbor conventional gasoline fell by 22.8% from an average price of \$2.698 to an average of \$2.082 per gallon between the fourth quarters of 2013 and 2014.

In June 2014, the Federal Reserve Bank announced that the Federal Open Market Committee (“FOMC”) would continue targeting the Federal Funds rate to the range of 0% to 0.25%, a range consistent with its statutory dual mandate to foster maximum employment within a context of price stability. The Federal Funds rate has remained in this range since late 2008, as financial and housing market crises deepened. In fact, the Federal Reserve Bank began to pursue expansionary intervention more than a year earlier as a response to the impending economic downturn: since the third quarter of 2007, the Federal Reserve Bank has sought to mitigate the consequences of recession by loosening the tight credit conditions that resulted from the national mortgage crisis. Confronting stubbornly high unemployment rates with no scope to reduce further the Federal Funds rate, in March 2009 the Federal Reserve Bank began a program of large-scale purchases of government guaranteed assets. The objective of the program, which was expanded in November 2010, was to raise the price of long-term securities, thereby lowering interest rates in order to stimulate investment in the economy.

In spite of the steady improvement in economic activity in the second, third and fourth quarters of 2014, the FOMC elected in December to maintain an accommodative stance by continuing to target a Federal Funds rate in the range of 0% to 0.25%, noting that, partly because of the decline in energy prices, inflation rates remained below the Committee’s long-run objective; while labor markets evinced signs of improvement, the FOMC observed that recovery in the housing sector remained slow. In addition to maintaining the Federal Funds rate, the FOMC announced additional measures to foster conditions amenable to financial markets, including the continuation of its policy of reinvesting principal payments from its holdings of agency debt and mortgage-backed securities and of rolling over maturing Treasury securities at auction.

The influence of Federal Reserve monetary policy on the mortgage market is a matter of interest to the MTA, since variability of mortgage rates can affect the number of real estate transactions and can thereby impact receipts from the Mortgage Recording Tax (“MRT”) and Urban Tax, two important

sources of MTA revenue. After the steady fall in MRT revenues that resulted from the financial and real estate crisis, MTA's monthly receipts remained virtually flat for three years beginning in the first quarter of 2009; however, a discernible upward trend in MRT receipts began during the first quarter of 2012 and reached a recent high point in the fall of 2013. Partly because of these high receipts towards the end of last year, Mortgage Recording Tax collections through the fourth quarter of 2014 were lower than through the fourth quarter of 2013 by \$3.0 (0.8%). In spite of the gradual overall recovery of MRT receipts that has been occurring since 2012, average monthly receipts through the fourth quarter remain \$28.7 (51.1%) worse than their average in 2007, just prior to the steep decline of this revenue source.

MTA's receipts of Urban Taxes – those based on commercial activity within New York City – have demonstrated a pronounced rise since 2010, increasing on a year-over-year basis in seventeen of the last eighteen quarters. Compared to 2013, average monthly Urban Tax receipts in 2014 were higher by \$17.6, with the result that year-to-date receipts through the fourth quarter of 2014 reached \$806.1, which was \$211.6 or 64.4% better than in 2013.

### ***Results of Operations***

*MTA Bridges and Tunnels* - For the year ended December 31, 2014, the operating revenues increased by \$34.9 as compared to December 31, 2013. This increase can be primarily attributed to an increase in toll revenue of \$31.2. MTA Bridges and Tunnels tolls accounted for 98.7% and 98.9% of operating revenues in 2014 and 2013, respectively. The remaining revenue primarily represented income from parking fees (net of operating expenses) collected at the Battery Parking Garage and fees collected from E-ZPass customers. Toll revenues were \$1,676.4 and \$1,645.2 for the years ended December 31, 2014 and December 31, 2013, respectively.

The E-ZPass electronic toll collection system continued to facilitate management of high traffic volumes and experienced significant year-to-year increases. Total average market share as of December 31, 2014 was 84.2% compared with 83.3% in 2013. The average weekday market shares were 85.8% and 85.0% for December 31, 2014 and 2013, respectively.

*MTA New York City Transit* - Total revenue from fares was \$4,191 in 2014, an increase of \$139 or 3.4%. This increase was due mostly to higher subway ridership and the annualization of the March 2013 fare increase. Total ridership was 2,427 million, an increase of 33 million, or 1.4% from 2013.

*MTA Long Island Rail Road* – Total operating revenues for 2014 increased by \$31.2 or 4.6% compared to 2013. The MTA Long Island Rail Road ridership experienced strong growth finishing the year with 85.9 million passengers, which was 3.0% above the 2013 ridership. This marks the third highest ridership in 60 years, since the post war record of 91.8 million set in 1949, and the highest ridership since the modern record set in 2008 of 87.4 million. A steadily improving economy and service enhancements contributed to the increase.

*MTA Metro-North Rail Road* – MTA Metro-North (East of Hudson) passenger revenue increased in 2014 by \$30.9 or 5.0%, and ridership in 2014 increased by 1.2 million or 1.4%. This increase is primarily a reflection of a 5.0% Connecticut fare increase implemented on January 1, 2014. Passenger fares accounted for 92.0% and 92.5% of operating revenues in 2014 and 2013, respectively. The remaining revenue represents collection of rental income from stores in and around our passenger stations, and revenue generated from advertising and the sale of food and beverages on platforms and trains.

The MTA receives the equivalent of four quarters of Metropolitan Mass Transportation Operating Assistance (“MMTOA”) receipts each year, with the state advancing the first quarter of each succeeding calendar year’s receipts in the fourth quarter of the current year. This results in little or no Metropolitan Mass Transportation Operating Assistance receipts being received during the first quarter of each calendar year. The MTA has made other provisions to provide for cash liquidity during this period. During March 2014, the State appropriated \$1.6 billion in MMTOA funds. There has been no change in the timing of the State’s payment of, or MTA’s receipt of, Dedicated Mass Transportation Trust Fund (“MTTF”) receipts, which MTA anticipates will be sufficient to make monthly principal and interest deposits into the Debt Service Fund for the Dedicated Tax Fund Bonds. The total MRT collected as of December 31, 2013 increased by 27.1% compared to December 2012 from \$287.6 to \$365.5. However, the total MRT collected as at December 31, 2014 increased by 0.32% compared to December 31, 2013 from \$365.5 to \$366.6.

### **Capital Programs**

At December 31, 2014, \$19,888 had been committed and \$9,306 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and \$23,647 had been committed and \$22,398 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and \$21,562 had been committed and \$21,254 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

The MTA Group has ongoing capital programs, which except for MTA Bridges and Tunnels are subject to the approval of the Metropolitan Transportation Authority Capital Program Review Board (“CPRB”), and are designed to improve public transportation in the New York Metropolitan area.

*2010-2014 Capital Program* — Capital programs covering the years 2010-2014 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2010–2014 Commuter Capital Program”), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, the MTA Bus Company, and the rail system operated by MTA Staten Island Railway (the “2010–2014 Transit Capital Program”) were originally approved by the MTA Board in September 2009. The capital programs were subsequently submitted to the CPRB in October 2009. This plan was disapproved by the CPRB, without prejudice, in December 2009 allowing the State Legislature to review funding issues in their 2010 session. The capital program for the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2010–2014 MTA Bridges and Tunnels Capital Program”) was approved by the MTA Board in September 2009 and was not subject to CPRB approval. The MTA Board approved the revised plan for the Transit and Commuter systems on April 28, 2010 and CPRB approval of the five year program of projects was obtained on June 1, 2010. The approved CPRB program fully funded only the first two years (2010 and 2011) of the plan, with a commitment to come back to CPRB with a funding proposal for the last three years for the Transit and Commuter Programs. On December 21, 2011, the MTA Board approved an amendment to the 2010-2014 Capital Program for the Transit, Commuter and Bridges and Tunnels systems that fund the last three years of the program through a combination of self-help (efficiency improvements and real estate initiatives), participation by our funding partners, and innovative and pragmatic financing arrangements. On March 27, 2012, the CPRB deemed approved the amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted.

On December 19, 2012, the MTA Board approved an amendment to the 2010-2014 Capital Programs for the Transit, Commuter and Bridges and Tunnels systems to add projects for the repair/restoration of MTA agency assets damaged as a result of Superstorm Sandy, which struck the region on October

29, 2012. On January 22, 2013, the CPRB deemed approved the amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted. On July 22, 2013, the MTA Board approved a further amendment to the 2010-2014 Capital Programs for the Transit, Commuter and Bridges and Tunnels systems to include specific revisions to planned projects and to include new resilience/mitigation initiatives in response to Superstorm Sandy. On August 27, 2013, the CPRB deemed approved those amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted. On July 28, 2014, the MTA Board approved an amendment to select elements of the Disaster Recovery (Sandy) and NYCT portions of the 2010-2014 Capital Programs, and a change in the funding plan. On September 3, 2014, the CPRB deemed approved the amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted.

As last amended by the MTA Board in 2014, the 2010–2014 MTA Capital Programs and the 2010–2014 MTA Bridges and Tunnels Capital Program provided for \$34,801 in capital expenditures. By December 31, 2014, the 2010-2014 MTA Capital Programs budget increased by \$29 primarily due to additional work scope funded through additional grants. Of the new \$34,830 now provided in capital expenditures, \$11,643 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$3,876 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$5,865 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$335 relates to a multi-faceted security program including MTA Police Department; \$214 relates to MTA Interagency; \$297 relates to MTA Bus Company initiatives; \$2,076 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities; and \$10,524 relates to Superstorm Sandy recovery/mitigation capital expenditures.

The combined funding sources for the CPRB-approved 2010–2014 MTA Capital Programs and 2010–2014 MTA Bridges and Tunnels Capital Program include \$12,703 in MTA Bonds, \$2,079 in MTA Bridges and Tunnels dedicated funds, \$6,337 in Federal Funds, \$132 in MTA Bus Federal and City Match, \$778 from City Capital Funds, and \$1,507 from other sources. Also included is \$770 in State Assistance funds added to re-establish a traditional funding partnership. The funding strategy for Superstorm Sandy repair and restoration assumes the receipt of \$9,431 in insurance and federal reimbursement proceeds (including interim borrowing by MTA to cover delays in the receipt of such proceeds), \$160 in pay-as-you-go capital, supplemented, to the extent necessary, by external borrowing of up to \$933 in additional MTA and MTA Bridges and Tunnels bonds.

At December 31, 2014, \$19,888 had been committed and \$9,306 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program.

*2005-2009 Capital Program* — Capital programs covering the years 2005-2009 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2005–2009 Commuter Capital Program”), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, the MTA Bus Company, and the rail system operated by MTA Staten Island Railway (the “2005–2009 Transit Capital Program”) were originally approved by the MTA Board in April 2005 and subsequently by the CPRB in July 2005. The capital program for the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2005–2009 MTA Bridges and Tunnels Capital Program”) was approved by the MTA Board in April 2005 and was not subject to CPRB approval. The 2005–2009 amended Commuter Capital Program and the 2005–2009 Transit Capital program (collectively, the “2005–2009 MTA Capital Programs”) were last amended by the MTA Board in July 2008. This latest 2005-2009 MTA Capital Program amendment was resubmitted to the CPRB for approval in July 2008, and was approved in August 2009.



As last amended by the MTA Board, the 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program, provided for \$23,717 in capital expenditures. By December 31, 2014, the 2005-2009 MTA Capital Programs budget increased by \$880 primarily due to the receipt of new American Recovery and Reinvestment Act (“ARRA”) funds and additional New York City Capital funds for MTA Capital Construction work still underway. Of the \$24,597 now provided in capital expenditures, \$11,615 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$3,785 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$508 relates to a security program throughout the transit, commuter and bridge and tunnel network; \$167 relates to certain interagency projects; \$7,175 relates generally to the expansion of existing rail networks for both the transit and commuter systems to be managed by the MTA Capital Construction Company (including the East Side Access, Second Avenue Subway and No. 7 subway line); \$1,195 relates to the ongoing repairs of, and replacements to, bridge and tunnel facilities operated by MTA Bridges and Tunnels; and \$152 relates to capital projects for the MTA Bus.

The combined funding sources for the MTA Board-approved 2005–2009 MTA Capital Programs and 2005–2009 MTA Bridges and Tunnels Capital Program include \$9,883 in MTA and MTA Bridges and Tunnels Bonds (including funds for LaGuardia Airport initiative), \$1,450 in New York State general obligation bonds approved by the voters in the November 2005 election, \$9,096 in Federal Funds, \$2,826 in City Capital Funds, and \$1,342 from other sources.

At December 31, 2014, \$23,647 had been committed and \$22,398 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program.

*2000-2004 Capital Program* — Capital programs covering the years 2000-2004 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2000–2004 Commuter Capital Program”), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, the MTA Bus Company, and the rail system operated by MTA Staten Island Railway (the “2000–2004 Transit Capital Program”) were originally approved by the MTA Board in April 2000 and subsequently by the CPRB in May 2000. The capital program for the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2000–2004 MTA Bridges and Tunnels Capital Program”) was approved by the MTA Board in April 2000 and was not subject to CPRB approval. The 2000–2004 amended Commuter Capital Program and the 2000–2004 amended Transit Capital program (collectively, the “2000–2004 MTA Capital Programs”) were last amended by the MTA Board in December 2006. This amendment was submitted to the CPRB for approval in April 2007, but was subsequently disapproved. In December 2007, the MTA Board approved a modified amendment; this amendment was submitted to the CPRB for approval, which was granted in January 2008.

As last amended by the MTA Board, the 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program, provide for \$21,147 in capital expenditures. By December 31, 2014, the budget increased by \$587, primarily due to the receipt of ARRA funds, transfers from the 2005-2009 Capital Programs, and MTA operating sources required to fund cost increases for work still underway. The revised budget now provides \$21,734 in capital expenditures, of which \$10,438 relates to ongoing repairs of, and replacements to, the Transit System operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$4,033 relates to ongoing repairs of, and replacements to, the Commuter System operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$5,332 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction;

\$203 relates to planning and design and customer service projects; \$244 relates to World Trade Center repair projects; \$982 relates to the ongoing repairs and replacements to MTA Bridges and Tunnels facilities; and \$502 relates to MTA Bus.

The combined funding sources for the MTA Board-approved 2000–2004 MTA Capital Programs and 2000–2004 MTA Bridges and Tunnels Capital Program (with revisions through the July 2008) include \$7,387 in bonds, \$7,418 in Federal funds, \$4,561 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002, and \$2,368 from other sources.

At December 31, 2014, \$21,562 had been committed and \$21,254 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

## **5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

### ***The MTA's Variable Rate Debt Portfolio***

During the year ended December 31, 2014, deteriorated credit quality of bond insurers continued to put pressure on the auction segments of the MTA's variable rate portfolio. Auctions for all of the \$287.4 of auction rate bonds outstanding (the interest rate for such bonds is determined based on a multiple of the London Interbank Offered Rate) as of December 31, 2014, had been failing. MTA continues to closely monitor the performance of its auction rate bonds, insured variable rate demand bonds and variable rate demand bonds for which liquidity is provided by the lower rated banks.

### ***The November Plan***

The 2014 November Forecast, 2015 Final Proposed Budget and the 2015-2018 Financial Plan (collectively the November Plan) was presented to the MTA Board at its November 19, 2014 meeting and was adopted by the MTA Board on December 14, 2014. The November Plan re-estimated revenues and expenses from the MTA 2014 Mid-Year Forecast, 2015 Preliminary Budget and July Financial Plan 2015-2018.

### ***Tropical Storm Sandy Update***

The total allocated emergency relief funding from the Federal Transit Administration ("FTA") to MTA in connection with Superstorm Sandy to date is \$5.39 billion, including \$1.599 billion allocated on September 22, 2014 through a competitive resiliency program. Of the total allocated amount, the FTA has approved and executed three grants to MTA in the amounts of \$194, \$886 and \$684.5 respectively, for a total of \$1.76 billion. As of December 31, 2014, MTA has drawn down \$180 of the \$194 grant for reimbursement of eligible operating and capital expenses. The grant in the amount of \$886 is solely for MTA capital projects and will be used for recovery projects totaling \$802 in connection with four resiliency projects totaling \$84. As of December 31, 2014, MTA has drawn down \$375 of the \$886 grant for reimbursement of eligible capital expenses. As of December 31, 2014, MTA has drawn down \$7 of the \$684.5 grant executed in September 2014, for reimbursement of eligible capital expenses. The balance of funds to be drawn down from all three grants is available to MTA for reimbursement of eligible expenses as requisitions are submitted by MTA and approved by FTA. Additional requisitions are in process. MTA will submit grant requests for the remaining \$3.63 billion of FTA allocated and appropriated emergency relief funding in Federal Fiscal Year 2015.

## ***Labor Update***

Subsequent to the presentation of the July Plan to the MTA Board, certain of the unions representing MTA New York City Transit and MTA Bus Company employees reached agreement.

*MTA New York City Transit.* On September 3, 2014, MTA New York City Transit reached a tentative agreement with ATU Local 726 which was later settled. The sixty (60) month agreement covers approximately 1,521 bus operators and mechanics in Staten Island for the period January 16, 2012 through January 15, 2017. A similar tentative agreement was reached on October 20, 2014, with approximately 1,676 Queens bus operators and mechanics represented by ATU Local 1056. Both agreements are consistent with the TWU Local 100 bargaining pattern for the 2012-2017 round. Both agreements have been ratified by their respective unions and approved by the MTA Board. As a result, virtually all MTA New York City Transit hourly operating contracts have been settled.

*MTA Bus.* On September 15, 2014, a proposed first time collective bargaining agreement was reached between the MTA Bus and TWU Local 106, representing first-line supervisors. This agreement consolidates wages and working conditions for a collection of supervisors who previously were either represented by TWU Local 100 or ATU Local 1179, or who were non-represented. It covers approximately 280 employees for the eighty-six (86) month period from April 1, 2006 through June 7, 2013.

## ***MTA Transportation Reinvention Commission***

At the request of New York Governor Andrew Cuomo in 2014, MTA empaneled the MTA Transportation Reinvention Commission (the Transportation Reinvention Commission), a 24-member group of international, national and regional experts representing diverse viewpoints co-chaired by former United States Transportation Secretary Ray LaHood and former Federal Aviation Administrator Jane Garvey to consider the challenges of climate change, growth and changing demographics facing MTA and how MTA can become a more resilient system. On November 25, 2014, the Transportation Reinvention Commission released its report which can be accessed on MTA's website.

The Transportation Reinvention Commission proposed the following strategies for MTA to respond to the challenges:

- reengineer its way of doing business by creating “a new MTA” that is more efficient, transparent and accountable to the public and that gets the right work done faster and cheaper;
- accelerate core capital investment in good repair and sustain investment in the future to maximize safety, reliability and resiliency;
- create a 21<sup>st</sup> century customer experience for all riders by implementing the responsiveness and ease of access characteristics of a resilient system;
- aggressively expand the capacity of the existing system both to alleviate constraints and to meet the needs of growing ridership, thereby providing greater redundancy and limiting service disruptions, which are key to resilient service;
- make investments designed to serve the existing and emerging population and employment centers not well served by the existing system in order to ensure service alternatives and flexibility characteristics of a resilient system;

- forge partnerships with local, state and federal economic development and planning partners, as well as the private sector to maximize the power of the transit system to drive the region's economic growth and resiliency, and establish more collaborative working relationships with other transit agencies to better integrate regional transit operations; and
- establish a balanced, stable, reliable long-term funding plan that includes dedicated revenues and contributions from all who benefit – directly or indirectly – even as MTA implements a comprehensive program to cut costs and generate more revenue.

On January 22, 2015, the MTA Board voted to increase the Authority's Subway and Bus fares effective March 22, 2015. MetroCard seven-day passes increase from \$30 to \$31 and MetroCard thirty-day passes increase from \$112 to \$116.50. The basic fare increases from \$2.50 to \$2.75. The single-ride ticket price increases from \$2.75 to \$3.00. The bonus value increases from 5% to 11%.

On January 22, 2015, the MTA Board passed an increase in the MTA Bridges and Tunnels Crossing Charge Schedule which went into effect on March 22, 2015.

On January 22, 2015, the MTA Board approved the proposal for a MTA Metro-North Railroad fare increase for travel to or from stations located in New York State. The approval provides for an increase of 4%, beginning March 22, 2015.

On January 22, 2015, the MTA Board adopted fare increases for the MTA Long Island Railroad, which became effective on March 22, 2015. Monthly railroad ticket holders began paying the higher fare with their April ticket. Most MTA Long Island Rail Road rail tickets increased an average of 4 percent, depending on ticket type and distance traveled.

On February 3, 2015, a MTA Metro-North Railroad Harlem Line train struck an automobile in a highway-rail grade crossing between the Valhalla and Hawthorne stations. The driver of the automobile and five passengers on the train were killed and a number of passengers and the train engineer were injured. The National Transportation Safety Board ("NTSB") is conducting an investigation into the contributing causes of the accident and has issued a Preliminary Report. There is no indication from the NTSB's Preliminary Report that MTA Metro-North Railroad was at fault in connection with this incident. At the present time, there is insufficient information to permit reasonable estimation of the total losses that may be associated with defense of claims against the Company arising from the February 3, 2015 grade crossing incident. Metro-North has insurance for liability claims under the MTA all-agency excess liability policy issued by FMTAC, which insurance would provide coverage to the Company were losses to be incurred by the Company in resolving claims from the February 3, 2015 grade crossing in an amount exceeding the Company's \$10 self-insured retention.

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**METROPOLITAN TRANSPORTATION AUTHORITY**  
**(A Component Unit of the State of New York)**

**CONSOLIDATED STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2014 AND 2013**  
**(\$ In millions)**

	December 31, 2014	December 31, 2013
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS:</b>		
Cash (Note 3)	\$ 311	\$ 358
Unrestricted investments (Note 3)	2,966	2,995
Restricted investment (Note 3)	1,107	1,180
Restricted investments held under capital lease obligations (Notes 3 and 9)	4	90
Receivables:		
Station maintenance, operation, and use assessments	122	120
State and regional mass transit taxes	135	84
Mortgage Recording Tax receivable	39	32
State and local operating assistance	8	7
Other receivable from New York City and New York State	260	278
Connecticut Department of Transportation	17	-
Due from Build America Bonds	1	1
Due from Nassau County for Long Island Bus	14	14
Capital project receivable from federal and state government	159	83
Other	330	259
Less allowance for doubtful accounts	(37)	(34)
Total receivables — net	<u>1,048</u>	<u>844</u>
Materials and supplies	519	460
Advance to defined benefit pension trust	448	127
Prepaid expenses and other current assets (Note 2)	194	153
Derivative fuel hedge assets	<u>-</u>	<u>4</u>
Total current assets	<u>6,597</u>	<u>6,211</u>
<b>NON-CURRENT ASSETS:</b>		
Capital assets — net (Note 6)	59,060	56,729
Unrestricted investments (Note 3)	70	44
Restricted investments (Note 3)	350	350
Restricted investment held under capital lease obligations (Notes 3 and 9)	450	355
Other non-current receivables	571	677
Receivable from New York State	257	320
Derivative assets (Note 8)	-	23
Other non-current assets	<u>207</u>	<u>235</u>
Total non-current assets	<u>60,965</u>	<u>58,733</u>
<b>TOTAL ASSETS</b>	<u>67,562</u>	<u>64,944</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Accumulated decreases in fair value of derivative instruments	531	335
Loss on debt refunding	<u>535</u>	<u>645</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,066</u>	<u>980</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 68,628</u>	<u>\$ 65,924</u>

See notes to the consolidated financial statements.

(Continued)

# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

## CONSOLIDATED STATEMENTS OF NET POSITION

DECEMBER 31, 2014 AND 2013

(\$ In millions)

	December 31, 2014	December 31, 2013
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 437	\$ 409
Accrued expenses:		
Interest	211	205
Salaries, wages and payroll taxes	374	542
Vacation and sick pay benefits	838	801
Current portion — retirement and death benefits	384	371
Current portion — estimated liability from injuries to persons (Note 11)	413	372
Other	1,036	1,008
Total accrued expenses	3,256	3,299
Current portion — long-term debt (Note 8)	983	884
Current portion — obligations under capital lease (Note 9)	10	27
Current portion — pollution remediation projects (Note 13)	25	34
Derivative fuel hedge liability	48	-
Unearned revenues	514	489
Total current liabilities	5,273	5,142
<b>NON-CURRENT LIABILITIES:</b>		
Estimated liability arising from injuries to persons (Note 11)	2,096	1,940
Post employment benefits other than pensions (Note 5)	12,066	10,027
Long-term debt (Note 8)	34,160	33,104
Obligations under capital leases (Note 9)	505	500
Pollution remediation projects (Note 13)	74	75
Contract retainage payable	296	298
Derivative liabilities	431	251
Derivative liabilities- off market elements	108	116
Other long-term liabilities	302	266
Total non-current liabilities	50,038	46,577
Total liabilities	55,311	51,719
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Gain on debt refunding	35	-
TOTAL DEFERRED INFLOWS OF RESOURCES	35	-
<b>NET POSITION:</b>		
Net investment in capital assets	22,944	22,020
Restricted for debt service	434	478
Restricted for claims	167	135
Restricted for other purposes (Note 2)	1,011	906
Unrestricted	(11,274)	(9,334)
Total net position	13,282	14,205
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 68,628	\$ 65,924

See notes to the consolidated financial statements.

(Concluded)

**METROPOLITAN TRANSPORTATION AUTHORITY**  
**(A Component Unit of the State of New York)**

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(\$ In millions)**

	December 31, 2014	December 31, 2013
OPERATING REVENUES:		
Fare revenue	\$ 5,709	\$ 5,507
Vehicle toll revenue	1,676	1,645
Rents, freight, and other revenue	<u>585</u>	<u>547</u>
Total operating revenues	<u>7,970</u>	<u>7,699</u>
OPERATING EXPENSES:		
Salaries and wages	5,416	4,944
Retirement and other employee benefits	2,738	2,620
Postemployment benefits other than pensions (Note 5)	2,523	2,378
Electric power	516	493
Fuel	268	259
Insurance	36	47
Claims	263	308
Paratransit service contracts	366	367
Maintenance and other operating contracts	500	444
Professional service contracts	241	230
Pollution remediation projects (Note 13)	21	14
Materials and supplies	526	468
Depreciation	2,266	2,181
Other	<u>169</u>	<u>162</u>
Total operating expenses	<u>15,849</u>	<u>14,915</u>
Net (recoverables)/expenses related to asset impairment (Note 7)	<u>(1)</u>	<u>93</u>
OPERATING LOSS	<u>(7,878)</u>	<u>(7,309)</u>
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations, and taxes:		
Tax-supported subsidies — NYS:		
Mass Transportation Trust Fund subsidies	659	567
Metropolitan Mass Transportation Operating Assistance subsidies	1,564	1,515
Payroll Mobility Tax subsidies	1,590	1,523
MTA Aid Trust Account subsidies	313	303
Tax-supported subsidies — NYC and Local:		
Mortgage Recording Tax subsidies	367	366
Urban Tax subsidies	800	631
Other subsidies:		
New York State Service Contract subsidy	17	20
Operating Assistance - 18-B program	376	376
Build America Bond subsidy	<u>89</u>	<u>88</u>
Total grants, appropriations, and taxes	<u>\$ 5,775</u>	<u>\$ 5,389</u>

See notes to the consolidated financial statements.

(Continued)

# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

## CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2014 AND 2013

(\$ In millions)

	December 31, 2014	December 31, 2013
NON-OPERATING REVENUES (EXPENSES):		
Connecticut Department of Transportation	\$ 118	\$ 83
Subsidies paid to Dutchess, Orange, and Rockland Counties	(6)	(8)
Interest on long-term debt	(1,358)	(1,357)
Station maintenance, operation and use assessments	164	162
Operating subsidies recoverable from NYC	472	362
Other net non-operating revenue	10	24
Federal Transit Authority/Federal Emergency Management Agency reimbursement	25	162
Change in fair value of derivative financial instruments (Note 8)	<u>1</u>	<u>5</u>
Net non-operating revenues	<u>5,201</u>	<u>4,822</u>
LOSS BEFORE APPROPRIATIONS	(2,677)	(2,487)
APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>1,754</u>	<u>1,565</u>
CHANGE IN NET POSITION	(923)	(922)
NET POSITION— Beginning of year	<u>14,205</u>	<u>15,679</u>
Restatement of beginning net position (Note 2)	<u>-</u>	<u>(552)</u>
NET POSITION — End of year	<u>\$ 13,282</u>	<u>\$ 14,205</u>

See notes to the consolidated financial statements.

(Concluded)

# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(\$ In millions)

	December 31, 2014	December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 7,715	\$ 7,453
Rents and other receipts	417	440
Asset impairment related expenses and recovery	-	158
Payroll and related fringe benefits	(8,606)	(7,604)
Payment to OPEB Trust	-	(50)
Other operating expenses	<u>(3,343)</u>	<u>(2,726)</u>
Net cash used by operating activities	<u>(3,817)</u>	<u>(2,329)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	6,208	5,707
Operating subsidies from CDOT	93	66
Subsidies paid to Dutchess, Orange, and Rockland Counties	<u>(8)</u>	<u>(7)</u>
Net cash provided by noncapital financing activities	<u>6,293</u>	<u>5,766</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	2,706	3,217
MTA Bridges and Tunnels bond proceeds	332	1,746
MTA bonds refunded/reissued	(744)	(641)
TBTA bonds refunded/reissued	(66)	(1,506)
MTA anticipation notes proceeds	2,562	4,927
MTA anticipation notes redeemed	(2,456)	(5,277)
MTA credit facility	-	300
Capital lease payments and terminations	(2)	(106)
Grants and appropriations	1,997	2,068
Payment for capital assets	(4,576)	(4,645)
Debt service payments	<u>(2,486)</u>	<u>(2,380)</u>
Net cash used by capital and related financing activities	<u>(2,733)</u>	<u>(2,297)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of long-term securities	(7,608)	(5,592)
Sales or maturities of long-term securities	5,586	4,496
Sales of short term securities	2,204	29
Earnings on investments	<u>28</u>	<u>52</u>
Net cash provided/(used) by investing activities	<u>210</u>	<u>(1,015)</u>
NET (DECREASE)/INCREASE IN CASH	(47)	125
CASH — Beginning of year	<u>358</u>	<u>233</u>
CASH — End of year	<u>\$ 311</u>	<u>\$ 358</u>

See notes to the consolidated financial statements.

(Continued)

# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(\$ In millions)

	December 31, 2014	December 31, 2013
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (7,878)	\$ (7,309)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	2,266	2,181
(Gain)/Loss on asset impairment related expenses and recovery	(5)	39
Net increase in payables, accrued expenses, and other liabilities	2,137	2,332
Net decrease in receivables	61	505
Net increase in materials and supplies and prepaid expenses	(398)	(77)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (3,817)</u>	<u>\$ (2,329)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital assets and related liabilities	\$ 533	\$ 515
Capital leases and related liabilities	<u>515</u>	<u>500</u>
TOTAL NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 1,048</u>	<u>\$ 1,015</u>
See notes to the consolidated financial statements.		(Concluded)

# **METROPOLITAN TRANSPORTATION AUTHORITY**

## **(A Component Unit of the State of New York)**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 2014 AND 2013 (\$ In millions)**

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#### **1. BASIS OF PRESENTATION**

**Reporting Entity** — The Metropolitan Transportation Authority (“MTA”) was established in 1965, under Section 1263 of the New York Public Authorities Law, and is a public benefit corporation and a component unit of the State of New York (“NYS”) whose mission is to continue, develop and improve public transportation and to develop and implement a unified public transportation policy in the New York metropolitan area.

These consolidated financial statements are of the Metropolitan Transportation Authority (“MTA”), including its related groups (collectively, the “MTA Group”) as follows:

#### **Metropolitan Transportation Authority and Related Groups**

- Metropolitan Transportation Authority Headquarters (“MTAHQ”) provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the related groups listed below.
- The Long Island Rail Road Company (“MTA Long Island Rail Road”) provides passenger transportation between New York City (“NYC”) and Long Island.
- Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority (“MTA Staten Island Railway”) provides passenger transportation on Staten Island.
- First Mutual Transportation Assurance Company (“FMTAC”) provides primary insurance coverage for certain losses, some of which are reinsured, and assumes reinsurance coverage for certain other losses.
- MTA Capital Construction Company (“MTA Capital Construction”) provides oversight for the planning, design and construction of current and future major MTA system-wide expansion projects.
- MTA Bus Company (“MTA Bus”) operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.
- MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, FMTAC, MTA Capital Construction, and MTA Bus, collectively are referred to herein as MTA. MTA Long Island Rail Road and MTA Metro-North Railroad are referred to collectively as the Commuter Railroads.



- New York City Transit Authority (“MTA New York City Transit”) and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”), provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority (“MTA Bridges and Tunnels”) operates seven toll bridges, two tunnels, and the Battery Parking Garage, all within the five boroughs of New York City.

MTA New York City Transit and MTA Bridges and Tunnels are operationally and legally independent of the MTA. These related groups enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, they are included in the MTA’s consolidated financial statements because of the MTA’s financial accountability for these entities and they are under the direction of the MTA Board (a reference to “MTA Board” means the board of MTAHQ and/or the boards of the other MTA Group entities that apply in the specific context, all of which are comprised of the same persons). Under accounting principles generally accepted in the United States of America (“GAAP”), the MTA is required to include these related groups in its financial statements. While certain units are separate legal entities, they do have legal capital requirements and the revenues of all of the related groups of the MTA are used to support the organization as a whole. The components do not constitute a separate accounting entity (fund) since there is no legal requirement to account for the activities of the components as discrete accounting entities. Therefore, the MTA financial statements are presented on a consolidated basis with segment disclosure for each distinct operating activity.

Although the MTA Group collect fares for the transit and commuter service, they provide and receive revenues from other sources, such as the leasing out of real property assets, and the licensing of advertising. Such revenues, including forecast-increased revenues from fare increases, are not sufficient to cover all operating expenses associated with such services. Therefore, to maintain a balanced budget, the members of the MTA Group providing transit and commuter service rely on operating surpluses transferred from MTA Bridges and Tunnels, operating subsidies provided by NYS and certain local governmental entities in the MTA commuter district, and service reimbursements from certain local governmental entities in the MTA commuter district and from the State of Connecticut. Non-operating subsidies to the MTA Group for transit and commuter service in the current period totaled \$5.8 billion.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Authority applies Governmental Accounting Standards Board (“GASB”) Codification of Governmental Accounting and Financial Reporting Standards (“GASB Codification”) Section P80, *Proprietary Accounting and Financial Reporting*.

The MTA has completed the process of evaluating the impact of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement reclassifies and recognizes certain items currently reported as assets and liabilities as one of four financial statement elements: deferred outflow of resources, outflow of resources, deferred inflow of resources, and inflow of resources. As a result of adopting GASB Statement No. 65, gains/losses on refunding debt are no longer part of long-term debt, but were reclassified separately under the section “Deferred Outflow of Resources.” The



financial impact resulting from the implementation of GASB Statement No. 65 is the restatement of 2013 beginning net position by \$552 for unamortized bond issuance costs incurred in prior years.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and RSI. The provisions in GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

The MTA has completed the process of evaluating the impact of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB Statement No. 69 requires the use of carrying values to measure the assets and liabilities in a government merger and requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. GASB Statement No. 69 also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. GASB Statement No. 69 provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. GASB Statement No. 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The MTA has determined that GASB Statement No. 69 had no impact on its financial position, results of operations, and cash flows.

The MTA has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. GASB Statement No. 70 also requires a government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. GASB Statement No. 70 further requires an issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. This Statement also requires a government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The MTA has determined that GASB Statement No. 70 had no impact on its financial position, results of operations, and cash flows.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's

beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The requirements of this Statement should be applied simultaneously with the provisions of GASB Statement No. 68 and are effective for fiscal years beginning after June 15, 2014.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 72, Fair Value Measurement and Application. This Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under the new Statement, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The provisions in Statement No. 72 are effective for financial statements for periods beginning after June 15, 2015.

**Use of Management Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

**Principles of Consolidation** — The consolidated financial statements consist of MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, FMTAC, MTA Bus, MTA Capital Construction, MTA New York City Transit (including its subsidiary MaBSTOA), and MTA Bridges and Tunnels for years presented in the financial statements. All related group transactions have been eliminated for consolidation purposes.

**Net Position – Restricted for Other Purposes** — This category is classified within net position and includes net assets that are restricted for capital leases and MTA Bridges and Tunnels necessary reconstruction reserve.

**Investments** — The MTA Group's investment policies comply with the New York State Comptroller's guidelines for such operating and capital policies. Those policies permit investments in, among others, obligations of the U.S. Treasury, its agencies and instrumentalities, and repurchase agreements secured by such obligations. FMTAC's investment policies comply with New York State Comptroller guidelines and New York State Department of Insurance guidelines.

Investments expected to be utilized within a year of December 31 have been classified as current assets in the consolidated financial statements.

Investments are recorded on the consolidated statement of net position at fair value and amortized cost. All investment income, including changes in the fair value of investments, is reported as revenue on the statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values at December 31, 2014 and 2013.

**Materials and Supplies** — Materials and supplies are valued principally at the lower of average cost or market value, net of obsolescence reserve.

**Prepaid Expenses and Other Current Assets** — Prepaid expenses and other current assets reflect advance payment of insurance premiums as well as farecard media related with ticket machines, WebTickets and AirTrain tickets.

**Capital Assets** — Properties and equipment are carried at cost and are depreciated on a straight-line basis over estimated useful lives. Expenses for maintenance and repairs are charged to operations as incurred. Capital assets and improvements include all land, buildings, equipment, and infrastructure of the MTA having a minimum useful life of two years and having a cost of more than \$25 thousand. Capital assets are stated at historical cost, or at estimated historical cost based on appraisals, or on other acceptable methods when historical cost is not available. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease. Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 25 to 50 years for buildings, 2 to 40 years for equipment, and 25 to 100 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset whichever is less.

**Pollution remediation projects** — Pollution remediation costs have been expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (See Note 13). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations, which previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: the MTA is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the MTA is named by a regulator as a responsible or potentially responsible party to participate in remediation; the MTA voluntarily commences or legally obligates itself to commence remediation efforts; or the MTA is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

**Operating Revenues** — *Passenger Revenue and Tolls* — Revenues from the sale of tickets, tokens, electronic toll collection system, and farecards are recognized as income when used.

#### **Non-operating Revenues**

*Operating Assistance* — The MTA Group receives, subject to annual appropriation, NYS operating assistance funds that are recognized as revenue when all applicable eligibility requirements are met. Generally, funds received under the NYS operating assistance program are fully matched by contributions from NYC and the seven other counties within the MTA's service area.

*Mortgage Recording Taxes ("MRT")* — Under NYS law, the MTA receives capital and operating assistance through a Mortgage Recording Tax ("MRT-1"). MRT-1 is collected by NYC and the seven other counties within the MTA's service area, at the rate of .25 of one percent of the debt secured by certain real estate mortgages. Effective September 2005, the rate was increased from 25 cents per 100 dollars of recorded mortgage to 30 cents per 100 dollars of recorded mortgage. The MTA also receives an additional Mortgage Recording Tax ("MRT-2") of .25 of one percent of certain mortgages secured by real estate improved or to be improved by structures containing one to nine dwelling units in the MTA's service area. MRT-1 and MRT-2 taxes are recognized as revenue based upon reported amounts of taxes collected.

- MRT-1 proceeds are initially used to pay MTAHQ's operating expenses. Remaining funds, if any, are allocated 55% to certain transit operations and 45% to the commuter railroads operations. The commuter railroad portion is first used to fund the NYS Suburban Highway Transportation Fund in an amount not to exceed \$20 annually (subject to the monies being returned under the conditions set forth in the governing statute if the Commuter Railroads are operating at a deficit). As of December 31, 2014 and 2013, the amount allocated to NYS Suburban Highway Transportation Fund was \$0 and \$0, respectively. Of the MTA New York City Transit portion, the MTA distributed \$0 and \$0 as of December 31, 2014 and 2013, respectively.
- The first \$5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange, and Rockland ("DOR") Fund (\$1.5 each for Dutchess and Orange Counties and \$2 for Rockland County). Additionally, the MTA must transfer to each County's fund an amount equal to the product of (i) the percentage by which each respective County's mortgage recording tax payments (both MRT-1 and MRT-2) to the MTA increased over such payments in 1989 and (ii) the base amount received by each county as described above. The counties do not receive any portion of the September 1, 2005 increase in MRT-1 from 25 cents per \$100 of recorded mortgage to 30 cents. As of December 31, 2014, the MTA paid to Dutchess, Orange and Rockland Counties the 2013 excess amounts of MRT-1 and MRT-2 totaling \$2.8.
- In addition, MTA New York City Transit receives operating assistance directly from NYC through a mortgage recording tax at the rate of 0.625 of one percent of the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of the assessed value (collectively referred to as "Urban Tax Subsidies") of certain properties.

*Mobility tax* — In June of 2009, chapter 25 of the NYS Laws of 2009 added Article 23, which establishes the Metropolitan Commuter Transportation Mobility Tax ("MCTMT"). The proceeds of this tax, administered by the New York State Tax Department, are to be distributed to the Metropolitan Transportation Authority. This tax is imposed on certain employers and self-employed individuals engaging in business within the metropolitan commuter transportation district which includes New York City, and the counties of Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester. This Tax is imposed on certain employers that have payroll expenses within the Metropolitan Commuter Transportation District, to pay at a rate of 0.34% of an employer's payroll expenses for all covered employees for each calendar quarter. The employer is prohibited from deducting from wages or compensation of an employee any amount that represents all or any portion of the MCTMT. The effective date of this tax was March 1, 2009 for employers other than public school district; September 1, 2009 for Public school districts and January 1, 2009 for individuals.

*Supplemental Aid* — Also, in 2009 several amendments to the existing tax law provided the MTA supplemental revenues to be deposited into the AID Trust Account of the Metropolitan Transportation Authority Financial Assistance Fund established pursuant to section 92 of the State Finance law. These supplemental revenues relate to: 1) supplemental learner permit/license fee in the Metropolitan Commuter Transportation District, 2) supplemental registration fee, 3) supplemental tax on every taxicab owner per taxicab ride on every ride that originated in the city and terminates anywhere within the territorial boundaries of the Metropolitan Commuter Transportation District, and 4) supplemental tax on passenger car rental. This Supplemental Aid Tax is provided to the MTA in conjunction with the Mobility Tax.

*Dedicated Taxes* — Under NYS law, subject to annual appropriation, the MTA receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund ("MTTF") and Metropolitan Mass Transportation Operating Assistance Fund ("MMTOA"). The MTTF receipts consist of a portion of the revenues derived from certain business privilege taxes imposed by the State



on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and non-registration fees. Effective October 1, 2005, the State increased the amount of motor vehicle fees deposited into the MTTF for the benefit of the MTA. MTTF receipts are applied first to meet certain debt service requirements or obligations and second to the Transit System (defined as MTA New York City Transit and MaBSTOA), SIRTOA and the Commuter Railroads to pay operating and capital costs. The MMTOA receipts are comprised of 0.375 of one percent regional sales tax, regional franchise tax surcharge, a portion of taxes on certain transportation and transmission companies, and an additional portion of the business privilege tax imposed on petroleum businesses. MMTOA receipts, to the extent that MTTF receipts are not sufficient to meet debt service requirements, will also be applied to certain debt service obligations, and secondly to operating and capital costs of the Transit System, and the Commuter Railroads.

The State Legislature enacts in an annual budget bill for each state fiscal year an appropriation to the MTA Dedicated Tax Fund for the then-current state fiscal year and an appropriation of the amounts projected by the Director of the Budget of the State to be deposited in the MTA Dedicated Tax Fund for the next succeeding state fiscal year. The assistance deposited into the MTTF is required by law to be allocated, after provision for debt service on Dedicated Tax Fund Bonds (See Note 8), 85% to certain transit operations (not including MTA Bus) and 15% to the commuter railroads operations. Revenues from this funding source are recognized based upon amounts of tax reported collected by NYS, to the extent of the appropriation.

*Build America Bond Subsidy* — The Authority is receiving cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the Series of Bonds issued as “Build America Bonds” and authorized by the Recovery Act. The Internal Revenue Code of 1986 imposes requirements that MTA must meet and continue to meet after the issuance in order to receive the cash subsidy payments. The interest on these bonds is fully subject to Federal income taxation. The “Build America Bonds” program ended on December 31, 2010.

*Operating Subsidies Recoverable from Connecticut Department of Transportation (“CDOT”)* — A portion of the deficit from operations relating to MTA Metro-North Railroad’s New Haven line is recoverable from CDOT. Under the terms of a renewed Service Agreement, which began on January 1, 2000, and the 1998 resolution of an arbitration proceeding initiated by the State of Connecticut, CDOT pays 100.0% of the net operating deficit of MTA Metro-North Railroad’s branch lines in Connecticut (New Canaan, Danbury, and Waterbury), 65.0% of the New Haven mainline operating deficit, and a fixed fee for the New Haven line’s share of the net operating deficit of Grand Central Terminal (“GCT”) calculated using several years as a base, with annual increases for inflation and a one-time increase for the cost of operating GCT’s North End Access beginning in 1999. The Service Agreement also provides that CDOT pay 100% of the cost of non-movable capital assets located in Connecticut, 100% of movable capital assets to be used primarily on the branch lines and 65% of the cost of other movable capital assets allocated to the New Haven line. Remaining funding for New Haven line capital assets is provided by the MTA. The Service Agreement provides for automatic five-year renewals unless a notice of termination has been provided. The Service Agreement has been automatically extended for an additional five years beginning January 1, 2010 subject to the right of CDOT or MTA to terminate the agreement on eighteen month’s written notice. Capital assets completely funded by CDOT are not reflected in these financial statements, as ownership is retained by CDOT. The Service Agreement provides that final billings for each year be subject to audit by CDOT. The audits of 2012, 2013 and 2014 billings are still open.

*Reimbursement of Expenses* — The cost of operating and maintaining the passenger stations of the Commuter Railroads in NYS is assessable by the MTA to NYC and the other counties in which such stations are located for each NYS fiscal year ending September 30, under provisions of the NYS Public

Authorities Law. This funding is recognized as revenue based upon an amount, fixed by statute, for the costs to operate and maintain passenger stations and is revised annually by the increase or decrease of the regional Consumer Price Index.

In 1995, New York City ceased reimbursing the Authority for the full costs of the free/reduced fare program for students (the Student Fare Program). Beginning in 1996, the State and The City each began paying \$45 per annum to the Authority toward the cost of the Student Fare Program. In 2009, the State reduced their \$45 reimbursement to \$6.3.

The 2010 Adopted Budget proposed that the Student Fare Program be eliminated and student fares be phased in, with the first phase to commence September 1, 2010. In June 2010, following fare reimbursement commitments of \$25.3 from New York State and \$45.0 from New York City, the Authority declined to proceed with the proposal to eliminate the Student Fare Program. These fare reimbursement commitments were paid to the Authority during 2013 and 2014.

Policing of the transit system is carried out by the NYC Police Department at NYC's expense. The MTA, however, continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by NYC. The Authority received approximately \$2.1 and \$5.4 in the years ended December 31, 2014 and 2013, respectively, from New York City for the reimbursement of transit police costs. Similarly, MTAHQ bills MTA Metro-North Railroad through its consolidated services for MTA police costs in the New Haven line of which MTA Metro-North Railroad recovers approximately 65% from Connecticut Department of Transportation. The amounts billed for the years ended December 31, 2014 and 2013 were \$20.3 and \$19.5. The amounts recovered for the years ended December 31, 2014 and 2013 were approximately \$13.2 and \$12.7.

Federal law and regulations require a paratransit system for passengers who are not able to ride the buses and trains because of their disabilities. Pursuant to an agreement between NYC and the MTA, MTA New York City Transit had assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. The services are provided by private vendors under contract with MTA New York City Transit. NYC reimburses the MTA for the lesser of 33.0% of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6.0% of gross Urban Tax Subsidies, or an amount that is 20.0% greater than the amount paid by the NYC for the preceding calendar year. Fare revenues and New York City reimbursement aggregated approximately \$194.1 and \$186.1 for the years ended December 31, 2014 and 2013, respectively.

*Grants and Appropriations* — Grants and appropriations for capital projects are recorded when requests are submitted to the funding agencies for reimbursement of capital expenditures and beginning in 2001 were recorded as nonoperating revenues in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. These amounts are reported separately after Total Nonoperating Revenues in the Statements of Revenues, Expenses, and Changes in Net Position.

**Operating and Non-operating Expenses** — Operating and non-operating expenses are recognized in the accounting period in which the liability is incurred. All expenses related to operating the MTA (e.g. salaries, insurance, depreciation, etc.) are reported as operating expenses. All other expenses (e.g. interest on long-term debt, subsidies paid to counties, etc.) are reported as non-operating expenses.

**Liability Insurance** — FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program ("ELF") that insures certain claims in excess of the self-insured retention limits of

the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: \$8 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 for MTAHQ and MTA Bridges and Tunnels. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limits are: \$9 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2012 the self-insured retention limits for ELF were increased to the following amounts: \$10 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 for MTA Staten Island Railway; and \$2.6 for MTAHQ and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 per occurrence with a \$50 annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2014, the balance of the assets in this program was \$71.8.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 for a total limit of \$400 (\$350 excess of \$50). In certain circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of \$50.

On March 1, 2014, the “nonrevenue fleet” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA Group with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides \$10 per occurrence limit with a \$0.5 per occurrence deductible for MTA Long Island Rail Road, MTA Staten Island Rapid Transit Operating Authority, MTA Police, MTA Metro-North Railroad, MTA Inspector General and MTA Headquarters. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On March 1, 2014, the “Access-A-Ride” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit’s Access-A-Ride program, including the contracted operators. This policy provides a \$3 per occurrence limit with a \$1 per occurrence deductible.

On December 15, 2014, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$10 per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

**Property Insurance.** Effective May 1, 2014, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25 per occurrence self-insured retention (“SIR”), subject to an annual \$75 aggregate as well as certain exceptions summarized below. The total program is \$600 per occurrence covering property of the related entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage. Losses



occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 per occurrence. The property insurance policy provides replacement cost coverage for all risks (including Earthquake, Flood and Wind) of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

In addition to the noted \$25 per occurrence self-insured retention, MTA self-insures All Risk (excluding Earthquake, Flood, and Wind) above that retention for an additional \$362.3 within the overall \$600 property program, as follows: \$32.98 (or 32.98%) of the \$100 layer excess of the primary \$150 layer, plus \$229.33 (or 91.7%) of the \$250 layer excess of \$250, plus \$100 (or 100%) of \$100 excess of \$500.

FMTAC is 100% reinsured in the domestic, Asian, London, European and Bermuda marketplaces for the perils of Earthquake, Flood, and Wind for the \$600 per occurrence and in the annual aggregate property program.

Supplementing the \$600 per occurrence coverage noted above, FMTAC's property insurance program has been expanded to include a further layer of \$200 of fully collateralized storm surge coverage for losses from storm surges that surpass specified trigger levels in the New York Harbor or Long Island Sound and are associated with named storms that occur at any point in the three year period from July 31, 2013 to July 30, 2016. The expanded protection is reinsured by MetroCat Re Ltd., a Bermuda special purpose insurer independent from MTA and formed to provide FMTAC with capital markets-based property reinsurance. The MetroCat Re reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is available for storm surge losses only after amounts available under the \$600 in general property reinsurance are exhausted.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 85% of "certified" losses, as covered by the Terrorism Risk Insurance Act ("TRIA") of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. The remaining 15% of MTA Group losses arising from an act of terrorism would be covered under the additional terrorism policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed \$100 ("trigger"). The United States government's reinsurance of FMTAC six years through December 31, 2020..

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") program, the MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 15% of any "certified" act of terrorism up to a maximum recovery of \$161.2 for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15% "certified" acts of terrorism insurance or (3) 100% of any "certified" terrorism loss which exceeds \$5 and less than the \$100 TRIPRA trigger up to a maximum recovery of \$100 for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2015. Recovery under this policy is subject to a retention of \$25 per occurrence and \$75 in the annual aggregate in the event of multiple losses during the policy year. Should the MTA Group's retention in any one year exceed \$75 future losses in that policy year are subject to a retention of \$7.5.

**Pension Plans** — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and

required supplementary information, if applicable. The Authority has adopted this standard for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions (“ARC”) to the pension plan, calculated in accordance with certain parameters.

GASB has issued Statements No. 67 and No. 68, which will be replacing GASB Statement 25 and 27. The effective date of Statement 67 (which applies to financial reporting on a plan basis) is the fiscal year ended December 31, 2014. The effective date of Statement 68 (which applies to financial reporting by contributing employers) is the fiscal year ending December 31, 2015, although earlier adoption is permissible. NYCERS adopted GASB Statement No. 67 Financial Reporting for Pension Funds, for the year ended June 30, 2014 (refer to Note 4 for further information).

**Postemployment Benefits Other Than Pensions** — In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (“RSI”) in the financial reports of state and local governmental employers. In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of GASB Statement No. 45. The Authority has adopted these standards for its Postemployment Benefits Other Than Pensions.

### 3. CASH AND INVESTMENTS

The Bank balances are insured up to \$250 thousand in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited. Cash, including deposits in transit, consists of the following at December 31, 2014 and 2013 (in millions):

	<b>December 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Carrying Amount</b>	<b>Bank Balance</b>	<b>Carrying Amount</b>	<b>Bank Balance</b>
FDIC insured or collateralized deposits	\$ 157	\$ 152	\$ 147	\$ 144
Uninsured and not collateralized	<u>154</u>	<u>99</u>	<u>211</u>	<u>165</u>
	<u>\$ 311</u>	<u>\$ 251</u>	<u>\$ 358</u>	<u>\$ 309</u>

All collateralized deposits are held by the MTA or its agent in the MTA’s name.

The MTA, on behalf of itself, its affiliates and subsidiaries, invests funds which are not immediately required for the MTA’s operations in securities permitted by the New York State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds.

The MTA’s uninsured and uncollateralized deposits are primarily held by commercial banks in the metropolitan New York area and are subject to the credit risks of those institutions.

MTA holds most of its investments at a custodian bank. The custodian must meet certain banking institution criteria enumerated in MTA’s Investment Guidelines. The Investment Guidelines also

require the Treasury Division to hold at least \$100 of its portfolio with a separate emergency custodian bank. The purpose of this deposit is in the event that the MTA's main custodian cannot execute transactions due to an emergency outside of the custodian's control, the MTA has an immediate alternate source of liquidity.

Investments, at fair value, consist of the following at December 31, 2014 and December 31, 2013 (in millions):

	December 31, 2014	December 31, 2013
Repurchase agreements	\$ 94	\$ 242
Commercial paper	1,584	1,536
Federal Agencies due 2015	828	808
U.S. Treasuries due 2015–2021	1,592	1,620
Investments restricted for capital lease obligations:		
U.S. Treasury Notes due 2015 -2033	\$ 201	\$ 163
Short-term investment fund	77	77
Federal Agencies due 2014 -2034	40	40
Other Agencies due 2030	136	165
Sub-total	<u>454</u>	<u>445</u>
Other Agencies due 2015-2030	108	72
Asset and mortgage backed securities*	25	21
Commercial mortgage backed securities*	62	71
Corporate bonds*	160	161
Foreign bonds*	20	20
Equities*	<u>20</u>	<u>18</u>
Total	<u>\$ 4,947</u>	<u>\$ 5,014</u>

\*These securities are only included in the FMTAC portfolio.

Fair values include accrued interest to the extent that interest is included in the carrying amounts. Accrued interest on investments other than Treasury bills and coupons is included in other receivables on the statement of net position. The MTA's investment policy states that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment.

In connection with certain lease transactions described in Note 9, the MTA has purchased securities or entered into payment undertaking, letter of credit, or similar type agreements or instruments (guaranteed investment contracts) with financial institutions, which generate sufficient proceeds to make basic rent and purchase option payments under the terms of the leases. If the obligors do not perform, the MTA may have an obligation to make the related rent payments.

All investments, other than the investments restricted for capital lease obligations, are either insured or registered and held by the MTA or its agent in the MTA's name. Investments restricted for capital lease obligations are either held by MTA or its agent in the MTA's name or held by a custodian as collateral for MTA's obligation to make rent payments under capital lease obligation. Investments had weighted average yields of 0.27% and 0.12% for the years ended December 31, 2014 and 2013, respectively.

Of the above cash and investments, amounts designated for internal purposes by management were as follows December 31, 2014 and 2013 (in millions):

	December 31, 2014	December 31, 2013
Construction or acquisition of capital assets	\$ 2,265	\$ 2,060
Funds received from affiliated agencies for investment	779	830
Debt service	434	479
Payment of claims	582	551
Restricted for capital leases	454	447
Other	528	580
	<u>5,042</u>	<u>4,947</u>
Unrestricted funds	216	425
Total	<u>\$ 5,258</u>	<u>\$ 5,372</u>

**Credit Risk** — At December 31, 2014 and 2013, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization (in millions):

Quality Rating Standard & Poor's	December 31, 2014	Percent of Portfolio	December 31, 2013	Percent of Portfolio
A-1+	\$ 828	17 %	\$ 808	17 %
A-1	1,584	33	1,536	32
AAA	120	3	115	2
AA+	40	1	110	2
AA	34	1	39	1
A	100	2	98	2
BBB	55	1	49	1
Not rated	100	2	264	5
Government	<u>1,876</u>	<u>40</u>	<u>1,786</u>	<u>38</u>
Total	4,737	100 %	4,805	100 %
Equities and capital leases	<u>210</u>		<u>209</u>	
Total investment	<u>\$ 4,947</u>		<u>\$ 5,014</u>	

**Interest Rate Risk** — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The greater the duration of a bond or portfolio of bonds, the greater its price volatility will be in response to a change in interest rate risk and vice versa. Duration is an indicator of bond price's sensitivity to a 100 basis point change in interest rates.

(In millions) Securities	December 31, 2014		December 31, 2013	
	Fair Value	Duration	Fair Value	Duration
U.S. Treasuries	\$ 1,592	4.82	\$ 1,620	5.11
Federal Agencies	828	0.08	808	0.20
Other Agencies	102	4.32	65	4.00
Tax benefits lease investments	261	10.69	236	11.83
Repurchase agreement	94	-	242	-
Certificate of deposits	6	-	7	-
Commercial paper	1,584	-	1,536	-
Asset-backed securities <sup>(1)</sup>	25	0.99	21	0.27
Commercial mortgage-backed securities <sup>(1)</sup>	62	1.64	71	1.87
Foreign bonds <sup>(1)</sup>	20	0.00	20	0.86
Corporates <sup>(1)</sup>	160	2.46	161	2.38
Total fair value	4,734		4,787	
Modified duration		2.43		2.51
Equities <sup>(1)</sup>	20		18	
Total	4,754		4,805	
Investments with no duration reported	193		209	
Total investments	\$ 4,947		\$ 5,014	

<sup>(1)</sup> These securities are only included in the FMTAC portfolio.

MTA is a public benefit corporation established under the New York Public Authorities Law. MTA's Treasury Division is responsible for the investment management of the funds of the Related Entities. The investment activity covers all operating and capital funds, including bond proceeds, and the activity is governed by State statutes, bond resolutions and the Board-adopted investment guidelines (the "Investment Guidelines"). The MTA Act currently permits the Related Entities to invest in the following general types of obligations:

- obligations of the State or the United States Government;
- obligations of which the principal and interest are guaranteed by the State or the United States government;
- obligations issued or guaranteed by certain Federal agencies;
- repurchase agreements fully collateralized by the obligations of the foregoing United States Government and Federal agencies;
- certain certificates of deposit of banks or trust companies in the State;



- certain banker's acceptances with a maturity of 90 days or less;
- certain commercial paper;
- certain municipal obligations; and
- certain mutual funds up to \$10 in the aggregate.

The MTA adopted NYS Statutory Requirements with respect to credit risk of its investments, which include, but are not limited to the following sections:

- i) Public Authorities Law Sections 1265(4) (MTA), 1204(19) (Transit Authority) and 553(21) (TBTA);
- ii) Public Authorities Law Section 2925 Investment of funds by public authorities and public benefit corporations; general provisions; and
- iii) State Finance Law Article 15 – EXCELSIOR LINKED DEPOSIT ACT.

MTA Investment Guidelines limit the dollar amount invested in banker acceptances, commercial paper, and obligations issued or guaranteed by certain Federal agencies to \$250 at cost. There are no dollar limits on the purchase of obligations of the United States government, the State or obligations the principal and interest of which are guaranteed by the State or the United States government. Investments in collateralized repurchase agreements are limited by dealer or bank's capital. MTA can invest no greater than \$300 with a bank or dealer rated in Tier 1 (i.e. \$1 billion or more of capital).

FMTAC is created as a MTA subsidiary and is licensed as a captive direct insurer and reinsurer by the New York State Department of Insurance. As such, FMTAC is responsible for the investment management of its funds. The investment activity is governed by State statutes and the FMTAC Board adopted investment guidelines. The minimum surplus to policyholders and reserve instruments are invested in the following investments:

- obligations of the United States or any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States;
- direct obligations of the State or of any county, district or municipality thereof;
- any state, territory, possession or any other governmental unit of the United States;
- certain bonds of agencies or instrumentalities of any state, territory, possession or any other governmental unit of the United States;
- the obligations of a solvent American institution which are rated investment grade or higher (or the equivalent thereto) by a securities rating agency; and
- certain mortgage backed securities in amounts no greater than five percent of FMTAC's admitted assets.

FMTAC may also invest non-reserve instruments in a broader range of investments including the following general types of obligations:

- certain equities; and
- certain mutual funds.



FMTAC is prohibited from making the following investments:

- investment in an insolvent entity;
- any investment as a general partner; and
- any investment found to be against public policy.

FMTAC investment guidelines do include other investments, but FMTAC has limited itself to the above permissible investments at this time.

#### 4. EMPLOYEE BENEFITS

The MTA Related Groups pension plans have separately issued financial statements that are publicly available and contain descriptions and supplemental information regarding their respective employee benefit plans. These statements may be obtained by contacting the administrative office of the respective Related Group.

**Pension Plans** — The MTA Related Groups sponsor and participate in a number of pension plans for their employees. These plans are not component units of the MTA and are not included in the combined financial statements.

##### **Defined Benefit Pension Plans**

###### *Single-Employer Pension Plans*

###### *MTA Long Island Rail Road Plan for Additional Pensions*

**Plan Description** — The Long Island Rail Road Plan for Additional Pensions (“the LIRR Plan”) is a single-employer defined benefit pension plan that provides retirement, disability and death benefits to plan members and beneficiaries. Members include employees hired prior to January 1, 1988. The LIRR Plan is administered by the Board of Managers of Pensions. The LIRR Plan is a governmental plan and accordingly, is not subject to the funding and other requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”). The pension plan has a separately issued financial statement that is publicly available and contains required descriptions and supplemental information regarding the employee benefit plan. The statements may be obtained by writing to, Long Island Rail Road, Controller, 93-02 Sutphin Boulevard – mail code 1421, Jamaica, New York 11435.

**Funding Policy** — The LIRR Plan has both non-contributory and contributory requirements. Participants who entered qualifying service before July 1, 1978 are not required to contribute. Participants who entered qualifying service on or after July 1, 1978 contribute 3% of their wages. The MTA Long Island Rail Road contributes additional amounts based on actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. The current rate is 383.56% of annual covered payroll.

The funded status of the LIRR Plan as of January 1, 2014, the most recent actuarial valuation date, is as follows (in millions):

	2014	2013
Annual required contribution ("ARC")	\$ 112.5	\$ 119.3
Interest on net pension obligation	(3.1)	2.6
Adjustment to ARC	<u>4.3</u>	<u>(3.5)</u>
Annual pension cost	113.7	118.4
Actual contributions made	(112.5)	(119.3)
Prepaid pension funding	<u>(295.0)</u>	<u>(80.0)</u>
Decrease in net pension obligation	(293.8)	(80.9)
Net pension (asset)/obligation beginning of year	<u>(43.9)</u>	<u>37.0</u>
Net pension asset end of year	<u>\$ (337.7)</u>	<u>\$ (43.9)</u>

### Three-Year Trend Information (In millions)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability "AAL"	Unfunded Actuarial Accrued Liability "UAAL"	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
1/1/2014	\$ 485.8	\$ 1,650.5	\$ 1,164.7	29.4 %	\$ 29.3	3,970.6 %
1/1/2013	400.8	1,664.3	1,263.5	24.1	33.0	3,823.8
1/1/2012	437.4	1,633.3	1,195.8	26.8	40.0	2,987.1

Year Ended	Annual Pension Cost "APC"	Annual Required Contribution "ARC"	Actual Annual Contribution	ARC as a % of Covered Payroll	% of APC Contributed	Net Pension Obligation/ (Asset)
12/31/2014	\$ 113.7	\$ 112.5	\$ 407.5	383.6 %	358.4 %	\$ (337.7)
12/31/2013	118.4	119.3	199.3	361.2	168.3	(43.9)
12/31/2012	115.2	116.0	116.0	289.8	100.7	37.0

The schedule of pension funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

*Funded Status and Funding Progress* — As of January 1, 2014, the most recent actuarial valuation date, the LIRR Plan was 29.4 % funded. The actuarial accrued liability for benefits was \$1,650.5, and the actuarial value of assets was \$485.8, resulting in an unfunded actuarial accrued liability ("UAAL") of \$1,164.7. The covered payroll (annual payroll of active employees covered by the LIRR Plan) was \$29.3, and the ratio of the UAAL to the covered payroll was 3,970.6%.

*Actuarial Methods and Assumptions* — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The significant actuarial methods and assumptions used in the LIRR Defined Benefit Plans Actuarial Valuation at January 1, 2014, were as follows: the actuarial cost method and amortization method used was the entry age normal cost for all periods. The asset valuation method utilized was a 5-year smoothing method for all periods. The interest rate assumption is 7.00% per year (net-after investment expenses). Investments and administrative expenses are paid from plan assets of the LIRR Defined Benefit Plans.

A noncurrent pension (asset)/obligation of \$(337.7), \$(43.9), and \$37.0 at December 31, 2014, 2013, and 2012, respectively reflects only the pension obligation position of the LIRR Additional Plan. In 2013, MTA made additional contributions that offset the pension obligation. The remaining amortization period at December 31, 2014 was 19 years.

#### *Metro-North Cash Balance Plan*

*Plan Description* — The Metro-North Commuter Railroad Company Cash Balance Plan (the “MNR Cash Balance Plan”) is a single employer, defined benefit pension plan. The MNR Cash Balance Plan covers non-collectively bargained employees, formerly employed by Conrail, who joined MTA Metro-North Railroad as management employees between January 1 and June 30, 1983, and were still employed as of December 31, 1988. Effective January 1, 1989, these management employees were covered under the Metro-North Commuter Railroad Defined Contribution Plan for Management Employees (the “Management Plan”) and the MNR Cash Balance Plan was closed to new participants. The assets of the Management Plan were merged with the Metropolitan Transportation Authority Defined Benefit Plan for Non-Represented Employees (now titled as the Metropolitan Transportation Authority Defined Benefit Pension Plan) as of the asset transfer date of July 14, 1995. The MNR Cash Balance Plan is designed to satisfy the applicable requirements for governmental plans under Section 401(a) and 501(a) of the Internal Revenue Code. Accordingly, the MNR Cash Balance Plan is tax-exempt and is not subject to the provisions of the Employee Retirement Income Security Act (“ERISA”) of 1974. This plan provides retirement and death benefits to plan members and beneficiaries.

*Funding Policy* — Funding for the MNR Cash Balance Plan is provided by MTA Metro-North Railroad which is a public benefit corporation that receives funding for its operations and capital needs from the MTA and the Connecticut Department of Transportation (“CDOT”). Certain funding by MTA is made to MTA Metro-North Railroad on a discretionary basis. The continuance of funding for the MNR Cash Balance Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

MTA Metro-North Railroad’s funding policy was to contribute the full amount of the pension benefit obligation (“PBO”) of approximately \$2.9 to the trust fund in 1989. As participants retire, distributions from the MNR Cash Balance Plan have been made by the Trustee. MTA Metro-North Railroad anticipated that no further payments would be made to the MNR Cash Balance Plan unless there was an unfunded actuarial liability as determined by the actuary. Such additional funding has been required in the past.

The actuarial value of assets exceeded the actuarial accrued liability as of January 1, 2012 and 2013 so no payment was required in those years. The actuarial accrued liability exceeded the actuarial value of assets as of January 1, 2014 and as a result a payment was required. The market value of net

assets available for benefits in the trust fund at December 31, 2014, was \$0.748 which is \$0.018 less than the current PBO of \$0.766.

The funded status of the MNR Cash Balance Plan as of January 1, 2014, the most recent actuarial valuation date, is as follows (in thousands):

	2014	2013
Annual required contribution ("ARC")	\$ 5.0	\$ -
Interest on net pension obligation	(1.9)	(2.3)
Adjust to ARC	<u>11.7</u>	<u>11.7</u>
Annual pension cost	<u>14.8</u>	<u>9.4</u>
Increase in net pension obligation	14.8	9.4
Net pension asset beginning of year	<u>(41.9)</u>	<u>(51.3)</u>
Net pension asset end of year	<u>\$ (27.1)</u>	<u>\$ (41.9)</u>

### Three-Year Trend Information

(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability "AAL"	Unfunded Actuarial Accrued Liability/ (Surplus) "UAAL"	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
1/1/2014	\$ 747.7	\$ 765.5	\$ 17.8	97.7 %	\$2,096.8	0.9 %
1/1/2013	878.0	819.7	(58.3)	107.1	-	0.0
1/1/2012	1,006.4	991.9	(14.5)	101.5	-	0.0

Year Ended	Annual Pension Cost "APC"	Annual Required Contribution "ARC"	Annual Contribution	ARC as a % of Covered Payroll	% of APC Contributed	Net Pension Asset
12/31/2014	\$ 14.8	\$ 5.0	\$ 5.0	0.0 %	34.0 %	\$ (27.1)
12/31/2013	9.4	-	-	0.0	0.0	(41.9)
12/31/2012	9.0	-	-	0.0	0.0	(51.3)

The schedule of pension funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

*Funded Status and Funding Progress* — As of January 1, 2014, the most recent actuarial valuation date, the MNR Cash Balance Plan was 97.7% funded. The actuarial accrued liability for benefits was \$0.766, and the actuarial value of assets was \$0.748, resulting in an unfunded actuarial accrued

liability of \$0.018. The covered payroll (annual payroll of active employees covered by the plan) was \$2.1, and the ratio of the UAAL to the covered payroll was 0.9%.

Further information about the MNR Cash Balance Plan is more fully described in the separately issued financial statements which can be obtained by writing to the MTA Metro-North Railroad Controller, 420 Lexington Avenue, New York, New York, 10170-3739.

*Actuarial Methods and Assumptions* — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The significant actuarial methods and assumptions used in the January 1, 2014 valuation were the projected unit credit cost method and an investment rate of return of 4.5% per year. The accrued benefit for the unit credit cost method is defined by the plan and is usually used when the annual benefit accrual is a flat dollar amount or a constant percentage of the participant's current annual salary. The asset valuation method utilized was the market value per the Trustee. There was no projected salary increase assumption used in the January 1, 2014 valuation. For participants of the MNR Cash Balance Plan eligible for additional benefits, the additional benefits were not valued as the potential liability for this benefit is de minimus.

#### *Manhattan and Bronx Surface Transit Operating Authority*

*Plan Description* — MTA New York City Transit contributes to the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") Plan (the "MaBSTOA Plan"), a single employer governmental retirement plan. The MaBSTOA Plan provides retirement, disability, cost-of-living adjustments and death benefits to plan members and beneficiaries that are similar to those benefits provided by the New York City Employees' Retirement System to similarly situated MTA New York City Transit employees. The MaBSTOA Plan assigns the authority to establish and amend the benefit provisions to the MaBSTOA Board. MaBSTOA issues a publicly available financial report that includes financial statements and required supplementary information for the MaBSTOA Plan. That report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, Operations Accounting, 2 Broadway, 10<sup>th</sup> Floor, New York, New York, 10004.

*Funding Policy* — MaBSTOA's funding policy requires periodic employer contributions which are actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. It is MaBSTOA's policy to fund, at a minimum, the current year's normal pension cost plus amortization of the unfunded actuarial accrued liability. For employees, the MaBSTOA Plan has both contributory and noncontributory requirements depending on the date of entry into service. Employees entering qualifying service on or before July 26, 1976 are non-contributing. Certain employees entering qualifying service on or after July 27, 1976 but before April 1, 2012 are required to contribute 3% of their salary and others are required to contribute 2%. Also, certain post-July 27, 1976 employees hired before April 1, 2012 contribute 1.85% in addition to their 3% contributions, if required. Effective October 1, 2000, certain post-July 27, 1976 employees hired before April 1, 2012 who have been members for 10 years or have 10 years of credited service are no longer required to make the 3% contributions. As a result of pension reform legislation passed in 2012 that affected MTA New York City Transit employees, similarly situated MaBSTOA employees hired on or after April 1, 2012 contribute 3% (although certain employees contribute 2%), with new rates starting April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service. MaBSTOA's contribution rate is 40.3% of annual covered payroll. MTA New York City Transit's contributions to the MaBSTOA Plan for the years ended December 31, 2014, 2013 and



2012 were \$226.4, \$234.5, and \$228.9, respectively, equal to the annual required contributions for each year.

The funded status of the MaBSTOA Plan as of January 1, 2014, the most recent actuarial valuation date, is as follows (in millions):

	2014	2013
Annual required contribution ("ARC")	\$ 226.4	\$ 234.5
Interest on net pension asset	(2.5)	(2.6)
Adjust to ARC	<u>4.3</u>	<u>4.4</u>
Annual pension cost	228.2	236.3
Actual contributions	<u>(226.4)</u>	<u>(234.5)</u>
Decrease in net pension asset	1.8	1.8
Net pension asset beginning of year	<u>(35.6)</u>	<u>(37.4)</u>
Net pension asset end of year	<u>\$ (33.8)</u>	<u>\$ (35.6)</u>

### Three-Year Trend Information

(In millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Initial Entry Age (b)	Unfunded (AAL) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) As a Percentage of Covered Payroll ((b-a)/c)
1/1/2014	\$ 2,028.0	\$ 2,892.5	\$ 864.6	70.10 %	\$ 616.4	140.3 %
1/1/2013	1,764.4	2,702.4	938.0	65.29	582.1	161.1
1/1/2012	1,624.3	2,482.8	858.5	65.42	576.0	149.1

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
12/31/2014	\$ 228.2	99.2 %	\$ (33.8)
12/31/2013	236.3	99.2	(35.6)
12/31/2012	230.8	99.2	(37.4)



The schedule of pension funding progress, presented as RSI following the notes to the consolidated financial statements, present multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

*Funded Status and Funding Progress* — As of January 1, 2014, the most recent actuarial valuation date, the MaBSTOA Plan was 70.1% funded. The actuarial accrued liability for benefits was \$2,892.5 and the actuarial value of assets \$2,028.0, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$864.6. The covered payroll (annual payroll of active employees covered by the MaBSTOA Plan) was \$616.4, and the ratio of the UAAL to the covered payroll was 140.3%.

*Actuarial Methods and Assumptions* — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The January 1, 2014 valuation reflects the adoption by the Authority of the January 1, 2006 – December 31, 2011 Experience Study. The experience study modified demographic assumptions such as the rates of withdrawal, retirement and disability as well as economic assumptions such as the salary increase and cost-of-living assumptions to better reflect anticipated experience.

In addition, the interest rate assumption was reduced from 7.5% on a gross basis to 7.0% on a net basis. The explicit investment expense assumption was eliminated and assumed to be covered by investment income. These changes increased the unfunded actuarial accrued liability by \$142.5 which is being amortized over 10 years.

The assumptions included a 7.0% investment rate of return, net of expenses and assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% and 7.0% for non-operating employees per year, depending on years of service. This also includes an inflation component of 2.5% per year.

Annual pension costs and related information about each of the above plans follows:

	Single-Employer Plans		
	LIRR	MaBSTOA	MNR Cash Balance Plan
Date of valuation	1/1/2014	1/1/2014	1/1/2014
Required contribution rates:	(\$ in millions)		(\$ in thousands)
Plan members			
Employer:	variable actuarially determined	variable actuarially determined	variable actuarially determined
Employer contributions made in 2014	\$ 112.5	\$ 226.4	\$ 0.0
Three-year trend information:			
Annual Required Contribution			
2014	\$ 112.5	\$ 226.4	\$ 5.0
2013	119.3	234.5	0.0
2012	116.0	228.9	0.0
Percentage of ARC contributed:			
2014	362.2 %	100.0 %	100.0 %
2013	167.1	100.0	0.0
2012	100.0	100.0	0.0
Annual Pension Cost (APC):			
2014	\$ 113.7	\$ 228.2	\$ 14.8
2013	118.4	236.3	9.4
2012	115.2	230.8	9.0
Net Pension Obligation (NPO) (asset) at end of year:			
2014	\$ (337.7)	\$ (33.8)	\$ (27.1)
2013	(43.9)	(35.6)	(41.9)
2012	37.0	(37.4)	(51.3)
Percentage of APC contributed:			
2014	358.4 %	99.2 %	34.0 %
2013	168.3	99.2	0.0
2012	100.7	99.2	0.0
Components of APC			
Annual required contribution (ARC)	\$ 112.5	\$ 226.4	\$ 5.0
Interest on NPO	(3.1)	(2.5)	(1.9)
Adjustment of ARC	4.3	4.3	11.7
APC	113.7	228.2	14.8
Contributions made	(112.5)	(226.4)	0.0
Prepaid pension funding	(295.0)	0.0	0.0
Change in NPO (asset)	(293.8)	1.8	14.8
NPO (asset) beginning of year	(43.9)	(35.6)	(41.9)
NPO (asset) end of year	\$ (337.7)	\$ (33.8)	\$ (27.1)

	Single-Employer Plans		
	LIRR	MaBSTOA	MNR Cash Balance Plan
Actuarial project unit cost method	Entry age normal	Entry age normal frozen initial liability	Unit credit cost
Method to determine actuarial value of plan assets	5-year smoothing	5-year smoothing	Market value
Investment return	7.00 %	7.00 %	4.50 %
Projected salary increases	3.00 %	3.5%–15.0%	N/A
Consumer price inflation	2.50 %	2.50 %	2.50 %
Amortization method and period remaining	level dollar/19 years	level dollar/9 years	level dollar/4 years
Period closed or open	closed	closed	closed

#### *Cost-Sharing Multiple-Employer Plans*

##### *MTA Defined Benefit Plan*

**Plan Description** — The MTA Defined Benefit Pension Plan (“MTA Plan”) is a cost sharing multiple-employer pension plan. The Plan includes certain MTA Long Island Rail Road non-represented employees hired after December 31, 1987, MTA Metro-North Railroad non-represented employees, certain employees of the former MTA Long Island Bus hired prior to January 23, 1983, MTA Police, MTA Long Island Rail Road represented employees hired after December 31, 1987, certain MTA Metro-North Railroad represented employees, MTA Staten Island Railway represented and non-represented employees and certain employees of the MTA Bus Company (“MTA Bus”). MTA Long Island Rail Road, MTA Metro-North Railroad, MTA, MTA Staten Island Railway and MTA Bus contribute to the MTA Plan, which offers distinct retirement, disability retirement, and death benefits for their covered employees and beneficiaries. The MTA Plan may be amended by action of the MTA Board.

A stand-alone financial report may be obtained by writing to the MTA Comptroller, 2 Broadway, 16<sup>th</sup> Floor, New York, New York, 10004.

**Funding policy** — Employer contributions are actuarially determined on an annual basis and are recognized when due. Employee contributions to the Plan are recognized in the period in which the contributions are due. There are no contributions required for the MTA Long Island Bus Employees’ Pension Plan. The current funded ratio of actuarial accrued assets over actuarial accrued liability is 80.3%. The contribution requirements of the plan members and the MTA are established and may be amended by the MTA Board. The MTA’s contributions to the Plan for the years ended December 31,

2014, 2013 and 2012 were \$271.5, \$243.0, and \$212.4, respectively, equal to the required contributions for each year.

The following summarizes the types of employee contributions made to the Plan:

Effective January 1, 1994, covered MTA Metro-North Railroad and MTA Long Island Rail Road non-represented employees are required to contribute to the Plan to the extent that their Railroad Retirement Tier II employee contribution is less than the pre-tax cost of the 3% employee contributions. Effective October 1, 2000, employee contributions, if any, were eliminated after ten years of making contributions to the Plan. MTA Metro-North Railroad employees may purchase prior service from January 1, 1983 through December 31, 1993 and MTA Long Island Rail Road employees may purchase prior service from January 1, 1988 through December 31, 1993 by paying the contributions that would have been required of that employee for the years in question, calculated as described in the first sentence, had the Plan been in effect for those years. Police Officers who become participants of the MTA Police Program prior to January 9, 2010 contribute to that program at various rates. Police Officers who become participants on or after January 9, 2010 but before April 1, 2012 contribute 3% up to the completion of 30 years of service, the maximum amount of service credit allowed. Police Officers who become participants on or after April 1, 2012 contribute 3%, with additional new rates starting April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service.

Covered MTA Metro-North Railroad represented employees and MTA Long Island Rail Road represented employees who first became eligible to be Plan participants prior to January 30, 2008 contribute 3% of salary. MTA Staten Island Railway employees contribute 3% of salary except for represented employees hired on or after June 1, 2010 who contribute 4%. MTA Long Island Rail Road represented employees who became participants after January 30, 2008 contribute 4% of salary. For the MTA Staten Island Railway employees, contributions are not required after the completion of ten years of credited service. MTA Long Island Rail Road represented employees are required to make the employee contributions for ten years. Certain Metro-North represented employees, depending on their collective bargaining agreements, are required to make the employee contributions until January 1, 2014, January 1, 2017, June 30, 2017, or completion of ten years of credited service.

Covered MTA Bus represented employees and certain non-represented employees are required to contribute a fixed dollar amount, which varies, by depot. Currently, non-represented employees at Yonkers Depot and non-represented employees hired after June 30, 2007 at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia, and Spring Creek Depots, contribute \$21.50 per week. Non-represented employees at Eastchester hired prior to 2007 contribute \$25 per week. Represented employees at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia and Yonkers Depots contribute \$29.06 per week; Spring Creek represented employees contribute \$32.00 per week. Certain limited number of represented employees promoted prior to the resolution of a bargaining impasse continue to participate in the plan that was in effect before their promotion. Certain MTA Bus non-represented employees who are formerly employed by the private bus companies (Jamaica, Green, Triboro, Command and Varsity) at Baisley Park, Far Rockaway, JFK, LaGuardia and Spring Creek Depots who are in the pension program covering only such employees make no contributions to the program. (Note: the dollar figures in this paragraph are in dollars, not millions of dollars).

MTA Bus is required to make significant annual contributions to the MTA Plan on a current basis. Pursuant to the January 1, 2014 actuarial valuation for the MTA Plan, which included amounts for actuarial assets and liabilities relating to both active and retired members for most portions of the former private plans (excepting, for example, members of the Transport Workers Union were working

on school bus routes which did not become part of MTA Bus service), MTA Bus recorded pension expense equal to the valuation annual required contribution of \$44.6, \$45.4 and \$40.5 for the calendar years ended December 31, 2014, 2013 and 2012, respectively. All of these employer contributions were paid to the MTA Plan in their respective years.

*New York City Employees' Retirement System ("NYCERS")*

*Plan Description* — MTA New York City Transit and MTA Bridges and Tunnels contribute to NYCERS, a cost-sharing multiple-employer retirement system for employees of NYC and certain other governmental units. NYCERS provides pension benefits to retired employees based on salary and length of service. In addition, NYCERS provides disability benefits, cost-of-living adjustments, and death benefits subject to satisfaction of certain service requirements and other provisions. The NYCERS plan functions in accordance with NYS statutes and NYC laws and codes and may be amended by action of the State Legislature. NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York City Employees' Retirement System, 335 Adams Street, Suite 2300, Brooklyn, New York, 11201-3724.

*Funding Policy* — NYCERS is a contributory plan, except for certain employees who entered prior to July 27, 1976 who make no contribution. Most employees who entered qualifying service after July 26, 1976 but before April 2012 contribute 3% of their salary, with certain MTA New York City Transit employees contributing 2%. Also, certain post-July 27, 1976 employees hired before April 1, 2012 contribute 1.85% in addition to their 3% contributions, if required, and a small group of such employees contribute 3.83% in addition to the 3% contributions, if required. The State Legislature passed legislation in 2000 that suspended the 3% contribution for most employees hired before April 1, 2013 who have been members for 10 or more years. As a result of pension reform legislation passed in 2012, most employees hired on or after April 1, 2012 contribute 3% (although certain MTA New York City Transit employees contribute 2%), with new rates starting April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service. MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. The rates are 24.7% and 25.3%, respectively, of covered payroll. The contribution requirements of plan members and MTA New York City Transit and MTA Bridges and Tunnels are established and amended by law. MTA New York City Transit's required contributions for NYCERS fiscal years ended June 30, 2014, 2013 and 2012 were \$709.0, \$696.7, and \$694.8, respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2014, 2013 and 2012 were \$33.0, \$33.5 and \$36.2 respectively. All contributions were equal to the actuary's recommendation, plus interest.

NYCERS adopted GASB Statement No. 67, *Financial Reporting for Pension Funds*, for the year ended June 30, 2014. As a result, modifications were made to certain actuarial assumptions used in determining the total pension liability in order to conform with the provisions of GASB Statement No. 67. Such changes include the determination of projected benefit payments, the use of a single discount rate, and the sole use of the entry age actuarial cost method. The Authority's required contribution for the year ended June 30, 2014 was not affected by the adoption of GASB Statement No. 67.

*New York State and Local Employees' Retirement System ("NYSLERS" or "NYSLRS")*

*Plan Description* — Certain employees of MTAHQ who were hired after January 23, 1983, are members of NYSLERS. In addition, employees of the Capital Construction Company who are on its payroll are also members of NYSLERS. NYSLERS is a cost-sharing multiple-employer plan and



offers a broad spectrum of benefits, including retirement, death and disability benefits, and cost of living adjustments. Further information about the plan is more fully described in the publicly available statement of NYSLERS and may be obtained by writing to New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York, 12244-0001.

*Funding Policy* — Employees who became members prior to July 27, 1976 make no contributions. Employees who became members after July 27, 1976 but before April 1, 2012 contribute 3% of salary, but since 2000, the 3% contribution is suspended for those employees who have 10 years or more of membership. Employees who become members on or after January 1, 2010 are required to contribute for all their years of service. As a result of pension reform legislation passed in 2012, employees hired on or after April 1, 2012 contribute 3%, with new rates starting April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service. MTAHQ, the MTA Capital Construction and MTA Long Island Bus, are required to contribute at an actuarially determined rate. The current actuarial rate of annual covered payroll for MTAHQ and MTA Long Island Bus respectively is 20.5% and 0%. The MTAHQ NYSLERS contributions for the years ended December 31, 2014, 2013 and 2012 was approximately \$13.8, \$16.0, and \$14.7, respectively. The MTA Long Island Bus NYSLERS contributions for the years ended December 31, 2014, 2013 and 2012 were approximately \$0.0, \$0.0, and \$0.3, respectively.

#### *New York State Voluntary Defined Contribution Program (“VDC”)*

As a result of pension reform legislation passed in 2012, certain employees may choose to participate in the multiple-employer VDC administered by the State University of New York (“SUNY”), instead of participating in NYSLERS or NYCERS. Participation in the VDC is available to non-represented employees hired on or after July 1, 2013 with annual wages of at least \$75,000 who are employed by an employer participating in NYSLERS or NYCERS. For the duration of their employment, such employees would contribute from 3%, 3.5%, 4.5%, 5.75%, to 6%, depending on actual wages, and their employer would contribute 8% for all years in which they remain as active employees. For their first year of participation, such employees will receive 4% interest on the employee and employer contributions for that first year. The VDC functions in accordance with existing NYS statutes and may be amended by action of the State Legislature. Further information about the VDC is more fully described in the publicly available statements of SUNY and may be obtained by writing to NYS Voluntary Defined Contribution Program, State University of New York, Office of University-wide Benefits, State University Plaza, Albany, New York, 12246.

#### *Deferred Compensation Program*

*Description* - The Deferred Compensation Program consists of two defined contribution plans that provide benefits based solely on the amount contributed to each participant’s account(s), plus or minus any income, expenses and gains/losses. The Deferred Compensation Program is comprised of the Deferred Compensation Plan For Employees of the Metropolitan Transportation Authority (“MTA”), its Subsidiaries and Affiliates (“457 Plan”) and the Thrift Plan For Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates (“401(k) Plan”). Certain MTA Related Groups employees are eligible to participate in both deferred compensation plans. Both Plans are designed to have zero cost to the MTA, that is, participant charges, including investment and other fees, pay for the entire cost of running the Deferred Compensation Program.

In 1984, the MTA established the 457 Plan to provide benefits competitive with private industry. Originally, only managerial employees were permitted to participate in the Plan and investment options were limited to five funds: a Guaranteed Interest Fund, a Common Stock Fund, a Money Market Fund, a Managed Fund and a Stock Index Fund. As permitted by Internal Revenue Code



Section 457, the MTA has established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Participation in the 457 Plan is now available to non-represented and, after collective bargaining, most represented employees. Plan assets and liabilities are not reflected on the MTA's combined statements of net position.

In 1985, the MTA Board adopted the 401(k) Plan, a tax-qualified plan under section 401(k) of the Internal Revenue Code ("Code"). The 401(k) Plan remained dormant until 1988 when an IRS ruling "grand-fathered" the plan under the Tax Reform Act of 1986. Participation in the 401(k) Plan is now available to non-represented and, after collective bargaining, most represented employees. All amounts of compensation deferred under the 401(k) Plan, and all income attributable to such compensation, are in trust for the exclusive use of the participants and their beneficiaries. Accordingly, the 401(k) Plan is not reflected in the accompanying combined statements of net position.

As the Deferred Compensation Program's asset base and contribution flow increased, participants' investment options were expanded by the Deferred Compensation Committee with the advice of the MTA Financial Advisor to provide the participants better service, including greater transparency, diversification and flexibility. In 1988, after receiving an IRS determination letter for the 401(k) Plan, the MTA offered its managers the choice of either participating in the 457 Plan or the 401(k) Plan. By 1993, the MTA offered eight investment funds: a Guaranteed Interest Account Fund, a Money Market Fund, a Common Stock Fund, a Managed Fund, a Stock Index Fund, a Government Income Fund, an International Fund and a Growth Fund.

In 1998, the Deferred Compensation Committee approved the unbundling of the Plans. In 2008, the Plans' investment choices were re-structured to set up a 4 Tier strategy:

Tier 1 – The MTA Target-Year Lifecycle Funds, which are comprised of a mix of several funds, most of which are available separately in the Deferred Compensation Program. The particular mix of investments for each Fund is determined by the "target" date, which is the date the money is intended to be needed for retirement income.

Tier 2 - The MTA Index Funds offer a complete tier of index funds, which invest in the securities of companies that are included in a selected index, such as the Standard & Poor's 500 (large cap) Index or Russell Mid Cap Index.

Tier 3 – The MTA Actively Managed Portfolios, which are comprised of actively managed portfolios that are directed by one or a team of professional managers who buy and sell a variety of holdings in an effort to outperform a selected index. These institutional strategies provide participants with a diversified array of distinct asset classes, with a single fund option in each class to simplify the decision making process.

Tier 4 – Self-Directed Mutual Fund Option is designed for the more experienced investors. Offers access to an expanded universe of mutual funds from hundreds of well-known mutual fund families.

In 2011, the Deferred Compensation Program started to offer Roth contributions. Employees can elect after-tax Roth Contributions and before-tax contributions in both the 401(k) Plan and the 457 Plan. The total combination of Roth after-tax contributions and regular before-tax contributions cannot exceed the IRS maximum of \$17,500 or \$23,000 for those over age 50 for the ended December 31, 2014.

The two Plans offer the same array of investment options to participants. Eligible participants for the Deferred Compensation Program include employees (and in the case of Metropolitan Suburban Bus Authority, former employees) of:

- MTAHQ
- MTA Long Island Rail Road
- MTA Bridges and Tunnels
- MTA Long Island Bus
- MTA Metro-North Railroad
- MTA New York City Transit
- MTA Staten Island Rapid Transit
- MTA Capital Construction
- MTA Bus

**Matching Contributions** - MTA Bus on behalf of certain MTA Bus employees, MTA Metro-North Railroad on behalf of certain MNR employees who opted-out of participation in the MTA Defined Benefit Pension Plan and MTA on behalf of certain represented MTA Business Service Center employees and on behalf of certain MTA Police Officers, make contributions to the 401(k) Plan. The rate for the employer contribution varies.

**MTA Bus** - Certain members who were employed by Queens Surface Corporation on February 26, 2005, and who became employees of MTA Bus on February 27, 2005, receive a matching contribution equal to 50% of member's before-tax contributions provided that the maximum matching contribution shall not exceed 3% of the member's base pay. MTA Bus also makes a basic contribution equal to 2% of the member's compensation. These members shall vest in the amount in the member's account attributable to the matching contributions and basic contributions as follows:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

**MTA Metro-North Railroad** – Certain members who are MNR employees represented by certain unions and who elected to opt-out of participation in the MTA Defined Benefit Pension Plan receive an annual employer contributions equal to 4% of the member's compensation. Effective on the first full pay period following the nineteenth anniversary date of an eligible MNR member's continuous employment, MTA Metro-North Railroad shall contribute an amount equal to 7% of the member's compensation. Eligible MNR members vest in these employer contributions as set forth below:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 5	0%
5 or more	100%

**MTA Headquarters - Police** - For each plan year, the MTA shall make contributions to the account of each eligible MTA Police Benevolent Association member in the amounts required by the Collective Bargaining Agreement ("CBA") and subject to the contribution limits set forth in the CBA. These contributions shall be made monthly and shall be considered MTA Police Contribution. Members are immediately 100% vested in these employer contributions.

**MTA Headquarters – Business Services** - Effective January 1, 2011, all newly hired MTA Business Services Center employees represented by the Transportation Communications Union are eligible to receive a matching contribution up to a maximum of 3% of the participant's compensation. A participant's right to the balance in his or her matching contributions shall vest upon the first of the following to occur:

1. Completing 5 years of service
2. Attaining the Normal Retirement Age of 62 while in continuous employment or
3. Death while in continuous employment

**Additional Deposits (Incoming Rollover or Transfers)** - Participants in the Deferred Compensation Program are eligible to roll over both their before-tax and after-tax assets from other eligible retirement plans into the 401(k) and 457 Plans. Both Plans accept rollover from all eligible retirement plans (as defined by the Code), including 401(a), 457, 401(k), 403(b) and rollover IRAs.

**Status** - As of December 31, 2013 and 2012, 32.6% and 37.63% of the eligible employees were enrolled in the 457 Plan and 43.1% and 48.06% of the eligible employees were enrolled in the 401(k) Plan, respectively. There are 27,188 and 26,193 active participants in the 457 Plan and 34,967 and 32,384 active participants in the 401(k) Plan, with \$1.8 billion and \$2.5 billion dollars in total net position in 2013 and 2012, respectively. The average account balance in the 457 Plan is \$52,240 and \$46,088 and in the 401(k) Plan is \$57,024 and \$51,353 in 2013 and 2012, respectively.

**(In thousands)**

	<b>2013</b>		<b>2012</b>	
	<b>457</b>	<b>401K</b>	<b>457</b>	<b>401K</b>
Contributions:				
Employee contributions, net of loans	\$ 134,032	\$ 166,277	\$ 125,606	\$ 154,974
Participant rollovers	7,045	12,356	3,397	9,006
Employer contributions	-	3,864	-	3,915
Total contributions	<u>\$ 141,077</u>	<u>\$ 182,497</u>	<u>\$ 129,003</u>	<u>\$ 167,895</u>

The Trustee for the MTA Deferred Compensation Program is Prudential Bank & Trust FSB. Recordkeeper and/or Administrative Services are provided by Prudential Retirement Insurance & Annuity Company ("PRIAC"). Investment management services are provided by Prudential Retirement Insurance & Annuity Company, Galliard Capital Management and Turner Investment Partners. Financial Advisor Mercer reviews the investment policies as stipulated by the Investment Committee, the Plans' portfolio and the Investment Managers' performance.

## 5. OTHER POSTEMPLOYMENT BENEFITS

The MTA has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's

financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and to what extent progress is being made in funding the plan.

**Plan Description** — The benefits provided by the MTA Group include medical, pharmacy, dental, vision, and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursements and welfare fund contributions. The different types of benefits provided vary by agency and employee type (represented employees versus management). All benefits are provided upon retirement as stated in the applicable pension plan, although some agencies provide benefits to some members if terminated within 5 years of attaining retirement eligibility. Employees of the MTA Group are members of the following pension plans: the MTA Plan, the LIRR Plan, the MNR Plan, the MaBSTOA Plan, NYCERS, and NYSLERS.

The MTA Group participates in the New York State Health Insurance Program ("NYSHIP") to provide medical and prescription drug benefits, including Medicare Part B reimbursements to many of its members. NYSHIP provides a PPO plan and several HMO plans. Represented MTA New York City Transit, other MTA New York City Transit employees who retired prior to January 1, 1996 or January 1, 2001, and MTA Bus retirees do not participate in NYSHIP. These benefits are provided either through a self-insured health plan, a fully insured or an HMO.

The MTA is a participating employer in NYSHIP. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Service, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

GASB 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2013 and was performed with a valuation date of January 1, 2012. The total number of plan participants as of December 31, 2013, the last valuation reporting period receiving retirement benefits was 47 thousand.

During 2012, MTA funded \$250 into a Trust allocated between Headquarters and New York City Transit. In addition, \$50 was funded during 2013 allocated between Long Island Railroad and Metro-North Railroad. There were no funding to the OPEB Trust by the MTA during 2014. Under GASB 45, the discount rate is based on the assets in a trust, the assets of the employer or a blend of the two based on the anticipated funding levels of the employer. For this valuation, the discount rate reflects a blend of Trust assets and employer assets. The assumed return on Trust assets is 6.5% whereas the assumed return on employer assets is 3.5% resulting in a discount rate under GASB 45 of 3.75%, which is slightly lower than the discount rate of 4% used in the prior valuation. This decrease is primarily due to the decrease in Treasury yields and thus, returns on employer assets since the prior valuation.

**Annual OPEB Cost ("AOC") and Net OPEB Obligation** — The MTA's annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. Currently, the MTA expenses the actual benefits paid during a year. The cumulative difference between the annual OPEB cost ("new method") and the benefits paid during a year ("old method") will result in a net OPEB obligation (the "Net OPEB Obligation"), included on the statements of net position. The annual OPEB cost is equal to the annual required contribution (the "ARC") less adjustments if a Net OPEB Obligation exists and plus the interest on Net OPEB Obligations. The ARC is equal to the normal cost plus an amortization of the unfunded liability.



**Actuarial Cost, Amortization Methods and Assumptions** - For determining the ARC, the MTA has chosen to use Frozen Initial Liability (the "FIL Cost Method") cost method, one of the cost methods in accordance with the parameters of GASB 45. The initial liability is amortized over a 22-year period. The remaining amortization period at December 31, 2014 is 15 years.

In order to recognize the liability over an employee's career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the "Accrued Liability" or "Past Service Liability"), the part that is being earned this year (the "Normal Cost"), and the part that will be earned in future years (the "Future Service Liability"). Under the FIL Cost Method, an initial past service liability is determined based on the Entry Age Normal ("EAN") Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

The Frozen Unfunded Accrued Liability is determined each year as the Frozen Unfunded Accrued Liability for the prior year, increased with interest, reduced by the end-of-year amortization payment and increased or decreased by any new bases established for the current year.

The difference between the Actuarial Present Value of Benefits and the Frozen Unfunded Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

The Annual Required Contribution ("ARC") is equal to the sum of the Normal Cost and the amortization for the Frozen Unfunded Accrued Liability with appropriate interest adjustments. Any difference between the ARC and actual plan contributions from the prior year are considered an actuarial gain/loss and thus, are included in the development of the Normal Cost. This methodology differs from the approach used for the pension plan where the difference between the ARC and actual plan contributions from the prior year, if any, will increase or decrease the Frozen Unfunded Accrued Liability and will be reflected in future amortization payments. A different approach was applied to the OPEB benefits because these benefits are not actuarially funded.

**Valuation Date** - The valuation date is the date that all participant and other pertinent information is collected and liabilities are measured. This date may not be more than 24 months prior to the beginning of the fiscal year. The valuation date for this valuation is January 1, 2012, which is 24 months prior to the beginning of the 2014 fiscal year. Census data for the next full valuation will be based on a valuation date of January 1, 2014.

**Inflation Rate** - 2.5% per annum compounded annually.

**Discount Rate** - GASB 45 provides guidance to employers in selecting the discount rate. The discount rate should be based on the estimated long-term investment yield on the investments that are expected to be used to finance the benefits. If there are no plan assets, assets of the employer should be used to derive the discount rate. This would most likely result in a lower discount rate and thus, liabilities significantly higher than if the benefits are prefunded. In recognition of the decrease in short-term investment yields partially offset by the establishment of a trust, the current discount rate is 3.75%.

**Healthcare Reform** - The results of this valuation reflect our understanding of the impact in future health costs due to the Affordable Care Act (“ACA”) passed into law in March 2010. An excise tax for high cost health coverage or “Cadillac” health plans was included in ACA. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted. Also included in ACA are various fees (including, but not limited to, the Patient-Centered Outcomes Research Institute fee, Transitional Reinsurance Program fee, and the Health Insurer fee) associated with the initiation of health exchanges in 2014.

The OPEB-specific actuarial assumptions used in the most recent biennial valuation are as follows:

Valuation date	January 1, 2012
Actuarial cost method	Frozen Initial Liability
Discount rate	3.75%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen Initial Liability
Remaining amortization period	15 years
Period closed or open	Closed

\* In general, all coverages are paid for by the MTA. However, for MTAHQ members retired prior to 1997, pay a portion of the premium, depending on the year they retired.

Actuarial valuation involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**Per Capita Claim Costs** — Use of a blended premium rate for active employees and retirees under age 65 is a common practice. Health costs generally increase with age, so the blended premium rate is higher than the true underlying cost for actives and the blended premium is lower than the true underlying cost for retirees. For retirees, this difference is called the implicit rate subsidy. Since GASB 45 only requires an actuarial valuation for retirees, it requires the plan sponsor to determine the costs of these benefits by removing the subsidy. However, a plan sponsor may use the premiums without adjustment for age if the employer participates in a community-rated plan, in which the premium rates reflect projected health claims experience of all participating employers, or if the insurer would offer the same premium rate if only non-Medicare-eligible retirees were covered.

A 2006 report from the Department of Civil Service of the State of New York regarding recommended actuarial assumptions used for New York State/SUNY’s GASB 45 Valuation sent to all participating employers stated that the Empire Plan of NYSHIP is community-rated for all participating employers. Each MTA Agency participating in NYSHIP is no more than approximately 1%, and in total, the MTA is approximately 3% of the total NYSHIP population. Thus, we believe that the actual experience of the MTA will have little or no impact on the actual premium and, that it is reasonable to use the premium rates without age adjustments as the per capita claims cost.

The medical and pharmacy benefits provided to TWU Local 100, ATU 1056 and ATU 726 represented Transit members and represented MTA Bus Company members are self-insured as well as some Pre-NYSHIP Transit members. For these benefits a per capita claims cost assumptions was developed that vary by age, gender and benefit type. The per capita costs assumptions reflect medical and pharmacy claims information for 2012.



**Medicare Part D Premiums** — GASB has issued a Technical Bulletin stating that the value of expected Retiree Drug Subsidy (“RDS”) payments to be received by an entity cannot be used to reduce the Actuarial Accrued Liability of OPEB benefits nor the Annual Required Contribution (“ARC”). Furthermore, actual contributions made (equal to the amount of claims paid in a year if the plan is not funded) will not be reduced by the amount of any subsidy payments received. Accordingly, the 2012 valuation excludes any RDS payments expected to be received by the MTA and its agencies.

**Health Care Cost Trend** - The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 12.2 utilizing the baseline assumptions included in the model, except real GDP of 1.8% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors potential excise taxes due to healthcare reform, and other healthcare reform provisions, separately for NYSHIP and non-NYSHIP benefits. These assumptions are combined with long-term assumptions for dental and vision benefits (4%) plus Medicare Part B reimbursements (5%). The NYSHIP trend reflects actual increases in premiums through 2014. The NYSHIP trend is used for six agencies plus the non-represented employees of MTA Bus. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements. For NYC Transit, this trend is weighted by liability with the non-NYSHIP trend assumption. The non-NYSHIP trend is applied directly for represented employees of MTA Bus. Note, due to the Excise Tax, the non-NYSHIP trends for MTA Bus and NYC Transit differ. The following lists the NYSHIP and non-NYSHIP trend assumptions along with the resulting trends assumed for Transit.

