



Metropolitan Transportation Authority

Audit Committee Meeting

April 2018

Committee Members

J. Vitiello, Chair

C. Moerdler

J. Molloy

M. Pally

N. Zuckerman

Audit Committee Meeting

**MTA Board Room - 20th Floor
2 Broadway**

Monday, 4/23/2018

3:00 - 4:30 PM ET

1. PUBLIC COMMENTS

2. APPROVAL OF MINUTES

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3. AUDIT COMMITTEE WORK PLAN

2018 WORKPLAN - Condensed - Page 10

2018 WORKPLAN - Detailed - Page 12

4. MANAGEMENT REVIEW OF MTA CONSOLIDATED FINANCIAL STATEMENTS

Management Review of MTA's 2017 Consolidated Financial Statements - Page 16

5. 2017 FINANCIAL STATEMENTS

Draft - 2017 MTA Consolidated Financial Statements - Page 27

Draft - 2017 NYCTA Financial Statements - Page 161

Draft - 2017 Long Island Rail Road Financial Statements - Page 238

Draft - 2017 MNCR Financial Statements - Page 303

Draft - 2017 TBTA Financial Statements - Page 369

Draft - 2017 SIRTOA Financial Statements - Page 450

Draft - 2017 MTA Bus Financial Statements - Page 498

Draft - 2017 FMTAC Financial Statements - Page 554

6. FINANCIAL INTEREST REPORTS

2017 FDS Letter to All Applicable Personnel - Page 579

2017 FDS Letter to MTA Board Members - Page 581

Annual Report on 2017 Financial Interest Reporting Compliance - Page 582

7. OPEN AUDIT RECOMMENDATIONS

8. DDCR PERFORMANCE MEASURES UPDATE

DDCR April 2018 Audit Committee Update - Page 584

9. EXECUTIVE SESSION

**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
THURSDAY, FEBRUARY 22, 2018 - 8:30 A.M.
RONAN BOARD ROOM – 20TH FLOOR
2 BROADWAY**

The following were present:

Honorable:

**Mitchell Pally
John Molloy**

Andrew Albert

**M. Fucilli - MTA
L. Kearse - MTA
S. Gellineau - MTA
N. Din - MTA**

**R. Foran - MTA
P. Kane - MTA
M. Garner - MTA
M. Woods - MTA**

**M. Fritz - Deloitte
J. Strohmeier - Deloitte**

Also in attendance were:

**R. Hakim - MTA
H. Fromme - MTA**

Member Mitchell Pally presided the meeting on behalf of Chair Vitiello, noting today's meeting was the scheduled meeting for January.

1. PUBLIC COMMENTS PERIOD

There were no public speakers.

2. APPROVAL OF MINUTES

A motion to approve the minutes of the November 13, 2017 Audit Committee meeting was made and seconded but was not carried due to absence of a quorum.

3. AUDIT COMMITTEE WORK PLAN

There was one change made to the work plan, which was moving the meeting scheduled for June to July.

4. INDEPENDENT ACCOUNTANT'S REVIEW REPORT – 3rd QUARTER 2017

Mike Fritz (Deloitte) first introduced Jill Strohmeier, the senior member of the engagement team and then briefed the committee on the results of their review of the 3rd Quarter 2017 MTA Consolidated Financial Statements. He said their review noted no material weaknesses or significant deficiencies and that no current or prior period adjustments were required to the financial statements. Additionally, he indicated that

the financial statements were prepared consistently in accordance with Generally Accepted Accounting Principles (GAAP).

A motion to accept the 3rd Quarter 2017 MTA Consolidated Financial Statements was made and seconded but was not carried due to absence of a quorum.

5. MANAGEMENT'S REVIEW OF PENSION FINANCIAL STATEMENTS

Pat Kane (MTA Comptroller) presented the total net assets of the six MTA pension plans, highlighting the MTA Defined Benefit Pension Plan which he said has net assets of \$3.4 billion and total membership of nearly 30,000. He indicated the pension plans' financial statements were prepared in accordance with GAAP, using accounting standards established by the Government Accounting Standards Board (GASB). He briefly discussed the four sections of the financial statements and the new computation basis for pension plan contributions under GASB 68. Pat also presented a schedule which showed the six pension plans had a total liability of \$30.2 billion, net assets of \$22.1 billion and a net liability of \$8.1 billion. There were discussions on the pension plan's funding ratio and the improvements in the individual plan funding ratios especially with respect to the LIRR Additional Plan. Bob Foran (MTA Chief Financial Officer) spoke about the improvement in the ratios, noting that it was the result of the Board's direction allowing finance management discretion to address the pension liabilities when "funds are available." Lastly, Pat presented a chart in the form a US map, highlighting the "public employee funding ratio by state in 2016", which showed that MTA's funding ratio of 73.2% compared favorably against the ratios of a majority of the states on the chart.

6. PENSION PLAN AUDITS

Mike Fritz (Deloitte) first commented that the unfunded pension liabilities of \$8 billion are now reflected in the pension plan financial statements and that a funding ratio of 70%+ is relatively a good ratio. Mike then proceeded to discuss their audit of the six pension plans, noting that it included, among other procedures: verifying the existence, ownership and valuation of the investments; having its actuaries and experts look at the census data on employees' earnings and years of service and the discount rates used in the pension plans. He said their audit noted consistent application of principles and procedures and that no current adjustments or previous year adjustments were required to the pension financial statements prepared by financial management. Additionally, he indicated their audit noted no material weakness or significant deficiencies in the plans' internal controls. He said the financial statements covered in their audit were as of December 31, 2016 and the time lag is not unusual given the time it takes for actuaries to gather employees demographic and pension data. Lastly, Mike stated that the required audit communication about the pension audits were sent separately to the committee and the representation letters were obtained from management. Member Albert asked if it was correct to assume nothing in the financial statements should be a cause for "alarm" and Mike Fritz responded in the affirmative.

A motion to accept the audited pension plans was made and seconded but was not carried due to absence of a quorum

7. ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL GUIDELINES

Lamond Kearse (MTA Compliance Officer) briefed the committee on the MTA ERM activities, citing several accomplishments, including the all-agencies submission of the Annual Internal Control

Certifications, all agencies working on closing open material weaknesses/significant control deficiencies and documenting the vulnerability assessment in the GRC system. He provided statistics on various business processes and control activities and spoke about external and internal driven risk changes relative to compliance with state and federal guidelines.

With respect to the MTA Enterprise Risk Management and Internal Control Guidelines that are reviewed annually with the Board, Lamond informed the committee that the compliance staff recommends no changes to the current guidelines at this time.

8. COMPLIANCE WITH THE REQUIREMENTS OF THE INTERNAL CONTROL ACT

Lamond Kearse reported that, as noted in the memoranda on the Effectiveness of Internal Controls in MTA and a copy of the Internal Control Certification signed by Chairman Lhota presented in the agenda book, the MTA is fully compliant with the requirements of the NY State Internal Control Act.

9. INFORMATION TECHNOLOGY REPORT

Sid Gellineau (MTA Chief Information Officer) reported on the MTA IT's strategies and accomplishments, citing labor and non-labor budget reductions during the 2015-2017 period and the achievement of one time savings of \$96.1 million and total savings of \$143 million since consolidation. He discussed the progress of the application rationalization efforts undertaken MTA-wide, noting 598 Applications are in scope for rationalization of which 298 were potential candidates for rationalization within current strategic projects and that 23 application rationalizations have already completed. He also spoke about the multi-year major initiatives involving Windows server and desktop upgrades and data center optimization; the continuing efforts to consolidate multiple contracts into a single IT contract or Enterprise License Agreements; IT's ten major accomplishments in 2017 and its eight goals for 2018. Lastly, Sid spoke about recruiting staff, a concern he said that IT continues to address working with HR, attending job fairs, interviewing on the weekends and promoting MTA IT brand.

Bob Foran commented that application rationalization contributes to the cost reduction goal and acknowledged the efforts of IT (Sid Gellineau) and BSC (Wael Hibri) in the achieving the cost reductions to date. He said that application rationalization efforts continue but are being stymied by agencies resistance to change and he indicated that this is an issue presently being resolved with the agency heads. Ronnie Hakim (MTA Managing Director) affirmed Bob's concern and indicated she will work with IT and partner with Bob and the agencies towards the resolution of the issue. She also acknowledged the role IT has played in the customer phasing initiatives, including the success in having count-down clocks for the B-Division, a "home-grown" project that resulted in significant savings in time and money. Member Albert inquired if IT has also worked to make the B-Division count-down clocks more accurate and the response was in the affirmative.

10. DDCR PERFORMANCE MEASURES UPDATE

Michael Garner (MTA Chief Diversity Officer) introduced Naeem Din to make the presentation. Naeem presented the slide that showed the status of contracts reviewed and closed. He stated that, as of January 31, 2018, about 1,185 contracts have been closed out, 25 were in progress of being closed out and 47 were contracts "pending agency action." He spoke about the significant progress that had been made in site visits confirming DBE/WBE contract compliance, noting that in 2017 about 54 site visits were conducted each

month and a total of 1,610 site visits were performed from September 2015, when the site visit initiative began, to date.

Mike Garner commented that DDCR has been working closely with MTA Audit Services and the Chief Compliance Office and reaching out to agency heads to ensure the contracts are closed out timely and effectively. He said DDCR has been pro-active in following up with the agencies when final payment notifications are received to avoid delays and prevent the close out backlog experienced in the past. Lastly, he said DDCR's contract managers each have a goal of conducting at least 8 site M/W/DBE site visits a month to enforce contract compliance. Acting Chair Pally inquired if the issuance of the check is the last step in the closeout process and the response was that the sign off by the agency in PeopleSoft would be last step in the process to close-out the contract.

11. 2017 AUDIT PLAN STATUS AND 2018 AUDIT PLAN

The Auditor General (AG) presented a summary of Audit Services' accomplishments in 2017, noting Audit Services completed 168 audits, made over 600 audit recommendations resulting in revenue enhancements, improvement in controls and cost efficiencies with a total dollar impact of \$53.7 million. On the contract side, savings were achieved totaling \$37.9 million mostly from cost proposal audits which ensured third party contracts presented for Board approval have the lowest and reasonable price. He reported that the Sandy audit unit, which was established with this Committee's approval, audited \$333 million of \$1.71 billion Sandy grant expenditures and made 252 recommendations, including Sandy cost adjustments totaling \$59.6 million. He said MTA Audit Services performed audits and management support assistance in other areas, including the PeopleSoft Upgrade, the Governor's Executive Order # 168 and the Subway Action Plan. The AG presented the 2018 Audit Plan and described the audit plan formulation, the audit plan sources, the risk factor considerations and the planning process performed in accordance with the Institute of Internal Audit Standards. The plan has been presented to the Chairman, the Managing Director, Agency Heads and senior management whose input were solicited during the planning process. Additionally, inputs were also obtained from the external auditor and the MTA Chief Compliance Officer. He said that the formal documented risk assessment and planning process resulted in the identification of 165 audits for 2018. The AG described the four Audit Strategies adopted by Audit Services for 2018 and provided the Committee with a snapshot of the audits in 2018 in the functional areas of: Finance, Service Delivery, Safety, Procurement, Revenue, Human Resources, Technology and Capital Program. The AG informed the Committee of the results of an internal quality assurance review, conducted in accordance with policies, which found Audit Services to be in compliance with applicable professional standards. The AG indicated that MTA Audit Services is due for an external quality assurance review this year and estimate such a review would cost around \$25,000. Lastly, 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.

Member Albert inquired if MTA is up-to-date with respect to FTA funding of ongoing and yet-to-be started Sandy projects. Michele Woods (MTA Audit) responded in the affirmative.

A motion to approve the proposed 2018 Audit Plan was made and seconded but was not carried due to the absence of a quorum.

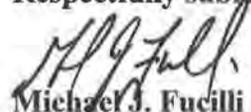
12. EXECUTIVE SESSION

Upon motion duly made and seconded, the Committee voted to convene an executive session to discuss Data and Cyber Security in the MTA.

13. MOTION TO ADJOURN

The Committee returned to regular session, at which time a motion was made and seconded to adjourn the meeting.

Respectfully submitted,



Michael J. Fucilli
Auditor General

**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
MONDAY, MARCH 19, 2018 - 12:45 P.M.
RONAN BOARD ROOM – 20TH FLOOR
2 BROADWAY**

The following were present:

Honorable:

Mitchell Pally

Charles Moerdler

Andrew Albert

Fernando Ferrer

M. Fucilli - MTA

L. Kearsse - MTA

R. Foran - MTA

P. Kane - MTA

M. Fritz - Deloitte

J. Strohmeyer - Deloitte

Also in attendance were:

R. Hakim - MTA

H. Fromme - MTA

Mitchell Pally presided the meeting on behalf of Chair Vitiello and stated that the purpose of the meeting was to vote on the four agenda items that Deloitte and the Auditor General presented to the committee at the February meeting that required committee votes. He said the members present then voted in favor of the motions but the motions did not carry as the committee did not have a quorum.

Acting Chair Pally inquired if there were any public speakers. There being none, he proceeded to present the February agenda items requiring committee votes, as follows:

1. APPROVAL OF THE MINUTES OF THE LAST COMMITTEE MEETING

A motion was made and seconded to approve the minutes of the November 13, 2017 Audit Committee meeting.

2. 3rd QUARTER 2017 MTA CONSOLIDATED FINANCIAL STATEMENTS

Acting Chair Pally indicated that at the February Committee meeting, Mike Fritz (Deloitte) presented the results of their review of the 3rd Quarter 2017 MTA Consolidated Financial Statements and noted the financial statements were prepared in accordance with GAAP and that their review noted no adjustment or changes to the financial statements.

Acting Chair Pally asked if there were any comments or questions.

There being none, a motion was made and seconded to accept the 3rd Third Quarter 2017 MTA Consolidated Financial Statements.

3. 2016 PENSION PLAN AUDITS

Acting Chair Pally indicated the 2016 financial statements of the following pension plans were audited by Deloitte:

1. The MNR Cash Balance Plan;
2. The MaBSTOA Pension Plan;
3. The MTA Defined Benefit Pension Plan;
4. The MTA Deferred Compensation Program;
5. The LIRR Company Plan for Additional Pensions; and
6. The MTA Retiree Welfare Benefit Plan.

He said that at the February meeting Mike Fritz (Deloitte) briefed the Committee on the audit procedures they applied, including the valuation of investments and the use of experts, in performing the audit of the pension plan financial statements. He indicated Deloitte will provide a “clean opinion” on the financial statements as a result of their audit.

Acting Chair Pally asked if there were any comments or questions.

There being none, a motion was made and seconded to accept Deloitte’s audit of the 2016 financial statements of the six pension plans.

4. 2018 AUDIT PLAN

Acting Chair Pally stated that the Auditor General briefed the Committee at the February meeting on the proposed 2018 Audit Plan, including the audit focus, allocation of audit resources to the agencies and by business function. The Auditor General indicated that the proposed 2018 Audit Plan were presented to the Chairman and the MTA Managing Director and was reviewed with the Agency Presidents.

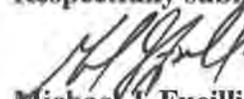
Acting Chair Pally asked if there were any questions.

There being none, a motion was made and seconded to approve the 2018 Audit Plan.

5. MOTION TO ADJOURN

A motion was made and seconded to adjourn the meeting.

Respectfully submitted,



**Michael J. Fucilli
Auditor General**

2018 AUDIT COMMITTEE WORK PLAN

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	Committee Chair & Members
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

January 2018

Quarterly Financial Statements – 3 rd Quarter 2017	External Auditor/CFOs
Pension Audits	External Auditor
MTA Enterprise Risk Management Update and Internal Control Guidelines	Chief Compliance Officer
Compliance with the Requirements of the Internal Control Act	Chief Compliance Officer/Agency ICOs
Information Technology Report	Chief Information Officer
Security of Sensitive Data	Chief Information Officer
2017 Audit Plan Status Report	Auditor General
2018 Audit Plan	Auditor General
DDCR Performance Measures	Chief Diversity Officer

April 2018

Financial Statements and Audit Representation Letters	External Auditor/CFOs/Controllers
Management's Review of Consolidated Financial Statements	Comptroller
Contingent Liabilities/Third Party Lawsuits (Executive Session)	General Counsels/External Auditor

Financial Interest Reports
Open Audit Recommendations
DDCR Performance Measures

Chief Compliance Officer
Agency ICOs/Chief Compliance Officer
Chief Diversity Officer

July 2018

Quarterly Financial Statements – 1st Quarter 2018
Single Audit Report
Investment Compliance Report
Management Letter Reports
Enterprise Risk Management Update
Ethics and Compliance Program
MTAAS Audit Plan Status Report

External Auditor/CFOs
External Auditor/CFOs
External Auditor
External Auditor/CFOs/Controllers
Chief Compliance Officer
Chief Compliance Officer
Auditor General

November 2018

Quarterly Financial Statements – 2nd Quarter 2018
Appointment of External Auditors
Audit Approach Plans/Coordination
Review of MTA/IG's Office
Review of Audit Committee Charter
Annual Audit Committee Report

External Auditor/CFOs
Committee Chair & Members
External Auditor
External Auditor/IG
CCO and Committee Chair
Committee Chair

2018 AUDIT COMMITTEE WORK PLAN

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

JANUARY 2018

Quarterly Financial Statements – 3rd Quarter 2017

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 2017.

Pension Audits

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

MTA Enterprise Risk Management Update and Internal Control Guidelines

These MTA-wide guidelines, which were adopted by the Board in 2011 pursuant to Public Authority Law Section 2931, are required to be reviewed by the Committee annually. The MTA Chief Compliance Officer will brief the Committee on the agency compliance with these guidelines and answer any questions and offer additional comments, as appropriate. The MTA Chief Compliance Officer will also brief the Committee on the status of agency compliance with the ERM guidelines and any new or emerging risk.

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.

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.

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.

2017 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.

2018 Audit Plan

A discussion by Audit Services of the areas scheduled to be reviewed in 2018 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.

DDCR Performance Measures

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.

APRIL 2018

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 2017 Financial Statements.

Management's Review of MTA Consolidated Financial Statements

The MTA Comptroller will present a management's review of the 2017 MTA consolidated financial statements, including changes in capital, net assets, other assets and operating revenues and expenses.

Contingent Liabilities and Status of Third Party Lawsuits

The General Counsels from each agency, along with representatives from the independent accounting firm, 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 on the agencies' compliance with the State Law regarding the filing of Financial Interest Reports (FIRs), including any known conflicts of interest.

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.

DDCR Performance Measures

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.

JULY 2018

Quarterly Financial Statements – 1st Quarter 2018

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 2018.

Single Audit Report

Representatives of MTA's public accounting firm will provide the results of their Federal- and State-mandated single audits of MTA and NYC Transit.

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.

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.

Ethics and Compliance Program

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

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.

NOVEMBER 2018

Quarterly Financial Statements - 2nd Quarter 2018

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 2018.

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.

Audit Approach Plans/Coordination with External Auditors

Representatives of MTA's public accounting firm will review their audit approach for the 2018 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.

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.

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. The review will also show if the Committee's performance in 2018 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).

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 2018. 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.

**MTA
CONSOLIDATED
FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

**MANAGEMENT'S REVIEW
AUDIT COMMITTEE MEETING
APRIL 23, 2018**



MTA CONSOLIDATED FINANCIAL STATEMENTS

- The MTA's Financial Statements are prepared in conformity with Generally Accepted Accounting Principles in the United States (GAAP) using accounting standards established by the Government Accounting Standards Board (GASB). They include 5 sections as follows:
 1. Managements' Discussion & Analysis
 2. The basic Financial Statements which include:
 - The Statement of Net Position
 - The Statement of Revenues, Expenses and Changes in Net Position
 - The Statement of Cash Flows
 3. The Notes to the Financial Statements
 4. Required Supplementary Information (RSI)
 5. Additional Supplementary Information



NEW GASB ACCOUNTING STANDARDS FOR FISCAL YEAR 2017

GASB #	Title	Effective Date
GASB 73	<i>Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (No Effect on MTA's Financial Statements)</i>	Fiscal year 2017
GASB 74	<i>Financial Reporting for Postemployment Benefit Plans Other Than Pensions (No Effect on MTA's Financial Statements)</i>	Fiscal year 2017
GASB 80	<i>Blending Requirements of Certain Component Units (No Effect on MTA's Financial Statements)</i>	Fiscal year 2017
GASB 81	<i>Irrevocable Split-interest Agreements (No Effect on MTA's Financial Statements)</i>	Fiscal year 2017
GASB 82	<i>Pension issues: An Amendment of GASB NO. 67, NO. 68 and NO. 73 (The adoption of this standard adjusted the presentation of payroll related measures in the required supplementary information, but did not have any impact on the MTA's financial statements)</i>	Fiscal year 2017



MTA CONSOLIDATED STATEMENT OF NET POSITION FOR YEARS ENDED 12/31/2017 & 12/31/2016

\$'s in Millions	DECEMBER 31,	
	2017	2016
ASSETS		
Cash & Investments	6,671	6,964
Accounts Receivables (Net)	1,066	1,571
Capital Assets (Net)	68,060	64,518
Other Assets	796	733
TOTAL ASSETS	76,593	73,786
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows	1,643	1,407
Deferred Outflows for Pensions	2,044	2,425
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,687	3,832
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 80,280	\$ 77,618
LIABILITIES		
Long-term debt	40,098	38,922
Post employment benefits other than pension	16,731	15,156
Net Pension Liability	8,105	8,983
Liability for injury claims	3,851	3,441
Other liabilities	5,765	5,185
TOTAL LIABILITIES	74,550	71,687
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows	26	29
Deferred Inflows from Pensions	480	295
TOTAL DEFERRED INFLOWS OF RESOURCES	506	324
NET POSITION	5,224	5,607
TOTAL LIABILITIES, DEFERRED INFLOWS & NET POSITION	\$ 80,280	\$ 77,618



MTA CONSOLIDATED FINANCIAL STATEMENTS

ASSETS & DEFERRED OUTFLOWS

\$'s in Millions	DECEMBER 31,		CHANGE	
	2017	2016	\$	%
CASH & INVESTMENTS	\$6,671	\$6,964	(\$293)	(4%)
RECEIVABLES	1,066	1,571	(505)	(32%)
CAPITAL ASSETS (Net)	68,060	64,518	3,542	5%
OTHER ASSETS	796	733	63	9%
TOTAL ASSETS	\$76,593	\$73,786	\$2,807	4%
DEFERRED OUTFLOWS	1,643	1,407	236	17%
DEFERRED OUTFLOWS FOR PENSIONS	2,044	2,425	(381)	(16%)
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$3,687	\$3,832	(\$145)	(4%)
TOTAL ASSETS & DEFERRED OUTFLOWS	\$80,280	\$77,618	\$2,662	3%

- Cash & Investments decreased \$293 due primarily to decreased cash of \$449.
- Receivables decreased \$505 due to decreases in amounts due from Insurance & NY State/City.
- Capital assets increased \$3,542 as a result of increased capital investments.
- Other assets increased \$63 due to an increase in other miscellaneous assets of \$63.
- Deferred outflows increased \$236 due to an increase in unamortized losses on refundings.
- Deferred outflows for pensions decreased \$381 due primarily to higher than assumed investment returns resulting in lower employer contributions.



MTA CONSOLIDATED FINANCIAL STATEMENTS

LIABILITIES & DEFERRED INFLOWS

\$'s in Millions	DECEMBER 31,		CHANGE	
	2017	2016	\$	%
LONG-TERM DEBT	\$40,098	\$38,922	\$1,176	3%
OTHER POST EMPLOYMENT BENEFITS	16,731	15,156	1,575	10%
NET PENSION LIABILITIES	8,105	8,983	(878)	
LIABILITIES FOR INJURY CLAIMS	3,851	3,441	410	12%
OTHER LIABILITIES	5,765	5,185	580	11%
TOTAL LIABILITIES	\$74,550	\$71,687	\$2,863	4%
DEFERRED INFLOWS FOR DEBT REFUNDINGS	26	29	(3)	(10%)
DEFERRED INFLOWS FOR PENSIONS	480	295	185	
TOTAL DEFERRED INFLOWS OF RESOURCES	\$506	\$324	\$182	56%

- Long-term debt increased \$1,176 due to net new borrowings.
- OPEB liability increased \$1,575 due to paygo funding of current costs rather than the higher actuarial determined contribution.
- Net Pension liability decreased \$878 due primarily to higher than assumed pension investment returns.
- Liabilities for injury claims increased \$410 due to increased workmen's comp claims.
- Other liabilities increased \$580 due to primarily to increases in accounts payable, accrued expenses and loans payable.
- Total Deferred Inflows of resources increased \$182 due primarily to higher than assumed pension investment earnings.



MTA CONSOLIDATED FINANCIAL STATEMENTS

NET POSITION

\$'s in Millions	DECEMBER 31,		CHANGE	
	2017	2016	\$	%
NET INVESTMENT IN CAPITAL ASSETS	\$28,250	\$25,756	\$2,494	10%
RESTRICTED FOR DEBT SERVICE	516	352	164	47%
RESTRICTED FOR CLAIMS	182	178	4	2%
RESTRICTED FOR OTHER PURPOSES	983	935	48	5%
UNRESTRICTED	(24,707)	(21,614)	(3,093)	(14%)
TOTAL NET POSITION	\$5,224	\$5,607	(\$383)	(7%)

- Net investment in Capital Assets increased \$2,494 due to an increase in net capital assets of \$3,542, offset by an increase in net capital related liabilities of \$1,048.
- Restricted for debt service increased \$164 due to an increase in debt service related investments.
- Restricted for claims increased \$4 due to an increases in FMTAC loss reserves.
- Net Position for other purposes increased \$48 due to an increase in other restricted investments
- Unrestricted net position decreased \$3,093 due to an increase in the unfunded OPEB liability of \$1,575, an increase in other unrestricted liabilities and deferred inflows of \$101, a decrease in other unrestricted assets and deferred outflows of \$830, and a deficit before depreciation and capital grants & appropriations of \$587



MTA CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

\$'s in Millions	DECEMBER 31,		CHANGE	
	2017	2016	\$	%
Net Cash from Operating Activities	(\$3,827)	(\$3,431)	(\$396)	(12%)
Net Cash From Non-Capital Financing Activities	6,601	6,596	5	0%
Net Cash from Capital & Related Financing Activities	(3,105)	(3,028)	(77)	(3%)
Net Cash From Investing Activities	(118)	141	(259)	(184%)
Net Change in Cash	(449)	278	(727)	(262%)
Cash - Beginning of Year	732	454	278	61%
Cash - End of Year	\$283	\$732	(\$449)	(61%)



MTA CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

\$'s in Millions	DECEMBER 31,		CHANGE	
	2017	2016	\$	%
OPERATING REVENUES	\$8,673	\$8,520	\$153	2%
OPERATING EXPENSES	(16,850)	(16,150)	(700)	(4%)
OPERATING DEFICIT	(8,177)	(7,630)	(547)	(7%)
SUBSIDIES & TAX REVENUES	6,496	6,721	(225)	(3%)
LESS: INTEREST EXPENSE	(1,517)	(1,463)	(54)	(4%)
DEFICIT BEFORE CAPITAL GRANTS & APPROPRIATIONS	(3,198)	(2,372)	(826)	(35%)
CAPITAL GRANTS & APPROPRIATIONS	2,662	2,168	494	23%
CHANGE IN NET POSITION	(\$536)	(\$204)	(\$332)	(163%)
NET POSITION - BEGINNING OF YEAR	5,607	5,811		
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	153	0	153	
NET POSITION - END OF YEAR	\$5,224	\$5,607	(\$383)	(7%)



MTA CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation of Financial Plan to GAAP Statement of Revenues, Expenses & Changes in Net Position

	December 31, 2017			
	Financial	Financial	VARIANCE	
	Plan	Statement	\$	%
	Estimate	Actual		
Total Operating Revenues	\$8,744	\$8,673	(\$71)	(1%)
Operating Expenses:				
Total Labor Expenses	10,950	10,865	(85)	(1%)
Total Non-Labor Expenses	3,523	3,374	(149)	(4%)
Depreciation	2,615	2,611	(4)	(0%)
Total Operating Expenses	17,088	16,850	(238)	(1%)
Net Operating Deficit	(\$8,344)	(\$8,177)	\$167	(2%)
Dedicated Taxes, & Subsidies	6,469	6,496	27	0%
Debt Service (<i>Financial Plan includes Interest+Principal</i>)	(2,507)	(1,517)	990	
Conversion to Cash Basis: Non Cash Liability Adj's	4,128	0	(4,128)	
(Deficit) Before Capital Grants & Appropriations	(\$254)	(\$3,198)	(\$2,944)	



MTA CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION RECONCILING ITEMS (\$ in millions)

Financial Plan Actual Operating Loss at 12/31/2017	(\$8,344)
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The Audited Financial Statements Includes:

1 Lower other operating revenues	(22)
2 Lower OPEB expense based on the most recent actuarial calculations	95
3 Higher pension expense based on the most recent actuarial calculations	(28)
4 Higher labor expense primarily from reimbursable overhead	18
5 Higher claims expense based on most recent actuarial results	(191)
6 Lower non-labor expense	276
7 Intercompany eliminations and other adjustments	19

Total Operating Reconciling Items	167
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Financial Statements Operating Loss 12/31/2017	(\$8,177)
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Financial Plan Deficit after Subsidies and Debt Service 12/31/2017	(\$254)
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The Audited Financial Statements Includes:

1 Higher dedicated taxes & subsidies	27
2 Lower Debt Service expense (excludes bond principal payments)	990
3 Adjustments for non-cash liabilities:	
Depreciation	(2,615)
Unfunded OPEB Expense	(1,681)
Unfunded GASB 68 pension adjustment	172
Unfunded Pollution Remediation Expense	(4)

4 Total Operating Reconciling Items (from above)	167
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Financial Statements Loss Before Capital Grants & Appropriations at 12/31/2017	(\$3,198)
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Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Consolidated Financial Statements as of and
for the Years Ended December 31, 2017 and 2016
Required Supplementary Information,
Supplementary Information and
Independent Auditors' Report

DRAFT

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

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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 Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of December 31, 2017 and 2016, 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.

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 auditors' 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, 2017 and 2016, 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 Matters

As discussed in Note 1 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 23, the Schedule of Changes in the MTA's Net Pension Liability and Related Ratios for the Single Employer Pension Plans on pages 120-121, the Schedule of the MTA's Proportionate Share of Net Pension Liabilities of Cost-Sharing Multiple-Employer Pension Plans on page 122, the Schedule of the MTA's Contributions for All Pension Plans on pages 123-124, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 129 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 Consolidated Reconciliation Between Financial Plan and Financial Statements, Schedule of Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements, and Schedule of Financial Plan to Financial Statements Reconciliation are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements.

The Schedule of Consolidated Reconciliation Between Financial Plan and Financial Statements, Schedule of Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements, and Schedule of Financial Plan to Financial Statements Reconciliation, 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 25, 2018

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(\$ In Millions, except as noted)**

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") as of and for the years ended December 31, 2017 and 2016. For financial reporting purposes, the subsidiaries and affiliates of the MTA are blended component units. 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 about the changes in the net pension liability, employer contributions, actuarial assumptions used to calculate the net pension liability, historical trends, and other required supplementary information related to the MTA Group's cost-sharing multiple-employer and single-employer defined benefit pension plans as required by provisions for pensions under GASB Statement No. 68.

The Schedule of Funding Progress 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's financial plan and the consolidated statements of revenues, expenses and changes in net position.

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. The financial reporting entity consists of subsidiaries and affiliates, considered component units of the MTA, because the Board of the MTA serves as the overall governing body of these related entities.

MTA Related Groups

The following entities, listed by their legal names, are subsidiaries (component units) of the MTA:

- 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 New York State ("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.

The following entities, listed by their legal names, are affiliates (component units) of the MTA:

- 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.

CONDENSED CONSOLIDATED FINANCIAL INFORMATION AND 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, 2017 and 2016. 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.

Total Assets and Deferred Outflows of Resources, Distinguishing Between Capital Assets, Other Assets and Deferred Outflows of Resources

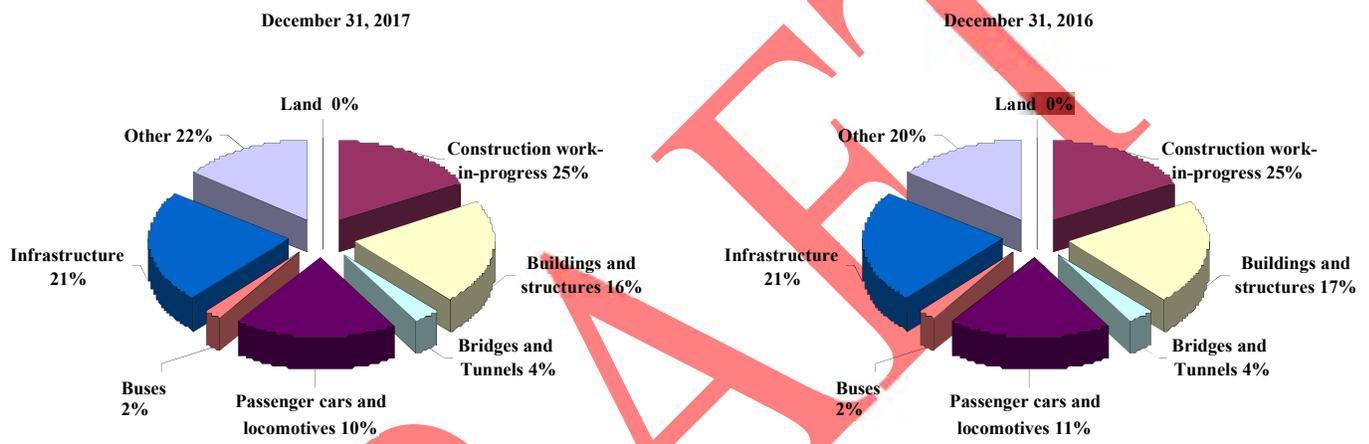
Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of buses, equipment, passenger cars, and locomotives.

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, unamortized loss on refunding, and deferred outflows from pension activities.

(In millions)	December 31,			Increase / (Decrease)	
	2017	2016	2015	2017 - 2016	2016 - 2015
Capital assets — net (see Note 6)	\$ 68,060	\$ 64,518	\$ 61,410	\$ 3,542	\$ 3,108
Other assets	8,533	9,268	9,153	(735)	115
Total assets	76,593	73,786	70,563	2,807	3,223
Deferred outflows of resources	3,687	3,832	2,185	(145)	1,647
Total assets and deferred outflows of resources	\$ 80,280	\$ 77,618	\$ 72,748	\$ 2,662	\$ 4,870

Capital Assets, Net



Significant Changes in Assets and Deferred Outflows of Resources Include:

December 31, 2017 versus December 31, 2016

- Net capital assets increased at December 31, 2017 by \$3,542 or 5.5%. There was an increase in other capital assets of \$2,584, an increase in infrastructure of \$1,756, construction in progress of \$722, an increase in bridges and tunnels of \$288, an increase in buildings and structures of \$258, an increase in buses of \$167, an increase in land of \$14, and a decrease in passenger cars and locomotives of \$3. This was offset by a net increase in accumulated depreciation of \$2,244. See Note 6 to the MTA's Consolidated Financial Statements for further information. 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 of all MTA Bridge and Tunnels' facilities.
 - Improvements to MTA Long Island Railroad's road-assets, replacement of signal power lines, various right-of-way enhancements and upgrades of radio communications.

- Continued improvements to MTA Metro-North Railroad stations, tracks and structures, power rehabilitation of substations, and security.
- Subway and bus real-time customer information and communications systems.
- Continued structural rehabilitation and repairs of the ventilation system at various facilities.
- Continued improvements made to the East River Tunnel Fire and Life Safety project for 1st Avenue, Long Island City and construction of three Montauk bridges.
- Continued passenger station rehabilitations for Penn Station and East Side Access Passenger station.
- Ongoing work by MTA New York City Transit to make stations fully accessible and structurally reconfigured in accordance with the Americans with Disability Act (“ADA”) standards.
- Other assets decreased by \$735 or 7.9%. The major items contributing to this change include:
 - A decrease in cash of \$449 from net cash flow activities.
 - A decrease in current and non-current receivables of \$505 primarily due to a decrease in subsidies from New York City for MTA New York City Transit and MTA Bus of \$122, a decrease in Federal and State grants for capital projects of \$101, a net decrease in other subsidies of \$21 and a decrease in receivables from New York State for Service Contract Bonds of \$71. There was also a net decrease in other receivables of \$190 primarily due to the receipt of reinsurance recoveries related to Tropical Storm Sandy.
 - An increase in investments of \$156 due to higher debt service funds and an increase in unspent proceeds from the issuances of Transportation Revenue Bonds, Dedicated Tax Funds and Bond Anticipation Notes in 2017.
 - A net increase in various other current and non-current assets of \$63.
- Deferred outflows of resources decreased by \$145 or 3.8%. This decrease was primarily due from lower deferred outflows related to pensions of \$381 due to changes in the actuarially determined calculations for the pension plans related to changes in certain actuarial assumptions and the difference between expected and actual earnings on plan investments. There was also a decrease in the fair value of derivative instruments of \$31 offset by an increase in deferred outflows for unamortized losses on refundings of \$267.

December 31, 2016 versus December 31, 2015

- Net capital assets increased at December 31, 2016 by \$3,108 or 5.1%. This increase is attributable to net increases in other capital assets of \$761, infrastructure for \$655, construction work-in-progress of \$3,307, buildings and structures for \$354, bridges and tunnels for \$121, buses for \$217, passenger cars and locomotives for \$99. The increases were offset by a net increase in accumulated depreciation of \$2,406. 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 of all MTA Bridge and Tunnels’ facilities.
 - Improvements to MTA Long Island Railroad’s road-assets, replacement of signal power lines, various right-of-way enhancements and upgrades of radio communications.
 - Continued improvements to MTA Metro-North Railroad stations, tracks and structures, power rehabilitation of substations, and security.
 - Subway and bus real-time customer information and communications systems.
 - Continued structural rehabilitation and repairs of the ventilation system at various facilities.
- Continued improvements made to the East River Tunnel Fire and Life Safety project for 1st Avenue, Long Island City and construction of three Montauk bridges.
- Continued passenger station rehabilitations for Penn Station and East Side Access Passenger station.
- Ongoing work by MTA New York City Transit to make stations fully accessible and structurally reconfigured in accordance with the Americans with Disability Act (“ADA”) standards.
- Other assets increased by \$115 or 1.3%. This increase was mainly due from an increase in cash of \$278 from net cash flow activities. Current and non-current receivables decreased by \$43 primarily from a reserve for uncollectible insurance recoveries of \$100 offset by increases in receivables from Federal and State grants for capital projects of \$85 and other subsidies of \$60. Investments decreased by \$92 primarily from the termination of MTA Bridges and Tunnels sale-leaseback agreement of subway cars. There was net decrease in various other assets of \$28.
- Deferred outflows of resources increased by \$1,647 or 75.4%. This increase was primarily due from higher deferred outflows related to pensions of \$1,392 due to changes in the actuarially determined calculations for the pension plans related to changes in certain actuarial assumptions and the difference between expected and actual earnings on plan investments. In addition, deferred outflows for unamortized losses on refundings increased by \$342, offset by a decrease in the fair value of derivative instruments of \$87.

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

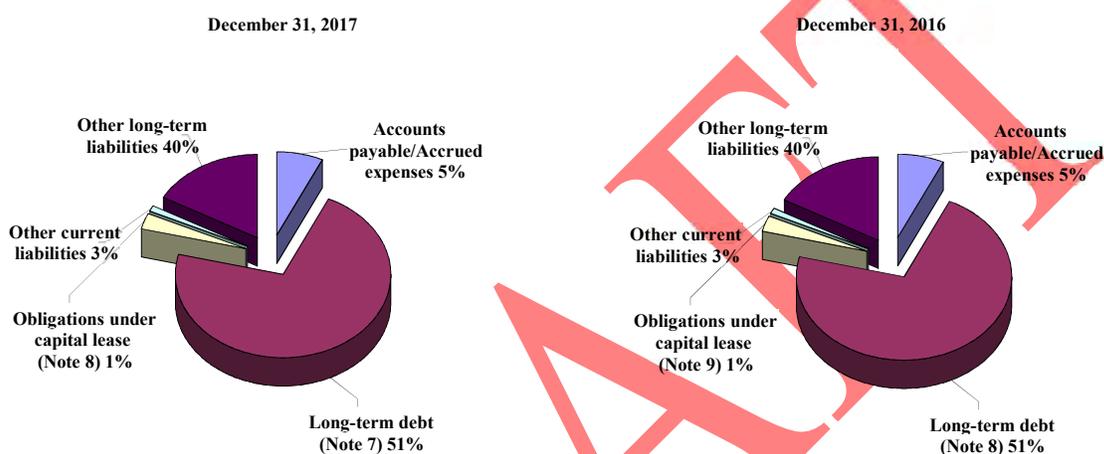
Current liabilities include: accounts payable, accrued expenses, current portions of long-term debt, capital lease obligations, pollution remediation liabilities, unredeemed fares and tolls, and other current liabilities.

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 and pension related deferred inflows.

(In millions)	December 31,			Increase/(Decrease)	
	2017	2016	2015	2017 - 2016	2016 - 2015
Current liabilities	\$ 6,246	\$ 6,003	\$ 6,465	\$ 243	\$ (462)
Non-current liabilities	68,304	65,684	59,980	2,620	5,704
Total liabilities	74,550	71,687	66,445	2,863	5,242
Deferred inflows of resources	506	324	492	182	(168)
Total liabilities and deferred inflows of resources	\$ 75,056	\$ 72,011	\$ 66,937	\$ 3,045	\$ 5,074

Total Liabilities and Deferred Inflows of Resources



Significant Changes in Liabilities and Deferred Inflows of Resources Include:

December 31, 2017 versus December 31, 2016

- Current liabilities increased by \$243 or 4.1%. The net increase in current liabilities was primarily due to an increase in accrued expenses of \$299. The increase in accounts payable was a result of a net increase in employee related accruals of \$133, and a net increase of \$212 in other accrued expense, due to higher operating accruals. This was offset by a decrease in interest payable mainly due to the refunding of other indebtedness and debt service payments made during 2017 of \$22 and a decrease in capital accruals of \$24. In addition, there was an increase in unearned revenues of \$23, largely due to unused fare cards and school fare subsidies, an increase in accounts payable due to vendors of \$81, and an increase in loans payable to New York State Power Authority of \$14. This was offset by a decrease in the current portion of long-term debt of \$171, primarily from debt service payments made in 2017 and a decrease in the current portion of pollution remediation projects of \$3.
- Non-current liabilities increased by \$2,620 or 4.0%. This increase was mainly due:
 - An increase in the non-current portion of long-term debt of \$1,347 primarily due to 2017 bond issuances (See Note 7).
 - An increase in postemployment benefits other than pension liability (“OPEB”) of \$1,575 resulting from estimates of actuarial calculations as required by GASB Statement No. 45 (See Note 5).

- An increase in estimated liability arising from injuries to persons (Note 10) of \$410 due to revised calculations of the workers’ compensation reserve.
- An increase in the non-current portion of loans payable of \$100 due to the Customer Installation Commitments (“CIC”) with New York Power Authority (“NYPA”).
- A decrease in pension liability of \$878, resulting from actuarial calculations as required by GASB Statement No. 68 (see Note 4).
- A net increase in other various non-current liabilities of \$66.
- Deferred inflows of resources increased by \$182 or 56.2%, primarily due to higher deferred inflows related to pensions of \$185 as a result of changes in the actuarially determined calculations for the pension plans for changes in certain actuarial assumptions, the difference between expected and actual earnings on plan investments and differences between expected and actual experience. This was offset by a decrease in the gain on refunding of debt of \$3.

December 31, 2016 versus December 31, 2015

- Current liabilities decreased by \$462 or 7.2%. The net decrease in current liabilities was mainly due to a decrease in the current portion of long-term debt of \$610 primarily from the refunding of Certificates of Participation, refunding of other indebtedness and debt service payments made during 2016. This was offset by an increase in accrued expenses of \$74 mainly due to higher operating accruals and a net increase in other various current liabilities of \$74 primarily from accounts payable due to vendors.
- Non-current liabilities increased by \$5,704 or 9.5%. This increase was mainly due:
 - An increase in the non-current portion of long-term debt of \$2,404 primarily due to the 2016 issuances of Transportation Revenue Bonds, Transportation Revenue Bonds Bond Anticipation Notes, Dedicated Tax Fund Bonds, DTF Bond Anticipation Notes, MTA Hudson Rail Yards Trust Obligation and MTA Bridges and Tunnels General Revenue Bonds (See Note 8).
 - An increase in postemployment benefits other than pension liability (“OPEB”) of \$1,596 resulting from actuarial calculations as required by GASB Statement No. 45 (See Note 5).
 - An increase in pension liability of \$1,279, resulting from actuarial calculations as required by GASB Statement No. 68 (see Note 4).
 - An increase in estimated liability arising from injuries to persons (Note 11) of \$571 mainly due to a revised actuarial calculation of the workers’ compensation reserve for MTA New York City Transit.
 - A net decrease in other various non-current liabilities of \$146, primarily due to changes in the fair market value of derivative liabilities of \$79 and the termination of MTA Bridges and Tunnels sale-leaseback agreement of subway cars of \$107, offset by a net increase in other various non-current liabilities of \$40.
- Deferred inflows of resources decreased by \$168 or 34.2% primarily due to lower deferred inflows related to pensions due to changes in the actuarially determined calculations for the pension plans for changes in certain actuarial assumptions, the difference between expected and actual earnings on plan investments and differences between expected and actual experience.

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

(In millions)	December 31,			Increase/(Decrease)	
	2017	2016	2015	2017 - 2016	2016 - 2015
Net investment in capital assets	\$28,250	\$25,756	\$23,796	\$ 2,494	\$ 1,960
Restricted for debt service	516	352	487	164	(135)
Restricted for claims	182	178	142	4	36
Restricted for other purposes	983	935	1,051	48	(116)
Unrestricted	<u>(24,707)</u>	<u>(21,614)</u>	<u>(19,665)</u>	<u>(3,093)</u>	<u>(1,949)</u>
Total Net Position	<u>\$ 5,224</u>	<u>\$ 5,607</u>	<u>\$ 5,811</u>	<u>\$ (383)</u>	<u>\$ (204)</u>

Significant Changes in Net Position Include:

December 31, 2017 versus December 31, 2016

At December 31, 2017, total net position decreased by \$383 or 6.8%, when compared with December 31, 2016. This change is a result of net non-operating revenues of \$4,979 and appropriations, grants and other receipts externally restricted for capital projects of \$2,662 offset by operating losses of \$8,177. During 2017, MTA Bridges and Tunnels changed its method of amortizing bond premiums and discounts to the consistent yield method, which is a more preferable accounting principle than the principle used in previous years. The change in method resulted in an increase in 2017 beginning net position of \$153. See Note 2 for further details.

The net investment in capital assets increased by \$2,494 or 9.7%. Funds restricted for debt service, claims and other purposes increased by \$216 or 14.7% in the aggregate, mainly due to scheduled debt service payments. Unrestricted net position decreased by \$3,093 or 14.3%.

December 31, 2016 versus December 31, 2015

At December 31, 2016, total net position decreased by \$204 or 3.6%, when compared with December 31, 2015. This change is a result of net non-operating revenues of \$5,258 and appropriations, grants and other receipts externally restricted for capital projects of \$2,168 offset by operating losses of \$7,630.

The net investment in capital assets increased by \$1,960 or 8.3% due to an increase of \$3,109 in net capital assets placed into service, which was offset by a net decrease of \$1,149 of related debt and other capital related offsets. Funds restricted for debt service, claims and other purposes decreased by \$216 or 12.9% in the aggregate, mainly due scheduled debt service payment. Unrestricted net position decreased by \$1,948 or 9.9%.

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

(In millions)	December 31, 2017	December 31, 2016	December 31, 2015	Increase / (Decrease)	
				2017 - 2016	2016 - 2015
Operating revenues					
Passenger and tolls	\$ 8,084	\$ 7,899	\$ 7,764	\$ 185	\$ 135
Other	589	621	638	(32)	(17)
Total operating revenues	<u>8,673</u>	<u>8,520</u>	<u>8,402</u>	<u>153</u>	<u>118</u>
Non-operating revenues					
Grants, appropriations and taxes	5,722	5,972	5,997	(250)	(25)
Other	782	756	718	26	38
Total non-operating revenues	<u>6,504</u>	<u>6,728</u>	<u>6,715</u>	<u>(224)</u>	<u>13</u>
Total revenues	<u>15,177</u>	<u>15,248</u>	<u>15,117</u>	<u>(71)</u>	<u>131</u>
Operating expenses					
Salaries and wages	5,968	5,627	5,471	341	156
Retirement and other employee benefits	2,742	2,892	2,380	(150)	512
Postemployment benefits other than pensions	2,155	2,146	1,997	9	149
Depreciation and amortization	2,611	2,447	2,496	164	(49)
Other expenses	3,374	3,036	3,031	338	5
Total operating expenses	<u>16,850</u>	<u>16,148</u>	<u>15,375</u>	<u>702</u>	<u>773</u>
Net expenses related to asset impairment	-	2	5	(2)	(3)
Total operating expenses	<u>16,850</u>	<u>16,150</u>	<u>15,380</u>	<u>700</u>	<u>770</u>
Non-operating expenses					
Interest on long-term debt	1,517	1,463 *	1,399	54	64
Other net non-operating expenses	8	7	5	1	2
Total non-operating expenses	<u>1,525</u>	<u>1,470</u>	<u>1,404</u>	<u>55</u>	<u>66</u>
Total expenses	<u>18,375</u>	<u>17,620</u>	<u>16,784</u>	<u>755</u>	<u>836</u>
Loss before appropriations, grants and other receipts externally restricted for capital projects	(3,198)	(2,372)	(1,667)	(826)	(705)
Appropriations, grants and other receipts externally restricted for capital projects	2,662	2,168	1,980	494	188
Change in net position	(536)	(204) *	313	(332)	(517)
Net position, beginning of year	5,607	5,811	13,282	(204)	(7,471)
Restatement of beginning net position	-	-	(7,819)	-	7,819
Restatement of beginning net position correction to opening balance	-	-	35	-	(35)
Cumulative effect of change in accounting principle	153	-	-	153	-
Net position, end of year	<u>\$ 5,224</u>	<u>\$ 5,607</u>	<u>\$ 5,811</u>	<u>\$ (383)</u>	<u>\$ (204)</u>

*During 2017, MTA Bridges and Tunnels changed to a more preferable method of amortizing bond premiums and discounts, constant yield. This change in method is accounted for on a prospective basis. Had the new accounting principle been used for all comparative periods presented within, the 2016 Change in Net Position would have been \$(168).

Revenues and Expenses, by Major Source:

Years ended December 31, 2017 versus 2016

- Total operating revenues increased by \$153 or 1.8%. This increase was mainly due to an increase in fare and toll revenue of \$185 primarily due to higher subway ridership and an increase in vehicle crossings for the year ended December 31, 2017, when compared to the year ended December 31, 2016. This increase was offset by a decrease in other operating revenues of \$32 due to lower advertising revenues collected on behalf of all agencies.
- Total non-operating revenues decreased by \$224 or 3.3%.
 - Total grants, appropriations, and taxes decreased by \$250. This was due to a decrease in tax-supported subsidies from New York City and local service areas of \$239 mainly due to lower Urban Tax of \$232 and Mortgage Recording Tax subsidies of \$7. Tax-supported subsidies from New York State decreased by \$5 primarily due to a decrease in Mass Transportation Trust Fund of \$28 and a decrease in MTA Aid of \$2 offset by an increase in Payroll Mobility Tax of \$28. Various other subsidies decreased by \$6 primarily due to a decrease in New York State Service Contract subsidy of \$4 and a decrease in Build America subsidy of \$2.
 - Other non-operating revenues increased by \$26 primarily due to a net increase in non-operating revenues of \$40, an increase in station maintenance, operation and use assessments of \$3 and an increase in subsidies from New York City of \$5 for MTA Bus and MTA Staten Island Railway. This was offset by a decrease in in subsidies from the Connecticut Department of Transportation for the MTA Metro-North Railroad of \$22.
- Labor costs increased by \$200 or 1.9%. The major changes within this category are:
 - Salaries, wages and overtime increased by \$341 primarily due to increases in MTA New York City Transit to support the Subway Action Plan and various maintenance and weather-related requirements.
 - Postemployment benefits other than pensions increased by \$9 based on changes in the actuarial estimates.
 - Retirement and employee benefits decreased by \$150 primarily due to higher workers' compensation reserve requirements based upon the current actuarial valuation.
- Non-labor operating costs increased by \$500 or 9.1%. The variance was primarily due to:
 - An increase in claims arising from injuries to persons of \$60 based on the most recent actuarial valuations.
 - An increase in depreciation of \$164 primarily due to more assets placed in service in the current year.
 - An increase in insurance of \$18 primarily due to a new OCIP premium that was added in 2016 for the East Side Access project.

- An increase in maintenance and other contracts by \$69 and professional service contracts of \$97 due to changes in consulting services requirements.
- An increase in electric power of \$23 and fuel of 26 due to changes in rates and consumption.
- An increase in material and supplies by \$3, mainly due to revised maintenance and repairs requirements for transit and commuter systems.
- An increase in paratransit service contracts of \$9 primarily due to higher paratransit taxi expenses.
- A net increase in other various expenses of \$31 mainly due to higher operating expenses.
- Total net non-operating expenses increased by \$56 or 3.7% primarily due to increases in interest on long-term debt of \$54. This was partially offset by a cumulative effect of change in accounting principle. During 2017, MTA Bridges and Tunnels changed its method of amortizing bond premiums and discounts on bonds to the constant yield method, which lowered interest expense.
- Cumulative effect of change in accounting principle increased by \$153. During 2017, MTA Bridges and Tunnels changed its method of amortizing bond premiums and discounts on bonds to the constant yield method, which is a more preferable accounting principle than the principle used in previous years. This change in method resulted in an increase in 2017 beginning net position of \$153.
- Appropriations, grants and other receipts externally restricted for capital projects increased by \$494 or 22.8%, mainly due to timing in the availability of Federal and State grants for capital projects.

Years ended December 31, 2016 versus 2015

- Total operating revenues increased by \$118 or 1.4%. This increase was mainly due to an increase in fare and toll revenue of \$135 primarily due to higher subway ridership and an increase in vehicle crossings for the year ended December 31, 2016, when compared to the year ended December 31, 2015. This increase was offset by a decrease in other operating revenues of \$17 due to lower advertising revenues collected on behalf of all agencies.
- Total non-operating revenues increased by \$13 or 0.2%.
 - Total grants, appropriations, and taxes decreased by \$25 for the year ended December 31, 2016. This was primarily due to a decrease in tax supported subsidies from New York City and local service areas of \$178 mainly from Urban Tax. This was offset by an increase in tax supported subsidies from New York State of \$156 mainly from Operating Assistance, and a decrease in other subsidies of \$3.
 - Other non-operating revenues increased by \$38. This increase was primarily from increases in subsidies from New York City of \$62 for MTA Bus and MTA Staten Island Railway and from the Connecticut Department of Transportation for the MTA Metro-North Railroad of \$18. This increase was offset by a decrease in various other non-operating revenue of \$42.
- Labor costs increased by \$817 or 8.3%. The major changes within this category are:
 - Retirement and employee benefits increased by \$512 primarily due to higher pension expenses of \$326 from GASB Statement No. 68 contributions and amortization of deferred outflows of

- resources. Increase in health and welfare and other fringe benefits of \$186 due to increased rates for health and welfare plans.
- Salaries, wages and overtime increased by \$156 due largely to increases in MTA New York City Transit.
 - Postemployment benefits other than pensions increased by \$149 based on changes in the actuarial estimates.
 - Non-labor operating costs decreased by \$47 or 0.9%. The variance was primarily due to:
 - An increase in claims arising from injuries to persons of \$133 based on the most recent actuarial valuations.
 - An increase in maintenance and other contracts of \$43 mainly due to additional repairs and facility maintenance.
 - An increase in material and supplies by \$42, mainly due to ongoing maintenance and repairs for transit and commuter systems.
 - A decrease in depreciation of \$49 primarily due to the correction of the capitalization date of assets placed in service in prior years and the identification of certain capital projects that reached substantial completion in prior years and classified as depreciable assets.
 - A decrease in electric power of \$67 and fuel of \$37 due to lower prices in 2016.
 - A decrease in insurance of \$78 due to the recording of earned premium by FMTAC from OCIP Workers Compensation and General Liability Deductible Reimbursement policy in 2016.
 - A net decrease in other various expenses of \$34 mainly due to lower operating expenses.
 - Total net non-operating expenses increased by \$66 primarily due to interest on long-term debt.
 - Appropriations, grants and other receipts externally restricted for capital projects increased by \$188 or 9.5%, mainly due to timing in the availability of Federal and State grants for capital projects.

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, and a financially sound and reliable transportation system is critical to the region's economic well-being. The MTA consists of urban subway and bus systems, suburban rail 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 2017 decreased relative to 2016, with ridership down by 68.9 million trips (2.5%). The decrease is driven by Subway ridership, which declined by 29.5 million trips (1.7%),

MTA New York City Transit Bus ridership, which declined by 35.8 million trips (5.6%), and MTA Bus ridership, which declined by 3.5 million trips (2.8%). In addition, the MTA Long Island Rail Road experienced a decline of 163.4 thousand trips (0.2%). MTA Staten Island Railway ridership increased by 72.3 thousand trips (4.6%), while MTA Metro-North Railroad ridership was effectively unchanged, with a small increase of 1.6 thousand trips (0.002%). The overall decline in ridership in 2017 was comprised of a 15.9 million decline in the first quarter, a 14.7 million decline in the second quarter, a 21.9 million decline in the third quarter and a 16.4 million decline in the fourth quarter, all compared with the same quarter in 2016. Much of the decline in ridership—around 57%—is driven by a general decline in bus utilization, a trend that began in 2009 and has been observed nationally. The decline in subway ridership is a more recent trend—beginning in the third quarter of 2016—which appears to be a reversion to a dynamic more consistent with the long-term historical relationship rather than that of the years immediately following the recession, when ridership surged. Vehicle traffic at MTA Bridges and Tunnels facilities increased by 2.6 million crossings (0.9%) in 2017 compared to 2016. Through the first half of 2017, crossings decreased by 1.2 million, but large increases in the third and fourth quarters (1.4 million and 2.4 million respectively) led to the overall increase for the year. Congestion pricing in Manhattan, which is currently being debated and may be considered for adoption at some point in the future, could impact ridership and vehicle crossings. However, there is no guarantee that congestion pricing will be approved.

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2017 than in 2016 by 64.4 thousand jobs (1.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-nine 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.

National economic growth, as measured by Real Gross Domestic Product (“RGDP”), expanded at an annualized rate of 2.6% in the fourth quarter of 2017 according to the most recent advance estimate released by the Bureau of Economic Analysis (“BEA”). The increase in RGDP reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, residential fixed investment, state and local government spending, and federal government spending; these were partially offset by a negative contribution from private inventory investment. Imports, which are a subtraction in the Gross Domestic Product (“GDP”) calculation, increased. The deceleration in RGDP growth, relative to the second quarter’s revised 3.2% growth rate, reflected a downturn in private inventory investment and an increase in imports; these were partially offset by an acceleration in personal consumption expenditures, nonresidential fixed investment, exports, state and local government spending, and federal government spending, as well as an upturn in residential fixed investment.

The New York City metropolitan area’s price inflation, as measured by the Consumer Price Index for All Urban Consumers (“CPI-U”), was lower than the national average in the fourth quarter of 2017, with the metropolitan area index increasing by 1.7 %, while the national index increased by 2.1%, when compared with the fourth quarter of 2016. An 8.2% increase in the regional price of energy products, along with a 7.6% national increase, impacted overall inflation; in the metropolitan area, the CPI-U exclusive of energy products increased by 1.3%, while nationally, inflation exclusive of energy products was 1.7%. Increasing more than overall energy prices, the spot price for New York Harbor conventional gasoline rose by 14.8%, from an average price of \$1.54 per gallon to an average price of \$1.77 per gallon, between the fourth quarters of 2016 and 2017.

In March and June of 2017, the Federal Open Market Committee (“FOMC”) raised rates again, with the target range set at 0.75% to 1%, in March and then 1% to 1.25% in June. The Federal Funds rate was raised to its current target level of 1.25% to 1.5% in December 2017 in view of realized and expected labor market conditions and inflation. Despite raising the target rate in the fourth quarter of 2017, monetary policy continued to be accommodative, supporting strong labor market conditions and a sustained return to 2 percent inflation. The unemployment rate continued to decline, while household spending continued to expand at a moderate rate

and business fixed investment continued to pick up. Both overall inflation and inflation for items other than food and energy remained below 2 percent on a 12-month basis, and overall inflation is expected to remain below 2 percent in the short-term. Despite this, survey-based measures of longer-term inflation expectations were little changed. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. The FOMC expects that the economy will continue to expand at a moderate pace, labor market conditions will remain strong, and inflation will stabilize around 2 percent over the medium term. Gradual increases in the Federal Funds rate can be expected, but that the rate will remain below long-term levels for quite some time. Near-term risks to economic outlook appear roughly balanced, and the FOMC continues to closely monitor inflation indicators and global economic and financial developments.

The influence of the 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 thereby impact receipts from the Mortgage Recording Tax (“MRT”) and Urban Tax, two important sources of MTA revenue. Mortgage Recording Tax collections for the fourth quarter of 2017 were lower than the fourth quarter of 2016 by \$7.2 million (6.1%); receipts in the fourth quarter of 2017 were \$11.9 million (9.7%) lower than receipts from the third quarter of 2017. Despite the gradual overall recovery of MRT receipts that began in 2012, average monthly receipts in 2017 remain \$25.2 million (39.5%) worse than the monthly average for 2006, just prior to the steep decline in Mortgage Recording Tax revenues. MTA’s Urban Tax receipts – which are based on commercial real estate transaction and mortgage recording activity within New York City, and can vary significantly from quarter to quarter based on the timing of exceptionally high-priced transactions – were \$16.1 million (9.9%) lower than receipts for the fourth quarter of 2016; receipts in the fourth quarter of 2017 were \$16.1 million (12.4%) higher than receipts from the third quarter of 2017. Average monthly receipts in 2017 were \$24.8 million (33.7%) lower than the monthly average for 2007, just prior to the steep decline in Urban Tax revenues.

Results of Operations

MTA Bridges and Tunnels - For the year ended December 31, 2017, operating revenues increased by \$36.9 to \$1,931.9 as compared to December 31, 2016. Traffic in 2017 set a new record with 310 million crossings, surpassing the previous high of 307.4 million crossings from the previous year. MTA Bridges and Tunnels tolls accounted for 98.9% and 98.3% of operating revenues in 2017 and 2016, 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-Z Pass customers.

The E-ZPass electronic toll collection system continued to facilitate management of high traffic volumes. The total average market share as of December 31, 2017 was 90.4% compared to 85.9% as of December 31, 2016. The average weekday market shares for passenger and commercial vehicles were 91.5% and 87.5% for 2017 and 2016, respectively.

MTA New York City Transit - Total revenue from fares was \$4,487 in 2017, an increase of \$72, or 1.6%, compared to 2016. This increase was due mostly to the March 2017 fare increase. Total ridership was 2,339 million passengers in 2017, a decrease of 65 million, or 2.7%, from 2016.

MTA Long Island Rail Road – Total operating revenue for the year ended December 31, 2017 was \$780.6, which was higher by \$12.6 or 1.6% compared to the year ended December 31, 2016. For the same comparative period, operating expenses were higher by \$127.1 or 7.1%, totaling \$1.9 billion for the year ended December 31, 2017.

MTA Metro-North Railroad – For the year ended December 31, 2017, operating revenues totaled \$790.9, an increase of \$36.8 or 4.9% compared to 2016. During the same period, operating expenses increased by \$123.4 or 8.2% to \$1,623.9. Fare revenue for 2017 increased by 6.4% to \$733.4 compared to 2016. Passenger fares

accounted for 92.6% and 91.94% of operating revenues in 2017 and 2016, respectively. The remaining revenue represents collection of rental income from stores in and around passenger stations, and revenue generated from advertising.

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 2016, 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 for the year ended December 31, 2017 was \$452.8 compared to \$460.1 at December 31, 2016.

Capital Programs

At December 31, 2017, \$12,460 had been committed and \$3,508 had been expended for the combined 2015-2019 MTA Capital Programs and the 2015-2019 MTA Bridges and Tunnels Capital Program, and \$26,309 had been committed and \$20,039 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and \$24,053 had been committed and \$23,522 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 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.

2015-2019 Capital Program — Capital programs covering the years 2015-2019 for: (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2015–2019 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 “2015–2019 Transit Capital Program”) were originally approved by the MTA Board in September 2014. The capital programs were subsequently submitted to the Capital Program Review Board (“CPRB”) in October 2014. This plan was disapproved by the CPRB, without prejudice, in October 2014. The capital program for the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2015–2019 MTA Bridges and Tunnels Capital Program”) was approved by the MTA Board in September 2014 and was not subject to CPRB approval.

On April 20, 2016, the MTA Board approved revised capital programs for the years covering 2015-2019. The revised capital programs provided for \$29,456 in capital expenditures. On May 23, 2016, the CPRB deemed approved the revised 2015-2019 Capital Programs for the Transit and Commuter systems as submitted. The revised 2015-2019 MTA Bridges and Tunnels Capital Program, was approved by the MTA Board on April 20, 2016.

On February 23, 2017, the MTA Board approved a revision to the CPRB portion of the capital programs for the years covering 2015-2019, adding \$119 transferred from prior capital programs to support additional investment projects. On March 30, 2017, the CPRB deemed approved the revised 2015-2019 Capital Programs for the Transit and Commuter systems as submitted. On May 24, 2017, the MTA Board approved a full amendment to the 2015-2019 Capital Programs to reflect updated project estimates and rebalanced programs to address budgetary and funding needs of priority projects that include Second Avenue Subway Phase 2, MTA Long Island Rail Road regional mobility, station enhancement work, investments at Penn Station, and new Open

Road Tolling at MTA Bridges and Tunnels. On July 31, 2017, the CPRB deemed approved the revised 2015-2019 Capital Programs for the Transit and Commuter systems totaling \$29,517, as submitted. The revised 2015-2019 MTA Bridges and Tunnels Capital Program totaling \$2,940, as approved by the MTA Board in May 2017, was not subject to CPRB approval. On December 13, 2017, the MTA Board approved an amendment adding \$349 to the 2015-2019 Capital Program for the Transit system in support of the NYC Subway Action Plan.

As last approved by the MTA Board, the revised 2015-2019 Capital Programs provided \$32,806 in capital expenditures, of which \$16,664 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; \$5,270 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$7,235 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$321 relates to Planning and Customer Service; \$376 relates to MTA Bus Company initiatives; and \$2,940 in capital expenditures for ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities.

The combined funding sources for the revised 2015–2019 MTA Capital Programs and the 2015-2019 MTA Bridges and Tunnels Capital Program, include \$7,907 in MTA Bonds, \$2,940 in MTA Bridges and Tunnels dedicated funds, \$8,466 in funding from the State of New York, \$7,556 in Federal Funds, \$2,492 from City Capital Funds, \$2,270 in pay-as-you-go (“PAYGO”) capital, \$600 from asset sale/leases, and \$575 from Other Sources.

At December 31, 2017, \$12,460 had been committed and \$3,508 had been expended for the combined 2015-2019 MTA Capital Programs and the 2015-2019 MTA Bridges and Tunnels Capital Program.

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 MTA New York City Transit 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. In May 2017, the MTA Board approved an amendment to the 2010-2014 Capital Programs to reflect scope transfers and consolidation between the approved capital programs, and to reflect reductions to the MTA Superstorm Sandy capital projects to match current funding assumptions. This amendment, which provided \$29,237 in capital expenditures for the Transit and Commuter systems, was deemed approved by the CPRB as submitted on July 31, 2017. The amended 2010-2014 MTA Bridges and Tunnels Capital Program, which provided \$2,784 in capital expenditures, was not subject to CPRB approval. By December 31, 2017, the 2010-2014 MTA Capital Programs reflected an overall decrease of \$6 attributable to adjustments of the Security capital program budget. Of the \$32,015 in capital expenditures, \$11,369 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; \$3,877 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$6,329 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$337 relates to a multi-faceted security program including MTA Police Department; \$223 relates to MTA Interagency; \$297 relates to MTA Bus Company initiatives; \$2,018 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities; and \$7,565 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 \$11,772 in MTA Bonds, \$2,018 in MTA Bridges and Tunnels dedicated funds, \$7,285 in Federal Funds, \$132 in MTA Bus Federal and City Match, \$729 from City Capital Funds, and \$1,743 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 \$6,343 in insurance and federal reimbursement proceeds (including interim borrowing by MTA to cover delays in the receipt of such proceeds), \$235 in pay-as-you-go capital, supplemented, to the extent necessary, by external borrowing of up to \$988 in additional MTA and MTA Bridges and Tunnels bonds.

At December 31, 2017, \$26,309 had been committed and \$20,039 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, 2017, the 2005-2009 MTA Capital Programs budget increased by \$673 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 \$24,390 now provided in capital expenditures, \$11,526 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; \$3,716 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$168 relates to certain interagency projects; \$7,701 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) and a security program throughout MTA’s transit network; \$1,127 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 \$9,698 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, \$9,093 in Federal Funds, \$2,827 in City Capital Funds, and \$1,322 from other sources.

At December 31, 2017, \$24,053 had been committed and \$23,522 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The 2017 November Financial Plan

The 2017 MTA November Financial Plan (the “November Plan” or “Plan”), which includes the 2017 November Forecast, the 2018 Final Proposed Budget and a Financial Plan for the years 2018-2021, updates the July Financial Plan. Since 2010, MTA financial plans – which are developed in a disciplined, consistent, and transparent process – have included the impact of our continuous pursuit of operational efficiencies and recurring cost reductions, which are used to temper the amount of revenues needed from biennial fare and toll increases and governmental subsidies and provide funding for the capital program and enhanced maintenance. The Plans have added service when sustainable while also addressing long-term costs such as pensions, health care, paratransit, and debt service previously considered “uncontrollable.”

The July Plan was based on three key inter-related elements: (i) fare and toll price increases of 4% in 2019 and 2021; (ii) annually recurring cost reduction cost containment targets that will increase the level of annual savings to \$2.3 billion per year by 2021; and (iii) support for \$100 in additional funding needed for the amended Capital Program. The July Plan also funded important new investments over the plan period including \$484 for improved maintenance/operations and customer experience enhancements.

The Plan included certain MTA actions to address unfavorable changes from the February Plan, most notably a significant reduction in real estate transaction revenue, which remain in the November Plan assumptions:

- Increased savings targets by \$150 per year, starting in 2018 with an incremental increase of \$50 per year thereafter, growing to \$300 in 2021;
- Restoration of PMT (Payroll Mobility Tax) Replacement Funds to \$307 a year (\$65 per year);

- Suspended contributions to the MTA Bridges and Tunnels Necessary Reconstruction Reserve Fund from 2018-2021(\$158) instead of PAYGO;
- Use of \$135 of the \$155 in the 2017 General Reserve; and
- Suspended planned contributions to the GASB 45 OPEB reserves, set aside to fund Other Post-Employment Benefits (principally, retiree healthcare costs), beginning in 2018 (\$59).

The July Plan was balanced through 2019 with funding gaps of \$112 in 2020 and \$493 in 2021. Since the July Plan, changes and estimates worsening financial results over the Plan period include:

- Lower farebox/toll revenue estimates (\$281);
- Lower real estate transaction forecasts (\$147);
- Lower advertising revenue (\$143);
- Lower Metropolitan Mass Transportation Operating Assistance Fund (“MMTOA”) receipts (\$80);

Changes and re-estimates improving financial results over the Plan period include lower debt service costs (\$189). In total, changes and re-estimates, including the above, are \$309 unfavorable for the plan period.

Additional details of the November Plan and the July Plan are available on the MTA website, www.mta.info, under the caption “MTA Info – Budget and Financial Information – Budgets and Financial Statements”.

Tropical Storm Sandy Update

The total allocation of emergency relief funding from the FTA to MTA in connection with Superstorm Sandy to date is \$5.83 billion, including \$1.599 billion allocated on September 22, 2014, through a competitive resiliency program. FTA Emergency Relief Grants totaling \$4.23 billion have been executed, including six grants in the amounts of \$194, \$886, \$684.5, \$344, \$787.6, and \$1,090.3 respectively for repair/local priority resiliency; and six grants for competitive resiliency totaling \$240.9. As of December 31, 2017, MTA has drawn down a total of \$1.62 billion in grant reimbursement for eligible operating and capital expenses. The balance of funds to be drawn down from all twelve 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 is submitting grant requests for the remaining \$1.60 billion of allocated FTA emergency relief funding in Federal Fiscal Years 2018 and 2019.

Labor Update

Subsequent to the presentation of the February Plan to the MTA Board, certain of the unions representing employees at various MTA agencies reached agreement.

MTA Metro-North Railroad Labor Agreements – No changes since February Plan.

MTA Headquarters – To date, all expired bargaining agreements at MTA Headquarters have been settled. A 60-month agreement expiring December 31, 2019 was reached with the Transportation Communications Union (“TCU”) Local 982 representing information technology workers from various agencies that were recently consolidated as an MTA Headquarters department. The agreement is consistent with other HQ bargaining unit

agreements. The Transport Workers Union, Local 100 has also recently won the right to represent former non-represented MaBSTOA employees who were part of the IT Consolidation. Negotiations on an agreement for that bargaining unit have not yet begun. Pursuant to the Taylor Law, until a collective bargaining agreement is reached, terms and conditions of employment remain status quo. Finally, MTA HQ is in discussions with the TCU over titles affected by a newly forming consolidated Procurement Department that will handle non-core procurements for all MTA agencies.

MTA New York City Transit Authority/Manhattan and Bronx Surface Transit Operating Authority – The Transport Workers Union, Local 100 has recently won the right to represent non-represented MaBSTOA employees in certain computer titles. Negotiations on an agreement for that bargaining unit have not yet begun. Pursuant to the Taylor Law, until a collective bargaining agreement is reached, terms and conditions of employment remain status quo. MTA New York City Transit and the Doctors’ Council signed an agreement on June 8, 2016. It runs from November 1, 2010 through May 31, 2018. The agreement is consistent with the bargaining pattern. The Doctor’s Council represents 17 physicians and Deputy Medical Directors. The contract is pending MTA Board approval.

MTA Bus Company – A 60 month agreement was reached with TWU, Local 100 for the period from January 16, 2012 through January 15, 2017 consistent with pattern. The parties have agreed to refer the outstanding issue of pension enhancement to arbitration.

MTA Bridges and Tunnels – MTA Bridges and Tunnels continues to negotiate with its maintenance workers (DC 37 1931), Bridge & Tunnel Officers (BTOBA) and Superior Officers (SOBA).

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

CONSOLIDATED STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2017 AND 2016
(\$ In millions)

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 283	\$ 732
Unrestricted investments (Note 3)	3,689	3,995
Restricted investments (Note 3)	1,695	1,425
Restricted investments held under capital lease obligations (Notes 3 and 8)	4	93
Receivables:		
Station maintenance, operation, and use assessments	119	120
State and regional mass transit taxes	140	150
Mortgage Recording Tax receivable	36	45
State and local operating assistance	10	11
Other receivable from New York City and New York State	187	309
Due from Build America Bonds	1	1
Capital project receivable from federal and state government	121	222
Other	425	605
Less allowance for doubtful accounts	(62)	(130)
Total receivables — net	<u>977</u>	<u>1,333</u>
Materials and supplies	608	566
Prepaid expenses and other current assets (Note 2)	170	151
Total current assets	<u>7,426</u>	<u>8,295</u>
NON-CURRENT ASSETS:		
Capital assets (Note 6):		
Land and construction work-in-progress	17,195	16,459
Other capital assets (net of accumulated depreciation)	50,865	48,059
Unrestricted investments (Note 3)	143	28
Restricted investments (Note 3)	485	418
Restricted investments held under capital lease obligations (Notes 3 and 8)	372	273
Other non-current receivables	46	124
Receivable from New York State	43	114
Other non-current assets	18	16
Total non-current assets	<u>69,167</u>	<u>65,491</u>
TOTAL ASSETS	<u>76,593</u>	<u>73,786</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Accumulated decreases in fair value of derivative instruments (Note 7)	408	439
Loss on debt refunding (Note 7)	1,235	968
Deferred outflows related to pensions (Note 4)	2,044	2,425
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>3,687</u>	<u>3,832</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 80,280</u>	<u>\$ 77,618</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 AS OF DECEMBER 31, 2017 AND 2016

(\$ In millions)

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 607	\$ 526
Accrued expenses:		
Interest	204	226
Salaries, wages and payroll taxes	307	251
Vacation and sick pay benefits	988	911
Current portion — retirement and death benefits	14	15
Current portion — estimated liability from injuries to persons (Note 10)	415	415
Capital accruals	412	436
Other	861	648
Total accrued expenses	<u>3,201</u>	<u>2,902</u>
Current portion — loan payable (Note 7)	14	-
Current portion — long-term debt (Note 7)	1,806	1,977
Current portion — obligations under capital lease (Note 8)	4	4
Current portion — pollution remediation projects (Note 12)	20	23
Unearned revenues	594	571
Total current liabilities	<u>6,246</u>	<u>6,003</u>
NON-CURRENT LIABILITIES:		
Net pension liability (Note 4)	8,105	8,983
Estimated liability arising from injuries to persons (Note 10)	3,436	3,026
Post employment benefits other than pensions (Note 5)	16,731	15,156
Loan payable (Note 7)	100	-
Long-term debt (Note 7)	38,292	36,945
Obligations under capital leases (Note 8)	436	429
Pollution remediation projects (Note 12)	59	65
Contract retainage payable	376	309
Derivative liabilities (Note 7)	422	454
Other long-term liabilities	347	317
Total non-current liabilities	<u>68,304</u>	<u>65,684</u>
TOTAL LIABILITIES	<u>74,550</u>	<u>71,687</u>
DEFERRED INFLOWS OF RESOURCES:		
Gain on debt refunding	26	29
Deferred Inflows related to pensions (Note 4)	480	295
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>506</u>	<u>324</u>
NET POSITION:		
Net investment in capital assets	28,250	25,756
Restricted for debt service	516	352
Restricted for claims	182	178
Restricted for other purposes (Note 2)	983	935
Unrestricted	(24,707)	(21,614)
TOTAL NET POSITION	<u>5,224</u>	<u>5,607</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 80,280</u>	<u>\$ 77,618</u>

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, 2017 AND 2016

(\$ In millions)

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
OPERATING REVENUES:		
Fare revenue	\$ 6,172	\$ 6,036
Vehicle toll revenue	1,912	1,863
Rents, freight, and other revenue	<u>589</u>	<u>621</u>
Total operating revenues	<u>8,673</u>	<u>8,520</u>
OPERATING EXPENSES:		
Salaries and wages	5,968	5,627
Retirement and other employee benefits	2,742	2,892
Postemployment benefits other than pensions (Note 5)	2,155	2,146
Electric power	430	407
Fuel	151	125
Insurance	(3)	(21)
Claims	525	465
Paratransit service contracts	393	384
Maintenance and other operating contracts	645	576
Professional service contracts	425	328
Pollution remediation projects (Note 12)	13	12
Materials and supplies	588	585
Depreciation (Note 2)	2,611	2,447
Other	<u>207</u>	<u>175</u>
Total operating expenses	<u>16,850</u>	<u>16,148</u>
Net expenses related to asset impairment	<u>-</u>	<u>2</u>
OPERATING LOSS	<u>(8,177)</u>	<u>(7,630)</u>
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations and taxes:		
Tax-supported subsidies — NYS:		
Mass Transportation Trust Fund subsidies	606	634
Metropolitan Mass Transportation Operating Assistance subsidies	1,668	1,668
Payroll Mobility Tax subsidies	1,695	1,670
MTA Aid Trust Account subsidies	292	294
Tax-supported subsidies — NYC and Local:		
Mortgage Recording Tax subsidies	453	460
Urban Tax subsidies	539	771
Other subsidies:		
New York State Service Contract subsidy	5	9
Operating Assistance - 18-B program	376	376
Build America Bond subsidy	<u>88</u>	<u>90</u>
Subtotal grants, appropriations and taxes	<u>\$ 5,722</u>	<u>\$ 5,972</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, 2017 AND 2016

(\$ In millions)

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
NON-OPERATING REVENUES (EXPENSES):		
Connecticut Department of Transportation	\$ 103	\$ 125
Subsidies paid to Dutchess, Orange, and Rockland Counties	(9)	(9)
Interest on long-term debt (Note 2)	(1,517)	(1,463) *
Station maintenance, operation and use assessments	165	162
Operating subsidies recoverable from NYC	503	498
Other net non-operating expenses	<u>12</u>	<u>(27)</u>
Net non-operating revenues	<u>4,979</u>	<u>5,258</u>
LOSS BEFORE APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	(3,198)	(2,372)
APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>2,662</u>	<u>2,168</u>
CHANGE IN NET POSITION	(536)	(204) *
NET POSITION — Beginning of year	5,607	5,811
Cumulative effect of change in accounting principle (Note 2)	<u>153</u>	<u>-</u>
NET POSITION — End of year	<u>\$ 5,224</u>	<u>\$ 5,607</u>

See notes to the consolidated financial statements.

*During 2017, MTA Bridges and Tunnels changed to a more preferable method of amortizing bond premiums and discounts, constant yield. This change in method is accounted for on a prospective basis. Had the new accounting principle been used for all comparative periods presented within, the 2016 Change in Net Position would have been (\$168).

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

(\$ In millions)

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 8,102	\$ 8,177
Rents and other receipts	730	442
Payroll and related fringe benefits	(9,384)	(8,993)
Other operating expenses	<u>(3,252)</u>	<u>(3,057)</u>
Net cash used by operating activities	<u>(3,804)</u>	<u>(3,431)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	6,486	6,484
Operating subsidies from CDOT	124	120
Subsidies paid to Dutchess, Orange, and Rockland Counties	<u>(9)</u>	<u>(8)</u>
Net cash provided by noncapital financing activities	<u>6,601</u>	<u>6,596</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	6,093	6,635
MTA Bridges and Tunnels bond proceeds	2,723	642
MTA bonds refunded/reissued	(4,890)	(3,624)
MTA Bridges and Tunnels bonds refunded/reissued	(1,974)	(288)
MTA anticipation notes proceeds	2,252	1,419
MTA anticipation notes redeemed	(1,624)	(2,154)
MTA credit facility proceeds	204	-
MTA credit facility refunded	(200)	-
Grants and appropriations	3,158	2,431
Payment for capital assets	(6,030)	(5,543)
Debt service payments	<u>(2,840)</u>	<u>(2,546)</u>
Net cash used by capital and related financing activities	<u>(3,128)</u>	<u>(3,028)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of long-term securities	(8,190)	(10,376)
Sales or maturities of long-term securities	8,761	8,759
Net sales (purchases) or maturities of short-term securities	(753)	1,722
Earnings on investments	<u>64</u>	<u>36</u>
Net cash (used by) provided by investing activities	<u>(118)</u>	<u>141</u>
NET (DECREASE) INCREASE IN CASH	(449)	278
CASH — Beginning of year	<u>732</u>	<u>454</u>
CASH — End of year	<u>\$ 283</u>	<u>\$ 732</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, 2017 AND 2016

(\$ In millions)

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss (Note 2)	\$ (8,177)	\$ (7,630)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	2,611	2,447
Net increase in payables, accrued expenses, and other liabilities	1,806	1,853
Net increase in deferred outflows related to pensions	(381)	(1,392)
Net (decrease) increase in deferred inflows related to pensions	185	(165)
Net increase in net pension liability and related accounts	202	1,557
Net decrease in receivables	37	21
Net decrease in materials and supplies and prepaid expenses	<u>(87)</u>	<u>(122)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (3,804)</u>	<u>\$ (3,431)</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:		
Noncash investing activities:		
Interest expense includes amortization of net (premium)/discount (Note 2)	\$ 223	\$ 918 *
Interest expense which was capitalized	<u>59</u>	<u>58</u>
Total Noncash investing activities	<u>282</u>	<u>976</u>
Noncash capital and related financing activities:		
Capital assets related liabilities	412	419
Capital leases related liabilities	<u>436</u>	<u>417</u>
Total Noncash capital and related financing activities	<u>848</u>	<u>836</u>
TOTAL NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 1,130</u>	<u>\$ 1,812</u>

See notes to the consolidated financial statements.

(Concluded)

*During 2017, MTA Bridges and Tunnels changed to a more preferable method of amortizing bond premiums and discounts, constant yield. This change in method is accounted for on a prospective basis. Had the new accounting principle been used for all comparative periods presented within, the 2016 amortization of (premium)/discount on bonds would have been \$954.

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2017 AND 2016 (\$ In millions, except as noted)

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 (Component Units)

- 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.

The subsidiaries and affiliates, considered component units of the MTA, 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 as blended component units 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 organizations 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. All of the component units publish separate annual financial statements, which are available by writing to the MTA Comptroller, 2 Broadway, 16th Floor, New York, New York 10004.

Although the MTA Group collects 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 for the year ended December 31, 2017 and 2016 totaled \$5.7 billion and \$6.0 billion, respectively.

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 MTA 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 Adopted

The MTA adopted the following GASB Statements for the year ended December 31, 2017:

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 67, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pension plans and defined contribution

plans that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 73 extends the approach to accounting and financial reporting established in GASB Statement No. 68 to all pensions to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB Statement No. 68, should not be considered pension plan assets. It also requires that information similar to that required by GASB Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on the MTA's financial statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes accounting and financial reporting standards for state and local governmental other postemployment benefit ("OPEB") plans. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and GASB Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on the MTA's financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units* establishes an additional blending requirement for the financial statement presentation of component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement had no impact on the MTA's financial statements. No additional disclosures are required.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* establishes accounting and financial reporting standards for split-interest agreements, which are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. The Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement by requiring the government to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The adoption of this Statement had no impact on the MTA's financial statements, as the MTA does not enter into such agreements.

GASB Statement No. 82, *Pension Issues: An Amendment of GASB Statements No. 67, No. 68 and No. 73* addresses certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68*, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement adjusted the presentation of payroll-related measures in the required supplementary information, but did not have an impact on the MTA's financial statements.

Accounting Standards Issued but Not Yet Adopted

GASB has issued the following pronouncements that may affect the future financial position, results of operations, cash flows, or financial presentation of the MTA upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	MTA Required Year of Adoption
75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	2018
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment Issues</i>	2018
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>	2019

Use of Management Estimates — The preparation of the consolidated 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the fair value of investments, allowances for doubtful accounts, valuation of derivative instruments, arbitrage rebate liability, accrued expenses and other liabilities, depreciable lives of capital assets, estimated liability arising from injuries to persons, pension benefits and other postemployment benefits. 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 investments 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 31st have been classified as current assets in the consolidated financial statements.

In accordance with the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, investments are recorded on the consolidated statement of net position at fair value, except for commercial

paper, certificates of deposit, and repurchase agreements, which are recorded at amortized cost or contract value. All investment income, including changes in the fair value of investments, is reported as revenue on the consolidated statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values at December 31, 2017 and 2016.

Investment derivative contracts are reported at fair value using the income approach.

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 their 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 capital 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 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, 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 tickets or farecards are used. Tickets are assumed to be used in the month of purchase, with the exception of advance purchases of monthly and weekly tickets. When the farecards expire, revenue is recorded for the unused value of the farecards.

MTA Bridges and Tunnel has two toll rebate programs at the Verrazano-Narrows Bridge: the Staten Island Resident (“SIR”) Rebate Program, available for residents of Staten Island participating in the SIR E-ZPass toll discount plan, and the Verrazano-Narrows Bridge Commercial Rebate Program (“VNB Commercial Rebate Program”), available for commercial vehicles making more than ten trips per month using the same

New York Customer Service Center (“NYCSC”) E-ZPass account. The VNB Commercial Rebate Program and SIR Rebate Program are funded by the State and MTA.

Capital Financing — The MTA has ongoing programs on behalf of its subsidiaries and affiliates, 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 operations.

Non-operating Revenues

Operating Assistance — The MTA Group receives, subject to annual appropriation, NYS operating assistance funds that are recognized as revenue after the NYS budget is approved and adopted. 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 0.25% 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 0.25% 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).
- 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, 2017, the MTA paid to Dutchess, Orange and Rockland Counties the 2016 excess amounts of MRT-1 and MRT-2 totaling \$4.4.
- 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 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 — 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 of New York 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), MTA Staten Island Railway and the Commuter Railroads to pay operating and capital costs. The MMTOA receipts are comprised of 0.375% 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 7), 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 as collected by NYS, to the extent of the appropriation.

Build America Bond Subsidy — The MTA 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 to the bondholder.

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, 2015, 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 54.3% of the Grand Central Terminal (“GCT”) operating deficit. The New Haven line’s share of the net operating deficit for the use of GCT is comprised of a fixed fee, calculated using several years as a base, with annual increases for inflation, and the actual 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, 2015 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 2015 and 2016 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 December 31, 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. Beginning in 1996, the State and New York City each began paying \$45 per annum to MTA New York City Transit toward the cost of the program. In 2009, the State reduced their \$45 reimbursement to \$6.3. Beginning in 2010, the State increased their annual commitment to \$25.3 while New York City’s annual commitment remained at \$45. These commitments have been met by both the State and New York City for both 2016 and 2017. As of December 31, 2017, MTA New York City Transit collected \$70.3 from the State and New York City, with \$30 relating to a prepayment from New York City for the year 2018.

Prior to April 1995, New York City was obligated to reimburse MTA New York City Transit 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, New York City no longer reimburses MTA New York City Transit 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 New York City’s expense. MTA New York City Transit continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by New York City. MTA New York City Transit received approximately \$7.6 and \$4.1 for the years ended December 31, 2017 and 2016 from New York City for the reimbursement of transit police costs.

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, 2017 and 2016 were

\$16.6 and \$20.7, respectively. The amounts recovered for the years ended December 31, 2017 and 2016 were approximately \$10.8 and \$13.5, respectively.

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 New York City and the MTA, MTA New York City Transit, 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 MTA New York City Transit. New York City reimburses MTA New York City Transit 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 New York City for the preceding calendar year. Fare revenues and New York City reimbursement aggregated approximately \$181.9 in the twelve months ended December 31, 2017, and \$196.5 in the twelve months ended December 31, 2016. Total paratransit expenses, including paratransit service contracts, were \$477.0 and \$467.0 in 2017 and 2016, 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 meeting eligibility requirements. These amounts are reported separately after Net Non-operating 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 October 31, 2015, the self-insured retention limits for ELF were increased to the following amounts: \$11 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3.2 for MTA Staten Island Railway, 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, 2017, the balance of the assets in this program was \$139.6.

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, 2017, 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 \$11 per occurrence limit with a \$0.5 per occurrence deductible for MTA Long Island Rail Road, MTA Staten Island Railway, 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, 2017, 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, 2017, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$11 per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance — Effective May 1, 2017, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2017, FMTAC directly insures property damage claims of the Related Entities in excess of a \$25 per occurrence deductible, subject to an annual \$75 aggregate deductible. The total program annual limit is \$800 per occurrence and in the annual aggregate for Flood and Earthquake covering property of the Related Entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda reinsurance markets for this coverage. Losses occurring after exhaustion of the deductible aggregate 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.

Supplementing the \$800 per occurrence noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$200 of fully collateralized earthquake coverage for an event of a certain index value and for 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 May 22, 2017 to May 8, 2020. The expanded protection is reinsured by MetroCat Re Ltd. 2017-1, a Bermuda special purpose insurer independent from the MTA and formed to provide FMTAC with capital markets based property reinsurance. The MetroCat Re Ltd. 2017-1 reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is parametric and available for storm surge losses resulting from a storm that causes water levels that reach the specified index values, and also for an earthquake event of a certain index value.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 83% of “certified” losses in 2017 and 82% of “certified” losses in 2018 and 81% of “certified” losses in 2019, as covered by the Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) of 2015. The remaining 17% (2017), 18% (2018) and 19% (2019) of the Related Entities’ losses arising from an act of terrorism would be covered under the additional terrorism policy described below. No federal compensation will be paid unless the aggregate industry insured losses exceed a trigger of \$140 in 2017, \$160 in 2018 and \$180 in 2019. The United States government’s reinsurance is in place through December 31, 2020.

To supplement the reinsurance to FMTAC through the TRIPRA, MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 17% of any “certified” act of terrorism up to a maximum recovery of \$182.8 for any one occurrence and in the annual aggregate during 2017, 18% of any “certified” act of terrorism up to a maximum recovery of \$193.5 for any one occurrence and in the annual aggregate during 2018 and 19% of any “certified” act of terrorism up to a maximum recovery of \$204.3 for any one occurrence and in the annual aggregate during 2019, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the “certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds \$5 and less than the \$140 TRIPRA trigger up to a maximum recovery of \$140 for any occurrence and in the annual aggregate during 2017, or 100% of any “certified” terrorism loss which exceeds \$5 and less than the \$160 TRIPRA trigger up to a maximum recovery of \$160 for any occurrence and in the annual aggregate during 2018 or 100% of any “certified” terrorism loss which exceeds \$5 and less than the \$180 TRIPRA trigger up to a maximum recovery of \$180 for any occurrence and in the annual aggregate during 2019.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$182.8 in 2017, \$193.5 in 2018 and \$204.3 in 2019. Recovery under the terrorism policy is subject to a deductible of \$25 per occurrence and \$75 in the annual aggregate in the event of multiple losses during the policy year. Should the Related Entities’ deductible in any one year exceed \$75 future losses in that policy year are subject to a deductible of \$7.5. The terrorism coverages expire at midnight on May 1, 2019.

Pension Plans — In accordance with the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the MTA recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the MTA’s proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the measurement date of each of the qualified pension plans. Changes in the net pension liability during the year are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the year incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the year in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the year in which the difference occurred.

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 established 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 established 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 MTA has adopted these standards for its Postemployment Benefits Other Than Pensions.

Premium Discount Amortization — During 2017, MTA Bridges and Tunnels changed its method of amortizing bond premiums and discounts to the constant yield method, which is a more preferable accounting principle than the principle used in previous years. The constant yield method of amortization is commonly used by state and local governments and public authorities and is the suggested method of amortization under GASB Codification I30, *Interest Costs-Imputation*. This change in method resulted in an increase in 2017 beginning net position of \$153. This change in method is accounted for on a prospective basis. Had the new accounting principle been used for all comparative periods presented within, the 2016 Change in Net Position would have been \$(168).

3. CASH AND INVESTMENTS

Cash - 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, 2017 and 2016 (in millions):

	2017		2016	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	\$ 88	\$ 87	\$ 182	\$ 162
Uninsured and not collateralized	195	143	550	155
Total Balance	\$ 283	\$ 230	\$ 732	\$ 317

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.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the MTA will not be able to recover the value of its deposits. While the MTA does not have a formal deposit policy for custodial credit risk, New York State statutes govern the MTA’s investment policies. 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.

Investments - 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.

The MTA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The MTA had the following recurring fair value measurements as of December 31, 2017 and 2016 (in millions):

Investments by fair value level	December 31,	Fair Value Measurements		December 31,	Fair Value Measurements	
	2017	Level 1	Level 2	2016	Level 1	Level 2
Debt Securities:						
U.S. treasury securities	\$ 4,333	\$ 4,053	\$ 280	\$ 3,546	\$ 3,359	\$ 187
U.S. government agency	387	144	243	549	-	549
Commercial paper	877	-	877	1,397	-	1,397
Asset-backed securities	39	-	39	35	-	35
Commercial mortgage-backed securities	30	-	30	33	-	33
Foreign bonds	9	9	-	13	13	-
Corporate bonds	149	149	-	165	165	-
Tax Benefit Lease Investments:						
U.S. treasury securities	177	177	-	172	172	-
U.S. government agency	114	-	114	103	-	103
Repurchase agreements	122	122	-	73	73	-
Money Market Funds	6	-	6	6	-	6
Total debt securities	6,243	4,654	1,589	6,092	3,782	2,310
Equity securities	25	25	-	21	21	-
Total investments by fair value level	6,268	\$ 4,679	\$ 1,589	6,113	\$ 3,803	\$ 2,310
Other	120			119		
Total Investments	\$ 6,388			\$ 6,232		

Investments classified as Level 1 of the fair value hierarchy, totaling \$4,679 and \$3,803 as of December 31, 2017 and 2016, respectively, are valued using quoted prices in active markets. 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 fair value at least equal to the cost of the investment.

U.S. Government agency securities totaling \$357 and \$652, U.S. treasury securities totaling \$280 and \$187, commercial paper totaling \$877 and \$1,397, asset-backed securities totaling \$39 and \$35, commercial mortgage-backed securities totaling \$30 and \$33, and money market instruments totaling \$6 and \$6, as of December 31, 2017 and 2016, respectively, classified in Level 2 of the fair value hierarchy, are valued using matrix pricing techniques maintained by a third party pricing service. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices and indices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from a third party pricing service or our custodian bank.

In connection with certain lease transactions described in Note 8, 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 obligations. Investments had weighted average yields of 1.18% and 0.56% for the years ended December 31, 2017 and 2016, respectively.

Credit Risk — At December 31, 2017 and 2016, 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, 2017	Percent of Portfolio	December 31, 2016	Percent of Portfolio
A-1+	\$ 336	5 %	\$ 504	8 %
A-1	869	14	1,397	23
AAA	101	2	88	1
AA+	53	1	46	1
AA	24	1	35	0
A	91	1	100	2
BB	1	-	-	-
BBB	43	1	49	1
Not rated	154	2	101	2
U.S. Government	4,571	73	3,774	62
Total	6,243	100 %	6,094	100 %
Equities and capital leases	145		138	
Total investment	\$ 6,388		\$ 6,232	

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)	December 31, 2017		December 31, 2016	
	Fair Value	Duration (in years)	Fair Value	Duration (in years)
U.S. Treasuries	\$ 4,333	2.19	\$ 3,546	5.44
Federal Agencies	387	4.15	549	2.95
Tax benefits lease investments	291	9.12	275	8.87
Repurchase agreement	122	-	73	-
Certificate of deposits	6	-	6	-
Commercial paper	877	0.04	1,397	0.04
Asset-backed securities ⁽¹⁾	39	1.08	35	1.04
Commercial mortgage-backed securities ⁽¹⁾	30	5.63	33	3.04
Foreign bonds ⁽¹⁾	9	0.00	13	0.00
Corporates ⁽¹⁾	149	5.27	165	2.56
Total fair value	6,243		6,092	
Modified duration		2.37		3.93
Equities ⁽¹⁾	25		21	
Total	6,268		6,113	
Investments with no duration reported	120		119	
Total investments	\$ 6,388		\$ 6,232	

⁽¹⁾ 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 component units. 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) (MTA New York City Transit Authority) and 553(21) (MTA Bridges and Tunnels);
- 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

Pensions — The MTA Related Groups sponsor and participate in several defined benefit pension plans for their employees, the Long Island Railroad Company Plan for Additional Pensions (the “Additional Plan”), The Manhattan and Bronx Surface Transit Operating Authority Pension Plan (the “MaBSTOA Plan”), the Metro-North Commuter Railroad Company Cash Balance Plan (the “MNR Cash Balance Plan”), the Metropolitan Transportation Authority Defined Benefit Plan (the “MTA Defined Benefit Plan”), the New York City Employees’ Retirement System (“NYCERS”), and the New York State and Local Employees’ Retirement System (“NYSLERS”). A brief description of each of these pension plans follows:

Plan Descriptions

1. Additional Plan —

The Additional Plan is a single-employer defined benefit pension plan that provides retirement, disability and survivor benefits to members and beneficiaries. The Additional Plan covers MTA Long Island Rail Road employees hired effective July 1, 1971 and prior to January 1, 1988. The Additional Plan’s activities, including establishing and amending contributions and benefits are administered by the Board of Managers of Pensions. The 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 Additional Plan is a closed plan.

The Board of Managers of Pensions is comprised of the Chairman of the MTA, MTA Chief Financial Officer, MTA Director of Labor Relations and the agency head of each participating Employer or the designee of a member of the Board of Managers. The Additional Plan for Additional Pensions may be amended by action of the MTA Board.

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 financial statements may be obtained at www.mta.info or by writing to, Long Island Rail Road, Controller, 93-02 Sutphin Boulevard – mail code 1421, Jamaica, New York 11435.

2. *MaBSTOA Plan* —

The MaBSTOA Plan is a single-employer defined benefit governmental retirement plan administered by MTA New York City Transit covering MaBSTOA employees, who are specifically excluded from NYCERS. The Plan provides retirement as well as death, accident and disability benefits. Effective January 1, 1999, in order to afford managerial and non-represented MaBSTOA employees the same pension rights as like title employees in MTA New York City Transit Authority, membership in the MaBSTOA Plan is optional.

The Board of Administration, established in 1963, determines the eligibility of employees and beneficiaries for retirement and death benefits. The MaBSTOA Plan assigns authority to the MaBSTOA Board to modify, amend or restrict the MaBSTOA Plan or to discontinue it altogether, subject, however, to the obligations under its collective bargaining agreements. The Board is composed of five members: two representatives from the Transport Workers Union, Local 100 (“TWU”) and three employer representatives.

The pension plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to MTA Comptroller, 2 Broadway, 16th Floor, New York, New York, 10004 or at www.mta.info.

3. *MNR Cash Balance Plan* —

The MNR Cash Balance Plan is a single employer, defined benefit pension plan administered by MTA Metro-North Railroad. 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 became 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 ERISA.

The MTA Board of Trustees appoints a Board of Managers of Pensions consisting of five individuals who may, but need not, be officers or employees of the company. The Board of Managers control and manage the operation and administration of the MNR Cash Balance Plan’s activities, including establishing and amending contributions and benefits.

Further information about the MNR Cash Balance Plan is more fully described in the separately issued financial statements that can be obtained by writing to MTA Comptroller, 2 Broadway, 16th Floor, New York, New York, 10004. These statements are also available at www.mta.info.

4. MTA Defined Benefit Plan —

The MTA Defined Benefit Pension Plan (the “MTA Plan” or the “Plan”) is a cost sharing, multiple-employer defined benefit pension plan. The Plan covers certain MTA Long Island Railroad 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 Railroad 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”). The MTA, MTA Long Island Railroad, MTA Metro-North Railroad, MTA Staten Island Railway and MTA Bus contribute to the MTA Plan, which offers distinct retirement, disability retirement, and death benefit programs for their covered employees and beneficiaries.

The MTA Defined Benefit Plan is administered by the Board of Managers of Pensions. The MTA Plan, including benefits and contributions, may be amended by action of the MTA Board.

The pension plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the MTA Comptroller, 2 Broadway, 16th Floor, New York, New York, 10004 or at www.mta.info.

5. NYCERS —

NYCERS is a cost-sharing, multiple-employer retirement system for employees of The City of New York (“The City”) and certain other governmental units whose employees are not otherwise members of The City’s four other pension systems. NYCERS administers the New York City Employees Retirement System qualified pension plan.

NYCERS was established by an act of the Legislature of the State of New York under Chapter 427 of the Laws of 1920. NYCERS functions in accordance with the governing statutes contained in the New York State Retirement and Social Security Law (“RSSL”), and the Administrative Code of the City of New York (“ACNY”), which are the basis by which benefit terms and employer and member contribution requirements are established and amended. The head of the retirement system is the Board of Trustees.

NYCERS issues a publicly available comprehensive annual financial. This report may be obtained by writing to the New York City Employees’ Retirement System at 335 Adams Street, Suite 2300, Brooklyn, NY 11201-3724 or at www.nycers.org.

All employees of the Related Group holding permanent civil service positions in the competitive or labor class are required to become members of NYCERS six months after their date of appointment, but may voluntarily elect to join NYCERS prior to their mandated membership date. All other eligible employees have the option of joining NYCERS upon appointment or anytime thereafter. NYCERS members are assigned to a “tier” depending on the date of their membership.

Tier 1 All members who joined prior to July 1, 1973.

Tier 2 All members who joined on or after July 1, 1973 and before July 27, 1976.

- Tier 3 Only certain members who joined on or after July 27, 1976 and prior to April 1, 2012.
- Tier 4 All members (with certain member exceptions) who joined on or after July 27, 1976 but prior to April 1, 2012. Members who joined on or after July 27, 1976 but prior to September 1, 1983 retain all rights and benefits of Tier 3 membership.
- Tier 6 Members who joined on or after April 1, 2012.

6. NYSLERS —

NYSLERS is a cost-sharing, multiple-employer defined benefit retirement system. The New York State Comptroller’s Office administers the NYSLERS. The net position of NYSLERS is held in the New York State Common Retirement Fund (the “Fund”), which was established to hold all assets and record changes in fiduciary net position allocated to the plan. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of NYSLERS. NYSLERS’ benefits are established under the provisions of the New York State RSSL. Once a public employer elects to participate in NYSLERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute.

NYSLERS is included in New York State’s financial report as a pension trust fund. This report may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Pension legislation enacted in 1973, 1976, 1983, 2009 and 2012 established distinct classes of tier membership.

- Tier 1 All members who joined prior to July 1, 1973.
- Tier 2 All members who joined on or after July 1, 1973 and before July 27, 1976.
- Tier 3 Generally, certain members who joined on or after July 27, 1976 but before January 1, 2010 and all other members who joined on or after July 27, 1976, but before September 1, 1983.
- Tier 4 Generally, members (with certain member exceptions) who joined on or after September 1, 1983, but before January 1, 2010.
- Tier 5 Members who joined on or after January 1, 2010, but before April 1, 2012.
- Tier 6 Members who joined on or after April 1, 2012.

Benefits Provided

1. Additional Plan —

Pension Benefits — An employee who retires under the Additional Plan, either: (a) after completing at least 20 years of credited service, or (b) after both attaining age 65 while in service and completing at least five years of credited service, or in the case of those who were active 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 the MTA Long Island Rail Road, subject to the obligations of the MTA Long Island Rail Road under its collective bargaining agreements.

The Additional Plan has both contributory and non-contributory 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.

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, are required to contribute 3% of their wages. The MTA Long Island Railroad contributes additional amounts based on actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due.

Death and Disability Benefits — Participants who become disabled after accumulating 10 years of credited service and who meet the requirements as described in the Additional Plan 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 non-vested participant or vested participant whose pension rights were waived.

Retirement benefits establishment and changes for representative employees are collectively bargained and must be ratified by the respective union and the MTA Board. For nonrepresented employees, amendments must be approved by the MTA Board.

2. MaBSTOA Plan —

The MaBSTOA Plan provides retirement as well as death, accident, and disability benefits. The benefits provided by the MaBSTOA Plan are generally similar to the benefits provided to MTA New York City Transit participants in NYCERS. Benefits vest after either 5, 10, or 20 years of credited service, depending on the date of membership.

In 2008, NYCERS had determined that Tier 4 employees are and have been eligible for a post retirement death benefit retroactive to 1986. In June 2012, the MTA Board approved an amendment to the MaBSTOA Plan to provide for incorporation of this benefit.

Tier 1 —

Eligibility and Benefit Calculation: Tier 1 members must be at least age 50 with the completion of 20 years of service to be eligible to collect a service retirement benefit. Generally, the benefit is 1.50% for service before March 1, 1962, plus 2.0% for service from March 1, 1962 to June 30, 1970, plus 2.5% for service after June 30, 1970. The accumulated percentage, up to a maximum of 50%, is multiplied by the member's compensation, which is the greater of earned salary during the year prior to retirement. Once the accumulated reaches 50%, the percentage for each further year of service reverts back to 1.5%. The percentage in excess of 50% is multiplied by the final compensation, which is the highest average earnings over five consecutive years.

Ordinary Disability Benefits — Generally, ordinary disability benefits, are provided to eligible Tier 1 members after ten years of service with the benefit equal to the greater of the service retirement percentages or 25% multiplied by final compensation.

Accidental Disability Benefits — The accidental disability benefit to eligible Tier 1 members is equal to 75% of final compensation reduced by 100% of any worker's compensation payments.

Ordinary Death Benefits — For Tier 1 members the amount of the death benefit is a lump sum equal to six months' pay for members with less than 10 years of service; a lump sum equal to a 12 months of pay for members with more than 10 but less than 20 years of service, and a lump sum equal to two times 12 months of pay for members with more than 20 years of service.

Tier 2 —

Eligibility and Benefit Calculation: Tier 2 members must be at least age 55 with the completion of 25 years of service to be eligible to collect a service retirement benefit. Generally, the benefit equals 50% of final 3-year average compensation, defined as the highest average earnings over three consecutive years, plus 1% of final 5-year average compensation, defined as the highest average earnings over five consecutive years, per year of credited service in excess of 20 years. For early retirement, members must be at least age 50 with the completion of at least 20 years of service. The benefit is determined in the same manner as the service retirement but not greater than 2.0% of final 3-year average compensation per year of service.

Ordinary Disability Benefits — Generally, ordinary disability benefits, are provided to eligible Tier 2 members after ten years of service with the benefit equal to the greater of the service retirement percentages or 25% multiplied by the final 5- year average compensation.

Accidental Disability Benefits — The accidental disability benefit to eligible Tier 2 members is equal to 75% of the final 5-year average compensation reduced by any worker's compensation payments.

Ordinary Death Benefits — Tier 2 members require the completion of 90 days of service to receive a lump sum equal to 3 times salary, raised to the next multiple of \$1,000 dollars.

Tiers 3, 4—

Eligibility and Benefit Calculation: Tier 3 and 4 members in the Regular 62 and 5 Plan must be at least age 62 with the completion of at least 5 years of service to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 2.0% of Final Average Compensation ("FAC") for the first 30 years of service plus 1.5% of FAC for years of service in excess of 30. FAC is defined as the highest average earnings over three consecutive years, of which earnings in a year cannot exceed 110% of the average of the two preceding years. If the member completes less than

20 years of credited service, the benefit equals 1- 2/3% of FAC multiplied by years of service. For early retirement, members must be at least age 55 with the completion of at least 5 years of service. The benefit equals the service retirement benefit reduced by 6% for each of the first two years prior to age 62, and by 3% for years prior to age 60.

Tier 3 and 4 members in the basic 55/25Plan must be at least age 55 with the completion of at least 25 years of service, or be at least age 62 with the completion of at least 5 years of service, to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 25 years of service, is equal to 2.0% of FAC for the first 30 years of service plus 1.5% of FAC for years of service in excess of 30. If the member completes less than 25 years of credited service, the benefit equals 1- 2/3% of FAC multiplied by years of service.

Tier 4 members in the 57/5 Plan must be at least age 57 with the completion of at least 5 years of service to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 2.0% of FAC for the first 30 years of service plus 1.5% of FAC for years of service in excess of 30. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAC multiplied by years of service.

Ordinary and Accidental Disability Benefits — For eligible members of the Regular 62/5 Plan, 57/25Plan and 57/5 Plan, ordinary and accidental disability benefits, are provided after 10 years of service for ordinary and no service required for accidental disability benefit. The benefit equals the greater of 1-2/3% of FAC per year of service and 1/3 of FAC.

Ordinary Death Benefits — For eligible members of the Regular 62/5 Plan, 55/25 Plan, 57/5 Plan, the pre-retirement ordinary death benefit is equal to a lump sum of annual salary times the lesser of completed years of service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable. Upon retirement, the post-retirement benefit is reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

Tier 6—

Eligibility and Benefit Calculation: Tier 6 members in the 55/25 Special Plan must be at least age 55 with the completion of at least 25 years, or at least age 63 with the completion of at least 10 years of service, to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 25 years of service, is equal to 2.0% of Final Average Salary (“FAS”) for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. FAS is defined as the highest average pensionable compensation over five consecutive years.

Tier 6 members in the Basic 63/10 Plan must be at least age 63 with the completion of at least 10 years to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 35% of FAS plus 2.0% of FAS for years of service in excess of 20. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. FAS is defined as the highest average pensionable earnings over five consecutive years. For early retirement, members must be at least age 55 with the completion of at least 10 years of service. The benefit equals the service retirement benefit reduced by 6.5% for each year early retirement precedes age 63.

Ordinary and Accidental Disability Benefits — For eligible members of the 55/25 Special Plan and the Basic 63/10 Plan, ordinary and accidental disability benefits, are provided after 10 years of credited service

for ordinary disability benefit. There is no service requirement for accidental disability benefit. The benefit equals the greater of 1-2/3% of FAS per year of service and 1/3 of FAS.

Ordinary Death Benefits — For eligible members of the 55/25 Special Plan and the Basic 63/10 Plan, the pre-retirement ordinary death benefit is equal to a lump sum of annual salary times the lesser of completed years of service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable. Upon retirement, the post-retirement benefit is reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

3. MNR Cash Balance Plan —

Pension Benefits — Participants of the MNR Cash Balance Plan are vested in their benefit upon the earlier of (a) the completion of 5 years of service with MTA Metro-North Railroad or (b) the attainment of age 62. The accrued benefit is a participant's Initial Account Balance increased each month by the benefit escalator. The benefit escalator is defined as the Pension Benefit Guaranty Corporation ("PBGC") immediate annuity rate in effect for December of the year preceding the year for which the determination is being made) divided by 180. The accrued benefit is paid as an escalating annuity. Vested participants are entitled to receive pension benefits commencing at age sixty-five. Participants may elect to receive the value of their accumulated plan benefits as a lump-sum distribution upon retirement or they may elect a monthly life annuity. Participants may elect to receive their pension in the form of a joint and survivor annuity.

Participants of the MNR Cash Balance Plan are eligible for early retirement benefits upon termination of employment, the attainment of age 62, or age 60 and completion of 15 years of service, or age 55 and the completion of 30 years of service. The early retirement benefits paid is the normal retirement pension deferred to age 65 or an immediate pension equal to the life annuity actuarial equivalent of a participant's escalating annuity at normal retirement date indexed by the Initial Benefit Escalator from early retirement date to normal retirement date and reduced by 5/9 of 1% for each month retirement precedes age 65 up to 60 months and 5/18 of 1% for each month after 60 months.

For members with cash balances who are currently members of the Metropolitan Transportation Authority Defined Benefit Pension Plan, an additional benefit is provided equal to the amount needed to bring their total benefits (i.e., Railroad Retirement Tier I and II benefits, Conrail Plan benefits, Cash Balance Plan benefits, and MTA Defined Benefit Pension Plan benefits) up to a minimum of 65% of their 3-year final average pay under the MTA Defined Benefit Plan. In no event will the Additional Benefit exceed 2% of 3-year final average pay multiplied by the Conrail Management Service prior to July 1, 1983. This benefit is payable as a life annuity and is reduced for commencement prior to age 65 in the same manner as the regular cash balance benefit. This additional benefit is payable only in the form of a life annuity or 100% or 50% contingent annuity

Death Benefits — Benefits are paid to vested participants' beneficiaries in the event of a participants' death. The amount of benefits payable is the participant's account balance at the date of his or her death. Pre-retirement death benefits paid for a participant's death after 55 is equal to the amount the spouse would have received had the participant elected retirement under the normal form of payment on the day preceding his death. Pre-retirement death benefits paid for a participant's death before 55 is equal to the amount the spouse would have received had the participant survived to age 55 and retired under the normal form of payment on that date. The benefit is based on service to the participant's date of death and is payable beginning on the date the participant would have attained age 55.

In lieu of the above benefit, the surviving spouse can elect to receive the participant's account balance in a single lump sum payment immediately. If the participant was not married, the participant's beneficiary is entitled to receive the participant's Account Balance as of the participant's date of death in a single lump sum payment.

4. MTA Defined Benefit Plan —

Pension Benefits — Retirement benefits are paid from the Plan to covered MTA Metro-North Railroad, MTA Staten Island Railway and post - 1987 MTA Long Island Rail Road employees as service retirement allowances or early retirement allowances. A participant is eligible for a service retirement allowance upon termination if the participant satisfied both age and service requirement. A participant is eligible for a service retirement allowance upon termination if the participant satisfied both age and service requirements. A participant is eligible for an early retirement allowance upon termination if the participant has attained age 55 and completed at least 10 years of credited service. Terminated participants with 5 or more years of credited service are eligible for a deferred vested benefit. Deferred vested benefits are payable on an unreduced basis on the first day of the month following the participant's 62nd birthday.

Certain represented employees of the MTA Long Island Rail Road and the MTA Metro-North Railroad continue to make contributions to the Plan for 15 years. Certain represented employees of the MTA Long Island Rail Road and the MTA Metro-North Railroad are eligible for an early retirement allowance upon termination if the participant has attained age 60 and completed at least 5 years of credited service, or has attained age 55 and completed at least 30 years of credited service. The early retirement allowance is reduced one-quarter of 1% per month for each full month that retirement predates age 60 for certain represented employees of the MTA Long Island Rail Road and the MTA Metro-North Railroad.

Effective in 2007, members and certain former members who become (or became) employed by another MTA agency which does not participate in the Plan continue to accrue service credit based on such other employment. Upon retirement, the member's vested retirement benefit from the Plan will be calculated on the final average salary of the subsequent MTA agency, if higher. Moreover, the Plan benefit will be reduced by the benefit, if any, payable by the other plan based on such MTA agency employment. Such member's disability and ordinary death benefit will be determined in the same way.

Retirement benefits are paid from the Plan under the MTA 20-Year Police Retirement Program. A participant is eligible for service retirement at the earlier of completing twenty years of credited Police service or attainment of age 62. Terminated participants with five years of credited police service, who are not eligible for retirement, are eligible for a deferred benefit. Deferred vested benefits are payable on the first of the month following the participant's attainment of age 55.

Retirement benefits paid from the Plan to covered represented MTA Bus employees include service retirement allowances or early retirement allowances. Under the programs covering all represented employees at Baisley Park, Eastchester, La Guardia, Spring Creek, and Yonkers Depots and the represented employees at College Point Depot, JFK, Far Rockaway a participant is eligible for a service retirement allowance upon termination if the participant has attained age sixty-five and completed at least five years of credited service or if the participant has attained age 57 and completed at least 20 years of credited service. A participant hired prior to June 2009 from Baisley Park, College Point, and La Guardia Depots is eligible for an early retirement allowance if the participant has attained age 55 and completed 20 years of credited service. Terminated participants with five or more years of credited service who are not eligible to receive a service retirement allowance or early retirement allowance are eligible for a deferred vested benefit. Deferred vested benefits are payable on an unreduced basis on or after the participant attains age 65.

At Baisley Park, Far Rockaway, JFK, La Guardia and Spring Creek Depots, a participant who is a non-represented employee is eligible for an early retirement allowance upon termination if the participant has attained age 55 and completed 15 years of service. Terminated participants with five or more years of credited service who are not eligible to receive a service retirement allowance or early retirement allowance are eligible for a deferred vested benefit. Deferred vested benefits are payable on an unreduced basis on or after the participant attains age 62.

The MTA Bus retirement programs covering represented and non-represented employees at Eastchester and Yonkers and covering the represented employees at Baisley Park, College Point, Far Rockaway, JFK, La Guardia and Spring Creek are fixed dollar plans, i.e., the benefits are a product of credited service and a specific dollar amount.

The retirement benefits for certain non-represented employees at Baisley Park, Far Rockaway, JFK, La Guardia and Spring Creek are based on final average salary. Certain participants may elect to receive the retirement benefit as a single life annuity or in the form of an unreduced 75% joint and survivor benefit.

Pre-1988 MTA Long Island Rail Road participants are eligible for a service retirement allowance upon termination if the participant has either: (a) attained age sixty-five and completed at least five years of credited service, or if an employee on January 1, 1988 completed at least 10 years of credited service, or (b) attained age fifty and has completed at least 20 years of credited service. Terminated participants who were not employees on January 1, 1988 with five or more years of credited service are eligible for a deferred vested benefit. 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 earning of 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 supplemental annuity) value at age 65 under the Federal Railroad Retirement Act. The reduction of pension benefits for amounts payable under the Federal Railroad Retirement Act is 50%.

Death and Disability Benefits — In addition to service retirement benefits, participants of the Plan are eligible to receive disability retirement allowances and death benefits. Participants who become disabled may be eligible to receive disability retirement allowances after 10 years of covered MTA Bus service; 10 years of credited service for covered MTA Metro-North Railroad and MTA Long Island Rail Road management and represented employees, covered MTA Staten Island Railway employees and covered MTA police participants.

The disability retirement allowance for covered MTA Metro-North Railroad and MTA Long Island Rail Road management and represented covered MTA Staten Island Railway employees is calculated based on the participant's credited service and final average salary ("FAS") but not less than $\frac{1}{3}$ of FAS. Under the MTA 20 Year Police Retirement Program, a disabled participant may be eligible for one of three forms of disability retirement: (a) ordinary disability which is payable if a participant has ten years of credited Police service and is calculated based on the participant's credited Police service and FAS but not less than $\frac{1}{3}$ of FAS; (b) performance of duty, which is payable if a participant is disabled in the performance of duty and is $\frac{1}{2}$ of FAS, and (c) accidental disability, which is payable if a participant is disabled as the result of an on-the-job accidental injury and is $\frac{3}{4}$ of FAS subject to an offset of Workers' Compensation benefits. Pursuant to the MTA Bus programs, the disability benefit is the same as the service retirement benefit.

Pre -1988 MTA Long Island Rail Road participants who become disabled after accumulating 10 years of credited service and who meet the requirements as described in the Plan may be eligible to receive a

disability benefit. Disability pension benefits are based on the participant's qualified service and a percentage of final average compensation reduced by the full amount of the disability benefit under the Federal Railroad Retirement Act. Survivorship benefits for pre-1988 MTA Long Island Rail Road participants are paid to the spouse when a survivorship option is elected or when an active participant has not divested their 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 \$5,000 (whole dollars) is payable upon death on behalf of a non-vested participant or vested participant whose pension rights were waived.

Death benefits are paid to the participant's beneficiary in the event of the death of a covered MTA Metro-North Railroad, post-1987 MTA Long Island Rail Road or MTA Staten Island Railway employee after completion of one year of credited service. The death benefit payable is calculated based on a multiple of a participant's salary based on years of credited service up to three years and is reduced beginning at age 61. There is also a post-retirement death benefit which, in the 1st year of retirement, is equal to 50% of the pre-retirement death benefit amount, whichever is greater, 25% the 2nd year and 10% of the death benefit payable at age 60 for the 3rd and later years. For the Police 20 Year Retirement Program, the death benefit is payable after ninety days of credited MTA Police service, and is equal to three times their salary. For non-Police groups, this death benefit is payable in a lump sum distribution while for Police, the member or the beneficiary can elect to have it paid as an annuity. The MTA Police do not have a post retirement benefit.

In the MSBA Employees' Pension Plan, there are special spousal benefits payable upon the death of a participant who is eligible for an early retirement benefit, or a normal service retirement benefit, or who is a vested participant or vested former participant. To be eligible, the spouse and participant must have been married at least one year at the time of death. Where the participant was eligible for an early service retirement benefit or was a vested participant or former participant, the benefit is a pension equal to 40% of the benefit payable to the participant as if the participant retired on the date of death. Where the participant was eligible for a normal service retirement benefit, the eligible spouse can elect either the benefit payable as a pension, as described in the prior sentence, or a lump sum payment based on an actuarially determined pension reserve. If there is no eligible spouse for this pension reserve benefit, a benefit is payable to the participant's beneficiary or estate.

Moreover, an accidental death benefit is payable for the death of a participant who is a covered MTA Metro-North Railroad or post-1987 MTA Long Island Rail Road employee, a covered MTA Staten Island Railway employee or a covered MTA Police member and dies as the result of an on-the-job accidental injury. This death benefit is paid as a pension equal to 50% of the participant's salary and is payable to the spouse for life, or, if none, to children until age eighteen (or twenty-three, if a student), or if none, to a dependent parent.

For MTA Bus employees, there is varied death benefit coverage under the Plan. For all represented and non-represented MTA Bus employees at Eastchester and Yonkers Depots and represented MTA Bus employees at Baisley Park, College Point, Far Rockaway, JFK, La Guardia and Spring Creek Depots, if a participant dies prior to being eligible for a retirement benefit, the participant's beneficiary may elect to receive a refund of the participant's contributions plus interest.

Moreover, the spouses of the above employees who are vested are entitled to a presumed retirement survivor annuity which is based on a 50% Joint and Survivor annuity. The date as of which such annuity is determined and on which it commences varies among the different programs depending on whether the participants are eligible for retirement and for payment of retirement benefits.

In addition, the spouse of a non-represented MTA Bus employee at Spring Creek, JFK, La Guardia, Baisley Park and Far Rockaway, if such employee is age 55 and has 15 years of service and is a terminated member with a vested benefit which is not yet payable, may elect the presumed retirement survivor annuity or 1/2 the participant's accrued benefit paid monthly and terminating on the 60th payment or the spouse's death. The spouse of a non-represented MTA Bus employee at Yonkers Depot may also receive a pre-retirement survivor annuity from the supplemental plan. If there is no such spouse, the actuarial equivalent of such annuity is payable.

Dependent children of MTA Bus employees are also entitled to an annuity based on the spouse's pre-retirement survivor annuity (1/2 of the spouse's annuity is payable to each child, but no more than 100% of the spouse's annuity is payable). In addition, the dependent children of retirees who were MTA Bus employees at these Depots are entitled to an annuity based on the presumed retirement survivor's annuity (25% of the spouse's annuity; but no more than 50% of the spouse's annuity is payable).

Retirement benefits establishment and changes for represented employees are collectively bargained and must be ratified by the respective union and the MTA Board. For nonrepresented employees, retirement benefits establishment and changes are presented to the MTA Board and must be accepted and approved by the MTA Board.

5. NYCERS —

NYCERS provides three main types of retirement benefits: Service Retirements, Ordinary Disability Retirements (non-job-related disabilities) and Accident Disability Retirements (job-related disabilities) to participants generally based on salary, length of service, and member Tiers.

The Service Retirement benefits provided to Tier 1 participants fall into four categories according to the level of benefits provided and the years of service required. Three of the four categories provide annual benefits of 50% to 55% of final salary after 20 or 25 years of service, with additional benefits equal to a specified percentage per year of service (currently 1.2% to 1.7%) of final salary. The fourth category has no minimum service requirement and instead provides an annual benefit for each year of service equal to a specified percentage (currently 0.7% to 1.53%) of final salary.

Tier 2 participants have provisions similar to Tier 1, except that the eligibility for retirement and the salary base for benefits are different and there is a limitation on the maximum benefit.

Tier 3 participants were later mandated into Tier 4, but could retain their Tier 3 rights. The benefits for Tier 3 participants are reduced by one half of the primary Social Security benefit attributable to service, and provides for an automatic annual cost-of-living escalator in pension benefits of not more than 3.0%.

Tier 4 participants upon satisfying applicable eligibility requirements may be mandated or elected, as applicable, into the Basic 62/5 Retirement Plan, the 57/5 Plan, the 55/25 Plan, the Transit 55/25 Plan, the MTA Triborough Bridge and Tunnel Authority 50/20 Plan, and the Automotive Member 25/50 Plan. These plans provide annual benefits of 40% to 50% of final salary after 20 or 25 years of service, with additional benefits equal to a specified percentage per year of service (currently 1.5% to 2%) of final salary.

Chapter 18 of the Laws of 2012 created Tier 6. These changes increase the retirement age to 63, require member contributions for all years of service, institute progressive member contributions, and lengthen the final average salary period from 3 to 5 years.

NYCERS also provides automatic Cost-of-Living Adjustments (“COLA”) for certain retirees and beneficiaries, death benefits; and certain retirees also receive supplemental benefits. Subject to certain conditions, members generally become fully vested as to benefits upon the completion of 5 years of service.

6. NYSLERS —

NYSLERS provides retirement benefits as well as death and disability benefits. Members who joined prior to January 1, 2010 need 5 years of service to be fully vested. Members who joined on or after January 1, 2010 need 10 years of service to be fully vested.

Tiers 1 and 2 —

Eligibility: Tier 1 members generally must be at least age 55 to be eligible for a retirement benefit. There is no minimum service requirement for Tier 1 members. Generally, Tier 2 members must have 5 years of service and be at least age 55 to be eligible for a retirement benefit. The age at which full benefits may be collected for Tier 1 is 55, and the full benefit age for Tier 2 is 62.

Benefit Calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If the member retires with 20 or more years of service, the benefit is 2 percent of final average salary for each year of service. Tier 2 members with five or more years of service can retire as early as age 55 with reduced benefits. Tier 2 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. As a result of Article 19 of the RSSL, Tier 1 and Tier 2 members who worked continuously from April 1, 1999 through October 1, 2000 received an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 additional months. Final average salary is the average of the wages earned in the three highest consecutive years of employment. For Tier 1 members who joined on or after June 17, 1971, each year’s compensation used in the final average salary calculation is limited to no more than 20 percent greater than the previous year. For Tier 2 members, each year of final average salary is limited to no more than 20 percent greater than the average of the previous two years.

Tiers 3, 4, and 5 —

Eligibility: Most Tier 3 and 4 members must have 5 years of service and be at least age 55 to be eligible for a retirement benefit. Tier 5 members, must have 10 years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tiers 3, 4 and 5 is 62.

Benefit Calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If a member retires with between 20 and 30 years of service, the benefit is 2 percent of final average salary for each year of service. If a member retires with more than 30 years of service, an additional benefit of 1.5% of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members with five or more years of service and Tier 5 members with 10 or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. Final average salary is the average of the wages earned in the three highest consecutive years of employment. For Tier 3, 4 and 5 members, each year’s compensation used in the final average salary calculation is limited to no more than 10% greater than the average of the previous two years.

Tier 6 —

Eligibility: Generally, Tier 6 members must have 10 years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 6 is 63.

Benefit Calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75% of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2% of final average salary is applied for each year of service over 20 years. Tier 6 members with 10 or more years of service can retire as early as age 55 with reduced benefits. Final average salary is the average of the wages earned in the five highest consecutive years of employment. For Tier 6 members, each year's compensation used in the final average salary calculation is limited to no more than 10% greater than the average of the previous four years.

Disability Benefits— Generally, disability retirement benefits are available to members unable to perform their job duties because of permanent physical or mental incapacity. There are three general types of disability benefits: ordinary, performance of duty, and accidental disability benefits. Eligibility, benefit amounts, and other rules such as any offsets of other benefits depend on a member's tier, years of service, and plan. Ordinary disability benefits, usually one-third of salary, are provided to eligible members after ten years of service; in some cases, they are provided after five years of service. For all eligible Tier 1 and Tier 2 members, the accidental disability benefit is a pension of 75 percent of final average salary, with an offset for any Workers' Compensation benefits received. The benefit for eligible Tier 3, 4, 5 and 6 members is the ordinary disability benefit with the years-of-service eligibility requirement dropped.

Ordinary Death Benefits — Death benefits are payable upon the death, before retirement, of a member who meets eligibility requirements as set forth by law. The first \$50,000 (whole dollars) of an ordinary death benefit is paid in the form of group term life insurance. The benefit is generally three times the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

Post-Retirement Benefit Increases — A cost-of-living adjustment is provided annually to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for ten years; (iii) all disability pensioners, regardless of age, who have been retired for five years; (iv) recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed \$18,000 (whole dollars) of the annual retirement benefit. The cost-of-living percentage shall be 50 percent of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1 percent or exceed 3 percent.

Membership

As of January 1, 2017, January 1, 2016 and January 1, 2015, the dates of the most recent actuarial valuations, membership data for the following pension plans are as follows:

Membership at:	January 1, 2017		January 1, 2016		TOTAL
	MNR Cash Balance Plan	Additional Plan	MaBSTOA Plan	MTA Defined Benefit Plan	
Active Plan Members	4	216	8,617	17,670	26,507
Retirees and beneficiaries receiving benefits	27	5,900	5,468	10,701	22,096
Vested formerly active members not yet receiving benefits	13	38	998	1,439	2,488
Total	44	6,154	15,083	29,810	51,091

Membership at:	January 1, 2016		January 1, 2015		TOTAL
	MNR Cash Balance Plan	Additional Plan	MaBSTOA Plan	MTA Defined Benefit Plan	
Active Plan Members	7	282	8,122	17,156	25,567
Retirees and beneficiaries receiving benefits	27	5,985	5,394	11,382	22,788
Vested formerly active members not yet receiving benefits	14	53	1,054	1,417	2,538
Total	48	6,320	14,570	29,955	50,893

Contributions and Funding Policy

1. Additional Plan —

Employer contributions are actuarially determined on an annual basis and are recognized when due. The Additional Plan is a defined benefit plan administered by the Board of Pension Managers and is a governmental plan and accordingly, is not subject to the funding and other requirements of ERISA.

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 the MTA Long Island Railroad's Board of Managers of Pensions (1.5% in 2016 and 2015), or (2) leave their contributions in the Additional Plan 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 the MTA Long Island Railroad's Board of Managers of Pensions (1.5% in 2016 and 2015).

Funding for the Additional Plan by the MTA Long Island Railroad is provided by MTA. Certain funding by MTA is made to the MTA Long Island Railroad on a discretionary basis. The continuance of the MTA Long Island Railroad's funding for the Additional Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

2. MaBSTOA Plan —

The contribution requirements of MaBSTOA 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 MaBSTOA Pension Plan includes the following plans, including the 2000 amendments which are all under the same terms and conditions as NYCERS:

- (i.) Tier 1 and 2 - Basic Plans;
- (ii.) Tier 3 and 4 - 55 and 25 Plan;
- (iii.) Tier 3 and 4 - Regular 62 and 5 Plan;
- (iv.) Tier 4 - 57 and 5 Plan
- (v.) Tier 6 - 55 and 25 Special Plan
- (vi.) Tier 6 - Basic 63 and 10 Plan

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 noncontributing (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).

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 are subject to the provisions of Tier 6. The highlights of Tier 6 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 increases 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 3 and Tier 4.
- Adjustments of the Pension Multiplier for calculating pension benefits (excluding Transit Operating Employees): the multiplier will be 1.75% for the first 20 years of service, and 2% starting in the 21st year; for an employee who works 30 years, their pension will be 55% of Final Average Salary under Tier 4, instead of 60% percent under Tier 4.
- Adjustments to the Final Average Salary 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 dollars per year plus an inflation factor.
- Pension buyback in Tier 6 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 Section 7.03 of the MaBSTOA Plan, active plan members are permitted to borrow up to 75% of their contributions with interest. Their total contributions and interest remain intact and interest continues to accrue on the full balance. The participant's accumulated contribution account is used as collateral against the loan.

3. MNR Cash Balance Plan —

Funding for the MNR Cash Balance 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 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 with respect to the MNR Cash Balance 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 MNR Cash Balance Plan. MTA Metro-North Railroad anticipated that no further contributions would be made to the MNR Cash Balance Plan. However, due to changes in actuarial assumptions and market performance, additional contributions were made to the MNR Cash Balance Plan in several subsequent years.

4. MTA Defined Benefit Plan —

Employer contributions are actuarially determined on an annual basis. Amounts recognized as receivables for contributions include only those due pursuant to legal requirements. Employee contributions to the MTA Defined Benefit Plan are recognized in the period in which the contributions are due. There are no contributions required under the Metropolitan Suburban Bus Authority Employee's Pension Plan.

The following summarizes the employee contributions made to the MTA Defined Benefit Plan:

Effective January 1, 1994, covered MTA Metro-North Railroad and MTA Long Island Railroad non-represented employees are required to contribute to the MTA 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 MTA Plan. MTA Metro-North Railroad employees may purchase prior service from January 1, 1983 through December 31, 1993 and MTA Long Island Railroad 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 MTA 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 Railroad represented employees who first became eligible to be MTA 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 Railroad 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 Railroad represented employees are required to make the employee contributions for ten years, or fifteen years if hired after certain dates in 2014 as per collective bargaining agreements. 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, September 30, 2017, or the completion of required years of credited service as per the relevant collective bargaining agreements.

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 certain Depots, contribute \$21.50 (whole dollars) per week. Non-represented employees at Eastchester hired prior to 2007 contribute \$25 (whole dollars) per week. Represented employees at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia and Yonkers Depots contribute \$29.06 (whole dollars) per week; Spring Creek represented employees contribute \$32.00 (whole dollars) per week. Certain limited number of represented employees promoted prior to the resolution of a bargaining impasse continue to participate in the MTA Defined Benefit 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 and Command) 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 in 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 and January 1, 2013 actuarial valuations 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— New York City Private Bus Lines Pension Trust who 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 \$44.3 and \$45.9 for the years ended December 31, 2016 and 2015, respectively. Both of these employer contributions were paid to the MTA Plan in their respective years.

5. *NYCERS* —

NYCERS funding policy is to contribute statutorily-required contributions (“Statutory Contributions”), determined by the Chief Actuary for the New York City Retirement Systems, in accordance with State statutes and City laws, and are generally funded by employers within the appropriate Fiscal Year. The Statutory Contributions are determined under the One-Year Lag Methodology (“OYLM”). Under OYLM, the actuarial valuation date is used for calculating the Employer Contributions for the second following Fiscal Year. Statutory Contributions are determined annually to be an amount that, together with member contributions and investment income, provides for NYCERS’ assets to be sufficient to pay benefits when due.

Member contributions are established by law. NYCERS has both contributory and noncontributory requirements, with retirement age varying from 55 to 70 depending upon when an employee last entered qualifying service.

In general, Tier 1 and Tier 2 member contribution rates are dependent upon the employee’s age at membership and retirement plan election. In general, Tier 3 and Tier 4 members make basic contributions of 3.0% of salary, regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees enrolled in the Transit 20-Year Plan, are not required to make basic contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. 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. Effective December 2000, certain Transit Authority Tier 3 and Tier 4 members make basic member contributions of 2.0% of salary, in accordance with Chapter 10 of the Laws of 2000. Certain Tier 2, Tier 3 and Tier 4 members who are participants in special retirement plans are required to make additional member contributions of 1.85%, in addition to their base membership contribution. Tier 6 members are mandated to contribute between

3.0% and 6.0% of salary, depending on salary level, until they separate from City service or until they retire.

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 retirees also receive supplemental benefits from MTA Bridges and Tunnels. 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 members are entitled to refunds of their own contributions, including accumulated interest, less any outstanding loan balances.

MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. The contribution requirements of plans members, MTA New York City Transit and MTA Bridges and Tunnels are established and amended by law.

6. NYSLERS —

Employer Contributions - Under the authority of the RSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the NYSLERS fiscal year ending June 30.

Member Contributions - NYSLERS is noncontributory except for employers who joined the plan after July 27, 1976. Generally, Tier 3, 4, and 5 members must contribute 3% of their salary to NYSLERS. As a result of Article 19 of the RSSL, eligible Tier 3 and 4 employees, with a membership date on or after July 27, 1976, who have ten or more years of membership or credited service with NYSLERS, are not required to contribute. Members cannot be required to begin making contributions or to make increased contributions beyond what was required when membership began. For Tier 6 members, the contribution rate varies from 3% to 6% depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service.

MTAHQ, MTA Capital Construction and MTA Long Island Bus are required to contribute at an actuarially determined rate.

A summary of the aggregate actual contributions made to each pension plan and the respective contribution rates as a percent of covered payroll for the years ended December 31, 2017 and 2016 are as follows:

Year-ended December 31, (\$ in millions)	2017		2016	
	Actual Employer Contributions	Contributions as a percentage of covered payroll	Actual Employer Contributions	Contributions as a percentage of covered payroll
Additional Plan	\$ 221.5	1080.62%	\$ 151.1	515.49%
MaBSTOA Plan	202.7	27.04%	220.7	30.80%
MNR Cash Balance Plan	- *	0.00%	- *	2.68%
MTA Defined Benefit Plan	321.9	17.33%	280.8	15.73%
NYCERS	800.9	21.25%	797.9	22.64%
NYSLERS	14.0	13.46%	13.0	13.69%
Total	<u>\$ 1,561.0</u>		<u>\$ 1,463.5</u>	

* MNR Cash Balance Plan's actual employer contribution for the years ended December 31, 2017 and 2016 was \$0 thousand and \$23 thousand, respectively.

Net Pension Liability

The MTA's net pension liabilities for each of the pension plans reported at December 31, 2017 and December 31, 2016 were measured as of the fiscal year-end dates for each respective pension plan. The total pension liabilities used to calculate those net pension liabilities were determined by actuarial valuations as of each pension plan's valuation date, and rolled forward to the respective year-ends for each pension plan. Information about the fiduciary net position of each qualified pension plan's fiduciary net position has been determined on the same basis as reported by each respective qualified pension plan. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the respective qualified pension plan, and investments are reported at fair value. The following table provides the measurement and valuation dates used by each pension plan to calculate the MTA's aggregate net pension liability.

Year ended December 31, Pension Plan	2017		2016	
	Plan Measurement Date	Plan Valuation Date	Plan Measurement Date	Plan Valuation Date
Additional Plan	December 31, 2016	January 1, 2016	December 31, 2015	January 1, 2015
MaBSTOA Plan	December 31, 2016	January 1, 2016	December 31, 2015	January 1, 2015
MNR Cash Balance Plan	December 31, 2016	January 1, 2017	December 31, 2015	January 1, 2016
MTA Defined Benefit Plan	December 31, 2016	January 1, 2016	December 31, 2015	January 1, 2015
NYCERS	June 30, 2017	June 30, 2015	June 30, 2016	June 30, 2014
NYSLERS	March 31, 2017	April 1, 2016	March 31, 2016	April 1, 2015

Pension Plan Fiduciary Net Position

Detailed information about the fiduciary net position of the Additional Plan, MaBSTOA Plan, MNR Cash Balance Plan, MTA Defined Benefit Plan, NYCERS plan and the NYSLERS plan is available in the separately issued pension plan financial reports for each respective plan.

Actuarial Assumptions

The total pension liabilities in each pension plan’s actuarial valuation dates were determined using the following actuarial assumptions for each pension plan, applied to all periods included in the measurement date:

Valuation Date:	Additional Plan		MaBSTOA Plan		MNR Cash Balance Plan	
	January 1, 2016	January 1, 2015	January 1, 2016	January 1, 2015	January 1, 2017	January 1, 2016
Investment Rate of Return	7.00% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.	4.00% per annum, net of investment expenses.	4.00% per annum, net of investment expenses.
Salary Increases	3.00%	3.00%	Reflecting general wage, merit and promotion increases of 3.5% for operating employees and 4.0% for non-operating employees per year. Larger increases are assumed in the first 5 years of a member's career.	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 non-operating employees per year, depending on years of service.	Not applicable	Not applicable
Inflation	2.50%; 3.50% for Railroad Retirement Wage Base.	2.50%; 3.50% for Railroad Retirement Wage Base.	2.50%	2.50%	2.30%	2.30%
Cost-of Living Adjustments	Not applicable	Not applicable	1.375% per annum.	1.375% per annum.	Not applicable	Not applicable
Valuation Date:	MTA Defined Benefit Plan		NYCERS		NYSLERS	
Valuation Date:	January 1, 2016	January 1, 2015	June 30, 2015	June 30, 2014	April 1, 2016	April 1, 2015
Investment Rate of Return	7.00% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.	7.00% per annum, net of expenses.	7.00% per annum, net of expenses.	7.00% per annum, including inflation, net of investment expenses.	7.00% per annum, including inflation, net of investment expenses.
Salary Increases	Varies by years of employment, and employee group; 3.0% General Wage Increases for TWU MTA Bus hourly employees.	Varies by years of employment, and employee group; 3.5% for MTA Bus hourly employees.	In general, merit and promotion increases plus assumed General Wage increases of 3.0% per year.	In general, merit and promotion increases plus assumed General Wage increases of 3.0% per year.	3.8% in ERS, 4.5% in PFRS	3.8% in ERS, 4.5% in PFRS
Inflation	2.50%; 3.50% for Railroad Retirement Wage Base.	2.50%; 3.50% for Railroad Retirement Wage Base.	2.50%	2.50%	2.50%	2.50%
Cost-of Living Adjustments	55% of inflation assumption or 1.375%, if applicable.	55% of inflation assumption or 1.375%, if applicable.	1.5% per annum for Tiers 1, 2, 4 and certain Tier 3 and Tier 6 retirees. 2.5% per annum for certain Tier 3 and Tier 6 retirees.	1.5% per annum for Tiers 1, 2, 4 and certain Tier 3 and Tier 6 retirees. 2.5% per annum for certain Tier 3 and Tier 6 retirees.	1.30% per annum.	1.30% per annum.

Mortality

Additional Plan / MaBSTOA Plan/ MNR Cash Balance Plan and MTA Defined Benefit Plan:

The actuarial assumptions used in the January 1, 2017, 2016, and 2015 valuations for the MTA plans are based on January 1, 2006 through December 31, 2011 experience study dated June 5, 2014. Mortality assumption is based on a 2012 experience study for all MTA plans. The pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee. As generational tables, they reflect mortality improvements both before and after the measurement date.

Pre-retirement: The MTA plans utilized RP-2000 Employee Mortality Table for Males and Females with Blue collar adjustments.

Post-retirement Healthy Lives: Assumption utilized 95% of 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.

Post-retirement Disabled Lives: Assumption utilized 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. This assumption was not applicable for the Additional Plan and the MNR Cash Balance Plan.

NYCERS:

Pursuant to Section 96 of the New York City Charter, an independent actuarial firm conducts studies of the actuarial assumptions used to value liabilities of the NYCERS pension plan every two years. In accordance, with the Administrative Code of the City of New York ("ACNY"), the Board of Trustees of NYCERS are to periodically review and adopt actuarial assumptions as proposed by the Actuary for use in the determination of Employer Contributions.

Mortality tables for service and disability pensioners were developed from experience studies of the NYCERS Plan. The mortality tables for beneficiaries were developed from an experience review.

The actuarial assumptions used in the June 30, 2015 and June 30, 2014 valuations are based, in part, on the GRS report, on published studies of mortality improvement, and on input from the NYC's outside consultants and auditors, the Actuary proposed, and the Board of Trustees of NYCERS adopted, new post-retirement mortality tables for use in determining employer contributions beginning in Fiscal Year 2016. The new tables of post-retirement are based primarily on the experience of NYCERS and the application of the Mortality Improvement Scale MP-2015, published by the Society of Actuaries in October 2015. Scale MP-2015 replaced Mortality Improvement Scale AA.

NYSLERS:

The actuarial assumptions used in the April 1, 2016 and April 1, 2015 valuations are based on the results of an actuarial experience study for the period April 1, 2010 through March 31, 2015. The annuitant mortality rates are based on the results of the 2015 experience study of the period April 1, 2010 through March 31, 2015, with adjustments for mortality improvement based on the Society of Actuaries' Scale MP-2014.

Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments for each pension plan is presented in the following table.

Pension Plan	Plan Measurement Date	Rate
Additional Plan	December 31, 2016	7.00%
MaBSTOA Plan	December 31, 2016	7.00%
MNR Cash Balance Plan	December 31, 2016	4.00%
MTA Defined Benefit Plan	December 31, 2016	7.00%
NYCERS	June 30, 2017	7.00%
NYSLERS	March 31, 2017	7.00%

For the Additional Plan, MaBSTOA Plan, MNR Cash Balance Plan, MTA Defined Benefit Plan, NYCERS plan and NYSLERS plan, the long-term expected rate of return on investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation of each of the funds and the expected real rate of returns (“RROR”) for each of the asset classes are summarized in the following tables for each of the pension plans:

Asset Class	Additional Plan		MaBSTOA Plan	
	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
US Core Fixed Income	10.00%	1.67%	10.00%	1.67%
US High Yield Bonds	8.00%	5.04%	8.00%	5.04%
Global Bonds	10.00%	0.28%	10.00%	0.28%
Emerging Markets Bonds	3.00%	3.78%	3.00%	3.78%
US Large Caps	10.00%	4.80%	10.00%	4.80%
US Small Caps	5.50%	6.06%	5.50%	6.06%
Global Equity	10.00%	5.49%	10.00%	5.49%
Foreign Developed Equity	10.00%	6.06%	10.00%	6.06%
Emerging Markets Equity	3.50%	8.39%	3.50%	8.39%
Global REITs	5.00%	5.77%	5.00%	5.77%
Private Real Estate Property	3.00%	3.64%	3.00%	3.64%
Private Equity	7.00%	8.99%	7.00%	8.99%
Hedge Funds - MultiStrategy	15.00%	3.45%	15.00%	3.45%
	<u>100.00%</u>		<u>100.00%</u>	
Assumed Inflation - Mean		2.50%		2.50%
Assumed Inflation - Standard Deviation		1.85%		1.85%
Portfolio Nominal Mean Return		7.03%		7.03%
Portfolio Standard Deviation		11.54%		11.54%
Long Term Expected Rate of Return selected by MTA		7.00%		7.00%

Asset Class	MTA Defined Benefit Plan		MNR Cash Balance Plan	
	Target Asset Allocation	Long-Term	Target Asset Allocation	Long-Term
		Expected Real Rate of Return		Expected Real Rate of Return
US Core Fixed Income	10.00%	1.67%	100.00%	1.17%
US High Yield Bonds	8.00%	5.04%		
Global Bonds	10.00%	0.28%		
Emerging Markets Bonds	3.00%	3.78%		
US Large Caps	10.00%	4.80%		
US Small Caps	5.50%	6.06%		
Global Equity	10.00%	5.49%		
Foreign Developed Equity	10.00%	6.06%		
Emerging Markets Equity	3.50%	8.39%		
Global REITs	5.00%	5.77%		
Private Real Estate Property	3.00%	3.64%		
Private Equity	7.00%	8.99%		
Hedge Funds - MultiStrategy	15.00%	3.45%		
	<u>100.00%</u>		<u>100.00%</u>	
Assumed Inflation - Mean		2.50%		2.50%
Assumed Inflation - Standard Deviation		1.85%		1.85%
Portfolio Nominal Mean Return		7.03%		3.69%
Portfolio Standard Deviation		11.54%		4.55%
Long Term Expected Rate of Return selected by MTA		7.00%		4.00%

Asset Class	NYCERS		NYSLERS	
	Target Asset Allocation	Long-Term	Target Asset Allocation	Long-Term
		Expected Real Rate of Return		Expected Real Rate of Return
U.S. Public Market Equities	29.00%	5.70%	36.00%	4.55%
International Public Market Equities	13.00%	6.10%	14.00%	6.35%
Emerging Public Market Equities	7.00%	7.60%	0.00%	0.00%
Private Market Equities	7.00%	8.10%	10.00%	7.75%
Fixed Income	33.00%	3.00%	17.00%	1.31%
Alternatives (Real Assets, Hedge Funds)	11.00%	4.70%	3.00%	5.54%
Real Estate			10.00%	5.80%
Absolute Return Strategies			2.00%	4.00%
Opportunistic Portfolio			3.00%	5.89%
Cash			1.00%	-0.25%
Inflation-indexed Bonds			4.00%	1.50%
	<u>100.00%</u>		<u>100.00%</u>	
Assumed Inflation - Mean		2.50%		2.50%
Long Term Expected Rate of Return		7.00%		7.00%

Discount Rate

The discount rate used to measure the total pension liability of each pension plan is presented in the following table:

Year ended December 31, Pension Plan	Discount Rate			
	2017		2016	
	Plan Measurement Date	Rate	Plan Measurement Date	Rate
Additional Plan	December 31, 2016	7.00%	December 31, 2015	7.00%
MaBSTOA Plan	December 31, 2016	7.00%	December 31, 2015	7.00%
MNR Cash Balance Plan	December 31, 2016	4.00%	December 31, 2015	4.00%
MTA Defined Benefit Plan	December 31, 2016	7.00%	December 31, 2015	7.00%
NYCERS	June 30, 2017	7.00%	June 30, 2016	7.00%
NYS LERS	March 31, 2017	7.00%	March 31, 2016	7.00%

The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each pension plan and that employer contributions will be made at the rates determined by each pension plan’s actuary. Based on those assumptions, each pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability – Additional Plan, MaBSTOA Plan, MNR Cash Balance Plan and the MTA Defined Benefit Plan

Changes in the MTA’s net pension liability for the Additional Plan, MaBSTOA Plan, MNR Cash Balance Plan and the MTA Defined Benefit Plan for the year ended December 31, 2017, based on the December 31, 2016 measurement date, and for the year ended December 31, 2016, based on the December 31, 2015 measurement date, were as follows:

	Additional Plan			MaBSTOA Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(in thousands)					
Balance as of December 31, 2015	\$ 1,562,251	\$ 726,198	\$ 836,053	\$ 3,391,989	\$ 2,292,316	\$ 1,099,673
Changes for fiscal year 2016:						
Service Cost	2,752	-	2,752	82,075	-	82,075
Interest on total pension liability	104,093	-	104,093	236,722	-	236,722
Effect of economic /demographic (gains) or losses	15,801	-	15,801	13,784	-	13,784
Benefit payments	(158,593)	(158,593)	-	(187,823)	(187,823)	-
Administrative expense	-	(611)	611	-	(186)	186
Member contributions	-	884	(884)	-	18,472	(18,472)
Net investment income	-	58,239	(58,239)	-	212,259	(212,259)
Nonemployer contributions	-	70,000	(70,000)	-	-	-
Employer contributions	-	81,100	(81,100)	-	220,697	(220,697)
Balance as of December 31, 2016	\$ 1,526,304	\$ 777,217	\$ 749,087	\$ 3,536,747	\$ 2,555,735	\$ 981,012

	Additional Plan			MaBSTOA Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(in thousands)					
Balance as of December 31, 2014	\$ 1,602,159	\$ 782,852	\$ 819,307	\$ 3,331,464	\$ 2,265,293	\$ 1,066,171
Changes for fiscal year 2015:						
Service Cost	3,441	-	3,441	77,045	-	77,045
Interest on total pension liability	106,987	-	106,987	232,405	-	232,405
Effect of economic /demographic (gains) or losses	6,735	-	6,735	(68,997)	-	(68,997)
Benefit payments	(157,071)	(157,071)	-	(179,928)	(179,928)	-
Administrative expense	-	(1,218)	1,218	-	(88)	88
Member contributions	-	1,108	(1,108)	-	16,321	(16,321)
Net investment income	-	527	(527)	-	(24,163)	24,163
Employer contributions	-	100,000	(100,000)	-	214,881	(214,881)
Balance as of December 31, 2015	\$ 1,562,251	\$ 726,198	\$ 836,053	\$ 3,391,989	\$ 2,292,316	\$ 1,099,673

	MNR Cash Balance Plan			MTA Defined Benefit Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(in thousands)					
Balance as of December 31, 2015	\$ 634	\$ 612	\$ 22	\$ 4,364,946	\$ 3,074,777	\$ 1,290,169
Changes for fiscal year 2016:						
Service Cost	-	-	-	138,215	-	138,215
Interest on total pension liability	24	-	24	308,009	-	308,009
Effect of plan changes	-	-	-	73,521	-	73,521
Effect of economic / demographic (gains) or losses	(15)	-	(15)	86,809	-	86,809
Effect of assumption changes or inputs	-	-	-	-	-	-
Benefit payments	(77)	(77)	-	(209,623)	(209,623)	-
Administrative expense	-	-	-	-	(3,051)	3,051
Member contributions	-	-	-	-	29,392	(29,392)
Net investment income	-	16	(16)	-	247,708	(247,708)
Employer contributions	-	23	(23)	-	280,768	(280,768)
Balance as of December 31, 2016	\$ 566	\$ 574	\$ (8)	\$ 4,761,877	\$ 3,419,971	\$ 1,341,906

	MNR Cash Balance Plan			MTA Defined Benefit Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(in thousands)					
Balance as of December 31, 2014	\$ 710	\$ 698	\$ 12	\$ 4,099,738	\$ 3,065,220	\$ 1,034,518
Changes for fiscal year 2015:						
Service Cost	-	-	-	124,354	-	124,354
Interest on total pension liability	29	-	29	288,820	-	288,820
Effect of plan changes	-	-	-	6,230	-	6,230
Effect of economic / demographic (gains) or losses	(10)	-	(10)	121,556	-	121,556
Effect of assumption changes or inputs	18	-	18	(76,180)	-	(76,180)
Benefit payments	(113)	(113)	-	(199,572)	(199,572)	-
Administrative expense	-	3	(3)	-	(1,962)	1,962
Member contributions	-	-	-	-	34,519	(34,519)
Net investment income	-	6	(6)	-	(45,122)	45,122
Employer contributions	-	18	(18)	-	221,694	(221,694)
Balance as of December 31, 2015	\$ 634	\$ 612	\$ 22	\$ 4,364,946	\$ 3,074,777	\$ 1,290,169

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the MTA’s net pension liability calculated for the Additional Plan, MaBSTOA Plan, MNR Cash Balance Plan and the MTA Defined Benefit Plan using the discount rate as of each measurement date, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the actual discount rate used for each measurement date:

Measurement Date:	December 31, 2016			December 31, 2015		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
	(in thousands)			(in thousands)		
Additional Plan	\$ 871,350	\$ 749,087	\$ 642,973	\$ 963,427	\$ 836,053	\$ 725,673
MaBSTOA Plan	1,376,916	981,012	643,826	1,480,961	1,099,673	775,092
MTA Defined Benefit Plan	1,936,639	1,341,906	840,176	1,835,699	1,290,169	830,112
	(in whole dollars)			(in whole dollars)		
MNR Cash Balance Plan	\$ 25,200	\$ (7,899)	\$ (37,092)	\$ 60,689	\$ 21,847	\$ (12,361)

The MTA’s Proportion of Net Pension Liability – NYCERS and NYSLERS

The following table presents the MTA’s proportionate share of the net pension liability of NYCERS based on the June 30, 2015 and June 30, 2014 actuarial valuations, rolled forward to June 30, 2017 and June 30, 2016, respectively, and the proportion percentage of the aggregate net pension liability allocated to the MTA:

	NYCERS	
	June 30, 2017	June 30, 2016
	(\$ in thousands)	
MTA's proportion of the net pension liability	24.096%	23.493%
MTA's proportionate share of the net pension liability	\$ 5,003,811	\$ 5,708,052

The following table presents the MTA’s proportionate share of the net pension liability of NYSLERS based on the April 1, 2016 and April 1, 2015 actuarial valuations, rolled forward to March 31, 2017 and March 31, 2016, respectively, and the proportion percentage of the aggregate net pension liability allocated to the MTA:

	NYSLERS	
	March 31, 2017	March 31, 2016
	(\$ in thousands)	
MTA's proportion of the net pension liability	0.311%	0.303%
MTA's proportionate share of the net pension liability	\$ 29,239	\$ 48,557

The MTA’s proportion of each respective Plan’s net pension liability was based on the MTA’s actual required contributions made to NYCERS for the plan’s fiscal year-end June 30, 2017 and 2016 and to NYSLERS for the plan’s fiscal year-end March 31, 2017 and 2016, relative to the contributions of all employers in each plan.

Sensitivity of the MTA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the MTA's proportionate share of the net pension liability for NYCERS and NYSLERS calculated using the discount rate as of each measurement date, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the actual discount rate used as of each measurement date (\$ in thousands):

Measurement Date:	June 30, 2017			June 30, 2016		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
NYCERS	\$ 7,231,780	\$ 5,003,811	\$ 3,046,531	\$ 7,826,325	\$ 5,708,052	\$ 3,933,870
Measurement Date:	March 31, 2017			March 31, 2016		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
NYSLERS	\$ 93,385	\$ 29,239	\$ (24,995)	\$ 109,494	\$ 48,557	\$ (2,931)

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended December 31, 2017 and 2016, the MTA recognized pension expense related to each pension plan as follows (in \$ thousands):

Pension Plan	December 31, 2017	December 31, 2016
Additional Plan	\$ 84,583	\$ 78,604
MaBSTOA Plan	156,302	159,377
MNR Cash Balance plan	(10)	4
MTA Defined Benefit Plan	346,535	239,927
NYCERS	595,905	691,210
NYSLERS	17,486	17,880
Total	\$ 1,200,801	\$ 1,187,002

For the years ended December 31, 2017 and 2016, the MTA reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows (in \$ thousands):

**For the Year Ended
December 31, 2017**

	Additional Plan		MaBSTOA Plan		MNR Cash Balance Plan		MTA Defined Benefit Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ 11,663	\$ 47,891	\$ -	\$ -	167,897	-
Changes in assumptions	-	-	-	-	-	-	-	56,647
Net difference between projected and actual earnings on pension plan investments	32,500	-	88,414	-	20	4	171,591	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-	-	-	6,386	6,386
Employer contributions to the plan subsequent to the measurement of net pension liability	221,523	-	202,684	-	-	-	321,860	-
Total	\$ 254,023	\$ -	\$ 302,761	\$ 47,891	\$ 20	\$ 4	\$ 667,734	\$ 63,033

**For the Year Ended
December 31, 2017**

	NYCERS		NYSLERS		TOTAL	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 133,514	\$ 733	\$ 4,440	\$ 180,293	\$ 185,845
Changes in assumptions	246,670	-	9,989	-	256,659	56,647
Net difference between projected and actual earnings on pension plan investments	-	204,459	5,840	-	298,364	204,463
Changes in proportion and differences between contributions and proportionate share of contributions	119,738	26,449	2,631	132	128,755	32,967
Employer contributions to the plan subsequent to the measurement of net pension liability	419,367	-	13,969	-	1,179,403	-
Total	\$ 785,775	\$ 364,422	\$ 33,162	\$ 4,572	\$ 2,043,474	\$ 479,922

**For the Year Ended
December 31, 2016**

	Additional Plan		MaBSTOA Plan		MNR Cash Balance Plan		MTA Defined Benefit Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ 59,108	\$ -	\$ -	107,691	-
Changes in assumptions	-	-	-	-	-	-	-	66,413
Net difference between projected and actual earnings on pension plan investments	52,949	-	174,012	-	19	(6)	266,166	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-	-	-	3,230	3,230
Employer contributions to the plan subsequent to the measurement of net pension liability	151,100	-	220,697	-	23	-	280,767	-
Total	\$ 204,049	\$ -	\$ 394,709	\$ 59,108	\$ 42	\$ (6)	\$ 657,854	\$ 69,643

For the Year Ended December 31, 2016	NYCERS		NYSLERS		TOTAL	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 162,021	\$ 245	\$ 5,756	\$ 107,936	\$ 226,885
Changes in assumptions	421,322	-	12,949	-	434,271	66,413
Net difference between projected and actual earnings on pension plan investments	308,781	-	28,807	-	830,734	(6)
Changes in proportion and differences between contributions and proportionate share of contributions	(41,334)	(1,352)	2,398	198	(35,706)	2,076
Employer contributions to the plan subsequent to the measurement of net pension liability	422,768	-	12,980	-	1,088,335	-
Total	\$ 1,111,537	\$ 160,669	\$ 57,379	\$ 5,954	\$ 2,425,570	\$ 295,368

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs.

The following table presents the recognition periods used by each pension plan to amortize the annual differences between expected and actual experience, changes in proportion, differences between employer contributions and proportionate share of contributions, and changes in actuarial assumptions, beginning the year in which the deferred amount occurs.

Pension Plan	Recognition Period (in years)		
	Differences between expected and actual experience	Changes in proportion and differences between employer contributions and proportionate share of contributions	Changes in actuarial assumptions
Additional Plan	1.00	N/A	N/A
MaBSTOA Plan	6.50	N/A	6.30
MNR Cash Balance Plan	1.00	N/A	1.00
MTA Defined Benefit Plan	8.10	8.10	7.80
NYCERS	5.60	5.60	3.33
NYSLERS	5.00	5.00	5.00

For the years ended December 31, 2017 and 2016, \$1,179.4 and \$1,088.3 were reported as deferred outflows of resources related to pensions resulting from the MTA's contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending December 31, 2018 and December 31, 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2017 will be recognized as pension expense as follows:

	<u>Additional Plan</u>	<u>MaBSTOA Plan</u>	<u>MNR Cash Balance plan</u>	<u>MTA Defined Benefit Plan</u>	<u>NYCERS</u>	<u>NYSLERS</u>	<u>Total</u>
Year Ending December 31:				(in thousands)			
2018	12,591	26,605	4	82,465	(16,688)	6,271	111,248
2019	12,591	26,605	4	82,465	157,042	6,271	284,978
2020	8,890	17,892	6	62,958	(9,102)	5,797	86,441
2021	(1,572)	(18,811)	2	11,047	(137,250)	(3,718)	(150,302)
2022	-	(1,165)	-	16,746	7,984	-	23,565
Thereafter	-	1,060	-	27,160	-	-	28,220
	<u>\$ 32,500</u>	<u>\$ 52,186</u>	<u>\$ 16</u>	<u>\$ 282,841</u>	<u>\$ 1,986</u>	<u>\$ 14,621</u>	<u>\$ 384,150</u>

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 participant charges, including investment and other fees, cover the costs of administering the Deferred Compensation Program.

Participation in the 401(k) Plan is now available to non-represented employees and, after collective bargaining, most represented employees. All amounts of compensation deferred under the 401(k) Plan, and all income attributable to such compensation, less expenses and fees, are held in trust for the exclusive benefit of the participants and their beneficiaries. Accordingly, the 401(k) Plan is not reflected in the accompanying consolidated statements of net position.

The Deferred Compensation Program is administered and may be amended by the Deferred Compensation Committee.

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 its Financial Advisor to provide greater 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 restructured to set up a four-tier strategy:

- Tier 1 – The MTA Target-Year Lifecycle Funds, which are comprised of a mix of several funds, most of which are available as separate investments 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 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. Participants may invest only a portion of their account balances in this Tier.

In 2011, the Deferred Compensation Program began offering 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 \$18,000 dollars or \$24,000 dollars for those over age 50 for the year ended December 31, 2017.

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

- MTA
- 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%

As a result of collective bargaining, these members were offered a one-time opportunity to opt-out of the matching contributions and employer basic contributions and, instead, participate in the MTA Defined Benefit Pension Plan. No further matching or employer basic contributions will be made for those who make such election.

MTA Metro-North Railroad – 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 contribution 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 contributes 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 contributions. Members are immediately 100% vested in these employer contributions.

In addition, for each plan year, the MTA shall make contributions to the account of each eligible MTA Police Department Commanding Officers Benevolent Association member in the amounts required by the CBA and subject to the contribution limits set forth in the CBA. These 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. Under certain conditions, both Plans accepts rollovers from all eligible retirement plans (as defined by the Code), including 401(a), 457, 401(k), 403(b), and rollover IRAs.

Forfeitures – Nonvested contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan’s administrative expenses.

	December 31,	
	2017	2016
	(In thousands)	
Employer 401K contributions	\$ 4,109	\$ 3,973

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 established 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 Other Postemployment Benefits Plan (“the OPEB Plan”) and the related Trust Fund (“Trust”) was established on January 1, 2009 for the exclusive benefit of MTA retired employees and their eligible spouses and dependents, to fund some of the OPEB provided in accordance with the MTA’s various collective bargaining agreements. The Plan and the Trust are exempt from federal income taxation under Section 115(1) of the Internal Revenue Code. The OPEB Plan is classified as a single-employer plan.

The separate annual financial statements of the OPEB Plan may be obtained by writing to MTA Comptroller, 2 Broadway, 16th Floor, New York, New York, 10004 or at www.mta.info.

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 Defined Benefit Plan, the Additional Plan, the MNR Cash Balance 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 employees and retirees. NYSHIP provides a Preferred Provider Organization (“PPO”) plan and several Health Maintenance Organization (“HMO”) plans. Represented MTA New York City Transit employees, other MTA New York City Transit former 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 health plan 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 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 valuation was performed as of January 1, 2016. Forty-six thousand plan participants were receiving retirement benefits as of December 31, 2016, the last valuation reporting period.

During 2012, MTA funded \$250 into an OPEB Trust ("Trust") allocated between MTA Headquarters and MTA New York City Transit and funded an additional \$50 during 2013 allocated between MTA Long Island Railroad and MTA Metro-North Railroad. There have been no further contributions made to the Trust. Under GASB Statement No. 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 3.3% resulting in a discount rate under GASB Statement No. 45 of 3.3%, which is slightly lower than the discount rate of 3.5% 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 Statement No. 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 in 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 Obligations.

Actuarial Cost, Amortization Methods and Assumptions - For determining the ARC, the MTA has chosen to use the Frozen Initial Liability cost method (the "FIL 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. As of the last valuation date, January 1, 2016, the remaining amortization period is 12 years.

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 is used to determine the unfunded actuarial accrued liability in the GASB Statement No. 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 less the Actuarial Value of Assets, if any, 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, 2016, which is 12 months prior to the beginning of the 2017 calendar year.

Inflation Rate - 2.5% per annum compounded annually.

Discount Rate – GASB Statement No. 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 3.5% to 3.3%.

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. Legislative changes passed in December 2015 have delayed the effective date of the excise tax until 2020. However, the calculation of the threshold amounts remains unchanged. 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 current provisions of ACA should be reflected in the projection of benefits and therefore, include the value of the excise tax and ACA fees which apply to the plan(s). It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the excise tax.

The legislative changes from H.R.1, originally known as the “Tax Cuts and Jobs Act”, and H.R. 195, the “Extension of Continuing Appropriations Act, 2018”, are not reflected in this valuation as passage occurred after the measurement date.

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

Valuation date	January 1, 2016
Actuarial cost method	Frozen Initial Liability
Discount rate	3.30%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen Initial Liability
Remaining amortization period	12 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 Statement No. 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 in prior years 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.

Effective with this valuation, age adjustments are required for valuing NYSHIP benefits due to a change in actuarial standards. Age adjustments reflect that health costs are typically higher for retirees under age 65 than an average active population and, upon reaching Medicare, health costs are reduced as NYSHIP becomes the secondary payer.

The medical and pharmacy benefits provided to TWU Local 100, ATU 1056, ATU 726 and other eligible represented MTA New York City Transit members, represented MTA Bus members and represented MTA Staten Island Railway members are self-insured as well as some Pre-NYSHIP MTA New York City 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, including the Employer Group Waiver Plan (“EGWP”) for providing pharmacy benefits to Medicare-eligible retirees, for 2015 and 2016.

Healthcare Cost Trend — The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2017 utilizing the baseline assumptions included in the model, except inflation of 2.5% 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 self-insured benefits administered by MTA New York City Transit. The NYSHIP trend reflects actual increases in premiums to Participating Agencies through 2017. Long-term trend increases are 4% for dental and vision benefits and 4.5% for Medicare Part B reimbursements, but not more than projected medical trends excluding any excise tax adjustments. The self-insured trend is applied directly for represented employees of by MTA New York City Transit, MTA Staten Island Railway and MTA Bus. Note that for purposes of estimating the impact of the Excise Tax, the self-insured trends for MTA Bus and MTA New York City Transit differ. The following lists illustrative rates for the NYSHIP and self-insured trend assumptions for MTA New York City Transit, MTA Staten Island Railway and MTA Bus (all amounts are in percentages).

Healthcare Cost Trend Rates

Fiscal Year	MTA New York City Transit and MTA					
	NYSHIP		Staten Island Railway		MTA Bus	
	< 65	>=65	< 65	>=65	< 65	>=65
2016	11.8	0.0	7.3	4.9	7.3	4.9
2017	6.7	6.4	7.1	4.9	7.1	4.9
2018	6.2	6.0	6.4	5.0	6.4	5.0
2019	6.3	5.5	9.5	5.0	9.2	5.0
2020	5.3	5.1	6.0	5.1	6.0	5.1
2025	6.0	5.1	5.9	5.1	5.9	5.1
2030	5.9	5.1	5.8	5.1	5.8	5.1
2035	5.9	5.2	5.8	5.2	5.8	5.2
2040	5.8	5.2	5.7	5.2	5.7	5.2
2050	5.4	5.8	5.3	5.0	5.3	5.0
2060	5.2	5.5	5.1	5.2	5.2	5.2
2070	4.6	4.7	4.6	4.6	4.6	4.9
Ultimate ¹	4.2	4.3	4.2	4.5	4.2	4.5

¹ Ultimate rate used for years prior to 2016 for Entry Age purposes.

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, 2016 (Valuation date for December 31, 2017)

	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	Total
Active Members									
Number	49,174	7,141	6,506	1,475	1,720	-	297	3,757	70,070
Average Age	49.3	44.5	45.1	47.2	46.3	-	44.4	47.4	48.2
Average Service	13.8	12.2	12.7	14.1	12.9	-	11.9	11.7	13.4
Retirees									
Single Medical Coverage	12,818	662	452	622	193	88	27	616	15,478
Employee/Spouse Coverage	17,427	2,065	1,050	716	371	198	60	939	22,826
Employee/Child Coverage	1,085	107	77	45	29	21	4	47	1,415
No medical Coverage	817	2,387	2,486	7	11	317	24	296	6,345
Total Number	32,147	5,221	4,065	1,390	604	624	115	1,898	46,064
Average Age	72.0	68.5	74.5	69.7	65.9	66.1	64.8	70.6	71.5
Total Number with Dental/Vision	7,018	846	534	435	529	58	47	110	9,577
Total Number with Vision	27,843	846	534	435	529	58	93	1,562	31,900
Total Number with Supplement	26,448	1,957	-	955	-	462	22	1,454	31,298
Average Monthly Supplement Amount in whole dollars (Excluding Part B Premium)	\$32	\$229	\$ -	\$211	\$ -	\$ -	\$238	\$25	\$50
Total Number with Life Insurance	7,163	4,751	2,536	380	519	509	92	232	16,182
Average Life Insurance Amount	\$2,693	\$23,515	\$2,722	\$5,605	\$5,000	\$9,715	\$2,978	\$5,409	\$9,215

* No active members as of January 1, 2016. In addition, there are 155 vestees not included in these counts.

Coverage Election Rates — The majority of members participating in NYSHIP are assumed to elect coverage in the Empire PPO plan. For certain agencies (MTA New York City Transit, MTA Bridges

and Tunnels, and MTA Staten Island Railway) a percentage of the membership is assumed to elect the NYSHIP HIP plan and for MTA Metro-North Railroad, a percentage is assumed to elect ConnectiCare.

Dependent Coverage — Spouses are assumed to be the same age as the employee/retiree. 80% of male and 45% of female eligible members participating in NYSHIP are assumed to elect family coverage upon retirement and 65% of male and 35% of female eligible members participating in self-insured programs administered by MTA New York City Transit are assumed to cover a dependent. Actual 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 from the valuation date.

Demographic Assumptions:

Mortality — Preretirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. The postretirement mortality assumption is based on an experience analysis covering the period from January 1, 2011 to December 31, 2015 for the MTA-sponsored pension plans.

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 — RP-2014 Disabled Annuitant mortality table for males and females.

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 based on age at the valuation date.

<u>Age at Termination</u>	<u>Percent Electing</u>
< 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, 2017 and 2016. 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)	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Annual required contribution (“ARC”)	\$ 2,985.1	\$ 2,907.3
Interest on net OPEB obligation	500.1	474.6
Adjustment to ARC	<u>(1,329.8)</u>	<u>(1,235.5)</u>
OPEB cost	2,155.4	2,146.4
Payments made	<u>(579.9)</u>	<u>(551.0)</u>
Increase in net OPEB obligation	1,575.5	1,595.4
Net OPEB obligation — beginning of year	<u>15,155.5</u>	<u>13,560.1</u>
Net OPEB obligation — end of year	<u>\$ 16,731.0</u>	<u>\$ 15,155.5</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, 2017, 2016 and 2015 are as follows (in millions):

Year Ended	<u>Annual OPEB Cost</u>	<u>% of Annual Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2017	\$ 2,155.4	26.9 %	\$ 16,731.0
December 31, 2016	2,146.4	25.7	15,155.5
December 31, 2015	1,997.2	25.2	13,560.1

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

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}/{b}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c}/{d}
December 31, 2017	January 1, 2016	\$ 297.5	\$ 19,801.7	\$ 19,504.2	1.5%	\$ 5,041.0	386.9 %

* 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 capital 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, 2015, 2016, and 2017 (in millions):

	Balance December 31, 2015	Additions / Reclassifications	Deletions / Reclassifications	Balance December 31, 2016	Additions / Reclassifications	Deletions / Reclassification	Balance December 31, 2017
Capital assets not being depreciated:							
Land	\$ 208	\$ 2	\$ 7	\$ 203	\$ 14	\$ -	\$ 217
Construction work-in-progress	12,949	5,915	2,608	16,256	6,491	5,769	16,978
Total capital assets not being depreciated	13,157	5,917	2,615	16,459	6,505	5,769	17,195
Capital assets being depreciated:							
Buildings and structures	17,104	354	-	17,458	751	493	17,716
Bridges and tunnels	3,195	121	-	3,316	288	-	3,604
Equipment:							
Passenger cars and locomotives	13,764	102	3	13,863	1	4	13,860
Buses	3,229	217	-	3,446	213	46	3,613
Infrastructure	21,423	661	6	22,078	1,783	27	23,834
Other	19,356	773	7	20,122	2,602	18	22,706
Total capital assets being depreciated	78,071	2,228	16	80,283	5,638	588	85,333
Less accumulated depreciation:							
Buildings and structures	6,194	489	-	6,683	530	290	6,923
Bridges and tunnels	717	29	-	746	37	-	783
Equipment:							
Passenger cars and locomotives	6,427	415	3	6,839	371	4	7,206
Buses	1,782	223	-	2,005	250	39	2,216
Infrastructure	8,031	607	3	8,635	672	21	9,286
Other	6,667	684	35	7,316	751	13	8,054
Total accumulated depreciation	29,818	2,447	41	32,224	2,611	367	34,468
Total capital assets being depreciated — net	48,253	(219)	(25)	48,059	3,027	221	50,865
Capital assets — net	\$ 61,410	\$ 5,698	\$ 2,590	\$ 64,518	\$ 9,532	\$ 5,990	\$ 68,060

Interest capitalized in conjunction with the construction of capital assets for the years ended December 31, 2017 and 2016 was \$58.9 and \$57.9, 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, 2017 and 2016, these securities, which are not included in these financial statements, totaled \$114.8 and \$100.5, respectively, and had a market value of \$83.7 and \$95.4, respectively.

7. LONG-TERM DEBT

(In millions)	Original Issuance	December 31, 2016	Issued	Retired	December 31, 2017
MTA:					
Transportation Revenue Bonds					
1.37%–6.68% due through 2057	\$ 35,689	\$ 21,209	\$ 3,652	\$ 3,984	\$ 20,877
Bond Anticipation Notes					
2.0% due through 2018	4,604	948	2,204	1,636	1,516
State Service Contract Bonds					
4.125%–5.70% due through 2031	2,395	145	-	77	68
Dedicated Tax Fund Bonds					
2.05%–5.00% due through 2056	11,039	5,009	993	631	5,371
	<u>53,727</u>	<u>27,311</u>	<u>6,849</u>	<u>6,328</u>	<u>27,832</u>
Net unamortized bond premium		1,345	892	507	1,730
	<u>53,727</u>	<u>28,656</u>	<u>7,741</u>	<u>6,835</u>	<u>29,562</u>
TBTA:					
General Revenue Bonds					
4.00%–5.77% due through 2050	15,625	6,817	2,040	1,639	7,218
Bond Anticipation Notes					
5.77% due through 2032	400	-	400	235	165
Subordinate Revenue Bonds					
4.00%–5.77% due through 2032	4,066	1,520	108	242	1,386
	<u>20,091</u>	<u>8,337</u>	<u>2,548</u>	<u>2,116</u>	<u>8,769</u>
Net unamortized bond premium		735	399	553	581
	<u>20,091</u>	<u>9,072</u>	<u>2,947</u>	<u>2,669</u>	<u>9,350</u>
MTA Hudson Rail Yards Trust:					
MTA Hudson Rail Yards Trust Obligations					
1.88%–2.65% due through 2056	1,057	1,057	-	-	1,057
Net unamortized bond premium		137	-	8	129
	<u>1,057</u>	<u>1,194</u>	<u>-</u>	<u>8</u>	<u>1,186</u>
Total	<u>\$ 74,875</u>	<u>\$ 38,922</u>	<u>\$ 10,688</u>	<u>\$ 9,512</u>	<u>\$ 40,098</u>
Current portion		<u>\$ 1,977</u>			<u>\$ 1,806</u>
Long-term portion		<u>\$ 36,945</u>			<u>\$ 38,292</u>

(In millions)	Original Issuance	December 31, 2015	December 31, Issued	December 31, Retired	December 31, 2016
MTA:					
Transportation Revenue Bonds					
1.37%–6.68% due through 2056	\$ 31,886	\$ 20,728	\$ 3,113	\$ 2,632	\$ 21,209
Bond Anticipation Notes					
2.0% due through 2018	3,400	1,700	1,400	2,152	948
State Service Contract Bonds					
4.125%–5.70% due through 2031	2,395	218	-	73	145
Dedicated Tax Fund Bonds					
2.05%–5.00% due through 2040	10,046	4,857	1,168	1,016	5,009
Certificates of Participation					
5.30%–5.625% due through 2030	807	71	-	71	-
	<u>48,534</u>	<u>27,574</u>	<u>5,681</u>	<u>5,944</u>	<u>27,311</u>
Net unamortized bond discount and premium		564	808	27	1,345
	<u>48,534</u>	<u>28,138</u>	<u>6,489</u>	<u>5,971</u>	<u>28,656</u>
TBTA:					
General Revenue Bonds					
1.83%–5.85% due through 2050	13,585	6,750	541	474	6,817
Subordinate Revenue Bonds					
2.39%–5.34% due through 2032	3,958	1,584	-	64	1,520
	<u>17,543</u>	<u>8,334</u>	<u>541</u>	<u>538</u>	<u>8,337</u>
Net unamortized bond premium		656	48	(31)	735
	<u>17,543</u>	<u>8,990</u>	<u>589</u>	<u>507</u>	<u>9,072</u>
MTA Hudson Rail Yards Trust:					
MTA Hudson Rail Yards Trust Obligations					
1.88%–2.65% due through 2056	1,057	-	1,057	-	1,057
Net unamortized bond premium		-	132	(5)	137
	<u>1,057</u>	<u>-</u>	<u>1,189</u>	<u>(5)</u>	<u>1,194</u>
Total	<u>\$ 67,134</u>	<u>\$ 37,128</u>	<u>\$ 8,267</u>	<u>\$ 6,473</u>	<u>\$ 38,922</u>
Current portion		<u>\$ 2,587</u>			<u>\$ 1,977</u>
Long-term portion		<u>\$ 34,541</u>			<u>\$ 36,945</u>

MTA Transportation Revenue Bonds — Prior to 2017, MTA issued sixty 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 \$31,230. 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 March 9, 2017, MTA issued \$326 MTA Transportation Revenue Green Bonds, Series 2017A. The Series 2017A bonds were issued as \$189 MTA Transportation Revenue Green Bonds, Subseries 2017A-1 and \$136 MTA Transportation Revenue Green Bonds, Subseries 2017A-2. Proceeds from the transaction were used to pay off a draw on the line of credit that provided interim funding for the existing outstanding 2016A-2 Bond Anticipation Notes, in the amount of \$200 and to refund \$48 MTA Transportation Revenue Bonds, Series 2013B and \$89 MTA Transportation Revenue Bonds, Series 2013C. The Subseries 2017A-1 bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2057. The Subseries 2017A-2 bonds were issued as tax-exempt fixed-rate bonds with a final maturity of November 15, 2030.

On March 28, 2017, MTA effectuated a mandatory tender and remarketed \$100 MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2002D-2a because its current interest rate period was set to expire by its terms.

On June 7, 2017, Fitch Ratings issued a press release announcing an upgrade of MTA Transportation Revenue Bonds to 'AA-' from 'A,' with a stable outlook.

On September 28, 2017, MTA issued \$662 MTA Transportation Revenue Refunding Green Bonds, Series 2017B to refinance certain outstanding indebtedness. The proceeds from the Series 2017B bonds were used to refund: \$139 of Transportation Revenue Bonds, Series 2005G; \$174 of Transportation Revenue Bonds, Series 2010D; \$62 of Transportation Revenue Bonds, Series 2011A; \$115 of Transportation Revenue Bonds, Series 2011D; \$41 of Transportation Revenue Bonds, Series 2012C; \$150 of Transportation Revenue Bonds, Series 2012D; \$35 of Transportation Revenue Bonds, Series 2012E; and \$10 of Transportation Revenue Bonds, Series 2012H. The Series 2017A bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2028.

On October 20, 2017, MTA effectuated a mandatory tender for the purchase and remarketing of \$99 Transportation Revenue Variable Rate Bonds, Series 2011B, and \$73 Transportation Revenue Variable Rate Refunding Bonds, Subseries 2012G-4, because its current interest period expired by its terms. The Series 2011B and Subseries 2012G-4 Bonds will remain in Term Rate Mode as Floating Rate Tender Notes with a purchase date of November 1, 2022.

On November 3, 2017, MTA effectuated a mandatory tender and remarketed \$165 of MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2014D-2 because its current interest rate period expired by its terms. The Subseries 2014D-2 Bonds will remain in Term Rate Mode as Floating Rate Tender Notes with a purchase date of November 15, 2022.

On December 13, 2017, MTA effectuated a mandatory tender and remarketed \$71 of MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2005E-2 because the irrevocable direct-pay letter of credit ("LOC") issued by Royal Bank of Canada, acting through its New York branch, was substituted with an irrevocable direct-pay LOC issued by Bank of America, N.A. The LOC from Bank of America, N.A. expires on December 10, 2021.

On December 14, 2017, MTA issued \$2,021 MTA Transportation Revenue Refunding Green Bonds, Series 2017C. The Series 2017C bonds were issued as \$1,821 Transportation Revenue Refunding Green Bonds, Subseries 2017C-1 and \$200 Transportation Revenue Refunding Green Bonds, Subseries 2017C-2. Proceeds from the transaction were used to refund the following outstanding series of Transportation Revenue bonds: \$5 Series 2008B-2; \$99 Series 2008B-3; \$435 2010D; \$165 Series 2011A; \$230 Series 2011D; \$17 Series 2012B; \$136 Series 2012C; \$132 Series 2012E; \$54 Series 2012H; \$122 Series 2013A; \$68 Series 2013B; \$42 Series 2013C; \$91 Series 2013D; \$107 Series 2013E; \$45 Series 2014A-1; \$83 Series 2014A-2; \$62 Series 2014B; \$98 Series 2014C; \$39 Series 2014D-1; and \$8 Series 2015B. The Series 2017C-1 bonds were issued as tax-exempt fixed rate Current Interest Bonds with a final maturity of November 15, 2038. The Series 2017C-2 bonds were issued as tax-exempt Capital Appreciation Bonds with a final maturity of November 15, 2040.

On December 21, 2017, MTA issued \$643 MTA Transportation Revenue Refunding Bonds, Series 2017D. The Series 2017D bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2039. Proceeds from the transaction were used to refund the following bonds: \$102 MTA Dedicated Tax Fund Bonds, Subseries 2004B-2; \$98 MTA Transportation Revenue Bonds, Series 2011A; \$37 MTA Transportation Revenue Bonds, Series 2011C; \$20 MTA Transportation Revenue Bonds, Series 2011D; \$101 MTA Transportation Revenue Bonds, Series 2012C; \$109 MTA Transportation Revenue Bonds, Series 2012E; \$32 MTA Transportation Revenue Bonds, Series 2012H; \$46 MTA Transportation Revenue Bonds, Series 2013A; \$28 MTA Transportation Revenue Bonds, Series 2013B; \$6 MTA Transportation Revenue Bonds, Series 2013C; \$17 MTA Transportation Revenue Bonds, Series 2013D; \$16 MTA

Transportation Revenue Bonds, Series 2013E; and \$22 MTA Transportation Revenue Bonds, Series 2014-1.

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

On February 14, 2017, MTA issued \$700 of MTA Transportation Revenue Bond Anticipation Notes, Series 2017A to generate new money proceeds to finance existing approved transit and commuter projects. The Series 2017A Notes were issued as fixed rate tax-exempt notes with a final maturity of October 2, 2017. On June 7, 2017, Fitch Ratings also upgraded the outstanding MTA Transportation Revenue BANs to 'F1+' from 'F1'.

On June 29, 2017, MTA issued \$500 of MTA Transportation Revenue Bond Anticipation Notes, Series 2017B to generate new money proceeds to finance existing approved transit and commuter projects. The Series 2017B Notes were issued as fixed rate tax-exempt notes with a maturity date of February 1, 2018.

On October 25, 2017, MTA issued \$1,000 MTA Transportation Revenue Bond Anticipation Notes, Series 2017C to finance existing approved transit and commuter projects. The Series 2017C Notes were issued as \$500 Subseries 2017C-1 and \$500 Subseries 2017C-2. The Subseries 2017C-1 notes are fixed rate tax-exempt notes with a final maturity of February 15, 2019. The Subseries 2017C-2 notes are fixed rate tax-exempt notes with a final maturity of May 15, 2019.

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. On January 31, 2017, MTA drew down \$200 of its \$350 Revolving Credit Agreement with the Royal Bank of Canada, which was entered into on January 1, 2014. The purpose of the draw was to retire Transportation Revenue Bond Anticipation Notes, Subseries 2016A-2. The \$200 draw down plus accrued interest was repaid on March 31, 2017.

On August 24, 2017, MTA entered into a \$350 taxable Revenue Anticipation Note facility, (the "2017A RAN"), with J.P. Morgan Chase Bank, National Association. An initial draw of \$3.5 was made at closing. This balance will remain throughout the duration of the agreement. The 2017A RAN is available to be used by MTA for any corporate purpose as needed and is structured as a revolving loan facility. The RAN expires on August 24, 2022.

MTA State Service Contract Bonds — Prior to 2017, 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 \$68. 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 2017, MTA issued twenty 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 \$9,147. 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 February 23, 2017, MTA issued \$312.825 of MTA Dedicated Tax Fund Green Bonds, Series 2017A to retire \$350 MTA Dedicated Tax Fund Bond Anticipation Notes, Series 2016A-1. The Series 2017A bonds were issued as fixed rate tax-exempt bonds with a final maturity of November 15, 2047.

On May 17, 2017, MTA issued \$680 of MTA Dedicated Tax Fund Green Bonds, Series 2017B. The Series 2017B bonds were issued as \$309 MTA DTF Green Bonds, Series 2017B-1 and \$371 MTA DTF Refunding Green Bonds, Series 2017B-2. Proceeds from the transaction were used to pay off the existing outstanding 2016A-2 Bond Anticipation Notes in the amount of \$350 and to refund the following outstanding series of DTF bonds: \$65 of Series 20004B-1; \$65 of Series 2004B-4; and \$256 of Series 2009B. The Series 2017B-1 bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2057. The Series 2017B-2 bonds were issued as tax-exempt fixed-rate bonds with a final maturity of November 15, 2034.

On May 25, 2017, MTA effectuated a mandatory tender and remarketed \$83 of MTA Dedicated Tax Fund Bonds, Subseries 2008A-2a because its current interest rate period was set to expire by its terms.

On June 14, 2017, MTA effectuated a mandatory tender and remarketed \$167 of MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Subseries 2008A-1 due to substituting the irrevocable direct-pay letter of credit issued by Royal Bank of Canada, acting through its New York branch, with an irrevocable direct-pay letter of credit issued by TD Bank, N.A.

MTA Certificates of Participation — Prior to 2017, 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 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 Certificates of Participation represented 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.

MTA Bridges and Tunnels General Revenue Bonds — Prior to 2017, MTA Bridges and Tunnels issued twenty-seven 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 \$11,922. 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 12, 2017, MTA issued \$300 Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2017A and \$903 Triborough Bridge and Tunnel Authority General Revenue Refunding Bonds, Series 2017B. The proceeds from the Series 2017A bonds will be used to finance bridge and tunnel projects. The proceeds from the Series 2017B bonds were used to refund \$38 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2007A; \$529 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2008A and B; \$224 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2008C; \$95 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2009A-2; and \$126 of Triborough Bridge and Tunnel Authority Subordinate Revenue Bonds, Series 2008D. The Series 2017A bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2047. The Series 2017B bonds were issued as \$34 Triborough Bridge and Tunnel Authority General Revenue Bonds, Subseries 2017B-1; \$472 Triborough Bridge and Tunnel Authority General Revenue Bonds, Subseries 2017B-2; \$313 Triborough Bridge and Tunnel Authority General Revenue Bonds, Subseries 2017B-3; and \$84 Triborough Bridge and Tunnel Authority General Revenue Bonds, Subseries 2017B-4. The Series 2017B bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2047.

On October 6, 2017, MTA issued \$400 Triborough Bridge and Tunnel Authority General Revenue Bond Anticipation Notes, Series 2017A to finance bridge and tunnel capital projects. The Series 2017A Notes were issued as fixed rate tax-exempt notes with a final maturity of February 15, 2018.

On November 17, 2017, MTA issued \$721 Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2017C. The Series 2017C bonds were issued as \$521 Triborough Bridge and Tunnel Authority General Revenue Refunding Bonds, Subseries 2017C-1 and \$200 Triborough Bridge and Tunnel Authority General Revenue Bonds, Subseries 2017C-2. Proceeds from the transaction were used to retire the existing outstanding 2017A Bond Anticipation Notes in the amount of \$235 and to refund the following outstanding series of Triborough Bridge and Tunnel Authority bonds: \$48 Subordinate Series 2008D; \$22 Series 2008B-1; \$17 2008B-3; \$14 Series 2009A-1; \$383 Series 2011A; \$20 Series 2012A; \$27 Series 2013C; \$31 Series 2014A; and \$18 Series 2015A. The Series 2017C-1 bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2028. The Series 2017C-2 bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2042.

MTA Bridges and Tunnels Subordinate Revenue Bonds — Prior to 2017, MTA Bridges and Tunnels issued twelve 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 \$3,871. 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.

MTA Hudson Rail Yards Trust Obligations — The MTA Hudson Rail Yards Trust Obligations, Series 2016A (“Series 2016A Obligations”) were executed and delivered on September 22, 2016 by Wells Fargo Bank National Association, as Trustee (“Trustee”), to (i) retire the outstanding Transportation Revenue Bond Anticipation Notes, Series 2016A of the MTA, which were issued to provide interim financing of approved capital program transit and commuter projects, (ii) finance approved capital program transit and commuter projects of the affiliates and subsidiaries of the MTA, (iii) fund an Interest Reserve Requirement in an amount equal to one-sixth (1/6) of the greatest amount of Interest Components (as hereinafter defined) in the current or any future year, (iv) fund a portion of the Capitalized Interest Fund requirement, and (v) finance certain costs of issuance.

Pursuant to the Financing Agreement (as hereinafter defined), the MTA has agreed to pay to, or for the benefit of, the Trustee the “MTA Financing Agreement Amount,” consisting of principal and interest components. The Series 2016A Obligations evidence the interest of the Owners thereof in such MTA Financing Agreement Amount payable by the MTA pursuant to the Financing Agreement. The principal amount of the Series 2016A Obligations represent the principal components of the MTA Financing Agreement Amount (“Principal Components”) and the interest represent the interest components of the MTA Financing Agreement Amount (“Interest Components”). The Series 2016A Obligations (and the related Principal Components and Interest Components) are special limited obligations payable solely from the Trust Estate established under the MTA Hudson Rail Yards Trust Agreement, dated as of September 1, 2016 (“Trust Agreement”), by and between the MTA and the Trustee.

The Trust Estate consists principally of (i) the regularly scheduled rent, delinquent rent or prepaid rent (“Monthly Ground Rent”) to be paid by Ground Lease Tenants (the tenants under the Western Rail Yard Original Ground Lease and each Severed Parcel Ground Lease of the Eastern Rail Yard) of certain parcels being developed on and above the Eastern Rail Yard and Western Rail Yard portions of the John D. Caemmerer West Side Yards (“Hudson Rail Yards”) currently operated by The Long Island Rail Road Company (“LIRR”), (ii) monthly scheduled transfers from the Capitalized Interest Fund during the limited period that the Monthly Ground Rent is abated under the applicable Ground Lease, (iii) payments made by the Ground Lease Tenants if they elect to exercise their option to purchase the fee interest in such

parcels (“Fee Purchase Payments”), (iv) Interest Reserve Advances and Direct Cost Rent Credit Payments (collectively “Contingent Support Payments”) made by the MTA, (v) rights of the MTA to exercise certain remedies under the Ground Leases and (vi) rights of the Trustee to exercise certain remedies under the Ground Leases and the Fee Mortgages.

Pursuant to the Interagency Financing Agreement, dated as of September 1, 2016 (“Financing Agreement”), by and among the MTA, New York City Transit Authority, Manhattan and Bronx Surface Transit Operating Authority, LIRR, Metro-North Commuter Railroad Company, and MTA Bus Company (collectively, the “Related Transportation Entities”), and the Trustee, the MTA has agreed to pay to the Trustee the MTA Financing Agreement Amount with moneys provided by the Financing Agreement Payments (which are principally the revenues within the Trust Estate) and Interest Reserve Advances. The MTA has established a deposit account with Wells Fargo Bank, National Association, as depositary (“Depositary”), and the MTA will direct all Ground Lease Tenants to make Monthly Ground Rent and Fee Purchase Payments (payments made by the Ground Lease Tenants if they elect to exercise their option to purchase the fee interest in such parcels) directly to the Depositary, which deposits will be transferred daily to the Trustee. In addition, in the event the MTA elects to exercise certain Authority Cure Rights upon the occurrence of a Ground Lease Payment Event of Default or is required to make certain Direct Cost Rent Credit Payments, the MTA will make all payments relating to defaulted and future Monthly Ground Rent directly to the Depositary.

Refer to Note 8 for further information on Leases.

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 \$55,497 compared with issuances totaling approximately \$33,948. 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.

At December 31, 2017 and 2016, 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.
(In millions)

	December 31,	
	2017	2016
MTA Transit and Commuter Facilities:		
Transit Facilities Revenue Bonds	\$ 189	\$ 208
Commuter Facilities Revenue Bonds	193	214
Transit and Commuter Facilities Service Contract Bonds	28	65
Dedicated Tax Fund Bonds	61	80
MTA New York City Transit — Transit Facilities Revenue Bonds (Livingston Plaza Project)		
	8	15
MTA Bridges and Tunnels:		
General Purpose Revenue Bonds	694	735
Special Obligation Subordinate Bonds	115	128
Mortgage Recording Tax Bonds	-	14
Total	\$ 1,288	\$ 1,459

For the year ended December 31, 2017, MTA refunding transactions decreased aggregate debt service payments by \$648 and provided an economic gain of \$534. For the year ended December 31, 2016, MTA refunding transactions decreased aggregate debt service payments by \$738 and provided an economic gain of \$561. For the years ended December 31, 2017 and 2016, the accounting loss on bond refundings totaled \$359 and \$451, respectively.

Unamortized losses related to bond refundings were as follows:

(In millions)	Net		December 31, 2016	(Gain)/Loss on Refunding	Current Year Amortization	December 31, 2017
	December 31, 2015	increase/ (decrease)				
MTA:						
Transportation Revenue Bonds	\$ 335	\$ 222	\$ 557	\$ 222	\$ (51)	\$ 728
State Service Contract Bonds	(5)	(2)	(7)	-	(3)	(10)
Dedicated Tax Fund Bonds	101	114	215	55	(16)	254
	431	334	765	277	(70)	972
TBTA:						
General Revenue Bonds	161	10	171	82	(20)	233
Subordinate Revenue Bonds	34	(2)	32	-	(2)	30
	195	8	203	82	(22)	263
Total	\$ 626	\$ 342	\$ 968	\$ 359	\$ (92)	\$ 1,235

Debt Service Payments — Future principal and interest debt service payments at December 31, 2017 are as follows (in millions):

	MTA		MTA BRIDGES AND TUNNELS		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 1,316	\$ 1,510	\$ 490	\$ 381	\$ 1,806	\$ 1,891
2019	1,736	1,480	330	366	2,066	1,846
2020	720	1,371	335	350	1,055	1,721
2021	754	1,257	341	334	1,095	1,591
2022	811	1,188	356	279	1,167	1,467
2023-2027	5,085	4,605	2,063	1,343	7,148	5,948
2028-2032	6,342	3,153	2,606	821	8,948	3,974
2033-2037	5,593	2,082	1,140	455	6,733	2,537
2038-2042	4,003	1,049	824	176	4,827	1,225
2043-2047	1,048	317	258	44	1,306	361
2048-2052	479	160	26	2	505	162
2053-2057	319	45	-	-	319	45
Thereafter	683	-	-	-	683	-
	<u>\$ 28,889</u>	<u>\$ 18,217</u>	<u>\$ 8,769</u>	<u>\$ 4,551</u>	<u>\$ 37,658</u>	<u>\$ 22,768</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 2002D* — 4.45% per annum taking into account the interest rate swap plus the current fixed floating rate note spread.
- *Transportation Revenue Refunding Bonds, Series 2002G* — 3.542% per annum taking into account the interest rate swap plus the current fixed floating rate note spread; and 4.00% per annum plus the current fixed floating rate note spread 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 2011B* — 3.542% per annum taking into account the interest rate swaps plus the current fixed floating rate note spread; and 4.00% per annum plus the current fixed floating rate note spread on the unhedged portion.
- *Transportation Revenue Bonds, Series 2012A* — 4.00% per annum plus the current fixed floating rate note spread.
- *Transportation Revenue Bonds, Series 2012G* — 3.563% per annum taking into account the interest rate swaps plus the current fixed floating rate note spread.
- *Transportation Revenue Bonds, Series 2014D-2* — 4.00% per annum plus the current fixed floating rate note spread.
- *Transportation Revenue Bonds, Series 2015A-2* — 4.00% per annum plus the current fixed floating rate note spread.
- *Transportation Revenue Bonds, Series 2015E* — 4.00% per annum.

- *Dedicated Tax Fund Bonds, Series 2002B* — 4.00% per annum on SubSeries 2002B-1; and 4.00% per annum plus the current fixed floating rate note spread.
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A* — 3.316% per annum taking into account the interest rate swaps plus the current fixed floating rate note spread; and 4.00% per annum plus the current fixed floating rate note spread on the unhedged portion.
- *Dedicated Tax Fund Refunding Bonds, SubSeries 2008B-3a and 2008B-3c*— 4.00% per annum plus the current fixed floating rate note spread.
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000ABCD* — 6.08% per annum taking into account the interest rate swap plus the current fixed floating rate note spread; and 4.00% per annum plus the current fixed floating rate note spread 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 4.00% per annum on portions not covered by the interest rate swaps.
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2003B* — 4.00% per annum; and 4.00% per annum plus the current fixed floating rate note spread on SubSeries 2003B-2.
- *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 plus the current fixed floating rate note spread.
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2008B-2* — 4.00% per annum plus the current fixed floating rate note spread.