#### Health Care Cost Trend Rates

Fiscal Year	NYSHIP	Non-NYSHIP		Transit	
		< 65	>=65	< 65	>=65
2012	0.0 *	7.6	7.3	4.8	4.6
2013	1.7	7.4	6.6	5.4	4.8
2014	5.0	6.2	6.2	5.8	5.8
2015	5.5	5.8	5.8	5.7	5.7
2016	5.8	5.5	5.5	5.6	5.6
2017	5.9	14.6	5.5	12.5	5.6
2022	5.9	6.4	5.5	6.2	5.6
2027	6.8	6.2	5.4	6.4	5.6
2032	6.5	6.0	5.6	6.2	5.9
2037	6.1	5.7	5.3	5.8	5.7
2042	5.7	5.4	5.9	5.5	5.8
2047	5.5	5.3	5.7	5.4	5.6
2052	5.4	5.2	5.5	5.3	5.5

\* Trend not applicable as actual 2013 premiums were valued.

**Participation** — The table below summarizes the census data provided by each Agency utilized in the preparation of the actuarial valuation. The table shows the number of active and retired employees by Agency and provides a breakdown of the coverage elected and benefits offered to current retirees.

**OPEB Participation By Agency at January 1, 2012**

	MTA New York City Transit	MTA Long Island Rail Road	MTA Metro- North Rail Road	MTA Bridges & Tunnels	MTAHQ	MTA Long Island Bus *	MTA Staten Island Railway	MTA Bus Company	Total
<b>Active Members</b>									
Number	46,333	6,406	5,987	1,589	1,715	-	255	3,445	65,730
Average Age	49.3	44.1	46.2	45.6	45.2	-	46.1	46.5	48.2
Average Service	14.9	11.7	15.3	12.6	11.8	-	15	11.7	14.3
<b>Retirees</b>									
Single Medical Coverage	11,519	841	432	464	165	138	22	553	14,134
Employee/Spouse Coverage	16,042	2,630	830	633	324	246	40	818	21,563
Employee/Child Coverage	710	102	32	16	12	19	1	31	923
No medical Coverage	<u>5,809</u>	<u>2,255</u>	<u>1,302</u>	<u>60</u>	<u>3</u>	<u>436</u>	<u>19</u>	<u>182</u>	<u>10,066</u>
Total Number	<u>34,080</u>	<u>5,828</u>	<u>2,596</u>	<u>1,173</u>	<u>504</u>	<u>839</u>	<u>82</u>	<u>1,584</u>	<u>46,686</u>
Average Age	70.9	67.3	70.8	66.8	64.3	67.5	64.2	69.1	70.1
Total Number with Dental	5,534	652	313	337	319	54	23	65	7,297
Total Number with Vision	24,606	652	313	337	319	54	23	1,352	27,656
Total No. with Supplement	24,501	1,805	-	827	-	379	27	1,518	29,057
Average Monthly Supplement Amount (Excluding Part B Premium)	\$30	\$190	\$ -	\$195	\$ -	\$ -	\$383	\$25	\$45
Total No. with life Insurance	5,129	5,418	1,703	334	399	792	82	66	13,923
Average Life Insurance Amount	\$2,825	\$18,801	\$2,782	\$5,000	\$5,000	\$8,561	\$2,543	\$5,000	\$9,486

\* No active members as of January 1, 2012. In addition, there are 276 vestees not included in these counts.

**Coverage Election Rates** — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For Metro-North represented members, 15% are assumed to elect ConnectiCare. For groups that do not participate in NYSHIP, notably NYC Transit and MTA Bus Company members are assumed to elect Empire BCBS or Aetna/ United Healthcare with percentages varying by agency.

**Dependent Coverage** - Spouses are assumed to be the same age as the employee/retiree. 85% of male and 60% of female eligible members are assumed to elect family coverage upon retirement. No children are assumed. Actual family coverage elections for current retirees are used. If a current retiree's only dependent is a child, eligibility is assumed for an additional 7 years of dependent coverage if the member participates in NYSHIP (otherwise, 5 years) from the valuation date was assumed.

**Demographic Assumptions:**

**Mortality** — Preretirement and postretirement health annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee.

**Preretirement** — RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments. No blue-collar adjustments were used for management members of MTAHQ.

**Postretirement Healthy Lives** — 95% of the rates from the RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue-collar or percentage adjustments were used for management members of MTAHQ.

*Postretirement Disabled Lives* — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females.

**Vestee Coverage** — For members that participate in NYSHIP, Vesteers (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Agency upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vesteers are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vesteers based on age at valuation date.

Age at Termination	Percent Electing
< 40	0 %
40–43	5
44	20
45–46	30
47–48	40
49	50
50–51	80
52+	100

The following table shows the elements of the MTA's annual OPEB cost for the year, the amount actually paid, and changes in the MTA's net OPEB obligation to the plan for the years ended December 31, 2014 and 2013. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

(In millions)	December 31, 2014	December 31, 2013
Annual required contribution ("ARC")	\$ 3,092.9	\$ 2,842.9
Interest on net OPEB obligation	376.0	305.8
Adjustment to ARC	<u>(946.0)</u>	<u>(770.2)</u>
OPEB cost	2,522.9	2,378.5
Payments made	<u>(483.7)</u>	<u>(455.5)</u>
Increase in net OPEB obligation	2,039.2	1,923.0
Contribution to OPEB Trust	-	(50.0)
Net OPEB obligation — beginning of year	<u>10,027.1</u>	<u>8,154.1</u>
Net OPEB obligation — end of year	<u>\$ 12,066.3</u>	<u>\$ 10,027.1</u>

The MTA's annual OPEB cost, the percentage of annual OPEB cost contributed to, and the net OPEB obligation for the year ended December 31, 2014, 2013 and 2012 is as follows (in millions):

<b>Year Ended</b>	<b>Annual OPEB Cost</b>	<b>% of Annual Cost Contributed</b>	<b>Net OPEB Obligation</b>
<b>(In Millions)</b>			
December 31, 2014	\$ 2,522.9	19.2 %	\$ 12,066.3
December 31, 2013	2,378.5	21.2	10,027.1
December 31, 2012	2,216.2	30.3	8,154.1

The MTA funded status of the Plan is as follows (in millions):

<b>Year Ended</b>	<b>Valuation Date</b>	<b>Actuarial Value of Assets * {a}</b>	<b>Actuarial Accrued Liability (AAL) {b}</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) {c}={b}-{a}</b>	<b>Funded Ratio {a}/{c}</b>	<b>Covered Payroll {d}</b>	<b>Ratio of UAAL to Covered Payroll {c}/{d}</b>
December 31, 2013	January 1, 2012	\$ 246.0	\$ 20,187.8	\$ 19,941.8	1.2 %	\$ 4,360.6	457.3 %

\* Based on Entry Age Normal

The required schedule of funding progress for the MTA Postemployment Benefit Plan immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## 6. CAPITAL ASSETS

Capital assets and improvements include all land, buildings, equipment, and infrastructure of the MTA having a minimum useful life of two years and having a cost of more than \$25 thousand.

Capital assets are stated at historical cost, or at estimated historical cost based on appraisals, or on other acceptable methods when historical cost is not available. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease.

Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 25 to 50 years for buildings, 2 to 40 years for equipment, and 25 to 100 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset whichever is less. Capital assets consist of the following at December 31, 2012, December 31, 2013 and December 31, 2014 (in millions):

	Balance December 31, 2012			Balance December 31, 2013			Balance December 31, 2014		
		Additions	Deletions		Additions	Deletions			
Capital assets — not being depreciated:									
Land	\$ 171	\$ 3	\$ -	\$ 174	\$ 25	\$ -	\$ 199		
Construction work-in-progress	<u>9,907</u>	<u>4,692</u>	<u>3,109</u>	<u>11,490</u>	<u>4,553</u>	<u>4,045</u>	<u>11,998</u>		
Total capital assets — not being depreciated	<u>10,078</u>	<u>4,695</u>	<u>3,109</u>	<u>11,664</u>	<u>4,578</u>	<u>4,045</u>	<u>12,197</u>		
Capital assets, being depreciated:									
Buildings and structures	15,264	916	38	16,142	631	-	16,773		
Bridges and tunnels	2,266	71	12	2,325	202	-	2,527		
Equipment:									
Passenger cars and locomotives	13,341	99	75	13,365	473	38	13,800		
Buses	2,566	117	-	2,683	34	-	2,717		
Infrastructure	18,845	680	113	19,412	890	10	20,292		
Other	<u>15,060</u>	<u>1,366</u>	<u>25</u>	<u>16,401</u>	<u>1,842</u>	<u>16</u>	<u>18,227</u>		
Total capital assets — being depreciated	<u>67,342</u>	<u>3,249</u>	<u>263</u>	<u>70,328</u>	<u>4,072</u>	<u>64</u>	<u>74,336</u>		
Less accumulated depreciation:									
Buildings and structures	4,936	433	7	5,362	442	-	5,804		
Bridges and tunnels	<u>453</u>	<u>22</u>	<u>2</u>	<u>473</u>	<u>23</u>	<u>-</u>	<u>496</u>		
Equipment:									
Passenger cars and locomotives	5,334	408	70	5,672	438	38	6,072		
Buses	1,186	187	-	1,373	186	-	1,559		
Infrastructure	6,301	601	9	6,893	618	10	7,501		
Other	<u>4,979</u>	<u>530</u>	<u>19</u>	<u>5,490</u>	<u>559</u>	<u>8</u>	<u>6,041</u>		
Total accumulated depreciation	<u>23,189</u>	<u>2,181</u>	<u>107</u>	<u>25,263</u>	<u>2,266</u>	<u>56</u>	<u>27,473</u>		
Total capital assets — being depreciated — net	<u>44,153</u>	<u>1,068</u>	<u>156</u>	<u>45,065</u>	<u>1,806</u>	<u>8</u>	<u>46,863</u>		
Capital assets — net	<u>\$54,231</u>	<u>\$5,763</u>	<u>\$ 3,265</u>	<u>\$56,729</u>	<u>\$6,384</u>	<u>\$ 4,053</u>	<u>\$ 59,060</u>		

Interest capitalized in conjunction with the construction of capital assets at December 31, 2014 and 2013, was \$55.5 and \$52.7, respectively.

Capital assets acquired prior to April 1982 for MTA New York City Transit were funded primarily by NYC with capital grants made available to MTA New York City Transit. NYC has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of the MTA. Subsequent acquisitions, which are part of the MTA Capital Program, are recorded at cost by MTA New York City Transit. In certain instances, title to MTA Bridges and Tunnels' real property may revert to NYC in the event the MTA determines such property is unnecessary for its corporate purpose. With respect to MTA Metro-North Railroad, capital assets completely funded by CDOT are not reflected in MTA's financial statements, as ownership is retained by CDOT.

For certain construction projects, the MTA holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At December 31, 2014 and 2013, these securities totaled \$89.0 and \$126.7, respectively, had a market value of \$79.6 and \$106.3, respectively, and are not included in these financial statements.



## 7. ASSET IMPAIRMENT RELATED EXPENSES AND RECOVERABLES

On October 29, 2012, Tropical Storm Sandy made landfall just south of Atlantic City, New Jersey, as a post-tropical cyclone. The accompanying storm surge and high winds caused widespread damage to the physical transportation assets operated by MTA and its related groups. MTA expects to recoup most of the costs associated with repair or replacement of assets damaged by the storm over the next several years from a combination of insurance and federal government assistance programs.

Asset impairment related expenses and recoverables includes the storm related impairment losses to the MTA's assets, and storm related repairs and clean-up costs. Since the storm made landfall in 2012, the total cumulative expenses associated with this catastrophe as of December 31, 2014 and December 31, 2013 are \$723 and \$724, respectively, of which (\$1) and \$93 were incurred during the years ended December 31, 2014 and 2013, respectively. Offsetting these total storm related expenses are estimated insurance recoveries of \$775 under the property insurance policy, with a receivable of \$631 as of December 31, 2014. Additional recoveries under the MTA property insurance policy for Sandy-related damages and losses above that estimated sum are possible. Any additional insurance proceeds for Sandy-related losses in excess of the noted probable recoveries will be recognized for income purposes in future periods when such proceeds are estimable and all related contingencies are removed. For the year ended December 31, 2014, MTA received \$412 from FTA and FEMA for storm related repairs.

As noted, Federal governmental assistance programs are anticipated to cover many of the Sandy-related costs associated with repair and replacement of assets damaged in the storm. The Disaster Relief Appropriations Act ("Sandy Relief Act") passed in late January, 2013, appropriated a total of \$10.9 billion in Public Transportation Emergency Relief Program funding to the Federal Transit Administration ("FTA") to assist affected public transportation facilities in connection with infrastructure repairs, debris removal, emergency protection measures, costs to restore service and hardening costs. The Sandy Relief Act also provided substantial funding for existing disaster relief programs of the Federal Emergency Management Agency ("FEMA").

Of the \$10.9 billion amount, under the Sandy Relief Act, an initial tranche of \$2 billion has been allocated by the FTA to affected state and local public transportation entities by the end of March 2013. On March 6, 2013, the Secretary of Transportation announced that \$193 had been allocated to MTA, representing principally reimbursements for costs associated with preparing MTA's system for the storm and for restoring service post-storm; the FTA subsequently entered into a grant agreement with the MTA obligating these funds. On March 29, 2013, the FTA published its allocations for the remainder of the initial \$2 billion. MTA was allocated an additional \$1.0 billion of these monies, bringing MTA's total allocation from the first \$2 billion tranche of FTA Emergency Relief funds the FTA to \$1.193 billion. On May 23, 2013, the FTA allocated an additional \$3.7 billion to regional transportation providers. The MTA will receive \$2.6 billion of this additional allocation bringing MTA's total allocation to \$3.8 billion. The funds made available through this additional allocation includes \$898 set aside to help the MTA with resiliency projects to help ensure transit assets are better able to withstand future disasters. FTA approval of specific grants will need to be obtained prior to MTA's actual receipt or expenditure of any of these allocated funds.

Monies granted by FTA and FEMA to MTA for restoration of specific assets damaged in connection with Tropical Storm Sandy related are anticipated to be reduced in amount (or subject to reimbursement) to the extent MTA also receives insurance proceeds covering damage to such specific assets.

Additional asset impairments unrelated to Tropical Storm Sandy are \$0 and \$5.8 for the years ended December 31, 2014 and 2013, respectively. In 2013, MTA Metro North Railroad train derailments on May 17, 2013, in Bridgeport, Connecticut and on December 1, 2013, north of the Spuyten Duyvil station in the Bronx, resulted in \$5.8 of asset impairment expenses.



## 8. LONG-TERM DEBT

(In millions)	Original Issuance	December 31, 2013	Issued	Retired	Refunded	December 31, 2014
MTA:						
Transportation Revenue Bonds						
2.00%–5.50% due through 2046	\$25,710	\$ 18,278	\$ 1,900	\$ 622	\$ -	\$ 19,556
Bond Anticipation Notes						
2.0% due through 2015	-	300	-	-	-	300
Transportation Revenue Bond Anticipation Notes						
Commercial Paper due through 2015	900	550	-	-	-	550
State Service Contract Bonds						
4.125%–5.70% due through 2031	2,395	346	-	60	-	286
Dedicated Tax Fund Bonds						
3.00%–7.34% due through 2041	8,459	5,128	-	138	-	4,990
Certificates of Participation						
4.40%–5.75% due through 2030	807	96	-	11	-	85
	<u>\$38,271</u>	<u>24,698</u>	<u>1,900</u>	<u>831</u>	<u>-</u>	<u>25,767</u>
Net unamortized bond discount and premium		<u>446</u>	<u>163</u>	<u>190</u>	<u>-</u>	<u>419</u>
		<u>25,144</u>	<u>2,063</u>	<u>1,021</u>	<u>-</u>	<u>26,186</u>
TBTA:						
General Revenue Bonds						
4.00%–5.77% due through 2038	\$11,427	6,602	419	187	169	6,665
Subordinate Revenue Bonds						
4.00%–5.77% due through 2032	3,810	1,690	148	59	148	1,631
General Revenue Anticipation Notes						
5.0% due through 2015	100	-	100	-	-	100
	<u>\$15,337</u>	<u>8,292</u>	<u>667</u>	<u>246</u>	<u>317</u>	<u>8,396</u>
Net unamortized bond discount and premium		<u>552</u>	<u>23</u>	<u>14</u>	<u>-</u>	<u>561</u>
		<u>8,844</u>	<u>690</u>	<u>260</u>	<u>317</u>	<u>8,957</u>
Total		<u>\$ 33,988</u>	<u>\$ 2,753</u>	<u>\$ 1,281</u>	<u>\$ 317</u>	<u>\$ 35,143</u>
Current portion		<u>(884)</u>				<u>(983)</u>
Long-term portion		<u>\$ 33,104</u>				<u>\$ 34,160</u>

**MTA Transportation Revenue Bonds** — Prior to 2014, MTA issued forty eight Series of Transportation Revenue Bonds secured under its General Resolution Authorizing Transportation Revenue Obligations adopted on March 26, 2002 in the aggregate principal amount of \$25,288.93. The Transportation Revenue Bonds are MTA's special obligations payable solely from transit and commuter systems revenues and certain state and local operating subsidies.

On February 18, 2014, Standard & Poor's Rating Services raised its long-term rating on MTA's Transportation Revenue Bonds outstanding to "A+" from "A".

On February 21, 2014, MTA issued \$400 of MTA Transportation Revenue Bonds, Series 2014A, to finance existing approved transit and commuter projects, and to refund certain outstanding Transportation Revenue Bonds.

On April 17, 2014, MTA issued \$500 of MTA Transportation Revenue Bonds, Series 2014B, to finance existing approved transit and commuter projects.

On May 15, 2014, MTA effected a mandatory tender and remarketed \$50 of MTA Transportation Revenue Bonds, Subseries 2012A-2, because its current Interest Rate Period was set to expire by its terms. The Subseries 2012A-2 bonds will continue in term rate mode as floating rate notes, with an interest rate of SIFMA plus a market determined spread. The final maturity of these notes will be November 15, 2041.

On May 27, 2014, MTA effected a mandatory tender and remarketed \$200 of MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2002D-2, because its current Interest Rate Period was set to expire by its terms. The Subseries 2002D-2 bonds will continue in term rate mode as floating rate notes, with an interest rate of 69% of one-month Libor plus a market determined spread. The final maturity of these notes will be November 1, 2032.

On June 17, 2014, Standard & Poor's Rating Services raised its issuer credit rating on MTA to "AA-" and its long-term rating on MTA's Transportation Revenue Bonds outstanding to "AA" from "A+".

On June 26, 2014, MTA issued \$500 of MTA Transportation Revenue Bonds, Series 2014C, to finance existing approved transit and commuter projects. The Series 2014C bonds were issued as tax-exempt fixed-rate bonds with a final maturity of November 15, 2036.

On September 10, 2014, MTA effected an optional mandatory tender and remarketed \$42.575 of MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2002G-1f. The Subseries 2002G-1f bonds will continue in term rate mode as floating rate notes, with an interest rate of 67% of 1-month LIBOR plus 0.48%. The Purchase Date of the Series 2002G-1f bonds is November 1, 2018, with a final maturity of November 1, 2026.

On September 10, 2014, MTA effected an optional mandatory tender and remarketed \$84.450 of MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2012G-1. The Subseries 2012G-1 bonds will continue in term rate mode as floating rate notes, with an interest rate of 67% of 1-month LIBOR plus 0.30%. The Purchase Date of the Series 2012G-1 bonds is November 1, 2019, with a final maturity of November 1, 2032.

On September 10, 2014, MTA effected a mandatory tender and remarketed \$99.560 of MTA Transportation Revenue Variable Rate Bonds, Series 2011B as the irrevocable direct-pay letter of credit issued by Bank of America, N.A. was set to expire by its terms on September 12, 2014. The Series 2011B bonds were converted from a weekly mode to a term rate mode as floating rate notes with an interest rate of 67% of 1-month LIBOR plus 0.35%. The Purchase Date of the Series 2011B bonds is November 1, 2017, with a final maturity of November 1, 2041.

On September 17, 2014, MTA effected a Notice of Extension stating that the direct pay letter of credit with Landesbank Hessen-Thüringen Girozentrale, New York Branch (Helaba) that was set to expire on November 10, 2014, will be renewed. The renewal extends the existing letter of credit for three years to November 10, 2017.

On October 30, 2014, MTA effected a mandatory tender and remarketed through competitive bidding \$111.220 of Transportation Revenue Bonds, Subseries 2008B-4. The Subseries 2008B-4 bonds will continue in the term rate mode as a 5-year soft put bond with a reset date of November 15, 2019.

On October 30, 2014, MTA issued \$335 of MTA Transportation Revenue Bonds, Series 2014D-1, and on November 4, 2014, MTA issued \$165 of MTA Transportation Revenue Bonds, Series 2014D-2 to finance existing approved transit and commuter projects. The Series 2014D-1 bonds were issued as tax-exempt

fixed-rate bonds. The Series 2014D-2 bonds were issued in term rate mode as floating rate notes, with an interest rate of SIFMA plus 0.36%. Both series of bonds have a final maturity of November 15, 2044.

On December 18, 2014, MTA effected a mandatory tender and remarketed \$75.700 of Transportation Revenue Bonds, Subseries 2005E-2.

**MTA Bond Anticipation Notes** — From time to time, MTA issues Transportation Revenue Bond Anticipation Notes in accordance with the terms and provisions of the General Resolution described above in the form of commercial paper to fund its transit and commuter capital needs. The interest rate payable on the notes depends on the maturity and market conditions at the time of issuance. Payment of principal and interest on the notes are additionally secured by letters of credit issued by TD Bank, N.A., Barclays Bank, and Citibank, N.A. As of December 31, 2014, MTA had \$550 of commercial paper notes outstanding.

In addition to the Bond Anticipation Notes issued in the commercial paper form as described above, as of December 31, 2014, MTA had \$200 of Bond Anticipation Notes issued pursuant to the Note Purchase Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated and \$100 of Bond Anticipation Notes issued pursuant a Revolving Credit Agreement with KeyBank, N.A.

The MTA Act requires MTAHQ to periodically (at least each five years) refund its bond anticipation notes with bonds.

**MTA Revenue Anticipation Notes** - On January 9, 2014, MTA closed a \$350 revolving working capital liquidity facility with the Royal Bank of Canada which is expected to remain in place until July 7, 2017. Draws on the facility will be taxable, as such this facility is intended to be used only for operating needs of MTA and the related entities. No draws have been made on the facility to date.

**MTA State Service Contract Bonds** — Prior to 2014, MTA issued two Series of State Service Contract Bonds secured under its State Service Contract Obligation Resolution adopted on March 26, 2002, in the aggregate principal amount of \$2,395. Currently, the outstanding bonds are \$286.56. The State Service Contract Bonds are MTA's special obligations payable solely from certain payments from the State of New York under a service contract.

**MTA Dedicated Tax Fund Bonds** — Prior to 2014, MTA issued nineteen Series of Dedicated Tax Fund Bonds secured under its Dedicated Tax Fund Obligation Resolution adopted on March 26, 2002, in the aggregate principal amount of \$8,733.66. The Dedicated Tax Fund Bonds are MTA's special obligations payable solely from monies held in the Pledged Amounts Account of the MTA Dedicated Tax Fund. State law requires that the MTTF revenues and MMTOA revenues (described above in Note 2 under "Nonoperating Revenues") be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund.

On June 18, 2014, MTA effected a mandatory tender and remarketed \$170.805 of MTA Dedicated Tax Fund Bonds, Subseries 2008A-1, because the irrevocable direct-pay credit facility issued by Morgan Stanley Bank, N.A was set to expire by its terms and thus was substituted with an irrevocable direct-pay credit facility issued by Royal Bank of Canada.

In June 20, 2014, MTA effected a mandatory tender and remarketed \$170.795 of MTA Dedicated Tax Fund Bonds, Subseries 2008A-2, because the irrevocable direct-pay credit facility issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd. was set to expire by its terms. The Subseries 2008A-2 bonds continued in term rate mode as floating rate notes.

On November 3, 2014, MTA effected a mandatory tender and remarketed \$35 of Dedicated Tax Fund Refunding Bonds, Subseries 2008B-3a and \$44.740 of Dedicated Tax Fund Refunding Bonds, Subseries 2008B-3c. The Subseries 2008B-3a and 2008B-3c bonds will both continue in the term rate mode as

floating rate notes. The final maturity of the Series 2008B-3a and 2008B-3c bonds are November 1, 2028 and November 1, 2034, respectively.

**MTA Certificates of Participation** — Prior to 2014, MTA (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad), MTA New York City Transit and MTA Bridges and Tunnels executed and delivered three Series of Certificates of Participation in the aggregate principal amount of \$807.3 to finance certain building and leasehold improvements to an office building at Two Broadway in Manhattan occupied principally by MTA New York City Transit, MTA Bridges and Tunnels, MTA Capital Construction, and MTAHQ. The aggregate principal amount of \$807.3 includes approximately \$357.9 of refunding bonds. The Certificates of Participation represent proportionate interests in the principal and interest components of Base Rent paid severally, but not jointly, in their respective proportionate shares by MTA New York City Transit, MTA, and MTA Bridges and Tunnels, pursuant to a Leasehold Improvement Sublease Agreement. The Certificates of Participation are currently outstanding in the amount \$84.675.

**MTA Bridges and Tunnels General Revenue Bonds** — Prior to 2014, MTA Bridges and Tunnels issued twenty-two Series of General Revenue Bonds secured under its General Resolution Authorizing General Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of \$11,311. The General Revenue Bonds are MTA Bridges and Tunnels' general obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels.

On January 2, 2014, MTA effected a mandatory tender and remarketed \$66.3 of MTA Triborough Bridge and Tunnel Authority General Revenue Bonds, Subseries 2005B-4a and 2005B-4b, because the Interest Rate Period expired according to the terms of the bonds. The Subseries 2005B-4a and b bonds will bear interest as floating rate notes.

On January 29, 2014, MTA issued \$100 of Triborough Bridge and Tunnel Authority General Revenue Bond Anticipation Notes ("BANS"), Series 2014A, to finance approved capital projects for MTA Bridges and Tunnels' own facilities. The Series 2014A BANS were issued as tax-exempt fixed-rate notes with a final maturity of May 15, 2015.

On January 30, 2014, MTA issued \$250 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2014A, to finance approved capital projects for MTA Bridges and Tunnels' own facilities. The Series 2014A bonds were issued as tax-exempt fixed-rate bonds with a final maturity of November 15, 2044.

On November 5, 2014, MTA effected a mandatory tender and remarketed \$63.650 of TBTA General Revenue Bonds, Subseries 2008B-2. The Subseries 2008B-2 bonds will continue in the term rate mode as floating rate notes, with an interest rate of 67% of 1-month LIBOR plus 0.50%. The Purchase Date of the Series 2008B-2 bonds is November 15, 2021, with a final maturity of November 15, 2027.

On December 11, 2014, MTA effected a mandatory tender and remarketed \$38.700 of TBTA General Revenue Bonds, Subseries 2005B-4c. The Subseries 2005B-4c bonds will continue in the term rate mode as floating rate notes. The final maturity of the Subseries 2005B-4c is January 1, 2030.

**MTA Bridges and Tunnels Subordinate Revenue Bonds** — Prior to 2014, MTA Bridges and Tunnels issued ten Series of Subordinate Revenue Bonds secured under its 2001 Subordinate Revenue Resolution Authorizing Subordinate Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of \$3,620.1. The Subordinate Revenue Bonds are MTA Bridges and Tunnels' special obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels after the payment of debt service on the MTA Bridges and Tunnels General Revenue Bonds described in the preceding paragraph.



On September 30, 2014, MTA effected a mandatory tender and remarketed \$95.300 of TBTA Subordinate Revenue Variable Rate Bonds, Series 2000AB and \$52.550 of TBTA Subordinate Revenue Variable Rate Bonds, Series 2000CD, as \$147.850 TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000ABCD because the standby bond purchase agreements issued by JPMorgan Chase Bank, N.A. and Lloyds TSB Bank were set to expire by their terms. The Series 2000AB and Series 2000CD bonds were converted from weekly rate mode to a term rate mode as floating rate notes and were redesignated as five subseries of 2000ABCD bonds: 2000ABCD-1; 2000ABCD-2; 2000ABCD-3; 2000ABCD-4; and 2000ABCD-5.

**Debt Limitation** — The New York State Legislature has imposed limitations on the aggregate amount of debt that the MTA and MTA Bridges and Tunnels can issue to fund the approved transit and commuter capital programs. The current aggregate ceiling, subject to certain exclusions, is \$41,877 compared with issuances totaling approximately \$30,023. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the approved Capital Programs.

**Bond Refundings** — From time to time, the MTA and MTA Bridges and Tunnels issue refunding bonds to achieve debt service savings or other benefits. The proceeds of refunding bonds are generally used to purchase U.S. Treasury obligations that are placed in irrevocable trusts. The principal and interest within the trusts will be used to repay the refunded debt. The trust account assets and the refunded debt are excluded from the consolidated statements of net position.

There was no known cash investing or financing activity that affected the net asset at the end of the year ended December 31, 2014.

In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, gains or losses resulting from debt refundings have been deferred and will be amortized over the lesser of the remaining life of the old debt or the life of the new debt. Additionally, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, reclassifies and recognizes certain items currently reported as assets and liabilities as one of four financial statement elements: deferred outflow of resources, outflow of resources, deferred inflow of resources, and inflow of resources. As a result of adopting GASB Statement No. 65, losses on refunding debt are no longer part of long-term debt, but were reclassified separately under the section “Deferred Outflow of Resources.”

At December 31, 2014 and 2013, the following amounts of MTA bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

	December 31, 2014	December 31, 2013
<b>(In Millions)</b>		
MTA Transit and Commuter Facilities:		
Transit Facilities Revenue Bonds	\$ 229	\$ 262
Commuter Facilities Revenue Bonds	246	258
Transit and Commuter Facilities Service Contract Bonds	198	279
Dedicated Tax Fund Bonds	338	635
MTA New York City Transit — Transit Facilities Revenue Bonds (Livingston Plaza Project)	35	46
MTA Bridges and Tunnels:		
General Purpose Revenue Bonds	1,064	1,154
Special Obligation Subordinate Bonds	128	162
Mortgage Recording Tax Bonds	69	94
Total	<u>\$ 2,307</u>	<u>\$ 2,890</u>

**Debt Service Payments** — Principal and interest debt service payments at December 31, 2014 are as follows (in millions):

	<b>MTA</b>		<b>MTA BRIDGES AND TUNNELS</b>				<b>Debt Service</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Senior Revenue</b>		<b>Subordinate Revenue</b>		<b>Principal</b>	<b>Interest</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2015	\$ 959	\$ 1,295	\$ 288	\$ 303	\$ 47	\$ 71	\$ 1,294	\$ 1,669
2016	662	1,196	208	293	64	68	934	1,557
2017	732	1,147	216	284	68	65	1,016	1,496
2018	778	1,117	226	274	92	61	1,096	1,452
2019	717	1,089	232	264	98	58	1,047	1,411
2020-2024	4,114	4,902	1,268	1,148	451	230	5,833	6,280
2025-2029	5,255	3,907	1,582	840	546	138	7,383	4,885
2030-2034	5,767	2,570	1,551	550	265	96	7,583	3,216
2035-2039	4,461	1,307	1,055	178	-	-	5,516	1,485
Thereafter	1,772	221	139	15	-	-	1,911	236
	<u>\$25,217</u>	<u>\$18,751</u>	<u>\$6,765</u>	<u>\$4,149</u>	<u>\$1,631</u>	<u>\$ 787</u>	<u>\$33,613</u>	<u>\$23,687</u>

The above interest amounts include both fixed - and variable-rate calculations. The interest rate assumptions for variable rate bonds are as follows:

- *Transportation Revenue Refunding Bonds, Series 2002B* — 4.00% per annum
- *Transportation Revenue Refunding Bonds, Series 2002D* — 4.45% per annum on SubSeries 2002D-2 taking into account the interest rate swap
- *Transportation Revenue Refunding Bonds, Series 2002G* — 3.542% per annum on SubSeries 2002G-1 taking into account the interest rate swap and 4.00% per annum on the unhedged portion
- *Transportation Revenue Bonds, Series 2005D* — 3.561% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2005E* — 3.561% per annum taking into account the interest rate swaps and 4.00% per annum on the unhedged portion
- *Transportation Revenue Bonds, Series 2008B* — 4.00% per annum, after the mandatory tender date
- *Transportation Revenue Bonds, Series 2011B* — 3.542% per annum taking into account the interest rate swaps and 4.00% per annum on the unhedged portion
- *Transportation Revenue Bonds, Series 2012A* — 4.00% per annum
- *Transportation Revenue Bonds, Series 2012G* — 3.563% per annum taking into account the interest rate swaps
- *Dedicated Tax Fund Bonds, Series 2002B* — 4.00% per annum
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A* — 3.316% per annum on the hedged portion related to the interest rate swaps, and 4.00% per annum on the unhedged portion
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008B* — 4.00% per annum



- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000ABCD* — 6.08% per annum on the hedged portion related to the interest rate swaps, and 4.00% per annum on the unhedged portion
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2001B and Series 2001C* — 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002F* — 5.404% and 3.076% per annum taking into account the interest rate swaps and 4% per annum on portions not covered by the interest rate swaps
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2003B* — 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2005A* — 4.00% per annum except from November 1, 2027 through November 1, 2030, 3.076% per annum taking into account the interest rate swap
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2005B* — 3.076% per annum based on the Initial Interest Rate Swaps thereafter
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2008B* — 4.00% per annum, after the mandatory tender date
- *Certificates of Participation, Series 2004A* — 3.542% per annum taking into account the interest rate swaps

**Tax Rebate Liability** — Under the Internal Revenue Code of 1986, the MTA accrues a liability for an amount of rebateable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. The arbitrage liability is payable to the federal government every five years. No payments were made during the years ended December 31, 2014 and 2013.

**Liquidity Facility** - MTA and MTA Bridges and Tunnels have entered into several Standby Bond Purchase Agreements (“SBPA”) and Letter of Credit Agreements (“LOC”) as listed on the table below.

Resolution	Series	Swap	Provider (Insurer)	Type of Type of Facility	Exp. Date
Transportation Revenue	2005D-1	Y	Helaba	LOC	11/7/2015
Transportation Revenue	2005D-2	Y	Helaba	LOC	11/10/2017
Transportation Revenue	2005E-1	Y	BofA Merrill Lynch	LOC	10/2/2015
Transportation Revenue	2005E-2	Y	Royal Bank of Canada	LOC	12/15/2017
Transportation Revenue	2005E-3	Y	PNC Bank	LOC	10/2/2015
Transportation Revenue	CP-2 (A)	N	TD Bank, N.A.	LOC	9/16/2015
Transportation Revenue	CP-2 (B)	N	Barclays Bank	LOC	9/16/2015
Transportation Revenue	CP-2 (D)	N	Citibank, N.A.	LOC	9/16/2015
Dedicated Tax Fund	2002B-1	Y	State Street Bank	SBPA	3/28/2016
Dedicated Tax Fund	2008A-1	Y	Royal Bank of Canada	LOC	6/16/2017
MTA Bridges and Tunnels General Revenue	2001B	N	State Street	LOC	9/28/2018
MTA Bridges and Tunnels General Revenue	2001C	N	JP Morgan Chase Bank, N.A.	SBPA	9/29/2015
MTA Bridges and Tunnels General Revenue	2002F	Y	Helaba	SBPA	11/1/2015
MTA Bridges and Tunnels General Revenue	2003B-1	N	CALPERs	LOC	1/31/2015
MTA Bridges and Tunnels General Revenue	2003B-2	N	CALSTRs	LOC	1/31/2015
MTA Bridges and Tunnels General Revenue	2003B-3	N	US Bank	LOC	1/31/2015
MTA Bridges and Tunnels General Revenue	2005A-1	Y	CALPERs	LOC	1/31/2015
MTA Bridges and Tunnels General Revenue	2005A-2	Y	CALSTRs	LOC	1/31/2015
MTA Bridges and Tunnels General Revenue	2005A-3	Y	U.S. Bank	LOC	1/31/2015
MTA Bridges and Tunnels General Revenue	2005B-2a	Y	CALPERs	LOC	1/31/2015
MTA Bridges and Tunnels General Revenue	2005B-2b	Y	CALSTRs	LOC	1/31/2015
MTA Bridges and Tunnels General Revenue	2005B-2c	Y	U.S. Bank	LOC	1/31/2015
MTA Bridges and Tunnels General Revenue	2005B-3	Y	Bank of America	LOC	7/3/2015

Derivative Instruments

GASB Statement No. 53- Accounting and Financial Reporting for Derivative Instruments

Summary Information at December 31, 2014

(\$ In Millions)	Bond Resolution	Series	Type of Derivative	Cash Flow or Fair Value Hedge	Effective Methodology	Trade/Hedge Association Date	Notional Amount as of 12/31/2014 (in millions)	Fair Value as of 12/31/2014 (in millions)
<b>Investment Swaps</b>	2 Broadway Certificate of Participation	2004A	Pay-Fixed Swap	N/a	N/a	8/10/2004	\$95.650	(\$8.148)
<b>Hedging Swaps</b>	MTA Transportation Revenue Bonds	2002D-2	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	7/11/2002	200.000	(79.115)
	MTA Transportation Revenue Bonds	2012G	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	12/12/2007	358.175	(97.949)
	MTA Bridges & Tunnels Senior Revenue Bonds	2002F (Citi 2005B)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	194.000	(36.506)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	582.000	(109.519)
	MTA Transportation Revenue Bonds	2005D & 2005E	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	9/10/2004	400.000	(89.814)
	MTA Dedicated Tax Fund Bonds	2008A	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	3/8/2005	332.995	(62.154)
	MTA Transportation Revenue Bonds	2002G-1 (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	181.830	(22.706)
	MTA Transportation Revenue Bonds	2011B (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	27.935	(15.967)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	24.060	(4.440)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2000ABCD	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	8/12/1998	95.300	(12.629)

The fair value balances and notional amounts of derivative instruments outstanding at December 31, 2014, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2013 are as follows:

	Changes In Fair Value		Fair Value at December 31, 2014		Notional (in millions)
	Classification	Amount (in millions)	Classification	Amount (in millions)	
<b>Government activities</b>					
Cash Flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	(\$195.895)	Debt	(\$530.802)	\$2,396.295
Investment hedges:					
Pay-fixed interest rate swaps	Unrealized investment gain	1.438	Debt	(8.148)	95.650

For the year ended December 31, 2014, the MTA recorded \$1.438 as an unrealized gain related to the change in fair market value of certain investment swaps that are not accounted for as hedging derivatives.

For the year ended December 31, 2014, there were no derivative instruments reclassified from a hedging derivative instrument to an investment derivative instrument.

The summary above reflects a total number of thirteen (13) swaps and fourteen (14) hedging relationships that were reviewed for GASB Statement No. 53 Hedge Accounting treatment. Of that total, thirteen (13) hedging relationships were deemed effective using one of the GASB Statement No. 53 quantitative methods.

For thirteen (13) hedging relationships, the Synthetic Instrument Method was utilized to determine effectiveness. Under the Synthetic Instrument Method, if the rate determined by dividing the historical Swap and Bond payments (Fixed Swap payments + Floating Bond payments - Floating Swap payments) by the hedge notional amount produces an "Actual Synthetic Rate" that is within 90% to 111% of the corresponding fixed swap rates then the hedging derivative instrument is deemed to be effective.

In accordance with GASB Statement No. 53, one of the hedging swaps was classified as a swaption for which a premium was received by MTA Bridges and Tunnels at contract inception as shown in the following Table. MTA Bridges and Tunnels have followed the relevant accounting required treatment and are amortizing the premium over the life of the swap agreement.

Bond Resolution	Original Series	Premium	Date of the Swaption Contract	Premium Payment Date
MTA Bridges & Tunnels-Subordinate	2000AB	\$22.740	8/12/1998	8/25/1998

#### Swap Agreements Relating to Synthetic Fixed Rate Debt

*Board-adopted Guidelines.* The Related Entities adopted guidelines governing the use of swap contracts on March 26, 2002. The guidelines were amended and approved by the Board on March 13, 2013. The guidelines establish limits on the amount of interest rate derivatives that may be outstanding and specific requirements that must be satisfied for a Related Entity to enter into a swap contract, such as suggested swap terms and objectives,

retention of a swap advisor, credit ratings of the counterparties, collateralization requirements and reporting requirements.

*Objectives of synthetic fixed rate debt.* To achieve cash flow savings through a synthetic fixed rate, MTA, MTA Bridges and Tunnels and MTA New York City Transit have entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA, MTA Bridges and Tunnels and MTA New York City Transit would have paid to issue fixed-rate debt, and in some case where Federal tax law prohibits an advance refunding to synthetically refund debt on a forward basis.

*Fair Value.* Relevant market interest rates on the valuation date (December 31, 2014) of the swaps are reflected in the following charts. As of the valuation date, all of the swaps had negative fair values. A negative fair value means that MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would have to pay the counterparty that approximate amount to terminate the swap. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be entitled to receive a payment from the counterparty to terminate the swap; consequently, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should a swap with a positive fair value be terminated.

The fair values listed in the following tables represent the theoretical cost to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bond due on the date of each future net settlement on the swap. See "*Termination Risk*" below.

*Terms and Fair Values.* The terms, fair values and counterparties of the outstanding swaps of MTA and MTA Bridges and Tunnels, as well as the swaps entered into in connection with the 2 Broadway Certificates of Participation refunding, are reflected in the following tables. The MTA swaps are reflected in separate tables for the Transportation Revenue Bonds and Dedicated Tax Fund Bonds. The MTA Bridges and Tunnels swaps are reflected in separate tables for the senior lien and subordinate revenue bonds.

MTA TRANSPORTATION REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/14 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/14 (in millions)	Swap Termination Date	Counterparty
Series 2002D-2	\$200.000	01/01/07	4.450 %	69% of one-month LIBOR <sup>(1)</sup>	\$(79.116)	11/01/32	JPMorgan Chase, NA
Series 2002G-1 <sup>(2)</sup>	181.830	09/22/04	3.092	Lesser of Actual Bond or 67% of one-month LIBOR – 45bp	(22.706)	01/01/30	UBS AG
Series 2005D-1,2 and Series 2005E-1,2,3	300.000	11/02/05	3.561	67% of one-month LIBOR <sup>(1)</sup>	(67.358)	11/01/35	UBS AG
Series 2005E-1,2,3	100.000	11/02/05	3.561	67% of one-month LIBOR <sup>(1)</sup>	(22.456)	11/01/35	AIG Financial Products Corp.
Series 2011B <sup>(2)(9)(10)</sup>	27.935	09/22/04	3.092	Lesser of Actual Bond or 67% of one-month LIBOR -45bp	(15.967)	01/01/30	UBS AG
Series 2012G <sup>(3)</sup>	358.175	11/15/12	3.563	67% of one-month LIBOR <sup>(1)</sup>	(97.949)	11/01/32	JPMorgan Chase Bank, NA
Total	\$1,167.940				\$ (305.552)		

<sup>(1)</sup> London Interbank Offered Rate.

<sup>(2)</sup> On November 28, 2011, MTA Variable Rate Certificates of Participation, Series 2004A associated with the swap in connection with Series 2004A Bonds, were redeemed. Notional amounts from the Series 2004A swap were reassigned to MTA Transportation Revenue Variable Rate Bonds, Series 2002G-1 and Series 2011B; and MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A.

<sup>(3)</sup> November 15, 2012, the Series 2012G swap became effective and the Related Bonds associated with the swap were issued on November 13, 2012. Under the terms of the swap JPMorgan Chase Bank, NA had an option to terminate the swap prior to the Effective Date. As of June 15, 2012, such option expired unexercised. There are no remaining options associated with the swap.



MTA DEDICATED TAX FUND BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/14 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/14 (in millions)	Swap Termination Date	Counterparty
Series 2008A <sup>(4)(5)</sup>	\$332.995	03/24/05	3.316%	67% of one-month LIBOR <sup>(1)</sup>	\$ (62.154)	11/01/31	Bank of New York Mellon <sup>(6)</sup>
Total	\$332.995				\$ (62.154)		

<sup>(4)</sup> On June 25, 2008, the Confirmation dated as of March 8, 2005, between the Counterparty and MTA was amended to define Related Bonds as MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A. On June 26, 2008, MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A associated with the swap prior to the amendment described above, were refunded.

<sup>(5)</sup> On October 27, 2011, the outstanding swap associated with DTF 2008A bonds was novated from counterparty Citigroup Financial Products, Inc. to The Bank of New York Mellon. All other terms of the swap remain unchanged.

MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/14 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/14 (in millions)	Swap Termination Date	Counterparty
Series 2002F <sup>(6)</sup>	\$194.000	07/07/05	3.076%	67% of one-month LIBOR <sup>(1)</sup>	\$ (36.506)	01/01/32	Citibank, N.A.
Series 2005A <sup>(2)(9)(10)</sup>	24.060	09/24/04	3.092	Lesser of Actual Bond or 67% of one-month LIBOR - 45 basis points	(4.440)	01/01/30	UBS AG
Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e <sup>(6)</sup>	582.000	07/07/05	3.076	67% of one-month LIBOR <sup>(1)</sup>	(109.519)	01/01/32	33% each – JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG
Total	\$800.060				\$ (150.465)		

<sup>(6)</sup> On February 19, 2009, MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B-1 were refunded. Notional amounts from the Series 2005B-1 swap were reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F, MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B-1,2,3 and from November 1, 2027 through November 1, 2030, to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A-2,3.

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/2014 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/2014 (in millions)	Swap Termination Date	Counterparty
Series 2000ABCD <sup>(7)(8)</sup>	\$95.300	01/01/01	6.080%	SIFMA – 15 bp	\$ (12.629)	01/01/19	JPMorgan Chase Bank, NA
Total	\$95.300				\$ (12.629)		

(7) In accordance with a swaption entered into on August 12, 1998, each Counterparty pay to MTA Bridges and Tunnels a premium of \$22.740.

(8) On September 30, 2014, the TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000AB, together with the TBTA Subordinate Revenue Variable Rate Refunding Bonds Series 2000CD, were redesignated as the Series 2000ABCD Bonds and converted from a Weekly Mode to a Term Mode. The swap now hedges the portion of the Series 2000ABCD bonds that originally related to the Series 2000AB bonds.

(9) On December 18, 2012, MTA Variable Rate Certificates of Participation, Series 2004A associated with the swap in connection with Series 2004A Bonds, were redeemed. Notional amounts from the Series 2004A swap were reassigned to MTA Transportation Revenue Variable Rate Bonds, Series 2011B; and MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A-1.

(10) On November 19, 2013, MTA Variable Rate Certificates of Participation, Series 2004A associated with the swap in connection with Series 2004A Bonds, were redeemed. Notional amounts from the Series 2004A swap were reassigned to MTA Transportation Revenue Variable Rate Bonds, Series 2011B; and MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A-1.

## **2 Broadway Certificates of Participation Swaps**

In addition to the foregoing, MTA, MTA New York City Transit and MTA Bridges and Tunnels entered into separate ISDA Master Agreements with UBS AG relating to the \$357.925 Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities) in connection with the refunding of certain certificates of participation originally executed to fund certain improvements to the office building located at 2 Broadway in Manhattan. The 2 Broadway swaps have (1) an effective date of September 22, 2004, (2) a fixed rate paid of 3.092%, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67% of one-month LIBOR minus 45 basis points, and (4) a termination date of January 1, 2030.

On November 28, 2011, certain portions of these swaps were re-associated with other floating rate bonds, including the MTA Bridges and Tunnels General Revenue Bonds, Series 2005A and the Transportation Revenue Bonds Series 2002G-1 and Series 2011B.

On December 18, 2012, and November 19, 2013, certain portions of these swaps were re-associated with other floating rate bonds, including the MTA Bridges and Tunnels General Revenue Bonds, Series 2005A and the Transportation Revenue Bonds Series 2011B.

The portion remaining that is still associated with the 2004A Certificates of Participation is \$95.650 in notional amount as of December 31, 2014, of which MTA New York City Transit is responsible for \$65.712, MTA for \$20.086, and MTA Bridges and Tunnels for \$9.852. As of December 31, 2014, the aggregate fair value of the remaining portion associated with the 2004A COPs was (\$8.148).

### **Counterparty Ratings**

The current ratings of the counterparties are as follows as of December 31, 2014.

<b>Counterparty</b>	<b>Ratings of the Counterparty or its Credit Support Provider</b>		
	<b>S&amp;P</b>	<b>Moody's</b>	<b>Fitch</b>
AIG Financial Products Corp.	A-	Baa1	BBB+
Bank of New York Mellon	AA-	Aa2	AA-
BNP Paribas North America, Inc.	A+	A1	A+
Citibank, N.A.	A	A2	A
JPMorgan Chase Bank, NA	A+	Aa3	A+
UBS AG	A	A2	A

## Swap Notional Summary

The following table sets forth the notional amount of Synthetic Fixed Rate debt and the outstanding principal amount of the underlying floating rate series as of December 31, 2014 (in millions).

<u>Series</u>	<u>Outstanding Principal</u>	<u>Notional Amount</u>
TRB 2012G-4	\$73.725	\$73.725
TRB 2012G-3	75.000	75.000
TRB 2012G-2	125.000	125.000
TRB 2012G-1	84.450	84.450
TRB 2011B	99.560	27.935
TRB 2005E-3	75.000	45.000
TRB 2005E-2	75.000	45.000
TRB 2005E-1	100.000	60.000
TRB 2005D-2	100.000	100.000
TRB 2005D-1	150.000	150.000
TRB 2002G-1 (a, b, c, d, f, g, h)	181.830	181.830
TRB 2002D-2 (a, b)	200.000	200.000
TBTA SUB 2000ABCD	147.850	95.300
TBTA 2005B-4 (a,b,c,d,e)	194.000	194.000
TBTA 2005B-3	194.000	194.000
TBTA 2005B-2 (a,b,c)	194.000	194.000
TBTA 2005A-1	56.150	24.060
TBTA 2005A (2,3)	66.270	(a)
TBTA 2003B (1,2,3)	192.915	(a)
TBTA 2002F	195.300	194.000
DTF 2008A-2 (a, b)	169.710	166.498
DTF 2008A-1	169.720	166.498
COPs 2004A	85.675	95.650
<b>Total</b>	<b>\$3,005.155</b>	<b>\$2,491.946</b>

(a) Swaps assigned to future maturities of Bonds on a forward basis.

Except as discussed below under the heading “*Rollover Risk*,” the swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the principal amount of the associated bonds.

## Risks Associated with the Swap Agreements

From MTA’s, MTA Bridges and Tunnels’ and MTA New York City Transit’s perspective, the following risks are generally associated with swap agreements:

- **Credit Risk** – The counterparty becomes insolvent or is otherwise not able to perform its financial obligations. In the event of deterioration in the credit ratings of the counterparty or MTA/MTA Bridges and Tunnels/MTA New York City Transit, the swap agreement may require that collateral be posted to secure the party’s obligations under the swap agreement. See “*Collateralization*” below. Further, ratings deterioration by either party below levels agreed to in each transaction could



result in a termination event requiring a cash settlement of the future value of the transaction. See “Termination Risk” below.

- **Basis Risk** – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA, MTA Bridges and Tunnels or MTA New York City Transit on the associated bonds may not be the same. If the counterparty’s rate under the swap is lower than the bond interest rate, then the counterparty’s payment under the swap agreement does not fully reimburse MTA, MTA Bridges and Tunnels or MTA New York City Transit for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty’s rate on the swap, there is a net benefit to MTA, MTA Bridges and Tunnels or MTA New York City Transit.
- **Termination Risk** – The swap agreement will be terminated and MTA, MTA Bridges and Tunnels or MTA New York City Transit will be required to make a termination payment to the counterparty and, in the case of a swap agreement which was entered into for the purpose of creating a synthetic fixed rate for an advance refunding transaction may also be required to take action to protect the tax exempt status of the related refunding bonds.
- **Rollover Risk** – The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds on a variable rate bond issuance, and MTA, MTA Bridges and Tunnels or MTA New York City Transit may be exposed to then market rates and cease to receive the benefit of the synthetic fixed rate for the duration of the bond issue.

*Credit Risk.* The following table shows, as of December 31, 2014, the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA and/or MTA Bridges and Tunnels, or in connection with the 2 Broadway Certificates of Participation refunding. The notional amount totals below include all swaps. The counterparties have the ratings set forth above.

<b>Counterparty</b>	<b>Notional Amount (in thousands)</b>	<b>% of Total Notional Amount</b>
JPMorgan Chase Bank, NA	\$847,476	34.01%
UBS AG	823,475	33.05
The Bank of New York Mellon	332,995	13.36
Citibank, N.A.	194,000	7.79
BNP Paribas North America, Inc.	194,000	7.79
AIG Financial Products Corp.	100,000	4.01
<b>Total</b>	<b>\$2,491,946</b>	<b>100.00%</b>

The ISDA Master Agreements entered into with the following counterparties provide that the payments under one transaction will be netted against other transactions entered into under the same ISDA Master Agreement:

- JPMorgan Chase Bank, NA with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000ABCD.
- JPMorgan Chase Bank, NA with respect to the MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2 and Series 2012G.

Under the terms of these agreements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions’ fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

The fair market value of MTA's interest rate swaps changes daily primarily as a result of capital markets changes. Factors that influence LIBOR are interest rates, banks expectations of future rate movements, liquidity in the capital markets or changes in the value of the dollar. The relative financial health of MTA's counterparties do not directly impact the fair market value of the transaction.

*Collateralization.* Generally, the Credit Support Annex attached to the ISDA Master Agreement requires that if the outstanding ratings of MTA, MTA Bridges and Tunnels or MTA New York City Transit, as the case may be, or the counterparty falls to a certain level, the party whose rating falls is required to post collateral with a third-party custodian to secure its termination payments above certain threshold valuation amounts. Collateral must be cash or U.S. government or certain Federal agency securities.

The following tables set forth the ratings criteria and threshold amounts relating to the posting of collateral set forth for MTA, MTA Bridges and Tunnels or MTA New York City Transit, as the case may be, and the counterparty for each swap agreement. In most cases, the counterparty does not have a Fitch rating on its long-term unsecured debt, so that criteria would not be applicable in determining if the counterparty is required to post collateral.

<b>MTA Transportation Revenue Bonds</b>		
<b>Associated Bond Issue</b>	<b>If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to</b>	<b>Then the downgraded party must post collateral if its estimated termination payments are in excess of</b>
Series 2002D-2	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	\$10,000,000
Series 2002G-1	See 2 Broadway Certificates of Participation	
Series 2005D-1,2 and Series 2005E-1,2,3	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – below BBB+, Moody's – below Baa1, or S&P – below BBB+	\$10,000,000
Series 2011B	See 2 Broadway Certificates of Participation	
Series 2012G	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	\$10,000,000

<b>MTA Dedicated Tax Fund Bonds</b>		
<b>Associated Bond Issue</b>	<b>If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to</b>	<b>Then the downgraded party must post collateral if its estimated termination payments are in excess of</b>
Series 2008A [Note: for this swap, MTA is not required to post collateral under any circumstances.]	Fitch – AA-, or, Moody's Aa3, or S&P AA- Fitch, A+, or Moody's – A1, or S&P A+ Fitch A, or Moody's A2 or S&P – A Fitch A-, or Moody's A3 or S&P – A- Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below	\$10,000,000 \$5,000,000 \$2,000,000 \$1,000,000 \$ -

<b>2 Broadway Certificates of Participation</b>		
<b>Associated Bond Issue</b>	<b>If the highest rating of the MTA Transportation Revenue Bonds falls to</b>	<b>Then MTA, MTA Bridges and Tunnels and MTA New York City Transit must post collateral if its estimated termination payments are in excess of</b>
Series 2004A	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	\$25,000,000
	<b>If the highest rating of the Counterparty's long-term unsecured debt falls to</b>	<b>Then the Counterparty must post collateral if its estimated termination payments are in excess of</b>
Series 2004A	Moody's – Baa1 or lower, or S&P – BBB+ or lower	\$ -

<b>MTA Bridges and Tunnels Senior Lien Revenue Bonds</b>		
<b>Associated Bond Issue</b>	<b>If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to</b>	<b>Then the downgraded party must post collateral if its estimated termination payments are in excess of</b>
Series 2005-A1	See 2 Broadway Certificates of Participation	
Series 2002F (swap with Citibank, N.A.), Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e (swap with JPM, BNP, UBS)	For counterparty, Fitch – A-, or Moody's – A3, or S&P – A-	\$10,000,000
	For MTA, Fitch – BBB+, or Moody's – Baa1, or S&P – BBB+	\$30,000,000
	For MTA, Fitch – BBB, or Moody's – Baa2, or S&P – BBB	\$15,000,000
	For counterparty, Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below	\$ -
	For MTA, Fitch – BBB- and below, or Moody's – Baa3 and below, or S&P – BBB- and below	\$ -

<b>MTA Bridges and Tunnels Subordinate Revenue Bonds</b>		
<b>Associated Bond Issue</b>	<b>If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to</b>	<b>Then the downgraded party must post collateral if its estimated termination payments are in excess of</b>
Series 2000ABCD	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but JP Morgan Chase Bank is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	

Notwithstanding the foregoing, in the event any downgraded party is responsible for an event of default or potential event of default as defined in the ISDA Master Agreement, the downgraded party must immediately collateralize its obligations irrespective of the threshold amounts.

Under each MTA and MTA Bridges and Tunnels bond resolution, the payments relating to debt service on the swaps are parity obligations with the associated bonds, as well as all other bonds issued under that bond resolution, but all other payments, including the termination payments, are subordinate to the payment of debt service on the swap and all bonds issued under that bond resolution. In addition, MTA and MTA Bridges and Tunnels have structured each of the swaps (other than the 2 Broadway swaps) in a manner that will permit MTA or MTA Bridges and Tunnels to bond the termination payments under any available bond resolution.

*Termination Risk.* The ISDA Master Agreement sets forth certain termination events applicable to all swaps entered into by the parties to that ISDA Master Agreement. MTA, MTA Bridges and Tunnels and MTA New York City Transit have entered into separate ISDA Master Agreements with each counterparty that govern the terms of each swap with that counterparty, subject to individual terms negotiated in a confirmation.

The following table sets forth, for each swap, the additional termination events for the following associated bond issues. In certain swaps, where the counterparty has a guarantor of its obligations, the ratings criteria apply to the guarantor and not to the counterparty.

<b>MTA Transportation Revenue</b>	
<b>Associated Bond Issue</b>	<b>Additional Termination Event(s)</b>
Series 2002D-2, Series 2005D-1,2 and Series 2005E-1,2,3	The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.
Series 2002G-1	See 2 Broadway Certificates of Participation
Series 2012G-1,2,3,4	The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.
Series 2011B	See 2 Broadway Certificates of Participation

<b>MTA Dedicated Tax Fund</b>	
<b>Associated Bond Issue</b>	<b>Additional Termination Event(s)</b>
Series 2008A -1,2	The ratings by S&P or Moody's of the Counterparty fall below "A-" or "A3," respectively, or the ratings of S&P or Fitch with respect to the MTA Dedicated Tax Fund Bonds falls below "BBB" or "Baa2", in either case the ratings are withdrawn.

<b>2 Broadway Certificates of Participation</b>		
<b>Associated Bond Issue</b>	<b>Counterparty</b>	<b>Additional Termination Event(s)</b>
Series 2004A	UBS AG	Negative financial events relating to the swap insurer, Ambac Assurance Corporation.

<b>MTA Bridges and Tunnels Senior and Subordinate Revenue</b>	
<b>Associated Bond Issue</b>	<b>Additional Termination Events</b>
<b>Senior Lien Revenue Bonds</b>	
Series 2005A	See 2 Broadway Certificates of Participation
Series 2002F (swap with Citibank, N.A.), Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e (swap with JPM, BNP, UBS)	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Moody's with respect to the MTA Bridges and Tunnels Senior Lien Revenue Bonds falls below "BBB" or "Baa2," respectively, or, in either case the ratings are withdrawn.
<b>Subordinate Revenue Bonds</b>	
Series 2000AB CD	<p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, or MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, MBIA.</p> <p>3. MTA Fails to have at least one of such issues with a rating of "BBB-" or higher as determined by S&amp;P or "Baa3" or higher as determined by Moody's</p>

*Rollover Risk.* MTA and MTA Bridges and Tunnels are exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, MTA or MTA Bridges and Tunnels may not realize the synthetic fixed rate offered by the swaps on the underlying debt issues. The following debt is exposed to rollover risk:

<b>Associated Bond Issue</b>	<b>Bond Maturity Date</b>	<b>Swap Termination Date</b>
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F (swap with Citibank, N.A.)	November 1, 2032	January 1, 2032
MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B (swap with Citibank, N.A.)	January 1, 2033	January 1, 2032

*Swap payments and Associated Debt.* The following tables contain the aggregate amount of estimated variable-rate bond debt service and net swap payments during certain years that such swaps were entered into in order to: protect against the potential of rising interest rates; achieve a lower net cost of borrowing; reduce exposure to changing interest rates on a related bond issue; or, in some cases where Federal tax law prohibits an advance refunding, achieve debt service savings through a synthetic fixed rate. As rates vary, variable-rate bond interest payments and net swap payments will vary. Using the following assumptions, debt service requirements of MTA's and MTA Bridges and Tunnel's outstanding variable-rate debt and net swap payments are estimated to be as follows:

- It is assumed that the variable-rate bonds would bear interest at a rate of 4.0% per annum.
- The net swap payments were calculated using the actual fixed interest rate on the swap agreements.



MTA (in millions)				
Year Ending December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2015	\$ 15.3	\$ 53.1	\$ (6.6)	\$ 61.8
2016	22.2	52.4	(6.4)	68.2
2017-2021	222.5	241.7	(29.0)	435.2
2022-2026	331.6	186.9	(20.4)	498.1
2027-2031	617.0	351.7	(11.1)	957.7
2032-2035	370.8	152.3	(2.2)	520.9

MTA Bridges and Tunnels (in millions)				
Year Ending December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2015	\$ 33.2	\$ 46.8	\$ (5.6)	\$ 74.5
2016	56.2	44.6	(5.6)	95.2
2017-2020	190.6	157.0	(26.8)	320.8
2021-2025	170.3	166.5	(33.5)	303.2
2026-2030	408.3	116.8	(33.3)	491.9
2031-2035	350.2	9.0	(1.6)	357.6

## 9. LEASE TRANSACTIONS

**Leveraged Lease Transactions: Subway Cars** — During 1995, MTA Bridges and Tunnels entered into a sale/leaseback transaction with a third party whereby MTA Bridges and Tunnels sold certain subway cars, which were contributed by MTA New York City Transit, for net proceeds of \$84.2. These cars were subsequently leased back by MTA Bridges and Tunnels under a capital lease. The advanced credit of \$34.2 was netted against the carrying value of the leased assets, and the assets were recontributed to the MTA New York City Transit. MTA Bridges and Tunnels transferred \$5.5 to the MTA, representing the net economic benefit of the transaction. The remaining proceeds, equal to the net present value of the lease obligation, of which \$71.3 was placed in an irrevocable deposit account at ABN AMRO Bank N.V. and \$7.5 was invested in U.S. Treasury Strips. The estimated yields and maturities of the deposit account and the Treasury Strips are expected to be sufficient to meet all of the regularly scheduled obligations under the lease as they become due, including the 2016 purchase option, if exercised. The capital lease obligation is included in other long-term liabilities. At the end of the lease term MTA Bridges and Tunnels has the option to purchase the subway cars for approximately \$106, which amount has been reflected in the net present value of the lease obligation, or to make a lease termination payment of approximately \$89.

**Leveraged Lease Transactions: Qualified Technological Equipment** — On December 19, 2002, the MTA entered into four sale/leaseback transactions whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit qualified technological equipment (“QTE”) relating to the MTA New York City Transit automated fare collection system to the MTA. The MTA sold that equipment to third parties and the MTA leased that equipment back from such third parties. Three of those four leases were terminated early and are no longer outstanding. The fourth lease expires in 2022, at which point the MTA has the option of either exercising a fixed-price purchase option for the equipment or returning the equipment to the third-party owner.

Under the terms of the outstanding sale/leaseback agreement the MTA initially received \$74.9, which was utilized as follows: The MTA paid \$52.1 to an affiliate of the lender to the third party, which affiliate has the obligation to pay to MTA an amount equal to the rent obligations under the lease attributable to the debt service on the loan from the third party's lender. The MTA also purchased U.S. Treasury debt securities in amounts and with maturities, which are expected to be sufficient to pay the remainder of the regularly scheduled lease rent payments under the lease and the purchase price due upon exercise by the MTA of the related purchase option if exercised.

**Leveraged Lease Transaction: Subway Cars** — On September 3, 2003, the MTA entered into a sale/leaseback transaction whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit subway cars to the MTA, the MTA sold those cars to a third party, and the MTA leased those cars back from such third party. The MTA subleased the cars to MTA New York City Transit. The lease expires in 2033. At the lease expiration, the MTA has the option of either exercising a fixed-price purchase option for the cars or returning the cars to the third-party owner.

Under the terms of the sale/leaseback agreement, the MTA initially received \$168.1, which was utilized as follows: The MTA paid \$126.3 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to pay to the MTA an amount equal to the rent obligations under the lease attributable to the debt service on such loan from such third party's lender. The obligations of the affiliate of the third party's lender are guaranteed by American International Group, Inc. The MTA also purchased FNMA and U.S. Treasury securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lender to the third party and to pay the remainder of the regularly scheduled rent due under that lease and the purchase price due upon exercise by the MTA of the fixed price purchase option if exercised. The amount remaining after payment of transaction expenses, \$7.4, was the MTA's benefit from the transaction.

**Leveraged Lease Transactions: Subway Cars** — On September 25, 2003, and September 29, 2003, the MTA entered into two sale/leaseback transactions whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit subway cars to the MTA, the MTA sold those cars to third parties, and the MTA leased those cars back from such third parties. The MTA subleased the cars to MTA New York City Transit. Both leases expire in 2033. At the lease expiration, MTAHQ has the option of either exercising a fixed-price purchase option for the cars or returning the cars to the third-party owner.

Under the terms of the sale/leaseback agreements, the MTA initially received \$294, which was utilized as follows: In the case of one of the leases, the MTA paid \$97 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to pay to the MTA an amount equal to the rent obligations under the lease attributable to the debt service on the loan from such third party's lender. The obligations of the affiliate of such third party's lender are guaranteed by American International Group, Inc. In the case of the other lease, the MTA purchased U.S. Treasury debt securities in amounts and with maturities, which are sufficient for the MTA to make the lease rent payments equal to the debt service on the loan from the lender to that third party. In the case of both of the leases, the MTA also purchased Resolution Funding Corporation ("REFCO") debt securities that mature in 2030. Under an agreement with AIG Matched Funding Corp. (guaranteed by American International Group, Inc.), AIG Matched Funding Corp. receives the proceeds from the REFCO debt securities at maturity and is obligated to pay to the MTA amounts sufficient for the MTA to pay the remainder of the regularly scheduled lease rent payments under those leases and the purchase price due upon exercise by the MTA of the purchase options if exercised. The amount remaining after payment of transaction expenses, \$24, was the MTA's net benefit from these two transactions.

On September 16, 2008, the MTA learned that American International Group, Inc. was downgraded to a level that under the terms of the transaction documents for the sale/leaseback transaction that closed on

September 29, 2003, the MTA is required to replace or restructure the applicable Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. On December 17, 2008, MTA terminated the Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. and provided replacement collateral in the form of U.S. Treasury strips. The Resolution Funding Corporation ("REFCO") debt security that was being held in pledge was released to MTA. On November 6, 2008, the MTA learned that Ambac Assurance Corp., the provider of the credit enhancement that insures the MTA's contingent obligation to pay a portion of the termination values upon an early termination in both the September 25, 2003 and September 29, 2003 transactions, was downgraded to a level that required the provision of new credit enhancement facilities for each lease by December 21, 2008.

On December 17, 2008, MTA terminated the Ambac Assurance Corp. surety bond for the lease transaction that closed on September 25, 2003 and provided a short-term U.S. Treasury debt obligation as replacement collateral. The cost of the replacement collateral was \$32. As a result of a mark-to-market of the securities provided as collateral as of January 31, 2009, \$8 of such \$32 in collateral value was released back to MTA in February 2009. As a result of a mark-to-market of the securities provided as collateral as of January 2012, \$10 of such \$34 in collateral value was released back to MTA in February 2012. As of December 31, 2014, the market value of total collateral funds was \$36.5.

On January 12, 2009, MTA provided a short-term U.S. Treasury debt obligation as additional collateral in addition to the Ambac Assurance Corp. surety bond for the lease transaction that closed on September 29, 2003. From time to time, additional collateral has been required to be added such that the total market value of the securities being held as additional collateral are expected to be sufficient to pay the remainder of the regularly scheduled lease rent payments under the lease. As of December 31, 2014, the market value of total collateral funds was \$51.5.

**Other Lease Transactions** — On July 29, 1998, the MTA, (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad, MTA New York City Transit, and MTA Bridges and Tunnels) entered into a lease and related agreements whereby each agency, as subleasee, will rent, for an initial stated term of approximately 50 years, an office building at Two Broadway in lower Manhattan. The lease term expires on July 30, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. The lease comprises both operating (for the lease of land) and capital (for the lease of the building) elements. The total annual rental payments over the initial lease term are \$1,602 with rent being abated from the commencement date through June 30, 1999. During 2013, the MTA made rent payments of \$23. In connection with the renovation of the building and for tenant improvements, the MTA issued \$121 and \$328 in 2000 and 1999, respectively, of certificates of participation. In 2004, it issued approximately \$358 of certificates of participation that partially refunded the two previously issued certificates. As of December 31, 2014, there was \$84.675 in certificates of participation outstanding. (See Note 8). The office building at 2 Broadway, is principally occupied by MTA New York City Transit, MTA Bridges and Tunnels, MTA Capital Construction, and MTAHQ.

On April 8, 1994, the MTA amended its lease for the Harlem/Hudson line properties, including Grand Central Terminal. This amendment initially extends the lease term, previously expiring in 2031, an additional 110 years and, pursuant to several other provisions, an additional 133 years. In addition, the amendment grants the MTA an option to purchase the leased property after the 25th anniversary of the amended lease, subject to the owner's right to postpone such purchase option exercise date for up to an additional 15 years if the owner has not yet closed the sale, transfer or conveyance of an aggregate amount of 1,000,000 square feet or more of development rights appurtenant to Grand Central Terminal and the associated zoning lots. The amended lease comprises both operating (for the lease of land) and capital (for the lease of buildings and track structure) elements.

In August 1988, the MTA entered into a 99-year lease agreement with Amtrak for Pennsylvania Station. This agreement, with an option to renew, is for rights to the lower concourse level and certain platforms.

The \$45 paid to Amtrak by the MTA under this agreement is included in other assets. This amount is being amortized over 30 years. In addition to the 99-year lease, MTA Long Island Rail Road entered into an agreement with Amtrak to share equally the cost of the design and construction of certain facilities at Pennsylvania Station. Under this agreement, the MTA may be required to contribute up to \$60 for its share of the cost. As of December 31, 2000, the project was closed and \$50 was included in property and equipment.

Total rent expense under operating leases approximated \$60.3 and \$46.1 for the years ended December 31, 2014 and 2013 respectively.

At December 31, 2014, the future minimum lease payments under non-cancelable leases are as follows (in millions):

	<b>Operating</b>	<b>Capital</b>
2015	\$ 59	\$ 29
2016	55	34
2017	57	121
2018	57	23
2019	56	25
2020–2024	217	172
2025–2029	280	109
2030–2034	288	548
2035–2039	247	136
2040–2044	247	149
Thereafter	<u>529</u>	<u>289</u>
Future minimum lease payments	<u>\$ 2,092</u>	1,635
Amount representing interest		<u>(1,120)</u>
Total present value of capital lease obligations		<u>515</u>
Less current present value of capital lease obligations		<u>10</u>
Noncurrent present value of capital lease obligations		<u>\$ 505</u>

**Capital Leases Debt Schedule**  
**For the Years Ended December 31, 2013 and 2014**  
(in millions)

Description	December 31, 2013	Increase	Decrease	December 31, 2014
Hawaii	\$ 19	\$ -	\$ 18	\$ 1
Sumitomo	15	-	-	15
Met Life	5	-	-	5
Met Life Equity	19	-	-	19
Bank of New York	1	-	1	-
Bank of New York	22	-	-	22
Bank of America	28	2	-	30
Bank of America Equity	16	-	-	16
Sumitomo	42	1	3	40
Met Life Equity	43	2	-	45
Grand Central Terminal & Harlem Hudson Railroad Lines	15	-	-	15
2 Broadway Lease Improvement	161	3	-	164
2 Broadway	38	-	-	38
Subway Cars	103	4	2	105
<b>Total MTA Capital Lease Debt</b>	<b>\$ 527</b>	<b>\$ 12</b>	<b>\$ 24</b>	<b>\$ 515</b>
Current Portion Obligations under Capital Lease	27			10
Long Term Portion Obligations under Capital Lease	<u>\$ 500</u>			<u>\$ 505</u>

## 10. FUTURE OPTION

In 2009, MTA and MTA Long Island Railroad entered into an Air Space Parcel Purchase and Sale Agreement ("Agreement") with Atlantic Yards Development Company, LLC ("AADC") pursuant to which AADC has agreed to purchase fee title to six parcels of air space above the MTA Long Island Railroad Atlantic Yard in Brooklyn, New York. Initial annual payments of \$2 (covering all six parcels) commenced on June 1, 2012 and are due on the following three anniversaries of that date. Starting on June 1, 2016, and continuing on each anniversary thereof through and including June 1, 2031, an annual option payment in the amount of \$11.03 is due. The Agreement provides that all such payments are (i) fully earned by MTA as of the date due in consideration of the continuing grant to Developer of the rights to purchase the air space parcels, (ii) are non-refundable and (iii) shall be deemed to be payments on account of successive annual options granted to AADC.

After AADC and its affiliates have completed the new yard and transit improvements to be constructed by them at and in the vicinity of the site, AADC has the right from time to time until June 1, 2031, to close on the purchase of any or all of the six air rights parcels. The purchase price for the six parcels is an amount, when discounted at 6.5% per annum from the date of payment that equals a present value of \$80 as of January 1, 2010. The purchase price of any particular air space parcel is equal to a net present value as of January 1, 2010 of the product of that parcel's percentage of the total gross square footage of permissible development on all six air space parcels multiplied by \$80.



## 11. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2014 and December 31, 2013 is presented below (in millions):

	December 31, 2014	December 31, 2013
Balance — beginning of year	\$ 2,312	\$ 2,059
Activity during the year:		
Current year claims and changes in estimates	583	720
Claims paid	<u>(386)</u>	<u>(467)</u>
Balance — end of year	2,509	2,312
Less current portion	<u>(413)</u>	<u>(372)</u>
Long-term liability	<u>\$ 2,096</u>	<u>\$ 1,940</u>

See Note 2 for additional information on MTA's liability and property disclosures.

## 12. COMMITMENTS AND CONTINGENCIES

The MTA Group monitors its properties for the presence of pollutants and/or hazardous wastes and evaluates its exposure with respect to such matters. When the expense, if any, to clean up pollutants and/or hazardous wastes is estimable it is accrued by the MTA.

Management has reviewed with counsel all actions and proceedings pending against or involving the MTA Group, including personal injury claims. Although the ultimate outcome of such actions and proceedings cannot be predicted with certainty at this time, management believes that losses, if any, in excess of amounts accrued resulting from those actions will not be material to the financial position, results of operations, or cash flows of the MTA.



### 13. POLLUTION REMEDIATION COST

Effective 2008, pollution remediation costs are being charged in accordance with the provision of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes standards for determining when expected pollution remediation outlays should be accrued as a liability or, if appropriate, capitalized. An operating expense and corresponding liability, measured at its current value using the expected cash flow method, have been recognized for certain pollution remediation obligations that are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations, which are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations, occur when any one of the following obligating events takes place:

- An imminent threat to public health due to pollution exists;
- MTA is in violation of a pollution prevention-related permit or license;
- MTA is named by a regulator as a responsible or potentially responsible party to participate in remediation;
- MTA is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities; or
- MTA voluntarily commences or legally obligates itself to commence remediation efforts.

Operating expense provision and corresponding liability measured at its current value using the expected cash flow method have been recognized for certain pollution remediation obligation that previously may not have been required to be recognized, or are no longer able to be capitalized as a component of a capital project. For the years ended December 31, 2014 and 2013, the MTA has recognized a total cost of \$21 and \$14 and pollution remediation liability of \$99 and \$109, respectively.

#### 14. FUEL HEDGE

MTA partially hedges its fuel cost exposure using financial hedges. All MTA fuel hedges provide for up to 24 monthly settlements. The table below summarizes twenty-three (23) active ultra-low sulfur diesel (“ULSD”) hedges:

Counterparty	JPM - Ventures Energy Corp	JPM - Ventures Energy Corp	JPM - Ventures Energy Corp	J. Aron & Company	J. Aron & Company	JPM - Ventures Energy Corp	J. Aron & Company	JPM - Ventures Energy Corp
Trade Date	12/19/2012	2/21/2013	4/23/2013	4/23/2013	6/6/2013	8/9/2013	9/10/2013	10/11/2013
Effective Date	12/1/2013	1/1/2014	5/1/2013	5/1/2013	5/1/2014	6/1/2014	8/1/2014	9/1/2014
Termination Date	12/31/2014	1/31/2015	3/31/2015	3/31/2015	4/30/2015	7/31/2015	8/31/2015	9/30/2015
Price/Gal	\$2.8705	\$2.9425	\$2.7700	\$2.7700	\$2.8142	\$2.8260	\$2.8240	\$2.8215
Original Notional Qty (\$)	15,981,638	11,027,445	4,494,141	4,494,141	7,702,834	18,420,266	8,439,456	15,441,167

Counterparty	JPM - Ventures Energy Corp	Bank of America Merrill Lynch	JPM - Ventures Energy Corp	JPM - Ventures Energy Corp	JPM - Ventures Energy Corp	Bank of America Merrill Lynch	Bank of America Merrill Lynch	J. Aron & Company
Trade Date	11/19/2013	1/29/2014	2/26/2014	3/31/2014	4/30/2014	5/15/2014	6/25/2014	7/2/2014
Effective Date	11/1/2014	12/1/2014	2/1/2015	3/1/2015	4/1/2015	7/1/2014	6/1/2015	7/1/2014
Termination Date	10/31/2015	12/31/2015	1/31/2016	2/29/2016	3/31/2016	4/30/2016	5/31/2016	1/31/2015
Price/Gal	\$2.7867	\$2.7690	\$2.8360	\$2.8065	\$2.8210	\$2.8630	\$2.9265	\$2.8985
Original Notional Qty (\$)	7,636,954	15,299,678	7,892,588	7,810,490	7,850,843	12,865,827	8,644,395	5,852,793

Counterparty	J. Aron & Company	Bank of America Merrill Lynch	J. Aron & Company	J. Aron & Company	Bank of America Merrill Lynch	Bank of America Merrill Lynch	JPM - Ventures Energy Corp
Trade Date	7/2/2014	7/29/2014	8/27/2014	9/24/2014	10/29/2014	11/25/2014	12/23/2014
Effective Date	7/1/2014	7/1/2015	8/1/2015	4/1/2015	10/1/2015	11/1/2015	12/1/2015
Termination Date	2/28/2015	6/30/2016	7/31/2016	8/31/2016	9/30/2016	10/31/2016	11/30/2016
Price/Gal	\$2.8825	\$2.8645	\$2.8175	\$2.7360	\$2.5510	\$2.3950	\$2.0340
Original Notional Qty (\$)	4,074,192	8,461,232	8,322,340	8,050,125	7,487,723	7,029,766	5,970,231

The monthly settlements are based on the daily prices of the respective commodities whereby MTA will either receive a payment, or make a payment to the various counterparties depending on the average monthly price of the commodities in relation to the contract prices. As of December 31, 2014, the total outstanding notional value of the ULSD contracts was 54.3 million gallons with a decrease in fair market value of \$48.2.

## 15. OPERATING ACTIVITY INFORMATION

(In millions)	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
<b>December 31, 2014</b>						
Operating revenue	\$ 250	\$ 1,413	\$ 4,616	\$ 1,698	\$ (7)	\$ 7,970
Depreciation and amortization	85	557	1,520	104	-	2,266
Subsidies and grants	3,784	-	2,690	8	(2,533)	3,949
Tax revenue	1,026	-	1,068	-	(268)	1,826
Interagency subsidy	(638)	-	(266)	638	266	-
Operating (loss) surplus	(1,094)	(1,973)	(5,902)	1,080	11	(7,878)
Net surplus (deficit)	(1,307)	213	54	126	(9)	(923)
Payment for capital assets	4,606	289	1,015	350	(1,684)	4,576
<b>December 31, 2014</b>						
Total assets and deferred outflows of resources	14,679	10,720	38,061	5,817	(649)	68,628
Net working capital	2,698	285	(1,392)	111	(378)	1,324
Long-term debt — (including current portion)	26,186	-	-	8,967	(10)	35,143
Net position (deficit)	(17,268)	9,052	26,140	(4,485)	(157)	13,282
<b>December 31, 2014</b>						
Net cash (used in)/provided by operating activities	(840)	(1,495)	(2,752)	1,280	(10)	(3,817)
Net cash provided by/(used in) noncapital financing activities	5,401	1,540	3,909	(623)	(3,934)	6,293
Net cash (used in)/provided by capital and related financing activities	(5,213)	(71)	(955)	(600)	4,106	(2,733)
Net cash provided by/(used in) investing activities	605	22	(194)	(61)	(162)	210
Cash at beginning of year	268	25	47	18	-	358
Cash at end of year	221	21	55	14	-	311

NOTE: Only MTA and MTA Bridges and Tunnels agencies issue debt.

(Continued)

(In Millions)	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
<b>December 31, 2013</b>						
Operating revenue	\$ 241	\$ 1,344	\$ 4,451	\$ 1,663	\$ -	\$ 7,699
Depreciation and amortization	99	563	1,421	98	-	2,181
Subsidies and grants	3,657	-	2,707	8	(2,548)	3,824
Tax revenue	933	-	849	-	(217)	1,565
Interagency subsidy	614	-	247	(614)	(247)	-
Operating (loss) surplus	(1,050)	(1,733)	(5,652)	1,108	18	(7,309)
Net (deficit) surplus	(10,081)	(38)	(7)	177	9,027	(922)
Payment for capital assets	4,623	263	1,023	312	(1,576)	4,645

#### December 31, 2013

Total assets and deferred outflows of resources	13,900	10,234	36,853	5,414	(477)	65,924
Net working capital	2,878	(1)	(1,570)	137	(375)	1,069
Long-term debt — (including current portion)	25,144	-	-	8,854	(10)	33,988
Net position (deficit)	(15,961)	8,839	26,086	(4,607)	(152)	14,205

#### December 31, 2013

Net cash (used in)/provided by operating activities	(389)	(1,035)	(2,151)	1,263	(17)	(2,329)
Net cash provided by/(used in) noncapital financing activities	5,064	1,123	3,891	(606)	(3,706)	5,766
Net cash (used in)/provided by capital and related financing activities	(3,795)	(66)	(1,208)	(664)	3,436	(2,297)
Net cash (used in)/provided by investing activities	(772)	(17)	(526)	13	287	(1,015)
Cash at beginning of year	160	20	41	12	-	233
Cash at end of year	268	25	47	18	-	358

NOTE: Only MTA and MTA Bridges and Tunnels agencies issue debt.

(Concluded)

## 16. SUBSEQUENT EVENTS

On January 14th and 15th, 2015, MTA priced \$850 of MTA Transportation Revenue Bonds, Series 2015A, to finance existing approved transit and commuter projects. The bonds were offered in two subseries: the 2015A-1 bonds totaling \$600 were issued as fixed-rate serial and term bonds; the 2015A-2 bonds were offered as SIFMA Floating Rate Notes (FRNs) with an initial purchase date of 5-years. The transaction was led by J.P. Morgan Securities, together with co-senior manager The Williams Capital Group. Hawkins Delafield and Wood served as bond counsel and Public Financial Management, Inc. served as financial advisor.

On January 22, 2015, the MTA Board approved the fare and tolls increases on MTA New York City Transit buses and subways, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road, MTA Metro-North Railroad, and MTA Bridges and Tunnels. The new fare and tolls became effective March 22, 2015.

On January 28, 2015, MTA effected a mandatory tender and remarketed \$139.825 of TBTA General Revenue Variable Rate Bonds, Series 2003B, \$122.420 of TBTA General Revenue Variable Rate Bonds, Series 2005A, and \$193.100 of TBTA General Revenue Variable Rate Refunding Bonds, Subseries 2005B-2, because the letters of credit relating to: TBTA General Revenue Variable Rate Bonds, Subseries 2003B-1 and 2003B-3

Bonds; TBTA General Revenue Variable Rate Bonds, Subseries 2005A-1, 2005A-2, and 2005A-3; and TBTA General Revenue Variable Rate Refunding Bonds, Subseries 2005B-2a, 2005B-2b, and 2005B-2c were set to expire by their terms.

On January 28, 2015, MTA effected a mandatory tender and remarketed \$46.050 of TBTA General Revenue Variable Rate Bonds, Subseries 2003B-2, because its related letter of credit was set to expire by its terms. The Subseries 2003B-2 bonds were converted from a weekly variable rate mode into a term rate mode as floating rate notes with a purchase date in 4 years, with an interest rate of 67% of 1- month LIBOR plus a spread of 0.35%. The final maturity of these bonds is January 1, 2033. Nixon Peabody served as bond counsel and Public Financial Management, Inc. served as financial advisor.

On January 29, 2015, MTA executed a 2.9 million gallon ultra-low sulfur diesel fuel hedge with J.P. Morgan Ventures Energy Corporation at an all-in price of \$1.8095/gallon. Three of MTA's existing approved commodity counterparties participated in bidding on the transaction: Goldman, Sachs & Co./ J Aron, J.P. Morgan Ventures Energy Corporation and Merrill Lynch Commodities Inc. The hedge covers the period from January 2016 through December 2016.

On February 3, 2015, a MTA Metro-North Railroad Harlem Line train struck an automobile in a highway-rail grade crossing between the Valhalla and Hawthorne stations. The driver of the automobile and five passengers on the train were killed and a number of passengers and the train engineer were injured. The National Transportation Safety Board ("NTSB") is conducting an investigation into the contributing causes of the accident and has issued a Preliminary Report. There is no indication from the NTSB's Preliminary Report that MTA Metro-North Railroad was at fault in connection with this incident. At the present time there is insufficient information to permit reasonable estimation of the total losses that may be associated with defense of claims against the Company arising from the February 3, 2015 grade crossing incident. Metro-North has insurance for liability claims under the MTA all-agency excess liability policy issued by FMTAC, which insurance would provide coverage to the Company were losses to be incurred by the Company in resolving claims from the February 3, 2015 grade crossing in an amount exceeding the Company's \$10 self-insured retention.

On February 26, 2015, MTA executed a 2.9 million gallon ultra-low sulfur diesel fuel hedge with Merrill Lynch Commodities Inc. at an all-in price of \$2.052/gallon. Three of MTA's existing approved commodity counterparties participated in bidding on the transaction: Goldman, Sachs & Co./ J Aron, J.P. Morgan Ventures Energy Corporation and Merrill Lynch Commodities Inc. The hedge covers the period from February 2016 through January 2017.

On March 19, 2015, MTA issued \$275.055 of MTA Transportation Revenue Bonds, Series 2015B, to finance existing approved transit and commuter projects. Nixon Peabody will serve as bond counsel and Public Financial Management, Inc. will serve as financial advisor.

On March 25, 2015, MTA executed a 2.9 million gallon ultra-low sulfur diesel fuel hedge with Merrill Lynch Commodities Inc. at an all-in price of \$1.9195/gallon. Three of MTA's existing approved commodity counterparties participated in bidding on the transaction: Goldman, Sachs & Co./ J Aron, J.P. Morgan Ventures Energy Corporation and Merrill Lynch Commodities Inc. The hedge covers the period from March 2016 through February 2017.

On April 2, 2015, MTA effected a mandatory tender and remarketed \$50 of MTA Transportation Revenue Bonds, Subseries 2012A-3, because its current interest rate period is set to expire by its terms on May 15, 2015.

### ***2015-2018 Financial Plan (The February Plan)***

The February Plan was presented to the Finance Committee on February 23, 2015. It is a re-statement of the 2015 Final Proposed Budget and 2015–2018 Financial Plan (collectively the November Plan or Plan) that were first presented at the November Board meeting, and adopted by the MTA Board on December 17, 2014. The February Plan includes the 2015 Adopted Budget and the 2015-2018 Financial Plan (collectively the February Plan). Unlike the July and November Plans, the February Plan does not include any new initiatives; detailed information on the programs, initiatives and assumptions included in the November Plan and approved by the MTA Board in December is not repeated in the February Plan materials.

### ***Tropical Storm Sandy Update***

The FTA has approved and executed four grants in the amounts of \$194, \$886, \$684.5, and \$787.6. As of February 26, 2015, MTA has drawn down \$183 of the \$194 FTA grant for reimbursement of eligible operating and capital expenses. The FTA grant in the amount of \$886 is solely for MTA capital projects and will be used for recovery projects totaling \$802 and for four resiliency projects totaling \$84. As of February 26, 2015, MTA has drawn down \$399 of the \$886 FTA grant for reimbursement of eligible capital expenses. As of February 26, 2015, MTA has drawn down \$17 of the \$684.5 FTA grant executed in September 2014, for reimbursement of eligible capital expenses. The FTA grant in the amount of \$787.6 is solely for MTA capital projects and was executed on February 11, 2015. As of February 26, 2015 there have been no federal drawdowns for that grant. The balance of funds to be drawn down from all four grants is available to MTA for reimbursement of eligible expenses as requisitions are submitted by MTA and approved by FTA. Additional requisitions are in process.

### ***Labor Update***

In February 2015, MTA Metro-North Railroad reached agreements with its maintenance of way supervisors represented by the American Railway and Airway Supervisors Association (“ARASA”), as well as its bartenders, service workers, carmen, cleaners and helpers represented by Transport Workers Union (“TWU”) locals 2001 and 2055. These agreements all have a term of seventy-eight (78) months from July 16, 2010 through January 15, 2017, and mirror the LIRR Labor Coalition agreements with regard to both structure and cost. The ARASA agreement was approved by the MTA Board on February 25, 2015. The TWU agreements are awaiting union ratification. To date, MTA Metro-North Railroad has reached agreement with all of its represented employees except for its track workers, mechanics, and vehicle and machine operators represented by International Brotherhood of Teamsters Local 808. This group represents approximately 12% of the MTA Metro-North Railroad represented workforce.

\* \* \* \* \*



**METROPOLITAN TRANSPORTATION AUTHORITY**  
**(A Component Unit of the State of New York)**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF PENSION FUNDING PROGRESS**

(\$ in millions)

(Unaudited)

	January 1, 2014	January 1, 2013	January 1, 2012
<b>LIRR [1]:</b>			
a. Actuarial value of plan assets	\$ 485.8	\$ 400.8	\$ 437.4
b. Actuarial accrued liability (AAL)	1,650.5	1,664.3	1,633.3
c. Total unfunded AAL (UAAL) [b-a]	1,164.7	1,263.5	1,195.8
d. Funded ratio [a/b]	29.4 %	24.1 %	26.8 %
e. Covered payroll	\$ 29.3	\$ 33.0	\$ 40.0
f. UAAL as a percentage of covered payroll [c/e]	3970.7 %	3823.8 %	2987.1 %
<b>MaBSTOA [2]:</b>			
a. Actuarial value of plan assets	\$ 2,028.0	\$ 1,764.4	\$ 1,624.3
b. Actuarial accrued liability (AAL)	2,892.5	2,702.4	2,482.8
c. Total unfunded AAL (UAAL) [b-a]	864.6	938.0	858.5
d. Funded ratio [a/b]	70.1 %	65.3 %	65.4 %
e. Covered payroll	\$ 616.4	\$ 582.1	\$ 576.0
f. UAAL as a percentage of covered payroll [c/e]	140.3 %	161.1 %	149.1 %
<b>MNR Cash Balance Plan [3]:</b>			
a. Actuarial value of plan assets	\$ 0.748	\$ 0.878	\$ 1.006
b. Actuarial accrued liability (AAL)	0.766	0.819	0.992
c. Total unfunded AAL (UAAL) [b-a]	0.018	(0.058)	(0.015)
d. Funded ratio [a/b]	97.7 %	107.1 %	101.5 %
e. Covered payroll	\$ 2,096.8	\$ 0.0	\$ 0.0
f. UAAL as a percentage of covered payroll [c/e]	0.9 %	0.0 %	0.0 %

- [1] The LIRR pension plan has a separately issued financial statement that is publicly available and contains required descriptions and supplemental information regarding the employee benefit plan. The statements may be obtained by writing to Metropolitan Transportation Authority, Comptroller, 93-02 Sutphin Boulevard - Mail Code 1421, Jamaica, NY 11435
- [2] MaBSTOA issues a publicly available financial report that includes financial statements and required supplementary information for the MaBSTOA Plan. That report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, Operations Accounting, 2 Broadway, 10th Floor, New York, New York 10004.
- [3] Further information about the MNR Plan is more fully described in the separately issued financial statements which can be obtained by writing to the MTA Metro-North Railroad, Chief Financial Officer, 420 Lexington Avenue, New York, New York 10170-3739.

**METROPOLITAN TRANSPORTATION AUTHORITY**  
**(A Component Unit of the State of New York)**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS FOR THE MTA POSTEMPLOYMENT BENEFIT PLAN**  
(\$ in millions)  
(Unaudited)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrual Liability (AAL) {b}	Unfunded Actuarial Accrual Liability (UAAL) {c} = {b} - {a}	Funded Ratio {a} / {c}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c} / {d}
December 31, 2014	January 1, 2012	\$ 246	\$ 20,188	\$ 19,942	1.20 %	\$ 4,360.6	457.3 %
December 31, 2013	January 1, 2012	246	20,188	19,942	1.20	4,360.6	457.3
December 31, 2012	January 1, 2010	-	17,764	17,764	-	4,600.0	386.1

**METROPOLITAN TRANSPORTATION AUTHORITY**  
**(A Component Unit of the State of New York)**

**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN**  
**AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(\$ in millions)**

<b>Category</b>	<b>Financial Plan Actual</b>	<b>Statement GAAP Actual</b>	<b>Variance</b>
<b>REVENUE:</b>			
Farebox revenue	\$ 5,702	\$ 5,709	\$ 7
Vehicle toll revenue	1,669	1,676	7
Other operating revenue	674	585	(89)
Total revenue	<u>8,045</u>	<u>7,970</u>	<u>(75)</u>
<b>OPERATING EXPENSES:</b>			
<b>Labor:</b>			
Payroll	4,705	4,674	(31)
Overtime	737	742	5
Health and welfare	991	964	(27)
Pensions	1,360	1,329	(31)
Other fringe benefits	640	779	139
Postemployment benefits	2,474	2,523	49
Reimbursable overhead	(362)	(334)	28
Total labor expenses	<u>10,545</u>	<u>10,677</u>	<u>132</u>
<b>Non-labor:</b>			
Traction and propulsion	546	516	(30)
Electricity, fuel and power	272	268	(4)
Insurance	50	36	(14)
Claims	223	263	40
Paratransit service contracts	375	366	(9)
Maintenance and other	568	500	(68)
Professional service contract	336	241	(95)
Pollution remediation project costs	7	21	14
Materials and supplies	546	526	(20)
Other business expenses	224	169	(55)
Total non-labor expenses	<u>3,147</u>	<u>2,906</u>	<u>(241)</u>
Depreciation	2,292	2,266	(26)
Net (recoverables) /expenses related to asset impairment	-	(1)	(1)
Total operating expenses	<u>15,984</u>	<u>15,848</u>	<u>(136)</u>
<b>NET OPERATING LOSS</b>	<u>\$ (7,939)</u>	<u>\$ (7,878)</u>	<u>\$ 61</u>

**METROPOLITAN TRANSPORTATION AUTHORITY**  
**(A Component Unit of the State of New York)**

**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN**  
**FINANCIAL PLAN AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(\$ in millions)**

	<b>Financial Plan Actual</b>	<b>Financial Statement GAAP Actual</b>	<b>Variance</b>	
<b>Accrued Subsidies</b>				
Mass transportation operating assistance	\$ 1,564	\$ 1,564	\$ -	{1}
Mass transit trust fund subsidies	621	659	38	{1}
Mortgage recording tax 1 and 2	349	367	18	{1}
MRT transfer	(8)	(6)	2	{1}
Urban tax	757	800	43	{1}
State and local operating assistance	376	376	-	{1}
Station maintenance	164	164		{1}
Connecticut Department of Transportation (CDOT)	97	118	21	{1}
Subsidy from New York City for MTA Bus and SIRTOA	430	472	42	{1}
NYS Grant for debt service	-	17	17	{3}
Build American Bonds Subsidy	-	89	89	{1}
Change in fair value of derivative financial instruments (Note 7)	-	1	1	{1}
Mobility tax	1,877	1,903	26	{1}
FTA/FEMA reimbursement related to tropical storm Sandy	-	25	25	{1}
Other nonoperating income	<u>1</u>	<u>10</u>	<u>9</u>	{2}
<b>Total accrued subsidies</b>	<b>6,228</b>	<b>6,559</b>	<b>331</b>	
<b>Net operating deficit before subsidies and debt service</b>	<b>(7,939)</b>	<b>(7,878)</b>	<b>61</b>	
<b>Debt Service</b>	<b>(2,264)</b>	<b>(1,358)</b>	<b>906</b>	
Conversion to Cash basis: Depreciation	2,292	-	(2,292)	
Conversion to Cash basis: OPEB Obligation	2,000	-	(2,000)	
Conversion to Cash basis: Pollution & Remediation	<u>7</u>	<u>-</u>	<u>(7)</u>	
<b>Total net operating surplus/(deficit) before appropriation, grants and other receipts restricted for capital projects</b>	<b><u>\$ 324</u></b>	<b><u>\$ (2,677)</u></b>	<b><u>\$ (3,001)</u></b>	

- {1} The Financial Plan records on a cash basis while the Financial Statement records on an accrual basis.  
 {2} The Financial Plan records do not include other nonoperating income or changes in market value.  
 {3} The Financial Plan records do not include other nonoperating subsidy or expense  
 for the refunding of NYS Service Contract Bonds.

**METROPOLITAN TRANSPORTATION AUTHORITY**  
**(A Component Unit of the State of New York)**

**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(\$ in millions)**

<b>Financial Plan Estimated Operating Loss at December 31, 2014</b>	<b>\$ (7,939)</b>
<b>The Financial Plan Estimate Includes:</b>	
FEMA grant revenues shown in Other Operating Revenues	(48)
Higher non-labor expenses	246
Higher estimated depreciation expense	26
<b>The Audited Financial Statements Includes:</b>	
Higher fare and toll revenues based on final accrual adjustments	15
Higher labor expense related to final actuarial results for OPEB and Worker's Compensation	(112)
Higher pension expense related to amortization of prepaid pension costs	(20)
Higher claims expense related to final actuarial results for non-employee claims	(40)
Higher pollution remediation expense	(14)
Intercompany eliminations and other year-end adjustments	8
<b>Total Operating Reconciling Items</b>	<b>61</b>
<b>Audited Financial Statement Operating Loss</b>	<b>\$ (7,878)</b>
<b>Financial Plan Estimated Surplus after Subsidies and Debt Service at December 31, 2014</b>	<b>\$ 324</b>
<b>The Financial Plan Estimate Includes:</b>	
Debt Service Bond Principal Payments	906
Adjustments for non-cash liabilities:	
Depreciation	(2,292)
Unfunded OPEB Expense	(2,000)
Unfunded Pollution Remediation Expense	(7) (4,299)
<b>The Audited Financial Statements Includes:</b>	
Higher subsidies and other non-operating revenues as follows:	331
<b>Total Operating Reconciling Items</b>	<b>61</b>
<b>Financial Statements Loss Before Appropriations</b>	<b>\$ (2,677)</b>

# MTA Long Island Rail Road

(Subsidiary of the Metropolitan Transportation  
Authority)

Financial Statements as of and for the  
Years Ended December 31, 2014 and 2013,  
Required Supplementary Information, and  
Independent Auditors' Report

DRAFT



**MTA LONG ISLAND RAIL ROAD**  
**(Subsidiary of the Metropolitan Transportation Authority)**

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## **INDEPENDENT AUDITORS' REPORT**

To the Members of the Board of  
Metropolitan Transportation Authority

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the MTA Long Island Rail Road, a wholly owned public benefit corporation subsidiary of Metropolitan Transportation Authority ("MTA"), as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the MTA Long Island Rail Road's financial statements as listed in the table of contents.

#### ***Managements' Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the MTA Long Island Rail Road's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the MTA Long Island Rail Road's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the MTA Long Island Rail Road as of December 31, 2014 and 2013, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As discussed in the notes to the financial statements, MTA Long Island Rail Road is a subsidiary of MTA. The MTA is a component unit of the State of New York. MTA Long Island Rail Road requires significant subsidies from and has material transactions with MTA. Our opinion is not modified with respect to this matter.

### ***Other Matters***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 16; the Schedule of Funding Progress-Postemployment Benefit Plan on page 46; and the Schedule of Employer Contributions and Funding Progress- Pension Benefit Plan on page 47, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

April 29, 2015

# MTA LONG ISLAND RAIL ROAD

## (Subsidiary of the Metropolitan Transportation Authority)

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2014 AND 2013 (DOLLARS IN THOUSANDS)

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#### 1. OVERVIEW OF THE FINANCIAL STATEMENTS

**Introduction** — The following is a narrative overview and analysis of the financial activities of MTA Long Island Rail Road — Subsidiary of Metropolitan Transportation Authority (“MTA”) for the years ended December 31, 2014 and 2013. This discussion and analysis is intended to serve as an introduction to MTA Long Island Rail Road’s financial statements, which have the following components: (1) Management’s Discussion and Analysis (“MD&A”), (2) Financial Statements, (3) Notes to Financial Statements.

**Management’s Discussion and Analysis** — The following is a narrative overview and analysis of the financial activities of MTA Long Island Rail Road for the years ended December 31, 2014 and 2013. This MD&A is intended to serve as an introduction to MTA Long Island Rail Road’s financial statements. It provides an assessment of how MTA Long Island Rail Road’s position has improved or deteriorated and identifies the factors that, in management’s view, significantly affected MTA Long Island Rail Road’s overall financial position. It may contain opinions, assumptions or conclusions by MTA Long Island Rail Road’s management that should not be considered a replacement for, and must be read in conjunction with the financial statements.

**The Financial Statements Include** — The Statements of Net Position provide information about the nature and amounts of resources with present service capacity that the MTA Long Island Rail Road presently controls (assets), consumption of net assets by the MTA Long Island Rail Road that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the MTA Long Island Rail Road has little or no discretion to avoid (liabilities), and acquisition of net assets by the MTA Long Island Rail Road that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources being reported as net position.

The Statements of Revenues, Expenses and Changes in Net Position show how MTA Long Island Rail Road’s net position changed during each year and accounts for all of the current and prior year’s revenues and expenses, measure the success of MTA Long Island Rail Road’s operations over the twelve months and can be used to determine how MTA Long Island Rail Road has funded its costs.

The Statements of Cash Flows provide information about MTA Long Island Rail Road’s cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing.

**The Notes to the Financial Statements** — The Notes provide information that is essential to understanding the financial statements, such as MTA Long Island Rail Road’s accounting methods and policies. The notes also have the details of cash, capital assets, retirement benefits, lease transactions, future commitments and contingencies and any other events or developing situations that could materially affect MTA Long Island Rail Road’s financial position.

**Required Supplemental Information** — The Required Supplemental Information provides information concerning the MTA Long Island Rail Road's progress in funding its obligation to provide pension and other postemployment benefits to its employees.

## 2. FINANCIAL REPORTING ENTITY

In 1966, the MTA acquired the capital assets of MTA Long Island Rail Road from the former Pennsylvania Railroad Company. In February 1980, MTA Long Island Rail Road became a wholly owned public benefit corporation subsidiary of MTA, pursuant to New York State Public Authorities Law, whose mission is to continue, develop, and improve public transportation and to develop and implement a unified public transportation policy in the New York Metropolitan area. MTA Long Island Rail Road is a part of the related financial reporting group of the MTA. The MTA is a component unit of the State of New York.

## 3. CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in MTA Long Island Rail Road's financial position for the years ended December 31, 2014 and 2013. Additionally, an examination of major economic factors that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are in conformity with MTA Long Island Rail Road's financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America. All dollar amounts are in thousands.

### *Total Assets, Distinguishing Between Capital Assets and Other Assets*

	<b>As of December 31,</b>			<b>Increase/(Decrease)</b>	
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2014-2013</b>	<b>2013-2012</b>
Capital assets	\$ 5,475,064	\$ 5,418,260	\$ 5,459,310	\$ 56,804	\$ (41,050)
Other assets	<u>664,627</u>	<u>360,339</u>	<u>572,149</u>	<u>304,288</u>	<u>(211,810)</u>
Total assets	<u>\$ 6,139,691</u>	<u>\$ 5,778,599</u>	<u>\$ 6,031,459</u>	<u>\$ 361,092</u>	<u>\$ (252,860)</u>

### *Significant Changes in Assets* —

In 2014, capital assets increased by \$56.8 million or 1% compared to December 2013. The major components of the increase are related to capital assets placed into beneficial service, changes to construction work-in-progress and changes in accumulated depreciation.

Significant additions to capital assets resulted from the following:

- Improvements to MTA Long Island Rail Road's infrastructure road-assets continued under the 2014 Track Program that provided replacement of various track elements and branches at a cost of \$39.3 million, continued work on replacement of Signal Power Lines along the Right of Way, replacement and upgrade of Third Rail at various locations, as well as replacement of Concrete Ties continued for a cost of \$54.1 million.
- Continued improvements made to the East River Tunnel Fire and Life Safety project for 1<sup>st</sup> Avenue, Long Island City and Standpipe, new elevators at Queens Village and bridge rehabilitations, Woodhaven Bridge Rehabilitation, Sutphin Boulevard Bridge Protection and the

construction of the Wheel Spur Intermodal Facility and Freight Yard resulted in an additional \$68.9 million in buildings and structures.

- Purchase of construction and track equipment, operating vehicles, construction of substations, and shop reconfiguration and reliability at a cost of \$7.9 million.

Significant changes to construction work-in-progress continued in the following areas:

- Signal and communication construction work-in-progress increased by \$34.5 million due to the emphasis on Positive Train Control, the signal replacement program and Centralized Traffic Control.
- Passenger cars incurred an additional cost of \$25.8 million due to continued procurement of new M-9 cars for the East Side Access service, as well as the eventual replacement of the aging M-3 fleet.
- Passenger Station rehabilitations continued for Penn Station and East Side Access at a cost of \$25.8 million.
- Line Structures work –in –progress increased by \$84.4 million due to continued work on ERT Rehabilitation, substation replacements and 2<sup>nd</sup> Track Farmingdale to Ronkonkoma design.
- Inter-Agency Security Projects, OFC Projects, Program Administration, and Shops and Yards continued efforts increased by \$28.9 million.

These increases are partially offset by increases in accumulated depreciation and amortization of \$312.7 million.

In 2013, capital assets decreased by \$41.0 million or 1% compared to December 2012. The major components of the decrease are related to capital assets placed into beneficial service, changes to construction work-in-progress and changes in accumulated depreciation.

Significant additions to capital assets resulted from the following:

- Improvements to MTA Long Island Rail Road's infrastructure road-assets continued under the 2013 Track Program that provided replacement of various track elements and branches at a cost of \$66.8 million, continued work on the Direct Fixation Track Fastening System on the double track between Merrick and Bellmore, and the installation of the Fiber Optic Network, as well as the replacement of Concrete Ties continued for a cost of \$19.4 million.
- Improvements made to the East River Tunnel Fire and Life Safety project for 1<sup>st</sup> Avenue, Long Island City and Standpipe, new elevators at Queens Village and bridge rehabilitations, and various others, resulted in an additional \$269.3 million in buildings and structures.
- Purchase of construction and track equipment, operating vehicles, construction of substations, and shop reconfiguration and reliability at a cost of \$15.8 million.

Significant changes to construction work-in-progress continued in the following areas:

- Signal and communication construction work-in-progress increased by \$24.7 million due to the emphasis on Positive Train Control and the signal replacement program.



- Passenger cars incurred an additional cost of \$28.6 million due to the procurement of new M-9 cars for the East Side Access service, as well as the replacement of the aging M-3 fleet.
- Passenger Station rehabilitations continued for Penn Station and East Side Access at a cost of \$11.6 million.
- Line Structures work –in –progress decreased by \$151.2 million due to the capitalization of the East River Tunnel Fire and Life Safety project for 1<sup>st</sup> Avenue, Long Island City and Standpipe.

These increases are partially offset by increases in accumulated depreciation and amortization of \$327.8 million.

***Total Liabilities, Distinguishing Between Long-Term Liabilities, and Other Liabilities***

	As of December 31,			(Decrease)/Increase	
	2014	2013	2012	2014–2013	2013–2012
Current liabilities	\$ 256,227	\$ 239,953	\$ 231,708	\$ 16,274	\$ 8,245
Noncurrent liabilities	<u>715,706</u>	<u>632,168</u>	<u>900,305</u>	<u>83,538</u>	<u>(268,137)</u>
Total liabilities	<u>\$ 971,933</u>	<u>\$ 872,121</u>	<u>\$ 1,132,013</u>	<u>\$ 99,812</u>	<u>\$ (259,892)</u>

***Significant Changes in Liabilities —***

In 2014, total liabilities increased by \$99.8 million or 11.4% compared to 2013.

- Noncurrent liabilities increased by \$83.5 million primarily due to the increase in Post-Employment Benefits Other than Pensions (“OPEB”) as a result of the latest actuarial estimates and a decrease in payments made compared to the previous year.
- Current liabilities increased \$16.3 million primarily due to payroll and related fringe benefits for 2015 retroactive wages for MTA Long Island Rail Road represented employees that have not settled their contracts as of December 31, 2014.

In 2013, total liabilities decreased by \$259.9 million or 23.0% compared to 2012.

- Noncurrent liabilities decreased by \$268.1 million primarily due to the early termination of the Long Island Rail Road’s Hillside maintenance facility lease.

***Total Net Position, Distinguishing Among Net Investment in Capital Assets, and Unrestricted (Deficit)***

	<b>As of December 31,</b>			<b>(Decrease)/Increase</b>	
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2014-2013</b>	<b>2013-2012</b>
Net investment in capital assets	\$ 5,475,064	\$ 5,418,260	\$ 5,459,310	\$ 56,804	\$ (41,050)
Unrestricted deficit	<u>(307,306)</u>	<u>(511,782)</u>	<u>(559,864)</u>	<u>204,476</u>	<u>48,082</u>
Total net position	<u>\$ 5,167,758</u>	<u>\$ 4,906,478</u>	<u>\$ 4,899,446</u>	<u>\$ 261,280</u>	<u>\$ 7,032</u>

Net Position represents the residual interest in MTA Long Island Rail Road assets after liabilities are deducted and consist of the net investment in capital assets and unrestricted deficit. Net investment in capital assets include capital assets, net of accumulated depreciation and amortization.

***December 31, 2014 versus 2013***

Total net position increased by \$261 million in 2014. The increase was comprised of operating and capital contributions from the MTA of \$1.4 billion offset by an operating loss of \$1.2 billion.

***December 31, 2013 versus 2012***

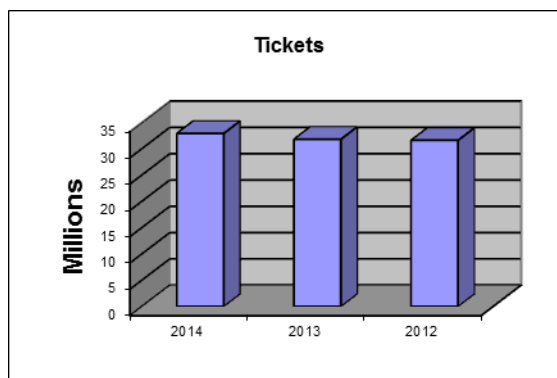
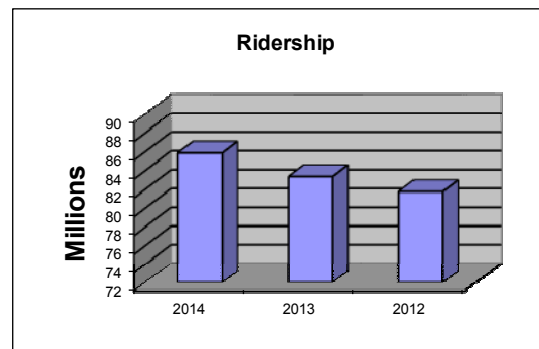
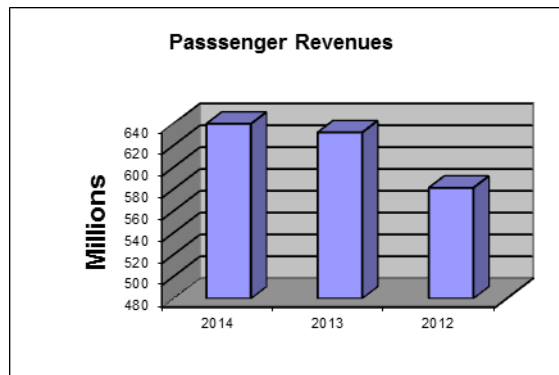
Total net position increased by \$7 million in 2013. The increase was comprised of operating and capital contributions from the MTA of \$1.003 billion offset by an operating loss of \$996 million.

***Condensed Statements of Revenues, Expenses, and Changes in Net Position***

	<b>For the Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Operating revenues	\$ 706,402	\$ 675,196	\$ 645,089
Operating expenses	<u>(1,857,762)</u>	<u>(1,670,859)</u>	<u>(1,626,667)</u>
Operating loss	<u>(1,151,360)</u>	<u>(995,663)</u>	<u>(981,578)</u>
Nonoperating revenues:			
Operating subsidies from MTA	1,047,411	705,040	588,381
Capital contributions	361,576	280,138	276,187
FTA/FEMA Reimbursement	<u>3,653</u>	<u>17,517</u>	<u>-</u>
Total nonoperating revenues	<u>1,412,640</u>	<u>1,002,695</u>	<u>864,568</u>
Change in net position	261,280	7,032	(117,010)
Net position—Beginning of year	<u>4,906,478</u>	<u>4,899,446</u>	<u>5,016,456</u>
Net position—End of year	<u>\$ 5,167,758</u>	<u>\$ 4,906,478</u>	<u>\$ 4,899,446</u>

## *Revenues and Expenses by Major Source*

### *Operating Revenues*



In 2014, The MTA Long Island Rail Road ridership experienced strong growth finishing the year with 85.9 million passengers, which was 3.0% above the 2013 ridership. This marks the third highest ridership in 60 years, since the post war record of 91.8 million set in 1949 and the highest ridership since the modern record set in 2008 of 87.4 million. A steadily improving economy and service enhancements contributed to the increase. While commuter travel remained strong, non-commutation ridership grew faster with “leisure-market” ridership growing dramatically by 15.0 percent. The year kicked off with an early ridership boost spurred by Super Bowl XLVIII events. In June, LIRR saw major ridership gains at Belmont Park, carrying 78,000 customers to and from the 2014 Belmont Stakes, a 118-percent increase over 2013. In November, the LIRR restored weekend and holiday service on the West Hempstead Branch for the first time since 2010.

In 2013, The MTA Long Island Rail Road ridership rose, as a steadily improving economy and popular new service to the Barclays Center continued to boost the number of railroad customers above the previous year. Total ridership for 2013 was 83.4 million, 2.0% higher than in 2012. While part of the increase reflects the 2012 loss of over two million riders due to Superstorm Sandy, the railroad experienced a surge in train travel over the last three months of 2013, which helped boost ridership to 83.4 million riders and helped make 2013 the seventh best year for ridership in 60 years.

### ***Operating Expenses by Major Function***

	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>Increase/(Decrease)</b>	
				<b>2014-2013</b>	<b>2013-2012</b>
Salaries and Wages	\$ 673,176	\$ 522,010	\$ 498,181	\$ 151,166	\$ 23,829
Health and Welfare	92,372	92,601	85,795	(229)	6,806
Pension	177,707	178,457	164,459	(750)	13,998
Other Fringe Benefits	117,951	113,174	98,779	4,777	14,395
Other Post Employment Benefits (OPEB)	131,213	126,782	135,031	4,431	(8,249)
Traction and Propulsion Power	90,186	86,498	77,249	3,688	9,249
Fuel for Trains	22,304	24,055	22,945	(1,751)	1,110
Insurance	23,378	20,038	15,617	3,340	4,421
Claims	6,459	5,569	5,664	890	(95)
Maintenance and Other Operating Contracts	79,382	68,578	68,350	10,804	228
Environmental Remediation	5,878	(13,524)	6,441	19,402	(19,965)
Professional Service Contracts	26,008	28,274	30,497	(2,266)	(2,223)
Materials and Supplies	105,335	96,339	88,365	8,996	7,974
Depreciation and Amortization	324,840	332,978	317,340	(8,138)	15,638
Other Expenses	9,825	13,214	34,465	(3,389)	(21,251)
Reimbursable Overhead	(28,252)	(24,184)	(22,511)	(4,068)	(1,673)
<b>Total Operating Expenses</b>	<b>\$ 1,857,762</b>	<b>\$ 1,670,859</b>	<b>\$ 1,626,667</b>	<b>\$ 186,903</b>	<b>\$ 44,192</b>

### ***Significant Changes to Operating Expenses in 2014 —***

Total 2014 operating expenses increased by \$186.9 million or 11.2% over 2013 as follows:

- Salaries and Wages increased by \$151.2 million or 29.0%. The increase in salaries and wages was primarily due to retroactive wage increases of 14.9% for represented employees and 6% increase for management employees.
- Other Fringe Benefits increased by \$4.8 million or 4.2% primarily as a result of a higher railroad retirement taxes due to the retroactive wage increases.
- Other Post-Employment Benefits (OPEB) increased by \$4.4 million or 3.5% based on the latest actuarial estimates.
- Maintenance and Other Operating Contracts increased by \$10.8 million or 15.8% primarily due to higher HVAC maintenance and bussing services.
- Environmental remediation costs increased \$19.4 million or 143.5% primarily due to Jamaica Capacity and Hicksville Station Improvement projects.
- Materials and Supplies increased by \$9.0 million or 9.3% primarily due to an increase in advance material purchases.
- Depreciation and Amortization decreased \$8.1 million or 2.4% primarily due to assets consisting of signal equipment, corporate time and attendance system, and the corporate asset management system, reaching full depreciable status.

- Other Expenses decreased by \$3.4 million or 25.6%, primarily due to prior period accrual reversal for Superstorm Sandy and lower mobility tax payments.
- Fuel for Trains decreased \$1.8 million or 7.3% primarily due to lower rates and consumption.

#### ***Significant Changes to Operating Expenses in 2013 —***

Total 2013 operating expenses increased by \$44.2 million or 2.7% over 2012 as follows:

- Salaries and Wages increased by \$23.8 million or 4.8%. The increase in salaries and wages was primarily due to weather related events in 2013 resulting in higher overtime costs.
- Pension costs increased by \$14.0 million or 8.5% primarily as a result of the latest actuarial valuation report, which lowered the interest rate assumption from 7.5% to 7.0%.
- Other Fringe Benefits increased by \$14.4 million or 14.6% primarily as a result of a write-off of a railroad unemployment insurance receivable and higher railroad retirement taxes due to the increase in overtime.
- Other Post-Employment Benefits (OPEB) decreased by \$8.2 million or 6.1% primarily due to an increase in death rates and waiving of coverage, along with a decrease in the active population assumption.
- Traction and Propulsion Power increased \$9.2 million or 12.0% primarily due to an increase in service, as service that had been previously interrupted in prior years was restored.
- Environmental remediation costs decreased \$20.0 million or 310% primarily due to a decrease in the sub-station project environmental reserve as a result of completing the initial environmental investigation. As a result of the this investigation, it was determined that out of 20 sub-station sites, only 7 required additional investigation and possible chlordane remediation.
- Depreciation and Amortization increased \$15.6 million primarily due to the capitalization of the East River Tunnel ventilation project at Long Island City and First Avenue in Manhattan and the 2013 Track program.
- Other Expenses decreased by \$21.2 million or 61.7%, primarily due to Hurricane Sandy clean-up costs of \$14.4 million in 2012

#### ***Significant Changes to Nonoperating Revenues in 2014***

In 2014, operating subsidies from the MTA increased by \$342.4 million or 48.6%. Operating subsidies are provided by MTA to MTA Long Island Rail Road as part of an MTA approved financial plan.

Increases in operating subsidies primarily relate to:

- Pension costs increased by \$302.1 million, primarily due to a \$295 million cash infusion by the MTA into the LIRR Additional Plan and \$7.1 million in accelerated payments.
- Payroll, overtime and health benefits increased \$128.8 million primarily due to retroactive wage payments.



- Other operating revenues decreased \$22.9 million primarily due to lower LIPA payments as a result of settlement made in 2013 for prior years back to 2009.

These increases in operating subsidies are partially offset by the following:

- Passenger Revenues increased by \$28.4 million primarily due to increase in ridership and a full year impact due to a fare increase effective March 1, 2013.
- Capital and Other Reimbursements increased by \$60.1 primarily due to the timing of activity and reimbursement for capital and other reimbursements.

In 2014, nonoperating capital project subsidies from MTA increased by \$81.4 million or 29.1%. Nonoperating capital projects subsidies are provided as part of the MTA approved five-year Capital Program which supports three key imperatives: completion of the restoration of the system which began in 1982; preservation of the investments are made through timely replacement of assets; and expansion of the MTA transportation network to better serve the economy of the New York City region. The amount of these subsidies is based on scheduled project activity occurring during the current five-year capital program lifecycle.

#### ***Significant Changes to Nonoperating Revenues in 2013***

In 2013, operating subsidies from the MTA increased by \$116.7 million or 20%. Operating subsidies are provided by MTA to MTA Long Island Rail Road as part of an MTA approved financial plan.

Increases in operating subsidies primarily relate to:

- Pension costs increased by \$117.9 million, primarily due to a \$80 million cash infusion by the MTA into the LIRR Additional Plan and \$13.6 million in accelerated payments.
- Payroll, overtime and health benefits increased \$30.6 million primarily due to higher overtime caused by higher rates, right of way maintenance, absentee coverage and weather related issues.
- Materials and supplies increased by \$8.8 million primarily due to changes in the production plan, to support project and maintenance needs.

These increases in operating subsidies are partially offset by the following:

- Passenger Revenues increased by \$48.7 million due to a fare increase effective March 1, 2013.

In 2013, nonoperating capital project subsidies from MTA increased by \$4.0 million or 1.4%. Nonoperating capital projects subsidies are provided as part of the MTA approved five-year Capital Program which supports three key imperatives: completion of the restoration of the system which began in 1982; preservation of the investments are made through timely replacement of assets; and expansion of the MTA transportation network to better serve the economy of the New York City region. The amount of these subsidies is based on scheduled project activity occurring during the current five-year capital program lifecycle.

#### 4. OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS

**Economic Conditions** — Metropolitan New York is the most transit-intensive region in the United States. A financially sound and reliable transportation system is critical to the region's economic well-being. The MTA's business consists of urban subway and bus systems, suburban rail and bus systems, and bridge and tunnel facilities, all of which are affected by many different economic forces. In order to achieve maximum efficiency and success in its operations, the MTA must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Preliminary MTA system-wide utilization in the fourth quarter of 2014 improved compared with the fourth quarter of 2013, with ridership up by 11.2 million trips (1.6%) and vehicle traffic at MTA Bridges and Tunnels facilities improved by 1.5 million crossings (2.05%). On a year-to-date basis, system-wide ridership was higher by 37.7 million (1.40%), and vehicle crossings were higher by 1.8 million (0.6%), reflecting primarily the continued improvement in the regional economy.

The average level of seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2014 than in 2013 by 87.3 thousand jobs (up 2.2%). On a quarter-to-quarter basis, New York City employment has increased in each of the last sixteen quarters – the last decline occurred in the third quarter of 2010 – and is higher than at any time since 1950, when non-agricultural employment levels for New York City were first recorded by the Bureau of Labor Statistics.

The employment gain for New York City in the second quarter is consistent with an improving national economy; fourth quarter Real Gross Domestic Product ("RGDP") grew at an annualized rate of 2.6%, according to the most recent advance estimate released by the Bureau of Economic Analysis. The increase primarily reflected contributions from personal consumption expenditures, exports, state and local government spending, non-residential fixed investment, and private inventory investment, partially offset by a decline in federal government spending and an increase in imports. Fourth quarter RGDP growth slowed relative to third quarter growth as federal government spending, non-residential fixed investment and exports fell, while imports rose. The national economy has now grown in twenty of the last twenty-two quarters.

The New York City metropolitan area's price inflation of 0.6% was lower than the national average of 1.0% in the fourth quarter of 2014. A 7.8% fall in the price of energy products dampened the overall rise in consumer prices: the Consumer Price Index ("CPI") exclusive of energy products increased by 1.5% in the New York-New Jersey-Long Island area. Consistent with the fall in overall energy prices, spot prices for New York Harbor conventional gasoline fell by 22.8% from an average price of \$2.698 to an average of \$2.082 per gallon between the fourth quarters of 2013 and 2014.

In June 2014, the Federal Reserve Bank announced that the Federal Open Market Committee ("FOMC") would continue targeting the Federal Funds rate to the range of 0% to 0.25%, a range consistent with its statutory dual mandate to foster maximum employment within a context of price stability. The Federal Funds rate has remained in this range since late 2008, as financial and housing market crises deepened. In fact, the Federal Reserve Bank began to pursue expansionary intervention more than a year earlier as a response to the impending economic downturn: since the third quarter of 2007, the Federal Reserve Bank has sought to mitigate the consequences of recession by loosening the tight credit conditions that resulted from the national mortgage crisis. Confronting stubbornly high unemployment rates with no scope to reduce further the Federal Funds rate, in March 2009 the Federal Reserve Bank began a program of large-scale purchases of government guaranteed assets. The objective of the program, which was expanded in November 2010, was to raise the price of long-term securities, thereby lowering interest rates in order to stimulate investment in the economy.

In spite of the steady improvement in economic activity in the second, third and fourth quarters of 2014, the FOMC elected in December to maintain an accommodative stance by continuing to target a Federal Funds rate in the range of 0% to 0.25%, noting that, partly because of the decline in energy prices, inflation rates remained below the Committee's long-run objective; while labor markets evinced signs of improvement, the FOMC observed that recovery in the housing sector remained slow. In addition to maintaining the Federal Funds rate, the FOMC announced additional measures to foster conditions amenable to financial markets, including the continuation of its policy of reinvesting principal payments from its holdings of agency debt and mortgage-backed securities and of rolling over maturing Treasury securities at auction.

The influence of Federal Reserve monetary policy on the mortgage market is a matter of interest to the MTA, since variability of mortgage rates can affect the number of real estate transactions and can thereby impact receipts from the Mortgage Recording Tax ("MRT") and Urban Tax, two important sources of MTA revenue. After the steady fall in MRT revenues that resulted from the financial and real estate crisis, MTA's monthly receipts remained virtually flat for three years beginning in the first quarter of 2009; however, a discernible upward trend in MRT receipts began during the first quarter of 2012 and reached a recent high point in the fall of 2013. Partly because of these high receipts towards the end of last year, Mortgage Recording Tax collections through the fourth quarter of 2014 were lower than through the fourth quarter of 2013 by \$3.0 million dollars (0.8%). In spite of the gradual overall recovery of MRT receipts that has been occurring since 2012, average monthly receipts through the fourth quarter remain \$28.7 million (51.1%) worse than their average in 2007, just prior to the steep decline of this revenue source.

MTA's receipts of Urban Taxes – those based on commercial activity within New York City – have demonstrated a pronounced rise since 2010, increasing on a year-over-year basis in seventeen of the last eighteen quarters. Compared to 2013, average monthly Urban Tax receipts in 2014 were higher by \$17.6 million, with the result that year-to-date receipts through the fourth quarter of 2014 reached \$806.1 million, which was \$211.6 million or 64.4% better than in 2013.

**Results of Operations** — In 2014, MTA Long Island Rail Road On-Time Performance ("OTP") decreased to 92.0% down from 2013's 93.5%. In 2014, the decline in OTP was attributable to significant weather events including 11 winter storms and 4 severe rainstorms. Additional incidents affecting OTP in 2014 resulted from trespassers, motor vehicles, loading, disorderly or dispute situations, and other factors.

## **SIGNIFICANT CAPITAL ASSET ACTIVITY**

**Capital Program** — The MTA Long Island Rail Road completed the Third Rail System – 2000 MCM Cable Replacement project. The project work included replacement and upgrade of third rail and new ducts, hardware, monitoring brackets, and insulators in selected locations as part of maintaining a state of good repair.

The rehabilitation of the three-span Woodhaven Blvd. Bridge in Rego Park, Queens, was completed. The work on this steel superstructure included new bearings and bridge seats, as well as repairs to the abutments, concrete decks, piers, and structural steel. Above-deck work restored the integrity of the waterproofing and drainage system.

In addition, the Power Pole Replacement project was completed in 2014. The project work included the replacement systemwide of selected 5kV power poles, crossarms and associated hardware.

The 2014 Annual Track Program continued the LIRR's cyclical replacement of track assets, including replacement of 47,686 mechanized ties on the Mainline/Central/West Hempstead branches; 11,533

concrete ties on the Hempstead/Oyster Bay Branches; 12 grade crossings on the Mainline/West Hempstead Branches; 120 surfacing miles system-wide; 724 field-welds system wide; 3,026 wood ties system-wide; and 79 surfacing interlocking switches on the Mainline/Montauk/Central branches.

To help guide future investments in infrastructure elements, each of the MTA agencies is investing in Enterprise Asset Management (“EAM”) systems, which includes substantial investments in both business and technology improvements. LIRR is currently undergoing an agency-wide EAM Gap Assessment, the output of which will produce a 5-year improvement program to meet new regulatory requirements, align with industry best-practices, as well as new MTA standards and ongoing LIRR asset investment needs. Advancing EAM development will result in a planning framework that links asset condition and maintenance activities to life cycle planning in order to improve asset performance, optimize maintenance resources, and strengthen long-term planning.

## 5. OTHER

**Customer Service** — The LIRR continued its efforts to improve the customer experience by introducing a new version of the LIRR “Train Time” app developed with customer feedback. New features include an improved “station picker” screen, a better “arrival countdown” screen, enhanced “trip search” capability, and a new server that allows the LIRR to handle more than 2,000 Train Time requests per minute. More than 220,000 LIRR customers were using the app in 2014.

This free app is yet another advanced tool in the series of customer information enhancements the LIRR has unveiled in recent years to help make LIRR travel as easy as possible, by providing real-time information whenever customers need it. This app is updated with real-time train status and track information, invaluable emergency service alerts and service advisory notices on planned changes, station information, schedules and fares, elevator/escalator status, parking availability and getaways packages. The app features a cleanly designed navigation screen offering clearly defined categories from which users can, at a glance, begin quickly tapping their way to what they need to know. The Train Time app is perfect for both daily LIRR commuters looking for real-time information about their regular trip and for the occasional LIRR traveler looking for railroad information.

Ongoing customer communication efforts includes the use of social media tools to respond to customer concerns in real time, and the LIRR’s Public Information Office, which operates 24/7 in order to provide customers with email alerts, station announcements, electronic branch line messages, onboard announcements, and website updates, especially during service disruptions.

Also during 2014, the LIRR strategically deployed crews from the Structures Division of the Engineering Department to focus on upgrades to stations. The projects are selected after review by senior staff and target major repairs and improvements that benefit the customer. In 2014, these efforts led to the station component upgrades listed below:

- Restroom renovations at the following stations: Great Neck, Babylon, Long Beach, and Lynbrook.
- Platform rehabilitation work at the Great Neck and Sayville stations along with the rehabilitation of the Oakdale Station building.
- Staircase, handrail and canopy rehabilitation or replacement at the Locust Manor, Floral Park and Little Neck stations.

## 6. CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

**Labor Negotiation Update** — On September 24, 2014, the MTA Board approved new agreements between the MTA Long Island Rail Road and eight unions covering most of the MTA Long Island Rail Road employees, whose contract expired on June 15, 2010. The contract provides a 17-percent raise over six and a half years. It also requires workers to begin paying for health care at a rate of about 2 percent of their weekly wages and new employees would pay into their pensions for 15 years instead of 10. On March 25, 2015, the MTA Board approved new agreements with the remaining unions under similar contract terms.

## 7. SUBSEQUENT EVENT

**Fare Increases** - On January 22, 2015, the MTA Board adopted fare increases for the Company, which became effective on March 22, 2015. Monthly railroad ticket holders will begin paying the higher fare with their April ticket. Most MTA Long Island Rail Road rail tickets will increase an average of 4 percent, depending on ticket type and distance traveled.

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**MTA LONG ISLAND RAIL ROAD**  
**(Subsidiary of Metropolitan Transportation Authority)**

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2014 AND 2013**  
**(Dollars in thousands)**

	2014	2013
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash (Note 3)	\$ 5,450	\$ 5,449
Fare cards	14,691	16,786
Invested funds at MTA	6,401	23,066
Receivables:		
Passenger	10,462	11,796
Due from MTA and affiliated agencies (Note 11)	92,486	77,462
Due from NYSDOT	2,519	2,652
Rents	3,138	2,059
Other	19,817	39,011
Less allowance for doubtful accounts	(3,096)	(3,140)
Receivables — net	125,326	129,840
Materials and supplies, net of allowance of \$40,075 and \$35,956 in 2014 and 2013, respectively	117,886	107,607
Prepaid expenses and other current assets	394,873	75,645
Total current assets	664,627	358,393
NONCURRENT ASSETS:		
Capital assets, net (Notes 5 and 6)	5,475,064	5,418,260
Other assets	-	1,946
Total noncurrent assets	5,475,064	5,420,206
<b>TOTAL</b>	<b>\$6,139,691</b>	<b>\$5,778,599</b>
<b>LIABILITIES AND NET POSITION</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 65,926	\$ 77,267
Due to MTA and affiliated agencies (Note 11)	39,147	37,021
Accrued expenses and other liabilities:		
Payroll and related fringe benefits	112,914	90,661
Estimated liability arising from injuries to persons (Note 9)	17,636	14,190
Environmental remediation (Note 13)	5,500	5,500
Unearned revenues	15,104	15,314
Total current liabilities	256,227	239,953
NONCURRENT LIABILITIES:		
Estimated liability arising from injuries to persons (Note 9)	50,838	50,469
Postemployment benefits other than pensions (Note 8)	552,277	477,719
Environmental remediation (Note 13)	30,719	26,845
Other long-term liabilities (Note 14)	81,872	77,135
Total noncurrent liabilities	715,706	632,168
Total liabilities	971,933	872,121
NET POSITION (Note 10):		
Net investment in capital assets	5,475,064	5,418,260
Unrestricted deficit	(307,306)	(511,782)
Total net position	5,167,758	4,906,478
<b>TOTAL</b>	<b>\$6,139,691</b>	<b>\$5,778,599</b>

See notes to financial statements.



**MTA LONG ISLAND RAIL ROAD****(Subsidiary of Metropolitan Transportation Authority)****STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION****YEARS ENDED DECEMBER 31, 2014 AND 2013****(Dollars in thousands)**

	<b>2014</b>	<b>2013</b>
OPERATING REVENUES:		
Passenger	\$ 658,822	\$ 632,089
Rents and utilities	24,936	23,460
Advertising	12,732	12,546
Food and beverage	2,361	2,315
Other	7,551	4,786
Total operating revenues	<u>706,402</u>	<u>675,196</u>
OPERATING EXPENSES:		
Salaries and wages	673,176	522,010
Health and welfare	92,372	92,601
Pension	177,707	178,457
Other fringe benefits	117,951	113,174
Other Post Employment Benefits (OPEB)	131,213	126,782
Traction and propulsion power	90,186	86,498
Fuel for trains	22,304	24,055
Insurance	23,378	20,038
Claims	6,459	5,569
Maintenance and other operating contracts	79,382	68,578
Environmental remediation	5,878	(13,524)
Professional service contracts	26,008	28,274
Material and supplies	105,335	96,339
Depreciation and amortization	324,840	332,978
Other	9,825	13,214
Reimbursable overhead	(28,252)	(24,184)
Total operating expenses	<u>1,857,762</u>	<u>1,670,859</u>
OPERATING LOSS	<u>(1,151,360)</u>	<u>(995,663)</u>
NONOPERATING REVENUES:		
Operating subsidies from MTA	1,047,411	705,040
Capital contributions	361,576	280,138
FTA/FEMA Reimbursement	3,653	17,517
Total nonoperating revenues	<u>1,412,640</u>	<u>1,002,695</u>
CHANGE IN NET POSITION	261,280	7,032
NET POSITION — Beginning of year	<u>4,906,478</u>	<u>4,899,446</u>
NET POSITION — End of year	<u>\$ 5,167,758</u>	<u>\$ 4,906,478</u>
See notes to financial statements.		

**MTA LONG ISLAND RAIL ROAD**  
**(Subsidiary of Metropolitan Transportation Authority)**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(Dollars in thousands)**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Passenger receipts	\$ 659,952	\$ 631,525
Rents, advertising, and other receipts	46,402	69,276
Payroll and related fringe benefits	(1,061,417)	(981,278)
Other operating expenses	<u>(660,236)</u>	<u>(424,252)</u>
Net cash used in operating activities	<u>(1,015,299)</u>	<u>(704,729)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating subsidies from MTA	1,047,411	705,040
FTA/FEMA Reimbursement	<u>3,653</u>	<u>17,517</u>
Cash provided by noncapital financing activities	<u>1,051,064</u>	<u>722,557</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital contributions from MTA	149,950	135,220
Capital expenditures incurred for capital program	<u>(185,714)</u>	<u>(153,547)</u>
Net cash used in capital financing activities	<u>(35,764)</u>	<u>(18,327)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>1</b>	<b>(499)</b>
<b>CASH — Beginning of year</b>	<u><b>5,449</b></u>	<u><b>5,948</b></u>
<b>CASH — End of year</b>	<u><u><b>\$ 5,450</b></u></u>	<u><u><b>\$ 5,449</b></u></u>
<b>RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating loss	\$ (1,151,360)	\$ (995,663)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	324,840	332,978
Net increase in accounts payable, accrued expenses, other liabilities, unearned revenues	99,812	1,314
Net decrease in receivables	37,026	14,146
Net increase in materials and supplies, prepaid expenses and other current assets, other assets	<u>(325,617)</u>	<u>(57,504)</u>
Net cash used in operating activities	<u><u><b>\$ (1,015,299)</b></u></u>	<u><u><b>\$ (704,729)</b></u></u>

NONCASH CAPITAL FINANCING ACTIVITIES: In 2014 and 2013, MTA contributed capital assets of \$195,930 and \$138,381, respectively, to MTA Long Island Rail Road.

See notes to financial statements.

# MTA LONG ISLAND RAIL ROAD

## (Subsidiary of the Metropolitan Transportation Authority)

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (Dollars in thousands)

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#### 1. BASIS OF PRESENTATION

**Reporting Entity** — In 1966, the Metropolitan Transportation Authority (“MTA”) acquired the capital assets of MTA Long Island Rail Road from the former Pennsylvania Railroad Company. In February 1980, MTA Long Island Rail Road became a wholly owned public benefit corporation subsidiary of MTA pursuant to New York State Public Authorities Law. MTA Long Island Rail Road is a part of the related financial reporting group of the MTA. The MTA is a component unit of the State of New York.

MTA Long Island Rail Road performs a public service of providing essential passenger transportation between New York City and Long Island. Substantial deficits result from providing these services and MTA Long Island Rail Road expects that such deficits will continue in the foreseeable future. Funding for MTA Long Island Rail Road’s operations and capital needs is provided by MTA, which obtains the required funds from state and federal grants, the sale of bonds to the public and other sources. Certain funding by MTA is made to MTA Long Island Rail Road on a discretionary basis. The continuance of MTA Long Island Rail Road’s operations has been, and will continue to be, dependent upon the receipt of adequate funds to subsidize operating deficits.

MTA Long Island Rail Road is not liable for real estate or personal property taxes on its properties or sales taxes on substantially all of its purchases.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The MTA Long Island Rail Road applies Governmental Accounting Standards Board (“GASB”) Codification of Governmental Accounting and Financial Reporting Standards (“GASB Codification”) Section P80, *Proprietary Accounting and Financial Reporting*.

The MTA Long Island Rail Road has not completed the process of evaluating the impact of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions— An Amendment of GASB Statement No. 27*. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and RSI. The provisions in GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

The MTA Long Island Rail Road has completed the process of evaluating the impact of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB

Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB Statement No. 69 requires the use of carrying values to measure the assets and liabilities in a government merger and requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. GASB Statement No. 69 also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. GASB Statement No. 69 provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. GASB Statement No. 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The MTA has determined that GASB Statement No. 69 had no impact on its financial position, results of operations, and cash flows.

The MTA Long Island Rail Road has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. GASB Statement No. 70 also requires a government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. GASB Statement No. 70 further requires an issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. This Statement also requires a government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The MTA Long Island Rail Road has determined that GASB Statement No. 70 had no impact on its financial position, results of operations, and cash flows.

The MTA Long Island Rail Road has not completed the process of evaluating the impact of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The requirements of this Statement should be applied simultaneously with the provisions of GASB Statement No. 68 and are effective for fiscal years beginning after June 15, 2014.

The MTA Long Island Rail Road has not completed the process of evaluating the impact of GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of GASB Statement No. 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The provisions in GASB Statement No. 72 are effective for fiscal years beginning after June 15, 2015.

**Use of Management's Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates and assumptions.

**Reclassifications** — Certain reclassifications were made to the prior year operating expenses to conform to the current year's presentation.

**MTA Investment Pool** — The MTA, on behalf of the MTA Long Island Rail Road, invests funds, which are not immediately required for the MTA Long Island Rail Road's operations in securities permitted by the New York State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. All investments are held by the MTA's agent in custody accounts in the name of the MTA.

**Materials and Supplies** — Materials and supplies, except for rebuilt items, are valued at the lower of average cost or market, net of obsolescence reserve. Rebuilt items are recorded at 50% of their average purchase price.

**Capital Assets** — Capital assets and improvements include all land, construction work-in-progress buildings and structures, equipment, infrastructure — road and leasehold improvements of MTA Long Island Rail Road having a minimum useful life of 3 years and a cost of more than twenty five thousand. Capital assets also include the Pennsylvania Station Leasehold further discussed in Note 6 to these financial statements.

Capital assets are stated at historical cost. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease.

Accumulated depreciation and amortization are reported as reductions of capital assets. Depreciation is computed using the straight-line method based upon estimated useful lives; 7 to 50 years for buildings and structures; 25 to 35 years for passenger cars, locomotives and work train equipment; 3 to 20 years for other equipment; and 6 to 43 years for infrastructure — road. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset, whichever is less. The Pennsylvania Station Leasehold is amortized over 30 years.

MTA Long Island Rail Road reviews long-lived assets for impairment when events or circumstances indicate that the carrying amount may not be recoverable and records the appropriate loss when assets are disposed of or are determined to be impaired.

**Pollution Remediation Projects** — Effective 2008, pollution remediation costs have been charged in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 13). An operating expense provision and corresponding liability measured at its current value using the expected cash flow method have been recognized for certain pollution remediation obligations that previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: an imminent threat to public health due to pollution exists; the MTA Long Island Rail Road is in violation of a pollution prevention-related permit or license; the MTA Long Island Rail Road is named by a regulator as a responsible or potentially responsible party to participate in remediation; the



MTA Long Island Rail Road is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities; or the MTA Long Island Rail Road voluntarily commences or legally obligates itself to commence remediation efforts.

**Operating Revenues** — Passenger revenues are recognized as income as they are used. Tickets are assumed to be used in the month of purchase with the exception of advance purchases of monthly and weekly tickets. Unearned revenues are recognized for the estimated amount of unused tickets. Revenues from rents are recognized as earned. Revenues from sundry, such as food and beverages, are recorded when the items are sold.

**Nonoperating Revenues** — Nonoperating subsidies are provided to MTA Long Island Rail Road by MTA as part of an MTA approved financial plan. Nonoperating capital projects subsidies are provided as part of the MTA approved five-year Capital Program based on scheduled project activity occurring during the current five-year capital program lifecycle.

**Nonexchange Transactions with MTA** — In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, funds contributed by MTA for the MTA Long Island Rail Road's capital project expenditures are reported as nonoperating revenue when such expenditures are accrued. MTA contributions for capital projects are included as nonoperating capital projects subsidy in the accompanying statements of revenues, expenses and changes in net position.

The cost of certain services provided by MTA for the benefit of the MTA Long Island Rail Road is accrued as incurred. MTA does not charge the MTA Long Island Rail Road (or other related groups) for the cost of Police services relating to the other lines.

**Operating and Non-operating Expenses** — Operating and non-operating expenses are recognized in the accounting period in which the liability is incurred. All expenses related to operating the MTA Long Island Rail Road are reported as operating expenses. All other expenses are reported as non-operating expenses.

**Compensated Absences** — MTA Long Island Rail Road has accrued the full value (including fringe benefits) of all vacation and sick leave benefits earned by employees to date if the leave is attributable to past service and it is probable that MTA Long Island Rail Road will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

**Liability Insurance** — First Mutual Transportation Assurance Company ("FMTAC"), an insurance captive subsidiary of MTA, operates a liability insurance program (Excess Loss Fund or "ELF") that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: \$8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 million for MTAHQ and MTA Bridges and Tunnels. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limits are: \$9 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 million for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2012 the self-insured retention limits for ELF were increased to the following amounts: \$10 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 million for MTA Staten Island Railway; and \$2.6 million for MTAHQ



and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2014, the balance of the assets in this program was \$72.2 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 million for a total limit of \$400 million (\$350 million excess of \$50 million). In certain circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of \$50 million.

On March 1, 2014, the “nonrevenue fleet” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA Group with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides \$10 million per occurrence limit with a \$0.5 million per occurrence deductible for MTA Long Island Rail Road, MTA Staten Island Rapid Transit Operating Authority, MTA Police, MTA Metro-North Railroad, MTA Inspector General and MTA Headquarters. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On December 15, 2014, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$10 million per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

**Property Insurance** – Effective May 1, 2014, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate as well as certain exceptions summarized below. The total program is \$600 million per occurrence covering property of the related entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 million per occurrence. The property insurance policy provides replacement cost coverage for all risks (including Earthquake, Flood and Wind) of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

In addition to the noted \$25 million per occurrence self-insured retention, MTA self-insures All Risk (excluding Earthquake, Flood, and Wind) above that retention for an additional \$362.3 million within the overall \$600 million property program, as follows: \$32.98 million (or 32.98%) of the \$100 million layer excess of the primary \$150 million layer, plus \$229.33 million (or 91.7%) of the \$250 million layer excess of \$250 million, plus \$100 million (or 100%) of \$100 excess of \$500 million.

FMTAC is 100% reinsured in the domestic, Asian, London, European and Bermuda marketplaces for the perils of Earthquake, Flood, and Wind for the \$600 million per occurrence and in the annual aggregate property program.

Supplementing the \$600 million per occurrence coverage noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$200 million of fully collateralized storm surge

coverage for losses from storm surges that surpass specified trigger levels in the New York Harbor or Long Island Sound and are associated with named storms that occur at any point in the three year period from July 31, 2013 to July 30, 2016. The expanded protection is reinsured by MetroCat Re Ltd., a Bermuda special purpose insurer independent of MTA, formed to provide FMTAC with capital markets-based property reinsurance. The MetroCat Re reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is available for storm surge losses only after amounts available under the \$600 million in general property reinsurance are exhausted.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 85% of “certified” losses, as covered by the Terrorism Risk Insurance Act (“TRIA”) of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. The remaining 15% of MTA Group losses arising from an act of terrorism would be covered under the additional terrorism policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed \$100 million (“trigger”). The United States government’s reinsurance of FMTAC was extended for six years through December 31, 2020.

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) program, the MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 15% of any “certified” act of terrorism up to a maximum recovery of \$161.2 million for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15% “certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$100 million TRIPRA trigger up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2015. Recovery under this policy is subject to a retention of \$25 million per occurrence and \$75 million in the annual aggregate in the event of multiple losses during the policy year. Should the MTA Group’s retention in any one year exceed \$75 million future losses in that policy year are subject to a retention of \$7.5 million.

**Self-Insurance and Risk Retention** — The MTA Long Island Rail Road is self-insured for liabilities arising from injuries to passengers, employees and others with the exception of injuries to non-employees and off-duty employees arising from occurrences at NYS stations (“Station Liability”), and employees and non-employees, arising from reimbursable project work (“Force Account”). The MTA Long Island Rail Road accrues the estimated total cost for the self-insured liability arising out of these claims. For incidents occurring on or before October 31, 2012, claims arising from Station Liability and Force Account are fully insured up to \$9 million per occurrence. That amount was increased to \$10 million per occurrence for incidents occurring on or after November 1, 2012.

**Deferred Compensation Plan** — The MTA and its affiliated agencies’ employees are participants in a deferred compensation plan established in 1985 in accordance with Internal Revenue Code Section 457. MTA Long Island Rail Road established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Accordingly, at December 31, 2014 and 2013, plan assets and liabilities are not reflected in the accompanying Statements of Net Position.

**Retirement Benefits** — MTA Long Island Rail Road’s pension plans are governmental plans and, accordingly, are not subject to funding and other requirements of the Employee Retirement Income Security Act of 1974.

**Pension Plans** — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. MTA Long Island Rail Road has adopted this standard for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions (“ARC”) to the pension plan, calculated in accordance with certain parameters.

The MTA Long Island Rail Road has not completed the process of evaluating the impact of GASB Statement No.68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The provisions in GASB Statement No.68 are effective for fiscal years beginning after June 15, 2014.

**Other Postemployment Benefits** — Other Postemployment Benefits (“OPEB”) cost for medical, pharmacy, dental, vision and life insurance plus supplemental Medicare Part B or Medicare supplemental plan reimbursement is measured and disclosed using the accrual basis of accounting. Annual OPEB cost should be equal to the annual required contributions to the OPEB, calculated in accordance with certain parameters.

### 3. CASH

The Bank balances are insured up to \$250 in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited.

The Bank balances in 2014 and 2013 that were not insured were maintained in major financial institutions considered by management to be secure. As of December 31, 2014 and 2013, cash consists of:

	2014		2013	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured (FDIC) or collateralized deposits	\$ 2,865	\$ 2,753	\$ 2,909	\$ 2,795
Uninsured and noncollateralized fund on-hand and in-transit	<u>2,585</u>	<u>-</u>	<u>2,540</u>	<u>-</u>
Total cash	<u>\$ 5,450</u>	<u>\$ 2,753</u>	<u>\$ 5,449</u>	<u>\$ 2,795</u>

Cash carrying amounts also include deposits in transit and cash on hand offset by any outstanding checks.

MTA Long Island Rail Road or its agent in MTA Long Island Rail Road’s name holds all collateralized deposits. These accounts contain revenue pledged by MTA Long Island Rail Road as collateral for certain MTA Transportation Revenue Bonds, as further described in Note 4 below.

The MTA, on behalf of the Authority, invests funds, which are not immediately required for MTA Long Island Rail Road’s operations in securities permitted by the New York State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. As such, there were no investments subject to credit or interest rate risk.

#### 4. TRANSPORTATION REVENUE BONDS

MTA Long Island Rail Road's capital programs are partially funded from the proceeds of bonds, including the MTA's Transportation Revenue Bonds. The Transportation Revenue Bonds are special obligations of MTA, payable from, and secured by a pledge of:

- The gross operating revenues of MTA Long Island Rail Road, Metro-North Commuter Railroad, and the New York City Transit Authority and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority until monthly deposits of principal and interest are satisfied under the Transportation Revenue Bond Resolution,
- Triborough Bridge and Tunnel Authority's operating surplus,
- General operating subsidies from the State and local governments,
- Special tax-supported operating subsidies, and
- Station maintenance and service reimbursements.

## 5. CAPITAL ASSETS, NET

The summary of capital assets activity as of December 31, 2014 and 2013, are as follows:

	As of December 31, 2012	Additions	Deletions	As of December 31, 2013	Additions	Deletions	As of December 31, 2014
Capital assets, not being depreciated:							
Land	\$ 48,165	\$ -	\$ -	\$ 48,165	\$ -	\$ -	\$ 48,165
Construction work-in-progress	566,754	301,991	386,666	482,079	384,281	184,933	681,427
Total capital assets, not being depreciated	614,919	301,991	386,666	530,244	384,281	184,933	729,592
Capital assets, being depreciated:							
Leasehold improvements	8,502	-	-	8,502	-	-	8,502
Pennsylvania Station leasehold	44,600	-	-	44,600	-	-	44,600
Buildings and structure	2,820,218	269,337	-	3,089,555	68,857	-	3,158,412
Equipment:							
Passenger cars and locos	2,626,435	-	-	2,626,435	1,389	456	2,627,369
Equipment and other	516,601	16,377	526	532,452	8,662	1,732	539,382
Infrastructure — road	2,704,528	90,890	4,618	2,790,800	103,387	9,911	2,884,276
Total capital assets, being depreciated	8,720,884	376,604	5,144	9,092,344	182,295	12,099	9,262,541
Less accumulated depreciation/amortization:							
Leasehold improvements	7,952	186	-	8,138	186	-	8,324
Pennsylvania Station leasehold	36,772	1,500	-	38,272	1,500	-	39,772
Buildings and structure	858,747	80,505	-	939,253	77,935	-	1,017,188
Equipment:							
Passenger cars and locos	1,089,891	97,462	-	1,187,353	96,226	456	1,283,123
Equipment and other	351,873	21,942	526	373,289	18,859	1,732	390,416
Infrastructure — road	1,531,258	131,383	4,618	1,658,023	130,134	9,911	1,778,246
Total accumulated depreciation/amortization	3,876,493	332,978	5,144	4,204,328	324,840	12,099	4,517,069
Total capital assets, being depreciated/amortized — net	4,844,391	43,625	-	4,888,016	(142,545)	-	4,745,472
Capital assets — net	\$ 5,459,310	\$ 345,616	\$ 386,666	\$ 5,418,260	\$ 241,737	\$ 184,933	\$ 5,475,064

Interest capitalized related to debt recorded by MTA and used to finance MTA Long Island Rail Road's construction work-in-progress as of December 31, 2014 and 2013, is \$1,656 and \$1,786, respectively.

## 6. LEASE TRANSACTIONS

**Pennsylvania Station Leasehold** — In 1988, MTA Long Island Rail Road and MTA entered into a 99-year lease agreement with Amtrak for the Pennsylvania Station. This agreement, with an option to renew, is for rights to the lower concourse level and certain platforms. The \$44,600 paid to Amtrak by MTA under this agreement is reflected as a leasehold asset and a capital contribution from MTA, which is being amortized over 30 years. The financial statements for Amtrak may be obtained by assessing the website [www.amtrak.org](http://www.amtrak.org).



## 7. EMPLOYEE BENEFITS

Pension benefits are provided under the Railroad Retirement Act and under two Company-sponsored plans. All Company pension plans have separately issued financial statements that are publicly available and contain required descriptions and supplemental information regarding employee benefit plans. These statements may be obtained by writing to Metropolitan Transportation Authority, Comptroller, 2 Broadway, New York, New York 10004.

**LIRR Defined Benefit Plans** — Effective July 1, 1971, MTA Long Island Rail Road adopted two fully integrated defined benefit single-employer pension plans, MTA Long Island Rail Road Pension Plan (the “LIRR Pension Plan”) and MTA Long Island Rail Road Plan for Additional Pensions (the “LIRR Additional Plan”), or collectively, the “LIRR Defined Benefit Plans”. The MTA Board of Managers of Pensions administers both defined benefit plans. Benefit accruals to the LIRR Pension Plan ceased as of December 31, 1988, by virtue of a plan amendment. All benefit accruals subsequent to that date are provided under the LIRR Additional Plan which was amended to provide for accruals on and after January 1, 1989, equal to the sum of the amount which would have accrued under both plans had they not been amended.

An employee who retires under the LIRR Defined Benefit Plans, either: (a) after completing at least 20 years of credited service; or (b) after both obtaining age 65 while in service and completing at least five years of credited service, or in the case of those who were employees on January 1, 1988, after completing at least 10 years of credited service, is entitled to an annual retirement benefit, payable monthly for life. Payments commence to an employee referred to in: (a) only after attaining age 50; or (b) only after attaining age 65.

Benefit and contribution provisions, which are based on the point in time at which participants last entered qualifying service and their length of credited service, are established by, and may only be amended by MTA Long Island Rail Road, subject to the obligations of MTA Long Island Rail Road’s collective bargaining agreements. MTA Defined Benefit Pension Plan’s Board of Managers of Pensions must approve all amendments. The LIRR Defined Benefit Plans have both contributory and noncontributory requirements, with retirement ages varying from 50 to 65 depending upon a participant’s length of credited service. Pension benefits payable to age 65, where eligible, are calculated as 2% of the employee’s applicable final average earnings for each year of qualifying service up to 25 years plus 1.5% of applicable final average earnings for each year of qualifying service in excess of 25 years. For pension benefits payable at and after age 65, regardless of whether benefits commenced before or after the employee attained age 65, benefits are calculated in the same manner as pension benefits payable prior to age 65 except that the amount so determined is reduced by a percentage of the employee’s annuity (not including any supplemental annuity) value at age 65 under the Federal Railroad Retirement Act.

Beginning in 1999, for all represented employees who were hired between July 1, 1974 and December 31, 1987, who were employees after January 1, 1999, and were not retired when their collective bargaining agreement was ratified and approved by MTA Board after that date, the offset of Railroad Retirement Benefits is reduced to 50% (under the LIRR Additional Plan). For all management employees who were hired between July 1, 1974 and December 31, 1987, and who were employees on September 30, 1999, the offset of Railroad Retirement Benefits was reduced to 50% (under the LIRR Additional Plan).

For participants, the LIRR Defined Benefit Plans have both non-contributory and contributory requirements. Participants who entered qualifying service before July 1, 1978 are not required to contribute. Participants who entered qualifying service on or after July 1, 1978 contributed 3% of their



wages for services through December 31, 1988 to the LIRR Pension Plan. Beginning in January 1, 1989, contributions by employees are applied towards the LIRR Additional Plan. The MTA Long Island Rail Road contributes additional amounts based on actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due.

Contributions made by the MTA Long Island Rail Road are actuarially determined on an annual basis and are recognized when due. The MTA Defined Benefit Pension Board has the authority to establish or amend obligations to the plans. The LIRR Additional Plan is a governmental plan and accordingly, is not subject to the funding and other requirements of the Employee Retirement Income Security Act of 1974 ("ERISA").

The LIRR Defined Benefit Plans also provide death and disability benefits. Participants who become disabled after accumulating ten years of credited service and who meet the requirements receive a disability benefit. Disability pension benefits are calculated based on the participant's qualifying service and a percentage of final average compensation reduced by the full amount of benefit under the Federal Railroad Retirement Act.

Survivorship benefits are paid to the participant's spouse when a survivorship option is elected or when an active participant has not divested his or her spouse of benefits. The survivorship benefit is payable at the time of death or when the vested participant would have attained an eligible age. The amount payable is in the form of an annuity. A lump sum death benefit no greater than five thousand dollars is payable upon death on behalf of a nonvested participant or vested participant whose pension rights were waived.

Upon termination of employment before retirement, vested participants who have been required to contribute must choose to: (1) receive a refund of their own contributions, including accumulated interest at rates established by MTA Long Island Rail Road's Board of Managers of Pensions (1.5% for the years 2012, 2013 and 2014); or (2) leave their contributions in the LIRR Defined Benefit Plans until they retire and become entitled to the pension benefits. Non-vested participants who have been required to contribute will receive a refund of their own contributions, including accumulated interest at rates established by MTA Long Island Rail Road's Board of Managers of Pensions (1.5% for the years 2012, 2013 and 2014).

On July 26, 2006 the MTA Board passed a resolution to merge the LIRR Pension Plan into the MTA Defined Benefit Pension Plan and transfer the responsibilities for the administration of the LIRR Additional Plan to the MTA Defined Benefit Pension Plan Board of Managers of Pensions with no changes in the pension and death benefits and appeal rights provided by the LIRR Defined Benefit Plans. The trust agreement under the LIRR Defined Benefit Plans was replaced by the MTA Master Trust, which allows for the commingling of pension assets for investment purposes under the management of the MTA Defined Benefit Pension Plan Board of Managers of Pensions. The Board has the authority to establish or amend benefit provisions to the plans. The LIRR Defined Benefit Plans and related trustee agreements were amended in September 2006 and all assets for the LIRR Defined Benefit Plans were transferred to the MTA Master Trust for investment purposes, effective October 2, 2006. As a result of this merger, the "pension costs and related information" shown in the tables below for the LIRR Pension Plan are no longer reported. "Pension costs and related information" for the LIRR Additional Plan began to be reported in 2007 without the accompanying LIRR Pension Plan as a result of the merger.

In accordance with GASB Statement No. 50, *Pension Disclosures — an amendment to GASB Statements No. 25 & No. 27*, the following disclosure concerning employer contribution has been included for 2014 and 2013. This new standard now requires entities to report the results of the most

recent actuarial valuation in the footnotes. The funded status of the LIRR Defined Benefit Plans as of January 1, 2014, the most recent actuarial valuation date is as follows:

	2014	2013
Annual Required Contribution ("ARC")	\$ 112,513	\$ 119,325
Interest on net pension obligation	(3,070)	2,594
Adjust to ARC	<u>4,243</u>	<u>(3,498)</u>
Annual pension cost	113,686	118,421
Actual contributions made	112,513	120,031
Prepaid Pension Funding	<u>295,000</u>	<u>80,000</u>
Increase in pension (asset) obligation	(293,827)	(81,610)
Net pension (asset) obligation - beginning of year	<u>(43,856)</u>	<u>37,754</u>
Net pension asset - end of year	<u>\$ (337,683)</u>	<u>\$ (43,856)</u>

MTA Long Island Rail Road's pension cost and related information for the Additional Plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability "AAL"	Unfunded Accrued Liability "UAL"	Funded Ratio	Covered Payroll	UAL as % of Covered Payroll
1/1/2014	\$ 485,779	\$ 1,650,526	\$ 1,164,746	29.41 %	\$ 29,334	3,970.63 %
1/1/2013	400,783	1,664,272	1,263,489	24.08	33,043	3,823.77
1/1/2012	437,421	1,633,261	1,195,840	26.78	40,033	2,987.14

Year Ended	Annual Pension Cost "APC"	Annual Required Contribution "ARC"	Annual Contribution	ARC as a % of Covered Payroll	% of APC Contributed	Net Pension Obligation/ (Asset)
12/31/2014	\$ 113,686	\$ 112,513	\$ 407,500	383.56 %	358.40 %	\$ (337,683)
12/31/2013	118,421	119,325	199,300	361.12	168.33	(43,856)
12/31/2012	115,200	116,011	116,011	289.79	100.70	37,754

As a result of the merger, significant actuarial methods and assumptions used in the LIRR Pension Plan Actuarial Valuation at January 1, 2014 will be reported by the MTA but remain consistent with the actuarial methods and assumptions used for the LIRR Additional Plan.

The significant actuarial methods and assumptions used in the LIRR Defined Benefit Plans Actuarial Valuation at January 1, 2014, were as follows: the actuarial cost method and amortization method used was the entry age normal cost for all periods. The asset valuation method utilized was a 5-year smoothing method for all periods. The interest rate assumption is 7.00% per year (net-after investment expenses). Investment and administrative expenses are paid from plan assets of the LIRR Defined Benefit Plans.

As a result of the merger, the LIRR Pension Plan pension asset position was transferred and will be reported by the MTA. Therefore, a noncurrent pension obligation of \$0, \$0, and \$37,754 at December 31, 2014, 2013, and 2012, respectively reflects only the pension obligation position of the LIRR Additional Plan. In 2014, MTA made additional contributions that offset the pension obligation.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**MTA Defined Benefit Pension Plan** — Effective January 1, 1994, MTA established the MTA Defined Benefit Pension Plan (the “MTA DB Plan”). The MTA DB Plan is a multiple-employer cost-sharing plan covering MTA Police, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway and MTA Bus Company. The MTA DB Plan covers all management employees of the MTA Long Island Rail Road hired after December 31, 1987, and certain represented employees who receive management benefits. Effective January 1, 2004, represented employees hired on or after January 1, 1988, and who were participants in the Long Island Rail Road Money Purchase Plan (“Money Purchase Plan”) became participants in the MTA DB Plan and have the same terms and conditions as those applicable to management employees of the MTA Long Island Rail Road and MTA Metro North in the MTA DB Plan upon approval of each union’s Collective Bargaining Agreement by the MTA Board. As part of their participation, the represented employees of the MTA Long Island Rail Road will contribute 3% of compensation toward the cost of the MTA DB Plan during their period of participation but these contributions will stop after they have contributed for 10 years. Effective January 30, 2008, represented employees hired on or after January 31, 2008, will contribute 4% of pensionable compensation toward the cost of the MTA DB Plan during their period of participation but these contributions will stop after they have contributed for 10 years. Effective September 24, 2014, represented employees (upon approval of each union’s Collective Bargaining Agreement by the MTA Board) hired on or after September 24, 2014, will contribute 4% of pensionable compensation toward the cost of the MTA DB Plan during their period of participation but these contributions will stop after employees have contributed for 15 years.

The MTA DB Plan also provides retirement, disability retirement and death benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by the MTA Board of Managers of Pensions.

All Management employees and represented employees hired prior to January 31, 2008, who are participants of the MTA DB Plan are eligible for normal retirement upon reaching age 60, with five or more years of credited service. Benefits are also available at age 55 on a reduced basis with 10 years of credited service, and on an unreduced basis with 30 or more years of credited service. Vesting takes place after five years of credited service. In addition to retirement benefits, the MTA DB Plan provides benefits payable upon death.

Represented employees hired on or after January 31, 2008, who are participants of the MTA DB Plan are eligible for normal retirement upon reaching age 62, with five or more years of credited service. Benefits are also available at age 55 on a reduced basis with 10 years of credited service, and on an unreduced basis with 30 or more years of credited service. Vesting takes place after five years of credited service. In addition to retirement benefits, the MTA DB Plan provides benefits payable upon death.

If a management participant’s Railroad Retirement Tier II taxes are less than the pretax cost of contributions required under New York State Tier 4 retirement system, and the management employee has less than ten years credited service, a contribution may be required.

As previously discussed, the MTA DB Plan and trustee agreements were amended in September 2006 as a result of the merger of the LIRR Pension Plan into the MTA Defined Benefit Pension Plan and transfer of the responsibilities for the administration of the LIRR Additional Plan to the MTA Defined Benefit Pension Plan Board of Managers of Pensions.

The MTA DB Plan's annual pension costs as a multiple-employer cost-sharing plan in 2014, 2013 and 2012 were \$271,240, \$242,981 and \$212,397, respectively (of which \$95,171, \$81,787, and \$71,300 respectively, were allocated to the MTA Long Island Rail Road).

Contributions were allocated between the major groups of participants in the MTA DB Plan based on net actuarial liability with a further allocation between the original management participants from various MTA agencies based on a percentage of covered payrolls.

**Defined Contribution Plan** — Effective January 1, 2004, represented employees who were participants in the Money Purchase Plan became participants in the MTA DB Plan and have the same terms and conditions as those applicable to management employees of MTA Long Island Rail Road in the MTA DB Plan upon approval of each union's Collective Bargaining Agreement by the MTA Board. MTA Long Island Rail Road ceased contributing to the Money Purchase Plan in 2004 and the employee ceased to contribute upon approval of their union's Collective Bargaining Agreement by the MTA Board. All past Company contributions and earnings attributable to such contributions have been transferred to the MTA DB Plan to fund the pension liability for past service under the Money Purchase Plan. As of December 31, 2006, the Board of the MTA approved the Collective Bargaining Agreements for all represented employees with the last union agreement having been approved in April 2006. There are no longer active participants in the Money Purchase Plan.

The Money Purchase Plan was terminated at December 31, 2009, which has resulted in no expenses to the operations of the Long Island Rail Road, after 2009.

## 8. OTHER POSTEMPLOYMENT BENEFITS

The MTA Long Island Rail Road has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and to what extent progress is being made in funding the plan.

The MTA Long Island Rail Road elected not to record the entire amount of the Unfunded Actuarial Accrued Liability ("UAAL") in the year ended December 31, 2014, and record the net annual OPEB obligation. The MTA Long Island Rail Road also elected not to fund the UAAL more rapidly than on a pay-a-you-go basis. The UAAL relating to post-employment benefits remained the same for 2014 as 2013 with a balance of \$1.272 million at the end of 2014. The end of the year liability equals the amount as of the beginning of the year plus interest at 3.75% less amortization amount included in the Annual Required Contribution for the prior year less or plus assumption changes and plan changes.



**Plan Description** — The MTA Long Island Rail Road is a participating employer in the New York State Health Insurance Program (“NYSHIP”), which is administered by the State of New York as a multiple employer agent defined benefit plan. The benefits provided by the MTA Long Island Rail Road include medical, pharmacy, dental, vision and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement. MTA executive management at headquarters establishes and may at their discretion make amendments to the plan.

GASB Statement No. 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2013, and was performed with a valuation date of January 1, 2012. The total number of plan participants as of January 1, 2012, receiving retirement benefits was 5.8 thousand.

Since the MTA Long Island Rail Road is a participating employer in NYSHIP, it does not issue a stand-alone financial report regarding postemployment retirement benefits. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Service, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

Management employees and those represented employees receiving management benefits who are participants in LIRR Defined Benefit Plans are eligible to receive the Benefits upon completion of 20 years of service, at age 45, or completion of ten years of service, at age 65. Management employees leaving prior to age 50 with 20 years of service are not entitled to life insurance. All other represented employees who are participants in LIRR Defined Benefit Plans are eligible to receive the Benefits upon completion of 20 years of service, at age 50. Employees who are participants in the MTA Defined Benefit Pension Plan and who were hired on or prior to January 30, 2008, are eligible to receive the benefits upon completion of 30 years of service at age 55 or ten years of service at age 60. Employees are also eligible for retiree benefits with 10 years of service and between the ages of 55 and 59 when collecting a reduced pension. Management employees are also eligible, even if they forego collection of their pension, if they are age 55 or more with 10 years of service and are within five years of collecting a full pension. Management employees retiring prior to age 60 with 10 years of service are entitled to life insurance. Employees who are participants in the MTA Defined Benefit Pension Plan and who were hired after January 30, 2008, are eligible to receive the benefits upon completion of 30 years of service at age 55 or ten years of service at age 62. Employees are also eligible for retiree benefits with 10 years of service and between the ages of 55 and 61 when collecting a reduced pension. Management employees are also eligible, even if they forego collection of their pension, if they are age 57 or more with 10 years of service and are within five years of collecting a full pension. Management employees retiring prior to age 62 with 10 years of service are entitled to life insurance. In all instances, employees must be in credited service under the respective plans at the appropriate age to be eligible for the Benefits. Beginning January 1, 1995, the Long Island Railroad contributed 100% of the cost to provide health care benefits to represented employees who retire after that date until age 65 and Medicare eligible.

In addition, an active employee who is vested in LIRR Defined Benefit Plans and who is not yet eligible to collect a service age pension, and has at least 10 years of service, but who is immediately eligible for a Social Security or Railroad Retirement Act annuity is also eligible for the Benefits. However, under LIRR Defined Benefit Plans, the employee must sever their relationship with MTA Long Island Rail Road and would not be eligible for life insurance. Under the MTA Defined Pension Plan in order to receive this benefit, the employee must apply and be approved by the Plan for a disability retirement.

Coverages are as follows:

- a. MTA Long Island Rail Road provides retired management employees with life insurance and health care benefits. MTA Long Island Rail Road contributes 100% of the Plan's cost. As of December 31, 2014 and 2013, there were 973 and 936 participants, respectively, in the life insurance plan, and 1,164 and 1,099 participants, respectively, in the medical plan. For retired management employees hired or promoted after December 31, 1996, the life insurance coverage is \$5,000. For retired management employees, in management prior to January 1, 1997 with no break in management status, the coverage is twice their final salary to age 65, then 10% decrease in coverage each year until age 69 when the coverage will be equal to their final salary. Additionally, MTA Long Island Rail Road provides retired management employees with dental and vision benefits who retired after December 1, 1996. As of December 31, 2014 and 2013, there were an average of 830 and 651 participants, respectively, in the dental and vision plans. The cost of providing these benefits was \$18,548 and \$17,666 in 2014 and 2013, respectively.
- b. MTA Long Island Rail Road provides represented employees who retired after December 31, 1994, with life insurance and health care benefits in accordance with collective bargaining agreements. MTA Long Island Rail Road contributes 100% of the Plan's cost until age 65. As of December 31, 2014 and 2013, there was an average of 5,850 and 4,607, respectively, in the life insurance plan, and 2,219 and 2,172 participants, respectively, in the medical plan. The cost of providing these benefits was \$32,992 and \$34,478 in 2014 and 2013, respectively.
- c. MTA Long Island Rail Road provides represented employees who retired on or after January 1, 1995, and upon reaching age 65 (represented employees of the BLE union retiring after March 28, 2000, are not included) with a fixed monthly contribution towards certain medical coverage as follows:

<b>Period Retired</b>	<b>Single</b>	<b>Family</b>
January 1, 1995 to present	<u>\$ 100.00</u>	<u>\$ 200.00</u>

Additionally, spouse/dependents of retiree who are not yet age 65, are entitled to the cost of HIP at either family or single cost, whichever is applicable, until spouse/dependents reach Medicare eligible age, or otherwise lose eligibility.

- d. MTA Long Island Rail Road provides represented employees who retired before December 31, 1994, with a fixed monthly contribution towards certain medical coverage as well as employees with NYSHIP who are Medicare eligible with payment of their Medicare as stated below:

	<b>Single</b>	<b>Family</b>
July 1, 1974 to December 31, 1982 (Train & Engine Retirees)	\$ 17.05	\$ 38.60
July 1, 1974 to December 31, 1981 (All other Retirees)	17.05	38.60
January 1, 1983 to December 31, 1990 (Train & Engine Retirees)	40.72	113.89
January 1, 1982 to December 31, 1990 (All other Retirees)	40.72	113.89
January 1, 1991 to December 31, 1994 (All Retirees)	100.00	200.00
Medicare Part B	96.40	

As of December 31, 2014 and 2013, there was an average of 1,832 and 1,766 participants, respectively, receiving monthly contributions. The cost of providing this benefit was \$5,123 and \$4,804 in 2014 and 2013, respectively.



The MTA Long Island Rail Road is not required by law or contractual agreement to provide funding for postemployment retirement benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. During the fiscal years ended December 31, 2014 and 2013, the MTA Long Island Rail Road paid \$56,655 and \$81,978, respectively. MTA executive management at headquarters has the authority to establish or amend contributions to the plan.

**Annual OPEB Cost and Net OPEB Obligation** — The MTA Long Island Rail Road's annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. The cumulative difference between the annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation (the "Net OPEB Obligation"), included on the Statements of Net Position. The annual OPEB cost is equal to the annual required contribution (the "ARC") less adjustments if a Net OPEB Obligation exists and plus the interest on Net OPEB Obligations. The ARC is equal to the normal cost plus an amortization of the unfunded frozen actuarial accrued liability.

For determining the ARC, the MTA Long Island Rail Road has chosen to use Frozen Initial Liability (the "FIL Cost Method") cost method, one of the cost methods in accordance with the parameters of GASB Statement No. 45. The initial liability is amortized over a 22-year period. The remaining amortization period at December 31, 2014 is 15 years.

In order to recognize the liability over an employee's career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the "Accrued Liability" or "Past Service Liability"), the part that is being earned this year (the "Normal Cost"), and the part that will be earned in future years (the "Future Service Liability"). Under the FIL Cost Method, an initial past service liability is determined based on the Entry Age Normal ("EAN") Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

**Actuarial Methods and Assumptions** — The Frozen Initial Liability ("FIL") Cost Method is used for determining the Normal Cost. The Entry Age Normal ("EAN") Cost Method is used to determine the initial Frozen Accrued Liability as well as any subsequent changes in Accrued Liability due to changes in the plan and/or actuarial assumptions. The initial Frozen Unfunded Accrued Liability was determined as of January 1, 2006 to be used in the financials for the 2007 year. EAN will also be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. The EAN method determines the Accrued liability for each individual based on a level percent of pay for service accrued through the valuation date.

The Frozen Unfunded Accrued Liability is determined each year as the Frozen Unfunded Accrued Liability for the prior year, increased with interest, reduced by the end-of-year amortization payment and increased or decreased by any new bases established for the current year.

The difference between the Actuarial Present Value of Benefits and the Frozen Unfunded Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

The Annual Required Contribution ("ARC") is equal to the sum of the Normal Cost and the amortization for the Frozen Unfunded Accrued Liability with appropriate interest adjustments. Any difference between the ARC and actual plan contributions from the prior year are considered an actuarial gain/loss and thus, are included in the development of the Normal Cost. This methodology differs from

the approach used for the pension plan where the difference between the ARC and actual plan contributions from the prior year, if any, will increase or decrease the Frozen Unfunded Accrued Liability and will be reflected in future amortization payments. A different approach was applied to the OPEB benefits because these benefits are not actuarially funded.

**Valuation Date** — The valuation date is the date that all participant and other pertinent information is collected and liabilities are measured. This date may not be more than 24 months prior to the beginning of the fiscal year. The valuation date for this valuation is January 1 2012, which is less than 24 months prior to the beginning of the 2014 fiscal year.

**Inflation Rate** — 2.5% per annum compounded annually.

**Discount Rate** — GASB 45 provides guidance to employers in selecting the discount rate. The discount rate should be based on the estimated long-term investment yield on the investments that are expected to be used to finance the benefits. If there are no plan assets, assets of the employer should be used to derive the discount rate. This would most likely result in a lower discount rate and thus, liabilities significantly higher than if the benefits are prefunded. In recognition of the decrease in short-term investment yields, the discount rate for this valuation has been lowered from 4.00% to 3.75%.

**Healthcare Reform** — The valuation reflects the actuary understanding of the impact in future health costs due to the passage of the Patient Protection and Affordable Care Act (P.L.111-148) signed on March 23, 2010, as amended by the Health Care and Education Reconciliation Act (H.R.4872) signed on March 30, 2010.

The impact of these changes had a significant impact on the liabilities developed in this valuation. However, the actual impact on future health costs due to this legislation will depend on a number of factors, including future regulations that are not yet known. An assessment of the potential range and cost effect of such differences is beyond the scope of the 2012 valuation.

The OPEB-specific actuarial assumptions used in the most recent biennial valuation are as follows:

Valuation date	January 1, 2012
Actuarial cost method	Frozen Initial Liability
Discount rate	3.75%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen Initial Liability
Amortization period	16 years
Period closed or open	Closed

\* In general, all coverages are paid for by the MTA.

Actuarial valuation involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**Per Capita Claim Costs** — For members of NYSHIP, unadjusted premiums were used.

**Medicare Part B Premiums** — Medicare Part B premiums reimbursements were assumed to have an annual trend of 5.0%. These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

**Medicare Part D Premiums** — GASB has issued a Technical Bulletin stating that the value of expected Retiree Drug Subsidy (“RDS”) payments to be received by an entity cannot be used to reduce the Actuarial Accrued Liability of OPEB benefits nor the Annual Required Contribution (ARC). Furthermore, actual contributions made (equal to the amount of claims paid in a year if the plan is not funded) will not be reduced by the amount of any subsidy payments received. Accordingly, the 2012 valuation excludes any RDS payments expected to be received.

**Health Care Cost Trend** — For those retirees participating in NYSHIP, the trend assumption used for 2013 and 2012 were 1.7% and 7.4%, respectively, reflecting actual increases in premiums through 2013.

The trend assumption utilized in this valuation has changed from the assumption used in the previous valuation due to the incorporation of the excise tax in the trend assumption.

#### **Health Care Cost Trend Rates**

<b>Fiscal Year</b>	<b>NYSHIP</b>
2013	1.7 %
2014	5.0
2015	5.5
2016	5.7
2017	5.9
2022	5.9
2027	6.8
2032	6.5
2037	6.1
2042	5.7
2047	5.5
2052	5.4

**Participation** — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan.

**Dependent Coverage** — Spouses are assumed the same age as the employee/retiree. 85% of male and 60% of female eligible members are assumed to elect family coverage upon retirement. No children are assumed. Actual family coverage elections for current retirees are used. If a current retiree’s only dependent is a child, eligibility is assumed for an additional 7 years of dependent coverage if the member participates in NYSHIP (otherwise, 5 years) from the valuation, date was assumed.

#### **Demographic Assumptions:**

**Mortality** — Preretirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee.

**Preretirement** — RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments.

*Postretirement Healthy Lives* — 95% of the rates from the RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant mortality table for females.

*Postretirement Disabled Lives* — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females.

**Turnover and retirement rates** — All demographic assumptions were based on assumptions utilized in the 2012 actuarial valuations for the pension plans, with the exception of the mortality assumption. The following is a table displaying the various sources of the assumptions utilized by group.

Group	Pension Plan
LIRR Pre-1988	LIRR Plan
LIRR Post-1987	MTA DB Plan

**Vestee Coverage** — For members that participate in NYSHIP, Vesteers (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the MTA Long Island Rail Road upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vesteers are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vesteers, which were only provided by Headquarters and Long Island Rail Road.

Age at Termination	Percent Electing
< 40	- %
40-43	5
44	20
45-46	30
47-48	40
49	50
50-51	80
52+	100

The following table shows the elements of the MTA Long Island Rail Road's annual OPEB cost for the year, the amount actually paid, and changes in the MTA Long Island Rail Road's net OPEB obligation to the plan for the years ended December 31, 2014 and 2013. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

	2014	2013
Annual required contribution ("ARC")	\$ 152,952	\$ 146,482
Interest on net OPEB obligation	17,914	16,234
Adjustment to ARC	(39,653)	(35,934)
Annual OPEB cost	131,213	126,782
Payments made	(56,655)	(81,978)
Increase in net OPEB obligation	74,558	44,804
Net OPEB obligation — beginning of year	477,719	432,915
Net OPEB obligation — end of year	\$ 552,277	\$ 477,719

The MTA Long Island Rail Road's annual OPEB cost, the percentage of annual OPEB cost contributed to, and the net OPEB obligation for the years ended December 31, 2014, 2013, and 2012, were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
December 31, 2014	\$ 131,213	43.2 %	\$ 552,277
December 31, 2013	126,782	64.7 %	477,719
December 31, 2012	135,031	40.6 %	432,915

The MTA Long Island Rail Road's funded status is as follows:

Year Ended	Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability (AAL) {b}	Unfunded Actuarial Accrued Liability (UAAL) {c}={b}-{a}	Funded Ratio {a}/{c}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c}/{d}
December 31, 2013	January 1, 2012	-	\$ 1,271,859	\$ 1,271,859	-	\$456,626	278.5 %

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## 9. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability arising from injuries to persons, including employees, and damage to third-party property as of December 31, 2014 and 2013, is presented below:

	2014	2013
Balance — beginning of year	\$ 64,659	\$ 62,982
Activity during the year:		
Current year claims and changes in estimates	15,351	14,012
Claims paid	<u>(11,536)</u>	<u>(12,335)</u>
Balance — end of year	68,474	64,659
Less current portion	<u>(17,636)</u>	<u>(14,190)</u>
Long-term liability	<u>\$ 50,838</u>	<u>\$ 50,469</u>

## 10. NET POSITION

Net Position as of December 31, 2014 and 2013 consists of:

	2014	2013
Net investment in capital assets	<u>\$ 5,475,064</u>	<u>\$ 5,418,260</u>
Original investments	65,000	65,000
Cumulative capital contributions from MTA	4,738,846	4,738,846
Cumulative subsidies from MTA	14,659,248	13,307,065
Accumulated deficit	<u>(19,770,400)</u>	<u>(18,622,693)</u>
Unrestricted net deficit	<u>(307,306)</u>	<u>(511,782)</u>
Total net position	<u>\$ 5,167,758</u>	<u>\$ 4,906,478</u>

Net Position represents the residual interest in MTA Long Island Rail Road assets after liabilities are deducted and consist of the net investment in capital assets and unrestricted deficit. Net investment in capital assets include capital assets, net of accumulated depreciation and amortization.

## 11. RELATED PARTY TRANSACTIONS

MTA Long Island Rail Road and other affiliated MTA agencies receive support from MTA in the form of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, some of which are charged back. MTA Long Island Rail Road's subsidies from MTA for use in operations are recorded as credits to operations when received. Funds for MTA Long Island Rail Road's capital project expenditures are also provided by MTA. Funds contributed by MTA for MTA Long Island Rail Road's capital project expenditures are classified as nonoperating.

MTA Long Island Rail Road also sells joint prevalued fare cards on consignment on behalf of an affiliated agency. These amounts are reflected in the accompanying Statements of Net Position. The



dollar volume of such related party transactions for the years ended December 31, 2014 and 2013, is shown in the following table:

	2014	2013
Payments to MTA and affiliated agencies	\$ 147,790	\$ 112,337
Payments from MTA and affiliated agencies	204,068	182,813

The resulting receivables and payables from the above transactions are recorded in the due from/to MTA and affiliated agencies account included in the accompanying Statements of Net Position.

Due from/to MTA and affiliated agencies as of December 31, 2014 and 2013, consists of:

	2014		2013	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 90,163	\$ (11,878)	\$ 76,846	\$ (9,623)
Affiliated agencies	2,323	(27,269)	616	(27,398)
Total MTA and affiliated agencies	<u>\$ 92,486</u>	<u>\$ (39,147)</u>	<u>\$ 77,462</u>	<u>\$ (37,021)</u>

On July 29, 1988, MTA, New York City Transit Authority ("NYCTA") and TBTA entered into a lease and related agreements whereby each agency, as sublessees, will rent an office building at 2 Broadway in lower Manhattan for an initial lease term of approximately 50 years. Through separate triple-net sublease agreements, the lease was appointed 21% to MTA, on behalf of MTA Long Island Rail Road and Metro-North Railroad ("MNR"), 68.7% to NYCTA, and 10.3% to TBTA. The lease term expires on July 29, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. Total annual rent payments over the initial lease term are \$1.6 billion. Base building and tenant improvements at 2 Broadway are being financed through the issuance by MTA of 2 Broadway Certificates of Participation. MTA Long Island Rail Road and MNR are obligated to pay 21% of the ground lease payments and payments relating to the 2 Broadway Certificates of Participation. Pursuant to an agreement by and among MTA, MTA Long Island Rail Road, MNR, NYCTA and TBTA, NYCTA and TBTA have agreed to reimburse the MTA Long Island Rail Road and MNR for the space occupied by NYCTA and TBTA. NYCTA and TBTA are expected to occupy substantially all of the space at 2 Broadway and to reimburse the MTA Long Island Rail Road and MNR in full.

## 12. OPERATING LEASES

MTA Long Island Rail Road leases equipment and office facilities under agreements accounted for as operating leases. Certain leases contain renewal options and escalation clauses based on the Consumer Price Index. Future minimum rental payments for all noncancelable-operating leases as of December 31, 2014, are as follows:

**Years Ending  
December 31**

2015	\$ 1,431
2016	997
2017	993
2018	761
2019-2022	<u>643</u>
	<u>\$ 4,825</u>

Total rent expense for the years ended December 31, 2014 and 2013, amounted to \$6,016 and \$5,637, respectively, and is recorded in administrative expenses.

On July 29, 1988, MTA, New York City Transit Authority ("NYCTA") and TBTA entered into a lease and related agreements whereby each agency, as sublessees, will rent an office building at 2 Broadway in lower Manhattan for an initial lease term of approximately 50 years. Through separate triple-net sublease agreements, the lease was appointed 21% to MTA, on behalf of MTA Long Island Rail Road and Metro-North Railroad ("MNR"), 68.7% to NYCTA, and 10.3% to TBTA. The lease term expires on July 29, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. Total annual rent payments over the initial lease term are \$1.6 billion. Base building and tenant improvements at 2 Broadway are being financed through the issuance by MTA of 2 Broadway Certificates of Participation. MTA Long Island Rail Road and MNR are obligated to pay 21% of the ground lease payments and payments relating to the 2 Broadway Certificates of Participation. Pursuant to an agreement by and among MTA, MTA Long Island Rail Road, MNR, NYCTA and TBTA, NYCTA and TBTA have agreed to reimburse the MTA Long Island Rail Road and MNR for the space occupied by NYCTA and TBTA. NYCTA and TBTA are expected to occupy substantially all of the space at 2 Broadway and to reimburse the MTA Long Island Rail Road and MNR in full.

### **13. ENVIRONMENTAL REMEDIATION**

MTA Long Island Rail Road has implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The statement establishes standards for determining when expected pollution remediation outlays should be accrued as a liability or, if appropriate, capitalized. An operating expense and corresponding liability, measured at its current value using the expected cash flow method, have been recognized for certain pollution remediation obligations that are no longer able to be capitalized as a component of a capital project.

Pollution remediation obligations, which are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations, occur when any one of the following obligating events takes place:

- An imminent threat to public health due to pollution exists.
- MTA Long Island Rail Road is in violation of a pollution prevention-related permit or license.
- MTA Long Island Rail Road is named by a regulator as a responsible or potentially responsible party to participate in remediation.
- MTA Long Island Rail Road is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities, or

- MTA Long Island Rail Road voluntarily commences or legally obligates itself to commence remediation efforts.

MTA Long Island Rail Road does not anticipate any changes in the near future that would have a material impact on the recorded obligations due to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations. In addition, MTA Long Island Rail Road does not expect any recoveries of cost that would have a material effect on the recorded obligations.

In accordance with GASB Statement No. 49, pollution remediation expenses were recorded on the Statement of Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2014 and 2013, respectively. The expense provision was measured at its current value utilizing the prescribed expected cash flow method.

As of December 31, the pollution remediation liability totaled \$36.219 million for 2014 and \$32.345 million for 2013, primarily consisting of future remediation activities associated with lead and asbestos abatement.

#### **14. OTHER LONG-TERM LIABILITIES**

MTA Long Island Rail Road has recorded \$79.7 million in 2014 and \$73.7 million in 2013, for the estimated long-term sick leave payout for employees. All represented employees who have worked for MTA Long Island Rail Road for 10 years and have more than half of their sick days accrued are eligible. Additionally, effective January 1, 2004, if this requirement is not met, represented employees can receive a non-pensionable lump sum severance payment representing 50% of the value of all accrued but unused sick days provided they have more than half of their sick days since January 1, 2004 accrued. Management employees who have worked for MTA Long Island Rail Road for 10 years or more are paid half of their sick days with a maximum payout of 120 days.

#### **15. COMMITMENTS AND CONTINGENCIES**

Management has reviewed with counsel all other actions and proceedings pending against or involving MTA Long Island Rail Road, including personal injury claims. Although the ultimate outcome of such actions and proceedings cannot be predicted with certainty at this time, management believes that losses, if any, in excess of amounts accrued resulting from those actions will not have a significant impact on MTA Long Island Rail Road's financial position, cash flows or results of operations.

#### **16. SUBSEQUENT EVENT**

**Fare Increases** - On January 22, 2015, the MTA Board adopted fare increases for the Company, which became effective on March 22, 2015. Monthly railroad ticket holders will begin paying the higher fare with their April ticket. Most MTA Long Island Rail Road rail tickets will increase an average of 4 percent, depending on ticket type and distance traveled.

\* \* \* \* \*

**DRAFT**

**REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)**

**MTA LONG ISLAND RAIL ROAD**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**Schedule I**

**REQUIRED SUPPLEMENTAL INFORMATION — (UNAUDITED)**  
**SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT BENEFIT PLAN**  
**(Dollars in thousands)**

<b>Years Ended</b>	<b>Valuation Date</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Accrued Liability (AAL) (B)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (C=B-A)</b>	<b>Funded Ratio (A/C)</b>	<b>Covered Payroll (D)</b>	<b>Ratio of UAAL To Covered Payroll (C/D)</b>
December 31, 2014	January 1, 2012	\$	\$1,271,859	\$1,271,859		\$456,626	278.5 %
December 31, 2013	January 1, 2012		1,271,859	1,271,859		456,626	278.5
December 31, 2012	January 1, 2010		1,249,623	1,249,623		493,408	253.3

**MTA LONG ISLAND RAIL ROAD**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**Schedule II**

**REQUIRED SUPPLEMENTAL INFORMATION — (UNAUDITED)**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS - PENSION BENEFIT PLAN**  
**(Dollars in thousands)**

**LIRR Additional Plan**

<b>Actuarial Valuation Date</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Accrued Liability (AAL) (B)</b>	<b>Unfunded Accrued Actuarial Liability (UAAL) (C=B-A)</b>	<b>Funded Ratio (A/B)</b>	<b>Covered Payroll (D)</b>	<b>UAL as % of Covered Payroll (C/D)</b>
January 1, 2014	\$112,513	100.00 %	\$485,779	\$1,650,526	\$1,164,746	29.41 %	\$29,334	3,970.63 %
January 1, 2013	119,325	167.10 %	400,783	1,664,272	1,263,489	24.08	33,043	3,823.77
January 1, 2012	116,011	100.00 %	437,421	1,633,261	1,195,840	26.78	40,033	2,987.14



# Metro-North Commuter Railroad Company

(Subsidiary of the Metropolitan Transportation  
Authority)

Financial Statements as of and for the  
Years Ended December 31, 2014 and 2013,  
Required Supplementary Information, and  
Independent Auditor's Report

DRAFT

**METRO-NORTH COMMUTER RAILROAD COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Members of the Board of  
Metropolitan Transportation Authority

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the Metro-North Commuter Railroad Company (the "MTA Metro-North Railroad"), a wholly owned public benefit corporation subsidiary of Metropolitan Transportation Authority ("MTA"), as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the MTA Metro-North Railroad's financial statements as listed in the table of contents.

#### ***Managements' Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the MTA Metro-North Railroad's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the MTA Metro-North Railroad's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the MTA Metro-North Railroad as of December 31, 2014 and 2013, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As discussed in the notes to the financial statements, MTA Metro-North Railroad is a subsidiary of MTA. The MTA is a component unit of the State of New York. MTA Metro-North Railroad requires significant subsidies from and has material transactions with MTA. MTA Metro-North also relies on subsidies from the Connecticut Department of Transportation ("CDOT") to support the Connecticut operations of the New Haven Line. Our opinion is not modified with respect to this matter.

### ***Other Matters***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13; the Schedule of Funding Progress-Postemployment Benefit Plan on page 42; and the Schedule of Employer Contributions and Funding Progress- Cash Balance Plan on page 43, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

April 29, 2015

# **METRO-NORTH COMMUTER RAILROAD COMPANY**

**(Subsidiary of the Metropolitan Transportation Authority)**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)** **YEARS ENDED DECEMBER 31, 2014 AND 2013** **(Amounts in thousands)**

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### **1. OVERVIEW OF THE FINANCIAL STATEMENTS**

#### ***Introduction***

The following is a narrative overview and analysis of the financial activities of the Metro-North Commuter Railroad Company (the "MTA Metro-North Railroad" or the "Company") for the years ended December 31, 2014 and 2013. It is intended to serve as an introduction to the MTA Metro-North Railroad's financial statements which have the following components: (1) Management's Discussion and Analysis (MD&A), (2) Financial Statements and (3) Notes to the Financial Statements.

#### ***Management's Discussion and Analysis***

The management discussion and analysis provides an assessment of how the MTA Metro-North Railroad's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Company's overall financial position. It may contain opinions, assumptions or conclusions by the Company's management that should not be considered a replacement for, and must be read in conjunction with, the financial statements.

#### ***The Financial Statements***

The Statements of Net Position provide information about the nature and amounts of resources with present service capacity that the MTA Metro-North Railroad presently controls (assets), consumption of net assets by the Company that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Company has little or no discretion to avoid (liabilities), and acquisition of net assets by the Company that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources being reported as net position.

The Statements of Revenues, Expenses and Changes in Net Position show how MTA Metro-North Railroad's net position changed during each year and accounts for all of the current and prior year's revenues and expenses, measure the success of the Company's operations over the twelve months and can be used to determine how the Company has funded its costs.

The Statements of Cash Flows provide information about the MTA Metro-North Railroad's cash receipts, cash payments and net changes in cash resulting from operations, noncapital financing and capital related financing activities.

### ***The Notes to the Financial Statements***

The notes provide information that is essential to understanding the financial statements, such as the MTA Metro-North Railroad's basis of presentation and significant accounting policies.

The notes also have the details of cash, capital assets, employee benefits, lease transactions and future commitments and contingencies of the MTA Metro-North Railroad, including any other events or developing situations that could materially affect the MTA Metro-North Railroad's financial position.

### ***Required Supplementary Information***

The Required Supplementary Information provides information concerning MTA Metro-North Railroad's progress in funding its obligation to provide pension and other postemployment benefits to its employees.

## **2. FINANCIAL REPORTING ENTITY**

The MTA Metro-North Railroad is a wholly owned public benefit corporation subsidiary of the Metropolitan Transportation Authority ("MTA"), established in September 1982 pursuant to the New York State Public Authorities Law and is a part of the related financial reporting group of the MTA. The MTA is a component unit of the State of New York.

The MTA Metro-North Railroad plays a vital role in the transportation network for the region. Commuter service is provided every day of the year, although frequency of service varies by route, day of week and time of day. Passenger transportation is provided between New York City and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in New York State, and New Haven and Fairfield counties in Connecticut. The Company has direct operating responsibility for the entire New Haven commuter railroad line under a Service Agreement among MTA, MTA Metro-North Railroad and the Connecticut Department of Transportation ("CDOT"). Under the terms of the Service Agreement, CDOT pays 65% of the net operating deficit of the New Haven main line operating deficit.

The MTA Metro-North Railroad also has a service agreement with New Jersey Transit ("NJT"). The agreement allows NJT to provide passenger service on the Port Jervis and Pascack Valley Lines in the State of New York (referred to as "West of Hudson"). The MTA Metro-North Railroad compensates NJT for that service, for their operating deficit, capital needs and under certain prescribed circumstances for fare hold down amounts.

## **3. CONDENSED FINANCIAL INFORMATION**

The following sections will discuss the significant changes in the MTA Metro-North Railroad's financial position for the years ended December 31, 2014 and 2013. Additionally, an examination of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are in conformity with the MTA Metro-North Railroad's financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America. All amounts are in thousands.



**Total assets (In thousands)**

	<b>As of December 31,</b>			<b>Increase/(Decrease)</b>	
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2014-2013</b>	<b>2013-2012</b>
Capital assets — net	\$4,440,691	\$4,388,372	\$4,306,250	\$ 52,319	\$ 82,122
Other assets	<u>271,772</u>	<u>233,340</u>	<u>234,682</u>	<u>38,432</u>	<u>(1,342)</u>
Total assets	<u>\$4,712,463</u>	<u>\$4,621,712</u>	<u>\$4,540,932</u>	<u>\$ 90,751</u>	<u>\$ 80,780</u>

Total other assets primarily consist of cash, receivables due from MTA and affiliates, other receivables, farecards (MetroCard subway tickets) on consignment, materials and supplies net of the reserve for obsolescence, and prepaid expenses.

***Significant changes in assets include:*****December 31, 2014 versus 2013**

- Net capital assets increased from December 31, 2013 to December 31, 2014 by \$52,319 or 1.2%. Major additions to capital assets in 2014 included \$71,124 of signal improvements, \$51,043 for substation improvements, \$49,199 for turnout and switch replacements, \$29,692 of M-8 passenger cars, \$22,507 for Positive Train Control, \$20,591 of Harmon shop improvements and \$16,994 for parking improvements, offset by depreciation and amortization of \$232,100.
- Other assets increased in 2014 by \$38,432 or 16.5%. Increases in receivables from CDOT of \$17,444 and from MTA of \$14,156 are primarily related to retroactive wage adjustments covering periods from 2011-2014. Other receivables include a refund of real estate taxes on the Graybar lease of \$7,257 for the years 2008-2013. Prepaid expenses include \$28,000 in advance payments of Defined Benefit Pension Plan, an increase of \$14,338 over previous year's advance. In addition, there was a prepayment to NYSHIP of \$8,397. These increases were partially offset by the utilization of unrestricted Other Post Employment Benefits ("OPEB") deposits to fund payments of the retroactive wage adjustments in the amount of \$25,333.

**December 31, 2013 versus 2012**

- Net capital assets increased from December 31, 2012 to December 31, 2013 by \$82,122 or 1.9%. Major additions to capital assets in 2013 included \$88,393 of M-8 passenger cars, \$31,291 for substation improvements, \$18,522 for New Haven line station improvements, \$17,289 of signal improvements, \$13,257 for turnout and switch replacements, \$12,504 for NYPA energy efficiency projects and \$8,972 of Harmon shop improvements, offset by depreciation and amortization of \$230,045.
- Other assets decreased in 2013 by less than 1%. Decrease in receivables from MTA of \$25,000 relating to the transfer of funds to the OPEB trust were offset by increases in Inventory of \$10,228, Cash of \$5,903 and Invested funds at MTA of \$4,964.

**Total liabilities (In thousands)**

	As of December 31,			Increase/(Decrease)	
	2014	2013	2012	2014-2013	2013-2012
Current liabilities	\$ 340,024	\$ 253,578	\$ 202,595	\$ 86,446	\$ 50,983
Noncurrent liabilities	<u>484,566</u>	<u>436,022</u>	<u>360,901</u>	<u>48,544</u>	<u>75,121</u>
Total liabilities	<u>\$ 824,590</u>	<u>\$ 689,600</u>	<u>\$ 563,496</u>	<u>\$ 134,990</u>	<u>\$ 126,104</u>

Total current liabilities primarily consist of accrued payroll and related fringe benefits, the short-term portion of claims liabilities, amounts due to MTA and affiliates and accounts payable accrued in the normal course of business. Noncurrent liabilities primarily consist of OPEB, the long-term portion of the claims liability, and a capital lease obligation for Grand Central Terminal.

***Significant changes in liabilities include:*****December 31, 2014 versus 2013**

- Current liabilities increased in 2014 by \$86,446 or 34.1%. The majority of the increase is in Payroll and related fringe benefits of \$96,538 primarily due to retroactive wage adjustments for both management and agreement employees covering 2011-2014. This is partially offset by a decrease in the liability to CDOT by \$11,237 as a result of the retroactive wage adjustment accruals.
- Non-current liabilities increased in 2014 by \$48,544 or 11.1% due to changes in the actuarial valuation of OPEB of \$58,373, offset by a decrease in claims liabilities of \$11,722. The Company recorded significant liabilities in 2013 due to several major incidents.

**December 31, 2013 versus 2012**

- Current liabilities increased in 2013 by \$50,983 or 25.2%. The increase includes \$20,307 due to NYPA primarily for installation of chillers in Grand Central Terminal, \$16,264 of increased accruals to outside vendors due to timing of payments, and \$4,155 of accrued wage adjustments for agreement employees in accordance with the MTA Financial Plan. In addition, the liability to CDOT increased by \$7,854 due to the timing of payments during the year related to the pre-payment of inventory for maintenance of the New Haven Line.
- Non-current liabilities increased in 2013 by \$75,121 or 20.8% due to changes in the actuarial valuation of OPEB of \$32,724 and increased anticipated claims liabilities of \$37,436 as a result of 2013 incidents.

**Total net position (In thousands)**

	As of December 31,			Increase/(Decrease)	
	2014	2013	2012	2014-2013	2013-2012
Net investment in capital assets	\$4,426,006	\$4,373,456	\$4,291,117	\$ 52,550	\$ 82,339
Unrestricted	<u>(538,133)</u>	<u>(441,344)</u>	<u>(313,681)</u>	<u>(96,789)</u>	<u>(127,663)</u>
Total net position	<u>\$3,887,873</u>	<u>\$3,932,112</u>	<u>\$3,977,436</u>	<u>\$ (44,239)</u>	<u>\$ (45,324)</u>

In 2014, the total net position decrease of \$ 44,239 is mainly attributed to \$160,119 of retroactive wage adjustments and related fringe benefit covering 2011-2014.

In 2013, the total net position decrease of \$45,324 includes \$47,188 of impact related to service disruptions. These events are described under Results of Operations.

**Condensed Statements of Revenues, Expenses, and Changes in Net Position (In thousands)**

	Years Ended December 31,			Increase/(Decrease)	
	2014	2013	2012	2014-2013	2013-2012
Operating revenues	\$ 706,466	\$ 669,157	\$ 638,921	\$ 37,309	\$ 30,236
Operating expenses	(1,528,504)	(1,398,690)	(1,248,221)	(129,814)	(150,469)
Asset impairment & related expenses	<u>-</u>	<u>(7,479)</u>	<u>(11,832)</u>	<u>7,479</u>	<u>4,353</u>
Operating loss	<u>(822,038)</u>	<u>(737,012)</u>	<u>(621,132)</u>	<u>(85,026)</u>	<u>(115,880)</u>
Total nonoperating revenues	<u>777,799</u>	<u>691,688</u>	<u>529,956</u>	<u>86,111</u>	<u>161,732</u>
Change in net position	<u>(44,239)</u>	<u>(45,324)</u>	<u>(91,176)</u>	<u>1,085</u>	<u>45,852</u>
Net position — beginning of year	<u>3,932,112</u>	<u>3,977,436</u>	<u>4,068,612</u>	<u>(45,324)</u>	<u>(91,176)</u>
Net position — end of year	<u>\$ 3,887,873</u>	<u>\$ 3,932,112</u>	<u>\$ 3,977,436</u>	<u>\$ (44,239)</u>	<u>\$ (45,324)</u>

**Operating Revenues by Major Source**

Passenger fares accounted for 92.0% and 92.5% of operating revenues in 2014 and 2013, respectively. The remaining revenue represents collection of rental income from stores in and around passenger stations, and revenue generated from advertising and the sale of food and beverages on platforms and trains.

MTA Metro-North (East of Hudson) passenger revenue increased in 2014 by \$30,874 or 5.0%, and ridership increased by 1,170 million or 1.4%. The revenue increase is primarily a reflection of a 5.04% Connecticut fare increase implemented on January 1, 2014.

MTA Metro-North (East of Hudson) passenger revenue increased in 2013 by \$31,507 or 5.4%, and ridership increased by 543 thousand or 0.7%. The revenue increase is primarily a reflection of a 5.04% Connecticut fare increase implemented on January 1, 2013 and New York State fare increase of approximately 9% implemented on March 1, 2013.

## ***Expenses by Category***

### **December 31, 2014 versus 2013**

***Salaries and wages*** increased by \$130,440 or 27.2% in 2014 over 2013. This increase is primarily due to retroactive wage adjustments covering 2011-2014.

***Retirement and Other Employee Benefits*** increased by \$6,120 or 2.5% in 2014 over 2013. The increase in fringe benefit expenses of \$29,679 largely relating to the retroactive wage adjustments was offset by lower employee claims expenses of \$11,436 and an increase in the overhead costs recovery relating to capital projects of \$12,122.

***Electric Power*** costs increased by \$6,999 or 9.4% in 2014 over 2013. This increase reflects price rate and increased usage as well as a new sub-station along the New Haven line.

***Fuel*** costs decreased by \$1,995 or 6.7% in 2014 over 2013. This decrease primarily reflects lower rates.

***Claims*** costs decreased by \$33,199 or 84.4% as 2013 contained significant provisions for the New Haven Line and Spuyten Duyvil derailments.

***Maintenance and Other Operating Contracts*** increased \$8,090 or 8.6%. This increase is primarily related to \$6,661 for the new lease at Graybar, \$2,587 for locomotive overhauls, \$2,877 for non revenue vehicle repairs and \$2,278 of MTA Police costs offset by a real estate tax refund of \$7,295.

***Environmental Remediation*** decreased by \$295 in 2014 or 15.3%. Several lead and asbestos abatement projects including GCT, Fordham Station and Harlem/Hudson Lines Power Improvements amounted to \$1,527 for the year compared to the one significant environmental contract for \$1,910 in 2013 for the Harlem River Lift Bridge lead and asbestos abatement project.

***Professional service contracts*** increased by \$905 or 3.9%. Engineering services increased by \$554 primarily due to track and engineering services to address safety initiatives, support and maintenance of bridge inspection and management system, and inspection manual for bridges and structures. In addition, training services increased by \$336, and market research and ridership analysis by \$297, offset by a reduction in IT vendor costs.