Loans Payable – The MTA and the New York Power Authority (“NYPA”) entered into an updated Energy Services Program Agreement (“ESP Agreement”). The ESP Agreement authorized MTA affiliates and subsidiaries to enter into a Customer Installation Commitment (“CIC”) with NYPA for turn-key, energy efficiency projects, which would usually be long-term funded and constructed by NYPA. The repayment period for the NYPA loan can be up to 20 years, but can be repaid at any time without penalty.

The debt service requirements at December 31, 2017 are as follows:

**Loans Payable
(in millions)**

Year	Principal	Interest	Total
2018	\$ 13.92	\$ 1.53	\$ 15.45
2019	13.83	1.35	15.18
2020	13.19	1.16	14.35
2021	12.44	0.98	13.42
2022	10.99	0.81	11.80
2023-2027	34.48	2.02	36.50
2028-2032	12.96	0.43	13.39
2033-2036	2.14	0.02	2.16
Total	\$ 113.95	\$ 8.30	\$ 122.25
Current portion	\$ 13.92		
Long-term portion	100.03		
Total NYPA Loans Payable	\$ 113.95		

The above interest amounts include both fixed and variable rate calculations. Interest on the variable-rate loan is paid at the Securities Industry and Financial Markets Association Municipal Swap Index (“SIFMA”) rate and is reset annually.

Tax Rebate Liability — Under the Internal Revenue Code of 1986, the MTA may accrue 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 accruals or payments were made during the years ended December 31, 2017 and 2016.

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 Facility	Exp. Date
Transportation Revenue	2005D-1	Y	Helaba	LOC	11/7/2018
Transportation Revenue	2005D-2	Y	Helaba	LOC	11/10/2022
Transportation Revenue	2005E-1	Y	Bank of Montreal	LOC	8/24/2018
Transportation Revenue	2005E-2	Y	Bank of America, N.A.	LOC	12/10/2021
Transportation Revenue	2005E-3	Y	Bank of Montreal	LOC	8/24/2018
Dedicated Tax Fund	2002B-1	N	Bank of Tokyo Mitsubishi	LOC	3/22/2021
Dedicated Tax Fund	2008A-1	Y	TD Bank, N.A.	LOC	6/13/2022
MTA Bridges and Tunnels General Revenue	2001B	N	State Street	LOC	9/28/2018
MTA Bridges and Tunnels General Revenue	2001C	Y	Bank of Tokyo Mitsubishi	SBPA	8/17/2018
MTA Bridges and Tunnels General Revenue	2002F	Y	Helaba	SBPA	11/1/2018
MTA Bridges and Tunnels General Revenue	2003B-1	N	PNC Bank	LOC	1/26/2018
MTA Bridges and Tunnels General Revenue	2003B-3	N	Wells Fargo	LOC	1/26/2018
MTA Bridges and Tunnels General Revenue	2005A	Y	TD Bank	LOC	1/28/2020
MTA Bridges and Tunnels General Revenue	2005B-2	Y	Wells Fargo	LOC	1/26/2018
MTA Bridges and Tunnels General Revenue	2005B-3	Y	Bank of Tokyo Mitsubishi	LOC	6/29/2018
MTA Bridges and Tunnels Subordinate	2013D-2a	Y	Bank of America, N.A.	LOC	12/14/2018
MTA Bridges and Tunnels Subordinate	2013D-2b	Y	Bank of America, N.A.	LOC	12/14/2018

Derivative Instruments — Fair value for the swaps is calculated in accordance with GASB Statement No. 72, utilizing the income approach and Level 2 inputs. It incorporates the mid-market valuation, nonperformance risk of either MTA/MTA Bridges and Tunnels or the counterparty, as well as bid/offer. 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 bonds due on the date of each future net settlement on the swap.

The fair value balances and notional amounts of derivative instruments outstanding at December 31, 2017 and 2016, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2016 are as follows:

Derivative Instruments

Summary Information

(in \$ millions)

Bond Resolution Credit	Underlying Bond Series	Type of Derivative	Cash Flow or Fair Value Hedge	Effective Methodology	Trade/Hedge Association Date	As of December 31, 2017	
						Notional Amount	Fair Value
Cashflow Hedges							
MTA Bridges and Tunnels Senior Revenue Bonds	2002F & 2003B-2 (Citi 2005B)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	191.300	(29.658)
MTA Bridges and Tunnels Senior Revenue Bonds	2005B-2,3,4	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	573.900	(88.974)
MTA Bridges and Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	22.765	(3.028)
MTA Bridges and Tunnels Senior Revenue Bonds	2001C (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	12/5/2016	57.475	(2.409)
MTA Bridges and Tunnels Subordinate Revenue Bonds	2000ABCD	SIFMA Fixed Payer	Cash Flow	Synthetic Instrument	8/12/1998	34.150	(1.450)
MTA Dedicated Tax Fund Bonds	2008A	Libor Fixed Payer	Cash Flow	Synthetic Instrument	3/8/2005	326.860	(45.587)
MTA Transportation Revenue Bonds	2002D-2	Libor Fixed Payer	Cash Flow	Synthetic Instrument	7/11/2002	200.000	(65.547)
MTA Transportation Revenue Bonds	2005D & 2005E	Libor Fixed Payer	Cash Flow	Synthetic Instrument	9/10/2004	380.700	(67.631)
MTA Transportation Revenue Bonds	2012G	Libor Fixed Payer	Cash Flow	Synthetic Instrument	12/12/2007	357.150	(81.075)
MTA Transportation Revenue Bonds	2002G-1 (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	142.015	(11.405)
MTA Transportation Revenue Bonds	2011B (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	56.220	(14.961)
Total						\$ 2,342.535	\$ (411.725)

Derivative Instruments

Summary Information

(in \$ millions)

Bond Resolution Credit	Underlying Bond Series	Type of Derivative	Cash Flow or Fair Value Hedge	Effective Methodology	Trade/Hedge Association Date	As of December 31, 2016	
						Notional Amount	Fair Value
Cashflow Hedges							
MTA Bridges and Tunnels Senior Revenue Bonds	2002F & 2003B-2 (Citi 2005B)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	192.200	(31.348)
MTA Bridges and Tunnels Senior Revenue Bonds	2005B-2,3,4	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	576.600	(94.044)
MTA Bridges and Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	23.230	(3.524)
MTA Bridges and Tunnels Senior Revenue Bonds	2005C (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	12/5/2016	70.500	(4.058)
MTA Bridges and Tunnels Subordinate Revenue Bonds	2000ABCD	Libor Fixed Payer	Cash Flow	Synthetic Instrument	8/12/1998	55.800	(3.920)
MTA Dedicated Tax Fund Bonds	2008A	Libor Fixed Payer	Cash Flow	Synthetic Instrument	3/8/2005	328.980	(51.300)
MTA Transportation Revenue Bonds	2002D-2	Libor Fixed Payer	Cash Flow	Synthetic Instrument	7/11/2002	200.000	(67.214)
MTA Transportation Revenue Bonds	2005D & 2005E	Libor Fixed Payer	Cash Flow	Synthetic Instrument	9/10/2004	394.980	(73.319)
MTA Transportation Revenue Bonds	2012G	Libor Fixed Payer	Cash Flow	Synthetic Instrument	12/12/2007	357.500	(83.394)
MTA Transportation Revenue Bonds	2002G-1 (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	155.815	(15.244)
MTA Transportation Revenue Bonds	2011B (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	46.555	(15.442)
					Total	<u>\$ 2,402.160</u>	<u>\$ (442.807)</u>

	Changes In Fair Value		Fair Value at December 31, 2017		Notional (in millions)
	Classification	Amount (in millions)	Classification	Amount (in millions)	
Government activities					
Cash Flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ 31.082	Debt	\$ (411.725)	\$ 2,342.535

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 MTA 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 and MTA Bridges and Tunnels have entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA and MTA Bridges and Tunnels would have paid to issue fixed-rate debt, and in some cases where Federal tax law prohibits an advance refunding to synthetically refund debt on a forward basis.

Terms and Fair Values. The terms, fair values and counterparties of the outstanding swaps of MTA and MTA Bridges and Tunnels are reflected in the following tables (as of December 31, 2017).

Metropolitan Transportation Authority						
Related Bonds	Notional Amount as of 12/31/17	Effective Date	Maturity Date	Terms	Counterparty and Ratings (S&P / Moody's / Fitch)	Fair Value as of 12/31/17
TRB 2002D-2	\$200.000	01/01/07	11/01/32	Pay 4.45%; receive 69% 1M LIBOR	JPMorgan Chase Bank, NA (A+ / Aa3 / AA-)	\$ (65.547)
TRB 2005D & 2005E	285.525	11/02/05	11/01/35	Pay 3.561%; receive 67% 1M LIBOR	UBS AG (A+ / A1 / AA-)	(50.723)
TRB 2005E	95.175	11/02/05	11/01/35	Pay 3.561%; receive 67% 1M LIBOR	AIG Financial Products ¹ (BBB+ / Baa1 / BBB+)	(16.908)
TRB 2012G	357.150	11/15/12	11/01/32	Pay 3.563%; receive 67% 1M LIBOR	JPMorgan Chase Bank, NA (A+ / Aa3 / AA-)	(81.075)
DTF 2008A	326.860	03/24/05	11/01/31	Pay 3.3156%; receive 67% 1M LIBOR	Bank of New York Mellon (AA- / Aa2 / AA)	(45.587)
Total	\$1,264.710					\$ (259.840)

¹Guarantor: American International Group, Inc., parent of AIG Financial Products.

MTA Bridges and Tunnels						
Related Bonds	Notional Amount as of 12/31/17	Effective Date	Maturity Date	Terms	Counterparty and Ratings (S&P / Moody's / Fitch)	Fair Value as of 12/31/17
TBTA 2002F & 2003B-2	\$191.300	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	Citibank, N.A. (A+ / A1 / A+)	\$ (29.658)
TBTA 2005B-2	191.300	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	JPMorgan Chase Bank, NA (A+ / Aa3 / AA-)	(29.658)
TBTA 2005B-3	191.300	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	BNP Paribas North America (A / Aa3 / A+)	(29.658)
TBTA 2005B-4	191.300	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	UBS AG (A+ / A1 / AA-)	(29.658)
TBTA 2000ABCD	34.150	01/01/01	01/01/19	Pay 6.08%; receive SIFMA – 15 bp ¹	JPMorgan Chase Bank, NA (A+ / Aa3 / AA-)	(1.450)
TRB 2002G-1 & 2011B, TBTA 2005A & 2001C ²	139.238 ³	04/01/16	01/01/30	Pay 3.52%; receive 67% 1M LIBOR	U.S. Bank N.A. (AA- / A1 / AA)	(15.902) ³
TRB 2002G-1 & 2011B, TBTA 2005A & 2001C ²	139.237 ³	04/01/16	01/01/30	Pay 3.52%; receive 67% 1M LIBOR	Wells Fargo Bank, N.A. (AA- / Aa2 / AA-)	(15.901) ³
Total	\$1,077.825					\$ (151.885)

¹In accordance with a swaption entered into on August 12, 1998, TBTA received an upfront option premium of \$22.740, which is being amortized over the life of the swap agreement.

²Between November 22, 2016 and December 5, 2016, the Variable Rate Certificates of Participation, Series 2004A were redeemed. Corresponding notional amounts from the Series 2004A COPs were reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2001C.

³Pursuant to an Interagency Agreement (following novations from UBS in April 2016), MTA New York City Transit is responsible for 68.7%, MTA is responsible for 21.0%, and TBTA is responsible for 10.3% of the transaction.

LIBOR: London Interbank Offered Rate

SIFMA: Securities Industry and Financial Markets Association Index

TRB: Transportation Revenue Bonds

DTF: Dedicated Tax Fund 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 risk that a counterparty becomes insolvent or is otherwise not able to perform its financial obligations. To mitigate the exposure to credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties' credit ratings. Generally, MTA and MTA Bridges and Tunnels' swap agreements contain netting provisions under which transactions executed with a single counterparty are netted to determine collateral amounts. Collateral may be posted with a third-party custodian in the form of cash, U.S. Treasury securities, or certain Federal agency securities. MTA and MTA Bridges and Tunnels require its counterparties to fully collateralize if ratings fall below certain levels (in general, at the Baa1/BBB+ or Baa2/BBB levels), with partial posting requirements at higher rating levels (details on collateral posting discussed further under "Collateralization/Contingencies"). As of December 31, 2017, all of the valuations were in liability positions to MTA and MTA Bridges and Tunnels; accordingly, no collateral was posted by any of the counterparties.

The following table shows, as of December 31, 2017, 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. The notional amount totals below include all swaps.

Counterparty	S&P	Moody's	Fitch	Notional Amount (in thousands)	% of Total Notional Amount
JPMorgan Chase Bank, NA	A+	Aa3	AA-	\$782,600	33.41%
UBS AG	A+	A1	AA-	476,825	20.36
The Bank of New York Mellon	AA-	Aa2	AA	326,860	13.95
Citibank, N.A.	A+	A1	A+	191,300	8.17
BNP Paribas North America, Inc.	A	Aa3	A+	191,300	8.17
U.S. Bank National Association	AA-	A1	AA	139,238	5.94
Wells Fargo Bank, N.A.	AA-	Aa2	AA-	139,237	5.94
AIG Financial Products Corp.	BBB+	Baa1	BBB+	95,175	4.06
Total				\$2,342,535	100.00%

Interest Rate Risk. MTA and MTA Bridges and Tunnels are exposed to interest rate risk on the interest rate swaps. On the pay-fixed, receive variable interest rate swaps, as LIBOR or SIFMA (as applicable) decreases, MTA and MTA Bridges and Tunnels' net payments on the swaps increase.

Basis Risk. The risk that the variable rate of interest paid by the counterparty under the swap and the variable interest rate paid by MTA or MTA Bridges and Tunnels 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 or MTA Bridges and Tunnels 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 or MTA Bridges and Tunnels.

Termination Risk. The risk that a swap agreement will be terminated and MTA or MTA Bridges and Tunnels will be required to make a swap 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.

The ISDA Master Agreement sets forth certain termination events applicable to all swaps entered into by the parties to that ISDA Master Agreement. MTA and MTA Bridges and Tunnels 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. MTA and MTA Bridges and Tunnels are subject to termination risk if its credit ratings fall below certain specified thresholds or if MTA/MTA Bridges and Tunnels commits a specified event of default or other specified event of termination. If, at the time of termination, a swap were in a liability position to MTA or MTA Bridges and Tunnels, a termination payment would be owed by MTA or MTA Bridges and Tunnels to the counterparty, subject to applicable netting arrangements.

The following tables set forth the Additional Termination Events for MTA/MTA Bridges and Tunnels and its counterparties.

MTA Transportation Revenue		
Counterparty Name	MTA	Counterparty
AIG Financial Products Corp.; JPMorgan Chase Bank, NA; UBS AG	Below Baa3 (Moody's) or BBB- (S&P)*	Below Baa3 (Moody's) or BBB- (S&P)*

*Note: Equivalent Fitch rating is replacement for Moody's or S&P.

MTA Dedicated Tax Fund		
Counterparty Name	MTA	Counterparty
Bank of New York Mellon	Below BBB (S&P) or BBB (Fitch)*	Below A3 (Moody's) or A- (S&P)**

*Note: Equivalent Moody's rating is replacement for S&P or Fitch.

**Note: Equivalent Fitch rating is replacement for Moody's or S&P.

MTA Bridges and Tunnels Senior Lien		
Counterparty Name	MTA Bridges and Tunnels	Counterparty
BNP Paribas North America, Inc.; Citibank, N.A.; JPMorgan Chase Bank, NA; UBS AG	Below Baa2 (Moody's) or BBB (S&P)*	Below Baa1 (Moody's) or BBB+ (S&P)*

*Note: Equivalent Fitch rating is replacement for Moody's or S&P.

MTA Bridges and Tunnels Subordinate Lien		
Counterparty Name	MTA Bridges and Tunnels	Counterparty
JPMorgan Chase Bank, NA	Swap Insurer below A3 (Moody's) and A- (S&P); and MTA Bridges and Tunnels Senior Lien rating below Baa3 (Moody's) and BBB- (S&P)	Below Baa2 (Moody's) or BBB (S&P)
U.S. Bank National Association; Wells Fargo Bank, N.A.	Below Baa2 (Moody's) or BBB (S&P)*	Below Baa2 (Moody's) or BBB (S&P)**

*Note: Equivalent Fitch rating is replacement for Moody's or S&P. If not below Investment Grade, MTA Bridges and Tunnels may cure such Termination Event by posting collateral at a Zero threshold.

**Note: Equivalent Fitch rating is replacement for Moody's or S&P.

MTA and MTA Bridges and Tunnels' ISDA Master Agreements provide that the payments under one transaction will be netted against other transactions entered into under the same ISDA Master Agreement. 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 amounts so that a single sum will be owed by, or owed to, the non-defaulting party.

Rollover Risk. The risk that the swap agreement matures or may be terminated prior to the final maturity of the associated bonds on a variable rate bond issuance, and MTA or MTA Bridges and Tunnels 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. 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 Bonds, Series 2001C (swaps with U.S. Bank/Wells Fargo)	January 1, 2032	January 1, 2030
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
MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A (swaps with U.S. Bank/Wells Fargo and Citibank, N.A.)	November 1, 2035	January 1, 2030 (U.S. Bank/Wells Fargo) January 1, 2032 (Citibank)
MTA Transportation Revenue Variable Rate Bonds, Series 2011B (swaps with U.S. Bank/Wells Fargo)	November 1, 2041	January 1, 2030

Collateralization/Contingencies. Under the majority of the swap agreements, MTA and/or MTA Bridges and Tunnels is required to post collateral in the event its credit rating falls below certain specified levels. The collateral posted is to be in the form of cash, U.S. Treasury securities, or certain Federal agency securities, based on the valuations of the swap agreements in liability positions and net of the effect of applicable netting arrangements. If MTA and/or MTA Bridges and Tunnels do not post collateral, the swap(s) may be terminated by the counterparty(ies).

As of December 31, 2017, the aggregate mid-market valuation of the MTA's swaps subject to collateral posting agreements was (\$220.615); as of this date, the MTA was not subject to collateral posting based on its credit ratings (see further details below).

As of December 31, 2017, the aggregate mid-market valuation of MTA Bridges and Tunnels' swaps subject to collateral posting agreements was (\$151.303); as of this date, MTA Bridges and Tunnels was not subject to collateral posting based on its credit ratings (see further details below).

The following tables set forth the ratings criteria and threshold amounts applicable to MTA/MTA Bridges and Tunnels and its counterparties.

MTA Transportation Revenue		
Counterparty	MTA Collateral Thresholds (based on highest rating)	Counterparty Collateral Thresholds (based on highest rating)
AIG Financial Products Corp.; JPMorgan Chase Bank, NA; UBS AG	Baa1/BBB+: \$10 million Baa2/BBB & below: Zero	Baa1/BBB+: \$10 million Baa2/BBB & below: Zero

Note: Based on Moody's and S&P ratings. In all cases except JPMorgan counterparty thresholds, Fitch rating is replacement for either Moody's or S&P, at which point threshold is based on lowest rating.

MTA Dedicated Tax Fund		
Counterparty	MTA Collateral Thresholds	Counterparty Collateral Thresholds (based on lowest rating)
Bank of New York Mellon	N/A – MTA does not post collateral	Aa3/AA-: \$10 million A1/A+: \$5 million A2/A: \$2 million A3/A-: \$1 million Baa1/BBB+ & below: Zero

Note: Counterparty thresholds based on Moody's and S&P ratings. Fitch rating is replacement for either Moody's or S&P.

MTA Bridges and Tunnels Senior Lien		
Counterparty	MTA Bridges and Tunnels Collateral Thresholds (based on highest rating)	Counterparty Collateral Thresholds (based on highest rating)
BNP Paribas North America, Inc.; Citibank, N.A.; JPMorgan Chase Bank, NA; UBS AG	Baa1/BBB+: \$30 million Baa2/BBB: \$15 million Baa3/BBB- & below: Zero	A3/A-: \$10 million Baa1/BBB+ & below: Zero

Note: MTA Bridges and Tunnels thresholds based on Moody's, S&P, and Fitch ratings. Counterparty thresholds based on Moody's and S&P ratings; Fitch rating is replacement for Moody's or S&P.

MTA Bridges and Tunnels Subordinate Lien		
Counterparty	MTA Bridges and Tunnels Collateral Thresholds (based on lowest rating)	Counterparty Collateral Thresholds (based on lowest rating)
JPMorgan Chase Bank, NA	N/A – MTA Bridges and Tunnels does not post collateral	\$1,000,000
U.S. Bank National Association; Wells Fargo Bank, N.A.	Baa3/BBB- & below: Zero (note: only applicable as cure for Termination Event)	Aa3/AA-: \$15 million A1/A+ to A3/A-: \$5 million Baa1/BBB+ & below: Zero

Note: Thresholds based on Moody's and S&P ratings. Fitch rating is replacement for Moody's or S&P.

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 Ended December 31, 2017	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2018	35.8	50.1	(5.4)	80.6
2019	55.6	48.6	(5.2)	99.0
2020	38.4	46.5	(4.9)	80.0
2021	58.3	44.9	(4.7)	98.5
2022	63.3	42.6	(4.4)	101.4
2023-2027	324.3	173.9	(17.2)	481.0
2028-2032	827.6	454.7	(8.3)	1,274.0
2033-2037	122.7	27.5	(1.6)	148.7
MTA Bridges and Tunnels (in millions)				
Year Ended December 31, 2017	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2018	62.5	39.7	(6.6)	95.7
2019	43.4	38.0	(6.9)	74.5
2020	25.4	37.0	(6.9)	55.6
2021	26.6	36.0	(6.8)	55.8
2022	27.6	34.9	(6.8)	55.7
2023-2027	180.4	152.5	(32.3)	300.5
2028-2032	681.8	68.5	(16.5)	733.8
2033-2037	12.4	2.5	-	14.9

8. LEASE TRANSACTIONS

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 was 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. 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 since then MTA has provided short-term U.S. Treasury debt obligations as replacement collateral. As of December 31, 2017, the market value of total collateral funds was \$37.2.

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, 2017, the market value of total collateral funds was \$52.5.

MTA Hudson Rail Yards Ground Leases – In the 1980’s, the MTA developed a portion of the Hudson Rail Yards as a storage yard, car wash and repair facility for the Long Island Railroad Company (“LIRR”) rail cars entering Manhattan. It was anticipated that, eventually, the air rights above the Hudson Rail Yards would be developed to meet the evolving needs for high-quality commercial, retail, residential and public space in Manhattan. The Hudson Rail Yards is a rectangular area of approximately 26-acres bounded by 10th Avenue on the east, 12th Avenue on the west, 30th Street on the south and 33rd Street on the North. The Hudson Rail Yards is divided into the Eastern Rail Yards (“ERY”) and the Western Rail Yards (“WRY”). In 2008, the MTA selected a development team led by the Related Companies, L.P to develop a commercial, residential and retail development on the ERY and the WRY.

To undertake the development of the Hudson Rail Yards, the MTA entered into 99-year ground leases (“Balance Leases”) for the airspace above a limiting plane above the tracks (from 31st to 33rd Streets) and the area where there are no rail tracks (from 30th to 31st Streets) within the boundary of the Hudson Rail Yards (“Ground Leased Property”). The Balance Leases do not encumber the railroad tracks, which will continue to be used for transportation purposes.

The following ground leases, each with a 99-year term (beginning December 3, 2012), entered into between the MTA, as landlord, and a special purpose entity controlled by Related-Oxford, as Ground Lease tenants, all of which Ground Leases demise the Eastern Rail Yards (“ERY”) and were severed from the ERY Balance Lease, dated as of April 10, 2013:

- o the Ground Lease demising the Tower A Severed Parcel, also known as 30 Hudson Yards.
- o the Ground Lease demising the Tower D Severed Parcel, also known as 15 Hudson Yards.
- o the Ground Lease demising the Tower E Severed Parcel, also known as 35 Hudson Yards.
- o the Ground Lease demising the Retail Podium Severed Parcel.
- o the Ground Lease demising the Retail Pavilion Parcel.

The 99-year West Side Rail Yard (“WRY”) Balance Lease (beginning December 3, 2013) between the MTA and a special purpose entity controlled by Related-Oxford demising the WRY and the Severed Parcel Leases to be entered into upon the creation of Severed Parcels that may be severed from the WRY, at the option of the applicable Ground Lease Tenant, upon satisfaction of certain conditions, in order to construct improvements thereon in accordance with the terms of the applicable Severed Parcel Lease.

Both the ERY and WRY Ground Leases were pledged as security for the Series 2016A Hudson Yards Trust Obligations.

The MTA has also entered into the following ground leases which do not provide a source of payment or security for the Series 2016A Hudson Yards Trust Obligations:

- the now-terminated ground lease demising Tower C, also known as 10 Hudson Yards, as to which the Ground Lease tenant closed on its exercise of its Fee Conversion Option on August 1, 2016 for which MTA received \$120.
- the ground lease demising the Culture Shed, which does not pay any Monthly Ground Rent, and

- the ground lease demising the Open Space Severed Parcel which does not pay any Monthly Ground Rent.

The Severed Parcel Ground Leases required Ground Lease Tenants, at their sole cost and expense, to construct the Long Island Railroad Roof (“LIRR Roof”) over the Long Island Railroad tracks in the Hudson Rail Yards, which LIRR Roof will serve as the foundation for substantial portions of the buildings and other improvements being constructed pursuant to each Severed Parcel Ground Lease. Each Ground Lease tenant has the option to purchase fee title to the Ground Leased Property at any time following completion of construction of the building on the Ground Leased Property.

The MTA has classified the ERY and WRY Ground Leases as operating leases. If at the inception of the ground leases, the leases meet one or more of the following four criteria, the lease should be classified as a capital lease. Otherwise, it should be classified as an operating lease. The ERY and WRY Ground Leases did not meet one or more of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- The present value at the beginning of the lease term of the minimum lease payments, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by and expected to be realized by the lessor.

Minimum rent receipts for ERY and WRY Ground Leases are as follows as of December 31, 2017:

Year	ERY	WRY	Total
2018	9	14	23
2019	18	16	34
2020	19	16	35
2021	19	32	51
2022	19	33	52
Thereafter	887	1,558	2,445
Total	\$ 971	\$ 1,669	\$ 2,640

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 sublessee, will rent, an office building 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: MTA New York City Transit, 68.7%, MTA, 21%; and MTA Bridges and Tunnels, 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, 2017, for the MTA New York City Transit, MTA Bridges and Tunnels and MTA (including MTA Bus, MTA Capital Construction Company and MTA Business Service Center) were 57.8%, 7.5% and 34.7%,

respectively. MTAs' sublease is for a year-to-year term, automatically extended, except upon the giving of a nonextension notice by MTA. 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. 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. The office building at 2 Broadway, is principally occupied by MTA New York City Transit, MTA Bridges and Tunnels, MTA Capital Construction, and MTAHQ.

MTA reflected a capital lease obligation as of December 31, 2017 and 2016, of \$228 and \$223, respectively. The MTA made rent payments of \$25 and \$25 for the years ended December 31, 2017 and 2016, respectively. MTA pays the lease payments on behalf of MTA New York City Transit and MTA Bridges and Tunnels and subsequently makes monthly chargebacks in the form of rental payments. During 2017, the total of the rental payments charged to MTA New York City Transit and MTA Bridges and Tunnels was \$4,138 and \$1,900 less, respectively, than the lease payment made by MTA on behalf of MTA New York City Transit and MTA Bridges and Tunnels.

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, 2017 and 2016, is as follows (in millions):

	<u>2017</u>	<u>2016</u>
Capital lease - building	\$ 196	\$ 196
Less accumulated amortization	<u>(88)</u>	<u>(85)</u>
Capital lease - building - net	<u>\$ 108</u>	<u>\$ 111</u>

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.

Total rent expense under operating leases approximated \$69.9 and \$63.9 for the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017, the future minimum lease payments under non-cancelable leases are as follows (in millions):

Years	Operating	Capital
2018	\$ 79	\$ 19
2019	71	22
2020	71	30
2021	70	21
2022	67	71
2023–2027	293	87
2028–2032	361	529
2033–2037	291	127
2038–2042	253	142
2043–2047	254	160
Thereafter	424	212
Future minimum lease payments	<u>\$ 2,234</u>	1,420
Amount representing interest		(980)
Total present value of capital lease obligations		440
Less current present value of capital lease obligations		<u>4</u>
Noncurrent present value of capital lease obligations		<u>\$ 436</u>

**Capital Leases Schedule
For the Year Ended December 31, 2017
(in millions)**

Description	December 31, 2016	Increase	Decrease	December 31, 2017
Sumitomo	\$ 15	\$ -	\$ -	\$ 15
Met Life	5	1	-	6
Met Life Equity	19	-	-	19
Bank of New York	22	-	-	22
Bank of America	34	3	-	37
Bank of America Equity	16	-	-	16
Sumitomo	35	1	5	31
Met Life Equity	50	2	-	52
Grand Central Terminal & Harlem Hudson Railroad Lines	14	-	-	14
2 Broadway Lease Improvement	169	4	-	173
2 Broadway	54	1	-	55
Total MTA Capital Lease	<u>\$ 433</u>	<u>\$ 12</u>	<u>\$ 5</u>	<u>\$ 440</u>
Current Portion Obligations under Capital Lease	<u>4</u>			<u>4</u>
Long Term Portion Obligations under Capital Lease	<u>\$ 429</u>			<u>\$ 436</u>

Capital Leases Schedule
For the Year Ended December 31, 2016
(in millions)

Description	December 31, 2015	Increase	Decrease	December 31, 2016
Sumitomo	\$ 15	\$ -	\$ -	\$ 15
Met Life	5	-	-	5
Met Life Equity	19	-	-	19
Bank of New York	22	-	-	22
Bank of America	32	2	-	34
Bank of America Equity	16	-	-	16
Sumitomo	38	1	4	35
Met Life Equity	47	3	-	50
Grand Central Terminal & Harlem Hudson Railroad Lines	14	-	-	14
2 Broadway Lease Improvement	166	9	6	169
2 Broadway	53	1	-	54
Subway Cars	107	1	108	-
Total MTA Capital Lease	\$ 534	\$ 17	\$ 118	\$ 433
Current Portion Obligations under Capital Lease	9			4
Long Term Portion Obligations under Capital Lease	<u>\$ 525</u>			<u>\$ 429</u>

9. FUTURE OPTION

In 2010, 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 obtained an exclusive right to purchase fee title to a parcel (subdivided into six sub-parcels) of air space above the MTA Long Island Railroad Vanderbilt Yard in Brooklyn, New York. Initial annual payments of \$2 (covering all six sub-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 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 AADC of the rights to purchase the air space sub-parcels, (ii) are non-refundable except under certain limited circumstances 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 sub-parcels. The purchase price for the six sub-parcels is an amount, when discounted at 6.5% per annum from the date of each applicable payment that equals a present value of \$80 as of January 1, 2010. The purchase price of any particular air space sub-parcel is equal to a net present value as of January 1, 2010 (calculated based on each applicable payment) of the product of that sub-parcel’s percentage of the total gross square footage of permissible development on all six air space sub-parcels multiplied by \$80.

10. 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, 2017 and 2016 is presented below (in millions):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Balance — beginning of year	\$ 3,441	\$ 2,883
Activity during the year:		
Current year claims and changes in estimates	832	1,448
Claims paid	<u>(422)</u>	<u>(890)</u>
Balance — end of year	3,851	3,441
Less current portion	<u>(416)</u>	<u>(415)</u>
Long-term liability	<u>\$ 3,435</u>	<u>\$ 3,026</u>

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

11. 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 (see Note 12).

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.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. While there have been some questioned costs in recent years, ultimate repayments required of the MTA have been infrequent.

Financial Guarantee — *Moynihan Station Development Project* - On May 22, 2017, the MTA Board approved entering into various agreements, including a Joint Services Agreement ("JSA"), necessary to effectuate Phase 2 of the Moynihan Station Development Project (the "Project"), which will entail the redevelopment of the James A. Farley Post Office Building to include a new world-class train hall to be shared by National Railroad Passenger Corporation ("Amtrak"), the Long Island Rail Road and Metro-North Commuter Railroad (the "Train Hall"), as well as retail and commercial space (Retail and Commercial Space).

On July 21, 2017, New York State Urban Development Corporation d/b/a Empire State Development ("ESD") executed a TIFIA Loan Agreement with the United States Department of Transportation (the "TIFIA Lender") in an amount of up to \$526 (the "TIFIA Loan"), with a final maturity date of the earlier of (1) October 30, 2055 and (2) the last semi-annual payment date occurring no later than the date that is thirty-five (35) years following the date on which the Train Hall is substantially completed. The proceeds of the TIFIA Loan are being used to pay for costs of the construction of the Train Hall. The TIFIA Loan is secured by a mortgage on the Train Hall property. The principal and interest on the TIFIA Loan is payable from a pledged revenue stream that primarily consists of PILOT payments to be paid by certain

tenants in the Retail and Commercial Space. The amount of the PILOT payments is fixed through September, 2030 and is thereafter calculated based upon the assessed value of the properties as determined by the City. The TIFIA Loan is further supported by a TIFIA Debt Service Reserve Account, which is funded in an amount equal to the sum of the highest aggregate TIFIA debt service amounts that will become due and payable on any two consecutive semi-annual payment dates in a five-year prospective period.

Simultaneously with the execution of the TIFIA Loan Agreement, the JSA was entered into by and among the MTA, the TIFIA Lender, ESD, and Manufacturers and Traders Trust Company (as Pilot trustee). Under the JSA, MTA is obligated to satisfy semi-annual deficiencies in the TIFIA Debt Service Reserve Account. MTA's obligations under the JSA are secured by the same moneys available to MTA for the payment of the operating and maintenance expenses of the operating agencies.

MTA's obligation under the JSA remains in effect until the earliest to occur of (a) the MTA JSA Release Date (as defined in the JSA and generally summarized below), (b) the date on which the TIFIA Loan has been paid in full and (c) foreclosure by the TIFIA Lender under the Mortgage (as defined in the TIFIA Loan Agreement).

The obligations of the MTA under the JSA will be terminated and released on the date (the "MTA JSA Release Date") on which each of the following conditions have been satisfied: (a) substantial completion of (1) the Train Hall Project and initiation by LIRR and Amtrak of transportation operations therein, and (2) the Retail and Commercial Space; (b) all material construction claims have been discharged or settled; (c) the PILOT payments have been calculated based upon assessed value for at least three years (i.e., 2033); (d) certain designated defaults or events of default under the TIFIA Loan Agreement have not occurred and are continuing; and (e) either of the following release tests shall have been satisfied:

- Release Test A: (a) certain debt service coverage ratios have equaled or exceeded levels set forth in the JSA, taking into consideration assessment appeals; (b) occupancy levels have equaled or exceeded levels set forth in the JSA; and (c) the TIFIA Loan is rated no lower than "BBB-" or "Baa3" by one rating agency, all as more fully described in the JSA; or
- Release Test B: the TIFIA Loan is rated no lower than "A-" or "A3" by two rating agencies, all as more fully described in the JSA.

On the date the JSA was executed and delivered, MTA deposited \$20 into an account, which MTA invests, to be used in accordance with the JSA to reimburse MTA in the event it is obligated under the JSA to make semi-annual deficiency payments to the TIFIA Debt Service Reserve Account.

On June 12, 2017, the MTA entered into a Memorandum of Understanding with ESD and the New York State Division of the Budget (the "Division") whereby the Division agreed that in the event in any given year during the term of the JSA (i) the MTA is required to make a semi-annual deficiency payment to the TIFIA Debt Service Reserve Account, and (ii) the Division has determined that the MTA has incurred an expense that would otherwise have been incurred by the State of New York (the "State Expense"), the Division will consider entering into a cost recovery agreement with the MTA pursuant to subdivision 4 of Section 2975 of the Public Authorities Law (the "PAL") for such year that will provide that in lieu of paying the full assessment pursuant to subdivisions 2 and 3 of Section 2975 of the PAL in any such year, any such assessment shall be reduced by the State Expense.

12. POLLUTION REMEDIATION COST

In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, an operating expense provision and corresponding liability measured at its current value using the expected cash flow method is recognized when an obligatory event occurs. The MTA recognized pollution remediation expenses of \$13 and \$12 for the years ended December 31, 2017 and 2016, respectively. A summary of the activity in pollution remediation liability at December 31, 2017 and 2016 were as follows:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Balance at beginning of year	\$ 88	\$ 100
Current year expenses/changes in estimates	13	12
Current year payments	<u>(22)</u>	<u>(24)</u>
Balance at end of year	79	88
Less current portion	<u>20</u>	<u>23</u>
Long-term liability	<u>\$ 59</u>	<u>\$ 65</u>

13. CURRENT AND NON-CURRENT LIABILITIES

Changes in the activity of current and non-current liabilities for the years ended December 31, 2017 and 2016 are presented below:

	<u>Balance</u> <u>December 31,</u> <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31,</u> <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31,</u> <u>2017</u>
Current liabilities:							
Accounts payable	\$ 409	\$ 117	\$ -	\$ 526	\$ 81	\$ -	\$ 607
Interest	210	16	-	226	-	(22)	204
Salaries, wages and payroll taxes	256	-	(5)	251	56	-	307
Vacation and sick pay benefits	880	31	-	911	77	-	988
Current portion — retirement and death benefits	15	-	-	15	-	(1)	14
Capital accrual	479	-	(43)	436	-	(24)	412
Other accrued expenses	560	88	-	648	213	-	861
Unearned revenues	563	8	-	571	23	-	594
Total current liabilities	<u>\$ 3,372</u>	<u>\$ 260</u>	<u>\$ (48)</u>	<u>\$ 3,584</u>	<u>\$ 450</u>	<u>\$ (47)</u>	<u>\$ 3,987</u>
Non-current liabilities:							
Contract retainage payable	\$ 281	\$ 28	\$ -	\$ 309	\$ 67	\$ -	\$ 376
Other long-term liabilities	307	10	-	317	30	-	347
Total non-current liabilities	<u>\$ 588</u>	<u>\$ 38</u>	<u>\$ -</u>	<u>\$ 626</u>	<u>\$ 97</u>	<u>\$ -</u>	<u>\$ 723</u>

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-four (24) active ultra-low sulfur diesel (“ULSD”) hedges in whole dollars:

Counterparty	J. Aron & Company	JPM - Ventures Energy Corp	Macquarie Energy LLC	Macquarie Energy LLC	Macquarie Energy LLC	J. Aron & Company	J. Aron & Company	Macquarie Energy LLC
Trade Date	1/27/2016	2/23/2016	3/29/2016	4/28/2016	5/26/2016	6/30/2016	7/28/2016	8/24/2016
Effective Date	1/1/2017	1/2/2017	1/3/2017	1/4/2017	1/5/2017	1/6/2017	1/7/2017	1/8/2017
Termination Date	12/31/2017	1/31/2018	2/28/2018	3/31/2018	4/30/2018	5/30/2018	6/30/2018	7/31/2018
Price/Gal	\$1.2760	\$1.3100	\$1.3820	\$1.5535	\$1.6225	\$1.6515	\$1.5020	\$1.6350
Original Notional Quantity	3,745,930	3,845,749	3,926,350	4,527,533	4,728,640	4,813,146	4,498,206	4,780,987
Counterparty	J. Aron & Company	Macquarie Energy LLC	J. Aron & Company	J. Aron & Company	JPM - Ventures Energy Corp	Cargill	J. Aron & Company	J. Aron & Company
Trade Date	9/22/2016	10/26/2016	11/22/2016	12/20/2016	1/26/2017	2/28/2017	3/28/2017	4/27/2017
Effective Date	1/9/2017	1/10/2017	1/11/2017	1/12/2017	1/1/2018	1/2/2018	1/3/2018	1/4/2018
Termination Date	8/31/2018	9/30/2018	10/31/2018	11/30/2018	12/31/2018	1/31/2019	2/28/2019	3/31/2019
Price/Gal	\$1.5975	\$1.6240	\$1.6670	\$1.7657	\$1.7485	\$1.6824	\$1.6090	\$1.5915
Original Notional Quantity	4,671,339	4,801,475	4,879,859	5,122,068	5,111,306	4,918,086	4,703,517	4,594,937
Counterparty	J. Aron & Company	J. Aron & Company	J. Aron & Company	J. Aron & Company	J. Aron & Company	J. Aron & Company	J. Aron & Company	J. Aron & Company
Trade Date	5/30/2017	6/27/2017	7/26/2017	8/29/2017	9/22/2017	10/26/2017	11/29/2017	12/27/2017
Effective Date	1/5/2018	1/6/2018	1/7/2018	1/8/2018	1/9/2018	1/10/2018	1/11/2018	1/12/2018
Termination Date	4/30/2019	5/31/2019	6/30/2019	7/31/2019	8/31/2019	9/30/2019	10/31/2019	11/30/2019
Price/Gal	\$1.6085	\$1.5225	\$1.6180	\$1.6315	\$1.7205	\$1.7635	\$1.8520	\$1.9050
Original Notional Quantity	4,687,603	4,436,967	4,715,260	4,754,602	5,013,957	4,607,170	5,316,279	5,468,443

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 a contract’s termination date, the MTA will take delivery of the fuel. As of December 31, 2017, the total outstanding notional value of the ULSD contracts was 53.4 million gallons with a positive fair market value of \$15.8. The valuation of each trade was based on discounting future net cash flows to a single current amount (the income approach) using observable commodity futures prices (Level 2 inputs).

15. CONDENSED COMPONENT UNIT INFORMATION

The following tables present condensed financial information for MTA's component units (in millions).

December 31, 2017	MTA	Metro-North Railroad	Long Island Railroad	New York City Transit Authority	Triborough Bridge and Tunnel Authority	Eliminations	Consolidated Total
Current assets	\$ 6,017	\$ 234	\$ 236	\$ 586	\$ 471	\$ (118)	\$ 7,426
Capital assets	9,809	4,828	6,102	41,316	6,005	-	68,060
Other Assets	11,074	5	-	1	4	(9,977)	1,107
Intercompany receivables	751	70	159	1,884	471	(3,335)	-
Deferred outflows of resources	1,748	248	340	1,018	502	(169)	3,687
Total assets and deferred outflows of resources	\$ 29,399	\$ 5,385	\$ 6,837	\$ 44,805	\$ 7,453	\$ (13,599)	\$ 80,280
Current liabilities	\$ 3,017	\$ 281	\$ 253	\$ 1,876	\$ 1,039	\$ (220)	\$ 6,246
Non-current liabilities	33,470	1,185	2,282	21,390	10,093	(116)	68,304
Intercompany payables	2,720	53	34	-	506	(3,313)	-
Deferred inflows of resources	51	21	22	391	21	-	506
Total liabilities and deferred inflows of resources	\$ 39,258	\$ 1,540	\$ 2,591	\$ 23,657	\$ 11,659	\$ (3,649)	\$ 75,056
Net investment in capital assets	\$ (25,162)	\$ 4,814	\$ 6,102	\$ 41,144	\$ 1,730	\$ (378)	\$ 28,250
Restricted	1,484	-	-	-	717	(520)	1,681
Unrestricted	13,819	(969)	(1,856)	(19,996)	(6,653)	(9,052)	(24,707)
Total net position	\$ (9,859)	\$ 3,845	\$ 4,246	\$ 21,148	\$ (4,206)	\$ (9,950)	\$ 5,224
For the year ended December 31, 2017							
Fare revenue	\$ 224	\$ 733	\$ 728	\$ 4,487	\$ -	\$ -	\$ 6,172
Vehicle toll revenue	-	-	-	-	1,912	-	1,912
Rents, freight and other revenue	78	58	53	425	20	(45)	589
Total operating revenue	302	791	781	4,912	1,932	(45)	8,673
Total labor expenses	1,283	1,014	1,156	7,088	319	5	10,865
Total non-labor expenses	480	370	417	1,933	222	(48)	3,374
Depreciation	107	240	340	1,682	242	-	2,611
Total operating expenses	1,870	1,624	1,913	10,703	783	(43)	16,850
Operating (deficit) surplus	(1,568)	(833)	(1,132)	(5,791)	1,149	(2)	(8,177)
Subsidies and grants	357	-	-	317	8	384	1,066
Tax revenue	4,743	-	-	3,033	-	(2,523)	5,253
Interagency subsidy	(1,119)	413	1,504	305	-	(1,103)	-
Interest expense	(1,271)	-	-	(16)	(248)	18	(1,517)
Other	(1,314)	110	-	5	(55)	1,431	177
Total non-operating revenues (expenses)	1,396	523	1,504	3,644	(295)	(1,793)	4,979
Loss before appropriations	(172)	(310)	372	(2,147)	854	(1,795)	(3,198)
Appropriations, grants and other receipts externally restricted for capital projects	(278)	409	-	1,860	(736)	1,407	2,662
Change in net position	(450)	99	372	(287)	118	(388)	(536)
Net position, beginning of year	(9,409)	3,746	3,874	21,435	(4,477)	(9,562)	5,607
Cumulative effect of change in accounting principle	-	-	-	-	153	-	153
Net position, end of year	\$ (9,859)	\$ 3,845	\$ 4,246	\$ 21,148	\$ (4,206)	\$ (9,950)	\$ 5,224
For the year ended December 31, 2017							
Net cash (used in) / provided by operating activities	\$ (1,174)	\$ (466)	\$ (781)	\$ (2,835)	\$ 1,443	\$ 9	(3,804)
Net cash provided by / (used in) non-capital financing activities	5,828	536	798	3,732	(732)	(3,561)	6,601
Net cash (used in) / provided by capital and related financing activities	(5,031)	(69)	(24)	(908)	(634)	3,538	(3,128)
Net cash (used in) / provided by investing activities	51	-	-	6	(189)	14	(118)
Cash at beginning of year	524	14	13	61	120	-	732
Cash at end of year	\$ 198	\$ 15	\$ 6	\$ 56	\$ 8	\$ -	\$ 283

	MTA	Metro-North Railroad	Long Island Railroad	New York City Transit Authority	Triborough Bridge and Tunnel Authority	Eliminations	Consolidated Total
December 31, 2016							
Current assets	\$ 7,269	\$ 221	\$ 220	\$ 593	\$ 424	\$ (432)	\$ 8,295
Capital assets	8,982	4,616	5,714	39,906	5,229	71	64,518
Other Assets	10,457	5	-	72	4	(9,565)	973
Intercompany receivables	382	70	89	2,124	470	(3,135)	-
Deferred outflows of resources	1,525	231	366	1,402	488	(180)	3,832
Total assets and deferred outflows of resources	\$ 28,615	\$ 5,143	\$ 6,389	\$ 44,097	\$ 6,615	\$ (13,241)	\$ 77,618
Current liabilities	\$ 3,406	\$ 271	\$ 246	\$ 1,710	\$ 812	\$ (442)	\$ 6,003
Non-current liabilities	31,821	1,047	2,207	20,741	10,011	(143)	65,684
Intercompany payables	2,741	54	39	-	259	(3,093)	-
Deferred inflows of resources	56	25	23	210	10	-	324
Total liabilities and deferred inflows of resources	\$ 38,024	\$ 1,397	\$ 2,515	\$ 22,661	\$ 11,092	\$ (3,678)	\$ 72,011
Net investment in capital assets	\$ (25,258)	\$ 4,602	\$ 5,714	\$ 39,809	\$ 911	\$ (22)	\$ 25,756
Restricted	1,383	-	-	-	511	(429)	1,465
Unrestricted	14,466	(856)	(1,840)	(18,373)	(5,899)	(9,112)	(21,614)
Total net position	\$ (9,409)	\$ 3,746	\$ 3,874	\$ 21,436	\$ (4,477)	\$ (9,563)	\$ 5,607
For the year ended December 31, 2016							
Fare revenue	\$ 219	\$ 690	\$ 712	\$ 4,415	\$ -	\$ -	\$ 6,036
Vehicle toll revenue	-	-	-	-	1,863	-	1,863
Rents, freight and other revenue	86	65	56	444	32	(62)	621
Total operating revenue	305	755	768	4,859	1,895	(62)	8,520
Total labor expenses	1,129	923	1,088	7,205	326	(6)	10,665
Total non-labor expenses	382	343	364	1,795	203	(49)	3,038
Depreciation	99	236	333	1,650	129	-	2,447
Total operating expenses	1,610	1,502	1,785	10,650	658	(55)	16,150
Operating (de deficit) surplus	(1,305)	(747)	(1,017)	(5,791)	1,237	(7)	(7,630)
Subsidies and grants	359	125	-	317	8	280	1,089
Tax revenue	4,755	-	-	3,358	-	(2,616)	5,497
Interagency subsidy	743	355	568	308	-	(1,974)	-
Interest expense	(1,133)	-	-	(20)	(327)	17	(1,463)
Other	(1,664)	(1)	-	3	(37)	1,834	135
Total non-operating revenues (expenses)	3,060	479	568	3,966	(356)	(2,459)	5,258
Loss before appropriations	1,755	(268)	(449)	(1,825)	881	(2,466)	(2,372)
Appropriations, grants and other receipts externally restricted for capital projects	(2,203)	315	494	1,919	(742)	2,385	2,168
Change in net position	(448)	47	45	94	139	(81)	(204)
Net position, beginning of year	(8,961)	3,699	3,829	21,342	(4,616)	(9,482)	5,811
Net position, end of year	\$ (9,409)	\$ 3,746	\$ 3,874	\$ 21,436	\$ (4,477)	\$ (9,563)	\$ 5,607
For the year ended December 31, 2016							
Net cash (used in) / provided by operating activities	\$ (1,240)	\$ (456)	\$ (547)	\$ (2,629)	\$ 1,441	\$ -	(3,431)
Net cash provided by / (used in) non-capital financing activities	6,162	473	568	4,011	(742)	(3,876)	6,596
Net cash (used in) / provided by capital and related financing activities	(4,530)	(18)	(14)	(1,596)	(786)	3,916	(3,028)
Net cash provided by / (used in) investing activities	(224)	-	-	212	193	(40)	141
Cash at beginning of year	357	15	5	63	14	-	454
Cash at end of year	\$ 525	\$ 14	\$ 12	\$ 61	\$ 120	\$ -	\$ 732

16. SUBSEQUENT EVENTS

On January 23, 2018, MTA issued \$500 of MTA Transportation Revenue Bond Anticipation Notes, Series 2018A to finance existing approved transit and commuter projects. The Subseries 2018A notes are fixed rate tax-exempt notes with a final maturity of August 15, 2019.

On January 23, 2018, MTA issued \$472 of Transportation Revenue Bonds, Series 2018A. Proceeds from the transaction were used to pay off the existing outstanding 2017B Bond Anticipation Notes in the amount of \$500. The Series 2018A bonds were issued as \$195 Subseries 2018A-1 and \$277 Subseries 2018A-2. The Series 2018A-1 bonds were issued as mandatory tender bonds with an initial purchase date of November 15, 2020. The Series 2018A-2 bonds were issued as mandatory tender bonds with an initial purchase date of November 15, 2022.

On January 24, 2018, MTA effectuated a mandatory tender and remarketed \$122.635 million of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Bonds, Subseries 2003B-1 because the irrevocable direct-pay LOC relating to the Subseries 2003B-1 Bonds issued by PNC Bank, National Association, and the irrevocable direct-pay LOC relating to the Triborough Bridge and Tunnel Authority General Revenue Variable Rate Bonds, Subseries 2003B-3 Bonds issued by Wells Fargo Bank, National Association expired by their terms. The LOC facilities related to both Subseries 2003B-1 and Subseries 2003B-3 were substituted with an irrevocable direct-pay LOC issued by Bank of America, N.A. The LOC expires on January 21, 2022.

On January 24, 2018, MTA effectuated a mandatory tender and remarketed \$190.3 million of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Refunding Bonds, Subseries 2005B-2 because the irrevocable direct-pay LOC issued by Wells Fargo Bank, National Association expired by its terms, and was substituted with an irrevocable direct-pay LOC issued by Citibank, N.A. The LOC expires on January 23, 2021.

On January 31, 2018, MTA executed a 2,870,565 gallon ultra-low sulfur diesel fuel hedge with Goldman Sachs & Co./J Aron at an all-in price of \$1.957 (whole dollars) per gallon. The hedge covers the period from January 2019 through December 2019.

On February 1, 2018, MTA issued \$352 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2018A. The proceeds from the transactions were used to retire \$165 of MTA Bridges and Tunnels General Revenue Bond Anticipation Notes, Series 2017A and to finance bridge and tunnel capital projects. The Series 2018A bonds have a final maturity of November 15, 2048.

On February 28, 2018, MTA executed a 2,786,237 gallon ultra-low sulfur diesel fuel hedge with Goldman Sachs & Co./J Aron at an all-in price of \$1.882 (whole dollars) per gallon. The hedge covers the period from February 2019 through January 2020.

On March 12, 2018, S&P Global Ratings lowered its long-term rating on all outstanding MTA Transportation Revenue Bonds to A+ from AA-.

On March 20, 2018, MTA effectuated a mandatory tender and remarketed \$100 of MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2002D-2b because its current interest rate period was set to expire by its terms.

On March 28, 2018, MTA executed a 2,853,500 gallon ultra-low sulfur diesel fuel hedge at an all-in price of \$1.9805 (whole dollars) per gallon. The hedge covers the period from March 2019 through February 2020.

**METROPOLITAN TRANSPORTATION AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the MTA's Net Pension Liability and Related Ratios for Single Employer Pension Plans

(\$ in thousands)	Additional Plan			MaBSTOA Plan		
	2016	2015	2014	2016	2015	2014
Plan Measurement Date (December 31):						
Total pension liability:						
Service cost	\$ 2,752	\$ 3,441	\$ 3,813	\$ 82,075	\$ 77,045	\$ 72,091
Interest	104,093	106,987	110,036	236,722	232,405	223,887
Effect of economic / demographic (gains) or losses	15,801	6,735	-	13,784	(68,997)	-
Differences between expected and actual experience	-	-	-	-	-	(1,596)
Benefit payments and withdrawals	(158,593)	(157,071)	(156,974)	(187,823)	(179,928)	(175,447)
Net change in total pension liability	(35,947)	(39,908)	(43,125)	144,758	60,525	118,935
Total pension liability—beginning	1,562,251	1,602,159	1,645,284	3,391,989	3,331,464	3,212,529
Total pension liability—ending(a)	1,526,304	1,562,251	1,602,159	3,536,747	3,391,989	3,331,464
Plan fiduciary net position:						
Employer contributions	81,100	100,000	407,513	220,697	214,881	226,374
Nonemployer contributions	70,000	-	-	-	-	-
Member contributions	884	1,108	1,304	18,472	16,321	15,460
Net investment income	58,239	527	21,231	212,260	(24,163)	105,084
Benefit payments and withdrawals	(158,593)	(157,071)	(156,974)	(187,823)	(179,928)	(175,447)
Administrative expenses	(611)	(1,218)	(975)	(186)	(88)	(74)
Net change in plan fiduciary net position	51,019	(56,654)	272,099	263,420	27,023	171,397
Plan fiduciary net position—beginning	726,198	782,852	510,753	2,292,316	2,265,293	2,093,896
Plan fiduciary net position—ending(b)	777,217	726,198	782,852	2,555,736	2,292,316	2,265,293
Employer's net pension liability—ending(a)-(b)	\$ 749,087	\$ 836,053	\$ 819,307	\$ 981,011	\$ 1,099,673	\$ 1,066,171
Plan fiduciary net position as a percentage of the total pension liability	50.92%	46.48%	48.86%	72.26%	67.58%	68.00%
Covered-employee payroll	\$ 18,216	\$ 35,282	\$ 43,594	\$ 713,280	\$ 693,900	\$ 671,600
Employer's net pension liability as a percentage of covered-employee payroll	4112.20%	2369.65%	1879.42%	137.54%	158.48%	158.75%

Note: Information was not readily available for periods prior to 2014. This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the MTA's Net Pension Liability and Related Ratios for Single Employer Pension Plans (continued)

(\$ in thousands)	MNR Cash Balance Plan			MTA Defined Benefit Plan		
	2016	2015	2014	2016	2015	2014
Plan Measurement Date (December 31):						
Total pension liability:						
Service cost	\$ -	\$ -	\$ -	\$ 138,215	\$ 124,354	\$ 121,079
Interest	24	29	32	308,009	288,820	274,411
Effect of economic / demographic (gains) or losses	(15)	(10)	-	86,809	121,556	-
Effect of assumption changes or inputs	-	18	-	-	(76,180)	-
Effect of plan changes	-	-	-	73,521	6,230	-
Differences between expected and actual experience	-	-	-	-	-	2,322
Benefit payments and withdrawals	(77)	(113)	(88)	(209,623)	(199,572)	(191,057)
Net change in total pension liability	(68)	(76)	(56)	396,931	265,208	206,755
Total pension liability—beginning	634	710	766	4,364,946	4,099,738	3,892,983
Total pension liability—ending(a)	566	634	710	4,761,877	4,364,946	4,099,738
Plan fiduciary net position:						
Employer contributions	23	18	-	280,768	221,694	331,259
Member contributions	-	-	-	29,392	34,519	26,006
Net investment income	16	6	41	247,708	(45,122)	102,245
Benefit payments and withdrawals	(77)	(113)	(88)	(209,623)	(199,572)	(191,057)
Administrative expenses	-	3	(3)	(3,051)	(1,962)	(9,600)
Net change in plan fiduciary net position	(38)	(86)	(50)	345,194	9,557	258,853
Plan fiduciary net position—beginning	612	698	748	3,074,777	3,065,220	2,806,367
Plan fiduciary net position—ending(b)	574	612	698	3,419,971	3,074,777	3,065,220
Employer's net pension liability (asset)—ending(a)-(b)	\$ (8)	\$ 22	\$ 12	\$ 1,341,906	\$ 1,290,169	\$ 1,034,518
Plan fiduciary net position as a percentage of the total pension liability	101.39%	96.53%	98.36%	71.82%	70.44%	74.77%
Covered-employee payroll	\$ 649	\$ 1,664	\$ 2,080	\$ 1,724,219	\$ 1,620,635	\$ 1,395,336
Employer's net pension liability as a percentage of covered-employee payroll	-1.22%	1.32%	0.58%	77.83%	79.61%	74.14%

Note: Information was not readily available for periods prior to 2014. This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the MTA's Proportionate Share of the Net Pension Liabilities of Cost-Sharing Multiple-Employer Pension Plans

(\$ in thousands)

Plan Measurement Date:	NYCERS Plan			NYSLERS Plan		
	June 30, 2017	June 30, 2016	June 30, 2015	March 31, 2017	March 31, 2016	March 31, 2015
MTA's proportion of the net pension liability	24.096%	23.493%	23.585%	0.311%	0.303%	0.289%
MTA's proportionate share of the net pension liability	\$ 5,003,811	\$ 5,708,052	\$ 4,773,787	\$ 29,239	\$ 48,557	\$ 9,768
MTA's actual covered-employee payroll	\$ 3,154,673	\$ 3,064,007	\$ 2,989,480	\$ 96,583	\$ 87,670	\$ 87,315
MTA's proportionate share of the net pension liability as a percentage of the MTA's covered-employee payroll	158.616%	186.294%	159.686%	30.273%	55.386%	11.187%
Plan fiduciary net position as a percentage of the total pension liability	74.805%	69.568%	73.125%	94.703%	90.685%	97.947%

Note: Information was not readily available for periods prior to 2015. This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The data provided in this schedule is based on the measurement date used by NYCERS and NYSLERS for the net pension liability.

METROPOLITAN TRANSPORTATION AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the MTA's Contributions for All Pension Plans for the Year Ended December 31,

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	(\$ in thousands)									
Additional Plan*										
Actuarially Determined Contribution	\$ 76,523	\$ 83,183	\$ 82,382	\$ 112,513	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	221,523	151,100	100,000	407,513	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ (145,000)	\$ (67,917)	\$ (17,618)	\$ (295,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 20,500	\$ 29,312	\$ 39,697	\$ 43,267	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	1080.62%	515.49%	251.91%	941.87%	N/A	N/A	N/A	N/A	N/A	N/A
MaBSTOA Plan										
Actuarially Determined Contribution	\$ 202,924	\$ 220,697	\$ 214,881	\$ 226,374	\$ 234,474	\$ 228,918	\$ 186,454	\$ 200,633	\$ 204,274	\$ 201,919
Actual Employer Contribution	202,684	220,697	214,881	226,374	234,474	228,918	186,454	200,633	204,274	201,919
Contribution Deficiency (Excess)	\$ 240	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 749,666	\$ 716,527	\$ 686,674	\$ 653,287	\$ 582,081	\$ 575,989	\$ 579,696	\$ 591,073	\$ 569,383	\$ 562,241
Contributions as a % of Covered Payroll	27.04%	30.80%	31.29%	34.65%	40.28%	39.74%	32.16%	33.94%	35.88%	35.91%
Metro-North Cash Balance Plan*										
Actuarially Determined Contribution	\$ -	\$ 23	\$ -	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	-	23	14	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ (14)	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 471	\$ 846	\$ 1,474	\$ 2,274	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	0.00%	2.68%	0.96%	0.00%	N/A	N/A	N/A	N/A	N/A	N/A
MTA Defined Benefit Plan*										
Actuarially Determined Contribution	\$ 316,916	\$ 290,415	\$ 273,700	\$ 271,523	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	321,861	280,767	221,694	331,259	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ (4,945)	\$ 9,648	\$ 52,006	\$ (59,736)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,857,026	\$ 1,784,369	\$ 1,773,274	\$ 1,679,558	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	17.33%	15.73%	12.50%	19.72%	N/A	N/A	N/A	N/A	N/A	N/A

* For the MTA Defined Benefit Plan, Additional Plan and Metro-North Cash Balance Plan, information was not readily available for periods prior to 2014. This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**METROPOLITAN TRANSPORTATION AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the MTA's Contributions for All Pension Plans for the Year Ended December 31, (continued)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	(\$ in thousands)									
NYCERS										
Actuarially Determined Contribution	\$ 800,863	\$ 797,845	\$ 736,212	\$ 741,223	\$ 736,361	\$ 731,983	\$ 657,771	\$ 574,555	\$ 548,721	\$ 499,603
Actual Employer Contribution	800,863	797,845	736,212	741,223	736,361	731,983	657,771	574,555	548,721	499,603
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 3,768,885	\$ 3,523,993	\$ 3,494,907	\$ 3,617,087	\$ 2,943,195	\$ 2,925,834	\$ 2,900,630	\$ 2,886,789	\$ 2,800,882	\$ 2,656,778
Contributions as a % of Covered Payroll	21.25%	22.64%	21.07%	20.49%	25.02%	25.02%	22.68%	19.90%	19.59%	18.80%
NYSLERS **										
Actuarially Determined Contribution	\$ 13,969	\$ 12,980	\$ 15,792	\$ 13,816	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	13,969	12,980	15,792	13,816	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 103,787	\$ 94,801	\$ 86,322	\$ 84,041	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	13.46%	13.69%	18.29%	16.44%	N/A	N/A	N/A	N/A	N/A	N/A

** For the NYSLERS plan, information was not readily available for periods prior to 2014. This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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REQUIRED SUPPLEMENTARY INFORMATION

Notes to Schedule of the MTA's Contributions for All Pension Plans

	Additional Plan			MaBSTOA Plan		
Valuation Dates:	January 1, 2016	January 1, 2015	January 1, 2014	January 1, 2016	January 1, 2015	January 1, 2014
Measurement Date:	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2016	December 31, 2015	December 31, 2014
Actuarial cost method:	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost	Frozen Initial Liability (FIL)	Frozen Initial Liability (FIL)	Frozen Initial Liability (FIL)
Amortization method:	Period specified in current valuation report (closed 17 year period beginning January 1, 2016) with level dollar payments.	Period specified in current valuation report (closed 18 year period beginning January 1, 2015) with level dollar payments.	Period specified in current valuation report (closed 19 year period beginning January 1, 2014) with level dollar payments.	For FIL bases, period specified in current valuation 30-year level dollar. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population.	For FIL bases, period specified in current valuation 30-year level dollar. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population.	For FIL bases, period specified in current valuation 30-year level dollar. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population.
Asset Valuation Method:	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.	1/1/96, then gains/losses over a 5-year period. Gains/losses are five-year on market value of assets.
Salary increases:	3.00%	3.00%	3.00%	Varies by years of employment and employment type.	Varies by years of employment and employment type.	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.
Actuarial assumptions:						
Discount Rate:	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Investment rate of return:	7.00%, net of investment expenses.	7.00%, net of investment expenses.	7.00%, net of investment expenses.	7.00%, net of investment expenses.	7.00%, net of investment expenses.	7.00%, net of investment expenses.
Mortality:	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA.	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA.	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA.	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA.	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA. As improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all MTA plans.
Pre-retirement:	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.
Post-retirement 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.	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.	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.	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.	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.	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.
Post-retirement Disabled Lives:	N/A	N/A	N/A	75% of the rates from the RP-2000 Healthy Annuitant mortality table for males and females.	75% of the rates from the RP-2000 Healthy Annuitant mortality table for males and females.	75% of the rates from the RP-2000 Healthy Annuitant mortality table for males and females.
Inflation/Railroad Retirement Wage Base:	2.50%; 3.50%	2.50%; 3.50%	2.50%; 3.50%	2.50%	2.50%	2.50%
Cost-of-Living Adjustments:	N/A	N/A	N/A	1.375% per annum	1.375% per annum	1.375% per annum

**METROPOLITAN TRANSPORTATION AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION

Notes to Schedule of the MTA's Contributions for All Pension Plans

(continued)

	MNR Cash Balance Plan			MTA Defined Benefit Plan		
Valuation Dates:	January 1, 2017	January 1, 2016	January 1, 2014	January 1, 2015	January 1, 2015	January 1, 2014
Measurement Date:	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2015	December 31, 2014
Actuarial cost method:	Unit Credit Cost	Unit Credit Cost	Unit Credit Cost	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost
Amortization method:	One-year amortization of the unfunded liability, if any.	One-year amortization of the unfunded liability, if any.	Period specified in current valuation report (closed 10 year period beginning January 1, 2008 - 4 year period for the January 1, 2014 valuation).	For Frozen Initial Liability ("FIL") bases, period specified in current valuation report. Future gains/ losses are amortized through the calculation of the normal cost in accordance with FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population for each group.	For Frozen Initial Liability ("FIL") bases, period specified in current valuation report. Future gains/ losses are amortized through the calculation of the normal cost in accordance with FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population for each group.	For Frozen Initial Liability ("FIL") bases, period specified in current valuation report. Future gains/ losses are amortized through the calculation of the normal cost in accordance with FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population for each group.
Asset Valuation Method:	Actuarial value equals market value.	Actuarial value equals market value.	Effective January 1, 2015, the Actuarially Determined Contribution (ADC) will reflect one-year amortization of the unfunded accrued liability in accordance with the funding policy adopted by the MTA.	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.
Salary increases:	N/A	N/A	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, these benefits were not valued as the potential liability is de minimis.	Varies by years of employment, and employee group. 3.5% for MTA Bus hourly employees.	Varies by years of employment, and employee group. 3.5% for MTA Bus hourly employees.	Varies by years of employment, and employee group.
Actuarial assumptions:						
Discount Rate:	4.00%	4.00%	4.50%	7.00%	7.00%	7.00%
Investment rate of return:	4.00%, net of investment expenses.	4.00%, net of investment expenses.	4.50%, net of investment expenses.	7.00%	7.00%	7.00%
Mortality:	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA. Mortality assumption is based on a 2012 experience study for all MTA plans.	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA. Mortality assumption is based on a 2012 experience study for all MTA plans.	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all MTA plans.	Preretirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA. As a general table, it reflects mortality improvements both before and after the measurement date.	Preretirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA. As a general table, it reflects mortality improvements both before and after the measurement date.	Preretirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA. As a general table, it reflects mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all MTA plans.
Pre-retirement:	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.
Post-retirement 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.	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.	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.	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.	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.	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.
Post-retirement Disabled Lives:	N/A	N/A	N/A	75% of the rates from the RP-2000 Healthy 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 females healthy rates, respectively.	75% of the rates from the RP-2000 Healthy 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 females healthy rates, respectively.	75% of the rates from the RP-2000 Healthy 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 females healthy rates, respectively.
Inflation/Railroad Retirement Wage Base:	2.30%	2.30%	2.50%	2.50%; 3.50%	2.50%; 3.50%	2.50%; 3.00%
Cost-of-Living Adjustments:	N/A	N/A	N/A	55% of inflation assumption or 1.375%, if applicable.	if applicable.	if applicable.

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

REQUIRED SUPPLEMENTARY INFORMATION

Notes to Schedule of the MTA's Contributions for All Pension Plans

(continued)

	NYCERS Plan			NYSLERS Plan		
Valuation Dates:	June 30, 2015	June 30, 2014	June 30, 2013	April 1, 2016	April 1, 2015	April 1, 2014
Measurement Date:	June 30, 2017	June 30, 2016	June 30, 2015	March 31, 2017	March 31, 2016	March 31, 2015
Actuarial cost method:	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost	Aggregate Cost method	Aggregate Cost method	Aggregate Cost method
Amortization method:	Increasing Dollar for Initial Unfunded; Level Dollar for Post 2010 Unfunded.	Increasing Dollar for Initial Unfunded; Level Dollar for Post 2010 Unfunded.	Increasing Dollar for Initial Unfunded; Level Dollar for Post 2010 Unfunded.	Evenly over the remaining working lifetimes of the active membership.	Evenly over the remaining working lifetimes of the active membership.	Evenly over the remaining working lifetimes of the active membership.
Asset Valuation Method:	Modified six-year moving average of market values with a Market Value Restart as of June 30, 2011	Modified six-year moving average of market values with a Market Value Restart as of June 30, 2011	Modified six-year moving average of market values with a Market Value Restart as of June 30, 2011.	5 year level smoothing of the difference between the actual gain and the expected gain using the assumed investment rate of return.	5 year level smoothing of the difference between the actual gain and the expected gain using the assumed investment rate of return.	5-year level smoothing of the difference between the actual gain and the expected gain using the assumed investment rate of return.
Salary increases:	3% per annum.	3% per annum.	3% per annum.	3.80%	3.80%	4.90%
Actuarial assumptions:						
Discount Rate:	7.00%	7.00%	7.00%	7.00%	7.00%	7.50%
Investment rate of return:	7.00%, net of investment expenses.	7.00%, net of investment expenses.	7.00%, net of investment expenses.	7.00%, net of investment expenses.	7.00%, net of investment expenses.	7.5%, net of investment expenses.
Mortality:	Mortality tables for service and disability pensioners were developed from an experience study of NYCERS's pensioners. The mortality tables for beneficiaries were developed from an experience review of NYCERS' beneficiaries. The most recently completed study was published by Gabriel Roeder & Company ("GRS"), dated October 2015, and analyzed experience for Fiscal Years 2010 through 2013.	Mortality tables for service and disability pensioners were developed from an experience study of NYCERS's pensioners. The mortality tables for beneficiaries were developed from an experience review of NYCERS' beneficiaries. The most recently completed study was published by Gabriel Roeder & Company ("GRS"), dated October 2015, and analyzed experience for Fiscal Years 2010 through 2013.	Mortality tables for service and disability pensioners were developed from an experience study of NYCERS's pensioners. The mortality tables for beneficiaries were developed from an experience review of NYCERS' beneficiaries. The most recently completed study was published by Gabriel Roeder & Company ("GRS"), dated October 2015, and analyzed experience for Fiscal Years 2010 through 2013.	Annuitant mortality rates are based on NYSLERS's 2010 experience study of the period April 1, 2005 through March 31, 2010 with adjustments for mortality improvements based on the Society of Actuaries's Scale MP-2014.	Annuitant mortality rates are based on NYSLERS's 2010 experience study of the period April 1, 2005 through March 31, 2010 with adjustments for mortality improvements based on the Society of Actuaries's Scale MP-2014.	Annuitant mortality rates are based on NYSLERS's 2010 experience study of the period April 1, 2005 through March 31, 2010 with adjustments for mortality improvements based on the Society of Actuaries's Scale MP-2014.
Pre-retirement:	N/A	N/A	N/A	N/A	N/A	N/A
Post-retirement Healthy Lives:	N/A	N/A	N/A	N/A	N/A	N/A
Post-retirement Disabled Lives:	N/A	N/A	N/A	N/A	N/A	N/A
Inflation/Railroad Retirement Wage Base:	2.50%	2.50%	2.50%	2.50%	2.50%	2.70%
Cost-of-Living Adjustments:	1.5% per annum for Auto COLA and 2.5% per annum for Escalation.	1.5% per annum for Auto COLA and 2.5% per annum for Escalation.	1.5% per annum for Auto COLA and 2.5% per annum for Escalation.	1.3% per annum.	1.3% per annum.	1.4% per annum.

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

REQUIRED SUPPLEMENTARY INFORMATION

(concluded)

Notes to Schedule of MTA's Contributions for All Pension Plans

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in Cost Sharing, Multiple-Employer pension plans, the NYCERS plan and the NYSLERS plan, are presented as notes to the schedule.

Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms:

There were no changes of benefit terms in the June 30, 2015 valuation for the NYCERS plan.

There were no significant legislative changes in benefit for the April 1, 2015 valuation for the NYSLERS plan.

Changes of Assumptions:

There were no changes in benefit assumptions used in the June 30, 2015 valuation for the NYCERS plan.

There were changes in the economic and demographic assumptions used in the April 1, 2015 valuation for the NYSLERS plan.

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)

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} / {b}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c} / {d}
December 31, 2017	January 1, 2016	\$ 298	\$ 19,802	\$ 19,504	1.50 %	\$ 5,041.0	386.9 %
December 31, 2016	January 1, 2014	\$ 300	\$ 18,472	\$ 18,172	1.60 %	\$ 4,669.8	389.1 %
December 31, 2015	January 1, 2014	\$ 300	\$ 18,472	\$ 18,172	1.60 %	\$ 4,669.8	389.1 %

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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, 2017**

(\$ in millions)

(Unaudited)

Category	Financial Plan Actual	Statement GAAP Actual	Variance
REVENUE:			
Farebox revenue	\$ 6,172	\$ 6,172	\$ -
Vehicle toll revenue	1,907	1,912	5
Other operating revenue	665	589	(76)
Total revenue	<u>8,744</u>	<u>8,673</u>	<u>(71)</u>
OPERATING EXPENSES:			
Labor:			
Payroll	5,037	5,025	(12)
Overtime	882	943	61
Health and welfare	1,214	1,210	(4)
Pensions	1,154	1,182	28
Other fringe benefits	889	793	(96)
Postemployment benefits	2,250	2,155	(95)
Reimbursable overhead	(476)	(443)	33
Total labor expenses	<u>10,950</u>	<u>10,865</u>	<u>(85)</u>
Non-labor:			
Electric power	444	430	(14)
Fuel	147	151	4
Insurance	30	(3)	(33)
Claims	314	525	211
Paratransit service contracts	391	393	2
Maintenance and other	751	645	(106)
Professional service contract	575	425	(150)
Pollution remediation project costs	4	13	9
Materials and supplies	606	588	(18)
Other business expenses	209	207	(2)
Total non-labor expenses	<u>3,471</u>	<u>3,374</u>	<u>(97)</u>
Depreciation	2,615	2,611	(4)
Other Expenses Adjustment	52	-	(52)
Total operating expenses	<u>17,088</u>	<u>16,850</u>	<u>(238)</u>
NET OPERATING LOSS	<u>\$ (8,344)</u>	<u>\$ (8,177)</u>	<u>\$ 167</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, 2017**

(\$ in millions)

(Unaudited)

	Financial Plan Actual	Financial Statement GAAP Actual	Variance	
Accrued Subsidies				
Mass transportation operating assistance	\$ 1,668	\$ 1,668	\$ -	
Mass transit trust fund subsidies	614	606	(8)	{1}
Mortgage recording tax 1 and 2	460	453	(7)	{1}
MRT transfer	(10)	(9)	1	{1}
Urban tax	520	539	19	{1}
State and local operating assistance	376	376	-	{1}
Station maintenance	167	165	(2)	{1}
Connecticut Department of Transportation (CDOT)	121	103	(18)	{1}
Subsidy from New York City for MTA Bus and SIRTOA	548	503	(45)	{1}
NYS Grant for debt service	-	5	5	{3}
Build American Bonds Subsidy	-	88	88	{1}
Mobility tax	2,004	1,987	(17)	{1}
Other non-operating income	<u>1</u>	<u>12</u>	<u>11</u>	{2}
Total accrued subsidies	6,469	6,496	27	
Net operating deficit before subsidies and debt service	(8,344)	(8,177)	167	
Debt Service	(2,507)	(1,517)	990	
Conversion to Cash basis: Depreciation	2,615	-	(2,615)	
Conversion to Cash basis: OPEB Obligation	2,250	-	(2,250)	
Conversion to Cash basis: GASB 68 pension adjustment	172	-	(172)	
Conversion to Cash basis: Pollution & Remediation	<u>4</u>	<u>-</u>	<u>(4)</u>	
Total net operating surplus/(deficit) before appropriation, grants and other receipts restricted for capital projects	<u>\$ 659</u>	<u>\$ (3,198)</u>	<u>\$ (3,857)</u>	

{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 non-operating income or changes in market value.

{3} The Financial Plan records do not include other non-operating 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, 2017

(\$ in millions)
(Unaudited)

Financial Plan Actual Operating Loss at December 31, 2017	<u>\$ (8,344)</u>
The Financial Plan Actual Includes:	
Higher other operating revenues	(22)
Higher other operating expense adjustments	52
The Audited Financial Statements Includes:	
Lower OPEB expense based on the most recent actuarial calculations	95
Higher pension expense based on most recent actuarial calculations	(28)
Higher labor expense primarily from reimbursable overhead	18
Higher claims expense based on most recent actuarial calculations	(191)
Lower non-labor expense	224
Intercompany eliminations and other adjustments	<u>19</u>
Total Operating Reconciling Items	<u>167</u>
Unaudited Financial Statement Operating Loss	<u><u>\$ (8,177)</u></u>
Financial Plan Actual Surplus after Subsidies and Debt Service at December 31, 2017	<u>\$ 659</u>
The Financial Plan Actual Includes:	
Debt Service Bond Principal Payments	990
Adjustments for non-cash liabilities:	
Depreciation	(2,615)
Unfunded OPEB Expense	(2,250)
Unfunded GASB 68 Pension adjustment	(172)
Unfunded Pollution Remediation Expense	<u>(4)</u>
	<u>(5,041)</u>
The Audited Financial Statements Includes:	
Lower subsidies and other non-operating revenues	27
Total Operating Reconciling Items	<u>167</u>
Financial Statement Loss Before Appropriations	<u><u>\$ (3,198)</u></u>

New York City Transit Authority

(Component Unit of the Metropolitan Transportation
Authority)

Consolidated Financial Statements as of and
for the Years Ended December 31, 2017 and 2016,
Required Supplementary Information, and
Independent Auditors' Report

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NEW YORK CITY TRANSIT AUTHORITY
(Component Unit 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 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 a component unit of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2017 and 2016, 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, 2017 and 2016, 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 Note 1 to the consolidated financial statements, the Authority is a component unit 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

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 16, Schedule of Changes in the Authority's Net Pension Liability and Related Ratios for the MABSTOA Pension Plan on Page 70, Schedule of the Authority's Proportionate Share of the Net Pension Liability in the NYCERS Pension Plan on page 71, Schedule of the Authority's Contributions to all Pension Plans on pages 72-74, and Schedule of Funding Progress for the New York City Transit Postemployment Benefit Plan on page 75 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 25, 2018

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017 and 2016. 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 the 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 net pension liabilities, related ratios and contributions to its pension plans, and progress in funding its obligation to provide other postemployment benefits to its employees.

FINANCIAL REPORTING ENTITY

The New York City Transit Authority and its component unit, 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 component unit 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.

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, 2017 and 2016. 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, and Deferred Outflows of Resources

(In millions)	2017	2016	2015	Increase/(Decrease)	
				2017-2016	2016-2015
Capital assets	\$ 63,507	\$ 60,526	\$ 57,654	\$ 2,981	\$ 2,872
Accumulated depreciation	(22,190)	(20,549)	(18,900)	(1,641)	(1,649)
Capital assets, net of accumulated depreciation	41,317	39,977	38,754	1,340	1,223
Other assets	2,470	2,717	2,368	(247)	349
Total assets	43,787	42,694	41,122	1,093	1,572
Deferred outflows of resources	1,018	1,402	527	(384)	875
Total assets and deferred outflows of resources	\$ 44,805	\$ 44,096	\$ 41,649	\$ 709	\$ 2,447

The Authority's capital assets totaled \$63,507 at December 31, 2017. Of the total, depots, yards, signals, and stations were 47.4%, subway cars and buses accounted for 19.7% and track and structures were 20.6%. 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, 2017 versus 2016

Capital assets increased from December 31, 2016 to December 31, 2017 by \$2,981, or 4.9%. This increase was primarily due to station rehabilitation work of \$1,971 and track and structures of \$752. Accumulated depreciation has increased by \$1,641, or 8.0%.

Other assets decreased by \$247, or 9.1%, compared with the prior year. This decrease was mostly due to a decrease in receivables from MTA for the purchase of capital assets of \$126, and decreased in due from MTA and constituent authorities of \$112.

Deferred outflows of resources decreased by \$384, or 27.4% compared with prior year based upon the most recent actuarial valuation report in accordance with GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Refer to Note 6 to the financial statements for more information regarding the Authority's pensions.

December 31, 2016 versus 2015

Capital assets increased from December 31, 2015 to December 31, 2016 by \$2,872, or 5.0%. This increase was primarily due to under construction work of \$1,501, station rehabilitation work of \$364 and signals enhancements of \$396. Accumulated depreciation has increased by \$1,649, or 8.7%, due to annual depreciation expense of \$1,650, and partly offset by normal retirements of \$1.

Other assets increased by \$349, or 14.7%, compared with the prior year. This increase was mostly due to an increase in receivables from MTA for the purchase of capital assets of \$429, and higher receivables due from MTA and constituent authorities of \$182, partly offset by lower MTA investment pool assets of \$210.

Deferred outflows of resources increased by \$875, or 166.0% compared with prior year based upon the most recent actuarial valuation report in accordance with GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Refer to Note 6 to the financial statements for more information regarding the Authority's pensions.

Total Liabilities, Distinguishing Between Long-Term Liabilities and Current Liabilities, and Deferred Inflows of Resources

(In millions)	2017	2016	2015	Increase/(Decrease)	
				2017-2016	2016-2015
Current liabilities	\$ 1,875	\$ 1,710	\$ 1,648	\$ 165	\$ 62
Long-term liabilities	<u>21,390</u>	<u>20,741</u>	<u>18,236</u>	<u>649</u>	<u>2,505</u>
Total liabilities	<u>23,265</u>	<u>22,451</u>	<u>19,884</u>	<u>814</u>	<u>2,567</u>
Deferred inflows of resources	<u>392</u>	<u>210</u>	<u>423</u>	<u>182</u>	<u>(213)</u>
Total liabilities and deferred inflows of resources	<u>\$ 23,657</u>	<u>\$22,661</u>	<u>\$20,307</u>	<u>\$ 996</u>	<u>\$2,354</u>

At the end of 2017, the Authority's liabilities consisted primarily of employee fringe benefit-related liabilities (for retirement, health and other benefits), 58.7%, net pension liability of 24.6%, and injuries to persons (public liability and workers' compensation), 12.0%. Included in the employee fringe benefit-related liabilities was \$12,897 of post-employment benefits other than pensions.

Significant changes in liabilities include:

December 31, 2017 versus 2016

Liabilities increased from December 31, 2016 to December 31, 2017 by \$814, or 3.6%. Current liabilities increased by \$165, or 9.6%, and long-term liabilities increased by \$649, or 3.1%.

The net increase in current liabilities was mainly due to higher levels of accounts payable in connection with various maintenance initiatives, including the Subways Action Plan, of \$37. An increase in salaries and wages of \$30, due to salary increases and retroactive wage reserves, an increase in health and welfare accruals of \$36, due to the transition to a new provider, and higher levels of vacation and sick related to policy changes for certain hourly employees to improve availability of \$30.

The net increase in long-term liabilities was due primarily due to the addition of \$1,103 of postemployment benefits other than pensions, a \$275 increase in the estimated liability arising from injuries to persons, and a decrease in net pension liability of \$787, based upon the most current actuarial valuations.

Deferred inflows of resources increased by \$182, or 86.7% compared with prior year based upon the most recent actuarial valuation report in accordance with GASB Statements No. 68. Refer to Note 6 to the financial statements for more information regarding the Authority's pension

December 31, 2016 versus 2015

Liabilities increased from December 31, 2015 to December 31, 2016 by \$2,567, or 12.9%. Current liabilities increased by \$62, or 3.8%, and long-term liabilities increased by \$2,505, or 13.7%.

The net increase in current liabilities was mainly due to an increase in other various accrued expenses of \$31, an increase of \$21 resulting in a higher level of accounts payable, and an increase of \$16 in the estimated liability arising from injuries to persons.

The increase in long-term liabilities was due primarily to the addition of \$1,193 of Postemployment benefits other than pensions, a \$904 increase in the net pension liability and an increase of \$431 in the estimated liability arising from injuries to persons, based on the most current actuarial valuations.

Deferred inflows of resources decreased by \$213, or 50.4% compared with prior year based upon the most recent actuarial valuation report in accordance with GASB Statements No. 68. Refer to Note 6 to the financial statements for more information regarding the Authority's pension.

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

(In millions)	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Increase/(Decrease)</u>	
				<u>2017-2016</u>	<u>2016-2015</u>
Net investment in capital assets	\$ 41,144	\$ 39,808	\$ 38,555	\$ 1,336	\$ 1,253
Unrestricted	<u>(19,996)</u>	<u>(18,373)</u>	<u>(17,213)</u>	<u>(1,623)</u>	<u>(1,160)</u>
Total net position	<u>\$ 21,148</u>	<u>\$ 21,435</u>	<u>\$ 21,342</u>	<u>\$ (287)</u>	<u>\$ 93</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, 2017 versus 2016

Total net position was \$21,148 at the end of 2017, a net decrease of \$287, or 1.3% from the end of 2016. The net decrease was primarily due to an operating loss of \$5,791 and offset by net nonoperating income of \$3,644 and capital contributions from the MTA of \$1,860.

December 31, 2016 versus 2015

Total net position was \$21,435 at the end of 2016, a net increase of \$93, or 0.4% from the end of 2015. The net increase was primarily due to an operating loss of \$5,791 and offset by net nonoperating income of \$3,966 and capital contributions from the MTA of \$1,918.

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

(In millions)	Year Ended December 31,			Increase/(Decrease)	
	2017	2016	2015	2017-2016	2016-2015
Operating revenues	\$ 4,912	\$ 4,859	\$ 4,827	\$ 53	\$ 32
Operating expenses	(10,703)	(10,650)	(10,045)	(53)	(605)
Operating loss	(5,791)	(5,791)	(5,218)	-	(573)
Nonoperating revenues (expenses):					
Subsidies: New York State and The City of New York	3,345	3,670	3,639	(325)	31
Triborough Bridge and Tunnel Authority	310	313	318	(3)	(5)
FTA/FEMA reimbursement	-	-	1	-	(1)
Interest expense	(16)	(20)	(21)	4	1
Other nonoperating revenue/(expenses)	5	3	2	2	1
Total nonoperating revenues (expenses)	3,644	3,966	3,939	(322)	27
Loss before capital contributions	(2,147)	(1,825)	(1,279)	(322)	(546)
Capital contributions	1,860	1,918	1,893	(58)	25
Change in net position	(287)	93	614	(380)	(521)
Net position — beginning of year	21,435	21,342	26,140	93	(4,798)
Restatement of beginning net position adoption of GASB No. 68	-	-	(5,500)	-	5,500
Restatement of beginning net position correction to opening balance	-	-	88	-	(88)
Net position — end of year	\$21,148	\$21,435	\$21,342	\$ (287)	\$ 93

Revenue from Fares/Ridership

(In millions)	2017	2016	2015	Increase/(Decrease)	
				2017-2016	2016-2015
Subway revenue	\$ 3,441	\$ 3,351	\$ 3,314	\$ 90	\$ 37
Bus revenue	952	966	965	(14)	1
Expired fare media revenue	76	80	75	(4)	5
Paratransit revenue	18	18	17	-	1
Total revenue from fares	\$ 4,487	\$ 4,415	\$ 4,371	\$ 72	\$ 44
Total ridership (millions)	2,339	2,404	2,422	(65)	(18)
Non-student average fare	\$ 1.98	\$ 1.90	\$ 1.87	\$ 0.08	\$ 0.03

2017 versus 2016

Total revenue from fares was \$4,487 in 2017, an increase of \$72, or 1.6%. This increase was due mostly to the March 2017 fare increase. Total ridership was 2,339, a decrease of 65, or 2.7% from 2016.

2016 versus 2015

Total revenue from fares was \$4,415 in 2016, an increase of \$44, or 1.0%. This increase was due mostly to the annualization of the March 2015 fare increase in 2016. Total ridership was 2,404, a decrease of 18, or 0.7% from 2015.

Operating Expenses, by Major Function

(In millions)	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Increase/(Decrease)</u>	
				<u>2017-2016</u>	<u>2016-2015</u>
Salaries and wages	\$ 3,901	\$ 3,632	\$ 3,535	\$ 269	\$ 97
Health and welfare	860	830	741	30	89
Pensions	706	800	553	(94)	247
Other fringe benefits	410	592	512	(182)	80
Reimbursed overhead expenses	(304)	(263)	(241)	(41)	(22)
Postemployment benefits other than pensions	1,516	1,613	1,501	(97)	112
Electric Power	265	250	287	15	(37)
Fuel	95	78	102	17	(24)
Insurance	72	74	72	(2)	2
Public liability claims	279	251	184	28	67
Paratransit service contracts	393	384	379	9	5
Maintenance and other operating contracts	246	223	196	23	27
Professional service contracts	172	134	94	38	40
Pollution remediation projects	8	10	13	(2)	(3)
Materials and supplies	319	312	290	7	22
Depreciation	1,682	1,650	1,741	32	(91)
Other expenses	83	80	86	3	(6)
Total operating expenses	<u>\$ 10,703</u>	<u>\$ 10,650</u>	<u>\$ 10,045</u>	<u>\$ 53</u>	<u>\$ 605</u>

2017 versus 2016

Total operating expenses increased by \$53 or 0.5% compared to 2016 as follows:

- Salaries and wages were higher than 2016 by \$269 or 7.4%. Payroll increased by 4.5% as most represented and non-represented personnel received wage increases in 2017 and headcount increased in support of Subways Action Plan and various maintenance programs and operations requirements. Overtime expenses increased by 27.6%, due mostly to support the Subways Action Plan, various maintenance and weather-related requirements, and vacancy/absentee coverage requirements.
- Health and welfare expenses increased by \$30, or 3.6%, due primarily to increased rates for health and welfare plans.
- Pension expenses decreased by \$94, or 11.8%, based on the most current actuarial valuation.

- Other fringe benefit expenses decreased by \$182, or 30.7%, due primarily to lower workers' compensation reserve requirements from 2016, based upon a current actuarial valuation.
- Post-employment benefits other than pensions decreased by \$97, or 6.0%, based on the most recent actuarial valuation.
- Electric power expenses increased by \$15, or 6.0% due to higher pricing.
- Fuel expenses increased by \$17, or 21.8%, due mostly to higher prices.
- Public liability claims expenses increased by \$28, or 11.2%, due primarily to an actuarial valuation update, which reflected the increase in major claims and the cost of claims.
- Maintenance contract expenses increased by \$23, or 10.3%, due largely to additional requirements for revenue vehicle maintenance & repairs, safety equipment and tires & tubes.
- Professional service contract expenses increased by \$38, or 28.4%, including implementation of additional professional service contract requirements, and expense increases in information technology regarding additional data communications and other requirements.

2016 versus 2015

Total operating expenses increased by \$605 or 6.0% compared to 2015 as follows:

- Salaries and wages were higher than 2015 by \$97 or 2.7%. Payroll increased by 3.0% as most represented and non-represented personnel received wage increases in 2016 and headcount increased in support of various maintenance programs and operations requirements. Overtime expenses increased by 1.3%, due mostly to maintenance requirements, unscheduled service, and vacancy/absentee coverage requirements.
- Health and welfare expenses increased by \$89, or 12.0%, due primarily to increased rates for health and welfare plans.
- Pension expenses increased by \$247, or 44.7%, based on the most current actuarial valuation.
- Other fringe benefit expenses increased by \$80, or 15.6%, due primarily to higher Workers' Compensation reserve requirements based upon a current actuarial valuation.
- Post-employment benefits other than pensions increased by \$112, or 7.5%, based on the most recent actuarial valuation.
- Electric power expenses decreased by \$37, or 12.9%, due mostly to lower prices.
- Fuel expenses decreased by \$24, or 23.5%, due mostly to lower prices.
- Public liability claims expenses increased by \$67, or 36.4%, due primarily to an actuarial valuation update, which reflected the increase in major claims and the cost of claims.
- Maintenance contract expenses increased by \$27 or 13.8%, due largely to additional requirements for revenue vehicle maintenance & repairs, safety equipment and tires & tubes.

- Professional service contract expenses increased by \$40, or 42.6%, including implementation of a new Enterprise Asset Management Program, other additional professional service contract requirements, and expense increases in Information Technology regarding additional data communications and other 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 \$1,860 in 2017 and \$1,918 in 2016, 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. The net position decreased by \$287 in 2017.

Budget Highlights

Total operating revenues in 2017 of \$4,912 were lower than budget by \$113, or 2.3%. Total revenue from fares underran budget by \$83, or 1.8%, due mostly to lower ridership trends, including the impact of adverse weather early in the year. Other operating revenues were below budget by \$30, or 6.7%.

Total operating expenses in 2017 of \$10,703 were below budget by \$421, or 3.8%. Labor-related expenses of \$7,088 were below budget by \$407, or 5.4%. This result was due primarily to a decrease in post-employment benefits other than pensions of \$416, or 21.5%, due to an actuarial update. Additionally, overtime expenses were higher by \$148, or 33.5%, due largely to Subways Action Plan requirements and vacancy coverages. Non-labor expenses were below budget by \$14, or 0.4%, due mostly to decrease in depreciation expense of \$96, or 5.4%, including a higher rate of asset retirements than budgeted. Power expenses underran budget by \$48, or 15.2%, due mostly to lower prices than anticipated in the budget. Mostly offsetting the above favorable results is a significant increase in accrued workers' compensation reserves, based on a current actuarial valuation.

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, and a financially sound and reliable transportation system is critical to the region's economic well-being. The Authority consists of urban subway and bus systems. In order to achieve maximum efficiency and success in its operations,

the Authority must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Preliminary system-wide utilization in 2017 decreased relative to 2016 by 65.2 million (2.7%). Subway ridership declined by 29.4 million trips (1.7%), while New York City Transit Bus ridership also declined by 35.8 million trips (5.6%).

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2017 than in 2016 by 64.4 thousand jobs (1.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-nine 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.

National economic growth, as measured by Real Gross Domestic Product (RGDP), expanded at an annualized rate of 2.6% in the fourth quarter of 2017 according to the most recent advance estimate released by the Bureau of Economic Analysis (BEA). The increase in RGDP reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, residential fixed investment, state and local government spending, and federal government spending; these were partially offset by a negative contribution from private inventory investment. Imports, which are a subtraction in the Gross Domestic Product (GDP) calculation, increased. The deceleration in RGDP growth, relative to the second quarter's revised 3.2% growth rate, reflected a downturn in private inventory investment and an increase in imports. These were partially offset by an acceleration in personal consumption expenditures, nonresidential fixed investment, exports, state and local government spending, and federal government spending, as well as an upturn in residential fixed investment.

The New York City metropolitan area's price inflation, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), was lower than the national average in the fourth quarter of 2017, with the metropolitan area index increasing by 1.7 %, while the national index increased by 2.1%, when compared with the fourth quarter of 2016. An 8.2% increase in the regional price of energy products, along with a 7.6% national increase, impacted overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.3%, while nationally, inflation exclusive of energy products was 1.7%. Increasing more than overall energy prices, the spot price for New York Harbor conventional gasoline rose by 14.8%, from an average price of \$1.54 per gallon to an average price of \$1.77 per gallon, between the fourth quarters of 2016 and 2017.

In December 2015, citing evidence that economic activity had been expanding at a moderate rate, the Federal Open Market Committee (FOMC) raised its target for the Federal Funds rate to the range of 0.25% to 0.50%, the first increase in the Federal Funds rate since the target was lowered to a range of 0% to 0.25% in late 2008 when the financial and housing crises deepened. The FOMC maintained this target until December 2016, when the FOMC announced another increase, raising the target range for the Federal Funds rate to 0.5% to 0.75%. In March and June of 2017, the FOMC raised rates again, with the target range set at 0.75% to 1%, in March and then 1% to 1.25% in June. The Federal Funds rate was raised to its current target level of 1.25% to 1.5% in December 2017 in view of realized and expected labor market conditions and inflation. Despite raising the target rate in the fourth quarter of 2017, monetary policy continued to be accommodative, supporting strong labor market conditions and a sustained return to 2 percent inflation. The unemployment rate continued to decline, while household spending continued to expand at a moderate rate and business fixed investment continued to pick up. Both overall inflation and inflation for items other than food and energy remained below 2 percent on a 12-month basis, and overall inflation is expected to remain below 2 percent in the short-term. Despite this, survey-based measures of longer-term inflation expectations were little changed. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. The FOMC

expects that the economy will continue to expand at a moderate pace, labor market conditions will remain strong, and inflation will stabilize around 2 percent over the medium term. Gradual increases in the Federal Funds rate can be expected, but that the rate will remain below long-term levels for quite some time. Near-term risks to economic outlook appear roughly balanced, and the FOMC continues to closely monitor inflation indicators and global economic and financial developments.

Results of Operations and Overall Financial Position

Total revenue from fares was \$4,487 in 2017, an increase of \$72 or 1.6% from 2016. Total ridership was 2,339 million, a decrease of \$65 or 2.7% from 2016. Total operating expenses, including depreciation, other post-employment benefits and environmental remediation expenses, were \$10,703 in 2017, an increase of \$53 or 0.5%.

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.

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 \$0.5 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, 2017, \$10.4 billion has been encumbered 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 \$24.4 billion, of which the Authority's share is \$11.5 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, \$9.7 billion in bonds, and \$4.1 billion from other sources.

At December 31, 2017, \$11.4 billion has been encumbered to Authority projects from the 2005-2009 approved plan, of which approximately \$11.2 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 providers and innovative and pragmatic financing arrangements. The Authority's share of the \$24.3 billion revised program was \$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. On July 28, 2014, the MTA Board approved an amendment to the 2010-2014 Capital Programs to reflect revised project estimates. However, the overall program remain unchanged at \$34.8 billion. On September 4, 2014, the amended program as submitted was deemed approved by the CPRB. On May 24, 2017, the MTA Board approved a further amendment to reduce the overall 2010-2014 capital program by \$2.8 billion. The reduction reflects adjustments to the Sandy program to match funding and administrative scope transfers for projects in the Core program. On July 31, 2017, the amended program as submitted was deemed approved by the CPRB. Reallocation between programs, subsequent to the amendments resulted in the overall plan totaling \$32.0 billion, of which the Authority's share is \$17.1 billion.

The combined funding sources for the 2010-2014 Capital Program are comprised of \$11.8 billion in MTA bonds, \$7.3 billion in federal funds, \$2.0 billion in Bridges and Tunnels dedicated funds, \$0.1 billion in MTA Bus Federal and City Match, \$0.8 billion in State Assistance, \$0.7 billion in City Capital Funds, and \$1.8 billion from other sources. The funding strategy for Tropical Storm Sandy repair and restoration assumes the receipt of \$6.3 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 \$1.0 billion in additional MTA and MTA Bridges and Tunnels bonds.

At December 31, 2017, \$13.7 billion has been encumbered to Authority projects from the 2010-2014 approved plan, of which approximately \$10.0 billion has been expended.

2015-2019 Capital Program — the 2015-2019 Capital Program totaling \$32.0 billion was approved by the MTA Board in September 2014. The program totaling approximately \$29.0 billion was subsequently submitted to the CPRB for their review and was vetoed without prejudice by the Review Board in October 2014. On October 28, 2015, the MTA Board approved a revised 2015-2019 capital program totaling \$26.1 billion. The revised 2015-2019 MTA Bridges and Tunnels Capital Program totaling \$2.9 billion was approved by the MTA Board in October 2015 and was not subject to CPRB approval. On April 20, 2016, the MTA Board approved a further revised 2015-2019 capital program totaling \$29.5 billion, of which \$26.6 billion was subsequently approved by the CPRB on May 23, 2016 (The MTA Bridges and Tunnels 2015-2019 Capital Program totaling \$2.9 billion is not subject to CPRB approval.). The Authority's share of the approved 2015-2019 capital program was \$15.8 billion. On February 23, 2017, the MA Board approved an amendment to add three station investment projects to the NYCT and LIRR portions of the Capital Program resulting in a net increase of \$0.1 billion transferred from prior capital programs. On May 24, 2017, the MTA Board approved further amendment, adding \$2.9 billion to the 2015-2019 Capital Program reflecting increasing support for new priority projects, new funding for Second Avenue Subway Phase 2, and administrative scope transfers. The amended Capital

Program, as submitted, was deemed approved by the CPRB on July 31, 2017. On December, 13, 2017, the MTA Board approved an amendment to the Capital Program, adding \$0.349 billion to incorporate the NYC Subway Action Plan. The Authority's share of the amended 2015-2019 capital program totaling \$32.8 billion is \$16.7 billion.