***Materials and supplies*** increased by \$5,353 or 8.2% primarily due to increased usage of truck and suspension materials for Maintenance of Equipment ("M of E") of \$3,733 related to the M7 10-year Rebuild program, repairs of revenue equipment related to the December 2013 Spuyten Duyvil incident of \$608, and \$468 of system equipment repair for Maintenance of Way ("M of W").

***Other business expenses*** increased by \$1,556 or 3.9%. The increase was due to \$2,916 of higher premiums related to the MTA Catastrophic Bond program, increase of \$445 credit card fees offset by an accrual of \$2,104 in 2013 for damaged cars from the Spuyten Duyvil derailment.

***Depreciation*** expense amounted to \$232,100 in 2014, an increase of \$2,055 or less than 1%. Included in the increase was \$4,204 of accelerated depreciation due to the disposal of M-6 cars prior to their estimated useful life.

## **December 31, 2013 versus 2012**

**Salaries and wages** increased by \$36,635 or 8.3% in 2013 over 2012. This increase is primarily due to overtime of \$13,517 reflecting work efforts associated with the Right-of-Way Improvement project that includes track and drainage improvements, mud spots and concrete ties repairs in the Bronx. In addition, incremental costs have been incurred related to several service disruptions including derailment incidents and the New Haven Con Ed Power outage. Additionally, this increase includes retirement payouts of \$7,622 and \$4,155 in accrued wage adjustments of 1.97% for agreement employees starting July 15, 2013 in accordance with the MTA Financial Plan.

**Retirement and Other Employee Benefits** increased by \$36,858 or 17.9% in 2013 over 2012. This increase is primarily due to an increase in MTA Defined Benefit Plan funding requirements, higher health insurance premiums associated with higher labor costs. In addition, Other Fringe Benefits increased by \$11,745 reflecting primarily higher employee claim provisions.

**Electric Power** costs increased by \$4,431 or 6.3% in 2013 over 2012. This increase reflects price rate and increased usage.

**Fuel** costs increased by \$847 or 2.9% in 2013 over 2012. This increase reflects primarily higher diesel consumption and higher rates, and a longer than usual winter heating season.

**Claims** costs increased by \$38,972 in 2013 primarily due to higher projected passenger claims provisions driven by the May New Haven Line and December Spuyten Duyvil derailments.

**Maintenance and Other Operating Contracts** increased \$8,019 or 9.3%. This increase reflects higher MTA Police costs of \$3,327, maintenance expenses related to Right-of-Way Improvement Project of \$2,857 and bus services used during service disruptions of \$2,847.

**Environmental Remediation** increased by \$1,797 in 2013 over 2012 primarily related to Harlem River Lift Bridge lead and asbestos abatement project of \$1,910.

**Professional service contracts** decreased by \$774 or 3.2% as 2012 included engineering services related to inspection services for all Metro-North Hudson Line bridges.

**Materials and supplies** increased by \$2,561 or 4.1% primarily due to adjustments for obsolete material reserve of \$2,081.

**Other business expenses** increased by \$10,645 or 36.3%. Insurance costs of \$3,597 reflecting higher premiums related to the MTA Catastrophic Bond program contributed to this increase, as did New Jersey Transit subsidy payments, which increased by \$2,833 related to higher cost indices and additional service requests in 2013 and adjustment of Hurricane Irene expenses recorded in 2012. In addition, there was an accrual for car damages due to the December Spuyten Duyvil derailment of \$2,104 and lower Amtrak cost recovery of \$2,150 primarily due to reductions in train time performance.

**Depreciation** expense amounted to \$230,045 in 2013, an increase of \$7,488 or 3.4% compared to \$222,557 in 2012. The increase is due to the addition of M-8 cars in 2013 for \$1,689 half year depreciation and the M-8 cars in 2012 for \$6,806 full year depreciation.



### ***Nonoperating Revenues by Major Source***

***MTA Contributions for Capital Projects*** — MTA capital contributions decreased in 2014 by \$9,342 or 3.4%. The decrease in 2014 is primarily due to the \$56,334 decrease for the purchase of M-8 cars from \$86,025 in 2013 to \$29,691 in 2014 offset by \$22,507 for Positive Train Control and \$19,752 of substation improvements. MTA capital contributions increased in 2013 by \$56,263 or 26.0%. The increase in 2013 is primarily due to the \$54,944 increase for the purchase of M-8 cars from \$31,081 in 2012 to \$86,025 in 2013.

***MTA Operating Subsidies*** — MTA operating subsidies increased in 2014 over 2013 by \$66,326 or 20.4% primarily due to \$26,038 of claims payouts mainly relating to the 2013 incidents and \$14,292 of retroactive wage payouts. The remainder is related to the fringe benefit impacts of the retroactive payouts and the ongoing higher wage rates. Operating subsidies are recorded when paid and vary according to the cash needs of the MTA Metro-North Railroad.

***CDOT Subsidies Relating to the New Haven Line*** — Amounts due from CDOT for operating subsidies increased in 2014 by \$35,001 or 42.34%. The increase is attributable to \$40,498 of labor and fringe primarily for the accrued 2011-2014 retroactive wage adjustments and related taxes and pension, offset by an increase in fare revenue of \$11,093 from the 5.04% Connecticut fare increase that went into effect in January 2014. The amount CDOT is required to contribute is derived from an agreed upon formula based on the New Haven Line deficit.

## **4. OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS**

### ***Economic Conditions***

Metropolitan New York is the most transit-intensive region in the United States. A financially sound and reliable transportation system is critical to the region's economic well-being.

Many different economic forces can affect the MTA Metro-North Railroad's ridership base in different ways. In order to achieve maximum efficiency and success in its operations, the MTA Metro-North Railroad must identify economic trends and continually implement strategies to adapt to changing economic conditions.

The MTA Metro-North Railroad requires significant subsidies from and has material transactions with the MTA. In addition, MTA Metro-North also relies on subsidies from the Connecticut Department of Transportation ("CDOT") to support the Connecticut operations of the New Haven Line.

The average level of seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2014 than in 2013 by 87.3 thousand jobs (up 2.2%). On a quarter-to-quarter basis, New York City employment has increased in each of the last sixteen quarters – the last decline occurred in the third quarter of 2010 – and is higher than at any time since 1950, when non-agricultural employment levels for New York City were first recorded by the Bureau of Labor Statistics.

The employment gain for New York City in the fourth quarter is consistent with an improving national economy; fourth quarter Real Gross Domestic Product ("RGDP") grew at an annualized rate of 2.6%, according to the most recent advance estimate released by the Bureau of Economic Analysis. The increase primarily reflected contributions from personal consumption expenditures, exports, state and local government spending, non-residential fixed investment, and private inventory investment, partially offset by a decline in federal government spending and an increase in imports. Fourth quarter RGDP



growth slowed relative to third quarter growth as federal government spending, non-residential fixed investment and exports fell, while imports rose. The national economy has now grown in twenty of the last twenty-two quarters.

The New York City metropolitan area's price inflation of 0.6% was lower than the national average of 1.0% in the fourth quarter of 2014. A 7.8% fall in the price of energy products dampened the overall rise in consumer prices: the Consumer Price Index ("CPI") exclusive of energy products increased by 1.5% in the New York-New Jersey-Long Island area. Consistent with the fall in overall energy prices, spot prices for New York Harbor conventional gasoline fell by 22.8% from an average price of \$2.698 to an average of \$2.082 per gallon between the fourth quarters of 2013 and 2014.

In June 2014, the Federal Reserve Bank announced that the Federal Open Market Committee ("FOMC") would continue targeting the Federal Funds rate to the range of 0% to 0.25%, a range consistent with its statutory dual mandate to foster maximum employment within a context of price stability. The Federal Funds rate has remained in this range since late 2008, as financial and housing market crises deepened. In fact, the Federal Reserve Bank began to pursue expansionary intervention more than a year earlier as a response to the impending economic downturn: since the third quarter of 2007, the Federal Reserve Bank has sought to mitigate the consequences of recession by loosening the tight credit conditions that resulted from the national mortgage crisis. In March 2009, the Federal Reserve Bank began a program of large scale purchases of government guaranteed assets. The objective of the program, which was expanded in November 2010, was to raise the price of long-term securities, thereby lowering interest rates in order to stimulate investment in the economy.

In spite of the steady improvement in economic activity in the second, third and fourth quarters of 2014, the FOMC elected in December to maintain an accommodative stance by continuing to target a Federal Funds rate in the range of 0% to 0.25%, noting that, partly because of the decline in energy prices, inflation rates remained below the Committee's long-run objective; while labor markets evinced signs of improvement, the FOMC observed that recovery in the housing sector remained slow. In addition to maintaining the Federal Funds rate, the FOMC announced additional measures to foster conditions amenable to financial markets, including the continuation of its policy of reinvesting principal payments from its holdings of agency debt and mortgage-backed securities and of rolling over maturing Treasury securities at auction.

### ***Results of Operations***

Early in 2014, Metro-North established a "100-Day Action Plan" in response to a series of derailments and incidents in 2013. Developed with input from the Federal Railroad Administration ("FRA"), the National Transportation Safety Board ("NTSB"), the MTA Blue Ribbon Panel on Safety, elected officials, and other key parties, the plan set forth 32 initiatives, all of which Metro-North either completed or began within the 100-day timeframe. Metro-North is fully committed to carrying out these initiatives, while maintaining a relentless focus on the safety of customers, employees, and neighbors. With these and other measures, Metro-North has begun the work of returning the railroad to its "best-in-class" status.

Metro-North's total ridership of 85.2 million in 2014 was the highest in the railroad's history. The East-of-Hudson ridership of 83 million surpassed the previous record of 81.8 million set in 2013. The Hudson Line was the fastest growing line with a 2.3-percent increase and a record 16.2 million customers. The New Haven Line was up 1.6 percent with 39.6 million riders, surpassing last year's record by 0.6 million customers. The Harlem Line grew 0.7 percent with 27.1 million customers. Commutation ridership grew 0.5 percent, while non-commutation ridership increased 2.7 percent.

Combined ridership on the three Metro-North-operated connecting services (Haverstraw-Ossining Ferry, Newburgh-Beacon Ferry, and Hudson Rail Link) decreased by 1.2 percent in 2014 to just over 0.53 million riders, with increases on the rail link offset by decreases on both ferries. West-of-Hudson ridership rose by 6.8 percent to 1.7 million, with a 3.6-percent increase on the Port Jervis Line and a 12.2-percent surge on the Pascack Valley Line. The increases are attributable to reliable service, an improving economy, and customers returning after the disruptions of Superstorm Sandy and other weather events.

Metro-North's system-wide "on-time performance" ("OTP") for 2014 totaled 91.5 percent, down from 94.8 percent in 2013 and below the goal of 93 percent. The Harlem Line performed at 93.6 percent OTP, the Hudson Line at 91.8 percent OTP, and the New Haven Line at 89.7 percent OTP. Factors contributing to the decrease included: speed restrictions enacted by FRA Executive Order 29 following a December 1, 2013, derailment; extreme weather in the first quarter of 2014; aggressive track inspections and maintenance requiring temporary speed restrictions; a fire that destroyed critical switch and signal equipment near Cos Cob, limiting peak-direction trains on the New Haven Line; and the repeated failure of the 118-year-old rotating Walk Bridge at Norwalk, CT. West-of-Hudson OTP totaled 95.4 percent, a slight decrease from 97.3 percent the previous year, due largely to the harsh weather in the first quarter of 2014.

## **5. SIGNIFICANT CAPITAL ASSET ACTIVITY**

**Capital Program** — The MTA Metro-North Railroad's portion of the MTA's Capital Program for 2005-2009 totals \$1.487 billion. The commitments made during 2014 totaled \$11.5 million. The MTA Metro-North Railroad's portion of the MTA's Capital Program for 2010-2014 totals \$1.557 billion, of which \$516.5 million has been allocated to 2014.

The 2010-2014 capital program includes continued investment in the modernization of the fleet, including \$245.5 million for New Haven Line M-8 cars, investment in Harmon Shop improvements of \$315.6 million, and station improvements on all three lines.

In the past, the capital program has brought the infrastructure, including tracks, passenger stations and communications to a state of good repair and opened new or refurbished maintenance shops. The achievements of the investments made during prior capital programs yielded dramatic improvements in trip times, reliability, on-time performance, passenger comfort, safety and convenience. See Capital Assets Note 5 for further details.

## **6. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

In October 2011, the MTA Board approved the proposal for an increase in New Haven Line fares for travel to or from stations located in Connecticut. The approval provided for a cumulative increase of approximately 16.2%, phased in as of January 1, 2012 (5.3%), January 1, 2013 (5.04%), and January 1, 2014 (5.04%).

In December 2012, the MTA Board approved the proposal for an increase in fares for travel between New York State stations. Most ticket types increased by approximately 9% as of March 2013.

On October 1, 2013, the MTA Board approved a credit for New Haven Line customers with monthly or weekly tickets during the ConEd power outage from September 25, 2013 through full service restoration on October 7, 2013. Customers received a prorated credit towards the purchase of a future ticket for every week that the service disruption continued. Total credits processed through December 31, 2013

were approximately \$4,077 and an additional \$98 was processed through March 31, 2014, the credit expiration date.

For the year ended December 31, 2013, MTA Metro-North Railroad has recorded the financial impact for service disruptions as follows:

- |  |           |
|--|-----------|
| • New Haven line Derailment              | \$ 26,516 |
| • Con-Edison New Haven line Power Outage | \$ 5,744  |
| • Spuyten Duyvil Derailment              | \$ 14,858 |

There was no significant residual financial impact from these service disruptions recorded in 2014.

### ***Governance Changes***

Joseph J. Giulietti, formerly the Executive Director of the South Florida Regional Transportation Authority and a MTA Metro-North Railroad veteran, was named the new president of MTA Metro-North Railroad as of February 10, 2014.

James B. Henly, who had served as MTA General Counsel for the previous seven years, assumed new responsibilities as Vice President & General Counsel of MTA Metro-North Railroad in mid-February, 2014.

Catherine Rinaldi, who served as MTA Chief of Staff for the past three years, joined MTA Metro-North Railroad as Executive Vice President effective on January 12, 2015.

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**METRO-NORTH COMMUTER RAILROAD COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2014 AND 2013**  
**(Amounts in thousands)**

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash (Note 3)	\$ 14,281	\$ 18,747
Fare cards	11,043	15,162
Invested funds at MTA (Note 2)	5,018	9,847
Receivables:		
Passenger	4,949	4,273
Due from MTA and affiliated agencies (Note 11)	38,503	22,894
Due from CDOT	17,444	-
Due from NYSDOT	2,481	1,036
Due from Amtrak	2,575	2,452
Rents	3,974	3,084
Other	10,614	2,908
Less allowance for doubtful accounts	(718)	(913)
Total receivables — net	79,822	35,734
Materials and supplies — net of reserve for obsolescence of \$36,596 and \$35,292 in 2014 and 2013, respectively (Note 2)	88,174	85,156
Prepaid expenses	56,848	30,570
Total current assets	255,186	195,216
<b>NONCURRENT ASSETS:</b>		
Capital assets — net (Notes 2 and 5)	4,440,691	4,388,372
Invested funds at MTA (Note 2)	11,739	32,580
Other	4,847	5,544
Total noncurrent assets	4,457,277	4,426,496
<b>TOTAL ASSETS</b>	<b>\$4,712,463</b>	<b>\$4,621,712</b>

See notes to financial statements.

(Continued)

**METRO-NORTH COMMUTER RAILROAD COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2014 AND 2013**  
**(Amounts in thousands)**

	<b>2014</b>	<b>2013</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 56,914	\$ 63,604
Due to MTA and affiliated agencies (Note 11)	42,882	34,767
Due to CDOT	-	11,237
Accrued expenses:		
Payroll and related fringe benefits	194,602	98,064
Current portion of estimated liability arising from injuries to persons (Note 9)	16,078	15,723
Unearned passenger revenue	13,223	13,910
Other	16,325	16,273
Total current liabilities	<u>340,024</u>	<u>253,578</u>
<b>NONCURRENT LIABILITIES:</b>		
Estimated liability for other postemployment benefits (Note 7)	397,881	339,508
Estimated liability arising from injuries to persons (Note 9)	51,169	62,891
Capital lease obligation (Note 8)	14,564	14,802
Due to MTA and affiliated agencies (Note 11)	7,427	10,053
Other long-term liabilities	13,525	8,768
Total noncurrent liabilities	<u>484,566</u>	<u>436,022</u>
<b>TOTAL LIABILITIES</b>	<u>824,590</u>	<u>689,600</u>
<b>NET POSITION:</b>		
Net investment in capital assets	4,426,006	4,373,456
Unrestricted	(538,133)	(441,344)
Total net position	<u>3,887,873</u>	<u>3,932,112</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$4,712,463</u>	<u>\$4,621,712</u>

See notes to financial statements.

(Concluded)

**METRO-NORTH COMMUTER RAILROAD COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(Amounts in thousands)**

	2014	2013
OPERATING REVENUES:		
Passenger	\$ 649,850	\$ 618,812
Rents and utilities	33,594	29,895
Advertising	15,324	14,070
Food and beverage	6,244	6,209
Other	1,454	171
Total operating revenues	<u>706,466</u>	<u>669,157</u>
OPERATING EXPENSES:		
Salaries and wages	610,228	479,788
Retirement and other employee benefits	248,428	242,308
Postemployment benefits other than pensions	82,475	78,690
Electric Power	81,415	74,416
Fuel	27,642	29,637
Claims	6,129	39,328
Maintenance and other operating contracts	102,273	94,183
Professional service contracts	24,214	23,309
Environmental Remediation	1,632	1,927
Materials and supplies	70,434	65,081
Depreciation and amortization	232,100	230,045
Other business expenses	41,534	39,978
Total operating expenses	<u>1,528,504</u>	<u>1,398,690</u>
Asset impairment and related expenses (Note 13)	<u>-</u>	<u>7,479</u>
OPERATING LOSS	<u>(822,038)</u>	<u>(737,012)</u>
NONOPERATING REVENUES (Notes 2 and 13):		
Capital contributions from MTA	263,164	272,506
Operating subsidies from MTA	392,152	325,826
CDOT subsidies relating to NHL operations	117,658	82,657
Other Non-operating revenue and expenses	(637)	(568)
FTA-FEMA Reimbursement	5,462	11,267
Total nonoperating revenues	<u>777,799</u>	<u>691,688</u>
CHANGE IN NET POSITION	(44,239)	(45,324)
NET POSITION - BEGINNING OF YEAR	<u>3,932,112</u>	<u>3,977,436</u>
NET POSITION - END OF YEAR	<u>\$ 3,887,873</u>	<u>\$ 3,932,112</u>

See notes to financial statements.



**METRO-NORTH COMMUTER RAILROAD COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(Amounts in thousands)**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Passenger receipts	\$ 648,360	\$ 620,938
Rents, sundry, and other receipts	54,877	51,133
Payroll and related fringes	(800,139)	(764,960)
Other operating expenses	(360,742)	(254,902)
Net cash used in operating activities	(457,644)	(347,791)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Operating subsidies from MTA	389,711	323,385
Operating subsidies from CDOT	92,814	66,080
Other Non-operating revenue and expenses	456	482
FTA/FEMA Reimbursement	5,463	11,267
Cash provided by noncapital financing activities	488,444	401,214
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital contributions from MTA	68,133	63,413
Capital expenditures	(103,399)	(110,933)
Net cash used in capital related financing activities	(35,266)	(47,520)
<b>NET (DECREASE)/INCREASE IN CASH</b>	<b>(4,466)</b>	<b>5,903</b>
CASH — Beginning of year	18,747	12,844
CASH — End of year	<u>\$ 14,281</u>	<u>\$ 18,747</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating loss	\$ (822,038)	\$ (737,012)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation, amortization, and retirements	232,100	230,045
Net increase in payables, accrued expenses, and other liabilities	140,445	131,405
Net decrease in farecards and receivables	286	12,132
Net (increase)/decrease in materials and prepaid expenses	(8,437)	15,639
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b><u>\$ (457,644)</u></b>	<b><u>\$ (347,791)</u></b>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
In 2014 and 2013, MTA contributed capital assets of \$184,774 and \$213,694 respectively, to the Company.		

See notes to financial statements.

# METRO-NORTH COMMUTER Railroad Company

(Subsidiary of the Metropolitan Transportation Authority)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Amounts in thousands)

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### 1. BASIS OF PRESENTATION

**Reporting Entity** — The Metro-North Commuter Railroad Company (the “MTA Metro-North Railroad”) is a wholly owned, public benefit corporation subsidiary of the Metropolitan Transportation Authority (MTA), established in September 1982 pursuant to the New York State Public Authorities Law and is a part of the related financial reporting group of the MTA. The MTA is a component unit of the State of New York.

The MTA Metro-North Railroad performs a public service by providing essential commuter passenger transportation between New York City and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland Counties in New York State, and New Haven and Fairfield Counties in Connecticut. The Company has direct operating responsibility for the entire New Haven commuter railroad line under a service agreement among MTA, MTA Metro-North Railroad and the Connecticut Department of Transportation (“CDOT”). It also has direct operating responsibility for the Harlem/Hudson Lines in New York State. In addition, pursuant to a service agreement between the MTA Metro-North Railroad and New Jersey Transit Rail Operations, Inc. (“New Jersey Transit”) the Company funds certain net operating costs of the Port Jervis and Pascack Valley Lines operated by New Jersey Transit.

Substantial deficits result from providing these services and the MTA Metro-North Railroad expects that such deficits will continue in the foreseeable future. Funding for the MTA Metro-North Railroad’s operations and capital needs is provided by MTA and CDOT. MTA obtains the required funds from state and federal grants, the sale of bonds to the public and other sources. Certain funding by MTA is made to the MTA Metro-North Railroad on a discretionary basis. The continuance of the MTA Metro-North Railroad’s operations has been, and will continue to be, dependent upon the receipt of adequate funds from the MTA, as well as subsidies provided by CDOT.

The MTA Metro-North Railroad is not liable for real estate or personal property taxes on its properties, or sales taxes on substantially all of its purchases.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Metro-North Railroad applies Governmental Accounting Standards Board (“GASB”) Codification of Governmental Accounting and Financial Reporting Standards (“GASB Codification”) Section P80, *Proprietary Accounting and Financial Reporting*.

## New Accounting Standards —

The MTA Metro-North Railroad has not completed the process of evaluating the impact of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and RSI. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

The MTA Metro-North Railroad has completed the process of evaluating the impact of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB Statement No. 69 requires the use of carrying values to measure the assets and liabilities in a government merger and requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. GASB Statement No. 69 also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. GASB Statement No. 69 provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. GASB Statement No. 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The MTA Metro-North has determined that GASB Statement No. 69 had no impact on its financial position, results of operations, and cash flows.

The MTA Metro-North has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. GASB Statement No. 70 also requires a government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. GASB Statement No. 70 further requires an issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. This Statement also requires a government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The MTA has determined that GASB Statement No. 70 had no impact on its financial position, results of operations, and cash flows.

The MTA Metro-North Railroad has not completed the process of evaluating the impact of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the

first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The requirements of this Statement should be applied simultaneously with the provisions of GASB Statement No. 68 and are effective for fiscal years beginning after June 15, 2014.

The MTA Metro-North Railroad has not completed the process of evaluating the impact of GASB Statement No. 72, Fair Value Measurement and Application. The objective of GASB Statement No. 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, Measurement of Elements of Financial Statements, and other relevant literature. The provisions in GASB Statement No. 72 are effective for fiscal years beginning after June 15, 2015.

**Use of Management's Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Invested Funds at MTA** — The MTA, on behalf of the MTA Metro-North Railroad, invests funds which are not immediately required for the MTA Metro-North Railroad's operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. All investments are held by the MTA's agent in custody accounts in the name of the MTA.

The MTA Metro-North Railroad records its position in the MTA Investment Pool based upon a net asset value derived on assets invested in the Pool and all realized income and losses earned. Unrealized appreciation, which is not significant to the MTA Metro-North Railroad, is retained on the MTA's books and not included in the MTA Metro-North Railroad's financial statement.

**Materials and Supplies** — Materials and supplies, except for repaired and repairable items, are recorded at average cost. Reserve for obsolete and excess materials was \$36,596 and \$35,292 in 2014 and 2013, respectively. Repaired items, such as engines and motors, are valued at 50% of their average purchase price.

**Fare Cards** — MTA Metro North Railroad sells joint prevalued MetroCard ("fare cards") on consignment on behalf of an affiliated agency. Such fare cards are recorded at cost and reimbursed to the affiliated agency upon sale.

**Capital Assets** — Capital assets and improvements include all land, buildings, leasehold improvements, and equipment of the MTA Metro-North Railroad having a useful life of greater than two years and having a cost of at least \$25.

Capital assets are stated at historical cost, or at estimated historical cost based on appraisals or on other acceptable methods when historical cost is not available. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease.



Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives, 25 to 30 years for road and structures, 50 years for rail and buildings, and 3 to 20 years for other equipment. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the assets, whichever is less.

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment loss on assets to be sold, if any, is based on the estimated proceeds to be received, less estimated costs to sell.

Expenditures for maintenance and repairs that do not extend the useful life of the asset are charged to operations as incurred. Funding for substantially all capital projects of the MTA Metro-North Railroad is provided by MTA. Asset acquisitions funded by MTA on capital projects are transferred to the MTA Metro-North Railroad monthly.

**Pollution Remediation Projects** — Effective January 1, 2008, pollution remediation costs have been expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 10). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations, which previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: the MTA Metro-North Railroad is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the MTA Metro-North Railroad is named by a regulator as a responsible or potentially responsible party to participate in remediation; the MTA Metro-North Railroad voluntarily commences or legally obligates itself to commence remediation efforts; or the MTA Metro-North Railroad is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

**Operating Revenues** — Passenger revenues from the sale of tickets are recognized as income as they are sold; deferred revenue is recorded for tickets sold in advance of the period for which the ticket is valid. Revenues from rents are recorded when earned. Revenues from food and beverage are recorded when the items are sold.

**Nonoperating Revenues** — The MTA Metro-North Railroad receives both Capital Contributions and Operating Subsidies from the MTA, and subsidies relating to New Haven Line operations from the Connecticut Department of Transportation.

**Nonexchange Transactions with MTA** — In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, funds contributed by MTA for the MTA Metro-North Railroad's capital project expenditures are reported as nonoperating revenue when such expenditures are accrued. MTA contributions for capital projects are included as nonoperating capital projects subsidy in the accompanying statements of revenues, expenses and changes in net assets.

The cost of certain services provided by MTA for the benefit of the MTA Metro-North Railroad are accrued as incurred, including the cost of Police services relating to the New Haven Line. MTA does not charge the MTA Metro-North Railroad (or other related groups) for the cost of Police services relating to the other lines.

**Amount Recoverable from CDOT** — The portion of the deficit from operations relating to the New Haven line recoverable from CDOT is recorded as nonoperating revenue based on billings reflecting the

monthly deficit. The CDOT Service Agreement (the “Service Agreement”), dated June 21, 1985, governs the operations of the New Haven Line. The Service Agreement provides for automatic five-year renewals. The present renewal term commenced January 1, 2015 and expires December 31, 2019.

Under the terms of the Service Agreement, CDOT pays 100% of the net operating deficit of the branch lines (New Canaan, Danbury and Waterbury) and 65% of the New Haven main line operating deficit. The New Haven Line’s share of the net operating deficit of Grand Central Terminal (GCT) is funded by a fixed fee for the use of GCT, calculated using several years as a base, with annual increases for inflation and the actual cost of operating GCT North End Access beginning in 1999. The Service Agreement also provides that CDOT shall pay 100% of the cost of nonmovable capital assets located in Connecticut, 100% of movable capital assets to be used primarily on the branch lines and 65% of the cost of other movable capital assets allocated to the New Haven Line. Remaining funding for New Haven Line capital assets is provided by MTA. Capital assets completely funded by CDOT are not reflected in the MTA Metro-North Railroad’s financial statements, as ownership is retained by CDOT.

The Service Agreement provides that final billings for each year are subject to audit by CDOT. The audits of 2012, 2013 and 2014 billing are still open.

**Compensated Absences** — The MTA Metro-North Railroad has accrued the full value (including fringe benefits) of all vacation and sick leave benefits earned by employees to date if the leave is attributable to past service and it is probable that the MTA Metro-North Railroad will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Accruals for vacation benefits were \$44.5 million and \$41.4 million at December 31, 2014 and 2013, respectively. Accruals for sick leave benefits were \$26.0 million and \$24.6 million at December 31, 2014 and 2013, respectively.

**Liability Insurance** — FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program (“ELF”) that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limit for MTA Metro-North Railroad was \$8 million. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limit for MTA Metro-North Railroad was \$9 million. Effective November 1, 2012 the self-insured retention limit for ELF was increased to \$10 million for MTA Metro-North Railroad. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2014, the balance of the assets in this program was \$72.2 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 million for a total limit of \$400 million (\$350 million excess of \$50 million). In certain circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of \$50 million.



On March 1, 2014, the “nonrevenue fleet” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA Group with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides \$10 million per occurrence limit with a \$0.5 million per occurrence deductible for MTA Metro-North Railroad. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On December 15, 2014, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$10 million per occurrence loss for MTA Metro-North Railroad.

**Property Insurance** — Effective May 1, 2014, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate as well as certain exceptions summarized below. The total program is \$600 million per occurrence covering property of the related entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 million per occurrence. The property insurance policy provides replacement cost coverage for all risks (including Earthquake, Flood and Wind) of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

In addition to the noted \$25 million per occurrence self-insured retention, MTA self-insures All Risk (excluding Earthquake, Flood, and Wind) above that retention for an additional \$362.3 million within the overall \$600 million property program, as follows: \$32.98 million (or 32.98%) of the \$100 million layer excess of the primary \$150 million layer, plus \$229.33 million (or 91.7%) of the \$250 million layer excess of \$250 million, plus \$100 million (or 100%) of \$100 million excess of \$500 million.

FMTAC is 100% reinsured in the domestic, Asian, London, European and Bermuda marketplaces for the perils of Earthquake, Flood, and Wind for the \$600 million per occurrence and in the annual aggregate property program.

Supplementing the \$600 million per occurrence coverage noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$200 million of fully collateralized storm surge coverage for losses from storm surges that surpass specified trigger levels in the New York Harbor or Long Island Sound and are associated with named storms that occur at any point in the three year period from July 31, 2013 to July 30, 2016. The expanded protection is reinsured by MetroCat Re Ltd., a Bermuda special purpose insurer independent of MTA, formed to provide FMTAC with capital markets-based property reinsurance. The MetroCat Re reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is available for storm surge losses only after amounts available under the \$600 million in general property reinsurance are exhausted.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 85% of “certified” losses, as covered by the Terrorism Risk Insurance Act (“TRIA”) of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. The remaining 15% of MTA Group losses arising from an act of terrorism would be covered under the additional terrorism policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed \$100 million (“trigger”). The United States government’s reinsurance of FMTAC was extended for six years through December 31, 2020.

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) program, the MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 15% of any “certified” act of terrorism — up to a maximum recovery of \$161.5 million for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15% “certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$100 million TRIPRA trigger — up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2015. Recovery under this policy is subject to a retention of \$25 million per occurrence and \$75 million in the annual aggregate in the event of multiple losses during the policy year. Should the MTA Group’s retention in any one year exceed \$75 million future losses in that policy year are subject to a retention of \$7.5 million.

**Self-Insurance and Risk Retention** — The MTA Metro-North Railroad is self-insured for liabilities arising from injuries to passengers, employees and others with the exception of injuries to non-employees and off-duty employees arising from occurrences at NYS stations (“Station Liability”), and employees and non-employees, arising from reimbursable project work (“Force Account”). The MTA Metro-North Railroad accrues the estimated total cost for the self-insured liability arising out of these claims. For incidents occurring on or before October 31, 2012, claims arising from Station Liability and Force Account are fully insured up to \$9 million per occurrence. That amount was increased to \$10 million per occurrence for incidents occurring on or after November 1, 2012.

**Deferred Compensation Plan** — The MTA and its affiliated agencies’ employees are participants in a deferred compensation plan in accordance with Internal Revenue Code Section 457. The MTA Metro-North Railroad established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Accordingly, at December 31, 2014 and 2013, plan assets and liabilities are not reflected in the accompanying statements of net position.

**Retirement Benefits** — The MTA Metro-North Railroad’s pension plans are governmental plans and, accordingly, are not subject to funding and other requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

**Pension Plans** — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. MTA Metro-North Railroad has adopted this standard for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions (ARC) to the pension plan, calculated in accordance with certain parameters.

**Postemployment Benefits Other Than Pensions** — In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. MTA Metro-North Railroad has adopted these standards for its Postemployment Benefits Other Than Pensions.

### 3. CASH

The bank balances are insured up to \$250 in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited. The bank balances in 2014 and 2013 that were not insured were maintained in major financial institutions.

At December 31, 2014 and 2013, cash consisted of (in thousands):

	2014		2013	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits (FDIC)	\$ 250	\$ 250	\$ 250	\$ 250
Collateralized deposits	4,337	4,337	2,578	2,213
Uninsured deposits — noncollateralized	3,077	2,972	7,806	7,886
Uninsured amounts held by ticket agents and deposits in transit	6,617	-	8,113	-
	<u>\$ 14,281</u>	<u>\$ 7,559</u>	<u>\$ 18,747</u>	<u>\$ 10,349</u>

Certain of these cash accounts are held in the name of a trustee; the book values of these accounts at December 31, 2014 and 2013 were \$10,595 and \$9,970, respectively. These accounts include revenue pledged by the MTA Metro-North Railroad as collateral for the MTA Transportation Revenue Bonds, as discussed more fully in Note 4.

The MTA, on behalf of the MTA Metro-North Railroad, invests funds that are not immediately required for the MTA Metro-North Railroad’s operations in securities permitted by the MTA’s All-Agency Investment Guidelines in accordance with the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. The Company has no financial instruments with significant individual or group concentration of credit risk.

### 4. TRANSPORTATION REVENUE BONDS

The MTA Metro-North Railroad’s capital programs are partially funded from the proceeds of bonds, including the MTA’s Transportation Revenue Bonds. The Transportation Revenue Bonds are special obligations of MTA, payable from, and secured by a pledge of:

- the gross operating revenues of the MTA Metro-North Railroad, MTA Long Island Rail Road and the New York City Transit Authority (“MTA New York City Transit”) and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority, until monthly deposits of principal and interest are satisfied under the Transportation Revenue Bond Resolution,
- Triborough Bridge and Tunnel Authority’s operating surplus,
- general operating subsidies from the State and local governments,
- special tax-supported operating subsidies, and
- station maintenance and service reimbursements.

## 5. CAPITAL ASSETS, NET

The following is a summary of capital assets activity as of December 31, 2014 and 2013 (in thousands):

	2012	Additions	Deletions	2013	Additions	Deletions	2014
Capital assets, not being depreciated:							
Land	\$ 65,159	\$ 3,286	\$ -	\$ 68,445	\$ 7,840	\$ -	\$ 76,285
Construction work-in-progress	387,892	318,793	201,163	505,522	281,743	148,557	638,708
Assets awaiting disposition	<u>5</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>5</u>
Total capital assets, not being depreciated	<u>453,056</u>	<u>322,079</u>	<u>201,163</u>	<u>573,972</u>	<u>289,583</u>	<u>148,557</u>	<u>714,998</u>
Capital assets, being depreciated:							
Roads	1,704,331	14,077	-	1,718,408	3,489	-	1,721,897
Buildings and structures	3,014,430	80,497	-	3,094,927	76,957	-	3,171,884
Buildings and structures under capital leases	28,372	-	-	28,372	-	-	28,372
West of Hudson improvements	217,200	1,348	-	218,548	13,039	-	231,587
Passenger cars	1,521,416	90,640	75,312	1,536,744	41,723	37,677	1,540,790
Locomotives	160,470	-	-	160,470	126	-	160,596
Other	265,563	10,601	1,840	274,324	8,151	1,914	280,561
Total capital assets, being depreciated	<u>6,911,782</u>	<u>197,163</u>	<u>77,152</u>	<u>7,031,793</u>	<u>143,485</u>	<u>39,591</u>	<u>7,135,687</u>
Less accumulated depreciation:							
Roads	885,276	50,445	-	935,721	47,671	-	983,392
Buildings and structures	1,131,918	96,808	-	1,228,726	98,948	-	1,327,674
Buildings and structures under capital leases	1,872	101	-	1,973	101	-	2,074
West of Hudson improvements	47,721	6,089	-	53,810	7,000	-	60,810
Passenger cars	716,325	54,784	69,815	701,294	55,823	37,585	719,532
Locomotives	84,849	6,298	-	91,147	6,196	-	97,343
Other	190,627	15,520	1,425	204,722	16,361	1,914	219,169
Total accumulated depreciation	<u>3,058,588</u>	<u>230,045</u>	<u>71,240</u>	<u>3,217,393</u>	<u>232,100</u>	<u>39,499</u>	<u>3,409,994</u>
Total capital assets, being depreciated — net	<u>3,853,194</u>	<u>(32,882)</u>	<u>5,912</u>	<u>3,814,400</u>	<u>(88,615)</u>	<u>92</u>	<u>3,725,693</u>
Capital assets — net	<u>\$4,306,250</u>	<u>\$289,197</u>	<u>\$207,075</u>	<u>\$4,388,372</u>	<u>\$200,968</u>	<u>\$148,649</u>	<u>\$4,440,691</u>

Interest costs of \$1,254 and \$1,558 related to debt reflected on the books of MTA and used to finance the MTA Metro-North Railroad's construction in progress were capitalized as part of properties and equipment in 2014 and 2013, respectively.

All trackage in New York State is leased by MTA (see Note 8) except for the land and related improvements constituting the New Haven Line between the Connecticut border at Port Chester, New York and Woodlawn Junction, which is owned by the MTA Metro-North Railroad.

## 6. EMPLOYEE BENEFITS

Pension benefits are provided under the Railroad Retirement Act and under two Company-sponsored plans. All Company pension plans have separately issued financial statements that are publicly available and contain required descriptions and supplemental information regarding employee benefit plans. These statements may be obtained by writing to Metropolitan Transportation Authority, Comptroller, 345 Madison Avenue, New York, NY 10017-3739.

### Defined Benefit Plans —

**The Metro-North Commuter Railroad Company Cash Balance Plan** (“Cash Balance Plan” or “Plan”) – This single employer, defined benefit pension plan covers non-collectively bargained employees, formerly employed by Conrail, who joined MTA Metro-North Railroad as management employees between January 1 and June 30, 1983, and were still employed as of December 31, 1988. Effective January 1, 1989, these employees were covered under the Metro-North Commuter Railroad Defined Contribution Plan for Management Employees (the “Management Plan”) and the Cash Balance Plan was closed to new participants. The assets of the Management Plan were merged with the Metropolitan Transportation Authority Defined Benefit Plan for Non-Represented Employees as of the asset transfer date of July 14, 1995. The Plan is designed to satisfy the applicable requirements for governmental plans under Section 401(a) and 501(a) of the Internal Revenue Code. Accordingly, the Plan is tax-exempt and is not subject to the provisions of the Employee Retirement Income Security Act (ERISA) of 1974.

Membership of the Plan consisted of the following at January 1, 2014, the date of the latest actuarial valuation:

Active plan members	15
Retirees and beneficiaries receiving benefits	26
Vested formerly active members not yet receiving benefits	<u>19</u>
Total	<u>60</u>

Funding for the Plan is provided by MTA Metro-North Railroad, a public benefit corporation that receives funding for its operations and capital needs from the MTA and the Connecticut Department of Transportation (“CDOT”). Certain funding by MTA is made to the MTA Metro-North Railroad on a discretionary basis. The continuance of funding for the Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

**Contributions** — MTA Metro-North Railroad’s funding policy with respect to the Plan was to contribute the full amount of the pension benefit obligation (“PBO”) of approximately \$2,977 to the trust fund in 1989. As participants retire, the Trustee has made distributions from the plan. MTA Metro-North Railroad anticipated that no further payments would be made to the Plan unless there was an unfunded actuarial liability resulting from actuarial valuations. Additional funding has been provided in the past. Since the actuarial value of assets exceeded the actuarial accrued liability as of January 1, 2012 and 2013, no payment was required in those years. Per the January 1, 2014 actuarial valuation, the unfunded accrued liability was \$18 which included administrative fees for the Plan which should have been paid by MNCR. The market value of net assets available for benefits in the trust fund at December 31, 2014, was \$698, which is less than the current PBO of \$711. The Company has accrued this unfunded liability.

**Pension Benefits** — Participants of the Plan obtain a nonforfeitable right to their accrued benefit upon the earlier of (a) the completion of five years of service with the MTA Metro-North Railroad or (b) the attainment of age sixty-two. Vested participants are entitled to receive pension benefits commencing at



age sixty-five. Vested participants may elect to receive early retirement benefits upon the attainment of age fifty-five through age sixty-four.

Participants may elect to receive the value of their accumulated plan benefits as a lump-sum distribution upon retirement or they may elect to receive their benefits as a life annuity payable monthly from retirement. Participants may also elect to receive their pension benefits in the form of a joint and survivor annuity.

*Death Benefits* — Benefits are paid to vested participants' beneficiaries in the event of a participant's death. The amount of benefits payable is the participant's account balance at the date of his or her death.

*Funded Status and Funding Progress* — As of January 1, 2014, the most recent actuarial valuation date, the plan was 97.7% funded. The actuarial accrued liability for benefits was \$766 and the actuarial value of assets was \$748 resulting in an unfunded accrued liability of \$18. The covered payroll (annual payroll of active employees covered by the plan) was \$2,097. The ratio of the unfunded accrued liability to the covered payroll was 1.0%.

Further information about the Plan is more fully described in the separately issued financial statements that can be obtained by writing to the MTA Metro-North Railroad Controller, 420 Lexington Avenue, New York, NY 10170-3739.

*Annual Pension Cost and Net Pension Obligation* — In accordance with GASB Statement No. 50, *Pension Disclosures* — an amendment to GASB Statements No. 25 and No. 27, the following disclosure concerning employer contributions has been included. This standard now requires entities to report the results of the most recent actuarial valuation in the footnotes. The funded status of the MTA Metro-North Railroad Cash Balance Plan as of January 1, 2014 and 2013, the most recent actuarial valuation date, is as follows (in dollars):

	2014	2013
Annual required contribution (ARC)	\$ 4,977	\$ -
Interest on the net pension obligation	(1,887)	(2,309)
Adjustment to ARC	<u>11,687</u>	<u>11,687</u>
Annual pension cost	14,777	9,378
Contributions made	<u>-</u>	<u>-</u>
Increase in net pension obligation	14,777	9,378
Net pension (asset) — beginning of year	<u>(41,928)</u>	<u>(51,306)</u>
Net pension (asset) — end of year	<u><u>\$ (27,151)</u></u>	<u><u>\$ (41,928)</u></u>



MTA Metro-North Railroad's pension cost and related information for the Cash Balance Plan is as follows (in dollars):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Accrued (Surplus) Liability	Funded Ratio	Covered Payroll	UAL as % of Covered Payroll
January 1, 2014	\$ 747,702	\$ 765,558	\$ 17,856	97.7 %	\$ 2,096,779	0.85%
January 1, 2013	878,029	819,735	(58,294)	107.1	-	-
January 1, 2012	1,006,431	991,941	(14,490)	101.5	-	-

Actuarial Valuation Date	Annual Pension Cost (APC)	Annual Required Contribution (ARC)	Annual Contribution	ARC as a % of Covered Payroll	% of APC Contributed	Net Pension (Asset)
January 1, 2014	\$ 14,777	\$ 4,977	-	- %	- %	\$ (27,151)
January 1, 2013	9,378	-	-	-	-	(41,928)
January 1, 2012	8,974	-	-	-	-	(51,306)

The asset valuation method used the market value of plan assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**MTA Defined Benefit Pension Plan** — Effective January 1, 1994, the MTA established the MTA Defined Benefit Pension Plan (the "Plan"). The Plan is a cost-sharing plan and is administered by the MTA Defined Benefit Pension Plan. The Plan covers, among others, all management employees of the MTA Metro-North Railroad and certain represented employees. The Plan provides retirement, death and disability retirement benefits to Plan members and beneficiaries. Benefit provisions are established and may be amended by the MTA Board.

The MTA Defined Benefit Plan actuaries calculate the employer contribution requirements of the MTA Metro-North Railroad. The employee contributions of certain represented employees of the MTA Metro-North Railroad are set forth in the adopted collective bargaining agreement.

Participants of the Plan hired on or after January 30, 2008, for Agreement and Non-Agreement personnel, respectively, are eligible for normal retirement upon reaching age 62, with 5 or more years of credited service. Benefits are also available on a reduced basis at age 55 with 10 years of credited service, and on an unreduced basis with 30 or more years of credited service at age 55. Vesting takes place after 5 years of credited service. Participants of the Plan hired before January 30, 2008, for Agreement and Non-Agreement personnel, respectively, are eligible for normal retirement upon reaching age 60, with 5 or more years of credited service. Benefits are also available on a reduced basis at age 55 with 10 years of credited service, and on an unreduced basis with 30 or more years of credited service at age 55. In addition to retirement benefits, the Plan provides benefits payable upon death and disability.

If Railroad Retirement Tier II employee contributions are less than the pre-tax cost of employee contributions required under the New York State Tier IV retirement system, and the employee has less than ten years credited service, an employee contribution may be required.

The MTA Metro-North Railroad's annual pension costs for the Plan were \$95,821 and \$81,035 for the years ended 2014 and 2013, respectively. Contributions as a percent of covered payroll are 15.9%, 15.3% and 14.2%, for the years ended December 31, 2014, 2013, and 2012, respectively. The contributions for the years ended December 31, 2014, 2013, and 2012, were \$95,821, \$81,035 and \$71,400 respectively. These costs represent the required actual contributions for the years stated. Further information about the Plan is more fully described in the separately issued financial statements that can be obtained by writing to the MTA Comptroller, 2 Broadway, New York, NY 10040.

The payroll for all employees was \$591,675 and \$530,176 in 2014 and 2013, respectively. Pension expense for the Cash Balance Plan and the MTA Defined Benefit Pension Plan was \$91,385 and \$77,182 in 2014 and 2013, respectively.

## 7. OTHER POSTEMPLOYMENT BENEFITS

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"), which establishes new accounting standards for recording OPEB. The requirement applies to any state or local government employer that provides OPEB.

**Plan Description** — The MTA Metro-North Railroad is a participating employer in the New York State Health Insurance Program ("NYSHIP") that is administered by the State of New York as a multiple employer agent defined benefit plan. The benefits provided by the MTA Metro-North Railroad include medical, pharmacy, dental, vision and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement. The MTA Metro-North Railroad establishes and may, at their discretion, make amendments to the plan.

Since the MTA Metro-North Railroad is a participating employer in NYSHIP, it does not issue a stand-alone financial report regarding postemployment retirement benefits. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Service, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

Agreement employees with 30 years of service, who retire at age 60 while working for the MTA Metro-North Railroad, are covered in accordance with collective bargaining agreements until the individual reaches the age of 65. The MTA Metro-North Railroad contributes 100% of the Plan's cost. Currently, there are approximately 831 participants in the health care plan and 120 participants in the life insurance plan. The MTA Metro-North Railroad also provides an optional Medicare supplement to Agreement employees after age 65 that is paid in full by the employee. Currently, there are 16 participants in the optional Medicare Plan.

The MTA Metro-North Railroad also provides retired management employees with health care and life insurance benefits. The MTA Metro-North Railroad contributes 100% of the Plan's cost. Currently, there are approximately 539 participants in the health care plan and 576 participants in the life insurance plan.

The cost of providing these benefits was approximately \$24,103 and \$21,692 in 2014 and 2013, respectively.

MTA Metro-North Railroad is not required by law or contractual agreement to provide funding for postemployment retirement benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. During the years ended December 31, 2014, 2013, and 2012, MTA Metro-North Railroad paid \$23,780, \$20,966 and \$19,456, respectively. The MTA Metro-North Railroad has the authority to establish or amend contributions to the plan.

An actuarially determined valuation of these benefits was performed by a consultant to calculate the impact of GASB accounting rules applicable to the retiree medical benefits for retired employees and their eligible dependents. GASB 45 requires the valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2013, and was performed with a valuation date of January 1, 2012.

**Annual OPEB Cost and Net OPEB Obligation** — The MTA Metro-North Railroad’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (“ARC”), an amount that was actuarially determined by using the Frozen Initial Liability (“FIL”) cost method with the initial unfunded accrued liability amortized over a 22 year period. The remaining amortization period at December 31, 2014, is 15 years. This method is one of the actuarial cost methods in accordance with the parameters of GASB 45.

The MTA Metro-North Railroad’s annual OPEB cost represents the accrued cost for post-employment benefits under GASB 45. The cumulative difference between the annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation, included on the statement of net position. The annual OPEB cost is equal to the ARC less adjustments if a net OPEB obligation exists. The ARC is equal to the normal cost plus an amortization of the unfunded frozen actuarial accrued liability.

In order to recognize the liability over an employee’s career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the “Accrued Liability” or “Past Service Liability”), the part that is being earned this year (the “Normal Cost”), and the part that will be earned in future years (the “Future Service Liability”). Under FIL, an initial past service liability is determined based on the Entry Age Normal (“EAN”) Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost. The following table shows the elements of MTA Metro-North Railroad net OPEB cost for the years ended December 31, 2014 and 2013, and changes in the net OPEB. Calculations reflect a long-term perspective (in thousands).

	2014	2013
Annual Required Contribution (ARC)	\$ 99,762	\$ 94,544
Interest on the net OPEB obligation	12,732	11,507
Adjustment to ARC	<u>(30,341)</u>	<u>(27,361)</u>
Annual OPEB cost	82,153	78,690
Payments made	(23,780)	(20,966)
Transfer to OPEB Trust	<u>-</u>	<u>(25,000)</u>
Increase in net OPEB obligation	58,373	32,724
Net OPEB obligation — beginning of year	<u>339,508</u>	<u>306,784</u>
Net OPEB obligation — end of year	<u>\$ 397,881</u>	<u>\$ 339,508</u>

MTA Metro-North Railroad's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2014, 2013, and 2012, were as follows (in thousands):

Years Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Paid	Net OPEB Obligation
December 31, 2014	\$ 82,153	28.95 %	\$ 397,881
December 31, 2013	78,629	58.50	339,508
December 31, 2012	75,700	25.70	306,784

Year Ended	Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B) (in millions)	Unfunded Actuarial Accrued Liability (UAAL) (C=B-A) (in millions)	Funded Ratio (A/C)	Covered Payroll (D) (in millions)	Ratio of UAAL to Covered Payroll (C/D)
December 31, 2013	January 1, 2012	\$ -	\$ 700.9	\$ 700.9	- %	\$ 407.3	172.1 %

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Actuarial Methods and Assumptions** — The FIL Cost Method was used for determining the Annual Required Contribution. The EAN Cost Method was used to determine the Frozen Accrued Liability and will be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. This method determines the Accrued liability for each individual based on a level percent of pay for service accrued through the initial valuation date. The difference between the Actuarial Present

Value of Benefits and the Frozen Unfunded Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

Inflation rate used was 2.5% per annum compounded annually.

Represented employees' salaries were assumed to increase 3.5% per year. Managers' salaries were assumed to increase by years of service as follows:

Years	Percentage
0	6.00 %
1	5.00
2	4.25
3	4.00
4+	3.50

Increases in postretirement benefits were calculated using a trend of 0.0% beginning in 2012 increasing to 1.7% for 2013, until an ultimate rate of 5.4% in 2052. The trend assumption was applied to all benefits.

Investment returns were calculated using a discount rate of 3.75%, compounded annually, based upon a projection of the MTA Investment Pool.

Valuation Date: January 1, 2012

Actuarial Cost Method: Frozen Initial Liability Cost method

Discount Rate: 3.75%

Per Capita Claim Costs: For members of NYSHIP, premium rates as provided by the Agencies for 2012 and 2013 were used as the starting per capita claims cost.

#### Health Care Cost Trend Rates —

Fiscal Year	Trend	Fiscal Year	Trend
2012	0.0 %	2027	6.8 %
2013	1.7	2032	6.5
2014	5.0	2037	6.1
2015	5.5	2042	5.7
2016	5.7	2047	5.5
2017	5.9	2052	5.4

MTA Metro-North Railroad contributions to the MTA Investment Pool for OPEB were \$4,458, \$12,992 and \$11,877 in 2014, 2013 and 2012, respectively. From these contributions, which totaled \$37,072 with interest at December 31, 2014, \$25,333 was utilized to fund RWA payments. The balance of \$11,739 represent a receivable from the MTA and do not reduce the MTA Metro-North Railroad's net OPEB obligation at December 31, 2014, of \$397,881.



## **Demographic Assumptions:**

*Mortality* — Preretirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee.

*Preretirement* — RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments.

*Postretirement Healthy Lives* — 95% of the rates from RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant mortality table for females.

*Postretirement Disabled Lives* — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females.

The cost of providing health care to retirees not including the accrual for prior service costs totaled approximately \$24.103 million, \$21.692 million and \$19.456 million for the years ended December 31, 2014, 2013, and 2012, respectively.

## **8. LEASES**

Through 2006, MTA leased the properties associated with Harlem/Hudson Lines from American Premier Underwriters, Inc., formerly the Penn Central Corporation. MTA subleases these properties to the MTA Metro-North Railroad.

On April 8, 1994, MTA entered into an Amended and Restated Agreement of Lease with American Premier Underwriters, Inc. for the Harlem/Hudson Line properties including Grand Central Terminal. This agreement initially extends the lease term, previously expiring in 2031, an additional 110 years and, pursuant to several other provisions, an additional 133 years. In addition, the agreement grants MTA an option to purchase the leased property after the twenty-fifth anniversary of the restructured lease. The restructured lease is comprised of both operating (for the lease of land) and capital (for the lease of buildings and track structures) elements. Deferred expenses of \$5,146 have been recorded relating to the lease and will be amortized over the life of the lease. In 2006, American Premier Underwriters, Inc. sold their rights to the leased property to Midtown Trackage Ventures, LLC.

On August 29, 2013, MTA Metro-North Railroad entered into a Fourth Lease Modification, Extension and Expansion Space Agreement with SLG Graybar Mesne Lease, LLC for space at 420 Lexington Ave, New York, NY 10170 also known as the Graybar Building (“Graybar”). This agreement extends the lease term originally expiring in 2016, for an additional term of approximately 20 years. In addition, the agreement grants the Company expanded square footage.

Total operating rent expense approximated \$24,724 and \$17,583 in 2014 and 2013, which includes office space leased from MTA amounting to \$7,796 and \$7,643 in 2014 and 2013.



At December 31, 2014, the future minimum lease payments under all noncancellable leases, including the Harlem/Hudson lease and office space leased from MTA and Graybar are as follows (in thousands):

<b>Operating</b>	<b>Harlem/Hudson Lease</b>	<b>Other</b>	<b>Total</b>
2015	\$ 578	\$ 16,770	\$ 17,348
2016	1,157	12,388	13,545
2017	1,157	14,789	15,946
2018	1,157	14,618	15,775
2019	1,157	14,624	15,781
2020–2024	5,784	79,314	85,098
2025–2029	5,784	81,976	87,760
2030–2034	5,784	64,092	69,876
2035–2039	5,784		5,784
2040–2044	5,784	-	5,784
Thereafter	266,053	-	266,053
	<u>\$ 300,179</u>	<u>\$ 298,571</u>	<u>\$ 598,750</u>

<b>Capital</b>	<b>Lease</b>
2015	\$ 606
2016	1,212
2017	1,212
2018	1,212
2019	1,212
2020–2024	4,434
2025–2029	4,434
2030–2034	4,434
2035–2039	4,434
2040–2044	4,434
Thereafter	203,950
	231,574
Amount representing interest	(216,889)
Present value of capital lease obligations	14,685
Less current portion	(121)
Long-term liability	<u>\$ 14,564</u>

All operating and capital payments subsequent to 2044 pertain to the lease for the Harlem/Hudson line properties that, if extended according to the terms of the lease, will expire in 2274.

Liabilities relating to equipment under capital leases have been assumed by MTA.

## 9. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability arising from claims related to injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2014 and 2013, is presented below (in thousands):

	2014	2013
Balance — beginning of year	\$ 78,614	\$ 38,020
Activity during the year:		
Current year claims and changes in estimates	5,246	46,582
Claims paid - settlements only	<u>(16,613)</u>	<u>(5,988)</u>
Balance — end of year	67,247	78,614
Less current portion	<u>(16,078)</u>	<u>(15,723)</u>
Long-term liability	<u>\$ 51,169</u>	<u>\$ 62,891</u>

## 10. ESTIMATED LIABILITY FOR POLLUTION REMEDIATION OBLIGATIONS

MTA Metro-North Railroad has implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The statement establishes standards for determining when expected pollution remediation outlays should be accrued as a liability or, if appropriate, capitalized. An operating expense and corresponding liability, measured at its current value using the expected cash flow method, have been recognized for certain pollution remediation obligations that are no longer able to be capitalized as a component of a capital project.

Pollution remediation obligations, which are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations, occur when any one of the following obligating events takes place:

- An imminent threat to public health due to pollution exists
- MTA Metro-North Railroad is in violation of a pollution prevention-related permit or license
- MTA Metro-North Railroad is named by a regulator as a responsible or potentially responsible party to participate in remediation
- MTA Metro-North Railroad is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities, or
- MTA Metro-North Railroad voluntarily commences or legally obligates itself to commence remediation efforts

MTA Metro-North Railroad does not anticipate any changes in the near future that would have a material impact on the recorded obligations due to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations. In addition, MTA Metro-North Railroad does not expect any recoveries of cost that would have a material effect on the recorded obligations.

In accordance with GASB Statement No. 49, pollution remediation expense provisions totaling \$1.6 million and \$1.9 million were recorded on the Statement of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2014 and 2013, respectively. The expense provision was measured at its current value utilizing the prescribed expected cash flow method.

As of December 31, pollution remediation liabilities of \$0.06 million (short-term) and \$6 million (long-term) for 2014 and \$0.4 million (short-term) and \$7.9 million (long-term) for 2013 were recorded. These consist primarily of future remediation activities associated with lead and asbestos abatement.

## 11. RELATED PARTY TRANSACTIONS

The MTA Metro-North Railroad and other affiliated MTA agencies receive support from MTA in the form of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, some of which are charged back. The MTA Metro-North Railroad's subsidies from MTA for use in operations are recorded as credits to operations when received. Funds for the MTA Metro-North Railroad's capital project expenditures are also provided by MTA. The MTA Metro-North Railroad recognizes funds contributed by MTA for the MTA Metro-North Railroad's capital project expenditures as nonoperating revenue.

The MTA Metro-North Railroad also sells joint prevalued fare cards on consignment on behalf of an affiliated agency. These amounts are reflected in the accompanying statements of net position. The following table shows the dollar volume of such related party transactions (in thousands):

	2014	2013
Payments to MTA and affiliated agencies	\$ 181,661	\$ 159,799
Payments from MTA and affiliated agencies	81,129	89,225

The resulting receivables and payables from the above transactions are recorded in the due from/to MTA and affiliated agencies account included in the accompanying statements of net position.

Due from/to MTA and affiliated agencies consists of the following at December 31, 2014 and 2013 (in thousands):

	2014		2013	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 36,731	\$ (37,914)	\$ 22,625	\$ (27,105)
Affiliated agencies	<u>1,772</u>	<u>(12,395)</u>	<u>269</u>	<u>(17,715)</u>
Total MTA and affiliated agencies	<u>\$ 38,503</u>	<u>\$ (50,309)</u>	<u>\$ 22,894</u>	<u>\$ (44,820)</u>

In addition, MTA Metro-North Railroad had investments in the MTA Investment Pool of \$16,757 and \$42,427 at December 31, 2014 and 2013, respectively.

On July 29, 1998, the MTA, the MTA New York City Transit and Triborough Bridge and Tunnel Authority ("MTA Bridges and Tunnels") entered into a lease and related agreements whereby each agency, as sub lessees, will rent an office building at Two Broadway in lower Manhattan, for an initial lease term through June 30, 2048, renewable for two additional 15-year terms. Through separate triple-net sublease agreements, the lease was appointed 21% to MTA, on behalf of the MTA Long Island Railroad and the MTA Metro-North Railroad, 68.7% to the MTA New York City Transit, and 10.3% to

the MTA Bridges and Tunnels. Total annual rental payments over the initial lease term are \$1.6 billion. Base building and tenant improvements at Two Broadway were financed through the issuance by MTA of Two Broadway Certificates of Participation. The MTA Long Island Railroad and the MTA Metro-North Railroad are obligated to pay 21% of the ground lease payments and payments relating to the Two Broadway Certificates of Participation. Pursuant to an agreement by and among the MTA, the MTA Long Island Railroad, the MTA Metro-North Railroad, the MTA New York City Transit and the MTA Bridges and Tunnels; the MTA New York City Transit and the MTA Bridges and Tunnels have agreed to reimburse the MTA Long Island Rail Road and the MTA Metro-North Railroad for the space occupied by the MTA New York City Transit and the MTA Bridges and Tunnels. The MTA, the MTA New York City Transit and the MTA Bridges and Tunnels are expected to occupy substantially all of the space at Two Broadway and to reimburse the MTA Long Island Rail Road and the MTA Metro-North Railroad in full.

## 12. COMMITMENTS AND CONTINGENCIES

From time to time, the MTA Metro-North Railroad becomes aware of the existence of pollutants and/or hazardous waste at MTA Metro-North Railroad facilities. When estimates can be made of the cost to remediate pollutants and/or hazardous waste at MTA Metro-North Railroad facilities, amounts are recorded in the financial statements.

Management has reviewed with counsel all actions and proceedings against or involving the MTA Metro-North Railroad, including personal injury claims. While the ultimate outcome of such actions and proceedings cannot be predicted with certainty at this time, management believes that losses, if any, in excess of amounts accrued, resulting from such actions will not be material to the financial position, results of operations or cash flows of the MTA Metro-North Railroad.

During 2014, the National Transportation Safety Board ("NTSB") and Federal Railroad Administration ("FRA") issued reports examining safety and related issues regarding MTA Metro-North Railroad in light of the December 1, 2013 derailment north of Spuyten Duyvil station in the Bronx, as well as three other serious accidents involving MTA Metro-North Railroad in 2013. MTA Metro-North Railroad President Giulietti responded to these reports, committing the railroad to making the safety improvements identified in the NTSB and FRA reports, as well as those which emerged from the MTA Blue Ribbon Panel appointed by the MTA to address railroad safety issues. Significant steps MTA Metro-North Railroad is progressing to enhance the safety of its rail operations, including actions to implement NTSB, Federal Railroad Administration, MTA Blue Ribbon Panel and Transportation Technology Center, Inc. recommendations, include, among others: establishing a comprehensive Office of System Safety focused on ensuring current and future safe operating practices; improving track infrastructure by, among other things, employing advanced track inspection technology, increasing maintenance of way staffing, and expanding opportunities for access to track for performance of track maintenance; progressing efforts to mitigate risks associated with employee fatigue; procuring outward- and inward-facing video and audio recorders on trains; implementing a MTA Metro-North Railroad-designed Enhanced Employee Protection System to provide redundant signal protection to workers in the field; advancing development of a confidential close call reporting system; expanding staffing of the railroad's Training Department and implementing new training courses in safety; expanded staffing and improved training for MTA Metro-North Railroad's rail traffic controllers; and design and installation of modifications to the MTA Metro-North Railroad signal system to allow automatic speed control in ten critical areas of track and installation of permanent speed signs. Substantial resources have been allocated within MTA Metro-North Railroad's operating budget, and important investments have been

incorporated within its proposed capital program, to address implementation of appropriate safety improvements.

### **13. ASSET IMPAIRMENT AND RELATED EXPENSES**

On October 29, 2012, Tropical Storm Sandy made a landfall on the Mid-Atlantic East Coast and caused damage to the region's transportation network. While service was resumed within 48 hours, work in aftermath of Sandy continues and will proceed indefinitely. In response to these damages, the Disaster Relief Appropriations Act of 2013 ("Sandy Relief Act") was enacted and grants were made available through the Federal Transit Administration's Emergency Relief Program.

For the year ended December 31, 2013, asset impairment and related expenses include \$1,688 related to Tropical Storm Sandy expenses and \$5,791 related to the May and December train derailments.

For the year ended December 31, 2014, no significant financial impact from the 2012 Tropical Storm Sandy and the 2013 service disruptions were recorded.

In April 2013, MTA Metro-North Railroad received reimbursement of \$11,267 from the Federal Transit Administration (FTA). Some \$2.807 million of this funding was paid to Connecticut for their portion of Metro-North's New Haven Line. The FTA's Public Transportation Emergency Relief Program covered costs Metro-North incurred to prepare for the storm, make immediate repairs and re-establish service. This included moving equipment to safe locations, filling and placing sandbags, operating test and patrol trains, cleaning cars for service restoration, assessing safety and environmental conditions, and providing up-to-date information to customers throughout the storm and its aftermath.

In 2014, MTA Metro-North Railroad received insurance proceeds of \$5,462 for Hurricane Irene.

Additionally, MTA Metro-North has allocated \$312.829 million in its amended 2010-2014 Capital Program for capital restoration/repair projects to restore the railroad to pre-storm conditions, including shoreline restoration and tree-cutting, and power, communications and signal infrastructure improvements along over 30 miles of the Hudson Line. These improvements include raising critical equipment as feasible. Metro-North is also pursuing FTA funding for projects to improve the resiliency of vulnerable assets, as well as the overall network resiliency of the railroad, against future hazards and threats.

### **14. SUBSEQUENT EVENTS**

On January 22, 2015, the MTA Board approved the proposal for a fare increase for travel to or from stations located in New York State. The approval provides for an increase of 4%, beginning March 22, 2015.

In February 2015, MTA Metro-North Railroad reached agreements with its maintenance of way supervisors represented by the American Railway and Airway Supervisors Association ("ARASA"), as well as its bartenders, service workers, carmen, cleaners and helpers represented by Transport Workers Union (TWU) locals 2001 and 2055. These agreements all have a term of seventy-eight (78) months from July 16, 2010 through January 15, 2017, and mirror the LIRR Labor Coalition agreements with regard to both structure and cost. The ARASA agreement was approved by the MTA Board on February 25, 2015. The TWU agreements are awaiting union ratification. To date, MTA Metro-North Railroad has reached agreement with all of its represented employees except for its track workers, mechanics, and vehicle and machine operators represented by International Brotherhood of Teamsters



Local 808. This group represents approximately 12% of the MTA Metro-North Railroad represented workforce.

On February 3, 2015, a MTA Metro-North Railroad Harlem Line train struck an automobile in a highway-rail grade crossing between the Valhalla and Hawthorne stations. The driver of the automobile and five passengers on the train were killed and a number of passengers and the train engineer were injured. The National Transportation Safety Board (NTSB) is conducting an investigation into the contributing causes of the accident and has issued a Preliminary Report. There is no indication from the NTSB's Preliminary Report that MTA Metro-North Railroad was at fault in connection with this incident. At the present time there is insufficient information to permit reasonable estimation of the total losses that may be associated with defense of claims against the Company arising from the February 3, 2015 grade crossing incident. As described in Footnote 2 above, Metro-North has insurance for liability claims under the MTA all-agency excess liability policy issued by First Mutual Transportation Assurance Company (FMTAC), which insurance would provide coverage to the Company were losses to be incurred by the Company in resolving claims from the February 3, 2015 grade crossing in an amount exceeding the Company's \$10 million self-insured retention.

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**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

**METRO-NORTH COMMUTER RAILROAD COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

Schedule I

**REQUIRED SUPPLEMENTARY INFORMATION — (UNAUDITED)**  
**SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT BENEFIT PLAN**  
**(Dollars in millions)**

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Years Ended	Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Unfunded Actuarial Accrued Liability (UAAL) (C=B-A)	Funded Ratio (A/C)	Covered Payroll (D)	Ratio of UAAL to Covered Payroll (C/D)
December 31, 2014	January 1, 2012	\$ -	\$ 700.9	\$ 700.9	- %	\$ 407.3	172.1 %
December 31, 2013	January 1, 2012	-	700.9	700.9	-	407.3	172.1
December 31, 2012	January 1, 2011	-	629.2	629.2	-	408.8	153.9

Actuarial valuations are completed every other year.

**METRO-NORTH COMMUTER RAILROAD COMPANY**  
(Subsidiary of the Metropolitan Transportation Authority)

Schedule II

**REQUIRED SUPPLEMENTARY INFORMATION — (UNAUDITED)**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS — CASH BALANCE PLAN**  
(In dollars)

	Annual Required Contribution (2)	Percentage Contributed	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Accrued Liability (Surplus) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (2) (d)	Unfunded Accrued Liability/ (Surplus) (as a Percent of Covered Payroll) (b)-(a) (d)
January 1, 2012	\$ -	(3)	\$ 1,006,431	\$ 991,941	\$ (14,490)	101.5%	\$ -	-
January 1, 2013	-	(3)	878,029	819,735	(58,294)	107.1	-	-
January 1, 2014 (1)	4,977	(4)	747,702	765,558	17,856	97.7	2,096,779	0.85%

- (1) The significant actuarial methods and assumptions used in the January 1, 2014, valuation were the unit credit cost method and an investment rate of return of 4.5 % per year.  
The asset valuation method utilized was the market value per the Trustee. Generally, there were no projected salary increase assumptions used in the January 1, 2014 valuation as the participants of the Plan were covered under the Management Plan effective January 1, 1989.  
For participants of the Plan eligible for additional benefits, the additional benefit was not valued as the potential liability for this benefit is de minimus.
- (2) Covered payroll represents all elements of compensation paid to active participants on which annual contributions are based.  
There are no covered payroll amounts listed for the years when the annual required contribution was zero.
- (3) Since the actuarial value of assets exceeded the actuarial accrued liability as of January 1, no payments were required.
- (4) The full amount of the unfunded accrued liability calculated in the January 1, 2014 valuation, will be paid to the Plan in 2015.

# Triborough Bridge and Tunnel Authority

Financial Statements as of and for the  
Years Ended December 31, 2014 and 2013,  
Required Supplementary Information, and  
Independent Auditor's Report

DRAFT

# TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

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## **INDEPENDENT AUDITOR'S REPORT**

To the Members of the Board of  
Metropolitan Transportation Authority

### ***Report on the Financial Statements***

We have audited the accompanying statements of net position of the Triborough Bridge and Tunnel Authority (the "Authority"), a public benefit corporation which is part of the related financial reporting group of Metropolitan Transportation Authority ("MTA"), as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of December 31, 2014 and 2013, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 and the Schedule of Funding Progress-Postemployment Healthcare Plan on page 62 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

April 29, 2015

# TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

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### 1. OVERVIEW OF THE FINANCIAL STATEMENTS

#### *Introduction*

The following is a narrative overview and analysis of the financial activities of Triborough Bridge and Tunnel Authority ("MTA Bridges and Tunnels") for the years ended December 31, 2014 and 2013. This discussion and analysis is intended to serve as an introduction to MTA Bridges and Tunnels' financial statements which have the following components: (1) Management's Discussion and Analysis ("MD&A"), (2) Financial Statements and (3) Notes to the Financial Statements.

#### *Management's Discussion and Analysis*

This MD&A provides an assessment of how MTA Bridges and Tunnels' position has improved or deteriorated and identifies the factors that, in management's view, significantly affected MTA Bridges and Tunnels' overall financial position. It may contain opinions, assumptions, or conclusions by MTA Bridges and Tunnels' management that should not be considered a replacement for and must be read in conjunction with the financial statements.

#### *The Financial Statements Include*

The Statements of Net Position provide information about the nature and amounts of resources with present service capacity that the MTA Bridges and Tunnels presently controls (assets), consumption of net assets by the MTA Bridges and Tunnels that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the MTA Bridges and Tunnels has little or no discretion to avoid (liabilities), and acquisition of net assets by the MTA Bridges and Tunnels that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources being reported as net position.

The Statements of Revenues, Expenses and Changes in Net Position show how MTA Bridges and Tunnels' net position changed during each year and accounts for all of the current and prior year's revenues and expenses, measure the success of MTA Bridges and Tunnels' operations over the twelve months and can be used to determine how MTA Bridges and Tunnels has funded its costs.

The Statements of Cash Flows provide information about MTA Bridges and Tunnels' cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities.

#### *The Notes to the Financial Statements Provide*

Information that is essential to understanding the financial statements, such as MTA Bridges and Tunnels' basis of presentation, and significant accounting policies, details of cash and investments, capital assets, employee benefits, long-term debt, lease transactions, future commitments and contingencies, and subsequent events of MTA Bridges and Tunnels.

The notes to the financial statements also describe any other events or developing situations that could materially affect MTA Bridges and Tunnels' financial position.

***Required Supplementary Information:***

The Required Supplementary Information provides information concerning MTA Bridges and Tunnels' progress in funding its obligation to provide other postemployment benefits to its employees.

**2. FINANCIAL REPORTING ENTITY**

Triborough Bridge and Tunnel Authority is a public benefit corporation, separate and apart from the State of New York, without any power of taxation. Triborough Bridge and Tunnel Authority is empowered to operate and maintain nine toll bridges and tunnels and the Battery-Parking Garage, all located in New York City. The board members of the Metropolitan Transportation Authority ("MTA") also serve as the Board of Triborough Bridge and Tunnel Authority. Triborough Bridge and Tunnel Authority operates under the name of MTA Bridges and Tunnels. The MTA is a component unit of the State of New York.

MTA Bridges and Tunnels' operations and capital costs (debt obligations) for its bridges and tunnels are paid by the revenues it generates from its facilities. MTA Bridges and Tunnels' surplus amounts are used to fund transit and commuter operations and finance capital projects for the transit and commuter systems operated by other affiliates and subsidiaries of the MTA.

**3. CONDENSED FINANCIAL INFORMATION**

The following sections will discuss the significant changes in MTA Bridges and Tunnels' financial position for the years ended December 2014 and 2013. Additionally, an examination of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are in conformity with MTA Bridges and Tunnels' financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America.

(In thousands)

	As of December 31,			Increase/(Decrease)	
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2014 - 2013</b>	<b>2013 - 2012</b>
Current Assets	\$ 819,489	\$ 652,314	\$ 772,214	\$ 167,175	\$ (119,900)
Noncurrent Assets	4,675,063	4,443,358	4,383,088	231,705	60,270
Deferred Outflows of Resources	<u>325,010</u>	<u>323,463</u>	<u>195,745</u>	<u>1,547</u>	<u>127,718</u>
Total Assets and Deferred Outflows of Resources	<u>\$5,819,562</u>	<u>\$5,419,135</u>	<u>\$5,351,047</u>	<u>\$ 400,427</u>	<u>\$ 68,088</u>

***Significant Changes in Assets and Deferred Outflows of Resources:***

December 31, 2014 versus 2013:

Total Assets and Deferred Outflows of Resources increased by \$400,427 for the year ended December 31, 2014.

Current assets increased by \$167,175 for the year ended December 31, 2014. The increase was primarily due to an increase in restricted short-term investments by MTA Treasury of \$166,223. Two factors were primarily responsible for this change. First, MTA Treasury invested the proceeds from General Revenue Bond Anticipation Notes, Series 2014A (\$106,000), which closed in February 2014. In addition, MTA Treasury invested \$53,166 in escrow funds, relating to the 2002 debt restructure, into MTA Bridges and Tunnels' Necessary Construction Reserve Fund in October 2014.

Noncurrent assets increased by \$231,705 for the year ended December 31, 2014. The increase was primarily due to an increase in capital assets, net of accumulated depreciation of \$237,256. This increase was offset by a decrease in derivative assets of \$5,351.

There was an increase in deferred outflows of resources of \$1,547. Two factors were primarily responsible for this change. First, there was an increase in the change in fair market value of derivative instruments of \$68,848. In addition, there was a decrease in the unamortized loss on refunding debt of \$67,301.

December 31, 2013 versus 2012:

Total Assets and Deferred Outflows of Resources increased by \$68,088 for the year ended December 31, 2013.

Current assets decreased by \$119,900 for the year ended December 31, 2013. The decrease was primarily due to a decrease in accounts receivable, net of allowance of \$134,067 due to estimated and probable insurance recoveries of \$126,325 recorded as non-current which are not expected to be collected within one year of December 31, 2013. As of December 31, 2012, estimated and probable insurance recoveries were expected to be collected within one year, however as the claim has evolved and better information has become available from the third party reinsurance companies, this is no longer likely. In addition, there was a decrease in restricted short-term investments by MTA Treasury of \$44,487. These decreases were offset by an increase in unrestricted short-term investments by MTA Treasury of \$50,837.

Noncurrent assets increased by \$60,270 for the year ended December 31, 2013. Two factors were primarily responsible for this change. First, there was an increase in capital assets, net of accumulated depreciation of \$231,735. Second, there was an increase in accounts receivable primarily due to estimated and probable insurance recoveries of \$126,325 recorded as non-current which are not expected to be collected within one year of December 31, 2013. As of December 31, 2012, estimated and probable insurance recoveries were expected to be collected within one year, however as the claim has evolved and better information has become available from the third party reinsurance companies, this is no longer likely. These increases were offset by a decrease in unamortized bond issuance costs of \$304,782 due to an accounting change required by the adoption of GASB Statement No. 65 which required that unamortized losses on refunding of debt be shown as deferred outflow of resources and bond issuance costs are expensed immediately when incurred.

There was an increase in deferred outflows of resources of \$127,718 due to an accounting change required by the adoption of GASB Statement No. 65 which required that unamortized losses on refunding of debt be shown as deferred outflow of resources. At December 31, 2013, \$229,217 of unamortized

losses on debt refunding are now reflected as deferred outflows of resources. Offsetting this accounting change was a decrease in the change in fair market value of derivative instruments of \$101,499.

(In thousands)

TOTAL LIABILITIES	2014	As of December 31,		Increase/(Decrease)	
		2013	2012	2014 - 2013	2013 - 2012
Current Liabilities	\$ 847,178	\$ 734,541	\$ 705,998	\$ 112,637	\$ 28,543
Noncurrent Liabilities	<u>9,457,172</u>	<u>9,295,459</u>	<u>9,309,251</u>	<u>161,713</u>	<u>(13,792)</u>
Total Liabilities	<u>\$ 10,304,350</u>	<u>\$ 10,030,000</u>	<u>\$ 10,015,249</u>	<u>\$ 274,350</u>	<u>\$ 14,751</u>

### ***Significant Changes in Liabilities:***

December 31, 2014 versus 2013:

Total Liabilities increased by \$274,350 for the year ended December 31, 2014.

Current liabilities increased by \$112,637 for the year ended December 31, 2014. Four factors were primarily responsible for this change. First, there was an increase in the current portion of long-term debt of \$94,325. See debt footnotes for further details. In addition, there were increases in accounts payable of \$20,422 and the amount due to NYCTA of \$10,759. These increases were offset by a decrease in accrued salaries of \$22,673, primarily due to contract settlements with DC37 Local 1931 and the Bridge and Tunnel Officers Benevolent Association.

Noncurrent liabilities increased by \$161,713 for the year ended December 31, 2014. Three factors were primarily responsible for this change. First, there was an increase in the liability for other postemployment benefits other than pensions of \$71,148. In addition, there were increases in derivative liabilities of \$63,903 and long-term debt of \$18,732, net of bond redemptions. See debt footnotes for further details.

December 31, 2013 versus 2012:

Total Liabilities increased by \$14,751 for the year ended December 31, 2013.

Current liabilities increased by \$28,543 for the year ended December 31, 2013. There was an increase in the current portion of long-term debt of \$27,455. In addition, there were increases in prepaid tolls revenue of \$15,196, accrued salaries of \$14,010, and the current portion of estimated liability arising from injuries to persons of \$10,114. These increases were offset by a decrease in the amount payable to NYCTA of \$29,980, resulting from MTA Bridges and Tunnels' repayment for the execution of swap termination transactions with Citigroup Financial Products Inc. (See Note 21). Also, there was a decrease in accounts payable of \$17,371.

Noncurrent liabilities decreased by \$13,792 for the year ended December 31, 2013. Three factors were primarily responsible for this change. First, there was a decrease in derivative liabilities of \$96,138. This decrease was offset by increases in the liability for other postemployment benefits other than pensions of \$59,267 and in long-term debt of \$30,733, net of bond redemptions. See debt Note 11 for further details.

(In thousands)

TOTAL NET POSITION	As of December 31,			Increase/(Decrease)	
	2014	2013	2012	2014 - 2013	2013 - 2012
Net investment in capital assets	\$ 576,445	\$ 693,234	\$ 532,002	\$ (116,789)	\$ 161,232
Restricted	737,600	569,603	612,438	167,997	(42,835)
Unrestricted	<u>(5,798,833)</u>	<u>(5,873,702)</u>	<u>(5,808,642)</u>	<u>74,869</u>	<u>(65,060)</u>
Total net position	<u>\$ (4,484,788)</u>	<u>\$ (4,610,865)</u>	<u>\$ (4,664,202)</u>	<u>\$ 126,077</u>	<u>\$ 53,337</u>

The negative net position has resulted from assets transferred to MTA and NYCTA, on prior years' debt financing incurred on their behalf.

***Significant Changes in Net Position:***

December 31, 2014 versus 2013:

In 2014, the total net position increase of \$126,077 is comprised of operating income of \$1,096,085, less nonoperating expenses of \$332,806 and less transfers out (net) of \$637,202 (principally operating surplus).

December 31, 2013 versus 2012:

In 2013, the total net position increase of \$53,337 is comprised of operating income of \$1,125,904, less nonoperating expenses of \$338,054, less transfers out (net) of \$614,046 (principally operating surplus) and less a restatement of beginning net position for 120,467 as a result of adopting GASB Statement No. 65.



**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

(In thousands)	Years Ended December 31,			Increase/(Decrease)	
	2014	2013	2012	2014 - 2013	2013 - 2012
OPERATING REVENUES	\$ 1,698,477	\$ 1,663,553	\$ 1,508,661	\$ 34,924	\$ 154,892
OPERATING EXPENSES	<u>(602,392)</u>	<u>(537,649)</u>	<u>(588,312)</u>	<u>(64,743)</u>	<u>50,663</u>
OPERATING INCOME	<u>1,096,085</u>	<u>1,125,904</u>	<u>920,349</u>	<u>(29,819)</u>	<u>205,555</u>
TOTAL NET NONOPERATING EXPENSES:	<u>(332,806)</u>	<u>(338,054)</u>	<u>(404,368)</u>	<u>5,248</u>	<u>66,314</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	763,279	787,850	515,981	(24,571)	271,869
TRANSFERS IN - MTA	352	164	553	188	(389)
TRANSFERS OUT	<u>(637,554)</u>	<u>(614,210)</u>	<u>(497,643)</u>	<u>(23,344)</u>	<u>(116,567)</u>
CHANGES IN NET POSITION	126,077	173,804	18,891	(47,727)	154,913
NET POSITION - BEGINNING	<u>(4,610,865)</u>	<u>(4,664,202)</u>	<u>(4,683,093)</u>	<u>53,337</u>	<u>18,891</u>
RESTATEMENT OF BEGINNING NET POSITION	<u>-</u>	<u>(120,467)</u>	<u>-</u>	<u>120,467</u>	<u>(120,467)</u>
NET POSITION - ENDING	<u><u>\$ (4,484,788)</u></u>	<u><u>\$ (4,610,865)</u></u>	<u><u>\$ (4,664,202)</u></u>	<u><u>\$ 126,077</u></u>	<u><u>\$ 53,337</u></u>

**Operating Revenues**

For the year ended December 31, 2014, the operating revenues increased by \$34,924 as compared to December 31, 2013. This increase can be primarily attributed to an increase in toll revenue of \$31,252. See "Overall Financial Position and Results of Operations and Important Economic Conditions" below.

For the year ended December 31, 2013, the operating revenues increased by \$154,892 as compared to December 31, 2012. This increase can be primarily attributed to an increase in toll revenue of \$154,211. See "Overall Financial Position and Results of Operations and Important Economic Conditions" below.

**Revenue by Major Source**

MTA Bridges and Tunnels tolls accounted for 98.7% and 98.9% of operating revenues in 2014 and 2013, respectively. The remaining revenue primarily represented income from parking fees (net of operating expenses) collected at the Battery Parking Garage and fees collected from E-ZPass customers.

Toll revenues were \$1,676,445 and \$1,645,193 for the years ended December 31, 2014 and December 31, 2013, respectively.

### ***Operating Expenses***

Operating expenses, including depreciation, increased for the year ended December 31, 2014, as compared to the prior year by \$64,743. The increase was primarily due to an increase in retirement and other employee benefits of \$21,621, principally related to postemployment benefits other than pensions. In addition, there were increases in maintenance and other operating contracts of \$13,464, salaries and wages of \$8,097, insurance of \$6,496 and depreciation expense of \$5,804.

Operating expenses, including depreciation, decreased for the year ended December 31, 2013, as compared to the prior year by \$50,663. The decrease was primarily due to asset impairments and related expenses of \$57,603. In addition, there was a decrease in retirement and other employee benefits by \$15,125, principally related to postemployment benefits other than pensions. The decreases were offset by increases in maintenance and other operating contracts of \$10,073 and depreciation expense of \$9,503.

### ***Nonoperating Revenues (Expenses)***

Nonoperating expenses decreased by \$5,248 for the year ended December 31, 2014. This decrease was primarily due to a decrease in interest expense on the debt base of \$4,849 primarily due to 2014 bond refundings.

Nonoperating expenses decreased by \$66,314 for the year ended December 31, 2013. This decrease was primarily due to a decrease in interest expense on the debt base of \$62,989 primarily due to 2013 bond refundings.

## **4. OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS**

### ***Economic Conditions/Results of Operations***

Two key economic factors that have statistically significant relationships to changes in traffic volumes are regional non-farm employment and inflation (CPI-U). Based on preliminary data from the U.S. Bureau of Labor Statistics, regional employment grew by 1.7% in 2014 and 1.8% in 2013. Inflation was 1.3% in 2014 and 1.7% in 2013.

In 2014, total annual traffic was 286.4 million vehicles, which was over 1.8 million, or 0.6% above the 2013 level. Although January and February saw several harsh winter weather events, traffic growth was favorable each month thereafter. The traffic gain over the latter 10 months of 2014 totaled 4.5 million crossings, or 1.9%. While approximately 25% of this gain occurred in December, which saw relatively favorable winter weather conditions compared to December 2013, an improving economy and falling gas prices appear to be the main drivers behind the overall favorable traffic trend. Toll revenue reached \$1,676.4 million in 2014, which was \$31.2 million, or 1.9% above the 2013 level of \$1,645.2 million. The additional revenue was a result of the overall higher traffic volume in 2014 and a full year's impact of the toll increase implemented on March 22, 2013.

In 2013, total paid traffic was 284.5 million vehicles, which was nearly 1.8 million, or 0.6% above volume in 2012. In October and November 2013, traffic was a combined 4.3 million vehicles, or 9.7% greater than the same period in 2012 due to the unfavorable impacts of Tropical Storm Sandy. These gains were partially offset by year-to-year declines during most of the other months, resulting primarily from harsher winter weather, the toll increase implemented in March 2013, and one less day in 2013 due to the 2012 leap year. Total snowfall in 2013 was 28.0 inches compared to only 4.0 inches in 2012. As a result, total volume over the winter months in 2013 was 1.9 million vehicles, or 2.0% below the same months in 2012. Traffic over the remaining months in 2013 showed a year-to-year decline of just 0.4%

on average. Toll revenue reached \$1,645.2 million in 2013, which was \$154.2 million, or 10.3% above the 2012 level of \$1,491.0 million. The March 2013 toll increase was the primary driver of the additional revenue.

The E-ZPass electronic toll collection system continued to facilitate management of high traffic volumes. All categories grew on a year-to-year basis in both 2014 and 2013:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total	84.2%	83.3%	81.0%
Average Weekday	85.8%	85.0%	82.8%
Passenger Vehicles	85.2%	84.3%	82.1%
Commercial Vehicles	92.6%	92.0%	90.8%
Average Weekend	80.1%	79.2%	76.5%

## 5. SIGNIFICANT CAPITAL ASSET ACTIVITY

### *Capital Program*

MTA Bridge and Tunnels' facilities are all in a state of good repair. MTA Bridge and Tunnels' portion of the MTA's Capital Program for 2010-2014 totals \$2,078,037 for normal replacement and system improvement projects. The commitments made during the fourth quarter 2014 were \$417,312 bringing the total commitment under the five-year plan to \$1,716,827.

MTA Bridge and Tunnels' portion of the Capital Program for 2005-2009 totals \$1,194,690 for normal replacement and system improvement projects. The commitment made during the fourth quarter 2014 was \$3,369, bringing the total commitment under the five-year plan to \$1,124,403.

Approximately 65.5% of the projected expenditures in the 2010-2014 Capital Program will be incurred at three facilities: the Robert F. Kennedy Bridge, the Bronx-Whitestone Bridge, and the Verrazano-Narrows Bridge. Other major projects in the 2010-2014 Plan include the rehabilitation of tunnel walls, roadway drainage and firelines and ceiling repairs (Phase II) and replacement of electrical switchgear and power distribution equipment at the Brooklyn-Battery Tunnel, upper and lower level toll plazas deck rehabilitation at the Henry Hudson Bridge and a facility-wide electrical upgrade, vent building switchgear and motor control center replacement at the Queens Midtown Tunnel.

Approximately 60.0% of the expenditures in the 2005-2009 Capital Program have been incurred at four facilities: the Verrazano-Narrows Bridge, the Robert F. Kennedy Bridge, the Bronx-Whitestone Bridge, and the Throgs Neck Bridge.

MTA Bridge and Tunnels' portion of the MTA's Capital Program for Sandy Restoration and Resiliency totals \$873,500, of which \$96,000 is for facility mitigation projects. The commitments made during the fourth quarter 2014 were \$244,199, bringing the total commitment under these plans to \$313,315 to date.

Approximately 95% of the projected expenditures will be incurred at the Hugh L. Carey and Queens Midtown Tunnels.

## 6. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

### *MTA Bridges and Tunnels Infrastructure Losses from Sandy*

Based on preliminary assessments by MTA Bridges and Tunnels staff and independent engineers, the estimated capital cost of repairs, mostly for damage to the tunnels, is \$778 million. The cost of infrastructure repairs is expected to be covered by a combination of FEMA, insurance, MTA Bridges and Tunnel resources, including its necessary reconstruction reserve, and, if necessary, interim external borrowings. Any such interim borrowings are currently expected to be structured as bond anticipation notes under the MTA Bridges and Tunnels Senior Resolution, and amounts of such borrowings not reimbursed by the federal government or from insurance coverage are expected to be paid from the proceeds of bonds issued under the MTA Bridges and Tunnels Senior Resolution.

FEMA has approved approximately \$17 million in expenses for emergency measures, debris removal, repair and resiliency for the MTA Bridges and Tunnels' bridge facilities, of which \$8 million has been received to date.

On April 14, 2014, FEMA approved, under the Public Assistance Alternate Procedures Pilot Program, approximately \$329 million in FEMA funding for repairs and \$74.5 million in FEMA funding for hazard mitigation of the damaged elements of the Hugh L. Carey Tunnel and the Queens Midtown Tunnel. MTA Bridges and Tunnels has applied for an additional \$4.76 million from FEMA for hazard mitigation at other facilities.

### *E-ZPass Initiatives*

In 2014, a number of initiatives to encourage E-ZPass participation were introduced or expanded:

- MTA Bridges and Tunnels began selling E-ZPass "On the Go" pre-paid tags in the cash toll lanes at each facility in 2012. Through December 2014, more than 438,000 tags have been sold.
- MTA Bridges and Tunnels introduced the MTA Reload Card in February 2012, an initiative which makes it easier for customers to replenish their E-ZPass account with cash. Through November 2014, more than 109,000 cards have been issued to customers and approximately 16% of total cash replenishments were made using the cards.
- Spanish language versions of the E-ZPass application, interactive website, and the customer service telephone voice response system were introduced in January 2012.
- In November 2012, MTA Bridges and Tunnels introduced E-ZPass "Pay per Trip," which enables customers to set up an E-ZPass account without a pre-paid balance. Those interested in this program pay for their tolls each day through an Automated Clearinghouse (ACH) deduction from their checking account. Through December 2014, over 40,000 account holders have signed up for this initiative.

In January 2011, MTA Bridges and Tunnels initiated a pilot project at the Henry Hudson Bridge to test All-Electronic Tolling (AET) collection operations. The implementation of cashless tolling at the facility began on November 10, 2012. All motorists are now able to use any lane to drive through the toll plaza without stopping. There is no change for drivers who use E-ZPass. For customers without an E-ZPass tag, an image is taken of their license plate and the registered driver receives a bill in the mail. For the year-to-date through September, 94% of total crossings were E-ZPass and 6% were "Tolls by Mail" transactions. Thus far, the equipment and technology have met expectations, with the readable photo image rate at nearly 100%. The revenue collection rate is also nearly 100%, through a combination of tolls collected through the billing process and fees assessed and collected for late payment. Based on the results of the pilot program, in May 2014 the Board approved a change in the permanent method of toll collection at the Henry Hudson Bridge to AET, collecting tolls using the same system used for the pilot, with vehicles

traveling in gateless, channelized lanes, followed in the fall of 2016 or early 2017 by a gantry-based Open Road Tolling (ORT) system and demolition of the existing toll plazas including the toll booths.

### ***Verrazano-Narrows Bridge Rebate Programs***

MTA has implemented two toll rebate programs at the Verrazano-Narrows Bridge (VNB). The VNB Rebate Programs are for: (i) Staten Island residents eligible for the Staten Island Resident (SIR) E-ZPass rate (the VNB SIR Rebate Program); and (ii) trucks and other commercial vehicles which have New York Customer Service Center (NYCSC) E-ZPass Accounts with more than ten (10) trips per month across the VNB (the VNB Commercial Rebate Program). Tolls on the VNB are collected only in the Staten Island-bound direction in accordance with federal law. The VNB SIR Rebate Program was implemented on April 25, 2014. The VNB Commercial Rebate Program was implemented on June 13, 2014. The VNB Rebate Programs are retroactive to April 1, 2014.

*VNB SIR Rebate Program.* Under the VNB SIR Rebate Program, the MTA rebates \$0.50 of the \$6.00 SIR VNB E-ZPass toll paid by Staten Island residents with three or more trips per month across the VNB, where tolls are collected only in the Staten Island-bound direction in accordance with federal law, and rebates \$0.86 of the \$6.36 SIR VNB E-ZPass toll paid by Staten Island residents with one or two trips per month across the VNB. As a result of the MTA rebates, Staten Island residents pay \$5.50 per trip across the VNB.

*VNB Commercial Rebate Program.* Under the VNB Commercial Rebate Program, the MTA rebates 20% of the VNB E-ZPass toll for trucks and other commercial vehicles, using the same NYCSC E-ZPass account, with more than ten (10) trips per month across the VNB, where tolls are collected only in the Staten Island-bound direction in accordance with federal law.

*Financial Implications.* The projected annualized cost of the VNB Rebate Programs is \$14 million, with \$7 million allocated for the SIR Rebate Program and \$7 million allocated for the Commercial Rebate Program. The VNB Rebate Programs are funded equally by New York State and MTA. The moneys to fund a year's estimated costs for the VNB Rebate Programs are transferred by the MTA to the MTA Bridges and Tunnels prior to the implementation of the VNB Rebate Programs each year. The VNB Rebate Programs will be implemented only for such periods of operation during which, net of State actions or available offsets, MTA's financial responsibility does not exceed half of the expense of the VNB Rebate Programs. In the event that such condition is not met, the VNB Rebate Programs would cease and Staten Island residents would be charged the applicable SIR toll and trucks and other commercial vehicles would be charged the applicable NYCSC E-ZPass toll for the Verrazano Narrows Bridge. MTA has been told by the New York State Division of the Budget that for calendar year 2014, the State's contribution will be provided by the waiving of cost recovery assessments levied by the State and payable by the MTA pursuant to Public Authorities Law Section 2975. As of January 21, 2015, MTA has transferred \$14 million to MTA Bridges and Tunnels.

The projected annualized cost of the 2015-2016 VNB Rebate Programs is \$17.3 million, with \$7 million for the VNB Commercial Rebate Program and \$10.3 million for the SIR Rebate Program. Under the 2015-2016 VNB Rebate Programs, \$7 million of the cost for the SIR Rebate Program and \$7 million of the cost of the VNB Commercial Rebate Program are to be funded equally by the State and the MTA, with the State's contribution provided by appropriations to the MTA. An additional \$3.3 million in appropriations is to be provided by the State to the MTA to keep an effective toll rate of \$5.50 for Staten Island Residents under the SIR Rebate Program (i.e., the effective toll prior to the March 22, 2015 toll increase).

MTA has a program to rebate tolls for E-ZPass customers who are residents of Broad Channel and the Rockaway Peninsula using the Cross Bay Veterans Memorial Bridge. From July 23, 2010, to March 31, 2012, the resident discount E-ZPass crossing charge applied for the first two trips across the Bridge and



only subsequent trips made during a calendar day using the same E-ZPass tag were eligible for the toll rebate. Effective April 1, 2012, the MTA has been using funds allocated by the State Legislature to restore the rebate for tolls incurred on the first two trips made by eligible participants across the Cross Bay Veterans Memorial Bridge within a calendar day (using the same E-ZPass tag).

During 2014 and 2013, MTA Bridges and Tunnels has redeemed or refinanced a number of its bonds to manage its interest cost risk and replace downgraded insurers. See Note 11 for further Long Term Debt details.

The MTA Board passed an increase in the Crossing Charge Schedule on January 22, 2015. The new Crossing Charge Schedule went into effect on March 22, 2015.

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# TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

## STATEMENTS OF NET POSITION

DECEMBER 31, 2014 AND 2013

(In thousands)

	2014	2013
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS:</b>		
Cash — unrestricted (Note 3)	\$ 14,145	\$ 18,043
Investments (Notes 4 and 5):		
Unrestricted	121,300	113,078
Restricted	632,522	466,299
Accrued interest receivable	671	648
Accounts receivable — net of allowance of \$8,766 in 2014 and \$6,303 in 2013	26,005	29,928
Due from MTA (Note 23)	2,162	1,901
Prepaid expenses	22,684	22,417
Total current assets	<u>819,489</u>	<u>652,314</u>
<b>NONCURRENT ASSETS:</b>		
Investments (Notes 4 and 5):		
Restricted	105,078	103,304
Insurance recovery receivable (Note 10)	124,351	126,325
Capital assets — net (Note 6)	4,442,037	4,204,781
Derivative assets (Note 16)	3,597	8,948
Total noncurrent assets	<u>4,675,063</u>	<u>4,443,358</u>
<b>TOTAL ASSETS</b>	<u>5,494,552</u>	<u>5,095,672</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Accumulated decreases in fair value of derivative instruments	163,094	94,246
Loss on refunding debt	161,916	229,217
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>325,010</u>	<u>323,463</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$5,819,562</u>	<u>\$5,419,135</u>

See notes to financial statements.

(Continued)

# TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

## STATEMENTS OF NET POSITION

DECEMBER 31, 2014 AND 2013

(In thousands)

	2014	2013
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion — long-term obligations (Notes 11 to 15)	\$ 334,700	\$ 240,375
Interest payable due	55,291	55,046
Accounts payable	90,603	70,181
Payable to MTA (Note 23)	26,995	26,121
Payable to NYCTA — operating expense (Note 23)	946	841
Accrued salaries	17,778	40,451
Accrued vacation and sick pay benefits	18,834	16,778
Current portion of estimated liability arising from injuries to persons (Note 18)	22,308	22,142
Due to NYCTA (Note 1 and 23)	32,446	21,687
Current portion of capital lease obligation (Note 17)	6,170	6,223
Due to MTA (Note 1 and 23)	50,413	46,381
Pollution remediation projects (Note 9)	1,829	1,829
Prepaid tolls revenue (includes \$38,411 and \$49,604 in 2014 and 2013, respectively, due to other toll agencies)	188,865	186,486
<b>Total current liabilities</b>	<b>847,178</b>	<b>734,541</b>
<b>NONCURRENT LIABILITIES:</b>		
Estimated liability arising from injuries to persons (Note 18)	14,047	7,335
Other postemployment benefits other than pensions (Note 8)	506,170	435,022
Long-term debt (Notes 11 to 15)	8,632,072	8,613,340
Derivative liabilities (Note 16)	137,661	73,758
Derivative liabilities-off market elements (Note 16)	29,866	30,420
Capital lease obligations (Note 17)	137,356	135,584
<b>Total noncurrent liabilities</b>	<b>9,457,172</b>	<b>9,295,459</b>
<b>TOTAL LIABILITIES</b>	<b>10,304,350</b>	<b>10,030,000</b>
<b>NET POSITION:</b>		
Net investment in capital assets	576,445	693,234
Restricted	737,600	569,603
Unrestricted	(5,798,833)	(5,873,702)
<b>Total net position</b>	<b>(4,484,788)</b>	<b>(4,610,865)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 5,819,562</b>	<b>\$ 5,419,135</b>

See notes to financial statements.

(Concluded)

# TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2014 AND 2013

(In thousands)

	2014	2013
OPERATING REVENUES:		
Bridges and tunnels	\$ 1,676,445	\$ 1,645,193
Building rentals and fees	19,388	16,597
Other income	2,644	1,763
Total operating revenues	1,698,477	1,663,553
OPERATING EXPENSES:		
Salaries and wages	136,775	128,678
Retirement and other employee benefits	172,901	151,280
Electricity	5,699	6,942
Fuel	3,152	2,841
Insurance	16,978	10,482
Maintenance and other operating contracts	108,893	95,429
Professional service contracts	16,890	14,258
Materials and supplies	3,396	2,965
Depreciation expense	104,039	98,235
Other expenses	30,926	28,720
Total operating expenses	599,649	539,830
Asset impairment and related expenses — (Note 10)	2,743	(2,181)
OPERATING INCOME	1,096,085	1,125,904
NON-OPERATING REVENUES (EXPENSES):		
Build America Bonds subsidy	8,406	8,345
Federal Emergency Management Agency reimbursement related to Tropical Storm Sandy	4,489	3,782
Interest expense	(345,985)	(350,834)
Change in fair value of derivative financial instruments (Note 16)	148	522
Investment income	136	131
Total non-operating (expenses)	(332,806)	(338,054)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	763,279	787,850
TRANSFERS IN — Metropolitan Transportation Authority	352	164
TRANSFERS OUT (Note 1):		
New York City Transit Authority	(265,570)	(246,902)
Metropolitan Transportation Authority	(371,984)	(367,308)
CHANGE IN NET POSITION	126,077	173,804
NET POSITION — Beginning of year	(4,610,865)	(4,664,202)
Restatement of beginning net position	-	(120,467)
NET POSITION — End of year	\$ (4,484,788)	\$ (4,610,865)

See notes to financial statements.

# TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(In thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tolls collected	\$1,671,990	\$ 1,640,343
Building rentals and fees received	42,440	26,705
Payments to employees and related costs	(195,122)	(166,271)
Other operating costs	<u>(239,626)</u>	<u>(237,465)</u>
Net cash provided by operating activities	<u>1,279,682</u>	<u>1,263,312</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies paid to affiliated agencies	<u>(622,900)</u>	<u>(606,099)</u>
Net cash used in noncapital financing activities	<u>(622,900)</u>	<u>(606,099)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES FOR THE AUTHORITY AND AFFILIATES:		
Purchase of capital assets	(349,408)	(312,340)
Principal payments on Senior, Subordinate, and COPS	(246,545)	(223,859)
Proceeds from new bond issues	371,586	229,978
TBTA bonds refunded	-	9,264
Interest payments on Senior, Subordinate, and COPS	<u>(375,324)</u>	<u>(366,871)</u>
Net cash used in capital and related financing activities	<u>(599,691)</u>	<u>(663,828)</u>
See notes to financial statements.		(Continued)

# TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(In thousands)

	2014	2013
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Gross sales of short-term securities	\$2,384,502	\$3,145,146
Gross purchases of short-term securities	(2,236,834)	(3,001,139)
Gross sales of long-term securities	718,339	425,845
Gross purchases of long-term securities	(1,035,479)	(573,022)
Increase in MTA investment pool	108,099	16,227
Unrestricted income from investments	137	131
Investment income restricted for capital purposes	247	201
Net cash (used in)/provided by investing activities	(60,989)	13,389
<b>NET (DECREASE)/INCREASE IN CASH</b>	<b>(3,898)</b>	<b>6,774</b>
CASH — Beginning of year	18,043	11,269
CASH — End of year	\$ 14,145	\$ 18,043
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Income from operations	\$1,096,085	\$1,125,904
<b>ADJUSTMENTS TO RECONCILE INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Depreciation	104,039	98,235
Asset impairment (Note 10)	-	(7,400)
Capitalized salary expense	(20,980)	(15,149)
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES:</b>		
Decrease in receivables	5,636	9,836
Increase in operating payables	106,529	23,883
(Increase) in prepaid expenses and deferred charges	(267)	(3,158)
(Decrease)/increase in accrued salary costs, vacation and insurance	(13,739)	15,965
Increase in prepaid toll revenue	2,379	15,196
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$1,279,682</b>	<b>\$1,263,312</b>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
At December 31, 2014 and 2013, the Authority had capital asset related liabilities of \$28,924 and \$23,011, respectively.		
See notes to financial statements.		(Concluded)

# TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In thousands)

### 1. BASIS OF PRESENTATION

**Reporting Entity** — The Triborough Bridge and Tunnel Authority (the “Authority” or “MTA Bridges and Tunnels”) is a public benefit corporation created pursuant to the Public Authorities Law (the “Act”) of the State of New York (the “State”). MTA Bridges and Tunnels is part of the related financial reporting group of the Metropolitan Transportation Authority (“MTA”). The MTA is a component unit of the State and is included in the State of New York Comprehensive Annual Financial Report of the Comptroller as a public benefit corporation.