In the 2015-2019 Capital Program, NYC Transit continues normal replacement of key assets like rolling stock and mainline track/switches while also emphasizing overdue investments in signals and other infrastructure. Stations continue to be an important focus of investment given the importance of the station environment to NYC Transit's customers and their communities. Core infrastructure investments include: modernization of six interlockings; the purchase of 950 railcars to replace railcars reaching the end of their useful lives; 1,391 new buses, including 1,041 standard, 300 articulated and 50 express buses; replacement of approximately 51 miles of mainline track and 127 mainline switches; communications improvements and improvements to shops, yards, and depots; ADA accessibility improvements; completion of the new fare payment system; elimination of station defects; substantial access and circulation improvements at the Grand Central Times Square stations.

The combined funding sources for the 2015-2019 Capital Program are comprised of \$7.9 billion in MTA Bonds, \$2.9 billion in MTA Bridges and Tunnels dedicated funds, \$8.5 billion in funding from the State of New York, \$7.6 billion in Federal Funds, \$2.5 billion from City Capital Funds, \$2.3 billion in pay-as-you-go (PAYGO) capital, and \$1.2 billion from Other Sources.

At December 31, 2017, \$5.6 billion has been encumbered to Authority projects from the 2015-2019 approved plan, of which approximately \$1.8 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.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Going forward, the Authority's February 2018 Financial Plan includes certain risks such as:

- Successful implementation of Subway Action Plan
- Biennial fare increases approximating inflation
- Achieving efficiencies/consolidations
- Chronic looming cost issues such as workers compensation and public liability claims, and health care costs, including the "Cadillac Tax" of which the implementation has been delayed to 2020.

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NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016
(In thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016
CURRENT ASSETS:		
Cash (Note 3)	\$ 55,891	\$ 61,177
MTA investment pool (Note 4)	308,060	310,675
Receivables:		
Billed and unbilled charges due from New York City	16,140	17,270
Accrued subsidies	45,709	96,040
Due from MTA and constituent Authorities (Note 9)	528,925	641,017
Other	140,153	108,877
Less allowance for doubtful accounts	<u>(10,041)</u>	<u>(9,857)</u>
Net receivables	720,886	853,347
Materials and supplies	291,773	274,402
Prepaid expenses and other current assets	<u>46,397</u>	<u>44,741</u>
Total current assets	<u>1,423,007</u>	<u>1,544,342</u>
NONCURRENT ASSETS:		
Due from MTA for the purchase of capital assets	1,046,693	1,172,325
Capital assets (Note 5):		
Construction work-in-progress	4,313,546	4,984,843
Other capital assets, net of accumulated depreciation	36,833,976	34,817,683
Leased property under capital lease, net of accumulated amortization (Note 5)	69,073	71,485
Leasehold improvements on property, net of accumulated depreciation (Note 5)	99,808	103,033
Restricted deposits and other escrow funds	<u>796</u>	<u>491</u>
Total assets	<u>43,786,899</u>	<u>42,694,202</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Related to pensions (Note 6)	<u>1,017,872</u>	<u>1,402,174</u>
Total deferred outflows of resources	<u>1,017,872</u>	<u>1,402,174</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 44,804,771</u>	<u>\$ 44,096,376</u>

See notes to consolidated financial statements.

(Continued)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 188,654	\$ 168,137
Accrued expenses:		
Salaries, wages, and payroll taxes	153,588	123,196
Vacation, sick pay, and other benefits	741,307	675,314
Retirement and death benefits	11,812	11,635
Estimated liability arising from injuries to persons (Note 14)	278,243	260,810
Pollution remediation projects (Note 15)	6,485	7,628
Other	<u>149,829</u>	<u>133,261</u>
Total accrued expenses	1,341,264	1,211,844
Unredeemed farecards	293,737	293,032
Unearned subsidy revenue	43,802	36,888
Paratransit reimbursement advances	-	310
Loans Payable (Note 8)	<u>8,140</u>	<u>-</u>
Total current liabilities	<u>1,875,597</u>	<u>1,710,211</u>
NONCURRENT LIABILITIES:		
Obligation under capital lease, long-term (Note 5)	172,612	168,532
Net pension liability (Note 6)	5,713,213	6,500,128
Postemployment benefits other than pensions (Note 7)	12,897,429	11,794,843
Estimated liability arising from injuries to persons (Note 14)	2,521,141	2,246,134
Loans Payable (Note 8)	58,683	-
Pollution remediation projects (Note 15)	25,940	30,512
Restricted deposits and other escrow funds	<u>796</u>	<u>491</u>
Total liabilities	<u>23,265,411</u>	<u>22,450,851</u>
DEFERRED INFLOWS OF RESOURCES:		
Related to pensions (Note 6)	<u>391,559</u>	<u>210,151</u>
Total deferred inflows of resources	<u>391,559</u>	<u>210,151</u>
NET POSITION:		
Net investment in capital assets	41,143,791	39,808,512
Unrestricted	<u>(19,995,990)</u>	<u>(18,373,138)</u>
Total net position	<u>21,147,801</u>	<u>21,435,374</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 44,804,771</u>	<u>\$ 44,096,376</u>

See notes to consolidated financial statements.

(Concluded)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
OPERATING REVENUES:		
Rapid transit	\$ 3,441,124	\$ 3,351,083
Surface transit	952,363	966,344
Expired fare media	75,743	79,993
Paratransit fares	17,526	17,620
School, elderly, and paratransit reimbursement	248,356	262,893
Advertising and other (Note 10)	<u>176,522</u>	<u>181,014</u>
 Total operating revenues	 <u>4,911,634</u>	 <u>4,858,947</u>
OPERATING EXPENSES:		
Salaries and wages	3,900,763	3,632,435
Health and welfare	860,115	829,974
Pensions	705,581	800,387
Other fringe benefits	409,671	591,545
Reimbursed overhead expenses	(304,409)	(262,840)
Postemployment benefits other than pensions	1,516,299	1,613,258
Electric power	265,304	250,256
Fuel	95,440	78,076
Insurance	72,101	73,427
Public liability claims	278,671	251,372
Paratransit service contracts	392,849	383,704
Maintenance and other operating expenses (Note 12)	245,875	222,509
Professional service contracts	172,184	134,344
Environmental remediation	8,537	9,662
Materials and supplies	319,469	311,856
Depreciation	1,681,857	1,650,337
Other expenses (Note 11)	<u>82,909</u>	<u>79,921</u>
 Total operating expenses	 <u>10,703,216</u>	 <u>10,650,223</u>
 OPERATING LOSS	 <u>(5,791,582)</u>	 <u>(5,791,276)</u>

See notes to consolidated financial statements.

(Continued)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
NONOPERATING REVENUES:		
Tax-supported subsidies:		
New York State (Note 2)	\$ 2,493,630	\$ 2,587,022
New York City	539,133	771,476
Operating Assistance subsidies:		
New York State	158,672	158,672
New York City	158,672	158,672
Triborough Bridge and Tunnel Authority	310,367	312,901
Less amounts provided to Staten Island Rapid Transit Operating Authority	<u>(5,190)</u>	<u>(5,190)</u>
Total subsidies revenues	3,655,284	3,983,553
Interest expense	(15,999)	(20,123)
Interest income and other nonoperating revenues	<u>5,023</u>	<u>2,670</u>
Total nonoperating income	<u>3,644,308</u>	<u>3,966,100</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(2,147,274)	(1,825,176)
CAPITAL CONTRIBUTIONS (Note 2)	<u>1,859,701</u>	<u>1,918,584</u>
CHANGE IN NET POSITION	(287,573)	93,408
NET POSITION:		
Beginning of year	<u>21,435,374</u>	<u>21,341,966</u>
End of year	<u>\$ 21,147,801</u>	<u>\$ 21,435,374</u>
See notes to consolidated financial statements.		(Concluded)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passengers, tenants, advertisers, and others	\$ 4,900,586	\$ 4,844,018
Cash payments for payroll and related employee costs	(6,021,359)	(5,876,103)
Cash payments to suppliers for goods and services	<u>(1,713,868)</u>	<u>(1,596,586)</u>
Net cash used in operating activities	<u>(2,834,641)</u>	<u>(2,628,671)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies received	3,708,896	4,011,536
Advance from MTA Bus	<u>22,948</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>3,731,844</u>	<u>4,011,536</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments	(8,241)	(7,457)
Interest paid	(3,252)	(8,625)
Payments on MTA Transportation bonds issued to fund capital assets	(1,230,718)	(1,172,722)
Subsidies designated for debt service payments	320,910	294,932
Capital project costs incurred for capital program	(1,184,004)	(1,027,317)
Cash transferred to capital program fund	(1,344)	(565,920)
Reimbursement of capital project costs from MTA	<u>1,198,007</u>	<u>891,176</u>
Net cash used in capital and related financing activities	<u>(908,642)</u>	<u>(1,595,933)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in MTA investment pool	2,615	210,285
Interest on investments	<u>3,538</u>	<u>1,747</u>
Net cash provided by investing activities	<u>6,153</u>	<u>212,032</u>
NET (DECREASE) INCREASE IN CASH	(5,286)	(1,036)
CASH — Beginning of year	<u>61,177</u>	<u>62,213</u>
CASH — End of year	<u>\$ 55,891</u>	<u>\$ 61,177</u>

See notes to consolidated financial statements.

(Continued)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (5,791,582)	\$ (5,791,276)
Adjustments to reconcile operating loss to net cash used in operating activities — depreciation	1,681,857	1,650,337
On-behalf payments related to rent (Note 5)	4,138	-
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Increase in operating receivables	(11,753)	(13,571)
(Increase) decrease in prepaid expenses and other current assets	(1,656)	355
(Increase) decrease in materials and supplies	(17,371)	17,330
Decrease (increase) in deferred outflows of resources	384,302	(875,047)
Increase (decrease) increase in farecard liability	705	(1,358)
Increase (decrease) in accrued salaries, wages and payroll taxes	30,392	(14,136)
Increase in accounts payable and other accrued liabilities	36,353	52,187
Increase in accrued vacation, sick pay and other benefits	65,993	19,813
Increase in accrued retirement and death benefits	177	1
(Decrease) increase in net pension liability	(786,915)	904,072
Increase (decrease) in deferred inflows of resources	181,408	(212,843)
Increase in postemployment benefits other than pensions	1,102,586	1,192,543
Increase in estimated liability arising from injuries to persons	292,440	446,511
Decrease in liability for environmental pollution remediation	(5,715)	(3,589)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (2,834,641)</u>	<u>\$ (2,628,671)</u>
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES — Contributed capital assets		
	<u>\$ 1,437,471</u>	<u>\$ 1,570,261</u>
See notes to consolidated financial statements.		(Concluded)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(\$ in thousands, except as noted)

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 component unit, the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) (collectively, the Authority), which are public benefit corporations and component units of the Metropolitan Transportation Authority (MTA) 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).

The Authority is operationally and legally independent of the MTA. The Authority enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, the Authority is included in the MTA's consolidated financial statements as a blended component unit because of the MTA's financial accountability and the Authority is under the direction of the MTA Board (a reference to "MTA Board" means the board of MTA and/or the boards of the Authority and other MTA component units 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 the Authority in its consolidated financial statements.

MaBSTOA is a component unit 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.

MaBSTOA is operationally and legally independent of the Authority. MaBSTOA enjoy certain rights typically associated with separate legal status. However, MaBSTOA is included in the Authority's consolidated financial statements as a blended component unit because of the Authority's financial accountability.

The Authority has material transactions with affiliated agencies included in the 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 consolidated 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, 2017.

Staten Island Rapid Transit Operating Authority — The Staten Island Rapid Transit Operating Authority (SIRTOA) is a component unit 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. 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 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 Adopted

The Authority adopted the following GASB Statements for the year ended December 31, 2017:

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 67, and Amendments to Certain Provisions of GASB Statements 67 and 68* establishes requirements for defined benefit pension plans and defined contribution plans that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 73 extends the approach to accounting and financial reporting established in GASB Statement No. 68 to all pensions to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB Statement No. 68, should not be considered pension plan assets. It also requires that information similar to that required by GASB Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on the Authority's financial statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* establishes accounting and financial reporting standards for state and local governmental other postemployment benefit ("OPEB") plans. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and GASB Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on the Authority's financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units* establishes an additional blending requirement for the financial statement presentation of component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement had no impact on the Authority's financial statements. No additional disclosures are required.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* establishes accounting and financial reporting standards for split-interest agreements, which are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. The Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement by requiring the government to recognize assets, liabilities, and deferred inflows of resources

at the inception of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The adoption of this Statement had no impact on the Authority's financial statements, as the Authority does not enter into such agreements.

GASB Statement No. 82, *Pension Issues: An Amendment of GASB Statements No. 67, No. 68 and No. 73* addresses certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement adjusted the presentation of payroll-related measures in the required supplementary information, but did not have an impact on the Authority's financial statements.

GASB has issued the following pronouncements that may affect the future financial position, results of operations, cash flows, or financial presentation of the Authority upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	Authority Required Year of Adoption
75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pension</i>	2018
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment Issues</i>	2018
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements</i>	2019

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.
- 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, 2017 and 2016, \$262.2 million and \$261.8 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 2017 and 2016.

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 2017 and 2016 is as follows (in thousands):

	<u>Accrued Revenue</u>	
	<u>2017</u>	<u>2016</u>
Petroleum business tax*	\$ 194,242	\$ 240,250
Metro mass tax	1,124,265	1,124,265
Payroll Mobility tax	<u>1,175,123</u>	<u>1,222,507</u>
	<u>\$2,493,630</u>	<u>\$2,587,022</u>

* Net of \$320,910 and \$294,932 for debt service payments in 2017 and 2016, 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 \$181.9 million in 2017 and \$196.5 million in 2016. Total paratransit expenses, including paratransit service contracts, were \$474.7 million and \$467.0 million in 2017 and 2016, 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 2017 and 2016, 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 its \$45 million reimbursement to \$6.3 million. Beginning in 2010, the State increased its 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 2016 and 2017. For the year ended December 31, 2017, the Authority collected \$70.3 million from the State and The City, with \$30.0 million relating to The City prepayment for the year 2018.

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 \$7.6 million and \$4.1 million in 2017 and 2016, 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. The Authority categorizes its fair value measurement within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Authority's investment in the MTA Investment Pool is valued based on other observable inputs (Level 2 inputs).

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 \$23.8 million to the New York Health Insurance Plan (NYSHIP) and \$22.6 million in risk management related insurance coverage during 2017. The Authority prepaid \$22.1 million to the New York Health Insurance Plan (NYSHIP) and \$22.6 million in risk management related insurance coverage during 2016.

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, 2017 and 2016, consist of the following (in thousands):

	2017	2016
Capital assets contributed by MTA from:		
Federal grants	\$ 1,152,343	\$ 977,036
Other than federal grants	1,484,686	1,614,871
Petroleum business taxes received for principal and interest payments on debt	320,910	294,932
Principal and interest payments on MTA Transportation bonds issued to fund capital assets	(884,094)	(860,613)
Decrease in funds due from MTA for purchase of capital assets	<u>(214,144)</u>	<u>(107,642)</u>
Total capital contributions	<u>\$ 1,859,701</u>	<u>\$ 1,918,584</u>

Passenger Revenue — Revenues from the sale of farecards are recognized as income as the farecards are used and are reported as operating income. Expired fare media revenue is recognized on the date of the expiration on the farecard.

Materials and Supplies — Materials and supplies are recorded at weighted average cost, net of a reserve for obsolescence.

Employee Benefits — Effective for the year-ended December 31, 2015, the Authority adopted the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plans.

The Authority recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the Authority's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the pension plans' measurement dates. Changes in the net pension liability during the year are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the year incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the year in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

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 Transport Workers Union (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 Amalgamated Transit Union (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 \$131.3 million and \$95.2 million as of December 31, 2017 and 2016, 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 15). 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

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. Cash, including funds on hand and in transit, consists of the following at December 31, 2017 and 2016 (in thousands):

	2017		2016	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured and collateralized deposits	\$ 17,643	\$ 17,434	\$ 22,415	\$ 10,649
Less escrow and other restricted deposits	(1,027)	(1,042)	(666)	(657)
Commercially insured funds on-hand and in-transit	<u>39,275</u>	<u>-</u>	<u>39,428</u>	<u>-</u>
	<u>\$ 55,891</u>	<u>\$ 16,392</u>	<u>\$ 61,177</u>	<u>\$ 9,992</u>

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.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover the value of its deposits. While the Authority does not have a formal deposit policy for custodial credit risk, New York State statutes govern the Authority's investment policies.

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. The Authority's earnings from short-term investments approximated \$3.6 million and \$1.9 million for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Authority had an investment pool balance of \$308.1 million and \$310.7 million, respectively.

5. CAPITAL ASSETS

Capital assets, at December 31, 2017 and 2016, consist of the following (in thousands):

	December 2016	Additions / Reclassifications	Deletions / Reclassifications	December 2017
Capital assets not being depreciated:				
Construction work-in-progress	\$ 4,984,843	\$ 2,986,218	\$ (3,657,515)	\$ 4,313,546
Total capital assets not being depreciated	<u>4,984,843</u>	<u>2,986,218</u>	<u>(3,657,515)</u>	<u>4,313,546</u>
Capital assets being depreciated:				
Subway cars	9,524,564	(6,463)	-	9,518,101
Buses	2,809,628	208,965	(38,201)	2,980,392
Track and structures	12,313,795	752,512	-	13,066,307
Depots and yards	4,490,853	136,087	-	4,626,940
Stations	16,813,226	1,970,469	-	18,783,695
Signals	6,185,649	497,231	-	6,682,880
Service vehicles	362,829	18,764	-	381,593
Building	166,733	-	-	166,733
Other	2,452,076	114,950	(2,716)	2,564,310
Total capital asset being depreciated	<u>55,119,353</u>	<u>3,692,515</u>	<u>(40,917)</u>	<u>58,770,951</u>
Less accumulated depreciation:				
Subway cars	(4,435,198)	(244,514)	-	(4,679,712)
Buses	(1,619,249)	(168,158)	38,201	(1,749,206)
Track and structures	(4,390,174)	(312,864)	-	(4,703,038)
Depots and yards	(1,933,511)	(125,980)	-	(2,059,491)
Stations	(4,576,647)	(504,719)	-	(5,081,366)
Signals	(1,697,108)	(207,361)	-	(1,904,469)
Service vehicles	(148,811)	(15,924)	-	(164,735)
Building	(82,877)	(3,308)	-	(86,185)
Other	(1,418,095)	(93,394)	2,716	(1,508,773)
Total accumulated depreciation	<u>(20,301,670)</u>	<u>(1,676,222)</u>	<u>40,917</u>	<u>(21,936,975)</u>
Total capital assets being depreciated—net	<u>34,817,683</u>	<u>2,016,293</u>	<u>-</u>	<u>36,833,976</u>
Capital assets—net	<u>\$ 39,802,526</u>	<u>\$ 5,002,511</u>	<u>\$ (3,657,515)</u>	<u>\$ 41,147,522</u>

	December 2015	Additions / Reclassifications	Deletions / Reclassifications	December 2016
Capital assets not being depreciated:				
Construction work-in-progress	\$ 3,483,815	\$ 2,838,529	\$ (1,337,501)	\$ 4,984,843
Total capital assets not being depreciated	<u>3,483,815</u>	<u>2,838,529</u>	<u>(1,337,501)</u>	<u>4,984,843</u>
Capital assets being depreciated:				
Subway cars	9,439,508	85,056	-	9,524,564
Buses	2,649,356	160,272	-	2,809,628
Track and structures	12,319,503	(5,708)	-	12,313,795
Depots and yards	4,402,751	88,102	-	4,490,853
Stations	16,449,027	364,199	-	16,813,226
Signals	5,788,544	397,105	-	6,185,649
Service vehicles	346,957	15,872	-	362,829
Building	166,733	-	-	166,733
Other	2,185,269	267,604	(797)	2,452,076
Total capital asset being depreciated	<u>53,747,648</u>	<u>1,372,502</u>	<u>(797)</u>	<u>55,119,353</u>
Less accumulated depreciation:				
Subway cars	(4,177,275)	(257,923)	-	(4,435,198)
Buses	(1,447,608)	(171,641)	-	(1,619,249)
Track and structures	(4,101,037)	(289,137)	-	(4,390,174)
Depots and yards	(1,807,878)	(125,633)	-	(1,933,511)
Stations	(4,095,848)	(480,799)	-	(4,576,647)
Signals	(1,529,311)	(167,797)	-	(1,697,108)
Service vehicles	(133,872)	(14,939)	-	(148,811)
Building	(79,568)	(3,309)	-	(82,877)
Other	(1,285,369)	(133,523)	797	(1,418,095)
Total accumulated depreciation	<u>(18,657,766)</u>	<u>(1,644,701)</u>	<u>797</u>	<u>(20,301,670)</u>
Total capital assets being depreciated—net	<u>35,089,882</u>	<u>(272,199)</u>	<u>-</u>	<u>34,817,683</u>
Capital assets—net	<u>\$ 38,573,697</u>	<u>\$ 2,566,330</u>	<u>\$ (1,337,501)</u>	<u>\$ 39,802,526</u>

Capitalized interest totaled \$9.6 million and \$5.7 million in 2017 and 2016, 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 2017 and 2016.

Lease Transaction — 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 sublessee, will rent, an office building 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 \$1.1 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, 2017, for the Authority, TBTA and MTA (including MTA Bus, MTA Capital Construction Company and MTA Business Service

Center) were 57.8%, 7.5% and 34.7%, 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. The Authority reflected capital lease obligation as of December 31, 2017 and 2016 of \$172,612 and \$168,532, respectively. Operating rent expenses under the Authority's lease amounted to \$7.5 million in 2017 and 2016.

MTA pays the lease payments on behalf of the Authority and subsequently makes monthly chargebacks in the form of rental payments. During 2017, the total of the rental payments charged to the Authority was \$4,138 less than the lease payment made by MTA on behalf of the Authority.

At December 31, 2017, future minimum lease payments under the Authority's lease are as follows (in thousands):

Years Ending December 31	Operating	Capital
2018	\$ 7,452	\$ 11,714
2019	7,452	13,543
2020	7,452	13,543
2021	7,452	13,543
2022	7,452	13,543
2023–2027	37,260	75,611
2028–2032	37,260	94,014
2033–2037	37,260	112,776
2038–2042	37,260	126,390
2043–2047	37,260	139,624
2048	<u>3,723</u>	<u>14,230</u>
Total minimum lease payments	227,283	628,531
Less interest		<u>(455,919)</u>
Present value of net minimum lease payments		<u>\$ 172,612</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, 2017 and 2016, is as follows (in thousands):

	2017	2016
Capital lease — building	\$ 114,489	\$ 114,489
Less accumulated amortization	<u>(45,416)</u>	<u>(43,004)</u>
Capital lease — building — net	<u>\$ 69,073</u>	<u>\$ 71,485</u>

The amount of such improvements apportioned to the Authority as of December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
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>(208,188)</u>	<u>(204,963)</u>
Total leasehold improvements	<u>\$ 99,808</u>	<u>\$ 103,033</u>

6. EMPLOYEE BENEFITS

Pensions — The Authority participates in two defined benefit pension plans for their employees, the Manhattan and Bronx Surface Transit Operating Authority Pension Plan (MaBSTOA) and New York City Employees' Retirement System (NYCERS). A brief description of each of the pension plans follows:

Plan Descriptions

MaBSTOA — The MaBSTOA Plan is a single-employer governmental retirement plan, administered by MTA New York City Transit. MaBSTOA employees are specifically excluded from NYCERS. Effective January 1, 1999, in order to afford managerial and nonrepresented MaBSTOA employees the same pension rights as like title employees in the New York City Transit Authority, membership in the MaBSTOA Plan is optional. The Plan provides retirement as well as death, accident, and disability benefits.

The Board of Administration, established in 1963, determines eligibility of employees and beneficiaries for retirement and death benefits. Article 12.08 of the MaBSTOA plan assigns authority to the MaBSTOA Board to establish and amend benefit provisions. The Board is composed of five members: two representatives from the Transport Workers Union, Local 100 (TWU) and three employer representatives.

The pension plan issues a publicly available financial report that includes financial statements and required supplementary information regarding the employee benefit plan. The report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, 2 Broadway, 10th Floor, New York, New York, 10004 or at www.mta.info.

NYCERS — The NYCERS Plan is a cost-sharing, multiple-employer retirement system for employees of The City of New York (The City) and certain other governmental units whose employees are not otherwise members of The City's four other pension systems. NYCERS administers the New York City Employees Retirement System qualified pension plan.

NYCERS was established by an act of the Legislature of the State of New York under Chapter 427 of the Laws of 1920. NYCERS functions in accordance with the governing statutes contained in the New York State Retirement and Social Security Law (RSSL), and the New York City Administrative Code, which are the basis by which benefit terms and employer and member contribution requirements are established and amended. The head of the retirement system is the Board of Trustees.

NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the New York City Employees' Retirement System at 335 Adams Street, Suite 2300, Brooklyn, NY 11201-3724 or at www.nycers.org.

All employees holding permanent civil service positions in the competitive or labor class are required to become members of the NYCERS six months after their date of appointment, but may voluntarily elect to join the NYCERS prior to their mandated membership date. All other eligible employees have the option of joining the NYCERS upon appointment or anytime thereafter. NYCERS members are assigned to a "tier" depending on the date of their membership.

- Tier 1 All members who joined prior to July 1, 1973.
- Tier 2 All members who joined on or after July 1, 1973 and before July 27, 1976.
- Tier 3 Only certain members who joined on or after July 27, 1976 and prior to April 1, 2012.
- Tier 4 All members (with certain member exceptions) who joined on or after July 27, 1976 but prior to April 1, 2012. Members who joined on or after July 27, 1976 but prior to September 1, 1983 retain all rights and benefits of Tier 3 membership.
- Tier 6 Members who joined on or after April 1, 2012.

Benefits Provided

MaBSTOA — MaBSTOA provides retirement, disability, death, and accident benefits to plan members and beneficiaries. The benefits provided by the Plan are generally similar to the benefits provided to participants in NYCERS. Benefits vest after either 5, 10, or 20 years of credited service, depending on the date of employment.

In 2008, NYCERS has determined that Tier 4 employees are and have been eligible for a post retirement death benefit retroactive to 1986. In June 2012, the MTA Board approved an amendment to the MaBSTOA Plan to provide for incorporation of this benefit.

Tier 1 —

Eligibility and Benefit Calculation: Tier 1 members must be at least age 50 with the completion of 20 years of service to be eligible to collect a service retirement benefit. Generally, the benefit is 1.50% for service before March 1, 1962, plus 2.0% for service from March 1, 1962 to June 30, 1970, plus 2.5% for service after June 30, 1970. The accumulated percentage, up to a maximum of 50%, is multiplied by the member's compensation, which is the greater of earned salary during the year prior to retirement. Once the accumulated reaches 50%, the percentage for each further year of service reverts back to 1.5%. The percentage in excess of 50% is multiplied by the final compensation, which is the highest average earnings over five consecutive years.

Ordinary Disability Benefits — Generally, ordinary disability benefits, are provided to eligible Tier 1 members after ten years of service with the benefit equal to the greater of the service retirement percentages or 25% multiplied by final compensation.

Accidental Disability Benefits — The accidental disability benefit to eligible Tier 1 members is equal to 75% of final compensation reduced by 100% of any worker's compensation payments.

Ordinary Death Benefits — Tier 1 members requires the completion of six months of service but completion of twenty years of service is required to receive a lump sum equal to the present value of the retirement benefit.

Tier 2 —

Eligibility and Benefit Calculation: Tier 2 members must be at least age 55 with the completion of 25 years of service to be eligible to collect a service retirement benefit. Generally, the benefit equals 50% of final 3-year average compensation, defined as the highest average earnings over three consecutive years, plus 1% of final 5-year average compensation, defined as the highest average earnings over five consecutive years, per year of credited service in excess of 20 years. For early retirement, members must be at least age 50 with the completion of at least 20 years of service. The benefit is determined in the same manner as the service retirement but not greater than 2.0% of final 3-year average compensation per year of service.

Ordinary Disability Benefits — Generally, ordinary disability benefits, are provided to eligible Tier 2 members after ten years of service with the benefit equal to the greater of the service retirement percentages or 25% multiplied by the final 5- year average compensation.

Accidental Disability Benefits — The accidental disability benefit to eligible Tier 2 members is equal to 75% of the final 5-year average compensation reduced by any worker's compensation payments.

Ordinary Death Benefits — Tier 2 members require the completion of 90 days of service to receive a lump sum equal to 3 times salary, raised to the next multiple of \$1,000.

Tiers 3 and 4 —

Eligibility and Benefit Calculation: Tier 3 and 4 members in the Regular 62 and 5 Plan must be at least age 62 with the completion of at least 5 years of service to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 2.0% of Final Average Salary (FAS) for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. FAS is defined as the highest average earnings over three consecutive years, of which earnings in a year cannot exceed 110% of the average of the two preceding years. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. For early retirement, members must be at least age 55 with the completion of at least 5 years of service. The benefit equals the service retirement benefit reduced by 6% for each of the first two years prior to age 62, and by 3% for years prior to age 60.

Tier 3 and 4 members in the Regular 55 and 25 Plan must be at least age 55 with the completion of at least 25 years of service, or be at least age 62 with the completion of at least 5 years of service, to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 25 years of service, is equal to 2.0% of FAS for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 25 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service.

Tier 4 members in the 57 & 5 Plan must be at least age 57 with the completion of at least 5 years of service to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 2.0% of FAS for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service.

Ordinary and Accidental Disability Benefits — For eligible members of the Regular 62 and 5 Plan, 55 and 25 Plan and 57 and 5 Plan, ordinary and accidental disability benefits, are provided after 10 years of service for ordinary and no service required for accidental. The benefit equals the greater of 1-2/3% of FAS per year of service and 1/3 of FAS.

Ordinary Death Benefits — For eligible members of the Regular 62 and 5 Plan, 55 and 25 Plan, 57 and 5 Plan, the pre-retirement ordinary death benefit is equal to a lump sum of annual salary times the lesser of completed years of service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable. Upon retirement, the post-retirement benefit is reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

Tier 6 —

Eligibility and Benefit Calculation: Tier 6 members in the 55 and 25 Special Plan must be at least age 55 with the completion of at least 25 years, or at least age 63 with the completion of at least 10 years of service, to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 25 years of service, is equal to 2.0% of FAS for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. FAS is defined as the highest average pensionable earnings over five consecutive years.

Tier 6 members in the Basic 63 and 10 Plan must be at least age 63 with the completion of at least 10 years to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 35% of FAS plus 2.0% of FAS for years of service in excess of 20. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. FAS is defined as the highest average pensionable earnings over five consecutive years. For early retirement, members must be at least age 55 with the completion of at least 10 years of service. The benefit equals the service retirement benefit reduced by 6.5% for each year prior to age 63.

Ordinary and Accidental Disability Benefits — For eligible members of the 55 and 25 Special Plan and the Basic 63 and 10 Plan, ordinary and accidental disability benefits, are provided after 10 years of service for ordinary and no service required for accidental. The benefit equals the greater of 1-2/3% of FAS per year of service and 1/3 of FAS.

Ordinary Death Benefits — For eligible members of the 55 and 25 Special Plan and the Basic 63 and 10 Plan, the pre-retirement ordinary death benefit is equal to a lump sum of annual salary times the lesser of completed years of service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable. Upon retirement, the post-retirement benefit is reduced by 50% and reduced an additional 25% after completion of one year of retirement.

After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

NYCERS — NYCERS provides three main types of retirement benefits: Service Retirements, Ordinary Disability Retirements (non-job-related disabilities) and Accident Disability Retirements (job-related disabilities) to participants generally based on salary, length of service, and member Tiers.

The Service Retirement benefits provided to Tier 1 participants fall into four categories according to the level of benefits provided and the years of service required. Three of the four categories provide annual benefits of 50% to 55% of final salary after 20 or 25 years of service, with additional benefits equal to a specified percentage per year of service (currently 1.2% to 1.7%) of final salary. The fourth category has no minimum service requirement and instead provides an annual benefit for each year of service equal to a specified percentage (currently 0.7% to 1.53%) of final salary.

Tier 2 participants have provisions similar to Tier 1, except that the eligibility for retirement and the salary base for benefits are different and there is a limitation on the maximum benefit.

Tier 3 participants were later mandated into Tier 4, but could retain their Tier 3 rights. The benefits for Tier 3 participants are reduced by one half of the primary Social Security benefit attributable to service, and provides for an automatic annual cost-of-living escalator in pension benefits of not more than 3.0%.

During March 2012, the Governor signed Chapter 18 of the Laws of 2012 that placed certain limitations on the Tier 3 and Tier 4 benefits available to participants who joined on and after April 1, 2012. In general, these changes, commonly referred to as Tier 6, increase the age requirement to 63 for most non-uniformed employees to retire and receive a full pension, require member contributions for all years of service for non-uniformed employees, institute progressive member contributions for non-uniformed employees, and lengthen the final average salary period from 3 to 5 years.

NYCERS provides automatic Cost-of-Living Adjustments (COLA), death benefits, accident, disability retirement benefits, and other supplemental pension benefits to certain retirees and beneficiaries. Members become fully vested as to benefits upon the completion of 5 years of service.

The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired. In 1973, 1976, 1983 and 2012, significant amendments made to the State Retirement and Social Security Law (RSSL) modified certain benefits for employees joining the Plan on or after the effective date of such amendments, creating membership tiers.

Membership

Membership in the MaBSTOA pension plan consisted of the following at January 1, 2016 and 2015, the date of the latest actuarial valuations:

	<u>2016</u>	<u>2015</u>
Active Plan Members	8,515	8,122
Retirees and beneficiaries receiving benefits	5,468	5,394
Vested formerly active members not yet receiving benefits	<u>1,100</u>	<u>1,054</u>
Total	<u>15,083</u>	<u>14,570</u>

Contributions and Funding Policy

MaBSTOA — The contribution requirements of plan members are established, approved and may be amended only by the MaBSTOA Board, in accordance with the Articles of the MaBSTOA plan. The financial objective of the Plan is to fund, on an actuarial basis, the retirement and death benefits for eligible MaBSTOA employees and beneficiaries. The Plan's funding policy is for periodic employer contributions to provide for actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. MaBSTOA contributions to the fund are made annually.

The MaBSTOA Pension Plan includes the following plans: (i.) the Tier 3 and 4 Transit Age 62 Plan; (ii.) the Tier 6 Age 63 Plan; (iii.) the 55/25 Plan; (iv.) the Tier 4 25 Year Early Retirement Plan; (v.) the Tier 4 Age 57 Plan, and (vi.) the 2000 amendments which are all under the same terms and conditions as NYCERS.

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).

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 are subject to the provisions of Tier 6. The highlights of Tier 6 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 increases 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 3 and Tier 4.
- Adjustments of the Pension Multiplier for calculating pension benefits (excluding Transit Operating Employees): the multiplier will be 1.75% for the first 20 years of service, and 2% starting in the 21st year; for an employee who works 30 years, their pension will be 55% of FAS under Tier 6, instead of 60% percent under Tier 4.
- Adjustments to the 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 6 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 Section 7.03 of the MaBSTOA Plan, active plan members are permitted to borrow up to 75% of their contributions with interest. Their total contributions and interest remain intact and interest continues to accrue on the full balance. The participant's accumulated contribution account is used as collateral against the loan.

Upon termination of employment before retirement, certain participants are entitled to refunds of their own contributions including accumulated interest less any loans outstanding.

Contributions as a percent of covered payroll are 27.0% and 30.8% for the year ended December 31, 2017 and 2016, respectively. The Authority's contributions to the MaBSTOA plan amounted to \$202.7 million and \$220.7 million for the year ended December 31, 2017 and 2016, respectively.

NYCERS — NYCERS funding policy is to contribute statutorily-required contributions (Statutory Contributions), determined by the Chief Actuary for the New York City Retirement System, in accordance with State statutes and City laws, and are generally funded by employers within the appropriate Fiscal Year. The Statutory Contributions are determined under the One-Year Lag Methodology (OYLM). Under OYLM, the actuarial valuation date is used for calculating the Employer Contributions for the second following Fiscal Year. Statutory Contributions are determined annually to be an amount that, together with member contributions and investment income, provides for NYCERS' assets to be sufficient to pay benefits when due.

Member contributions are established by law. NYCERS has both contributory and noncontributory requirements, with retirement age varying from 55 to 70 depending upon when an employee last entered qualifying service.

In general, Tier 1 and Tier 2 member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tier 3 and Tier 4 members make basic contributions of 3.0% of salary, regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees enrolled in the Transit 20-Year Plan, are not required to make basic contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. 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. Effective December 2000, certain Transit Authority Tier 3 and Tier 4 members make basic member contributions of 2.0% of salary, in accordance with Chapter 10 of the Laws of 2000. Certain Tier 2, Tier 3 and Tier 4 members who are participants in special retirement plans are required to make additional member contributions of 1.85%, in addition to their base membership contribution. Tier 6 members are mandated to contribute between 3.0% and 6.0% of salary, depending on salary level, until they separate from City service or until they retire.

The Authority is required to contribute at an actuarially determined rate. Contributions as percent of covered payroll are 21.0% and 22.2% for the year ended December 31, 2017 and 2016, respectively. The Authority's contributions to NYCERS for the years ended December 31, 2017 and 2016 were \$759.6 million and \$753.2 million, respectively.

Net Pension Liability

The Authority's net pension liabilities for each of the pension plans reported at December 31, 2017 and 2016 were measured as of December 31, 2016 and 2015, respectively for the MaBSTOA plan and June 30, 2017 and 2016, respectively for NYCERS. The total pension liability for each of the pension plans were determined as of the actuarial valuation dates of January 1, 2016 and 2015 for MaBSTOA plan and June 30, 2015 and 2014 for NYCERS, respectively, and updated to roll forward the total pension liability to the respective year-ends. The fiduciary net position and additions to and deductions from the fiduciary net position have been determined on the same basis as reported by NYCERS and MaBSTOA. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the Plan; and investments are reported at fair value.

Actuarial Assumptions

The total pension liability in each pension plan's actuarial valuation dates were determined using the following actuarial assumptions for each of the pension plans as follows:

Valuation Date:	MaBSTOA		NYCERS	
	January 1, 2016	January 1, 2015	June 30, 2015	June 30, 2014
Investment Rate of Return	7.00% per annum, net of investment expenses	7.00% per annum, net of investment expenses	7.00% per annum, net of investment expenses	7.00% per annum, net of investment expenses
Salary Increases	In general, merit and promotion increases, plus assumed General Wage increases of 3.5% per year 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% per year 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 3.0% per year.	In general, merit and promotion increases, plus assumed General Wage increases of 3.0% per year.
Inflation	2.50%	2.50%	2.50%	2.50%
Cost-of Living Adjustments	1.375% per annum	1.375% per annum	1.5% per annum for Tiers 1, 2, 4 and certain Tier 3 and Tier 6 retirees. 2.5% per annum for certain Tier 3 and Tier 6 retirees	1.5% per annum for Tiers 1, 2, 4 and certain Tier 3 and Tier 6 retirees. 2.5% per annum for certain Tier 3 and Tier 6 retirees
Mortality	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all the Authority plans.	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all the Authority plans.	Mortality tables for service and disability pensioners were developed from an experience study of the plan. The mortality tables for beneficiaries were developed from an experience review.	Mortality tables for service and disability pensioners were developed from an experience study of the plan. The mortality tables for beneficiaries were developed from an experience review.
Pre-retirement	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	N/A	N/A
Post-retirement- 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.	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.	N/A	N/A
Post-retirement Disabled Lives	75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females.	75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females.	N/A	N/A

Expected Rate of Return on Investments

The long-term expected rate of return on investments of 7.0% for both the MaBSTOA plan and NYCERS was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

For the MaBSTOA Plan and NYCERS plan, the long-term expected rate of return on investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocations of each of the funds and the expected real rate of returns (RROR) for each of the asset class in the MaBSTOA plan and NYCERS were as of the measurement dates of December 31, 2016 and June 30, 2017, respectively, are summarized as follows:

<u>Asset Class</u>	<u>MaBSTOA Plan</u>	
	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Core Fixed Income	10.00%	1.67%
US High Yield Bonds	8.00%	5.04%
Global Bonds	10.00%	0.28%
Emerging Markets Bonds	3.00%	3.78%
US Large Caps	10.00%	4.80%
US Small Caps	5.50%	6.06%
Global Equity	10.00%	5.49%
Foreign Developed Equity	10.00%	6.06%
Emerging Markets Equity	3.50%	8.39%
Global REITs	5.00%	5.77%
Private Real Estate Property	3.00%	3.64%
Private Equity	7.00%	8.99%
Hedge Funds - MultiStrategy	15.00%	3.45%
	<u>100.00%</u>	
Assumed Inflation - Mean		2.50%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Arithmetic Mean Return as per Actuary		7.03%
Portfolio Standard Deviation		11.54%
Long Term Expected Rate of Return selected by MTA		7.00%

<u>Asset Class</u>	NYCERS	
	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Public Market Equities	29.00%	5.70%
International Public Market Equities	13.00%	6.10%
Emerging Public Market Equities	7.00%	7.60%
Private Market Equities	7.00%	8.10%
Fixed Income	33.00%	3.00%
Alternatives (Real Assets, Hedge Funds)	11.00%	4.70%
	<u>100.00%</u>	
Assumed Inflation - Mean		2.50%
Long Term Expected Rate of Return		7.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.0% for both the MaBSTOA plan and NYCERS as of December 31, 2016 and June 30, 2017, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each pension plan and that employer contributions will be made at the rates determined by each pension plan's actuary. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and non-active members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability — MaBSTOA

The Authority's net pension liability for the MaBSTOA plan at the measurement date of December 31, 2016 and 2015 were as follows (in thousands):

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance as of December 31, 2015	\$ 3,391,989	\$ 2,292,316	\$ 1,099,673
Changes for fiscal year 2016:			
Service Cost	82,075	-	82,075
Interest on total pension liability	236,722	-	236,722
Effect of economic/demographic (gains) or losses	13,784	-	13,784
Benefit payments and withdrawals	(187,823)	(187,823)	-
Administrative expense	-	(186)	186
Member contributions	-	18,472	(18,472)
Net investment income	-	212,259	(212,259)
Employer contributions	-	220,697	(220,697)
Balance as of December 31, 2016	<u>\$ 3,536,747</u>	<u>\$ 2,555,735</u>	<u>\$ 981,012</u>

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance as of December 31, 2014	\$ 3,331,464	\$ 2,265,293	\$ 1,066,171
Changes for fiscal year 2015:			
Service Cost	77,045	-	77,045
Interest on total pension liability	232,404	-	232,404
Effect of economic/demographic (gains) or losses	(68,996)	-	(68,996)
Benefit payments and withdrawals	(179,928)	(179,928)	-
Administrative expense	-	(88)	88
Member contributions	-	16,321	(16,321)
Net investment income	-	(24,163)	24,163
Employer contributions	-	214,881	(214,881)
Balance as of December 31, 2015	<u>\$ 3,391,989</u>	<u>\$ 2,292,316</u>	<u>\$ 1,099,673</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's net pension liability calculated using the current discount rate of 7.0% for the MaBSTOA Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate used as of each measurement date:

	December 31, 2016			December 31, 2015		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
	(in thousands)			(in thousands)		
Net Pension Liability	\$ 1,376,916	\$ 981,012	\$ 643,826	\$ 1,480,961	\$ 1,099,673	\$ 775,092

The Authority's Proportion of Net Pension Liability — NYCERS

The following table presents the Authority's proportionate share of the net pension liability of NYCERS at the measurement date of June 30, 2017 and 2016, and the proportion percentage of the net pension liability of NYCERS allocated to the Authority:

	June 30, 2017	June 30, 2016
	(in millions)	
The Authority's proportion of the net pension liability	22.788 %	22.227 %
The Authority's proportionate share of the net pension liability	\$ 4,732.20	\$ 5,400.45

The Authority's proportion of the net pension liability was based on the Authority's actual contributions made to NYCERS for the year-ended June 30, 2017 and 2016, relative to the contributions of all employers in the plan.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.0% for NYCERS, as well as what the net pension liability would be if it

were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate used as of each measurement date:

	June 30, 2017			June 30, 2016		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
	(in thousands)			(in thousands)		
The Authority's proportionate share of the net pension liability	\$ 6,839,258	\$ 4,732,201	\$ 2,881,174	\$ 7,404,577	\$ 5,400,455	\$ 3,721,880

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017 and 2016, the Authority recognized pension expense related to each pension plan as follows (in thousands):

Pension Plans	December 31,	
	2017	2016
MaBSTOA	\$ 164,753	\$ 167,000
NYCERS	576,316	656,458
Total	\$ 741,069	\$ 823,458

For the years ended December 31, 2017 and 2016, the Authority's reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows (in thousands):

For the Year Ended December 31, 2017	MaBSTOA		NYCERS		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,663	\$ 47,891	\$ -	\$ 126,266	\$ 11,663	\$ 174,157
Changes in actuarial assumptions	-	-	233,280	-	233,280	-
Net difference between projected and actual earnings on pension plan investments	88,413	-	-	193,361	88,413	193,361
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	101,463	24,041	101,463	24,041
Employer contributions to plan subsequent to the measurement date of net pension liability	202,684	-	380,369	-	583,053	-
Total	\$ 302,760	\$ 47,891	\$ 715,112	\$ 343,668	\$ 1,017,872	\$ 391,559

For the Year Ended December 31, 2016	MaBSTOA		NYCERS		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 59,108	\$ -	\$ 153,291	\$ -	\$ 212,399
Changes in actuarial assumptions	-	-	398,618	-	398,618	-
Net difference between projected and actual earnings on pension plan investments	174,012	-	292,142	-	466,154	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	(62,517)	(2,248)	(62,517)	(2,248)
Employer contributions to plan subsequent to the measurement date of net pension liability	220,697	-	379,222	-	599,919	-
Total	<u>\$ 394,709</u>	<u>\$ 59,108</u>	<u>\$ 1,007,465</u>	<u>\$ 151,043</u>	<u>\$ 1,402,174</u>	<u>\$ 210,151</u>

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs.

The following table presents the recognition periods used by each pension plans to amortize the annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions, beginning the year in which the deferred amount occurs.

Pension Plan	Differences Between Expected and Actual Experience	Recognition Period (in years)	
		Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Changes in Actuarial Assumptions
MaBSTOA	6.30	N/A	6.30
NYCERS	5.60	5.60	3.33

For the years ended December 31, 2017 and 2016, \$583.1 and \$599.9 were reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-ended

December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2017 will be recognized as pension expense as follows:

Year Ending December 31:	MaBSTOA	NYCERS	Total
2018	\$ 26,605	\$ (23,835)	\$ 2,770
2019	26,605	146,708	173,313
2020	17,892	(8,971)	8,921
2021	(18,811)	(130,161)	(148,972)
2022	(1,165)	7,334	6,169
Thereafter	<u>1,059</u>	<u>-</u>	<u>1,059</u>
Total	<u>\$ 52,185</u>	<u>\$ (8,925)</u>	<u>\$ 43,260</u>

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.

7. 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 Preferred Provider Organization (PPO) plan and several Health Maintenance Organization (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, 2016 and was performed with a valuation date of January 1, 2016. The total number of plan participants as of December 31, 2017 receiving retirement benefits was 30,602.

During 2012, MTA funded \$250 million into an OPEB Trust (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. There have been no further contributions made to the Trust. 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 3.30% resulting in a discount rate under GASB 45 of 3.30%, which is slightly lower than the discount rate of 3.50% 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.

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 in 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 cost method (the 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, 2017, is 12 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.

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, 2016 which is 12 months prior to the beginning of the 2017 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 partially offset by the establishment of a trust, the discount rate for this valuation has been lowered from 3.50% to 3.30%.

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. Legislative changes passed in December 2015 have delayed the effective date of the excise tax until 2020. However, the calculation of the threshold amounts remains unchanged. 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 current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax and ACA fees which apply to the plan are not included. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the excise tax.

The legislative changes from H.R.1, originally known as the “Tax Cuts and Jobs Act”, and H.R. 195, the “Extension of Continuing Appropriations Act, 2018”, are not reflected in this valuation as passage occurred after the measurement date.

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

Valuation date	January 1, 2016
Actuarial cost method	Frozen Initial Liability
Discount rate	3.30%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen Initial Liability
Amortization period	12 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.

Effective with this valuation, age adjustments are required for valuing NYSHIP benefits due to a change in actuarial standards. Age adjustments reflect that health costs are typically higher for retirees under age 65 than an average active population and, upon reaching Medicare, health costs are reduced as NYSHIP becomes the secondary payer.

The medical and pharmacy benefits provided to TWU Local 100, ATU 1056 and ATU 726 represented Transit members are non-NYSHIP 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 2014 and 2015. These were then combined to match the aggregate claim experience provided by the Authority and MTA. Claims were adjusted to an incurred from a paid claim basis utilizing aging reports specific to the Authority and MTA. An adjustment of (0.5)% for health benefits was applied. Finally, an administrative load was applied equal to 7.2% for Empire BCBS medical benefits, 3.5% for United Healthcare medical benefits and 4.6% for pharmacy benefits. The per capita costs assumptions reflect medical and pharmacy claims information, including the Employer Group Waiver Plan (EGWP) for providing pharmacy benefits to Medicare-eligible retirees, for 2015 and 2016.

The following charts detail the monthly 2016 PCCCs used in the valuation:

Age	Male Employees			Female Employees		
	EBCBS/ Aetna Basic	UHC/ Aetna Select/ Aetna Opt 1	Pharmacy	EBCBS/ Aetna Basic	UHC/ Aetna Select/ Aetna Opt 1	Pharmacy
<50	\$ 740.21	\$ 1,236.18	\$ 348.54	\$ 971.70	\$ 1,647.95	\$ 409.68
50-54	743.50	1,233.00	317.15	829.58	1,395.11	360.49
55-59	838.42	1,391.73	356.03	850.90	1,426.69	393.85
60-64	1,052.96	1,753.81	412.72	995.54	1,670.05	436.20
65-69	120.65	115.35	217.03	125.32	126.89	184.58
70-74	143.84	134.33	197.39	141.31	130.34	172.27
75-79	165.02	145.88	189.43	157.49	133.44	158.45
80-84	185.81	150.32	178.11	176.95	143.32	143.96
85+	220.37	156.42	157.58	217.09	140.22	116.22
	Male Dependents			Female Dependents		
<50	\$ 474.78	\$ 776.06	\$ 217.68	\$ 584.67	\$ 972.69	\$ 240.89
50-54	574.36	941.93	241.70	649.25	1,081.59	278.92
55-59	662.21	1,089.52	278.20	720.40	1,200.69	331.01
60-64	851.84	1,410.03	331.44	818.30	1,364.42	355.91
65-69	120.65	115.35	217.03	125.32	126.89	184.58
70-74	143.84	134.33	197.39	141.31	130.34	172.27
75-79	165.02	145.88	189.43	157.49	133.44	158.45
80-84	185.81	150.32	178.11	176.95	143.32	143.96
85+	220.37	156.42	157.58	217.90	140.22	116.22

Medicare Part B Premiums — The Medicare Part B premium reimbursement was included in the 2016 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 4.5%. 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 2016 valuation excludes any RDS payments expected to be received by the Authority.

Health Cost Trend — The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2017 utilizing the baseline assumptions included in the model, except inflation of 2.5% 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 (4.5%), but not more than projected medical trends excluding any excise tax adjustments. The non-NYSHIP trend is applied directly for represented employees of NYC

Transit and SIRTOA. The following lists the NYSHIP and non-NYSHIP trend assumptions along with the resulting trends assumed for Transit and SIRTOA.

Health Cost Trend Rates

Fiscal Year	NYSHIP		Transit and SIRTOA	
	< 65	>=65	< 65	>=65
2016	11.8 %	- %	7.3 %	4.9 %
2017	6.7	6.4	7.1	4.9
2018	6.2	6.0	6.4	5.0
2019	6.3	5.5	9.5	5.0
2020	5.3	5.1	6.0	5.1
2025	6.0	5.1	5.9	5.1
2030	5.9	5.1	5.8	5.1
2035	5.9	5.2	5.8	5.2
2040	5.8	5.2	5.7	5.2
2050	5.4	5.8	5.3	5.0
2060	5.2	5.5	5.1	5.2
2070	4.6	4.7	4.6	4.6
Ultimate ¹	4.2	4.3	4.2	4.5

¹ Ultimate rate used for years prior to 2016 for Entry Age purposes

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, 2016

	Active Members
Number	49,174
Average Age	49.3
Average Service	13.8
	Retirees
Single Medical Coverage	12,818
Employee/Spouse Coverage	17,427
Employee/Child Coverage	1,085
No medical Coverage	<u>817</u>
Total Number	<u>32,147</u>
Average Age	72.0
Total Number with Dental	7,018
Total Number with Vision	27,843
Total No. with Supplement	26,448
Average Monthly Supplement Amount (Excluding Part B Premium)	\$ 32
Total No. with Life Insurance	7,163
Average Life Insurance Amount	\$ 2,693

Coverage Election Rates — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect coverage in the Empire PPO Plan. For groups that do not participate in NYSHIP, members are assumed to elect Empire BCBS or Aetna/United Healthcare.

Dependent Coverage — Spouses are assumed to be the same age as the employee/retiree. 80% of male and 45% of female eligible members participating in NYSHIP are assumed to elect family coverage upon retirement 65% of male and 35% female eligible members participating in non-NYSHIP programs administered by NYC Transit are assumed to cover a dependent. Actual 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 from the valuation date.

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 — RP-2014 Disabled Annuitant mortality table for males and females.

Vestee Coverage — For members that participate in NYSHIP, Vesteess (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. Vesteess 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 vesteess 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, 2017 and 2016. 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 thousands)	2017	2016
Annual required contribution	\$ 2,184,475	\$ 2,233,515
Interest on net OPEB obligation	390,408	371,384
Adjustment to annual required contribution	<u>(1,048,814)</u>	<u>(983,702)</u>
Annual OPEB cost/expense	1,526,069	1,621,197
Contributions made	<u>(423,483)</u>	<u>(428,654)</u>
Increase in net OPEB obligation	1,102,586	1,192,543
Net OPEB obligation — beginning of year	<u>11,794,843</u>	<u>10,602,300</u>
Net OPEB obligation — end of year	<u>\$12,897,429</u>	<u>\$11,794,843</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, 2017, 2016 and 2015 were as follows (in thousands):

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2017	\$ 1,526,069	27.8 %	\$ 12,897,429
12/31/2016	1,621,197	26.4	11,794,843
12/31/2015	1,501,343	24.7	10,602,300

The Authority's funding progress information as of December 31, 2017 is as follows (in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) * (b)	Unfunded (AAL) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) As a Percentage of Covered Payroll ((b-a)/c)
1/1/2016	\$ 161.1	\$ 14,394.3	\$ 14,233.2	1.1 %	\$ 3,405.4	418.0 %

* Based on Entry Age Normal

The required schedule of funding progress for the Authority Postemployment Benefit Plan following the notes to the 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.

8. LOANS PAYABLE

Loans Payable – The MTA and the New York Power Authority (NYPA) entered into an updated Energy Services Program Agreement (ESP Agreement). The ESP Agreement authorized the Authority, as an affiliate of the MTA, to enter into a Customer Installation Commitment (CIC) with NYPA for turn-key, energy efficiency projects, which would usually be long-term funded and constructed by NYPA. The repayment period for the NYPA loan can be up to 20 years, but can be repaid at any time without penalty.

The debt service requirements at December 31, 2017 are as follows (in thousand):

Year	Principal	Interest	Total
2018	\$ 8,140	\$ 631	\$ 8,771
2019	7,941	550	8,491
2020	7,273	474	7,747
2021	6,637	403	7,040
2022	5,493	341	5,834
2023-2027	16,241	1,092	17,333
2028-2032	12,964	429	13,393
2033-2037	2,134	18	2,152
Total	<u>\$ 66,823</u>	<u>\$ 3,938</u>	<u>\$ 70,761</u>
Less current portion	<u>(8,140)</u>		
Long-term loans payable	<u>\$ 58,683</u>		

The above interest amounts include both fixed and variable rate calculations. Interest on the variable-rate loan is paid at the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA) rate and is reset annually.

9. 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, 2017 and 2016 (in thousands):

	2017		2016	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 6,831,272	\$ (6,386,894)	\$ 6,189,938	\$ (5,668,432)
Constituent authorities	<u>121,700</u>	<u>(37,153)</u>	<u>130,770</u>	<u>(11,259)</u>
Total MTA and constituent authorities	<u>\$ 6,952,972</u>	<u>\$ (6,424,047)</u>	<u>\$ 6,320,708</u>	<u>\$ (5,679,691)</u>

10. ADVERTISING AND OTHER INCOME

Advertising and other income for the years ended December 31, 2017 and 2016, consist of (in thousands):

	2017	2016
Advertising revenue	\$ 112,564	\$ 124,996
Metrocard green fee surcharge	22,499	22,856
Transit Adjudication Bureau collections	13,867	9,237
Station income	8,392	8,969
Rental income	14,945	9,698
Fare media transaction fees	4,562	4,628
All other	<u>(307)</u>	<u>630</u>
	<u>\$ 176,522</u>	<u>\$ 181,014</u>

11. OTHER EXPENSES

Other expenses for the years ended December 31, 2017 and 2016, consist of (in thousands):

	2017	2016
Credit and debit card fees for fare media sales	\$ 48,886	\$ 45,511
Fare media sales commissions	13,269	12,722
NYS Metro Commuter Transportation Mobility Tax expense	14,446	13,486
Print and office supplies	6,265	6,417
Allowance for uncollectible accounts	(1,096)	1,322
Business travel, meetings, and conventions	402	832
Dues and subscriptions	2,149	344
Other miscellaneous expenses	<u>(1,412)</u>	<u>(713)</u>
	<u>\$ 82,909</u>	<u>\$ 79,921</u>

12. MAINTENANCE AND OTHER OPERATING EXPENSES

Maintenance and other operating expenses for the years ended December 31, 2017 and 2016, consist of (in thousands):

	2017	2016
Operating maintenance and repair services	\$ 86,866	\$ 82,364
Facility maintenance and repairs	18,565	17,918
Real estate rentals (including 2 Broadway operating expenses)	27,702	22,451
Security services	16,597	13,595
Refuse and recycling	10,460	8,699
Telephone services	9,970	13,233
Tire and tube rentals	13,037	16,514
Janitorial and custodial services	5,874	6,116
Water and sewage	9,259	10,186
Specialized equipment	2,792	1,970
Bridge, tunnel and highway tolls	4,579	5,356
Uniforms	5,048	2,274
Ticket stock material	3,795	3,935
Safety equipment and supplies	11,250	10,033
Other miscellaneous expenses	<u>20,081</u>	<u>7,865</u>
	<u>\$245,875</u>	<u>\$222,509</u>

13. 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 the twenty-four (24) active ultra-low sulfur diesel (ULSD) hedges in whole dollars:

Counterparty	J. Aron & Company	JPM — Ventures Energy Corp	Macquarie Energy LLC	Macquarie Energy LLC	Macquarie Energy LLC	J. Aron & Company
Trade Date	1/27/2016	2/23/2016	3/29/2016	4/28/2016	5/26/2016	6/30/2016
Effective Date	1/1/2017	1/2/2017	1/3/2017	1/4/2017	1/5/2017	1/6/2017
Termination Date	12/31/2017	1/31/2018	2/28/2018	3/31/2018	4/30/2018	5/30/2018
Price/Gal	\$1.28	\$1.31	\$1.38	\$1.55	\$1.62	\$1.65
Notional Qnty (Gal)	3,745,930	3,845,749	3,926,350	4,527,533	4,728,640	4,813,146
Counterparty	J. Aron & Company	Macquarie Energy LLC	J. Aron & Company	Macquarie Energy LLC	J. Aron & Company	J. Aron & Company
Trade Date	7/28/2016	8/24/2016	9/22/2016	10/26/2016	11/22/2016	12/20/2016
Effective Date	1/7/2017	1/8/2017	1/9/2017	1/10/2017	1/11/2017	1/12/2017
Termination Date	6/30/2018	7/31/2018	8/31/2018	9/30/2018	10/31/2018	11/30/2018
Price/Gal	\$1.50	\$1.64	\$1.60	\$1.62	\$1.67	\$1.77
Notional Qnty (Gal)	4,498,206	4,780,987	4,671,339	4,801,475	4,879,859	5,122,068
Counterparty	JPM — Ventures Energy Corp	Cargill	J. Aron & Company	J. Aron & Company	J. Aron & Company	J. Aron & Company
Trade Date	1/26/2017	2/28/2017	3/28/2017	4/27/2017	5/30/2017	6/27/2017
Effective Date	1/1/2018	1/2/2018	1/3/2018	1/4/2018	1/5/2018	1/6/2018
Termination Date	12/31/2018	1/31/2019	2/28/2019	3/31/2019	4/30/2019	5/31/2019
Price/Gal	\$1.75	\$1.68	\$1.61	\$1.59	\$1.61	\$1.52
Notional Qnty (Gal)	5,111,306	4,918,086	4,703,517	4,594,937	4,687,603	4,436,967
Counterparty	J. Aron & Company	J. Aron & Company	J. Aron & Company	J. Aron & Company	J. Aron & Company	J. Aron & Company
Trade Date	7/26/2017	8/29/2017	9/22/2017	10/26/2017	11/29/2017	12/27/2017
Effective Date	1/7/2018	1/8/2018	1/9/2018	1/10/2018	1/11/2018	1/12/2018
Termination Date	6/30/2019	7/31/2019	8/31/2019	9/30/2019	10/31/2019	11/30/2019
Price/Gal	\$1.62	\$1.63	\$1.72	\$1.76	\$1.85	\$1.91
Notional Qnty (Gal)	4,715,260	4,754,602	5,013,957	4,607,170	5,316,279	5,468,443

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 a contract's termination date, the Authority will take delivery of the fuel. At December 31, 2017, the total outstanding notional value of the ULSD contracts was 53.4 million gallons with a positive fair market value of \$15.8 million. The valuation of each trade was based on discounting future net cash flows to a single current amount (the income approach) using observable commodity futures prices (Level 2 inputs).

The Transit Authority recognized a fuel hedge loss of \$0.7 million in 2017 and a fuel hedge loss of \$0.3 million in 2016.

14. 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. Effective October 31, 2015, the self-insured retention limit was increased to \$11 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, 2017 and 2016, is as follows (in thousands):

	2017	2016
Balance at beginning of year	\$2,506,944	\$2,060,433
Activity during the year:		
Current year claims and changes in estimates	548,144	705,374
Claims paid	<u>(255,704)</u>	<u>(258,863)</u>
Balance at end of year	2,799,384	2,506,944
Less current portion	<u>(278,243)</u>	<u>(260,810)</u>
Long-term liability	<u>\$2,521,141</u>	<u>\$2,246,134</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 October 31, 2015 the self-insured retention limits for ELF were increased to the following amounts: \$11 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3.2 million for MTA Staten Island Railway, 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, 2017, the balance of the assets in this program was \$139.6 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, 2017, 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 \$11 million per occurrence limit with a \$0.5 million per occurrence deductible for MTA Long Island Rail Road, MTA Staten Island Railway, 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, 2017, 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, 2017, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies’ for \$11 million per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance — Effective May 1, 2017, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2017, FMTAC directly insures property damage claims of the Related Entities in excess of a \$25 million per occurrence deductible, subject to an annual \$75 million aggregate deductible. The total program annual limit is \$800 million per occurrence and in the annual aggregate for Flood and Earthquake covering property of the Related Entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda reinsurance markets for this coverage. Losses occurring after exhaustion of the deductible aggregate 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.

Supplementing the \$800 million per occurrence noted above, FMTAC's property insurance program has been expanded to include a further layer of \$200 million of fully collateralized earthquake coverage for an event of a certain index value and for 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 May 22, 2017 to May 8, 2020. This expanded coverage was not renewed in 2016. The expanded protection is reinsured by MetroCat Re Ltd. 2017-1, a Bermuda special purpose insurer independent from the MTA and formed to provide FMTAC with capital markets based property reinsurance. The MetroCat Re Ltd. 2017-1 reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is parametric and available for storm surge losses resulting from a storm that causes water levels that reach the specified index values, and also for an earthquake event of a certain index value.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 83% of "certified" losses in 2017, 82% of "certified" losses in 2018 and 81% of "certified" losses in 2019 as covered by the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) of 2015. The remaining 17% (2017), 18% (2018) and 19% (2019) of the Related Entities' losses arising from an act of terrorism would be covered under the additional terrorism policy described below. No federal compensation will be paid unless the aggregate industry insured losses exceed a trigger of \$140 million in 2017, \$160 million in 2018 and \$180 million in 2019. The United States government's reinsurance is in place through December 31, 2020.

To supplement the reinsurance to FMTAC through the TRIPRA, MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 17% of any "certified" act of terrorism up to a maximum recovery of \$182.8 million for any one occurrence and in the annual aggregate during 2017, 18% of any "certified" act of terrorism up to a maximum recovery of \$193.5 million for any one occurrence and in the annual aggregate during 2018 and 19% of any "certified" act of terrorism up to a maximum recovery of \$204.3 million for any one occurrence and in the annual aggregate during 2019, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the "certified" acts of terrorism insurance or (3) 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$140 million TRIPRA trigger up to a maximum recovery of \$140 million for any occurrence and in the annual aggregate during 2017, or 100% of any "certified" terrorism loss which exceeds \$5 and less than the \$160 TRIPRA trigger up to a maximum recovery of \$160 for any occurrence and in the annual aggregate during 2018 or 100% of any "certified" terrorism loss which exceeds \$5 and less than the \$180 TRIPRA trigger up to a maximum recovery of \$180 for any occurrence and in the annual aggregate during 2019.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$182.8 million in 2017, \$193.5 million in 2018 and \$204.3 million in 2019, Recovery under the terrorism policy is subject to a deductible of \$25 million per occurrence and \$75 million in the annual aggregate in the event of multiple losses during the policy year. Should the Related Entities' deductible in any one year exceed \$75 million future losses in that policy year are subject to a deductible of \$7.5 million. The terrorism coverages expire at midnight on May 1, 2019.

During 2017 there were no FMTAC excess loss claim reimbursements to the Authority. FMTAC had no open claims for the authority at December 31, 2017. At December 31, 2017, FMTAC had \$900 million of assets to insure current and future claims.

15. 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.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. While questioned costs may occur, ultimate repayments required of the MTA or the Authority have been infrequent in prior years.

In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in 2017 and 2016, the Authority recognized \$8.5 million and \$9.7 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.

A summary of the activity in pollution remediation liability at December 31, 2017 and 2016, were as follows (in thousands):

	2017	2016
Balance at beginning of year	\$ 38,140	\$ 41,729
Activity during the year:		
Changes in estimates	8,537	9,662
Payments	<u>(14,252)</u>	<u>(13,251)</u>
Balance at end of year	32,425	38,140
Less current portion	<u>(6,485)</u>	<u>(7,628)</u>
Long-term liability	<u>\$ 25,940</u>	<u>\$ 30,512</u>

The Authority's pollution remediation liability primarily consists of future remediation activities associated with asbestos removal, lead abatement, ground water contamination, and soil remediation.

16. CONDENSED COMPONENT UNIT INFORMATION

The following table presents condensed financial information for MaBSTOA, a component unit of the Authority (in thousands):

December 31:	2017	2016
Current assets	\$ 154,226	\$ 53,716
Capital assets	370,723	289,169
Deferred outflows of resources	<u>302,760</u>	<u>394,709</u>
Total assets and deferred outflows of resources	<u>827,709</u>	<u>737,594</u>
Current liabilities	248,852	226,737
Non-current liabilities	3,875,075	3,707,824
Deferred inflows of resources	<u>47,891</u>	<u>59,108</u>
Total liabilities and deferred inflows of resources	<u>4,171,818</u>	<u>3,993,669</u>
Net Investment in capital assets	370,723	289,169
Unrestricted	<u>(3,714,832)</u>	<u>(3,545,244)</u>
Total net position	<u>\$ (3,344,109)</u>	<u>\$ (3,256,075)</u>
 For the Year Ended December 31:		
Fare revenue	\$ 441,312	\$ 455,630
Advertising and other revenue	<u>16,634</u>	<u>15,706</u>
Total operating revenue	<u>457,946</u>	<u>471,336</u>
Total labor expenses	1,270,700	1,325,051
Total non-labor expenses	156,170	134,550
Depreciation	<u>52,726</u>	<u>48,640</u>
Total operating expenses	<u>1,479,596</u>	<u>1,508,241</u>
Operating (deficit) surplus	<u>(1,021,650)</u>	<u>(1,036,905)</u>
Loss before capital contributions	(1,021,650)	(1,036,905)
Capital contributions	<u>933,616</u>	<u>745,603</u>
Change in net position	(88,034)	(291,302)
Net position, beginning of the year	<u>(3,256,075)</u>	<u>(2,964,773)</u>
Net position, end of year	<u>\$ (3,344,109)</u>	<u>\$ (3,256,075)</u>

17. SUBSEQUENT EVENTS

The Authority evaluated subsequent events from January 1, 2018 through April 25, 2018, the date the consolidated financial statements were issued. The Authority concluded that no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION LIABILITY AND RELATED
RATIOS FOR THE MABSTOA PENSION PLAN AT DECEMBER 31:
(In millions)

	2016	2015	2014
Total pension liability:			
Service cost	\$ 82	\$ 77	\$ 72
Interest	237	233	224
Differences between expected and actual experience	14	(69)	(2)
Benefit payments and withdrawals	<u>(188)</u>	<u>(180)</u>	<u>(175)</u>
Net change in total pension liability	145	61	119
Total pension liability—beginning	<u>3,392</u>	<u>3,331</u>	<u>3,212</u>
Total pension liability—ending(a)	<u>3,537</u>	<u>3,392</u>	<u>3,331</u>
Fiduciary net position:			
Employer contributions	221	215	226
Member contributions	19	16	15
Net investment income	212	(24)	105
Benefit payments and withdrawals	(188)	(180)	(175)
Administrative expenses	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	264	27	171
Plan fiduciary net position—beginning	<u>2,292</u>	<u>2,265</u>	<u>2,094</u>
Plan fiduciary net position—ending(b)	<u>2,556</u>	<u>2,292</u>	<u>2,265</u>
Employer's net pension liability—ending(a)-(b)	<u>\$ 981</u>	<u>\$ 1,100</u>	<u>\$ 1,066</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72.3 %</u>	<u>67.6 %</u>	<u>68.0 %</u>
Covered-employee payroll	<u>717</u>	<u>687</u>	<u>653</u>
Employer's net pension liability as a percentage of covered-employee payroll	<u>136.8 %</u>	<u>160.1 %</u>	<u>163.2 %</u>

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. In accordance with GASB No. 68, information was not readily available for periods prior to 2014.

NEW YORK CITY TRANSIT AUTHORITY
 (Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY IN THE NYCERS PENSION PLAN AT JUNE 30:
 (In millions)

	2017	2016	2015
The Authority's proportion of the net pension liability	22.788 %	22.227 %	22.380 %
The Authority's proportionate share of the net pension liability	\$ 4,732	\$ 5,400	\$ 4,530
The Authority's actual covered-employee payroll	\$ 3,024	\$ 2,930	\$ 2,862
The Authority's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll	156.481 %	184.300 %	158.277 %
Plan fiduciary net position as a percentage of the total pension liability	74.805 %	69.568 %	73.125 %

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. In accordance with GASB No. 68, information was not readily available for periods prior to 2015.

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NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS TO ALL PENSION PLANS
FOR THE YEARS ENDED DECEMBER 31:
(In millions)

MaBSTOA:	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially Determined Contribution	\$ 202.9	\$ 220.7	\$ 214.9	\$ 226.4	\$ 234.5	\$ 228.9	\$ 186.5	\$ 200.6	\$ 204.3	\$ 201.9
Actual Employer Contribution	<u>202.7</u>	<u>220.7</u>	<u>214.9</u>	<u>226.4</u>	<u>234.5</u>	<u>228.9</u>	<u>186.5</u>	<u>200.6</u>	<u>204.3</u>	<u>201.9</u>
Contribution Deficiency (Excess)	\$ 0.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	749.7	716.5	686.7	653.3	582.1	576.0	579.7	591.1	569.4	562.2
Contributions as a % of Covered Payroll	27.0 %	30.8 %	31.3 %	34.7 %	40.3 %	39.7 %	32.2 %	33.9 %	35.9 %	35.9 %
NYCERS:	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially Determined Contribution	\$ 759.6	\$ 753.2	\$ 694.4	\$ 708.2	\$ 702.9	\$ 695.8	\$ 630.1	\$ 549.1	\$ 523.9	\$ 479.2
Actual Employer Contribution	<u>759.6</u>	<u>753.2</u>	<u>694.4</u>	<u>708.2</u>	<u>702.9</u>	<u>695.8</u>	<u>630.1</u>	<u>549.1</u>	<u>523.9</u>	<u>479.2</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	3,624.4	3,386.1	3,344.3	3,449.1	2,811.1	2,797.7	2,771.9	2,751.5	2,652.8	2,514.1
Contributions as a % of Covered Payroll	21.0 %	22.2 %	20.8 %	20.5 %	25.0 %	24.9 %	22.7 %	20.0 %	19.7 %	19.1 %

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
NOTES TO SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS TO ALL PENSION PLANS:

The following actuarial methods and assumptions were used in the January 1, 2016 and 2015 funding valuation for the MaBSTOA pension plan as follows:

	MaBSTOA	
	January 1, 2016	January 1, 2015
Valuation Date	January 1, 2016	January 1, 2015
Measurement Date	December 31, 2016	December 31, 2015
Actuarial cost method	Frozen Initial Liability (FIL) ⁽¹⁾	Frozen Initial Liability (FIL) ⁽¹⁾
Amortization method	For FIL bases, period specified in current valuation report. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population.	For FIL bases, period specified in current valuation report. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population.
Asset Valuation Method	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.
Actuarial assumptions:		
Discount Rate	7.0%	7.0%
Investment rate of return	7.0%, net of investment expenses	7.0%, net of investment expenses
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA.	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA.
Inflation	2.5% per annum	2.5% per annum
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. For Tier 6 members, all overtime was assumed to be less than the overtime cap.	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. For Tier 6 members, all overtime was assumed to be less than the overtime cap.
Cost-of-Living Adjustments	1.375% per annum	1.375% per annum
Rate of normal retirement	Tables based on recent experience. Rates vary by age, years of service at retirement and Tier/Plan. All members are assumed to retire by age 80.	Tables based on recent experience. Rates vary by age, years of service at retirement and Tier/Plan. All members are assumed to retire by age 80.

⁽¹⁾ Under this actuarial method, the initial liability has been established by the Entry Age Actuarial Cost Method for determining changes in the Unfunded Actuarial Accrued Liability (UAAL) due to plan provision and assumption changes.

(Continued)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
NOTES TO SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS TO ALL PENSION PLANS:

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the NYCERS Plan, should be presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms

There were no changes of benefit terms in the June 30, 2015 funding valuation.

Changes of Assumptions

There were no changes of benefit assumptions in the June 30, 2015 funding valuation.

(Concluded)

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NEW YORK CITY TRANSIT AUTHORITY
 (Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS FOR THE NEW YORK CITY TRANSIT
POSTEMPLOYMENT BENEFIT PLAN
 (In millions)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) * (b)	Unfunded (AAL) (UAAL) (b-a)	Funded Ratio ((a/b)	Covered Payroll (c)	(UAAL) As a Percentage of Covered Payroll ((b-a)/c)
12/31/17	1/1/16	\$ 161.1	\$ 14,394.3	\$ 14,233.2	1.1 %	\$ 3,405.4	418.0 %
12/31/16	1/1/14	162.3	14,013.9	13,851.6	1.2	3,182.5	435.2
12/31/15	1/1/14	162.3	14,013.9	13,851.6	1.2	3,182.5	435.2

* Based on Entry Age Normal

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MTA Long Island Rail Road

(Component Unit of the Metropolitan Transportation
Authority)

Financial Statements as of and for the
Years Ended December 31, 2017 and 2016,
Required Supplementary Information, and
Independent Auditors' Report

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MTA LONG ISLAND RAIL ROAD
(Component Unit 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 component unit of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2017 and 2016, 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.

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 auditors' 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 purpose 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, 2017 and 2016, 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 Matters

As discussed in Note 1 to the financial statements, MTA Long Island Rail Road is a component unit of the 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

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 19, the Schedule of Changes in the MTA Long Island Rail Road's Net Pension Liability and Related Ratios for The Long Island Rail Road Company Plan for Additional Pensions on page 59, the Schedule of the MTA Long Island Rail Road's Proportionate Share of the Net Pension Liability in the MTA Defined Benefit Pension Plan on page 60, the Schedule of MTA Long Island Rail Road's Contributions to All Pension Plans on page 61, and the Schedule of Funding Progress-Postemployment Benefit Plan on page 63, 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 25, 2018

MTA LONG ISLAND RAIL ROAD
(Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2017 AND 2016
(Dollars in thousands, except as noted)

OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction

The following is a narrative overview and analysis of the financial activities of MTA Long Island Rail Road, a component unit of the Metropolitan Transportation Authority ("MTA"), for the years ended December 31, 2017 and 2016. 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, and (4) Required Supplemental Information.

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, 2017 and 2016. This MD&A is intended to serve as an introduction to MTA Long Island Rail Road's ("LIRR" or "the Company") 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

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. It also includes the Schedule of Changes in the MTA Long Island Rail Road's Net Pension Liability and Related Ratios for The Long Island Rail Road Company Plan for Additional Pensions, the Schedule of the MTA Long Island Rail Road's Proportionate Share of the Net Pension Liability in the MTA Defined Benefit Pension Plan, the Schedule of MTA Long Island Rail Road's Contributions to All Pension Plans, and the Schedule of Funding Progress—Postemployment Benefit Plan.

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 component unit of the 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.

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, 2017 and 2016. 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, Other Assets and Deferred Outflows of Resources

	<u>As of December 31,</u>			<u>Increase/(Decrease)</u>	
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017-2016</u>	<u>2016-2015</u>
Capital assets—net	\$ 6,102,261	\$ 5,713,950	\$ 5,543,274	\$ 388,311	\$ 170,676
Other assets	394,845	309,451	303,127	85,394	6,324
Deferred outflows of Resources	<u>339,676</u>	<u>365,634</u>	<u>218,268</u>	<u>(25,958)</u>	<u>147,366</u>
Total assets and Deferred Outflows of Resources	<u>\$ 6,836,782</u>	<u>\$ 6,389,035</u>	<u>\$ 6,064,669</u>	<u>\$ 447,747</u>	<u>\$ 324,366</u>

Significant Changes in Assets and Deferred Outflows of Resources—

In 2017, capital assets increased by \$388.3 million or 6.8% compared to December 2016. 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 2017 Track Program that provided replacement of various track elements and branches at a cost of \$43.9 million. Additional work under the prior year track program resulted in a cost of \$27.9 million. To facilitate compliance with positive train control, upgrades were made to the signal system from Speonk to Montauk. The project included track circuits, signal huts and cases, switch machines, signals and grade crossing gate mechanisms for a cost of \$71.3 million. The Jamaica Capacity Improvements project finalized completion of the Johnson Avenue Yard Reconfiguration and construction of the South Bypass Track for a cost of \$42.4 million. Replacement of the Wreck Lead Bridge, a single-track bascule bridge crossing Wreck Lead Channel on the Long Beach Branch, was completed at a cost of \$11.3 million. Replacement and repairs to the infrastructure and system upgrades at various locations damaged by Superstorm Sandy totaled \$3.9 million. Upgrades of radio communications and continued work on the Atlantic Branch Tunnel totaled \$2.3 million.
- The replacement of the Oceanside and Oil City substations cost \$30.7 million. The Jamaica Capacity Improvements project completed retaining walls, rail bridges and railings at a cost of \$14.8 million. The replacement of Colonial Road Bridge included replacing the current roadway truss-type bridge with a precast modular structure that will maintain vehicular access using the same road alignment for a cost of \$21.9 million. Completion of the 150th Bridge rehabilitation project which included new bearings and bridge seats, repair of abutments, concrete decks, piers and structural steel totaled \$17.2 million. Under the escalator replacement program, escalators were replaced at six stations on the Babylon branch at a cost of \$15.2 million. The Replacement of the Post Avenue bridge was also completed in 2017, which totaled \$12.7 million. Rehabilitation of various employee facilities was completed at a cost of \$11.5 million. Additions and improvements to the Hillside facility totaled \$9.7 million.

Replacements to the Atlantic Avenue tunnel infrastructure to mitigate rain or flooding were completed at a cost of \$5.0 million. Lastly, various structural improvements, including bridge rehabilitations, upgrading parking lots and security resulted in an additional \$14.3 million increase to buildings and structures.

- Additions and improvements to the West End Concourse in Penn Station included widening train platforms, signage and LED lighting totaling \$35.9 million. Improvements to the East River Tunnel Traction Power Substation including reconstruction of ventilation buildings and staircases resulted in an additional \$2.0 million increase to leasehold improvements.
- The purchases of vehicles totaled \$10.6 million in 2017. Replacement of switchgears for the 1st Avenue Substation Restoration totaled \$5.7 million. The purchase of an emergency generator and other various equipment for the Wreck Lead Bridge System Restoration Project totaled \$2.8 million. A track stabilizer was purchased for \$1.4 million. The purchases of various types of machinery and equipment resulted in an additional \$5.7 million increase to machinery and equipment.

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

- Signal and communication construction work-in-progress increased by \$45.7 million due to the emphasis on Positive Train Control, Speonk to Montauk signalization, the signal replacement program, low 12 tier 4 emission diesel locomotives and Centralized Traffic Control.
- Passenger cars work in progress incurred an additional cost of \$36.3 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 work in progress increased by \$96.0 million mainly due to additional costs for the Moynihan Train Hall project, new elevators at Main Street in Flushing, rehabilitation of the Wantagh Station platform and improvements and upgrades to Penn Station.
- Line Structures work-in-progress increased by \$143.8 million due to continued work on ERT Rehabilitation, substation replacements, bridge programs, the 2nd Track Farmingdale to Ronkonkoma design, Main Line expansion, Main Line Double Track Work, the Jamaica Capacity Improvements project, Hicksville Station improvements, as well as system wide substation overhauls.
- A decrease of \$10.0 million resulted from OFC projects, program administration, project material, shops and yards, security projects, and NYSDOT projects.

These increases are partially offset by increases in accumulated depreciation and amortization of \$388.0 million.

Other assets increased in 2017 by \$85.4 million primarily due to the outstanding pre-bills and invoices for capital and reimbursable expenditures.

Deferred outflows of resources decreased by \$26.0 million or 7.1% as a result of the third year of the implementation of GASB Statement No. 68. Primarily driven by gains on the market value of the pension assets. See Note 2 of the audited financial statements for further information.

In 2016, capital assets increased by \$170.7 million or 3% compared to December 2015. 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 2016 Track Program that provided replacement of various track elements and branches at a cost of \$55.5 million. Replacement of over 27,000 deteriorated wood half ties in the Atlantic Branch Tunnel as well as repairs on over 2,000 square feet of concrete track bed for a cost of \$29.1 million. Continued work on replacement of Signal Power Lines along the Right of Way, replacement and upgrade of the Third Rail at various locations, Security Fencing, drainage control and upgrades of radio communications for a cost of \$30.5 million.
- Continued improvements made to the East River Tunnel Fire and Life Safety project for 1st Avenue, Long Island City and Standpipe, Bridge Rehabilitations, and track bed waterproofing resulted in an additional \$71.8 million in buildings and structures.
- Purchase of operating vehicles and two Green Locomotives, construction of substations, outfitting of security areas and Atlantic Avenue Tunnel lighting at a cost of \$17.3 million.

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

- Signal and communication construction work-in-progress increased by \$71.7 million due to the emphasis on Positive Train Control, the signal replacement program and Centralized Traffic Control.
- Passenger cars incurred an additional cost of \$33.1 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 increased by \$25.5 million due to Escalator and Elevator Replacement Programs.
- Line Structures work-in-progress increased by \$137.7 million due to continued work on ERT Rehabilitation, substation replacements, bridge programs, the 2nd Track Farmingdale to Ronkonkoma design, Main Line Double Track Work, as well as system wide substation overhauls.
- OFC Projects, Program Administration, Shops and Yards, security Projects, and NYSDOT projects resulted in an increase of \$23.5 million.

These increases are partially offset by increases in accumulated depreciation and amortization of \$325 million.

Other assets increased in 2016 by \$6.3 million primarily due to the purchase of stock material for Positive Train Control and an increase in prepaid insurance expense.

Deferred outflows of resources increased by \$147.4 million or 68% as a result of the second year of the implementation of GASB Statement No. 68. Primarily driven by loss on

the market value of the pension assets. See Note 2 of the audited financial statements for further information.

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

	As of December 31,			Increase/(Decrease)	
	2017	2016	2015	2017-2016	2016-2015
Current liabilities	\$ 287,383	\$ 284,283	\$ 238,465	\$ 3,100	\$ 45,818
Noncurrent liabilities	2,281,333	2,206,978	1,997,029	74,355	209,949
Deferred inflows of Resources	<u>21,959</u>	<u>23,562</u>	<u>-</u>	<u>(1,603)</u>	<u>23,562</u>
Total liabilities and Deferred Inflows of Resources	<u>\$ 2,590,675</u>	<u>\$ 2,514,823</u>	<u>\$ 2,235,494</u>	<u>\$ 75,852</u>	<u>\$ 279,329</u>

Significant Changes in Liabilities and Deferred Inflows of Resources—

In 2017, total liabilities increased by \$75.9 million or 3% compared to 2016.

- Noncurrent liabilities increased by \$74.4 million primarily due to an increase in Post-Employment Benefits Other than Pensions (“OPEB”) of \$142.4 million as a result of the latest actuarial estimates, an increase in Loans Payable of \$22.8 million for the repayment to NYPA for energy efficiency projects and was offset by a decrease in Pension liability of \$98.3 million.

In 2016, total liabilities increased by \$279 million or 12.5% compared to 2015.

- Noncurrent liabilities increased by \$210 million primarily due to an increase in Pension liability of \$111.6 million and an increase in Post-Employment Benefits Other than Pensions (“OPEB”) of \$89.9 million as a result of the latest actuarial estimates.

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

	As of December 31,			Increase/(Decrease)	
	2017	2016	2015	2017-2016	2016-2015
Net investment in capital assets	\$ 6,102,261	\$ 5,713,950	\$ 5,543,274	\$ 388,311	\$ 170,676
Unrestricted	<u>(1,856,154)</u>	<u>(1,839,738)</u>	<u>(1,714,099)</u>	<u>(16,416)</u>	<u>(125,639)</u>
Total net position	<u>\$ 4,246,107</u>	<u>\$ 3,874,212</u>	<u>\$ 3,829,175</u>	<u>\$ 371,895</u>	<u>\$ 45,037</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, 2017 versus 2016

Total net position increased by \$371.9 million in 2017. The increase was comprised of operating subsidies of \$798.0 million and capital contributions of \$706.1 million from the MTA offset by an operating loss of \$1.1 billion.

December 31, 2016 versus 2015

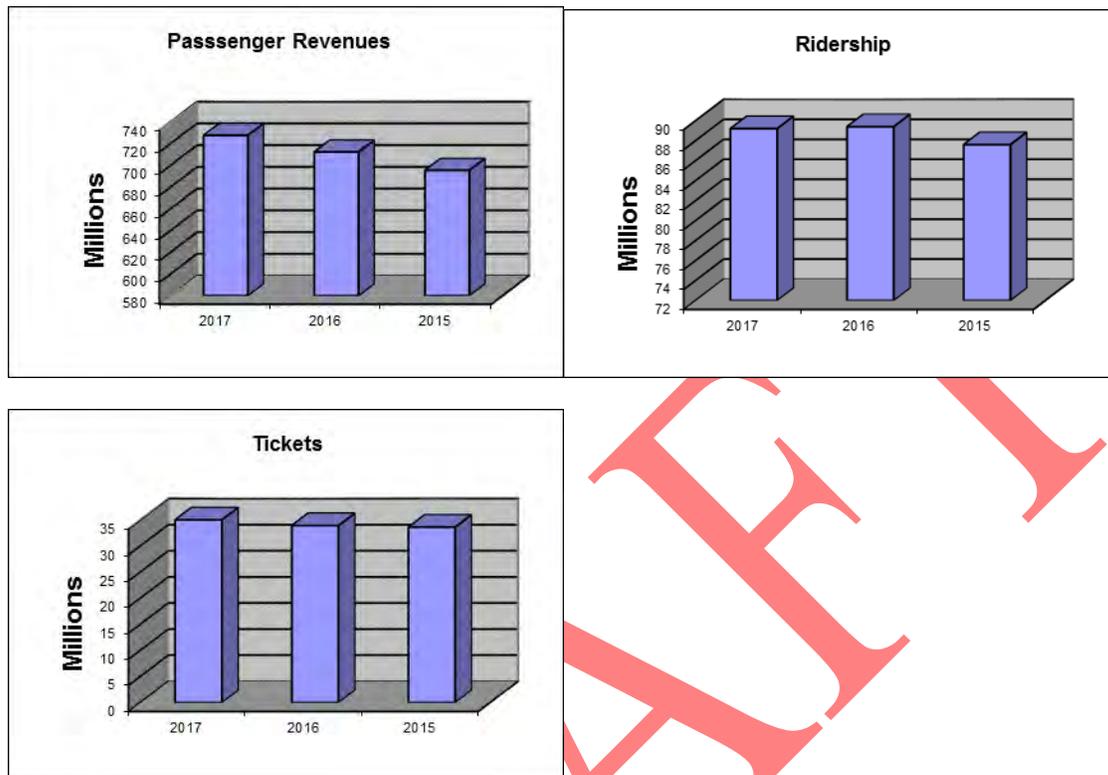
Total net position increased by \$45 million in 2016. The increase was comprised of operating subsidies of \$568.4 million and capital contributions of \$494.4 million from the MTA offset by an operating loss of \$1.0 billion.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 780,571	\$ 767,959	\$ 749,519
Operating expenses	<u>(1,912,893)</u>	<u>(1,785,776)</u>	<u>(1,736,552)</u>
Operating loss	<u>(1,132,322)</u>	<u>(1,017,817)</u>	<u>(987,033)</u>
Nonoperating revenues:			
Operating subsidies from MTA	798,040	568,425	573,440
Capital contributions	706,132	494,429	422,405
FTA/FEMA reimbursement	<u>45</u>	<u>-</u>	<u>1,226</u>
Total nonoperating revenues	<u>1,504,217</u>	<u>1,062,854</u>	<u>997,071</u>
Change in net position	371,895	45,037	10,038
Net position—beginning of year	3,874,212	3,829,175	5,167,758
Restatement of beginning net position	<u>-</u>	<u>-</u>	<u>(1,348,621)</u>
Net position—end of year	<u>\$ 4,246,107</u>	<u>\$ 3,874,212</u>	<u>\$ 3,829,175</u>

Revenues and Expenses by Major Source

Operating Revenues



In 2017, The MTA Long Island Rail Road experienced its second-highest ridership since the post-war record of 91.8 million passengers set in 1949, following 2016's modern record of 89.4 million passengers. During 2017, the LIRR carried 89.2 million customers, which was a 0.2% decrease from 89.4 million customers in 2016. However, when adjusted for the same number of calendar workdays, the 2017 ridership was at the same level as 2016. The LIRR remains the busiest commuter railroad in North America. Strong local economic conditions and continuous growth in non-commutation travel, including trips to entertainment and sports venues, have contributed to these ridership numbers.

The 2017 Non-Commutation market experienced growth increasing 2.2%, outpacing the decline of the 2017 Commutation market, which decreased (1.6%) compared to 2016. Overall in 2017, Commutation ridership experienced declines in ten consecutive months, while Non-Commutation experienced only three declines during 2017. The main factor affecting ridership in 2017 was the Amtrak Summer State of Good Repair Program taking place at Penn Station. The LIRR estimates that 438,000 riders were lost during the summer program.

In 2016, The MTA Long Island Rail Road ridership experienced strong growth finishing the year with 89.4 million passengers, which was 1.9% above the 2015 ridership. This marks the highest ridership in 67 years, since the post war record of 91.8 million set in 1949 and broke the previous modern record set last year of 87.6 million. A steadily improving economy and service enhancements contributed to the increase. While commuter travel remained strong, non-commutation ridership grew faster as the LIRR took several steps that helped boost weekend and leisure travel ridership:

- The addition of two seasonal trains to the summer timetable provided customers with better connections with Fire Island ferries in Bay Shore, Sayville and Patchogue. Also, the additional service aimed at improving crowding conditions on trains serving the Hamptons and Montauk during the busy summer travel season.
- The return of year-round weekend service to/from the Greenport Branch. Additional train cars were added to Greenport summer trains serving Long Island's North Fork, to better address ridership demands.
- The LIRR made four additional post-game trains a permanent part of its service plan for all New York Islanders home games at the Barclays Center. In addition, for New York Islanders' weekend home games, LIRR is providing additional westbound, pre-game train service.

Operating Expenses by Categories

	2017	2016	2015	Increase/(Decrease)	
				2017-2016	2016-2015
Salaries and wages	\$ 633,269	\$ 628,286	\$ 603,532	\$ 4,983	\$ 24,754
Health and welfare	100,334	95,788	83,473	4,546	12,315
Pension	138,418	126,150	104,723	12,268	21,427
Other fringe benefits	81,731	90,214	79,502	(8,483)	10,712
Other post employment benefits (OPEB)	202,218	147,844	141,937	54,374	5,907
Electric power	84,769	77,567	92,041	7,202	(14,474)
Fuel	16,253	14,305	17,669	1,948	(3,364)
Insurance	20,524	22,690	21,948	(2,166)	742
Claims	18,301	16,588	6,531	1,713	10,057
Maintenance and other operating contracts	90,287	63,924	62,040	26,363	1,884
Environmental remediation	3,401	(1,756)	1,953	5,157	(3,709)
Professional service contracts	35,779	25,800	62,514	9,979	(36,714)
Materials and supplies	121,812	128,537	119,661	(6,725)	8,876
Depreciation and amortization	340,114	333,594	325,025	6,520	8,569
Other expenses	<u>25,683</u>	<u>16,245</u>	<u>14,003</u>	<u>9,438</u>	<u>2,242</u>
Total operating expenses	<u>\$ 1,912,893</u>	<u>\$ 1,785,776</u>	<u>\$ 1,736,552</u>	<u>\$ 127,117</u>	<u>\$ 49,224</u>

Significant Changes to Operating Expenses in 2017—

Total 2017 operating expenses increased by \$127.1 million or 7.1% over 2016 as follows:

- Pension costs increased by \$12.3 million or 9.7% primarily as a result of the latest actuarial valuation report.
- Other Post-Employment Benefits ("OPEB") increased by \$54.4 million or 36.8% based on the latest actuarial estimates.
- Electric power increased by \$7.2 million or 9.3% primarily due to higher rates and consumption.
- Maintenance and other operating contracts increased by \$26.4 million or 41.2% primarily due to bussing and ferry service provided for the Penn Station State of Good Repair.
- Professional Service Contracts increased by \$9.9 million or 38.7% primarily due to the write-off of various projects that are not capital eligible, higher legal fees for state initiatives and engineering consulting services.
- Other expenses increased \$9.4 million or 58.1% primarily due to higher bad debt reserve and the demolition of the Flushing building that had a remaining book value.

Significant Changes to Operating Expenses in 2016—

Total 2016 operating expenses increased by \$49.2 million or 2.8% over 2015 as follows:

- Salaries and Wages increased by \$24.8 million or 4.1%. The increase in salaries and wages was primarily due to higher project and maintenance overtime.
- Pension costs increased by \$21.4 million or 20.5% primarily as a result of the latest actuarial valuation report.
- Other Post-Employment Benefits ("OPEB") increased by \$5.9 million or 4.2% based on the latest actuarial estimates.
- Electric power decreased by \$14.5 million or 15.7% primarily due to a lower average market price and less consumption.
- Fuel decreased by \$3.4 million or 19% primarily due to a lower average market price.
- Professional Service Contracts decreased by \$36.7 million or 58.7% primarily due to the write-off of the East River Tunnel security assets in 2015 and delays in consulting services and contracts.
- Materials and Supplies increased by \$8.9 million or 7.4% primarily due to an increase in advance material purchases and higher program and production plan material and supplies purchased.

Significant Changes to Nonoperating Revenues in 2017

In 2017, operating subsidies from the MTA increased by \$229.6 million or 40.4%. 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:

- Payroll, overtime and health benefits increased by \$47.8 million due to general wage increases.
- Materials and Supplies increased by \$22.3 million due to advance material purchases and higher production plan purchases.
- Pension costs increased by \$70.0 million due to a cash infusion by the MTA into the LIRR Additional Plan.
- Maintenance and other operating contracts increased by \$23.5 million primarily due to the state of good repair at Penn Station.

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

- Capital and Other Reimbursements decreased by \$9.3 million primarily due to the timing of activity and reimbursement for capital and other reimbursements.

In 2017, nonoperating capital project subsidies from MTA increased by \$211.7 million or 42.8 %. 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 2016

In 2016, operating subsidies from the MTA decreased by \$5.0 million or 1%. Operating subsidies are provided by MTA to MTA Long Island Rail Road as part of an MTA approved financial plan.

Decreases in operating subsidies primarily relate to:

- Passenger Revenues increased by \$15.7 million primarily as a result of an increase in ridership.
- Electric power and fuel decreased by \$20.1 million due to lower rates and consumption.

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

- Capital and Other Reimbursements decreased by \$6.3 million primarily due to the timing of activity and reimbursement for capital and other reimbursements.

In 2016, nonoperating capital project subsidies from MTA increased by \$72.0 million or 17.1%. 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

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, and a financially sound and reliable transportation system is critical to the region's economic well-being. The MTA consists of urban subway and bus systems, suburban rail 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 2017 decreased relative to 2016, with ridership down by 68.9 million trips (2.5%). The decrease is driven by Subway ridership, which declined by 29.5 million trips (1.7%), MTA New York City Transit Bus ridership, which declined by 35.8 million trips (5.6%), and MTA Bus ridership, which declined by 3.5 million trips (2.8%). In addition, the MTA Long Island Rail Road experienced a decline of 163.4 thousand trips (0.2%). MTA Staten Island Railway ridership increased by 72.3 thousand trips (4.6%), while MTA Metro-North Railroad ridership was effectively unchanged, with a small increase of 1.6 thousand trips (0.002%). The overall decline in ridership in 2017 was comprised of a 15.9 million decline in the first quarter, a 14.7 million decline in the second quarter, a 21.9 million decline in the third quarter and a 16.4 million decline in the fourth quarter, all compared with the same quarter in 2016. Much of the decline in ridership—around 57%—is driven by a general decline in bus utilization, a trend that began in 2009 and has been observed nationally. The decline in subway ridership is a more recent trend—beginning in the third quarter of 2016—which appears to be a reversion to a dynamic more consistent with the long-term historical relationship rather than that of the years immediately following the recession, when ridership surged. Vehicle traffic at MTA Bridges and Tunnels facilities increased by 2.6 million crossings (0.9%) in 2017 compared to 2016. Through the first half of 2017, crossings decreased by 1.2 million, but large increases in the third and fourth quarters (1.4 million and 2.4 million respectively) led to the overall increase for the year. Congestion pricing in Manhattan, which is currently being debated and may be considered for adoption at some point in the future, could impact ridership and vehicle crossings. However, there is no guarantee that congestion pricing will be approved.

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2017 than in 2016 by 64.4 thousand jobs (1.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-nine 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.

National economic growth, as measured by Real Gross Domestic Product ("RGDP"), expanded at an annualized rate of 2.6% in the fourth quarter of 2017 according to the most recent advance estimate released by the Bureau of Economic Analysis ("BEA"). The

increase in RGDP reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, residential fixed investment, state and local government spending, and federal government spending; these were partially offset by a negative contribution from private inventory investment. Imports, which are a subtraction in the Gross Domestic Product ("GDP") calculation, increased. The deceleration in RGDP growth, relative to the second quarter's revised 3.2% growth rate, reflected a downturn in private inventory investment and an increase in imports; these were partially offset by an acceleration in personal consumption expenditures, nonresidential fixed investment, exports, state and local government spending, and federal government spending, as well as an upturn in residential fixed investment.

The New York City metropolitan area's price inflation, as measured by the Consumer Price Index for All Urban Consumers ("CPI-U"), was lower than the national average in the fourth quarter of 2017, with the metropolitan area index increasing by 1.7 %, while the national index increased by 2.1%, when compared with the fourth quarter of 2016. An 8.2% increase in the regional price of energy products, along with a 7.6% national increase, impacted overall inflation; in the metropolitan area, the CPI-U exclusive of energy products increased by 1.3%, while nationally, inflation exclusive of energy products was 1.7%. Increasing more than overall energy prices, the spot price for New York Harbor conventional gasoline rose by 14.8%, from an average price of \$1.54 per gallon to an average price of \$1.77 per gallon, between the fourth quarters of 2016 and 2017.