MTA Bridges and Tunnels operates seven toll bridges, two toll tunnels, and the Battery Parking Garage. All Authority toll facilities operate E-Z Pass in conjunction with a regional electronic toll collection system. MTA Bridges and Tunnels’ annual net earnings before depreciation and other adjustments (“operating transfer”) are transferred to the New York City Transit Authority (the “TA”) and the MTA pursuant to provisions of the Act. In addition, MTA Bridges and Tunnels annually transfers its unrestricted investment income to the MTA. The operating transfer and the investment income transfer can be used to fund operating expenses or capital projects. The TA receives \$24,000 plus 50% of MTA Bridges and Tunnels’ remaining annual operating transfer, as adjusted, to reflect certain debt service transactions and the MTA receives the balance of the operating transfer, as adjusted, to reflect certain debt service transactions, plus the annual unrestricted investment income. Transfers are made during the year. The remaining amount due at December 31, 2014 and 2013, of \$82,859 and \$68,068, respectively, is recorded as a liability in MTA Bridges and Tunnels’ financial statements.

MTA Bridges and Tunnels certified to the City of New York (the “City”) and the MTA that its operating transfer and its unrestricted investment income at December 31, 2014 and 2013, were as follows:

(In thousands)	2014	2013
Operating transfer	\$ 637,554	\$ 614,210
Investment income (excludes unrealized gain or loss)	<u>136</u>	<u>131</u>
	<u>\$ 637,690</u>	<u>\$ 614,341</u>

### 2. SUMMARY OF ACCOUNTING POLICIES

**Basis of Accounting** — The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Authority applies Governmental Accounting Standards Board (“GASB”) Codification of Governmental Accounting and Financial Reporting Standards (“GASB Codification”) Section P80, *Proprietary Accounting and Financial Reporting*.



## New Accounting Standards —

The MTA Bridges and Tunnels has not completed the process of evaluating the impact of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50, *Pension Disclosures— an amendment of GASB Statements No. 25 and No. 27*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and RSI. The provisions in GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

The MTA Bridges and Tunnels has completed the process of evaluating the impact of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB Statement No. 69 requires the use of carrying values to measure the assets and liabilities in a government merger and requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. GASB Statement No. 69 also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. GASB Statement No. 69 provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. GASB Statement No. 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The MTA Bridges and Tunnels has determined that GASB Statement No. 69 had no impact on its financial position, results of operations, and cash flows.

The MTA Bridges and Tunnels has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. GASB Statement No. 70 also requires a government guarantor to consider qualitative factors when determining if a payment on its guarantee is *more likely than not* to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. GASB Statement No. 70 further requires an issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. This Statement also requires a government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The MTA Bridges and Tunnels has determined that GASB Statement No. 70 had no impact on its financial position, results of operations, and cash flows.

The MTA Bridges and Tunnels has not completed the process of evaluating the impact of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the

source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The requirements of this Statement should be applied simultaneously with the provisions of GASB Statement No. 68 and are effective for fiscal years beginning after June 15, 2014.

The MTA Bridges and Tunnels has not completed the process of evaluating the impact of GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of GASB Statement No. 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The provisions in GASB Statement No. 72 are effective for periods beginning after June 15, 2015.

**Use of Management's Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the market value of investments, allowances for doubtful accounts, arbitrage rebate liability, accrued expenses and other liabilities, depreciable lives of capital assets, estimated liability arising from injuries to persons, and other postemployment benefits. Actual results could differ significantly from those estimates.

**Operating Revenues** — Bridges and tunnel revenue is recorded as earned (i.e., tolls are paid in cash, when vehicles pass through the electronic toll collection system or cashless tolls — Henry Hudson facility).

**Non-Operating Revenues** — Build America Bonds subsidy and investment income account for the MTA Bridges and Tunnels' non-operating revenues.

**Operating and Non-Operating Expenses** — Operating and non-operating expenses are recognized in the accounting period in which the liability is incurred. All expenses related to operating the MTA Bridges and Tunnels (e.g. salaries, insurance, depreciation, etc.) are reported as operating expenses. All other expenses (e.g. interest on long-term debt, etc.) are reported as non-operating expenses.

**Investments** — It is MTA Bridges and Tunnels' intent to hold its investments to maturity. Investments are recorded on the statement of net position at fair value which is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as revenue (either as investment income and net increase (decrease) in fair value of investments) on the statements of revenues, expenses and changes in net position. Two investments are recorded at amortized cost.

**MTA Investment Pool** — The MTA, on behalf of the MTA Bridges and Tunnels, invests funds which are not immediately required for the MTA Bridges and Tunnels' operations in securities permitted by the New York State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. All investments are held by the MTA's agent in custody accounts in the name of the MTA.

**Capital Assets** — Capital assets include all land, buildings, toll equipment, and other structures of MTA Bridges and Tunnels having a useful life of greater than two years and having a cost of at least \$25.

Capital assets are generally stated at historical cost, or at estimated historical cost based on appraisals or on other acceptable methods when historical cost is not available. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease.

Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives, generally 99 years for primary structures, 10 to 50 years for buildings and improvements, 40 years for toll equipment and toll plazas, 30 years for roadways, and 2 to 7 years for all other equipment. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the assets, whichever is less.

Major reconstruction and improvements to such facilities are capitalized. Expenditures for maintenance and repairs which do not extend the useful life of the asset are charged to operations as incurred.

Title to substantially all real property is vested in the City of New York, and MTA Bridges and Tunnels has the use and occupancy thereof as long as its corporate existence continues.

**Pollution Remediation Projects** — Effective January 1, 2008, pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 9). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations, which previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: the MTA Bridges and Tunnels is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the MTA Bridges and Tunnels is named by a regulator as a responsible or potentially responsible party to participate in remediation; the MTA Bridges and Tunnels voluntarily commences or legally obligates itself to commence remediation efforts; or the MTA Bridges and Tunnels is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

**Compensated Absences** — MTA Bridges and Tunnels has accrued the full value (including fringe benefits) of all vacation and sick leave benefits earned by employees to date if the leave is attributable to past service and it is probable that MTA Bridges and Tunnels will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Total outstanding compensated balances at December 31, 2014 and 2013 were \$500 and \$864, respectively.

**Subsidies** — Subsidies provided by MTA Bridges and Tunnels represent its operating transfer and investment income computed on an accrual basis.

**Pension Plans** — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. MTA Bridges and Tunnels has adopted this standard for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of

accounting. Annual pension cost should be equal to the annual required contributions (“ARC”) to the pension plan, calculated in accordance with certain parameters.

**Postemployment Benefits Other Than Pensions** — In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (“RSI”) in the financial reports of state and local governmental employers. In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. MTA Bridges and Tunnels has adopted these standards for its Postemployment Benefits Other Than Pensions.

### 3. CASH

The Bank balances are insured up to \$250 in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited.

The Bank balances in 2014 and 2013 that were not insured were maintained in major financial institutions considered by management to be secure. The difference between the carrying amount and the bank balance for the years ended December 31, 2014 and 2013 is due to the petty cash and change funds which are maintained at the various toll facilities and not recorded by the bank. In addition, there were deposits in transit in each of the years ended December 31, 2014 and 2013.

Cash at December 31, 2014 and 2013 consists of the following:

	2013		2012	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits	\$ 250	\$ 250	\$ 250	\$ 250
Collateralized deposits	15,470	14,349	9,533	4,822
Uncollateralized deposits	2,323	-	1,486	-
	<u>\$18,043</u>	<u>\$14,599</u>	<u>\$11,269</u>	<u>\$5,072</u>

### 4. INVESTMENTS

MTA Bridges and Tunnels’ investment policies comply with the New York State Comptroller’s guidelines for investment policies. MTA’s All-Agency Investment Guidelines restrict MTA Bridges and Tunnels’ investments to obligations of the U.S. Treasury, its agencies and instrumentalities and repurchase agreements backed by U.S. Treasury securities. All investments were managed by the MTA, as MTA Bridges and Tunnels’ agent, in custody accounts kept in the name of MTA Bridges and Tunnels for restricted investments and in the name of the MTA for unrestricted investments. MTA’s All-Agency Investment Guidelines state that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment. As of December 31, 2014 and 2013, all investments are at fair value as set forth below (in thousands):

	2014	2013
Investments maturing in 2015 under terms of repurchase agreements	\$ 13,153	\$ 11,406
Commercial Paper	133,956	193,891
U.S. Treasuries due 2015 to 2016	58,854	27,763
U.S. Treasury Notes	145,077	52,390
MTA Investment Pool	358,674	250,575
Other government agencies	72,686	70,156
Irrevocable deposit account	76,500	76,500
	<u>\$ 858,900</u>	<u>\$ 682,681</u>

The fair value of the above investments consists of \$121,300 and \$113,078 in 2014 and 2013 in unrestricted investments, respectively, and \$737,600 and \$569,603 in 2014 and 2013 in restricted investments, respectively. Investments had weighted average monthly yields ranging from 0.093 % to 0.117%, for the year ended December 31, 2014 and 0.091% to 0.307%, for the year ended December 31, 2013. The net unrealized gain on investments was \$24 and \$4 for the years ended December 31, 2014 and 2013, respectively.

Cash and investments available to pay operating and maintenance expenses, debt service and operating surplus transfers, at December 31, 2014 and 2013, are as follows (in thousands):

<b>Investments:</b>	2014	2013
<b>CURRENT:</b>		
Restricted:		
Bond Proceeds Fund	\$ 140,798	\$ 55,594
Primarily Necessary Reconstruction Fund	356,352	254,782
Debt Service Fund	135,063	155,028
Cost of Issuance Fund	115	691
COPS 2 Broadway	194	204
Total current — restricted	632,522	466,299
Total current — unrestricted	<u>121,300</u>	<u>113,078</u>
Total — current	<u>\$ 753,822</u>	<u>\$ 579,377</u>
<b>LONG-TERM:</b>		
Restricted:		
Senior Revenue Bonds	\$ 4	\$ 2
Capital Lease Obligation:		
U.S. Treasury Strips	28,574	26,802
Irrevocable Deposit Account	76,500	76,500
Total long-term — restricted	<u>105,078</u>	<u>103,304</u>
Total — long-term	<u>\$ 105,078</u>	<u>\$ 103,304</u>



The unexpended bond proceeds of the General Purpose Revenue Bonds 1980 Resolution, not including proceeds held for the Transportation Project, were restricted for payment of capital improvements of MTA Bridges and Tunnels' present facilities. The Debt Service Funds are restricted for the payment of debt service as provided by the bond resolutions.

MTA Bridges and Tunnels' accrual of the liability to the federal government for rebate of arbitrage income from tax-exempt borrowings was \$0 at December 31, 2014 and 2013, respectively.

## 5. MTA INVESTMENT POOL

The MTA, on behalf of MTA Bridges and Tunnels, invests funds which are not immediately required for MTA Bridges and Tunnels' operations in securities permitted by the MTA's All-Agency Investment Guidelines in accordance with the New York State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero-coupon bonds.

## 6. CAPITAL ASSETS

(In thousands)	Balance December 31, 2012	Additions	Deletions	Balance December 31, 2013	Additions	Deletions	Balance December 31, 2014
<b>CAPITAL ASSETS NOT BEING DEPRECIATED:</b>							
Land	\$ 27,940	\$ -	\$ -	\$ 27,940	\$ 25,000	\$ -	\$ 52,940
Construction in progress	608,446	317,900	272,655	653,691	307,415	295,882	665,224
Total capital assets not being depreciated	636,386	317,900	272,655	681,631	332,415	295,882	718,164
<b>CAPITAL ASSETS BEING DEPRECIATED:</b>							
Building — 2 Broadway	82,398	-	373	82,025	-	-	82,025
Primary structures	2,266,750	69,700	11,163	2,325,287	200,661	-	2,525,948
Toll plazas	228,269	21,003	-	249,272	11,489	-	260,761
Toll equipment	105,147	1,981	-	107,128	-	-	107,128
Buildings	541,823	33,850	-	575,673	24,623	-	600,296
Roadway	1,062,586	144,984	-	1,207,570	52,938	-	1,260,508
Other	158,163	30,056	1,523	186,696	15,051	-	201,747
Total capital assets being depreciated	4,445,136	301,574	13,059	4,733,651	304,762	-	5,038,413
<b>LESS ACCUMULATED DEPRECIATION:</b>							
Building — 2 Broadway	36,920	1,506	-	38,426	1,335	-	39,761
Primary structures	452,944	21,894	2,007	472,831	22,863	-	495,694
Toll plazas	112,884	5,459	(1,209)	119,552	5,713	-	125,265
Toll equipment	41,917	2,628	(707)	45,252	2,630	-	47,882
Buildings	126,447	13,660	(1,995)	142,102	14,022	-	156,124
Roadway	206,877	39,362	(1,856)	248,095	40,515	-	288,610
Other	130,487	13,726	(30)	144,243	16,961	-	161,204
Total accumulated depreciation	1,108,476	98,235	(3,790)	1,210,501	104,039	-	1,314,540
TOTAL CAPITAL ASSETS BEING DEPRECIATED — Net of accumulated depreciation	3,336,660	203,339	16,849	3,523,150	200,723	-	3,723,873
CAPITAL ASSETS — Net	\$3,973,046	\$521,239	\$289,504	\$4,204,781	\$ 533,138	\$ 295,882	\$ 4,442,037



In 2014 and 2013, capital asset additions included \$20,980 and \$15,149, respectively, of costs incurred by engineers working on capital projects.

## 7. EMPLOYEE BENEFITS

Most employees of MTA Bridges and Tunnels are members of the New York City Employees' Retirement System ("NYCERS"), which is a cost sharing, multi-employer retirement system. MTA Bridges and Tunnels' total payroll costs were \$170,560 or 86% for 2014 and \$132,095 or 92% for 2013, which includes the cost of capital engineers charged to capital projects, of which such costs relate to employees who participate in NYCERS.

NYCERS provides retirement, as well as death, accident and disability retirement benefits. Benefits vest after 5 years of credited service depending on date of employment. Certain retirees also receive supplemental benefits from MTA Bridges and Tunnels.

Benefit and contribution provisions, which are contingent upon the point in time at which the employee last entered qualified service and length of credited service, are established by State law and may be amended only by the State legislature. NYCERS has both contributory and noncontributory requirements, with retirement age varying from 55 to 70 depending upon when an employee last entered qualifying service. Employees entering qualifying service on or before June 30, 1976, are enrolled in a noncontributory plan. Employees entering qualifying service after June 30, 1976, are enrolled in a plan, which requires a 3% contribution of their salary. The State legislature passed legislation in 2000 that suspends the 3% contribution for employees who have 10 years or more of credited service. In addition, members who meet certain eligibility requirements will receive one month's additional service credit for each completed year of service up to a maximum of two additional years of service credit. Bridges and Tunnels is required to contribute at an actuarially determined rate. The current rate is 19.4% of annual covered payroll. The rate was 25.3% of annual covered payroll in 2013. The contribution requirements of plan members and MTA Bridges and Tunnels are established and may be amended by the State Legislature. Effective April 1, 2012, Chapter 18 of the Laws of 2012 (commonly referred to as Tier 6) was enacted. Tier 6 members who joined NYCERS between April 1, 2012 and March 31, 2013 are required to contribute 3% of gross wages. Beginning April 1, 2013, the contribution rate for all Tier 6 members is dependent upon annual wages earned, ranging from 3% to 6%.

NYCERS established a "special program" for employees hired on or after July 26, 1976. A plan for employees, who have worked 20 years, and reached age 50, is provided to Bridge and Tunnel Officers, Sergeants and Lieutenants and Maintainers. Also, an age 57 retirement plan is available for all other such MTA Bridges and Tunnels employees. Both these plans required increased employee contributions.

Certain participants are permitted to borrow up to 75% of their own contributions including accumulated interest. These loans are accounted for as reductions in such participants' contribution accounts. Upon termination of employment before retirement, certain participants are entitled to refunds of their own contributions, including accumulated interest, less any loans outstanding.

Employee contributions amounted to \$11,830 (6.94% of covered payroll) and \$10,054 (7.61% of covered payroll) in 2014 and 2013, respectively. MTA Bridges and Tunnels contributions to NYCERS for the years ended December 31, 2014, 2013, and 2012, were \$33,023, \$33,461, and \$36,183, respectively, equal to the required contributions for each year.

NYCERS adopted GASB Statement No. 67, Financial *Reporting for Pension Plans*, for the year ended June 30, 2014. As a result, modifications were made to certain actuarial assumptions used in determining the total pension liability in order to conform with the provisions of GASB Statement No.

67. Such changes include the determination of projected benefit payments, the use of a single discount rate, and the sole use of the entry age actuarial cost method. The Authority's required contribution for the year ended June 30, 2014 was not affected by the adoption of GASB Statement No. 67.

Additional information about the plan is presented in the component unit financial report prepared by NYCERS. NYCERS issues a publicly available financial report that includes financial statements and required supplementary information. The NYCERS financial report may be obtained by writing to NYCERS Headquarters, 340 Jay Street, Brooklyn, NY, 11201.

**Postretirement Benefits** — In addition to providing pension benefits, MTA Bridges and Tunnels provides certain health care and life insurance benefits for retired employees. Substantially all of MTA Bridges and Tunnels' employees who are members of NYCERS may become eligible for those benefits if they reach normal retirement age while working for MTA Bridges and Tunnels. The insurance premiums for these benefits are recorded on a pay-as-you-go basis and totaled \$18,592 and \$17,629 in 2014 and 2013, respectively. No contributions are made by participants. As of December 31, 2014 and 2013, 1,208 and 1,213 retirees, respectively, including spouses and dependents, met those eligibility requirements. See Note 8 for further disclosure on Other Postemployment Benefits.

**Deferred Compensation Plans** — As permitted by Internal Revenue Code Section 457, the Authority has established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Plan assets and liabilities are not reflected on the Authority's consolidated statements of net position. The Authority is not required to, and did not, make any contributions to the Plan in 2014 or 2013.

Certain Authority employees are participants in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). Participation in the plan is available to all nonunion and certain other employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are solely the property of the participants; accordingly, this plan is not reflected in the accompanying consolidated statements of net position. The Authority is not required to, and did not, make any contributions to the Plan in 2014 or 2013.

## **8. OTHER POSTEMPLOYMENT BENEFITS**

The MTA and its Related Groups, which includes the MTA Bridges and Tunnels, has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the plan.

**Plan Description** — The Benefits provided by the MTA and its Related Groups include medical, pharmacy, dental, vision and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement and welfare fund contributions.

MTA Bridges and Tunnels' participates in the New York State Health Insurance Program ("NYSHIP") to provide medical and prescription drug benefits, including Medicare Part B reimbursements to its members. NYSHIP provides a PPO plan and several HMO plans.

GASB Statement No. 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2014 and was performed with a valuation date of January 1, 2012.

Since the MTA Bridges and Tunnels' is a participating employer in NYSHIP, it does not issue a stand-alone financial report regarding post-employment benefits. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Service, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

**Annual OPEB Cost and Net OPEB Obligation** — MTA Bridges and Tunnels' annual OPEB cost (expense) represents the accrued cost for post-employment benefits under GASB 45. The cumulative difference between the annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation, included on the statement of net position. The annual OPEB cost is equal to the annual required contribution ("ARC") less adjustments if a net OPEB obligation exists. The ARC is equal to the normal cost plus an amortization of the unfunded frozen actuarial accrued liability.

For determining the ARC, the MTA and its Related Groups have chosen to use Frozen Initial Liability ("FIL") cost method with the initial liability amortized over a 22-year period. The remaining amortization period at December 31, 2014 is 15 years.

In order to recognize the liability over an employee's career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the "Accrued Liability" or "Past Service Liability"), the part that is being earned this year (the "Normal Cost"), and the part that will be earned in future years (the "Future Service Liability"). Under FIL, an initial past service liability is determined based on the Entry Age Normal ("EAN") Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**Actuarial Methods and Assumptions** — The Frozen Initial Liability ("FIL") Cost Method was used for determining the Normal Cost. The Entry Age Normal ("EAN") Cost Method was used to determine the Frozen Accrued Liability and will be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. This method determines the Frozen Accrued liability for each individual based on a level percent of pay for service accrued through the initial valuation date. The difference between the Actuarial Present Value of Benefits and the Frozen Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

Inflation rate used was 2.5% per annum compounded annually.

Salaries were assumed to increase by years of service as follows:

1st year	10.5 %
5th year	16.0
10th year	5.0
15th year	5.0
20th year	5.0
21st year	4.0

Investment returns were calculated using a discount rate of 3.75%, compounded annually, based upon a projection of the MTA Investment Pool.

**Valuation Date** — January 1, 2012.

**Discount Rate** — 3.75%.

**Medicare Part B Premiums** — The Medicare Part B premium reimbursement was included in the 2013 and 2014 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 5%.

These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

For those retirees participating in NYSHIP, the trend assumption used for 2014 and 2013 was 5.0% and 1.7%, respectively. This was based on the fact that the 2009 NYSHIP premium was lower than 2008 and rose modestly in 2013 and 2014. It also reflected actual premium increases for dental and vision benefits and Medicare Part B reimbursements.

The trend assumption utilized in this valuation has changed from the assumption used in the previous valuation and lowered actuarial liabilities 5% to 10% for each agency. Further reflection of actual NYSHIP premiums for 2013 and 2014 further lowered the actuarial liabilities.

#### **Health Care Cost Trend Rates**

<b>Fiscal Years</b>	<b>Trend</b>
2012	0.0 %
2013	1.7
2014	5.0
2015	5.5
2016	5.7
2017	5.9
2022	5.9
2027	6.8
2032	6.5
2037	6.1
2042	5.7
2047	5.5
2052	5.4

The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 11.1 utilizing the baseline assumptions included in the model, except real GDP of 1.8% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors and potential excise tax due to healthcare reform.

**Participation** — For the 2,753 members who participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan.

**Dependent Coverage** — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan.

Spouses are assumed to be the same age as the employee/retiree. 85% of male and 55% of female eligible members are assumed to elect family coverage upon retirement. No children are assumed. Actual family coverage elections for current retirees are used. If a current retiree's only dependent is a child, eligibility is assumed for an additional 7 years of dependent coverage if the member participates in NYSHIP (otherwise, 5 years) from the valuation date was assumed.

#### **Demographic Assumptions:**

**Mortality** — Pre-retirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee.

**Pre-Retirement** — RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments. No blue-collar adjustments were used for management members of Headquarters.

**Postretirement Healthy Lives** — RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 133% of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue-collar adjustments were used for management members of Headquarters.

**Postretirement Disabled Lives** — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females. At age 85 and later for males and age 77 and later for females, the disability rates are set to the male and female healthy rates, respectively.

**Turnover and Retirement Rates** — All demographic assumptions were based on assumptions utilized in the 2008 actuarial valuations for the pension plans, with the exception of the mortality assumption. The following is a table displaying the various sources of the assumptions utilized by group.

<b>Group</b>	<b>Pension Plan</b>
MTA Bridges and Tunnels	NYCERS — MTA Bridges and Tunnels



**Vestee Coverage** — For members that participate in NYSHIP, Vestees (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Agency upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vestees are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vestees, which were only provided by Headquarters.

<b>Age at Termination</b>	<b>Percent Electing</b>
<40	- %
40-43	5
44	20
45-46	30
47-48	40
49	50
50-51	80
52+	100

The following table shows the elements of MTA Bridges and Tunnels' net OPEB cost for the year ended December 31, 2014 and 2013, the amount paid, and changes in MTA Bridges and Tunnels' net OPEB for the year ended December 31, 2014 and 2013 (in thousands):

(In thousands)

	<b>2014</b>	<b>2013</b>
Annual required contribution	\$ 113,165	\$ 98,645
Interest on net OPEB obligation	16,313	14,090
Adjustment to annual required contribution	<u>(39,738)</u>	<u>(35,839)</u>
Annual OPEB cost/expense	89,740	76,896
Payments	<u>(18,592)</u>	<u>(17,629)</u>
Increase in net OPEB obligation	71,148	59,267
Net OPEB obligation - beginning of year	<u>435,022</u>	<u>375,755</u>
Net OPEB obligation - end of year	<u>\$ 506,170</u>	<u>\$ 435,022</u>



MTA Bridges and Tunnels' annual OPEB cost, the percentage of annual OPEB cost contributed, and the net estimated OPEB obligation for the year ended December 31, 2014, 2013, and 2012 projected is as follows (in thousands):

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Paid	Net OPEB Obligation
12/31/2014	\$89,740	20.7%	\$71,148
12/31/2013	\$76,896	22.9%	\$59,267
12/31/2012	\$90,000	18.2%	\$73,654

Period Ended	Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability (AAL) {b}	Unfunded Actuarial Accrued Liability (UAAL) {c}={b}-{a}	Funded Ratio {a}/{c}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c}/{d}
12/31/2014	1/1/2012	-	\$ 707.0	\$ 707.0	-	\$ 106.9	661.4%

The required schedule of funding progress immediately following the notes to the financial statements and the supplemental schedules presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## 9. POLLUTION REMEDIATION PROJECTS

MTA Bridges and Tunnels implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in 2008. The Statement establishes standards for determining when expected pollution remediation outlays should be accrued as a liability or, if appropriate, capitalized. An operating expense and corresponding liability, measured at its current value using the expected cash flow method, have been recognized for certain pollution remediation obligations that are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations, which are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations, occur when any one of the following obligating events takes place:

- An imminent threat to public health due to pollution exists
- MTA Bridges and Tunnels is in violation of a pollution prevention-related permit or license
- MTA Bridges and Tunnels is named by a regulator as a responsible or potentially responsible party to participate in remediation
- MTA Bridges and Tunnels is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities, or
- MTA Bridges and Tunnels voluntarily commences or legally obligates itself to commence remediation efforts

In accordance with GASB Statement No. 49, there was no pollution remediation expense provision in 2014 or 2013. The expense provision was measured at its current value utilizing the prescribed expected cash flow method.

As of December 31, 2014 and December 31, 2013, the pollution remediation liability totaled \$1,829, primarily consisting of future remediation activities associated with asbestos removal and soil contamination at MTA Bridge and Tunnels facilities.

The pollution remediation liability is an estimate and is subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

## **10. ASSET IMPAIRMENT AND RELATED EXPENSES**

On October 29, 2012, Tropical Storm Sandy made landfall just south of Atlantic City, New Jersey, as a post-tropical cyclone. The accompanying storm surge and high winds caused widespread damage to the physical transportation assets operated by MTA and its related groups. MTA expects to recoup most of the costs associated with repair or replacement of assets damaged by the storm over the next several years from a combination of insurance and federal government assistance programs.

As of December 31, 2014, costs associated with the storm included repair and clean-up expenses of \$2.7 million which are included in "asset impairment and related expenses" on the Statements of Revenues, Expenses, and Changes in Net Position.

As of December 31, 2013, the storm related impairment losses to two of the Authority's facilities increased by \$5.0 million, while losses to two other facilities were overstated by \$12.4 million, resulting in a net credit of \$7.4 million which is included in "asset impairment and related expenses" on the Statements of Revenues, Expenses, and Changes in Net Position. Other 2013 costs associated with the storm included repair and clean-up expenses of \$5.2 million which are also included in "asset impairment and related expenses" on the Statements of Revenues, Expenses, and Changes in Net Position.

FEMA has approved approximately \$17 million in expenses for emergency measures, debris removal, repair and resiliency for the MTA Bridges and Tunnels' bridge facilities, of which \$8.3 million has been received to date.

On April 16, 2014, FEMA approved, under the Public Assistance Alternative Procedures Pilot Program, approximately \$329 million in FEMA funding for repairs and \$74.5 million in FEMA funding for hazard mitigation of the damaged elements of the Hugh L. Carey Tunnel and the Queens Midtown Tunnel. MTA Bridges and Tunnels has applied for an additional \$4.76 million from FEMA for hazard mitigation at other facilities.

## **11. LONG-TERM DEBT**

MTA Bridges and Tunnels issues long-term bonds to fund its own capital projects, as well as the Transportation Project, through the following two credits:

- General Revenue Bonds, and
- Subordinate Revenue Bonds.

The following represents MTA Bridges and Tunnels' issuance of long-term debt in 2014:

- On January 2, 2014, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$66,300 General Revenue Variable Rate Refunding Bonds, Series 2005B-4a and 2005B-4b.
- On February 6, 2014, MTA Bridges and Tunnels issued \$250,000 General Revenue Bonds, Series 2014A. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities.
- On February 6, 2014, MTA Bridges and Tunnels issued \$100,000 General Revenue Bond Anticipation Notes, Series 2014A. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities.
- On September 30, 2014, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$147,850 Subordinate Revenue Variable Rate Refunding Bonds, Series 2000ABCD.
- On November 17, 2014, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$63,650 General Revenue Bonds, Subseries 2008B-2.
- On December 11, 2014, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$38,700 General Revenue Variable Rate Refunding Bonds, Subseries 2005B-4c.

The following represents MTA Bridges and Tunnels' issuance of long-term debt in 2013:

- On January 1, 2013, MTA Bridges and Tunnels terminated the swap agreement with Ambac Financial Services, L.P. in connection with General Revenue Variable Rate Refunding Bonds, Series 2002F.
- On January 2, 2013, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$29,600 General Revenue Refunding Bonds, Series 2005B-4a.
- On January 29, 2013, MTA Bridges and Tunnels entered into a refunding agreement in connection with \$653,965 Subordinate Revenue Refunding Bonds, Series 2013A.
- On January 29, 2013, MTA Bridges and Tunnels entered into a refunding agreement in connection with \$257,195 General Revenue Refunding Bonds, Series 2013B.
- On April 18, 2013, MTA Bridges and Tunnels closed on \$200,000 General Revenue Bonds, Series 2013C. These bonds were issued to finance bridge and tunnel projects.
- On November 15, 2013, MTA Bridges and Tunnels entered into a remarketing agreement in connection with \$83,500 General Revenue Bonds, Series 2008B-1.
- On November 20, 2013, MTA Bridges and Tunnels entered into an Invitation to Offer, for the tender of Subordinate Revenue Refunding Bonds, Series 2002E.

- On December 19, 2013, MTA Bridges and Tunnels entered into a refunding agreement for the issuance of \$313,975 Subordinate Revenue Refunding Bonds, Series 2013D (Federally Taxable) to purchase certain maturities of MTA Bridges and Tunnels' Subordinate Revenue Bonds, Series 2002E.

MTA Bridges and Tunnels' noncurrent portion of long-term debt as of December 31, 2014 and 2013 is comprised of the following:

(In thousands)

	2014	2013
Senior Revenue Bonds (Notes 12 and 14)	\$6,942,253	\$6,872,557
Subordinate Revenue Bonds (Note 13)	1,681,097	1,730,931
2 Broadway Certificates of Participation (Note 15)	<u>8,722</u>	<u>9,852</u>
Total long-term debt - net of premiums and discounts	<u>\$8,632,072</u>	<u>\$8,613,340</u>

TBTA has entered into several Letter of Credit Agreements and Standby Bond Purchase Agreements (together, "Credit and Liquidity Agreements") as listed on the table below.

Resolution	Series	Provider	Exp. Date
TBTA General Revenue	2001B	State Street	9/28/2018
TBTA General Revenue	2001C	JP Morgan Chase Bank, N.A.	9/29/2015
TBTA General Revenue	2002F	Helaba	11/1/2015
TBTA General Revenue	2003B-1	* CALPERs	1/31/2015
TBTA General Revenue	2003B-2	* CALSTRs	1/31/2015
TBTA General Revenue	2003B-3	* US Bank	1/31/2015
TBTA General Revenue	2005A-1	* CALPERs	1/31/2015
TBTA General Revenue	2005A-2	* CALSTRs	1/31/2015
TBTA General Revenue	2005A-3	* US Bank	1/31/2015
TBTA General Revenue	2005B-2a	* CALPERs	1/31/2015
TBTA General Revenue	2005B-2b	* CALSTRs	1/31/2015
TBTA General Revenue	2005B-2c	* US Bank	1/31/2015
TBTA General Revenue	2005B-3	Bank of America	7/3/2015

\* Note: Refinanced on January 28, 2015 – See Subsequent Event (Note 24)

According to the terms of the Credit and Liquidity Agreements, if the remarketing agent fails to remarket any of the bonds listed above that are tendered by the holders, the bank is required (subject to certain conditions) to purchase such unremarketed portion of the bonds. Bonds owned by the bank and not remarketed after a specified amount of time (generally 90 days) are payable to the bank as a term loan over five years in ten equal semiannual principal payments including interest thereon. As of December 31, 2014, there were no term loans outstanding.

## 12. DEBT — SENIOR REVENUE BONDS

Senior Revenue Bonds at December 31, 2014 and 2013, consist of the following:

(In thousands)	Original Issuance	December 31, 2013	Issued	Principal Repayments & Retirements During 2014	December 31, 2014
Series EFC 1996A	\$ 23,530	\$ 5,770	\$ -	\$ 1,620	\$ 4,150
Series 2001B&C, 4.10% - 5.25%	296,400	252,770	-	7,635	245,135
Series 2002B	2,157,065	147,200	-	71,720	75,480
Series 2002F	246,480	202,610	-	7,310	195,300
Series 2003B	250,000	199,685	-	6,770	192,915
Series 2005A	150,000	126,025	-	3,605	122,420
Series 2005B	800,000	584,400	105,000	107,400	582,000
Series 2006A	200,000	75,645	-	4,600	71,045
Series 2007A	223,355	136,260	-	4,620	131,640
Series 2008A	822,770	636,445	-	18,340	618,105
Series 2008B	252,230	252,230	63,650	63,650	252,230
Series 2008C	629,890	512,270	-	12,090	500,180
Series 2009A-1	150,000	120,850	-	5,945	114,905
Series 2009A-2	325,000	298,715	-	4,895	293,820
Series 2009B - BAB	200,000	200,000	-	-	200,000
Series 2010A-1	66,560	49,610	-	6,230	43,380
Series 2010A-2 - BAB	280,400	280,400	-	-	280,400
Series 2011A	609,430	602,245	-	16,035	586,210
Series 2012A	231,490	225,515	-	4,240	221,275
Series 2012B	1,236,898	1,236,413	-	940	1,235,473
Series 2013B	257,195	257,195	-	-	257,195
Series 2013C	200,000	200,000	-	3,390	196,610
Series 2014A	250,000	-	250,000	5,040	244,960
	<u>\$ 9,858,693</u>	<u>6,602,253</u>	<u>418,650</u>	<u>356,075</u>	<u>6,664,828</u>
Add net unamortized bond discount and premium		<u>452,688</u>	<u>16,864</u>	<u>6,733</u>	<u>462,819</u>
		<u>\$ 7,054,941</u>	<u>\$ 435,514</u>	<u>\$ 362,808</u>	<u>\$ 7,127,647</u>

General Revenue Fixed Rate Bonds Series 2009B and General Revenue Fixed Rate Bonds Series 2010A-2 are Federally Taxable — Issuer Subsidy- Build America Bonds.

**Debt Service Requirements:**

<b>Year Ending December 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Aggregate Debt Service</b>
(In thousands)			
2015	\$ 187,675	\$ 300,086	\$ 487,761
2016	207,680	293,189	500,869
2017	215,785	284,098	499,883
2018	225,660	274,319	499,979
2019	231,775	263,977	495,752
2020–2024	1,267,650	1,148,232	2,415,882
2025–2029	1,582,181	839,733	2,421,914
2030–2034	1,551,582	549,371	2,100,953
2035–2039	1,055,345	178,283	1,233,628
2040–2044	139,495	15,382	154,877
	<u>\$6,664,828</u>	<u>\$4,146,670</u>	<u>\$10,811,498</u>

The above interest amounts include both fixed and variable rate calculations. The interest rate assumptions for Senior Revenue variable rate bonds are as follows:

- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2001B and Series 2001C* — 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002F* — 5.404% and 3.076% per annum taking into account the interest rate swaps and 4% per annum on portions not covered by the interest rate swaps
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2003B* — 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2005A* — 4.00% per annum except from November 1, 2027 through November 1, 2030, 3.076% per annum taking into account the interest rate swap
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2005B* — 3.076% per annum based on the Initial Interest Rate Swaps thereafter
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2008B* — 4.00% per annum, after the mandatory tender date



### 13. DEBT — SUBORDINATE REVENUE BONDS

Subordinate Revenue Bonds at December 31, 2014 and 2013, consist of the following:

(In thousands)	Original Issuance	December 31, 2013	Issued	Principal Repayments & Retirements During 2014	December 31, 2014
Series 2000AB	\$ 201,120	\$ 113,300	\$ -	\$ 113,300	\$ -
Series 2000CD	201,080	64,950	-	64,950	-
Series 2000ABCD	147,850	-	147,850	-	147,850
Series 2002E	756,095	139,825	-	-	139,825
Series 2003A	500,170	9,545	-	-	9,545
Series 2008D	491,110	393,980	-	19,820	374,160
Series 2013A	653,964	653,964	-	6,770	647,194
Series 2013D	313,975	313,975	-	1,000	312,975
	<u>\$ 3,265,364</u>	<u>1,689,539</u>	<u>147,850</u>	<u>205,840</u>	<u>1,631,549</u>
Add net unamortized bond discount and premium		<u>99,382</u>	<u>-</u>	<u>2,809</u>	<u>96,573</u>
		<u>\$ 1,788,921</u>	<u>\$ 147,850</u>	<u>\$ 208,649</u>	<u>\$ 1,728,122</u>

#### Debt Service Requirements:

Year Ending December 31	Principal	Interest	Aggregate Debt Service
(In thousands)			
2015	\$ 47,025	\$ 71,284	\$ 118,309
2016	64,465	68,182	132,647
2017	67,770	64,818	132,588
2018	92,350	61,310	153,660
2019	97,610	57,660	155,270
2020–2024	451,430	230,211	681,641
2025–2029	545,975	137,859	683,834
2030–2032	<u>264,924</u>	<u>95,735</u>	<u>360,659</u>
	<u>\$ 1,631,549</u>	<u>\$ 787,059</u>	<u>\$ 2,418,608</u>

The Subordinate Revenue Bonds are special obligations issued in accordance with the 2001 Subordinate Revenue Resolution Authorizing Subordinate Revenue Obligations.

The above interest amounts include both fixed and variable rate calculations. The interest rate assumptions for Subordinate Revenue variable rate bonds are as follows:

- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000AB* — 6.08% per annum taking into account the interest rate swap
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000CD* — 4.00% per annum

#### 14. BOND ANTICIPATION NOTES

On February 6, 2014, MTA Bridges and Tunnels issued \$100,000 General Revenue Bond Anticipation Notes, Series 2014A. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities.

(In thousands)	December 31, 2013	Issued	Principal Repayments & Retirements During 2014	December 31, 2014
Series 2014A	\$ -	\$ 100,000	\$ -	\$ 100,000
Add net unamortized bond premium	-	6,082	3,801	2,281
	<u>\$ -</u>	<u>\$ 106,082</u>	<u>\$ 3,801</u>	<u>\$ 102,281</u>

#### Debt Service Requirements:

Year Ending December 31 (In thousands)	Principal	Interest	Aggregate Debt Service
2015	<u>\$ 100,000</u>	<u>\$ 2,500</u>	<u>\$ 102,500</u>

## 15. CERTIFICATES OF PARTICIPATION

In 2000, the Trust (Note 17) issued \$121,200 of fixed rate Serial and Term Certificates of Participation, Series 2000A. In 1999, the Trust issued \$328,205 of fixed rate Serial and Term Certificates of Participation, Series 1999A. In 2004, the Trust issued \$357,925 of fixed rate Serial and Term Certificates of Participation, Series 2004A. The proceeds of the Certificates were used to finance certain building and tenant improvements to the 2 Broadway office building in New York City, occupied by the Transit Authority, MTA, on behalf of its subsidiaries, The Long Island Rail Road Company, Metro-North Commuter Railroad Company, and MTA Bridges and Tunnels (Notes 17 and 22). The Transit Authority is obligated to pay 68.7% of the debt service, the MTA 21.0%, and MTA Bridges and Tunnels 10.3%.

Certificates of Participation at December 31, 2014 and 2013 consist of the following:

(In thousands)	Original Issuance	December 31, 2013	Issued	Principal Repayments & Retirements During 2014	December 31, 2014
Series 1999A	\$ 328,205	\$ -	\$ -	\$ -	\$ -
Series 2000A	121,200	-	-	-	-
Series 2004A	357,925	9,852	-	1,130	8,722
	<u>\$ 807,330</u>	<u>9,852</u>	<u>-</u>	<u>1,130</u>	<u>8,722</u>
Add net unamortized bond discount and premium		-	-	-	-
		<u>\$ 9,852</u>	<u>\$ -</u>	<u>\$ 1,130</u>	<u>\$ 8,722</u>

MTA Bridges and Tunnels' share of the debt service requirements:

### Certificates of Participation (In thousands)

Year Ending December 31	Principal	Interest	Aggregate Debt Service
2015	\$ -	\$ 312	\$ 312
2016	1,460	261	1,721
2017	1,342	214	1,556
2018	1,772	152	1,924
2019	1,957	83	2,040
2020-2024	1,573	150	1,723
2025-2029	515	56	571
2030	103	1	104
	<u>\$ 8,722</u>	<u>\$ 1,229</u>	<u>\$ 9,951</u>

The above interest amounts include both fixed and variable rate calculations. The interest rate assumptions for Certificates of Participation are as follows:

- *Certificates of Participation, Series 2004A* — 3.542% per annum taking into account the interest rate swaps

The above Certificates of Participation include net payments made by MTA Bridges and Tunnels under the swap agreements (Note 21)

## **16. GASB 53 — DERIVATIVE INSTRUMENTS**

MTA Bridges and Tunnels implemented GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, in 2010. The Statement deals with the recognition, measurement, and disclosure of information regarding derivative instruments, and addresses hedge accounting requirements. Hedging derivative instruments are supposed to significantly reduce financial risk by substantially offsetting the associated changes in cash flows or fair values of the underlying bond portfolio.

For the year ended December 31, 2014, the MTA Bridges and Tunnels is reporting gains, derivative liabilities and deferred outflows from derivative instruments in the amounts of \$148, \$137,661 and \$163,094, respectively. Also recognized in the same period are derivative assets and derivative liabilities-off market elements in the amounts of \$3,597 and \$29,866, respectively.

For the year ended December 31, 2013, the MTA Bridges and Tunnels is reporting gains, derivative liabilities and deferred outflows from derivative instruments in the amounts of \$522, \$73,758 and \$94,246, respectively. Also recognized in the same period are derivative assets and derivative liabilities-off market elements in the amounts of \$8,948 and \$30,420, respectively.

**GASB Statement No. 53- Accounting and Financial Reporting for Derivative Instruments**  
**Summary Information as of December 31, 2014**

	<b>Bond Resolution</b>	<b>Series</b>	<b>Type of Derivative</b>	<b>Cash Flow or Fair Value Hedge</b>	<b>Effective Methodology</b>	<b>Trade/Entered Date</b>	<b>Notional Amount as of 12/31/14 (in millions)</b>	<b>Fair Values as of 12/31/14 (in millions)</b>
<b>Investment Swap</b>	2 Broadway Certificate of Participation <sup>(1)</sup>	2004A	Pay-Fixed Swap	N/a	N/a	8/10/2004	\$ 9.852	\$ (0.839)
<b>Hedging Swaps</b>	MTA Bridges & Tunnels Senior Revenue Bonds	2002F (Citi 2005B)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	194.000	(36.506)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	24.060	(4.440)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	582.000	(109.519)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2000ABCD	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	8/12/1998	95.300	(12.629)

(1) MTA Bridges and Tunnels' share of the debt service requirements for the 2 Broadway Certificate of Participation is 10.3% (Note 15). Thus, as of December 31, 2014, the notional amount is calculated as 10.3% of \$95.650 million, and the fair value is calculated as 10.3% of \$(8.148) million.

The fair value balances and notional amounts of derivative instruments outstanding at December 31, 2014, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2013 are as follows:

	Changes In Fair Value		Fair Value at December 31, 2014		Notional (in millions)
	Classification	Amount (in millions)	Classification	Amount (in millions)	
<b>Government activities</b>					
Cash Flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	(\$68.848)	Debt	(\$163.094)	\$895.360
Investment hedge:					
Pay-fixed interest rate swaps	Investment Expense	0.148	Debt	(0.839)	9.852

For the year ended December 31, 2014, the MTA Bridges and Tunnels recorded \$148 as an unrealized gain related to the change in fair market value of certain investment swaps that are not accounted for as hedging derivatives.

For the year ended December 31, 2014, there were no derivative instruments reclassified from a hedging derivative instrument to an investment derivative instrument.

The summary above reflects a total number of five (5) swaps and hedging relationships that were reviewed for GASB Statement No. 53 Hedge Accounting treatment. Of that total, four (4) were deemed effective using Synthetic Instrument Method and one (1) was deemed ineffective.

For the four (4) hedging relationships, the Synthetic Instrument Method was utilized to determine effectiveness. Under the Synthetic Instrument Method, if the rate determined by dividing the historical Swap and Bond payments (Fixed Swap payments + Floating Bond payments - Floating Swap payments) by the hedge notional amount produces an "Actual Synthetic Rate" that is within 90% to 111% of the corresponding fixed swap rates then the hedging derivative instrument is deemed to be effective.

In accordance with GASB Statement No. 53, one of the hedging swaps is classified as a swaption for which a premium was received by MTA Bridges and Tunnels at contract inception as shown in the Table below. MTA Bridges and Tunnels have followed the relevant accounting required treatment and are amortizing the premium over the life of the swap agreement.

Bond Resolution	Original Series	Premium	Date of the Swaption Contract	Premium Payment Date
MTA Bridges & Tunnels-Subordinate	2000AB	\$22,740,000	8/12/1998	8/25/1998



## **17. CAPITAL LEASE OBLIGATIONS**

### **2 Broadway**

During 1998, the MTA, TA, and MTA Bridges and Tunnels entered into an agreement with the United States Trust Company of New York (collectively, the “Trust”) to provide for the lease of an office building located at 2 Broadway in New York City. Subsequently, the same parties provided for the delivery of certain certificates of participation to finance building and tenant improvements at 2 Broadway (Note 14). The lease is composed of both an operating lease (for the lease of land) (Note 21) and capital lease (for the lease of the building) elements.

The lease term expires June 30, 2048, with the right to extend the term of the lease for two successive periods of fifteen years each. Rental payments will be allocated to the MTA, TA, and MTA Bridges and Tunnels based upon usage.

On November 4, 2003, MTA entered into agreement to end the litigation between the MTA and the owners of the 2 Broadway facilities. The settlement provides for a rent credit to MTA Bridges and Tunnels over a 30-year period commencing January 1, 2004.

The credit, which aggregated amounts to \$4,525,000, has been reflected proportionately, on an annual basis through January 1, 2034, in the 2 Broadway capital lease obligations schedule included in the tables below.

MTA Bridges and Tunnels has recorded capital lease assets using the net present value, and using a borrowing rate of 9.11%, and has reflected a capital lease obligation as of December 31, 2014 and 2013, of 38,452 and \$38,505, respectively.

### **Subway Cars**

During 1995, MTA Bridges and Tunnels entered into a sale-leaseback transaction with a third party whereby MTA Bridges and Tunnels sold certain subway cars, which were contributed by the TA, for net proceeds of \$84,229. These cars were subsequently leased back by MTA Bridges and Tunnels under a capital lease. The gain on the sale of \$34,231 was deferred and netted against the carrying value of the leased assets, and the assets were recontributed to the TA. MTA Bridges and Tunnels transferred \$5,488 to the MTA, representing the net economic benefit of the transaction. The remaining proceeds equal the net present value of the lease obligation, of which \$71,258 was placed in an irrevocable deposit account and \$7,483 was invested in U.S. Treasury Strips. The estimated yields and maturities of the deposit account and the Treasury Strips are expected to be sufficient to meet all obligations under the lease as they become due.

In 2014 and 2013, there were no capital lease obligation payments which were funded by the aforementioned investments. At December 31, 2014 and 2013, the balance in the irrevocable deposit account was \$76,500 and the investments in U.S. Treasury Strips had a market value of \$28,574 and \$26,802 at December 31, 2014 and 2013, respectively.

At the end of the lease term, MTA Bridges and Tunnels has the option to purchase the subway cars for approximately \$106,000, which amount has been reflected in the net present value of the lease obligation, or to make a lease termination payment of approximately \$89,000, which is expected to be covered by the irrevocable deposit.

Total net obligations under all capital leases as of December 31, 2014 and 2013, are as follows:

(In thousands)	2014	2013
2 Broadway	\$ 38,452	\$ 38,505
Subway cars	<u>105,074</u>	<u>103,302</u>
	143,526	141,807
Less current portion	<u>(6,170)</u>	<u>(6,223)</u>
	<u>\$ 137,356</u>	<u>\$ 135,584</u>

Net minimum lease payments are as follows:

Years Ending December 31	Aggregate Lease Payments
(In thousands)	
2015	\$ 11,970
2016	17,375
2017	104,641
2018	6,227
2019	6,334
2020-2024	32,744
2025-2029	34,240
2030-2034	33,754
2035-2039	30,286
2040-2044	22,808
2045-2049	<u>9,074</u>
Minimum future lease payments	309,453
Less amount representing interest	<u>(165,927)</u>
	<u>\$ 143,526</u>

Total accumulated depreciation under capital leases was approximately \$39,761 and \$38,426 in 2014 and 2013, respectively.

## 18. RISK MANAGEMENT

MTA Bridges and Tunnels is exposed to various risks of loss related to torts; theft of, damage to, and destruction of its assets; injuries to persons, including employees; and natural disasters.

MTA Bridges and Tunnels is self-insured up to \$2.6 million per occurrence for liability arising from injuries to persons, excluding employees. MTA Bridges and Tunnels is self-insured for work-related injuries to employees and for damage to third-party property. MTA Bridges and Tunnels provides reserves to cover the self-insured portion of these claims, including a reserve for claims incurred but not reported. The annual cost arising from injuries to employees and damage to third-party property is included in "Retirement & other employee benefits" and "Insurance" in the accompanying statements of revenues, expenses and changes in net position.

A summary of activity in estimated liability arising from injuries to persons, including employees, and damage to third-party property, as of December 31, 2014 and 2013, is as follows (in thousands):

(In thousands)	2014	2013
Balance — beginning of year	\$ 29,477	\$ 28,169
Activity during the year:		
Current year claims and changes in estimates	13,340	7,291
Claims paid	(6,462)	(5,983)
Balance — end of year	36,355	29,477
Less current portion	(22,308)	(22,142)
Long-term liability	<u>\$ 14,047</u>	<u>\$ 7,335</u>

**Liability Insurance** — FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program ("ELF") that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: \$8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 million for MTAHQ and MTA Bridges and Tunnels. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limits are: \$9 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 million for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2012 the self-insured retention limits for ELF were increased to the following amounts: \$10 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 million for MTA Staten Island Railway; and \$2.6 million for MTAHQ and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2014, the balance of the assets in this program was \$72.2 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 million for a total limit of \$400 million (\$350 million excess of \$50 million). In certain circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of \$50 million.

**Property Insurance** — Effective May 1, 2014, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate as well as certain exceptions summarized below. The total program is \$600 million per occurrence covering property of the related entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 million per occurrence. The property insurance policy provides replacement cost coverage for all risks (including Earthquake, Flood and Wind) of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

In addition to the noted \$25 million per occurrence self-insured retention, MTA self-insures All Risk (excluding Earthquake, Flood, and Wind) above that retention for an additional \$362.3 million within the overall \$600 million property program, as follows: \$32.98 million (or 32.98%) of the \$100 million layer excess of the primary \$150 million layer, plus \$229.33 million (or 91.7%) of the \$250 million layer excess of \$250 million, plus \$100 million (or 100%) of \$100 million excess of \$500 million.

FMTAC is 100% reinsured in the domestic, Asian, London, European and Bermuda marketplaces for the perils of Earthquake, Flood, and Wind for the \$600 million per occurrence and in the annual aggregate property program.

Supplementing the \$600 million per occurrence coverage noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$200 million of fully collateralized storm surge coverage for losses from storm surges that surpass specified trigger levels in the New York Harbor or Long Island Sound and are associated with named storms that occur at any point in the three year period from July 31, 2013 to July 30, 2016. The expanded protection is reinsured by MetroCat Re Ltd., a Bermuda special purpose insurer independent of the Authority and the MTA and formed to provide FMTAC with capital markets-based property reinsurance. The MetroCat Re reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is available for storm surge losses only after amounts available under the \$600 million in general property reinsurance are exhausted.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 85% of “certified” losses, as covered by the Terrorism Risk Insurance Act (“TRIA”) of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. The remaining 15% of MTA Group losses arising from an act of terrorism would be covered under the additional terrorism policy described below.

Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed \$100 million (“trigger”). The United States government’s reinsurance of FMTAC expired on December 31, 2014 when Congress did not reauthorize TRIA. FMTAC was able to secure stand-alone terrorism coverage for the period from January 1, 2015 until January 12, 2015, when the Federal Terrorism Insurance Program was extended for six years and MTA reverted to said program.

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) program, the MTA obtained an additional commercial reinsurance

policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 15% of any “certified” act of terrorism — up to a maximum recovery of \$161.25 million for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15% “certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$100 million TRIPRA trigger — up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2015. Recovery under this policy is subject to a retention of \$25 million per occurrence and \$75 million in the annual aggregate — in the event of multiple losses during the policy year. Should the MTA Group’s retention in any one year exceed \$75 million future losses in that policy year are subject to a retention of \$7.5 million.

## **19. LEASE-LEASEBACK TRANSACTION**

On March 31, 1997, the MTA entered into a lease/leaseback transaction with a third party whereby the MTA leased MTA Long Island Rail Road’s Hillside maintenance facility to the third party. The term of the lease is 22 years, and the third party has the right to renew for a further 21.5 year term. The facility was subsequently subleased back to the MTA as a capital lease, and sub-subleased by the MTA to MTA Long Island Rail Road. MTA Bridges and Tunnels has entered into a guarantee with the third party that the sublease payments will be made.

Under the terms of the lease/leaseback agreement, the MTA initially received \$314,000, which was utilized as follows. The MTA paid \$266,000 to Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), an affiliate of the third party’s lender, which has the obligation to pay to the MTA an amount equal to the rent obligations under the sublease attributable to the debt service on the loan from the third party’s lender. The MTA used \$21,000 to purchase Treasury securities, which are pledged as collateral to the third party. The value at maturity of these Treasury securities, together with the proceeds from the aforementioned obligation of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., is sufficient to pay all of the regularly scheduled rent obligations, including the cost of purchasing the third party’s remaining rights at the end of the 22 year sublease period, if the related purchase option is exercised. A further \$600 was used to pay for legal and other costs of the transaction, and \$3,000 was used to pay the first rental payment under the sublease. A further \$23,000 is the MTA’s net benefit from the transaction, representing consideration for the tax benefits.

## **20. COMMITMENTS AND CONTINGENCIES**

At December 31, 2014 and 2013, MTA Bridges and Tunnels had unused standby letters of credit, relative to insurance, amounting to \$2.712 million.

MTA Bridges and Tunnels is involved in various litigations and claims involving personal liability claims and certain other matters. Although the ultimate outcome of these claims and suits cannot be predicted at this time, management does not believe that the ultimate outcome of these matters will have a material effect on the financial position, results of operations and cash flows of MTA Bridges and Tunnels.



## 21. SWAP AGREEMENTS

### Swap Agreements Relating to Synthetic Fixed Rate Debt

*Board-adopted Guidelines.* The Related Entities adopted guidelines governing the use of swap contracts on March 26, 2002. The guidelines were amended and approved by the Board on March 13, 2013. The guidelines establish limits on the amount of interest rate derivatives that may be outstanding and specific requirements that must be satisfied for a Related Entity to enter into a swap contract, such as suggested swap terms and objectives, retention of a swap advisor, credit ratings of the counterparties, collateralization requirements and reporting requirements.

*Objectives of synthetic fixed rate debt.* To achieve cash flow savings through a synthetic fixed rate, MTA, MTA Bridges and Tunnels and MTA New York City Transit have entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA, MTA Bridges and Tunnels and MTA New York City Transit would have paid to issue fixed-rate debt, and in some case where Federal tax law prohibits an advance refunding to synthetically refund debt on a forward basis.

*Fair Value.* Relevant market interest rates on the valuation date (December 31, 2014) of the swaps are reflected in the following charts. As of the valuation date, all of the swaps had negative fair values. A negative fair value means that MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would have to pay the counterparty that approximate amount to terminate the swap. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be entitled to receive a payment from the counterparty to terminate the swap; consequently, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should a swap with a positive fair value be terminated.

The fair values listed in the following tables represent the theoretical cost to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bond due on the date of each future net settlement on the swap. See "Termination Risk" below.

*Terms and Fair Values.* The terms, fair values and counterparties of the outstanding swaps of MTA and MTA Bridges and Tunnels, as well as the swaps entered into in connection with the 2 Broadway Certificates of Participation refunding, are reflected in the following tables. The MTA swaps are reflected in separate tables for the Transportation Revenue Bonds and Dedicated Tax Fund Bonds. The MTA Bridges and Tunnels swaps are reflected in separate tables for the senior lien and subordinate revenue bonds.



MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/14 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/14 (in millions)	Swap Termination Date	Counterparty
Series 2002F <sup>(1)</sup>	\$194.000	07/07/05	3.076 %	67% of one-month LIBOR <sup>(1)</sup>	\$ (36.506)	01/01/32	Citibank, N.A.
Series 2005A <sup>(4)(5)</sup>	24.060	09/24/04	3.092	Lesser of Actual Bond or 67% of one-month LIBOR - 45 basis points	(4.440)	01/01/30	UBS AG
Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e <sup>(1)</sup>	582.000	07/07/05	3.076	67% of one-month LIBOR <sup>(1)</sup>	(109.519)	01/01/32	33% each – JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG
Total	\$800.060				\$ (150.465)		

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/2014 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/2014 (in millions)	Swap Termination Date	Counterparty
Series 2000ABCD <sup>1(2)(3)</sup>	\$95.300	01/01/01	6.080 %	SIFMA – 15 bp	\$ (12.629)	01/01/19	JPMorgan Chase Bank, NA
Total	\$95.300				\$ (12.629)		

- (1) On February 19, 2009, MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B-1 were refunded. Notional amounts from the Series 2005B-1 swap were reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F, MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B-1,2,3 and from November 1, 2027 through November 1, 2030, to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A-2,3.
- (2) In accordance with a swaption entered into on August 12, 1998, the Counterparty paid to MTA Bridges and Tunnels a premium of \$22,740,000.
- (3) On September 30, 2014, the TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000AB, together with the TBTA Subordinate Revenue Variable Rate Refunding Bonds Series 2000CD, were redesignated as the Series 2000ABCD Bonds and converted from a Weekly Mode to a Term Mode. The swap now hedges the portion of the Series 2000ABCD bonds that originally related to the Series 2000AB bonds.
- (4) On December 18, 2012, MTA Variable Rate Certificates of Participation, Series 2004A associated with the swap in connection with Series 2004A Bonds, were redeemed. Notional amounts from the Series 2004A swap were reassigned to MTA Transportation Revenue Variable Rate Bonds, Series 2011B; and MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A-1.
- (5) On November 19, 2013, MTA Variable Rate Certificates of Participation, Series 2004A associated with the swap in connection with Series 2004A Bonds, were redeemed. Notional amounts from the Series 2004A swap were reassigned to MTA Transportation Revenue Variable Rate Bonds, Series 2011B; and MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A-1.

## **2 Broadway Certificates of Participation Swaps**

In addition to the foregoing, MTA, MTA New York City Transit and MTA Bridges and Tunnels entered into separate ISDA Master Agreements with UBS AG relating to the \$357.925 million Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities) in connection with the refunding of certain certificates of participation originally executed to fund certain improvements to the office building located at 2 Broadway in Manhattan. The 2 Broadway swaps have (1) an effective date of September 22, 2004, (2) a fixed rate paid of 3.092%, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67% of one-month LIBOR minus 45 basis points, and (4) a termination date of January 1, 2030.

On November 28, 2011, certain portions of these swaps were re-associated with other floating rate bonds, including the MTA Bridges and Tunnels General Revenue Bonds, Series 2005A and the Transportation Revenue Bonds Series 2002G-1 and Series 2011B.

On December 18, 2012 and November 19, 2013, certain portions of these swaps were re-associated with other floating rate bonds, including the MTA Bridges and Tunnels General Revenue Bonds, Series 2005A and the Transportation Revenue Bonds Series 2011B.

The portion remaining that is still associated with the 2004A Certificates of Participation is \$95.650 million in notional amount as of December 31, 2014, of which MTA New York City Transit is responsible for \$65.712 million, MTA for \$20.086 million, and MTA Bridges and Tunnels for \$9.852 million. As of December 31, 2014, the unaudited aggregate fair value of the remaining portion associated with the 2004A COPs was (\$8.148) million (MTA Bridges and Tunnels portion is 10.3%).

### **Counterparty Ratings**

The current ratings of the counterparties are as follows as of December 31, 2014:

<b>Counterparty</b>	<b>Ratings of the Counterparty or its Credit Support Provider</b>		
	<b>S&amp;P</b>	<b>Moody's</b>	<b>Fitch</b>
AIG Financial Products Corp.	A-	Baa1	BBB+
Bank of New York Mellon	AA-	Aa2	AA-
BNP Paribas North America, Inc.	A+	A1	A+
Citibank, N.A.	A	A2	A
JPMorgan Chase Bank, NA	A+	Aa3	A+
UBS AG	A	A2	A

### **Swap Notional Summary**

The following table sets forth the notional amount of Synthetic Fixed Rate debt and the outstanding principal amount of the underlying floating rate series as of December 31, 2014.

<b><u>Series</u></b>	<b><u>Outstanding Principal</u></b>	<b><u>Notional Amount</u></b>
TBTA SUB 2000ABCD	147,850,000	95,300,000
TBTA 2005B-4 (a,b,c,d,e)	194,000,000	194,000,000
TBTA 2005B-3	194,000,000	194,000,000
TBTA 2005B-2 (a,b,c)	194,000,000	194,000,000
TBTA 2005A-1	56,150,000	24,060,000
TBTA 2005A (2,3)	66,270,000	(a)
TBTA 2003B (1,2,3)	192,915,000	(a)
TBTA 2002F	195,300,000	194,000,000
COPs 2004A	95,650,000	95,650,000
Total	\$1,336,135,000	\$991,010,000

(a) Swaps assigned to future maturities of Bonds on a forward basis.

Except as discussed below under the heading “*Rollover Risk*,” the swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the principal amount of the associated bonds.

### **Risks Associated with the Swap Agreements**

From MTA’s and MTA Bridges and Tunnels’ perspective, the following risks are generally associated with swap agreements:

- **Credit Risk** – The counterparty becomes insolvent or is otherwise not able to perform its financial obligations. In the event of deterioration in the credit ratings of the counterparty or MTA/MTA Bridges and Tunnels/MTA New York City Transit, the swap agreement may require that collateral be posted to secure the party’s obligations under the swap agreement. See “*Collateralization*” below. Further, ratings deterioration by either party below levels agreed to in each transaction could result in a termination event requiring a cash settlement of the future value of the transaction. See “*Termination Risk*” below.
- **Basis Risk** – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA, MTA Bridges and Tunnels or MTA New York City Transit on the associated bonds may not be the same. If the counterparty’s rate under the swap is lower than the bond interest rate, then the counterparty’s payment under the swap agreement does not fully reimburse MTA, MTA Bridges and Tunnels or MTA New York City Transit for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty’s rate on the swap, there is a net benefit to MTA, MTA Bridges and Tunnels or MTA New York City Transit.
- **Termination Risk** – The swap agreement will be terminated and MTA, MTA Bridges and Tunnels or MTA New York City Transit will be required to make a termination payment to the

counterparty and, in the case of a swap agreement which was entered into for the purpose of creating a synthetic fixed rate for an advance refunding transaction may also be required to take action to protect the tax exempt status of the related refunding bonds.

- Rollover Risk – The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds on a variable rate bond issuance, and MTA, MTA Bridges and Tunnels or MTA New York City Transit may be exposed to then market rates and cease to receive the benefit of the synthetic fixed rate for the duration of the bond issue.

*Credit Risk.* The following table shows, as of December 31, 2014, the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA and/or MTA Bridges and Tunnels, or in connection with the 2 Broadway Certificates of Participation refunding. The notional amount totals below include all swaps. The counterparties have the ratings set forth above.

Counterparty	Notional Amount (in thousands)	% of Total Notional Amount
JPMorgan Chase Bank, NA	\$847,475	34.01%
UBS AG	823,475	33.04
The Bank of New York Mellon	332,995	13.36
Citibank, N.A.	194,000	7.79
BNP Paribas North America, Inc.	194,000	7.79
AIG Financial Products Corp.	100,000	4.01
Total	\$2,491,945	100.00%

The ISDA Master Agreements entered into with the following counterparties provide that the payments under one transaction will be netted against other transactions entered into under the same ISDA Master Agreement:

- JPMorgan Chase Bank, NA with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000ABCD,
- JPMorgan Chase Bank, NA with respect to the MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2 and Series 2012G.

Under the terms of these agreements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

The fair market value of MTA's interest rate swaps changes daily primarily as a result of capital markets changes. Factors that influence LIBOR are interest rates, banks expectations of future rate movements, liquidity in the capital markets or changes in the value of the dollar. The relative financial health of MTA's counterparties do not directly impact the fair market value of the transaction.

*Collateralization.* Generally, the Credit Support Annex attached to the ISDA Master Agreement requires that if the outstanding ratings of MTA, MTA Bridges and Tunnels or MTA New York City Transit, as the case may be, or the counterparty falls to a certain level, the party whose rating falls is required to

post collateral with a third-party custodian to secure its termination payments above certain threshold valuation amounts. Collateral must be cash or U.S. government or certain Federal agency securities.

The following tables set forth the ratings criteria and threshold amounts relating to the posting of collateral set forth for MTA, MTA Bridges and Tunnels or MTA New York City Transit, as the case may be, and the counterparty for each swap agreement. In most cases, the counterparty does not have a Fitch rating on its long-term unsecured debt, so that criteria would not be applicable in determining if the counterparty is required to post collateral.

<b>2 Broadway Certificates of Participation</b>		
<b>Associated Bond Issue</b>	<b>If the highest rating of the MTA Transportation Revenue Bonds falls to</b>	<b>Then MTA, MTA Bridges and Tunnels and MTA New York City Transit must post collateral if its estimated termination payments are in excess of</b>
Series 2004A	Fitch – BBB+, Moody’s – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody’s – Baa2 and below or unrated by S&P & Moody’s, or S&P – BBB and below or unrated	\$25,000,000
	<b>If the highest rating of the Counterparty’s long-term unsecured debt falls to</b>	<b>Then the Counterparty must post collateral if its estimated termination payments are in excess of</b>
Series 2004A	Moody’s – Baa1 or lower, or S&P – BBB+ or lower	\$ -

<b>MTA Bridges and Tunnels Senior Lien Revenue Bonds</b>		
<b>Associated Bond Issue</b>	<b>If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty’s long-term unsecured debt falls to</b>	<b>Then the downgraded party must post collateral if its estimated termination payments are in excess of</b>
Series 2005-A1	See 2 Broadway Certificates of Participation	



Series 2002F (swap with Citibank, N.A.), Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e (swap with JPM,BNP,UBS)	For counterparty, Fitch – A-, or Moody’s – A3, or S&P – A-	\$10,000,000
	For MTA, Fitch – BBB+, or Moody’s – Baa1, or S&P – BBB+	\$30,000,000
	For MTA, Fitch – BBB, or Moody’s – Baa2, or S&P – BBB	\$15,000,000
	For counterparty, Fitch – BBB+ and below, or Moody’s – Baa1 and below, or S&P – BBB+ and below	\$ -
	For MTA, Fitch – BBB- and below, or Moody’s – Baa3 and below, or S&P – BBB- and below	\$ -

MTA Bridges and Tunnels Subordinate Revenue Bonds		
Associated Bond Issue	If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty’s long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
Series 2000ABCD	N/A – Because MTA Bridges and Tunnels’ swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but JP Morgan Chase Bank is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	

Notwithstanding the foregoing, in the event any downgraded party is responsible for an event of default or potential event of default as defined in the ISDA Master Agreement, the downgraded party must immediately collateralize its obligations irrespective of the threshold amounts.

Under each MTA and MTA Bridges and Tunnels bond resolution, the payments relating to debt service on the swaps are parity obligations with the associated bonds, as well as all other bonds issued under that bond resolution, but all other payments, including the termination payments, are subordinate to the payment of debt service on the swap and all bonds issued under that bond resolution. In addition, MTA and MTA Bridges and Tunnels have structured each of the swaps (other than the 2 Broadway swaps) in a manner that will permit MTA or MTA Bridges and Tunnels to bond the termination payments under any available bond resolution.

*Termination Risk.* The ISDA Master Agreement sets forth certain termination events applicable to all swaps entered into by the parties to that ISDA Master Agreement. MTA, MTA Bridges and Tunnels and MTA New York City Transit have entered into separate ISDA Master Agreements with each counterparty that govern the terms of each swap with that counterparty, subject to individual terms negotiated in a confirmation.

The following table sets forth, for each swap, the additional termination events for the following associated bond issues. In certain swaps, where the counterparty has a guarantor of its obligations, the ratings criteria apply to the guarantor and not to the counterparty.

<b>2 Broadway Certificates of Participation</b>		
<b>Associated Bond Issue</b>	<b>Counterparty</b>	<b>Additional Termination Event(s)</b>
Series 2004A	UBS AG	Negative financial events relating to the swap insurer, Ambac Assurance Corporation.

<b>MTA Bridges and Tunnels Senior and Subordinate Revenue</b>	
<b>Associated Bond Issue</b>	<b>Additional Termination Events</b>
<b>Senior Lien Revenue Bonds</b>	
Series 2005A	See 2 Broadway Certificates of Participation
Series 2002F (swap with Citibank, N.A.), Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e (swap with JPM,BNP,UBS)	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Moody's with respect to the MTA Bridges and Tunnels Senior Lien Revenue Bonds falls below "BBB" or "Baa2," respectively, or , in either case the ratings are withdrawn.
<b>Subordinate Revenue Bonds</b>	
Series 2000ABCD	<ol style="list-style-type: none"> <li>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, or MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</li> <li>2. Negative financial events relating to the related swap insurer, MBIA.</li> <li>3. MTA Fails to have at least one of such issues with a rating of "BBB-" or higher as determined by S&amp;P or "Baa3" or higher as determined by Moody's</li> </ol>

*Rollover Risk.* MTA and MTA Bridges and Tunnels are exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, MTA or MTA Bridges and Tunnels may not realize the synthetic fixed rate offered by the swaps on the underlying debt issues. The following debt is exposed to rollover risk:

Associated Bond Issue	Bond Maturity Date	Swap Termination Date
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F (swap with Citibank, N.A.)	November 1, 2032	January 1, 2032
MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B (swap with Citibank, N.A.)	January 1, 2033	January 1, 2032

*Swap payments and Associated Debt.* The following tables contain the aggregate amount of estimated variable-rate bond debt service and net swap payments during certain years that such swaps were entered into in order to: protect against the potential of rising interest rates; achieve a lower net cost of borrowing; reduce exposure to changing interest rates on a related bond issue; or, in some cases where Federal tax law prohibits an advance refunding, achieve debt service savings through a synthetic fixed rate. As rates vary, variable-rate bond interest payments and net swap payments will vary. Using the following assumptions, debt service requirements of MTA's and MTA Bridges and Tunnel's outstanding variable-rate debt and net swap payments are estimated to be as follows:

- It is assumed that the variable-rate bonds would bear interest at a rate of 4.0% per annum.
- The net swap payments were calculated using the actual fixed interest rate on the swap agreements.

MTA BRIDGES AND TUNNELS (IN MILLIONS)				
Year Ending December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2015	\$ 33.2	\$ 46.8	\$ (5.6)	\$ 74.4
2016	56.2	44.6	(5.6)	95.2
2017	59.2	42.2	(6.1)	95.3
2018	62.5	39.7	(6.7)	95.6
2019	43.4	38.0	(7.0)	74.4
2020-2024	165.4	173.2	(34.1)	304.5
2025-2029	289.2	133.1	(30.0)	392.3
2030-2034	499.7	23.1	(4.9)	517.9

## 22. OPERATING LEASES

During 1998, the MTA, TA and MTA Bridges and Tunnels entered into a lease and related agreements whereby each, as sub lessees, will rent for at least an initial stated term of approximately 50 years, space at 2 Broadway in lower Manhattan (Note 17).

The total annual rental payments over the initial lease term are \$1,600. Of this amount, approximately \$488 represents land accounted for under an operating lease agreement. Rental payments will be allocated to the MTA, TA, and MTA Bridges and Tunnels based upon usage. Minimum lease payments representing MTA Bridges and Tunnels' share of the operating lease are as follows:

<b>Year Ending December 31</b>	<b>Aggregate Lease Payments</b>
(In thousands)	
2015	\$ 2,405
2016	2,405
2017	2,405
2018	2,405
2019	2,405
2020-2024	2,405
2025-2029	2,405
2030-2034	2,405
2035-2039	2,405
Thereafter	<u>60,130</u>
Minimum future lease payments	<u>\$81,775</u>

## 23. RELATED PARTY TRANSACTIONS

MTA Bridges and Tunnels and other affiliated MTA agencies receive support from MTA in the form of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, some of which are charged back.

The resulting receivables and payables from the above transactions are recorded in the due from/to MTA and affiliated agencies account included in the accompanying balance sheets.

Due from/to MTA and affiliated agencies consists of the following at December 31, 2014 and 2013:

(In thousands)	2014		2013	
	Receivable	(Payable)	Receivable	(Payable)
Due from (due to) MTA	\$ 2,162	\$ (77,408)	\$ 1,901	\$ (72,502)
Due from (due to) affiliated agencies	-	(33,392)	-	(22,528)
Total MTA and affiliated agencies	<u>\$ 2,162</u>	<u>\$ (110,800)</u>	<u>\$ 1,901</u>	<u>\$ (95,030)</u>

## 24. SUBSEQUENT EVENTS

On January 22, 2015, the MTA Board passed an increase in the Crossing Charge Schedule which went into effect on March 22, 2015.

On January 28, 2015, MTA Bridges and Tunnels entered into firm remarketing agreements in connection with the Remarketing of \$85,270 General Revenue Variable Rate Bonds, Subseries 2003B-1, \$46,050 General Revenue Variable Rate Bonds, Subseries 2003B-2, \$54,555 General Revenue Variable Rate Bonds, Subseries 2003B-3, \$122,420 General Revenue Variable Rate Bonds, Series 2005A and \$193,100 General Revenue Variable Rate Refunding Bonds, Subseries 2005B-2.

On February 2, 2015, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$58,020 Subordinate Revenue Refunding Bonds, Subseries 2013D-2a.

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**REQUIRED SUPPLEMENTARY INFORMATION**



# TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLAN

(In millions)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Initial Entry Age (b)	Unfunded (AAL) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) As a Percentage of Covered Payroll ((b-a)/c)
12/31/2014	1/1/2012	- \$	707.0	\$ 707.0	-	\$ 106.9	661.4%
12/31/2013	1/1/2012	- \$	707.0	\$ 707.0	-	\$ 106.9	661.4%
12/31/2012	1/1/2010	- \$	691.1	\$ 691.1	-	\$ 114.9	601.5%

# MTA Bus Company

(Subsidiary of Metropolitan Transportation Authority)

Financial Statements as of and for the  
Years Ended December 31, 2014 and 2013,  
Required Supplementary Information, and  
Independent Auditors' Report

DRAFT

**MTA BUS COMPANY**  
**(Subsidiary of Metropolitan Transportation Authority)**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Members of the Board of  
Metropolitan Transportation Authority

### **Report on the Financial Statements**

We have audited the accompanying Statements of Net Position of the MTA Bus Company ("MTA Bus"), a wholly-owned public benefit corporation subsidiary of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise MTA Bus's financial statements, as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MTA Bus's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of MTA Bus's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of MTA Bus as of December 31, 2014 and 2013, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As discussed in the notes to the financial statements, MTA Bus is a subsidiary of MTA. The MTA is a component unit of the State of New York. MTA Bus requires significant subsidies from and has material transactions with the MTA and The City of New York. Our opinion is not modified with respect to this matter.

### ***Other Matters***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 and the Schedule of Funding Progress-Postemployment Benefit Plan on page 40 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

April 29, 2015

# MTA BUS COMPANY

## (Subsidiary of Metropolitan Transportation Authority)

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2014 AND 2013

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#### 1. OVERVIEW OF THE FINANCIAL STATEMENTS

**Introduction** — The following is a narrative overview and analysis of the financial activities of MTA Bus — subsidiary of Metropolitan Transportation Authority for the years ended December 31, 2014 and 2013. It is intended to serve as an introduction to MTA Bus's financial statements, which have the following components: (1) Management's Discussion and Analysis ("MD&A"), (2) Financial Statements and (3) Notes to Financial Statements and (4) Required Supplementary Information.

**Management's Discussion and Analysis** — The MD&A provides an assessment of how MTA Bus's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected MTA Bus's overall financial position. It may contain opinions, assumptions or conclusions by MTA Bus's management that should not be considered a replacement for, and must be read in conjunction with the financial statements described below.

**Financial Statements** — The Statements of Net Position provide information about the nature and amounts of resources with present service capacity that MTA Bus presently controls (assets), consumption of net assets by the MTA Bus that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the MTA Bus has little or no discretion to avoid (liabilities), and acquisition of net assets by the MTA Bus that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources being reported as net position.

The Statements of Revenues, Expenses and Changes in Net Assets, show how MTA Bus's net position changed during the year. It accounts for all of the current year's revenues and expenses, measures the financial results of MTA Bus's operations over the past year and can be used to determine how MTA Bus has funded its costs.

The Statements of Cash Flows, provide information about MTA Bus's cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing, capital and related financing and investing activities.

**Notes to Financial Statements** — The Notes provide information that is essential to understanding the basic financial statements, such as MTA Bus's accounting methods and policies, details of cash and investments, capital assets, employee benefits, lease transactions and future commitments and contingencies of MTA Bus. Any other events or developing situations that could materially affect MTA Bus's financial position, results of operations and cash flows.

**Required Supplementary Information (Unaudited):** The Required Supplementary Information provides information concerning MTA Bus's progress in funding its obligation to provide Other Postemployment benefits to its employees.



## 2. FINANCIAL REPORTING ENTITY

MTA Bus is a public benefit corporation established pursuant to the New York State Public Authorities Law, to operate local and express bus service within The City of New York (“The City”). MTA Bus is a part of the financial reporting group of the Metropolitan Transportation Authority, which is a component unit of the State of New York and whose mission is to continue, develop and improve public transportation and to develop and implement a unified public transportation policy in the New York Metropolitan area.

MTA Bus began operations on January 3, 2005 when Liberty Lines Express (Yonkers), the first of the seven private lines franchised by The City, was taken over by MTA Bus. Queens Surface (College Point), New York Bus Service (Eastchester), and Command Bus (Spring Creek) were merged into MTA Bus on February 27, July 1, and December 5, 2005, respectively. The transition of the remaining privately operated depots was completed when Green Bus Lines (JFK and Far Rockaway), Jamaica Bus Lines (Baisley Park), and Triboro Coach Corporation (LaGuardia) were merged into MTA Bus on January 9, January 30, and February 20, 2006, respectively.

## 3. CONDENSED FINANCIAL INFORMATION

The following sections will discuss the changes in MTA Bus’s financial position for the years ended December 31, 2014, 2013 and 2012. The changes from year to year are due to, among other things, the continuing purchase of new buses. It should be noted that for purposes of MD&A, summaries of the financial statements and tables presented conform to MTA Bus’s financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America.

### Total Assets, Distinguishing Between Capital and Other Assets

	2014	2013	2012	Increase (Decrease)	
				2014-2013	2013-2012
	(In thousands)				
Gross Capital Assets	\$ 700,611	\$ 670,396	\$ 626,609	\$ 30,215	\$ 43,787
Accumulated Depreciation	(345,312)	(296,783)	(247,895)	(48,529)	(48,888)
Net Capital Assets	355,299	373,613	378,714	(18,314)	(5,101)
Other Assets	168,955	186,613	165,274	(17,658)	21,339
Total Assets	\$ 524,254	\$ 560,226	\$ 543,988	\$ (35,972)	\$ 16,238

### Significant Changes in Assets Includes:

#### December 31, 2014 versus 2013

MTA Bus’s Gross Capital Assets amounted to \$700.6 million and \$670.4 million as of December 31, 2014 and 2013, respectively. Of the December 31, 2014 total, buses accounted for 79.4%, facilities and yards, and furniture and fixtures were 3.8%, service vehicles were 0.4%, assets under construction consisting of buses and facility up grades were 13.6%, and capital non bus were 2.8%.

Net Capital Assets decreased from December 31, 2013 by \$18.3 million or 4.9%. The net decrease is due to additions to fixed assets of \$30.2 million over depreciation of \$48.5 million. The additions included \$27.9 million additions to under construction (other) for the La Guardia, Baisley Park, JFK, and Eastchester depot renovations, \$1.2 million for facilities and yards, \$0.9 million for furniture, fixtures and equipment, and \$0.2 million for acquisition of service vehicles.

Other Assets decreased by \$17.7 million or 9.5% compared with the prior year. This decrease is due to a decrease in subsidy receivable from New York City of \$17.0 million, a decrease in other receivables of \$1.6 million and a decrease in prepaid expenses of \$0.3 million. The decreases were offset by increases in cash of \$0.2 million, and an increase in materials and supplies of \$1.0 million.

#### December 31, 2013 versus 2012

MTA Bus's Gross Capital Assets amounted to \$670.4 million and \$626.6 million as of December 31, 2013 and 2012, respectively. Of the December 31, 2013 total, buses accounted for 82.9%, facilities and yards, and furniture and fixtures were 3.7%, service vehicles were 0.4%, assets under construction consisting of buses and facility up grades were 12.1%, and capital non bus were 0.9%.

Net Capital Assets decreased from December 31, 2012 by \$5.1 million or 1.35%. The net decrease is due to additions to fixed assets of \$43.8 million over depreciation of \$48.9 million. The additions included \$12.7 million for buses placed in service, \$30.7 million additions to under construction (other) for the La Guardia, Baisley Park, JFK, College Point, and Eastchester depot renovations, and \$0.4 million for acquisition of service vehicles.

Other Assets increased by \$21.3 million or 12.9% compared with the prior year. This increase resulted from adjustments of assets primarily due to increase of receivables due from New York City subsidy of \$30.0 million; and an increase in materials and supplies of \$0.5 million. The increases were offset by decreases in cash of \$3 million, decrease in due from affiliates of \$4.4 million, decrease in other receivables of \$0.3 million, and decrease in prepaid expenses of \$1.5 million.

#### **Total Liabilities, Distinguishing Between Noncurrent Liabilities and Current Liabilities**

	2014	2013	2012	Increase (Decrease)	
				2014-2013	2013-2012
	(In thousands)				
Current Liability	\$ 251,493	\$ 284,777	\$ 244,372	\$ (33,284)	\$ 40,405
Noncurrent Liabilities	785,104	671,096	570,635	114,008	100,461
Total Liabilities	<u>\$ 1,036,597</u>	<u>\$ 955,873</u>	<u>\$ 815,007</u>	<u>\$ 80,724</u>	<u>\$ 140,866</u>

#### ***Significant Changes in Liabilities Includes:***

#### December 31, 2014 versus 2013

At the end of 2014, MTA Bus's liabilities consisted primarily of postemployment benefits, 57.3%, amounts due to New York City Transit Authority ("NYCTA") and the MTA for intercompany transactions, including the intercompany capital loans and MTA investment pool borrowings, 16.9%, and injuries to persons (workers comp and public liability), 16.9%.

Total Liabilities increased from December 31, 2013 to December 31, 2014 by \$80.7 million or 8.4%. Current Liabilities decreased \$33.3 million or 11.7%, while Noncurrent Liabilities increased by \$114.0 million or 17.0%.

The decrease in Current Liabilities was due primarily to decreases in accrued expenses (\$16.2 million) and due to MTA and affiliated agencies (\$22.3 million). These decreases were offset by increases in accounts payable of \$5.2 million.

The increase in Noncurrent Liabilities was due to an increase in post-employment benefits other than pensions, \$105.0 million, and an increase in liabilities from injuries to persons, \$19.3 million. These increases were offset by a decrease in NYCTA/MTA intercompany capital loans (\$10.0 million), and a decrease of \$0.3 million for remediation projects.

#### December 31, 2013 versus 2012

At the end of 2013, MTA Bus's liabilities consisted primarily of postemployment benefits, 51.1%, amounts due to New York City Transit Authority ("NYCTA") and the MTA for intercompany transactions, including the intercompany capital loans and MTA investment pool borrowings, 21.7%, and injuries to persons (workers comp and public liability), 15.4%.

Total Liabilities increased from December 31, 2012 to December 31, 2013 by \$140.9 million or 17.3%. Current Liabilities increased \$40.4 million or 16.5%, while Noncurrent Liabilities increased by \$100.5 million or 17.6%.

The increase in Current Liabilities was due primarily to increases in accounts payable, \$1.4 million, accrued expenses, \$11.1 million, and due to MTA and affiliated agencies \$27.9 million.

The increase in Noncurrent Liabilities was due to an increase in post-employment benefits other than pensions, \$100.2 million, an increase in liabilities from injuries to persons, \$8.7 million, and an increase in remediation projects, \$1.2 million. These increases were offset by a decrease in NYCTA/MTA intercompany capital loans (\$9.6 million).

#### **Total Net Position, Distinguishing Among Net Investment in Capital Assets and Unrestricted Amounts**

				Increase (Decrease)	
	2014	2013	2012	2014-2013	2013-2012
	(In thousands)				
Capital Assets , net of accumulated depreciation	\$ 355,299	\$ 373,613	\$ 378,714	\$ (18,314)	\$ (5,101)
Less: Intercompany capital loans	(44,136)	(54,202)	(63,818)	10,066	9,616
Net Investment in Capital Assets	311,163	319,411	314,896	(8,248)	4,515
Unrestricted (deficit)	(823,506)	(715,058)	(585,915)	(108,448)	(129,143)
Total Net Position	\$ (512,343)	\$ (395,647)	\$(271,019)	\$ (116,696)	\$ (124,628)

Net position represents the residual interest in MTA Bus's assets after liabilities are deducted and consist of two components: net investment in capital assets, and unrestricted. Net investment in capital assets, include capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. All other net position are unrestricted.

#### ***Significant Changes in Net Position includes:***

#### December 31, 2014 versus 2013

Total net position was (\$512.3) million at the end of 2014, a net decrease of \$116.7 million from the end of 2013. The net decrease was comprised of capital used of (\$1.4 million), net non-operating income of \$477.9 million, offset by operating losses of \$593.2 million.

### December 31, 2013 versus 2012

Total net position was (\$395.6) million at the end of 2013, a net decrease of \$124.6 million from the end of 2012. The net decrease was comprised of capital contributions from the MTA of \$10.0 million, net non-operating income of \$377.5 million, offset by operating losses of \$512.1 million.

### **Condensed Statements of Revenues, Expenses and Changes in Net Position**

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Operating revenues	\$ 223,684	\$ 219,259	\$ 201,217
Operating expenses	(816,938)	(731,364)	(682,670)
Asset impairment & related expenses	-	-	(7,214)
Operating loss	<u>(593,254)</u>	<u>(512,105)</u>	<u>(488,667)</u>
Nonoperating revenues (expenses)			
Operating subsidies from NYC	444,082	338,063	326,251
Other Non-operating revenue/expenses	33,775	33,256	33,122
FTA/FEMA Reimbursement - Sandy Relief	<u>60</u>	<u>6,159</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>477,917</u>	<u>377,478</u>	<u>359,373</u>
Loss before capital contributions	(115,337)	(134,627)	(129,294)
Capital (used) contributed	<u>(1,359)</u>	<u>9,999</u>	<u>61,108</u>
Changes in net position	(116,696)	(124,628)	(68,186)
Net position, Beginning of year	<u>(395,647)</u>	<u>(271,019)</u>	<u>(202,833)</u>
Net position, End of year	<u>\$ (512,343)</u>	<u>\$ (395,647)</u>	<u>\$ (271,019)</u>

### ***Revenues from Fares/Ridership:***

#### December 31, 2014 versus 2013

Bus revenues from fares totaled \$203.6 million in 2014 versus \$199.2 million in 2013. Total ridership was 125.6 million in 2014 versus 125.0 million in 2013, an increase in passenger ridership of 0.6 million, or 0.5%.

#### December 31, 2013 versus 2012

Bus revenues from fares totaled \$199.2 million in 2013 versus \$181.9 million in 2012. Total ridership was 125.0 million in 2013 versus 120.9 million in 2012, an increase in passenger ridership of 4.1 million, or 3.4%. A fare increase went into effect March 2013, raising the base fare from \$2.25 to \$2.50, or 11%.

## Operating Expenses, by Major Function

	2014	2013	2012	Increase (Decrease)	
				2014-2013	2013-2012
	(In thousands)				
Salaries and wages	\$ 313,630	\$ 289,585	\$ 282,794	\$ 24,045	\$ 6,791
Retirement and other employee benefits	168,677	134,405	141,272	34,272	(6,867)
Post employment benefits other than pensions	124,689	118,689	117,962	6,000	727
Fuel	35,099	35,989	27,556	(890)	8,433
Electric power	1,503	1,555	702	(52)	853
Insurance	3,353	2,562	2,007	791	555
Public liability claims	32,222	19,108	10,235	13,114	8,873
Materials and supplies	43,097	38,036	28,386	5,061	9,650
Professional services	20,481	18,534	7,347	1,947	11,187
Pollution remediation services	610	1,742	2,320	(1,132)	(578)
Maintenance and other operating expenses	21,190	18,756	12,856	2,434	5,900
Depreciation	48,530	48,887	45,897	(357)	2,990
Other business expenses	3,857	3,516	3,337	341	179
Asset impairment and related expenses	-	-	7,214	-	(7,214)
Total operating expenses	\$ 816,938	\$ 731,364	\$ 689,885	\$ 85,574	\$ 41,479

### December 31, 2014 versus 2013

Total operating expenses increased by \$85.6 million or 11.7% versus the prior year, as follows:

- Salaries and wages exceeded 2013 by \$24.0 million or 8.3%, largely due to increased salaries resulting from contract settlements.
- Retirement and other employee benefits increased by \$34.3 million mainly due to higher health care costs and current actuarial valuations of worker's compensation expense.
- Post employment benefits other than pensions increased by \$6.0 million based upon current actuarial valuations.
- Insurance expense is comprised of excess liability, property and other insurance coverage paid under the MTA All-Agency insurance programs totaling \$3.4 million.
- Public liability and no fault claims increased by \$13.1 million based upon current actuarial valuations.
- Professional service contracts increased related to payments made for auditing, consulting, environmental and legal services. MTA Bus relies extensively on professional services provided by other MTA agencies, particularly NYC Transit and the Business Service Center
- Other expenses consist of Automated Fare Collection ("AFC") revenue collection fees paid to New York City Transit Authority (\$2 million) or .0175 cents per AFC ridership transaction, office supplies and other miscellaneous charges.



## December 31, 2013 versus 2012

Total operating expenses increased by \$41.5 million or 6.0% versus the prior year, as follows:

- Salaries and wages exceeded 2012 by \$6.8 million or 2.4%, largely due to a retroactive wage accrual for prior years.
- Retirement and other employee benefits decreased \$6.9 million or 4.9%, mainly due to regrouping of Memo of Understanding expenses.
- Post employment benefits other than pensions increased by \$0.7 million based upon current actuarial valuations.
- Gasoline and diesel fuel for buses increased by \$8.4 million or 30.6% mainly due to a \$6.9 million adjustment in 2012 for over-accruals in prior year.
- Insurance expense is comprised of excess liability, property and other insurance coverage paid under the MTA All-Agency insurance programs totaling \$2.6 million.
- In 2013, MTA Bus recorded an \$8.9 million increase to the reserve for public liability and no fault claims based upon current actuarial valuations.
- Professional service contracts increased related to payments made for auditing, consulting, environmental and legal services. MTA Bus relies extensively on professional services provided by other MTA agencies, particularly the Business Service Center. Additionally, in 2013, MTA Bus began recording MOU services provided by New York City Transit Authority in professional services, which in past years were recorded in other categories.
- Depreciation expense increased due to bus fleet replacement via the capital program, capitalization of facility leasehold/equipment improvements, and the additional purchase of service vehicles.
- Other expenses consist of Automated Fare Collection (“AFC”) revenue collection fees paid to New York City Transit Authority (\$2 million) or .0175 cents per AFC ridership transaction, office supplies and other miscellaneous charges.

## **Non-operating Revenues and Expenses**

As defined by the letter of agreement between The City of New York (“The City”) and MTA, The City is to provide operating assistance subsidies to MTA Bus. These subsidies amounted to \$444.1 million and \$338.1 million in 2014 and 2013, respectively. Projected subsidy amounts for calendar year 2015 are expected to be in the range between \$410 to \$440 million depending on operating losses and timing of retroactive contract settlements.

In 2014, pursuant to MTA Board approval, MTA Bus received \$24.9 million in discretionary Mortgage Recording Tax - 2 (“MRT-2”) monies as a subsidy from the MTA. The funds were used to pay principal and interest totaling \$12.6 million on debt related to the NYCTA/MTA capital pool loan and \$29.0 million to pay commercial paper debt.

Capital used of (\$1.4 million) in 2014 and contributions of \$10.0 million in 2013 represent capital program funding from several sources including bonds, Federal, State and City funding.



## **Change in Net Position**

The change in net position represents net operating losses and the capital contribution. The net position decreased by \$116.7 million in 2014, which is comprised of capital used of (\$1.4 million), net of non-operating income of \$477.9 million, offset by operating losses of \$593.2 million.

## **Budget Highlights**

### ***Financial:***

Total revenue from fares in 2014 was \$203.6 million. Passenger revenue was up \$4.4 million over 2013 levels, as the result of increased ridership and higher fares, which went into effect in March 2013.

### ***Operations:***

The focus on improving service, introducing new buses and performing scheduled maintenance on the bus fleet, as well as aggressive shop programs to improve the existing fleet yielded continued notable improvements in the reliability of the bus fleet. In addition, a significant level of facility work continued during 2014 to upgrade conditions and comply with environmental regulations. Additional work needs to be done to improve facility conditions in 2015 and beyond.

## **4. OVERALL FINANCIAL POSITION, RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS**

### **Overall Financial Position and Results of Operations**

MTA Bus is responsible for both the local and express bus operations of the seven companies, consolidating their operations, maintaining current buses, purchasing new buses to replace the aging fleet currently in service, and adjusting schedules and route paths to better match travel demand. MTA Bus operates 47 local bus routes in the Bronx, Brooklyn, and Queens; and 35 express bus routes between Manhattan and the Bronx, Brooklyn, or Queens. It has a fleet of 1,277 buses, which makes MTA Bus the 10th largest bus company, based upon its bus fleet, in the United States and Canada, serving nearly 400,000 riders daily.

Between 2005 and 2014, MTA Bus purchased 497 new high capacity, high customer amenity express buses and 389 new environmentally friendly hybrid electric local buses, and 213 new Compressed Natural Gas ("CNG") buses.

### **Economic Conditions**

Metropolitan New York is the most transit-intensive region in the United States. A financially sound and reliable transportation system is critical to the region's economic well-being. The MTA's business consists of urban subway and bus systems, suburban rail and bus systems, and bridge and tunnel facilities, all of which are affected by many different economic forces. In order to achieve maximum efficiency and success in its operations, the MTA must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Preliminary MTA system-wide utilization in the fourth quarter of 2014 improved compared with the fourth quarter of 2013, with ridership up by 11.2 million trips (1.6%) and vehicle traffic at MTA Bridges and Tunnels facilities improved by 1.5 million crossings (2.05%). On a year-to-date basis, system-wide ridership was higher by 37.7 million (1.40%), and vehicle crossings were higher by 1.8 million (0.6%), reflecting primarily the continued improvement in the regional economy.

The average level of seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2014 than in 2013 by 87.3 thousand jobs (up 2.2%). On a quarter-to-quarter basis, New

York City employment has increased in each of the last sixteen quarters – the last decline occurred in the third quarter of 2010 – and is higher than at any time since 1950, when non-agricultural employment levels for New York City were first recorded by the Bureau of Labor Statistics.

The employment gain for New York City in the second quarter is consistent with an improving national economy; fourth quarter Real Gross Domestic Product (“RGDP”) grew at an annualized rate of 2.6%, according to the most recent advance estimate released by the Bureau of Economic Analysis. The increase primarily reflected contributions from personal consumption expenditures, exports, state and local government spending, non-residential fixed investment, and private inventory investment, partially offset by a decline in federal government spending and an increase in imports. Fourth quarter RGDP growth slowed relative to third quarter growth as federal government spending, non-residential fixed investment and exports fell, while imports rose. The national economy has now grown in twenty of the last twenty-two quarters.

The New York City metropolitan area’s price inflation of 0.6% was lower than the national average of 1.0% in the fourth quarter of 2014. A 7.8% fall in the price of energy products dampened the overall rise in consumer prices: the Consumer Price Index (“CPI”) exclusive of energy products increased by 1.5% in the New York-New Jersey-Long Island area. Consistent with the fall in overall energy prices, spot prices for New York Harbor conventional gasoline fell by 22.8% from an average price of \$2.698 to an average of \$2.082 per gallon between the fourth quarters of 2013 and 2014.

In June 2014, the Federal Reserve Bank announced that the Federal Open Market Committee (“FOMC”) would continue targeting the Federal Funds rate to the range of 0% to 0.25%, a range consistent with its statutory dual mandate to foster maximum employment within a context of price stability. The Federal Funds rate has remained in this range since late 2008, as financial and housing market crises deepened. In fact, the Federal Reserve Bank began to pursue expansionary intervention more than a year earlier as a response to the impending economic downturn: since the third quarter of 2007, the Federal Reserve Bank has sought to mitigate the consequences of recession by loosening the tight credit conditions that resulted from the national mortgage crisis. Confronting stubbornly high unemployment rates with no scope to reduce further the Federal Funds rate, in March 2009 the Federal Reserve Bank began a program of large scale purchases of government guaranteed assets. The objective of the program, which was expanded in November 2010, was to raise the price of long-term securities, thereby lowering interest rates in order to stimulate investment in the economy.

In spite of the steady improvement in economic activity in the second, third and fourth quarters of 2014, the FOMC elected in December to maintain an accommodative stance by continuing to target a Federal Funds rate in the range of 0% to 0.25%, noting that, partly because of the decline in energy prices, inflation rates remained below the Committee’s long-run objective; while labor markets evinced signs of improvement, the FOMC observed that recovery in the housing sector remained slow. In addition to maintaining the Federal Funds rate, the FOMC announced additional measures to foster conditions amenable to financial markets, including the continuation of its policy of reinvesting principal payments from its holdings of agency debt and mortgage-backed securities and of rolling over maturing Treasury securities at auction.

The influence of Federal Reserve monetary policy on the mortgage market is a matter of interest to the MTA, since variability of mortgage rates can affect the number of real estate transactions and can thereby impact receipts from the Mortgage Recording Tax (“MRT”) and Urban Tax, two important sources of MTA revenue. After the steady fall in MRT revenues that resulted from the financial and real estate crisis, MTA’s monthly receipts remained virtually flat for three years beginning in the first quarter of 2009; however, a discernible upward trend in MRT receipts began during the first quarter of 2012 and reached a recent high point in the fall of 2013. Partly because of these high receipts towards the end of last year, Mortgage Recording Tax collections through the fourth quarter of 2014 were lower than through the fourth quarter of 2013 by \$3.0 (0.8%). In spite of the gradual overall recovery of MRT receipts that has been occurring since 2012, average monthly receipts through the fourth quarter remain \$28.7 (51.1%) worse than their average in 2007, just prior to the steep decline of this revenue source.

MTA's receipts of Urban Taxes – those based on commercial activity within New York City – have demonstrated a pronounced rise since 2010, increasing on a year-over-year basis in seventeen of the last eighteen quarters. Compared to 2013, average monthly Urban Tax receipts in 2014 were higher by \$17.6, with the result that year-to-date receipts through the fourth quarter of 2014 reached \$806.1, which was \$211.6 or 64.4% better than in 2013.

**Results of Operations** - Bus revenues from fares totaled \$203.6 million in 2014 versus \$199.2 million in 2013. Total ridership was 125.6 million in 2014 versus 125.0 million in 2013, an increase in passenger ridership of 0.6 million, or 0.5%. The increase could be attributable to the improved economic conditions in the region. Both calendar year 2014 and 2013 ended with a cash and investment deficit of \$85.8 and \$110.4 million, respectively. This was attributable to the timing of New York City subsidy payments, which cover shortfalls in working capital. The MTA expects that, over time, Federal and State economic stimulus measures and the rebuilding of downtown infrastructure will further improve the New York City economy.

## 5. SIGNIFICANT CAPITAL ASSET ACTIVITY

**Capital Program** — As last approved by the CPRB, MTA Bus's portion of the MTA's 2000-2004, 2005-2009, and 2010-2014 Capital Programs total \$501.6 million, \$152.0 million, and \$297 million respectively.

On December 19, 2012, the MTA Board approved an amendment to the 2010-2014 Capital Program to add projects for the repair and restoration of MTA agency assets damaged as a result of Superstorm Sandy, which struck the region on October 29, 2012. The revised program provides for an additional \$25 million to the Bus Company in Sandy recovery-related capital expenditures. On January 23, 2013, the amended program as submitted was deemed approved by the CPRB. On July 22, 2013, the MTA Board approved a further amendment to the 2010-2014 Capital Program to include specific revisions to planned projects and to include new resilience/mitigation initiatives in response to Superstorm Sandy. The further revised program provides for an additional \$46 million to the Bus Company in resilience/mitigation-related capital expenditures. On August 27, 2013, the amended program as submitted CPRB was deemed approved by the CPRB.

As of December 31, 2014, \$501.6 million has been committed under the 2000-2004 Program, of which \$491.4 million has been expended. During 2014, no new buses were placed in service.

Among the projects included in the 2005 - 2009 MTA Bus Company Capital Program are initiatives to bring bus maintenance facilities up to a state of good repair and to replace heavy duty, non-revenue vehicles. As of December 31, 2014, \$126.2 million has been committed under the 2005-2009 Program, of which \$97.4 million has been expended.

The MTA Board approved 2010 – 2014 MTA Bus Company Capital Program, as last amended in 2013, includes projects to replace the aging bus fleet, replace outdated depot equipment, improve depot facilities, and repair Superstorm Sandy damaged MTA Bus facilities. As of December 31, 2014, \$178.9 million has been committed under the 2010-2014 Program, of which \$80.3 million has been expended.

## 6. CAPITAL FINANCING

The MTA 2000-2004 Capital Program includes \$501.6 million in capital projects for MTA Bus, a substantial portion of which is designed for the bus fleet replacement. The MTA 2005-2009 Capital Program includes \$152.0 million in capital projects for MTA Bus, which includes improvements to bus maintenance and storage facilities. The CPRB approved 2010-2014 Capital Program includes \$297.0 million in capital projects for MTA Bus, which includes bus fleet replacement and depot improvements, plus an additional \$70.5 million for Superstorm Sandy repairs.