In March and June of 2017, the Federal Open Market Committee ("FOMC") raised rates again, with the target range set at 0.75% to 1%, in March and then 1% to 1.25% in June. The Federal Funds rate was raised to its current target level of 1.25% to 1.5% in December 2017 in view of realized and expected labor market conditions and inflation. Despite raising the target rate in the fourth quarter of 2017, monetary policy continued to be accommodative, supporting strong labor market conditions and a sustained return to 2 percent inflation. The unemployment rate continued to decline, while household spending continued to expand at a moderate rate and business fixed investment continued to pick up. Both overall inflation and inflation for items other than food and energy remained below 2 percent on a 12-month basis, and overall inflation is expected to remain below 2 percent in the short-term. Despite this, survey-based measures of longer-term inflation expectations were little changed. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. The FOMC expects that the economy will continue to expand at a moderate pace, labor market conditions will remain strong, and inflation will stabilize around 2 percent over the medium term. Gradual increases in the Federal Funds rate can be expected, but that the rate will remain below long-term levels for quite some time. Near-term risks to economic outlook appear roughly balanced, and the FOMC continues to closely monitor inflation indicators and global economic and financial developments.

The influence of the 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 thereby impact receipts from the Mortgage Recording Tax ("MRT") and Urban Tax, two important sources of MTA revenue. Mortgage Recording Tax collections for the fourth quarter of 2017 were lower than the fourth quarter of 2016 by \$7.2 million (6.1%); receipts in the fourth quarter of 2017 were \$11.9 million (9.7%) lower than receipts from the third quarter of 2017. Despite the gradual overall recovery of MRT receipts that began in 2012, average monthly receipts in 2017 remain \$25.2 million (39.5%) worse than the monthly average for 2006, just prior to the steep decline in Mortgage Recording Tax revenues. MTA's Urban Tax receipts – which are based on commercial real estate transaction and mortgage recording activity within New York City,

and can vary significantly from quarter to quarter based on the timing of exceptionally high-priced transactions – were \$16.1 million (9.9%) lower than receipts for the fourth quarter of 2016; receipts in the fourth quarter of 2017 were \$16.1 million (12.4%) higher than receipts from the third quarter of 2017. Average monthly receipts in 2017 were \$24.8 million (33.7%) lower than the monthly average for 2007, just prior to the steep decline in Urban Tax revenues.

Results of Operations—In 2017, MTA Long Island Rail Road’s On-Time Performance (“OTP”) decreased to 91.4% from 2016’s 92.7%. In 2017, the decrease in OTP was attributable primarily to weather related events and equipment issues. As a result of this decline, senior staff has engaged in a top-to-bottom assessment of the LIRR operations and will soon introduce a Performance Improvement Plan (PIP). This plan will target key areas, to yield maximum effect, with concentrations on enhancing/expanding communications; accelerating recovery from delays and disruptions; and bolstering our preparedness for seasonal impacts to service.

The PIP will lay out near-term as well as long-term goals, from procuring additional snow-fighting equipment to intensifying inspection protocols to revising the messaging protocols used by our Public Information Office (“PIO”). This will be a systemic, sustained program that will reverberate through the company and leave virtually no area untouched.

The railroad attained a mean distance between failures (MDBF)—the distance a train travels before experiencing a mechanical problem—of 205,270 miles. This exceeded the 2017 goal of 200,000 miles by 2.6%, but represents, a 3.2% decrease from 2016. Although the decline was a result of the retreating C-3 fleet performance from its record high previous year performance, C-3 still managed to achieve its second best-ever performance. LIRR continues its efforts of optimizing the reliability-centered maintenance program, enterprise asset management system implementation, new M-9 fleet preparedness, and initiatives targeting the performance of the entire fleet.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program—The MTA Long Island Rail Road completed 150th Street Jamaica bridge rehabilitation, employee facilities renewal, replacement of escalators at various stations, systems restoration at Wreck Lead Bridge, Main Line Double Track Phase II Design, Speonk to Montauk Signalization, the 2017 Annual Track Program and Post Avenue Bridge Replacement.

The Jamaica Capacity Improvements project finalized completion of the Johnson Avenue Yard Reconfiguration and construction of the South Bypass Track in 2017.

The installation of a new Automatic Speed Control Signal System from Speonk to Montauk was completed and went into service in November 2017, thus eliminating all “Dark Territory” – i.e. non-signalized along the Montauk branch.

Main Line Double Track: The Phase II Design Build Civil and Sitework contract between Central Islip to Farmingdale was completed. This included vegetation clearing and removal of unfit material, construction of retaining structures, and installation of a new track bed with sub-ballast for the new second track. Track, systems and station platform work continues in 2018 with new grade crossing concrete pad installation and the demolition of the Pinelawn Station shelter.

Positive Train Control: The design, integration, and furnishing of a Positive Train Control ("PTC") system are ongoing. Improved delivery schedules for on-board and wayside kits were established that will support installation and earlier utilization of PTC on more track segments and by a greater number of trains.

Atlantic Avenue Tunnel Lighting: Replacement of the tunnel lighting system in the Atlantic Avenue Tunnel between East New York Station and Atlantic Terminal in Brooklyn began in March 2017.

Rehabilitation and waterproofing of the 150th Street Jamaica Bridge was completed in 2017.

Post Avenue Bridge in Westbury was replaced with a new bridge in October 2017. Demolition of the old span and installation of the new improved bridge required a 48-hour suspension of Main Line train service between Hicksville and Mineola and the use of alternate bus service and train diversions.

Oil City Substation replacement was completed in 2017. Design-Build replacement of the Long Beach Substation continued in 2017 with an estimated completion date of March 2018. Replacement of underwater cables, the bridge electrical system, and the emergency generator at the Wreck Lead Bridge over which takes the LIRR over Reynolds Channel was completed at the close of 2017.

First Avenue Substation Restoration to provide new fully operational AC Switchgears was completed in 2017.

The 2017 Annual Track Program continued LIRR's cyclical replacement of track assets, including replacement of 42,145 mechanized ties on the Babylon and Montauk branches; 24,816 concrete ties on the Babylon branch; 14 grade crossings on the Babylon, Montauk, and West Hempstead branches; 134,117 pieces of contingency welded rail on the Babylon branch; and 3 surfacing interlocking switches on the Greenport branch.

The LIRR continued its investment in the MTA-wide Enterprise Asset Management ("EAM") initiative. The EAM program will align with ISO55000 standards, Federal Transit Administration ("FTA") requirements, and other industry "best practices."

OTHER

Customer Service—The LIRR continued its efforts to improve the customer experience by 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. The LIRR continues to explore new ways to improve customer communication.

Customer Amenities - During 2017, LIRR completed and advanced several station improvement projects. These included:

- The LIRR completed installation of new all-weather duty escalators at six Babylon Branch stations. All escalators are equipped with safety enhancements and provide remote monitoring capability.

- A construction contract was awarded for two new elevators along with platform and street level improvements at Murray Hill Station on the Port Washington Branch in Queens, NY in December 2017. Work elements include two new elevator shafts, machine rooms, associated cut-back and reinstallation of retaining walls, new ADA compliant tactile warning strips on platform edges, lighting in areas surrounding the elevators, CCTV cameras, signage, and bird control.
- Hicksville Station improvements continue. This station project includes the installation of new platforms, platform waiting rooms, canopies, elevators, escalators, stairways, signage, security cameras, Wi-Fi, and charging ports.
- Rehabilitation of the Wantagh Station continues to progress. This project will replace the station platform, platform waiting room, canopy, escalator, platform lighting, communications and security systems, and drainage. A new elevator will also be installed to make the station wheelchair accessible. Construction began during 2016 and is scheduled for completion in September 2018.
- Advanced the rehabilitation of the elevated Nostrand Ave Station. This work includes replacement of the station platforms, railings, canopy, overpasses, platform stairs, and the installation of new elevators, station lighting, electrical and communication systems, CCTV security cameras, and signage. Construction is currently underway and is forecasted for completion in March 2019.
- Stewart Manor Station building improvements are being made under the Enhanced Station Initiatives. This project has deployed best architectural and design practices to upgrade the station building as well as install new LED lighting, USB charging ports, Wi-Fi service, and interactive digital kiosks.
- Advanced improvements to the Flushing Main Street Station. This project includes the installation of new hydraulic elevators, platform railings, staircases, lighting, station plaza, tactile warning strips on platform edges, CCTV security cameras, and ticket office. Construction began in March 2016 with construction completion forecasted for June 2018.
- LIRR has begun construction of a new platform at Jamaica Station, which will provide a dedicated location for future scoot train service between Jamaica and Brooklyn, as part of the East Side Access service plan.

Separately, the LIRR Main Line Expansion project has been approved by the Board and a contract has been awarded. The LIRR Main Line Expansion project will improve commutes, safety, quality of life and the environment on Long Island by adding Third Track to the almost 10-mile segment of the Main Line in Nassau County and eliminating seven at-grade roadway crossings.

Customer Satisfaction - In 2017, the LIRR "Overall Customer Satisfaction" decreased to 77% from 84% in 2016. Historically, customers perceive "On Time Performance" as a key service attribute that is significantly tied to train service operations. The survey score for "On Time Performance" in 2017 was 73% vs. 79% in 2016, down six points – also mirroring a six point drop from the "Overall Train Service" score (76% vs. 82%). There were a significant number of planned and unplanned service disruptions during 2017 that likely resulted in the lower satisfaction scores. On the positive side, there is a consistent trend in high satisfaction scores related to employees. "Overall Courtesy and Responsiveness of Employees" scored 90%, and "Professional Appearance of Conductors"

and "Courtesy and Responsiveness of Conductors" – both received high satisfaction scores of 92%.

The LIRR is currently developing a performance improvement plan to address many of the underlying reasons for the decline in customer satisfaction.

CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

Labor Negotiation Update – Negotiation of new agreements between the MTA Long Island Rail Road and the unions covering all of the MTA Long Island Rail Road represented employees, whose contracts expired on December 15, 2016, were completed with all unions in 2017 except the Independent Railway Supervisors Association ("IRSA") which is ongoing.

* * * * *

DRAFT

MTA LONG ISLAND RAIL ROAD**(Component Unit of the Metropolitan Transportation Authority)****STATEMENTS OF NET POSITION****DECEMBER 31, 2017 AND 2016****(Dollars in thousands)**

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 5,441	\$ 12,449
Fare cards	10,444	11,743
Invested funds at MTA	9,573	10,238
Receivables:		
Passenger	11,327	11,673
Due from MTA and affiliated agencies (Note 11)	149,844	78,886
Due from NYSDOT	384	1,823
Rents	3,009	2,263
Other	42,220	28,047
Less allowance for doubtful accounts	<u>(7,443)</u>	<u>(3,297)</u>
Receivables—net	<u>199,341</u>	<u>119,395</u>
Materials and supplies, net of allowance of \$48,596 and \$45,073 in 2017 and 2016, respectively	136,588	121,890
Prepaid expenses and other current assets	<u>33,458</u>	<u>33,736</u>
Total current assets	<u>394,845</u>	<u>309,451</u>
NONCURRENT ASSETS:		
Capital assets (Notes 2 and 5):		
Land and construction work-in-progress	1,395,871	1,084,020
Other Capital assets (net of accumulated depreciation)	<u>4,706,390</u>	<u>4,629,930</u>
Total noncurrent assets	<u>6,102,261</u>	<u>5,713,950</u>
Total assets	<u>6,497,106</u>	<u>6,023,401</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows for pension (Note 7)	<u>339,676</u>	<u>365,634</u>
Total deferred outflows of resources	<u>339,676</u>	<u>365,634</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 6,836,782</u>	<u>\$ 6,389,035</u>

See notes to financial statements

(Continued)

MTA LONG ISLAND RAIL ROAD
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

	2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 99,153	\$ 100,492
Due to MTA and affiliated agencies (Note 11)	34,319	38,333
Accrued expenses and other liabilities:		
Salary, wages and payroll taxes	32,661	26,979
Vacation and sick pay benefits	71,657	68,625
Current portion—retirement and death benefits	1,943	2,592
Current portion—estimated liability arising from injuries to persons (Note 9)	24,064	26,530
Current portion—loan repayment (Note 10)	3,026	-
Environmental remediation (Note 13)	4,791	4,954
Total accrued expenses	<u>138,142</u>	<u>129,680</u>
Unearned revenues	<u>15,769</u>	<u>15,778</u>
Total current liabilities	<u>287,383</u>	<u>284,283</u>
NONCURRENT LIABILITIES:		
Estimated liability arising from injuries to persons (Note 9)	87,788	73,368
Net pension liability	1,194,417	1,292,706
Postemployment benefits other than pensions (Note 8)	869,786	727,390
Environmental remediation (Note 13)	24,427	25,354
Loan repayment (Note 10)	22,826	-
Other long-term liabilities (Note 14)	82,089	88,160
Total noncurrent liabilities	<u>2,281,333</u>	<u>2,206,978</u>
Total liabilities	<u>2,568,716</u>	<u>2,491,261</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows from pension	<u>21,959</u>	<u>23,562</u>
Total deferred inflows of resources	<u>21,959</u>	<u>23,562</u>
NET POSITION:		
Net investment in capital assets	6,102,261	5,713,950
Unrestricted deficit	<u>(1,856,154)</u>	<u>(1,839,738)</u>
Total net position	<u>4,246,107</u>	<u>3,874,212</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 6,836,782</u>	<u>\$ 6,389,035</u>
See notes to financial statements.		(Concluded)

MTA LONG ISLAND RAIL ROAD
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

	2017	2016
OPERATING REVENUES:		
Passenger	\$ 727,597	\$ 712,347
Rents and utilities	24,511	25,427
Advertising	12,201	14,796
Food and beverage	2,819	2,999
Other	<u>13,443</u>	<u>12,390</u>
Total operating revenues	<u>780,571</u>	<u>767,959</u>
OPERATING EXPENSES:		
Salaries and wages	633,269	628,286
Retirement and other employee benefits	320,483	312,152
Post Employment Benefits other than pensions	202,218	147,844
Electric Power	84,769	77,567
Fuel	16,253	14,305
Insurance	20,524	22,690
Claims	18,301	16,588
Maintenance and other operating contracts	90,287	63,924
Environmental remediation	3,401	(1,756)
Professional service contracts	35,779	25,800
Material and supplies	121,812	128,537
Depreciation and amortization	340,114	333,594
Other	<u>25,683</u>	<u>16,390</u>
Total operating expenses	<u>1,912,893</u>	<u>1,785,921</u>
Net (recoverables)/ expenses related to asset impairment	<u>-</u>	<u>(145)</u>
OPERATING LOSS	<u>(1,132,322)</u>	<u>(1,017,817)</u>
NONOPERATING REVENUES:		
Operating subsidies from MTA	798,040	568,425
FTA/FEMA Reimbursement	<u>45</u>	<u>-</u>
Total nonoperating revenues	<u>798,085</u>	<u>568,425</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(334,237)	(449,392)
CAPITAL CONTRIBUTIONS—		
MTA contributions for capital projects	<u>706,132</u>	<u>494,429</u>
CHANGE IN NET POSITION	371,895	45,037
NET POSITION—Beginning of year	<u>3,874,212</u>	<u>3,829,175</u>
NET POSITION—End of year	<u>\$ 4,246,107</u>	<u>\$ 3,874,212</u>

See notes to financial statements.

MTA LONG ISLAND RAIL ROAD
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts	\$ 727,335	\$ 710,966
Rents, advertising, and other receipts	52,834	56,839
Payroll and related fringe	(1,114,134)	(856,837)
Other operating expenses	(446,668)	(458,254)
Net cash used in operating activities	<u>(780,633)</u>	<u>(547,286)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating subsidies from MTA	798,040	568,425
FTA/FEMA reimbursement	45	-
Cash provided by noncapital financing activities	<u>798,085</u>	<u>568,425</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions from MTA	1,132,663	207,391
Capital expenditures incurred for capital program	(1,157,122)	(221,393)
Net cash (used in)/provided by capital financing activities	<u>(24,459)</u>	<u>(14,002)</u>
NET INCREASE (DECREASE) IN CASH	(7,007)	7,137
CASH—Beginning of year	<u>12,448</u>	<u>5,311</u>
CASH—End of year	<u>\$ 5,441</u>	<u>\$ 12,448</u>
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (1,132,322)	\$ (1,017,817)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	340,114	333,594
Net increase in accounts payable, accrued expenses, other liabilities, unearned revenues	75,852	279,329
Net (increase) decrease in receivables	(77,112)	4,824
Net decrease (increase) in materials and supplies, prepaid expenses and other current assets, other assets	12,835	(147,216)
NET CASH USED IN OPERATING ACTIVITIES	\$ (780,633)	\$ (547,286)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital assets	\$ 428,697	\$ 282,877
Capital assets related liabilities	55,033	37,007
TOTAL NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	\$ 483,730	\$ 319,884

See notes to financial statements.

MTA LONG ISLAND RAIL ROAD
(Component Unit of the Metropolitan Transportation Authority)

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Dollars in thousands, except as noted)

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 component unit of the 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 and is a component unit 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 operationally and legally independent of the MTA. MTA Long Island Rail Road enjoys certain rights typically associated with separate legal status. However, MTA Long Island Rail Road is included in the MTA’s consolidated financial statements as a blended component unit because of the MTA’s financial accountability and MTA Long Island Rail Road is under the direction of the MTA Board (a reference to “MTA Board” means the board of MTA and/or the boards of the MTA Long Island Rail Road and other MTA component units 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 MTA Long Island Rail Road in its consolidated financial statements.

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

New Accounting Standards—

The MTA Long Island Rail Road adopted the following GASB Statements for the year ended December 31, 2017:

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 67, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pension plans and defined contribution plans that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 73 extends the approach to accounting and financial reporting established in GASB Statement No. 68 to all pensions to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB Statement No. 68, should not be considered pension plan assets. It also requires that information similar to that required by GASB Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on the LIRR's financial statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes accounting and financial reporting standards for state and local governmental other postemployment benefit ("OPEB") plans. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and GASB Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on the LIRR's financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units* establishes an additional blending requirement for the financial statement presentation of component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement had no impact on the LIRR's financial statements. No additional disclosures are required.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* establishes accounting and financial reporting standards for split-interest agreements, which are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. The Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement by requiring the government to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The adoption of this Statement had no impact on the LIRR's financial statements, as the LIRR does not enter into such agreements.

GASB Statement No. 82, *Pension Issues: An Amendment of GASB Statements No. 67, No. 68 and No. 73* addresses certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial*

Reporting for Pensions, and Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement adjusted the presentation of payroll-related measures in the required supplementary information, but did not have an impact on the MTA's financial statements.

Accounting Standards Issued but Not Yet Adopted -

GASB has issued the following pronouncements that may affect the future financial position, results of operations, cash flows, or financial presentation of the MTA Long Island Rail Road upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	LIRR Required Year of Adoption
75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pension</i>	2018
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment Issues</i>	2018
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, Including Direct borrowings and Direct Placements</i>	2019

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.

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. The Authority categorizes its fair value measurement within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable

inputs; and Level 3 inputs are significant unobservable inputs. Long Island Rail Road's investment in the MTA Investment Pool is value based on other observable inputs (Level 2 inputs).

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.

Fare Cards—MTA Long Island Rail Road 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, 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 \$25. Capital assets also include the Pennsylvania Station Leasehold further discussed in Note 6 to these financial statements.

Capital assets are stated at historical cost. 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 January 1, 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 5 Year Capital Program based on scheduled project activity occurring during the current 5 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— 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 for MTA Long Island Rail Road 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 limits for MTA Long Island Rail Road was \$9 million. Effective November 1, 2012 the self-insured retention limits for ELF was increased to \$10 million for MTA Long Island Rail Road. Effective October 31, 2015, the self-insured retention limits for ELF was increased to \$11 million for the MTA Long Island Rail Road. 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 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, 2017, the balance of the assets in this program was \$139.6 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, 2017, 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 \$11 million per occurrence limit with a \$0.5 million per occurrence deductible for MTA Long Island Rail Road FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On December 15, 2017, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$11 million per occurrence loss for MTA Long Island Rail Road.

Property Insurance — Effective May 1, 2017, 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 All Risk program annual limit is \$675 million per occurrence and in the annual aggregate for Flood and Earthquake covering property of the Related Entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda reinsurance markets for this coverage. Losses occurring after exhaustion of the deductible aggregate 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.

Supplementing the \$675 million per occurrence noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$125 million of fully collateralized earthquake coverage for an event of a certain index value and for 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 May 23, 2017 to April 30, 2020. The expanded protection is reinsured by MetroCat Re Ltd. 2017-1, a Bermuda special purpose insurer independent from the MTA and formed to provide FMTAC with capital markets based property reinsurance. The MetroCat Re Ltd. 2017-1 reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is parametric and available for storm surge losses resulting from a storm that causes water levels that reach the specified index values, and also for an earthquake event of a certain index value.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 83% of “certified” losses in 2017 and 82% of “certified” losses in 2018 and 81% of “certified” losses in 2019, as covered by the Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) of 2015. The remaining 17% (2017), 18% (2018) and 19% (2019) of the Related Entities’ losses arising from an act of terrorism would be covered under the additional terrorism policy described below. No federal compensation will be paid unless the aggregate industry insured losses exceed a trigger of \$140 million in 2017, \$160 million in 2018 and \$180 million in 2019. The United States government’s reinsurance is in place through December 31, 2020.

To supplement the reinsurance to FMTAC through the 2015 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) 17% of any “certified”

act of terrorism in 2016—up to a maximum recovery of \$182.8 million for any one occurrence and in the annual aggregate during 2017, 18% of any “certified” act of terrorism up to a maximum recovery of \$193.5 million for any one occurrence and in the annual aggregate during 2018 and 19% of any “certified” act of terrorism up to a maximum recovery of \$204.3 million for any one occurrence and in the annual aggregate during 2019, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the “certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$140 million TRIPRA trigger up to a maximum recovery of \$140 million for any occurrence and in the annual aggregate during 2017, or 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$160 million TRIPRA trigger up to a maximum recovery of \$160 million for any occurrence and in the annual aggregate during 2018 or 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$180 million TRIPRA trigger up to a maximum recovery of \$180 million for any occurrence and in the annual aggregate during 2019.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$182.8 million in 2017, \$193.5 million in 2018 and \$204.3 million in 2019. Recovery under the terrorism policy is subject to a deductible of \$25 million per occurrence and \$75 million in the annual aggregate in the event of multiple losses during the policy year. Should the Related Entities’ deductible in any one year exceed \$75 million future losses in that policy year are subject to a deductible of \$7.5 million. The terrorism coverages expire at midnight on May 1, 2019.

All Agency Protective Liability— FMTAC 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 projects. Effective June 1, 2017, the net retention to the Company is \$2 million. FMTAC also issued a policy for \$9 million excess of \$2 million per occurrence with an \$18 million annual aggregate.

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 and increased to \$11 million on October 31, 2015.

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, 2017 and 2016, 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.

GASB Statements No. 67 and 68, have substantially revised the accounting requirements previously mandated under GASB Statements No. 25 and 27. The most notable change is the distinct separation of funding from financial reporting. The Annual Required Contribution ("ARC") has been eliminated under GASB Statement No. 67 and 68 and is no longer relevant for the Plan financial reporting purposes starting in 2014.

Effective for the year ended December 31, 2015, MTA Long Island Rail Road adopted the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plans.

MTA Long Island Rail Road recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or MTA Long Island Rail Road's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of MTA Long Island Rail Road's year end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Other Postemployment Benefits—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 were implemented simultaneously with the requirements of Statement 45. MTA Long Island Rail Road 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 2017 and 2016 that were not insured were maintained in major financial institutions considered by management to be secure. As of December 31, 2017 and 2016, cash consists of:

	2017		2016	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured (FDIC) or collateralized deposits	\$ 2,488	\$2,393	\$ 3,248	\$2,879
Uninsured and noncollateralized fund on-hand and in-transit	<u>2,953</u>	<u>-</u>	<u>9,201</u>	<u>-</u>
Total cash	<u>\$ 5,441</u>	<u>\$2,393</u>	<u>\$ 12,449</u>	<u>\$2,879</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 component, 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, 2017 and 2016, are as follows:

	As of December 31, 2015	Additions/ Reclassifications	Deletions/ Reclassifications	As of December 31, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	As of December 31, 2017
Capital assets, not being depreciated:							
Land	\$ 48,112	\$ -	\$ -	\$ 48,112	\$ -	\$ -	\$ 48,112
Construction work-in-progress	<u>744,375</u>	<u>740,575</u>	<u>449,042</u>	<u>1,035,908</u>	<u>1,070,022</u>	<u>758,170</u>	<u>1,347,760</u>
Total capital assets, not being depreciated	<u>792,487</u>	<u>740,575</u>	<u>449,042</u>	<u>1,084,020</u>	<u>1,070,022</u>	<u>758,170</u>	<u>1,395,872</u>
Capital assets, being depreciated:							
Leasehold improvements	8,502	-	-	8,502	37,896	-	46,398
Pennsylvania Station leasehold	44,600	-	-	44,600	-	-	44,600
Buildings and structure	3,258,818	71,797	-	3,330,615	153,842	5,120	3,479,337
Equipment:							
Passenger cars and locos	2,627,338	4,347	-	2,631,685	-	3,540	2,628,145
Equipment and other	611,344	16,005	2,989	624,360	26,172	4,020	646,512
Infrastructure—road	<u>3,020,248</u>	<u>120,588</u>	<u>5,514</u>	<u>3,135,322</u>	<u>203,645</u>	<u>16,686</u>	<u>3,322,281</u>
Total capital assets, being depreciated	<u>9,570,850</u>	<u>212,737</u>	<u>8,503</u>	<u>9,775,084</u>	<u>421,555</u>	<u>29,366</u>	<u>10,167,273</u>
Less accumulated depreciation/amortization:							
Leasehold improvements	8,502	-	-	8,502	1,088	-	9,590
Pennsylvania Station leasehold	41,272	1,500	-	42,772	1,500	-	44,272
Buildings and structure	1,095,679	85,705	-	1,181,384	88,631	256	1,269,759
Equipment:							
Passenger cars and locos	1,379,528	96,369	-	1,475,897	96,454	3,540	1,568,811
Equipment and other	408,396	25,789	2,988	431,197	25,299	3,987	452,509
Infrastructure—road	<u>1,886,686</u>	<u>124,231</u>	<u>5,515</u>	<u>2,005,402</u>	<u>127,227</u>	<u>16,686</u>	<u>2,115,943</u>
Total accumulated depreciation/amortization	<u>4,820,063</u>	<u>333,594</u>	<u>8,503</u>	<u>5,145,154</u>	<u>340,199</u>	<u>24,469</u>	<u>5,460,884</u>
Total capital assets, being depreciated/amortized—net	<u>4,750,787</u>	<u>(120,857)</u>	<u>1</u>	<u>4,629,930</u>	<u>81,356</u>	<u>4,897</u>	<u>4,706,389</u>
Capital assets—net	<u>\$ 5,543,274</u>	<u>\$ 619,718</u>	<u>\$ 449,043</u>	<u>\$ 5,713,950</u>	<u>\$ 1,151,378</u>	<u>\$ 763,067</u>	<u>\$ 6,102,261</u>

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, 2017 and 2016, is \$2,567 and \$2.276, respectively.

On April 24, 2015, Governor Cuomo announced that the Federal Railroad Administration had approved a U.S. Federal Railroad Administration loan of \$967,100 under its Railroad Rehabilitation and Improvement Financing Program. MTA, on behalf of Metro-North Railroad, and the Long Island Rail Road, applied for funding to improve the safety of signal systems. The loan will finance the installment of positive train control, a technology designed to remove the potential for human error that can lead to train-involved accidents. The loan was approved by the MTA Board at its meeting on April 29, 2015 and the loan was closed in May 2015. The MTA will issue its Transportation Revenue Bond directly to the Federal Railroad Administration and will repay the obligation over 22½ years at a fixed interest rate of 2.38%. As of December 31, 2017, \$146.5M has been drawn down, of which \$81.0M was for LIRR's PTC project.

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.

7. EMPLOYEE BENEFITS

MTA Long Island Rail Road sponsors and participates in two defined benefit pension plans for their employees, the Long Island Railroad Company Plan for Additional Pensions (the "Additional Plan") and the Metropolitan Transportation Authority Defined Benefit Plan (the "MTA Defined Benefit Plan"). A brief description of each of the pension plans follows:

Plan Descriptions

1. The Long Island Rail Road Additional Plan—

The Long Island Rail Road Company Plan for Additional Pensions is a single-employer defined benefit pension plan that provides retirement, disability and survivor benefits to members and beneficiaries. The Plan covers MTA Long Island Rail Road employees hired effective July 1, 1971 and prior to January 1, 1988. The Plan's activities, including establishing and amending contributions and benefits are administered by the Board of Managers of Pensions. 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 Additional Plan is a closed plan and members include LIRR employees hired prior to January 1, 1988.

The Long Island Rail Road Company Plan for Additional Pensions is administered by the Board of Managers of Pensions, which is comprised of the Chairman of the MTA, MTA Chief Financial Officer, MTA Director of Labor Relations and the agency head of each participating Employer. The Long Island Rail Road Company Plan for Additional Pensions may be amended by action of the MTA Board.

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 financial statements may be obtained at www.mta.info or by writing to, Long Island Rail Road, Controller, 93-02 Sutphin Boulevard—mail code 1421, Jamaica, New York 11435.

2. MTA Defined Benefit Plan—

The MTA Defined Benefit Pension Plan (the "MTA Plan" or the "Plan") is a cost sharing, multiple-employer pension plan. The Plan covers certain MTA Long Island Rail Road nonrepresented employees hired after December 31, 1987, MTA Metro-North Railroad nonrepresented 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 nonrepresented 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 benefit programs for their covered employees and beneficiaries.

The MTA Defined Benefit Plan is administered by the Board of Managers of Pensions, which is comprised of the Chairman of the MTA, MTA Chief Financial Officer, MTA Director of

Labor Relations and the agency head of each participating Employer. The MTA Plan may be amended by action of the MTA Board.

A stand-alone financial report may be obtained at www.mta.info or by writing to the MTA Comptroller, 2 Broadway, 16th Floor, New York, New York, 10004.

Benefits Provided

1. The Long Island Rail Road Additional Plan—

Pension Benefits—An employee who retires under the Additional Plan, either: (a) after completing at least 20 years of credited service, or (b) after both attaining age 65 while in service and completing at least 5 years of credited service, or in the case of those who were active 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 the Company, subject to the obligations of the Company under its collective bargaining agreements. The Company's Board of Directors must approve all amendments. The Additional Plan has both contributory and non-contributory 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.

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, are required to contribute 3% of their wages to the Additional Plan. The Company contributes additional amounts based on actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due.

The LIRR Additional Plan also provide death and disability benefits. Participants who become disabled after accumulating 10 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 5 thousand dollars is payable upon death on behalf of a nonvested participant or vested participant whose pension rights were waived.

Retirement benefits establishment and changes for representative employees are collectively bargained and must be ratified by the respective union and the MTA Board. For nonrepresented employees, retirement benefits establishment and changes are presented to the MTA Board and must be accepted and approved by the MTA Board.

2. MTA Defined Benefit Plan

Pension Benefits—Retirement benefits are paid from the Plan to covered post-1987 MTA Long Island Rail Road employees as service retirement allowances or early retirement allowances. A participant is eligible for a service retirement allowance upon termination if the participant satisfied both age and service requirement. A participant is eligible for an early retirement allowance upon termination if the participant has attained age 55 and completed at least 10 years of credited service. Terminated participants with 5 or more years of credited service who are eligible for a deferred vested benefit are not eligible to receive a service retirement allowance or early retirement allowance.

Pre-1988 MTA Long Island Rail Road participants are eligible for a service retirement allowance upon termination if the participants have either: (a) attained age 65 and completed at least 5 years of credited service, or if an employee on January 1, 1988 completed at least 10 years of credited service, or (b) attained age 50 and has completed at least 20 years of credited service. Terminated participants who were not employees on January 1, 1988 with 5 or more years of credited service are eligible for a deferred vested benefit. 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 earning of 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 supplemental annuity) value at age 65 under the Federal Railroad Retirement Act.

In 2017, the reduction of pension benefits for amounts payable under the Tier II Federal Railroad Retirement Act was reduced from 100% to 90%. This change for Long Island Rail Road represented employees was effective upon ratification of respective collective bargaining agreements, with various ratification dates occurring in 2017. Management employees were effective November 15, 2017.

Death & Disability Benefits—In addition to service retirement benefits, participants of the Plan are eligible to receive disability retirement allowances and death benefits. Participants who become disabled may be eligible to receive disability retirement allowances after ten years of credited service for covered MTA Long Island Rail Road management and represented employees. The disability retirement allowance for covered and MTA Long Island Rail Road management is calculated based on the participant's credited service and final average salary ("FAS") but not less than 1/3 of FAS. Pre-1988 MTA Long Island Rail Road participants who become disabled after accumulating 10 years of credited service and who meet the requirements as described in the Plan may be eligible to receive a disability benefit. Disability pension benefits are calculated based on the participant's qualified service and a percentage of final average compensation reduced by the full amount of the disability benefit under the Federal Railroad Retirement Act. Survivorship benefits for pre-1988 MTA Long Island Rail Road participants are paid to the spouse when a survivorship option is elected or when an active participant has not divested their spouse of benefits.

Retirement benefits establishment and changes for representative employees are collectively bargained and must be ratified by the respective union and the MTA Board. For nonrepresented employees, retirement benefits establishment and changes are presented to the MTA Board and must be accepted and approved by the MTA Board.

Membership

Membership in the Long Island Rail Road Additional Pension Plan (“LIRR Additional Pension Plan” or “Additional Plan”) consisted of the following at January 1, 2016 and January 1, 2015, the date of the latest actuarial valuation:

	2016	2015
Active plan members	216	282
Retirees and beneficiaries receiving benefits	5,900	5,985
Vested formerly active members not yet receiving benefits	<u>38</u>	<u>53</u>
Total	<u>6,154</u>	<u>6,320</u>

Contributions and Funding Policy

1. Long Island Rail Road Company Plan for Additional Pensions Plan

Employer contributions are actuarially determined on an annual basis and are recognized when due. The Additional Plan is a defined benefit plan administered by the Board of Pension Managers and is a governmental plan and accordingly, is not subject to the funding and other requirements of ERISA.

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 the Company’s Board of Managers of Pensions (1.5% in 2016 and 2015), or (2) leave their contributions in the Additional Plan 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 the Company’s Board of Managers of Pensions (1.5% in 2016 and 2015).

Funding for the Additional Plan by the Company is provided by MTA, which obtains the required funds from New York State, federal grants, the sale of bonds to the public and other sources. Certain funding by MTA is made to the Company on a discretionary basis. The continuance of the Company’s funding for the Additional Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

Contributions as a percent of covered payroll was 373.29% for the year ended December 31, 2016. The actual contributions for the year ended December 31, 2016 was \$76,523.

Contributions as a percent of covered payroll was 276.68% for the year ended December 31, 2016. The actual contributions for the year ended December 31, 2015 was \$81,100.

2. MTA Defined Benefit Plan

MTA Long Island Rail Road's contributions are actuarially determined on an annual basis. Amounts recognized as receivables for contributions include only those due pursuant to legal requirements. Employee contributions to the Plan are recognized in the period in which the contributions are due. The following summarizes the types of employee contributions made to the Plan.

Effective January 1, 1994, covered MTA Long Island Rail Road nonrepresented 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 contributing to the Plan. 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.

Covered 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 Long Island Rail Road represented employees who became participants after January 30, 2008 contribute 4% of salary. MTA Long Island Rail Road represented employees are required to make the employee contributions for ten years, or fifteen years if hired after certain dates in 2014 as per collective bargaining agreements.

Contributions as a percent of covered payroll was 14.02% for the year ended December 31, 2017. The actual contributions for the year ended December 31, 2017 was \$111,459.

Contributions as a percent of covered payroll was 13.46% for the year ended December 31, 2016. The actual contributions for the year ended December 31, 2016 was \$99,800.

Net Pension Liability—MTA Long Island Rail Road's net pension liabilities for each of the pension plans reported at December 31, 2017 were measured as of December 31, 2016. The total pension liability for each of the pension plans was determined by an actuarial valuation as of the valuation date of January 1, 2016, that was updated to roll forward the total pension liability to the respective year-end. Actuarial valuations are performed annually as of January 1. Information about the fiduciary net position of each qualified pension plan's fiduciary net position has been determined on the same basis as reported by each respective qualified pension plan. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the respective qualified pension plan, and investments are reported at fair value.

Actuarial Assumptions—The total pension liability in the January 1, 2016 actuarial valuations was determined using the following actuarial assumptions, which were based on the 2012 actuarial experience study, for each of the pension plans as follows:

	Additional Plan	MTA Defined Benefit Plan
Actuarial cost method	Entry Age Cost Method	Frozen Initial liability (FIL)
Amortization method	Period specified in current valuation report (closed 17-year period from January 1, 2016) with level dollar payments.	For FIL bases, period specified in current valuation report. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population for each group.
Actuarial asset valuation method	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.
Interest rate	Net rate of 7.0% for 2016, per annum, net of investment expenses.	Net rate of 7.0% for 2016, per annum, net of investment expenses.
Inflation	2.5% per annum	2.5% per annum
Railroad retirement wage base	3.5% per year	3.5% per year
Mortality	Based on experience of all LIRR members reflecting mortality improvement on generational basis using Scale AA.	Based on experience of all MTA members reflecting mortality improvement on generational basis using Scale AA.
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. Rates vary by age, years of service at retirement.	Tables based on recent experience. Rates vary by age, years of service at retirement and Tier/Plan.
Salary increases	3.0% per year.	Varies by years of employment and employee group; 3.0% General Wage Increases ("GWI") for TWU MTA Bus hourly employees.
Overtime	Earnings in each year increased by 65% for represented employees to account for overtime and by 20% in the year prior to assumed retirement and by 10% in the year prior to termination (other than retirement) for non-represented employees to account for unused vacation pay.	Tables based on recent experience.
Cost-of-living adjustments	Not Applicable.	1.375% per annum.
Provision for expenses	The provision for administrative expenses was modified to equal an average of the prior three years.	An average of the prior three years' administrative charges added to the normal cost.

Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was 7.00% for both the Additional Plan and the MTA Defined Benefit Plan. The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation.

The target allocation and best estimates of arithmetic real rates of return ("RROR") for each major asset class included in each of the pension funds are as follows:

Asset Class	Additional Plan		MTA Defined Benefit Plan	
	Target Allocation*	Real Rate of Return	Target Allocation*	Real Rate of Return
US Core Fixed Income	10.00%	1.67%	10.00%	1.67%
US High Yield Bonds	8.00%	5.04%	8.00%	5.04%
Global Bonds	10.00%	0.28%	10.00%	0.28%
Emerging Market Bonds	3.00%	3.78%	3.00%	3.78%
US Large Caps	10.00%	4.80%	10.00%	4.80%
US Small Caps	5.50%	6.06%	5.50%	6.06%
Global Equity	10.00%	5.49%	10.00%	5.49%
Foreign Developed Equity	10.00%	6.06%	10.00%	6.06%
Emerging Market Equity	3.50%	8.39%	3.50%	8.39%
Global REITS	5.00%	5.77%	5.00%	5.77%
Private Real Estate Property	3.00%	3.64%	3.00%	3.64%
Private Equity	7.00%	8.99%	7.00%	8.99%
Hedge Funds - MultiStrategy	15.00%	3.45%	15.00%	3.45%
Assumed Inflation - Mean		2.50%		2.50%
Assumed Inflation - Standard Deviation		1.85%		1.85%
Portfolio Arithmetic Mean Return		7.03%		7.03%
Portfolio Standard Deviation		11.54%		11.54%
Long-Term Expected Rate of Return selected by MTA		7.00%		7.00%

* Based on March 2014 Investment Policy

Discount Rate

As of December 31, 2017, the discount rate used to measure the total pension liability of both the Additional Plan and the MTA Defined Benefit Plan was 7%.

The projection of cash flows used to determine the discount rate assumed that plan contributions will be made in accordance with the Employer funding policy as projected by the Plan's actuary. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability—Additional Plan

Changes in MTA Long Island Rail Road’s net pension liability for the Additional Plan for the year ended December 31, 2017, based on the December 31, 2016 measurement date, are as follows:

	Additional Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance—December 31, 2015	\$ 1,562,251	\$ 726,198	\$ 836,053
Changes for calendar year 2016:			
Service cost	2,752	-	2,752
Interest on total pension liability	104,093	-	104,093
Effect of liability gains or losses	-	-	-
Effect of economic/demographic (gains) or losses	15,801	-	15,801
Benefit payments and withdrawals	(158,593)	(158,593)	-
Administrative expense	-	(611)	611
Member contributions	-	884	(884)
Net investment income	-	58,239	(58,239)
Non-employer contributions	-	70,000	(70,000)
Employer contributions	-	81,100	(81,100)
Balance—December 31, 2016	<u>\$ 1,526,304</u>	<u>\$ 777,217</u>	<u>\$ 749,087</u>

Changes in MTA Long Island Rail Road's net pension liability for the Additional Plan for the year ended December 31, 2016, based on the December 31, 2015 measurement date, are as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance—December 31, 2014	\$ 1,602,159	\$ 782,852	\$ 819,307
Changes for calendar year 2015:			
Service cost	3,441	-	3,441
Interest on total pension liability	106,987	-	106,987
Effect of liability gains or losses	6,735	-	6,735
Effect of economic/demographic (gains) or losses	-	-	-
Benefit payments and withdrawals	(157,071)	(157,071)	-
Administrative expense	-	(1,218)	1,218
Member contributions	-	1,108	(1,108)
Net investment income	-	52,832	(52,832)
Investment gains or losses	-	(52,305)	52,305
Employer contributions	-	<u>100,000</u>	<u>(100,000)</u>
Balance—December 31, 2015	<u>\$ 1,562,251</u>	<u>\$ 726,198</u>	<u>\$ 836,053</u>

The following presents the MTA Long Island Rail Road's net pension liability calculated using the current discount rate of 7.00% for the Additional Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

2016	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net pension liability	<u>\$ 871,350</u>	<u>\$ 749,087</u>	<u>\$ 642,973</u>
2015	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net pension liability	<u>\$ 963,427</u>	<u>\$ 836,053</u>	<u>\$ 725,673</u>

MTA Long Island Rail Road's Proportion of Net Pension Liability—MTA Defined Benefit Plan

The following table presents MTA Long Island Rail Road's proportionate share of the net pension liability of the MTA Defined Benefit Plan at the measurement date December 31, 2016, and the proportion percentage of the net pension liability of the MTA Defined Benefit Plan allocated to MTA Long Island Rail Road:

MTA Long Island Railroad's proportion of the net pension liability	35.186 %
MTA Long Island Railroad's proportionate share of the net pension liability	\$ 445,330

The following table presents MTA Long Island Rail Road's proportionate share of the net pension liability of the MTA Defined Benefit Plan at the measurement date December 31, 2015, and the proportion percentage of the net pension liability of the MTA Defined Benefit Plan allocated to MTA Long Island Rail Road:

MTA Long Island Railroad's proportion of the net pension liability	35.250 %
MTA Long Island Railroad's proportionate share of the net pension liability	\$ 456,653

MTA Long Island Rail Road's proportion of the respective Plan's net pension liability was based on actual required contributions of the participating employer for the calendar year.

The following table presents MTA Long Island Rail Road's proportionate share of the net pension liability calculated using the discount rate of 7.00% for the MTA Defined Benefit Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
2016			
MTA Long Island Railroad's proportionate share of the net pension liability	<u>\$ 642,701</u>	<u>\$ 445,330</u>	<u>\$ 278,824</u>
2015			
MTA Long Island Railroad's proportionate share of the net pension liability	<u>\$ 647,084</u>	<u>\$ 456,653</u>	<u>\$ 292,614</u>

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017 and 2016, MTA Long Island Rail Road recognized pension expense related to each pension plans as follows:

Pension Plans	2017	2016
Additional Plan	\$ 84,583	\$ 78,603
MTA Defined Benefit Plan	<u>99,463</u>	<u>90,121</u>
Total	<u>\$184,046</u>	<u>\$168,724</u>

At December 31, 2017, MTA Long Island Rail Road reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows:

	<u>Additional Plan</u>		<u>MTA Defined Benefit Plan</u>		<u>Total</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -	\$ 58,949	\$ -	\$ 58,949	\$ -
Changes in assumptions	-	-	-	(19,889)	-	(19,889)
Net difference between projected and actual earnings on pension plan investments	32,500	-	60,245	-	92,745	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-	-	-
Employer contribution to plan subsequent to the measurement date of net pension liability	<u>76,523</u>	<u>-</u>	<u>111,459</u>	<u>-</u>	<u>187,982</u>	<u>-</u>
Total	<u>\$109,023</u>	<u>\$ -</u>	<u>\$ 230,653</u>	<u>\$ (19,889)</u>	<u>\$339,676</u>	<u>\$ (19,889)</u>

At December 31, 2016, MTA Long Island Rail Road reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows:

	Additional Plan		MTA Defined Benefit Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ 37,961	\$ -	\$ 37,961	\$ -
Changes in assumptions	-	-	-	(23,422)	-	(23,422)
Net difference between projected and actual earnings on pension plan investments	52,949	-	93,824	-	146,773	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-	-	-
Employer contribution to plan subsequent to the measurement date of net pension liability	<u>81,100</u>	<u>-</u>	<u>99,800</u>	<u>-</u>	<u>180,900</u>	<u>-</u>
Total	<u>\$134,049</u>	<u>\$ -</u>	<u>\$ 231,585</u>	<u>\$ (23,422)</u>	<u>\$365,634</u>	<u>\$ (23,422)</u>

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs. The annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a 1 year closed period for the Additional Plan and 8.1 years period for the MTA Defined Benefit Plan, beginning in the year in which the deferred amount occurs.

The amount of \$187,982 reported as deferred outflows of resources related to pensions resulting from the Company's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-ended December 31, 2017. Other amounts reported as deferred outflows of resources related to pensions at December 31, 2016 will be recognized as pension expense as follows:

Year Ending December 31	Additional Plan	MTA Defined Benefit Plan	Total
2017	\$ 12,591	\$ 27,367	\$ 39,958
2018	12,591	27,367	39,958
2019	8,889	20,894	29,783
2020	(1,572)	3,666	2,094
2021	-	5,557	5,557
Thereafter	<u>-</u>	<u>9,013</u>	<u>9,013</u>
Total	<u>\$ 32,499</u>	<u>\$ 93,864</u>	<u>\$ 126,363</u>

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.

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. 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. The different types of benefits provided vary by employee type (represented employees versus management). MTA executive management at headquarters establishes and may at their discretion make amendments to the plan.

MTA Long Island Rail Road 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 Preferred Provider Organization ("PPO") plan and several Health Maintenance Organization ("HMO") plans. These benefits are provided through either a self-insured health plan, a fully insured health plan 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, 2017, and was performed with a valuation date of January 1, 2016. The

total number of plan participants as of January 1, 2016, receiving retirement benefits was 5.2.

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.

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.

Actuarial Methods and Assumptions—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, 2016 is 12 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 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.

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, 2016, which is 12 months prior to the beginning of the 2016 year. Census data for the next full valuation will be based on a valuation date of January 1, 2017.

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 3.50% to 3.30%.

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. Legislative changes passed in December 2015 have delayed the effective date of the excise tax until 2020. However, the calculation of the threshold amounts remains unchanged. 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 current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax and ACA fees, which apply to the plan, are not included. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the excise tax.

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

Valuation date	January 1, 2016
Actuarial cost method	Frozen Initial Liability
Discount rate	3.30%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen Initial Liability
Amortization period	12 years
Period closed or open	Closed

* In general, all coverages are paid for by the MTA.

Actuarial valuation involves 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 common practice. Health costs generally increase with age, so 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 cost 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.

Effective with this valuation, age adjustments are required for valuing NYSHIP benefits due to a change in actuarial standards. Age adjustments reflect that health costs are typically higher for retirees under age 65 than an average active population and, upon reaching Medicare, health costs are reduced as NYSHIP becomes the secondary payer.

Medicare Part B Premiums—Medicare Part B premiums reimbursements were assumed to have an annual trend of 4.5%. 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.

Health Care Cost Trend—The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2016 utilizing the baseline assumptions included in the model, except inflation of 2.5% 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 (4.5%). The NYSHIP trend reflects actual increases in premiums through 2016. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements.

Health Care Cost Trend Rates

NYSHIP

<u>Fiscal Year</u>	<u><65</u>	<u>>=65</u>
2016	11.8%	0.0%
2017	6.7	6.4
2018	6.2	6.0
2019	6.3	5.5
2020	5.3	5.1
2025	6.0	5.1
2030	5.9	5.1
2035	5.9	5.2
2040	5.8	5.2
2050	5.4	5.8
2060	5.2	5.5
2070	4.6	4.7
Ultimate*	4.2	4.3

* Ultimate rate used for years prior to 2016 for Entry Age purposes

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.

Dependent Coverage—Spouses are assumed to be the same age as the employee/retiree. 80% of male and 45% of female eligible members participating in NYSHIP are assumed to elect family coverage upon retirement. Actual 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 from the valuation date.

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— Rates from RP-2014 Disabled Annuitant table for males and females.

Turnover and retirement rates—All demographic assumptions were based on assumptions utilized in the 2016 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 based on age at valuation date.

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, 2017 and 2016. 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.

	2017	2016
Annual required contribution ("ARC")	\$228,629	\$170,942
Interest on net OPEB obligation	24,004	22,313
Adjustment to ARC	<u>(50,415)</u>	<u>(45,411)</u>
Annual OPEB cost	202,218	147,844
Payments made	<u>(59,822)</u>	<u>(57,982)</u>
Increase in net OPEB obligation	142,396	89,862
Net OPEB obligation—beginning of year	<u>727,390</u>	<u>637,528</u>
Net OPEB obligation—end of year	<u>\$869,786</u>	<u>\$727,390</u>

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, 2017, 2016, and 2015, were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
December 31, 2017	\$202,218	29.58 %	\$869,786
December 31, 2016	147,844	39.20	727,390
December 31, 2015	141,936	39.90	637,528

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, 2017	January 1, 2016	\$ 24,813	\$ 1,713,723	\$ 1,688,910	1.45 %	\$ 818,915	206.20 %

The required schedule of funding progress immediately following the notes to the financial statements 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.

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, 2017 and 2016, is presented below:

	2017	2016
Balance—beginning of year	\$ 99,898	\$84,739
Activity during the year:		
Current year claims and changes in estimates	28,074	27,382
Claims paid	<u>(16,119)</u>	<u>(12,223)</u>
Balance—end of year	111,853	99,898
Less current portion	<u>(24,064)</u>	<u>(26,530)</u>
Long-term liability	<u>\$ 87,789</u>	<u>\$73,368</u>

10. LOANS PAYABLE

In December 2005, the MTA and the New York Power Authority (“NYPA”) entered into an updated Energy Services Program Agreement (“ESP Agreement”). The ESP Agreement authorized MTA affiliates and subsidiaries to enter into a Customer Installation Commitment (“CIC”) with NYPA for turn-key, energy efficiency projects, which would usually be long-term funded and constructed by NYPA. The repayment period for the NYPA loan can be up to 20 years, but can be repaid at any time with no penalty.

The debt service requirements at December 31, 2017 are as follows:

Loans Payable

Year	Principal	Interest	Total
2018	\$ 3,026	\$ 619	\$ 3,645
2019	3,094	553	3,647
2020	3,137	482	3,619
2021	3,028	411	3,439
2022	2,865	341	3,206
2023-2027	10,703	747	11,450
Total	<u>\$ 25,853</u>	<u>\$ 3,153</u>	<u>\$ 29,006</u>

The above interest amounts include both fixed and variable rate calculations. Interest on the variable-rate loan is paid at the Securities Industry and Financial Markets Association Municipal Swap Index ("SIFMA") rate and is reset annually.

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, 2017 and 2016, is shown in the following table:

	2017	2016
Payments to MTA and affiliated agencies	\$148,267	\$140,087
Payments from MTA and affiliated agencies	300,659	296,222

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, 2017 and 2016, consists of:

	2017		2016	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 149,032	\$(10,910)	\$76,239	\$(13,207)
Affiliated agencies	<u>812</u>	<u>(23,409)</u>	<u>2,647</u>	<u>(25,126)</u>
Total MTA and affiliated agencies	<u>\$ 149,844</u>	<u>\$(34,319)</u>	<u>\$78,886</u>	<u>\$(38,333)</u>

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, 2017, are as follows:

Years Ending December 31	
2018	2,896
2019	2,614
2020	553
2021	561
2022	565
2023-2024	<u>973</u>
	<u>\$ 8,162</u>

Total rent expense for the years ended December 31, 2017 and 2016, amounted to \$9,092 and \$8,952, respectively, and is recorded in administrative expenses.

On July 29, 1998, 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, 2017 and 2016, 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 \$29,218 for 2017 and \$30,308 for 2016, primarily consisting of future remediation activities associated with lead and asbestos abatement.

A summary of activity in estimated liability arising from environmental remediation as of December 31, 2017 and 2016 is presented below:

	2017	2016
Balance-beginning of year	\$30,308	\$36,902
Activity during the year:		
Current year remediation and changes in estimates	3,401	(1,757)
Remediation paid	<u>(4,491)</u>	<u>(4,837)</u>
Balance-end of year	29,218	30,308
Less current portion	<u>(4,791)</u>	<u>(4,954)</u>
Long-term liability	<u>\$24,427</u>	<u>\$25,354</u>

14. OTHER LONG-TERM LIABILITIES

MTA Long Island Rail Road has recorded \$77.1 million in 2017 and \$85.9 million in 2016, for the estimated long-term sick leave payout for employees and other long-term liabilities of \$5.0 million in 2017 and \$2.3 million in 2016. 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 June 1, 2017, represented employees can receive a non-pensionable lump sum severance payment representing 50% of the value of all accrued but unused sick days. 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.

A summary of activity in estimated liability arising from other liabilities as of December 31, 2017 and 2016 is presented below:

	2017	2016
Balance-beginning of year	\$88,160	\$85,290
Activity during the year:		
Current year sick leave payout and changes in estimates	(5,719)	5,315
Sick leave payout	(3,014)	(2,864)
Other long term liabilities	<u>2,662</u>	<u>419</u>
Balance-end of year	<u>\$82,089</u>	<u>\$88,160</u>

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.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. While questioned costs may occur, ultimate repayments required of the MTA or the MTA Long Island Railroad have been infrequent in prior years.

16. SUBSEQUENT EVENT

Starting in 2018, The Long Island Railroad will be implementing a Performance Improvement Plan (“PIP”) to address LIRR’s need to prevent seasonal factors from impacting service, facilitate faster recovery and improve customer information. The PIP plan is currently being finalized and will consist of specific goals and timelines for accomplishing those goals.

* * * * *

DRAFT

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

MTA LONG ISLAND RAIL ROAD
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE MTA LONG ISLAND RAIL ROAD'S NET PENSION
LIABILITY AND RELATED RATIOS FOR THE LONG ISLAND RAIL ROAD COMPANY PLAN
FOR ADDITIONAL PENSIONS AT DECEMBER 31
(In thousands, except percentages)

	2016	2015	2014
TOTAL PENSION LIABILITY:			
Service cost	\$ 2,752	\$ 3,441	\$ 3,813
Interest	104,093	106,987	110,036
Differences between expected and actual experience	15,801	6,735	-
Benefit payments and withdrawals	<u>(158,593)</u>	<u>(157,071)</u>	<u>(156,974)</u>
Net change in total pension liability	(35,947)	(39,908)	(43,125)
TOTAL PENSION LIABILITY—Beginning	<u>1,562,251</u>	<u>1,602,159</u>	<u>1,645,284</u>
TOTAL PENSION LIABILITY—Ending(a)	<u>1,526,304</u>	<u>1,562,251</u>	<u>1,602,159</u>
FIDUCIARY NET POSITION:			
Employer contributions	81,100	100,000	407,513
Non-Employer contributions	70,000	-	-
Member contributions	884	1,108	1,304
Net investment income	58,239	527	21,231
Benefit payments and withdrawals	(158,593)	(157,071)	(156,974)
Administrative expenses	<u>(611)</u>	<u>(1,218)</u>	<u>(975)</u>
Net change in plan fiduciary net position	51,019	(56,654)	272,099
PLAN FIDUCIARY NET POSITION—Beginning	<u>726,198</u>	<u>782,852</u>	<u>510,753</u>
PLAN FIDUCIARY NET POSITION—Ending(b)	<u>777,217</u>	<u>726,198</u>	<u>782,852</u>
EMPLOYER'S NET PENSION LIABILITY—Ending(a)-(b)	<u>\$ 749,087</u>	<u>\$ 836,053</u>	<u>\$ 819,307</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>50.92 %</u>	<u>46.48 %</u>	<u>48.86 %</u>
COVERED—EMPLOYEE PAYROLL	<u>\$ 29,312</u>	<u>\$ 39,697</u>	<u>\$ 43,267</u>
EMPLOYER'S NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>2,555.56 %</u>	<u>2,106.09 %</u>	<u>1,893.61 %</u>

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available, in accordance with GASB Statement No. 68. Information was not readily available for periods prior to 2014.

MTA LONG ISLAND RAIL ROAD
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE MTA LONG ISLAND RAIL ROAD'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY IN THE MTA DEFINED BENEFIT PENSION PLAN AT
DECEMBER 31
(In thousands, except percentages)

	2016	2015	2014
MTA Long Island Railroad's proportion of the net pension liability	<u>33.186 %</u>	<u>35.250 %</u>	<u>34.970 %</u>
MTA Long Island Railroad's proportionate share of the net pension liability	<u>\$ 455,330</u>	<u>\$ 456,653</u>	<u>\$ 361,771</u>
MTA Long Island Railroad's actual covered-employee payroll	<u>\$ 741,461</u>	<u>\$ 718,326</u>	<u>\$ 720,069</u>
MTA Long Island Railroad's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll	<u>61.410 %</u>	<u>63.572 %</u>	<u>50.241 %</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71.820 %</u>	<u>70.440 %</u>	<u>74.770 %</u>

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available, in accordance with GASB Statement No. 68. Information was not readily available for periods prior to 2014.

MTA LONG ISLAND RAIL ROAD
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF MTA LONG ISLAND RAIL ROAD'S CONTRIBUTIONS TO ALL PENSION
PLANS FOR THE YEARS ENDED DECEMBER 31
(In whole dollars, except percentages)

	2017	2016	2015	2014
Additional Plan				
Actuarially determined contribution	\$ 76,523,056	\$ 83,182,872	\$ 82,381,698	\$ 112,512,532
Actual employer contribution	<u>76,523,056</u>	<u>81,100,000</u>	<u>100,000,000</u>	<u>407,512,532</u>
Contribution deficiency (excess)	\$ -	\$ 2,082,872	\$ (17,618,302)	\$ (295,000,000)
Covered payroll	<u>\$ 20,499,671</u>	<u>\$ 29,311,816</u>	<u>\$ 39,696,819</u>	<u>\$ 43,266,565</u>
Contributions as a % of Covered payroll	<u>373.29 %</u>	<u>276.68 %</u>	<u>283.43 %</u>	<u>941.86 %</u>
MTA Defined Benefit Pension Plan				
Actuarially determined contribution	\$ 109,304,403	\$ 101,964,855	\$ 96,400,000	\$ 94,951,686
Actual employer contribution	<u>111,459,116</u>	<u>99,800,000</u>	<u>68,500,000</u>	<u>123,849,954</u>
Contribution deficiency (excess)	\$ (2,154,713)	\$ 2,164,855	\$ 27,900,000	\$ (28,898,268)
Covered payroll	<u>\$ 794,718,795</u>	<u>\$ 741,460,982</u>	<u>\$ 718,325,512</u>	<u>\$ 720,069,352</u>
Contributions as a % of Covered payroll	<u>14.02 %</u>	<u>13.46 %</u>	<u>9.54 %</u>	<u>17.20 %</u>

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available, in accordance with GASB Statement No. 68. Information was not readily available for periods prior to 2014.

MTA LONG ISLAND RAIL ROAD
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
NOTES TO SCHEDULE OF LONG ISLAND RAIL ROAD'S CONTRIBUTIONS TO ALL PENSION PLANS

The following actuarial methods and assumptions were used in the January 1, 2016 funding valuation for the Single-Employer pension plan as follows:

	Additional Plan
Valuation dates	January 1, 2016
Measurement date	December 31, 2016
Actuarial cost method	Entry Age Normal Cost
Amortization method	Period specified in current valuation report (closed 17 year period beginning January 1, 2016) with level dollar payments
Asset valuation method	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.
Actuarial assumptions:	
Discount rate	7.00%
Investment rate of return	7.00%, net of investment expenses
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA
Inflation/Railroad Retirement Wage Base	2.50%; 3.50%
Salary increases	3.00%
Cost-of-living adjustments	N/A

Notes to Schedule of MTA Long Island Rail Road's Contributions Pension Plan:

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the MTA Defined Benefit Plan, should be presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

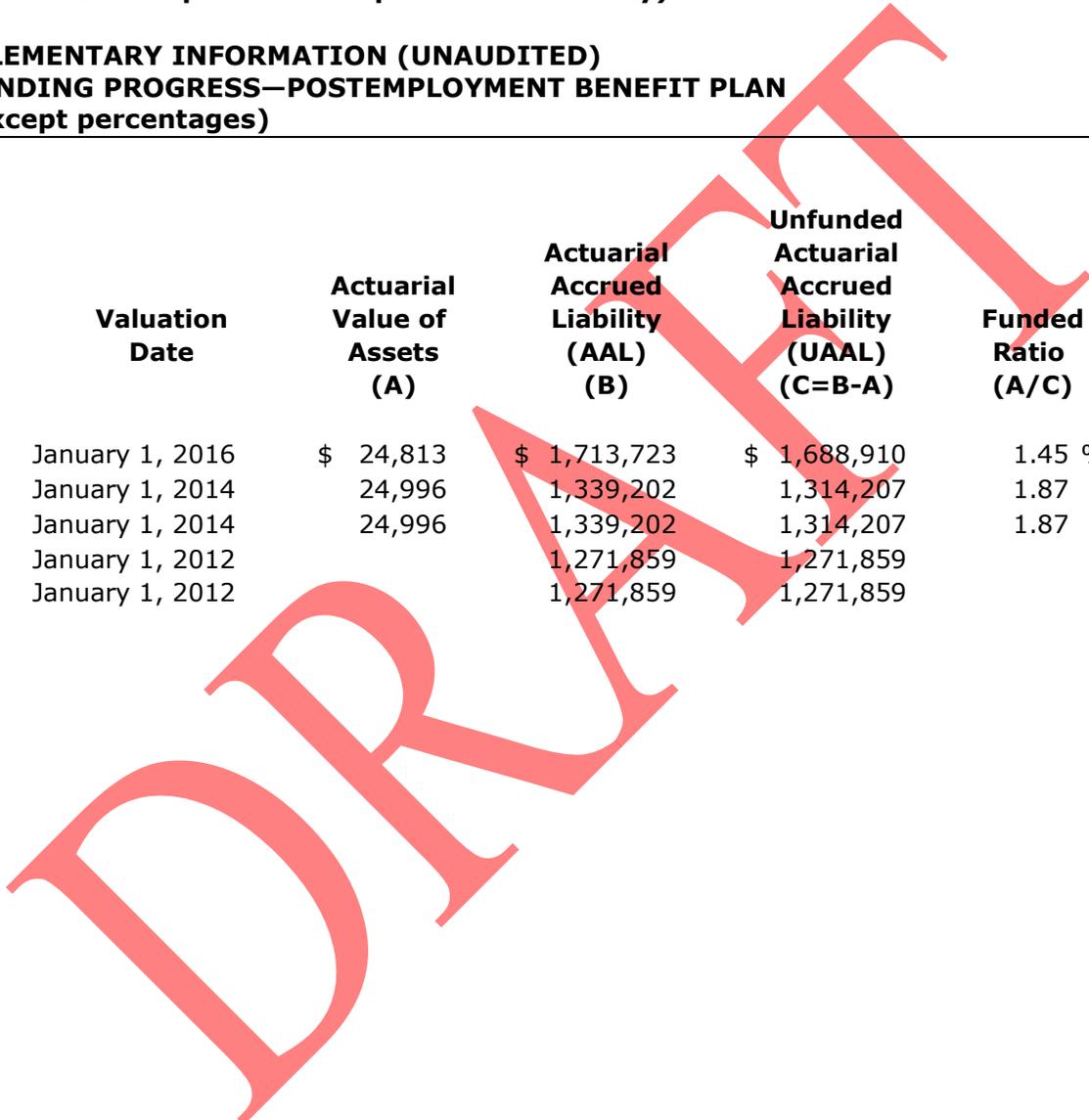
Changes of Benefit Terms—There were no changes of benefit terms in the January 1, 2016 funding valuation.

Changes of Assumptions—The provision for administrative expenses was modified to equal an average of the prior three years.

MTA LONG ISLAND RAIL ROAD
 (Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS—POSTEMPLOYMENT BENEFIT PLAN
 (In thousands, except percentages)

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, 2017	January 1, 2016	\$ 24,813	\$ 1,713,723	\$ 1,688,910	1.45 %	\$ 818,915	206.2 %
December 31, 2016	January 1, 2014	24,996	1,339,202	1,314,207	1.87	523,553	251.0
December 31, 2015	January 1, 2014	24,996	1,339,202	1,314,207	1.87	523,553	251.0
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



Metro-North Commuter Railroad Company

(Component Unit of the Metropolitan Transportation
Authority)

Financial Statements as of and for the
Years Ended December 31, 2017 and 2016,
Required Supplementary Information, and
Independent Auditors' Report

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METRO-NORTH COMMUTER RAILROAD COMPANY
(Component Unit 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 Metro-North Commuter Railroad Company (the "MTA Metro-North Railroad"), a component unit of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2017 and 2016, 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.

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 auditors' 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, 2017 and 2016, 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 Matters

As discussed in Note 1 to the financial statements, MTA Metro-North Railroad is a component unit of the 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

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 15, the Schedule of Changes in the MTA Metro-North Commuter Railroad Company’s Net Pension Liability and Related Ratios for the Metro-North Commuter Railroad Company’s Cash Balance Plan on page 60, the Schedule of the MTA Metro-North Commuter Railroad Company’s Proportionate Share of Net Pension Liability in the MTA Defined Benefit Pension Plan on page 61, the Schedule of MTA Metro-North Commuter Railroad Company’s Contributions to All Pension Plans on pages 62-63, and the Schedule of Funding Progress-Postemployment Benefit Plan on page 64, 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 25, 2018

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2017 AND 2016
(\$ in thousands, except as noted)

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", "MNR", or the "Company"), a component unit of the Metropolitan Transportation Authority ("MTA"), for the years ended December 31, 2017 and 2016. 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, (3) Notes to the Financial Statements and (4) Required Supplementary Information.

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 Commuter Railroad Company's progress in funding its obligation to provide pension and other postemployment benefits to its employees. It also includes the Schedule of Changes in the MTA Metro-North Commuter Railroad Company's Net Pension Liability and Related Ratios for the Metro-North Commuter Railroad Company Cash Balance Plan, the Schedule of the MTA Metro-North Commuter Railroad Company's Proportionate Share of the Net Pension Liability in the MTA Defined Benefit Pension Plan, the Schedule of MTA Metro-North Commuter Railroad Company's Contributions to All Pension Plans, and the Schedule of Funding Progress – Postemployment Benefit Plan.

FINANCIAL REPORTING ENTITY

The MTA Metro-North Railroad is a component unit of the 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.

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, 2017 and 2016. 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, Distinguishing Between Capital Assets, Other Assets and Deferred Outflows of Resources

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

Other Assets include, but are not limited to 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.

Deferred outflows of resources reflect changes in pension valuation and employer contributions subsequent to the measurement date.

	As of December 31,			Increase/(Decrease)	
	2017	2016	2015	2017-2016	2016-2015
Capital assets—net	\$4,827,990	\$4,615,918	\$4,503,181	\$212,072	\$ 112,737
Other assets	309,043	295,266	285,017	13,777	10,249
Deferred Outflows of resources	247,750	231,582	103,951	16,168	127,631
Total assets and deferred outflows of resources	<u>\$5,384,783</u>	<u>\$5,142,766</u>	<u>\$4,892,149</u>	<u>\$242,017</u>	<u>\$ 250,617</u>

Significant changes in Assets and Deferred Outflows of resources include:

December 31, 2017 versus 2016

- Net capital assets increased from December 31, 2016 to December 31, 2017 by \$212,072 or 4.59%. Increases in construction work-in-progress of \$286,514 primarily for Harmon Shop Improvements and Positive Train Control (“PTC”). Major additions to capital assets in 2017 include costs of \$40,514 for the new Tappan Zee Bridge, \$24,648 for interlocking switches and turnout replacements, \$24,019 for Cyclical Track Programs, \$23,115 for New York Power Authority energy efficiency projects and other improvements in GCT, \$11,664 for equipments and vehicles. Other additions were for land, stations, road structures and track improvements offset by depreciation and amortization of \$240,178.
- Other assets increased in 2017 by \$13,777 or 4.7%. Increase of \$13,324 in Amtrak receivable due to accrual for Section 212 of the Passenger Rail Investment and Improvement Act (“PRIIA”) of 2008; materials and supplies inventory increased by \$11,701 primarily due to purchases of camera kits; receivables from MTA increased by \$14,127 due to timing of billing and reimbursement of capital projects offset by a decrease in the amount of funds invested with MTA by \$7,111. Rent receivables increased by \$4,610 primarily due to GCT retail tenants and timing of receipts offset by an increase in allowance for doubtful accounts of \$2,338 for GCT retail tenants. These increases were also offset by a decrease in other receivables of \$14,598 primarily due to claim payments received from FMTAC for the Spuyten Duyvil incident and increase of \$4,826 in advanced deposits for customer projects.
- Deferred outflows of resources increased by \$16,168 or 7.0% due to changes in actuarial assumptions for the MTA Defined Benefit Pension Plan and higher employer contributions to the plan subsequent to the measurement date of \$21,410. There was an increase of \$22,842 in the differences between actual and expected experience and a decrease of \$31,963 between expected and actual earnings.

December 31, 2016 versus 2015

- Net capital assets increased from December 31, 2015 to December 31, 2016 by \$112,737 or 2.5%. Major additions to capital assets in 2016 include \$83,780 of Harmon shop improvements, \$71,021 for Sandy restoration projects, \$37,555 for track and structures, \$28,483 of station improvements, \$25,029 for Positive Train Control, \$19,213 of costs related to the 2015-2019 capital program, \$16,992 for power improvements and \$10,671 for camera installation offset by depreciation and amortization of \$236,091. The remainder is for various other projects for security, leasehold improvements and other infrastructure improvement initiatives.
- Other assets increased in 2016 by \$10,249 or 3.6%. Increase in other receivables due to amounts from FMTAC for claims paid for the Spuyten Duyvil incident of \$15,661 offset by a \$7,257 2015 refund for real estate taxes on the Graybar lease ; Amtrak receivable increased by \$11,586 primarily because of the accrual for Section 212 of Passenger Rail Investment and Improvement Act (“PRIIA”) of 2008. Other increases include invested funds at MTA of \$5,903 due to an increase in outstanding checks and prepaid expenses of \$3,473 due to a higher prepayment of medical insurance. These increases were offset by a decrease in due from MTA of \$17,180 primarily for capital projects reimbursements for retroactive wage adjustments of \$10,092, and materials and supplies usage of \$3,506.
- Deferred outflows of resources increased by \$127,631 or 122.8% because of current year changes in net pension liability.

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

Current liabilities include: 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.

Non-current liabilities include: net pension liability, claims for injuries to persons, postemployment benefits and a capital lease obligation for Grand Central Terminal.

Deferred inflows of resources reflect the difference between actual and projected pension plan investment earnings.

	As of December 31,			Increase/(Decrease)	
	2017	2016	2015	2017-2016	2016-2015
Current liabilities	\$ 341,491	\$ 322,374	\$ 296,074	\$ 19,117	\$ 26,300
Noncurrent liabilities	1,185,194	1,049,654	896,721	135,540	152,933
Deferred inflows of resources	<u>20,584</u>	<u>24,972</u>	<u>8</u>	<u>(4,388)</u>	<u>24,964</u>
Total liabilities and deferred inflows of resources	<u>\$ 1,547,269</u>	<u>\$ 1,397,000</u>	<u>\$ 1,192,803</u>	<u>\$ 150,269</u>	<u>\$ 204,197</u>

Significant changes in liabilities include:

December 31, 2017 versus 2016

- Current liabilities increased in 2017 by \$19,117 or 5.93%. Salaries, wages and payroll taxes increased by \$14,210 due to higher wage rates and retroactive wage accruals. Accrued vacation and sick pay benefits increased by \$7,007 also primarily due to higher wages. Amounts due to New Jersey Transit increased by \$6,921 primarily as the result of increased claims accrual for the West of Hudson line. Liability to CDOT increased by \$13,349 primarily due to the accrual of PRIIA and increased advances for capital projects. These increases were offset by a reclassification of New York Power Authority (“NYPA”) loans of \$13,567 from current to non-current liabilities; decrease in the current claims liability of \$13,567 based upon the actuarial estimates and decrease in accounts payable of \$2,056 due to timing of payments to vendors.
- Non-current liabilities increased in 2017 by \$135,540 or 12.91% primarily due to the change in the actuarial valuation for health care cost for other post employment benefits (“OPEB”) of \$98,810. Liabilities also increased due to change in claims estimate of \$16,190 and an increase in NYPA loans of \$18,519 due to the reclassification from current to non-current liabilities.

December 31, 2016 versus 2015

- Current liabilities increased in 2016 by \$26,300 or 8.9%. The increase is primarily in accounts payable of \$18,545 due to the timing of payments from MTA and outside vendors. Salaries, wages and payroll taxes increased by \$6,989 primarily due to an additional one day accrual. Accrued vacation and sick time increased by \$5,467 primarily due to higher wages. This increase is offset by a decrease in the claims liability of \$2,565 as prior years claims were settled in 2016.
- Non-current liabilities increased in 2016 by \$152,933 or 17.1% primarily due to the actuarial changes in the net pension liability of \$92,169. Liabilities also increased due to changes in the actuarial valuation of OPEB of \$57,086 and an increase in unearned rent on the Graybar lease of \$5,266 due to additional floors being occupied in 2016.

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

	As of December 31,			Increase/(Decrease)	
	2017	2016	2015	2017-2016	2016-2015
Net investment in capital assets	\$ 4,814,097	\$ 4,601,744	\$ 4,488,743	\$ 212,353	\$ 113,001
Unrestricted	<u>(976,583)</u>	<u>(855,978)</u>	<u>(789,397)</u>	<u>(120,605)</u>	<u>(66,581)</u>
Total net position	<u>\$ 3,837,514</u>	<u>\$ 3,745,766</u>	<u>\$ 3,699,346</u>	<u>\$ 91,748</u>	<u>\$ 46,420</u>

In 2017, the total net position increase of \$91,748 is attributable to increased fare revenues as a result of the full year impact of the Connecticut 6% fare increase implemented in December 2016 as well as a New York 3.75% fare increase implemented in March 2017. The increase in revenues is offset by wage increases for employees. Additionally, net position was positively impacted by the payments made by

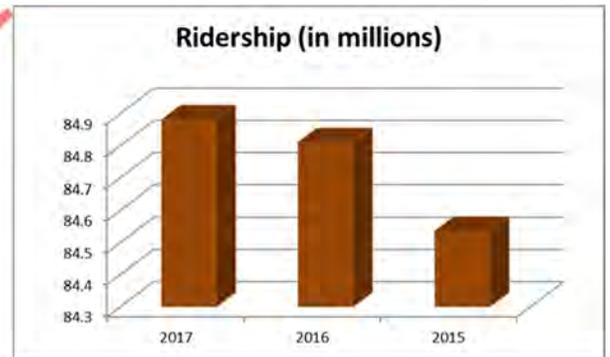
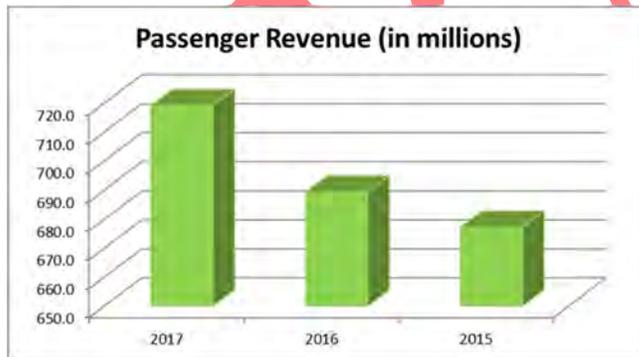
MTA for capital projects – a large part of which is related to Harmon Shop Improvements and Positive Train Control (PTC).

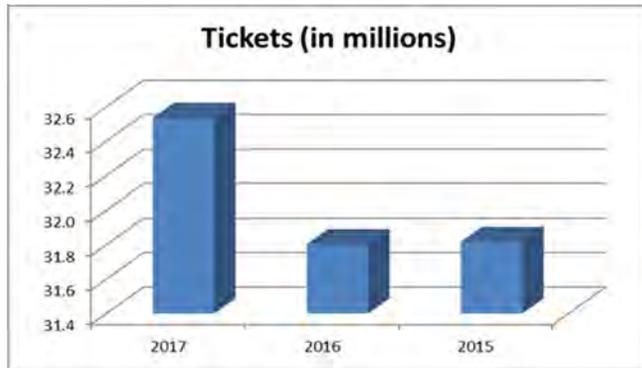
In 2016, the total net position increase of \$46,420 is attributable to increased fare revenues, primarily from the New Haven line as a result of fare hikes offset by wage increases for all employees. Additionally, net position was positively impacted by the payments made by MTA for capital projects – a large part of which is related to Harmon Shop Improvements and Sandy restoration projects.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Years Ended December 31,			Favorable/(Unfavorable)	
	2017	2016	2015	2017–2016	2016–2015
Operating revenues	\$ 790,927	\$ 754,100	\$ 739,417	\$ 36,827	\$ 14,683
Operating expenses	(1,623,895)	(1,500,455)	(1,456,614)	(123,440)	(43,841)
Asset impairment & related expenses	-	(976)	(2,942)	976	1,966
Operating loss	(832,968)	(747,331)	(720,139)	(85,637)	(27,192)
Total nonoperating revenues	924,716	793,751	818,604	130,965	(24,853)
Change in net position	91,748	46,420	98,465	45,328	(52,045)
Net position—beginning of year	3,745,766	3,699,346	3,887,873	46,420	(188,527)
Restatement of beginning net position	-	-	(286,992)	-	286,992
Net position—end of year	\$ 3,837,514	\$ 3,745,766	\$ 3,699,346	\$ 91,748	\$ 46,420

Operating Revenues by Major Source





Passenger fares accounted for 92.6% and 91.9% of operating revenues in 2017 and 2016, respectively. The remaining revenue represents collection of rental income from stores in and around passenger stations, and revenue generated from advertising. Sale of food and beverages on platforms was discontinued in December 2016.

MTA Metro-North (East of Hudson) passenger revenue increased in 2017 by \$29,900 or 4.3%, and ridership increased by 348 thousand or 0.4%. The revenue increase is primarily a reflection of the full year impact of the December 1, 2016 Connecticut 6.0% fare increase, and the March 19, 2017 New York State 3.75% fare increase.

MTA Metro-North (East of Hudson) passenger revenue increased in 2016 by \$12,000 or 1.8%, and ridership increased by 274 thousand or 0.3%. The revenue increase is primarily a reflection of two Connecticut fare increases. A 1.0% increase was implemented on January 1, 2016 and a 6.0% increase was implemented on December 1, 2016.

Expenses by Category

December 31, 2017 versus 2016

Salaries and wages increased by \$17,478 or 3.0% in 2017 over 2016. This increase is primarily due to a 2.5% wage increase for the MTA Metro-North's represented staff and increased accruals for earned but unused vacation and sick time.

Retirement and Other Employee Benefits increased by \$28,750 or 11.5% in 2017 over 2016. Pension expenses increased by \$14,453 primarily due to required increases in the contributions from 2016 over 2015 of \$28,591 offset by decreases of \$14,138 primarily due to improved performance on pension plan assets; other fringe benefits increased \$5,665 primarily due to higher premium rates related to NYSHIP; Railroad Retirement increased by \$4,257 primarily due to an increase in the maximum tax earning base and employee claims increased \$9,200 due to higher projections as per the actuarial calculation. These increases were offset by an increase in overhead costs recovery relating to capital projects of \$4,972.

Postemployment Benefits other than Pensions increased by \$44,672 or 51.3%. This is primarily due to a change in actuarial standards to reflect age adjusted medical insurance premiums versus paid premiums over the population.

Electric Power costs increased by \$4,284 or 6.9% as compared to 2016. This increase reflects higher rates throughout 2017 and particularly in December due to the extreme cold experienced late in the month.

Fuel costs increased by \$2,370 or 16.4% as compared to 2016. This increase primarily reflects an increase in diesel fuel rates.

Claims costs increased by \$4,218 or 79.8% as compared to 2016. This is primarily due to an increase in NJT claim reserves and expenses.

Maintenance and Other Operating Contracts decreased \$1,754 or 1.7%. Decreases of approximately \$2,000 were for lower M-7 display replacements costs and infrastructure maintenance using the Railvac equipment versus 2016. Also there was a decrease of \$1,000 for wireless services where the management of these costs were transitioned to MTA. Other decreases were due to lower commissary costs of \$1,923 as this service was discontinued in December 2016. These decreases were offset by increases to MTA Police Services of \$1,493 due to increased salaries; and waste removal services increased \$1,154 primarily due to the Bronxville lead abatement.

Professional service contracts increased by \$6,363 or 21.9%. This increase is primarily due to higher allocated MTA Information Technology (IT) costs for the New Haven Line.

Environmental Remediation decreased by \$2,467 or 66.8%. In 2017, fewer obligating events were identified for expense recognitions. Primary obligating events for 2017 were for the Harlem River Lift Bridge for \$541 and the Stations Enhancement project for \$476. In 2016, \$1,205 was committed for GCT projects, \$895 for soil hauling and disposal, \$220 for additional abatement work related to the Harmon Shop improvements, \$250 for 2016 Capital Programs and \$192 for lead abatement.

Materials and supplies decreased by \$3,860 or 4.06% primarily due to an increase in Maintenance of Equipment (“MoE”) work of \$2,254 relating to repairs of rolling stock damaged in a May 2017 derailment offset by a decrease in obsolescence reserves of \$8,316. The decrease in reserve can be attributed to charge-outs of Maintenance of Way (“MoW”) materials which reduced the amount of materials subject to the excess and obsolete calculations.

Other business expenses increased by \$20,214 or 177.7% primarily due to the reclassification in the reporting of New Jersey Transit subsidies for West of Hudson service. In 2017, passenger fares collected by NJT of \$14,000 were reported as revenues versus a reduction in the subsidy expense. In addition, there was a GCT study and evaluation expensed for \$3,600 for a planned capital project that was discontinued.

Depreciation expense increased by \$4,087 or 1.7% primarily due to completion of several track, other road structures and station improvements.

December 31, 2016 versus 2015

Salaries and wages increased by \$21,953 or 3.9% in 2016 over 2015. This increase is primarily due to a 2% wage increase for the MTA Metro-North’s represented staff and management and increase accruals for earned but unused vacation and sick time.

Retirement and Other Employee Benefits increased by \$27,220 or 12.2% in 2016 over 2015. Pension expenses increased by \$18,048 due to a loss on the market value of assets in the pension plan; other

fringe benefits increased due to higher premium rates related to NYSHIP of \$7,647; Railroad Retirement increased by \$5,423 primarily due to increased headcount and maximum tax earning base and overhead costs recovery relating to capital projects decreased by \$2,913. These increases were offset by a \$7,117 decrease in employee claims due to lower projections as per the actuarial valuation.

Postemployment Benefits other than Pensions increased by \$4,382 or 5.3%. This is primarily due to the increase in medical insurance premiums by \$2,600 as a result of higher premium rates and increase in the number of retiree health insurance enrollment. In addition, there was an increase of \$1,532 in Post-Employment benefits accrual based on the latest actuarial estimates.

Electric Power costs decreased by \$15,922 or 20.5% in 2016 over 2015. This decrease primarily reflects lower rates due to purchases of power by competitive bid.

Fuel costs decreased by \$3,423 or 19.2% as compared to 2015. This decrease primarily reflects lower rates due to nationwide reduction in energy and market prices fueled by low natural gas prices.

Maintenance and Other Operating Contracts increased \$4,635 or 4.7%. Increases of \$2,073 for M-7 display replacements, real estate charges from MTA for Grand Central Terminal (GCT) of \$912 and safety equipment and supplies costs increased by \$813. Additionally, ferry services costs increased by \$676 primarily due to suspended services in 2015 because of winter storm Juno and bus service costs increased by \$632 as shuttle services were provided during feeder work at Cos Cob substation and as a result of a New Jersey Transit derailment. Finally, MTA police costs increased by \$648 primarily due to wage increases. Increases were partially offset by decreased cost rent of \$2,608 due to a reduction in space occupied at 347 Madison.

Professional service contracts decreased by \$1,922 or 6.2%. This decrease is primarily due to lower allocated MTA Information Technology (IT) costs for the New Haven Line.

Environmental Remediation decreased by \$731 in 2016 or 16.5%. This decrease is primarily related to the recognition of non-hazardous environmental abatement and disposal costs associated with demolition and excavation activities required as part of the Harmon Shop improvements capital program project in 2015.

Materials and supplies increased by \$12,938 or 15.7% primarily due to Maintenance of Way (MoW) repair work and Maintenance of Equipment (MoE) work to rolling stock and component change-out and support shops.

Other business expenses decreased by \$9,980 or 46.7%. 2015 included a write-off for removing obsolete facilities of \$1,010. Additionally, Amtrak recovery increased \$7,409 primarily due to PRIIA accrual of \$8,437. New Jersey Transit ("NJT") subsidy decreased by \$991 as a result of decreases to cost indices.

Depreciation expense amounted to \$236,091 in 2016, an increase of \$4,873 or 2.1% primarily due to New Haven Line signal system replacement and Fordham Station improvement projects being completed and placed into service.

Nonoperating Revenues by Major Source

MTA Contributions for Capital Projects — MTA capital contributions increased in 2017 by \$94,484 or 30.1%. The increase in 2017 is primarily due to the \$114,151 contribution for Harmon Shop improvements.

MTA Operating Subsidies — MTA operating subsidies are driven by the excess of operating expenses over fare and other revenues. These subsidies increased in 2017 over 2016 by \$58,409 or 16.44%, primarily due to a \$16,210 increase in reimbursements for operating projects. Fare revenue collection increased by \$27,524 due to fare and ridership increases. Total labor related disbursements increased by \$28,614 and non-labor disbursements increased by \$23,124.

CDOT Subsidies Relating to the New Haven Line — Amounts due from CDOT for operating subsidies decreased in 2017 by \$22,655 or 18.1%. This decrease is attributable to the full year impact of the Connecticut 6% fare increase in December 2016 of \$18,530 and higher Amtrak recoveries of \$15,316 primarily due to the PRIIA accrual. This decrease is offset by increases in labor, fringe and other expenses of \$11,191. The amount CDOT is required to contribute is derived from an agreed upon formula based on the New Haven Line deficit.

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, and a financially sound and reliable transportation system is critical to the region's economic well-being. The MTA Metro-North Railroad's operations are affected by many different economic forces. 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.

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2017 than in 2016 by 64.4 thousand jobs (1.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-nine 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.

National economic growth, as measured by Real Gross Domestic Product ("RGDP"), expanded at an annualized rate of 2.6% in the fourth quarter of 2017 according to the most recent advance estimate released by the Bureau of Economic Analysis ("BEA"). The increase in RGDP reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, residential fixed investment, state and local government spending, and federal government spending; these were partially offset by a negative contribution from private inventory investment. Imports, which are a subtraction in the Gross Domestic Product ("GDP") calculation, increased. The deceleration in RGDP growth, relative to the second quarter's revised 3.2% growth rate, reflected a downturn in private inventory investment and an increase in imports; these were partially offset by an acceleration in personal consumption expenditures, nonresidential fixed investment, exports, state and local government spending, and federal government spending, as well as an upturn in residential fixed investment.

The New York City metropolitan area's price inflation, as measured by the Consumer Price Index for All Urban Consumers ("CPI-U"), was lower than the national average in the fourth quarter of 2017, with the metropolitan area index increasing by 1.7 %, while the national index increased by 2.1%, when compared with the fourth quarter of 2016. An 8.2% increase in the regional price of energy products, along with a 7.6% national increase, impacted overall inflation; in the metropolitan area, the CPI-U exclusive of energy

products increased by 1.3%, while nationally, inflation exclusive of energy products was 1.7%. Increasing more than overall energy prices, the spot price for New York Harbor conventional gasoline rose by 14.8%, from an average price of \$1.54 per gallon to an average price of \$1.77 per gallon, between the fourth quarters of 2016 and 2017.

In December 2015, citing evidence that economic activity had been expanding at a moderate rate, the Federal Open Market Committee (“FOMC”) raised its target for the Federal Funds rate to the range of 0.25% to 0.50%, the first increase in the Federal Funds rate since the target was lowered to a range of 0% to 0.25% in late 2008 when the financial and housing crises deepened. The FOMC maintained this target until December 2016, when the FOMC announced another increase, raising the target range for the Federal Funds rate to 0.5% to 0.75%. In March and June of 2017, the FOMC raised rates again, with the target range set at 0.75% to 1% in March and then 1% to 1.25% in June. The Federal Funds rate was raised to its current target level of 1.25% to 1.5% in December 2017 in view of realized and expected labor market conditions and inflation. Despite raising the target rate in the fourth quarter of 2017, monetary policy continued to be accommodative, supporting strong labor market conditions and a sustained return to 2 percent inflation. The unemployment rate continued to decline, while household spending continued to expand at a moderate rate and business fixed investment continued to pick up. Both overall inflation and inflation for items other than food and energy remained below 2 percent on a 12-month basis, and overall inflation is expected to remain below 2 percent in the short-term. Despite this, survey-based measures of longer-term inflation expectations were little changed. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. The FOMC expects that the economy will continue to expand at a moderate pace, labor market conditions will remain strong, and inflation will stabilize around 2 percent over the medium term. Gradual increases in the Federal Funds rate can be expected, but that the rate will remain below long-term levels for quite some time. Near-term risks to economic outlook appear roughly balanced, and the FOMC continues to closely monitor inflation indicators and global economic and financial developments.

Results of Operations

Metro-North’s system-wide on-time performance for 2017 operated above goal at 93.4 % and train delay minutes were reduced by 4.8% from 2016.

The Hudson Line performed at 93.6%, the Harlem Line at 94.9% and the New Haven Line at 92.1%.

The railroad maintained a high mean distance between failure (MDBF)—the distance a train travels before experiencing a mechanical problem of 193,883 miles. This provides a consistent MDBF for the last 3 years averaging 203,497 miles. It falls just 3% below the railroad’s goal of 200,000 miles. Contributing factors for consistent performance includes the performance of the new M8 fleet on the New Haven Line and aggressive car and locomotive maintenance programs. This also resulted in consistent compliance rate—the percentage of cars in service every day providing seats for the railroad’s customers—of 99%.

There were numerous challenges to the railroad’s service delivery that were overcome throughout 2017: Aggressive track inspections and maintenance requiring temporary speed restrictions and ongoing catenary replacement on the east end of the New Haven Line.

West-of-Hudson on-time performance totaled 94.1%, 1.4% below the goal of 95.5%.

Total Metro-North annual ridership is approximately 86.5 million rides, the highest in the railroad’s history (higher than the 2016 number of 86.2 million, by 300,000 rides).

Total annual East of Hudson ridership was approximately 84.9 million, also the highest in Metro-North history (surpassing last year's record of 84.5 million by approximately 0.4 million rides).

2017 was a record-setting year for the Harlem Line and the Hudson Lines, which surpassed last year's record with increases of 200,000 and 400,000 rides, or 27.8 and 16.9 million annual rides respectively.

West of Hudson annual ridership was approximately 1.6 million, 3.6% below 2016 and 500,000 less than the record set in 2008 of 2.1 million.

Combined ridership on the three of Metro-North's Connecting Services was approximately 587,000 (+4.1% vs. 2016). Ridership increased by 7.5% on the Hudson Rail Link, and decreased by 2.6% on the Haverstraw-Ossining Ferry; and by 1.9% on the Newburgh-Beacon Ferry.

The ridership for 2016 have been adjusted to reflect the 2017 calendar.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program — The MTA Metro-North Railroad's portion of the MTA's capital program for 2015-2019 totals \$2.414 billion. This program provides for fleet modernization of \$531.6 million, shop and yard improvements of \$472.0 million, GCT, stations and parking improvements of \$434.4 million, tracks and structures repairs and improvements of \$431.8 million, communications and signals upgrade of \$266.7 million and power rehabilitation and improvements of \$113.6 million. \$286.5 million has been allocated for 2016 and \$1.041 billion for 2017 for these projects.

Metro-North Railroad's portion of the 2010-2014 capital program is \$1.533 billion, including allocations of \$61.7 million for 2016 and \$64.9 million for 2017. The investments in this program were primarily to maintain the core infrastructure. The majority of the projects in this program are either completed or nearing completion.

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.

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%). An additional 4% New Haven Line fare increase was approved to be phased in as of January 1, 2015 (1%), January 1, 2016 (1%), January 1, 2017 (1%), and January 1, 2018 (1%).

On September 28, 2016, the MTA Board approved the proposal for an increase in New Haven Line fares for travel to or from stations located in Connecticut for a December 1, 2016 fare increase of 6% that includes the planned 1% increase to be phased in January 1, 2017.

On January 25, 2017, 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 approximately 4%, which began March 19, 2017.

Passenger Rail Investment and Improvement Act

Pursuant to a 1991 trackage rights agreement with Amtrak, Metro-North is reimbursed for incremental operating costs associated with Amtrak's use of the New Haven Line, which is shared with CDOT at 65%. Under Section 212 of the Passenger Rail Investment and Improvement Act ("PRIIA") of 2008, the Northeast Corridor Infrastructure and Operations Advisory Commission (the "Commission") was established to develop and implement a cost-sharing arrangement (the "cost allocation policy") for the Northeast Corridor ("NEC") infrastructure used for commuter and intercity rail services. The cost allocation policy creates a standardized formula to ensure each intercity and commuter service is assigned the costs associated with its sole-benefit use of the NEC and a proportional share of costs resulting from joint-benefit use.

On September 17, 2015, Commission members voted on a resolution to adopt the cost allocation policy effective October 1, 2015. The annual increase of Amtrak expense recovery (shared with CDOT at 65%) is approximately \$13.3 million in 2017 and \$11.5 million in 2016.

Implementation, under this policy, is subject to updating the terms of the trackage rights and other service agreements. Negotiations are ongoing among MTA Metro-North, CDOT and Amtrak to update these agreements.

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METRO-NORTH COMMUTER RAILROAD COMPANY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016
(\$ in thousands)

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 15,187	\$ 14,245
Fare cards	17,265	19,658
Invested funds at MTA (Note 2)	6,634	13,746
Receivables:		
Passenger	4,158	4,715
Due from MTA and affiliated agencies (Note 12)	58,361	44,234
Due from NYSDOT	1,329	944
Due from Amtrak	32,729	17,610
Rents	9,534	4,924
Other	1,468	21,454
Less allowance for doubtful accounts	<u>(3,188)</u>	<u>(851)</u>
Receivables—net	<u>104,391</u>	<u>93,030</u>
Materials and supplies—net of reserve for obsolescence of \$40,209 and \$40,047 in 2017 and 2016, respectively (Note 2)	116,572	104,871
Prepaid expenses	<u>32,341</u>	<u>33,170</u>
Total current assets	<u>292,390</u>	<u>278,720</u>
NONCURRENT ASSETS:		
Capital assets (Notes 2 and 5):		
Land and construction work-in-progress	1,276,349	989,834
Other capital assets (net of accumulated depreciation)	3,551,641	3,626,084
Invested funds at MTA (Note 2)	11,931	11,806
Other	<u>4,722</u>	<u>4,740</u>
Total noncurrent assets	<u>4,844,643</u>	<u>4,632,464</u>
TOTAL ASSETS	<u>5,137,033</u>	<u>4,911,184</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows for Pension	<u>247,750</u>	<u>231,582</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>247,750</u>	<u>231,582</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 5,384,783</u>	<u>\$ 5,142,766</u>

See notes to financial statements.

(Continued)

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016
(\$ in thousands)

	2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 73,251	\$ 84,709
Due to MTA and affiliated agencies (Note 12)	53,111	51,446
Due to CDOT	31,146	17,797
Accrued expenses:		
Salaries, wages and payroll taxes	44,351	30,141
Vacation and sick pay benefits	89,756	82,749
Current portion - retirement and death benefits	94	122
Current portion of estimated liability arising from injuries to persons (Note 10)	15,553	22,911
Other	18,436	18,161
Total accrued expenses	<u>168,190</u>	<u>154,084</u>
Current portion - loans payable (Note 6)	2,756	-
Current portion - obligations under capital lease (Note 9)	148	138
Current portion - environmental remediation (Note 11)	721	867
Unearned passenger revenue	<u>12,168</u>	<u>13,333</u>
Total current liabilities	<u>341,491</u>	<u>322,374</u>
NONCURRENT LIABILITIES:		
Estimated liability for other postemployment benefits (Note 8)	609,329	510,520
Net pension liability (Note 7)	460,796	457,087
Estimated liability arising from injuries to persons (Note 10)	58,849	42,660
Loans payable (Note 6)	18,518	-
Capital lease obligation (Note 9)	13,746	14,036
Environmental remediation (Note 11)	3,385	3,742
Due to MTA and affiliated agencies (Note 12)	-	2,475
Other long-term liabilities	<u>20,571</u>	<u>19,134</u>
Total noncurrent liabilities	<u>1,185,194</u>	<u>1,049,654</u>
TOTAL LIABILITIES	<u>1,526,685</u>	<u>1,372,028</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows from Pensions	<u>20,584</u>	<u>24,972</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>20,584</u>	<u>24,972</u>
NET POSITION:		
Net Investment in Capital Assets	4,814,097	4,601,744
Unrestricted	<u>(976,583)</u>	<u>(855,978)</u>
Total net position	<u>3,837,514</u>	<u>3,745,766</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 5,384,783</u>	<u>\$ 5,142,766</u>

See notes to financial statements.

(Concluded)

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016
(\$ in thousands)

	2017	2016
OPERATING REVENUES:		
Passenger	\$ 733,409	\$ 689,511
Rents and utilities	39,990	37,739
Advertising	13,567	15,362
Food and beverage	1	6,359
Other	3,960	5,129
	<u>790,927</u>	<u>754,100</u>
OPERATING EXPENSES:		
Salaries and wages	603,533	586,055
Retirement and other employee benefits	278,326	249,576
Postemployment benefits other than pensions	131,819	87,147
Electric Power	66,149	61,865
Fuel	16,817	14,447
Insurance	17,343	18,258
Claims	9,507	5,289
Maintenance and other operating contracts	100,724	102,478
Professional service contracts	35,424	29,061
Environmental Remediation	1,227	3,694
Materials and supplies	91,257	95,117
Depreciation and amortization	240,178	236,091
Other	31,591	11,377
	<u>1,623,895</u>	<u>1,500,455</u>
Net expenses related to asset impairment (Note 13)	<u>-</u>	<u>976</u>
OPERATING LOSS	<u>(832,968)</u>	<u>(747,331)</u>
NONOPERATING REVENUES (EXPENSES) (Notes 2 and 13):		
Operating subsidies from MTA	413,625	355,216
CDOT subsidies relating to NHL operations	102,544	125,199
Other Non-operating expenses	39	(688)
	<u>516,208</u>	<u>479,727</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	<u>(316,760)</u>	<u>(267,604)</u>
CAPITAL CONTRIBUTIONS:		
MTA contributions for capital projects	<u>408,508</u>	<u>314,024</u>
Change in Net Position	<u>91,748</u>	<u>46,420</u>
NET POSITION—Beginning of year	<u>3,745,766</u>	<u>3,699,346</u>
NET POSITION—End of year	<u>\$3,837,514</u>	<u>\$3,745,766</u>
See notes to financial statements.		

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(\$ in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts	\$ 732,706	\$ 689,613
Rents, sundry, and other receipts	52,392	62,550
Payroll and related fringes	(964,656)	(912,654)
Other operating expenses	<u>(285,955)</u>	<u>(295,410)</u>
Net cash used in operating activities	<u>(465,513)</u>	<u>(455,901)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating subsidies from MTA	411,184	352,775
Operating subsidies from CDOT	123,525	119,866
Other Non-operating revenue and expenses	<u>988</u>	<u>395</u>
Net cash provided by noncapital financing activities	<u>535,697</u>	<u>473,036</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions from MTA	82,787	91,529
Capital expenditures	<u>(152,029)</u>	<u>(109,656)</u>
Net cash used in capital related financing activities	<u>(69,242)</u>	<u>(18,127)</u>
NET (DECREASE)/INCREASE IN CASH	942	(992)
CASH—Beginning of year	<u>14,245</u>	<u>15,237</u>
CASH—End of year	<u>\$ 15,187</u>	<u>\$ 14,245</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (832,968)	\$ (747,331)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation, amortization, and retirements	240,178	236,091
Net increase (decrease) in payables, accrued expenses, and other liabilities	131,694	81,747
Net increase in farecards and receivables	6,562	(26,408)
Net decrease in materials and prepaid expenses	<u>(10,979)</u>	<u>-</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (465,513)</u>	<u>\$ (455,901)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital assets	265,683	185,811
Capital assets and related liabilities	<u>39,115</u>	<u>41,585</u>
TOTAL NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 304,798</u>	<u>\$ 227,396</u>

See notes to financial statements.

METRO-NORTH COMMUTER Railroad Company

(Component Unit of the Metropolitan Transportation Authority)

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(\$ IN THOUSANDS, EXCEPT AS NOTED)

1. BASIS OF PRESENTATION

Reporting Entity — The Metro-North Commuter Railroad Company (the “MTA Metro-North Railroad”) is a component unit 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.

MTA Metro-North Railroad is operationally and legally independent of the MTA. MTA Metro-North Railroad enjoys certain rights typically associated with separate legal status. However, MTA Metro-North Railroad is included in the MTA’s consolidated financial statements as a blended component unit because of the MTA’s financial accountability and MTA Metro-North Railroad is under the direction of the MTA Board (a reference to “MTA Board” means the board of MTA and/or the boards of the MTA Metro-North Railroad and other MTA component units 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 MTA Metro-North Railroad in its consolidated financial statements.

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 consolidated interim 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 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 Adopted

The MTA Metro-North Railroad adopted the following GASB Statements for the year ended December 31, 2017:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes accounting and financial reporting standards for state and local governmental other postemployment benefit (“OPEB”) plans. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and GASB Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on the MTA Metro-North Railroad’s financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units* establishes an additional blending requirement for the financial statement presentation of component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member, as identified in the component unit’s articles of incorporation or bylaws. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement had no impact on the MTA Metro-North Railroad’s financial statements. No additional disclosures are required.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* establishes accounting and financial reporting standards for split-interest agreements, which are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. The Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement by requiring the government to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The adoption of this Statement had no impact on the MTA Metro-North Railroad’s financial statements, as the MTA Metro-North Railroad does not enter into such agreements.

GASB Statement No. 82, *Pension Issues: An Amendment of GASB Statements No. 67, No. 68 and No. 73* addresses certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement had no material impact on the MTA Metro-North Railroad’s financial statements.

Accounting Standards Issued but Not Yet Adopted

GASB has issued the following pronouncements that may affect the future financial position, results of operations, cash flows, or financial presentation of the MTA Metro-North Railroad upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	MTA Required Year of Adoption
75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	2018
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment Issues</i>	2018
87	<i>Leases</i>	2020

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.

MTA Investment Pool — 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 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. All investments are held by the MTA’s agent in custody accounts in the name of the MTA. The Company has no financial instruments with significant individual or group concentration of credit risk. The Authority categorizes its fair value measurement within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. SIRTOA’s investment in the MTA Investment Pool is valued based on other observable inputs (Level 2 inputs).

Materials and Supplies — Materials and supplies, except for repaired and repairable items, are recorded at average cost. Reserve for obsolete and excess materials was \$40,209 and \$40,047 in 2017 and 2016, 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 capital 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; unearned 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 position.

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 be subject to audit by CDOT. The audits of 2015 and 2016 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 \$59.9 million and \$55.7 million at December 31, 2017 and 2016, respectively. Accruals for sick leave benefits were \$29.8 million and \$27.1 million at December 31, 2017 and 2016, 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 limits 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 limits for MTA Metro-North Railroad was \$9 million. Effective November 1, 2012 the self-insured retention limits for ELF was increased to \$10 million for MTA Metro-North Railroad. Effective October 31, 2015, the self-insured retention limits for ELF was increased to \$11 million for the 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 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, 2017, the balance of the assets in this program was \$139.6 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, 2017, 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 \$11 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, 2017, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$11 million per occurrence loss for MTA Metro-North Railroad.

Property Insurance — Effective May 1, 2017, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2017, FMTAC directly insures property damage claims of the Related Entities in excess of a \$25 million per occurrence deductible, subject to an annual \$75 million aggregate deductible. The total All Risk program annual limit is \$675 million per occurrence and in the annual aggregate for Flood and Earthquake covering property of the Related Entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda reinsurance markets for this coverage. Losses occurring after exhaustion of the deductible aggregate 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.

Supplementing the \$675 million per occurrence noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$125 million of fully collateralized earthquake coverage for an event of a certain index value and for 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 May 23, 2017 to April 30, 2020. The expanded protection is reinsured by MetroCat Re Ltd. 2017-1, a Bermuda special purpose insurer independent from the MTA and formed to provide FMTAC with capital markets based property reinsurance. The MetroCat Re Ltd. 2017-1 reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is parametric and available for storm surge losses resulting from a storm that causes water levels that reach the specified index values, and also for an earthquake event of a certain index value.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 83% of “certified” losses in 2017 and 82% of “certified” losses in 2018 and 81% of “certified” losses in 2019, as covered by the Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) of 2015. The remaining 17% (2017), 18% (2018) and 19% (2019) of the Related Entities’ losses arising from an act of terrorism would be covered under the additional terrorism policy described below. No federal compensation will be paid unless the aggregate industry insured losses exceed a trigger of \$140 million in 2017, \$160 million in 2018 and \$180 million in 2019. The United States government’s reinsurance is in place through December 31, 2020.

To supplement the reinsurance to FMTAC through the TRIPRA, MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 17% of any “certified” act of terrorism up to a maximum recovery of \$182.8 million for any one occurrence and in the annual aggregate during 2017, 18% of any “certified” act of terrorism up to a maximum recovery of \$193.5 million for any one occurrence and in the annual aggregate during 2018 and 19% of any “certified” act of terrorism up to a maximum recovery of \$204.3 million for any one occurrence and in the annual aggregate during 2019, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the “certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$140 million TRIPRA trigger up to a maximum recovery of \$140 million for any occurrence and in the annual aggregate during 2017, or 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$160 million TRIPRA trigger up to a maximum recovery of \$160 million for any occurrence and in the annual aggregate during 2018 or 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$180 million TRIPRA trigger up to a maximum recovery of \$180 million for any occurrence and in the annual aggregate during 2019.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$182.8 million in 2017, \$193.5 million in 2018 and \$204.3 million in 2019. Recovery under the terrorism policy is subject to a deductible of \$25 million per occurrence and \$75 million in the annual aggregate in the event of multiple losses during the policy year. Should the Related Entities’ deductible in any one year exceed \$75 million future losses in that policy year are subject to a deductible of \$7.5 million. The terrorism coverages expire at midnight on May 1, 2019.

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 projects. Effective June 1, 2017, the net retention to the Company is \$2 million. The Company also issued a policy for \$9 million excess of \$2 million per occurrence with an \$18 million annual aggregate.

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 and increased to \$11 million on October 31, 2015.

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).

MTA Metro-North Railroad adopted the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pension*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plans.

MTA Metro-North Railroad recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or MTA Metro-North Railroad’s proportionate share thereof in the case of a cost-sharing multiple-employer plan, determined as of MTA Metro-North Railroad’s measurement date.

Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

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* (“OPEB”). This Statement established 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 established accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement were implemented simultaneously with the requirements of Statement 45. MTA Metro-North Railroad 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 2017 and 2016 that were not insured were maintained in major financial institutions.

At December 31, 2017 and 2016, cash consisted of (in thousands):

	2017		2016	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits (FDIC)	\$ 250	\$ 250	\$ 250	\$ 250
Collateralized deposits	3,880	3,880	3,909	3,909
Uninsured deposits—noncollateralized	2,354	1,487	2,047	1,831
Uninsured amounts held by ticket agents and deposits in transit	8,703	-	8,039	-
	<u>\$ 15,187</u>	<u>\$ 5,617</u>	<u>\$ 14,245</u>	<u>\$ 5,990</u>

Certain of these cash accounts are held in the name of a trustee; the carrying amount of the trustee accounts at December 31, 2017 and 2016 were \$11,096 and \$10,146, 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.

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 component, 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.

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5. CAPITAL ASSETS, NET

The following is a summary of capital assets activity as of December 31, 2017 and 2016 (in thousands):

	Balance December 31, 2015	Additions/ Reclassifications	Deletions/ Reclassifications	Balance December 31, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance December 31, 2017
Capital assets, not being depreciated:							
Land	\$ 84,903	\$ 1,999	\$ 7,375	\$ 79,527	\$ 7,214	\$ -	\$ 86,741
Construction work-in-progress	717,396	351,692	158,786	910,302	455,656	176,356	1,189,602
Assets awaiting disposition	5	-	-	5	-	-	5
Total capital assets, not being depreciated	802,304	353,691	166,161	989,834	462,870	176,356	1,276,348
Capital assets, being depreciated:							
Roads	1,766,179	52,389	-	1,818,568	59,109	-	1,877,677
Buildings and structures	3,276,750	67,907	-	3,344,657	85,727	-	3,430,384
Buildings and structures under capital leases	28,372	-	-	28,372	-	-	28,372
West of Hudson improvements	239,099	7,893	-	246,992	4,526	-	251,518
Passenger cars	1,503,931	10,145	2,551	1,511,525	54	-	1,511,579
Locomotives	164,001	1,996	-	165,997	1,937	-	167,934
Other	302,313	21,247	6,581	316,979	14,566	2,901	328,644
Total capital assets, being depreciated	7,280,645	161,577	9,132	7,433,090	165,919	2,901	7,596,108
Less accumulated depreciation:							
Roads	1,030,639	46,852	-	1,077,491	50,192	-	1,127,683
Buildings and structures	1,428,433	103,662	-	1,532,095	104,861	-	1,636,956
Buildings and structures under capital leases	-	-	-	-	-	-	-
West of Hudson improvements	2,175	101	-	2,276	101	-	2,377
West of Hudson improvements	67,334	7,077	-	74,411	7,258	-	81,669
Passenger cars	715,490	53,699	2,551	766,638	51,902	-	818,540
Locomotives	103,594	6,302	-	109,896	6,424	12	116,308
Other	232,103	18,398	6,302	244,199	19,440	2,706	260,933
Total accumulated depreciation	3,579,768	236,091	8,853	3,807,006	240,178	2,718	4,044,466
Total capital assets, being depreciated—net	3,700,877	(74,514)	279	3,626,084	(74,259)	183	3,551,642
Capital assets—net	\$ 4,503,181	\$ 279,177	\$ 166,440	\$ 4,615,918	\$ 388,611	\$ 176,539	\$ 4,827,990

Interest costs of \$1,570 and \$1,187 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 2017 and 2016, respectively.

All trackage in New York State is leased by MTA (see Note 9) 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.

On April 24, 2015, the Federal Railroad Administration approved a U.S. Federal Railroad Administration loan of \$967.1 million under its Railroad Rehabilitation and Improvement Financing Program. MTA, on behalf of Metro-North Railroad, and the Long Island Rail Road, applied for funding

to improve the safety of signal systems. The loan, will finance the installment of Positive Train Control, a technology designed to remove the potential for human error that can lead to train-involved accidents. The loan was approved by the MTA Board at its meeting on April 29, 2015 and the loan was closed in May 2015. MTA will issue its Transportation Revenue Bond directly to the Federal Railroad Administration and will repay the obligation over 22½ years at a fixed interest rate of 2.38%. MTA’s first draw on the loan was on September 20, 2016 in the amount of \$146.5 million.

6. LOANS PAYABLE

The MTA and the New York Power Authority (“NYPA”) entered into an updated Energy Services Program Agreement (“ESP Agreement”). The ESP Agreement authorized MTA affiliates and subsidiaries to enter into a Customer Installation Commitment (“CIC”) with NYPA for turn-key, energy efficiency projects, which would usually be long-term funded and constructed by NYPA. The repayment period for the NYPA loan can be up to 20 years, but can be repaid at any time with no penalty.

The debt service requirements at December 31, 2017 (in thousands) are as follows:

Year	Principal	Interest	Total
2018	\$2,756	\$279	\$3,035
2019	2,792	247	3,039
2020	2,782	207	2,989
2021	2,778	167	2,945
2022	2,627	128	2,755
2023-2027	7,539	178	7,717
2028-2032	0	0	0
2033-2037	0	0	0
Total	\$21,274	\$1,206	\$22,480

The above interest amounts include both fixed and variable rate calculations. Interest on the variable-rate loan is paid at the Securities Industry and Financial Markets Association Municipal Swap Index (“SIFMA”) rate and is reset semi-annually.

7. EMPLOYEE BENEFITS

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 participant charges, including investment and other fees, pay for the administrative cost of running the Deferred Compensation Program.

In 1984, the MTA established the 457 Plan to provide benefits competitive with private industry. 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. Pursuant Internal Revenue Code (“Code”) Section 457, the MTA has established a trust or custodial account to hold plan assets for the exclusive benefit of the participants and their beneficiaries. Participation in the 457 Plan is now available to non-represented employees and, after collective bargaining, most represented employees. All amounts of compensation deferred under the 457 Plan, and all income attributable to such compensation, less expenses and fees, are in trust for the exclusive benefit of the participants and their beneficiaries. Accordingly, the 457 Plan is not reflected on the MTA’s consolidated statements of net position.

In 1985, the MTA Board adopted the 401(k) Plan, a tax-qualified plan under section 401(k) of the Code. The 401(k) Plan remained dormant until 1988 when an IRS ruling "grandfathered" the plan under the Tax Reform Act of 1986. Participation in the 401(k) Plan is now available to non-represented employees and, after collective bargaining, most represented employees. All amounts of compensation deferred under the 401(k) Plan, and all income attributable to such compensation, less expenses and fees, are in trust for the exclusive benefit of the participants and their beneficiaries. Accordingly, the 401(k) Plan is not reflected in the accompanying consolidated 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 its Financial Advisor to provide greater 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 restructured to set up a four tier strategy:

1. Tier 1 – The MTA Target-Year Lifecycle Funds, which are comprised of a mix of several funds, most of which are available as separate investments 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.
2. Tier 2 - The MTA Index Funds offer a 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.
3. 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.
4. 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. Participants may invest only a portion of their account balances in this Tier.

In 2011, the Deferred Compensation Program began offering 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 \$18,000 or \$24,000 for those over age 50 for the year 2016.

Matching Contributions - MNR employees represented by certain unions who elected to opt-out of participation in the MTA Defined Benefit Pension Plan receive an annual employer contribution 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 contributes 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%

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. Under certain conditions, both Plans accepts rollovers from all eligible retirement plans (as defined by the Code), including 401(a), 457, 401(k), 403(b), and rollover IRAs.

Forfeitures – Nonvested contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan’s administrative expenses. For the years ended December 31, 2017 and 2016, no forfeitures reduced the Plan’s expense.

The following is a summary of activity for the 401k deferred compensation program:

(In thousands)	2017	2016
Contributions:		
Employee contributions, net of loans	\$ 29,337	\$ 28,385
Participant rollovers	2,895	1,607
Employer contributions	<u>2,827</u>	<u>2,966</u>
Total contributions	<u>\$ 35,059</u>	<u>\$ 32,958</u>

The Trustee for the MTA Deferred Compensation Program is Prudential Bank & Trust FSB. Record keeper and/or Administrative Services are provided by Prudential Retirement Insurance & Annuity Company (“PRIAC”). Investment management services are provided by Prudential Retirement Insurance & Annuity Company and Galliard Capital Management: separate accounts are managed by Denver Investment Advisors Conestoga Capital Advisors and TCW-Metropolitan West Asset Management. Financial Advisor Mercer reviews the investment policies as stipulated by the Investment Committee, the Plans’ portfolios and the Investment Managers’ performance.

Pensions — MTA Metro-North Railroad sponsors and participates in two defined benefit pension plans for their employees, the Metro-North Commuter Railroad Company Cash Balance Plan (the “MNR Cash Balance Plan”) and the Metropolitan Transportation Authority Defined Benefit Plan (the “MTA Defined Benefit Plan”). A brief description of each of the pension plans follows:

Plan Descriptions

1. MNR Cash Balance Plan

The MNR Cash Balance Plan is a single employer, defined benefit pension plan administered by MTA Metro-North Railroad. The 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 became 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.

The MTA Board of Trustees appoints a Board of Managers of Pensions consisting of five individuals who may, but need not, be officers or employees of the company. The Board of Managers control and manage the operation and administration of the Plan's activities, including establishing and amending contributions and benefits. Further information about the MNR Cash Balance Plan is more fully described in the separately issued financial statements that can be obtained by writing to MTA Comptroller, 2 Broadway, 16th Floor, New York, New York, 10004. These statements are also available at www.mta.info.

2. MTA Defined Benefit Plan

The MTA Defined Benefit Pension Plan (the "MTA Plan" or the "Plan") is a cost sharing, multiple-employer pension plan. The Plan covers certain MTA Long Island Rail Road nonrepresented 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 and certain MTA Metro-North Railroad represented employees. MTA Staten Island Railway represented and nonrepresented 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 benefit programs for their covered employees and beneficiaries.

The MTA Defined Benefit Plan is administered by the Board of Managers of Pensions. 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, 16th Floor, New York, New York, 10004. This report is also available at www.mta.info.

Benefits Provided

1. MNR Cash Balance Plan

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. The accrued benefit is a participant's Initial Account Balance increased each month by the benefit escalator. The benefit escalator is defined as the Pension Benefit Guaranty Corporation ("PBGC") immediate annuity rate in effect for December of the year preceding the year for which the determination is being made) divided by 180. The accrued benefit is paid as an Escalating Annuity. Vested participants are entitled to receive pension benefits commencing at age sixty-five. Participants of the MNR Cash Balance Plan 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.

Participants of the Plan are eligible for early retirement benefits upon termination of employment, the attainment of age 62, or age 60 and completion of 15 years of service, or age 55 and the completion of 30 years of service. The early retirement benefits paid is the normal retirement pension deferred to age 65 or an immediate pension equal to the life annuity actuarial equivalent of a participant's Escalating Annuity at normal retirement date indexed by the Initial Benefit Escalator from early retirement date to normal retirement date and reduced by 5/9 of 1% for each month retirement precedes age 65 up to 60 months and 5/18 of 1% for each month after 60 months.

For members with cash balances who are currently members of the Metropolitan Transportation Authority Defined Benefit Pension Plan, an additional benefit is provided equal to the amount needed to bring their total benefits (i.e., Railroad Retirement Tier I and II benefits, Conrail Plan benefits, Cash Balance Plan benefits, and MTA Defined Benefit Pension Plan benefits) up to a minimum of 65% of their 3-year final average pay under the MTA Defined Benefit Plan. In no event will the Additional Benefit exceed 2% of 3-year final average pay multiplied by the Conrail Management Service prior to July 1, 1983. This benefit is payable as a life annuity and is reduced for commencement prior to age 65 in the same manner as the regular cash balance benefit. This additional benefit is payable only in the form of a life annuity or 100% or 50% contingent annuity.

Death Benefits — Benefits are paid to vested participants' beneficiaries in the event of a participants' death. The amount of benefits payable is the participant's account balance at the date of his or her death. Pre-retirement death benefits paid for a participant's death after 55 is equal to the amount the spouse would have received had the participant elected retirement under the normal form of payment on the day preceding his death. Pre-retirement death benefits paid for a participant's death before 55 is equal to the amount the spouse would have received had the participant survived to age 55 and retired under the normal form of payment on that date. The benefit is based on service to the participant's date of death and is payable beginning on the date the participant would have attained age 55.

In lieu of the above benefit, the surviving spouse can elect to receive the participant's account balance in a single lump sum payment immediately. If the participant was not married, the participant's beneficiary is entitled to receive the participant's Account Balance as of the participant's date of death in a single lump sum payment.

Retirement benefits establishment and changes for representative employees are collectively bargained and must be ratified by the respective union and the MTA Board. For nonrepresented employees,

retirement benefits establishment and changes are presented to the MTA Board and must be accepted and approved by the MTA Board.

2. MTA Defined Benefit Plan

Pension Benefits — Retirement benefits are paid from the Plan to covered MTA Metro-North Railroad employees as service retirement allowances or early retirement allowances. A participant is eligible for a service retirement allowance upon termination if the participant satisfied both age and service requirement. A participant is eligible for a service retirement allowance upon termination if the participant satisfied both age and service requirements. A participant is eligible for an early retirement allowance upon termination if the participant has attained age 55 and completed at least 10 years of credited service. Terminated participants with 5 or more years of credited service are eligible for a deferred vested benefit. Deferred vested benefits are payable on an unreduced basis on the first day of the month following the participant's 62nd birthday.

Certain represented employees of the MTA Metro-North Railroad continue to make contributions to the Plan for 15 years. Certain represented employees of the MTA Metro-North Railroad are eligible for an early retirement allowance upon termination if the participant has attained age 60 and completed at least 5 years of credited service, or has attained age 55 and completed at least 30 years of credited service. The early retirement allowance is reduced one-quarter of 1% per month for each full month that retirement predates age 60 for certain represented employees of the MTA Metro-North Railroad.

Effective in 2007, members and certain former members who become (or became) employed by another MTA agency which does not participate in the Plan continue to accrue service credit based on such other employment. Upon retirement, the member's vested retirement benefit from the Plan will be calculated on the final average salary of the subsequent MTA agency, if higher. Moreover, the Plan benefit will be reduced by the benefit, if any, payable by the other plan based on such MTA agency employment. Such member's disability and ordinary death benefit will be determined in the same way.

Death and Disability Benefits — In addition to service retirement benefits, participants of the Plan are eligible to receive disability retirement allowances and death benefits. Participants who become disabled may be eligible to receive disability retirement allowances after ten years of credited service for covered MTA Metro-North Railroad management and represented employees.

The disability retirement allowance for covered MTA Metro-North Railroad management is calculated based on the participant's credited service and final average salary ("FAS") but not less than $\frac{1}{3}$ of FAS. 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 \$5,000 is payable upon death on behalf of a non-vested participant or vested participant whose pension rights were waived.

Death benefits are paid to the participant's beneficiary in the event of the death of a covered MTA Metro-North Railroad employee after completion of one year of credited service. The death benefit payable is calculated based on a multiple of a participant's salary based on years of credited service up to three years and is reduced beginning at age sixty-one. There is also a post-retirement death benefit which, in the 1st year of retirement, is equal to 50% of the pre-retirement death benefit amount, whichever is greater, 25% the 2nd year and 10% of the death benefit payable at age 60 for the 3rd and later years. This death benefit is payable in a lump sum distribution. Moreover, an accidental death benefit is payable for the death of a participant who is a covered MTA Metro-North Railroad employee and dies as the result of an on-the-job accidental injury. This death benefit is paid as a pension equal to

50% of the participant’s salary and is payable to the spouse for life, or, if none, to children until age eighteen (or twenty-three, if a student), or if none, to a dependent parent.

Retirement benefits establishment and changes for representative employees are collectively bargained and must be ratified by the respective union and the MTA Board. For nonrepresented employees, retirement benefits establishment and changes are presented to the MTA Board and must be accepted and approved by the MTA Board.

Membership

Membership of the MNR Cash Balance Plan consisted of the following at January 1, 2017 and January 1, 2016, the date of the actuarial valuation:

	<u>January 1, 2017</u>	<u>January 1, 2016</u>
Active Plan Members	4	7
Retirees and beneficiaries receiving benefits	27	27
Vested formerly active members not yet receiving benefits	<u>13</u>	<u>14</u>
Total	<u>44</u>	<u>48</u>

Contributions and Funding Policy

1. MNR Cash Balance Plan

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.

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 contributions would be made to the Plan. However, due to changes in actuarial assumptions and market performance, additional unfunded accrued liabilities were paid to the Plan in several subsequent years.

Contributions as a percent of covered payroll were 2.68% for the year ended December 31, 2016. The actual contribution for the year ended December 31, 2016 was \$23. There were no contributions made for the year ended December 31, 2017.

2. MTA Defined Benefit Plan

MTA Metro-North Railroad's contributions are actuarially determined on an annual basis. Amounts recognized as receivables for contributions include only those due pursuant to legal requirements. Employee contributions to the Plan are recognized in the period in which the contributions are due. The following summarizes the types of employee contributions made to the Plan.

Effective January 1, 1994, covered MTA Metro-North Railroad 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 contributing to the Plan. MTA Metro-North Railroad employees may purchase prior service from January 1, 1983 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.

Covered MTA Metro-North Railroad represented employees who first became eligible to be Plan participants prior to January 30, 2008 contribute 3% of salary. 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 the completion of required years of credited service as per the relevant collective bargaining agreements.

Contributions as a percent of covered payroll were 19.56% and 16.62% for the years ended December 31, 2017 and December 31, 2016, respectively. The actual contributions for the years ended December 31, 2017 and December 31, 2016 were \$120,515 and \$99,083, respectively.

Net Pension Liability

MTA Metro-North Railroad's net pension liabilities for each of the pension plans reported at December 31, 2017 and December 31, 2016 were measured as of December 31, 2016 and December 31, 2015, respectively. The total pension liability at December 31, 2016 and December 31, 2015 for the MTA Defined Benefit Plan was determined by actuarial valuations as of the valuation date of January 1, 2016 and January 1, 2015, respectively. The total pension liability at December 31, 2016 and December 31, 2015 for the MNR Cash Balance plan was determined by actuarial valuations as of the valuation date of January 1, 2017 and January 1, 2016, respectively. Each of the pension plans total pension liabilities was calculated based on the discount rate and actuarial assumptions below and then projected forward to the measurement date. Information about the fiduciary net position of each qualified pension plan has been determined on the same basis as reported by each respective qualified pension plan. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the respective qualified pension plan and investments are reported at fair value.

Actuarial Assumptions

The actuarial assumptions used in the January 1, 2016, 2015 and 2014 valuations for the MTA plans are based on the results of an actuarial experience study for the period from January 1, 2006 through December 31, 2011. Mortality assumption is based on a 2012 experience study for all MTA plans. The pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee. As generational tables, they reflect mortality improvements both before and after measurement date.

The total pension liability in the actuarial valuations was determined using the following actuarial assumptions for each of the pension plans as follows:

	January 1, 2017 MNR Cash Balance Plan	January 1, 2016 MTA Defined Benefit Plan	January 1, 2016 MNR Cash Balance Plan	January 1, 2015 MTA Defined Benefit Plan
Investment Rate of Return	4.0% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.	4.0% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.
Salary Increases	Not applicable	Varies by years of employment, and employee group.	Not applicable	Varies by years of employment, and employee group.
Inflation	2.3%	2.5%, 3.5% for Railroad Retirement Wage Base.	2.3%	2.5%, 3.5% for Railroad Retirement Wage Base.
Cost-of Living Adjustments	Not applicable	55% of inflation assumption or 1.375%, if applicable	Not applicable	55% of inflation assumption or 1.375%, if applicable

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	January 1, 2017 MNR Cash Balance Plan	January 1, 2016 MTA Defined Benefit Plan	January 1, 2016 MNR Cash Balance Plan	January 1, 2015 MTA Defined Benefit Plan
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA. Mortality assumption is based on a 2012 experience study for all the MTA plans.	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee. Mortality assumption is based on a 2012 experience study for all MTA plans.	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all the MTA plans.	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee. Mortality assumption is based on a 2012 experience study for all MTA plans.
Pre-retirement	RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments.

	January 1, 2017 MNR Cash Balance Plan	January 1, 2016 MTA Defined Benefit Plan	January 1, 2016 MNR Cash Balance Plan	January 1, 2015 MTA Defined Benefit Plan
Post- retirement- 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.	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.	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.	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.
Post-retirement Disabled Lives	Not applicable	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.	Not applicable	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.

Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was 4.00% for the MNR Cash Balance Plan as of January 1, 2017 and January 1, 2016 and 7.00% for the MTA Defined Benefit Plan as of January 1, 2016 and January 1, 2015. The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation.

The target allocation and best estimates of arithmetic real rates of return (“RROR”) for each major asset class included in each of the pension funds are as follows:

December 31, 2016	MNR Cash Balance Plan		MTA Defined Benefit Plan	
	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Asset Class				
US Core Fixed Income	100.00 %	1.17 %	10.00 %	1.67 %
US High Yield Bonds			8.00 %	5.04 %
Global Bonds			10.00 %	0.28 %
Emerging Market Bonds			3.00 %	3.78 %
US Large Caps			10.00 %	4.80 %
US Small Caps			5.50 %	6.06 %
Global Equity			10.00 %	5.49 %
Foreign Developed Equity			10.00 %	6.06 %
Emerging Markets Equity			3.50 %	8.39 %
Global REITS			5.00 %	5.77 %
Private Real Estate Property			3.00 %	3.64 %
Private Equity			7.00 %	8.99 %
Hedge Funds - MultiStrategy			15.00 %	3.45 %
	<u>100.00 %</u>		<u>100.00 %</u>	
Assumed Inflation—Mean		2.50 %		2.50 %
Assumed Inflation—Standard Deviation		1.85 %		1.85 %
Portfolio Nominal Mean Return as per Actuary		3.69 %		7.03 %
Portfolio Standard Deviation		4.55 %		11.54 %
Long Term Expected Rate of Return selected by MTA		4.00 %		7.00 %

Discount Rate

As of December 31, 2016 and December 31, 2015, the discount rate used to measure the total pension liability of the MNR Cash Balance and the MTA Defined Benefit Plan was 4.0% and 7.0%, respectively.

The projection of cash flows used to determine the discount rate assumed that plan contributions would be made in accordance with the Employer funding policy as projected by the Plan’s actuary. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability – MNR Cash Balance Plan

Changes in Metro-North Railroad’s net pension liability for the Metro-North Cash Balance Plan for the years ended December 31, 2017, based on the December 31, 2016 measurement date and for the year ended December 31, 2016, based on the December 31, 2015 measurement date, are as follows (\$ in thousands):

December 31, 2017	Metro-North Cash Balance Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
(\$ in thousands)			
Balance as of December 31, 2015	\$ 634	\$ 612	\$ 22
<i>Changes for calendar year 2016:</i>			
Interest on total pension liability	24	-	24
Effect of plan changes	-	-	-
Effect of economic /demographic (gains) or losses	(15)	-	(15)
Effect of assumption changes or inputs	-	-	-
Benefit payments	(77)	(77)	-
Administrative expense	-	-	-
Net investment income	-	16	(16)
Employer contributions	-	23	(23)
Balance as of December 31, 2016	<u>\$ 566</u>	<u>\$ 574</u>	<u>\$ (8)</u>
 December 31, 2016			
(\$ in thousands)			
Balance as of December 31, 2014	\$ 710	\$ 698	\$ 12
<i>Changes for calendar year 2015:</i>			
Interest on total pension liability	29	-	29
Effect of plan changes	-	-	-
Effect of economic /demographic (gains) or losses	(10)	-	(10)
Effect of assumption changes or inputs	18	-	18
Benefit payments	(113)	(113)	-
Administrative expense	-	3	(3)
Net investment income	-	6	(6)
Employer contributions	-	18	(18)
Balance as of December 31, 2015	<u>\$ 634</u>	<u>\$ 612</u>	<u>\$ 22</u>

The following presents MTA Metro-North Railroad's net pension liability as of December 31, 2017 calculated using the current discount rate at January 1, 2017 of 4% for the Plan, as well as what the net pension liability

would be if it were calculated using a discount rate that is 1-percentage point lower (3%) or 1-percentage point higher (5%) than the current rate:

	1% Decrease 3.00%	Current Discount Rate 4.00%	1% Increase 5.00%
	(in whole dollars)		
Net Pension Liability	\$25,200	\$(7,899)	\$(37,092)

The following presents MTA Metro-North Railroad's net pension liability as of December 31, 2016 calculated using the current discount rate at January 1, 2016 of 4% for the Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (3%) or 1-percentage point higher (5%) than the current rate:

	1% Decrease 3.00%	Current Discount Rate 4.00%	1% Increase 5.00%
	(in whole dollars)		
Net Pension Liability	\$ 60,689	\$ 21,847	\$(12,361)

MTA Metro-North Railroad's Proportionate Share of the Net Pension Liability – MTA Defined Benefit Plan

The following table presents MTA Metro-North Railroad's proportionate share of the net pension liability of the MTA Defined Benefit Plan at (in thousands, except %):

	December 31, 2017	December 31, 2016
MTA Metro-North Railroad's proportion of the net pension liability	34.34 %	35.43 %
MTA Metro-North Railroad's proportionate share of the net pension liability	\$460,804	\$457,065

MTA Metro-North Railroad's proportion of the respective Plan's net pension liability was based on actual required contributions of the participating employer for the calendar year.

The following table presents MTA Metro-North Railroad's proportionate share of the net pension liability as of December 31, 2017 based upon the January 1, 2016 actuarial valuation calculated using the discount rate of 7.00% for the MTA Defined Benefit Plan, as well as what the net pension liability would be if it were

calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1% Decrease 6.0%	Current Discount Rate 7.0%	1% Increase 8.0%
	(in thousands)		
MTA Metro-North Railroad's proportionate share of the net pension liability	\$ 665,032	\$ 460,804	\$ 288,512

The following table presents MTA Metro-North Railroad's proportionate share of the net pension liability as of December 31, 2016 based upon the January 1, 2015 actuarial valuation calculated using the discount rate of 7.00% for the MTA Defined Benefit Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1% Decrease 6.0%	Current Discount Rate 7.0%	1% Increase 8.0%
	(in thousands)		
MTA Metro-North Railroad's proportionate share of the net pension liability	\$ 650,388	\$ 457,065	\$ 294,109

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

MTA Metro-North Railroad recognized pension expense related to each pension plans as follows:

Pension Plans	December 31, 2017 (in thousands)	December 31, 2016 (in thousands)
MNR Cash Balance Plan	\$ (10)	\$ 4
MTA Defined Benefit Plan	<u>93,106</u>	<u>78,407</u>
Total	<u>\$ 93,096</u>	<u>\$ 78,411</u>

At December 31, 2017, MTA Metro-North Railroad reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows:

	MNR Cash Balance Plan		MTA Defined Benefit Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in thousands)					
Differences between expected and actual experience	\$ -	\$ -	\$ 60,997	\$ -	\$ 60,997	\$ -
Changes in assumptions	-	-	-	(20,580)	-	(20,580)
Net difference between projected and actual earnings on pension plan investments	20	(4)	62,339	-	62,359	(4)
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	3,879	-	3,879	-
Employer contribution to plan subsequent to the measurement date of net pension liability	-	-	120,515	-	120,515	-
Total	<u>\$ 20</u>	<u>\$ (4)</u>	<u>\$ 247,730</u>	<u>\$ (20,580)</u>	<u>\$ 247,750</u>	<u>\$ (20,584)</u>

At December 31, 2016, MTA Metro-North Railroad reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows:

	MNR Cash Balance Plan		MTA Defined Benefit Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in thousands)					
Differences between expected and actual experience	\$ -	\$ -	\$ 38,155	\$ -	\$ 38,155	\$ -
Changes in assumptions	-	-	-	(23,530)	-	(23,530)
Net difference between projected and actual earnings on pension plan investments	19	(6)	94,303	-	94,322	(6)
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	(1,436)	-	(1,436)
Employer contribution to plan subsequent to the measurement date of net pension liability	23	-	99,082	-	99,105	-
Total	<u>\$ 42</u>	<u>\$ (6)</u>	<u>\$ 231,540</u>	<u>\$ (24,966)</u>	<u>\$ 231,582</u>	<u>\$ (24,972)</u>

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs. The annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a .5 year closed period for the MNR Cash Balance Plan and a 7.8 year closed period for the MTA Defined Benefit Plan, beginning in the year in which the deferred amount occurs.

The amount of \$120,515 reported as deferred outflows of resources related to pensions resulting from the Company's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2017 will be recognized as pension expense as follows:

Year ending December 31:	MNR Cash Balance Plan	MTA Defined Benefit Pension Plan	Total
		(in thousands)	
2018	\$ 4	\$ 30,610	\$ 30,614
2019	4	30,610	30,614
2020	6	23,523	23,530
2021	2	4,664	4,665
2022	-	6,502	6,502
Thereafter	-	10,725	10,725
Total	<u>\$ 16</u>	<u>\$ 106,634</u>	<u>\$ 106,651</u>

8. OTHER POSTEMPLOYMENT BENEFITS

The MTA Metro-North Railroad 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 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. 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.

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, 2017, and was performed with a valuation date of January 1, 2016. The total number of plan participants as of January 1, 2016, receiving retirement benefits was 4.1 thousand.

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.

The cost of providing these benefits was approximately \$33,010 and \$30,061 in 2017 and 2016, 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, 2017, 2016 and 2015, MTA Metro-North Railroad paid \$33,005, \$30,424 and \$27,521 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. GASB 45 requires the valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2017, and was performed with a valuation date of January 1, 2016.

Annual OPEB Cost and Net OPEB Obligation — The MTA Metro-North Railroad’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.

Actuarial Methods and Assumptions — For determining the ARC, the MTA Metro-North Railroad 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, 2017 is 12 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 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.

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, 2016 which is 12 months prior to the beginning of the 2017 fiscal year. Census data for the next full valuation will be based on a valuation date of January 1, 2018.

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 3.50% to 3.30%.

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. Legislative changes passed in December 2015 have delayed the effective date of the excise tax until 2020. However, the calculation of the threshold amounts remains unchanged. 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 current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax and ACA fees which apply to the plan are not included. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the excise tax.

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

Valuation date	January 1, 2016
Actuarial cost method	Frozen initial liability
Discount rate	3.30%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen unfunded liability
Amortization period	12 years
Period closed or open	Closed

* In general, all coverages are paid for by 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 — 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 an initial 2006 report, as well as an updated 2014 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. 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.

Medicare Part B Premiums — Medicare Part B premiums reimbursements were assumed to have an annual trend of 4.5%. 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 2016 valuation excludes any RDS payments expected to be received.

Health Care Cost Trend — The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2017 utilizing the baseline assumptions included in the model, except real GDP of 1.8% and inflation of 2.5% 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 (4.5%). The NYSHIP trend reflects actual increases

in premiums through 2017. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements.

Health Care Cost Trend Rates

Fiscal Year	NYSHIP	
	<65	>=65
2016	11.8 %	- %
2017	6.7	6.4
2018	6.2	6.0
2019	6.3	5.5
2020	5.3	5.1
2025	6.0	5.1
2030	5.9	5.1
2035	5.9	5.2
2040	5.8	5.2
2050	5.4	5.8
2060	5.2	5.5
2070	4.6	4.7
Ultimate	4.2	4.3

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.

Dependent Coverage — Spouses are assumed to be the same age as the employee/retiree. 80% of male and 45% of female eligible members participating in NYSHIP are assumed to elect family coverage upon retirement. Actual 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 from the valuation date.

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.

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 MTA Metro-North Railroad 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 based on age at valuation date.

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 Metro-North Railroad's annual OPEB cost for the year, the amount actually paid, and changes in the MTA Metro-North Railroad's net OPEB obligation to the plan for the years ended December 31, 2017 and 2016 (in thousands). 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.

	2017	2016
Annual Required Contribution (ARC)	\$ 150,150	\$ 104,039
Interest on the net OPEB obligation	16,847	15,870
Adjustment to ARC	<u>(35,177)</u>	<u>(32,762)</u>
Annual OPEB cost	131,820	87,147
Payments made for OPEB costs on behalf of retirees	<u>(33,010)</u>	<u>(30,062)</u>
Increase in net OPEB obligation	98,810	57,085
Net OPEB obligation—beginning of year	<u>510,520</u>	<u>453,435</u>
Net OPEB obligation—end of year	<u>\$ 609,330</u>	<u>\$ 510,520</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, 2017, 2016, and 2015, were as follows (in thousands):

Years Ended	OPEB Cost	Annual OPEB Cost Paid	OPEB Obligation
December 31, 2017	\$ 131,820	25.04 %	\$ 609,330
December 31, 2016	87,147	34.50	510,520
December 31, 2015	82,766	32.88	453,435

The MTA Metro-North Railroad's funded status is as follows:

Year Ended	Valuation Date	Actuarial Value of Assets (A) (in millions)	Actuarial Accrued Liability (B) (in millions)	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, 2017	January 1, 2016	\$ 25.0	\$ 1,033.0	\$ 1,008.2	2.4%	\$ 508.6	198.2 %

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. 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 \$20,831 and \$20,731 in 2017 and 2016, which includes office space leased from MTA amounting to \$0.782 and \$1,144 in 2017 and 2016.

At December 31, 2017, 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):

Operating	Harlem/Hudson Lease	Other	Total
2018	\$ 578	\$ 13,514	\$ 14,092
2019	1,157	16,589	17,746
2020	1,157	17,579	18,736
2021	1,157	17,525	18,682
2022	1,157	17,426	18,583
2023-2027	2,892	97,353	100,245
2028-2032	5,784	79,505	85,289
2033-2037	5,784	30,530	36,314
2038-2042	5,784	-	5,784
2043-2047	5,784	-	5,784
Thereafter	<u>263,740</u>	<u>-</u>	<u>263,740</u>
	<u>\$ 294,974</u>	<u>\$ 290,021</u>	<u>\$ 584,995</u>

Capital	Harlem/Hudson Lease
2018	\$ 606
2019	1,212
2020	887
2021	887
2022	887
2023-2027	4,434
2028-2032	4,434
2033-2037	4,434
2038-2042	4,434
2043-2047	4,434
Thereafter	<u>201,289</u>
	227,938
Amount representing interest	<u>(214,044)</u>
Present value of capital lease obligations	13,894
Less current portion	<u>(148)</u>
Long-term liability	<u>\$ 13,746</u>

All operating and capital payments subsequent to 2047 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.

A summary of activity for the capital lease obligation for the years ended December 31, 2017 and 2016 is presented below (in thousands):

	2017	2016
Balance—beginning of year	\$ 14,174	\$ 14,438
Activity during the year:		
Principal payments on lease	<u>(281)</u>	<u>(264)</u>
Balance—end of year	13,893	14,174
Less current portion	<u>(148)</u>	<u>(138)</u>
Long-term liability	<u>\$ 13,745</u>	<u>\$ 14,036</u>

10. 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, 2017 and 2016, is presented below (in thousands):

	2017	2016
Balance—beginning of year	\$ 65,571	\$ 67,245
Activity during the year:		
Current year claims and changes in estimates	28,068	29,176
Claims paid—settlements only	<u>(19,237)</u>	<u>(30,850)</u>
Balance—end of year	74,402	65,571
Less current portion	<u>(15,553)</u>	<u>(22,911)</u>
Long-term liability	<u>\$ 58,849</u>	<u>\$ 42,660</u>

11. 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 \$1.2 million and \$3.7 million were recorded on the Statement of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2017 and 2016, 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 \$0.71 million (short-term) and \$6.2 million (long-term) for 2017 and \$0.87 million (short-term) and \$6.6 million (long-term) for 2016 were recorded. These consist primarily of future remediation activities associated with lead and asbestos abatement.

12. 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 at December 31, 2017 and 2016 (in thousands):

	2017	2016
Payments to MTA and affiliated agencies	\$ 187,389	\$ 178,034
Payments from MTA and affiliated agencies	125,675	131,228

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, 2017 and 2016 (in thousands):

	2017		2016	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 57,841	\$ (34,484)	\$ 43,772	\$ (32,220)
Affiliated agencies	<u>520</u>	<u>(18,627)</u>	<u>462</u>	<u>(21,701)</u>
Total MTA and affiliated agencies	<u>\$ 58,361</u>	<u>\$ (53,111)</u>	<u>\$ 44,234</u>	<u>\$ (53,921)</u>

In addition, MTA Metro-North Railroad had investments in the MTA Investment Pool of \$18,565 and \$25,552 at December 31, 2017 and 2016, 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.

13. OTHER LONG-TERM LIABILITES

MTA Metro-North Railroad has recorded \$1,537 in 2017 and \$5,265 in 2016 for the unearned rent related to the Graybar lease (see Note 9). A summary of activity in other long-term liabilities for the years ended December 31, 2017 and 2016, is presented below (in thousands):

	2017	2016
Balance—beginning of year	\$ 19,133	\$ 13,990
Activity during the year:		
Unearned rent on lease	1,537	5,265
Payments	(88)	(111)
Other	(11)	(11)
	<u> </u>	<u> </u>
Balance—end of year	<u>\$ 20,571</u>	<u>\$ 19,133</u>

14. 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.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. While questioned costs may occur, ultimate repayments required of the MTA or the MTA Metro-North Railroad have been infrequent in prior years.

15. ASSET IMPAIRMENT AND RELATED EXPENSES

In 2015, MTA Metro-North Railroad received insurance proceeds of \$509 for Hurricane Irene.

MTA Metro-North Railroad has allocated \$312,829 in its amended 2010-2014 Capital Program for Superstorm Sandy 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 the elevation of critical equipment as feasible. MTA Metro-North Railroad has also received \$37,500 in federal funding to harden Metro-North's Hudson Line against future storm surge flooding events of the type experienced during Superstorm Sandy. The funds will be used to design and build elevated steel equipment platforms along the 30 miles of the Hudson Line, as well as perimeter protection, waterproofing, hardening of substations and train yard buildings, and installation of video and electronic monitoring of Metro-North facilities and infrastructure. The award will be matched by \$12,500 in MTA funds. Moving forward with the 2015-2019 Capital Program, MTA Metro-North Railroad has updated design guidelines to incorporate resiliency as feasible for core program investments to better prepare for future climatic events.

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. As a result of this incident, two M-7 cars were destroyed. An impairment loss of \$2.9 million

was recorded in 2015. The National Transportation Safety Board (NTSB) has completed an investigation into the contributing causes of the accident and determined the actions of the driver to be the probable cause of the incident. Nonetheless, 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.

16. SUBSEQUENT EVENTS

As of April 25, 2018, there were no materially significant subsequent events.

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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METRO-NORTH COMMUTER RAILROAD COMPANY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE MTA METRO-NORTH COMMUTER RAILROAD
COMPANY'S NET PENSION LIABILITY AND RELATED RATIOS FOR THE METRO-NORTH
COMMUTER RAILROAD COMPANY CASH BALANCE PLAN AT DECEMBER 31:
(In thousands, except %)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY:			
Service cost	\$ -	\$ -	\$ -
Interest	24	29	32
Effect of liability gains and losses	(15)	(10)	-
Effect of assumption changes or inputs	-	18	-
Benefit payments and withdrawals	<u>(77)</u>	<u>(113)</u>	<u>(88)</u>
Net change in total pension liability	(68)	(76)	(56)
TOTAL PENSION LIABILITY—Beginning	<u>634</u>	<u>710</u>	<u>766</u>
TOTAL PENSION LIABILITY—Ending(a)	<u>566</u>	<u>634</u>	<u>710</u>
FIDUCIARY NET POSITION:			
Employer contributions	\$ 23	\$ 18	\$ -
Net investment income	16	6	41
Benefit payments and withdrawals	(77)	(113)	(88)
Administrative expenses	<u>-</u>	<u>3</u>	<u>(3)</u>
Net change in plan fiduciary net position	(38)	(86)	(50)
PLAN FIDUCIARY NET POSITION—Beginning	<u>612</u>	<u>698</u>	<u>748</u>
PLAN FIDUCIARY NET POSITION—Ending(b)	<u>574</u>	<u>612</u>	<u>698</u>
EMPLOYER'S NET PENSION LIABILITY—Ending(a)-(b)	<u>\$ (8)</u>	<u>\$ 22</u>	<u>\$ 12</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>101.39 %</u>	<u>96.56 %</u>	<u>98.36 %</u>
COVERED-EMPLOYEE PAYROLL	\$ 648	\$ 995	\$ 2,080
EMPLOYER'S NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>(1.22)%</u>	<u>2.20 %</u>	<u>0.56 %</u>

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available, in accordance with GASB Statement No. 68. Information was not readily available for periods prior to 2014.

METRO-NORTH COMMUTER RAILROAD COMPANY
 (Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE MTA METRO-NORTH COMMUTER RAILROAD COMPANY'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY IN THE MTA DEFINED
BENEFIT PENSION PLAN AT DECEMBER 31:
 (In thousands, except %)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
MTA Metro-North Railroad's proportion of the net pension liability	34.34 %	35.43 %	35.29 %
MTA Metro-North Railroad's proportionate share of the net pension liability	\$ 460,804	\$ 457,065	\$ 365,081
MTA Metro-North Railroad's actual covered-employee payroll	\$ 598,291	\$ 562,928	\$ 471,918
MTA Metro-North Railroad's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll	77.02 %	81.19 %	77.36 %
Plan fiduciary net position as a percentage of the total pension liability	71.82 %	70.44 %	74.77 %

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available, in accordance with GASB Statement No. 68. Information was not readily available for periods prior to 2014.

METRO-NORTH COMMUTER RAILROAD COMPANY
 (Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF MTA METRO-NORTH COMMUTER RAILROAD COMPANY'S
CONTRIBUTIONS TO ALL PENSION PLANS FOR THE YEARS ENDED DECEMBER 31:
(whole dollars)

	2017	2016	2015	2014
MNR Cash Balance Plan				
Actuarially determined contribution	\$ -	\$ 22,721	\$ -	\$ 4,977
Actual employer contribution	<u>-</u>	<u>22,721</u>	<u>14,124</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,124)</u>	<u>\$ 4,977</u>
Covered payroll	<u>\$ 471,469</u>	<u>\$ 846,490</u>	<u>\$ 1,474,237</u>	<u>\$ 2,274,338</u>
Contributions as a % of covered payroll	<u>- %</u>	<u>2.68 %</u>	<u>0.96 %</u>	<u>- %</u>
MTA Defined Benefit Pension Plan				
Actuarially determined contribution	\$ 114,406,753	\$ 105,507,923	\$ 96,982,553	\$ 95,820,560
Actual employer contribution	<u>120,514,677</u>	<u>99,082,552</u>	<u>70,500,320</u>	<u>122,862,733</u>
Contribution deficiency (excess)	<u>\$ (6,107,924)</u>	<u>\$ 6,425,371</u>	<u>\$ 26,482,233</u>	<u>\$ (27,042,173)</u>
Covered payroll	<u>\$ 616,231,443</u>	<u>\$ 596,128,647</u>	<u>\$ 648,851,699</u>	<u>\$ 525,557,448</u>
Contributions as a % of covered payroll	<u>19.56 %</u>	<u>16.62 %</u>	<u>10.87 %</u>	<u>23.38 %</u>

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available, in accordance with GASB Statement No. 68. Information was not readily available for periods prior to 2014.

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
NOTES TO SCHEDULE OF MTA METRO-NORTH COMMUTER RAILROAD COMPANY'S
CONTRIBUTIONS TO ALL PENSION PLANS

The following actuarial methods and assumptions were used in the January 1, 2017 funding valuation for the Metro-North Commuter Railroad Company Cash Balance Plan:

MNR Cash Balance Plan	
Valuation Dates	January 1, 2017
Measurement Date	December 31, 2016
Actuarial cost method	Unit Credit
Amortization method	One year amortization of the unfunded liability, if any.
Asset Valuation Method	Actuarial value equals market value
Inflation	2.30%
Actuarial assumptions:	
Discount rate	4.00%
Investment rate of return	4.00%, net of investment expenses
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA
Salary increases	N/A
Cost-of-Living Adjustments	N/A

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the MTA Defined Benefit Plan, should be presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms

There were no changes of benefit terms noted for the January 1, 2017 funding valuation.

Changes of Assumptions

There were no changes of assumptions noted for the January 1, 2017 funding valuation.

METRO-NORTH COMMUTER RAILROAD COMPANY
 (Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT BENEFIT PLAN
 (\$ in millions)

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, 2017	January 1, 2016	\$ 24.8	\$ 1,033.0	\$ 1,008.2	2.4%	\$ 508.6	198.2%
December 31, 2016	January 1, 2014	\$ 25.0	\$ 713.5	\$ 688.5	3.6%	\$ 459.8	149.7%
December 31, 2015	January 1, 2014	25.0	713.5	688.5	3.6%	459.8	149.7%
December 31, 2014	January 1, 2012	-	700.9	700.9	-	407.3	172.1%

Actuarial valuations are completed every other year.

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Triborough Bridge and Tunnel Authority

(Component Unit of the Metropolitan
Transportation Authority)

Financial Statements as of and for the
Years Ended December 31, 2017 and 2016,
Required Supplementary Information, and
Independent Auditors' Report

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component Unit 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 Triborough Bridge and Tunnel Authority (the "Authority"), a public benefit corporation which is a component unit of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2017 and 2016, 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 auditors' 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, 2017 and 2016, 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 Matter

As discussed in Note 2 to the financial statements, the Authority elected to change its method of amortizing bond premiums and discounts to the constant yield method, which is a more preferable accounting principle in 2017. 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 5 through 16, Schedule of the Authority's Proportionate Share of Net Pension Liability in the New York City Employees' Retirement System on page 77, Schedule of the Authority's Contributions to the New York City Employees' Retirement System on page 78, and Schedule of Funding Progress-Postemployment Healthcare Plan on page 79 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 25, 2018

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2017 AND 2016
(\$ in thousands, except as noted)

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" or "Authority") for the years ended December 31, 2017 and 2016. 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 (3) Notes to the Financial Statements, and (4) Required Supplemental Information.

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. It also includes the Schedule of the Authority's Proportionate Share of Net Pension Liability in the New York City Employees' Retirement System and Schedule of the Authority's Contributions to the New York City Employees' Retirement System as required by provisions for pensions under GASB Statement No. 68.

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 and is a component unit of the MTA. 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.

CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in MTA Bridges and Tunnels' financial position for the years ended December 2017 and 2016. 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)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	As of December 31,			Increase/(Decrease)	
	2017	2016	2015	2017 - 2016	2016 - 2015
Capital Assets- Net	\$ 6,005,000	\$ 5,229,113	\$ 4,712,318	\$ 775,887	\$ 516,795
Other Assets	1,109,935	897,525	1,008,841	212,410	(111,316)
Deferred Outflows of Resources	<u>501,979</u>	<u>488,214</u>	<u>413,875</u>	<u>13,765</u>	<u>74,339</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 7,616,914</u>	<u>\$ 6,614,852</u>	<u>\$ 6,135,034</u>	<u>\$ 1,002,062</u>	<u>\$ 479,818</u>

Significant Changes in Assets and Deferred Outflows of Resources:

December 31, 2017 versus 2016:

Total assets and deferred outflows of resources increased by \$1,002,062 for the year ended December 31, 2017.

Capital assets, net increased \$775,887 for the year ended December 31, 2017. This increase was primarily due to under construction work of \$130,436, open road tolling systems and equipment of \$320,475, roadway of \$342,624, primary structures of \$287,515, property road and equipment of \$118,465, and other of \$9,050. As a result of open road tolling, some of the prior year balances in toll plazas, toll equipment and buildings were reclassified to other asset categories resulting in a net negative balance of \$198,561 in these asset classes. These increases in assets were offset by accumulated depreciation of \$234,117.

Other assets increased by \$212,410 for the year ended December 31, 2017. The increase was primarily due to higher restricted short-term investments of \$202,136 and higher accounts receivable of \$87,885, mainly from tolls by mail. There was also a contribution from MTA Headquarters of \$164,140 for debt service savings. The increase was offset by a decrease in cash of \$111,999 mainly due to a prior year posting of \$107,072 for treasury notes maturing on the weekend of December 31, 2016 and reinvested on January 3, 2017. There were no reinvestments in current year. There was also a decrease of \$30,000 relating to insurance recovery receivable and a write-off of \$58,500 for the remaining portion of insurance which is uncollectible. In addition, there was an increase of \$26,738 for allowance for doubtful accounts and lower unrestricted investments of \$17,898.

There was an increase in deferred outflows of resources of \$13,765. There was an increase in the unamortized loss on debt refunding of \$58,554 mainly from the issuance of new bonds which was offset by a decrease in deferred outflows of resources related to pensions of \$33,410 and a decrease in the change in fair market value of derivative instruments of \$11,379.

December 31, 2016 versus 2015:

Total assets and deferred outflows of resources increased by \$479,818 for the year ended December 31, 2016.

Capital assets, net increased \$516,795 for the year ended December 31, 2016. This increase was primarily due to under construction work of \$352,666, primary structures of \$121,273, roadway of \$123,896, toll equipment of \$20,157, buildings of \$17,647, toll plazas of \$1,238 and other of \$8,742. Accumulated depreciation has increased by \$128,770 due to annual depreciation plus accelerated depreciation due to shortened lives resulting from assets being taken out of service due to automated electronic tolls.

Other assets decreased by \$111,316 for the year ended December 31, 2016. The decrease was primarily due to lower restricted short-term investments of \$152,224, partially offset by an increase in restricted short-term invested funds at MTA by \$47,175 and an increase in unrestricted short-term investments of \$19,478. The large cash posting at year-end of \$107,072 was due to treasury notes maturing on December 31, 2016, which fell on a weekend and was therefore not reinvested until January 3, 2017, the first business day of the New Year. There was a decrease of \$37,825 relating to bad debt reserve for insurance recovery.

There was an increase in deferred outflows of resources of \$74,339. Three factors were primarily responsible for this change. First, there was an increase in deferred outflows of resources related to pensions of \$45,771. There was also an increase in the unamortized loss on debt refunding of \$8,860, as well as an increase in the change in fair market value of derivative instruments of \$19,708.

(In thousands)

TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	As of December 31,			Increase/(Decrease)	
	2017	2016	2015	2017 - 2016	2016 - 2015
Current Liabilities	\$ 1,527,864	\$ 1,071,562	\$ 828,794	\$ 456,302	\$ 242,768
Noncurrent Liabilities	10,110,598	10,010,846	9,899,767	99,752	111,079
Deferred Inflow of Resources	<u>20,754</u>	<u>9,627</u>	<u>22,704</u>	<u>11,127</u>	<u>(13,077)</u>
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	<u>\$ 11,659,216</u>	<u>\$ 11,092,035</u>	<u>\$ 10,751,265</u>	<u>\$ 567,181</u>	<u>\$ 340,770</u>

Significant Changes in Liabilities and Deferred Inflows of Resources:

December 31, 2017 versus 2016:

Total Liabilities and deferred inflows of resources increased by \$567,181 for the year ended December 31, 2017.

Current liabilities increased by \$456,302 for the year ended December 31, 2017. There was an increase in payable to MTA of \$220,318 resulting from increases in MTA Bridges and Tunnels

Capital Program as well as an increase in the current portion of long-term debt of \$200,488. See debt footnotes for further details. In addition, there were increases in unearned tolls revenue of \$29,122 mainly from unredeemed tolls and accrued payroll of \$6,379, mainly due to accruals for anticipated wage increases.

Non-current liabilities increased by \$99,752 for the year ended December 31, 2017. There was an increase in the liability for other post-employment benefits other than pensions of \$64,472 and an increase in long-term debt of \$77,935. See debt footnotes for further details. There was also an increase in estimated liability arising from injuries to persons of \$3,544. These increases were offset by a decrease in net pension liability of \$35,988 and net derivative liabilities of \$11,398. See derivative instrument footnotes for further details.

There was an increase in deferred inflows of resources relating to pensions of \$11,127 due mainly to net increase of projected and actual earnings on pension plan investments of \$11,099.

December 31, 2016 versus 2015:

Total Liabilities and deferred inflows of resources increased by \$340,770 for the year ended December 31, 2016.

Current liabilities increased by \$242,768 for the year ended December 31, 2016. There was an increase in accounts payable of \$101,041 which was mainly due to increases in capital accruals of \$65,871, contractor's retainage of \$25,478, and other liabilities of \$10,435. There was also an increase in payable to MTA of \$119,601 resulting from increases in MTA Bridges and Tunnels Capital Program as well as an increase in the current portion of long-term debt of \$15,818. See debt footnotes for further details. In addition, there were increases in accrued payroll of \$8,855, mainly due to pay out of retroactive wage adjustment settlements in 2016.

Non-current liabilities increased by \$111,079 for the year ended December 31, 2016. Five factors were primarily responsible for this change. First, there was an increase in the liability for other postemployment benefits other than pensions of \$71,837. Second, there was an increase in long-term debt of \$54,671. See debt footnotes for further details. Third, there was an increase in net pension liability of \$63,695. A fourth factor was an increase of 13,080 related to MTA hedge swaps. Finally, there was an increase in derivative liabilities of \$5,980. These increases were offset by a decrease in capital lease obligations mainly relating to railcars of \$107,000. See derivative instrument footnotes for further details.

There was a decrease in deferred inflows of resources relating to pensions of \$13,077 due to net decrease of projected and actual earnings on pension plan investments, \$20,258, partially offset by a net increase between expected actual experiences, \$6,290.

There was an increase in deferred inflows of resources of \$22,704 due the adoption of GASB Statement No. 68 in 2015.

(In thousands)

NET POSITION	As of December 31,			Increase/(Decrease)	
	2017	2016	2015	2017 - 2016	2016 - 2015
Net investment in capital assets	\$ 1,730,165	\$ 911,389	\$ 655,998	\$ 818,776	\$ 255,391
Restricted	716,586	511,153	723,199	205,433	(212,046)
Unrestricted	<u>(6,489,053)</u>	<u>(5,899,725)</u>	<u>(5,995,428)</u>	<u>(589,328)</u>	<u>95,703</u>
Total net position	<u>\$ (4,042,302)</u>	<u>\$ (4,477,183)</u>	<u>\$ (4,616,231)</u>	<u>\$ 434,881</u>	<u>\$ 139,048</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, 2017 versus 2016:

In 2017 the total net position increased by \$434,881. This was due to operating income of \$1,148,763 and cumulative effect of change in accounting principle of \$152,865 less non-operating expenses of \$295,177 and less net transfers out of \$571,570 (principally operating surplus).

December 31, 2016 versus 2015:

In 2016 the total net position increased by \$139,048. This was due to operating income of \$1,233,300 less non-operating expenses of \$351,712, less net transfers out of \$742,540 (principally operating surplus). In addition, there was a restatement of \$38,835 which was a result of prior year adjustments.

Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)	Years Ended December 31,			Increase/(Decrease)	
	2017	2016	2015	2017 - 2016	2016 - 2015
OPERATING REVENUES	\$ 1,931,939	\$ 1,895,045	\$ 1,836,664	\$ 36,894	\$ 58,381
OPERATING EXPENSES	<u>(783,176)</u>	<u>(653,261)</u>	<u>(604,087)</u>	<u>(129,915)</u>	<u>(49,174)</u>
OPERATING INCOME	<u>1,148,763</u>	<u>1,241,784</u>	<u>1,232,577</u>	<u>(93,021)</u>	<u>9,207</u>
TOTAL NET NONOPERATING EXPENSES:	<u>(295,177)</u>	<u>(360,196)</u>	<u>(324,061)</u>	<u>65,019</u>	<u>(36,135)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	853,586	881,588	908,516	(28,002)	(26,928)
TRANSFERS IN - MTA	168,574	369	401	168,205	(32)
TRANSFERS OUT	<u>(740,144)</u>	<u>(742,909)</u>	<u>(750,717)</u>	<u>2,765</u>	<u>7,808</u>
CHANGES IN NET POSITION	282,016	139,048	158,200	142,968	(19,152)
NET POSITION - BEGINNING	<u>(4,477,183)</u>	<u>(4,616,231)</u>	<u>(4,484,788)</u>	<u>139,048</u>	<u>(131,443)</u>
DUE TO CORRECTION OF ERROR	<u>-</u>	<u>-</u>	<u>(52,877)</u>	<u>-</u>	<u>52,877</u>
RESTATEMENT OF BEGINNING NET POSITION - GASB 68	<u>-</u>	<u>-</u>	<u>(236,766)</u>	<u>-</u>	<u>236,766</u>
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	<u>152,865</u>	<u>-</u>	<u>-</u>	<u>152,865</u>	<u>-</u>
NET POSITION - ENDED	<u>\$ (4,042,302)</u>	<u>\$ (4,477,183)</u>	<u>\$ (4,616,231)</u>	<u>\$ 434,881</u>	<u>\$ 139,048</u>

Operating Revenues

For the year ended December 31, 2017, the operating revenues increased by \$36,894 as compared to December 31, 2016. Traffic in 2017 set a new record with 310 million crossings, surpassing the previous high of 307.4 million crossings from the previous year. See "Overall Financial Position and Results of Operations and Important Economic Conditions" below.

For the year ended December 31, 2016, the operating revenues increased by \$58,381 as compared to December 31, 2015. This increase can be primarily attributed to an increase in toll revenue of \$54,337 which includes bad debt expenses relating to toll collections of \$6,772. 2016 was a record year for traffic over and through bridges and tunnels. See "Overall Financial Position and Results of Operations and Important Economic Conditions" below.

Revenue by Major Source

MTA Bridges and Tunnels tolls accounted for 98.9% and 98.3% of operating revenues in 2017 and 2016, 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-Z Pass

customers.

Toll revenues (net of bad debt expense relating to toll collections) were \$1,911,857 and \$1,863,238 for the years ended December 31, 2017 and December 31, 2016, respectively.

Operating Expenses

Operating expenses, including depreciation, increased for the year ended December 31, 2017, as compared to the prior year by \$129,915. The increase was primarily due to an increase in maintenance and other operating contracts of \$19,224, most of which was in E-Z Pass customer service center, depreciation expense of \$112,748 and salary and wages, \$5,583. This was offset by a decrease in retirement and other employee benefits of \$5,911.

Operating expenses, including depreciation, increased for the year ended December 31, 2016, as compared to the prior year by \$49,174. The increase was primarily due to an increase in retirement and other employee benefits of \$25,725, maintenance and other operating contracts of \$4,009, mainly in major maintenance and painting, and depreciation expense of \$14,976. Also, salary and wages increased by \$3,240.

Non-operating Revenues (Expenses)

Net non-operating expenses decreased by \$65,019 for the year ended December 31, 2017. This decrease was mainly due to lower interest expense of \$83,928 which was primarily a result of a change to the premium/discount amortization on bonds from the previous method to the constant yield method. The decrease was partially offset by an increase in the provision for insurance recoveries by \$20,675.

Net non-operating expenses increased by \$36,135 for the year ended December 31, 2016. This increase was primarily due to a provision for insurance recoveries of \$37,825, changes in fair value of derivatives due to MTA of \$13,080 and FEMA loss recovery of \$0 in 2016 versus \$5,524 in 2015. This was partially offset by a decrease in fair value of derivative financial instruments of \$13,508 and net interest expense of \$6,626.

Cumulative Effect of Change in Accounting Principle

During 2017, MTA Bridges and Tunnels changed its method of amortizing bond premiums and discounts to the constant yield method, which is a more preferable accounting principle than the principle used in previous years. This change in method resulted in an increase in 2017 beginning net position of \$152,865. See Note 2 for further details.

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 data from the U.S. Bureau of Labor Statistics, regional employment grew on average by 1.8% in 2016 and preliminary reports show employment growth of 1.5% in 2017. Inflation was 1.1% in 2016 and 2.0% in 2017.

At 310.0 million crossings, traffic in 2017 set a new record, surpassing the previous high of 307.4 million crossings in 2016 by 0.8%. Traffic had declined by 0.8% over the first half of 2017 primarily

due to relatively harsh weather in March and Hurricane Sandy restoration construction at the Queens Midtown Tunnel and the Hugh L. Carey Tunnel. There was also one less day in 2017 due to the 2016 leap year. However, these earlier traffic declines were largely offset by year-to-year growth of 2.4% over the second half of the year primarily due to generally favorable weather and improvements in the local economy. Toll revenue was \$1,911.9 million in 2017, which was \$42.2 million, or 2.3% above the 2016 level of \$1,869.7 million. The additional revenue was a result of the higher traffic volume in 2017 and a full year's impact of the toll increase implemented on March 19, 2017.

Total paid traffic reached 307.4 million crossings in 2016, which was 9.4 million, or 3.2% above the 2015 level. Continued low gas prices appear to be the major driver behind the increased volume. Gas prices averaged \$2.22 in 2016, compared to an average of \$2.50 in 2015. In addition, overall winter weather was relatively less severe in 2016. Snow accumulations hit 39.2 inches in 2016 while snowfall in 2015 totaled 48.0 inches. Toll revenue was \$1,869.7 million in 2016, which was \$60.8 million, or 3.4% above the 2015 level of \$1,808.9 million. The additional revenue was a result of the higher traffic volume in 2016 and a full year's impact of the toll increase implemented on March 22, 2015.

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 2017 and 2016:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total	90.4%	85.9%	85.1%
Average Weekday	91.5%	87.5%	86.8%
Passenger Vehicles	91.2%	86.9%	86.2%
Commercial Vehicles	94.5%	93.7%	93.1%
Average Weekend	87.5%	82.0%	81.1%

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 2015-2019 totals \$2,940,446 (May 24, 2017 MTA Board Approved Plan Amendment) for normal replacement and system improvement projects. The commitments made during the fourth quarter 2017 were \$133,995 bringing the total commitment under the five-year plan to \$941,260.

MTA Bridge and Tunnels' portion of the Capital Program for 2010-2014 totals \$2,017,842 (May 24, 2017 MTA Board Approved Plan Amendment) for normal replacement and system improvement projects. The commitments made during the fourth quarter 2017 were \$23,360. The total commitment under the five-year plan is \$1,939,456.

MTA Bridge and Tunnels' portion of the Capital Program for 2005-2009 totals \$1,126,736 for normal replacement and system improvement projects. There were no commitments made during the fourth quarter 2017. The total commitment under the five-year plan is \$1,117,702.

Approximately 65% of the projected expenditures in the 2015-2019 Capital Program will be incurred at three facilities: The Robert F. Kennedy Bridge, the Throgs Neck Bridge and the Verrazano-Narrows Bridge. Other major projects in the 2015-2019 Capital Program include the skewback retrofit and the reconstruction of the upper and lower level toll plaza decks and southbound approach roadway (Phase

B) at the Henry Hudson Bridge, the rehabilitation of the Queens Midtown Tunnel controls and communication systems, rehabilitation of the Hugh L. Carey Tunnel ventilation systems, and scour protection, repair and replacement of the pier fender systems at the Cross Bay Bridge.

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, 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 2010-2014 Capital Program for Sandy Restoration and Resiliency totals \$766,001,791 (May 24, 2017 MTA Board Approved Plan Amendment), of which \$620,726,283 is for facility restoration and \$145,275,508 is for facility mitigation projects. The commitments made during the fourth quarter 2017 were \$2,850 bringing the total commitment under these plans is \$672,370 to date.

Approximately 89% of the projected expenditures will be incurred at the Hugh L. Carey and Queens Midtown Tunnels.

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, was \$778 million. The estimated cost of repairs has since been revised by (\$157 million) from \$778 million to \$621 million. The cost estimate modification is principally attributed to low bids resulting from efficient packaging of work and reflects both actual commitments and revised estimates for remaining and ongoing work. The cost of infrastructure repairs is expected to be covered by a combination of FEMA, insurance, MTA Bridges and Tunnel resources, including its Necessary Construction 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.

As of December 31, 2017, costs associated with the storm included repair and clean-up expenses of \$2.2 million which are included in "asset impairment and related expenses" on the Statements of Revenues, Expenses and Changes in Net Position.

On April 16, 2014, FEMA entered into an agreement with MTA, under the Public Assistance Alternative Procedures Pilot Program, to provide 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. To date, MTA Bridges and Tunnels has applied for an additional \$35.7 million from FEMA for restoration and hazard mitigation funding at other facilities, totaling \$439.3 million in FEMA funding for all facilities.

MTA has not yet received all of its FEMA reimbursements. FEMA has approved approximately \$17 million in operating budget expenses for emergency measures, debris removal, repair and resiliency for the MTA Bridges and Tunnels' bridge facilities, of which \$13.4 million has been received to date.

E-ZPass Initiatives

E-ZPass continues to be the most efficient means of toll collection. Through a variety of programs, MTA Bridges and Tunnels has steadily increased the market share of E-ZPass users. Major 2017 achievements include:

- MTA Bridges and Tunnels being paid with E-ZPass were 93.6%, the most in the country, and a 7% increase from 2016.
- Increased the number of MTA E-ZPass Reload Cards in circulation to nearly 175,000 and customers have used their cards to reload more than \$18 million to their E-ZPass accounts since the inception of the program. The Reload Card makes it easier for customers to manage their E-ZPass balances, enabling them to add cash to their accounts through the Visa ReadyLink system at thousands of retail locations across the country.
- Increased the number of accounts using the E-ZPass "Pay Per Trip" payment plan to more than 86,000 accounts enabling customers to pay their tolls with an automatic checking account transaction without having to maintain a prepaid E-ZPass balance.
- Exchanged over 91,000 E-ZPass customer tags that reached the end of their useful life through a prepaid mail program that ensures a continuous high level of E-ZPass tag performance.

All Electronic/Open Road Tolling

In October 2016, Governor Andrew M. Cuomo announced the "New York Crossings Project," a transformational plan to improve the overall customer experience at MTA Bridges and Tunnels. This included an aggressive schedule to complete the conversion of all MTA Bridges and Tunnels tolled NYC bridges and tunnels to open road, cashless tolling at all crossings, enabling a free flow of traffic through overhead gantries with vehicle classification and E-ZPass sensors. For vehicles without an E-ZPass, a "Tolls by Mail" invoice is sent to the vehicle's registered owner.

Cashless tolling reduces customer travel time and idle time, thus saving energy and lowering carbon emissions. Data collected over a full year at toll plazas that had transitioned from traditional toll booths to Open Road Cashless Tolling revealed significant and sustained improvements for motorists and the environment through decreased travel times, reduced congestion, lower carbon emissions, improved safety, and savings to the agency through reduced overall costs. After a year-long rollout, all MTA Bridges and Tunnels facilities had transitioned to cashless, open road tolling by the end of September 2017.

In addition, MTA Bridges and Tunnels engaged in the following customer service initiatives to support NYCP in 2017:

- Undertook a number of marketing, advertising, public awareness and outreach initiatives to promote E-ZPass in advance of Open Road Tolling, explain the related construction progress and its associate traffic impacts, and inform customers of the new toll collection environment well in advance of the changes to each facility.

- The Pay Toll Now option on the Tolls by Mail website for cashless billings allows non-E-ZPass customers to pay their tolls before they receive a bill in the mail. The website informs customers about new cashless tolling procedures; allows drivers to pre-register vehicles and pay incurred tolls; and enables visitors and rental car drivers to set up accounts and avoid added fees. In addition, Bridges & Tunnels collaborated with the New York State Thruway Authority and the Port Authority of New York and New Jersey to merge toll bills into a single bill from all three authorities.
- MTA Bridges and Tunnels Staten Island resident customers who formerly used tickets to pay the reduced carpool rate in cash lanes were migrated to switchable carpool tags with an HOV indicator that enables them to use any lane on the VNB and receive the discounted carpool rate, provided they have three or more occupants in their car.

Verrazano-Narrows Bridge Rebate Programs

The projected annualized cost of the 2016-2017 Verrazano-Narrows Bridge Rebate Programs is approximately \$17.3 million, with \$14 million for the 2016-2017 Verrazano-Narrows Bridge Commercial Rebate Program and for the 2016-2017 Staten Island Resident Rebate Program, funded equally by the State and MTA, with the State's contribution provided by appropriations to MTA. An additional \$3.3 million in appropriations is being provided by the State to MTA to keep the \$0.74 rebate for Staten Island Residents with three or more trips per month and the \$1.10 rebate for Staten Island Residents with less than three trips per month.

The projected annualized cost of the 2017-2018 Verrazano-Narrows Bridge Rebate Programs is approximately \$20.8 million, with \$14 million for the 2016-2017 Verrazano-Narrows Bridge Commercial Rebate Program and for the 2016-2017 Staten Island Resident Rebate Program, funded equally by the State and MTA, with the State's contribution provided by appropriations to MTA. An additional \$6.8 million in appropriations is being provided by the State to MTA to keep the \$0.98 rebate for Staten Island Residents with three or more trips per month and the \$1.34 rebate for Staten Island Residents with less than three trips per month.

The money to fund a year's estimated costs for the Verrazano-Narrows Bridge Rebate Programs is transferred by MTA to MTA Bridges and Tunnels prior to the implementation of the Verrazano-Narrows Bridge Rebate Programs each year. The 2017-2018 Verrazano-Narrows Bridge Rebate Programs will be implemented as specified herein only for such periods during which both (a) MTA's total financial responsibility, net of State actions or available offsets, does not exceed \$7 million for the 2016-2017 Staten Island Resident Rebate and Verrazano-Narrows Bridge Commercial Programs and (b) the State provides (i) at least \$7 million for the 2017-2018 Staten Island Residents Rebate Program and Verrazano-Narrows Bridge Commercial Rebate Program and (ii) such additional funds as are necessary (currently estimated to be \$6.8 million) to keep the \$0.98 rebate for Staten Island Residents with three or more trips per month and the \$1.34 rebate for Staten Island Residents with less than three trips per month under the 2017-2018 Staten Island Resident Rebate Program. MTA shall apply the \$6.8 million of additional funds provided by the State as necessary to keep the \$0.98 rebate for Staten Island Residents with three or more trips per month and the \$1.34 rebate for Staten Island Residents with less than three trips per month.

If, as a result of unexpected toll transaction activity, MTA Bridges and Tunnels estimates that such MTA and State funds allocated to MTA for the 2017-2018 Verrazano-Narrows Bridge Rebate Programs, net of offsets, will be insufficient to fund the 2017-2018 Verrazano-Narrows Bridge Commercial Rebate Program for the full Program year, MTA Bridges and Tunnels may reduce the rebate amount under such Program to a percentage that is forecast to be payable in full for the

remainder of the Program year with the available funds. However, in the event that such MTA and State funds allocated to MTA for the 2017-2018 Verrazano- Narrows Bridge Rebate Programs are fully depleted at any time during the 2017-2018 Verrazano-Narrows Bridge Rebate Programs annual period, the 2017-2018 Verrazano-Narrows Bridge Rebate Programs will cease and Staten Island residents will be charged the applicable resident discount toll and trucks and other commercial vehicles will be charged the applicable New York Customer Service Center E-ZPass toll for the Verrazano-Narrows Bridge.

The Verrazano-Narrows Bridge Rebate Programs will continue into future years provided that (a) MTA's annual period contribution does not exceed \$7 million, (b) the MTA Board approves a budget that includes MTA's contribution to such program, and (c) the State provides to MTA funds sufficient for at least half the expenses of each continuing annual period.

Under the 2016-2017 Staten Island Resident Rebate Program, MTA will continue to rebate \$0.74 of the \$6.24 SIR E-ZPass toll paid by Staten Island residents with three or more trips per month across the Verrazano- Narrows Bridge, and \$1.10 of the \$6.60 SIR E-ZPass toll paid by Staten Island residents with one or two trips across the bridge. As a result of these MTA toll rebates, Staten Island residents will pay an effective toll of \$5.50 per trip under the current Staten Island Resident toll rates. The 2016-2017 Staten Island Resident Rebate Program is retroactive to April 1, 2016 and will continue through March 31, 2017.

Under the 2017-2018 Staten Island Resident Rebate Program, MTA will continue to rebate \$0.98 of the \$6.48 SIR E-ZPass toll paid by Staten Island residents with three or more trips per month across the Verrazano- Narrows Bridge, and \$1.34 of the \$6.84 SIR E-ZPass toll paid by Staten Island residents with one or two trips across the bridge. As a result of these MTA toll rebates, Staten Island residents will pay an effective toll of

\$5.50 per trip under the current Staten Island Resident toll rates. The 2017-2018 Staten Island Resident Rebate Program is retroactive to April 1, 2017 and will continue through March 31, 2018.

Under the 2017-2018 Verrazano-Narrows Bridge Commercial Rebate Program, the initial rebate is 17.5% of the E-ZPass toll for trucks and other commercial vehicles with more than ten trips per month across the Verrazano-Narrows Bridge, using the same New York Customer Service Center E-ZPass Account. Implementing a 17.5% rebate of the E-ZPass toll for trucks and other eligible commercial vehicles is expected to ensure that the \$7 million allocated for the 2016-2017 Verrazano-Narrows Bridge Commercial Rebate Program is sufficient to provide funding from April 1, 2017 through March 31, 2018. The 2017-2018 Staten Island Resident Rebate Rebate Program is retroactive to April 1, 2017 and will continue through March 31, 2018.

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 8,420	\$ 120,419
Unrestricted investments (Note 4)	73,687	91,585
Restricted investments (Note 4)	284,794	82,658
Invested funds at MTA—unrestricted (Note 5)	29,523	28,204
Invested funds at MTA—restricted (Note 5)	431,787	428,489
Accrued interest receivable	1,634	906
Accounts receivable	138,307	50,422
Less allowance for doubtful accounts	(42,025)	(15,287)
Insurance recovery receivable (Note 10)	-	126,325
Less allowance for insurance recovery	-	(37,825)
Due from MTA (Note 19)	173,717	13,625
Prepaid expenses	6,541	4,435
	<u>1,106,385</u>	<u>893,956</u>
Total current assets		
NON-CURRENT ASSETS:		
Restricted investments (Notes 4 and 5)	5	5
Capital assets (Note 6):		
Land and construction work-in-progress	1,198,800	1,068,364
Other capital assets (net of accumulated depreciation)	4,806,200	4,160,749
Derivative assets (Note 14)	3,545	3,564
	<u>6,008,550</u>	<u>5,232,682</u>
Total non-current assets		
TOTAL ASSETS	<u>7,114,935</u>	<u>6,126,638</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Related to pensions (Note 7)	70,663	104,073
Accumulated decreases in fair value of derivative instruments (Note 14)	169,283	180,662
Loss on debt refunding	262,033	203,479
	<u>501,979</u>	<u>488,214</u>
Total deferred outflows of resources		
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,616,914</u>	<u>\$ 6,614,852</u>

(Continued)

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

	2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 222,143	\$ 223,012
Accrued expenses:		
Interest	47,494	53,565
Payable to MTA (Note 19)	382,973	162,655
Payable to NYCTA—operating expense (Note 19)	778	1,362
Accrued salaries	27,340	20,961
Accrued vacation and sick pay benefits	16,423	17,451
Total accrued expenses	<u>475,008</u>	<u>255,994</u>
Current portion—long-term debt (Notes 11 to 13)	490,488	290,000
Current portion—estimated liability from injuries to persons (Note 16)	6,260	5,878
Due to NYCTA—operating surplus (Note 1 and 19)	40,910	38,098
Due to MTA—operating surplus (Note 1 and 19)	64,153	56,971
Pollution remediation projects (Note 9)	-	1,829
Unearned tolls revenue (includes \$53,357 and \$48,652 in 2017 and 2016, respectively, due to other toll agencies)	228,902	199,780
Total current liabilities	<u>1,527,864</u>	<u>1,071,562</u>
NON-CURRENT LIABILITIES:		
Estimated liability arising from injuries to persons (Note 16)	41,299	37,755
Post employment benefits other than pensions (Note 8)	709,770	645,298
Long-term debt (Notes 11 to 13)	8,859,382	8,781,447
Net pension liability (Note 7)	271,608	307,596
Derivative liabilities (Note 14)	155,426	171,146
Due to MTA—change in fair value of derivative (Note 14 and 19)	17,402	13,080
Obligations under capital leases (Note 15)	55,711	54,524
Total non-current liabilities	<u>10,110,598</u>	<u>10,010,846</u>
TOTAL LIABILITIES	<u>11,638,462</u>	<u>11,082,408</u>
DEFERRED INFLOWS OF RESOURCES:		
Related to pensions (Note 7)	20,754	9,627
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>20,754</u>	<u>9,627</u>
NET POSITION:		
Net investment in capital assets	1,730,165	911,389
Restricted	716,586	511,153
Unrestricted	<u>(6,489,053)</u>	<u>(5,899,725)</u>
Total net position	<u>(4,042,302)</u>	<u>(4,477,183)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 7,616,914</u>	<u>\$ 6,614,852</u>

See notes to financial statements.

(Concluded)

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

	2017	2016
OPERATING REVENUES:		
Bridges and tunnels	\$ 1,911,857	\$ 1,863,238
Building rentals and fees	18,574	26,728
Other income	<u>1,508</u>	<u>5,079</u>
Total operating revenues	<u>1,931,939</u>	<u>1,895,045</u>
OPERATING EXPENSES:		
Salaries and wages	137,803	132,220
Retirement and other employee benefits	93,861	99,772
Post employment benefits other than pensions	87,430	90,130
Electric power	3,683	5,803
Fuel	1,575	1,362
Insurance	12,101	14,359
Maintenance and other operating contracts	147,087	127,863
Professional service contracts	17,402	17,773
Materials and supplies	3,901	3,808
Depreciation	241,517	128,769
Other	<u>34,637</u>	<u>30,510</u>
Total operating expenses	<u>780,997</u>	<u>652,369</u>
Asset impairment and related expenses—(Note 10)	<u>2,179</u>	<u>892</u>
OPERATING INCOME	<u>1,148,763</u>	<u>1,241,784</u>
NON-OPERATING REVENUES (EXPENSES):		
Build America Bonds subsidy	8,143	8,442
Federal Emergency Management Agency reimbursement related to Tropical Storm Sandy	1,900	-
Interest expense (Note 2)	(243,230)	(327,158) *
Interest expense—capital lease obligation	(4,967)	(4,922)
Change in fair value of derivative financial instruments (Note 14)	4,322	13,712
Change in fair value of derivative—due (to)/from MTA	(4,322)	(13,080)
Investment income	1,477	635
Provision for insurance recoveries	<u>(58,500)</u>	<u>(37,825)</u>
Total net non-operating expenses	<u>(295,177)</u>	<u>(360,196)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	853,586	881,588
TRANSFERS IN—Metropolitan Transportation Authority	168,574	369
TRANSFERS OUT (Note 1):		
New York City Transit Authority	(310,367)	(312,901)
Metropolitan Transportation Authority	<u>(429,777)</u>	<u>(430,008)</u>
CHANGE IN NET POSITION	282,016	139,048 *
NET POSITION—Beginning of year	(4,477,183)	(4,616,231)
Cumulative effect of change in accounting principle (Note 2)	<u>152,865</u>	<u>-</u>
NET POSITION—End of year	<u>\$ (4,042,302)</u>	<u>\$ (4,477,183)</u>

See notes to financial statements.

*During 2017, MTA Bridges and Tunnels changed to a more preferable method of amortizing bond premiums and discounts, constant yield. This change in method is accounted for on a prospective basis. Had the new accounting principle been used for all comparative periods presented within, the 2016 Change in Net Position would have been \$174,589.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
 (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
 (Dollars in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tolls collected	1,909,785	\$ 1,857,940
Building rentals and fees received	19,949	32,296
Payroll and related fringe benefits	(239,070)	(304,554)
Other operating expenses	<u>(247,892)</u>	<u>(139,336)</u>
Net cash provided by operating activities	<u>1,442,772</u>	<u>1,446,346</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies paid to affiliated agencies	<u>(731,627)</u>	<u>(741,992)</u>
Net cash used in noncapital financing activities	<u>(731,627)</u>	<u>(741,992)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment for capital assets	(726,919)	(496,480)
Debt service payments	(290,000)	(289,826)
Bond proceeds	2,722,647	642,206
Bonds refunded	(1,973,870)	(288,004)
Interest payments	<u>(366,287)</u>	<u>(357,937)</u>
Net cash used in capital and related financing activities	<u>(634,429)</u>	<u>(790,041)</u>

(Continued)

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(A Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES:		
Gross sales of short-term securities	\$ 3,952,431	\$ 3,985,128
Gross purchases of short-term securities	<u>(4,141,145)</u>	<u>(3,792,369)</u>
Net cash (used in)/provided by investing activities	<u>(188,714)</u>	<u>192,759</u>
NET (DECREASE)/INCREASE IN CASH	(111,999)	107,072
CASH—Beginning of year	<u>120,419</u>	<u>13,347</u>
CASH—End of year	<u>\$ 8,420</u>	<u>\$ 120,419</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,148,763	\$ 1,241,784
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	241,517	128,769
On -behalf payments related to rent (Note 15)	1,900	-
GASB 68 pension expense adjustment	6,274	6,848
Net (increase) in receivables	(28,136)	(17,073)
Net increase in operating payables	36,159	72,381
Net (increase)/decrease in prepaid expenses	(2,106)	1,378
Net increase in accrued salary costs, vacation & insurance	9,279	10,720
Net increase in unearned revenue	<u>29,122</u>	<u>1,539</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,442,772</u>	<u>\$ 1,446,346</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital asset related liabilities	<u>\$ 69,634</u>	<u>\$ 106,691</u>
Interest expense includes amortization of net (premium)/discount*	<u>\$ (68,603)</u>	<u>\$ (25,804)</u>
Interest expense which was capitalized	<u>\$ 35,739</u>	<u>\$ 33,545</u>

See notes to financial statements.

(Concluded)

*During 2017, MTA Bridges and Tunnels changed to a more preferable method of amortizing bond premiums and discounts, constant yield. This change in method is accounted for on a prospective basis. Had the new accounting principle been used for all comparative periods presented within, the 2016 net premium amortization would have been (\$60,411).

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Dollars in thousands, except as noted)

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 a component unit 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 is operationally and legally independent of the MTA. MTA Bridges and Tunnels enjoy certain rights typically associated with separate legal status including the ability to issue debt. However, MTA Bridges and Tunnels is included in the MTA’s consolidated financial statements as a blended component unit because of the MTA’s financial accountability and MTA Bridges and Tunnels is under the direction of the MTA Board (a reference to “MTA Board” means the board of MTA and/or the boards of the MTA Bridges and Tunnels and other MTA component units 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 MTA Bridges and Tunnels in its consolidated financial statements.

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, 2017 and 2016, of \$105,063 and \$95,069, 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, 2017 and 2016, were as follows:

	2017	2016
Operating transfer	\$740,144	\$742,909
Investment income (excludes unrealized gain or loss)	<u>1,477</u>	<u>635</u>
	<u>\$741,621</u>	<u>\$743,544</u>

2. 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 Bridges and Tunnels 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 Adopted

The MTA Bridges and Tunnels adopted the following GASB Statements for the year ended December 31, 2017:

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 67, and Amendments to Certain Provisions of GASB Statements 67 and 68, establishes requirements for defined benefit pension plans and defined contribution plans that are not within the scope of GASB Statement No. 68, Accounting and Financial Reporting for Pensions. GASB Statement No. 73 extends the approach to accounting and financial reporting established in GASB Statement No. 68 to all pensions to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB Statement No. 68, should not be considered pension plan assets. It also requires that information similar to that required by GASB Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on the MTA's financial statements.

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes accounting and financial reporting standards for state and local governmental other postemployment benefit ("OPEB") plans. The Statement replaces GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and GASB Statement No. 57, OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on the MTA Bridges and Tunnels financial statements.

GASB Statement No. 80, Blending Requirements for Certain Component Units establishes an additional blending requirement for the financial statement presentation of component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement had no impact on the MTA Bridges and Tunnels financial statements. No additional disclosures are required.

GASB Statement No. 81, Irrevocable Split-Interest Agreements establishes accounting and financial reporting standards for split-interest agreements, which are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. The Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement by requiring the government to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The adoption of this Statement had no impact on the MTA Bridges and Tunnels financial statements, as the MTA Bridges and Tunnels does not enter into such agreements.

GASB Statement No. 82, Pension Issues: An Amendment of GASB Statements No. 67, No. 68 and No. 73 addresses certain issues that have been raised with respect to GASB Statements No. 67, Financial Reporting for Pension Plans, Statement No. 68, Accounting and Financial Reporting for Pensions, and Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement had no material impact on the MTA Bridges and Tunnels financial statements.

Accounting Standards Issued but Not Yet Adopted

GASB has issued the following pronouncements that may affect the future financial position, results of operations, cash flows, or financial presentation of the MTA Bridges and Tunnels upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	MTA Required Year of Adoption
75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	2018
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment issues</i>	2018
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, including and Direct Placements</i>	2019

Use of Management’s Estimates—The preparation of the 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 consolidated interim financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowances for doubtful accounts, allowance for insurance recovery, accrued expenses and other liabilities, depreciable lives of capital assets, estimated liability arising from injuries to persons, pension benefits and other postemployment benefits. Actual results could differ significantly from those estimates.

Operating Revenues—Passenger Revenue and Tolls—Revenues from the sale of tickets, tokens, and electronic toll collection system are recognized as income when tickets are used. Tickets are assumed to be used in the month of purchase, with the exception of advance purchases of monthly and weekly tickets. As of October 1, 2017, all facilities were part of the open road tolling system so there were no longer any sales of tickets or tokens from that time.

MTA Bridges and Tunnels has two toll rebate programs at the Verrazano-Narrows Bridge: the Staten Island Resident (“SIR”) Rebate Program, available for residents of Staten Island participating in the Staten Island Resident E-ZPass toll discount plan, and the Verrazano-Narrows Bridge Commercial Rebate Program (“VNB Commercial Rebate Program”), available for commercial vehicles making more than ten trips per month using the same New York Customer Service Center (“NYCSC”) E-ZPass account. The Verrazano-Narrows Bridge Commercial Rebate Program and Staten Island Resident Rebate Program are funded by the State and MTA.

Non-operating Revenues—Build America Bonds subsidy—MTA Bridges and Tunnels is receiving cash subsidy payments from the U.S. 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 Bridges and Tunnels 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.

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, subsidies paid to counties, etc.) are reported as non-operating expenses.

Investments—Effective for 2016, the MTA Bridges and Tunnels adopted GASB Statement No. 72, Fair Value Measurement and Application, which addresses accounting and financial reporting issues related to fair value measurements. Under the Statement, investment assets and liabilities are to be measured at fair value, which is described as the “price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.” Fair Value assumes that the transaction will occur in the MTA’s Bridges and Tunnels principal (or most advantageous) market. GASB Statement No. 72 requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The MTA Bridges and Tunnels 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 are recorded on the MTA Bridges and Tunnels statement of net position at fair value, except for commercial paper and repurchase agreements, which are recorded at amortized cost or contract value. All investment income, including changes in the fair value of investments, is reported as revenue on the MTA Bridges and Tunnels statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values at December 31, 2017 and December 31, 2016.

Investment derivative contracts are reported at fair value using the income approach.

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. The Company has no financial instruments with significant individual or group concentration of credit risk.

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, 25 to 100 years for infrastructure, 10 years for open road tolling systems and equipment and 25 years for open road tolling 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 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, 2017 and 2016 were \$710 and \$645, respectively.

Net Position—MTA Bridges and Tunnels 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, 2017 and 2016, 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, 2017 and 2016, the Authority had expendable restricted net position related to (1) Debt Service of \$167,171 and \$53,359, (2) the Necessary Reconstruction Reserve of \$549,415 and \$457,794, and (3) Capital Lease Obligations of \$0 and \$0, respectively.

- **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—Subsidies provided by MTA Bridges and Tunnels represent its operating transfer and investment income computed on an accrual basis.

Pension Plans—The Authority adopted the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plans.

The MTA Bridges and Tunnels recognizes a net pension liability for the qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the MTA Bridges and Tunnels' proportionate share thereof in the case of a cost-sharing multiple-employer plan. The net pension liability is calculated using the qualified pension plan's measurement date. Changes in the net pension liability during the year are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the year incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the year in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the year in which the difference occurred.

Postretirement Benefits—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.

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 \$22,957 and \$21,240 in 2017 and 2016, respectively. No contributions are made by participants. As of December 31, 2017 and 2016, 1,374 and 1,334 retirees, respectively, including spouses and dependents, met those eligibility requirements. See Note 8 for further disclosure on Other Postemployment Benefits.

Premium Discount Amortization method— During 2017, MTA Bridges and Tunnels changed its method of amortizing bond premiums and discounts to the constant yield method, which is a more preferable accounting principle than the principle used in previous years. The constant yield method of amortization is commonly used by state and local governments and public authorities and is the suggested method of amortization under GASB Codification 130, *Interest Costs-Imputation*. This change in method resulted in an increase in 2017 beginning net position of \$152,865. This change in method is accounted for on a prospective basis. Had the new accounting principle been used for all comparative periods presented within, the 2016 Change in Net Position would have been \$174,589.

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.

Cash at December 31, 2017 and 2016 consists of the following:

	2017		2016	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits	\$ 250	\$ 250	\$ 250	\$ 250
Collateralized deposits	8,170	7,976	11,793	4,821
Uncollateralized deposits	-	-	108,376	-
	<u>\$ 8,420</u>	<u>\$8,226</u>	<u>\$120,419</u>	<u>\$5,071</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.

MTA Bridges and Tunnels holds most of its investments at a custodian bank. The custodian must meet certain banking institution criteria enumerated in MTA’s Bridges and Tunnels 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 Bridges and Tunnels main custodian cannot execute transactions due to an emergency outside of the custodian’s control, the MTA Bridges and Tunnels has an immediate alternate source of liquidity.

The MTA Bridges and Tunnels categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The MTA Bridges and Tunnels had the following recurring fair value measurements as of December 31, 2017 and 2016 (in millions):

Investments by fair value level	December 31,	Fair Value Measurements		December 31,	Fair Value Measurements	
	2017	Level 1	Level 2	2016	Level 1	Level 2
Debt Securities:						
U.S. treasury securities	\$ 255,651	\$ 255,651	\$ -	\$ 88,031	\$ 88,031	\$ -
U.S. government agency	5	-	5	5	-	5
Commercial paper	74,840	-	74,840	64,963	-	64,963
Asset-backed securities	-	-	-	-	-	-
Commercial mortgage-backed securities	-	-	-	-	-	-
Foreign bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Tax Benefit Lease Investments:						
U.S. treasury securities	-	-	-	-	-	-
U.S. government agency	-	-	-	-	-	-
Repurchase agreements	27,990	27,990	-	21,249	21,249	-
Money Market Funds	-	-	-	-	-	-
Total debt securities	358,486	283,641	74,845	174,248	109,280	64,968
Equity securities	-	-	-	-	-	-
Total investments by fair value level	358,486	\$ 283,641	\$ 74,845	174,248	\$ 109,280	\$ 64,968
Other	-	-	-	-	-	-
Total Investments	\$ 358,486			\$ 174,248		

Investments classified as Level 1 of the fair value hierarchy, totaling \$283,641 and \$109,280 as of December 31, 2017 and 2016, respectively, are valued using quoted prices in active markets. 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 Bridges and Tunnels investment policy states that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment.

U.S. Government agency securities totaling \$5 and \$5, and commercial paper totaling \$74,840 and \$64,963, as of December 31, 2017 and 2016, respectively, classified in Level 2 of the fair value hierarchy, are valued using matrix pricing techniques maintained by a third party pricing service. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices and indices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from a third party pricing service or our custodian bank.

Investments had weighted average yields of 1.19% and 0.56% for the years ended December 31, 2017 and 2016, respectively.

Investments available to pay operating and maintenance expenses, debt service and operating surplus transfers, at December 31, 2017 and 2016, are as follows (in thousands):

Investments:	2017	2016
CURRENT:		
Restricted:		
Bond Proceeds Fund	\$ 89,153	\$ 1,093
Primarily Necessary Reconstruction Fund	29,266	33,708
Debt Service Fund	163,474	47,607
Cost of Issuance Fund	2,902	250
COPS 2 Broadway	<u>-</u>	<u>-</u>
Total current — restricted	284,794	82,658
Total current — unrestricted	<u>73,687</u>	<u>91,585</u>
Total — current	<u>\$ 358,481</u>	<u>\$ 174,243</u>
LONG-TERM:		
Restricted:		
Senior Revenue Bonds	\$ 5	\$ 5
Capital Lease Obligation:	<u>-</u>	<u>-</u>
Total long-term — restricted	<u>5</u>	<u>5</u>
Total — long-term	<u>\$ 5</u>	<u>\$ 5</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.

The Necessary Reconstruction Fund was established by the MTA Bridges and Tunnels by a resolution adopted on March 29, 1968. The amount in the fund and related interest income is to be used to fund reconstruction of present facilities within the meaning of MTA Bridges and Tunnels General Revenue Bond Resolution.

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, 2017 and 2016.

The fair value of the above investments consists of \$73,687 and \$91,585 in 2017 and 2016 in unrestricted investments respectively, and \$284,799 and \$82,663 in 2017 and 2016 in restricted investments, respectively. Investments had weighted average monthly yields ranging from 0.5470% to 1.1880%, for the year ended December 31, 2017 and 0.345% to 0.542%, for the year ended December 31, 2016. The net unrealized gain (loss), respectively on investments was \$103 and \$22 for the years ended December 31, 2017 and 2016, 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 a 100 basis point change in interest rates.