The MTA Bus capital projects included in the MTA 2000-2004 Capital Program, the MTA 2005-2009 Capital Program, and the MTA 2010-2014 Capital Program are funded from a combination of Federal grants, city funds, MTA Bond proceeds, and other sources. The combined funding sources for the 2000-2004 MTA Bus Company Capital Program include \$49 million in City funds, \$331 million in MTA Bond proceeds, and \$121.6 million from other sources. The combined funding sources for the 2005-2009 MTA Bus Company Capital Program include \$107.7 million in Federal funds and \$41.4 million in City funds, and \$2.9 million from other sources. The combined funding sources for the 2010-2014 MTA Bus Company Capital Program, as last amended by the CPRB in August 2013, include \$203.6 million in Federal funds, \$50.9 million in City funds, and \$42.5 million in MTA Bond proceeds. The MTA Bus Company will also receive \$63.8 million in insurance and/or federal reimbursement proceeds for Superstorm Sandy repair, supplemented, to the extent necessary, by external borrowing of up to \$6.7 million in additional MTA Bonds.

## **7. CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS**

MTA Bus as a distinct Agency, is the 7<sup>th</sup> largest bus company, based upon ridership in North America. In conjunction with NYCT Department of Buses (DOB), a primary goal is to provide seamless bus service throughout the boroughs of New York City. MTA Bus continues to seek efficiencies, participates in “best practice” programs, and helps realize the overall expense reduction objectives of the MTA Agencies. Most administrative functions have been centralized under the all Agency Business Service Center (“BSC”) and assessments are continuing to determine if further efficiencies can be achieved from consolidating functions. The settlement of expired contracts and subsequent retroactive payments for the ATU 1179, ATU 1181 and TWU 106 (TSO) unions impacted 2014 cash payments in the salaries and wages and fringe benefits line items. Updated actuarial assessments caused increases in the liability provisions for Pension, OPEB, Workers Compensation and Claims. The continuous review and refinement of allocations and timing of transactions kept increases in overall expenses on an accrual basis, at a minimum. There were minimal adjustments in service. Overall revenue improved due to higher ridership in 2014. There were no fare increases in 2014 with the next scheduled increase to be in March of 2015. Any additional revenue and savings will be used as an offset to the NYC subsidy required to cover costs associated with MTA Bus operations. MTA Bus is part of the MTA capital program and remains dependent on the Agency’s ability to secure funding from Federal, State and NY City government, as well as the municipal bond market.

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**MTA BUS COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**STATEMENTS OF NET POSITION**  
**AS OF DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash (Note 3)	\$ 583,848	\$ 347,994
Receivables:		
Due from affiliates - operating	64,680,421	65,232,324
Subsidy due from New York City	87,255,917	104,230,930
Other Subsidy	2,968,395	2,955,660
Other	4,387	1,087,521
Total receivables - net	154,909,120	173,506,435
Materials and supplies inventory	12,662,360	11,676,142
Prepaid expenses and other current assets	799,326	1,082,692
Total current assets	168,954,654	186,613,263
NON-CURRENT ASSETS		
Capital assets — net (Note 5)	355,299,291	373,613,024
<b>TOTAL ASSETS</b>	<b>\$ 524,253,945</b>	<b>\$ 560,226,287</b>
<b>LIABILITIES AND NET POSITION</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 10,107,399	\$ 4,929,195
Accrued expenses:		
Salaries, wages and payroll taxes	20,447,652	47,512,128
Vacation and sick pay benefits	37,906,173	35,002,125
Retirement and death benefits	328,494	-
Current portion - Estimated liability from injuries to persons (Note 10)	33,000,000	25,000,000
Current portion - Pollution remediation projects	8,927,943	9,780,707
Other	9,580,514	9,090,398
Total accrued expenses	110,190,776	126,385,358
Due to MTA and other affiliated agencies	131,194,920	153,462,824
Total current liabilities	251,493,095	284,777,377
NONCURRENT LIABILITIES:		
Post employment benefits other than pensions (Note 7)	593,764,000	488,715,295
Estimated liability arising from injuries to persons (Note 10)	141,675,000	122,399,000
Capital loans	44,136,506	54,201,768
Pollution remediation projects	5,528,509	5,780,070
Total noncurrent liabilities	785,104,015	671,096,133
Total liabilities	1,036,597,110	955,873,510
NET POSITION:		
Invested in capital assets — net of related debt	311,162,785	319,411,256
Unrestricted (deficit)	(823,505,950)	(715,058,479)
Total net position	(512,343,165)	(395,647,223)
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 524,253,945</b>	<b>\$ 560,226,287</b>

See notes to financial statements.



**MTA BUS COMPANY**  
**(Subsidiary of The Metropolitan Transportation Authority)**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
OPERATING REVENUES:		
Fare revenue	\$ 203,590,762	\$ 199,186,670
Rents, freight, and other revenue	<u>20,093,280</u>	<u>20,072,839</u>
Total operating revenue	<u>223,684,042</u>	<u>219,259,509</u>
OPERATING EXPENSES:		
Salaries and wages	313,629,975	289,585,144
Retirement and other employee benefits	168,677,299	134,405,174
Post employment benefits other than pensions	124,689,465	118,689,253
Fuel	35,099,282	35,988,532
Electric power	1,503,318	1,554,983
Insurance	3,353,222	2,561,377
Public liability claims	32,221,813	19,108,175
Materials and supplies	43,096,912	38,036,370
Professional services	20,480,745	18,533,556
Pollution remediation services	609,839	1,742,178
Maintenance and other operating expenses	21,190,272	18,756,365
Depreciation	48,529,759	48,887,180
Other business expenses	<u>3,856,398</u>	<u>3,516,126</u>
Total operating expenses	<u>816,938,299</u>	<u>731,364,413</u>
OPERATING LOSS	<u>(593,254,257)</u>	<u>(512,104,904)</u>
NON-OPERATING REVENUES (EXPENSES):		
NYC Operating subsidies	444,081,923	338,063,467
Other Non-operating revenue/expenses	33,775,408	33,255,514
FTA/FEMA Reimbursement - Sandy Relief	<u>59,840</u>	<u>6,158,974</u>
Total net non-operating revenues	<u>477,917,171</u>	<u>377,477,955</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(115,337,086)	(134,626,949)
CAPITAL (USED) CONTRIBUTED	<u>(1,358,856)</u>	<u>9,998,631</u>
CHANGES IN NET POSITION	(116,695,942)	(124,628,318)
NET POSITION — Beginning of year	<u>(395,647,223)</u>	<u>(271,018,905)</u>
NET POSITION — End of year	<u>\$ (512,343,165)</u>	<u>\$ (395,647,223)</u>

See notes to financial statements.



**MTA BUS COMPANY**  
**(Subsidiary of The Metropolitan Transportation Authority)**

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger, tenants, advertisers, and others	\$ 225,468,251	\$ 219,141,675
Cash payments for payroll and related employee costs	(525,124,003)	(427,699,029)
Cash payments to suppliers for goods and services	(128,830,227)	(123,743,137)
Net cash used in operating activities	(428,485,979)	(332,300,491)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies received from NYC — operations	461,056,936	308,063,383
Receipt of mortgage recording tax revenue and NYCTA reimbursement	36,415,423	36,418,544
FTA/FEMA Reimbursements - Sandy Relief	59,840	6,158,974
Net cash provided by noncapital financing activities	497,532,199	350,640,901
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest paid	(2,666,250)	(3,199,489)
Capital (used) contributed	(1,358,856)	9,998,631
Capital project costs incurred for capital program	(30,216,026)	(43,786,081)
Decrease in intercompany capital pool loan	(10,065,262)	(9,616,187)
Net cash used in capital and related financing activities	(44,306,394)	(46,603,126)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in invested funds at MTA	(24,530,207)	25,241,936
Earnings on investments	26,235	36,460
Net cash (used in) provided by investing activities	(24,503,972)	25,278,396
NET INCREASE (DECREASE) IN CASH	235,854	(2,984,320)
CASH — Beginning of year	347,994	3,332,314
CASH — End of year	\$ 583,848	\$ 347,994
See notes to financial statements.		(Continued)

**MTA BUS COMPANY**  
**(Subsidiary of The Metropolitan Transportation Authority)**

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (593,254,257)	\$ (512,104,904)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	48,529,759	48,887,180
Changes in operating assets and liabilities:		
Decrease in receivables	1,417,475	4,734,634
(Increase) Decrease in material and supplies, and prepaid expenses	(702,852)	942,181
Increase in payables, accrued expenses & other liabilities	<u>115,523,896</u>	<u>125,240,418</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (428,485,979)</u>	<u>\$ (332,300,491)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA Contributed capital assets	<u>\$ 575,658,512</u>	<u>\$ 562,216,485</u>
Capital assets related liabilities	<u>\$ 44,136,506</u>	<u>\$ 54,201,768</u>
See notes to financial statements.		(Concluded)

# MTA BUS COMPANY

(Subsidiary of Metropolitan Transportation Authority)

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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### 1. BASIS OF PRESENTATION

**Reporting Entity** — The accompanying financial statement presents the accounts of MTA Bus Company (“MTA Bus”), which is a public benefit corporation created pursuant to the Public Authorities Law (the “Act”) of the State of New York (the “State”) to operate public bus service within The City of New York (the “City”). MTA Bus, which is a subsidiary of the Metropolitan Transportation Authority (MTA), was created to take over the operations of seven private bus lines that operated under franchises from The City of New York. The transition to MTA Bus occurred in stages, commencing on January 3, 2005, when MTA Bus began service in the areas formerly served by Liberty Lines Express, Inc. On February 27, 2005, MTA Bus started operating the routes of the Queens Surface Corporation, and on July 1, 2005, MTA Bus took over the operations of New York Bus Service, followed by Command Bus Company on December 5, 2005. The transition was completed in early 2006 when MTA Bus took over the operations of Green Bus Lines, Jamaica Bus Lines, and Triboro Coach Corporation on January 9, January 30, and February 20, 2006, respectively.

MTA Bus has material transactions with affiliated agencies included in the MTA financial reporting group. Such agencies include the MTA, the New York City Transit Authority (“NYCTA”), Metro North Commuter Railroad (“MNR”) and the Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”). All material transactions between MTA Bus and affiliated agencies have been recorded as of December 31, 2014 and 2013.

MTA Bus is part of the financial reporting group of the MTA and is included in the consolidated financial statements of the MTA in accordance with GASB Statement No. 14. The MTA is a component unit of the State and is included in the State of New York Comprehensive Annual Financial Report of the State Comptroller as a public benefit corporation.

**Operations** — Operations are conducted per the letter agreement dated December 8, 2004, between The City and the MTA, which includes provisions for the lease of City bus assets including real property and related facilities, buses and related materials and supplies, and any other assets acquired by The City and made available to MTA Bus for the operations of the former private bus lines.

The City has the option to terminate the letter agreement at any time upon one year’s written notice to the MTA. In the event of termination, The City is required to assume the assets and liabilities, including OPEB and pension liabilities, of MTA Bus and must pay or make provisions for the payment of any outstanding debt incurred by the MTA on behalf of MTA Bus. Any liabilities incurred by the franchised bus companies prior to the date of acquisition are liabilities of The City of New York.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

MTA Bus applies Governmental Accounting Standards Board (“GASB”) Codification of Governmental Accounting and Financial Reporting Standards (“GASB Codification”) Section P80, *Proprietary Accounting and Financial Reporting*.

**New Accounting Standards** — MTA Bus has not completed the process of evaluating the impact of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50, *Pension Disclosures— an amendment of GASB Statements No. 25 and No. 27*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and RSI. The provisions in GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

MTA Bus has completed the process of evaluating the impact of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB Statement No. 69 requires the use of carrying values to measure the assets and liabilities in a government merger and requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. GASB Statement No. 69 also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. GASB Statement No. 69 provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. GASB Statement No. 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. MTA Bus has determined that GASB Statement No. 69 had no impact on its financial position, results of operations, and cash flows.

MTA Bus has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. GASB Statement No. 70 also requires a government guarantor to consider qualitative factors when determining if a payment on its guarantee is *more likely than not* to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. GASB Statement No. 70 further requires an issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. This Statement also requires a government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. MTA Bus has determined that GASB Statement No. 70 had no impact on its financial position, results of operations, and cash flows.

MTA Bus has not completed the process of evaluating the impact of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The requirements of this Statement should be applied simultaneously with the provisions of GASB Statement No. 68 and are effective for fiscal years beginning after June 15, 2014.

MTA Bus has not completed the process of evaluating the impact of GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of GASB Statement No. 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The provisions in GASB Statement No. 72 are effective for fiscal years beginning after June 15, 2015.

**Due from NYCTA for Settlements** — Fare revenue information for MTA Bus is collected by the NYCTA Metrocards automated fare collection ("AFC") system. NYCTA wires funds to MTA Bus on the first business day of the week for transactions occurring during the prior week. MTA Bus has a receivable from NYCTA, which represents fares collected on behalf of MTA Bus up to the end of the reporting period, but not received by MTA Bus until the next period.

**Capital Assets** — The City owns or leases the real property, including buildings and improvements, used as bus depots and yards. Accordingly, these assets are not recorded on the books of MTA Bus. However, MTA Bus does record certain other capital assets, which are primarily buses and related equipment (see Note 5 ). Capital assets have minimum useful life of 3 years and a cost of more than \$25,000.

Capital assets are recorded at cost and are depreciated on a straight-line basis over 12 years for buses, with lives generally ranging from 5 to 15 years for other capital assets. Cost includes capitalized interest apportioned to assets during construction. For the purposes of this calculation, interest expense is reported net of investment income.

Long lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment loss on assets to be sold, if any, is based on the estimated proceeds to be received, less estimated cost to sell.

Expenditures for maintenance and repairs which do not extend the useful life of assets are charged to operations as incurred.

**Contributed Capital** — Capital assets contributed by the MTA are recorded as capital contributions on the statement of revenues, expenses and changes in net position. Contributed capital is recognized upon identification of capital costs to be funded by the MTA. Capital used and contributed for the years ended December 31, 2014 and 2013, amounted to (\$1.4 million) and \$10 million, respectively.



**Passenger Revenue** — Revenues from the sale of farecards are recognized as income as the farecards are used and are reported as operating income.

**Materials and Supplies** — Materials and supplies are recorded at weighted average cost, net of a reserve for obsolete/excess inventory.

**Operating and Non-Operating Expenses** — Operating and non-operating expenses are recognized in the accounting period in which the liability is incurred. All expenses related to operating MTA Bus are reported as operating expenses. All other expenses are reported as non-operating expenses.

**MTA Investment Pool** — The MTA, on behalf of MTA Bus, invests funds which are not immediately required for MTA Bus's operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. All investments are held by the MTA's agent in custody accounts in the name of the MTA.

MTA Bus records its position in the Pool based upon a net asset value derived on assets invested in the Pool plus all realized income and losses earned. Unrealized appreciation, which is not significant to MTA Bus, is retained on the MTA's books and not included in MTA Bus's financial statement.

Investments maturing and expected to be liquidated within a year have been classified as current assets in the financial statements of MTA Bus. Investments are recorded on the Statements of Net Position at fair value which is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as investment income.

**Receivables** — Receivables are recorded as amounts due to MTA Bus, reduced by an allowance for doubtful accounts, if applicable, to report the receivables as net realizable value.

**Reclassifications** — Reclassifications of certain prior year amounts have been made to conform to current year presentation.

**Use of Management's Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

**City Operating Subsidy** — Pursuant to the letter agreement between The City and the MTA, The City has agreed to pay MTA Bus the difference between the actual costs of operation of the formerly franchised private bus lines and all revenues and other reimbursement subsidies. For calendar years 2014 and 2013, MTA Bus received cash payments of \$461.1 million and \$308.1 million, respectively, in operating assistance from The City. The 2014 amount includes a 2015 prepayment of \$18.5 million. At year end December 31, 2014, MTA Bus recorded a subsidy receivable due from The City of approximately \$105.8 million pursuant to the agreement between MTA Bus and The City's Office of Management and Budget.

**Advances from New York City — Environmental Remediation and Public Liability Reserves** — In accordance with the supplemental agreements between The City and the MTA, on behalf of MTA Bus, The City agreed to fund a Public Liability Insurance Reserve fund (\$14.2 million) and an Environmental



Remediation Reserve Fund (\$6.3 million). The public liability amount was determined pursuant to an actuarial reserve analysis performed by Milliman, Inc. as of December 31, 2007. With the assistance of the Transit Authority (CPM Environmental Engineering) and independent consultants working on behalf of the New York City Department of Design and Construction, six Bus Company depots were designated for environmental soil and groundwater remediation work totaling \$6.3 million. The City funded these reserves in June 2007, with an aggregate payment of \$20,493,000 to MTA Bus. This amount was used to fund the initial \$6.3 million project as well as future projects. In July 2011, The City of New York funded the Environmental Remediation Reserve Fund with an additional \$11.1 million. During 2014, MTA Bus reduced the Environmental Remediation Reserve Fund by \$0.9 million, based on actual cash expenditures leaving a balance of \$8.9 million as of December 31, 2014. The Public Liability Reserve Fund has been depleted as of June 2013. Refer to Note 12 for more information.

**Mortgage Recording Tax-2** — In 2007, the MTA Board approved the allocation of Mortgage Recording Tax (“MRT-2”) receipts to MTA Bus. These funds are to be administered by the MTA Treasurer and used solely for funding the 2005-2009 Capital Program debt service requirements and repayment of the \$113.8 million intercompany capital pool loan. Amounts budgeted from MRT-2 funds for such purposes were \$24.9 million for 2014. The \$24.9 million received in 2014 was used to repay \$12.6 million (\$10.1 million in principal and \$2.5 million in interest) of the intercompany capital pool loan, and debt service on transportation Revenue Bonds and Interest on Commercial paper payments of \$29.0 million.

**Pension Plans** — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. MTA Bus has adopted this standard for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions to the pension plan, calculated in accordance with certain parameters.

**Postemployment Benefits Other than Pensions** — In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information in the financial reports of state and local governmental employers. In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. MTA Bus has adopted these standards for its Postemployment Benefits Other Than Pensions.

**NYCT Reimbursement** — In accordance with the MTA’s 2008 Adopted Budget Staff Summary, the NYCT will reimburse MTA Bus approximately \$11.5 million per year for debt service, which reflects the fact that the Federal grants and matching City moneys originally intended for use by the City franchise buses taken over by MTA Bus could not be used by MTA Bus, so they were assigned to NYCTA for use in its capital projects.

**Risk Management** — Prior to January 1, 2006, Liberty Lines Express, Queens Surface, New York Bus Service and Command Bus were covered for the cost of injury liability and property damage under the NYC DOT insurance pool program. This insurance program covered the administration and payment of claims without the need for self-insurance coverage on the part of the former private lines.

Subsequent to January 1, 2006, the former private bus lines are now self-insured up to certain per occurrence limits for liability claims arising from injuries to persons, excluding employees, under the MTA's various insurance programs. Claims arising between January 1, 2006, and October 31, 2006, are subject to a \$7 million per occurrence limit; claims arising between October 31, 2006, and October 31, 2009, are subject to an \$8 million per occurrence limit; and claims arising after October 31, 2009, are subject to a \$9 million per occurrence limit. The annual cost associated with injuries to persons, other than employees, and damage to third-party property, is reflected in expenses as public liability claims in the accompanying statements of revenues, expenses and change in net position.

**Liability Insurance** — FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program ("ELF") that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: \$8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 million for MTAHQ and MTA Bridges and Tunnels. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limits are: \$9 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 million for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2012 the self-insured retention limits for ELF were increased to the following amounts: \$10 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 million for MTA Staten Island Railway; and \$2.6 million for MTAHQ and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2013, the balance of the assets in this program was \$63.15 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 million for a total limit of \$400 million (\$350 million excess of \$50 million). In certain circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of \$50 million.

On March 1, 2014, the "nonrevenue fleet" automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA and its subsidiaries and affiliates with the exception of MTA New York City Transit, MTA Bus and MTA Bridges and Tunnels. The policy provides \$10 million per occurrence limit with a \$0.5 million per occurrence deductible. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On March 1, 2014, the "Access-A-Ride" automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit's Access-A-Ride program, including the contracted operators. This policy provides a \$3 per occurrence limit with a \$1 per occurrence deductible.

**Property Insurance** — Effective May 1, 2013, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate as well as certain exceptions summarized below. The total program is \$500 million per occurrence covering property of the related entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 million per occurrence. The property insurance policy provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

Supplementing the \$500 million per occurrence coverage noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$200 million of fully collateralized storm surge coverage for losses from storm surges that surpass specified trigger levels in the New York Harbor or Long Island Sound and are associated with named storms that occur at any point in the three year period from July 31, 2013 to July 30, 2016. The expanded protection is reinsured by MetroCat Re Ltd., a Bermuda special purpose insurer independent from MTA and formed to provide FMTAC with capital markets-based property reinsurance. The MetroCat Re reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is available for storm surge losses only after amounts available under the \$500 million in general property reinsurance are exhausted.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 85% of “certified” losses, as covered by the Terrorism Risk Insurance Act (“TRIA”) of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. The remaining 15% of MTA Group losses arising from an act of terrorism would be covered under the additional terrorism policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed \$100 (“trigger”). The United States government’s reinsurance of FMTAC was extended for six years.

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) program, the MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for: (1) 15% of any “certified” act of terrorism — up to a maximum recovery of \$161.25 for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15% “certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$100 million TRIPRA trigger — up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2014. Recovery under this policy is subject to a retention of \$25 million per occurrence and \$75 million in the annual aggregate — in the event of multiple losses during the policy year. Should the MTA Group’s retention in any one year exceed \$75 million future losses in that policy year are subject to a retention of \$7.5 million.

**Injuries to Employees** — MTA Bus’s predecessor’s workers’ compensation program was insured through American International Group (AIG). This policy was continued through January 2, 2006. When New York Bus and Command Bus became members of MTA Bus, their workers’ compensation exposures were rolled into the AIG program. At the time of its merger with MTA Bus, coverage for Queens Surface was underwritten by Zurich American Insurance Company, which was also retained through January 2, 2006.

Effective January 3, 2006, and on a prospective basis, the MTA, on behalf of MTA Bus, established a master workers' compensation program with AIG. This insurance coverage provides both claims management and risk financing up to the statutory limits set by the State of New York, including acts of terrorism. When the other private bus lines (Green Bus, Jamaica Buses, and Triboro Coach) were merged into MTA Bus in the first quarter of 2006, they were rolled into the AIG program.

As risk of loss from worker's compensation claims was borne by AIG, MTA Bus did not record a liability reserve in the financial statements at December 31, 2008. Premium payments for worker's compensation coverage amounted to approximately \$12.0 million and \$13.8 million for the calendar years 2008 and 2007, respectively.

Effective January 2, 2009, MTA Bus, established a self-insured workers' compensation program and has recorded an \$80.4 million liability reserve in the financial statements at December 31, 2014. During calendar year 2014, \$12.4 million was paid to beneficiaries.

**Pollution Remediation Projects** — Effective January 1, 2008, pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 12). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations. Previously, these obligations may not have been required to be recognized or have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: MTA Bus is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; MTA Bus is named by a regulator as a responsible or potentially responsible party to participate in remediation; MTA Bus voluntarily commences or legally obligates itself to commence remediation efforts; or MTA Bus is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

### 3. CASH

The Bank balances are insured up to \$250,000 in the aggregate by the Federal Deposit Insurance Corporation ("FDIC") for each bank in which funds are deposited.

The Bank balances in 2014 and 2013 that were not insured were maintained in major financial institutions. Management periodically reassess the credit worthiness of such financial institutions.

Cash at December 31, 2014 and 2013, consists of the following:

	2014		2013	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured (FDIC) and collateralized deposits	\$ 579,398	\$ 716,140	\$ 309,089	\$ 560,203
Commercially insured funds on-hand and in transit	<u>4,450</u>	<u>334,861</u>	<u>38,905</u>	<u>192,791</u>
Total cash	<u>\$ 583,848</u>	<u>\$ 1,051,001</u>	<u>\$ 347,994</u>	<u>\$ 752,994</u>

The on-hand and in-transit funds consist primarily of passenger revenue funds collected but not yet deposited and petty cash.



#### 4. MTA INVESTMENT POOL

The MTA, on behalf of MTA Bus, invests funds which are not immediately required in MTA Bus's operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds. All investments are held by MTA's agent, in custody accounts, in the name of the MTA. MTA Bus's earnings from short term investments were \$26,235 and \$36,460 for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, MTA Bus had intercompany investment pool loans of \$85.8 million and \$110.4 million, respectively, reported in the Statements of Net Position, which were attributable to the timing of subsidy payments from The City for working capital expenditures.

#### 5. CAPITAL ASSETS

Capital assets as of December 31, 2014 and 2013, consist of the following:

	December 2013	Additions	Transfers	December 2014
Buses	\$ 556,040,229	\$ -	\$ -	\$ 556,040,229
Service Vehicles	2,637,540	174,609	-	2,812,149
Furniture, fixtures and equipment	7,303,923	955,819	-	8,259,742
Facilities & Yards	17,340,050	1,202,730	-	18,542,780
Capital Non Bus	6,176,256	-	13,442,027	19,618,283
Buses under construction	-	-	-	-
Under construction ( other )	<u>80,897,626</u>	<u>27,882,868</u>	<u>(13,442,027)</u>	<u>95,338,467</u>
	670,395,624	30,216,026	-	700,611,650
Less - accumulated depreciation	<u>(296,782,600)</u>	<u>(48,529,759)</u>	<u>-</u>	<u>(345,312,359)</u>
Capital assets - net	<u>\$ 373,613,024</u>	<u>\$ (18,313,733)</u>	<u>\$ -</u>	<u>\$ 355,299,291</u>
	December 2012	Additions	Transfers	December 2013
Buses	\$ 543,389,743	\$ -	\$ 12,650,486	\$ 556,040,229
Service Vehicles	2,193,358	444,182	-	2,637,540
Furniture, fixtures and equipment	7,303,923	-	-	7,303,923
Facilities & Yards	17,340,050	-	-	17,340,050
Capital Non Bus	6,176,256	-	-	6,176,256
Buses under construction	-	12,650,486	(12,650,486)	-
Under construction ( other )	<u>50,206,212</u>	<u>30,691,414</u>	<u>-</u>	<u>80,897,626</u>
	626,609,542	43,786,082	-	670,395,624
Less - accumulated depreciation	<u>(247,895,420)</u>	<u>(48,887,180)</u>	<u>-</u>	<u>(296,782,600)</u>
Capital assets - net	<u>\$ 378,714,122</u>	<u>\$ (5,101,098)</u>	<u>\$ -</u>	<u>\$ 373,613,024</u>

## 6. EMPLOYEE BENEFITS

**Pensions Plan Description** — The MTA Defined Benefit Pension Plan (“MTA Plan”) is a cost sharing multiple employer pension plan. The MTA Plan includes certain employees of MTA Bus. MTA Bus contributes to the MTA Plan, which offers distinct retirement, disability, and death benefits for their covered employees. Annual pension costs and related information about this plan are presented in the following table for all years presented as if the plan was a single-employer plan at the MTA level. The MTA Plan may be amended by action of the MTA Board.

A stand-alone financial report may be obtained by writing to the MTA Comptroller, 347 Madison Avenue, New York, New York, 10017.

**Funding Policy** — Employer contributions are actuarially determined on an annual basis and are recognized when due. Employee contributions to the Plan are recognized in the period in which the contributions are due. The current funded ratio of actuarial accrued assets over actuarial accrued liability is 80.3% of annual covered payroll. The contribution requirements of the plan members and the MTA are established and may be amended by the MTA Board. The MTA’s contributions to the MTA Plan for the years ending December 31, 2014, 2013, and 2012, were \$271.5 million, \$243.0 million, and \$212.4 million, respectively, equal to the required contributions for each year.

The following summarizes the types of employee contributions made to the Plan:

Covered MTA Bus employees who are required to contribute a fixed dollar amount, which varies, by depot. Currently, non-represented employees at Yonkers Depot and, if hired after June 30, 2007, at Baisley Park, College Point, Eastchester, JFK, LaGuardia, and Spring Creek Depots, contribute \$21.50 per week; non-represented employees at Eastchester prior to 2007 contribute \$25 per week; represented employees at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia and Yonkers Depots contribute \$29.06 per week; Spring Creek represented cleaners contribute \$23.15 per week and other represented titles contribute \$32.00 per week. Certain remaining non-represented employees at Baisley Park, Far Rockaway, JFK, LaGuardia and Spring Creek Depots in the pension program covering only such employees make no contributions to those programs.

The formerly franchised bus lines had a number of different pension plans for both represented and nonunion employees, the majority of which have been consolidated into the MTA Plan. MTA Bus is required to make significant annual contributions to the MTA Plan on a current basis. Pursuant to the January 1, 2014, actuarial valuation for the MTA Plan, which included amounts for actuarial assets and liabilities relating to both active and retired members for all former private plans, with the exception of represented members of the TWU — New York City Private Bus Lines Pension Trust, MTA Bus recorded pension expense equal to the valuation annual required contribution of \$45.0 million and \$45.5 million for the calendar years ended December 31, 2014 and 2013, respectively. Both of these employer contributions were paid to the MTA Plan in their respective years.

With regard to the pension benefits of former employees of Liberty Lines, Queens Surface, Green Bus Lines, Jamaica Buses and Triboro Coach, the MTA Plan has been amended to provide benefits on substantially the same terms and conditions as their prior plan pursuant to a “freeze, fresh start” approach. Liberty’s plan includes both represented and non-represented employees, while Queens Surface, Green Bus, Jamaica Bus and Triboro Coach Plans include only represented employees. Queens Surface non-represented employees were not covered by a pension plan; these employees were eligible to contribute to a qualified 401(k) plan. Pursuant to the freeze, fresh start approach, the prior plans mentioned above were amended to vest all employees who became MTA Bus employees irrespective of their years of service.



Pursuant to the MTA Plan, MTA Bus employees receive service credit for their MTA Bus employment for purposes of calculating their benefits, but for purposes of determining whether they qualify for a benefit, both their service with their prior employer and MTA Bus service will count. Under freeze, fresh start, there is no liability to the MTA Plan for the past service costs of MTA Bus employees or for the prior plans' retirees or vested members.

With regard to New York Bus (represented and non-represented employees), Command Bus (represented and non-represented employees), Green Bus (non-represented employees), Jamaica (non-represented employees) and Triboro Coach (non-represented employees), the assets and liabilities, including past service costs of both retirees and vested members of their respective pension plans were transferred to the MTA Plan. As stated above, the Transport Workers Union — New York City Private Bus Lines Pension Trust, which includes represented employees of the former Queens Surface, Triboro Coach, and Jamaica Bus lines, has not been merged into the MTA Plan as of December 31, 2014.

The City of New York is liable for any unfunded pension liability as of the date of each plan's merger into the MTA Plan.

**Deferred Compensation Plans** — MTA Bus employees are participants in a deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). Participation in the plan is available to all nonunion and certain other employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are solely the property of the participants; accordingly, this plan is not reflected in the accompanying Statements of Net Position.

As permitted by Internal Revenue Code Section 457, MTA Bus has established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Plan assets and liabilities are not reflected on MTA Bus's Statements of Net Position.

## **7. OTHER POST EMPLOYMENT BENEFITS**

The MTA has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and to what extent progress is being made in funding the plan.

The MTA elected not to record the entire amount of the Unfunded Actuarial Accrued Liability ("UAAL") in the year ended December 31, 2014, and record the net annual OPEB obligation. The MTA also elected not to fund the UAAL more rapidly than on a pay-as-you-go basis. The end of the year liability equals the amount as of the beginning of the year plus interest at 4.0% less amortization amount included in the Annual Required Contribution for the prior year less or plus assumption changes and plan changes.

**Plan Description** — The benefits provided by the MTA Group include medical, pharmacy, dental, vision, and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursements and welfare fund contributions. The different types of benefits provided vary by agency and employee type (represented employees versus management). All benefits are provided upon retirement as stated in the applicable pension plan, although some agencies provide benefits to some members if terminated within 5 years of attaining retirement eligibility.

The MTA Group participates in the New York State Health Insurance Program (“NYSHIP”) to provide medical and prescription drug benefits, including Medicare Part B reimbursements to many of its members. NYSHIP provides a PPO plan and several HMO plans. Represented MTA Bus retirees do not participate in NYSHIP. These benefits are provided either through a self-insured health plan, a fully insured or an HMO.

GASB Statement No. 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2013, and was performed with a valuation date of January 1, 2012.

Since the MTA is a participating employer in NYSHIP, it does not issue a stand-alone financial report regarding post-employment benefits. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Service, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

**Annual OPEB Cost and Net OPEB Obligation** — The MTA’s annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. The cumulative difference between the annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation (the “Net OPEB Obligation”), included on the Statements of Net Position. The annual OPEB cost is equal to the annual required contribution (“ARC”) less adjustments if a Net OPEB Obligation exists and plus the interest on Net OPEB Obligations. The ARC is equal to the normal cost plus an amortization of the unfunded frozen actuarial accrued liability.

For determining the ARC, the MTA has chosen to use Frozen Initial Liability (the “FIL Cost Method”) cost method, one of the cost methods in accordance with the parameters of GASB Statement No. 45. The initial liability is amortized over a 22-year period. The remaining amortization period at December 31, 2014, is 15 years.

In order to recognize the liability over an employee’s career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the “Accrued Liability” or “Past Service Liability”), the part that is being earned this year (the “Normal Cost”), and the part that will be earned in future years (the “Future Service Liability”). Under the FIL Cost Method, an initial past service liability is determined based on the Entry Age Normal (“EAN”) Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

**Actuarial Methods and Assumptions** — The Frozen Initial Liability (“FIL”) Cost Method is used for determining the Normal Cost. The Entry Age Normal (“EAN”) Cost Method is used to determine the initial Frozen Accrued Liability as well as any subsequent changes in Accrued Liability due to changes in the plan and/or actuarial assumptions. The initial Frozen Unfunded Accrued Liability was determined

as of January 1, 2006 (2007 for MTA Bus Company), to be used in the financials for the 2007 fiscal year. EAN will also be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. The EAN method determines the Accrued liability for each individual based on a level percent of pay for service accrued through the valuation date.

The Frozen Unfunded Accrued Liability is determined each year as the Frozen Unfunded Accrued Liability for the prior year, increased with interest, reduced by the end-of-year amortization payment and increased or decreased by any new bases established for the current year.

The difference between the Actuarial Present Value of Benefits and the Frozen Unfunded Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

The ARC is equal to the sum of the Normal Cost and the amortization for the Frozen Unfunded Accrued Liability with appropriate interest adjustments. Any difference between the ARC and actual plan contributions from the prior year are considered an actuarial gain/loss and thus, are included in the development of the Normal Cost. This methodology differs from the approach used for the pension plan where the difference between the ARC and actual plan contributions from the prior year, if any, will increase or decrease the Frozen Unfunded Accrued Liability and will be reflected in future amortization payments. A different approach was applied to the OPEB benefits because these benefits are not actuarially funded.

**Valuation Date** — The valuation date is the date that all participant and other pertinent information is collected and liabilities are measured. This date may not be more than 24 months prior to the beginning of the fiscal year. The valuation date for this valuation is January 1, 2012, which is 24 months prior to the beginning of the 2014 fiscal year.

**Inflation Rate** — 2.5% per annum compounded annually.

**Discount Rate** — GASB 45 provides guidance to employers in selecting the discount rate. The discount rate should be based on the estimated long-term investment yield on the investments that are expected to be used to finance the benefits. If there are no plan assets, assets of the employer should be used to derive the discount rate. This would most likely result in a lower discount rate and thus, liabilities significantly higher than if the benefits are prefunded. In recognition of the decrease in short-term investment yields, the discount rate for this valuation has been lowered from 4.0% to 3.75%.

**Healthcare Reform** — The valuation reflects the actuary's understanding of the impact in future health costs due to the passage of the Patient Protection and Affordable Care Act (P.L.111-148) signed on March 23, 2010, as amended by the Health Care and Education Reconciliation Act (H.R.4872) signed on March 30, 2010. Specifically, the following assumptions have been modified:

- Reflected the potential excise tax beginning in 2018 separately for NYSHIP plans and self-insured union plans of MTA Bus Company. The excise tax equals 40% of the amount of the premium in excess of the threshold.
- Increased the dependent assumption for female members from 55% to 60% to reflect the fact that dependent children are covered until age 26.
- Increased the assumed coverage period to 7 years for all non-NYSHIP members with a dependent child.

The impact of these changes had a significant impact on the liabilities developed in this valuation. However, the actual impact on future health costs due to this legislation will depend on a number of factors, including future regulations that are not yet known. An assessment of the potential range and cost effect of such differences is beyond the scope of the 2013 valuation.

The OPEB-specific actuarial assumptions used in the twelve months ended December 31, 2014, OPEB actuarial valuations are as follows:

Valuation date	January 1, 2012
Actuarial cost method	Frozen Initial liability
Discount rate	3.75%
Price inflation	2.5% per annum, compounded annually
Amortization method	Frozen Initial liability
Amortization period	15 years
Period closed or open	Closed

Actuarial valuation involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

MTA Bus provides certain health care and life insurance benefits for retired employees. MTA Bus recognizes the cost of providing these benefits by expensing the claim payments made to carriers on behalf of the Transit Workers Union Local 100 (“TWU”) and the Amalgamated Transit Union (“ATU”), Local 1179 and Local 1181 retirees or beneficiaries, and the annual insurance premiums for retiree benefits, which aggregated \$19.6 million for the year ended December 31, 2014, and \$18.5 million for the year ended December 31, 2013. At December 31, 2014 and 2013, there were 3,088 and 2,750 retired union employees, respectively, from the former private bus lines.

When New York Bus was merged into MTA Bus its self-insured health and welfare plan was terminated and NYCTA assumed direct responsibility for providing health care benefits to its retirees or beneficiaries. During the first quarter of 2006, when the last of the privates were merged into MTA Bus, NYCTA commenced providing health care benefits for the remainder of all TWU retirees or their beneficiaries. Per the collective bargaining agreements between MTA Bus and ATU Locals 1179 and 1181, their health and welfare trusts were dissolved effective August 2006, again with the NYCTA assuming the responsibility for benefits administration.

**Per Capita Claim Costs** — For members of NYSHIP and certain members who retired prior to NYSHIP availability, unadjusted premiums were used. The medical and pharmacy benefits provided to TWU Local 100, ATU 1056 and ATU 726 represented MTA Bus members are self-insured as well as some Pre-NYSHIP Transit members. For these benefits, a per capita claims cost assumptions that vary by age, gender and benefit type was developed. The per capita costs assumptions reflect the change in medical carriers effective January 1, 2011, and are based on preliminary medical claims information. An assumption was made to “complete” the claims. Details on the per capita claim cost assumption as shown below:



## Per Capita Claim Cost Rates —

Age Male Employees	EBCBS Medical	Pharmacy	Age Female Employees	EBCBS Medical	Pharmacy
30–34	481.70	141.22	30–34	633.31	158.70
35–39	697.73	243.03	35–39	812.97	242.67
40–44	825.11	290.18	40–44	853.83	299.31
45–49	666.26	243.63	45–49	717.19	280.55
50–54	607.73	213.80	50–54	638.21	269.44
55–59	717.11	241.25	55–59	659.79	298.08
60–64	840.40	263.29	60–64	746.74	312.32

The Health Cost Guidelines was used to develop Per Capita Claim Costs relativity factors that varied by benefit, age and gender for retirees of the TWU Local 100, ATU Local 726, ATU Local 1056 unions and MTA Bus Company. These were then combined to match the aggregate claim experience provided by MTA. Claims were increased by an incurred versus paid claims adjustment of 2.7% for health benefits and (0.3)% for pharmacy benefits. Finally, an administrative load was applied equal to 5.8% for Empire BCBS medical benefits, 3.8% for United Healthcare medical benefits and 0.6% for pharmacy benefits.

**Medicare Part B Premiums** — The Medicare Part B premium reimbursement was included in the 2008 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 5.5%. These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

**Medicare Part D Premiums** — GASB has issued a Technical Bulletin stating that the value of expected Retiree Drug Subsidy (“RDS”) payments to be received by an entity cannot be used to reduce the Actuarial Accrued Liability of OPEB benefits nor the Annual Required Contribution (“ARC”). Furthermore, actual contributions made (equal to the amount of claims paid in a year if the plan is not funded) will not be reduced by the amount of any subsidy payments received. Accordingly, the 2012 valuation excludes any RDS payments expected to be received by the MTA.

**Health Care Cost Trend** — For those retirees participating in NYSHIP, the trend assumption used for 2013 and 2014 was 1.7% and 5.0%, respectively. The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 11.1 utilizing the baseline assumptions included in the model, except real GDP of 1.8% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors and potential excise taxes due to healthcare reform, separately for NYSHIP and non-NYSHIP benefits. These assumptions are combined with long-term assumptions for dental and vision benefits (4%) plus Medicare Part B reimbursements (5.5%). The NYSHIP trend reflects actual increases in premiums through 2013. The NYSHIP trend is used for non-represented employees of MTA Bus. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements. The non-NYSHIP trend is applied directly for represented employees of MTA Bus. The following lists the NYSHIP and non-NYSHIP trend assumptions.

**Health Care Cost Trend Rates —**

<b>Fiscal Year</b>	<b>Trend</b>	<b>Fiscal Year</b>	<b>Trend</b>
2008	6.2 %	2027	5.5 %
2009	6.6	2032	5.4
2010	6.7	2037	5.0
2011	6.2	2042	4.9
2012	5.8	2047	4.8
2017	5.7		
2022	5.6		

**Participation —**

For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For groups that do not participate in NYSHIP, various coverage election rates are used. The following table displays the election rates used for future union retirees in MTA Bus:

<b>OPEB Participation By MTA Bus as of January 1, 2012</b>	<b>MTA Bus Company</b>
Active members:	
Number	3,445
Average age	46.5
Average service	11.7
Retirees:	
Single medical coverage	553
Employee/spouse coverage	818
Employee/child coverage	31
No medical coverage	182
Total number	1,584
Average age	69.1
Total number with dental	65
Total number with vision	1,352
Total number with supplement	1,518
Average monthly supplement amount (excluding Part B premium)	\$ 24.80
Total number with life insurance	66
Average life insurance amount	\$ 5,000



**Dependent Coverage** — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For groups that do not participate in NYSHIP, details on coverage election rates are as below:

Male Dependents			Female Dependents		
	Medical	Pharmacy		Medical	Pharmacy
30–34	255.72	74.97	30–34	350.22	87.76
35–39	301.98	105.18	35–39	382.82	114.27
40–44	359.62	126.47	40–44	426.70	149.58
45–49	407.91	149.16	45–49	465.67	182.16
50–54	479.38	168.64	50–54	518.28	218.81
55–59	575.69	193.67	55–59	567.95	256.58
60–64	749.46	234.80	60–64	688.17	287.82

Male Employees and Dependents			Female Employees and Dependents		
	Medical	Pharmacy		Medical	Pharmacy
65–69	263.37	645.03	65–69	263.50	562.83
70–74	328.38	682.48	70–74	315.20	699.84
75–79	403.61	694.86	75–79	370.65	728.76
80–84	465.11	700.46	80–84	421.54	744.07
85+	536.79	686.22	85+	485.62	733.11

Spouses are assumed to be the same age as the employee/retiree. 85% of male and 60% of female eligible members are assumed to elect family coverage upon retirement. No children are assumed. Actual family coverage elections for current retirees are used. If a current retiree's only dependent is a child, eligibility is assumed for an additional 7 years of dependent coverage if the member participates in NYSHIP (otherwise, 5 years).

#### **Demographic Assumptions:**

*Mortality* — Preretirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee.

*Preretirement* — RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments. No blue collar adjustments were used for management members of Headquarters.

*Postretirement Healthy Lives* — RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 133% of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue collar adjustments were used for management members of Headquarters.

*Postretirement Disabled Lives* — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females. At age 85 and later for males and age 77 and later for females, the disability rates are set to the male and female healthy rates, respectively.

*Vestee Coverage* — For members that participate in NYSHIP, Vestees (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by MTA Bus upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vestees are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial

Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vestees, which were only provided by Headquarters.

Age at Termination	Percent Electing
<40	- %
40–43	5
44	20
45–46	30
47–48	40
49	50
50–51	80
52+	100

The following table shows the elements of the MTA Bus's annual OPEB cost for the year, the amount actually paid, and changes in the MTA Bus's net OPEB obligation to the plan for the years ended December 31, 2014 and 2013. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

	2014 (In millions)	2013 (In millions)
Annual required contribution	\$ 146.4	\$ 135.9
Interest on net OPEB obligation	18.3	14.6
Adjustment to annual required contribution	<u>(40.0)</u>	<u>(31.9)</u>
Annual OPEB cost/expense	124.7	118.6
Contributions made	<u>(19.6)</u>	<u>(18.5)</u>
Increase in net OPEB obligation	105.1	100.1
Net OPEB obligation — beginning of year	<u>488.7</u>	<u>388.6</u>
Estimated net OPEB obligation — end of year	<u>\$ 593.8</u>	<u>\$ 488.7</u>

MTA Bus's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net estimated OPEB obligation for the years ended December 31, 2014, 2013, and 2012 are as follows:

Year Ended	Annual OPEB Cost (In millions)	Percentage of Annual OPEB Cost Paid	Estimated Net OPEB Obligation (In millions)
12/31/2014	\$ 124.7	15.8 %	\$ 105.1
12/31/2013	118.7	15.6	100.1
12/31/2012	118.0	15.6	96.6

Period Ended	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b) (In millions)	Unfunded Actuarial Accrued Liability (UAAL) (c)=(b)-(a) (In millions)	Funded Ratio (a)/(c)	Covered Payroll (d) (In millions)	Ratio of UAAL to Covered Payroll (c)/(d)
12/31/14	1/1/2012	\$ -	934.1	934.1	0.00%	201.4	463.8 %

The required schedule of funding progress immediately following the notes to the financial statements and the supplemental schedules presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## 8. DUE TO NYCTA

NYCTA bills MTA Bus for the administration and payment of health and welfare claims, for diesel fuel delivered to MTA Bus depots and paid for by NYCTA on shared contracts, for materials and supplies issued from NYCTA storerooms, and for NYCTA employees that have been permanently assigned to MTA Bus. In addition, MTA Bus is charged for the cost of labor and overhead for operating support (mainly NYCTA Department of Buses) and for employees assigned to MTA Bus to perform facilities related maintenance, construction and repair work.

## 9. EXISTING CAPITAL FUNDING ARRANGEMENTS

MTA Bus capital projects included in the MTA 2000-2004 Capital Program and the MTA 2005-2009 Capital Program are being funded from a combination of interagency loans and MTA Transportation Revenue Bond proceeds. The interagency loans consist of a \$76.6 million loan to MTA Bus from MTA New York City Transit and a \$37.1 million interagency loan from MTA capital funds. MTA has agreed to reimburse MTA Bus for the debt service on such interagency loans over a twelve-year period beginning in 2007. The amount of Federal grants and The City matching funds included in the MTA 2000-2004 Capital Program is \$171.5 million and the amount of Federal grants and The City matching funds included in the MTA 2005-2009 Capital Program is \$152 million, for an aggregate of \$323.5 million. Because MTA Bus was unable to use the Federal grants and The City matching funds directly, they were assigned to MTA New York City Transit to fund a portion of its capital program. MTA New York City Transit agreed to reimburse MTA Bus for the debt service on an equal amount of MTA Transportation Revenue Bonds that were issued to finance MTA Bus capital projects that otherwise would have been funded with the Federal grants and The City matching moneys if they were available for such use.

In December 2007, the MTA Board approved a funding agreement whereby, in 2014, MTA Bus received \$24.9 million in MRT-2 monies and subsequently used \$12.6 million of these funds to repay a portion of the \$113.8 million intercompany capital pool loan. Pursuant to the agreement, MTA Bus will make monthly payments to the MTA and NYCTA over an amortization period of 12 years. As of December 31, 2014 and 2013, the outstanding principal balance of the intercompany capital pool loan amounts to \$44.1 million and \$54.2 million, respectively.

## 10. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

MTA Bus establishes its liability for injuries to persons, excluding employees, on the basis of independent actuarial estimates of future liability. A summary of activity in estimated liability arising from injuries to persons and damage to third-party property, for the years ended December 31, 2014 and 2013, is as follows:

	2014	2013
Balance — beginning of year	\$ 94,299,000	\$ 96,482,000
Activity during the year:		
Current year claims and changes in estimates	32,221,813	19,108,175
Claims paid	<u>(32,256,813)</u>	<u>(21,291,175)</u>
Balance — end of year	94,264,000	94,299,000
Less — current liability	<u>(23,000,000)</u>	<u>(15,000,000)</u>
Noncurrent liability	<u>\$ 71,264,000</u>	<u>\$ 79,299,000</u>

Not included in the amount is \$10.0 million of current liability and \$70.4 million of non current liability related to employees.

## 11. CONTINGENCIES

Neither the MTA nor its subsidiary, MTA Bus, assumed any liability for claims, suits, and any other pending litigation matters arising from or in connection with the operation of the former seven privately franchised bus companies prior to their merger dates into MTA Bus. Beginning January 3, 2006, and on each of the three merger dates occurring thereafter (Green Bus on January 9, 2006, Jamaica Bus on January 30, 2006, and Triboro Coach on February 2006), MTA Bus assumed responsibility for all liability claims arising from operating the former City bus routes. Legal counsel to MTA Bus believes that there is no litigation or claims that could have a material effect on the financial position of MTA Bus.

## 12. ENVIRONMENTAL POLLUTION REMEDIATION

MTA Bus implemented GASB Statement No. 49 in 2008. In accordance with GASB Statement No. 49, a pollution remediation expense provision totaling \$609,839 and a corresponding liability were recorded on the Consolidated Statements of Net Position and the Consolidated Statements of Revenues, Expenses and Changes in Net Position. As of December 31, 2014 and 2013, the pollution remediation liability totaled \$14.5 million and \$15.6 million, respectively, primarily consisting of future remediation activities associated with asbestos removal, lead abatement, ground water contamination, soil contamination, and arsenic contamination at MTA Bus. MTA Bus does not anticipate any changes in the near future that would have a material impact on the recorded obligations due to changes resulting from price increase or reduction, technology, or changes in applicable laws or regulations. In addition, MTA Bus does not expect any recoveries of cost that would have a material effect on the recorded obligations.

During 2005, environmental consultants, on behalf of the New York City Department of Design performed on site investigation at the former Green, Jamaica and Triboro Coach Bus lines prior to their merger into MTA Bus. As a result of the site investigations, these depots were found to require extensive soil and groundwater remediation. The Transit Authority's Capital Programs Management

Environmental Engineering Division estimated that the cost to remediate the contaminated sites would total approximately \$4.3 million. During 2006, the New York State Department of Environmental Conservation issued stipulation and consent decrees requiring MTA Bus to commence soil and ground water remediation at the College Point and Eastchester depots. The estimated cost for cleanup efforts at these sites is approximately \$2.0 million. Pursuant to the letter agreement between The City and the MTA, remediation costs will be reimbursable by The City and, as such, a reserve for environmental remediation was not recorded in MTA Bus's financial statements. As stated in Note 2, The City has funded the \$6.3 million in estimated costs for potential environmental remediation. During 2011, The City requested an update on proposed remediation projects and according funded an additional \$11.1 million. At December 31, 2014 the Environmental Remediation Reserve fund had a balance of \$8.9 million remaining for future Environmental projects.

### 13. RELATED PARTY TRANSACTIONS

MTA Bus and other affiliated MTA agencies receive support from MTA in the form of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, some of which are charged back. Funds for MTA Bus's capital project expenditures are also provided by MTA. MTA Bus recognizes funds contributed by MTA for MTA Bus's capital project expenditures as contributed capital.

Due from/to MTA and affiliated agencies consists of the following at December 31, 2014 and 2013 (in thousands):

	2014		2013	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 59,200	\$ 95,251	\$ 56,794	\$ 114,926
Affiliated agencies	<u>5,480</u>	<u>35,944</u>	<u>8,438</u>	<u>38,537</u>
Total MTA and affiliated agencies	<u>\$ 64,680</u>	<u>\$ 131,195</u>	<u>\$ 65,232</u>	<u>\$ 153,463</u>

\* \* \* \* \*

**REQUIRED SUPPLEMENTARY INFORMATION**



**MTA BUS COMPANY**  
**(Subsidiary of Metropolitan Transportation Authority)**

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT BENEFIT PLAN**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(In millions)**

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<b>Year Ended</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) Initial Entry Age (b)</b>	<b>Unfunded (AAL) (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>(UAAL) As a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/2014	1/1/2012	\$ -	\$ 934.1	\$ 934.1	0.0%	\$ 201.4	463.8%
12/31/2013	1/1/2012	-	934.1	934.1	0.0%	201.4	463.8%
12/31/2012	1/1/2010	-	823.8	823.8	0.0%	242.2	340.2%

# First Mutual Transportation Assurance Company

(Subsidiary of the Metropolitan Transportation  
Authority)

Financial Statements as of and for the Years  
Ended December 31, 2014 and 2013, and  
Independent Auditor's Report

DRAFT

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**  
(Subsidiary of the Metropolitan Transportation Authority)

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## **INDEPENDENT AUDITOR'S REPORT**

To the Members of the Board of  
Metropolitan Transportation Authority:

### ***Report on the Financial Statements***

We have audited the accompanying statements of net position of the First Mutual Transportation Assurance Company (the "Company"), a wholly owned public benefit corporation subsidiary of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Company's financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Company as of December 31, 2014 and 2013, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

April 29, 2015

# FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY

(Subsidiary of the Metropolitan Transportation Authority)

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

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### 1. OVERVIEW OF THE FINANCIAL STATEMENTS

**Introduction**—The following is a narrative overview and analysis of the financial activities of the First Mutual Transportation Assurance Company (the “Company” or “FMTAC”) for the years ended December 31, 2014 and 2013. This discussion and analysis is intended to serve as an introduction to the Company’s financial statements which have the following components: (1) Management’s Discussion and Analysis (“MD&A”), (2) Financial Statements and (3) Notes to the Financial Statements.

**Management’s Discussion and Analysis**—This MD&A provides an assessment of how the Company’s position has improved or deteriorated and identifies the factors that, in management’s view, significantly affected the Company’s overall financial position. It may contain opinions, assumptions or conclusions by the Company’s management that should not be considered a replacement for, and must be read in conjunction with, the financial statements.

**The Financial Statements Include**—The Statements of Net Position provide information about the nature and amounts of resources with present service capacity that FMTAC presently controls (assets), consumption of net assets by FMTAC that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that FMTAC has little or no discretion to avoid (liabilities), and acquisition of net assets by FMTAC that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources being reported as net position.

The Statements of Revenues, Expenses and Changes in Net Position show how the Company’s net position changed during each year and accounts for all of the revenues and expenses, measures the success of the Company’s operations from an accounting perspective over the past year, and can be used to determine how the Company has funded its costs.

The Statements of Cash Flows provide information about the Company’s cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities.

**The Notes to the Financial Statements**—The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the financial statements.

### 2. FINANCIAL REPORTING ENTITY

On December 5, 1997, the Metropolitan Transportation Authority (“MTA”) began its operation of its newly incorporated captive insurance company, FMTAC. FMTAC was created by the MTA to engage in the business of acting as a pure captive insurance company under Section 7005, Article 70 of the Insurance Law and Section 1266 Subdivision 5 of the Public Authorities Law of the State of New York. FMTAC’s mission is to continue, develop, and improve the insurance and risk management needs as required by the MTA. The MTA is a component unit of the State of New York.



### 3. CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in the Company's financial position for the years ended December 31, 2014 and 2013. Additionally, examinations of major economic factors that have contributed to these changes are provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are extracted from the Company's financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America.

(In thousands)	As of December 31,			Increase/(Decrease)	
	2014	2013	2012	2014-2013	2013-2012
<b>ASSETS</b>					
CURRENT ASSETS	\$ 333,784	\$ 310,145	\$ 339,720	\$ 23,639	\$ (29,575)
NONCURRENT ASSETS	<u>994,131</u>	<u>1,022,861</u>	<u>1,127,308</u>	<u>(28,730)</u>	<u>(104,447)</u>
TOTAL ASSETS	<u>\$ 1,327,915</u>	<u>\$ 1,333,006</u>	<u>\$ 1,467,028</u>	<u>\$ (5,091)</u>	<u>\$ (134,022)</u>

#### Significant Changes in Assets:

##### December 31, 2014 versus December 31, 2013

Total assets have decreased by \$5,091 or 0.4 percent, from December 31, 2013 to December 31, 2014. The fluctuation in the total assets of FMTAC was the net effect of premium received from affiliates and reduction of reinsurance recoverable losses for Hurricane Irene. In 2014, FMTAC received its Hurricane Irene property claim settlement from its reinsurance carriers.

##### December 31, 2013 versus December 31, 2012

Total assets have decreased by \$134,022 or 9 percent, from December 31, 2012 to December 31, 2013. The fluctuation in the total assets of FMTAC is due to a reduction in reinsurance recoverable losses for the Tropical Storm Sandy property claim. In 2013, FMTAC received a portion of its Tropical Storm Sandy property claim settlement from its reinsurance carriers.

(In thousands)	As of December 31,			Increase/(Decrease)	
	2014	2013	2012	2014-2013	2013-2012
<b>LIABILITIES AND NET POSITION</b>					
CURRENT LIABILITIES	\$ 255,738	\$ 255,169	\$ 256,244	\$ 569	\$ (1,075)
NONCURRENT LIABILITIES	905,649	942,804	1,034,902	(37,155)	(92,098)
RESTRICTED NET POSITION	<u>166,528</u>	<u>135,033</u>	<u>175,882</u>	<u>31,495</u>	<u>(40,849)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,327,915</u>	<u>\$ 1,333,006</u>	<u>\$ 1,467,028</u>	<u>\$ (5,091)</u>	<u>\$ (134,022)</u>

### Significant Changes in Liabilities:

#### December 31, 2014 versus December 31, 2013

Total liabilities from December 31, 2013 to December 31, 2014 have decreased by \$36,586 or 3 percent. The decrease in liabilities is due to a reduction in unpaid losses for the Hurricane Irene property claim. In 2014, FMTAC settled the Hurricane Irene property claim.

#### December 31, 2013 versus December 31, 2012

Total liabilities from December 31, 2012 to December 31, 2013 have decreased by \$93,173 or 7 percent. The decrease in liabilities is a net result of a decrease in unpaid losses for the Tropical Storm Sandy property claim due to partial claim settlement offset by an increase in estimated loss reserves for Excess Loss coverage.

### Significant Changes in Net Position:

#### December 31, 2014 versus December 31, 2013

In 2014, the restricted net position increase of \$31,495 is comprised of operating revenues of \$100,149 and non-operating income of \$16,443, less operating expenses of \$85,097.

#### December 31, 2013 versus December 31, 2012

In 2013, the restricted net position decrease of \$40,849 is comprised of operating revenues of \$74,761 and non-operating income of \$2,845, less operating expenses of \$118,455.

### Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)	2014	2013	2012	Increase/(Decrease)	
				2013-2012	2013-2012
OPERATING REVENUES	\$100,149	\$ 74,761	\$ 82,503	\$ 25,388	\$ (7,742)
OPERATING EXPENSES	<u>85,097</u>	<u>118,455</u>	<u>85,996</u>	<u>(33,358)</u>	<u>32,459</u>
OPERATING INCOME / (LOSS)	15,052	(43,694)	(3,493)	58,746	(40,201)
NON-OPERATING INCOME / (LOSS)	<u>16,443</u>	<u>2,845</u>	<u>20,041</u>	<u>13,598</u>	<u>(17,196)</u>
CHANGE IN NET POSITION	31,495	(40,849)	16,548	72,344	(57,397)
RESTRICTED NET POSITION — Beginning of year	<u>135,033</u>	<u>175,882</u>	<u>159,334</u>	<u>(40,849)</u>	<u>16,548</u>
RESTRICTED NET POSITION — End of year	<u>\$166,528</u>	<u>\$135,033</u>	<u>\$175,882</u>	<u>\$ 31,495</u>	<u>\$(40,849)</u>

**Operating Revenues**—The increase of \$25,388 or 34 percent, over the 2013 operating revenues is due to increased earned premium from the OCIP Liberty program and Excess Loss Policy compared to prior years.

The decrease of \$7,742 or 9 percent, over the 2012 operating revenues is due to reduced earned premium on the OCIP Liberty program compared to prior years.

**Operating Expenses**—Operating expenses between 2013 and 2014 decreased by 28 percent, or \$33,358. This decrease is attributable to the prior year increase in estimated reserves for Excess Loss coverage due to the 2013 Metro-North Derailment.

Operating expenses between 2012 and 2013 increased by 38 percent, or \$32,459. This increase is primarily attributable to an increase in estimated loss reserves relating to the Excess Loss coverage.

**Non-operating Income**—Non-operating income between 2013 and 2014 increased by 478% percent, or \$13,598. This is a result of an increase in income from net unrealized gains on investments held by FMTAC.

Non-operating income between 2012 and 2013 decreased by 86 percent, or \$17,196. The decrease is a result of a reduction in income from net unrealized gains on investments held by FMTAC.

#### **4. OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS**

**Results of Operations**—Operating as a pure captive insurance company domiciled in the State of New York requires that all business plans and changes to said plans be reviewed and approved by the New York Insurance Department. As of December 31, 2014, all programs administered by FMTAC have been reviewed and approved.

As of December 31, 2014 and 2013, FMTAC received its annual loss reserve certification. The actuary determined that reserves recorded by FMTAC were adequate and no adjustments were deemed necessary.

**U.S. Insurance Market**—The industry's financial performance through the first nine months of 2014 was impacted by increases catastrophe activity and reduced support from reserve releases, which offset the effect of moderate rate increases. While the industry's underwriting performance remained positive, it lagged behind prior year results, which benefited from lower catastrophe losses and other activity. The industry has produced seven consecutive quarters of profitable underwriting results; however, weather volatility and the investment environment remain challenges.

#### **5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

**Metro-North Railroad Derailment**—On December 1, 2013, the seven cars and the locomotive of a southbound Metro-North Railroad train derailed north of the Spuyten Duyvil station in the Bronx on the Hudson Line, resulting in four fatalities and more than 60 reported injuries. At this time, MTA Metro-North Railroad cannot predict the full extent of the claims associated with this accident. FMTAC writes an all-agency excess liability policy for \$50,000 per occurrence in excess of the MTA Metro-North Railroad's self-insured retention of \$10,000 per occurrence. Metro-North has advised FMTAC that it has reserved these claims at the per occurrence limit of \$10,000. In 2014, FMTAC paid \$10,000 in losses relating to this claim. At December 31, 2014, FMTAC has a reserve of \$40,000 in these financial statements.

**Terrorism Risk Insurance Act**—Effective November 26, 2002, the Terrorism Risk Insurance Act ("TRIA") was signed in to law. Effective December 22, 2006, TRIA was extended through December 31, 2007. On December 31, 2007, the U.S. Treasury Department issued Interim Guidance Concerning the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA") which has been extended through December 31, 2014. On January 12, 2015, TRIA was extended through December 31, 2020. For additional information, please refer to the property section under Note 5.

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2014 AND 2013**  
**(In thousands)**

	2014	2013
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	\$ 184,786	\$ 158,138
Investments (Note 4)	47,288	43,237
Funds held by reinsurer (Note 5)	24,525	28,283
Premiums receivable due from affiliates (Note 7)	74,847	77,464
Interest income receivable (Note 4)	2,314	2,504
Other assets	24	519
Total current assets	<u>333,784</u>	<u>310,145</u>
NONCURRENT ASSETS:		
Investments (Note 4)	350,277	350,039
Reinsurance recoverable	641,721	670,964
Incentive reward receivable	2,133	1,858
Total noncurrent assets	<u>994,131</u>	<u>1,022,861</u>
TOTAL ASSETS	<u>\$ 1,327,915</u>	<u>\$ 1,333,006</u>
<b>LIABILITIES AND NET POSITION</b>		
CURRENT LIABILITIES:		
Unearned premiums	\$ 126,754	\$ 123,803
Ceded premium payable	23,919	23,991
Reinsurance recoverable reserves—current portion (Note 6)	1,638	1,638
Loss and loss adjustment expenses (Note 6)	98,837	102,538
Losses payable	189	-
Due to affiliates	3,524	2,339
Accrued expenses	877	860
Total current liabilities	<u>255,738</u>	<u>255,169</u>
NONCURRENT LIABILITIES:		
Loss and loss adjustment expenses (Note 6)	247,809	251,879
Reinsurance recoverable reserves (Note 6)	640,083	669,326
Owner Controlled Insurance Programs liability (Note 5)	17,757	21,599
Total noncurrent liabilities	<u>905,649</u>	<u>942,804</u>
Total liabilities	<u>1,161,387</u>	<u>1,197,973</u>
RESTRICTED NET POSITION	<u>166,528</u>	<u>135,033</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,327,915</u>	<u>\$ 1,333,006</u>

See notes to financial statements.

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

**(In thousands)**

	<b>2014</b>	<b>2013</b>
OPERATING REVENUES:		
Gross premiums written	\$ 174,767	\$ 145,826
Premiums ceded	(71,666)	(83,053)
Change in unearned premiums	<u>(2,952)</u>	<u>11,988</u>
Total operating revenues	<u>100,149</u>	<u>74,761</u>
OPERATING EXPENSES:		
Loss and loss adjustment	72,067	106,395
Underwriting	4,233	3,570
General and administrative	<u>8,797</u>	<u>8,490</u>
Total operating expenses	<u>85,097</u>	<u>118,455</u>
OPERATING INCOME / (LOSS)	<u>15,052</u>	<u>(43,694)</u>
NON-OPERATING INCOME:		
Net investment income	12,994	10,614
Net unrealized gain (loss) on investments	<u>3,449</u>	<u>(7,769)</u>
Total non-operating income	<u>16,443</u>	<u>2,845</u>
CHANGE IN NET POSITION	31,495	(40,849)
RESTRICTED NET POSITION—Beginning of year	<u>135,033</u>	<u>175,882</u>
RESTRICTED NET POSITION—End of year	<u>\$ 166,528</u>	<u>\$ 135,033</u>

See notes to financial statements.

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(In thousands)**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Premiums and other receipts	\$ 105,645	\$ 130,853
Other operating expenses	<u>(91,340)</u>	<u>(79,659)</u>
Net cash provided by operating activities	<u>14,305</u>	<u>51,194</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(250,392)	(241,832)
Sales and maturities of investments	249,552	201,276
Earnings on investments	<u>13,183</u>	<u>10,444</u>
Net cash provided (used in) by investing activities	<u>12,343</u>	<u>(30,112)</u>
<b>NET INCREASE IN CASH</b>	<b>26,648</b>	<b>21,082</b>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u><b>158,138</b></u>	<u><b>137,056</b></u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u><u><b>\$ 184,786</b></u></u>	<u><u><b>\$ 158,138</b></u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income / (loss)	\$ 15,052	\$ (43,694)
Adjustments to reconcile to net cash used in operating activities:		
Net decrease in accounts payable, accrued expenses and other liabilities	(36,586)	(93,173)
Net increase in receivables	<u>35,839</u>	<u>188,061</u>
Net cash provided by operating activities	<u><u><b>\$ 14,305</b></u></u>	<u><u><b>\$ 51,194</b></u></u>

See notes to financial statements.



# FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY

(Subsidiary of the Metropolitan Transportation Authority)

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

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### 1. BASIS OF PRESENTATION

**Reporting Entity**—First Mutual Transportation Assurance Company (the “Company”), a wholly owned subsidiary of the Metropolitan Transportation Authority (“MTA”), was incorporated under the laws of the State of New York (the “State”) as a pure captive insurance company on December 5, 1997, and commenced operations on that date. The Company was established to maximize the flexibility and effectiveness of the MTA’s insurance program and is governed by a Board of Directors consisting of members of the MTA. The Company’s financial position and results of operations are included in the MTA’s Comprehensive Annual Financial Report. The MTA is a component unit of the State and is included in the State of New York’s Comprehensive Annual Financial Report of the Comptroller as a public benefit corporation.

The New York captive insurance statute requires \$250 minimum unimpaired paid-in-capital and surplus be maintained by a pure captive insurance company.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting**—The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

FMTAC applies Governmental Accounting Standards Board (“GASB”) Codification of Governmental Accounting and Financial Reporting Standards (“GASB Codification”) Section P80, *Proprietary Accounting and Financial Reporting*.

FMTAC has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. GASB Statement No. 70 also requires a government guarantor to consider qualitative factors when determining if a payment on its guarantee is *more likely than not* to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. GASB Statement No. 70 further requires an issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. This Statement also requires a government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. FMTAC has determined that GASB Statement No. 70 had no impact on its financial position, results of operations, and cash flows.

FMTAC has not completed the process of evaluating the impact of GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of GASB Statement No. 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general

principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The provisions in GASB Statement No. 72 are effective for fiscal years beginning after June 15, 2015.

**Use of Management's Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

**Cash and Cash Equivalents**—includes highly liquid investments. Cash is stated at cost, which approximates fair value.

**Investments**—Investments are recorded on the statement of net position at fair value, which is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as revenue (as either net investment income or unrealized gain (loss) on investments) on the statement of revenues, expenses and changes in net position.

**Net Position**—Net position is restricted for payment of insurance claims.

#### **Operating Revenues—**

**Premiums**—Earned premiums are determined over the term of their related policies, which approximates one year, or for certain, Owner Controlled Insurance Programs (“OCIP”), as a percent of completed construction costs. Accordingly, an unearned premium liability is established for the portion of premiums written applicable to the unexpired period of policies in force or uncompleted construction projects. The Company does not directly pay premium taxes in accordance with its relationship with New York State.

#### **Operating Expenses—**

**Loss and Loss Adjustment Expenses**—Loss and loss adjustment expenses are established for amounts estimated to settle incurred losses on individual cases and estimates for losses incurred but not reported.

Loss and loss adjustment expenses are based on loss estimates for individual claims and actuarial estimates and, therefore, the ultimate liabilities may vary from such estimates. Any adjustments to these estimates, which could be significant, will be reflected in income in the period in which the estimates are changed or payments are made.

**Non-Operating Revenues and Expenses**—Investment income and unrealized gain (loss) on investments account for FMTAC's non-operating revenues and expenses.

**Income Taxes**—The Company is not subject to income taxes arising on profits since it is a wholly owned subsidiary of the MTA. The MTA and its subsidiaries are exempt from income taxes.

### 3. CASH AND CASH EQUIVALENTS

At December 31, 2014 and 2013, cash and cash equivalents consisted of (in thousands):

	<b>2014</b>		<b>2013</b>	
	<b>Carrying Amount</b>	<b>Bank Balance</b>	<b>Carrying Amount</b>	<b>Bank Balance</b>
Insured deposits	\$ 175	\$ 250	\$ 250	\$ 250
Loss escrows	4,608	4,608	4,608	4,608
Funds for security trust	103,635	103,635	95,187	95,187
Funds held with reinsurer	2,375	2,375	2,375	2,375
Uninsured deposits	<u>73,993</u>	<u>73,993</u>	<u>55,718</u>	<u>55,718</u>
	<u>\$ 184,786</u>	<u>\$ 184,861</u>	<u>\$ 158,138</u>	<u>\$ 158,138</u>

The Company is required to set aside funds in escrow accounts that are used to settle claims on behalf of the Company. The account balances of the loss escrow are \$4,608 and \$4,608 for the years ended December 31, 2014 and 2013, respectively.

All other funds are invested by the Company as described in Note 4.

### 4. INVESTMENTS

The market value and cost basis of investments consist of the following at December 31, 2014 and 2013 (in thousands):

	<b>2014</b>		<b>2013</b>	
	<b>Market</b>	<b>Cost</b>	<b>Market</b>	<b>Cost</b>
Restricted for claim payments	\$ 286,107	\$ 274,493	\$ 282,182	\$ 273,360
Security trust funds	85,579	84,293	80,249	79,626
Restricted funds for letter of credit	<u>25,879</u>	<u>25,847</u>	<u>30,845</u>	<u>30,806</u>
	<u>\$ 397,565</u>	<u>\$ 384,633</u>	<u>\$ 393,276</u>	<u>\$ 383,792</u>

All investments are registered and held by the Company or its agent in the Company's name.

The Company makes funds available to claims processors to allow for adequate funding for submitted claims. The funds, in the above table, are invested primarily in fixed income investments such as U.S. Government Bonds. All investments outlined above are restricted per the Statement of Net Position and are to be used to pay claims or pay administration expenses of the Company or as collateral for letter of credit obligations.

All funds of the Company not held as cash and cash equivalents are invested by the Company in accordance with the Company's investment guidelines. Investments may be further limited by individual security trust agreements. The Company's investment policies comply with the New York State Comptroller's guidelines for such policies. Those policies permit investments in fixed income securities that are investment grade or higher and the policy also allows for the investment in equities.

Investments maturing and expected to be utilized within the year of December 31 have been classified as current assets in the financial statements.

All investments are recorded on the statements of net position at fair value and all investment income, including changes in the fair value of investments, is reported as revenue/(expense) on the Statements of Revenues, Expenses and Changes in Net Position. Fair values have been determined using quoted market values at December 31, 2014 and 2013.

The fair value of the above investments consists of \$286,107 and \$282,182 in 2014 and 2013 in investments restricted for claim payments, respectively; \$85,579 and \$80,249 in 2014 and 2013 in security trust funds, respectively; and \$25,879 and \$30,845 for letter of credit obligations in 2014 and 2013, respectively. The yield to maturity rate on the above investments was 3.75% for the year ended December 31, 2014, and 3.69% for the year ended December 31, 2013. The change in net unrealized gain (loss) on investments for the years ended December 31, 2014 and 2013, was a \$3,449 gain and a \$7,769 (loss), respectively.

**Interest Rate Risk**—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The greater the duration of a bond or portfolio of bonds, the greater its price volatility will be in response to a change in interest rate risk and vice versa. Duration is an indicator of bond price's sensitivity to 100 basis point change in interest rates.

(In thousands) Investment Type	2014	
	Fair Value	Duration
Treasury (1)	\$ 70,912	4.62
Agency (2)	40,273	4.20
Asset backed securities	24,974	0.99
Commercial mortgage backed securities	61,993	1.64
Foreign bonds	20,562	0.00
Corporate bonds	<u>161,561</u>	2.46
Total	380,275	3.75
Equities (3)	19,604	
Less accrued interest	<u>(2,314)</u>	
Total investments	<u>\$ 397,565</u>	

Including but not limited to:

- (1) U.S. Treasury Notes
- (2) Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation
- (3) Exchange Traded Funds

(In thousands) Investment Type	2013	
	Fair Value	Duration
Treasury (1)	\$ 73,330	4.94
Agency (2)	29,113	3.89
Asset backed securities	21,230	0.27
Commercial mortgage backed securities	71,028	1.87
Foreign bonds	19,887	0.86
Corporate bonds	<u>162,972</u>	2.38
Total	377,560	3.69
Equities (3)	18,220	
Less accrued interest	<u>(2,504)</u>	
Total investments	<u>\$393,276</u>	
Including but not limited to:		
(1) U.S. Treasury Notes		
(2) Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation		
(3) Exchange Traded Funds		

**Credit Risk**—At December 31, 2014, the following credit quality rating has been assigned by a nationally recognized rating organization (in thousands):

Quality Rating	Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 119,864	31.5 %
AA	34,000	8.9
A	100,340	26.4
BBB	54,641	14.4
Not rated	<u>218</u>	<u>0.1</u>
Credit risk debt securities	309,063	81.3
U.S. Government bonds	<u>71,212</u>	<u>18.7</u>
Total fixed income securities	380,275	<u>100.0 %</u>
Equities	19,604	
Less accrued interest	<u>(2,314)</u>	
Total investments	<u>\$ 397,565</u>	

**Credit Risk**—At December 31, 2013, the following credit quality rating has been assigned by a nationally recognized rating organization (in thousands):

Quality Rating	Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 115,439	30.6 %
AA	38,605	10.2
A	97,924	25.9
BBB	49,195	13.0
Not rated	243	0.1
Credit risk debt securities	301,406	79.8
U.S. Government bonds	76,154	20.2
Total fixed income securities	377,560	<u>100.0 %</u>
Equities	18,220	
Less accrued interest	(2,504)	
Total investments	<u>\$ 393,276</u>	

## 5. INSURANCE PROGRAMS

**Property and Terrorism Coverage Program** - Effective May 1, 2014, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25,000 per occurrence self-insured retention, subject to an annual \$75,000 aggregate as well as certain exceptions summarized below. The total program is \$600,000 per occurrence covering property of the related entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7,500 per occurrence. The property insurance policy provides replacement cost coverage for all risks (including Earthquake, Flood and Wind) of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

In addition to the noted \$25,000 per occurrence self-insured retention, MTA self-insures All Risk coverage (excluding Earthquake, Flood, and Wind) above that retention for \$362,300 within the overall \$600,000 property program, as follows: \$32,980 (or 32.98%) of the \$100,000 layer excess of the primary \$150,000 layer, plus \$229,330 (or 91.7%) of the \$250,000 layer excess of \$250,000, plus \$100,000 (or 100%) of \$100,000 excess of \$500,000. FMTAC is 100% reinsured for the perils of Earthquake, Flood, and Wind for the \$600,000 per occurrence and in the annual aggregate property program.

Supplementing the \$600,000 per occurrence coverage noted above, FMTAC's property insurance program has been expanded to include a further layer of \$200,000 of fully collateralized storm surge coverage for losses from storm surges that surpass specified trigger levels in the New York Harbor or Long Island Sound and are associated with named storms that occur at any point in the three year period from July 31, 2013 to July 30, 2016. The expanded protection is reinsured by MetroCat Re Ltd., a



Bermuda special purpose insurer independent from MTA and formed to provide FMTAC with capital markets-based property reinsurance. The MetroCat Re Ltd. reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided by Metrocat Re Ltd., is available for storm surge losses only after amounts available under the \$600,000 in general property reinsurance are exhausted.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 85% of “certified” losses, as covered by the Terrorism Risk Insurance Act (“TRIA”) of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. The remaining 15% of MTA Group losses arising from an act of terrorism would be covered under the additional terrorism policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed \$100,000 (“trigger”). The United States government’s reinsurance of FMTAC was extended for six years.

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) program, the MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 15% of any “certified” act of terrorism — up to a maximum recovery of \$161,250 for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15% “certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds \$5,000 and less than the \$100 TRIPRA trigger — up to a maximum recovery of \$100,000 for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2015. Recovery under this policy is subject to a retention of \$25,000 per occurrence and \$75,000 in the annual aggregate — in the event of multiple losses during the policy year. Should the MTA Group’s retention in any one year exceed \$75,000 future losses in that policy year are subject to a retention of \$7,500.

**Excess Loss Fund (“ELF”)**—On October 31, 2003, the Company assumed the existing ELF program on both a retrospective and prospective basis. The retrospective portion contains the same insurance agreements, participant retentions and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. The coverage limit will remain \$50,000 per occurrence or the proceeds of the program whichever is less. On a prospective basis, effective October 31, 2003, the Company issued insurance policies indemnifying the MTA, its subsidiaries and affiliates above their specifically assigned Self-Insured Retention with a limit of \$50,000 per occurrence with \$50,000 annual aggregate. The balance of the ELF, \$77,000 was transferred to and invested by the Company in order to secure any claims assumed from the ELF, as well as to capitalize the prospective programs and insure current and future claims. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. Effective October 31, 2014, FMTAC also provides an All-Agency Excess Liability Policy to the MTA and its subsidiaries and affiliates with the limits: i) \$25,000 (25%) of \$100,000 excess \$100,000 and ii) \$200,000 excess \$200,000. The limits are fully reinsured in the domestic, London, European and Bermuda marketplaces. The limits also exclude claims arising from acts of terrorism.

**Stations and Force Liability**—Effective December 15, 2014, the Company renewed its direct insurance for the first \$10,000 per occurrence losses for Long Island Rail Road Company and Metro-North Commuter Railroad Company with no aggregate stop loss protection.

**All Agency Protective Liability**—The Company issued a policy to cover MTA’s All Agency Protective Liability Program (“AAPL”), which is designed to protect the MTA and its agencies against the potential liability arising from independent contractors working on capital and noncapital projects.

Effective June 1, 2014, the net retention to the Company is \$2,000. The Company also issued a policy for \$8,000 excess of \$2,000 per occurrence with a \$16,000 annual aggregate.

**Paratransit**—On March 1, 2014, the MTA renewed its one-year auto liability policy with Travelers (Discover Re). Effective March 1, 2014, the Company renewed, with the MTA, a deductible reimbursement policy for the auto liability on the NYCT Paratransit operations. The Company is responsible for the first \$1,000 per occurrence of every claim, excluding Allocated Loss Adjusted Expenses (“ALAE”), covered by the MTA/Travelers policy. Under a separate reinsurance agreement with Travelers, effective March 1, 2014, the Company assumed 100% of the Allocated Loss Adjusted Expenses.

**Non-Revenue**—Effective March 1, 2014, the Company renewed, with the MTA, a deductible reimbursement policy for the auto liability of MTA’s non-revenue fleet. The Company is responsible for the first \$500 per occurrence of every claim, excluding Allocated Loss Adjusted Expenses (“ALAE”). Under a separate reinsurance agreement with Travelers, effective March 1, 2014, the Company assumed 100% of the Allocated Loss Adjusted Expenses.

**Owner-Controlled Insurance Programs**—The MTA purchases Owner-Controlled Insurance Programs (“OCIP”) under which coverage is provided on a group basis for certain agency projects. The Company provides the collateral required by the OCIP insurers to cover deductible amounts. The Company records in the OCIP liability account the amount of principal paid by the MTA to the program. The interest earned is not recognized in the statements of operations. Rather, the amounts are recorded as Incentive Award Payable as the Company may have to make payments to contractors with favorable loss experience.

OCIP liability consists of the following at December 31, 2014 and 2013 (in thousands):

	2014	2013
NYCT structures lines	\$ 532	\$ 532
LIRR/MNCR 2000-2004 Capital Improvement Program	(2,092)	(2,078)
NYCT 2000-2004 line structures/shops, yards and depots Capital Improvements Program	1,111	1,400
NYCT 2000-2004 stations and escalators/elevators Capital Improvements Program	(683)	(658)
LIRR/MNR 2005-2009 Capital Improvement Program	(317)	288
CCC Second Ave. Subway	<u>19,206</u>	<u>22,115</u>
OCIP liability	<u>\$ 17,757</u>	<u>\$ 21,599</u>

**OCIPs Covering 2000-2004 Capital Program**—The Company entered into three agreements with AIG covering portions of the 2000-2004 MTA Capital Program effective October 1, 2000: (1) LIRR/MNCR 2000-2004 capital improvement program; (2) NYCT 2000-2004 lines structures/shops, yards and depots capital improvement program; and (3) NYCT 2000-2004 stations and escalators/elevators capital improvement program. The combined collateral requirements are \$86,094, which consist of \$10,385 for the LIRR/MNCR OCIP, \$52,709 for the NYCT 2000-2004 lines structures/shops, yards and depots capital improvement program and \$23,000 for the NYCT 2000-2004 stations and escalators/elevators capital improvement program. The collateral posted by the Company to secure its reimbursement of the insurer’s payments is invested by the insurer with interest returning to the Company at a guaranteed annual rate of return. The Company earned \$4 and \$8 during the years ended December 31, 2014 and 2013, respectively. The interest earned will be used to make the Contractor Safety Incentive program

payments to contractors with favorable loss experience. Any monies not used to pay losses or utilized for the Contractor Safety Incentive Program will be returned to the agencies at the end of the OCIPs. As part of the initial agreement and as amended in 2005, the Company was required to make additional contributions of \$2,368 to the LIRR/MNR capital improvement program. In 2014 and 2013, respectively, the Company made claims payments totaling \$327 and \$1,600.

**OCIP-LIRR/MNCR 2005-2009 Capital Improvement Projects**—Effective June 1, 2006, the Company entered into a new OCIP insurance program for LIRR/MNCR for capital projects in the 2005-2009 MTA Capital Program. The Company collected \$2,192 in funding beginning in 2006 and, as of December 31, 2014, additional funding totaling \$8,178. The Company made claim payments totaling \$2,205 and \$1,822 during 2014 and 2013, respectively. Like the other programs, the interest income generated from the funds being held will be used to pay Contractor Safety Incentive program payments. The Company has earned \$0 and \$3 in interest income during the years ended December 31, 2014 and 2013, respectively.

**Second Avenue Subway Project**—Effective January 31, 2007, the Company entered into an OCIP program for the \$2,500,000 Second Avenue Subway Project. This is a multi-year agreement with AIG covering Workers' Compensation and General Liability for the Third Party contractors, MTA and all its subsidiaries up to \$500,000. This OCIP, like the others, requires the Company to post collateral for all losses related to workers' injuries. In 2014 and 2013, \$20,345 and \$23,175 has been set aside to cover this exposure. During 2014 and 2013, the Company earned \$80 and \$97 in interest with \$4,599 and \$2,546 in loss payments on this OCIP. All interest generated will be used to pay for additional loss control services and a contractor incentive program.

The activity of all funds held by the OCIP reinsurer consists of the following for 2014 and 2013 (in thousands):

	2014	2013
Funds held by OCIP insurers—beginning of year	\$ 28,283	\$ 30,435
Interest income	84	108
Claims payments	(7,131)	(5,968)
Additional contributions/(returned)—net	<u>3,289</u>	<u>3,708</u>
Funds held by OCIP reinsurer	<u>\$ 24,525</u>	<u>\$ 28,283</u>

**East Side Access Project (“ESA”)**—Effective April 1, 1999, the Company entered into an OCIP program for the East Side Access Project. It was a multi-year agreement with Liberty Mutual, the insurer, to insure third party contractors and the MTA and all its subsidiaries up to \$300,000 for Workers' Compensation and General Liability. The insurer required the Company to hold the collateral and loss funding for the first \$500 per occurrence.

**NYCT 2005-2009 Capital Improvements Projects**—Effective August 1, 2006, the Company entered into a multi-year agreement with Liberty Mutual whereby the Company will hold the collateral and loss funding for the first \$500 per occurrence resulting from Workers' Compensation and General Liability losses during the NYCTA's 2005-2009 Capital Improvement Projects.

**MTA 2012-2014 Combined Capital Construction Program**—Effective October 1, 2012, the Company entered into a multi-year agreement with ACE American Insurance Company whereby the Company will hold the collateral and loss funding for the first \$750 per occurrence resulting from

Workers' Compensation and the first \$1,500 from General Liability losses during the MTA 2012-2014 Combined Capital Construction Program.

**Builder's Risk**—Effective October 1, 2001, the Company renegotiated the terms and conditions of the reinsurance coverage it purchased from Zurich for the Builder's Risk Insurance Program ("BR") provided to cover the following 2000-2004 capital program OCIPs:

1. Long Island Rail Road/Metro-North Commuter Railroad Capital Improvement Program;
2. NYCT's Lines Structures/Shops, Yards & Depots Capital Improvement Program, and
3. NYCT's Stations & Elevators Capital Improvement Program

The Company's policy and reinsurance agreements provide the capital projects listed above with limits of \$50,000 in the aggregate. In consideration of \$950 in net retained premium, the Company issues a deductible reimbursement policy with limits of \$75 excess of \$25 contractor deductible.

Similar to the above BR program, effective July 31, 2006, the Company entered into a new BR program for the following 2005-2009 capital program OCIPs:

1. Long Island Rail Road/Metro-North Commuter Railroad Capital Improvement Program and
2. NYCT's 2005-2009 Capital Improvement Program

The Company's policy and reinsurance agreements from Zurich provide the capital projects listed above with limits of \$50,000 in the aggregate. In consideration of \$7,500 in net retained premium, the Company issues a deductible reimbursement policy with limits of \$475 excess of \$25 contractor deductible.

In 2005, the Company received approval to expand its Builder's Risk Insurance Program to directly insure the MTA and its agencies for property claims while various capital improvement projects are under construction. The policy will cover selected capital improvement projects and was bound June 1, 2005, with limits of \$300,000 per occurrence subject to the \$100,000 self-insured retention. In consideration of a ceded premium of \$12,750, the Company purchased reinsurance for the East Side Access Project from Zurich limiting its exposure to the \$100,000 per occurrence self-insured retention. In 2007, this limit was bought down to \$50,000 for an additional premium of \$5,053. In 2014, this coverage was extended to May 31, 2021, for an additional ceded premium of \$18,106. The Company also purchased reinsurance for the Second Avenue Subway Project. In consideration of ceded premium of \$13,362, reinsurance covering losses up to \$500,000 excess of \$50,000 was purchased from Zurich. The reinsurance purchased by the Company will include an aggregate stop loss provision, whereby the Company will limit its total liability to \$125,000 in the aggregate.

Similar to the above BR programs, effective November 1, 2012, the Company entered into a new BR program for various MTA 2012-2014 combined capital program OCIPs. The Company issues a BR policy, to the MTA, with limits of \$50,000 per occurrence with a \$25 contractor deductible. The Company also purchased reinsurance from ACE with limits of \$50,000 per occurrence with at \$250 deductible.



## 6. LOSS AND LOSS ADJUSTMENT EXPENSES AND REINSURANCE

The following schedule presents changes in the loss and loss adjustment expense liabilities during 2014 and 2013 (in thousands):

	2014	2013
Loss and loss adjustment expenses—beginning of year	\$ 1,025,381	\$ 1,123,941
Loss reinsurance recoverable on unpaid losses and loss expenses	<u>(669,326)</u>	<u>(810,615)</u>
Net balance—beginning of year	356,055	313,326
Loss and loss adjustment expenses	72,067	106,395
Payments attributable to insured events of the current year	<u>(79,838)</u>	<u>(63,666)</u>
Net balance—end of year	348,284	356,055
Plus reinsurance recoverable on unpaid losses and loss expenses	<u>640,083</u>	<u>669,326</u>
Loss and loss adjustment expenses—end of year	988,367	1,025,381
Less current portion	<u>100,475</u>	<u>104,176</u>
Long-term liability	<u>\$ 887,892</u>	<u>\$ 921,205</u>

## 7. RELATED PARTY TRANSACTIONS

The Company provides insurance coverage for the MTA and its component and subsidiary units. The premium revenue from related parties during the period and receivable for the years ended December 31, 2014 and 2013, was as follows (in thousands):

	2014		2013	
	Receivable	Earned	Receivable	Earned
LIRR	\$ 10,753	\$ 11,032	\$ 8,309	\$ 9,179
MNCR	6,271	8,243	6,233	7,694
MTA	<u>57,823</u>	<u>80,874</u>	<u>62,922</u>	<u>57,888</u>
	<u>\$ 74,847</u>	<u>\$ 100,149</u>	<u>\$ 77,464</u>	<u>\$ 74,761</u>

For the years ended December 31, 2014 and 2013, respectively, the MTA charged \$8,241 and \$7,590, respectively, to FMTAC for risk management services provided to the Company of which \$3,524 and \$2,339 remain as a liability at December 31, 2014 and 2013, respectively.

## 8. TROPICAL STORM SANDY

On October 29, 2012, Tropical Storm Sandy made landfall just south of Atlantic City, New Jersey, as a post-tropical cyclone. The accompanying storm surge and high winds caused widespread damage to the physical transportation assets operated by MTA and its related groups. MTA expects to recoup most of

the costs associated with repair or replacement of assets damaged by the storm over the next several years from a combination of insurance and federal government assistance programs.

The Disaster Relief Appropriations Act (“Sandy Relief Act”) passed in late January 2013, appropriated a total of \$10.9 billion in Public Transportation Emergency Relief Program funding to the Federal Transit Administration (“FTA”) to assist affected public transportation facilities in connection with infrastructure repairs, debris removal, emergency protection measures, costs to restore service and hardening costs. The Sandy Relief Act also provided substantial funding for existing disaster relief programs of the Federal Emergency Management Agency (“FEMA”).

FMTAC directly insures property damage claims of the physical transportation assets operated by MTA and its related groups in excess of a self-insured retention limit (“SIR”) of \$25,000 per occurrence, subject to annual \$75,000 aggregate, as well as certain exceptions summarized below. The total program limit is \$1,075,000 per occurrence covering property of the related entities collectively, including various sub limits and with the exceptions of the limits summarized below. FMTAC is 100% reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage.

In addition to the noted \$25,000 per occurrence self-insured retention, MTA self-insured above that retention for an additional \$25,880 within the overall \$1,075,000 per occurrence property program, as follows: \$1,590 (or 1.06%) of the primary \$150,000 layer, plus \$7,500 (or 3%) of the primary \$250,000—layer, plus \$8,000 (or 4%) of the \$200,000 in excess of \$150,000 layer plus \$5,640 (or 2.82%) of the \$200,000 in excess of \$250,000 layer and \$3,150 (or 0.7%) of the \$450,000 in excess of \$350,000 layer.

The property insurance policy provided replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provided extra expense and business interruption coverage.

As FMTAC was 100% reinsured for its property exposure, FMTAC’s ultimate liability for this property claim is limited to its liability ceded and accepted by reinsurers. At December 31, 2014 and 2013, FMTAC has a reserve of \$630,215 and \$630,215 respectively, along with a corresponding reinsurance recoverable in these financial statements. FMTAC paid and recovered \$0 and \$143,905 of paid losses relating to this claim in 2014 and 2013 respectively.

## **9. METRO-NORTH RAILROAD DERAILMENT**

On December 1, 2013, the seven cars and the locomotive of a southbound Metro-North Railroad train derailed north of the Spuyten Duyvil station in the Bronx on the Hudson Line, resulting in four fatalities and more than 60 reported injuries. At this time, MTA Metro-North Railroad cannot predict the full extent of the claims associated with this accident. FMTAC writes an all-agency excess liability policy for \$50,000 per occurrence in excess of the MTA Metro-North Railroad’s self-insured retention of \$10,000 per occurrence. Metro-North has advised FMTAC that it has reserved these claims at the per occurrence limit of \$10,000. In 2014, FMTAC paid \$10,000 in losses relating to this claim. At December 31, 2014, FMTAC has a reserve of \$40,000 in these financial statements.

## **10. SUBSEQUENT EVENT**

### **MTA Metro-North Railroad 2015 Grade Crossing Incident**

On February 3, 2015, a MTA Metro-North Railroad Harlem Line train struck an automobile in a highway-rail grade crossing between the Valhalla and Hawthorne stations. The driver of the automobile



and five passengers on the train were killed. Approximately fifteen passengers, and the train engineer, were injured. The National Transportation Safety Board (NTSB) is conducting an investigation into the contributing causes of the accident and has issued a Preliminary Report. Management believes that there is no indication from the NTSB's preliminary findings that MTA Metro-North Railroad was at fault in connection with this incident.

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DRAFT

# New York City Transit Authority

Consolidated Financial Statements as of and  
for the Years Ended December 31, 2014 and 2013,  
Required Supplementary Information, and  
Independent Auditors' Report

DRAFT

# NEW YORK CITY TRANSIT AUTHORITY

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## **INDEPENDENT AUDITORS' REPORT**

To the Members of the Board of  
Metropolitan Transportation Authority

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated statements of net position of the New York City Transit Authority (the "Authority"), a public benefit corporation which is part of the related financial reporting group of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2014 and 2013, and the related consolidated statements of revenues, expenses, and changes in net position and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the Authority's consolidated financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated net position of the Authority as of December 31, 2014 and 2013, and the respective changes in the consolidated net position and consolidated cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As discussed in the notes to the consolidated financial statements, the Authority is a public benefit corporation that requires significant subsidies from and has material transactions with the MTA, The City of New York and the State of New York. Our opinion is not modified with respect to this matter.

### ***Other Matters***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14, the Schedule of Funding Progress for the MaBSTOA Pension Plan on page 61 and the Schedule of Funding Progress for the New York City Transit Postemployment Benefit Plan on page 62 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

April 29, 2015

**NEW YORK CITY TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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**1. OVERVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS**

***Introduction to the Annual Report:***

This annual report consists of three parts: Management's Discussion and Analysis, Consolidated Financial Statements and Notes to the Consolidated Financial Statements and Required Supplementary Information.

***Management's Discussion and Analysis:***

The following is a narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2014 and 2013. This management discussion and analysis (MD&A) is intended to serve as an introduction to the Authority's basic consolidated financial statements. It provides an assessment of how the Authority's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Authority's overall financial position. It may contain opinions, assumptions or conclusions by the Authority's management that should not be considered a replacement for, and must be read in conjunction with, the consolidated financial statements described below.

***The Consolidated Financial Statements Include:***

The Consolidated Statements of Net Position provide information about the nature and amounts of resources with present service capacity that New York City Transit Authority (the Authority) presently controls (assets), consumption of net assets by the Authority that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Authority has little or no discretion to avoid (liabilities), and acquisition of net assets by the Authority that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources being reported as net position.

The Consolidated Statements of Revenues, Expenses and Changes in Net Position show how the Authority's net position changed during each year. They account for all of the current year's revenues and expenses, measures the financial results of the Authority's operations over the past year and can be used to determine how the Authority has funded its costs.

The Consolidated Statements of Cash Flows provide information about the Authority's cash receipts, cash payments and net changes in cash resulting from operations, non-capital financing, capital and related financing and investing activities.

***The Notes to the Consolidated Financial Statements:***

The notes provide information that is essential to understanding the basic consolidated financial statements, such as the Authority's accounting methods and policies, details of cash and investments, capital assets, employee benefits, lease transactions, and future commitments and contingencies of the Authority, and information about other events or developing situations that could materially affect the Authority's financial position.



### ***Required Supplementation Information:***

The Required Supplementary Information provides information concerning the Authority's progress in funding its obligation to provide pension benefits and other postemployment benefits to its employees.

## **2. FINANCIAL REPORTING ENTITY**

The New York City Transit Authority and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) (collectively, the Authority) are public benefit corporations established pursuant to the New York State (the State) Public Authorities Law, to operate public subway, bus and paratransit services within The City of New York (The City). The Authority is a part of the financial reporting group of the Metropolitan Transportation Authority (MTA), which is a component unit of the State, and whose mission is to continue, develop and improve public transportation and to develop and implement a unified public transportation policy in the New York Metropolitan area.

## **3. CONDENSED FINANCIAL INFORMATION**

*All amounts are in millions, except as noted.*

The following sections will discuss the significant changes in the Authority's financial position for the years ended December 31, 2014 and 2013. Additionally, an examination of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, summaries of the consolidated financial statements and the various exhibits presented conform to the Authority's consolidated financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America.

### ***Total Assets, Distinguishing Between Capital and Other Assets***

(In millions)	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Increase/(Decrease)</u>	
				<u>2014-2013</u>	<u>2013-2012</u>
Capital assets	\$ 54,703	\$ 52,044	\$ 49,282	\$ 2,659	\$ 2,762
Accumulated depreciation	<u>(17,249)</u>	<u>(15,727)</u>	<u>(14,338)</u>	<u>(1,522)</u>	<u>(1,389)</u>
Capital assets, net of accumulated depreciation	37,454	36,317	34,944	1,137	1,373
Other assets	<u>1,923</u>	<u>1,320</u>	<u>792</u>	<u>603</u>	<u>528</u>
Total assets	<u>\$ 39,377</u>	<u>\$ 37,637</u>	<u>\$ 35,736</u>	<u>\$ 1,740</u>	<u>\$ 1,901</u>

The Authority's capital assets totaled \$54.7 billion at December 31, 2014. Of the total, depots, yards, signals, and stations were 45.4%, subway cars and buses accounted for 21.2% and track and structures were 21.3%. These gross capital assets exclude significant infrastructure assets such as tunnels and elevated structures, which are assets owned by The City. More detailed information about the Authority's capital assets is presented in Note 5 to the consolidated financial statements.

***Significant changes in assets include:***

December 31, 2014 versus 2013

Capital assets increased from December 31, 2013 to December 31, 2014 by \$2,662, or 5.2%. This increase was primarily due to station rehabilitation work of \$1,777, track and structures of \$586, new subway cars of \$430 and signals enhancements of \$297. Accumulated depreciation has increased by \$1,518, or 9.8%, due to annual depreciation expense of \$1,520, partly offset by normal retirements of \$2.

Other assets increased by \$603, or 45.7%, compared with the prior year. This increase was mostly due to higher current receivables from MTA and constituent authorities of \$256 and increased MTA investment pool assets of \$195.

December 31, 2013 versus 2012

Gross capital assets increased from December 31, 2012 to December 31, 2013 by \$2,762, or 5.6%. This increase was primarily due to additions of \$2,835, including mostly station rehabilitation work of \$1,270, track and structures of \$423, depots and yards of \$291 and new buses of \$104. Accumulated depreciation has increased by \$1,389, or 9.7%, due to annual depreciation expense of \$1,421, offset by normal retirements of \$14 and asset impairment losses attributable to Tropical Storm Sandy of \$18 (see Note 6 to the consolidated financial statements).

Other assets increased by \$528, or 66.7%, compared with the prior year. This increase was mostly due to higher current receivables from MTA and constituent authorities of \$273, increased MTA investment pool assets of \$92, and an increase in long-term MTA receivables for the purchase of capital assets of \$105.

***Total Liabilities, Distinguishing Between Long-Term Liabilities and Current Liabilities***

(In millions)	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Increase/(Decrease)</u>	
				<u>2014-2013</u>	<u>2013-2012</u>
Current liabilities	\$ 1,998	\$ 2,105	\$ 1,911	\$ (107)	\$ 194
Long-term liabilities	<u>11,239</u>	<u>9,446</u>	<u>7,716</u>	<u>1,793</u>	<u>1,730</u>
Total liabilities	<u>\$ 13,237</u>	<u>\$ 11,551</u>	<u>\$ 9,627</u>	<u>\$ 1,686</u>	<u>\$ 1,924</u>

At the end of 2014, the Authority's liabilities consisted primarily of employee fringe benefit-related liabilities (for pensions, health and other benefits), 79.1%, and injuries to persons (public liability and workers' compensation), 13.3%. Included in the employee fringe benefit-related liabilities was \$9,472 of post-employment benefits other than pensions.

***Significant changes in liabilities include:***

December 31, 2014 versus 2013

Liabilities increased from December 31, 2013 to December 31, 2014 by \$1,686, or 14.6%. Current liabilities decreased by \$107, or 5.1%, and long-term liabilities increased by \$1,793, or 19.0%.

The net decrease in current liabilities was mainly due to a decrease in accrued salaries, wages and payroll taxes of \$226, partly offset by increases in accounts payable of \$34 and estimated liability arising from injuries to persons of \$32.

The increase in long-term liabilities was primarily the result of the addition of \$1,638 of post-employment benefits other than pensions based upon an updated OPEB actuarial valuation.

#### December 31, 2013 versus 2012

Liabilities increased from December 31, 2012 to December 31, 2013 by \$1,924, or 20.0%. Current liabilities increased by \$194, or 10.2%, and long-term liabilities increased by \$1,730, or 22.4%.

The increase in current liabilities was mainly due to increases in accrued retirement and death benefits of \$157 and accrued salaries, wages and payroll taxes of \$183, partly offset by a reduction in payables to MTA and constituent authorities of \$139.

The increase in long-term liabilities was primarily the result of the addition of \$1,554 of post-employment benefits other than pensions based upon an updated OPEB actuarial valuation and \$177 of increased liabilities arising from injuries to persons, also based on the most recent actuarial valuation.

#### ***Total Net Position, Distinguishing Among Net Investment in Capital Assets, Restricted and Unrestricted Amounts***

(In millions)	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Increase/(Decrease)</u>	
				<u>2014-2013</u>	<u>2013-2012</u>
Net investment in capital assets	\$ 37,249	\$ 36,106	\$ 34,734	\$ 1,143	\$ 1,372
Unrestricted	<u>(11,109)</u>	<u>(10,020)</u>	<u>(8,625)</u>	<u>(1,089)</u>	<u>(1,395)</u>
Total net position	<u>\$ 26,140</u>	<u>\$ 26,086</u>	<u>\$ 26,109</u>	<u>\$ 54</u>	<u>\$ (23)</u>

Net position represents the residual interest in the Authority's assets after liabilities are deducted and consist of three components: net investment in capital assets, restricted and unrestricted. Net investment in capital assets include capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. All other net position are unrestricted.

#### December 31, 2014 versus 2013

Total net position was \$26,140 at the end of 2014, a net increase of \$54, or 0.2% from the end of 2013. The net decrease was due to net nonoperating income of \$4,010, and capital contributions from the MTA of \$1,951, offset by operating losses of \$5,907.