(In thousands)	December 31, 2017		December 31, 2016	
	Fair Value	Duration (In years)	Fair Value	Duration (In years)
U.S. TREASURIES	\$ 255,651	0.05	\$ 88,031	0.07
OTHER AGENCIES	5	0.01	5	0.01
TAX BENEFIT LEASE INVESTMENTS	-	0.00	-	0.00
REPURCHASE AGREEMENTS	27,990	0.00	21,249	0.00
COMMERCIAL PAPER	74,840	0.01	64,963	0.01
TOTAL FAIR VALUE	<u>358,486</u>		<u>174,248</u>	
MODIFIED DURATION		0.01		0.01
TOTAL	<u>358,486</u>		<u>174,248</u>	
Investments with no duration reported				
Total Investments	<u>\$ 358,486</u>		<u>\$ 174,248</u>	

Credit Risk—At December 31, 2017 and 2016, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization (in thousands):

Quality Rating from Standard & Poor's	December 31, 2017	Percent of Portfolio	December 31, 2016	Percent of Portfolio
(In thousands)				
A-1+	5	0%	5	0%
A-1	74,840	58%	64,963	37%
Not Rated	27,990	22%	21,249	12%
U.S. Government	<u>25,551</u>	<u>20%</u>	<u>88,031</u>	<u>51%</u>
Total	<u>128,386</u>	<u>100%</u>	<u>174,248</u>	<u>100%</u>
Investment not rated	-		-	
Total Investment	<u>\$ 128,386</u>		<u>\$ 174,248</u>	

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. All investments are held by the MTA's agent in custody accounts in the name of the MTA. The Company has no financial instruments with significant individual or group concentration of credit risk. MTA Bridges and Tunnels categorizes its fair value measurement within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. MTA Bridges and Tunnels' investment in the MTA Investment Pool is valued based on other observable inputs (Level 2 inputs). The amounts related to investment pool funds for the year ended December 31, 2017 were \$29,523 for short-term unrestricted and \$431,787 for short-term restricted. The amounts for the year ended December 31, 2016 were \$28,204 for short-term unrestricted and \$428,489 for short-term restricted.

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6. CAPITAL ADDITIONS/RECLASSIFICATIONS AND DELETIONS/RECLASSIFICATIONS

Capital assets at December 31 consisted of the following additions/reclassifications and deletions/reclassifications:

(In thousands)	Balance December 31, 2015	Additions	Deletions	Balance December 31, 2016	Additions	Deletions	Balance December 31, 2017
CAPITAL ASSETS NOT BEING DEPRECIATED:							
Land	\$ 52,940	\$ -	\$ -	\$ 52,940	\$ -	\$ -	\$ 52,940
Construction in progress	662,758	820,661	467,995	1,015,424	1,050,702	920,266	1,145,860
Total capital assets not being depreciated	715,698	820,661	467,995	1,068,364	1,050,702	920,266	1,198,800
CAPITAL ASSETS BEING DEPRECIATED:							
Building—2 Broadway	82,025	-	53	81,972	-	-	81,972
Primary structures	2,776,485	121,273	-	2,897,758	287,515	32	3,185,241
Toll plazas	276,161	1,238	-	277,399	(131,239)	146,160	-
Toll equipment	142,816	20,157	-	162,973	(59,766)	103,207	-
Buildings	644,826	17,647	-	662,473	(7,556)	24,199	630,718
Roadway	1,308,459	123,896	-	1,432,355	342,624	10,004	1,764,975
Property - Road & Equipment	-	-	-	-	118,465	6,810	111,655
ORT Systems & Equipment	-	-	-	-	320,475	-	320,475
Other	208,668	8,742	-	217,410	9,050	-	226,460
Total capital assets being depreciated	5,439,440	292,953	53	5,732,340	879,568	290,412	6,321,496
LESS ACCUMULATED DEPRECIATION:							
Building—2 Broadway	40,876	1,055	-	41,931	1,047	-	42,978
Primary structures	523,738	29,297	-	553,035	37,451	32	590,454
Toll plazas	131,626	8,555	-	140,181	5,979	146,160	-
Toll equipment	61,398	12,787	-	74,185	29,022	103,207	-
Buildings	172,012	15,914	-	187,926	25,139	24,199	188,866
Roadway	332,489	46,238	-	378,727	95,546	10,004	464,269
Property - Road & Equipment	-	-	-	-	24,762	6,810	17,952
ORT Systems & Equipment	-	-	-	-	8,403	-	8,403
Other	180,681	14,925	-	195,606	6,768	-	202,374
Total accumulated depreciation	1,442,820	128,771	-	1,571,591	234,117	290,412	1,515,296
TOTAL CAPITAL ASSETS BEING DEPRECIATED—Net of accumulated depreciation	3,996,620	164,182	53	4,160,749	645,451	-	4,806,200
CAPITAL ASSETS—Net	\$ 4,712,318	\$ 984,843	\$ 468,048	\$ 5,229,113	\$ 1,696,153	\$ 920,266	\$ 6,005,000

In 2017 and 2016, capital asset additions included \$21,361 and \$21,152, respectively, of costs incurred by engineers working on capital projects. Capitalized interest totaled \$35,739 and \$33,545 in 2017 and 2016, respectively. Also note, negative balances in asset additions for toll plazas, toll equipment and buildings represent assets that were recategorized from one asset category to another during 2017.

7. EMPLOYEE BENEFITS

Plan Description

NYCERS — The NYCERS Plan is a cost-sharing, multiple-employer retirement system for employees of The City of New York (The City) and certain other governmental units whose employees are not otherwise members of The City's four other pension systems. NYCERS administers the New York City Employees Retirement System qualified pension plan.

NYCERS was established by an act of the Legislature of the State of New York under Chapter 427 of the laws of 1920. NYCERS functions in accordance with the governing

statutes contained in the New York State Retirement and Social Security Law (RSSL), and the New York City Administrative Code, which are the basis by which benefit terms and employer and member contribution requirements are established and amended. The head of the retirement system is the Board of Trustees.

NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the New York City Employees' Retirement System at 335 Adams Street, Suite 2300, Brooklyn, NY 11201-3724 or at www.nycers.org.

All employees holding permanent civil service positions in the competitive or labor class are required to become members of NYCERS six months after their date of appointment, but may voluntarily elect to join NYCERS prior to their mandated membership date. All other eligible employees have the option of joining NYCERS upon appointment or anytime thereafter. NYCERS members are assigned to a "tier" depending on the date of their membership.

Tier 1 All members who joined prior to July 1, 1973.

Tier 2 All members who joined on or after July 1, 1973 and before July 27, 1976.

Tier 3 Only certain members who joined on or after July 27, 1976 and prior to April 1, 2012.

Tier 4 All members (with certain member exceptions) who joined on or after July 27, 1976 but prior to April 1, 2012. Members who joined on or after July 27, 1976 but prior to September 1, 1983 retain all rights and benefits of Tier 3 membership.

Tier 6 Members who joined on or after April 1, 2012.

Benefits Provided

NYCERS — NYCERS provides three main types of retirement benefits: Service Retirements, Ordinary Disability Retirements (non-job-related disabilities) and Accident Disability Retirements (job-related disabilities) to participants generally based on salary, length of service, and member Tiers.

The Service Retirement benefits provided to Tier 1 participants fall into four categories according to the level of benefits provided and the years of service required. Three of the four categories provide annual benefits of 50% to 55% of final salary after 20 or 25 years of service, with additional benefits equal to a specified percentage per year of service (currently 1.2% to 1.7%) of final salary. The fourth category has no minimum service requirement and instead provides an annual benefit for each year of service equal to a specified percentage (currently 0.7% to 1.53%) of final salary.

Tier 2 participants have provisions similar to Tier 1, except that the eligibility for retirement and the salary base for benefits are different and there is a limitation on the maximum benefit.

Tier 3 participants were later mandated into Tier 4, but could retain their Tier 3 rights. The benefits for Tier 3 participants are reduced by one half of the primary Social Security benefit attributable to service, and provides for an automatic annual cost-of-living escalator in pension benefits of not more than 3.0%.

During March 2012, the Governor signed Chapter 18 of the Laws of 2012 that placed certain limitations on the Tier 3 and Tier 4 benefits available to participants who joined on and after April 1, 2012. In general, these changes, commonly referred to as Tier 6, increase the age requirement to 63 for most non-uniformed employees to retire and receive a full pension, require member contributions for all years of service for non-uniformed employees, institute progressive member contributions for non-uniformed employees, and lengthen the final average salary period from 3 to 5 years.

NYCERS provides automatic Cost-of-Living Adjustments (COLA), death benefits, accident, disability retirement benefits, and other supplemental pension benefits to certain retirees and beneficiaries. Members become fully vested as to benefits upon the completion of 5 years of service.

The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired. In 1973, 1976, 1983 and 2012, significant amendments made to the State Retirement and Social Security Law (RSSL) modified certain benefits for employees joining the Plan on or after the effective date of such amendments, creating membership tiers.

Contributions and Funding Policy

NYCERS — NYCERS funding policy is to contribute statutorily-required contributions (Statutory Contributions), determined by the Chief Actuary for the New York City Retirement System, in accordance with State statutes and City laws, and are generally funded by employers within the appropriate Fiscal Year. The Statutory Contributions are determined under the One-Year Lag Methodology (OYLM). Under OYLM, the actuarial valuation date is used for calculating the Employer Contributions for the second following Fiscal Year. Statutory Contributions are determined annually to be an amount that, together with member contributions and investment income, provides for NYCERS' assets to be sufficient to pay benefits when due.

Member contributions are established by law. NYCERS has both contributory and noncontributory requirements, with retirement age varying from 55 to 70 depending upon when an employee last entered qualifying service.

In general, Tier 1 and Tier 2 member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tier 3 and Tier 4 members make basic contributions of 3.0% of salary, regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees enrolled in the Transit 20-Year Plan, are not required to make basic contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. 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. Effective December 2000, certain Transit Authority Tier 3 and Tier 4 members make basic member contributions of 2.0% of salary, in accordance with Chapter 10 of the Laws of 2000. Certain Tier 2, Tier 3 and Tier 4 members who are participants in special retirement plans are required to make additional member contributions of 1.85%, in addition to their base membership contribution. Tier 6 members are mandated to contribute between 3.0% and 6.0% of salary, depending on salary level, until they separate from service or until they retire.

MTA Bridges and Tunnels is required to contribute at an actuarially determined rate. Contributions as a percent of covered payroll are 28.47% and 32.35% for the year ended December 31, 2017 and 2016, respectively. MTA Bridges and Tunnels contributions to NYCERS for the years ended December 31, 2017 and December 31, 2016 were \$41,272 and \$44,609, respectively.

Net Pension Liability

MTA Bridges and Tunnels net pension liability for the pension plan reported at December 31, 2017 was measured as of June 30, 2017 and 2016 for NYCERS. The total pension liability for the pension plan was determined as of the actuarial valuation dates as of June 30, 2015 and 2014 for NYCERS and updated to roll forward the total pension liability to the respective year ends. The fiduciary net position and additions to and deductions from the fiduciary net position have been determined on the same basis as reported by NYCERS. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the Plan; and investments are reported at fair value.

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Actuarial Assumptions

The total pension liability in each pension plan's actuarial valuation dates were determined using the following actuarial assumptions for the pension plan as follows:

Valuation Date:	NYCERS	
	June 30, 2015	June 30, 2014
Investment Rate of Return	7.00% per annum, net of investment expenses	7.00% per annum, net of investment expenses
Salary Increases	In general, merit and promotion increases, plus assumed General Wage increases of 3.0% per year.	In general, merit and promotion increases, plus assumed General Wage increases of 3.0% per year.
Inflation	2.50%	2.50%
Cost-of Living Adjustments	1.5% per annum for Tiers 1, 2, 4 and certain Tier 3 and Tier 6 retirees. 2.5% per annum for certain Tier 3 and Tier 6 retirees	1.5% per annum for Tiers 1, 2, 4 and certain Tier 3 and Tier 6 retirees. 2.5% per annum for certain Tier 3 and Tier 6 retirees
Mortality	Mortality tables for service and disability pensioners were developed from an experience study of the plan. The mortality tables for beneficiaries were developed from an experience review.	Mortality tables for service and disability pensioners were developed from an experience study of the plan. The mortality tables for beneficiaries were developed from an experience review.
Pre-retirement	N/A	N/A
Post-retirement- Healthy Lives	N/A	N/A
Post-retirement Disabled Lives	N/A	N/A

Expected Rate of Return on Investments

The long-term expected rate of return on investments of 7.0% for the NYCERS plan was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocations of the fund and the expected real rate of return (RROR) for the asset class in NYCERS was as of the measurement dates of June 30, 2017 and is summarized as follows:

<u>Asset Class</u>	<u>NYCERS</u>	
	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. public market equities	29.00 %	5.70 %
International public market equities	13.00	6.10
Emerging public market equities	7.00	7.60
Private market equities	7.00	8.10
Fixed income	33.00	3.00
Alternatives (real assets, hedge funds)	<u>11.00</u>	4.70
	<u>100.00 %</u>	
Assumed Inflation - Mean		2.50 %
Long Term Expected Rate of Return		7.00 %

Discount Rate

The discount rate used to measure the total pension liability was 7% for the NYCERS plan as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for the pension plan and that employer contributions will be made at the rates determined by the pension plan's actuary. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and non-active members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MTA Bridges and Tunnels Proportion of Net Pension Liability—NYCERS

The following table presents the MTA Bridges and Tunnels proportionate share of the net pension liability of NYCERS at the measurement date of June 30, 2017 and 2016, and the proportion percentage of the net pension liability of NYCERS allocated to MTA Bridges and Tunnels (in millions):

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
	<u>(in millions)</u>	
Bridges and Tunnels proportion of the net pension liability	1.308 %	1.266 %
Bridges and Tunnels proportionate share of the net pension liability	\$ 271.608	\$ 307.60

MTA Bridges and Tunnels proportion of the net pension liability was based on the actual contributions made to NYCERS for the year-ended June 30, 2017 and 2016, relative to the contributions of all employers in the plan.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate

The following table presents MTA Bridges and Tunnels proportionate share of the net pension liability calculated using the discount rate of 7.0% for NYCERS, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate used as of each measurement date (in millions):

	June 30, 2017			June 30, 2016		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
	(in millions)			(in millions)		
Bridges and Tunnels proportionate share of the net pension liability	\$ 392.56	\$ 271.62	\$ 165.38	\$ 421.74	\$ 307.60	\$ 211.99

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017 and 2016, MTA Bridges and Tunnels recognized pension expense as follows (in thousands):

Pension Plans	December 31,	
	2017	2016
NYCERS	47,546	51,458

For the years ended December 31, 2017 and 2016, the MTA Bridges and Tunnels reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows (in millions):

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in millions)	
Differences between expected and actual experience	\$ -	\$ 7,248
Changes in assumptions	13,390	-
Net difference between projected and actual earnings on pension plan investments	-	11,098
proportionate share of contributions	18,275	2,408
Employer contribution to plan subsequent to the measurement date of net pension liability	38,998	-
Total	\$ 70,663	\$ 20,754

	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in millions)	
Differences between expected and actual experience	\$ -	\$ 8,731
Changes in assumptions	22,704	-
Net difference between projected and actual earnings on pension plan investments	16,640	-
proportionate share of contributions	21,183	896
Employer contribution to plan subsequent to the measurement date of net pension liability	43,546	-
Total	\$ 104,073	\$ 9,627

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs.

The following table presents the recognition periods used by each pension plans to amortize the annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions, beginning the year in which the deferred amount occurs.

Pension Plan	Recognition Period (in years)		
	Differences Between Expected and Actual Experience	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Changes in Actuarial Assumptions
NYCERS	5.60	5.60	3.33

For the year ended December 31, 2017 and 2016, \$38,998 and \$43,546, respectively, was reported as deferred outflows of resources related to pensions resulting from MTA Bridges and Tunnels contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2017 will be recognized as pension expense as follows (in millions):

Year ending December 31: (In millions)	Increase/(Decrease) in Pension Expense
2018	\$ 7,146
2019	10,334
2020	(132)
2021	(7,088)
2022	651
Thereafter	-
Total	\$ <u>10,911</u>

Deferred Compensation Plans— As permitted by Internal Revenue Code Section 457, MTA Bridges and Tunnels has established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries.

Certain MTA Bridges and Tunnels 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. MTA Bridges and Tunnels is not required to contribute to the plan.

8. OTHER POSTEMPLOYMENT BENEFITS

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 to what extent progress is being made in funding the plan.

Plan Description—The Benefits provided by MTA Bridges and Tunnels 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 Plan). MTA Bridges and Tunnels provides benefits to some members if terminated within 5 years of attaining retirement eligibility.

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 many of its members. NYSHIP provides a Preferred Provider Organization (PPO) plan and several Health Maintenance Organization (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.

MTA Bridges and Tunnels 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, MTA Bridges and Tunnels 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, MTA Bridges and Tunnels 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, 2016 and was performed with a valuation date of January 1, 2016. The total number of plan participants as of December 31, 2017 receiving retirement benefits was 30,602.

Annual OPEB Cost (AOC) and Net OPEB Obligation — MTA Bridges and Tunnels annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. Currently, MTA Bridges and Tunnels 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 in 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 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, MTA Bridges and Tunnels has chosen to use the Frozen Initial Liability cost method (the 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, 2017, is 12 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.

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, 2016 which is 12 months prior to the beginning of the 2017 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 partially offset by the establishment of a trust, the discount rate for this valuation has been lowered from 3.50% to 3.30%.

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. Legislative changes passed in December 2015 have delayed the effective date of the excise tax until 2020. However, the calculation of the threshold amounts remains unchanged. 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 current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax and ACA fees which apply to the plan are not included. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the excise tax.

The legislative changes from H.R. 1, originally known as the “Tax Cuts and Jobs Act”, and H.R. 195, the “Extension of Continuing Appropriations Act, 2018”, are not reflected in this valuation as passage occurred after the measurement date.

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

Valuation date	January 1, 2016
Actuarial cost method	Frozen Initial Liability
Discount rate	3.30%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen Initial Liability
Amortization period	12 years
Period closed or open	Closed

* In general, all coverages are paid for by MTA Bridges and Tunnels.

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.

Effective with this valuation, age adjustments are required for valuing NYSHIP benefits due to a change in actuarial standards. Age adjustments reflect that health costs are typically higher for retirees under age 65 than an average active population and, upon reaching Medicare, health costs are reduced as NYSHIP becomes the secondary payer.

The medical and pharmacy benefits provided to TWU Local 100, ATU 1056 and ATU 726 represented Transit members are non-NYSHIP 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 2014 and 2015. These were then combined to match the aggregate claim experience provided by MTA Bridges and Tunnels and MTA. Claims were adjusted to an incurred from a paid claim basis utilizing aging reports specific to MTA Bridges and Tunnels and MTA. An adjustment of (0.5)% for health benefits was applied. Finally, an administrative load was applied equal to 7.2% for Empire BCBS medical benefits, 3.5% for United Healthcare medical benefits and 4.6% for pharmacy benefits. The per capita costs assumptions reflect medical and pharmacy claims information, including the Employer Group Waiver Plan (EGWP) for providing pharmacy benefits to Medicare-eligible retirees, for 2015 and 2016.

The following charts detail the monthly 2016 PCCCs used in the valuation:

Age	UHC/ EBCBS/ Aetna Select/ Aetna Opt 1 Pharmacy Male Employees			UHC/ EBCBS/ Aetna Select/ Aetna Opt 1 Pharmacy Female Employees		
	<50	\$ 740.21	\$ 1,236.18	\$ 348.54	\$ 971.70	\$ 1,647.95
50-54	743.50	1,233.00	317.15	829.58	1,395.11	360.49
55-59	838.42	1,391.73	356.03	850.90	1,426.69	393.85
60-64	1,052.96	1,753.81	412.72	995.54	1,670.05	436.20
65-69	120.65	115.35	217.03	125.32	126.89	184.58
70-74	143.84	134.33	197.39	141.31	130.34	172.27
75-79	165.02	145.88	189.43	157.49	133.44	158.45
80-84	185.81	150.32	178.11	176.95	143.32	143.96
85+	220.37	156.42	157.58	217.09	140.22	116.22
	Male Dependents			Female Dependents		
<50	\$ 474.78	\$ 776.06	\$ 217.68	\$ 584.67	\$ 972.69	\$ 240.89
50-54	574.36	941.93	241.70	649.25	1,081.59	278.92
55-59	662.21	1,089.52	278.20	720.40	1,200.69	331.01
60-64	851.84	1,410.03	331.44	818.30	1,364.42	355.91
65-69	120.65	115.35	217.03	125.32	126.89	184.58
70-74	143.84	134.33	197.39	141.31	130.34	172.27
75-79	165.02	145.88	189.43	157.49	133.44	158.45
80-84	185.81	150.32	178.11	176.95	143.32	143.96
85+	220.37	156.42	157.58	217.90	140.22	116.22

Medicare Part B Premiums — The Medicare Part B premium reimbursement was included in the 2016 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 4.5%. 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 2016 valuation excludes any RDS payments expected to be received by the Authority.

Health Cost Trend — The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2017 utilizing the baseline assumptions included in the model, except inflation of 2.5% 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. These assumptions are combined with long-term assumptions for dental and vision benefits (4%) plus Medicare Part B reimbursements

(4.5%), but not more than projected medical trends excluding any excise tax adjustments. The following lists the NYSHIP trend assumptions.

Health Cost Trend Rates

Fiscal Year	NYSHIP	
	< 65	>=65
2016	11.8 %	- %
2017	6.7	6.4
2018	6.2	6.0
2019	6.3	5.5
2020	5.3	5.1
2025	6.0	5.1
2030	5.9	5.1
2035	5.9	5.2
2040	5.8	5.2
2050	5.4	5.8
2060	5.2	5.5
2070	4.6	4.7
Ultimate ¹	4.2	4.3

¹ Ultimate rate used for years prior to 2016 for Entry Age purposes

Participation — The table below summarizes the census data provided by MTA Bridges and Tunnels 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 By Agency at January 1, 2016

Active members:	
Number	1,475
Average age	47.2
Average service	14.1
Retirees:	
Single medical coverage	622
Employee/spouse coverage	716
Employee/child coverage	45
No medical coverage	<u>7</u>
Total number	<u>1,390</u>
Average age	<u>69.7</u>
Total number with dental/vision	<u>435</u>
Total number with supplement	<u>955</u>
Average monthly supplement amount in whole dollars (excluding Part B premium)	<u>\$ 211</u>
Total number with life insurance	<u>380</u>
Average life insurance amount	<u>\$ 5,605</u>

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. However, for Bridges and Tunnels members, 15% of represented members and 10% of non-represented, including SOBA, members are assumed to elect the HIP HMO Plan.

Dependent Coverage—Spouses are assumed to be the same age as the employee/retiree. 80% of male and 45% 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 MTA Bridges and Tunnels.

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 MTA Bridges and Tunnels.

Postretirement Disabled Lives — RP-2014 Disabled Annuitant mortality table for males and females.

Vestee Coverage — For members that participate in NYSHIP, Vesteas (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by MTA Bridges and Tunnels upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vesteas 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 vesteas 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 MTA Bridges and Tunnels annual OPEB cost for the year, the amount contributed, and changes in MTA Bridges and Tunnels net OPEB obligation to the plan for the years ended December 31, 2017 and 2016. 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.

	2017	2016
Annual required contribution	\$124,508	\$123,978
Interest on net OPEB obligation	21,295	20,071
Adjustment to annual required contribution	<u>(58,373)</u>	<u>(50,972)</u>
Annual OPEB cost/expense	87,430	93,077
Payments	<u>(22,957)</u>	<u>(21,240)</u>
Increase in net OPEB obligation	64,473	71,837
Net OPEB obligation—beginning of year	<u>645,298</u>	<u>573,461</u>
Net OPEB obligation—end of year	<u>\$709,771</u>	<u>\$645,298</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, 2017, 2016, and 2015 projected is as follows (in thousands):

Years Ended	Annual OPEB Cost	Percentage of Annual OPEB Paid	Net OPEB Obligation
December 31, 2017	\$ 87,430	26.3 %	\$ 709,771
December 31, 2016	93,077	22.8	645,298
December 31, 2015	86,815	22.5	573,461

The MTA Bridges and Tunnels funding progress information as of December 31, 2017 is as follows (in millions):

(In millions)		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}
Period Ended	Valuation Date						
December 31, 2017	January 1, 2016	\$ -	858	858	0%	113.7	755.3 %

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.

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 2017 or 2016.

As of December 31, 2017 the pollution remediation liability is \$0.

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, 2017 and 2016, costs associated with the storm included repair and clean-up expenses of \$2.1 million and \$0.9 million, respectively, were included in "asset impairment and related expenses" on the Statements of Revenues, Expenses and Changes in Net Position.

The MTA has reached a settlement related to Superstorm Sandy. There was an insurance recovery of \$88,500 which was collected by MTA Headquarters in 2017. Of this amount, \$30,000 was collected and the remaining balance was written off in 2017.

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 2017:

- On January 19 2017, MTA Bridges and Tunnels issued \$902,975 General Revenue Bonds, Series 2017B. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities and refunding on Series 2007A, 2008A, 2008C, 2009A-2, and 2008D Subordinate Bond. The loss on refunding related to the 2017B issuance was \$56,664, which will be amortized into interest expense over 22 years.
- On January 19 2017, MTA Bridges and Tunnels issued \$300,000 General Revenue Bonds, Series 2017A. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities.
- On October 6, 2017, MTA Bridges and Tunnels issued \$400,000 General Revenue Bonds Anticipation Note, Series 2017A-A6. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities.
- On November 17, 2017 MTA Bridges and Tunnels issued \$720,990 General Revenue Bonds, Series 2017C1-C2. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities and refunding on Series 2008B-1, 2008B-3, 2009A-1, 2011A, 2013C, 2014A, 2015A, and 2008D Subordinate Bond. The loss on refunding related to the 2017B issuance was \$25,443, which will be amortized into interest expense over 25 years.

The following represents MTA Bridges and Tunnels' issuance of long-term debt in 2016:

- On January 28 2016, MTA Bridges and Tunnels issued \$541,000 General Revenue Bonds, Series 2016A. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities and refunding on Series 2006A, 2007A, 2008B-1, 2008C, 2009A-2, 2011A, 2012A, 2013C and 2014A. During 2016, the refunding on 2016A incurred a loss of \$8,887,424.
- On October 19, 2016 MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$108,800 General Revenue Variable Rate Refunding Bonds, Series 2005B-4a-e.
- On October 19, 2016 MTA Bridges and Tunnels pre-paid the principle amount on 2005B-4A in the amount of \$900.

MTA Bridges and Tunnels' non-current portion of long-term debt as of December 31, 2017 and 2016 is comprised of the following (in thousands):

(In thousands)

	2017	2016
Senior Revenue Bonds (Notes 12)	\$7,582,254	\$7,213,449
Subordinate Revenue Bonds (Note 13)	<u>1,277,128</u>	<u>1,567,998</u>
Total long-term debt - net of premiums and discounts	<u>\$8,859,382</u>	<u>\$8,781,447</u>

MTA Bridges and Tunnels 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	September 28, 2018
TBTA General Revenue	2001C	Bank of Tokyo Mitsubishi	August 17, 2018
TBTA General Revenue	2002F	Helaba	November 1, 2018
TBTA General Revenue	2003B-1	PNC	January 26, 2018
TBTA General Revenue	2003B-3	Wells Fargo	January 26, 2018
TBTA General Revenue	2005A	TD Bank	January 28, 2020
TBTA General Revenue	2005B-2	Wells Fargo	January 26, 2018
TBTA General Revenue	2005B-3	Bank of Tokyo Mitsubishi	June 29, 2018
TBTA Subordinate	TBTA SUB 2013D-2a Taxable	Bank of America ML	December 14, 2018
TBTA Subordinate	TBTA SUB 2013D-2b Taxable	Bank of America ML	December 14, 2018

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, 2017, there were no term loans outstanding.

12. DEBT—SENIOR REVENUE BONDS

Senior Revenue Bonds at December 31, 2017, consist of the following (in thousands):

(In thousands)	Original Issuance	December 31, 2016	Issued	Principal Repayments	December 31, 2017
Series EFC 1996A	\$ 23,530	\$ 630	\$ -	\$ 305	\$ 325
Series 2001B&C, 4.10% - 5.25%	296,400	235,605	-	10,180	225,425
Series 2002F	246,480	179,785	-	8,230	171,555
Series 2003B	250,000	180,365	-	5,720	174,645
Series 2005A	150,000	114,775	-	4,065	110,710
Series 2005B	800,000	575,700	-	1,800	573,900
Series 2007A	223,355	43,245	-	43,245	-
Series 2008A	822,770	576,290	-	552,125	24,165
Series 2008B	252,230	206,365	-	39,595	166,770
Series 2008C	629,890	448,005	-	237,860	210,145
Series 2009A-1	150,000	98,260	-	21,500	76,760
Series 2009A-2	325,000	282,185	-	99,850	182,335
Series 2009B - BAB	200,000	200,000	-	-	200,000
Series 2010A-1	66,560	30,175	-	7,000	23,175
Series 2010A-2 - BAB	280,400	280,400	-	-	280,400
Series 2011A	609,430	517,320	-	401,375	115,945
Series 2012A	231,490	200,875	-	24,320	176,555
Series 2012B*	1,353,055	1,269,560	-	84,570	1,184,990
Series 2013B	257,195	257,195	-	-	257,195
Series 2013C	200,000	184,620	-	30,880	153,740
Series 2014A	250,000	235,225	-	34,845	200,380
Series 2015A	225,000	219,250	-	20,365	198,885
Series 2015B	65,000	63,875	-	1,155	62,720
Series 2016A	541,240	533,710	-	10,445	523,265
Series 2017A	300,000	-	300,000	-	300,000
Series 2017B	902,975	-	902,975	-	902,975
Series 2017C	720,990	-	720,990	-	720,990
	<u>\$ 10,372,990</u>	<u>6,933,415</u>	<u>1,923,965</u>	<u>1,639,430</u>	<u>7,217,950</u>
Add net unamortized bond (discount) and premium		<u>618,422</u>	<u>173,160</u>	<u>194,048</u>	<u>597,534</u>
		<u>\$ 7,551,837</u>	<u>\$ 2,097,125</u>	<u>\$ 1,833,478</u>	<u>\$ 7,815,484</u>

*During 2017 MTA Bridges and Tunnels changed to a more preferable method of amortizing bond premiums and discount, constant yield. This change in method is accounted for on a prospective basis. This change resulted in an increase to unamortized premium of \$116,157 and bond payable of \$116,157.

(In thousands)	Original Issuance	December 31, 2015	Issued	Principal Repayments	December 31, 2016
Series EFC 1996A	\$ 23,530	\$ 2,440	\$ -	\$ 1,810	\$ 630
Series 2001B&C, 4.10% - 5.25%	296,400	245,135	-	9,530	235,605
Series 2002F	246,480	187,695	-	7,910	179,785
Series 2003B	250,000	185,875	-	5,510	180,365
Series 2005A	150,000	118,675	-	3,900	114,775
Series 2005B	800,000	579,300	-	3,600	575,700
Series 2006A	200,000	66,260	-	66,260	-
Series 2007A	223,355	126,790	-	83,545	43,245
Series 2008A	822,770	598,210	-	21,920	576,290
Series 2008B	252,230	238,290	-	31,925	206,365
Series 2008C	629,890	487,485	-	39,480	448,005
Series 2009A-1	150,000	108,345	-	10,085	98,260
Series 2009A-2	325,000	288,990	-	6,805	282,185
Series 2009B - BAB	200,000	200,000	-	-	200,000
Series 2010A-1	66,560	36,905	-	6,730	30,175
Series 2010A-2 - BAB	280,400	280,400	-	-	280,400
Series 2011A	609,430	569,675	-	52,355	517,320
Series 2012A	231,490	216,950	-	16,075	200,875
Series 2012B	1,236,898	1,234,503	-	81,100	1,153,403
Series 2013B	257,195	257,195	-	-	257,195
Series 2013C	200,000	193,150	-	8,530	184,620
Series 2014A	250,000	240,945	-	5,720	235,225
Series 2015A	225,000	221,925	-	2,675	219,250
Series 2015B	65,000	65,000	-	1,125	63,875
Series 2016A	541,240	-	541,240	7,530	533,710
	<u>\$ 8,532,868</u>	6,502,563	541,240	474,120	6,817,258
Add net unamortized bond (discount) and premium		565,265	47,525	(5,632)	618,422
		<u>\$ 7,067,828</u>	<u>\$ 588,765</u>	<u>\$ 468,488</u>	<u>\$ 7,435,680</u>

Debt Service Requirements (in thousands)

Year Ending December 31 (In thousands)	Principal	Interest	Aggregate Debt Service
2018	233,230	327,485	560,715
2019	239,745	314,549	554,294
2020	261,005	302,879	563,884
2021	262,530	291,207	553,737
2022	269,800	279,199	548,999
2023–2027	1,611,245	1,190,017	2,801,262
2028–2032	2,092,095	772,834	2,864,929
2033–2037	1,139,950	453,759	1,593,709
2038–2042	824,415	176,067	1,000,482
2043–2047	246,550	42,475	289,025
2048–2051	37,385	3,799	41,184
	<u>\$7,217,950</u>	<u>\$4,154,270</u>	<u>\$11,372,220</u>

The above interest amounts include both fixed and variable rate calculations. The interest rate assumptions for variable rate bonds are as follows: variable rate bonds at an assumed rate of 4%; swapped bonds at the applicable synthetic fixed rate for the swapped portion and 4% otherwise; floating rate notes at the applicable synthetic fixed rate plus the current fixed spread to maturity for the swapped portion and 4% plus the current fixed spread to maturity for the portion that is not swapped.

13. DEBT—SUBORDINATE REVENUE BONDS

Subordinate Revenue Bonds at December 31, 2017, consist of the following (in thousands):

(In thousands)	Original Issuance	December 31, 2016	Addition/ Retirements During 2017	December 31, 2017
Series 2000ABCD	147,850	94,300	36,600	57,700
Series 2002E	756,095	139,825	-	139,825
Series 2008D	491,110	332,375	196,855	135,520
Series 2013A*	761,599	750,699	7,220	743,480
Series 2013D	313,975	310,495	1,275	309,220
	<u>\$ 2,470,629</u>	<u>1,627,694</u>	<u>241,950</u>	<u>1,385,745</u>
Add net unamortized bond (discount) and premium		115,708	(131,975)	(16,267)
		<u>\$ 1,743,402</u>	<u>\$ 109,975</u>	<u>\$ 1,369,478</u>

*During 2017 MTA Bridges and Tunnels changed to a more preferable method of amortizing bond premiums and discount, constant yield. This change in method is accounted for on a prospective basis. This change resulted in an increase to unamortized premium of \$107,635 and bond payable of \$107,635.

Subordinate Revenue Bonds at December 31, 2016, consist of the following:

(In thousands)	Original Issuance	December 31, 2015	Retirements During 2016	December 31, 2016
Series 2000ABCD	147,850	128,700	34,400	94,300
Series 2002E	756,095	139,825	-	139,825
Series 2003A	500,170	5,050	5,050	-
Series 2008D	491,110	354,045	21,670	332,375
Series 2013A	653,964	645,159	2,095	643,064
Series 2013D	313,975	311,745	1,250	310,495
	<u>\$ 2,863,164</u>	<u>1,584,524</u>	<u>64,465</u>	<u>1,520,059</u>
Add net unamortized bond (discount) and premium		93,769	(21,939)	115,708
		<u>\$ 1,678,293</u>	<u>\$ 42,526</u>	<u>\$ 1,635,767</u>

Debt Service Requirements (in thousands):

Year Ending December 31 (In thousands)	Principal	Interest	Aggregate Debt Service
2018	92,350	50,715	143,065
2019	89,990	48,413	138,403
2020	73,925	44,970	118,895
2021	77,450	41,626	119,076
2022	86,045	38,076	124,121
2023–2027	451,695	128,507	580,202
2028–2032	514,290	30,948	545,238
	<u>\$1,385,745</u>	<u>\$ 383,255</u>	<u>\$ 1,769,000</u>

The above interest amounts include both fixed and variable rate calculations. The interest rate assumptions for variable rate bonds are as follows: variable rate bonds at an assumed rate of 4%; swapped bonds at the applicable synthetic fixed rate for the swapped portion and 4% otherwise; floating rate notes at the applicable synthetic fixed rate plus the current fixed spread to maturity for the swapped portion and 4% plus the current fixed spread to maturity for the portion that is not swapped.

BOND ANTICIPATION NOTES

On October 6, 2017, MTA Bridges and Tunnels issued \$400,000 General Revenue Bond Anticipation Notes, Series 2017A1-A6. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities.

(In thousands)	December 31, 2016	Issued	Principal Repayments & Retirements During 2017	December 31, 2017
Series 2017A1-A6	\$ -	\$ 400,000	\$ 235,310	\$ 164,690
Add net unamortized bond premium	-	1,558	1,340	218
	<u>\$ -</u>	<u>\$ 401,558</u>	<u>\$ 236,650</u>	<u>\$ 164,908</u>

14. 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, 2017, the MTA Bridges and Tunnels is reporting gains, derivative liabilities and deferred outflows from derivative instruments in the amounts of \$4,322, \$155,426 and \$169,283, respectively. The gain of \$4,322 is related to swaps on MTA bonds which is offset by a loss of \$4,322 reflected in other operating income. Also recognized in the same period are derivative assets of \$3,545.

For the year ended December 31, 2016, the MTA Bridges and Tunnels is reporting gains, derivative liabilities and deferred outflows from derivative instruments in the amounts of \$13,712, \$171,146 and \$180,662, respectively. The gain of \$13,712 is related to swaps on MTA bonds which is offset by a loss of \$13,080 reflected in other operating income. Also recognized in the same period are derivative assets of \$3,564.

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**GASB Statement No. 53- Accounting and Financial Reporting for Derivative Instruments
Summary Information as of December 31, 2017**

	Bond Resolution	Series	Type of Derivative	Cash Flow or Fair Value Hedge	Effective Methodology	Trade/Entered Date	Notional Amount as of 12/31/17 (in millions)	Fair Values as of 12/31/17 (in millions)
Investment Swap	MTA Transportation Revenue Bond	2002G-1	Pay-Fixed Swap	N/a	N/a	4/1/2016	142.015	(11.405)
	MTA Transportation Revenue Bond	2011B	Pay-Fixed Swap	N/a	N/a	4/1/2016	56.220	(14.961)
Hedging Swaps	MTA Bridges & Tunnels Senior Revenue Bonds	2002F (Citi 2005B)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	191.300	(29.658)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	22.765	(3.028)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	573.900	(88.974)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2001C	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	10/26/2016	57.475	(2.409)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2000ABCD	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	8/12/1998	34.150	(1.450)

The fair value balances and notional amounts of derivative instruments outstanding at December 31, 2017, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2016 are as follows (in millions):

	Changes In Fair Value		Fair Value at December 31, 2017		Notional (in millions)
	Classification	Amount (in millions)	Classification	Amount (in millions)	
Government activities					
Cash Flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ 11,375	Debt	(\$125,519)	879.590
Investment Swap					
Pay-fixed interest rate swaps	Investment expense	\$ 4,322	Debt	(\$26,366)	198.235

From November 22, 2016 through December 5, 2016, the Authority redeemed the remainder of the 2004A Certificates of Participation that were outstanding. Subsequently, the outstanding swap notional that was associated with the 2004A Certificates of Participation were re-associated to the Bridges and Tunnels Series 2001C bonds.

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, five (5) were deemed effective using Synthetic Instrument Method.

For the five (5) 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	August 12, 1998	August 25, 1998

15. LEASE TRANSACTION

2 Broadway— 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 sub lessee, will rent, an office building 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: MTA New York City Transit, 68.7%, MTA, 21%; and MTA Bridges and Tunnels, 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, 2017, for the MTA New York City Transit, MTA Bridges and Tunnels and MTA (including MTA Bus, MTA Capital Construction Company and MTA Business Service Center) were 57.8%, 7.5% and 34.7%, respectively. MTA Bridges and Tunnels' sublease is for a year-to-year term, automatically extended, except upon the giving of a nonextension notice by MTA.

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. MTA Bridges and Tunnels reflected a capital lease obligation as of December 31, 2017 and 2016, of \$55,711 and \$54,424, respectively.

MTA pays the lease payments on behalf of MTA Bridges and Tunnels and subsequently makes monthly chargebacks in the form of rental payments. During 2017, the total of the rental payments charged to MTA Bridges and Tunnels was \$1,900 less than the lease payment made by MTA on behalf of MTA Bridges and Tunnels.

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, 2017 and 2016, of \$55,711 and \$54,424, respectively.

Total net obligations under all capital leases as of December 31, 2017 and 2016, are as follows (in thousands):

(In thousands)	2017	2016
Beginning of the year	\$ 54,524	\$ 160,437
Deletions	-	(107,000)
Additions	1,187	1,087
Amortization	-	-
End of year	<u>\$ 55,711</u>	<u>\$ 54,524</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, 2017 and 2016, is as follows (in thousands):

	2017	2016
Capital lease - building	\$ 81,865	\$ 81,865
Less accumulated amortization	<u>(42,978)</u>	<u>(41,931)</u>
Capital lease - building - net	<u>\$ 38,887</u>	<u>\$ 39,934</u>

Years Ending December 31	Aggregate Lease Payments
(In thousands)	
2018	\$ 3,781
2019	4,371
2020	4,371
2021	4,371
2022	4,371
2023-2027	24,404
2028-2032	30,343
2033-2037	36,399
2038-2042	40,792
2043-2047	<u>49,656</u>
Minimum future lease payments	202,859
Amount representing interest	<u>(147,148)</u>
Present value of capital lease obligations	<u>\$ 55,711</u>

Total accumulated depreciation under capital leases was approximately \$42,978 and \$41,931 in 2017 and 2016, respectively.

Net minimum operating lease payments are as follows (in thousands):

Year Ending December 31	Aggregate Lease Payments
(In thousands)	
2018	\$ 2,405
2019	2,405
2020	2,405
2021	2,405
2022	2,405
2023-2027	12,025
2028-2032	12,025
2033-2037	12,025
2038-2042	12,025
2043-2047	12,025
2048	<u>1,205</u>
Minimum future lease payments	<u>\$73,355</u>

Rental amount incurred during 2017 and 2016 were \$506 and \$566, respectively.

16. 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 \$3.2 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, 2017 and 2016, is as follows (in thousands):

(In thousands)	2017	2016
Balance — beginning of year	\$ 43,633	\$ 40,847
Activity during the year:		
Current year claims and changes in estimates	7,836	6,279
Claims paid	<u>(3,910)</u>	<u>(3,493)</u>
Balance — end of year	47,559	43,633
Less current portion	<u>(6,260)</u>	<u>(5,878)</u>
Long-term liability	<u>\$ 41,299</u>	<u>\$ 37,755</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. Effective October 31, 2015 the self-insured retention limits for ELF were increased to the following amounts: \$11 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3.2 million for MTA Staten Island Railway; 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, 2017, the balance of the assets in this program was \$139.6 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, 2017, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2017, FMTAC directly insures property damage claims of the Related Entities in excess of a \$25 million per occurrence deductible, subject to an annual \$75 million aggregate deductible. The total All Risk program annual limit is \$675 million per occurrence and in the annual aggregate for Flood and Earthquake covering property of the Related Entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda reinsurance markets for this coverage. Losses occurring after exhaustion of the deductible aggregate 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.

Supplementing the \$675 million per occurrence noted above, FMTAC's property insurance program has been expanded to include a further layer of \$125 million of fully collateralized earthquake coverage for an event of a certain index value and for 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 May 23, 2017 to April 30, 2020. The expanded protection is reinsured by MetroCat Re Ltd. 2017-1, a Bermuda special purpose insurer independent from the MTA and formed to provide FMTAC with capital markets based property reinsurance. The MetroCat Re Ltd. 2017-1 reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is parametric and available for storm surge losses resulting from a storm that causes water levels that reach the specified index values, and also for an earthquake event of a certain index value.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 83% of "certified" losses in 2017 and 82% of "certified" losses in 2018 and 81% of "certified" losses in 2019, as covered by the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") of 2015. The remaining 17% (2017), 18% (2018) and 19% (2019) of the Related Entities' losses arising from an act of terrorism would be covered under the additional terrorism policy described below. No federal compensation will be paid unless the aggregate industry insured losses exceed a trigger of \$140 million in 2017, \$160 million in 2018 and \$180 million in 2019. The United States government's reinsurance is in place through December 31, 2020.

To supplement the reinsurance to FMTAC through the TRIPRA, MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 17% of any "certified" act of terrorism up to a maximum recovery of \$182.8 million for any one occurrence and in the annual aggregate during 2017, 18% of any "certified" act of terrorism up to a maximum recovery of \$193.5 million for any one occurrence and in the annual aggregate during 2018 and 19% of any "certified" act of terrorism up to a maximum recovery of \$204.3 million for any one occurrence and in the annual aggregate during 2019, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the "certified" acts of terrorism insurance or (3) 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$140 million TRIPRA trigger up to a maximum recovery of \$140 million for any occurrence and in the annual aggregate during 2017, or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$160 million TRIPRA trigger up to a maximum recovery of \$160 for any occurrence and in the annual aggregate during 2018 or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$180 million TRIPRA trigger up to a maximum recovery of \$180 million for any occurrence and in the annual aggregate during 2019.

17. COMMITMENTS AND CONTINGENCIES

At December 31, 2017 and 2016, 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.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. While questioned costs may occur, ultimate repayments required of the MTA or the Authority have been infrequent in prior years.

18. SWAP AGREEMENTS

Swap Agreements Relating to Synthetic Fixed Rate Debt

Fair value for the swaps is calculated in accordance with GASB Statement No. 72, utilizing the income approach and Level 2 inputs. It incorporates the mid-market valuation, nonperformance risk of either MTA Bridges and Tunnels or the counterparty, as well as bid/offer. 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 bonds due on the date of each future net settlement on the swap.

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 Bridges and Tunnels has entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA Bridges and Tunnels would have paid to issue fixed-rate debt, and in some cases where Federal tax law prohibits an advance refunding to synthetically refund debt on a forward basis (in millions).

Terms and Fair Value. The terms, fair values and counterparties of the outstanding swaps of MTA Bridges and Tunnels are reflected in the following tables (as of December 31, 2017).

MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/17 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/17 (in millions)	Swap Termination Date	Counterparty
Series 2002F ⁽¹⁾	\$191.300	07/07/05	3.076 %	67% of one-month LIBOR ⁽¹⁾	\$(29.658)	01/01/32	Citibank, N.A.
Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e ⁽¹⁾	573.900	07/07/05	3.076	67% of one-month LIBOR ⁽¹⁾	(88.974)	01/01/32	33% each – JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG
Total	\$765.200				\$(118.632)		

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/2017 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/2017 (in millions)	Swap Termination Date	Counterparty
Series 2000ABCD ¹⁽²⁾⁽³⁾	\$34.15	01/01/01	6.080 %	SIFMA – 15 bp	\$(1.449)	01/01/19	JPMorgan Chase Bank, NA
Series 2005A	22.765	09/24/04	3.09	Lesser of Actual Bond or 67% of one-month LIBOR - 45 basis points	(3.028)	01/01/30	U.S. Bank N.A., Wells Fargo Bank, N.A.
Series 2001C ⁽⁶⁾	57.475	04/01/16	3.52	67% of one-month LIBOR(1)	(2.409)	01/01/30	U.S. Bank N.A., Wells Fargo Bank, N.A.
Total	\$114.390				\$(6.886)		

- (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.
- (6) In accordance with a swaption entered into on August 12, 1998, TBTA received an upfront option premium of \$22.740, which is being amortized over the life of the swap agreement. Between November 22, 2016 and December 5, 2016, the Variable Rate Certificates of Participation, Series 2004A were redeemed. Corresponding notional amounts from the Series 2004A COPs were reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2001C. Pursuant to an Interagency Agreement (following novations from UBS in April 2016), MTA New York City Transit is responsible for 68.7%, MTA is responsible for 21.0%, and TBTA is responsible for 10.3% of the transaction.

LIBOR: London Interbank Offered Rate

SIFMA: Securities Industry and Financial Markets Association Index

TRB: Transportation Revenue Bonds

Counterparty Ratings—The current ratings of the counterparties are as follows as of December 31, 2017:

Counterparty	Ratings of the Counterparty or its Credit Support Provider		
	S&P	Moody's	Fitch
U.S. Bank National Association	AA-	A1	AA
Wells Fargo Bank, N.A.	AA-	Aa2	AA
BNP Paribas North America, Inc.	A	A1	A+
Citibank, N.A.	A+	A1	A+
JPMorgan Chase Bank, NA	A+	Aa3	AA-
UBS AG	A+	A1	AA

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, 2017 (in whole dollars).

Series	Outstanding Principal	Notional Amount
TBTA SUB 2000ABCD	\$ 57,700,000	\$ 34,150,000
TBTA 2005B-4 (a,b,c,d,e)	191,300,000	191,300,000
TBTA 2005B-3	191,300,000	191,300,000
TBTA 2005B-2 (a,b,c)	191,300,000	191,300,000
TBTA 2005A	110,710,000	22,765,000
TBTA 2003B (1,2,3)	174,645,000	19,745,000
TBTA 2002F	171,555,000	171,555,000
TBTA 2001C	112,715,000	57,475,000
2002G-1	142,015,000	142,015,000
2011B	99,560,000.00	56,220,000
Total	\$ 1,442,800,000	\$ 1,077,825,000

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 risk that a counterparty becomes insolvent or is otherwise not able to perform its financial obligations. To mitigate the exposure to credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties' credit ratings. Generally, MTA Bridges and Tunnels' swap agreements contain netting provisions under which transactions executed with a single counterparty are netted to determine collateral amounts. Collateral may be posted with a third-party custodian in the form of cash, U.S. Treasury securities, or certain Federal agency securities. MTA Bridges and Tunnels requires its counterparties to fully collateralize if ratings fall below certain levels (in general, at the Baa1/BBB+ level), with partial posting requirements at higher rating levels (details on collateral posting discussed further under "*Collateralization/Contingencies*"). As of December 31, 2017, all of the valuations were in

liability positions to MTA Bridges and Tunnels; accordingly, no collateral was posted by any of the counterparties.

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	\$225,450	20.92%
UBS AG	191,300	17.75
Citibank, N.A.	191,300	17.75
BNP Paribas North America, Inc.	191,300	17.75
U.S. Bank National Association	139,237	12.92
Wells Fargo Bank, N.A.	139,238	12.92
Total	\$1,077,825	100.00%

Basis Risk—The risk that the variable rate of interest paid by the counterparty under the swap and the variable interest rate paid by MTA Bridges and Tunnels 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 Bridges and Tunnels 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 Bridges and Tunnels.

Termination Risk—The risk that a swap agreement will be terminated and MTA Bridges and Tunnels will be required to make a swap 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.

The ISDA Master Agreement sets forth certain termination events applicable to all swaps entered into by the parties to that ISDA Master Agreement. MTA Bridges and Tunnels 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. MTA Bridges and Tunnels is subject to termination risk if its credit ratings fall below certain specified thresholds or if MTA Bridges and Tunnels commits a specified event of default or other specified event of termination. If, at the time of termination, a swap were in a liability position to MTA Bridges and Tunnels, a termination payment would be owed by MTA Bridges and Tunnels to the counterparty, subject to applicable netting arrangements.

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.

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.

The following tables set forth the Additional Termination Events for MTA Bridges and Tunnels and its counterparties.

MTA Bridges and Tunnels Senior Lien		
Counterparty Name	MTA Bridges and Tunnels	Counterparty
BNP Paribas North America, Inc.;		
Citibank, N.A.;		
JPMorgan Chase Bank, NA;	Below Baa2 (Moody's)	Below Baa1 (Moody's)
UBS AG	or BBB (S&P)*	or BBB+ (S&P)*

* Note: Equivalent Fitch rating is replacement for Moody's or S&P.

MTA Bridges and Tunnels Subordinate Lien		
Counterparty Name	MTA Bridges and Tunnels	Counterparty
JPMorgan Chase Bank, NA	Swap Insurer below A3 (Moody's) and A- (S&P); and MTA Bridges and Tunnels Senior Lien rating below Baa3 (Moody's) and BBB- (S&P)	Below Baa2 (Moody's) or BBB (S&P)
U.S. Bank National Association;		
Wells Fargo Bank, N.A.	Below Baa2 (Moody's) or BBB (S&P)*	Below Baa2 (Moody's) or BBB (S&P)**

* Note: Equivalent Fitch rating is replacement for Moody's or S&P. If not below Investment Grade, MTA Bridges and Tunnels may cure such Termination Event by posting collateral at a Zero threshold.

** Note: Equivalent Fitch rating is replacement for Moody's or S&P.

MTA Bridges and Tunnels' ISDA Master Agreements provide that the payments under one transaction will be netted against other transactions entered into under the same ISDA Master Agreement. 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 amounts so that a single sum will be owed by, or owed to, the non-defaulting party.

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 Bonds, Series 2001C (swaps with U.S. Bank/Wells Fargo)	January 1, 2032	January 1, 2030
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
MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A (swaps with U.S. Bank/Wells Fargo and Citibank, N.A.)	November 1, 2035	January 1, 2030 (U.S. Bank/Wells Fargo) January 1, 2032 (Citibank)

Collateralization/Contingencies—Under the majority of the swap agreements, MTA Bridges and Tunnels is required to post collateral in the event its credit rating falls below certain specified levels. The collateral posted is to be in the form of cash, U.S. Treasury securities, or certain Federal agency securities, based on the valuations of the swap agreements in liability positions and net of the effect of applicable netting arrangements. If MTA Bridges and Tunnels does not post collateral, the swap(s) may be terminated by the counterparty (ies).

As of December 31, 2017, the aggregate mid-market valuation of MTA Bridges and Tunnels' swaps subject to collateral posting agreements was (\$151.885) million; as of this date, MTA Bridges and Tunnels was not subject to collateral posting based on its credit ratings (see further details below).

The following tables set forth the ratings criteria and threshold amounts applicable to MTA Bridges and Tunnels and its counterparties.

MTA Bridges and Tunnels Senior Lien		
Counterparty	MTA Bridges and Tunnels Collateral Thresholds (based on highest rating)	Counterparty Collateral Thresholds (based on highest rating)
BNP Paribas North America, Inc.;	Baa1/BBB+: \$30 million	A3/A-: \$10 million
Citibank, N.A.;	Baa2/BBB: \$15 million	Baa1/BBB+ & below: Zero
JPMorgan Chase Bank, NA;	Baa3/BBB- & below: Zero	

Note: MTA Bridges and Tunnels thresholds based on Moody's, S&P, and Fitch ratings. Counterparty thresholds based on Moody's and S&P ratings; Fitch rating is replacement for Moody's or S&P.

MTA Bridges and Tunnels Subordinate Lien		
Counterparty	MTA Bridges and Tunnels Collateral Thresholds (based on lowest rating)	Counterparty Collateral Thresholds (based on lowest rating)
JPMorgan Chase Bank, NA	N/A – MTA Bridges and Tunnels does not post collateral	\$1,000,000
U.S. Bank National Association;	Baa3/BBB- & below: Zero	Aa3/AA-: \$15 million
Wells Fargo Bank, N.A.	<i>(note: only applicable as cure for Termination Event)</i>	A1/A+ to A3/A-: \$5 million Baa1/BBB+ & below: Zero

Note: thresholds based on Moody's and S&P ratings. Fitch rating is replacement for Moody's or S&P.

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	Variable-Rate Bonds		Net Swap	
December 31	Principal	Interest	Payments	Total
2018	\$ 62.5	39.7	\$ (6.6)	\$ 95.7
2019	43.4	38.0	(6.9)	74.5
2020	25.4	37.0	(6.9)	55.6
2021	26.6	36.0	(6.8)	55.8
2022	27.6	34.9	(6.8)	55.7
2023–2026	147.5	124.7	(25.9)	246.3
2027–2031	543.0	95.3	(22.8)	615.4
2032–2035	184.1	1.5	(0.1)	185.5

19. 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, 2017 and 2016 (in thousands):

	2017		2016	
	Receivable	(Payable)	Receivable	(Payable)
Due from (due to) MTA	\$ 173,717	\$ (447,126)	\$ 13,625	\$ (219,626)
Due from (due to) MTA	-	(17,402)	(13,080)	-
Due from (due to) affiliated agencies	-	(41,688)	-	(39,460)
	<u>\$ 173,717</u>	<u>\$ (506,216)</u>	<u>\$ 545</u>	<u>\$ (259,086)</u>

20. SUBSEQUENT EVENTS

On January 24, 2018, MTA Bridges and Tunnels entered into a remarketing agreement in connection with the mandatory tender and remarketing of \$122,635 General Revenue Variable Rate Refunding Bonds Subseries 2003B-1. On the Mandatory Tender Date, (i) all of the Remarketed Bonds will be subject to mandatory tender at a purchase price equal to the principal amount thereof, plus accrued interest to, but not including, the Mandatory Tender Date; (ii) MTA Bridges and Tunnels will convert the Original Subseries 2003B-1 Bonds from a Weekly Mode to a Daily Mode; (iii) MTA Bridges and Tunnels will consolidate and pre-designate the Original Subseries 2003B-1 Bonds and the Subseries 2003B-3 Bonds as the "Subseries 2003B-1 Bonds"; (iv) the irrevocable direct-pay letter of credit relating to the Original Subseries 2003B-1 Bonds issued by PNC Bank, National Association, and the irrevocable direct-pay letter of credit relating to the Subseries 2003B-3 Bonds issued

by Wells Fargo Bank, National Association, will be substituted with an irrevocable direct-pay letter of credit issued by Bank of America, N.A. relating to the Remarketed Bonds; (v) the terms and provisions of the Remarketed Bonds will be amended and restated to reflect the terms and provisions described herein; and (vi) the Remarketed Bonds will be remarketed at a price equal to the principal amount thereof.

On January 24, 2018, MTA Bridges and Tunnels entered into a remarketing agreement in connection with the mandatory tender and remarketing of \$190,300 General Revenue Variable Rate Refunding Bonds Subseries 2005B-2. On the Mandatory Tender Date (i) the Subseries 2005B-2 Bonds will be subject to mandatory tender at a purchase price equal to the principal amount thereof, plus accrued interest to, but not including, the Mandatory Tender Date; (ii) the irrevocable direct-pay letter of credit issued by Wells Fargo Bank, National Association, will be replaced with an irrevocable direct-pay letter of credit issued by Citibank, N.A.; (iii) the terms and provisions of the Subseries 2005B-2 Bonds will be amended to reflect the terms and provisions described herein; and (iv) the Subseries 2005B-2 Bonds will be remarketed at a price equal to the principal amount thereof.

On February 1, 2018, MTA Bridges and Tunnels issued \$351,930 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2018A. The proceeds from the 2018A transaction were used to finance bridge and tunnel projects for \$218,182, payment of 2017A BAN of \$165,870 and capitalized interest fund of \$14,952.

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REQUIRED SUPPLEMENTARY INFORMATION

**TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)**

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

5. SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY IN THE NEW YORK CITY EMPLOYEES' RETIREMENT SYSTEM AT JUNE 30, 2017

	NYCERS	
	2017 (in millions)	2016 (in millions)
Authority's proportion of the net pension liability	1.308%	1.266%
Authority's proportionate share of the net pension liability	\$ 271.608	307.60
Authority's actual covered-employee payroll	\$ 130.30	133.89
Authority's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll	208.448%	229.741%
Plan fiduciary net position as a percentage of the total pension liability	74.80%	69.57%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. In accordance with GASB No. 68, information was not readily available for periods prior to 2015.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
 (Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS TO THE NEW YORK CITY EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEARS ENDED DECEMBER 31,
 (In thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 41,272	\$ 44,609	\$ 41,812	\$ 33,023	\$ 33,461	\$ 36,183	\$ 27,671	\$ 25,455	\$ 24,821	\$ 20,403	\$ 18,537
Contributions in relation to the contractually required contribution	<u>41,272</u>	<u>44,609</u>	<u>41,812</u>	<u>33,023</u>	<u>33,461</u>	<u>36,183</u>	<u>27,671</u>	<u>25,455</u>	<u>24,821</u>	<u>20,403</u>	<u>18,537</u>
Contribution deficiency (excess)	<u>\$ -</u>										
Authority's covered-employee payroll	<u>\$ 144,992</u>	<u>\$ 137,900</u>	<u>\$ 150,652</u>	<u>\$ 167,988</u>	<u>\$ 132,095</u>	<u>\$ 128,184</u>	<u>\$ 128,730</u>	<u>\$ 135,339</u>	<u>\$ 148,082</u>	<u>\$ 142,728</u>	<u>\$ 129,739</u>
Contributions as a percentage of covered-employee payroll	<u>28.47 %</u>	<u>32.35 %</u>	<u>27.75 %</u>	<u>19.66 %</u>	<u>25.33 %</u>	<u>28.23 %</u>	<u>21.50 %</u>	<u>18.81 %</u>	<u>16.76 %</u>	<u>14.30 %</u>	<u>14.29 %</u>

Notes to Authority's Contributions to NYCERS:

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the NYCERS Plan, should be presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms

There were no changes of benefit terms in the June 30, 2013 funding valuation.

Changes of Assumptions

There were no changes of benefit assumptions in the June 30, 2013 fund valuation.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
 (Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
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)
December 31, 2017	January 1, 2016	\$ -	\$ 858	\$858	-	\$ 113.7	755.3 %
December 31, 2016	January 1, 2014	-	798	798	-	118.0	676.0
December 31, 2015	January 1, 2014	-	798	798	-	118.0	676.0
December 31, 2014	January 1, 2012	-	707	707	-	106.9	661.4

DRAFT

Staten Island Rapid Transit Operating Authority

(Component Unit of the Metropolitan Transportation
Authority)

Financial Statements as of and for the
Years Ended December 31, 2017 and 2016,
Required Supplementary Information, and
Independent Auditors' Report

DRAFT

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component Unit 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 Staten Island Rapid Transit Operating Authority (the "Authority"), a component unit of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2017 and 2016, 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 auditors' 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, 2017 and 2016, 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 Matters

As discussed in Note 1 to the financial statements, the Authority is a component unit 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

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 11, Schedule of SIRTOA's Proportionate Share of the Net Pension Liability in the MTA Defined Benefit Pension Plan on page 44, Schedule of SIRTOA's Contributions to the MTA Defined Benefit Pension Plan on page 45, and Schedule of Funding Progress for the Staten Island Rapid Transit Operating Authority Postemployment Benefit Plan on page 46 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 25, 2018

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2017 AND 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction to the Annual Report — The following is a narrative overview and analysis of the financial activities of Staten Island Rapid Transit Operating Authority (“SIRTOA” or “Authority”) for the years ended December 31, 2017 and 2016. 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, 2017 and 2016. 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 net pension liability, contribution to its pension plan, and progress in funding its obligation to provide other postemployment benefits to its employees.

FINANCIAL REPORTING ENTITY

SIRTOA is a public benefit corporation and is a component unit 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.

CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in the Authority’s financial position for the years ended December 31, 2017 and 2016. 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, and deferred outflows of resources:

	2017	December 31, 2016	2015	Increase/(Decrease)	
				2017–2016	2016–2015
Capital assets — net	\$ 292,321,518	\$ 250,479,031	\$ 176,285,906	\$ 41,842,487	\$ 74,193,125
Other assets	63,416,354	63,016,784	49,038,152	399,570	13,978,632
Deferred outflows of resources	<u>15,636,040</u>	<u>16,113,528</u>	<u>9,133,338</u>	<u>(477,488)</u>	<u>6,980,190</u>
Total assets and deferred outflows of resources	<u>\$ 371,373,912</u>	<u>\$ 329,609,343</u>	<u>\$ 234,457,396</u>	<u>\$ 41,764,569</u>	<u>\$ 95,151,947</u>

Significant changes in assets include:

December 31, 2017 versus 2016— Net capital assets increased from December 31, 2016 to December 31, 2017 by \$41,842,487 or 16.7%. This is due primarily to additions to capital assets. The net additions to capital assets of \$52,314,244 or 12.3% results from the increase in construction in progress, stations, track and vehicles, partly offset by an increase in accumulated depreciation of \$10,471,757 or 6.0% 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, other assets increased by \$399,570 or 0.6% compared with the prior year. This increase is primarily attributable to the increase in the NYC operating recovery subsidy receivable of \$406,400 estimated for the operating deficit for calendar year 2017, the increase in other receivable of \$231,102

related to reimbursable work performed for outside agencies, and an increase in materials and supplies of \$407,424 related to various maintenance initiatives. The increase was partly offset by a decrease of prepaid expenses and other current assets of \$263,425 due to the sale of investments, and decrease in cash of \$499,373 due to timing of subsidy receipt at the end of the year.

Deferred outflows of resources decreased by \$477,488 or 3.0% compared with prior year based upon the most recent actuarial valuation report in accordance with GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Refer to Note 6 to the financial statements for more information regarding SIRTOA's pension.

December 31, 2016 versus 2015 — Net capital assets increased from December 31, 2015 to December 31, 2016 by \$74,193,125 or 42.1%. This is due primarily to additions to capital assets. The net additions to capital assets of \$81,995,658 or 24.0% results from the increase in construction in progress, stations, equipment & other and structures, partly offset by an increase in accumulated depreciation of \$7,802,533 or 4.7% 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, other assets increased by \$13,978,632 or 28.5% compared with the prior year. This increase is primarily attributable to the increase in the NYC operating recovery subsidy receivable of \$14,035,000 estimated for the operating deficit for calendar year 2016 and the increase in MTA capital program funds receivable of \$379,984 related to multiple capital projects. The increase was partly offset by a decrease of materials and supplies of \$339,773 as a result of the drawdown of inventory to complete various projects.

Deferred outflows of resources increased by \$6,980,190 or 76.4% compared with prior year based upon the most recent actuarial valuation report in accordance with GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Refer to Note 6 to the financial statements for more information regarding SIRTOA's pension.

Total liabilities, distinguishing between long-term liabilities and current liabilities, and deferred inflows of resources:

	2017	December 31,		Increase/(Decrease)	
		2016	2015	2017-2016	2016-2015
Current liabilities	\$ 64,980,681	\$ 63,730,445	\$ 51,417,764	\$ 1,250,236	\$ 12,312,681
Long-term liabilities	81,326,103	70,511,392	56,068,924	10,814,711	14,442,468
Total liabilities	146,306,784	134,241,837	107,486,688	12,064,947	26,755,149
Deferred inflows of resources	1,240,562	1,427,887	-	(187,325)	1,427,887
Total liabilities and deferred inflows of resources	\$ 147,547,346	\$ 135,669,724	\$ 107,486,688	\$ 11,877,622	\$ 28,183,036

Significant changes in liabilities include:

December 31, 2017 versus 2016 — Liabilities increased from December 31, 2016 to December 31, 2017 by \$12,064,947 or 9.0%. Current liabilities increased by \$1,250,236, due primarily to an increase of \$1,172,701 in Due to MTA and constituent authorities for changes in the MTA investment pool, increase of \$591,035 in accrued retroactive salaries and wages primarily related to the United

Transportation Union (“UTU”). The increase was partly offset by the decrease of \$610,840 in Due to New York City Transit Authority related to the R44 Car Fleet maintenance inter-agency charges. The increase in long-term liabilities of \$10,814,711 was primarily the result of the addition of \$7,081,773 and \$3,463,540 of post-employment benefits other than pensions and estimated liability arising from injuries to persons, respectively, based upon the most current actuarial valuations.

Deferred inflows of resources decreased by \$187,325 or 13.1% compared with prior year based upon the most recent actuarial valuation report in accordance with GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*. Refer to Note 6 to the financial statements for more information regarding SIRTOA’s pension.

December 31, 2016 versus 2015 — Liabilities increased from December 31, 2015 to December 31, 2016 by \$26,755,149 or 24.9%. Current liabilities increased by \$12,312,681, due primarily to an increase of \$13,881,159 in Due to MTA and constituent authorities for changes in the MTA investment pool and an increase of \$4,324,307 in Due to New York City Transit Authority related to the R44 Car Fleet maintenance inter-agency charges. The increase was partly offset by the decrease of \$6,057,682 in accrued salaries and wages related to the United Transportation Union (“UTU”) settlement paid in 2016. The increase in long-term liabilities of \$14,442,468 was primarily the result of the addition of \$7,228,690 and \$5,259,104 of post-employment benefits other than pensions and net pension liability, respectively, based upon updated actuarial valuations, and the increase of \$2,115,000 in estimated liability arising from injuries to persons, also based on the most current actuarial valuation.

SIRTOA reported deferred inflows of resources of \$1,427,887 related to pension based upon the most recent actuarial valuation report in accordance with GASB Statements No. 68. Refer to Note 6 to the financial statements for more information regarding SIRTOA’s pension.

Total net position, distinguishing among investment in capital assets, restricted amounts, and unrestricted amounts:

	2017	December 31, 2016	2015	Increase/(Decrease)	
				2017-2016	2016-2015
Investment in capital assets	\$ 292,321,518	\$ 250,479,031	\$ 176,285,906	\$ 41,842,487	\$ 74,193,125
Unrestricted deficit	(68,494,952)	(56,539,412)	(49,315,198)	(11,955,540)	(7,224,214)
Total net position	\$ 223,826,566	\$ 193,939,619	\$ 126,970,708	\$ 29,886,947	\$ 66,968,911

Net position represents the residual interest in the Authority’s assets after liabilities are deducted and consists of two sections: investment in capital assets and unrestricted. 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, 2017 versus 2016 — Total net position was \$223,826,566 at the end of 2017, a net increase of \$29,886,947 or 15.4% from the end of 2016. The net increase was due to an operating loss of \$79,183,736, offset by nonoperating income of \$57,981,668 and MTA capital contributions of \$51,089,015.

December 31, 2016 versus 2015 — Total net position was \$193,939,619 at the end of 2016, a net increase of \$66,968,911 or 52.7% from the end of 2015. The net increase was due to an operating loss of \$69,419,681, offset by nonoperating income of \$55,031,922 and MTA capital contributions of \$81,356,670.

Condensed statements of revenues, expenses, and changes in net position:

	Year Ended December 31,			Increase/(Decrease)	
	2017	2016	2015	2017-2016	2016-2015
Operating revenues	\$ 9,433,087	\$ 9,313,611	\$ 9,035,932	\$ 119,476	\$ 277,679
Operating expenses	(88,616,823)	(78,733,292)	(65,178,429)	(9,883,531)	(13,554,863)
Operating loss	(79,183,736)	(69,419,681)	(56,142,497)	(9,764,055)	(13,277,184)
Nonoperating revenues (expenses):					
Grants, appropriations, and taxes	5,189,792	5,189,792	4,600,543	-	589,249
Subsidies	53,434,400	50,156,000	43,831,000	3,278,400	6,325,000
Federal Transit Authority / Federal Emergency Management Agency reimbursement	-	(118,394)	2,455	118,394	(120,849)
Other nonoperating revenue/expenses - net	(642,524)	(195,476)	(86,899)	(447,048)	(108,577)
Total net nonoperating revenues	57,981,668	55,031,922	48,347,099	2,949,746	6,684,823
Loss before capital contributions	(21,202,068)	(14,387,759)	(7,795,398)	(6,814,309)	(6,592,361)
Capital contributions	51,089,015	81,356,670	48,600,391	(30,267,655)	32,756,279
Change in net position	29,886,947	66,968,911	40,804,993	(37,081,964)	26,163,918
Net position — beginning of year	193,939,619	126,970,708	101,823,566	66,968,911	25,147,142
Restatement of beginning net position adoption of GASB No. 68	-	-	(15,657,851)	-	15,657,851
Net position — end of year	\$ 223,826,566	\$ 193,939,619	\$ 126,970,708	\$ 29,886,947	\$ 66,968,911

Revenues, by major source:

	Year Ended December 31,			Increase/(Decrease)	
	2017	2016	2015	2017-2016	2016-2015
Fare revenue	\$ 6,893,054	\$ 6,521,523	\$ 6,400,508	\$ 371,531	\$ 121,015
Student and elderly reimbursement	1,873,885	1,835,426	1,775,714	38,459	59,712
Other	666,148	956,662	859,710	(290,514)	96,952
Total operating revenue	\$ 9,433,087	\$ 9,313,611	\$ 9,035,932	\$ 119,476	\$ 277,679

December 31, 2017 versus 2016 — Revenues from fares and student and elderly reimbursements were \$8,766,939 in 2017, an increase of 4.9% from the prior year. Ridership in 2017 was 4.604 million, an increase of 1.6% from 2016. The increase in revenue was due mostly to the March 2017 fare increase. Other revenues in 2017 consist mainly of advertising revenue and rental income. The decrease in other revenues of \$290,514 or 30.4% from prior year was mainly related to advertising revenues.

December 31, 2016 versus 2015 — Revenues from fares and student and elderly reimbursements were \$8,356,949 in 2016, an increase of 2.2% from the prior year. Ridership in 2016 was 4.532 million, an increase of 0.7% from 2015. The increase in revenue was primarily due to the ridership increase. Other revenues in 2016 consist mainly of advertising revenue and rental income. The increase in other revenues of \$96,952 or 11.3% from prior year was mainly due to additional rental income.

Operating Expenses:

(In thousands)	Year Ended December 31,			Increase/(Decrease)	
	2017	2016	2015	2017-2016	2016-2015
Salaries and wages	\$ 26,277	\$ 24,095	\$ 25,132	\$ 2,182	\$ (1,037)
Health and welfare	4,267	5,291	4,263	(1,024)	1,028
Pensions	6,595	5,592	4,486	1,003	1,106
Other post employment benefits	9,664	9,444	8,926	220	518
Other fringe benefits	6,331	3,728	2,404	2,603	1,324
Traction and propulsion power	3,991	3,560	4,119	431	(559)
Materials and supplies	2,917	2,433	1,945	484	488
Insurance	1,156	1,307	1,566	(151)	(259)
Public liability claims	695	475	1,212	220	(737)
Maintenance and other operating contracts	14,853	14,045	1,129	808	12,916
Professional service contracts	1,001	762	623	239	139
Environmental remediation	81	50	1,119	31	(1,069)
Depreciation	10,472	7,802	8,072	2,670	(270)
Other business expenses	317	149	182	168	(33)
Total operating expenses	<u>\$ 88,617</u>	<u>\$ 78,733</u>	<u>\$ 65,178</u>	<u>\$ 9,884</u>	<u>\$ 13,555</u>

December 31, 2017 versus 2016 — Operating expenses increased by \$9,883,531 or 12.6%. The increase of \$2,182,194 in salaries and wages was primarily due to additional 2017 hires in support of the track tie replacement program and an increase in the retroactive wage accrual for the UTU settlement. The decrease in health and welfare of \$1,024,113 was mainly due to contributions from represented employees in accordance to union agreement rules. Pension expenses increased by \$1,003,104 based on the most recent actuarial valuation. Other fringe benefits increased by \$2,602,931 due primarily to higher Workers' Compensation reserve requirements upon the latest actuarial valuation. The increase of \$808,670 in maintenance and other operating expenses was mainly related to the R44 Car Fleet maintenance project. Depreciation expense increased by \$2,669,224 mainly due to the completion of the St. George passenger station rehabilitation in 2017.

December 31, 2016 versus 2015 — Operating expenses increased by \$13,554,863 or 20.8%. The decrease of \$1,037,208 in salaries and wages was primarily due to higher vacancies in 2016 compared to prior year. The increase in health and welfare of \$1,027,050 was mainly due to higher healthcare rates and the adoption of benefits for represented members similar to those for New York City Transit Authority employees. Pension expenses increased by \$1,106,163 based on the most recent actuarial valuation. Other fringe benefits increased by \$1,324,254 due primarily to higher Workers' Compensation reserve requirements upon the latest actuarial valuation. The increase of \$12,916,252 in maintenance and other operating expenses was primarily due to the implementation of the R44 Car Fleet maintenance project in 2016. Environmental remediation expense decreased by \$1,069,380 due to a decrease in environmental remediation projects.

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 \$51,089,015 in 2017 and \$81,356,670 in 2016 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 \$29,886,947 in 2017 and increased by \$66,968,911 in 2016. 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 2017 of \$9.433 billion exceeded budget by \$0.134 billion (1.4%), due mostly to the March 2017 fare increase.

Operating expenses of \$88.617 billion were below budget by \$1.332 billion (1.5%). Labor expenses exceeded budget by \$3.923 billion (9.4%), due mainly to higher other fringe benefit expenses of \$3.614 billion (88.3%), resulting primarily from higher Workers' Compensation reserve requirements, based on a current actuarial update. Overtime expenses were also higher by \$0.819 billion (26.7%), due mostly to adverse weather requirements early in the year and vacancy coverage requirements. Reimbursable overhead credits were favorable by \$0.887 billion (over 100.0%) due to additional reimbursable project work. Non-labor expenses were below budget by \$5.389 billion (17.8%), due principally to R44 car fleet maintenance project/other underruns of \$6.654 billion (30.9%).

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, and a financially sound and reliable transportation system is critical to the region's economic well-being. The Authority consists of urban subway and bus systems. In order to achieve maximum efficiency and success in its operations, the Authority must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Preliminary system-wide utilization in 2017 decreased relative to 2016 by 65.2 million (2.7%). Subway ridership declined by 29.4 million trips (1.7%), while New York City Transit Bus ridership also declined by 35.8 million trips (5.6%),

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2017 than in 2016 by 64.4 thousand jobs (1.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-nine 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.

National economic growth, as measured by Real Gross Domestic Product ("RGDP"), expanded at an annualized rate of 2.6% in the fourth quarter of 2017 according to the most recent advance estimate released by the Bureau of Economic Analysis ("BEA"). The increase in RGDP reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, residential fixed investment, state and local government spending, and federal government spending; these were partially offset by a negative contribution from private inventory investment. Imports, which are a subtraction in the Gross Domestic Product ("GDP") calculation, increased. The deceleration in RGDP growth, relative to the second quarter's revised 3.2% growth rate, reflected a downturn in private inventory investment and an increase in imports. These were partially offset by an acceleration in

personal consumption expenditures, nonresidential fixed investment, exports, state and local government spending, and federal government spending, as well as an upturn in residential fixed investment.

The New York City metropolitan area's price inflation, as measured by the Consumer Price Index for All Urban Consumers ("CPI-U"), was lower than the national average in the fourth quarter of 2017, with the metropolitan area index increasing by 1.7 %, while the national index increased by 2.1%, when compared with the fourth quarter of 2016. An 8.2% increase in the regional price of energy products, along with a 7.6% national increase, impacted overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.3%, while nationally, inflation exclusive of energy products was 1.7%. Increasing more than overall energy prices, the spot price for New York Harbor conventional gasoline rose by 14.8%, from an average price of \$1.54 per gallon to an average price of \$1.77 per gallon, between the fourth quarters of 2016 and 2017.

In December 2015, citing evidence that economic activity had been expanding at a moderate rate, the Federal Open Market Committee ("FOMC") raised its target for the Federal Funds rate to the range of 0.25% to 0.50%, the first increase in the Federal Funds rate since the target was lowered to a range of 0% to 0.25% in late 2008 when the financial and housing crises deepened. The FOMC maintained this target until December 2016, when the FOMC announced another increase, raising the target range for the Federal Funds rate to 0.5% to 0.75%. In March and June of 2017, the FOMC raised rates again, with the target range set at 0.75% to 1%, in March and then 1% to 1.25% in June. The Federal Funds rate was raised to its current target level of 1.25% to 1.5% in December 2017 in view of realized and expected labor market conditions and inflation. Despite raising the target rate in the fourth quarter of 2017, monetary policy continued to be accommodative, supporting strong labor market conditions and a sustained return to 2 percent inflation. The unemployment rate continued to decline, while household spending continued to expand at a moderate rate and business fixed investment continued to pick up. Both overall inflation and inflation for items other than food and energy remained below 2 percent on a 12-month basis, and overall inflation is expected to remain below 2 percent in the short-term. Despite this, survey-based measures of longer-term inflation expectations were little changed. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. The FOMC expects that the economy will continue to expand at a moderate pace, labor market conditions will remain strong, and inflation will stabilize around 2 percent over the medium term. Gradual increases in the Federal Funds rate can be expected, but that the rate will remain below long-term levels for quite some time. Near-term risks to economic outlook appear roughly balanced, and the FOMC continues to closely monitor inflation indicators and global economic and financial developments.

Results of Operations and Overall Financial Position — Total revenue from fares and student and elderly reimbursements was \$8,766,939 in 2017, an increase of 4.9% from 2016. Total ridership was 4.604 million, an increase of 1.6% from 2016. Total non-reimbursable expenses, including depreciation, pension costs and other post-employment benefits, were \$88,616,823 in 2017, an increase of 12.6%.

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.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program — The MTA has ongoing programs on behalf of its 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 Transit Authority's portion of the current MTA Capital Program for 2015-2019, which includes SIRTOA, totals \$16.7 billion. As of December 31, 2017, \$5.6 billion has been encumbered under the five-year plan, of which approximately \$1.8 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. On May 24, 2017, the MTA Board approved a further revised 2015-2019 capital program totaling \$32.4 billion. The amended Capital Program, as submitted, was deemed approved by the Capital Program Review Board ("CPRB") on July 31, 2017.

SIRTOA projects incorporated into the overall program include construction of three new power substations to improve reliability of train service by furnishing adequate electrical power along the right of way. The three substations are located at Tottenville (\$25.0 million), Clifton (\$28.4 million) and New Dorp (\$21.4 million). Upcoming capital projects include the purchase of 75 passenger railcars (\$278.8 million), enhanced station initiative at Richmond Valley (\$15.3 million), rehabilitation of Amboy Road Bridge (\$7.2 million), and mitigation measures to protect St. George Terminal station and yard from future storms (\$70.1 million).

In addition, 4 projects were completed in 2017 including repairs at the St. George Interlocking and yard on Staten Island to address damage from Superstorm Sandy (\$112.9 million), Sandy long term repairs of Tower B employee facilities at St. George (\$7.0 million), construction of new ADA compliant passenger station and parking facility on the Staten Island Railway to replace the existing Atlantic and Nassau stations (\$25.3 million), and installation of new power substation at Prince's Bay (\$22.7 million).

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Going forward, the Authority's February 2018 Financial Plan includes certain risks such as:

- Biennial fare increases approximating inflation
- Achieving efficiencies/consolidations
- Chronic looming cost issues such as Workers Compensation and Public Liability claims, and health care costs, including the "Cadillac Tax" of which the implementation has been delayed to 2020.

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STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 84,738	\$ 584,111
Receivables:		
New York City Department of Education	875,811	744,897
NYC operating recovery	59,423,400	59,017,000
Due from MTA	63,409	44,596
MTA capital program funds receivable	668,340	661,849
Other	646,454	415,352
Less allowance for doubtful accounts	<u>(157,827)</u>	<u>(119,051)</u>
Net receivables	<u>61,519,587</u>	<u>60,764,643</u>
Materials and supplies — at average cost — net	1,356,211	948,787
Prepaid expense and other current assets	<u>455,818</u>	<u>719,243</u>
Total current assets	<u>63,416,354</u>	<u>63,016,784</u>
NONCURRENT ASSETS:		
Capital assets (Note 5):		
Construction work-in progress	35,451,559	146,003,126
Other capital assets, net of accumulated depreciation	<u>256,869,959</u>	<u>104,475,905</u>
Total capital assets, net of accumulated depreciation	<u>292,321,518</u>	<u>250,479,031</u>
Total assets	<u>355,737,872</u>	<u>313,495,815</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Related to pension (Note 6)	<u>15,636,040</u>	<u>16,113,528</u>
Total deferred outflows of resources	<u>15,636,040</u>	<u>16,113,528</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 371,373,912</u>	<u>\$ 329,609,343</u>

See notes to financial statements.

(Continued)

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,153,500	\$ 1,022,087
Accrued retroactive salaries and wages	591,035	-
Accrued sick and vacation pay	4,108,196	4,018,926
Accrued payroll taxes and related liabilities	593,207	1,077,495
Due to New York City Transit Authority	5,318,167	5,929,007
Due to MTA and constituent authorities (Note 4)	51,668,666	50,495,965
Unearned rent revenue	-	4,792
Estimated liability arising from injuries to persons (Note 8)	1,321,814	940,000
Pollution remediation projects	226,096	242,173
Total current liabilities	<u>64,980,681</u>	<u>63,730,445</u>
NONCURRENT LIABILITIES:		
Net pension liability (Note 6)	27,777,634	27,604,696
Other post employment benefits (Note 7)	38,123,741	31,041,968
Estimated liability arising from injuries to persons (Note 8)	14,359,540	10,896,000
Pollution remediation projects	1,065,188	968,728
Total noncurrent liabilities	<u>81,326,103</u>	<u>70,511,392</u>
Total liabilities	<u>146,306,784</u>	<u>134,241,837</u>
DEFERRED INFLOWS OF RESOURCES:		
Related to pension (Note 6)	1,240,562	1,427,887
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,240,562</u>	<u>1,427,887</u>
NET POSITION:		
Investment in capital assets	292,321,518	250,479,031
Unrestricted	(68,494,952)	(56,539,412)
Total net position	<u>223,826,566</u>	<u>193,939,619</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 371,373,912</u>	<u>\$ 329,609,343</u>

See notes to financial statements.

(Concluded)

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING REVENUE:		
Fare revenue	\$ 6,893,054	\$ 6,521,523
Student fare reimbursement	1,840,213	1,801,754
Elderly fare reimbursement	33,672	33,672
Other	666,148	956,662
Total operating revenues	<u>9,433,087</u>	<u>9,313,611</u>
OPERATING EXPENSES:		
Salaries and wages	26,276,831	24,094,637
Health and welfare	4,266,511	5,290,624
Pensions	6,595,101	5,591,997
Other post employment benefits	9,663,672	9,444,000
Other fringe benefits	6,331,241	3,728,310
Traction and propulsion power	3,991,286	3,560,074
Materials and supplies	2,916,734	2,433,471
Insurance	1,156,407	1,307,168
Public liability claims (Note 2)	694,702	475,000
Maintenance and other operating expenses	14,853,488	14,044,818
Professional service contracts	1,001,398	761,721
Environmental remediation	80,778	50,000
Depreciation	10,471,757	7,802,533
Other business expenses	316,917	148,939
Total operating expenses	<u>88,616,823</u>	<u>78,733,292</u>
OPERATING LOSS	<u>(79,183,736)</u>	<u>(69,419,681)</u>
NONOPERATING REVENUE — Operating assistance subsidies:		
New York State tax supported subsidy	4,047,354	4,047,354
New York State — 18B Assistance	571,219	571,219
New York City — 18B Assistance	571,219	571,219
NYC operating recovery subsidy (Note 2)	53,434,400	50,156,000
Federal Transit Authority/Federal Emergency Management Agency reimbursement	-	(118,394)
Total nonoperating revenues	<u>58,624,192</u>	<u>55,227,398</u>
Other nonoperating (expenses) income - net	<u>(642,524)</u>	<u>(195,476)</u>
Total nonoperating income	<u>57,981,668</u>	<u>55,031,922</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(21,202,068)	(14,387,759)
CAPITAL CONTRIBUTIONS:		
MTA contributions for capital projects	<u>51,089,015</u>	<u>81,356,670</u>
Increase in net position	29,886,947	66,968,911
NET POSITION — Beginning of year	<u>193,939,619</u>	<u>126,970,708</u>
NET POSITION — End of year	<u>\$ 223,826,566</u>	<u>\$ 193,939,619</u>

See notes to financial statements.

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts	\$ 8,607,444	\$ 8,253,671
Rent and other receipts	661,356	961,454
Payroll and related fringe benefits	(42,621,235)	(44,944,975)
Other operating expenses	<u>(26,143,126)</u>	<u>(17,989,906)</u>
Net cash used in operating activities	<u>(59,495,561)</u>	<u>(53,719,756)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies received	57,537,813	41,310,792
Reimbursement to the FTA	<u>-</u>	<u>(118,394)</u>
Net cash provided by noncapital financing activities	<u>57,537,813</u>	<u>41,192,398</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital project costs incurred for capital program	(2,281,148)	(3,901,997)
Interest paid	(689,824)	-
Payments on MTA Transportation bonds issued to fund capital assets	(545,439)	(889,394)
Reimbursement of capital project costs from MTA	<u>3,033,580</u>	<u>3,544,643</u>
Net cash used in capital and related financing activities	<u>(482,831)</u>	<u>(1,246,748)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in MTA investment pool	1,705,829	13,657,507
Interest and dividends on investment	16,098	9,414
Sale of investment	<u>219,279</u>	<u>-</u>
Net cash provided by investing activities	<u>1,941,206</u>	<u>13,666,921</u>
NET DECREASE IN CASH	(499,373)	(107,185)
CASH — Beginning of year	<u>584,111</u>	<u>691,296</u>
CASH — End of year	<u>\$ 84,738</u>	<u>\$ 584,111</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES —		
MTA contributed capital assets to SIRTOA of \$51,089,015 and \$81,356,670 in 2017 and 2016, respectively.		

See notes to financial statements.

(Continued)

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss before non-operating revenues and contributions	\$ (79,183,736)	\$ (69,419,681)
Adjustments to reconcile operating loss to net cash used in operating activities — depreciation	10,471,757	7,802,533
Changes in operating assets and liabilities:		
Increase in receivable from New York City Department of Education	(130,914)	(19,553)
(Increase) decrease in receivable from MTA	(41,633)	144,138
Increase in other receivables	(192,325)	(69,274)
(Increase) decrease in materials and supplies inventory	(407,424)	339,773
Decrease (increase) in other assets	74,761	(83,112)
Decrease (increase) in deferred outflows of resources	477,488	(6,980,190)
Increase in accounts payable	131,413	115,410
Increase (decrease) in accrued retroactive salaries and wages	591,035	(6,057,682)
Increase in accrued sick and vacation	89,270	67,967
(Decrease) increase in payroll taxes and related liabilities	(484,288)	176,809
Increase in net pension liability	172,938	5,259,104
(Decrease) increase in due to MTA and constituent Authorities	(588,478)	223,652
(Decrease) increase in due to New York City Transit Authority	(1,290,819)	4,324,307
Increase in other post employment benefits	7,081,773	7,228,690
(Decrease) increase in unamortized rent revenue	(4,792)	4,792
Increase in estimated liabilities arising from personal injuries	3,845,355	1,955,000
Increase (decrease) in liability for environmental pollution remediation	80,383	(160,326)
(Decrease) increase in deferred inflows of resources	<u>(187,325)</u>	<u>1,427,887</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (59,495,561)</u>	<u>\$ (53,719,756)</u>
See notes to financial statements.		(Concluded)

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. BASIS OF PRESENTATION

Reporting Entity — The Staten Island Rapid Transit Operating Authority (“SIRTOA” or “Authority”) is a public benefit corporation and a component unit 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 is operationally and legally independent of the MTA. SIRTOA enjoy certain rights typically associated with separate legal status. However, SIRTOA is included in the MTA’s consolidated financial statements as a blended component unit because of the MTA’s financial accountability and SIRTOA is under the direction of the MTA Board (a reference to “MTA Board” means the board of MTA and/or the boards of the Authority and other MTA component units 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 SIRTOA in its consolidated financial statements.

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 consolidated interim financial statements are 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 Adopted

SIRTOA adopted the following GASB Statements for the year ended December 31, 2017:

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 67, and Amendments to Certain Provisions of GASB Statements 67 and 68* establishes requirements for defined benefit pension plans and defined contribution plans that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 73 extends the approach to accounting and financial reporting established in GASB Statement No. 68 to all pensions to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB Statement No. 68, should not be considered pension plan assets. It also requires that information similar to that required by GASB Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on the SIRTOA's financial statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes accounting and financial reporting standards for state and local governmental other postemployment benefit ("OPEB") plans. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and GASB Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on SIRTOA's financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units* establishes an additional blending requirement for the financial statement presentation of component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement had no impact on SIRTOA's financial statements. No additional disclosures are required.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* establishes accounting and financial reporting standards for split-interest agreements, which are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. The Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement by requiring the government to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The adoption of this Statement had no impact on SIRTOA's financial statements, as SIRTOA does not enter into such agreements.

GASB Statement No. 82, *Pension Issues: An Amendment of GASB Statements No. 67, No. 68 and No. 73* addresses certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement adjusted the presentation of payroll-

related measures in the required supplementary information, but did not have an impact on SIRTOA’s financial statements.

Accounting Standards Issued but Not Yet Adopted

GASB has issued the following pronouncements that may affect the future financial position, results of operations, cash flows, or financial presentation of SIRTOA upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	SIRTOA Required Year of Adoption
75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	2018
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment Issues</i>	2018
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements</i>	2019

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 “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 “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:

- *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.
- *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 2017 and 2016, 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, 2017, SIRTOA recorded a NYC operating recovery receivable and subsidy revenue of \$59,423,400 and \$53,434,400, respectively for the calendar year 2017. In 2017, SIRTOA received \$53,028,000 from The City for calendar year 2016 operating deficit.

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 categorizes its fair value measurement within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. SIRTOA's investment in the MTA Investment Pool is valued based on other observable inputs (Level 2 inputs).

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, 2016, SIRTOA had investment balances of \$188,663, classified under other current assets. The investments were fully liquidated during 2017, SIRTOA recognized a gain of \$13,714 for the sale of investments. The Authority categorizes its fair value measurement within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. SIRTOA's investments are valued based on quoted prices in an active market for identical assets (Level 1 inputs).

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 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: 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 — Effective for the year-ended December 31, 2015, SIRTOA adopted the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plan.

SIRTOA recognizes a proportionate share of the net pension liability for the qualified cost-sharing, multiple-employer pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the pension plan, as of the Plan's measurement date of December 31, 2016. Changes in the net pension liability during the year are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the year incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the year in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

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 difference between the carrying amount and the bank balance for the years ended December 31, 2017 and 2016, is due to deposits in transit offset by any outstanding checks.

At December 31, 2017 and 2016, cash consisted of:

	2017		2016	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits (“FDIC”)	\$ 84,738	\$ 93,085	\$ 250,000	\$ 250,000
Uninsured deposits	-	-	334,111	344,592
	<u>\$ 84,738</u>	<u>\$ 93,085</u>	<u>\$ 584,111</u>	<u>\$ 594,592</u>

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, SIRTOA will not be able to recover the value of its deposits. While SIRTOA does not have a formal deposit policy for custodial credit risk, New York State statutes govern SIRTOA’s investment policies. SIRTOA’s uninsured deposits are primarily held by commercial banks in the metropolitan New York area and are subject to the credit risks of those institutions.

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. SIRTOA’s earnings from short-term investments were \$10,011 and \$4,028 for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, SIRTOA had a negative investment pool balance of \$51,163,688 and \$49,457,859, respectively, as funds were used for working capital purposes to offset the timing of the NYC operating

recovery subsidy. The \$51,163,688 and \$49,457,859 were included in the Due to MTA and constituent authorities on the Statements of Net Position.

5. CAPITAL ASSETS

Capital assets at December 31 consisted of the following:

	<u>December 2016</u>	<u>Additions / Reclassifications</u>	<u>Deletions / Reclassifications</u>	<u>December 2017</u>
Capital assets not being depreciated:				
Construction work-in-progress	\$ 146,003,126	\$ 52,314,244	\$ (162,865,811)	\$ 35,451,559
Total capital assets not being depreciated	<u>146,003,126</u>	<u>52,314,244</u>	<u>(162,865,811)</u>	<u>35,451,559</u>
Capital assets being depreciated:				
Track	21,451,694	13,802,779	-	35,254,473
Structures	71,645,475	50,013	-	71,695,488
Cars	28,772,654	-	-	28,772,654
Shops and yard	23,551,979	(20,350)	-	23,531,629
Stations	106,383,609	148,687,196	-	255,070,805
Signals	9,618,242	5,446	-	9,623,688
Vehicles	2,297,687	295,565	-	2,593,252
Equipment and other	14,267,010	45,162	-	14,312,172
Total capital asset being depreciated	<u>277,988,350</u>	<u>162,865,811</u>	<u>-</u>	<u>440,854,161</u>
Less accumulated depreciation:				
Track	(15,444,645)	(1,099,134)	-	(16,543,779)
Structures	(37,280,291)	(2,744,617)	-	(40,024,908)
Cars	(23,018,486)	(385,524)	-	(23,404,010)
Shops and yard	(18,517,296)	(469,459)	-	(18,986,755)
Stations	(59,545,244)	(5,213,395)	-	(64,758,639)
Signals	(6,091,250)	(178,325)	-	(6,269,575)
Vehicles	(1,252,480)	(294,536)	-	(1,547,016)
Equipment and other	(12,362,753)	(86,767)	-	(12,449,520)
Total accumulated depreciation	<u>(173,512,445)</u>	<u>(10,471,757)</u>	<u>-</u>	<u>(183,984,202)</u>
Total capital assets being depreciated - net	<u>104,475,905</u>	<u>152,394,054</u>	<u>-</u>	<u>256,869,959</u>
Capital assets - net	<u>\$ 250,479,031</u>	<u>\$ 204,708,298</u>	<u>(162,865,811)</u>	<u>292,321,518</u>

	<u>December 2015</u>	<u>Additions / Reclassifications</u>	<u>Deletions / Reclassifications</u>	<u>December 2016</u>
Capital assets not being depreciated:				
Construction work-in-progress	\$ 66,277,775	\$ 81,995,658	\$ (2,270,307)	\$ 146,003,126
Total capital assets not being depreciated	<u>66,277,775</u>	<u>81,995,658</u>	<u>(2,270,307)</u>	<u>146,003,126</u>
Capital assets being depreciated:				
Track	21,451,694	-	-	21,451,694
Structures	71,355,943	289,532	-	71,645,475
Cars	28,772,654	-	-	28,772,654
Shops and yard	23,539,996	11,983	-	23,551,979
Stations	106,408,337	(24,728)	-	106,383,609
Signals	9,549,989	68,253	-	9,618,242
Vehicles	2,297,687	-	-	2,297,687
Equipment and other	12,341,743	1,925,267	-	14,267,010
Total capital asset being depreciated	<u>275,718,043</u>	<u>2,270,307</u>	<u>-</u>	<u>277,988,350</u>
Less accumulated depreciation:				
Track	(14,728,906)	(715,739)	-	(15,444,645)
Structures	(34,546,733)	(2,733,558)	-	(37,280,291)
Cars	(22,603,862)	(414,624)	-	(23,018,486)
Shops and yard	(18,046,943)	(470,353)	-	(18,517,296)
Stations	(56,616,336)	(2,928,908)	-	(59,545,244)
Signals	(5,913,209)	(178,041)	-	(6,091,250)
Vehicles	(961,463)	(291,017)	-	(1,252,480)
Equipment and other	(12,292,460)	(70,293)	-	(12,362,753)
Total accumulated depreciation	<u>(165,709,912)</u>	<u>(7,802,533)</u>	<u>-</u>	<u>(173,512,445)</u>
Total capital assets being depreciated - net	<u>110,008,131</u>	<u>(5,532,226)</u>	<u>-</u>	<u>104,475,905</u>
Capital assets - net	<u>\$ 176,285,906</u>	<u>\$ 76,463,432</u>	<u>\$ (2,270,307)</u>	<u>\$ 250,479,031</u>

6. EMPLOYEE BENEFITS

Pension Plan — SIRTOA participates in a defined benefit pension plan for their employees, the Metropolitan Transportation Authority Defined Benefit Plan (the “MTA Defined Benefit Plan”). A brief description of the pension plan follows:

Plan Description — The MTA Defined Benefit Pension Plan (the “MTA Plan” or the “Plan”) is a cost sharing, multiple-employer pension plan. The Plan covers certain MTA Long Island Rail Road nonrepresented 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 nonrepresented 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 benefit programs for their covered employees and beneficiaries.

The MTA Defined Benefit Plan is administered by the Board of Managers of Pensions which is comprised of the Chairman of the MTA, MTA Chief Financial Officer, MTA Director of Labor Relations and the agency head of each participating Employer. The MTA Plan may be amended by action of the MTA Board.

The pension plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the MTA Comptroller, 2 Broadway, 16th Floor, New York, New York, 10004 or at www.mta.info.

Benefits Provided:

Pension Benefits — Retirement benefits are paid from the Plan to covered MTA Staten Island Railway employees as service retirement allowances or early retirement allowances. A participant is eligible for a service retirement allowance upon termination if the participant satisfied both age and service requirement. A participant is eligible for an early retirement allowance upon termination if the participant has attained age fifty-five and completed at least ten years of credited service. Terminated participants with five or more years of credited service who are eligible for a deferred vested benefit are not eligible to receive a service retirement allowance or early retirement allowance. Upon retirement, the member's vested retirement benefit from the Plan will be calculated on the Final Average Salary ("FAS"), defined as the highest average compensation over any three consecutive years.

Death Benefits — In addition to service retirement benefits, participants of the Plan are eligible to receive disability retirement allowances and death benefits. Participants who become disabled may be eligible to receive disability retirement allowances after ten years of credited service for covered MTA Staten Island Railway employees. The disability retirement allowance for represented covered MTA Staten Island Railway employees is calculated based on the participant's credited service and FAS but not less than 1/3 of FAS. Death benefits are paid to the participant's beneficiary in the event of the death of a covered MTA Staten Island Railway employee after completion of one year of credited service. Moreover, an accidental death benefit is payable for the death of a participant who is a covered MTA Staten Island Railway employee and dies as the result of an on-the-job accidental injury.

Death benefits are paid to the participant's beneficiary in the event of the death of a covered MTA Staten Island Railway employee after completion of one year of credited service. The death benefit payable is calculated based on a multiple of a participant's salary based on years of credited service up to three years and is reduced beginning at age sixty-one. There is also a post-retirement death benefit which, in the 1st year of retirement, is equal to 50% of the pre-retirement death benefit amount, whichever is greater, 25% the 2nd year and 10% of the death benefit payable at age 60 for the 3rd and later years.