#### December 31, 2013 versus 2012

Total net position was \$26,086 at the end of 2013, a net decrease of \$23, or 0.1% from the end of 2012. The net decrease was due to net nonoperating income of \$3,891, and capital contributions from the MTA of \$1,754, offset by operating losses of \$5,652 and a restatement of beginning net position of \$16 due to implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (see Note 2 to the consolidated financial statements).

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

(In millions)	Year Ended December 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 4,611	\$ 4,451	\$ 4,055
Operating expenses	(10,518)	(10,023)	(9,507)
Asset impairment and related expenses	-	(80)	(409)
Operating loss	<u>(5,907)</u>	<u>(5,652)</u>	<u>(5,861)</u>
Nonoperating revenues (expenses):			
Subsidies: New York State and The City of New York	3,753	3,552	2,769
Triborough Bridge and Tunnel Authority	266	247	189
FTA/FEMA reimbursement	12	115	-
Interest expense	(22)	(24)	(18)
Other nonoperating revenue/(expenses)	<u>1</u>	<u>1</u>	<u>5</u>
Total nonoperating revenues (expenses)	<u>4,010</u>	<u>3,891</u>	<u>2,945</u>
Loss before capital contributions	<u>(1,897)</u>	<u>(1,761)</u>	<u>(2,916)</u>
Capital contributions	<u>1,951</u>	<u>1,754</u>	<u>2,654</u>
Change in net position	<u>54</u>	<u>(7)</u>	<u>(262)</u>
Net position — beginning of year	26,086	26,109	26,371
Restatement of beginning net position	-	(16)	-
Net position — end of year	<u>\$ 26,140</u>	<u>\$ 26,086</u>	<u>\$ 26,109</u>

**Revenue from Fares/Ridership**

(In millions)	<u>2014</u>	<u>2013</u>	<u>2012</u>	Increase/(Decrease)	
				<u>2014-2013</u>	<u>2013-2012</u>
Subway revenue	\$ 3,172	\$ 3,031	\$ 2,742	\$ 141	\$ 289
Bus revenue	950	941	871	9	70
Expired fare media revenue	53	64	95	(11)	(31)
Paratransit revenue	<u>16</u>	<u>16</u>	<u>15</u>	<u>-</u>	<u>1</u>
Total revenue from fares	<u>\$ 4,191</u>	<u>\$ 4,052</u>	<u>\$ 3,723</u>	<u>\$ 139</u>	<u>\$ 329</u>
Total ridership (millions)	<u>2,427</u>	<u>2,394</u>	<u>2,332</u>	<u>33</u>	<u>62</u>
Non-student average fare	<u>\$ 1.80</u>	<u>\$ 1.76</u>	<u>\$ 1.65</u>	<u>\$ 0.04</u>	<u>\$ 0.11</u>

### 2014 versus 2013

Total revenue from fares was \$4,191 in 2014, an increase of \$139 or 3.4%. This increase was due mostly to higher subway ridership and the annualization of the March 2013 fare increase. Total ridership was 2,427, an increase of 33, or 1.4% from 2013.

### 2013 versus 2012

Total revenue from fares was \$4,052 in 2013, an increase of \$329 or 8.8%. After including \$51 of lost revenue from Sandy in 2012, 2013 revenue from fares increased by \$278 or 7.4%. This adjusted increase was due mostly to the March 2013 fare increase. Total ridership was 2,394, an increase of 62, or 2.7% from 2012. After including 44 of lost ridership from Sandy in 2012, 2013 ridership increased by an adjusted 0.8%, with a subway ridership increase of 19, or 1.1% and virtually no change in bus ridership.

### ***Operating Expenses, by Major Function***

(In millions)	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Increase/(Decrease)</u>	
				<u>2014-2013</u>	<u>2013-2012</u>
Salaries and wages	\$ 3,455	\$ 3,318	\$ 3,158	\$ 137	\$ 160
Health and welfare	667	618	554	49	64
Pensions	908	919	982	(11)	(63)
Other fringe benefits	437	382	353	55	29
Postemployment benefits other than pensions	1,991	1,880	1,689	111	191
Electric Power	313	299	299	14	-
Fuel	172	160	165	12	(5)
Insurance	69	62	54	7	8
Public liability claims	147	144	64	3	80
Paratransit service contracts	366	367	359	(1)	8
Maintenance and other operating contracts	185	167	140	18	27
Professional service contracts	124	144	137	(20)	7
Pollution remediation projects	12	24	16	(12)	8
Materials and supplies	302	264	246	38	18
Depreciation	1,520	1,421	1,416	99	5
Other expenses	76	63	64	13	(1)
Reimbursed overhead expenses	(226)	(209)	(189)	(17)	(20)
Total operating expenses	<u>\$ 10,518</u>	<u>\$ 10,023</u>	<u>\$ 9,507</u>	<u>\$ 495</u>	<u>\$ 516</u>

### 2014 versus 2013

Total operating expenses increased by \$495, or 4.9% compared to 2013 as follows:

- Salaries and wages were higher than 2013 by \$137, or 4.1%. Payroll increased by 2.8% as most represented and non-represented personnel received wage increases in 2014 and headcount increased in support of various maintenance programs and operations requirements. Overtime expenses increased by 15.0%, due mostly to adverse weather, maintenance, unscheduled service, and vacancy/absentee coverage requirements.
- Health and welfare expenses increased by \$49, or 7.9%, due primarily to increased rates for health and welfare plans.

- Other fringe benefit expenses increased by \$55, or 14.4%, due primarily to higher Workers' Compensation reserve requirements based upon the current actuarial valuation.
- Post-employment benefits other than pensions increased by \$111, or 5.9%, based on the most recent actuarial valuation.
- Maintenance and other operating contracts increased by \$18, or 10.8%, due mostly to increases in vehicle purchases, safety equipment, security services, water and sewage, and rent.
- Professional service contract expenses decreased by \$20, or 13.9%, due primarily to a reduction in Workers' Compensation Board administrative expenses, based on new legislation.
- Pollution remediation project costs, which have decreased by \$12 to \$12 in 2014, are being expensed in accordance with the provisions of GASB Statement No. 49. Project encumbrances (expenses) for 2014 were lower than 2013 (see Note 16).
- Materials and supplies expenses increased by \$38, or 14.4%, due largely to additional maintenance material requirements for both vehicles and facilities.
- Depreciation expenses increased by \$99, or 7.0%, due to the capitalization of new station rehabilitations, trackwork, signal enhancements and new subway cars in 2014.

#### 2013 versus 2012

Total operating expenses increased by \$516, or 5.4% compared to 2012 as follows:

- Salaries and wages were higher than 2012 by \$160, or 5.1%, due mostly to the retroactive wage accrual for the tentative TWU Local 100 settlement. In addition, headcount increased due to support of various maintenance programs and operations requirements and increased overtime expenses due mostly to maintenance, unscheduled service, and vacancy/absentee coverage requirements.
- Health and welfare expenses increased by \$64, or 11.6%, due primarily to increased rates for health and welfare plans.
- Pension expenses decreased by \$63, or 6.4%, due largely to actuarial assumptions changes made by NYCERS in 2012.
- Other fringe benefit expenses increased by \$29, or 8.2%, due primarily to higher Workers' Compensation reserve requirements based upon current actuarial determination.
- Post-employment benefits other than pensions increased by \$191, or 11.3%, based on the most recent actuarial valuation.
- Public liability claims expenses increased by \$80, or 125.0%, due to a significant increase in the 2013 annual actuarial valuation attributable to record claim payment levels and the rapid growth in large case reserves.
- Maintenance contract expenses increased by \$27, or 19.3%, due largely to increased revenue vehicle maintenance and repairs, paratransit vehicle purchases, and operating contract and building-related requirements.



- Pollution remediation project costs, which have increased by \$8 to \$24 in 2013, are being expensed in accordance with the provisions of GASB Statement No. 49. Project encumbrances (expenses) for 2013 were greater compared to 2012 (see Note 16).
- Materials and supplies expenses increased by \$18, or 7.3%, due largely to additional maintenance material requirements for both vehicles and facilities.
- Reimbursable overhead expense credits have increased by \$20, or 10.6%, due largely to increased capital project labor requirements.

### ***Nonoperating Revenues and Expenses***

The Authority receives a variety of tax-supported subsidies from New York State and The City of New York. These subsidies represent a State Mobility Tax and corporate franchise, sales, energy, mortgage recording and real estate taxes and are impacted by the strength of the State and City economies and prevailing interest rates.

Operating assistance subsidies from New York State and The City have been maintained at the same level each year.

The Triborough Bridge & Tunnel Authority, another affiliate of the MTA, distributes to the Authority, each year, funds that vary based upon its operating surplus.

Capital contributions from the MTA of \$1,951 in 2014 and \$1,754 in 2013, represent capital program funding from several sources including bonds, Federal, State and City funding.

### ***Changes in Net Position***

The change in net position represents the net total of capital contributions, operating losses and nonoperating income. Net position increased by \$54 in 2014 and decreased by \$23 in 2013. The change in net position for both years was due to capital contributions from the MTA and nonoperating income, less operating losses.

### ***Budget Highlights***

Total operating revenues in 2014 of \$4,611 were higher than budget by \$67, or 1.5%. Total revenue from fares exceeded budget by \$56, or 1.4%, including higher subway and expired farecard revenue and lower bus and paratransit fare revenue. Other operating revenue exceeded budget by \$11, or 2.7%, mainly due to higher advertising revenue.

Total operating expenses in 2014 of \$10,518 were higher than budget by \$352, or 3.5%. Labor-related expenses of \$7,231 exceeded budget by \$308, or 4.4%. This result was largely due to an increase in other fringe benefits of \$149, or 51.7%, due mostly to additional Workers' Compensation reserve requirements; an actuarial-based increase in postemployment benefits other than pensions of \$90, or 4.7%; a payroll expense increase of \$95, or 3.2%, mostly represented by pattern labor adjustments based on a TWU local 100 labor contract agreement reached in 2014; and an increase in overtime expenses of \$87, or 26.5%, caused by adverse weather and maintenance and vacancy/absentee coverage requirements. Non-labor expenses of \$3,287 were over budget by \$44, or 1.4%, represented primarily by an increase of \$55, or 59.8% based on public liability claims reserve requirements.

#### **4. OVERALL FINANCIAL POSITION, RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS**

##### ***Economic Conditions***

Metropolitan New York is the most transit-intensive region in the United States. A financially sound and reliable transportation system is critical to the region's economic well-being.

The average level of seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2014 than in 2013 by 87.3 thousand jobs (up 2.2%). On a quarter-to-quarter basis, New York City employment has increased in each of the last sixteen quarters – the last decline occurred in the third quarter of 2010 – and is higher than at any time since 1950, when nonagricultural employment levels for New York City were first recorded by the Bureau of Labor Statistics.

The employment gain for New York City in the second quarter is consistent with an improving national economy. Fourth quarter Real Gross Domestic Product (RGDP) grew at an annualized rate of 2.6%, according to the most recent advance estimate released by the Bureau of Economic Analysis. The increase primarily reflected contributions from personal consumption expenditures, exports, state and local government spending, non-residential fixed investment, and private inventory investment, partially offset by a decline in federal government spending and an increase in imports. Fourth quarter RGDP growth slowed relative to third quarter growth as federal government spending, nonresidential fixed investment and exports fell, while imports rose. The national economy has now grown in twenty of the last twenty-two quarters.

The New York City metropolitan area's price inflation of 0.6% was lower than the national average of 1.0% in the fourth quarter of 2014. A 7.8% fall in the price of energy products dampened the overall rise in consumer prices: the Consumer Price Index (CPI) exclusive of energy products increased by 1.5% in the New York-New Jersey-Long Island area. Consistent with the fall in overall energy prices, spot prices for New York Harbor conventional gasoline fell by 22.8% from an average price of \$2.698 to an average of \$2.082 per gallon between the fourth quarters of 2013 and 2014.

In June 2014, the Federal Reserve Bank announced that the Federal Open Market Committee (FOMC) would continue targeting the Federal Funds rate to the range of 0% to 0.25%, a range consistent with its statutory dual mandate to foster maximum employment within a context of price stability. The Federal Funds rate has remained in this range since late 2008, when then financial and housing market crises deepened. In fact, the Federal Reserve Bank began to pursue expansionary intervention more than a year earlier as a response to the impending economic downturn: since the third quarter of 2007, the Federal Reserve Bank has sought to mitigate the consequences of a recession by loosening the tight credit conditions that resulted from the national mortgage crisis. Confronting stubbornly high unemployment rates with no scope to reduce further the Federal Funds rate, in March 2009 the Federal Reserve Bank began a program of large scale purchases of government guaranteed assets. The objective of the program, which was expanded in November 2010, was to raise the price of long-term securities, thereby lowering interest rates in order to stimulate investment in the economy.

In spite of the steady improvement in economic activity in the second, third and fourth quarters of 2014, the FOMC elected in December to maintain an accommodative stance by continuing to target a Federal Funds rate in the range of 0% to 0.25%, noting that, partly because of the decline in energy prices, inflation rates remained below the Committee's long-run objective; while labor markets evinced signs of improvement, the FOMC observed that recovery in the housing sector remained slow. In addition to maintaining the Federal Funds rate, the FOMC announced additional measures to foster conditions amenable to financial markets, including the continuation of its policy of reinvesting principal payments

from its holdings of agency debt and mortgage-backed securities and of rolling over maturing Treasury securities at auction.

The influence of Federal Reserve monetary policy on the mortgage market is a matter of interest to NYCT, since variability of mortgage rates can affect the number of real estate transactions and can thereby impact receipts from the Urban Tax, an important source of NYCT revenue.

### ***Results of Operations and Overall Financial Position***

Total revenue from fares was \$4,191 in 2014, an increase of \$139 or 3.4% from 2013. Total ridership was 2,427 million, an increase of 33 or 1.4% from 2013. Total operating expenses, including depreciation, other post-employment benefits and environmental remediation expenses, were \$10,518 in 2014, an increase of 4.9%.

Going forward, the stability of the Authority's financial position is subject to certain risks, requiring the efficient management of costs, including the establishment of new cost reduction programs, in order to counteract any adverse impacts to revenue streams or cost increases.

## **5. SIGNIFICANT CAPITAL ASSET ACTIVITY**

### ***Capital Program***

The MTA has ongoing programs on behalf of the Authority and other affiliated agencies, subject to approval by the New York State Metropolitan Transportation Authority Capital Program Review Board (the State Review Board), which are intended to improve public transportation in the New York Metropolitan area.

*2000-2004 Capital Program* — The 2000-2004 Capital Program, which was approved by the State Review Board in May 2000, provided for \$17.1 billion in capital expenditures, of which the Authority's portion was \$10.3 billion. In May and December of 2002, the MTA Board approved amendments to the program reflecting changes to budgets, schedules, funding and added to the infrastructure and facilities security programs. In December 2003, the MTA Board approved a general update to the plan to incorporate changes and authorized its submission to the MTA Capital Program Review Board (CPRB). In January 2004, the MTA Board approved a further modification to that program to support the accelerated purchase of additional commuter railcars. In December 2004, the MTA Board approved an amendment that incorporated the creation of the MTA Bus Company, and included additional funding from The City for the #7 Extension design work, as well as additional security grant funding. In December 2005, the MTA Board approved an amendment that increased the overall capital program total to \$19.9 billion, of which the Authority's share was \$10.2 billion. This amendment included additional federal funds for the Fulton Street Transit Center, South Ferry Station, a new Bus Depot on Staten Island and CCTV installation in NYCT stations. In December 2006, the MTA Board approved an amendment that increased the overall capital program total to \$21.2 billion, of which the Authority's share was increased to \$10.3 billion. In 2009, the capital program received \$0.2 billion in federal stimulus funding. Reallocation between programs resulted in an additional \$0.4 billion to the 2000-2004 Capital Program, increasing the overall total plan to \$21.7 billion, of which the Authority's share is \$10.4 billion. Among the projects included in the 2000-2004 Transit Capital Program and subsequent amendments are the following: rebuilding the 1/9 line track and structures destroyed by the September 11, 2001 attacks on the World Trade Center, design and initiation of construction of the full-length Second Avenue Subway, acquisition of 1,210 new subway cars, replacing 927 existing cars and expanding the fleet by 283 cars, acquisition of 985 new buses, including 135 CNG buses, rehabilitation of 70 stations, provision of full Americans with Disability Act (ADA) accessibility at 23 stations, replacement of 20 escalators at various

stations, replacement of approximately 42 miles of mainline track and 212 mainline switches, signal modernization, communications improvements, and improvements to shops, yards, and depots.

The combined funding sources for the 2000-2004 Capital Program are comprised of \$7.4 billion in bonds, \$7.4 billion in federal funds, \$4.6 billion from debt restructuring, and \$2.3 billion from other sources.

As part of the 2000-2004 Capital Program, the MTA, the TBTA and the Authority have refunded and defeased substantially all of their outstanding debt and consolidated most of their existing credits.

At December 31, 2014, \$10.4 billion has been committed to Authority projects from the 2000-2004 approved plan, of which approximately \$10.3 billion has been expended.

*2005-2009 Capital Program* — The MTA Capital Program for 2005-2009 was approved by the CPRB in July 2005 and amended in July 2006. The 2005-2009 Program, as approved, provided for \$20.1 billion in capital expenditures, of which the Authority's share was \$11.2 billion. In February 2007, the MTA Board further amended the Program to add \$1.2 billion of Federal East Side Access Full Funding Grant Agreement (FFGA) funds to the East Side Access project, which relates to the Capital Construction Company's capital program. In July 2008, the MTA Board further amended the Program to add an additional \$267 million of Federal East Side Access FFGA funds and \$764 million in Federal Second Avenue Subway FFGA funds relating to the Capital Construction Company's capital program. Also included in this amendment were the rollover of unused LaGuardia Airport Project funds from the 2000-2004 Capital Program and other miscellaneous funding adjustments. In 2009, the capital program received \$0.7 billion in federal stimulus funding.

The 2005-2009 Capital Program is designed to continue a program of capital expenditures that would support on-going maintenance and provide needed improvements to enhance services to its customers. Reallocation between programs, subsequent to the amendments and federal stimulus funding noted above, resulted in the overall plan totaling \$24.6 billion, of which the Authority's share is \$11.6 billion. The Authority's portion of the capital program excludes \$7.7 billion of approved capital projects managed by the MTA Capital Construction Company on behalf of the Transit Authority and the Long Island Rail Road. Among the projects in the 2005-2009 Transit Capital Program are the following: normal replacement of 1,002 B Division Cars, fleet growth of 23 A Division Cars, the purchase of 1,236 new buses including 1,043 standard, 90 articulated and 103 express buses, the purchase of 1,387 new paratransit vehicles, rehabilitation of 36 stations, replacement of 23 escalators, replacement of 52 miles of mainline track and 143 mainline switches, signal modernization, communications improvements, and improvements to shops, yards, and depots.

The combined funding sources for the 2005-2009 Capital Program are comprised of \$9.1 billion in federal funds, \$1.5 billion from the New York State voter approved State-Wide Transportation Bond Act, \$9.9 billion in bonds, and \$4.1 billion from other sources.

At December 31, 2014, \$11.3 billion has been committed to Authority projects from the 2005-2009 approved plan, of which approximately \$10.9 billion has been expended.

*2010-2014 Capital Program* — The 2010-2014 Capital Program was approved by the MTA Board in September 2009. The program totaling approximately \$25.6 billion was subsequently submitted to the NYS Capital Program Review Board (CPRB) for their review and approval. The submitted Program was vetoed without prejudice by the Review Board in December 2009. Subsequently, the resubmitted 2010-2014 Program, totaling \$26.3 billion was approved by the CPRB in June 2010, of which the Authority's share is \$12.8 billion. The approved CPRB program fully funded only the first two years of the plan, with a commitment to come back to CPRB with a funding proposal for the last three years. On December 21, 2011, the MTA Board approved an amendment to the 2010-2014 Program that funds the



last three years of the program through a combination of self-help (efficiency improvements and real estate initiatives), participation by our funding partners and innovative and pragmatic financing arrangements. The Authority's share of the \$24.3 billion revised program is \$11.6 billion. On December 19, 2012, the MTA Board approved an amendment to the 2010-2014 Capital Programs to add projects for the repair and restoration of MTA agency assets damaged as a result of Tropical Storm Sandy, which struck the region on October 29, 2012. The revised programs provide for an additional \$4.8 billion in Sandy recovery-related capital expenditures, of which the Authority's share is \$3.3 billion. On January 23, 2013, the amended program as submitted was deemed approved by the CPRB. On July 22, 2013, the MTA Board approved a further amendment to the 2010-2014 Capital Programs for the Transit, Commuter and Bridges and Tunnels systems to include specific revisions to planned projects and to include new resilience/mitigation initiatives, totaling \$5.8 billion in response to Tropical Storm Sandy. The Authority's share of the new initiative is \$5.1 billion. On August 27, 2013, the CPRB deemed approved those amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted.

The combined funding sources for the 2010-2014 Capital Program are comprised of \$12.7 billion in MTA bonds, \$6.3 billion in federal funds, \$2.1 billion in Bridges and Tunnels dedicated funds, \$0.1 billion in MTA Bus Federal and City Match, \$0.8 billion in State Assistance, \$0.8 billion in City Capital Funds, and \$1.5 billion from other sources. The funding strategy for Tropical Storm Sandy repair and restoration assumes the receipt of \$9.4 billion in insurance and federal reimbursement proceeds (including interim borrowing by MTA to cover delays in the receipt of such proceeds), \$0.2 billion in Pay-as-you-go capital, supplemented, to the extent necessary, by external borrowing of up to \$0.9 billion in additional MTA and MTA Bridges and Tunnels bonds.

At December 31, 2014, \$9.0 billion has been committed to Authority projects from the 2010-2014 approved plan, of which approximately \$4.5 billion has been expended.

The federal government has a contingent equity interest in assets acquired by the MTA with federal funds and upon disposal of such assets, the federal government may have a right to its share of the proceeds from the sale. This provision has not been a substantial impediment to the MTA's operation.

Among the projects in the 2010-2014 Transit Capital Program are significant customer enhancements in the areas of new fare payment technologies, subway customer information and station accessibility improvements. In addition, core infrastructure investments include: purchase of 403 subway cars to replace and expand the fleet; the purchase of 2,166 new buses, including 1,127 standard, 649 articulated and 390 express buses; the purchase of 192 new paratransit vehicles; elimination of station defects at 39 stations as well as campaign component improvements at 100+ additional locations; replacement of 21 elevators; replacement of approximately 56 miles of mainline track and 126 mainline switches; signal modernization; communications improvements and improvements to shops, yards, and depots.

## **6. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The Authority's February 2015 Financial Plan includes certain risks such as possible lower investment returns on pensions and chronic cost issues relating to Workers' Compensation, public liability claims and overtime. These risks need to be addressed in order to be able to balance future year budgets. To assist in achieving this, the ongoing identification and implementation of sustainable new savings programs and gap closing actions will be required.

The full funding of the 2015-2019 Capital Program is necessary in order to meet all important requirements.

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# NEW YORK CITY TRANSIT AUTHORITY

## CONSOLIDATED STATEMENTS OF NET POSITION

DECEMBER 31, 2014 AND 2013

(In thousands)

	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash (Note 3)	\$ 55,145	\$ 46,538
MTA investment pool (Note 4)	287,149	92,154
Receivables:		
Billed and unbilled charges due from New York City	33,092	34,313
Accrued subsidies	101,123	105,471
Due from MTA and constituent Authorities (Note 10)	528,751	273,459
Other	90,962	76,574
Less allowance for doubtful accounts	(10,377)	(10,141)
Net receivables	<u>743,551</u>	<u>479,676</u>
Materials and supplies	255,356	217,660
Prepaid pension asset	33,782	35,560
Prepaid expenses and other current assets	<u>47,080</u>	<u>28,708</u>
Total current assets	<u>1,422,063</u>	<u>900,296</u>
<b>NONCURRENT ASSETS:</b>		
Due from MTA for the purchase of capital assets	500,033	418,209
Capital assets, net of accumulated depreciation (Note 5)	37,268,814	36,125,117
Leased property under capital lease, net of accumulated amortization (Note 5)	76,308	78,720
Leasehold improvements on property, net of accumulated depreciation (Note 5)	109,482	112,707
Restricted deposits and other escrow funds	<u>635</u>	<u>1,857</u>
Total noncurrent assets	<u>37,955,272</u>	<u>36,736,610</u>
<b>TOTAL ASSETS</b>	<u><u>\$39,377,335</u></u>	<u><u>\$37,636,906</u></u>

See notes to consolidated financial statements.

(Continued)



# NEW YORK CITY TRANSIT AUTHORITY

## CONSOLIDATED STATEMENTS OF NET POSITION

DECEMBER 31, 2014 AND 2013

(In thousands)

	2014	2013
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 195,392	\$ 161,388
Accrued expenses:		
Salaries, wages, and payroll taxes	153,880	380,072
Vacation, sick pay, and other benefits	624,235	608,531
Retirement and death benefits (Note 7)	377,022	366,174
Estimated liability arising from injuries to persons (Note 15)	221,174	188,580
Pollution remediation projects (Note 16)	8,537	10,659
Other	116,761	113,354
Total accrued expenses	1,501,609	1,667,370
Due to MTA for repayment of debt, current portion (Note 9)	7,540	3,383
Unredeemed farecards	269,967	265,865
Unamortized subsidy revenue	6,886	6,885
Paratransit reimbursement advances	16,469	-
Total current liabilities	1,997,863	2,104,891
<b>NONCURRENT LIABILITIES:</b>		
Due to MTA for repayment of Certificates of Participation (Note 9)	34,738	46,434
Obligation under capital lease, long-term (Note 5)	163,609	161,189
Postemployment benefits other than pensions (Note 8)	9,472,187	7,833,798
Estimated liability arising from injuries to persons (Note 15)	1,534,525	1,359,492
Pollution remediation projects (Note 16)	34,146	42,634
Other long-term liabilities	-	787
Restricted deposits and other escrow funds	635	1,857
Total noncurrent liabilities	11,239,840	9,446,191
Total liabilities	13,237,703	11,551,082
<b>NET POSITION:</b>		
Net investment in capital assets	37,248,717	36,105,538
Unrestricted	(11,109,085)	(10,019,714)
Total net position	26,139,632	26,085,824
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 39,377,335</b>	<b>\$ 37,636,906</b>

See notes to consolidated financial statements.

(Concluded)

# NEW YORK CITY TRANSIT AUTHORITY

## CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

	2014	2013
OPERATING REVENUES:		
Rapid transit	\$ 3,171,793	\$ 3,030,746
Surface transit	949,898	941,063
Expired fare media	53,391	63,567
Paratransit fares	15,957	16,465
School, elderly, and paratransit reimbursement	262,155	253,632
Advertising and other	158,169	145,234
Total operating revenues	<u>4,611,363</u>	<u>4,450,707</u>
OPERATING EXPENSES:		
Salaries and wages	3,454,798	3,318,263
Health and welfare	666,761	618,044
Pensions	907,877	918,909
Other fringe benefits	437,038	382,128
Reimbursed overhead expenses	(226,548)	(209,291)
Postemployment benefits other than pensions	1,991,062	1,879,699
Electric power	312,554	298,593
Fuel	172,346	159,506
Insurance	68,879	62,492
Public liability claims	147,420	144,022
Paratransit service contracts	365,599	366,751
Maintenance and other operating expenses	185,523	167,361
Professional service contracts	124,475	143,653
Environmental remediation	12,478	24,121
Materials and supplies	302,074	264,476
Depreciation	1,519,813	1,421,009
Other expenses	<u>76,130</u>	<u>62,913</u>
Total operating expenses	<u>10,518,279</u>	<u>10,022,649</u>
Asset impairment and related expenses (Note 6)	<u>(161)</u>	<u>80,432</u>
OPERATING LOSS	<u>(5,906,755)</u>	<u>(5,652,374)</u>

See notes to consolidated financial statements.

(Continued)

# NEW YORK CITY TRANSIT AUTHORITY

## CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

	2014	2013
NONOPERATING REVENUES:		
Tax-supported subsidies:		
New York State	\$ 2,641,294	\$ 2,607,147
New York City	799,568	632,025
Operating Assistance subsidies:		
New York State	158,672	158,672
New York City	158,672	158,672
Triborough Bridge and Tunnel Authority	265,570	246,902
Less amounts provided to Staten Island Rapid Transit Operating Authority	<u>(4,736)</u>	<u>(4,621)</u>
Total nonoperating revenues	4,019,040	3,798,797
Federal Transit Authority/Federal Emergency Management Agency reimbursement	11,683	114,838
Interest expense	(22,347)	(23,514)
Interest income and other nonoperating revenues	<u>1,316</u>	<u>1,219</u>
Total nonoperating income	<u>4,009,692</u>	<u>3,891,340</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,897,063)	(1,761,034)
CAPITAL CONTRIBUTIONS	<u>1,950,871</u>	<u>1,753,790</u>
CHANGE IN NET POSITION	53,808	(7,244)
NET POSITION:		
Beginning of year	26,085,824	26,109,115
Restatement of beginning net position (Note 2)	<u>-</u>	<u>(16,047)</u>
End of year	<u>\$26,139,632</u>	<u>\$26,085,824</u>

See notes to consolidated financial statements.

(Concluded)

# NEW YORK CITY TRANSIT AUTHORITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(In thousands)

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from passengers, tenants, advertisers, and others	\$ 4,659,671	\$ 4,478,668
Cash payments for payroll and related employee costs	(5,647,084)	(4,900,969)
Cash payments to suppliers for goods and services	(1,764,830)	(1,728,351)
Net cash used in operating activities	(2,752,243)	(2,150,652)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Subsidies received	3,991,858	3,746,314
Net working capital loans from MTA	(100,000)	-
Loan payback from TBTA	-	29,863
Recoveries from insurance related to Tropical Storm Irene	4,994	-
FTA/FEMA reimbursement	11,683	114,838
Net cash provided by noncapital financing activities	3,908,535	3,891,015
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal payments	(10,233)	(9,376)
Interest paid	(7,540)	(3,101)
Payments on MTA Transportation bonds issued to fund capital assets	(1,089,714)	(1,102,816)
Subsidies designated for debt service payments	286,959	296,578
Capital project costs incurred for capital program	(950,307)	(851,193)
Cash transferred to capital program fund	(64,872)	(171,377)
Cash transferred to capital program fund related to Tropical Storm Sandy	-	(140,937)
Reimbursement of capital project costs from MTA	882,441	773,834
Net cash used in capital and related financing activities	(953,266)	(1,208,388)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Change in MTA investment pool	(194,995)	(526,962)
Interest on investments	576	501
Net cash used in investing activities	(194,419)	(526,461)
<b>NET INCREASE IN CASH</b>	<b>8,607</b>	<b>5,514</b>
<b>CASH — Beginning of year</b>	<b>46,538</b>	<b>41,024</b>
<b>CASH — End of year</b>	<b>\$ 55,145</b>	<b>\$ 46,538</b>

See notes to consolidated financial statements.

(Continued)

# NEW YORK CITY TRANSIT AUTHORITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(In thousands)

	2014	2013
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (5,906,755)	\$ (5,652,374)
Adjustments to reconcile operating loss to net cash used in operating activities — depreciation	1,519,813	1,421,009
Tropical Storm Sandy asset impairment	(5,333)	41,309
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Decrease in operating receivables	44,206	20,141
Increase in prepaid expenses and other current assets	(18,372)	(10,033)
Decrease in prepaid pension expense/deferred pension asset	1,778	1,844
Increase in materials and supplies	(37,696)	(34,383)
Increase in farecard liability	4,102	7,820
(Decrease) increase in accrued salaries, wages and payroll taxes	(250,494)	183,036
Increase (decrease) in accounts payable and other accrued liabilities	34,550	(43,062)
Increase in accrued vacation, sick pay and other benefits	15,704	25,866
Increase in accrued retirement and death benefits	10,848	157,081
Increase in postemployment benefits other than pensions	1,638,389	1,554,097
Increase in estimated liability arising from injuries to persons	207,627	170,097
(Decrease) increase in liability for environmental pollution remediation	(10,610)	6,900
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (2,752,243)</u>	<u>\$ (2,150,652)</u>
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES — Fair value of assets contributed	<u>\$ 1,325,451</u>	<u>\$ 1,590,574</u>
See notes to consolidated financial statements.		(Concluded)

# NEW YORK CITY TRANSIT AUTHORITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 1. BASIS OF PRESENTATION

**Reporting Entity** — The accompanying consolidated financial statements include the accounts of the New York City Transit Authority (Transit Authority), and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) (collectively, the Authority), which are public benefit corporations created pursuant to the Public Authorities Law (the Act) of the State of New York (the State) to operate public subway and bus services within The City of New York (The City).

MaBSTOA is a subsidiary of the Transit Authority and, therefore, the financial results of MaBSTOA are combined with those of the Transit Authority in the consolidated financial statements. The MaBSTOA Pension Plan (the Plan) is not a component unit of the Transit Authority, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, and therefore, the financial results of the Plan are not included in the Authority's consolidated financial statements.

The Authority has material transactions with affiliated agencies included in the Metropolitan Transportation Authority (MTA) financial reporting group. Such agencies include the MTA, Triborough Bridge and Tunnel Authority (TBTA), Metro North Commuter Railroad (MNCR), Long Island Rail Road (LIRR), MTA Bus Company (MTA Bus) and Staten Island Rapid Transit Operating Authority (SIRTOA).

The Authority is a part of the financial reporting group of the MTA and is included in the combined financial statements of the MTA in accordance with GASB Statement No. 14 as amended by GASB Statement No. 61. The MTA is a component unit of the State and is included in the State of New York Comprehensive Annual Financial Report of the State Comptroller as a public benefit corporation.

In July 2003, the MTA Capital Construction Company was created by action of the MTA Board of Directors as a public benefit corporation subsidiary of the MTA under section 1266(s) of the Public Authorities Law. The mission of this new subsidiary company is to plan, design and construct current and future major MTA system expansion projects. Projects currently underway, include all activities associated with the Long Island Rail Road East Side access, the Number 7 Line Extension, the Lower Manhattan Fulton Transit Center, the new South Ferry station complex, system-wide capital Security Projects, and the Second Avenue Subway, which are consolidated under the management of the MTA Capital Construction Company.

In December of 2004, MTA Bus was created as a public benefit corporation subsidiary of the MTA specifically to operate certain City bus routes. These routes are currently operated by MTA Bus and not by the Authority. All material transactions between MTA Bus and the Authority have been properly recorded as of December 31, 2014.

**Staten Island Rapid Transit Operating Authority** — The Staten Island Rapid Transit Operating Authority (SIRTOA) is a wholly owned subsidiary of the MTA and provides transportation service on Staten Island. SIRTOA is managed by the Authority on behalf of The City. The Authority has no responsibility for the operating deficit of SIRTOA. The Authority collects, on SIRTOA's behalf, its share of certain operating assistance subsidies determined by formula, and transfers such subsidies to



SIRTOA. The amount of subsidy funds to which SIRTOA is entitled is recorded as a reduction of the subsidy revenues of the Authority.

**Operations** — Operations are conducted pursuant to leases with The City which expired on November 1, 1989, except that the terms of the leases continue so long as any financing agreement between the Authority and the MTA and any MTA Transportation Revenue Bonds remain outstanding (see Note 9). The City has the option to terminate the leases at any time. In the event of termination, The City is required to assume the assets and liabilities of the Authority and must pay or make provision for the payment of any debt incurred pursuant to financing agreements of the Authority.

Substantial operating losses (the difference between operating revenues and expenses) result from the essential services that the Authority provides; such operating losses will continue in the foreseeable future. To meet the funding requirements of these operating losses, the Authority receives subsidies from:

- a. The State, in the form of annual subsidies of special State and regional tax revenues, operating assistance, and reimbursement of certain expenses;
- b. The City, in the form of operating assistance, tax revenues, and reimbursement of certain expenses; and
- c. An affiliated agency (TBTA), in the form of a portion of its operating surplus.

The New York State Public Authorities Law and the financing agreement between the Authority and the MTA provide that the Authority shall establish fares, tolls, and other fees for the use of its facilities as may be necessary to maintain its combined operations on a self-sustaining basis as defined in such law. It is the opinion of management that the Authority is in compliance with these requirements. The Authority is not liable for real estate taxes, franchise taxes, or sales taxes on substantially all of its purchases or other excise taxes on its properties.

**Capital Financing** — The MTA has ongoing programs on behalf of the Authority and other affiliated agencies, subject to approval by the New York State Metropolitan Transportation Authority Capital Program Review Board (the State Review Board), which are intended to improve public transportation in the New York Metropolitan area.

The federal government has a contingent equity interest in assets acquired by the MTA with federal funds and upon disposal of such assets, the federal government may have a right to its share of the proceeds from the sale. This provision has not been a substantial impediment to the MTA's operation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Authority applies Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) Section P80, *Proprietary Accounting and Financial Reporting*.

**New Accounting Standards** — The Authority has not completed the process of evaluating the impact of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local*

*Governmental Employers* and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and RSI. The provisions in GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

The Authority has completed the process of evaluating the impact of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB Statement No. 69 requires the use of carrying values to measure the assets and liabilities in a government merger and requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. GASB Statement No. 69 also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. GASB Statement No. 69 provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. GASB Statement No. 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The Authority has determined that GASB Statement No. 69 had no impact on its financial position, results of operations, and cash flows.

The Authority has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. GASB Statement No. 70 also requires a government guarantor to consider qualitative factors when determining if a payment on its guarantee is *more likely than not* to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. GASB Statement No. 70 further requires an issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. This Statement also requires a government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The Authority has determined that GASB Statement No. 70 had no impact on its financial position, results of operations, and cash flows.

The Authority has not completed the process of evaluating the impact of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The requirements of this Statement should be applied simultaneously with

the provisions of GASB Statement No. 68 and are effective for fiscal years beginning after June 15, 2014.

The Authority has not completed the process of evaluating the impact of GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of GASB Statement No. 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The provisions in GASB Statement No. 72 are effective for fiscal periods beginning after June 15, 2015.

**Net Position** — The Authority follows the “business type” activity requirements of GASB 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments* which requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

*Nonexpendable* — Net position subject to externally imposed stipulations such that the Authority maintains them permanently. For the years ended December 31, 2014 and 2013, the Authority did not have nonexpendable net position.

*Expendable* — Net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time. For the years ended December 31, 2014 and 2013, the Authority did not have expendable net position

- Unrestricted: Net position that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by actions of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

**Subsidies** — The Authority receives subsidies from various sources, including the State and The City, which are included in nonoperating revenues. In general, these subsidies are subject to annual appropriations by the governmental units and periodic approval of the continuation of the taxes supporting the subsidies.

The principal funding sources for the Authority are as follows:

*Operating Assistance Appropriations and Grants* — The Authority receives, subject to annual appropriations, State and City operating assistance funds. The funds received under the State transit operating assistance program are fully matched by contributions from The City. State and City operating assistance subsidies are recognized as non-operating revenue in the amount of the respective annual appropriation when such appropriation becomes effective.

*Triborough Bridge and Tunnel Authority* — The New York State Public Authorities law requires the TBTA to transfer its annual operating surplus, as defined, to the Authority and the MTA. The initial

\$24 million of the operating surplus is provided to the Authority and the balance is divided equally between the Authority and the MTA. However, the amounts transferred to the Authority and the MTA are net of a provision for debt service on TBTA bonds issued to finance the acquisition of facilities under their respective portions of the Capital Program. For the years ended December 31, 2014 and 2013, \$242.7 million and \$267.3 million, respectively, were paid from the operating surplus of the TBTA to satisfy the Authority's portion of debt service requirements.

**Mortgage Recording Taxes** — Under New York State law, the MTA receives operating and capital assistance from the State Mortgage Recording Tax, which is collected by The City and the seven counties within the MTA transportation region, at the rate of three-tenths of 1% of the debt secured by certain real estate mortgages. Such legislation governs the use of the funds from this revenue source whereby the proceeds of this tax are first used by the MTA to meet the operating costs of the MTA headquarters, with the remaining funds allocated 55% to the Authority and 45% to the commuter railroads for their capital and operating needs. The Authority recognizes such sources of funds when designated by the MTA for the Authority's use. The portion of this subsidy attributable to the Authority is reported in "Tax-supported subsidies: New York State" in the accompanying consolidated statements of Revenues, Expenses, and Changes in Net Position. The Authority records the portion of its State Mortgage Recording Tax subsidy which funds principal and interest payments on long-term debt, net of investment earnings on unexpended proceeds, used to construct capital assets as capital contributions.

In addition, the State designated for the MTA's use an additional mortgage recording tax (the Additional Mortgage Recording Tax) of one-quarter of 1% of mortgages secured by real estate improved or to be improved by structures containing one to six dwelling units in the MTA transportation region. The funds from this additional tax are available, after satisfying debt service requirements, to meet the capital and operating needs of the Authority and the commuter railroads to be disbursed at MTA's discretion.

No funds from the Additional Mortgage Recording Tax were disbursed to the Authority in 2014 and 2013.

The Authority receives operating assistance directly from The City through The City Mortgage Recording Tax at the rate of five-eighths of 1% of the debt secured by certain real estate mortgages and through the Real Property Transfer Tax at the rate of 1% of certain properties' assessed value (collectively referred to as Urban Tax Subsidies). These Urban Tax Subsidies are reflected in Tax supported subsidies: New York City, in the accompanying consolidated statements of Revenues, Expenses, and Changes in Net Position. These funds are recognized as revenue, based upon the reported amount of taxes collected by The City from underlying transactions, within the Authority's fiscal year.

**New York State Regional Mass Transit Taxes** — The Authority receives, subject to annual appropriations, revenues from taxes enacted by the State legislature from various taxing sources.

In 1980, the State enacted a series of taxes, portions of which are deposited in the Metro Mass Transportation Operating Account (MMTOA), to fund the operating deficits of State mass transportation systems. MMTOA taxes currently include a business privilege tax imposed on petroleum business in the State, a one-quarter of 1% sales and use tax on certain personal property and services, a corporate franchise tax imposed on transportation and transmission companies, and a temporary franchise tax surcharge on certain corporations, banks, insurance, utility, and transportation companies attributable to business activity carried on in the State. MMTOA taxes are subject to annual appropriation, availability of sufficient tax collections, and determination of operating need by the State for the MTA. They are recognized as revenue in the amount of the annual appropriation when such appropriation becomes effective.



Under New York State law, subject to annual appropriation, the MTA receives operating and capital assistance through a portion of petroleum business tax receipts, certain motor fuel taxes, and certain motor vehicle fees, which are collected by the State. Such assistance is required by law to be allocated, after provision for debt service on any bonds secured by such taxes, 85% to the Authority and 15% to the commuter railroads for their operating and capital needs. MTA Dedicated Tax Fund Bonds (DTF Bonds) are secured by certain petroleum business tax receipts. The Authority recognizes such sources of funds when designated by the MTA for the Authority's use. A portion of the petroleum business tax receipts collected by the MTA is used to satisfy the debt service requirements for the DTF Bonds and is recorded as capital contributions.

**Metropolitan Commuter Transportation Mobility Tax** — In June 2009, Chapter 25 of the Laws of 2009 added Article 23, which established the Metropolitan Commuter Transportation Mobility Tax (MCTMT). This tax is administered by the NYS Tax Department, and the proceeds from this tax are distributed to the MTA. This tax is imposed on certain employers and self-employed individuals engaging in business within the Metropolitan Commuter Transportation District (MCTD), which includes all counties in New York City, and the counties of Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester. This tax requires certain employers that have payroll expenses within the MCTD to pay at a rate of 0.34% of an employer's payroll expenses for all covered employees for each calendar quarter. The effective date of this tax was March 1, 2009 for employers other than public schools districts; September 1, 2009 for public schools districts, and January 1, 2009 for individuals. Also in 2009, several amendments to the existing tax law provided the MTA supplemental revenues to be deposited into the MTA's Aid Trust Account. These amendments imposed a supplemental fee of one dollar for each six month period of validity of a learner's permit or a driver's license issued to a person residing in the MCTD, a supplemental fee of twenty-five dollars per year on the registration and renewals of registrants of motor vehicles who reside within the MCTD, imposed on taxicab owners a tax of fifty cents per ride on taxicab rides originating in New York City and terminating within the MCTD, and a supplemental tax of five percent of the cost of rentals of automobiles rented within the MCTD. The supplemental Aid Tax receipts are included in the Mobility Tax amounts for reporting purposes.

The composition of New York State tax-supported subsidies for 2014 and 2013 is as follows (in thousands)

	<b>Accrued Revenue</b>	
	<b>2014</b>	<b>2013</b>
Petroleum business tax*	\$ 268,057	\$ 217,069
Metro mass tax	1,035,757	1,002,907
Payroll Mobility tax	<u>1,337,480</u>	<u>1,387,171</u>
	<u>\$2,641,294</u>	<u>\$2,607,147</u>

\* Net of \$286,959 and \$296,578 for debt service payments in 2014 and 2013, respectively.

**Paratransit** — Pursuant to an agreement between The City and the MTA, the Authority, effective July 1, 1993, assumed operating responsibility for all paratransit service required by the Americans with Disability Act of 1990. Services are provided by private vendors under contract with the Authority. The City reimburses the Authority for the lesser of 33% of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6% of gross urban tax proceeds as described above, or an amount that is 20% greater than the amount paid by The City for the preceding calendar year. Fare revenues and The City reimbursement aggregated approximately \$194.1 million in

2014 and \$186.1 million in 2013. Total paratransit expenses, including paratransit service contracts, were \$455.0 million and \$450.1 million in 2014 and 2013, respectively.

**Operating and Non-operating Expenses** — Operating and non-operating expenses are recognized in the accounting period in which the liability is incurred. All expenses related to operating the Authority (e.g. salaries, insurance, depreciation, etc.) are reported as operating expenses. All other expenses (e.g. interest on long-term debt, fuel hedge transactions, etc.) are reported as non-operating expenses.

**Reimbursement of Expenditures** — Engineering and labor costs incurred by the Authority for capital projects are reimbursed under the capital program by the MTA to the extent that they relate to approved expenditures applicable to capital projects primarily initiated after April 1, 1982. They are reimbursed by The City to the extent they relate to amounts approved for prior projects. In 2014 and 2013, reimbursements were netted against gross operating expenses on the consolidated statements of Revenues, Expenses, and Changes in Net Position.

**Fare and Service Reimbursement from the State and City** — In 1995, The City ceased reimbursing the Authority for the full costs of the free/reduced fare program for students. Beginning in 1996, the State and The City each began paying \$45 million per annum to the Authority toward the cost of the program. In 2009, the State reduced their \$45 million reimbursement to \$6.3 million. Beginning in 2010, the State increased their annual commitment to \$25.3 million while The City's annual commitment remained at \$45 million. These commitments have been met by both the State and The City for both 2013 and 2014. As of December 31, 2014, the Authority collected \$70.3 million from the State and The City.

Prior to April 1995, The City was obligated to reimburse the Authority for the transit police force. As a result of the April 1995 merger of the transit police force into the New York City Police Department, The City no longer reimburses the Authority for the costs of policing the Transit System on an ongoing basis since policing of the Transit System is being carried out by the New York City Police Department at The City's expense. The Authority continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by The City. The Authority received approximately \$2.1 million and \$5.4 million in 2014 and 2013, respectively for the reimbursement of transit police costs.

**MTA Investment Pool** — The MTA, on behalf of the Authority, invests funds which are not immediately required for Authority's operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. All investments are held by the MTA's agent in custody accounts in the name of the MTA.

**Due to/from MTA and Constituent Authorities** — Due to/from MTA and constituent Authorities consists of reimbursements due from the MTA Capital Program for billed and unbilled charges relating to capital projects, farecards and intercompany operating receivables, payables, and inter-agency loan transactions.

**Prepaid Expenses and Other Current Assets** — The Authority prepaid \$16.9 million to the New York Health Insurance Plan (NYSHIP), \$26.5 million in risk management related insurance coverage, and \$3.2 million to the NYC Water Board during 2014. The Authority prepaid \$15.8 million to the New York Health Insurance Plan (NYSHIP), \$7.0 million in risk management related insurance coverage, and \$5.5 million to the Authority's prescription drug provider during 2013.

**Due from MTA for Purchase of Capital Assets** — Due from MTA for purchase of capital assets consists of funds held by the MTA which are restricted for capital asset acquisitions by the Authority



pursuant to the 2002 Transportation Revenue Bond Resolution. This capital program pool is comprised of non-bond proceed funds derived from safe harbor and sale/leaseback transactions, operating fund transfers, legal settlements, TBTA bond purchase rights and swap option agreements, and interest earnings on these pooled funds.

**Capital Assets** — Capital assets acquired prior to April 1982 were funded primarily by The City, with capital grants made available to the Authority. The City has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of the Authority. Subsequent acquisitions, which are part of the capital program, are recorded at cost by the Authority. Funding sources for the acquisition of these capital assets include Federal, State, and City capital grants, grants from the Port Authority of New York and New Jersey, the proceeds from the issuance of Transportation Revenue Bonds, and various TBTA bonding and other sources. Capital assets are recorded at cost and are depreciated on a straight-line basis over 25 or 35 years for subway cars, 12 years for buses, and lives generally ranging from 10 years to 60 years for the other capital assets. Cost includes capitalized interest apportioned to assets during construction. For the purposes of this calculation, interest expense is reported net of investment income.

**Contributed Capital** — Capital assets contributed by the MTA and restricted funds due from the MTA for the purchase of capital assets are recorded as capital contributions on the consolidated statements of Revenues, Expenses, and Changes in Net Position. Contributed capital is recognized upon identification of capital costs to be funded by the MTA. Capital contributions for the years ended December 31, 2014 and 2013, consist of the following (in thousands):

	<u>2014</u>	<u>2013</u>
Capital assets contributed by MTA from:		
Federal grants	\$ 1,094,563	\$ 757,708
Other than federal grants	1,301,812	1,793,465
Capital assets contributed by MTA for WTC disaster replacement	17	3
Petroleum business taxes received for principal and interest payments on debt	286,959	296,578
Principal and interest payments on MTA Transportation bonds issued to fund capital assets	(783,107)	(787,101)
Increase/(decrease) in funds due from MTA for purchase of capital assets	50,627	(165,926)
Operating transfers to Capital Program for Tropical Storm Sandy expenditures	<u>-</u>	<u>(140,937)</u>
Total capital contributions	<u>\$ 1,950,871</u>	<u>\$ 1,753,790</u>

**Passenger Revenue** — Revenues from the sale of farecards are recognized as income as the farecards are used and are reported as operating income.

**Materials and Supplies** — Materials and supplies are recorded at weighted average cost, net of a reserve for obsolescence.

**Employee Benefits** — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* as amended by GASB Statement 50, which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. The Authority has

adopted this standard for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions (ARC) to the pension plan, calculated in accordance with certain parameters.

In 2003, and as a result of collective bargaining, the Authority assumed responsibility for providing health benefits to its employees who are members of the TWU Local 100, as well as to retirees who were members of the TWU Local 100 and reach normal retirement age while working for the Authority. During 2005, the Authority also began providing health benefits for active and retired members of the ATU Local 1056 and Local 726. Previously, these benefits were being provided by the TWU and ATU Health Benefits Trusts (the Trusts) with the Authority required to make monthly contributions to the Trusts on behalf of the participants on a 'pay as you go' basis. The majority of the benefits provided under the plan are self-insured with administrative services provided by various health insurance companies.

The Authority has recorded a liability for claims incurred but not reported (IBNR). The liability represents those estimated future payments that are attributable, under the plan's provisions, to services rendered to participants prior to year end. The estimated liability of claims includes benefits expected to be paid to retired or terminated employees or their beneficiaries and present employees or their beneficiaries, as applicable. The estimated liability for claims incurred but not reported or paid is \$71.8 million and \$74.3 million as of December 31, 2014 and 2013, respectively.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense / expenditures and related liabilities (assets), note disclosures, and if applicable required supplementary information (RSI) in the financial reports of state and local governmental employers. In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement No. 45. The Authority has adopted these standards for its Postemployment Benefits Other Than Pensions.

**Receivables** — Receivables are recorded as amounts due to the Authority, reduced by an allowance for doubtful accounts, to report the receivables at their net realizable value.

**Pollution Remediation Projects** — Pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 16). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations, which previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: the Authority is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the Authority is named by a regulator as a responsible or potentially responsible party to participate in remediation; the Authority voluntarily commences or legally obligates itself to commence remediation efforts; or the Authority is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

**Use of Management's Estimates** — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial

statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

### 3. CASH

Cash consists of the following at December 31 (in thousands):

	<b>Book Balance</b>	
	<b>2014</b>	<b>2013</b>
Insured and collateralized deposits*	\$ 16,991	\$ 15,772
Less escrow and other restricted deposits	(923)	(2,515)
Commercially insured funds on-hand and in-transit	39,077	33,281
	<u>\$ 55,145</u>	<u>\$ 46,538</u>

\* Deposits are insured up to FDIC limits of \$250,000 at December 31, 2014.

Deposits in the Authority's bank accounts are collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds, pursuant to the New York State Public Authorities Law. The on-hand and in-transit funds consist primarily of passenger revenue funds collected, but not yet deposited.

### 4. MTA INVESTMENT POOL

The MTA, on behalf of the Authority, invests funds which are not immediately required for the Authority's operations, in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds. All investments are held by the MTA's agent, in custody accounts, in the name of the MTA. The Authority records its position in the Pool based upon a net asset value derived on assets invested in the Pool plus all realized income and losses earned. Unrealized appreciation, which is not significant to the Authority, is retained on the MTA's books and not included in the Authority's consolidated financial statements. The Authority's earnings from short-term investments approximated \$0.6 million and \$0.4 million for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the Authority had an investment pool balance of \$287.1 million and \$92.2 million, respectively.

## 5. CAPITAL ASSETS

Capital assets, at December 31, 2014 and 2013, consist of the following (in thousands):

	<b>December 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>December 2014</b>
Subway cars	\$ 9,015,135	\$ 429,918	\$ -	\$ 9,445,053
Buses	2,131,881	33,526	-	2,165,407
Track and structures	11,040,404	585,799	-	11,626,203
Depots and yards	4,000,999	100,317	-	4,101,316
Stations	13,497,098	1,777,155	-	15,274,253
Signals	5,166,628	297,060	-	5,463,688
Service vehicles	200,891	116,838	-	317,729
Building	169,912	-	-	169,912
Other	2,367,565	51,861	(2,203)	2,417,223
Under construction*	<u>4,030,872</u>	<u>(730,291)</u>	<u>-</u>	<u>3,300,581</u>
	51,621,385	2,662,183	(2,203)	54,281,365
Less accumulated depreciation	<u>(15,496,268)</u>	<u>(1,518,486)</u>	<u>2,203</u>	<u>(17,012,551)</u>
	<u>\$ 36,125,117</u>	<u>\$ 1,143,697</u>	<u>\$ -</u>	<u>\$ 37,268,814</u>

\* Assets under construction are non-depreciable.

	<b>December 2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>December 2013</b>
Subway cars	\$ 9,015,135	\$ -	\$ -	\$ 9,015,135
Buses	2,027,454	104,427	-	2,131,881
Track and structures	10,629,875	423,286	(12,757)	11,040,404
Depots and yards	3,728,969	291,368	(19,338)	4,000,999
Stations	12,229,406	1,269,821	(2,129)	13,497,098
Signals	5,080,523	86,105	-	5,166,628
Service vehicles	190,059	10,832	-	200,891
Building	169,912	-	-	169,912
Other	2,371,233	16,076	(19,744)	2,367,565
Under construction*	<u>3,417,003</u>	<u>632,827</u>	<u>(18,958)</u>	<u>4,030,872</u>
	48,859,569	2,834,742	(72,926)	51,621,385
Less accumulated depreciation	<u>(14,112,514)</u>	<u>(1,416,111)</u>	<u>32,357</u>	<u>(15,496,268)</u>
	<u>\$ 34,747,055</u>	<u>\$ 1,418,631</u>	<u>\$ (40,569)</u>	<u>\$ 36,125,117</u>

\* Assets under construction are non-depreciable.

Capitalized interest totaled \$8.1 million and \$7.6 million in 2014 and 2013, respectively.

In 1990, the Authority issued approximately \$202.8 million of Transit Facility Revenue Bonds, Series 1990 to fund the acquisition of an office building located at 130 Livingston Street in Brooklyn, New York. The bonds were subsequently defeased in May 2002 by the MTA Transportation Revenue bonds. The property is located on land owned by the New York City Economic Development Corporation (NYC EDC), as trustee for The City, with whom the Authority has entered into a 99-year ground lease. In 2011, the ground lease between the MTA and NYC EDC for Livingston Street was renegotiated with monthly lease payments increasing from approximately \$47,000 to \$111,000 per month. Rent expense, on a cash basis, under the lease was approximately \$1,330,000 in 2014 and 2013.

**Lease Transaction** — In July 1998, the MTA, the Authority and TBTA authorized and entered into a lease and related agreements whereby each agency, as a subleasee, rents office space at Two Broadway in lower Manhattan. The triple-net-lease has an initial stated term of approximately 50 years, with the right to extend the lease for two successive 15-year periods at a rental of at least 95% of fair market rent. Remaining payments under the lease approximate \$1.2 billion. Under the subleases, the lease is apportioned as follows: the Authority, 68.7%, MTA, 21%; and TBTA, 10.3%. However, the involved agencies have agreed to sub-sublease space from one another as necessary to satisfy actual occupancy needs. The agencies will be responsible for obligations under the lease based on such actual occupancy percentages. Actual occupancy percentages at December 31, 2014, for the Authority, TBTA and MTA (including MTA Bus, MTA Connections, MTA Capital Construction Company and MTA Business Service Center) were 64.7%, 9.4% and 25.9%, respectively. The Authority's sublease is for a year-to-year term, automatically extended, except upon the giving of a nonextension notice by the Authority.

The lease is comprised of both operating and capital elements, with the portion of the lease attributable to the land recorded as an operating lease, and the portion of the lease attributable to the building recorded as a capital lease. Operating rent expenses under the Authority's sublease amounted to \$6.4 million and \$7.4 million in 2014 and 2013, respectively.

Assuming the occupancy percentage at December 31, 2014 will continue, the future minimum lease payments under the Authority's sublease are as follows (in thousands):

<b><u>Years Ending December 31</u></b>	<b><u>Operating</u></b>	<b><u>Capital</u></b>
2015	\$ 6,373	\$ 10,017
2016	6,373	10,017
2017	6,373	10,017
2018	6,373	10,017
2019	6,373	11,581
2020-2024	31,863	59,594
2025-2029	31,863	69,861
2030-2034	31,863	87,042
2035-2039	31,863	101,702
2040-2044	31,863	112,508
2045-2049	<u>22,301</u>	<u>85,190</u>
Total minimum lease payments	<u>\$ 213,481</u>	567,546
Less imputed interest		<u>(403,937)</u>
Present value of net minimum lease payments		<u>\$ 163,609</u>



The adjusted capital lease for the aforementioned building is being amortized over the remaining life of the lease. The cost of the building and related accumulated amortization at December 31, 2014 and 2013, is as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Capital lease — building	\$ 114,489	\$ 114,489
Less accumulated amortization	<u>(38,181)</u>	<u>(35,769)</u>
Capital lease — building — net	<u>\$ 76,308</u>	<u>\$ 78,720</u>

In July 1999 and 2000, the MTA issued Certificates of Participation in the amount of \$328.2 million and \$121.2 million, respectively, to finance the renovation of the building and certain other tenant improvements (see Note 9).

The amount of such improvements apportioned to the Authority as of December 31, 2014 and 2013 are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Base building improvements	\$ 134,394	\$ 134,394
Tenant improvements	130,792	130,792
Furniture and fixtures	11,434	11,434
Computers and equipment	10,781	10,781
Development fees	6,893	6,893
Capitalized interest	<u>13,702</u>	<u>13,702</u>
	307,996	307,996
Less accumulated depreciation	<u>(198,514)</u>	<u>(195,289)</u>
Total leasehold improvements	<u>\$ 109,482</u>	<u>\$ 112,707</u>

## 6. ASSET IMPAIRMENT AND RELATED EXPENSES

On October 29, 2012, Tropical Storm Sandy made landfall just south of Atlantic City, New Jersey, as a post-tropical cyclone. The accompanying storm surge and high winds caused widespread damage to the physical transportation assets operated by the Authority. The Authority expects to recoup most of the costs associated with the repair or replacement of assets damaged by the storm over the next several years from a combination of insurance and federal government assistance programs.

As of December 31, 2014, the impairment losses to the Authority's assets (based upon estimates of the extent of impairment of the historical or "book value" of affected assets) are estimated to be \$381.8 million inception to date. Other costs associated with the storm included repair and clean-up expenses, which are also included in "Asset impairment and related expenses". For the years ended December 31, 2014 and 2013, storm related repair and clean-up expenses were \$5.2 million and \$39.1 million, respectively. Funds received from the Federal Transit Administration (FTA) for storm related repair and clean-up costs totaled \$7.0 million and \$114.8 million in 2014 and 2013, respectively.

The Authority will recognize insurance proceeds for Tropical Storm Sandy-related losses in future periods when such proceeds are estimable and all related contingencies are removed.



As noted, federal governmental assistance programs are anticipated to cover many of the Sandy-related costs associated with repair and replacement of assets damaged in the storm. The Disaster Relief Appropriations Act (Sandy Relief Act) passed in late January 2013, appropriated a total of \$10.9 billion in Public Transportation Emergency Relief Program funding to the FTA to assist affected public transportation facilities in connection with infrastructure repairs, debris removal, emergency protection measures, costs to restore service and costs related to implementing resiliency measures against future storms (hardening) at various facilities. The Sandy Relief Act also provided substantial funding for existing disaster relief programs of the Federal Emergency Management Agency (FEMA).

Of the \$10.9 billion amount, under the Sandy Relief Act, an initial tranche of \$2.0 billion has been allocated by the FTA to affected state and local public transportation entities by the end of March 2013. On March 6, 2013, the Secretary of Transportation announced that \$194.0 million had been allocated to MTA, representing principally reimbursements for costs associated with preparing MTA's system for the storm and for restoring service post-storm; the FTA subsequently entered into a grant agreement with the MTA obligating these funds. On March 29, 2013, the FTA published its allocations for the remainder of the initial \$2.0 billion. MTA was allocated an additional \$1.0 billion of these monies, bringing MTA's total allocation from the first \$2.0 billion tranche of FTA Emergency Relief funds to \$1.194 billion. On May 23, 2013, the FTA allocated an additional \$3.7 billion to our region's transportation providers. The MTA will receive \$2.6 billion of this additional allocation bringing MTA's total allocation to \$3.8 billion. The funds made available through this additional allocation includes \$898.0 million set aside to help the MTA with resiliency projects to help ensure transit assets are better able to withstand future disasters. FTA approval of specific grants will need to be obtained prior to MTA's actual receipt or expenditure of any of these allocated funds.

Monies granted by FTA and FEMA to MTA for restoration of specific assets damaged in connection with Tropical Storm Sandy are anticipated to be reduced in amount (or subject to reimbursement) to the extent MTA also receives insurance proceeds covering damage to such specific assets.

## **7. EMPLOYEE BENEFITS**

### **New York City Employee's Retirement System**

*Plan Description* — The Authority contributes to the New York City Employees' Retirement System (NYCERS), a cost-sharing, multiple-employer public employee retirement system (PERS) for employees of The City and certain other governmental units whose employees are not otherwise members of The City's four other main pension systems. The NYCERS plan combines features of a defined benefit pension plan with those of a defined contribution pension plan. NYCERS provides pension benefits to retired employees based on salary and length of service. In addition, NYCERS provides disability benefits, accident benefits, cost-of-living adjustments, and death benefits subject to satisfaction of certain service requirements and other provisions. The NYCERS plan functions in accordance with existing New York State statutes and New York City laws and may be amended by action of the State legislature. NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York City Employees' Retirement System, 335 Adams Street, Suite 2300, Brooklyn, NY 11201-3751.

*Funding Policy* — The contribution requirements of Plan members and the Authority are established and amended by law. The Authority's contribution to NYCERS is actuarially determined. The current rate is 25.3% of annual covered payroll. The Authority's required contributions for NYCERS's fiscal years ending June 30, 2015, 2014, and 2013, were \$707.2 million (estimated), \$709.0 million, and \$696.7 million, respectively.

For most Transit Authority employees hired prior to July 27, 1976, NYCERS is noncontributory. Certain employees who entered qualifying service after July 27, 1976, commonly referred to as Tier 4, contribute 3% of their salary (see Chapter 10 and 126 of the Laws of 2000 below).

*55/25 and Age 57 Pension Elections* — In 1994, hourly employees and certain operating supervisors participating in the NYCERS plan were given the opportunity to elect the Transit 55/25 option, which enabled such employees to become eligible for pension benefits upon reaching 25 years of service and at least 55 years of age. Employees hired after July 26, 1994, in the above titles are mandated into the Transit 55/25 option. All participants were required to make an additional employee contribution of 2.3%.

In 1995, managerial employees and certain other employees participating in the NYCERS plan were given the opportunity to elect a 25 Year Early Retirement plan, which enabled such employees to become eligible for pension benefits upon reaching 25 years of service and at least 55 years of age. Managerial and certain other employees entering after June 28, 1995, were mandated into the Age 57 option. Legislation finalized in 2000 changed the 57/10 plan to allow service retirement after age 57 and completion of five years of service (five-year vesting). Employees electing these options must contribute an additional 2.85% of their gross salary.

Legislation passed in 1999 enabled elective participants in the Transit 55/25 and the 25 Year Early Retirement plans who, by age 62 would not have 25 years of allowable service with the Authority, to withdraw from the applicable plan and revert back to their previous plan.

Amendments enacted by State legislation in 2000 reflect the more recent significant changes to the plan and are summarized as follows:

For operating employees (Chapter 10 of the Laws of 2000):

- All operating employees are automatically included in the Transit 55/25 plan, except those who are in the age 57 plan who elect to remain in that plan.
- Elimination of the 2.3% additional employees contributions applicable to members of the Transit 55/25 plan.
- Reduction in the Tier 3 and 4 employee contribution rate from 3.0% to 2.0%.

For nonoperating employees (Chapter 126 of the Laws of 2000):

- Vesting under the Age 57 plan requires only five years of service.
- As of October 1, 2000, regular Tier 3 and 4 employee contributions cease after the completion of ten years of credited service.

For retired members (Chapter 125 of the Laws of 2000):

- Automatic COLAs. The COLAs apply to retired members as follows:

<b><u>Retirees at Least Age</u></b>	<b><u>Retired or Receiving Benefits for at Least</u></b>
62	5 years
65	10
Disabled retirees	5
Accidental death beneficiaries	5

- Initial COLA payable September 30, 2000 based on the first \$18,000 of the maximum retirement allowance.
- Thereafter, annual COLAs of 50% of the increase in the consumer price index (CPI), but not less than 1% or more than 3% of the first \$18,000 of maximum retirement allowance will be payable.

These benefit enhancements, as well as the automatic COLA for retirees, were reflected in the actuarial valuation beginning with the June 30, 2000 valuation.

The Plan adopted several amendments during 2002 as a result of State legislation. Amendments include changes to the definition of active service for Tier 1 and Tier 2 members, extension of the phase in period from five years to ten years for funding liabilities created by the benefits provided by Chapter 125 of the Laws of 2000 and increases in accidental disability benefits for Tier 3 and Tier 4 members.

During 2006, pursuant to legislative amendment, the NYCERS Plan enacted significant changes in actuarial assumptions used to determine employer contributions. The more salient changes were the adoption of new demographic assumptions, the actuarial asset valuation method changed from a five-year moving average to six-year, which had the effect of smoothing 2001-2003 investment losses, and the shortening of the amortization period for the 2000 COLA. In addition, the One-Year Lag Methodology was adopted, which used June 30, 2004, payroll data to determine the June 30, 2006, employer contribution.

In September 2006 and June 2007, pursuant to legislation (Chapter 734 of the Laws of 2006 and Chapter 379 of the Laws of 2007), current and former members of the ATU 726/1056 and the TWU Local 100, respectively, who had an accumulated balance of additional member contributions (AMC) made in accordance with the NYC Transit 55/25 Plan enacted in 1994, were allowed to apply for a refund of such contributions. Beginning in the first quarter of 2008, current and former members of the TSO Local 106 were also allowed to receive a refund of their additional member contributions. Refunds of employee contributions from the Transit 55/25 Plan amounted to approximately \$139.6 million through December 31, 2014.

In March 2012, pursuant to Chapter 18 of the Laws of 2012, individuals joining NYCERS or the MaBSTOA Pension Plan on or after April 1, 2012 will be subject to the provisions of Tier VI. The highlights of Tier VI include:

- Increases in employee contribution rates. The rate varies depending on salary, ranging from 3% to 6% of gross wages. Contributions are made until retirement or separation from service.
- The retirement age increase to 63 and includes early retirement penalties, which reduce pension allowances by 6.5 percent for each year of retirement prior to age 63.

- Vesting after 10 years of credited service; increased from 5 years of credited service under Tier III and Tier IV.
- Adjustments of the Pension Multiplier for calculating pension benefits (excluding Transit Operating Employees): the multiplier will be 1.75 percent for the first 20 years of service, and 2 percent starting in the 21<sup>st</sup> year; for an employee who works 30 years, their pension will be 55 percent of final average salary under Tier VI, instead of 60 percent under Tier IV.
- Adjustments to the Final Average Salary (FAS) Calculation: the computation changed from an average of the final 3 years to an average of the final 5 years. Pensionable overtime will be capped at \$15,000 per year plus an inflation factor.
- Pension buyback in Tier VI will be at a rate of 6% of the wages earned during the period of buyback, plus 5% compounded annually from the date of service until date of payment.

Pursuant to Chapter 3 of the Laws of 2013, various actuarial assumptions and methods were adopted as a result of the NYCERS February 2012 Experience Study. Major provisions include:

- The Actuarial Interest Rate used by the Actuary to calculate employer contributions was reduced to 7% (previously 8%) until June 30, 2016;
- The interest rate for Tier III, IV and VI pension loans was reduced to 6% effective July 1, 2011;
- The Funding Method used by the Actuary to calculate employer contributions was changed from the Frozen Initial Liability Method to the Entry Age Cost Method, a method generally predicated on funding benefits over members' working lifetimes.

**Actuarial Assumptions** — The more significant actuarial assumptions and methods used in the calculation of employer contributions to NYCERS for the plan's fiscal years ended June 30, 2014 and 2013, are as follows:

Valuation Dates	June 30, 2012 (Lag) <sup>(1)</sup>	June 30, 2011 (Lag) <sup>(1)</sup>
Actuarial cost method	Entry age	Entry age
Amortization method for Unfunded Actuarial Accrued Liabilities (UAAL)		
Initial Unfunded	Increasing dollar	Increasing dollar
Post-2010 Unfunded	Level dollar	Level dollar
Remaining amortization period		
Initial Unfunded	20-years for reestablished UAAL	21-years for reestablished UAAL
Post-2010 Unfunded	None	None
Actuarial Asset Valuation Method (AAVM)	Modified six-year moving average of market values with a "Market Value Restart" as of June 30, 2011. The June 30, 2010 AAVM is defined to recognize Fiscal year 2011 investment performance.	Modified six-year moving average of market values with a "Market Value Restart" as of June 30, 2011. The June 30, 2010 AAVM is defined to recognize Fiscal year 2011 investment performance.
Assumed rate of return on investments	7.0% per annum, <sup>(2)</sup> net of investment expenses	7.0% per annum, <sup>(2)</sup> net of investment expenses
Postretirement mortality	Tables adopted by Board of Trustees during Fiscal Year 2012.	Tables adopted by Board of Trustees during Fiscal Year 2012.
Active service, withdrawal, death, disability, service retirement	Tables adopted by Board of Trustees during Fiscal Year 2012.	Tables adopted by Board of Trustees during Fiscal Year 2012.
Salary increases	In general, merit and promotion increases plus assumed general wage increase of 3.0% per annum <sup>(2)</sup>	In general, merit and promotion increases plus assumed general wage increase of 3.0% per annum <sup>(2)</sup>
Cost-of-living adjustments <sup>(2)</sup>	1.5% per annum for Tier 1, Tier 2 and Tier 4. 2.5% per annum for Tier 3.	1.5% per annum for Tier 1, Tier 2 and Tier 4. 2.5% per annum for Tier 3.

<sup>(1)</sup> Under the One-Year Lag Methodology, the actuarial valuation determines the employer contribution for the second following fiscal year (June 30, 2012 valuation data used for fiscal year June 30, 2014 contribution).

<sup>(2)</sup> Developed assuming a long-term consumer price inflation assumption of 2.5% per year.

NYCERS adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*, for the year ended June 30, 2014. As a result, modifications were made to certain actuarial assumptions used in determining the total pension liability in order to conform with the provisions of GASB Statement No. 67. Such changes included the determination of projected benefit payments, the use of a single discount rate, and the sole use of the entry age actuarial cost method. The Authority's required contribution for the year ended June 30, 2014 was not affected by the adoption of GASB Statement No. 67.



## **Manhattan and Bronx Surface Transit Operating Authority**

*Plan Description* — The Authority contributes to the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) Plan, a single employer governmental retirement plan. MaBSTOA provides retirement, disability, and death benefits to plan members and beneficiaries which are similar to those benefits provided by NYCERS to similarly situated Transit Authority employees. Article 12.08 of the MaBSTOA Plan assigns the authority to establish and amend the benefit provisions to the MaBSTOA Board. MaBSTOA issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, Operations Accounting, 2 Broadway, 10th Floor, New York, NY 10004.

*Funding Policy* — The contribution requirements of plan members are established and may be amended only by the MaBSTOA Board in accordance with Article 10.01 of the MaBSTOA Plan. MaBSTOA's funding policy for periodic employer contributions is to provide for actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. It is MaBSTOA's policy to fund, at a minimum, the current year's normal pension cost plus amortization of the unfunded actuarial accrued liability.

The Authority's contributions to the MaBSTOA Plan for the years ended December 31, 2014, 2013, and 2012, were \$226.4 million, \$234.5 million, and \$228.9 million, respectively, equal to the annual required contributions for each year. During 2006, the Authority made additional contributions totaling \$100.3 million to the Plan. The \$100.3 million in contributions had the effect of reducing the net pension obligation of \$54.9 million at December 31, 2005, to zero and recognizing a deferred pension asset of \$47.5 million at December 31, 2006. The amortized value of this deferred pension asset was \$33.8 million at December 31, 2014.

For employees, the Plan has both contributory and noncontributory requirements depending on the date of entry into service. Employees entering qualifying service on or before July 26, 1976, are non-contributing (Tiers 1 and 2). Certain employees entering qualifying service on or after July 27, 1976, are required to contribute 3% of their salary (Tiers 3 and 4). See 2000 Plan amendments.

The MaBSTOA Pension Plan includes the Tier III and IV 62/5 Plan, Transit 55/25 Plan, the 25 Year Early Retirement Plan, the Age 57/5 Plan, and the 2000 amendments under the same terms and conditions as NYCERS. In addition, Tier VI was adopted for members hired on or after April 1, 2012.

The MaBSTOA Plan also adopted the legislative provisions of Chapter 379 regarding the refunding of additional member contributions for certain TWU Local 100 and TSO Local 106 employees. Refunds of employee contributions from Plan assets amounted to approximately \$0.4 million, \$0.7 million, and \$0.5 million in 2014, 2013, and 2012, respectively. Inception to date gross refunds of employee contributions amounted to approximately \$23.6 million through December 31, 2014.

In a recent development, NYCERS had determined that the Tier IV segment of operating employees are and have been eligible for a post retirement death benefit retroactive to 1986. Since NYCERS has implemented this change as to applicable Transit Authority employees, the MaBSTOA Plan, which is patterned after the NYCERS Plan, was amended during 2012 to provide the same death benefits. This postretirement death benefits provision increased the unfunded actuarial accrual liability by approximately \$5.6 million and the employer contribution payable at December 31, 2012 by \$11.0 million. Total postretirement death benefits paid during 2014 and 2013 were \$4.4 million and \$1.4 million, respectively.



The cost of additional benefit enhancements to the Plan will be funded by an increase in the employer's normal contribution rate.

*Annual Pension Cost and Net Pension (Asset) Obligation* — The Authority's annual pension cost and net pension (asset) obligation for MaBSTOA for the years ended December 31, 2014 and 2013, were as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 226,374	\$ 234,474
Interest on net pension asset	(2,489)	(2,618)
Adjustment to annual required contribution	<u>4,267</u>	<u>4,462</u>
Annual pension cost	228,152	236,318
Contributions made	<u>(226,374)</u>	<u>(234,474)</u>
Decrease in net pension asset	1,778	1,844
Net pension asset — beginning of year	<u>(35,560)</u>	<u>(37,404)</u>
Net pension asset — end of year	<u>\$ (33,782)</u>	<u>\$ (35,560)</u>

The Authority's annual pension cost, the percentage of annual pension cost contributed, and the net pension asset for the current year and each of the two preceding years (in thousands):

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
12/31/2014	\$ 228,152	99.2 %	\$ (33,782)
12/31/2013	236,318	99.2	(35,560)
12/31/2012	230,800	99.2	(37,404)

The Authority's funding progress information as of December 31, 2014, is as follows (in millions):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Initial Entry Age (b)</u>	<u>Unfunded (AAL) (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>(UAAL) As a Percentage of Covered Payroll ((b-a)/c)</u>
1/1/14	\$ 2,028.0	\$ 2,892.6	\$ 864.6	70.11 %	\$ 616.4	140.3 %

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the consolidated financial statements, present multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

*Actuarial Assumptions* — There were no changes to the January 1, 2014 actuarial valuation from the prior year.

The January 1, 2013 valuation reflects the adoption by the Authority of the January 1, 2006 – December 31, 2011 Experience Study. The experience study modified demographic assumptions such as the rates of withdrawal, retirement and disability as well as economic assumptions such as the salary increase and cost-of-living assumptions to better reflect anticipated experience.

In addition, the interest rate assumption was reduced from 7.5% on a gross basis to 7% on a net basis, as the explicit investment expense assumption was eliminated and assumed to be covered by investment income.

These changes increased the unfunded actuarial accrued liability by \$142.5 million, which is being amortized over 10 years. The employer contribution payable increased by \$20.2 million as of December 31, 2013.

The January 1, 2012 valuation reflected a change to the interest rate assumption from 8% to 7.5% as well as modifications to the postretirement mortality assumption to assume longer life expectancies for members who retire with a service retirement and their beneficiaries. These changes increased the unfunded actuarial accrued liability by \$205.6 million, which is being amortized over 10 years, and the employer contribution payable December 31, 2012 by \$30.0 million.

The more significant actuarial assumptions and methods used in the calculation of employer contributions to the MaBSTOA Plan for the years ended December 31, 2014 and 2013, are as follows:

Valuation Dates	January 1, 2014	January 1, 2013
Actuarial cost method	Frozen initial liability <sup>(1)</sup>	Frozen initial liability <sup>(1)</sup>
Amortization method for UAAL	30-year level dollar	30-year level dollar
Period closed or open	Closed	Closed
Actuarial asset valuation method	Market value restart as of 1/1/96, then five-year moving average of market values	Market value restart as of 1/1/96, then five-year moving average of market values
Interest rate	7.0% per annum <sup>(2)</sup> , net of expenses	7.0% per annum <sup>(2)</sup> , net of expenses
Provision for expenses	Two-year average of administrative charges added to the normal cost	Two-year average of administrative charges added to the normal cost
Deaths after retirement	Tables based on recent experience	Tables based on recent experience
Separations other than for normal retirement	Tables based on recent experience	Tables based on recent experience
Rates of normal retirement	Tables based on recent experience	Tables based on recent experience
Salary increases	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service
Overtime	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement
Cost-of-living adjustments	1.375% per annum <sup>(2)</sup>	1.375% per annum <sup>(2)</sup>

<sup>(1)</sup> Under this actuarial method, the initial liability has been established by the Entry Age Actuarial Cost Method, but with not less than zero.

<sup>(2)</sup> Assumes a long-term consumer price inflation assumption of 2.5% per annum.

**Deferred Compensation Plans** — As permitted by Internal Revenue Code Section 457, the Authority has established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Plan assets and liabilities are not reflected on the Authority's consolidated statements of net position.

Certain Authority employees are participants in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). Participation in the plan is available to all nonunion and certain other employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are solely the property of the participants; accordingly, this plan is not reflected in the accompanying consolidated statements of net position. The Authority is not required to contribute to the plan.

## 8. OTHER POSTEMPLOYMENT BENEFITS

The Authority has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* (GASB 45). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and to what extent progress is being made in funding the plan.

**Plan Description** — The benefits provided by the Authority include medical, pharmacy, dental, vision and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement and welfare fund contributions. The different types of benefits provided vary by employee type (represented employees versus management). All benefits are provided upon retirement as stated in the applicable pension plan (NYCERS and the MaBSTOA Plan). The Authority provides benefits to some members if terminated within 5 years of attaining retirement eligibility.

The Authority participates in the New York State Health Insurance Program (NYSHIP) to provide medical and prescription drug benefits, including Medicare Part B reimbursements to many of its members. NYSHIP provides a PPO plan and several HMO plans. Represented and other New York City Transit employees who retired prior to January 1, 1996 or January 1, 2001, do not participate in NYSHIP. These benefits are provided either through a self-insured health plan, a fully insured or an HMO.

The Authority is a participating employer in NYSHIP. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Services, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

In 2003 and as a result of collective bargaining agreements, the Authority assumed responsibility for directly providing health care benefits to TWU retirees or their beneficiaries, rather than via the TWU Health & Welfare Trust Fund. In 2005, the Authority also began to administer health care benefits for ATU Local 1056 and Local 726 retirees or their beneficiaries as their respective health and welfare trust funds were dissolved.

GASB 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2013 and was performed with a valuation date of January 1, 2012. The total number of plan participants as of December 31, 2014 receiving retirement benefits was 28,765.

During 2012, MTA funded \$250 million into a Trust allocated between Headquarters and New York City Transit. In addition, \$50 million was funded during 2013 allocated between Long Island Railroad and Metro-North Railroad. No Trust contributions were made in 2014. Under GASB 45, the discount rate is based on the assets in a trust, the assets of the employer or a blend of the two based on the anticipated funding levels of the employer. For this valuation, the discount rate reflects a blend of Trust assets and employer assets. The assumed return on Trust assets is 6.5% whereas the assumed return on employer assets is 3.5% resulting in a discount rate under GASB 45 of 3.75%, which is slightly lower than the discount rate of 4% used in the prior valuation. This decrease is primarily due to the decrease in

Treasury yields and thus, returns on employer assets since the prior valuation. The Authority's transfer to the Trust fund inception to date is \$162.5 million. In determining the Actuarial Value of Assets, these amounts were discounted to the valuation date at the interest rate assumption. These assets decreased the Authority's normal cost by approximately \$15.3 million.

**Annual OPEB Cost (AOC) and Net OPEB Obligation** — The Authority's annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. Currently, the Authority expenses the actual benefits paid during a year. The cumulative difference between the annual OPEB cost (new method) and the benefits paid during a year (old method) will result in a net OPEB obligation (the Net OPEB Obligation), included on the consolidated statements of net position. The annual OPEB cost is equal to the annual required contribution (the ARC) less adjustments if a Net OPEB Obligation exists and plus the interest on Net OPEB Obligation. The ARC is equal to the normal cost plus an amortization of the unfunded liability.

**Actuarial Cost, Amortization Methods and Assumptions** — For determining the ARC, the Authority has chosen to use the Frozen Initial Liability (the FIL Cost Method) cost method, one of the cost methods in accordance with the parameters of GASB 45. The initial liability is amortized over a 22-year period. The remaining amortization period at December 31, 2014, is 15 years.

In order to recognize the liability over an employee's career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the Accrued Liability or Past Service Liability), the part that is being earned this year (the Normal Cost), and the part that will be earned in future years (the Future Service Liability). Under the FIL Cost Method, an initial past service liability is determined based on the Entry Age Normal (EAN) Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

The Frozen Unfunded Accrued Liability is determined each year as the Frozen Unfunded Accrued Liability for the prior year, increased with interest, reduced by the end-of-year amortization payment and increased or decreased by any new bases established for the current year.

The difference between the Actuarial Present Value of Benefits and the Frozen Unfunded Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

The ARC is equal to the sum of the Normal Cost and the amortization for the Frozen Unfunded Accrued Liability with appropriate interest adjustments. Any difference between the ARC and actual plan contributions from the prior year are considered an actuarial gain/loss and thus, are included in the development of the Normal Cost. This methodology differs from the approach used for the pension plan where the difference between the ARC and actual plan contributions from the prior year, if any, will increase or decrease the Frozen Unfunded Accrued Liability and will be reflected in future amortization payments. A different approach was applied to the OPEB benefits because these benefits are not actuarially funded.

**Valuation Date** — The valuation date is the date that all participant and other pertinent information is collected and liabilities are measured. This date may not be more than 24 months prior to the beginning of the fiscal year. The valuation date for this valuation is January 1, 2012 which is 24 months prior to the



beginning of the 2014 fiscal year. Census data for the next full valuation will be based on a valuation date of January 1, 2014.

**Inflation Rate** — 2.5% per annum compounded annually.

**Discount Rate** — GASB 45 provides guidance to employers in selecting the discount rate. The discount rate should be based on the estimated long-term investment yield on the investments that are expected to be used to finance the benefits. If there are no plan assets, assets of the employer should be used to derive the discount rate. This would most likely result in a lower discount rate and thus, liabilities significantly higher than if the benefits are prefunded. In recognition of the decrease in short-term investment yields partially offset by the establishment of a trust, the discount rate for this valuation has been lowered from 4.0% to 3.75%.

**Healthcare Reform** — The valuation reflects the actuaries understanding of the impact in future health costs due to the Affordable Care Act (ACA) passed into law in March 2010. An excise tax for high cost health coverage or “Cadillac” health plans was included in ACA. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted. Also included in ACA are various fees (including, but not limited to, the Patient-Centered Outcomes Research Institute fee, Transitional Reinsurance Program fee, and the Health Insurer fee) associated with the initiation of health exchanges in 2014.

The OPEB-specific actuarial assumptions used in the most recent biennial valuations are as follows:

Valuation date	January 1, 2012
Actuarial cost method	Frozen Initial Liability
Discount rate	3.75%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen Initial Liability
Amortization period	15 years
Period closed or open	Closed

\* In general, all coverages are paid for by the Authority.

Actuarial valuation involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**Per Capita Claim Costs (PCCC)** — Use of a blended premium rate for active employees and retirees under age 65 is a common practice. Health costs generally increase with age, so the blended premium rate is higher than the true underlying cost for actives and the blended premium is lower than the true underlying cost for retirees. For retirees, this difference is called the implicit rate subsidy. Since GASB 45 only requires an actuarial valuation for retirees, it requires the plan sponsor to determine the costs of these benefits by removing the subsidy. However, a plan sponsor may use the premiums without adjustment for age if the employer participates in a community-rated plan, in which the premium rates reflect projected health claims experience of all participating employers, or if the insurer would offer the same premium rate if only non-Medicare-eligible retirees were covered.

Based on a 2006 report from the Department of Civil Service of the State of New York regarding recommended actuarial assumptions used for New York State/SUNY’s GASB 45 valuation sent to all



participating employers, it stated that the Empire Plan of NYSHIP is community-rated for all participating employers. Each MTA Agency participating in NYSHIP is no more than approximately 1%, and in total, the MTA is approximately 3% of the total NYSHIP population. Thus, we believe that the actual experience of the MTA will have little or no impact on the actual premium and, that it is reasonable to use the premium rates without age adjustments as the per capita claims cost.

The medical and pharmacy benefits provided to TWU Local 100, ATU 1056 and ATU 726 represented Transit members are self-insured as well as some Pre-NYSHIP Transit members. For these benefits, we developed per capita claims cost relativity factors that varied by benefit, age and gender for retirees of the TWU Local 100, ATU Local 726 and ATU Local 1056 unions for 2012. These were then combined to match the aggregate claim experience provided by the Authority and MTA. Claims were increased by an incurred versus paid claim adjustment of 2.7% for health benefits and (0.3)% for pharmacy benefits. Finally, an administrative load was applied equal to 5.8% for Empire BCBS medical benefits, 3.8% for United Healthcare medical benefits and 0.6% for pharmacy benefits.

The following charts detail the monthly 2012 PCCC's used in the valuation:

<u>Age</u>	<u>Male Employees</u>			<u>Female Employees</u>		
	<u>Empire Blue Cross / Blue Shield</u>	<u>United Healthcare</u>	<u>Pharmacy</u>	<u>Empire Blue Cross / Blue Shield</u>	<u>United Healthcare</u>	<u>Pharmacy</u>
30–34	\$481.70	\$921.70	\$141.22	\$633.31	\$1,211.79	\$158.70
35–39	697.73	1,335.04	243.03	812.97	1,555.54	242.67
40–44	825.11	1,578.78	290.18	853.83	1,633.73	299.31
45–49	666.26	1,274.83	243.63	717.19	1,372.28	280.55
50–54	607.73	1,162.84	213.80	638.21	1,221.16	269.44
55–59	717.11	1,372.12	241.25	659.79	1,262.45	298.08
60–64	840.40	1,608.02	263.29	746.74	1,428.81	312.32
65–69	117.36	N/A	292.93	117.42	N/A	296.48
70–74	146.33	N/A	309.94	140.45	N/A	317.82
75–79	179.85	N/A	315.56	165.16	N/A	330.96
80–84	207.25	N/A	318.11	187.84	N/A	337.91
85+	239.19	N/A	311.64	216.39	N/A	332.93
<u>Age</u>	<u>Male Dependents</u>			<u>Female Dependents</u>		
	<u>Empire Blue Cross / Blue Shield</u>	<u>United Healthcare</u>	<u>Pharmacy</u>	<u>Empire Blue Cross / Blue Shield</u>	<u>United Healthcare</u>	<u>Pharmacy</u>
30–34	\$255.72	\$489.29	\$74.97	\$350.22	\$670.12	\$87.76
35–39	301.98	577.82	105.18	382.82	732.50	114.27
40–44	359.62	688.11	126.47	426.70	816.44	149.58
45–49	407.91	780.49	149.16	465.67	891.02	182.16
50–54	479.38	917.25	168.64	518.28	991.69	218.81
55–59	575.69	1,101.54	193.67	567.95	1,086.72	256.58
60–64	749.46	1,434.02	234.80	688.17	1,316.75	287.82
65–69	117.36	N/A	292.93	117.42	N/A	296.48
70–74	146.33	N/A	309.94	140.45	N/A	317.82
75–79	179.85	N/A	315.56	165.16	N/A	330.96
80–84	207.25	N/A	318.11	187.84	N/A	337.91
85+	239.19	N/A	311.64	216.39	N/A	332.93

**Medicare Part B Premiums** — The Medicare Part B premium reimbursement was included in the 2012 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to

have an annual trend of 5%. These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

**Medicare Part D Premiums** — GASB has issued a Technical Bulletin stating that the value of expected Retiree Drug Subsidy (RDS) payments to be received by an entity cannot be used to reduce the Actuarial Accrued Liability of OPEB benefits nor the ARC. Furthermore, actual contributions made (equal to the amount of claims paid in a year if the plan is not funded) will not be reduced by the amount of any subsidy payments received. Accordingly, the 2012 valuation excludes any RDS payments expected to be received by the Authority.

**Health Care Cost Trend Rates** — For those retirees participating in NYSHIP, the trend assumption used for 2013 and 2014 was 1.7% and 5.0%, respectively. The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 12.2 utilizing the baseline assumptions included in the model, except real GDP of 1.8% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors and potential excise taxes due to healthcare reform, and other healthcare reform provisions, separately for NYSHIP and non-NYSHIP benefits. These assumptions are combined with long-term assumptions for dental and vision benefits (4%) plus Medicare Part B reimbursements (5%). The NYSHIP trend reflects actual increases in premiums through 2014. The NYSHIP trend is used for six agencies plus the non-represented employees of MTA Bus. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements. For NYC Transit, this trend is weighted by liability with the non-NYSHIP trend assumption. The following lists the NYSHIP and non-NYSHIP trend assumptions along with the resulting trends assumed for Transit.

#### Health Care Cost Trend Rates

<u>Fiscal Year</u>	<u>NYSHIP</u>	<u>Non-NYSHIP</u>		<u>Transit</u>	
		<u>&lt; 65</u>	<u>&gt;=65</u>	<u>&lt; 65</u>	<u>&gt;=65</u>
2012	0.0% *	7.6 %	7.3 %	4.8 %	4.6 %
2013	1.7	7.4	6.6	5.4	4.8
2014	5.0	6.2	6.2	5.8	5.8
2015	5.5	5.8	5.8	5.7	5.7
2016	5.7	5.5	5.5	5.6	5.6
2017	5.9	14.6	5.5	12.5	5.6
2022	5.9	6.4	5.5	6.2	5.6
2027	6.8	6.2	5.4	6.4	5.9
2032	6.5	6.0	5.6	6.2	5.9
2037	6.1	5.7	5.3	5.8	5.7
2042	5.7	5.4	5.9	5.5	5.8
2047	5.5	5.3	5.7	5.4	5.6
2052	5.4	5.2	5.5	5.3	5.5

\* Trend not applicable as actual 2013 premiums were valued

**Participation** — The table below summarizes the census data provided by the Authority and utilized in the preparation of the actuarial valuation. The table shows the number of active and retired employees and provides a breakdown of the coverage elected and benefits offered to current retirees.

**OPEB Participation as of January 1, 2012**

	<b><u>Active Members</u></b>
Number	46,333
Average Age	49.3
Average Service	14.9
	<b><u>Retirees</u></b>
Single Medical Coverage	11,519
Employee/Spouse Coverage	16,042
Employee/Child Coverage	710
No medical Coverage	5,809
Total Number	<u>34,080</u>
Average Age	70.9
Total Number with Dental	5,534
Total Number with Vision	24,606
Total No. with Supplement	24,501
Average Monthly Supplement Amount (Excluding Part B Premium)	\$30
Total No. with Life Insurance	5,129

**Coverage Election Rates** — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For groups that do not participate in NYSHIP, details on coverage election rates can be found in NYC Transit Section IV of the valuation.

**Dependent Coverage** — Spouses are assumed to be the same age as the employee/retiree. 85% of male and 60% of female eligible members are assumed to elect family coverage upon retirement. No children are assumed. Actual family coverage elections for current retirees are used. If a current retiree's only dependent is a child, eligibility is assumed for an additional 7 years of dependent coverage if the member participates in NYSHIP (otherwise, 5 years) from the valuation date was assumed.

**Demographic Assumptions:**

**Mortality** — Preretirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee.

**Preretirement** — RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments. No blue collar adjustments were used for management members of the Authority.

*Postretirement Healthy Lives* — 95% of the rates from the RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue collar or percentage adjustments were used for management members of the Authority.

*Postretirement Disabled Lives* — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females.

**Turnover and Retirement Rates** — All demographic assumptions were based on assumptions utilized in the 2013 actuarial valuations for the pension plans, with the exception of the mortality assumption. The demographic actuarial assumptions (termination, retirement and disability) for NYCERS and MaBSTOA members have been updated to reflect the NYCERS February 2012 Experience Study and the MaBSTOA January 2014 Experience Study, respectively. The NYCERS assumptions significantly decrease the expected number of terminations and retirements, which when combined with all assumption changes, increased the expected present value of benefits by approximately 2.7%. These changes also resulted in a longer expected working lifetime.

**Vestee Coverage** — For members that participate in NYSHIP, Vesteers (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Authority upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vesteers are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vesteers based on age at valuation date.

<u>Age at Termination</u>	<u>Percent Electing</u>
< 40	- %
40-43	5
44	20
45-46	30
47-48	40
49	50
50-51	80
52+	100

The following table shows the elements of the Authority's annual OPEB cost for the year, the amount contributed, and changes in the Authority's net OPEB obligation to the plan for the years ended December 31, 2014 and 2013. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

<b>(In thousands)</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Annual required contribution	\$2,447,512	\$2,245,639
Interest on net OPEB obligation	293,734	235,489
Adjustment to annual required contribution	<u>(750,184)</u>	<u>(601,429)</u>
Annual OPEB cost/expense	1,991,062	1,879,699
Contributions made	<u>(352,673)</u>	<u>(325,602)</u>
Increase in net OPEB obligation	1,638,389	1,554,097
Net OPEB obligation — beginning of year	<u>7,833,798</u>	<u>6,279,701</u>
Net OPEB obligation — end of year	<u>\$9,472,187</u>	<u>\$7,833,798</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the years ending December 31, 2014, 2013 and 2012 were as follows (in thousands):

<b><u>Year Ending</u></b>	<b><u>Annual OPEB Cost</u></b>	<b><u>Percentage of Annual OPEB Cost Contributed</u></b>	<b><u>Net OPEB Obligation</u></b>
12/31/2014	\$1,991,062	17.7 %	\$9,472,187
12/31/2013	1,879,699	17.3	7,833,798
12/31/2012	1,688,931	27.2	6,279,701

The Authority's funding progress information as of December 31, 2014 is as follows (in millions):

<b><u>Actuarial Valuation Date</u></b>	<b><u>Actuarial Value of Assets</u></b> <b>(a)</b>	<b><u>Actuarial Accrued Liability (AAL) Initial Entry Age</u></b> <b>(b)</b>	<b><u>Unfunded (AAL) (UAAL)</u></b> <b>(b-a)</b>	<b><u>Funded Ratio</u></b> <b>(a/b)</b>	<b><u>Covered Payroll</u></b> <b>(c)</b>	<b><u>(UAAL) As a Percentage of Covered Payroll</u></b> <b>((b-a)/c)</b>
1/1/12	\$ 159.4	\$ 15,770.7	\$ 15,611.3	1.0 %	\$ 3,025.2	516.0 %

The required schedule of funding progress, presented as RSI following the notes to the consolidated financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.



## 9. DUE TO MTA FOR REPAYMENT OF DEBT

**Transit Facilities Revenue Bonds** — Prior to December 31, 2002, the Authority recognized as a liability in the accompanying consolidated statements of net position the portion of the bond proceeds pledged to the Authority by the MTA for the acquisition of capital assets to the extent of the Authority's expenditure of such bond proceeds. As a result of the MTA's bond restructuring during fiscal year 2002, except for the Authority's portion of the Certificates of Participation, the Authority no longer records a liability to the MTA for the portion of the bonds utilized to fund the Authority's Capital Program.

The Authority is required to deposit all of its pledged revenues with a trustee for the bondholders. Such funds are first applied to meet all obligations under the revenue bonds, and the remainder is returned to the Authority for its operating needs.

The MTA is responsible for all payments from these bond proceeds and for administering the debt service reserve funds, if any, and the unexpended bond funds and has recorded the liability for these bonds. Prior to the debt restructuring, the Authority had recorded a liability to the MTA to the extent of the Authority's expenditure of such bond proceeds. Debt service paid by the Authority is net of the amount provided from the MTA's investment of the unexpended bond funds.

**Certificates of Participation** — In June 1999 and 2000, the MTA issued approximately \$328.2 million and \$121.2 million, respectively, of its Series 1999A and Series 2000A Certificates of Participation, which were substantially defeased with the issuance of the Series 2004A variable rate Certificates of Participation totaling \$357.9 million in September 2004. The proceeds from these issuances were used to finance certain building and leasehold improvements to an office building at Two Broadway to be occupied by the Authority, the MTA or its subsidiaries, and the TBTA. In November 2011, the MTA issued Transportation Revenue Refunding Bonds, Series 2011C, which refunded existing fixed rate Transportation Revenue Bonds. Debt service monies derived from this refunding were used to retire \$237.0 million of the 2004A variable rate COPS and \$15.0 million of the Series 1999A and 2000A fixed rate COPS. The Authority's payable to the MTA for its aggregate portion of COPS debt was reduced by approximately \$168.8 million. The 1999A, 2000A, and 2004A series represent proportionate interests in the principal and interest components of base rent paid severally, but not jointly, by the Authority, the MTA, and the TBTA pursuant to a Leasehold Improvement Sublease Agreement dated as of June 1, 1999. The Authority, the MTA, and the TBTA are obligated to pay 68.7%, 21.0%, and 10.3%, respectively, of the base rent under the Leasehold Improvement Sublease. The Authority's payable to the MTA for its portion of the Certificates of Participation is \$42.3 million as of December 31, 2014. The Authority's share of future debt service payments to the MTA for the Certificates of Participation totals approximately \$121.3 million at December 31, 2014.

Interest paid on the Certificates of Participation amounted to \$8.1 million and \$7.9 million in 2014 and 2013, respectively.

## 10. RELATED PARTY TRANSACTIONS

The Authority receives support services from the MTA in the areas of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, most of which are charged back to the Authority through intercompany billings. The MTA also provides funding for the Authority's capital program via MTA debt issuance, federal capital grant pass-throughs, and proceeds from the sale of tax benefits on leasing transactions. The Authority recognizes funds contributed to Transit capital programs as contributed capital in the consolidated statements of revenues, expenses, and changes in net position. State and City tax –supported subsidies received by the Authority



from the MTA to support operations are recorded as nonoperating revenues. The MTA also provides short-term loans, as required, to supplement the Authority's working capital needs.

The Authority has intercompany transactions with MNCR, LIRR, MTA Bus, TBTA, and SIRTOA related to farecard settlements, service agreements, shared operating contracts, inter-agency loan transactions, and other operating receivables and payables.

The resulting receivables and payables from the above transactions are recorded in Due from MTA and constituent authorities included in the accompanying consolidated statements of net position.

Due from MTA and constituent authorities consist of the following at December 31, 2014 and 2013 (in thousands):

	<b>2014</b>		<b>2013</b>	
	<b>Receivable</b>	<b>(Payable)</b>	<b>Receivable</b>	<b>(Payable)</b>
MTA	\$4,823,565	\$ (4,413,956)	\$ 4,141,857	\$ (3,994,607)
Constituent authorities	<u>130,316</u>	<u>(11,174)</u>	<u>138,268</u>	<u>(12,059)</u>
Total MTA and constituent authorities	<u>\$4,953,881</u>	<u>\$ (4,425,130)</u>	<u>\$ 4,280,125</u>	<u>\$ (4,006,666)</u>

## 11. ADVERTISING AND OTHER INCOME

Advertising and other income for the years ended December 31, 2014 and 2013, consist of (in thousands):

	<b><u>2014</u></b>	<b><u>2013</u></b>
Advertising revenue	\$ 105,841	\$ 95,493
Metrocard green fee surcharge	24,578	23,455
Transit Adjudication Bureau collections	9,637	8,216
Station income	8,818	9,143
Rental income	4,555	3,463
Fare media transaction fees	4,491	4,440
All other	<u>249</u>	<u>1,024</u>
	<u>\$ 158,169</u>	<u>\$ 145,234</u>

## 12. OTHER EXPENSES

Other expenses for the years ended December 31, 2014 and 2013, consist of (in thousands):

	<u>2014</u>	<u>2013</u>
Credit and debit card fees for fare media sales	\$ 39,426	\$ 36,862
Fare media sales commissions	11,824	11,808
NYS MCTMT expense	13,045	11,724
Print and office supplies	5,272	4,816
Allowance for uncollectible accounts	925	1,238
Business travel, meetings, and conventions	423	1,224
Dues and subscriptions	1,781	1,335
Other miscellaneous expenses	<u>3,434</u>	<u>(6,094)</u>
	<u>\$ 76,130</u>	<u>\$ 62,913</u>

## 13. MAINTENANCE AND OTHER OPERATING EXPENSES

Maintenance and other operating expenses for the years ended December 31, 2014 and 2013, consist of (in thousands):

	<u>2014</u>	<u>2013</u>
Operating maintenance and repair services	\$ 58,831	\$ 55,109
Facility maintenance and repairs	13,832	13,624
Real estate rentals (including 2 Broadway operating expenses)	22,056	17,708
Security services	12,656	10,418
Refuse and recycling	8,500	8,152
Telephone services	10,781	8,817
Tire and tube rentals	9,342	10,234
Janitorial and custodial services	5,315	6,243
Water and sewage	11,417	9,272
Specialized equipment	2,445	5,018
Bridge, tunnel and highway tolls	4,619	4,391
Uniforms	3,421	2,407
Ticket stock material	3,386	4,083
Safety equipment and supplies	10,399	7,793
Other miscellaneous expenses	<u>8,523</u>	<u>4,092</u>
	<u>\$ 185,523</u>	<u>\$ 167,361</u>

## 14. FUEL HEDGE

MTA partially hedges its fuel cost exposure using financial hedges. The hedging strategy consists of a fixed-rate lock on forward delivery of NYMEX No. 2 heating oil. This commodity remains highly correlated to the fuel type being used by MTA, ultra-low sulfur diesel, (ULSD). MTA executed twenty-three separate hedges during 2014. All MTA fuel hedges provide for 24 monthly settlements. The table below summarizes the twenty-three active ULSD hedges:

<b>Counterparty</b>	<b>JPM - Ventures Energy Corp</b>	<b>JPM - Ventures Energy Corp</b>	<b>JPM - Ventures Energy Corp</b>	<b>J. Aron &amp; Company</b>	<b>J. Aron &amp; Company</b>	<b>JPM - Ventures Energy Corp</b>
Trade Date	12/19/2012	2/21/2013	4/23/2013	4/23/2013	6/6/2013	8/9/2013
Effective Date	12/1/2013	1/1/2014	5/1/2013	5/1/2013	5/1/2014	6/1/2014
Termination Date	12/31/2014	1/31/2015	3/31/2015	3/31/2015	4/30/2015	7/31/2015
Price/Gal	\$2.87	\$2.94	\$2.77	\$2.77	\$2.81	\$2.83
Notional Qnty (Gal)	15,981,638	11,027,445	4,494,141	4,494,141	7,702,834	18,420,266

<b>Counterparty</b>	<b>J. Aron &amp; Company</b>	<b>JPM - Ventures Energy Corp</b>	<b>JPM - Ventures Energy Corp</b>	<b>Bank of America Merrill Lynch</b>	<b>JPM - Ventures Energy Corp</b>	<b>JPM - Ventures Energy Corp</b>
Trade Date	9/10/2013	10/11/2013	11/19/2013	1/29/2014	2/26/2014	3/31/2014
Effective Date	8/1/2014	9/1/2014	11/1/2014	12/1/2014	2/1/2015	3/1/2015
Termination Date	8/31/2015	9/30/2015	10/31/2015	12/31/2015	1/31/2016	2/29/2016
Price/Gal	\$2.82	\$2.82	\$2.79	\$2.77	\$2.84	\$2.81
Notional Qnty (Gal)	8,439,456	15,441,167	7,636,954	15,299,678	7,892,588	7,810,490

<b>Counterparty</b>	<b>JPM - Ventures Energy Corp</b>	<b>Bank of America Merrill Lynch</b>	<b>Bank of America Merrill Lynch</b>	<b>J. Aron &amp; Company</b>	<b>J. Aron &amp; Company</b>	<b>Bank of America Merrill Lynch</b>
Trade Date	4/30/2014	5/15/2014	6/25/2014	7/2/2014	7/2/2014	7/29/2014
Effective Date	4/1/2015	7/1/2014	6/1/2015	7/1/2014	7/1/2014	7/1/2015
Termination Date	3/31/2016	4/30/2016	5/31/2016	1/31/2015	2/28/2015	6/30/2016
Price/Gal	\$2.82	\$2.86	\$2.93	\$2.90	\$2.88	\$2.86
Notional Qnty (Gal)	7,850,843	12,865,827	8,644,395	5,852,793	4,074,192	8,461,232

<b>Counterparty</b>	<b>J. Aron &amp; Company</b>	<b>J. Aron &amp; Company</b>	<b>Bank of America Merrill Lynch</b>	<b>Bank of America Merrill Lynch</b>	<b>JPM - Ventures Energy Corp</b>
Trade Date	8/27/2014	9/24/2014	10/29/2014	11/25/2014	12/23/2014
Effective Date	8/1/2015	4/1/2015	10/1/2015	11/1/2015	12/1/2015
Termination Date	7/31/2016	8/31/2016	9/30/2016	10/31/2016	11/30/2016
Price/Gal	\$2.82	\$2.74	\$2.55	\$2.40	\$2.03
Notional Qnty (Gal)	8,322,340	8,050,125	7,487,723	7,029,766	5,970,231

The monthly settlements are based on the daily prices of the respective commodities whereby MTA will either receive a payment, or make a payment to the various counterparties depending on the average monthly price of the commodities in relation to the contract prices. At December 31, 2014, the total outstanding notional value of the ULSD contracts was 54,304,131 gallons with a decrease in fair market value of \$48.2 million.

The Transit Authority recognized a fuel hedge loss of \$4.4 million in 2014 and \$0.6 million gain in 2013.

## 15. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of its assets; injuries to persons, including employees; and natural disasters.

The Authority is self-insured up to certain per occurrence limits for liability claims arising from injuries to persons, excluding employees. For claims arising from incidents that occurred on or after November 1, 2001, but before November 1, 2006, the self-insured retention limit was \$7 million per occurrence. Claims arising on or after November 1, 2006, but before November 1, 2009 were subject to an \$8 million limit. Effective November 1, 2009, the retention limit was increased to \$9 million per occurrence and effective November 1, 2012, the retention limit was increased to \$10 million. Lower limits applied for claims arising prior to November 1, 2001. The Authority is self-insured for work-related injuries to employees. The annual cost associated with injuries to persons, other than employees, and damage to third-party property, is reflected in expenses as public liability claims in the accompanying consolidated statements of revenues, expenses and change in net position.

The Authority establishes its liability for injuries to employees and to the general public on the basis of independent actuarial estimates of future liability.

A summary of activity in estimated liability arising from injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2014 and 2013, is as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 1,548,072	\$ 1,377,974
Activity during the year:		
Current year claims and changes in estimates	439,151	373,771
Claims paid	<u>(231,524)</u>	<u>(203,673)</u>
Balance at end of year	1,755,699	1,548,072
Less current portion	<u>(221,174)</u>	<u>(188,580)</u>
Long-term liability	<u>\$ 1,534,525</u>	<u>\$ 1,359,492</u>

**First Mutual Transportation Assurance Company** — (FMTAC), an insurance captive subsidiary of MTA, operates a liability insurance program (ELF) that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: \$8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 million for MTAHQ and MTA Bridges and Tunnels. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limits are: \$9 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 million for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2012 the self-insured retention limits for ELF were increased to the following amounts: \$10 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 million for MTA Staten

Island Railway; and \$2.6 million for MTAHQ and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2014, the balance of the assets in the ELF program was \$72.2 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 million for a total limit of \$400 million (\$350 million excess of \$50 million). In certain circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of \$50 million.

On March 1, 2014, the “nonrevenue fleet” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA Group with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides \$10 million per occurrence limit with a \$0.5 million per occurrence deductible for MTA Long Island Rail Road, MTA Staten Island Rapid Transit Operating Authority, MTA Police, MTA Metro-North Railroad, MTA Inspector General and MTA Headquarters. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On March 1, 2014, the “Access-A-Ride” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit’s Access-A-Ride program, including the contracted operators. This policy provides a \$3 million per occurrence limit with a \$1 million per occurrence deductible.

On December 15, 2014, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies for \$10 million per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

**Property Insurance** — Effective May 1, 2014, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2014, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25 million per occurrence self-insured retention (SIR), subject to an annual \$75 million aggregate as well as certain exceptions summarized below. The total program is \$600 million per occurrence covering property of the related entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 million per occurrence. The property insurance policy provides replacement cost coverage for all risks (including earthquake, flood and wind) of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

In addition to the noted \$25 million per occurrence self-insured retention, MTA self-insures all risks (excluding earthquake, flood and wind) above that retention for an additional \$362.3 million within the overall \$600 million property program as follow: \$33 million (or 33%) of the \$100 million layer excess of the primary \$150 million layer, plus \$229.3 million (or 91.7%) of the \$250 million layer excess of \$250 million, plus \$100 million (or 100%) of \$100 million excess of \$500 million.



FMTAC is 100% reinsured in the domestic, Asian, London, European and Bermuda marketplaces for the perils of Earthquake, Flood, and Wind for the \$600 million per occurrence and in the annual aggregate property program.

Supplementing the \$600 million per occurrence coverage noted above, FMTAC's property insurance program has been expanded to include a further layer of \$200 million of fully collateralized storm surge coverage for losses from storm surges that surpass specified trigger levels in the New York Harbor or Long Island Sound and are associated with named storms that occur at any point in the three year period from July 31, 2013 to July 30, 2016. The expanded protection is reinsured by MetroCat Re Ltd., a Bermuda special purpose insurer independent of the Authority and the MTA and formed to provide FMTAC with capital markets-based property reinsurance. The MetroCat Re reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is available for storm surge losses only after amounts available under the \$600 million in general property reinsurance are exhausted.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 85% of "certified" losses, as covered by the Terrorism Risk Insurance Act (TRIA) of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. The remaining 15% of MTA Group losses arising from an act of terrorism would be covered under the additional terrorism policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed \$100 million (trigger). The United States government's reinsurance of FMTAC expired on December 31, 2014 when Congress did not reauthorize TRIA. FMTAC was able to secure stand-alone terrorism coverage for the period from January 1, 2015 until January 12, 2015, when the Federal Terrorism Insurance Program was extended for six years and MTA reverted to said program.

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) program, the MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for: (1) 15% of any "certified" act of terrorism — up to a maximum recovery of \$161.2 million for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15% "certified" acts of terrorism insurance or (3) 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$100 million TRIPRA trigger — up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2015. Recovery under this policy is subject to retention of \$25 million per occurrence and \$75 million in the annual aggregate — in the event of multiple losses during the policy year. In the event that the MTA Group's retention in any one year exceed \$75 million, future losses in that policy year are subject to retention of \$7.5 million.

During 2014, there were no FMTAC reimbursements to the Authority. At December 31, 2014, the Authority has one outstanding claim requiring coverage by FMTAC for approximately \$3.0 million, which relates to a pedestrian struck by a vehicle in 2004. At December 31, 2014, FMTAC had \$1.3 billion of assets to insure current and future claims.



## 16. CONTINGENCIES

The Authority is involved in various litigation and claims involving personal liability claims and certain other matters. The ultimate outcome of these claims and suits cannot be predicted at this time. Nevertheless, management does not believe that the ultimate outcome of these matters will have a material effect on the consolidated financial position of the Authority.

In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in 2014 and 2013, the Authority recognized \$12.5 million and \$24.1 million, respectively, in pollution remediation expenses. The expense provision was measured at its current value utilizing the prescribed expected cash flow method (see Note 2). Pollution remediation obligations are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

At December 31, 2014, the Authority's pollution remediation liability totaled \$42.7 million on the consolidated statements of net position, primarily consisting of future remediation activities associated with asbestos removal, lead abatement, ground water contamination, and soil remediation.

## 17. SUBSEQUENT EVENTS

On January 14th and 15th, 2015, MTA priced \$850 million of MTA Transportation Revenue Bonds, Series 2015A, to finance existing approved transit and commuter projects. The bonds were offered in two subseries: the 2015A-1 bonds totaling \$600 million were issued as fixed-rate serial and term bonds; the 2015A-2 bonds were offered as SIFMA Floating Rate Notes (FRNs) with an initial purchase date of 5-years. The transaction was led by J.P. Morgan Securities, together with co-senior manager The Williams Capital Group. Hawkins Delafield and Wood served as bond counsel and Public Financial Management, Inc. served as financial advisor.

On January 22, 2015, the MTA Board voted to increase the Authority's Subway and Bus fares effective March 22, 2015. MetroCard seven-day passes increase from \$30 to \$31 and MetroCard thirty-day passes increase from \$112 to \$116.50. The basic fare increases from \$2.50 to \$2.75. The single-ride ticket price increases from \$2.75 to \$3.00. The bonus value increases from 5% to 11%.

On January 29, 2015, MTA executed a 2.9 gallon ultra-low sulfur diesel fuel hedge with J.P. Morgan Ventures Energy Corporation at an all-in price of \$1.8095/gallon. Three of MTA's existing approved commodity counterparties participated in bidding on the transaction: Goldman, Sachs & Co./ J Aron, J.P. Morgan Ventures Energy Corporation and Merrill Lynch Commodities Inc. The hedge covers the period from January 2016 through December 2016.

On February 26, 2015, MTA executed a 2.9 million gallon ultra-low sulfur diesel fuel hedge with Merrill Lynch Commodities Inc. at an all-in price of \$2.052/gallon. Three of MTA's existing approved commodity counterparties participated in bidding on the transaction: Goldman, Sachs & Co./ J Aron, J.P. Morgan Ventures Energy Corporation and Merrill Lynch Commodities Inc. The hedge covers the period from February 2016 through January 2017.

On March 19, 2015, MTA issued \$275 million of MTA Transportation Revenue Bonds, Series 2015B, to finance existing approved transit and commuter projects. Nixon Peabody will serve as bond counsel and Public Financial Management, Inc. will serve as financial advisor.

On March 25, 2015, MTA executed a 2.9 million gallon ultra-low sulfur diesel fuel hedge with Merrill Lynch Commodities Inc. at an all-in price of \$1.9195/gallon. Three of MTA's existing approved

commodity counterparties participated in bidding on the transaction: Goldman, Sachs & Co./ J Aron, J.P. Morgan Ventures Energy Corporation and Merrill Lynch Commodities Inc. The hedge covers the period from March 2016 through February 2017.

On April 2, 2015, MTA effected a mandatory tender and remarket \$50 million of MTA Transportation Revenue Bonds, Subseries 2012A-3, because its current interest rate period is set to expire by its terms on May 15, 2015.

***Tropical Storm Sandy Update***

As of February 26, 2015, MTA has drawn down \$183 million of the \$194 million grant for reimbursement of eligible operating and capital expenses. The grant in the amount of \$886 million is solely for MTA capital projects and will be used for recovery projects totaling \$802 million and for four resiliency projects totaling \$84 million. As of February 26, 2015, MTA has drawn down \$399 million of the \$886 million grant for reimbursement of eligible capital expenses. As of February 26, 2015, MTA has drawn down \$17 million of the \$684.5 million grant executed in September 2014, for reimbursement of eligible capital expenses. The grant in the amount of \$787.6 million is solely for MTA capital projects and was executed on February 11, 2015. As of February 26, 2015 there have been no federal drawdowns for that grant. The balance of funds to be drawn down from all four grants is available to MTA for reimbursement of eligible expenses as requisitions are submitted by MTA and approved by FTA. Additional requisitions are in process.

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**REQUIRED SUPPLEMENTARY INFORMATION**

# NEW YORK CITY TRANSIT AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF FUNDING PROGRESS FOR THE MABSTOA PENSION PLAN (UNAUDITED)

DECEMBER 31, 2014 AND 2013

(In millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Initial Entry Age (b)	Unfunded (AAL) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) As a Percentage of Covered Payroll ((b-a)/c)
1/1/14	\$ 2,028.0	\$ 2,892.6	\$ 864.6	70.11 %	\$ 616.4	140.3 %
1/1/13	1,764.4	2,702.4	938.0	65.29	582.1	161.1
1/1/12	1,624.3	2,482.8	858.5	65.42	576.0	149.1

# NEW YORK CITY TRANSIT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS FOR THE NEW YORK CITY TRANSIT  
 POSTEMPLOYMENT BENEFIT PLAN (UNAUDITED)  
 DECEMBER 31, 2014 AND 2013  
 (In millions)

<u>Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (a)	<u>Actuarial Accrued Liability (AAL) Initial Entry Age</u> (b)	<u>Unfunded (AAL) (UAAL)</u> (b-a)	<u>Funded Ratio</u> ((a/b)	<u>Covered Payroll</u> (c)	<u>(UAAL) As a Percentage of Covered Payroll</u> ((b-a)/c)
12/31/14	1/1/12	\$ 159.4	\$ 15,770.7	\$ 15,611.3	1.0 %	\$ 3,025.2	516.0 %
12/31/13	1/1/12	159.4	\$ 15,770.7	\$ 15,611.3	1.0	3,025.2	516.0
12/31/12	1/1/10	-	13,683.0	13,683.0	-	3,136.4	436.3

# Staten Island Rapid Transit Operating Authority

(Subsidiary of Metropolitan Transportation Authority)

Financial Statements as of and for the  
Years Ended December 31, 2014 and 2013,  
Required Supplementary Information, and  
Independent Auditors' Report

DRAFT



**STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY**  
**(Subsidiary of Metropolitan Transportation Authority)**

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## **INDEPENDENT AUDITORS' REPORT**

To the Members of the Board of  
Metropolitan Transportation Authority

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the Staten Island Rapid Transit Operating Authority (the "Authority"), a wholly owned public benefit corporation subsidiary of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of December 31, 2014 and 2013, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As discussed in the notes to the financial statements, the Authority is a subsidiary of the MTA. The MTA is a component unit of the State of New York. The Authority requires significant subsidies from and has material transactions with MTA, The City of New York and the State of New York. Our opinion is not modified with respect to this matter.

### ***Other Matters***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 and the Schedule of Funding Progress of the Staten Island Rapid Transit Operating Authority Postemployment Benefit Plan on page 37 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

April 29, 2015

# STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY

(Subsidiary of Metropolitan Transportation Authority)

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2014 AND 2013

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### 1. OVERVIEW OF THE FINANCIAL STATEMENTS

**Introduction to the Annual Report** — This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements and Notes to the Financial Statements and Required Supplementary Information.

**Management's Discussion and Analysis** — The following is a narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2014 and 2013. This management discussion and analysis ("MD&A") is intended to serve as an introduction to the Authority's financial statements. It provides an assessment of how Authority's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected Authority's overall financial position. It may contain opinions, assumptions or conclusions by Authority's management that should not be considered a replacement for, and must be read in conjunction with, the financial statements described below.

**The Financial Statements Include** — The Statements of Net Position provide information about the nature and amounts of resources with present service capacity that the Authority presently controls (assets), consumption of net assets by the Authority that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Authority has little or no discretion to avoid (liabilities), and acquisition of net assets by the Authority that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources being reported as net position.

The Statements of Revenues, Expenses and Changes in Net Position show how the Authority's net position changed during each year. They account for all of the current year's revenues and expenses, measures the financial results of the Authority over the past year and can be used to determine how the Authority has funded its costs.

The Statements of Cash Flows provide information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing, capital and related financing, and investing activities.

**The Notes to the Financial Statements** — The notes provide information that is essential to understanding the basic financial statements, such as the Authority's accounting methods and policies, details of cash and investments, capital assets, employee benefits, lease transactions, and future commitments and contingencies of the Authority, and information about other events or developing situations that could materially affect the Authority's financial position.

**Required Supplementary Information** — The Required Supplementary Information provides information concerning the Authority's progress in funding its obligation to provide other postemployment benefits to its employees.

## 2. FINANCIAL REPORTING ENTITY

The Staten Island Rapid Transit Operating Authority (“SIRTOA” or “Authority”) is a public benefit corporation and is part of the reporting group of the Metropolitan Transportation Authority (“MTA”) and was organized pursuant to the New York State (“State”) Public Authorities Law. The Authority operates and maintains the commuter rail service in Staten Island pursuant to an interim arrangement pending renewal of its Lease and Operating Agreement (“Operating Agreement”) with The City of New York (“The City”). The Operating Agreement provides that the Authority establish fares required to make operations self-sustaining (as defined in the operating agreement), and pay its operating expenses and The City pays the Authority’s capital costs and operating deficits. The City has the option to terminate the Operating Agreement at any time.

The Authority requires, and will likely continue to require, substantial subsidies from various governmental sources in order to maintain its operations in the future. The Authority estimates that current fare levels and anticipated operating subsidy levels will provide sufficient revenue to meet operating expenses. Subsidies required for future years are presently being determined. If the funds made available to the Authority are not sufficient to meet its needs, the Authority must raise fares, curtail its service and operations, or defer certain other expenditures (not including maintenance) in order to continue operating within the limits of the funds.

## 3. CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in the Authority’s financial position for the years ended December 31, 2014 and 2013. Additionally, an examination of major economic factors and industry trends that have contributed to these changes are provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are in conformity with the Authority’s financial statements, which are presented in accordance with generally accepted accounting principles in the United States of America.

### *Total assets, distinguishing between capital and other assets:*

	2014	December 31, 2013	2012	Increase/(Decrease)	
				2014–2013	2013–2012
Capital assets — net	\$ 135,078,780	\$ 118,120,898	\$ 110,261,556	\$ 16,957,882	\$ 7,859,342
Other assets	<u>63,031,107</u>	<u>36,479,039</u>	<u>44,139,883</u>	<u>26,552,068</u>	<u>(7,660,844)</u>
Total assets	<u>\$ 198,109,887</u>	<u>\$ 154,599,937</u>	<u>\$ 154,401,439</u>	<u>\$ 43,509,950</u>	<u>\$ 198,498</u>

Significant changes in assets include:

**December 31, 2014 versus 2013** — Net capital assets increased from December 31, 2013 to December 31, 2014 by \$16,957,882 or 14.4%. This is due primarily to additions to capital assets and a reduction in depreciation expense. The net additions to capital assets of \$24,880,628 or 9.3% results from the increase in construction in progress, structures, signals and vehicles, partly offset by an increase in accumulated depreciation of \$7,922,745 or 5.3% due to normal depreciation of assets. More detailed information about the Authority’s capital assets is presented in Note 5 to the financial statements.

Overall, current assets increased by \$26,552,068 or 72.8% compared with the prior year. This increase is primarily attributable to increase in the Due from MTA and NYC operating recovery subsidy receivable

of \$23,949,356 and \$3,713,000, respectively and partly offset by a decrease in other and MTA capital program funds receivable of \$795,733 and \$518,271, respectively.

**December 31, 2013 versus 2012** — Net capital assets increased from December 31, 2012 to December 31, 2013 by \$7,859,342 or 7.1%. This is due primarily to additions to capital assets and a reduction in depreciation expense. The net additions to capital assets of \$15,973,479 or 6.3% results from the increase in structures, stations, vehicles and cars, partly offset by an increase in accumulated depreciation of \$8,114,137 or 5.7% due to normal depreciation of assets. More detailed information about the Authority's capital assets is presented in Note 5 to the financial statements.

Overall, current assets decreased by \$7,660,844 or 17.4% compared with the prior year. This decrease is primarily attributable to decreases in the NYC operating recovery subsidy receivable, pension prepayment and MTA capital program funds receivable of \$4,018,000, \$1,967,533 and \$1,231,579, respectively.

***Total liabilities, distinguishing between long-term liabilities and current liabilities:***

	2014	December 31, 2013	2012	Increase/(Decrease)	
				2014–2013	2013–2012
Current liabilities	\$ 70,458,455	\$ 35,820,356	\$ 36,706,325	\$ 34,638,099	\$ (885,969)
Long-term liabilities	<u>25,827,866</u>	<u>21,975,615</u>	<u>19,762,440</u>	<u>3,852,251</u>	<u>2,213,175</u>
Total liabilities	<u>\$ 96,286,321</u>	<u>\$ 57,795,971</u>	<u>\$ 56,468,765</u>	<u>\$ 38,490,350</u>	<u>\$ 1,327,206</u>

Significant changes in liabilities include:

**December 31, 2014 versus 2013** — Total liabilities increased from December 31, 2013 to December 31, 2014 by \$38,490,350 or 66.6%. Current liabilities increased by \$34,638,099, due primarily to an increase of \$32,048,238 in Due to MTA and constituent authorities and \$2,542,000 in accrued salaries and wages. The long-term liability increase of \$3,852,251 was primarily the result of the addition of \$2,397,685 of post-employment benefits other than pensions based upon an updated OPEB actuarial valuation and \$1,584,400 of increase in estimated liability arising from injuries to persons, also based on the most recent actuarial valuation.

**December 31, 2013 versus 2012** — Total liabilities increased from December 31, 2012 to December 31, 2013 by \$1,327,206 or 2.4%. Current liabilities decreased by \$885,969, due primarily to a reduction of \$1,613,462 in Due to MTA and constituent authorities, partly offset by increases of \$404,552 and \$390,263 in sick and vacation reserves and accrued salaries and wages, respectively. The long-term liability increase of \$2,213,175 was primarily attributable to the result of the addition of \$1,413,348 of post-employment benefits other than pensions based upon an updated OPEB actuarial valuation and \$898,220 of increase in estimated liability arising from injuries to persons, also based on the most recent actuarial valuation.



***Total net position, distinguishing among net investment in capital assets, restricted amounts, and unrestricted amounts:***

	2014	December 31, 2013	2012	Increase/(Decrease)	
				2014–2013	2013–2012
Net investment in capital assets	\$ 135,078,780	\$ 118,120,898	\$ 110,261,556	\$ 16,957,882	\$ 7,859,342
Unrestricted deficit	<u>(33,255,214)</u>	<u>(21,316,932)</u>	<u>(12,328,882)</u>	<u>(11,938,282)</u>	<u>(8,988,050)</u>
Total net position	<u>\$ 101,823,566</u>	<u>\$ 96,803,966</u>	<u>\$ 97,932,674</u>	<u>\$ 5,019,600</u>	<u>\$ (1,128,708)</u>

Net position represents the residual interest in the Authority's assets after liabilities are deducted and consists of two sections: net investment in capital assets and unrestricted. Net investment in capital assets include capital assets, net of accumulated depreciation, reduced by outstanding debt, net of applicable debt service reserves. The Authority has no restricted net position. All other assets and liabilities are unrestricted.

**December 31, 2014 versus 2013** — Total net position was \$101,823,566 at the end of 2014, a net increase of \$5,019,600 or 5.2% from the end of 2013. The net increase was due to an operating loss of \$51,816,245, offset by nonoperating income of \$32,636,127 and MTA capital contributions of \$24,199,718.

**December 31, 2013 versus 2012** — Total net position was \$96,803,966 at the end of 2013, a net decrease of \$1,128,708 or 1.2% from the end of 2012. The net decrease was due to an operating loss of \$44,432,839, offset by nonoperating income of \$30,358,887 and MTA capital contributions of \$12,945,244.

***Condensed statements of revenues, expenses, and changes in net position:***

	Year Ended December 31,		
	2014	2013	2012
Operating revenues	\$ 8,307,241	\$ 7,941,955	\$ 7,693,362
Operating expenses	(60,123,486)	(50,873,794)	(49,223,363)
Asset impairment and related expenses	<u>-</u>	<u>(1,501,000)</u>	<u>(12,513,873)</u>
Operating loss	(51,816,245)	(44,432,839)	(54,043,874)
Nonoperating revenues (expenses):			
Grants, appropriations, and taxes	4,735,852	4,620,877	4,244,315
Subsidies	27,746,000	23,877,000	34,809,000
Federal Transit Authority / Federal Emergency Management Agency reimbursement	29,246	1,813,481	-
Other nonoperating revenue/expenses	<u>125,029</u>	<u>47,529</u>	<u>(66,375)</u>
Total nonoperating revenues	<u>32,636,127</u>	<u>30,358,887</u>	<u>38,986,940</u>
Loss before capital contributions	(19,180,118)	(14,073,952)	(15,056,934)
Capital contributions	<u>24,199,718</u>	<u>12,945,244</u>	<u>22,533,143</u>
Change in net position	5,019,600	(1,128,708)	7,476,209
Net position — beginning of year	<u>96,803,966</u>	<u>97,932,674</u>	<u>90,456,465</u>
Net position — end of year	<u>\$ 101,823,566</u>	<u>\$ 96,803,966</u>	<u>\$ 97,932,674</u>

**Revenues, by major source:**

	Year Ended December 31,			Increase/(Decrease)	
	2014	2013	2012	2014-2013	2013-2012
Fare revenue	\$ 5,898,026	\$ 5,504,313	\$ 5,388,754	\$ 393,713	\$ 115,559
Student and elderly reimbursement	1,714,317	1,758,718	1,629,894	(44,401)	128,824
Other	<u>694,898</u>	<u>678,924</u>	<u>674,714</u>	<u>15,974</u>	<u>4,210</u>
Total operating revenue	<u>\$ 8,307,241</u>	<u>\$ 7,941,955</u>	<u>\$ 7,693,362</u>	<u>\$ 365,286</u>	<u>\$ 248,593</u>

**December 31, 2014 versus 2013** — Revenues from fares and student and elderly reimbursements were \$7,612,343 in 2014, an increase of 4.8% from the prior year. Ridership in 2014 was 4.368 million, an increase of 3.5% from 2013. The increase in revenue was primarily due to the annualization of the March 2013 fare increase. Other revenues in 2014 consist mainly of advertising revenue and rental income.

**December 31, 2013 versus 2012** — Revenues from fares and student and elderly reimbursements were \$7,263,031 in 2013, an increase of 3.5% from the prior year. Ridership in 2013 was 4.221 million, a decrease of 5% from 2012. The increase in revenue was primarily due to the effect of the March 2013 fare increase and higher student reimbursements, partly offset by the continued impact on ridership of Tropical Storm Sandy and weekend service suspensions for construction in 2013 (see Note 6 to the financial statements). Other revenues in 2013 consist mainly of advertising revenue and rental income.

**Operating Expenses:**

(In thousands)	Year Ended December 31,			Increase/(Decrease)	
	2014	2013	2012	2014-2013	2013-2012
Salaries and wages	\$ 23,167	\$ 19,040	\$ 18,273	\$ 4,127	\$ 767
Health and welfare	4,296	3,005	3,206	1,291	(201)
Pensions	5,865	5,831	4,900	34	931
Other post employment benefits	3,492	3,159	2,933	333	226
Other fringe benefits	4,903	3,229	3,107	1,674	122
Traction and propulsion power	4,587	4,290	4,131	297	159
Materials and supplies	1,766	1,411	1,478	355	(67)
Insurance	1,593	588	389	1,005	199
Public liability claims	283	14	148	269	(134)
Maintenance and other operating contracts	833	869	983	(36)	(114)
Professional service contracts	1,247	731	700	516	31
Environmental remediation	(42)	-	(17)	(42)	17
Depreciation	7,923	8,114	8,880	(191)	(766)
Other business expenses	<u>210</u>	<u>592</u>	<u>112</u>	<u>(382)</u>	<u>480</u>
Total operating expenses	<u>\$ 60,123</u>	<u>\$ 50,873</u>	<u>\$ 49,223</u>	<u>\$ 9,250</u>	<u>\$ 1,650</u>

**December 31, 2014 versus 2013** — Operating expenses increased by \$9,249,692 or 18.2%. The increase of \$4,127,137 in salaries and wages was primarily due to an increase in the retroactive wage accrual for the tentative UTU settlement, non-represented personnel received wage increase in 2014 and overtime expenses for additional Tropical Storm Sandy requirements and several operational support initiatives. Health and welfare expenses increased by \$1,291,956 due primarily to higher rates for health and welfare plans. Other fringe benefits increased by \$1,673,894 due primarily to an increase in employer social security for the UTU retroactive wage accrual and non-represented personnel wage increase and higher Worker's Compensation reserve requirements based upon current actuarial

determination. Insurance expenses increased by \$1,005,355, due to increase MTA insurance policy coverage.

**December 31, 2013 versus 2012** — Operating expenses increased by \$1,650,431 or 3.4%. The increase of \$766,506 in salaries and wages was primarily due to overtime expenses for additional Tropical Storm Sandy requirements, the impact of adverse weather, and several operational support initiatives as well as the increase in the sick and vacation reserve and wage accruals. Pension expense increased by \$931,533 based on the latest actuarial valuation of the MTA Defined Benefit Pension Plan. The increase was largely attributable to the decrease in the assumed rate of return on investments from 7.5% to 7.0%. Other business expenses increased by \$479,748 representing the write-off of uncollectible accounts receivable. Depreciation expenses decreased by \$765,737, due to the write-off of impaired assets resulting from Tropical Storm Sandy at the end of 2012 (see Note 6 to the financial statements).

***Nonoperating Revenues and Expenses:***

Nonoperating revenues include various forms of State, The City and MTA subsidies and operating assistance. These subsidies are subject to annual appropriations by governmental units and periodic approval of the tax subsidies. The City and MTA subsidies are provided primarily to fund the operating deficit of SIRTOA.

Operating assistance subsidies from New York State and The City have been maintained at the same level each year.

Capital contributions from the MTA of \$24,199,718 in 2014 and \$12,945,244 in 2013 represent capital program funding from several sources including bonds, Federal, State and City funding.

***Changes in Net Position***

The change in net position represents the net total of capital contributions, operating losses and nonoperating income. Net position increased by \$5,019,600 in 2014 and decreased by \$1,128,708 in 2013. The change in net position for both years was due to capital contributions from the MTA and nonoperating income less operating losses.

**Budget Highlights** — Operating revenues in 2014 of \$8.3 million were below Budget by \$1.6 million (16.0%), due to the unfavorable timing of Sandy insurance reimbursements. Farebox revenue was higher than budget by \$0.2 million (3.0 %), due to higher ridership.

Operating expenses of \$60.1 million were above Budget by \$7.2 million (13.7%), due mostly to higher other fringe benefit expenses of \$4.9 million (832%), resulting primarily from additional Workers' Compensation reserve requirements, increased payroll expenses of \$2.3 million (12.7%), caused mainly by accrued pattern labor adjustments consistent with the TWU local 100 contract agreement reached in 2014, and unfavorable reimbursable overhead credits of \$1.6 million (76.7 %), due to a significant delay in the implementation of the reimbursable Sandy Capital Reconstruction project.

**4. OVERALL FINANCIAL POSITION, RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS**

**Economic Conditions** — Metropolitan New York is the most transit-intensive region in the United States. A financially sound and reliable transportation system is critical to the region's economic well-being.

The average level of seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2014 than in 2013 by 87.3 thousand jobs (up 2.2%). On a quarter-to-quarter basis, New York City employment has increased in each of the last sixteen quarters – the last decline occurred in the third quarter of 2010 – and is higher than at any time since 1950, when nonagricultural employment levels for New York City were first recorded by the Bureau of Labor Statistics.

The employment gain for New York City in the second quarter is consistent with an improving national economy. Fourth quarter Real Gross Domestic Product (“RGDP”) grew at an annualized rate of 2.6%, according to the most recent advance estimate released by the Bureau of Economic Analysis. The increase primarily reflected contributions from personal consumption expenditures, exports, state and local government spending, non-residential fixed investment, and private inventory investment, partially offset by a decline in federal government spending and an increase in imports. Fourth quarter RGDP growth slowed relative to third quarter growth as federal government spending, nonresidential fixed investment and exports fell, while imports rose. The national economy has now grown in twenty of the last twenty-two quarters.

The New York City metropolitan area’s price inflation of 0.6% was lower than the national average of 1.0% in the fourth quarter of 2014. A 7.8% fall in the price of energy products dampened the overall rise in consumer prices: the Consumer Price Index (“CPI”) exclusive of energy products increased by 1.5% in the New York-New Jersey-Long Island area. Consistent with the fall in overall energy prices, spot prices for New York Harbor conventional gasoline fell by 22.8% from an average price of \$2.698 to an average of \$2.082 per gallon between the fourth quarters of 2013 and 2014.

In June 2014, the Federal Reserve Bank announced that the Federal Open Market Committee (“FOMC”) would continue targeting the Federal Funds rate to the range of 0% to 0.25%, a range consistent with its statutory dual mandate to foster maximum employment within a context of price stability. The Federal Funds rate has remained in this range since late 2008, when the financial and housing market crises deepened. In fact, the Federal Reserve Bank began to pursue expansionary intervention more than a year earlier as a response to the impending economic downturn: since the third quarter of 2007, the Federal Reserve Bank has sought to mitigate the consequences of a recession by loosening the tight credit conditions that resulted from the national mortgage crisis. Confronting stubbornly high unemployment rates with no scope to reduce further the Federal Funds rate, in March 2009 the

Federal Reserve Bank began a program of large scale purchases of government guaranteed assets. The objective of the program, which was expanded in November 2010, was to raise the price of long-term securities, thereby lowering interest rates in order to stimulate investment in the economy. In spite of the steady improvement in economic activity in the second, third and fourth quarters of 2014, the FOMC elected in December to maintain an accommodative stance by continuing to target a Federal Funds rate in the range of 0% to 0.25%, noting that, partly because of the decline in energy prices, inflation rates remained below the Committee’s long-run objective; while labor markets evinced signs of improvement, the FOMC observed that recovery in the housing sector remained slow. In addition to maintaining the Federal Funds rate, the FOMC announced additional measures to foster conditions amenable to financial markets, including the continuation of its policy of reinvesting principal payments from its holdings of agency debt and mortgage-backed securities and of rolling over maturing Treasury securities at auction.

**Results of Operations and Overall Financial Position** — Total revenue from fares and student and elderly reimbursements was \$7,612,343 in 2014, an increase of 4.8% from 2013. Total ridership was 4.368 million, an increase of 3.5% from 2013. Total non-reimbursable expenses, including depreciation, pension costs and other post-employment benefits, were \$60,123,486 in 2014, an increase of 18.2%.

Going forward, the stability of the Authority's financial position is subject to certain risks, requiring the efficient management of costs, including the establishment of new cost reduction programs, in order to counteract any adverse impacts to revenue streams or cost increases.

## **5. SIGNIFICANT CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY**

**Capital Program** — The Transit Authority's portion of the current MTA Capital Program for 2010-2014, which includes SIRTOA, totals \$11.6 billion. As of December 31, 2014, \$9.0 billion has been committed under the five-year plan, of which \$4.5 billion has been expended. Funding for the Capital Program comes from new money bonds, federal grants, bonds supported by the payroll mobility tax applied within the MTA regional district, The City capital funding and other sources. In late December 2012, the MTA Board approved an amendment to the plan to add projects for the repair and restoration of MTA agency assets damaged as a result of Tropical Storm Sandy, which struck the region on October 29, 2012. The revised program provides for an additional \$3.3 billion in the Authority's portion of Sandy recovery-related capital expenditures. This amended plan was deemed approved by the Capital Program Review Board in January 2013.

SIRTOA projects incorporated into the overall program include a commitment for Tropical Storm Sandy repairs at St. George Interlocking and Tower B Restoration - \$119.9 million, and a new Power Substation at Prince's Bay - \$22.7 million. Upcoming capital projects include the restoration of Tower B Employee Facilities.

## **6. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The Authority's February 2015 Financial Plan includes certain risks such as possible lower investment returns on pensions and chronic cost issues relating to Workers' Compensation, public liability claims and overtime. These risks need to be addressed in order to be able to balance future year budgets. To assist in achieving this, the ongoing identification and implementation of sustainable new savings programs and gap closing actions will be required.

The full funding of the 2015-2019 Capital Program is necessary in order to meet all important requirements.

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**STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY**  
**(Subsidiary of Metropolitan Transportation Authority)**

**STATEMENTS OF NET POSITION**  
**AS OF DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash (Note 3)	\$ 604,095	\$ 801,331
Receivables:		
New York City Department of Education	739,022	767,662
NYC operating recovery	34,504,000	30,791,000
Due from MTA	24,120,567	171,211
MTA capital program funds receivable	76,574	594,845
Other	191,328	987,061
Less allowance for doubtful accounts	(137,719)	(81,530)
Net receivables	59,493,772	33,230,249
Materials and supplies — at average cost — net	1,343,185	1,192,099
Pension prepayment (Note 7)	766,528	636,622
Other current assets	823,527	618,738
Total current assets	63,031,107	36,479,039
NONCURRENT ASSETS — Capital assets at cost, less accumulated depreciation of \$157,637,571 and \$149,714,827 in 2014 and 2013, respectively (Note 5)	135,078,780	118,120,898
<b>TOTAL ASSETS</b>	<b>\$198,109,887</b>	<b>\$154,599,937</b>
<b>LIABILITIES AND NET POSITION</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,057,274	\$ 1,406,032
Accrued salaries and wages	2,964,242	422,242
Accrued sick and vacation pay	3,388,751	3,196,326
Accrued payroll taxes and related liabilities	704,971	805,969
Due to New York City Transit Authority	1,268,191	1,242,599
Due to MTA and constituent authorities (Note 4)	59,580,276	27,532,038
Estimated liability arising from injuries to persons, current portion (Note 9)	1,494,750	1,215,150
Total current liabilities	70,458,455	35,820,356
NONCURRENT LIABILITIES:		
Other post employment benefits (Note 8)	17,037,528	14,639,843
Estimated liability arising from injuries to persons, long-term (Note 9)	8,470,250	6,885,850
Pollution remediation projects	320,088	449,922
Total noncurrent liabilities	25,827,866	21,975,615
Total liabilities	96,286,321	57,795,971
NET POSITION:		
Net investment in capital assets	135,078,780	118,120,898
Unrestricted	(33,255,214)	(21,316,932)
Total net position	101,823,566	96,803,966
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$198,109,887</b>	<b>\$154,599,937</b>

See notes to financial statements.



**STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY**  
**(Subsidiary of Metropolitan Transportation Authority)**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
OPERATING REVENUE:		
Fare revenue	\$ 5,898,026	\$ 5,504,313
Student fare reimbursement	1,680,645	1,725,046
Elderly fare reimbursement	33,672	33,672
Other	694,898	678,924
Total operating revenues	<u>8,307,241</u>	<u>7,941,955</u>
OPERATING EXPENSES:		
Salaries and wages	23,166,968	19,039,831
Health and welfare	4,296,576	3,004,620
Pensions	5,864,903	5,831,533
Other post employment benefits	3,492,000	3,158,586
Other fringe benefits	4,902,841	3,228,947
Traction and propulsion power	4,586,848	4,290,383
Materials and supplies	1,766,479	1,410,895
Insurance	1,593,515	588,160
Public liability claims (Note 2)	283,247	14,000
Maintenance and other operating expenses	832,580	869,161
Professional service contracts	1,246,632	731,103
Environmental remediation	(41,544)	186
Depreciation	7,922,745	8,114,137
Other business expenses	209,696	592,252
Total operating expenses	<u>60,123,486</u>	<u>50,873,794</u>
Asset impairment and related expenses (Note 6)	<u>-</u>	<u>1,501,000</u>
OPERATING LOSS	<u>(51,816,245)</u>	<u>(44,432,839)</u>
NONOPERATING REVENUE — Operating assistance subsidies:		
New York State tax supported subsidy	3,625,148	3,510,173
New York State — 18B Assistance	555,352	555,352
New York City — 18B Assistance	555,352	555,352
NYC operating recovery subsidy (Note 2)	27,746,000	23,877,000
Federal Transit Authority/Federal Emergency Management Agency reimbursement	29,246	1,813,481
Total nonoperating revenues	<u>32,511,098</u>	<u>30,311,358</u>
Other nonoperating income (expenses) - net	<u>125,029</u>	<u>47,529</u>
Total nonoperating income	<u>32,636,127</u>	<u>30,358,887</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(19,180,118)	(14,073,952)
CAPITAL CONTRIBUTIONS:		
MTA contributions for capital projects	<u>24,199,718</u>	<u>12,945,244</u>
Increase (decrease) in net position	5,019,600	(1,128,708)
NET POSITION — Beginning of year	<u>96,803,966</u>	<u>97,932,674</u>
NET POSITION — End of year	<u>\$ 101,823,566</u>	<u>\$ 96,803,966</u>

See notes to financial statements.

**STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY**  
**(Subsidiary of Metropolitan Transportation Authority)**

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Passenger receipts	\$ 7,640,983	\$ 7,906,461
Rent and other receipts	778,542	578,412
Payroll and related fringe benefits	(38,480,223)	(32,474,671)
Other operating expenses	(6,251,298)	(7,099,289)
Net cash used in operating activities	(36,311,996)	(31,089,087)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Subsidies received	4,925,233	34,338,625
Repayment of NYC Operating Recovery advanced by MTA	-	(2,816,000)
FTA / FEMA reimbursement	29,246	1,813,481
Net cash provided by noncapital financing activities	4,954,479	33,336,106
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital expenditures	(24,880,627)	(15,064,805)
Reimbursement of capital costs from MTA	24,402,328	17,125,087
Net cash (used in) provided by capital and related financing activities	(478,299)	2,060,282
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from funds in MTA investment pool	43,497,996	41,414,839
Deposits into MTA investment pool	(11,859,416)	(45,456,000)
Net cash provided by (used in) investing activities	31,638,580	(4,041,161)
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(197,236)</b>	<b>266,140</b>
CASH — Beginning of year	801,331	535,191
CASH — End of year	\$ 604,095	\$ 801,331
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES —</b>		
MTA contributed capital assets to SIRTOA of \$24,199,718 and \$12,945,244 in 2014 and 2013, respectively.		

See notes to financial statements.

(Continued)

**STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY**  
**(Subsidiary of Metropolitan Transportation Authority)**

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss before non-operating revenues and contributions	<u>\$ (51,816,245)</u>	<u>\$ (44,432,839)</u>
Adjustments to reconcile operating loss to net cash used in operating activities — depreciation	7,922,745	8,114,137
Changes in operating assets and liabilities:		
Decrease in receivable from New York City Department of Education	28,640	643,430
Decrease (increase) in receivable from MTA	83,644	(100,512)
Decrease (increase) in other receivables	739,544	(118,611)
(Increase) decrease in materials and supplies inventory	(151,086)	709,050
Increase in other assets	(204,789)	(423,485)
(Increase) decrease in pension prepayment	(129,906)	1,967,533
(Decrease) increase in accounts payable	(348,758)	404,064
Increase in accrued salaries and wages	2,542,000	390,263
Increase in accrued sick and vacation	192,425	404,552
Decrease in payroll taxes payable	(100,998)	(237,891)
Increase (decrease) in due to MTA and constituent Authorities	773,345	(388,458)
Increase (decrease) in due to New York City Transit Authority	25,592	(589,275)
Increase in other post employment benefits	2,397,685	1,413,348
Increase in estimated liabilities arising from personal injuries	1,864,000	1,254,000
Decrease in liability for environmental pollution remediation	<u>(129,834)</u>	<u>(98,393)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (36,311,996)</u>	<u>\$ (31,089,087)</u>
See notes to financial statements.		(Concluded)

# STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY

## (Subsidiary of Metropolitan Transportation Authority)

### NOTES TO FINANCIAL STATEMENTS

#### AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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#### 1. BASIS OF PRESENTATION

**Reporting Entity** — The Staten Island Rapid Transit Operating Authority (“SIRTOA” or “Authority”) is a public benefit corporation subsidiary of the Metropolitan Transportation Authority (“MTA”) organized pursuant to the New York State (“State”) Public Authorities Law. SIRTOA is part of the financial reporting group of the MTA and is included in the MTA consolidated financial statements. The MTA is a component unit of the State and is included in the State of New York’s Comprehensive Annual Financial Report as a public benefit corporation.

SIRTOA operates and maintains the commuter rail service in Staten Island pursuant to an arrangement pending renewal of its Lease and Operating Agreement (Operating Agreement) with New York City (“The City”). The Operating Agreement provides that SIRTOA establishes fares required to make operations self-sustaining (as defined in the Operating Agreement), and pays its operating expenses and The City pays SIRTOA’s capital costs and operating deficits. The City has the option to terminate the Operating Agreement at any time.

SIRTOA requires and will continue to require substantial subsidies from various governmental sources in order to maintain its operations in the future. SIRTOA estimates that current fare levels and anticipated operating subsidy levels will provide sufficient revenue to meet operating expenses. Subsidies required for future years are presently being determined. If the funds made available to SIRTOA are not sufficient to meet its needs, SIRTOA must raise fares, curtail its services and operations or defer certain other expenditures (but not maintenance) in order to continue operating within the limits of the funds.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

SIRTOA applies Governmental Accounting Standards Board (“GASB”) Codification of Governmental Accounting and Financial Reporting Standards (“GASB Codification”) Section P80, *Proprietary Accounting and Financial Reporting*.

**New Accounting Standards** — SIRTOA has not completed the process of evaluating the impact of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and RSI. The provisions in GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

SIRTOA has completed the process of evaluating the impact of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB Statement No. 69 requires the use of carrying values to measure the assets and liabilities in a government merger and requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. GASB Statement No. 69 also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. GASB Statement No. 69 provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. GASB Statement No. 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. SIRTOA has determined that GASB Statement No. 69 had no impact on its financial position, results of operations, and cash flows.

SIRTOA has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. GASB Statement No. 70 also requires a government guarantor to consider qualitative factors when determining if a payment on its guarantee is *more likely than not* to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. GASB Statement No. 70 further requires an issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. This Statement also requires a government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. SIRTOA has determined that GASB Statement No. 70 had no impact on its financial position, results of operations, and cash flows.

SIRTOA has not completed the process of evaluating the impact of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The requirements of this Statement should be applied simultaneously with the provisions of GASB Statement No. 68 and are effective for fiscal years beginning after June 15, 2014.

SIRTOA has not completed the process of evaluating the impact of GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of GASB Statement No. 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The provisions in GASB Statement No. 72 are effective for periods beginning after June 15, 2015.



**Capital Assets** — SIRTOA is part of the MTA five-year Capital Program (“Capital Program”). The costs of capital assets acquired and transferred to SIRTOA without payment obligation under the MTA Capital Program is reflected in the accompanying financial statements under the captions “Capital Assets” and “Net Investment in Capital Assets.”

The cost of SIRTOA’s City funded in-house track rehabilitation is reflected in the accompanying financial statements under the captions “Capital Assets” and “Net Investment in Capital Assets.”

Capital assets are carried at cost and are depreciated on a straight-line basis over their estimated useful lives of 25 years for shops and yards, stations and signals. Track is depreciated over 30 years while structures and equipment and others are depreciated over 10 years. Vehicles are depreciated over 5 and 10 years, depending on their nature.

**Net Position** — SIRTOA follows the “business type” activity requirements of GASB Statement No. 34, which requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- *Net Investment in Capital Asset* — Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted:*
  - Nonexpendable — Net position subject to externally imposed stipulations such that SIRTOA maintains them permanently. For the years ended December 31, 2014 and 2013, SIRTOA did not have nonexpendable restricted net position.
  - Expendable — Net position whose use by SIRTOA is subject to externally imposed stipulations that can be fulfilled by actions of SIRTOA pursuant to those stipulations or that expire by the passage of time. For the years ended December 31, 2014 and 2013, SIRTOA did not have expendable restricted net position.
- *Unrestricted* — Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by actions of management or the Board of Directors or may be otherwise limited by contractual agreements with outside parties.

**Subsidies** — SIRTOA receives operating assistance subsidies under various New York State (the “State”) and City programs and from the proceeds of certain taxes instituted by the State for the benefit of the New York City Transit Authority and SIRTOA. These subsidies are subject to annual appropriations by the governmental units and periodic approval of the tax subsidies.

SIRTOA’s policy is to record one year’s operating assistance subsidy in each fiscal year. Such subsidy is recorded as revenue as the funds are made available. The New York City Transit Authority administers all tax-supported subsidies for SIRTOA on a formula amount determined by passenger ridership and vehicle revenue miles. The tax-based subsidies are recognized as revenue based on the amount of tax collections reported by the State, which are allocable to SIRTOA pursuant to this formula. In 2014 and 2013, the MTA provided SIRTOA with budgeted amounts of operating assistance subsidies as required. The MTA did not make the funds available to SIRTOA before they were required to finance its operations.



Pursuant to a letter agreement between The City and MTA, The City has agreed to pay SIRTOA's annual operating deficit, the difference between the actual operating costs and all revenues, including reimbursements, as an annual subsidy to SIRTOA. At December 31, 2014, SIRTOA recorded a NYC operating recovery receivable and subsidy revenue of \$34,504,000 and \$27,746,000, respectively for the calendar year 2014. In 2014, MTA received \$24,033,000 from The City for calendar year 2013 operating deficit on behalf of SIRTOA. This amount was recorded as a receivable Due from MTA at December 31, 2014.

In addition to operating and tax supported subsidies, SIRTOA receives expense reimbursement subsidies from The City and the MTA for the costs associated with various capital programs.

**MTA Investment Pool** — The MTA, on behalf of SIRTOA, invests funds which are not immediately required for SIRTOA's operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. All investments are held by the MTA's agent in custody accounts in the name of the MTA.

The Authority records its position in the Pool based upon a net asset value derived on assets invested in the Pool plus all realized income and losses earned. Unrealized appreciation, which is not significant to the Authority, is retained on the MTA's books and not included in the Authority's financial statements.

**Investments** — SIRTOA's investment policies comply with the New York State Comptroller's guidelines for such operating and capital policies. Those policies permit investments in, among others, obligations of the U.S. Treasury, its agencies and instrumentalities, and repurchase agreements secured by such obligations.

Investments are recorded on the statement of net position at fair value. All investment income, including changes in the fair value of investments, is reported as revenue on the statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values. At December 31, 2014 and 2013, SIRTOA had investment balances of \$167,978 and \$162,440, respectively, classified under other current assets.

The Authority has no financial instruments with significant individual or group concentrations of credit risk.

**Receivables** — Receivables are recorded as amounts due to SIRTOA, reduced by an allowance for doubtful accounts, to report the receivables at net realizable value.

**Pollution Remediation Projects** — Pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 10). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations, which previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: SIRTOA is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; SIRTOA is named by a regulator as a responsible or potentially responsible party to participate in remediation; SIRTOA voluntarily commences or legally obligates itself to commence remediation efforts; or SIRTOA is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

**Public Liability Claims** — SIRTOA establishes its liability to employees and to the general public on the basis of independent actuarial estimates of future liability.

**Materials and Supplies** — Materials and supplies consist of new maintenance parts and supplies, and are recorded at weighted average cost, net of a reserve for obsolescence.

**Revenue Recognition** — Revenues from the sales of farecards are recognized as income as the farecards are used and are reported as operating income.

**Operating Expenses** — Operating expenses are recognized in the accounting period in which the liability is incurred. All expenses related to operating SIRTOA (e.g., salaries, insurance, depreciation, etc.) are reported as operating expenses.

**Pension Plans** — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. SIRTOA has adopted this standard for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions (“ARC”) to the pension plan, calculated in accordance with certain parameters.

**Postemployment Benefits Other than Pensions** — In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (“RSI”) in the financial reports of state and local governmental employers. In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of GASB Statement No. 45. SIRTOA has adopted these standards for its postemployment benefits other than pensions.

**Use of Management’s Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

### 3. CASH

Bank balances are insured up to \$250,000 in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited. The bank balances in 2014 and 2013, that were not insured, were maintained in major financial institutions considered by management to be secure. The difference between the carrying amount and the bank balance for the years ended December 31, 2014 and 2013, is due to deposits in transit offset by any outstanding checks.

At December 31, 2014 and 2013, cash consisted of:

	2014		2013	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits ("FDIC")	\$ 250,000	\$ 250,000	\$250,000	\$250,000
Uninsured deposits	<u>354,095</u>	<u>385,132</u>	<u>551,331</u>	<u>554,587</u>
	<u>\$ 604,095</u>	<u>\$ 635,132</u>	<u>\$801,331</u>	<u>\$804,587</u>

#### 4. MTA INVESTMENT POOL

The MTA, on behalf of SIRTOA, invests funds which are not immediately required for SIRTOA's operations, in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury, U.S. Treasury notes, and U.S Treasury zero coupon bonds. All investments are held by the MTA's agent, in custody accounts, in the name of the MTA. SIRTOA records its position in the Pool based upon a net asset value derived on assets invested in the Pool plus all realized income and losses earned. Unrealized appreciation, which is not significant to SIRTOA, is retained on the MTA's books and not included in SIRTOA's financial statements. SIRTOA's earnings from short-term investments were \$3,501 and \$2,083 for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, SIRTOA had a negative investment pool balance of \$58,220,298 and \$26,945,405, respectively, as funds were used for working capital purposes to offset the timing of the NYC operating recovery subsidy. The negative \$58,220,298 was included in the Due to MTA and constituent authorities.

#### 5. CAPITAL ASSETS

Capital assets at December 31 consisted of the following:

	<u>December 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 2014</u>
Track	\$ 21,359,878	\$ -	\$ -	\$ 21,359,878
Structures	53,657,021	2,037,751	-	55,694,772
Cars	28,772,654	-	-	28,772,654
Shops and yard	21,424,780	-	-	21,424,780
Stations	81,972,877	-	-	81,972,877
Signals	8,074,883	1,338,653	-	9,413,536
Vehicles	1,680,792	616,895	-	2,297,687
Equipment and other	12,341,743	-	-	12,341,743
Under Construction*	<u>38,551,096</u>	<u>24,352,022</u>	<u>(3,464,693)</u>	<u>59,438,425</u>
Total capital assets, at cost	267,835,724	28,345,321	(3,464,693)	292,716,352
Less accumulated depreciation	<u>(149,714,827)</u>	<u>(7,922,745)</u>	<u>-</u>	<u>(157,637,572)</u>
Capital assets — net	<u>\$ 118,120,898</u>	<u>\$20,422,576</u>	<u>\$ (3,464,693)</u>	<u>\$ 135,078,780</u>

\* Assets under construction are non-depreciable.

	<u>December 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 2013</u>
Track	\$ 21,359,878	\$ -	\$ -	\$ 21,359,878
Structures	38,433,678	15,223,343	-	53,657,021
Cars	28,252,117	520,537	-	28,772,654
Shops and yard	21,424,780	-	-	21,424,780
Stations	81,846,294	126,583	-	81,972,877
Signals	8,074,883	-	-	8,074,883
Vehicles	260,566	1,420,226	-	1,680,792
Equipment and other	12,341,743	-	-	12,341,743
Under Construction*	<u>39,868,306</u>	<u>14,132,434</u>	<u>(15,449,644)</u>	<u>38,551,096</u>
Total capital assets, at cost	251,862,245	31,423,123	(15,449,644)	267,835,724
Less accumulated depreciation	<u>(141,600,689)</u>	<u>(8,114,137)</u>	<u>-</u>	<u>(149,714,827)</u>
Capital assets — net	<u>\$ 110,261,556</u>	<u>\$ 23,308,986</u>	<u>\$ (15,449,644)</u>	<u>\$ 118,120,898</u>

\* Assets under construction are non-depreciable.

## 6. ASSET IMPAIRMENT AND RELATED EXPENSES

On October 29, 2012, Tropical Storm Sandy made landfall just south of Atlantic City, New Jersey, as a post-tropical cyclone. The accompanying storm surge and high winds caused widespread damage to the physical transportation assets operated by SIRTOA. SIRTOA expects to recoup most of the costs associated with the repair or replacement of assets damaged by the storm over the next several years from a combination of insurance and federal government assistance programs.

As of December 31, 2014, the impairment losses to SIRTOA's assets (based upon estimates of the extent of impairment of the historical or "book value" of affected assets) are estimated to be \$10,994,261 from inception to date. Other costs associated with the storm included repair and clean-up expenses, which are also included in "Asset impairment and related expenses". For the year ended December 31, 2014, no storm related repair and clean-up expenses were incurred; \$1,501,000 were incurred for the year ended December 31, 2013. No funds were received in 2014 from the Federal Transit Administration ("FTA") for storm related repair and clean-up costs. The Authority received \$1,813,481 in 2013.

SIRTOA will recognize insurance proceeds for Tropical Storm Sandy-related losses in future periods when such proceeds are estimable and all related contingencies are removed.

As previously noted, federal governmental assistance programs are anticipated to cover many of the Sandy-related costs associated with repair and replacement of assets damaged in the storm. The Disaster Relief Appropriations Act ("Sandy Relief Act") passed in late January 2013, appropriated a total of \$10.9 billion in Public Transportation Emergency Relief Program funding to the FTA to assist affected public transportation facilities in connection with infrastructure repairs, debris removal, emergency protection measures, costs to restore service and costs related to implementing resiliency measures against future storms (hardening) at various facilities. The Sandy Relief Act also provided substantial funding for existing disaster relief programs of the Federal Emergency Management Agency ("FEMA").

Of the \$10.9 billion amount, under the Sandy Relief Act, an initial tranche of \$2.0 billion has been allocated by the FTA to affected state and local public transportation entities by the end of March 2013. On March 6, 2013, the Secretary of Transportation announced that \$194.0 million had been allocated to MTA, representing principally reimbursements for costs associated with preparing MTA's system for the storm and for restoring service post-storm; the FTA subsequently entered into a grant agreement with the MTA obligating these funds. On March 29, 2013, the FTA published its allocations for the remainder of the initial \$2.0 billion. MTA was allocated an additional \$1.0 billion of these monies, bringing MTA's total allocation from the first \$2.0 billion tranche of FTA Emergency Relief funds to \$1.194 billion. On May 23, 2013, the FTA allocated an additional \$3.7 billion to our region's transportation providers. The MTA will receive \$2.6 billion of this additional allocation bringing MTA's total allocation to \$3.8 billion. The funds made available through this additional allocation includes \$898.0 million set aside to help the MTA with resiliency projects to help ensure transit assets are better able to withstand future disasters. FTA approval of specific grants will need to be obtained prior to MTA's actual receipt or expenditure of any of these allocated funds.

Monies granted by FTA and FEMA to MTA for restoration of specific assets damaged in connection with Tropical Storm Sandy are anticipated to be reduced in amount (or subject to reimbursement) to the extent MTA also receives insurance proceeds covering damage to such specific assets.

## **7. EMPLOYEE BENEFITS**

**Pension Plan** — SIRTOA active and retired employees and their beneficiaries are included in the MTA Defined Benefit Pension Plan (the "Plan"). The Plan is a cost-sharing multiple employer plan which provides retirement, disability, and death benefits to Plan members and beneficiaries. Authority to establish and amend the Plan is vested in the MTA. There are 494 SIRTOA members in the Plan as of January 1, 2014. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. Copies of the report may be obtained from the MTA.

It is SIRTOA's policy to fund, at a minimum, the current year's normal pension costs. Contribution requirements of Plan members and SIRTOA are established and may be amended by the MTA. Contributions by members hired prior to June 1, 2010 are 3.0% of compensation and contributions by members hired on and after June 1, 2010 are 4.0% of compensation. Plan member contributions cease after 10 years of credited service.

SIRTOA's contribution is determined based on The Plan's annual actuarial valuation. In 2014, the MTA funded the annual SIRTOA required contribution. Contributions toward unfunded accrued liability are based on a 30-year amortization.

In 2005, the Staten Island Rapid Transit Operating Authority Pension Plan was merged with the MTA Defined Benefit plan, effective January 1, 2005. Plan assets were transferred to the MTA Defined Benefit Plan Master Trust, along with all accumulated employer and employee contributions during the fourth quarter of 2005. In addition, annuity funds totaling \$323,918, which had previously been invested in the MTA investment pool, were transferred to the MTA Defined Benefit Plan Master Trust as an additional employer contribution in 2005.



SIRTOA's annual contributions to the MTA Defined Benefit plan as a percent of covered payroll are 36.7%, 22.6% and 42.4% for the years ended December 31, 2014, 2013 and 2012, respectively. The actual contributions for the years ended December 31, 2014, 2013 and 2012, were \$5,994,809, \$3,864,000 and \$6,439,000, respectively; the required contributions were \$5,864,903, \$5,831,533 and \$4,900,000, respectively. Further information about the Plan is more fully described in the separately issued financial statements which can be obtained by writing to the MTA Comptroller, 2 Broadway, New York, New York 10004.

**Pension Plan Prepayment** — Employer contributions to the Plan in 2014, 2013, and 2012 were based on preliminary estimates, which exceeded required contributions by \$766,528. This overpayment is treated as a 2014 Pension Plan prepayment.

**Section 401(k) Plan** — SIRTOA's employees may participate in the MTA's deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). The plan was established in 1988 and is currently available to all employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are solely the property of the participants. Accordingly, no amounts are reflected in the accompanying financial statements for the 401(k) Plan. SIRTOA is not required to, and did not, make any contributions to the Plan in 2014 or 2013.

## 8. OTHER POSTEMPLOYMENT BENEFITS

SIRTOA has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and to what extent progress is being made in funding the plan.

**Plan Description** — The benefits provided by SIRTOA include medical, pharmacy, dental, vision and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement and welfare fund contributions. The different types of benefits provided vary by employee type (represented employees versus management). All benefits are provided upon retirement as stated in the MTA Pension Plan. SIRTOA provides benefits to some members if terminated within 5 years of attaining retirement eligibility.

SIRTOA participates in the New York State Health Insurance Program ("NYSHIP") to provide medical and prescription drug benefits, including Medicare Part B reimbursements to many of its members. NYSHIP provides a PPO plan and several HMO plans. Represented and non-represented employees who retired prior to January 1, 1996 or January 1, 2001, do not participate in NYSHIP. These benefits are provided either through a self-insured health plan, a fully insured or an HMO.

SIRTOA is a participating employer in NYSHIP. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Services, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.



GASB 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2013, and was performed with a valuation date of January 1, 2012. The total number of plan participants as of December 31, 2014, receiving retirement benefits was 107.

During 2012, MTA funded \$250 million into a Trust allocated between Headquarters and New York City Transit. In addition, \$50 million was funded during 2013 allocated between Long Island Railroad and Metro-North Railroad. No Trust contributions were made in 2014. Under GASB 45, the discount rate is based on the assets in a trust, the assets of the employer or a blend of the two based on the anticipated funding levels of the employer. For this valuation, the discount rate reflects a blend of Trust assets and employer assets. The assumed return on Trust assets is 6.5% whereas the assumed return on employer assets is 3.5% resulting in a discount rate under GASB 45 of 3.75%, which is slightly lower than the discount rate of 4% used in the prior valuation. This decrease is primarily due to the decrease in Treasury yields and thus, returns on employer assets since the prior valuation.

**Annual OPEB Cost (“AOC”) and Net OPEB Obligation** — SIRTOA’s annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. Currently, SIRTOA expenses the actual benefits paid during a year. The cumulative difference between the annual OPEB cost (new method) and the benefits paid during a year (old method) will result in a net OPEB obligation (the “Net OPEB Obligation”), included on the statements of net position. The annual OPEB cost is equal to the annual required contribution (the “ARC”) less adjustments if a Net OPEB Obligation exists and plus the interest on Net OPEB Obligations. The ARC is equal to the normal cost plus an amortization of the unfunded liability.

**Actuarial Cost, Amortization Methods and Assumptions** — For determining the ARC, SIRTOA has chosen to use the Frozen Initial Liability (“FIL”) Cost Method, one of the cost methods in accordance with the parameters of GASB 45. The initial liability is amortized over a 22 year period. The remaining amortization period at December 31, 2014, is 15 years.

In order to recognize the liability over an employee’s career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the “Accrued Liability” or “Past Service Liability”), the part that is being earned this year (the “Normal Cost”), and the part that will be earned in future years (the “Future Service Liability”). Under the FIL Cost Method, an initial past service liability is determined based on the Entry Age Normal (“EAN”) Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

The Frozen Unfunded Accrued Liability is determined each year as the Frozen Unfunded Accrued Liability for the prior year, increased with interest, reduced by the end-of-year amortization payment and increased or decreased by any new bases established for the current year.

The difference between the Actuarial Present Value of Benefits and the Frozen Unfunded Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

The ARC is equal to the sum of the Normal Cost and the amortization for the Frozen Unfunded Accrued Liability with appropriate interest adjustments. Any difference between the ARC and actual plan

contributions from the prior year are considered an actuarial gain/loss and thus, are included in the development of the Normal Cost. This methodology differs from the approach used for the pension plan where the difference between the ARC and actual plan contributions from the prior year, if any, will increase or decrease the Frozen Unfunded Accrued Liability and will be reflected in future amortization payments. A different approach was applied to the OPEB benefits because these benefits are not actuarially funded.

**Valuation Date** — The valuation date is the date that all participant and other pertinent information is collected and liabilities are measured. This date may not be more than 24 months prior to the beginning of the fiscal year. The valuation date for this valuation is January 1, 2012 which is 24 months prior to the beginning of the 2014 fiscal year. Census data for the next full valuation will be based on a valuation date of January 1, 2014.

**Inflation Rate** — 2.5% per annum compounded annually.

**Discount Rate** — GASB 45 provides guidance to employers in selecting the discount rate. The discount rate should be based on the estimated long-term investment yield on the investments that are expected to be used to finance the benefits. If there are no plan assets, assets of the employer should be used to derive the discount rate. This would most likely result in a lower discount rate and thus, liabilities significantly higher than if the benefits are prefunded. In recognition of the decrease in short-term investment yields, the discount rate for this valuation has been lowered from 4.0% to 3.75%.

**Healthcare Reform** — The valuation reflects the actuaries understanding of the impact in future health costs due to the Affordable Care Act (“ACA”) passed into law in March 2010. An excise tax for high cost health coverage or “Cadillac” health plans was included in ACA. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted. Also included in ACA are various fees (including, but not limited to, the Patient-Centered Outcomes Research Institute fee, Transitional Reinsurance Program fee, and the Health Insurer fee) associated with the initiation of health exchanges in 2014.

The OPEB-specific actuarial assumptions used in the most recent biennial valuations are as follows:

Valuation date	January 1, 2012
Actuarial cost method	Frozen initial liability
Discount rate	3.75%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen initial liability
Amortization period	15 years
Period closed or open	Closed

\* In general, all coverages are paid for by SIRTOA.

Actuarial valuation involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**Per Capita Claim Costs (“PCCC”)** — Use of a blended premium rate for active employees and retirees under age 65 is a common practice. Health costs generally increase with age, so the blended premium rate is higher than the true underlying cost for actives and the blended premium is lower than the true underlying cost for retirees. For retirees, this difference is called the implicit rate subsidy. Since

GASB 45 only requires an actuarial valuation for retirees, it requires the plan sponsor to determine the costs of these benefits by removing the subsidy. However, a plan sponsor may use the premiums without adjustment for age if the employer participates in a community-rated plan, in which the premium rates reflect projected health claims experience of all participating employers, or if the insurer would offer the same premium rate if only non-Medicare-eligible retirees were covered.

Based on a 2006 report from the Department of Civil Service of the State of New York regarding recommended actuarial assumptions used for New York State/SUNY's GASB 45 valuation sent to all participating employers, it stated that the Empire Plan of NYSHIP is community-rated for all participating employers. Each MTA Agency participating in NYSHIP is no more than approximately 1%, and in total, the MTA is approximately 3% of the total NYSHIP population. Thus, we believe that the actual experience of the MTA will have little or no impact on the actual premium and, that it is reasonable to use the premium rates without age adjustments as the per capita claims cost.

The medical and pharmacy benefits provided to TWU Local 100, ATU 1056 and ATU 726 represented Transit members are self-insured as well as some Pre-NYSHIP Transit members. For these benefits, we developed per capita claims cost relativity factors that varied by benefit, age and gender for retirees of the TWU Local 100, ATU Local 726 and ATU Local 1056 unions for 2012. These were then combined to match the aggregate claim experience provided by the Authority and MTA. Claims were increased by an incurred versus paid claim adjustment of 2.7% for health benefits and (0.3)% for pharmacy benefits. Finally, an administrative load was applied equal to 5.8% for Empire BCBS medical benefits, 3.8% for United Healthcare medical benefits and 0.6% for pharmacy benefits.

The following charts detail the monthly 2012 PCCC's used in the valuation:

Age	Empire Blue			Empire Blue		
	Cross/ Blue Shield	United Healthcare	Pharmacy	Cross/ Blue Shield	United Healthcare	Pharmacy
Male Employees				Female Employees		
30-34	\$ 481.70	\$ 921.70	\$ 141.22	\$ 633.31	\$ 1,211.79	\$ 158.70
35-39	697.73	1,335.04	243.03	812.97	1,555.54	242.67
40-44	825.11	1,578.78	290.18	853.83	1,633.73	299.31
45-49	666.26	1,274.83	243.63	717.19	1,372.28	280.55
50-54	607.73	1,162.84	213.80	638.21	1,221.16	269.44
55-59	717.11	1,372.12	241.25	659.79	1,262.45	298.08
60-64	840.40	1,608.02	263.29	746.74	1,428.81	312.32
65-69	117.36	N/A	292.93	117.42	N/A	296.48
70-74	146.33	N/A	309.94	140.45	N/A	317.82
75-79	179.85	N/A	315.56	165.16	N/A	330.96
80-84	207.25	N/A	318.11	187.84	N/A	337.91
85+	239.19	N/A	311.64	216.39	N/A	332.93
Male Dependents				Female Dependents		
30-34	\$ 255.72	\$ 489.29	\$ 74.97	\$ 350.22	\$ 670.12	\$ 87.76
35-39	301.98	577.82	105.18	382.82	732.50	114.27
40-44	359.62	688.11	126.47	426.70	816.44	149.58
45-49	407.91	780.49	149.16	465.67	891.02	182.16
50-54	479.38	917.25	168.64	518.28	991.69	218.81
55-59	575.69	1,101.54	193.67	567.95	1,086.72	256.58
60-64	749.46	1,434.02	234.80	688.17	1,316.75	287.82
65-69	117.36	N/A	292.93	117.42	N/A	296.48
70-74	146.33	N/A	309.94	140.45	N/A	317.82
75-79	179.85	N/A	315.56	165.16	N/A	330.96
80-84	207.25	N/A	318.11	187.84	N/A	337.91
85+	239.19	N/A	311.64	216.39	N/A	332.93

**Medicare Part B Premiums** — The Medicare Part B premium reimbursement was included in the 2012 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 5%. These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

**Medicare Part D Premiums** — GASB has issued a Technical Bulletin stating that the value of expected Retiree Drug Subsidy ("RDS") payments to be received by an entity cannot be used to reduce the Actuarial Accrued Liability of OPEB benefits nor the ARC. Furthermore, actual contributions made (equal to the amount of claims paid in a year if the plan is not funded) will not be reduced by the amount of any subsidy payments received. Accordingly, the 2012 valuation excludes any RDS payments expected to be received by SIRTOA.

**Health Care Cost Trend Rates** — For those retirees participating in NYSHIP, the trend assumption used for 2013 and 2014 was 1.7% and 5.0%, respectively. The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 12.2 utilizing the baseline assumptions included in the

model, except real GDP of 1.8% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors and potential excise taxes due to healthcare reform, separately for NYSHIP and non-NYSHIP benefits. These assumptions are combined with long-term assumptions for dental and vision benefits (4%) plus Medicare Part B reimbursements (5%). The NYSHIP trend reflects actual increases in premiums through 2014. The NYSHIP trend is used for six agencies plus the non-represented employees of MTA Bus. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements. For NYC Transit, this trend is weighted by liability with the non-NYSHIP trend assumption. The following lists the NYSHIP and non-NYSHIP trend assumptions along with the resulting trends assumed for Transit.

#### Health Care Cost Trend Rates

<u>Fiscal Year</u>	<u>NYSHIP</u>	<u>Non-NYSHIP</u>		<u>Transit</u>	
		<u>&lt; 65</u>	<u>&gt;=65</u>	<u>&lt; 65</u>	<u>&gt;=65</u>
2012	0%*	7.6%	7.3%	4.8%	4.6%
2013	1.7	7.4	6.6	5.4	4.8
2014	5.0	6.2	6.2	5.8	5.8
2015	5.5	5.8	5.8	5.7	5.7
2016	5.7	5.5	5.5	5.6	5.6
2017	5.9	14.6	5.5	12.5	5.6
2022	5.9	6.4	5.5	6.2	5.6
2027	6.8	6.2	5.4	6.4	5.9
2032	6.5	6.0	5.6	6.2	5.9
2037	6.1	5.7	5.3	5.8	5.7
2042	5.7	5.4	5.9	5.5	5.8
2047	5.5	5.3	5.7	5.4	5.6
2052	5.4	5.2	5.5	5.3	5.5

\* Trend not applicable as actual 2013 premiums were valued

**Participation** — The table below summarizes the census data provided by SIRTOA and utilized in the preparation of the actuarial valuation. The table shows the number of active and retired employees and provides a breakdown of the coverage elected and benefits offered to current retirees.

**OPEB Participation for SIRTOA as of January 1, 2012**

	<b><u>Active Members</u></b>
Number	255
Average age	46.1
Average service	15.0
	<b><u>Retirees</u></b>
Single medical coverage	22
Employee/spouse coverage	40
Employee/child coverage	1
No medical coverage	<u>19</u>
Total number	<u>82</u>
Average age	64.2
Total number with dental	23
Total number with vision	23
Total no. with supplement	27
Average monthly supplement amount (excluding Part B premium)	\$ 383
Total no. with life insurance	82
Average life insurance amount	\$2,543

**Coverage Election Rates** — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For groups that do not participate in NYSHIP, details on coverage election rates can be found in NYC Transit Section IV of the valuation.

**Dependent Coverage** — Spouses are assumed to be the same age as the employee/retiree. 85% of male and 60% of female eligible members are assumed to elect family coverage upon retirement. No children are assumed. Actual family coverage elections for current retirees are used. If a current retiree's only dependent is a child, eligibility is assumed for an additional 7 years of dependent coverage if the member participates in NYSHIP (otherwise, 5 years) from the valuation date was assumed.



### Demographic Assumptions:

**Mortality** — Preretirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee.

**Preretirement** — RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments. No blue collar adjustments were used for management members of SIRTOA.

**Postretirement Healthy Lives** — 95% of the rates from RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue collar adjustments were used for management members of SIRTOA.

**Postretirement Disabled Lives** — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females.

**Turnover and Retirement Rates** — All demographic assumptions were based on assumptions utilized in the 2013 actuarial valuation for the MTA Pension Plan, with the exception of the mortality assumption.

**Vestee Coverage** — For members that participate in NYSHIP, Vesteers (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Authority upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vesteers are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vesteers.

<u>Age at Termination</u>	<u>Percent Electing</u>
< 40	- %
40-43	5
44	20
45-46	30
47-48	40
49	50
50-51	80
52+	100

The following table shows the elements of SIRTOA's annual OPEB cost for the year, the amount contributed, and changes in SIRTOA's net OPEB obligation to the plan for the years ended December 31, 2014 and 2013. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

<b>(In thousands)</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Annual required contribution	\$ 4,340	\$ 3,924
Interest on net OPEB obligation	549	496
Adjustment to annual required contribution	<u>(1,397)</u>	<u>(1,261)</u>
Annual OPEB cost/expense	3,492	3,159
Contributions made	<u>(1,094)</u>	<u>(1,745)</u>
Increase in net OPEB obligation	2,398	1,414
Net OPEB obligation — beginning of year	<u>14,640</u>	<u>13,226</u>
Net OPEB obligation — end of year	<u>\$17,038</u>	<u>\$14,640</u>

SIRTOA's annual OPEB cost, the percentage of annual OPEB cost contributed and the net estimated OPEB obligation for the year ending December 31, 2014, 2013 and 2012 were as follows (in thousands):

<b><u>Year Ended</u></b>	<b><u>Annual OPEB Cost</u></b>	<b><u>Percentage of Annual OPEB Cost Contributed</u></b>	<b><u>Net OPEB Obligation</u></b>
December 31, 2014	\$ 3,492	31.3 %	\$ 17,038
December 31, 2013	3,159	55.3	14,640
December 31, 2012	2,933	27.1	13,226

SIRTOA's funding progress information as of December 31, 2014, is as follows (in thousands):

<b><u>Year Ended</u></b>	<b><u>Valuation Date</u></b>	<b><u>Actual Value of Assets (A)</u></b>	<b><u>Actual Accrued Liability Initial Entry (AAL) (B)</u></b>	<b><u>Unfunded Actual Accrued Liability (UAAL) (B-A)</u></b>	<b><u>Funded Ratio (A/B)</u></b>	<b><u>Covered Payroll (C)</u></b>	<b><u>UAAL as a Percentage of Covered Payroll (B-A)/C</u></b>
12/31/2014	1/1/2012	\$ -	\$ 32,049	\$ 32,049	- %	\$ 15,283	209.7 %

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## 9. RISK MANAGEMENT

SIRTOA is exposed to various risks of loss related to torts; theft of, damage to and destruction of its assets; injuries to persons, including employees; and natural disasters.

There are a number of claims and suits against SIRTOA for injuries to persons. The amounts claimed are significantly higher than the amount which management estimates will ultimately be paid. Although simple claims for minor amounts are frequently settled shortly after they arise, the settlement of more complex and large claims may take years after the claim is asserted.

It is not possible to determine with any certainty the amount for which each claim will ultimately be settled because there are many subjective factors in such determinations and all of the issues may not be known for months or even years after the incident at issue.

SIRTOA is self-insured up to certain per occurrence limits for liability claims arising from injuries to persons, excluding employees. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limit was \$2.3 million per occurrence. Claims arising on or after November 1, 2009, but before November 1, 2012 were subject to a \$2.6 million limit. Effective November 1, 2012, the retention limit was increased to \$3.0 million. Lower limits applied for claims arising prior to November 1, 2006. SIRTOA is self-insured for work-related injuries to employees. The annual cost associated with injuries to persons, other than employees, and damage to third-party property, is reflected in expenses as public liability claims in the accompanying consolidated statements of revenues, expenses and change in net position.

SIRTOA establishes its liabilities to employees and to the general public on the basis of independent actuarial estimates of future liability.

A summary of activity in the estimated liability arising from injuries to persons, including employees, and damage to third-party property, for the year ended December 31, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Balance — beginning of year	\$ 8,101,000	\$ 6,847,000
Activity during the year:		
Current year claims and changes in estimates	2,939,585	2,099,245
Claims paid	<u>(1,075,585)</u>	<u>(845,245)</u>
Balance — end of year	9,965,000	8,101,000
Less current portion	<u>(1,494,750)</u>	<u>(1,215,150)</u>
Long-term liability	<u>\$ 8,470,250</u>	<u>\$ 6,885,850</u>

**First Mutual Transportation Assurance Company — (“FMTAC”)**, an insurance captive subsidiary of MTA, operates a liability insurance program (“ELF”) that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: \$8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad;

\$2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 million for MTAHQ and MTA Bridges and Tunnels. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limits are: \$9 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 million for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2012 the self-insured retention limits for ELF were increased to the following amounts: \$10 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 million for MTA Staten Island Railway; and \$2.6 million for MTAHQ and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2014, the balance of the assets in the ELF program was \$72.2 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 million for a total limit of \$400 million (\$350 million excess of \$50 million). In certain circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of \$50 million.

On March 1, 2014, the “nonrevenue fleet” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA Group with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides \$10 million per occurrence limit with a \$0.5 million per occurrence deductible for MTA Long Island Rail Road, MTA Staten Island Rapid Transit Operating Authority, MTA Police, MTA Metro-North Railroad, MTA Inspector General and MTA Headquarters. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On March 1, 2014, the “Access-A-Ride” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit’s Access-A-Ride program, including the contracted operators. This policy provides a \$3 million per occurrence limit with a \$1 million per occurrence deductible.

On December 15, 2014, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies for \$10 million per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

**Property Insurance** — Effective May 1, 2014, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2014, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate as well as certain exceptions summarized below. The total program is \$600 million per occurrence covering property of the related entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 million per occurrence. The property insurance policy provides replacement cost coverage for all risks (including earthquake, flood and wind) of direct physical loss or damage to all real and personal

property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

In addition to the noted \$25 million per occurrence self-insured retention, MTA self-insures all risks (excluding earthquake, flood and wind) above that retention for an additional \$362.3 million within the overall \$600 million property program as follow: \$33 million (or 33%) of the \$100 million layer excess of the primary \$150 million layer, plus \$229.3 million (or 91.7%) of the \$250 million layer excess of \$250 million, plus \$100 million (or 100%) of \$100 million excess of \$500 million.

FMTAC is 100% reinsured in the domestic, Asian, London, European and Bermuda marketplaces for the perils of Earthquake, Flood, and Wind for the \$600 million per occurrence and in the annual aggregate property program.

Supplementing the \$600 million per occurrence coverage noted above, FMTAC's property insurance program has been expanded to include a further layer of \$200 million of fully collateralized storm surge coverage for losses from storm surges that surpass specified trigger levels in the New York Harbor or Long Island Sound and are associated with named storms that occur at any point in the three year period from July 31, 2013 to July 30, 2016. The expanded protection is reinsured by MetroCat Re Ltd., a Bermuda special purpose insurer independent of the Authority and the MTA and formed to provide FMTAC with capital markets-based property reinsurance. The MetroCat Re reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is available for storm surge losses only after amounts available under the \$600 million in general property reinsurance are exhausted.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 85% of "certified" losses, as covered by the Terrorism Risk Insurance Act ("TRIA") of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. The remaining 15% of MTA Group losses arising from an act of terrorism would be covered under the additional terrorism policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed \$100 million ("trigger"). The United States government's reinsurance of FMTAC expired on December 31, 2014 when Congress did not reauthorize TRIA. FMTAC was able to secure stand-alone terrorism coverage for the period from January 1, 2015 until January 12, 2015, when the Federal Terrorism Insurance Program was extended for six years and MTA reverted to said program.

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") program, the MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for: (1) 15% of any "certified" act of terrorism — up to a maximum recovery of \$161.2 million for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15% "certified" acts of terrorism insurance or (3) 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$100 million TRIPRA trigger — up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2015. Recovery under this policy is subject to retention of \$25 million per occurrence and \$75 million in the annual aggregate — in the event of multiple losses during the policy year. In the event that the MTA Group's retention in any one year exceed \$75 million, future losses in that policy year are subject to retention of \$7.5 million.

At December 31, 2014, SIRTOA does not have any outstanding claims, which require FMTAC coverage.



## 10. CONTINGENCIES

**Operating Lease** — SIRTOA is currently obligated under an operating lease agreement for its main office. The lease expires on January 13, 2023. Future minimum base rent under the lease is \$205,418 commencing January 14, 2015 with rent increasing at a rate of 2.5% per annum over the life of the lease.

<u>Years Ending December 31</u>	<u>Operating</u>
2015	\$ 205,418
2016	210,554
2017	215,818
2018	221,213
2019	226,743
2020-2023	<u>965,094</u>
Total minimum lease payments	<u>\$ 2,044,840</u>

Total rent expense for the years ended December 31, 2014 and 2013, were \$377,829 and \$286,599, respectively.

**Pollution Remediation** — In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, SIRTOA recognized a credit in pollution remediation expense of \$41,544 in 2014 compared to an expense amount of \$186 in 2013. The expense credit was the result of downward modification of encumbrances on existing projects. A corresponding decrease in the remediation liability was also recorded. The expense provision was measured at its current value utilizing the prescribed expected cash flow method (see Note 2). Pollution remediation obligations are estimates subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

At December 31, 2014, SIRTOA's pollution remediation liability totaled \$320,088, primarily consisting of future remediation activities associated with asbestos removal, lead abatement, ground water contamination and soil contamination.

## 11. SUBSEQUENT EVENTS

On January 22, 2015, the MTA Board voted to increase SIRTOA's fares effective March 22, 2015. MetroCard seven-day passes increase from \$30 to \$31 and MetroCard thirty-day passes increase from \$112 to \$116.50. The basic fare increases from \$2.50 to \$2.75. The single-ride ticket price increases from \$2.75 to \$3.00. The bonus value increases from 5% to 11%.

\* \* \* \* \*



**REQUIRED SUPPLEMENTARY INFORMATION**

**STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY**  
**(Subsidiary of Metropolitan Transportation Authority)**

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**SCHEDULE OF FUNDING PROGRESS**  
**FOR THE STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY**  
**POSTEMPLOYMENT BENEFIT PLAN**  
**(In thousands)**

Year Ended	Valuation Date	Actual Value of Assets (A)	Actual Accrued Liability (AAL) (B)	Unfunded Actual Accrued Liability (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll (B-A)/C
December 31, 2014	January 1, 2012	\$ -	\$32,049	\$32,049	- %	\$15,283	209.7 %
December 31, 2013	January 1, 2012	-	32,049	32,049	-	15,283	209.7
December 31, 2012	January 1, 2010	-	27,201	27,201	-	14,512	187.4

# Memorandum



## Metropolitan Transportation Authority

State of New York

**Date** April 20, 2015

**To** Members of the Board

**From** Lamond W. Kears, Chief Compliance Officer

A handwritten signature in blue ink, likely belonging to Lamond W. Kears, the Chief Compliance Officer.

**Re** Financial Interest Reports – 2015 Covering Calendar Year 2014

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The New York State Joint Commission on Public Ethics (“JCOPE”) recently emailed notices regarding filing the Annual Financial Disclosure Statement for 2015, covering calendar year 2014. All Board Members have an obligation to file a financial disclosure statement with JCOPE pursuant to Section 1.03 of the MTA Board Member Code of Ethics and New York Ethics Law. This statement, whether completed on-line or hard copy, should be filled out carefully and thoughtfully and filed with JCOPE no later than May15, 2015.

JCOPE is authorized to enforce the State’s ethics and financial reporting laws, which include the ability to impose a civil penalty up to \$40,000 or prosecute as class A misdemeanor violations of those laws. The MTA provides its full cooperation and assistance to the JCOPE in its enforcement of the law.

Should you find yourself in a situation that raises any questions as to your obligation to file a financial disclosure statement with JCOPE, I encourage you to contact me at 646-252-1330 for guidance.

c: Thomas F. Prendergast  
Donna M. Evans  
Jerome F. Page

# Memorandum



## Metropolitan Transportation Authority

State of New York

**Date** April 20, 2015

**To** All Applicable MTA Personnel

**From** Lamond W. Kears, Chief Compliance Officer

A handwritten signature in blue ink, likely belonging to Lamond W. Kears, the Chief Compliance Officer.

**Re** Financial Disclosure Statement – 2015 Covering Calendar Year 2014

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The New York State Joint Commission on Public Ethics ("JCOPE") has begun the process of e-mailing or mailing notices regarding the New York State Annual Financial Disclosure Statement for 2015, covering calendar year 2014, to applicable employees. All applicable employees have an obligation to file a financial disclosure statement with JCOPE. This statement, whether completed on-line or hard copy, should be filled out carefully and thoughtfully and filed with JCOPE no later than May 15, 2015 pursuant to JCOPE's instructions.

JCOPE is authorized to enforce the State's ethics and financial reporting laws, which include the ability to impose a civil penalty up to \$40,000 or to seek prosecution as class A misdemeanor violations of those laws. Pursuant to Board guidelines, in addition to providing its full cooperation and assistance to JCOPE in its enforcement of the law, the MTA will impose such disciplinary action as may be appropriate in the case of violations.

I urge all officers and employees to review our MTA All Agency Code of Ethics and the materials you received on the Public Officers Law at the time you were hired. Should you require a copy of these materials, do not hesitate to contact MTA Corporate Compliance. As you complete your financial disclosure form you should be aware of any potential conflicts of interest that you may have.

There is no exemption from filing for anyone who is away from work for any part of the calendar year or is working a reduced work schedule.

Again this year JCOPE will assess penalties for filings received after the statutory deadline. To avoid late fines and possible disciplinary action, your statement must be received by JCOPE no later than May 15, 2015.

New employees that are required to file, who commence service after the MTA submits its written list of financial filers, are required to file within 30 days of commencing employment.

Financial Interest Reports  
April 20, 2015  
Page 2

Should you find yourself in a situation that raises any question as to your obligations concerning conflicts of interest or whether you are required to file a financial disclosure statement with JCOPE, I encourage you to contact the Ethics Helpline at 888 U-ASK-MTA (888-827-5682) for guidance.

# Metropolitan Transportation Authority Ethics and Compliance Program

Report to the Audit Committee  
April 29, 2015





# Corporate Compliance: Strategic Alignments



# Corporate Compliance: Ethics and Compliance Issues

- Corporate Compliance handled over 400 ethics or compliance issues in 2014.
  - Many received by Email, followed by telephone calls, helpline and in-person visits
  - Issues included
    - Attendance at Prohibited Source Events
    - Outside Activity Approval Requests
    - Gift Issues
    - Financial Disclosures
    - Reimbursement for Travel Expenses
    - Acceptance of Honoraria
    - Political Activities

# Expansion of Compliance Training Program

1. JCOPE Comprehensive Ethics Training
2. Prevention of Violence in the Workplace+
3. Right to Know+
4. Cyber Security\*
5. Internal Controls\*
6. Reasonable Accommodation Series\*
7. Equal Employment Opportunity: Rights and Responsibilities
8. Sexual Harassment in the Workplace
9. Anti-Nepotism+
10. Travel and Business Expense+
11. Whistleblower Protection+
12. Computer Usage and Social Media+

\* New Courses launched in 2014

+ New Courses Under Development

# New Policy Certifications

- Code of Ethics
- Travel and Business Expense
- Anti-Nepotism Employment Procedures
- Computer and Social Media Usage
- Whistleblower Protection



# Communications

- Availability:
  - Code was distributed to all MTA Employees
  - Code is posted on the MTA Intranet and Internet
  - The MTA All-Agency Code continues to be translated into Braille
  - Code is given to all new Employees
- Relevant:
  - The Code is maintained and updated as necessary
  - On-going discussions regarding modifications to the Code



# Communications: MTA Today

- One day each month dedicated to Ethics and Compliance Issues
  - Provide Ethics guidance
  - Utilizing entertaining videos to engage employee interest





## Communications: E-mail Distributions

- Ethikos Magazine-Distributed to all senior management
- Tone at the Top-Distributed to all senior management




# Communications: Memoranda 2015

- New Employee Package
  - Public Officers Law
  - Code of Ethics
- Holiday Gift-Employees
- Holiday Gift-Vendors
- Political Activity
- Honorarium/Outside Employment
- Specific Events
- Updated Information
- Financial Disclosure

# Communications: Promote use of the Ethics Helpline-Signage

**ETHICS**  
**What's that about?**

- It's about speaking up when you know something's unethical.
- It's knowing and following our Code of Ethics.
- Mostly, it's about all the things that create a work environment that lets us all do the right thing.


**Ask Questions. Get Answers.**  
MTA Corporate Compliance  
888-U-ASK-MTA  
(888-827-5682)  
 Metropolitan Transportation Authority

**Can You Report Ethics Violations Without Giving Your Name?**

And is it true that anonymously reported violations will be investigated thoroughly?

**The answer is YES!**

MTA Corporate Compliance is here to answer your questions and to provide a work environment that lets us all do the right thing.


**Ask Questions. Get Answers.**  
MTA Corporate Compliance  
888-U-ASK-MTA  
(888-827-5682)  
 Metropolitan Transportation Authority

**Is Keeping Quiet Good?**

And is it true that as an MTA employee you are expected to keep quiet about things you know are unethical?

**The answer is NO!**

MTA Corporate Compliance is here to answer your questions and to provide a work environment that lets us all do the right thing.

**Ask Questions. Get Answers.**  
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# Corporate Compliance: Coordination



# **MTA Headquarters DDCR Update**

- ☐ **Monitoring & Reporting**
- ☐ **Status of the MTA IG Recommendations**
- ☐ **DDCR Performance Metrics**
- ☐ **New Contract Compliance System**
- ☐ **Policy Revision**

# MTA Headquarters

## DDCR Update – Monitoring & Reporting

*MWDBE \* Active Contracts - As of March 31, 2015*

Active Contracts with Goals	Federal	State
Total Number of MWDBE Contracts	176	463
Total \$ Amount of Awards to Prime	\$9,406,648,842	\$7,608,492,059
MTA Overall Goal	17%	20%
Status as of March 31, 2015		
Total Payment to Prime	\$5,275,108,351	\$4,601,103,591
Total Payment to MWDBE Firms	\$161,880,453	\$134,251,922
* Minority, Women-owned, and Disadvantaged Business Enterprises		



# MTA Headquarters

## DDCR Update - Status of the MTA IG Recommendations

The MTA Office of the Inspector General assessed DDCR's performance in completing monitoring tasks that have the potential to detect and deter contractor fraud and other serious compliance violations. Their recommendations are related to the topics listed below.

1) Establish Performance Metrics – <b>In Progress – Target completion date is December 2015</b>	6) Establish protocols for contract close outs – <b>In Progress - Target completion date is June 2015</b>
2) Revise Standard Operating Procedures (“SOPs”) – <b>In Progress -Target completion date is June 2015</b>	7) Report to Audit Committee – <b>Implemented – Next update in September 2015</b>
3) Increase Site Visits – <b>Implemented</b>	8) Improve Record Management – <b>In Progress - Target Completion Date is October 2015</b>
4) Adjust Payment Verification Procedures - <b>Implemented</b>	9) Monitor Goal Compliance – <b>Implemented</b>
5) Establish list of contracts to be closed out and plan to address backlog - <b>Implemented</b>	10) Improve Contract Compliance System – <b>Implemented</b>

# MTA Headquarters

## DDCR Update

### *Active and Closed Contracts*

#### *Performance Metrics – As of April 2015*

#	Area of Performance	Results
1.	<b>Site Visits</b> <i>(84 Visits per Quarter)</i>	In the 1 <sup>st</sup> Quarter of 2015, 65 (77%) have been completed.
2.	<b>Payment Verification</b> <i>(Perform verifications at the 30%/60%/90% Project Completion)</i>	<p>\$ 268 million in payments to M/W/DBE firms in closed contracts has been verified.</p> <p>Out of this amount, \$106 million was paid to DBEs, and \$162 million was paid to M/WBEs.</p>
3.	<b>Subcontract Agreements</b> <i>(Obtain 100% Agreements within 30 days of the start of the project)</i>	Out of 3,653 subcontract agreements, a total of 3,018 (83%) agreements have been obtained.

## MTA Headquarters DDCR Update

### *Inactive Contracts - Status as of April 14, 2015*

Inactive Contracts with Goals	#
1. Total Contracts Reviewed and Closed	196 (a)
2. Contracts Administratively Closed	62 (b)
Sub-Total	<u>258</u>
3. Close-Outs in Progress	546
4. Contracts Pending Agency Action	277
<b>Total</b>	<b>1,081 (c)</b>

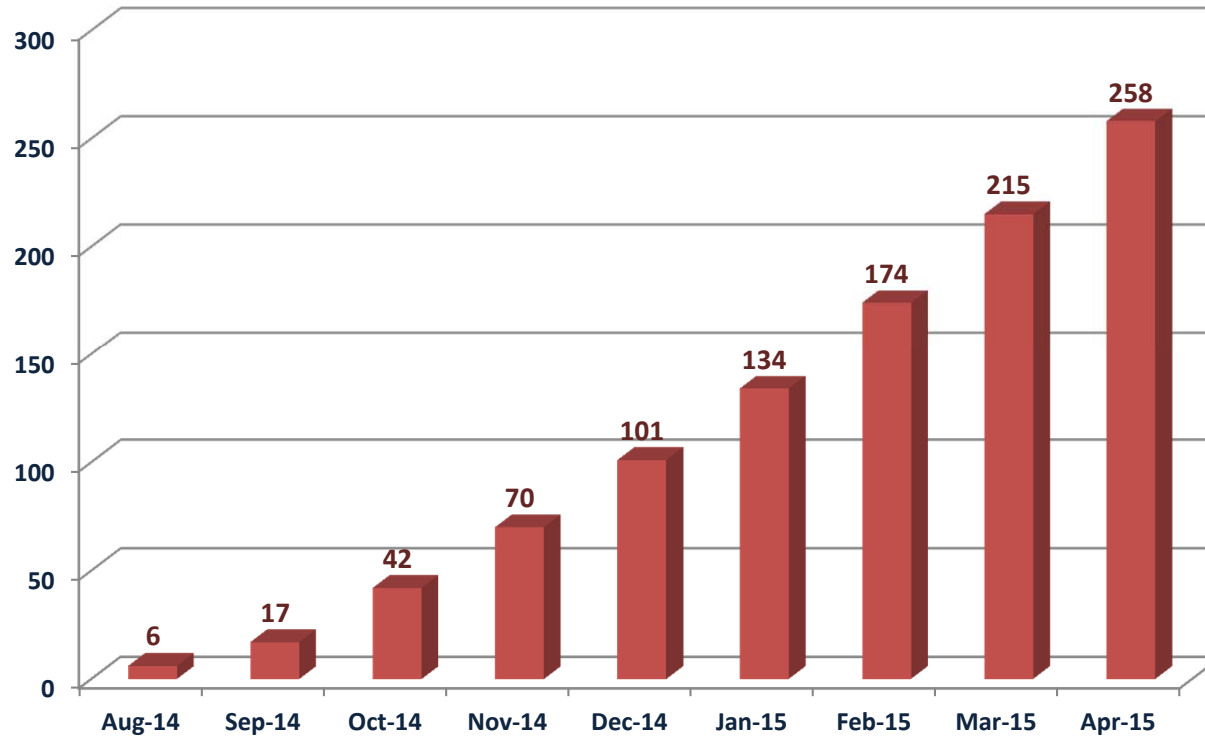
*a. 70% of contracts either met or exceeded M/W/DBE goals.*

*b. Administratively closed because of the age of the contracts (beyond the established seven-year record retention period).*

*c. This total number of inactive contracts is as of August 2014.*

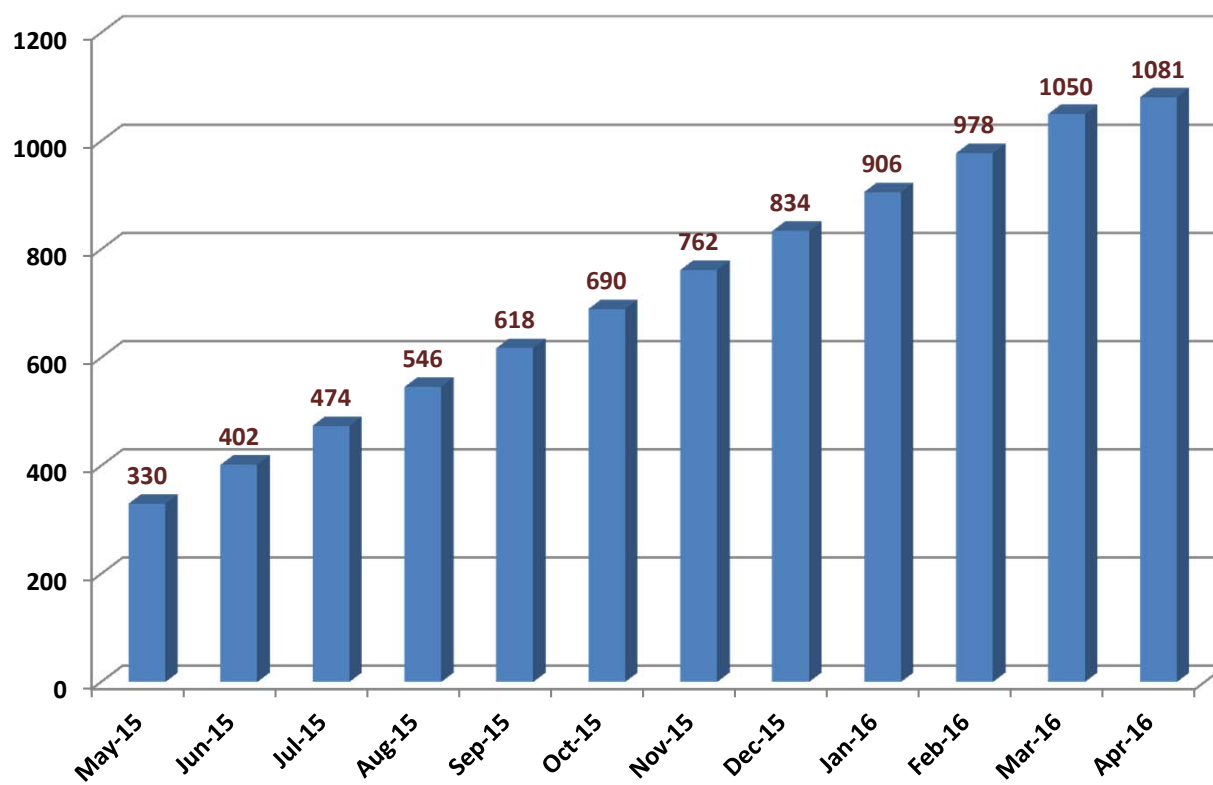
# MTA Headquarters DDCR Update

## *Contracts Closed - From August 2014 to April 2015*



# MTA Headquarters DDCR Update

## *Projected Contract Closeouts - May 2015 to April 2016*



# **MTA Headquarters DDCR Update**

## ***New Contract Compliance System – B2G System***

- ❑ **MTA is in the process of purchasing a new contract compliance system (B2G System) – Implementation projected by the end of 2015.**
- ❑ **B2G is mandated by New York State, and it is currently being used by State Agencies & Authorities.**
- ❑ **The implementation of the B2G System will enable:**
  - **Improve tracking and monitoring of M/W/DBE goal compliance.**
  - **Prime contractors to directly enter into the system payments made to M/W/DBE subcontractors.**
  - **M/W/DBE subcontractors to confirm receipt of payments.**
  - **Prompt payment status verification.**



## **MTA Headquarters DDCR Update – Policy Revision**

- ❑ MTA Corporate Compliance is working together with DDCR, MTA agency staff and MTA Audit Services to review and revise the current All Agency Policy Directive regarding M/W/DBE compliance.**
- ❑ The purpose of this review and revision is to, in accordance with the MTA IG recommendation, accurately define the roles and responsibilities of DDCR and the MTA agencies in efficient and effective implementation of MTA's M/W/DBE Program.**
- ❑ Revised policy will help secure enhanced compliance with applicable federal and state laws, rules and regulations relating to advancing opportunities for M/W/DBEs.**

# **MTA Headquarters DDCR Update**

## **Next Steps**

- ☐ **Fully implement MTA IG Recommendations**
- ☐ **Complete hiring of staff**
- ☐ **Implement the new B2G System**
- ☐ **Review and issue the revised All Agency Policy**
- ☐ **Update the Audit Committee on Progress**