Retirement benefits establishment and changes for representative employees are collectively bargained and must be ratified by the respective union and the MTA Board. For nonrepresented employees, retirement benefits establishment and changes are presented to the MTA Board and must be accepted and approved by the MTA Board.

Contributions and Funding Policy — SIRTOA's contributions are actuarially determined on an annual basis. Amounts recognized as receivables for contributions include only those due pursuant to legal requirements. Employee contributions to the Plan are recognized in the period in which the contributions are due. The following summarizes the types of employee contributions made to the Plan. MTA Staten Island Railway employees contribute 3% of salary except for represented employees hired on or after June 1, 2010 who contribute 4%. For the MTA Staten Island Railway employees, contributions are not required after the completion of ten years of credited service.

Contributions as a percent of covered payroll are 26.14% and 20.84% for the year ended December 31, 2017 and 2016, respectively. The actual contributions for the year ended December 31, 2017 and 2016 were \$6,132,000 and \$5,885,196, respectively.

Net Pension Liability — SIRTOA’s net pension liability reported at December 31, 2017 was measured as of December 31, 2016. The total pension liability for the Plan was determined as of the actuarial valuation date of January 1, 2016, and rolled forward to the measurement date of December 31, 2016. SIRTOA’s net pension liability reported at December 31, 2016 was measured as of December 31, 2015 and the total pension liability for the Plan was determined as of the actuarial valuation date of January 1, 2015, and rolled forward to the measurement date of December 31, 2016. The fiduciary net position and additions to and deductions from the fiduciary net position have been determined on the same basis as reported by the Plan. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the Plan; and investments are reported at fair value.

Actuarial Assumptions — The total pension liabilities in actuarial valuation dates were determined using the following actuarial assumptions:

Valuation Date:	January 1, 2016	January 1, 2015
Investment Rate of Return	7.00% per annum, net of investment expenses	7.00% per annum, net of investment expenses
Salary Increases	Varies by years of employment, and employee group	Varies by years of employment, and employee group
Inflation	2.5%	2.5%
Cost -of Living Adjustments	55% of inflation assumption or 1.375%, if applicable	55% of inflation assumption or 1.375%, if applicable

Mortality — The actuarial assumptions used in the January 1, 2016 and January 1, 2015 valuations for the MTA plans are based on the results of an actuarial experience study for the period from January 1, 2006 through December 31, 2011. Mortality assumption is based on a 2012 experience study for all MTA plans. The pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee. As generational tables, they reflect mortality improvements both before and after the measurement date.

Pre-retirement: The MTA plans utilized RP-2000 Employee Mortality Table for Males and Females with Blue collar adjustments.

Post-retirement Healthy Lives: Assumption utilized 95% of 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.

Post-retirement Disabled Lives: Assumption utilized 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.

Expected Rate of Return on Investments — The long-term expected rate of return on pension plan investments was 7.0% for the Plan. The rate was determined using a building-block method in which best-estimate ranges of expected future real rates of return (“RROR”) (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined

to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation of each of the funds and the expected real rate of returns (“RROR”) for each of the asset classes are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
US Core Fixed Income	10.00%	1.67%
US High Yield Bonds	8.00%	5.04%
Global Bonds	10.00%	0.28%
Emerging Markets Bonds	3.00%	3.78%
US Large Caps	10.00%	4.80%
US Small Caps	5.50%	6.06%
Global Equity	10.00%	5.49%
Foreign Developed Equity	10.00%	6.06%
Emerging Markets Equity	3.50%	8.39%
Global REITs	5.00%	5.77%
Private Real Estate Property	3.00%	3.64%
Private Equity	7.00%	8.99%
Hedge Funds - MultiStrategy	15.00%	3.45%
	<u>100.00%</u>	
Assumed Inflation - Mean		2.50%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Arithmetic Mean Return as per Actuary		7.03%
Portfolio Standard Deviation		11.54%
Long Term Expected Rate of Return selected by MTA		7.00%

Discount Rate — As of December 31, 2016 and December 31, 2015, the discount rate used to measure the total pension liability of the MTA Plan was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable and that the employer contributions will be made at the rate determined by the Plan’s actuary. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

SIRTOA’s Proportion of Net Pension Liability — The following table presents SIRTOA’s proportionate share of the net pension liability of the MTA Plan at the measurement date of December 31, 2016 and 2015 and the proportion percentage of the net pension liability of the Plan allocated to SIRTOA:

	December 31, 2016	December 31, 2015
SIRTOA's proportion of the net pension liability	2.19%	2.15%
SIRTOA's proportionate share of the net pension liability	\$ 27,777,634	\$ 27,604,696

SIRTOA's proportion of the respective Plan's net pension liability was based on actual required contributions of the participating employer for the fiscal year-end.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate — The following table presents SIRTOA's proportionate share of the net pension liability calculated using the discount rate of 7.0% for the MTA Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the actual discount rate used for each measurement date:

December 31, 2016			December 31, 2015		
1% Decrease (6%)	Discount Rate (7%)	1% Increase (8%)	1% Decrease (6%)	Discount Rate (7%)	1% Increase (8%)
\$ 42,412,395	\$ 27,777,634	\$ 18,399,856	\$ 39,467,536	\$ 27,604,696	\$ 17,847,415

Pension Expense and Deferred Outflows of Resources Related to Pension — For the years ended December 31, 2017 and 2016, SIRTOA recognized pension expense of \$6,595,101 and \$5,591,997, respectively, related to the Plan.

For the years ended December 31, 2017 and 2016, SIRTOA reported deferred outflows of resources and deferred inflows of resources for the Plan as follows:

	December 31, 2017		December 31, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,676,946	\$ -	\$ 2,315,347	\$ -
Net difference between projected and actual earnings on pension plan investments	3,757,835	-	5,722,580	-
Changes in proportion and differences between contributions and proportionate share of contributions	2,069,259	-	2,190,405	-
Changes in actuarial assumptions		1,240,562	-	1,427,887
Employer contribution to plan subsequent to the measurement date of net pension liability	6,132,000	-	5,885,196	-
Total	<u>\$ 15,636,040</u>	<u>\$ 1,240,562</u>	<u>\$ 16,113,528</u>	<u>\$ 1,427,887</u>

The annual differences between the projected and actual earnings on investments are amortized over a 5-year closed period beginning the year in which the difference occurs. The annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over an 8.1-year close period beginning the year in which the deferred amount occurs. The annual differences due to changes in actuarial assumptions are amortized over a 7.8-year close period beginning the year in which the deferred amount occurs.

For the years ended December 31, 2017 and 2016, \$6,132,000 and \$5,885,196 were reported as deferred outflows of resources related to pension resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-ended December 31, 2018 and December 31, 2017, respectively. Other amounts reported as deferred outflows of resources related to pension at December 31, 2017 will be recognized as pension expense as follows:

Year ending December 31, 2017:

2018	\$ 2,190,549
2019	2,190,549
2020	1,763,350
2021	626,487
2022	695,798
Thereafter	<u>796,745</u>
Total	<u>\$ 8,263,478</u>

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 2017 or 2016.

7. 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 Preferred Provider Organization (“PPO”) plan and several Health Maintenance Organization (“HMO”) plans. Represented and non-represented employees who retired prior to January 1, 1996 and January 1, 2001, respectively, 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, 2016, and was performed with a valuation date of January 1, 2016. The total number of plan participants as of December 31, 2017 receiving retirement benefits was 154.

During 2012, MTA funded \$250 million into an OPEB Trust (“Trust”) allocated between MTA Headquarters and MTA New York City Transit. In addition, \$50 million was funded during 2013 allocated between MTA Long Island Railroad and MTA Metro-North Railroad. There have been no further contributions made to the Trust. 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 3.3% resulting in a discount rate under GASB 45 of 3.3%, which is slightly lower than the discount rate of 3.5% 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 cost method (“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, 2017, is 12 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.

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, 2016 which is 12 months prior to the beginning of the 2017 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 3.5% to 3.3%.

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. Legislative changes passed in December 2015 have delayed the effective date of the excise tax until 2020. However, the calculation of the threshold amounts remains unchanged. 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 current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax and ACA fees which apply to the plan are not included. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the excise tax.

The legislative changes from H.R.1, originally known as the “Tax Cuts and Jobs Act”, and H.R. 195, the “Extension of Continuing Appropriations Act, 2018”, are not reflected in this valuation as passage occurred after the measurement date.

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

Valuation date	January 1, 2016
Actuarial cost method	Frozen initial liability
Discount rate	3.3%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen initial liability
Amortization period	12 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.

Effective with this valuation, age adjustments are required for valuing NYSHIP benefits due to a change in actuarial standards. Age adjustments reflect that health costs are typically higher for retirees under age 65 than an average active population and, upon reaching Medicare, health costs are reduced as NYSHIP becomes the secondary payer.

The medical and pharmacy benefits provided to Transport Workers Union (“TWU”) Local 100, Amalgamated Transit Union (“ATU”) Local 1056 and ATU Local 726 and other eligible represented Transit members are non-NYSHIP 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 2015 and 2016. These were then combined to match the aggregate claim experience provided by the Authority and MTA. Claims were adjusted to an incurred from a paid claim basis utilizing aging reports specific to the Authority and MTA. Finally, an administrative load was applied equal to 7.6% for Empire BCBS medical benefits, 2.2% for United Healthcare medical benefits and 1.4% for basic pharmacy benefits. The per capita costs assumptions reflect medical and pharmacy claims information, including the Employer Group Waiver Plan (“EGWP”) for providing pharmacy benefits to Medicare-eligible retirees, for 2015 and 2016.

The following charts detail the monthly 2016 PCCC's used in the valuation:

<u>Age</u>	<u>Male Employees</u>			<u>Female Employees</u>		
	<u>EBCBS/ Aetna Basic</u>	<u>UHC/ Aetna Select/ Aetna Opt 1</u>	<u>Pharmacy</u>	<u>EBCBS/ Aetna Basic</u>	<u>UHC/ Aetna Select/ Aetna Opt 1</u>	<u>Pharmacy</u>
<50	\$740.21	\$1,236.18	\$348.54	\$971.70	\$1,647.95	\$409.68
50-54	743.50	1,233.00	317.15	829.58	1,395.11	360.49
55-59	838.42	1,391.73	356.03	850.90	1,426.69	393.85
60-64	1,052.96	1,753.81	412.72	995.54	1,670.05	436.20
65-69	120.65	115.35	217.03	125.32	126.89	184.58
70-74	143.84	134.33	197.39	141.31	130.34	172.27
75-79	165.02	145.88	189.43	157.49	133.44	158.45
80-84	185.81	150.32	178.11	176.95	142.32	143.96
85+	220.37	156.42	157.58	217.09	140.22	116.22

<u>Age</u>	<u>Male Dependents</u>			<u>Female Dependents</u>		
	<u>EBCBS/ Aetna Basic</u>	<u>UHC/ Aetna Select/ Aetna Opt 1</u>	<u>Pharmacy</u>	<u>EBCBS/ Aetna Basic</u>	<u>UHC/ Aetna Select/ Aetna Opt 1</u>	<u>Pharmacy</u>
<50	\$474.78	\$776.06	\$217.68	\$584.67	\$972.69	\$240.89
50-54	574.36	941.93	241.70	649.25	1,081.59	278.92
55-59	662.21	1,089.52	278.20	720.40	1,200.69	331.01
60-64	851.84	1,410.03	331.44	818.30	1,364.42	355.91
65-69	120.65	115.35	217.03	125.32	126.89	184.58
70-74	143.84	134.33	197.39	141.31	130.34	172.27
75-79	165.02	145.88	189.43	157.49	133.44	158.45
80-84	185.81	150.32	178.11	176.95	143.32	143.96
85+	220.37	156.42	157.58	217.09	140.22	116.22

Medicare Part B Premiums — The Medicare Part B premium reimbursement was included in the 2016 and 2017 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 4.5%. 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 2016 valuation excludes any RDS payments expected to be received by SIRTOA.

Health Cost Trend — The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2017 utilizing the baseline assumptions included in the model, except inflation of 2.5% 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 (4.5%), but not more than projected medical trends excluding any excise tax adjustments. The non-NYSHIP trend is applied directly for represented employees of NYC

Transit and SIRTOA. The following lists the NYSHIP and non-NYSHIP trend assumptions along with the resulting trends assumed for Transit and SIRTOA.

Health Care Cost Trend Rates

<u>Fiscal Year</u>	<u>NYSHIP</u>		<u>Transit and SIRTOA</u>	
	<u>< 65</u>	<u>>=65</u>	<u>< 65</u>	<u>>=65</u>
2016	11.8 %	0.0 %	7.3 %	4.9 %
2017	6.7	6.4	7.1	4.9
2018	6.2	6.0	6.4	5.0
2019	6.3	5.5	9.5	5.0
2020	5.3	5.1	6.0	5.1
2025	6.0	5.1	5.9	5.1
2030	5.9	5.1	5.8	5.1
2035	5.9	5.2	5.8	5.2
2040	5.8	5.2	5.7	5.2
2050	5.4	5.8	5.3	5.0
2060	5.2	5.5	5.2	5.2
2070	4.6	4.7	4.6	4.6
Ultimate ¹	4.2	4.3	4.2	4.5

¹ Ultimate rate used for years prior to 2016 for Entry Age purposes

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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, 2016

	<u>Active Members</u>
Number	297
Average age	44.4
Average service	11.9
	<u>Retirees</u>
Single medical coverage	27
Employee/spouse coverage	60
Employee/child coverage	4
No medical coverage	<u>24</u>
Total number	<u>115</u>
Average age	64.8
Total number with dental	47
Total number with vision	93
Total no. with supplement	22
Average monthly supplement amount (excluding Part B premium)	\$ 238
Total no. with life insurance	92
Average life insurance amount	\$2,978

Coverage Election Rates — For members that participate in NYSHIP, majority of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan, a percentage of the membership is assume to elect the NYSHIP HIP plan. For groups that do not participate in NYSHIP, members are assumed to elect Empire Blue Cross Blue Shield (“BCBS”) or Aetna/United Healthcare.

Dependent Coverage — Spouses are assumed to be the same age as the employee/retiree. 80% of male and 45% of female eligible members participating in NYSHIP are assumed to elect family coverage upon retirement 65% of male and 35% female eligible members participating in non-NYSHIP programs administered by MTA New York City Transit are assumed to cover a dependent. Actual 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 from the valuation date.

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 — RP-2014 Disabled Annuitant mortality table for males and females.

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 Authority 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 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 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, 2017 and 2016. 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 thousands)	<u>2017</u>	<u>2016</u>
Annual required contribution	\$ 10,963	\$ 10,552
Interest on net OPEB obligation	1,054	855
Adjustment to annual required contribution	<u>(2,353)</u>	<u>(1,963)</u>
Annual OPEB cost/expense	9,664	9,444
Contributions made	<u>(2,582)</u>	<u>(2,215)</u>
Increase in net OPEB obligation	7,082	7,229
Net OPEB obligation — beginning of year	<u>31,042</u>	<u>23,813</u>
Net OPEB obligation — end of year	<u>\$ 38,124</u>	<u>\$ 31,042</u>

SIRTOA's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for the year ended December 31, 2017, 2016, and 2015 are as follows (in thousands):

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2017	\$ 9,664	26.7 %	\$ 38,124
12/31/2016	9,444	23.5	31,042
12/31/2015	8,926	16.4	23,813

SIRTOA's funding progress information is as follows (in thousands):

<u>Year Ended</u>	<u>Valuation Date</u>	<u>Actuarial Value of Assets</u> {a}	<u>Actuarial Accrued Liability (AAL)*</u> {b}	<u>Unfunded Actuarial Accrued Liability (UAAL)</u> {c}={b}-{a}	<u>Funded Ratio</u> {a}/{b}	<u>Covered Payroll</u> {d}	<u>Ratio of UAAL to Covered Payroll</u> {c}/{d}
12/31/2017	1/1/2016	\$ -	\$ 68,479	\$ 68,479	- %	\$ 19,809	345.7 %

* Based on Entry Age Normal

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.

8. 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. Effective October 31, 2015, the retention limit was increased to \$3.2 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, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Balance — beginning of year	\$ 11,836,000	\$ 9,881,000
Activity during the year:		
Current year claims and changes in estimates	4,980,420	3,145,972
Claims paid	<u>(1,135,066)</u>	<u>(1,190,972)</u>
Balance — end of year	15,681,354	11,836,000
Less current portion	<u>(1,321,814)</u>	<u>(940,000)</u>
Long-term liability	<u>\$ 14,359,540</u>	<u>\$ 10,896,000</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 October 31, 2015 the self-insured retention limits for ELF were increased to the following amounts: \$11 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3.2 million for MTA Staten Island Railway, 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, 2017, the balance of the assets in this program was \$139.6 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, 2017, 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 \$11 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, 2017, 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, 2017, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies’ for \$11 million per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance — Effective May 1, 2017, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2017, FMTAC directly insures property damage claims of the Related Entities in excess of a \$25 million per occurrence deductible, subject to an annual \$75 million aggregate deductible. The total All Risk program annual limit is \$800 million per occurrence and in the annual aggregate for Flood and Earthquake covering property of the Related Entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda reinsurance markets for this coverage. Losses occurring after exhaustion of the deductible aggregate 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.

Supplementing the \$800 million per occurrence noted above, FMTAC's property insurance program has been expanded to include a further layer of \$200 million of fully collateralized earthquake coverage for an event of a certain index value and for 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 May 22, 2017 to May 8, 2020. The expanded protection is reinsured by MetroCat Re Ltd. 2017-1, a Bermuda special purpose insurer independent from the MTA and formed to provide FMTAC with capital markets based property reinsurance. The MetroCat Re Ltd. 2017-1 reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is parametric and available for storm surge losses resulting from a storm that causes water levels that reach the specified index values, and also for an earthquake event of a certain index value.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 83% of "certified" losses in 2017 and 82% of "certified" losses in 2018 and 81% of "certified" losses in 2019, as covered by the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") of 2015. The remaining 17% (2017), 18% (2018) and 19% (2019) of the Related Entities' losses arising from an act of terrorism would be covered under the additional terrorism policy described below. No federal compensation will be paid unless the aggregate industry insured losses exceed a trigger of \$140 million in 2017, \$160 million in 2018 and \$180 million in 2019. The United States government's reinsurance is in place through December 31, 2020.

To supplement the reinsurance to FMTAC through the TRIPRA, MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 17% of any "certified" act of terrorism up to a maximum recovery of \$182.8 million for any one occurrence and in the annual aggregate during 2017, 18% of any "certified" act of terrorism up to a maximum recovery of \$193.5 million for any one occurrence and in the annual aggregate during 2018 and 19% of any "certified" act of terrorism up to a maximum recovery of \$204.3 million for any one occurrence and in the annual aggregate during 2019, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the "certified" acts of terrorism insurance or (3) 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$140 million TRIPRA trigger up to a maximum recovery of \$140 million for any occurrence and in the annual aggregate during 2017, or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$160 million TRIPRA trigger up to a maximum recovery of \$160 million for any occurrence and in the annual aggregate during 2018 or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$180 million TRIPRA trigger up to a maximum recovery of \$180 million for any occurrence and in the annual aggregate during 2019.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$182.8 million in 2017, \$193.5 million in 2018 and \$204.3 million in 2019. Recovery under the terrorism policy is subject to a deductible of \$25 million per occurrence and \$75 million in the annual aggregate in the event of multiple losses during the policy year. Should the Related Entities' deductible in any one year exceed \$75 million future losses in that policy year are subject to a deductible of \$7.5 million. The terrorism coverages expire at midnight on May 1, 2019.

At December 31, 2017, SIRTOA has no outstanding claims requiring FMTAC coverage. At December 31, 2017, FMTAC had \$900 million of assets to insure current and future claims.

9. CONTINGENCIES

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. While questioned costs may occur, ultimate repayments required of the MTA or SIRTOA have been infrequent in prior years.

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 \$221,213 commencing January 14, 2018, 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>
2018	\$ 221,213
2019	226,743
2020	232,412
2021	238,222
2022	244,178
2023	<u>250,282</u>
Total minimum lease payments	<u>\$ 1,413,050</u>

Total rent expense for the years ended December 31, 2017 and 2016, were \$220,975 and \$350,947, respectively.

Pollution Remediation — In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in 2017 and 2016, SIRTOA recognized \$80,778 and \$50,000, 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 subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

A summary of the activity in pollution remediation liability at December 31, 2017 and 2016, were as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 1,210,901	\$ 1,411,308
Activity during the year:		
Change in estimates	80,778	50,000
Payments	<u>(395)</u>	<u>(250,407)</u>
Balance at end of year	1,291,284	1,210,901
Less current portion	<u>(226,096)</u>	<u>(242,173)</u>
Long-term liability	<u>\$ 1,065,188</u>	<u>\$ 968,728</u>

SIRTOA's pollution remediation liability primarily consists of future remediation activities associated with asbestos removal, lead abatement, ground water contamination, and soil remediation.

10. SUBSEQUENT EVENTS

SIRTOA evaluated subsequent events from January 1, 2018 through April 25, 2018, the date the financial statements were issued. SIRTOA concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component Unit of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF SIRTOA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY IN THE
MTA DEFINED BENEFIT PENSION PLAN AT DECEMBER 31:

(In thousands)

	2016	2015	2014
SIRTOA's proportion of the net pension liability	2.19%	2.15%	2.16%
SIRTOA's proportionate share of the net pension liability	\$22,778	\$27,605	\$22,346
SIRTOA's actual covered-employee payroll	\$28,235	\$19,779	\$18,770
SIRTOA's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll	80.67%	139.57%	119.05%
Plan fiduciary net position as a percentage of the total pension liability	71.82%	70.44%	74.77%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. In accordance with GASB No. 68, information was not readily available for periods prior to 2014.

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STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component Unit of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF SIRTOA'S CONTRIBUTIONS TO THE MTA DEFINED BENEFIT PENSION
PLAN FOR THE YEARS ENDED DECEMBER 31:

(In thousands)

	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 6,719	\$ 6,360	\$ 5,885	\$5,865
Actual Employer Contribution	6,132	5,885	6,165	8,580
Contribution Deficiency (Excess)	587	475	(280)	(2,715)
Covered Payroll	23,461	28,235	19,779	18,770
Contribution as a % of Covered Payroll	26.14%	20.84%	31.17%	45.71%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. In accordance with GASB No. 68, information was not readily available for periods prior to 2014.

Notes to Schedule of SIRTOA's Contributions to Pension Plan:

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the MTA Defined Benefit Plan, are presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms

There were no changes of benefit terms in the January 1, 2016 funding valuation.

Changes of Assumptions

There were no changes of benefit assumptions in the January 1, 2016 funding valuation.

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
 (Component Unit 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
12/31/2017	1/1/2016	\$ -	\$ 68,479	\$ 68,479	- %	\$ 19,809	345.7 %
12/31/2016	1/1/2014	-	63,881	63,881	-	15,628	408.8
12/31/2015	1/1/2014	-	63,881	63,881	-	15,628	408.8

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MTA Bus Company

(Component Unit of the Metropolitan Transportation Authority)

Financial Statements as of and for the
Years Ended December 31, 2017 and 2016,
Required Supplementary Information, and
Independent Auditors' Report

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MTA BUS COMPANY
(Component Unit 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 Bus Company ("MTA Bus"), a Component Unit of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2017 and 2016, 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 auditors' 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, 2017 and 2016, 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 Matters

As discussed in Note 1 to the financial statements, MTA Bus is a Component Unit of MTA. The MTA is a Component Unit of the State of New York. MTA Bus requires significant subsidies from The City of New York and has material transactions with the MTA. 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 15 and the Schedule of MTA Bus's Proportionate Share of Net Pension Liability in a Cost-Sharing Multiple-Employer Pension Plan on page 52; Schedule of MTA Bus's Contributions for all Pension Plans on page 53; and Schedule of Funding Progress-Postemployment Benefit Plan on page 54 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 25, 2017

MTA BUS COMPANY

(Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

(\$ IN THOUSANDS, EXCEPT AS NOTED)

OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction — The following is a narrative overview and analysis of the financial activities of MTA Bus Company (“MTA Bus” or the “Company”)— Component Unit of the Metropolitan Transportation Authority for the years ended December 31, 2017 and 2016. 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 MTA Bus that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that MTA Bus has little or no discretion to avoid (liabilities), and acquisition of net assets by 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 to Financial Statements 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.

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 Component Unit 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.

CONDENSED FINANCIAL INFORMATION

The following sections will discuss the changes in MTA Bus’s financial position for the years ended December 31, 2017, 2016 and 2015. 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 and Deferred Outflows of Resources

	2017	2016	2015	Increase (Decrease)	
				2017-2016	2016-2015
	(In thousands)				
Gross Capital Assets	\$ 856,923	\$ 831,958	\$ 746,290	\$ 24,965	\$ 85,668
Accumulated Depreciation	(510,652)	(452,064)	(394,906)	(58,588)	(57,158)
Net Capital Assets	346,271	379,894	351,384	(33,623)	28,510
Other Assets	146,959	203,483	117,662	(56,524)	85,821
Total Assets	493,230	583,377	469,046	(90,147)	114,331
Deferred outflows of resources	102,998	104,192	59,144	(1,194)	45,048
Total Assets and Deferred Outflows of Resources	\$ 596,228	\$ 687,569	\$ 528,190	\$ (91,341)	\$ 159,379

Significant Changes in Assets Includes:

December 31, 2017 versus 2016

MTA Bus’s Gross Capital Assets amounted to \$856.9 million and \$831.9 million as of December 31, 2017 and 2016, respectively. Of the December 31, 2017 total, buses accounted for 73.7%, facilities and yards, data processing equipment and other were 3.9%, service vehicles were 0.4%, assets under construction consisting of buses and facility upgrades were 4.0%, and capital non bus were 18.0%.

Net Capital Assets decreased from December 31, 2016 by \$33.6 million or 8.9%. The net decrease is due to additions to fixed assets of \$24.9 million less depreciation of \$58.5 million. The additions included \$19.4 million to assets under construction for the Baisley Park, Spring Creek, Far Rockaway, JFK and LaGuardia depot renovations and upgrades, \$0.5 million for acquisition of service vehicles, and \$5.0 million for data processing equipment.

Other Assets decreased by \$56.5 million or 27.8% compared with the prior year. This decrease is due to a decrease in subsidy receivable from New York City and other receivables of \$57.3 million and a decrease in cash of \$0.2 million. The decreases were offset by an increase in materials and supplies of \$1.0 million.

As a result of adopting GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, MTA Bus is reporting deferred outflows of resources related to pension liabilities of \$103.0 million at December 31, 2017. See Note 6 to the financial statements for more information regarding MTA Bus's pensions.

December 31, 2016 versus 2015

MTA Bus's Gross Capital Assets amounted to \$831.9 million and \$746.3 million as of December 31, 2016 and 2015, respectively. Of the December 31, 2016 total, buses accounted for 76.4%, facilities and yards, data processing equipment and other were 3.4%, service vehicles were 0.4%, assets under construction consisting of buses and facility up grades were 9.0%, and capital non bus were 10.8%.

Net Capital Assets increased from December 31, 2015 by \$28.5 million or 8.1%. The net increase is due to additions to fixed assets of \$85.6 million less depreciation of \$57.1 million. The additions included \$56.4 million for buses placed in service, \$27.5 million additions to assets under construction for the Baisley Park, Far Rockaway, Eastchester, JFK and LaGuardia depot renovations and upgrades, \$1.4 million for facilities and yards, \$0.2 million for acquisition of service vehicles, and \$0.1 million for data processing equipment.

Other Assets increased by \$85.8 million or 72.9% compared with the prior year. This increase is due to an increase in subsidy receivable from New York City of \$92.2 million and an increase in prepaid expenses of \$4.0 million. The increases were offset by a decrease in cash of \$0.3 million, decrease in due from affiliates of \$9.6 million, and a decrease in materials and supplies of \$0.5 million.

As a result of adopting GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, MTA Bus is reporting deferred outflows of resources related to pension liabilities of \$104.2 million at December 31, 2016. See Note 6 to the financial statements for more information regarding MTA Bus's pensions.

Total Liabilities, Distinguishing Between Noncurrent Liabilities and Current Liabilities and Deferred Inflows of Resources

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	
				<u>2017-2016</u>	<u>2016-2015</u>
	(In thousands)				
Current Liability	\$ 276,800	\$ 317,161	\$ 232,415	\$ (40,361)	\$ 84,746
Noncurrent Liability	<u>1,345,737</u>	<u>1,165,763</u>	<u>1,031,017</u>	<u>179,974</u>	<u>134,746</u>
Total Liabilities	<u>1,622,537</u>	<u>1,482,924</u>	<u>1,263,432</u>	<u>139,613</u>	<u>219,492</u>
Deferred Inflows of Resources	<u>13,080</u>	<u>12,281</u>	<u>7,808</u>	<u>799</u>	<u>4,473</u>
Total liabilities and deferred inflows of resources	<u>\$ 1,635,617</u>	<u>\$ 1,495,205</u>	<u>\$ 1,271,240</u>	<u>\$ 140,412</u>	<u>\$ 223,965</u>

Significant Changes in Liabilities Includes:

December 31, 2017 versus 2016

At the end of 2017, MTA Bus's liabilities consisted primarily of postemployment benefits, 48.1%, 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, 7.9%, injuries to persons (workers compensation and public liability), 20.1%, and accrued retirement, 16.6%.

Total Liabilities increased from December 31, 2016 to December 31, 2017 by \$139.6 million or 9.4%. Current Liabilities decreased \$40.3 million or 12.7%, while Noncurrent Liabilities increased by \$180.0 million or 15.4%.

The decrease in Current Liabilities was due primarily to a decrease in due to MTA and affiliated agencies of \$59.1 million. This decrease was offset by an increase in accounts payable of \$2.3 million and an increase in accrued expenses of \$16.5 million.

The increase in Noncurrent Liabilities was due to an increase in post-employment benefits other than pensions, \$61.7 million, an increase in liabilities from injuries to persons, \$65.8 million, and an increase in accrued retirement \$64.0 million. These increases were offset by a decrease in NYCTA/MTA intercompany capital loans (\$11.5 million).

As a result of adopting GASB Statement No. 68, MTA Bus is reporting deferred inflows of resources related to pension liabilities of \$13.1 million at December 31, 2017. See Note 6 to the financial statements for more information regarding MTA Bus's pensions.

December 31, 2016 versus 2015

At the end of 2016, MTA Bus's liabilities consisted primarily of postemployment benefits, 48.4%, 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, 13.4%, injuries to persons (workers compensation and public liability), 17.4%, and accrued retirement 13.9%.

Total Liabilities increased from December 31, 2015 to December 31, 2016 by \$219.5 million or 17.4%. Current Liabilities increased \$84.7 million or 36.5%, while Noncurrent Liabilities increased by \$134.7 million or 13.1%.

The increase in Current Liabilities was due primarily to increases in accounts payable of \$2.0 million and due to MTA and affiliated agencies of \$87.0 million. These increases were offset by decreases in accrued expenses of \$4.3 million.

The increase in Noncurrent Liabilities was due to an increase in post-employment benefits other than pensions, \$63.5 million, an increase in liabilities from injuries to persons, \$47.9 million, and an increase in accrued retirement \$34.9 million. These increases were offset by a decrease in NYCTA/MTA intercompany capital loans (\$11.0 million), and a decrease in remediation projects (\$0.6 million).

As a result of adopting GASB Statement No. 68, MTA Bus is reporting deferred inflows of resources related to pension liabilities of \$12.3 million at December 31, 2016. See Note 7 to the consolidated financial statements for more information regarding the Authority's pensions.

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

	2017	2016	2015	Increase (Decrease)	
				2017-2016	2016-2015
	(In thousands)				
Capital Assets, net of accumulated depreciation	\$ 346,271	\$ 379,894	\$ 351,384	\$ (33,623)	\$ 28,510
Less: Intercompany capital loans	<u>(11,031)</u>	<u>(22,574)</u>	<u>(33,601)</u>	<u>11,543</u>	<u>11,027</u>
Net Investment in Capital Assets	335,240	357,320	317,783	(22,080)	39,537
Unrestricted (deficit)	<u>(1,374,629)</u>	<u>(1,164,956)</u>	<u>(1,060,833)</u>	<u>(209,673)</u>	<u>(104,123)</u>
Total Net Position	#####	<u>\$ (807,636)</u>	<u>\$ (743,050)</u>	<u>\$ (231,753)</u>	<u>\$ (64,586)</u>

Net position represents the residual interest in MTA Bus's assets after liabilities are deducted and consist of two Component Units: 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, 2017 versus 2016

Total net position was (\$1,039.4) million at the end of 2017, a net decrease of \$231.7 million from the end of 2016. The net decrease was comprised of capital contributions of \$4.5 million, net non-operating income of \$484.7 million, offset by operating losses (\$720.9) million.

December 31, 2016 versus 2015

Total net position was (\$807.6) million at the end of 2016, a net decrease of \$64.6 million from the end of 2015. The net decrease was comprised of capital contributions from the MTA of \$50.9 million, net non-operating income of \$482.4 million, offset by operating losses (\$597.9) million.

Condensed Statements of Revenues, Expenses and Changes in Net Position

Year Ended December 31,

	2017	2016	2015
	(In thousands)		
Operating revenues	\$ 236,998	\$ 234,474	\$ 233,442
Operating expenses	<u>(957,930)</u>	<u>(832,397)</u>	<u>(773,335)</u>
Operating loss	<u>(720,932)</u>	<u>(597,923)</u>	<u>(539,893)</u>
Nonoperating revenues (expenses)			
Operating subsidies from NYC	449,769	447,839	391,834
Other Non-operating revenue/expenses	34,936	34,623	34,294
FTA/FEMA Reimbursement - Sandy Relief	<u>-</u>	<u>-</u>	<u>112</u>
Total nonoperating revenues (expenses)	<u>484,705</u>	<u>482,462</u>	<u>426,240</u>
Loss before capital contributions	(236,227)	(115,461)	(113,653)
Capital contributed	<u>4,475</u>	<u>50,875</u>	<u>16,301</u>
Changes in net position	(231,752)	(64,586)	(97,352)
Net position, Beginning of year	(807,637)	(743,050)	(512,343)
RESTATEMENT OF BEGINNING NET POSITION (Note 2)	<u>-</u>	<u>-</u>	<u>(133,355)</u>
Net position, End of year	<u>\$ (1,039,389)</u>	<u>\$ (807,636)</u>	<u>\$ (743,050)</u>

Revenues from Fares/Ridership:

December 31, 2017 versus 2016

Bus revenues from fares totaled \$217.2 million in 2017 versus \$212.5 million in 2016, an increase of \$4.7 million, resulting from higher fares which went into effect in March 2017.

Total passenger ridership was 122.2 million in 2017 versus 125.6 million in 2016, a decrease of 3.4 million, or 2.7%. This decrease may be attributed partly to other transportation alternatives, such as those provided by ride-sharing companies.

December 31, 2016 versus 2015

Bus revenues from fares totaled \$212.5 million in 2016 versus \$210.3 million in 2015. Total ridership was 125.6 million in 2016 versus 125.4 million in 2015, an increase in passenger ridership of 0.2 million, or 0.2%.

Operating Expenses, by Major Function

	2017	2016	2015	Increase (Decrease)	
				2017-2016	2016-2015
	(In thousands)				
Salaries and wages	\$ 350,879	\$ 333,935	\$ 331,208	\$ 16,944	\$ 2,727
Retirement and other employee benefits	247,906	164,989	154,745	82,917	10,244
Post employment benefits other than pensions	82,863	84,461	79,076	(1,598)	5,385
Fuel	19,537	15,565	22,088	3,972	(6,523)
Electric power	1,772	1,542	1,696	230	(154)
Insurance	5,633	7,714	3,448	(2,081)	4,266
Public liability claims	88,297	63,400	34,952	24,897	28,448
Materials and supplies	47,969	43,812	46,459	4,157	(2,647)
Professional services	23,767	27,754	21,113	(3,987)	6,641
Pollution remediation services	222	41	203	181	(162)
Maintenance and other operating expenses	26,521	28,125	24,379	(1,604)	3,746
Depreciation	58,588	57,158	50,014	1,430	7,144
Other business expenses	3,976	3,901	3,955	75	(54)
Total operating expenses	<u>\$ 957,930</u>	<u>\$ 832,397</u>	<u>\$ 773,336</u>	<u>\$ 125,533</u>	<u>\$ 59,061</u>

December 31, 2017 versus 2016

Total operating expenses increased by \$125.5 million or 15.1% versus the prior year, as follows:

- Salaries and wages exceeded 2016 by \$16.9 million or 5.1%, due to increased salaries resulting from contract settlements/retroactive wage accruals.
- Retirement and other employee benefits increased by \$82.9 million mainly due to pension expense adjustments related to an Arbitration Award between MTA Bus and TWU Local 100 that provides enhanced benefits to covered employees
- Post-employment benefits other than pensions decreased by \$1.6 million based upon current actuarial valuations.
- Fuel costs increased by \$4.0 million or 25.5%, due to higher fuel costs.
- Insurance expense is comprised of excess liability, property and other insurance coverage paid under the MTA All-Agency insurance programs. The 2016 expense of \$7.7 million includes a prior period adjustment.
- Public liability and no fault claims increased by \$24.9 million due to current reported losses for several accident years being greater than prior actuary's estimates.
- MTA Bus relies extensively on professional services provided by other MTA agencies, particularly NYC Transit, the Business Service Center, and MTA Headquarters. Professional service contracts decreased by \$4.0 million. The 2016 expense includes a prior period adjustment.
- 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, 2016 versus 2015

Total operating expenses increased by \$59.1 million or 7.6% versus the prior year, as follows:

- Salaries and wages exceeded 2015 by \$2.7 million or 0.8%, mainly due to increased salaries resulting from contract settlements.
- Retirement and other employee benefits increased by \$10.2 million mainly due to higher health & welfare costs and pension expense adjustments based on current actuarial valuations.
- Post-employment benefits other than pensions increased by \$5.4 million based upon current actuarial valuations.
- Fuel costs decreased by \$6.5 million or 29.5%, due to lower fuel costs and fuel credits.
- Insurance expense is comprised of excess liability, property and other insurance coverage paid under the MTA All-Agency insurance programs. The 2016 expense of \$7.7 million includes a prior period adjustment.
- Public liability and no fault claims increased by \$28.4 million due to significant increases to case reserves on several claims.
- Professional service contracts increased by \$6.6 million. MTA Bus relies extensively on professional services provided by other MTA agencies, particularly NYC Transit, the Business Service Center, and MTA Headquarters.
- 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 \$449.8 million and \$447.8 million in 2017 and 2016, respectively. Projected subsidy amounts for calendar year 2018 are expected to be between \$450 and \$480 million depending on operating losses and timing of retroactive contract settlements.

In 2017, 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 \$15.1 million to pay commercial paper debt.

Capital contributions of \$4.5 million in 2017 and \$50.9 million in 2016 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 \$231.7 million in 2017, which is comprised of capital contributions of \$4.5 million, net non-operating income of \$484.7 million, offset by operating losses (\$720.9) million.

Budget Highlights

Financial:

Total revenue from fares in 2017 was \$217.2 million. Passenger revenue was up \$4.7 million over 2016 levels as the result of higher fares, which went into effect in March 2017.

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 2017 to upgrade conditions and comply with environmental regulations. Additional work needs to be done to improve facility conditions in 2018 and beyond.

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 previously private bus 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 44 local bus routes in Bronx, Brooklyn, and Queens, 43 express bus routes between Manhattan and the Bronx, Brooklyn, or Queens, and 3 SBS routes. It has a fleet of 1,283 buses, which makes MTA Bus the 13th largest bus company, based upon its bus fleet, in the United States and Canada, serving nearly 394,000 riders daily.

Between 2005 and 2017, MTA Bus purchased 497 new high capacity, high customer amenity express buses, 389 new environmentally friendly hybrid electric local buses, 213 new CNG buses, 75 new low-floor articulated buses, and 45 new standard buses.

Economic Conditions

Metropolitan New York is the most transit-intensive region in the United States, and a financially sound and reliable transportation system is critical to the region's economic well-being. The MTA consists of urban subway and bus systems, suburban rail 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 2017 decreased relative to 2016, with ridership down by 68.9 million trips (2.5%). The decrease is driven by Subway ridership, which declined by 29.5 million trips (1.7%), MTA New York City Transit Bus ridership, which declined by 35.8 million trips (5.6%), and MTA Bus ridership, which declined by 3.5 million trips (2.8%). In addition, the MTA Long Island Rail Road experienced a decline of 163.4 thousand trips (0.2%). MTA Staten Island Railway ridership increased by 72.3 thousand trips (4.6%), while MTA Metro-North Railroad ridership was effectively unchanged, with a small increase of 1.6 thousand trips (0.002%). The overall decline in ridership in 2017 was comprised of a 15.9 million decline in the first quarter, a 14.7 million decline in the second quarter, a 21.9 million decline in the third quarter and a 16.4 million decline in the fourth quarter, all compared with the same quarter in 2016. Much of the decline in ridership—around 57%—is driven by a general decline in bus utilization, a trend that began in 2009 and has been observed nationally. The decline in subway ridership is a more recent trend—

beginning in the third quarter of 2016—which appears to be a reversion to a dynamic more consistent with the long-term historical relationship rather than that of the years immediately following the recession, when ridership surged. Vehicle traffic at MTA Bridges and Tunnels facilities increased by 2.6 million crossings (0.9%) in 2017 compared to 2016. Through the first half of 2017, crossings decreased by 1.2 million, but large increases in the third and fourth quarters (1.4 million and 2.4 million respectively) led to the overall increase for the year. Congestion pricing in Manhattan, which is currently being debated and may be considered for adoption at some point in the future, could impact ridership and vehicle crossings. However, there is no guarantee that congestion pricing will be approved.

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2017 than in 2016 by 64.4 thousand jobs (1.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-nine 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.

National economic growth, as measured by Real Gross Domestic Product (“RGDP”), expanded at an annualized rate of 2.6% in the fourth quarter of 2017 according to the most recent advance estimate released by the Bureau of Economic Analysis (“BEA”). The increase in RGDP reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, residential fixed investment, state and local government spending, and federal government spending; these were partially offset by a negative contribution from private inventory investment. Imports, which are a subtraction in the Gross Domestic Product (“GDP”) calculation, increased. The deceleration in RGDP growth, relative to the second quarter’s revised 3.2% growth rate, reflected a downturn in private inventory investment and an increase in imports; these were partially offset by an acceleration in personal consumption expenditures, nonresidential fixed investment, exports, state and local government spending, and federal government spending, as well as an upturn in residential fixed investment.

The New York City metropolitan area’s price inflation, as measured by the Consumer Price Index for All Urban Consumers (“CPI-U”), was lower than the national average in the fourth quarter of 2017, with the metropolitan area index increasing by 1.7%, while the national index increased by 2.1%, when compared with the fourth quarter of 2016. An 8.2% increase in the regional price of energy products, along with a 7.6% national increase, impacted overall inflation; in the metropolitan area, the CPI-U exclusive of energy products increased by 1.3%, while nationally, inflation exclusive of energy products was 1.7%. Increasing more than overall energy prices, the spot price for New York Harbor conventional gasoline rose by 14.8%, from an average price of \$1.54 per gallon to an average price of \$1.77 per gallon, between the fourth quarters of 2016 and 2017.

In March and June of 2017, the Federal Open Market Committee (“FOMC”) raised rates again, with the target range set at 0.75% to 1%, in March and then 1% to 1.25% in June. The Federal Funds rate was raised to its current target level of 1.25% to 1.5% in December 2017 in view of realized and expected labor market conditions and inflation. Despite raising the target rate in the fourth quarter of 2017, monetary policy continued to be accommodative, supporting strong labor market conditions and a sustained return to 2 percent inflation. The unemployment rate continued to decline, while household spending continued to expand at a moderate rate and business fixed investment continued to pick up. Both overall inflation and inflation for items other than food and energy remained below 2 percent on a 12-month basis, and overall inflation is expected to remain below 2 percent in the short-term. Despite this, survey-based measures of longer-term inflation expectations were little changed. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. The FOMC expects that the economy will continue to expand at a moderate pace, labor market conditions will remain strong, and inflation will stabilize around 2 percent over the medium term. Gradual increases in the Federal Funds rate can be expected, but that the rate will remain below long-term levels for quite some time. Near-term risks to economic outlook appear roughly balanced,

and the FOMC continues to closely monitor inflation indicators and global economic and financial developments.

The influence of the 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 thereby impact receipts from the Mortgage Recording Tax (“MRT”) and Urban Tax, two important sources of MTA revenue. Mortgage Recording Tax collections for the fourth quarter of 2017 were lower than the fourth quarter of 2016 by \$7.2 million (6.1%); receipts in the fourth quarter of 2017 were \$11.9 million (9.7%) lower than receipts from the third quarter of 2017. Despite the gradual overall recovery of MRT receipts that began in 2012, average monthly receipts in 2017 remain \$25.2 million (39.5%) worse than the monthly average for 2006, just prior to the steep decline in Mortgage Recording Tax revenues. MTA’s Urban Tax receipts – which are based on commercial real estate transaction and mortgage recording activity within New York City, and can vary significantly from quarter to quarter based on the timing of exceptionally high-priced transactions – were \$16.1 million (9.9%) lower than receipts for the fourth quarter of 2016; receipts in the fourth quarter of 2017 were \$16.1 million (12.4%) higher than receipts from the third quarter of 2017. Average monthly receipts in 2017 were \$24.8 million (33.7%) lower than the monthly average for 2007, just prior to the steep decline in Urban Tax revenues.

Results of Operations - Bus revenues from fares totaled \$217.2 million in 2017 versus \$212.5 million in 2016. Total ridership was 122.2 million in 2017 versus 125.6 million in 2016, a decrease in passenger ridership of 3.4 million, or 2.7%. The increase in revenue could be attributable to higher fares, which went into effect in March 2017. Both calendar year 2017 and 2016 ended with a cash and investment deficit of \$60.5 and \$121.6 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.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program — As last approved by the CPRB, the Bus Company’s portion of the MTA’s 2000-2004, 2005-2009, 2010-2014, and 2015-2019 Capital Programs totaled \$501.6 million, \$152.0 million, \$297.0 million, and \$376.0 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 provided 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 was deemed approved by the CPRB. On July 28, 2014, the MTA Board approved an amendment to select elements of the MTA Sandy recovery-related capital expenditures and NYCT portions of the 2010-2014 Capital Program. The amendment transfers \$46 million in resiliency/mitigation capital budget from the Bus Company to LIRR. On September 3, 2014, the amended program as submitted was deemed approved by the CPRB. On April 20, 2016, the MTA Board approved a fully funded 2015-2019 Capital Program. This submission was approved by the CPRB on May 23, 2016. On May 24, 2017, the MTA Board approved amendments to the 2010-2014 and the 2015-2019 capital programs primarily to reflect budgetary and funding adjustments to the Sandy program in the 2010-2014 Capital Program, and increasing support for priority projects in the 2015-2019 Capital Program. The amended capital programs, as submitted, were deemed approved by the CPRB on July 31, 2017.

As of December 31, 2017, \$499 million has been committed under the 2000-2004 Program, of which \$494 million has been expended.

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, 2017, \$144 million has been committed under the 2005-2009 Program, of which \$130 million has been expended.

The CPRB approved 2010-2014 MTA Bus Company Capital Program, as last amended in 2014, 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, 2017, \$263 million has been committed under the 2010-2014 Program, of which \$199 million has been expended.

The CPRB approved 2015-2019 MTA Bus Company Capital Program includes projects to replace the aging bus fleet, replace outdated depot equipment, and improve depot facilities. As of December 31, 2017, \$43 million has been committed under the 2015-2019 Program, of which \$0.0 has been expended.

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 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 MTA 2010-2014 Capital Program, as last approved by the CPRB on July 31, 2017, includes \$297.0 million in capital projects for MTA Bus, which includes bus fleet replacement and depot improvements, plus an additional \$15 million for Superstorm Sandy repairs. The MTA 2015-2019 Capital Program includes \$376.0 million for MTA Bus, which includes bus fleet replacement and depot improvements.

The MTA Bus capital projects included in the MTA 2000-2004 Capital Program, the MTA 2005-2009 Capital Program, the MTA 2010-2014 Capital Program, and the MTA 2015-2019 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 \$49.0 million in City funds, \$331.0 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, \$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 July 2017, 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 \$15 million in insurance and/or federal reimbursement proceeds for Superstorm Sandy repair. The combined funding sources for the 2015-2019 MTA Bus Company Capital Program, as last approved by the CPRB, includes \$128 million in Federal funds, \$32 million in City funds, and \$216 million in MTA Bond proceeds.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Based on ridership, MTA Bus Company is the 7th largest bus company in North America and provides local and express bus service throughout the New York City boroughs of Queens, Brooklyn, Bronx and Manhattan. The Company remains committed to providing safe, secure, reliable, and cost efficient transportation service across the New York region. Bus operations have been consolidated and most management and support functions have been streamlined and coordinated with MTA NYCT Department of Buses (DOB) to eliminate redundancies and benefit from economies of scale. Overall service improvement is a continuing goal and includes the utilization of technology in all relevant areas, improvement in scheduling,

fleet safety, reliability and appearance. MTA Bus Facility improvements and bus replacement schedules are part of the overall MTA Capital program plan.

MTA Bus added two Select Bus Service (SBS) routes in the second half of 2017 (Q52/53) that traverses the busy Woodhaven/Cross Bay Boulevard, Queens corridor. The SBS (Q70) route which provides non-stop service linking the main terminals of LaGuardia Airport with regional intermodal transit hubs in Jackson Heights and Woodside, Queens was added earlier. Express Bus service that focuses on peak hour commuter service from the outer boroughs, accounts for approximately 48% of the total service.

Actuarial projections surrounding liabilities for Pension, Public Liability and Workers Compensation continue to show significant adjustments given that the historic data used in the actuarial models are still considered to be “relatively young”. MTA Bus follows the MTA Agency fare increase schedule and rates as approved by the MTA Board with the last increase being March 19, 2017. MTA Bus receives a flat monthly subsidy amount and quarterly breakeven settlements from New York City (NYC) that provide funding for daily operations.

Labor Update

Represented employees are covered under four labor contracts, ATU 1179 – expired May 2012, ATU 1181 – expired June 2012, TSO/TWU 106 – expired June 2013 and the largest, TWU 100 - current contract through May 2019. The latter contract approved a general wage increase (GWI) of 2.5% in January 2017 and 2.5% in February 2018. Negotiations on the expired contracts are ongoing.

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MTA BUS COMPANY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 176,654	\$ 337,527
Receivables:		
Due from affiliates - operating (Note 13)	62,069,338	48,795,541
Subsidy due from New York City	61,956,155	132,406,155
Other Subsidy	2,948,522	3,066,941
Other	<u>37,399</u>	<u>96,584</u>
Total receivables	127,011,414	184,365,221
Materials and supplies inventory	14,002,913	12,982,595
Prepaid expenses and other current assets	<u>5,768,028</u>	<u>5,798,095</u>
Total current assets	146,959,009	203,483,438
CAPITAL ASSETS:		
Land and construction work in progress— (Note 5)	34,651,510	75,141,011
Other capital assets — net of accumulated depreciation (Note 5)	<u>311,620,003</u>	<u>304,753,150</u>
Capital assets — net (Note 5)	<u>346,271,513</u>	<u>379,894,161</u>
TOTAL ASSETS	493,230,522	583,377,599
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows for pensions (Note 6)	<u>102,997,569</u>	<u>104,191,904</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>102,997,569</u>	<u>104,191,904</u>
TOTAL ASSET AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 596,228,091</u>	<u>\$ 687,569,503</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 8,735,335	\$ 6,453,376
Accrued expenses:		
Salaries, wages and payroll taxes	42,089,990	32,438,354
Vacation and sick pay benefits	42,382,127	40,923,592
Current portion - Estimated liability from injuries to persons (Note 10)	45,000,000	43,000,000
Current portion - Pollution remediation projects (Note 12)	7,554,914	7,770,255
Other	<u>13,828,758</u>	<u>10,242,976</u>
Total accrued expenses	150,855,789	134,375,177
Due to MTA and other affiliated agencies (Note 13)	<u>117,208,835</u>	<u>176,332,669</u>
Total current liabilities	276,799,959	317,161,222
NONCURRENT LIABILITIES:		
Post employment benefits other than pensions (Note 7)	779,907,211	718,231,000
Estimated liability arising from injuries to persons (Note 10)	280,554,510	214,699,000
Net pension liability (Note 6)	269,740,170	205,687,084
Capital loans (Note 9)	11,031,602	22,573,886
Pollution remediation projects (Note 12)	<u>4,503,859</u>	<u>4,572,386</u>
Total noncurrent liabilities	1,345,737,352	1,165,763,356
Total liabilities	<u>1,622,537,311</u>	<u>1,482,924,578</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows for pensions (Note 6)	<u>13,079,725</u>	<u>12,281,424</u>
TOTAL DEFERRED INFLOWS OF RESOURCES:	<u>13,079,725</u>	<u>12,281,424</u>
NET POSITION:		
Net Investment in Capital Assets	335,239,911	357,320,275
Unrestricted (deficit)	<u>(1,374,628,856)</u>	<u>(1,164,956,774)</u>
Total net position	<u>(1,039,388,945)</u>	<u>(807,636,499)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 596,228,091</u>	<u>\$ 687,569,503</u>

See notes to financial statements.

MTA BUS COMPANY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING REVENUES:		
Fare revenue	\$ 217,164,459	\$ 212,483,271
Rents, freight, and other revenue	<u>19,834,036</u>	<u>21,990,688</u>
Total operating revenue	<u>236,998,495</u>	<u>234,473,959</u>
OPERATING EXPENSES:		
Salaries and wages	350,879,002	333,935,454
Retirement and other employee benefits	247,906,169	164,988,766
Post employment benefits other than pensions	82,862,694	84,461,517
Fuel	19,537,143	15,564,959
Electric power	1,771,655	1,541,704
Insurance	5,632,747	7,713,683
Public liability claims	88,296,744	63,399,901
Materials and supplies	47,968,734	43,812,303
Professional services	23,767,587	27,754,262
Pollution remediation services	222,459	41,372
Maintenance and other operating expenses	26,520,775	28,124,715
Depreciation	58,588,332	57,158,129
Other business expenses	<u>3,976,155</u>	<u>3,900,869</u>
Total operating expenses	<u>957,930,197</u>	<u>832,397,635</u>
OPERATING LOSS	<u>(720,931,702)</u>	<u>(597,923,676)</u>
NON-OPERATING REVENUES (EXPENSES):		
NYC Operating subsidies	449,768,711	447,839,047
Other Non-operating revenue/espenses	<u>34,935,978</u>	<u>34,622,761</u>
Total net non-operating revenues	<u>484,704,689</u>	<u>482,461,808</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(236,227,013)	(115,461,868)
CAPITAL CONTRIBUTION	<u>4,474,567</u>	<u>50,875,279</u>
CHANGES IN NET POSITION	(231,752,446)	(64,586,589)
NET POSITION — Beginning of year	<u>(807,636,499)</u>	<u>(743,049,910)</u>
NET POSITION — End of year	<u>\$ (1,039,388,945)</u>	<u>\$ (807,636,499)</u>

See notes to financial statements.

MTA BUS COMPANY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger, tenants, advertisers, and others	\$ 236,121,133	\$ 233,255,711
Cash payments for payroll and related employee costs	(542,785,694)	(539,645,794)
Cash payments to suppliers for goods and services	<u>(155,490,442)</u>	<u>(112,437,285)</u>
Net cash used in operating activities	<u>(462,155,003)</u>	<u>(418,827,368)</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies received from NYC — operations	520,218,710	355,656,578
Receipt of mortgage recording tax revenue and NYCTA reimbursement	<u>36,406,580</u>	<u>36,410,447</u>
Net cash provided by noncapital financing activities	<u>556,625,290</u>	<u>392,067,025</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest paid	(1,905,590)	(1,936,150)
Capital contributed	4,474,567	50,875,278
Capital project costs incurred for capital program	(24,965,684)	(85,668,172)
Decrease in intercompany capital pool loan	<u>(11,542,284)</u>	<u>(11,027,310)</u>
Net cash used in capital and related financing activities	<u>(33,938,991)</u>	<u>(47,756,354)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Decrease) Increase in invested funds at MTA	(61,127,157)	74,098,019
Earnings on investments	<u>434,988</u>	<u>148,463</u>
Net cash (used in)/provided by investing activities	<u>(60,692,169)</u>	<u>74,246,482</u>
NET (DECREASE) IN CASH	(160,873)	(270,215)
CASH — Beginning of year	<u>337,527</u>	<u>607,742</u>
CASH — End of year	<u>\$ 176,654</u>	<u>\$ 337,527</u>
See notes to financial statements.		

MTA BUS COMPANY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET		
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (720,931,702)	\$ (597,923,676)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	58,588,332	57,158,129
Changes in operating assets and liabilities:		
(Increase) Decrease in receivables	(13,096,192)	9,647,693
Increase in material and supplies, and prepaid expenses	(990,251)	(3,557,353)
Increase in payables, accrued expenses & other liabilities	<u>214,274,810</u>	<u>115,847,839</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (462,155,003)</u>	<u>\$ (418,827,368)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA Contributed capital assets	<u>\$ 68,168,450</u>	<u>\$ 107,577,170</u>
Capital assets related liabilities	<u>\$ 11,031,602</u>	<u>\$ 22,573,886</u>
See notes to financial statements.		(Concluded)

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MTA BUS COMPANY **(Component Unit of the Metropolitan Transportation Authority)**

NOTES TO FINANCIAL STATEMENTS **AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016** **(\$ IN THOUSANDS, EXCEPT AS NOTED)**

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 Component Unit 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.

MTA Bus is operationally and legally independent of the MTA. MTA Bus enjoys certain rights typically associated with separate legal status. However, MTA Bus is included in the MTA’s consolidated financial statements as a blended component unit because of the MTA’s financial accountability, and MTA Bus is under the direction of the MTA Board (a reference to “MTA Board” means the board of MTA and/or the boards of the MTA Bus and other MTA component units 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 MTA Bus in its consolidated financial statements.

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, 2017 and 2016.

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.

2. 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 Adopted

MTA Bus adopted the following GASB Statements for the year ended December 31, 2017:

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 67, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pension plans and defined contribution plans that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 73 extends the approach to accounting and financial reporting established in GASB Statement No. 68 to all pensions to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB Statement No. 68, should not be considered pension plan assets. It also requires that information similar to that required by GASB Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on the MTA Bus’s financial statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes accounting and financial reporting standards for state and local governmental other postemployment benefit (“OPEB”) plans. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and GASB Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. The adoption of this Statement had no impact on MTA Bus’s financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units* establishes an additional blending requirement for the financial statement presentation of component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member, as identified in the component unit’s articles of incorporation or bylaws. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement had no impact on MTA Bus’s financial statements. No additional disclosures are required.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* establishes accounting and financial reporting standards for split-interest agreements, which are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. The Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement by requiring the government to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The adoption of this Statement had no impact on MTA Bus’s financial statements, as MTA Bus does not enter into such agreements.

GASB Statement No. 82, *Pension Issues: An Amendment of GASB Statements No. 67, No. 68 and No. 73* addresses certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of this Statement adjusted the presentation of payroll-related measures in the required supplementary information, but did not have an impact on MTA Bus's financial statements.

Accounting Standards Issued but Not Yet Adopted

GASB has issued the following pronouncements that may affect the future financial position, results of operations, cash flows, or financial presentation of the MTA upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	MTA Required Year of Adoption
75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	2018
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment Issues</i>	2018
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>	2019

Due from NYCTA for Metrocard 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.

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 funds 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 contributed for the years ended December 31, 2017 and 2016, amounted to \$4.5 million and \$50.9 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.

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.

The 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 2017 and 2016, MTA Bus received cash payments of \$520.2 million and \$355.6 million, respectively, in

operating assistance from The City. At year end December 31, 2017 and 2016, MTA Bus recorded a subsidy receivable due from The City of approximately \$62.0 million and \$132.4 million, respectively, pursuant to the agreement between MTA Bus and The City's Office of Management and Budget.

Advances from The City — Environmental Remediation — In accordance with the supplemental agreement between The City and the MTA, on behalf of MTA Bus, The City agreed to fund an Environmental Remediation Reserve Fund (\$6.3 million). With the assistance of the NYCT (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 this reserve in June 2007 and the amount was used to fund the initial \$6.3 million project, as well as future projects. In July 2011, The City funded the Environmental Remediation Reserve Fund with an additional \$11.1 million. During 2017, MTA Bus reduced the Environmental Remediation Reserve Fund by \$0.3 million, based on actual cash expenditures, leaving a balance of \$7.5 million as of December 31, 2017. 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 2017. The \$24.9 million received in 2017 was used to repay \$12.6 million (\$11.5 million in principal and \$1.1 million in interest) of the intercompany capital pool loan, and \$15.1 million for debt service on transportation Revenue Bonds.

Pension Plans — Effective for the year-ended December 31, 2015, the MTA adopted the standards of GASB Statement No. 68, *Accounting & Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plans.

MTA Bus recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the MTA's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the MTA's fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a Component Unit of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a Component Unit of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a Component Unit of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

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 NYCT 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 New York City Department of Transportation 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 \$7.0 million per occurrence limit; claims arising between October 31, 2006, and October 31, 2009, are subject to an \$8.0 million per occurrence limit; and claims arising after October 31, 2009, are subject to a \$9.0 million per occurrence limit. Effective November 1, 2012, claims are subject to a \$10.0 million per occurrence limit. Effective October 31, 2015, claims are subject to an \$11.0 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 changes in net position.

Liability Insurance — 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 limit is \$8.0 million. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limit is \$9.0 million. Effective November 1, 2012 the self-insured retention limits for ELF was increased to \$10.0 million. Effective October 31, 2015, the self-insured retention limits for ELF were increased to \$11.0 million. 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 \$50.0 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 Related Entities above their specifically assigned self-insured retention with a limit of \$50.0 million per occurrence with a \$50.0 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, 2017, the balance of the assets in this program was \$139.6 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Related Entities additional coverage limits of \$350.0 million for a total limit of \$400.0 million (\$350.0 million excess of \$50.0 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 \$50.0 million.

On March 1, 2017, 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 NYCT, MTA Bus and TBTA. The policy provides \$11.0 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, 2017, the “Access-A-Ride” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for NYCT’s Access-A-Ride program, including the contracted operators. This policy provides a \$3.0 million per occurrence limit with a \$1.0 million per occurrence deductible.

Property Insurance – Effective May 1, 2017, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2017, FMTAC directly insures property damage claims of the Related Entities in excess of a \$25.0 million per occurrence deductible, subject to an annual \$75.0 million aggregate deductible. The total All Risk program annual limit is \$675.0 million per occurrence and in the annual aggregate for Flood and Earthquake covering property of the Related Entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda reinsurance markets for this coverage. Losses occurring after exhaustion of the deductible aggregate 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.

Supplementing the \$675.0 million per occurrence coverage noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$125.0 million of fully collateralized earthquake coverage for an event of a certain index value and for 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 May 23, 2017 to April 30, 2020. The expanded protection is reinsured by MetroCat Re Ltd. 2017-1, a Bermuda special purpose insurer independent from MTA and formed to provide FMTAC with capital markets based property reinsurance. The MetroCat Re Ltd. 2017-1 reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is parametric and available for storm surge losses resulting from a storm that causes water levels that reach the specified index values, and also for an earthquake event of a certain index value.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 83% of “certified” losses in 2017 and 82% of “certified” losses in 2018 and 81% of “certified” losses in 2019, as covered by the Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) of 2015. The remaining 17% (2017), 18% (2018) and 19% (2019) of the Related Entities’ losses arising from an act of terrorism would be covered under the additional terrorism policy described below. No federal compensation will be paid unless the aggregate industry insured losses exceed a trigger of \$140.0 million in 2017, \$160.0 million in 2018 and \$180.0 million in 2019. The United States government’s reinsurance is in place through December 31, 2020.

To supplement the reinsurance to FMTAC through the TRIPRA, MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 17% of any “certified” act of terrorism up to a maximum recovery of \$182.8 million for any one occurrence and in the annual aggregate during 2017, 18% of any “certified” act of terrorism up to a maximum recovery of \$193.5 million for any one occurrence and in the annual aggregate during 2018 and 19% of any “certified” act of terrorism up to a maximum recovery of \$204.3 million for any one occurrence and in the annual aggregate during 2019,

(2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the “certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds \$5.0 million and less than the \$140.0 million TRIPRA trigger up to a maximum recovery of \$140.0 million for any occurrence and in the annual aggregate during 2017, or 100% of any “certified” terrorism loss which exceeds \$5.0 million and less than the \$160.0 million TRIPRA trigger up to a maximum recovery of \$160.0 million for any occurrence and in the annual aggregate during 2018 or 100% of any “certified” terrorism loss which exceeds \$5.0 million and less than the \$180.0 million TRIPRA trigger up to a maximum recovery of \$180.0 million for any occurrence and in the annual aggregate during 2019.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$182.8 million in 2017, \$193.5 million in 2018 and \$204.3 million in 2019. Recovery under the terrorism policy is subject to a deductible of \$25.0 million per occurrence and \$75.0 million in the annual aggregate in the event of multiple losses during the policy year. Should the Related Entities’ deductible in any one year exceed \$75.0 million, future losses in that policy year are subject to a deductible of \$7.5 million. The terrorism coverages expire at midnight on May 1, 2019.

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 a \$135.1 million liability reserve in the financial statements at December 31, 2017. During calendar year 2017, \$17.0 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. 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 2017 and 2016 that were not insured were maintained in major financial institutions. Management periodically reassess the credit worthiness of such financial institutions.

Cash at December 31, 2017 and 2016, consists of the following:

	2017		2016	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured (FDIC) and collateralized deposits	\$ 59,257	\$ 309,257	\$ 328,832	\$ 373,212
Commercially insured funds on-hand and in transit	<u>117,397</u>	<u>277,031</u>	<u>8,695</u>	<u>443,258</u>
Total cash	<u>\$ 176,654</u>	<u>\$ 586,288</u>	<u>\$ 337,527</u>	<u>\$ 816,470</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 categorizes its fair value measurement within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. MTA Bus’s investment in the MTA Investment Pool is valued based on other observable inputs (Level 2 inputs).

MTA Bus’s earnings from short term investments were \$434,988 and \$148,463 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, MTA Bus had intercompany investment pool loans of \$60.5 million and \$121.6 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, 2017 and 2016, consist of the following:

	December 2016	Additions	Adjustments / Transfers	December 2017
Depreciable Assets				
Buses	\$ 635,753,876	\$ 4,028,081	\$ (8,151,755)	\$ 631,630,202
Service Vehicles	2,666,704	458,104	-	3,124,808
Furniture, fixtures and equipment	8,365,589	4,980,386	-	13,345,975
Facilities & Yards	19,922,236	-	-	19,922,236
Capital Non Bus	90,108,496	64,140,369	-	154,248,865
	756,816,901	73,606,940	(8,151,755)	822,272,086
Non-Depreciable Assets				
Assets under construction	75,141,011	32,659,336	(73,148,836)	34,651,510
Total	\$ 831,957,912	\$ 106,266,276	\$ (81,300,591)	\$ 856,923,596
	December 2016	Additions	Adjustments / Transfers	December 2017
Accumulated Depreciation				
Buses	\$ (419,935,917)	\$ (48,300,382)	\$ -	\$ (468,236,299)
Service Vehicles	(1,926,384)	(242,929)	-	(2,169,313)
Furniture, fixtures and equipment	(5,594,981)	(1,022,906)	-	(6,617,887)
Facilities & Yards	(15,222,734)	(533,763)	-	(15,756,497)
Capital Non Bus	(9,383,736)	(8,488,351)	-	(17,872,087)
Total	(452,063,752)	(58,588,332)	-	(510,652,084)
Net Capital Assets	379,894,160	47,677,944	(81,300,591)	346,271,513
Non-Depreciable Assets				
Assets under construction	-	-	-	-
TOTAL CAPITAL ASSETS	\$ 379,894,160	\$ 47,677,944	\$ (81,300,591)	\$ 346,271,513

Capital assets as of December 31, 2016 and 2015, consist of the following:

	December 2015	Additions	Transfers / Disposals	December 2016
Depreciable Assets				
Buses	\$ 579,360,737	\$ 56,393,139	\$ -	\$ 635,753,876
Service Vehicles	2,454,796	211,908	-	2,666,704
Furniture, fixtures and equipment	8,259,742	105,847	-	8,365,589
Facilities & Yards	18,542,780	1,379,456	-	19,922,236
Capital Non Bus	<u>38,924,465</u>	<u>51,184,031</u>	<u>-</u>	<u>90,108,496</u>
	647,542,520	109,274,381	-	756,816,901
Non-Depreciable Assets				
Assets under construction	<u>98,747,222</u>	<u>15,421,661</u>	<u>(39,027,872)</u>	<u>75,141,011</u>
Total	<u>\$ 746,289,742</u>	<u>\$ 124,696,042</u>	<u>\$ (39,027,872)</u>	<u>\$ 831,957,912</u>
	December 2015	Additions	Transfers / Disposals	December 2016
Accumulated Depreciation				
Buses	\$ (368,415,998)	\$ (51,519,919)	\$ -	\$ (419,935,917)
Service Vehicles	(1,669,831)	(256,553)	-	(1,926,384)
Furniture, fixtures and equipment	(4,945,195)	(649,786)	-	(5,594,981)
Facilities & Yards	(14,757,944)	(464,790)	-	(15,222,734)
Capital Non Bus	<u>(5,116,656)</u>	<u>(4,267,080)</u>	<u>-</u>	<u>(9,383,736)</u>
Total	<u>(394,905,624)</u>	<u>(57,158,128)</u>	<u>-</u>	<u>(452,063,752)</u>
Net Capital Assets	<u>351,384,118</u>	<u>67,537,914</u>	<u>(39,027,872)</u>	<u>379,894,160</u>
Non-Depreciable Assets				
Assets under construction	-	-	-	-
TOTAL CAPITAL ASSETS	<u>\$ 351,384,118</u>	<u>\$ 67,537,914</u>	<u>\$ (39,027,872)</u>	<u>\$ 379,894,160</u>

6. EMPLOYEE BENEFITS:

Pensions — MTA Bus participates in a defined benefit pension plan for their employees, the Metropolitan Transportation Authority Defined Benefit Plan (the “MTA Defined Benefit Plan”). A brief description of the pension plan follows:

Plan Description

MTA Defined Benefit Plan —

The MTA Defined Benefit Pension Plan (the “MTA Plan” or the “Plan”) is a cost sharing, multiple-employer pension plan. The Plan covers 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 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 benefit programs for their covered employees and beneficiaries.

The MTA Defined Benefit Plan is administered by the Board of Managers of Pensions which is comprised of the Chairman of the MTA, MTA Chief Financial Officer, MTA Director of Labor Relations and the agency head of each participating Employer. 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, 16th Floor, New York, New York, 10004. Pension plan financials can also be found at www.mta.info.

Benefits Provided

MTA Defined Benefit Plan

Pension Benefits — Retirement benefits paid from the Plan to covered represented MTA Bus employees include service retirement allowances or early retirement allowances. Under the programs covering all represented employees at Baisley Park, Eastchester, La Guardia, Spring Creek, and Yonkers Depots and the represented employees at College Point Depot, JFK, Far Rockaway a participant is eligible for a service retirement allowance upon termination if the participant has attained age sixty-five and completed at least five years of credited service or if the participant has attained age 57 and completed at least 20 years of credited service. A participant hired prior to June 2009 from Baisley Park, College Point, and La Guardia Depots is eligible for an early retirement allowance if the participant has attained age 55 and completed 20 years of credited service. Terminated participants with five or more years of credited service who are not eligible to receive a service retirement allowance or early retirement allowance are eligible for a deferred vested benefit. Deferred vested benefits are payable on an unreduced basis on or after the participant attains age sixty-five.

At Baisley Park, Far Rockaway, JFK, La Guardia and Spring Creek Depots, a participant who is a non-represented employee is eligible for an early retirement allowance upon termination if the participant has attained age 55 and completed 15 years of service. Terminated participants with five or more years of credited service who are not eligible to receive a service retirement allowance or early retirement allowance are eligible for a deferred vested benefit. Deferred vested benefits are payable on an unreduced basis on or after the participant attains age sixty-two.

The MTA Bus retirement programs covering represented and non-represented employees at Eastchester and Yonkers and covering the represented employees at Baisley Park, College Point, Far Rockaway, JFK, La Guardia and Spring Creek are fixed dollar plans, i.e., the benefits are a product of credited service and a specific dollar amount.

The retirement benefits for certain non-represented employees at Baisley Park, Far Rockaway, JFK, La Guardia and Spring Creek are based on final average salary. Certain participants may elect to receive the retirement benefit as a single life annuity or in the form of an unreduced 75% joint and survivor benefit.

Death and Disability Benefits — In addition to service retirement benefits, participants of the Plan are eligible to receive disability retirement allowances and death benefits. Participants who become disabled may be eligible to receive disability retirement allowances after ten years of covered MTA Bus service; ten years of credited service for covered MTA Metro-North Railroad and MTA Long Island Rail Road management and represented employees, covered MTA Staten Island Railway employees and covered MTA police participants.

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 \$5,000 is payable upon death on behalf of a non-vested participant or vested participant whose pension rights were waived.

For MTA Bus employees, there is varied death benefit coverage under the Plan. For all represented and non-represented MTA Bus employees at Eastchester and Yonkers Depots and represented MTA Bus employees at Baisley Park, College Point, Far Rockaway, JFK, La Guardia and Spring Creek Depots, if a participant dies prior to being eligible for a retirement benefit, the participant's beneficiary may elect to receive a refund of the participant's contributions plus interest.

Moreover, the spouses of the above employees who are vested are entitled to a presumed retirement survivor annuity which is based on a 50% Joint and Survivor annuity. The date as of which such annuity is determined and on which it commences varies among the different programs depending on whether the participants are eligible for retirement and for payment of retirement benefits.

In addition, the spouse of a non-represented MTA Bus employee at Spring Creek, JFK, La Guardia, Baisley Park and Far Rockaway, if such employee is age 55 and has 15 years of service and is a terminated member with a vested benefit which is not yet payable, may elect the presumed retirement survivor annuity or 1/2 the participant's accrued benefit paid monthly and terminating on the 60th payment or the spouse's death. The spouse of a non-represented MTA Bus employee at Yonkers Depot may also receive a pre-retirement survivor annuity from the supplemental plan. If there is no such spouse, the actuarial equivalent of such annuity is payable.

The dependent children of MTA Bus employees are also entitled to an annuity based on the spouse's pre-retirement survivor annuity (1/2 of the spouse's annuity is payable to each child, but no more than 100% of the spouse's annuity is payable). In addition, the dependent children of retirees who were MTA Bus employees at these Depots are entitled to an annuity based on the presumed retirement survivor's annuity (25% of the spouse's annuity; but no more than 50% of the spouse's annuity is payable).

Retirement benefits establishment and changes for representative employees are collectively bargained and must be ratified by the respective union and the MTA Board. For non-representative employees, retirement benefits establishment and changes are presented to the MTA Board and must be accepted and approved by the MTA Board.

Contributions and Funding Policy

MTA Defined Benefit Plan

MTA Bus's contributions are actuarially determined on an annual basis. Amounts recognized as receivables for contributions include only those due pursuant to legal requirements. Employee contributions to the Plan are recognized in the period in which the contributions are due. The following summarizes the types of employee contributions made to the Plan.

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 certain 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 and Command) 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.

Contributions for year ended December 31, 2017 and 2016 were \$50.5 million and \$44.3 million, respectively. These costs represent the required actual contributions for the year stated.

Contributions as a percent of covered payroll are 15.6%, and 13.6%, for the year-ended December 31, 2017 and 2016, respectively.

Net Pension Liability

MTA Bus’s net pension liability reported at December 31, 2017 was measured as of December 31, 2016. The total pension liability for the Plan was determined as of the actuarial valuation date of January 1, 2016, and rolled forward to the measurement date of December 31, 2016. MTA Bus’s net pension liability reported at December 31, 2016 was measured as of December 31, 2015 and the total pension liability for the Plan was determined as of the actuarial valuation date of January 1, 2015, and rolled forward to the measurement date of December 31, 2015. The fiduciary net position and additions to and deductions from the fiduciary net position have been determined on the same basis as reported by NYCERS. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the Plan; and investments are reported at fair value.

MTA Bus’s net pension liability increased \$64.05 million from the prior year due to an Arbitration Award between MTA Bus and TWU Local 100 that provides enhanced benefits to covered employees.

Actuarial Assumptions

The total pension liabilities in each pension plan’s actuarial valuation dates were determined using the following actuarial assumptions for each pension plan, applied to all periods included in the measurement date:

Valuation Date:	MTA Defined Benefit Plan	
	January 1, 2016	January 1, 2015
Investment Rate of Return	7.00% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.
Salary Increases	Varies by years of employment, and employee group; 3.0% General Wage Increases for TWU MTA Bus hourly employees.	Varies by years of employment, and employee group; 3.5% for MTA Bus hourly employees.
Inflation	2.50%; 3.50% for Railroad Retirement Wage Base.	2.50%; 3.50% for Railroad Retirement Wage Base.
Cost-of Living Adjustments	55% of inflation assumption or 1.375%, if applicable.	55% of inflation assumption or 1.375%, if applicable.

Mortality: Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee. Mortality assumption is based on a 2012 experience study for all MTA plans.

Pre-retirement: RP-2000 Employee Mortality Table for Males and Females with Blue collar adjustments.

Post-retirement Healthy Lives: 95% of 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.

Post-retirement 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.

Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was 7.00% for the MTA Defined Benefit Plan. The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation.

The target allocation and best estimates of arithmetic real rates of return (RROR) for each major asset class included in each of the pension funds are as follows:

Asset Class	MTA Defined Benefit Plan	
	Target Asset Allocation	Long-Term Expected RROR by Asset Class
US Core Fixed Income	10.00%	1.67%
US High Yield Bonds	8.00%	5.04%
Global Bonds	10.00%	0.28%
Emerging Markets Bonds	3.00%	3.78%
US Large Caps	10.00%	4.80%
US Small Caps	5.50%	6.06%
Global Equity	10.00%	5.49%
Foreign Developed Equity	10.00%	6.06%
Emerging Markets Equity	3.50%	8.39%
Global REITs	5.00%	5.77%
Private Real Estate Property	3.00%	3.64%
Private Equity	7.00%	8.99%
Hedge Funds - MultiStrategy	15.00%	3.45%
	100.00%	
Assumed Inflation - Mean		2.50%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Nominal Mean Return		7.03%
Portfolio Standard Deviation		11.54%
Long Term Expected Rate of Return selected by MTA		7.00%

Discount Rate

As of December 31, 2017 and 2016, the discount rate used to measure the total pension liability of the MTA Defined Benefit Plan was 7.0% and 7.0%.

The projection of cash flows used to determine the discount rate assumed that plan contributions will be made in accordance with the Employer funding policy as projected by the Plan's actuary. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

MTA Bus's Proportion of Net Pension Liability – MTA Defined Benefit Plan

The following table presents MTA Bus's proportionate share of the net pension liability of the MTA Defined Benefit Plan at December 31, 2017, and 2016, and the proportion percentage of the net pension liability of the MTA Defined Benefit Plan allocated to MTA Bus:

	2017	2016
	(in millions, except for %)	
MTA Bus's proportionate share of the net pension liability	\$ 269.74	\$ 205.69
MTA Bus's proportion of the net pension liability	20.10%	15.94%

MTA Bus's proportion of the respective Plan's net pension liability was based on actual required contributions of the participating employer for the fiscal year.

The following table presents MTA Bus's proportionate share of the net pension liability calculated using the discount rate of 7.00% for the MTA Defined Benefit Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

MTA Bus's proportionate share of the net pension liability	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
(in millions)			
2017	\$ 308.27	\$ 269.74	\$ 231.21
2016	235.07	205.69	176.30

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended December 31, 2017 and 2016, MTA Bus recognized pension expense of \$116.5 million and \$38.6 million respectively, related to the pension plan. The increase in expense is attributable to an Arbitration Award between MTA Bus and TWU Local 100 that provides enhanced benefits to covered employees.

At December 31, 2017 and 2016, MTA Bus reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in thousands)		(in thousands)	
Differences between expected and actual experience	\$ 25,974	\$ -	\$ 17,252	\$ -
Changes in assumptions	-	(8,763)	-	(10,639)
Net difference between projected and actual earnings on pension plan investments	26,545	-	42,640	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(4,317)	-	(1,642)
Employer contribution to plan subsequent to the measurement date of net pension liability	50,479	-	44,300	-
Total	\$ 102,998	\$ (13,080)	\$ 104,192	\$ (12,281)

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs. The annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over the weighted average remaining service life of all members, beginning the year in which the deferred amount occurs.

\$50.5 million reported as deferred outflows of resources related to pensions resulting from MTA Bus's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2017 will be recognized as pension expense as follows:

Year ending December 31:	
2018	\$ 11,890,106
2019	11,890,106
2020	8,872,406
2021	841,691
2022	2,072,939
Thereafter	3,871,771
Total	\$ 39,439,019

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 participant charges, including investment and other fees, pay for the administrative cost of running the Deferred Compensation Program.

The Deferred Compensation Program is administered and may be amended by the Deferred Compensation Committee.

In 1998, the Deferred Compensation Committee approved the unbundling of the Plans. In 2008, the Plans’ investment choices were restructured to set up a four tier strategy:

- Tier 1 – The MTA Target-Year Lifecycle Funds, which are comprised of a mix of several funds, most of which are available as separate investments 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 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. Participants may invest only a portion of their account balances in this Tier.

In 2011, the Deferred Compensation Program began offering 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 \$18,000 or \$24,000 for those over age 50 for the year ending December 31, 2017.

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 MTA Long Island Bus, former employees) of:

- MTA
- 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 - 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. The contributions for the years ended December 31, 2017 and 2016 were \$0.065 million and \$0.065 million, respectively. 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%

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. Under certain conditions, both Plans accept rollovers from all eligible retirement plans (as defined by the Code), including 401(a), 457, 401(k), 403(b), and rollover IRAs.

Forfeitures – Nonvested contributions are forfeited upon termination of employment. For the year ended December 31, 2017 and 2016, no forfeiture money was used to offset the employer contributions for the plan expenses.

Status – As of December 31, 2017, 62.74% of MTA Bus employees were participating in the 401(k) Plan and 31.14% in the 457 Plan. A total of 45,470 participants from all the agencies were enrolled in the 401(k) Plan and 32,549 participants in the 457 Plan, with \$6.2 billion in total net position for both Plans as of 12/31/2017. The average account balance is \$65,767 in the 401(k) Plan and \$63,856 in the 457 Plan.

As of December 31, 2016, 64.05% of MTA Bus employees were participating in the 401(k) Plan and 30.59% in the 457 Plan. A total of 42,924 participants from all the agencies were enrolled in the 401(k) Plan and 31,231 participants in the 457 Plan, with \$5.3 billion in total net position for both Plans as of 12/31/2016. The average account balance was \$55,866 in the 401(k) Plan and \$53,438 in the 457 Plan.

(In thousands)	<u>2017</u>	<u>2016</u>
	<u>401K</u>	<u>401K</u>
Contributions:		
Employee contributions, net of loans	\$ 13,551	\$ 15,935
Participant rollovers	1,131	258
Employer contributions	65	58
Total contributions	<u>\$ 14,747</u>	<u>\$ 16,251</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 and Galliard Capital Management: separate accounts are managed by Denver Investment Advisors Conestoga Capital Advisors and TCW-Metropolitan West Asset Management. Financial Advisor Mercer reviews the investment policies as stipulated by the Investment Committee, the Plans' portfolios and the

Investment Managers' performance.

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 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 3.3%, less amortization amount included in the Annual Required Contribution for the prior year, less or plus assumption changes and plan changes, less amounts paid for benefits, totaling \$21.2 million in 2017.

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, 2017, and was performed with a valuation date of January 1, 2016.

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, and 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, 2017, is 12 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 FIL Cost Method is used for determining the Normal Cost. The 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, 2016, which is 12 months prior to the beginning of the 2017 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 3.5% to 3.3%.

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 2020 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 2016 valuation.

The OPEB-specific actuarial assumptions used in the twelve months ended December 31, 2017, OPEB actuarial valuations are as follows:

Valuation date	January 1, 2016
Actuarial cost method	Frozen Initial liability
Discount rate	3.30%
Price inflation	2.5% per annum, compounded annually
Amortization method	Frozen Initial liability
Amortization period	12 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 \$21.2 million for the year ended December 31, 2017, and \$20.9 million for the year ended December 31, 2016. At December 31, 2017 and 2016, there were 1,539 and 1,463 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 — Due to a change in actuarial standards, age adjustments are required for valuing NYSHIP benefits. The medical and pharmacy benefits provided to TWU Local 100, ATU 1056, ATU 726 and other 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 medical and pharmacy claims information, including the EGWP plan for providing pharmacy benefits to Medicare-eligible retirees, for 2015 and 2016. Details on the per capita claim cost assumption as shown below:

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Per Capita Claim Cost Rates —

Age	Male Employee			Female Employee		
	UHC/		Pharmacy	UHC/		Pharmacy
	EBCBS/ Aetna Basic	Aetna Select/ Aetna Opt 1		EBCBS/ Aetna Basic	Aetna Select/ Aetna Opt 1	
<50	\$ 740.21	\$ 1,236.18	\$348.54	\$ 971.70	\$ 1,647.95	\$ 409.68
50-54	743.50	1,233.00	317.15	829.58	1,395.11	360.49
55-59	838.42	1,391.73	356.03	850.90	1,426.69	393.85
60-64	1,052.96	1,753.81	412.72	995.54	1,670.05	436.20
65-69	120.65	115.35	217.03	125.32	126.89	184.58
70-74	143.84	134.33	197.39	141.31	130.34	172.27
75-79	165.02	145.88	189.43	157.49	133.44	158.45
80-84	185.81	150.32	178.11	176.95	143.32	143.96
85+	220.37	156.42	157.58	217.09	140.22	116.22

Age	Male Dependents			Female Dependents		
	UHC/		Pharmacy	UHC/		Pharmacy
	EBCBS/ Aetna Basic	Aetna Select/ Aetna Opt 1		EBCBS/ Aetna Basic	Aetna Select/ Aetna Opt 1	
<50	\$ 474.78	\$ 776.06	\$ 217.68	\$ 584.67	\$ 972.69	\$ 240.89
50-54	574.36	941.93	241.70	649.25	1,081.59	278.92
55-59	662.21	1,089.52	278.20	720.40	1,200.69	331.01
60-64	851.84	1,410.03	331.44	818.30	1,364.42	355.91
65-69	120.65	115.53	217.03	125.32	126.89	184.58
70-74	143.84	134.33	197.39	141.31	130.34	172.27
75-79	165.02	145.88	189.43	157.49	133.44	158.45
80-84	185.81	150.32	178.11	176.95	143.32	143.96
85+	220.37	156.42	157.58	217.09	140.22	116.22

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 adjusted to an incurred basis from a paid claim basis utilizing aging reports specific to MTA. Finally, an administrative load was applied equal to 7.6% for Empire BlueCross BlueShield medical benefits, 2.2% for United Healthcare medical benefits and 1.4% for basic pharmacy benefits.

Health Care Cost Trend — The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2017 utilizing the baseline assumptions included in the model, except inflation is 2.5% 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 self-insured benefits administered by NYC Transit. The NYSHIP trend reflects actual increases in premiums to Participating Agencies through 2017.

Long-term trend increases are 4% for dental and vision benefits and 4.5% for Medicare Part B reimbursements, but not more than projected medical trends excluding any excise tax adjustments.

The self-insured trend is applied directly for represented employees of MTA Bus.

Health Care Cost Trend Rates —

Fiscal Year	NYSHIP		MTA Bus	
	<65	>=65	<65	>=65
2016	11.8 %	0.0 %	7.3 %	4.9 %
2017	6.7	6.4	7.1	4.9
2018	6.2	6.0	6.4	5.0
2019	6.3	5.5	9.2	5.0
2020	5.3	5.1	6.0	5.1
2025	6.0	5.1	5.9	5.1
2030	5.9	5.1	5.8	5.1
2035	5.9	5.2	5.8	5.2
2040	5.8	5.2	5.7	5.2
2050	5.4	5.8	5.3	5.0
2060	5.2	5.5	5.2	5.2
2070	4.6	4.7	4.6	4.9

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, this valuation excludes any RDS payments expected to be received by the MTA and its agencies.

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 census data utilized in the preparation of the actuarial valuation:

OPEB Participation By MTA Bus as of January 1, 2016	MTA Bus Company
Active members:	
Number	3,757
Average age	47.4
Average service	11.7
Retirees:	
Single medical coverage	616
Employee/spouse coverage	939
Employee/child coverage	47
No medical coverage	296
Total number	1,898
Average age	70.6
Total number with dental	110
Total number with vision	1,562
Total number with supplement	1,454
Average monthly supplement amount (excluding Part B premium)	\$ 24.80
Total number with life insurance	232
Average life insurance amount	\$ 5,409

Dependent Coverage — Spouses are assumed to be the same age as the employee/retiree. 80% of male and 45% of female eligible members participating in NYSHIP are assumed to elect family coverage upon retirement and 65% of male and 35% of female eligible members participating in self-insured programs administered by NYCT are assumed to cover a dependent. Actual 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 from the valuation date.

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 — 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 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, Vesteers (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. 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 the valuation date.

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 MTA Bus's annual OPEB cost for the year, the amount actually paid, and changes in MTA Bus's net OPEB obligation to the plan for the years ended December 31, 2017 and 2016. 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.

	2017 (In millions)	2016 (In millions)
Annual required contribution	\$ 121.5	\$ 118.4
Interest on net OPEB obligation	23.7	22.9
Adjustment to annual required contribution	<u>(62.3)</u>	<u>(56.9)</u>
Annual OPEB cost/expense	82.9	84.4
Contributions made	<u>(21.2)</u>	<u>(20.9)</u>
Increase in net OPEB obligation	61.7	63.5
Net OPEB obligation — beginning of year	<u>718.2</u>	<u>654.7</u>
Estimated net OPEB obligation — end of year	<u>\$ 779.9</u>	<u>\$ 718.2</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, 2017, 2016, and 2015 are as follows:

Year Ended	Annual OPEB Cost (In millions)	Percentage of Annual OPEB Cost Paid	Estimated Net OPEB Obligation (In millions)
12/31/2017	\$ 82.9	25.6 %	\$ 61.7
12/31/2016	84.4	24.8 %	63.5
12/31/2015	79.1	22.9	60.9

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)
12/31/17	1/1/2016	\$ -	\$ 771.5	\$ 771.5	0.00%	\$ 244.2	316.0 %

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 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 \$152.0 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 2017, 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, 2017 and 2016, the outstanding principal balance of the intercompany capital pool loan amounts to \$11.0 million and \$22.6 million, respectively.

Intercompany Capital Pool Loan		
Principal Amount	\$113,753,131	
Rate	4.67%	
Terms	12 Years	
	<u>2017</u>	<u>2016</u>
Principal balance — beginning of year	\$ 22,573,887	\$ 33,601,196
Principal paid during year	<u>(11,542,285)</u>	<u>(11,027,309)</u>
Balance — end of year	<u>11,031,602</u>	<u>22,573,887</u>
Principal paid during year	11,542,285	11,027,309
Interest paid during year	<u>1,054,200</u>	<u>1,569,176</u>
Total payments	<u>\$ 12,596,485</u>	<u>\$ 12,596,485</u>

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, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Balance — beginning of year	\$ 138,462,000	\$ 102,732,000
Activity during the year:		
Current year claims and changes in estimates	88,296,744	63,400,058
Claims paid	<u>(36,330,145)</u>	<u>(27,670,058)</u>
Balance — end of year	190,428,599	138,462,000
Less — current liability	<u>(30,000,000)</u>	<u>(29,000,000)</u>
Noncurrent liability	<u>\$ 160,428,599</u>	<u>\$ 109,462,000</u>

Not included in the 2017 and 2016 amounts are \$15.0 and \$14.0 million of current liability and \$120.1 and \$105.2 million of non current liability related to employees.

11. CONTINGENCIES

Neither the MTA nor its Component Unit, 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.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. While questioned costs may occur, ultimate repayments required of MTA Bus have been infrequent in prior years.

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 \$222,459 and a corresponding liability were recorded on the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position. As of December 31, 2017 and 2016, the pollution remediation liability totaled \$12.1 million and \$12.3 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 was 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 funded the \$6.3 million in estimated costs for potential environmental remediation. During 2011, The City requested an update on proposed remediation projects and subsequently funded an additional \$11.1 million. At December 31, 2017, the Environmental Remediation Reserve fund had a balance of \$7.5 million remaining for future Environmental projects.

	<u>2017</u>	<u>2016</u>
Balance beginning of year	\$ 12,342,641	\$ 13,578,425
Activity during the year:		
Current year changes in estimates	7,118	(581,148)
Payments	<u>(290,987)</u>	<u>(654,636)</u>
Balance end of year	12,058,773	12,342,641
Less - current liability	<u>(7,554,914)</u>	<u>(7,770,255)</u>
Non current liability	<u>\$ 4,503,859</u>	<u>\$ 4,572,386</u>

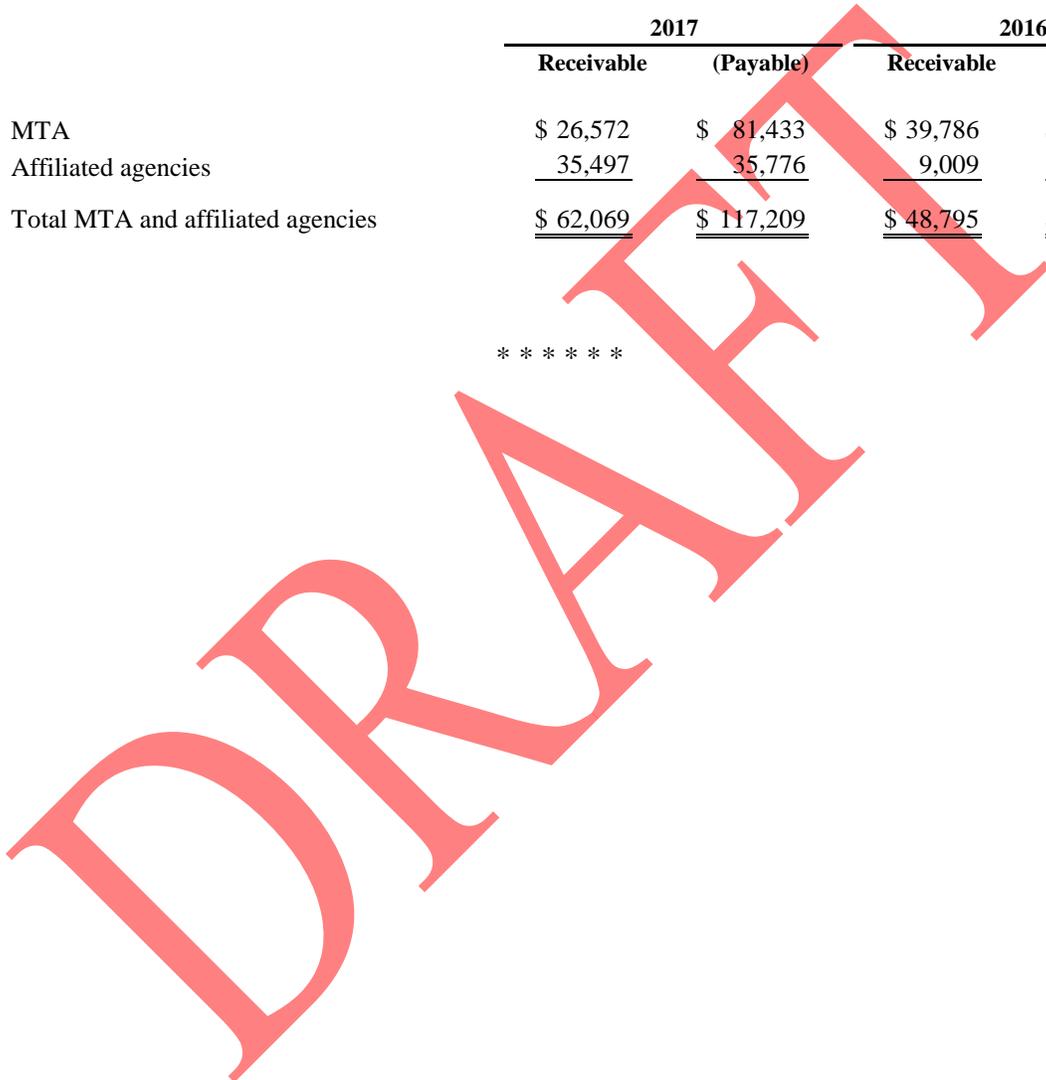
13. RELATED PARTY TRANSACTIONS

MTA Bus receives 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, 2017 and 2016 (in thousands):

	2017		2016	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 26,572	\$ 81,433	\$ 39,786	\$ 141,331
Affiliated agencies	<u>35,497</u>	<u>35,776</u>	<u>9,009</u>	<u>35,001</u>
Total MTA and affiliated agencies	<u>\$ 62,069</u>	<u>\$ 117,209</u>	<u>\$ 48,795</u>	<u>\$ 176,332</u>

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REQUIRED SUPPLEMENTARY INFORMATION

MTA BUS COMPANY
(Component Unit of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF MTA BUS'S PROPORTIONATE SHARE OF NET PENSION LIABILITY IN COST-SHARING
MULTIPLE-EMPLOYER PENSION PLAN
FOR THE YEAR ENDED DECEMBER 31:

	MTA Defined Benefit Plan		
	2016	2015	2014
	(in millions, except %)		
MTA Bus's proportion of the net pension liability	20.10%	15.94%	16.51%
MTA Bus's proportionate share of the net pension liability	\$ 269.74	\$ 205.69	\$ 170.80
MTA Bus's actual covered-employee payroll	\$ 325.65	\$ 289.49	\$ 312.78
MTA Bus's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll	82.831%	71.053%	54.607%
Plan fiduciary net position as a percentage of the total pension liability	71.82%	70.44%	74.77%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. In accordance with GASB No. 68, information was not readily available for periods prior to 2014.

MTA BUS COMPANY
(Component Unit of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF MTA BUS'S CONTRIBUTIONS FOR ALL PENSION PLANS
FOR THE YEARS ENDED DECEMBER 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
MTA Defined Benefit Plan				
Actuarially Determined Contribution	\$ 52,132,718	\$ 44,927,266	\$ 43,851,553	\$ 45,717,151
Actual Employer Contribution	<u>50,478,821</u>	<u>44,299,995</u>	<u>45,928,494</u>	<u>46,605,811</u>
Contribution Deficiency (Excess)	<u>1,653,897</u>	<u>627,271</u>	<u>(2,076,941)</u>	<u>(888,660)</u>
Covered Payroll	<u>323,411,424</u>	<u>325,651,222</u>	<u>289,491,290</u>	<u>312,783,778</u>
Contributions as a % of Covered Payroll	15.61%	13.60%	15.87%	14.90%

Notes to Schedule of MTA Bus's Contributions to Pension Plan:

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the MTA Defined Benefit Plan, should be presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors: covered employees.

Changes of Benefit Terms

The January 1, 2016 funding valuation reflects an Arbitration Award between MTA Bus and TWU Local 100 that provides enhanced benefits to covered employees. There were no changes of benefit terms in the January 1, 2015 funding valuation.

Changes of Assumptions

There were no changes of benefit assumptions in the January 1, 2016 and January 1, 2015 funding valuation.

Note: **Note:** This schedule is intended to show information for ten years. Additional years will be displayed as they become available. In accordance with GASB No. 68, information was not readily available for periods prior to 2014.

MTA BUS COMPANY
 (Component of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT BENEFIT PLAN
YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
 (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)
12/31/2017	1/1/2016	\$ -	\$ 771.5	\$ 771.5	0.0%	\$ 244.2	316.0%
12/31/2016	1/1/2014	-	706.5	706.5	0.0%	220.0	321.2%
12/31/2015	1/1/2014	-	706.5	706.5	0.0%	220.0	321.2%

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First Mutual Transportation Assurance Company

(Component Unit of the Metropolitan Transportation
Authority)

Financial Statements as of and for the Years
Ended December 31, 2017 and 2016, and
Independent Auditors' Report

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FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY
(Component Unit 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 First Mutual Transportation Assurance Company (the "Company"), a component unit of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2017 and 2016, 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.

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 auditors' 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, 2017 and 2016, 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 7 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 25, 2018

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY

(Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands, except as noted)

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, 2017 and 2016. 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.

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.

CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in the Company's financial position for the years ended December 31, 2017 and 2016. 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)	
	2017	2016	2015	2017-2016	2016-2015
ASSETS					
CURRENT ASSETS	\$ 429,191	\$ 692,101	\$ 436,957	\$ (262,910)	\$ 255,144
NONCURRENT ASSETS	<u>465,003</u>	<u>364,553</u>	<u>835,053</u>	<u>100,450</u>	<u>(470,500)</u>
TOTAL ASSETS	<u>\$ 894,194</u>	<u>\$ 1,056,654</u>	<u>\$ 1,272,010</u>	<u>\$ (162,460)</u>	<u>\$ (215,356)</u>

Significant Changes in Assets

December 31, 2017 versus December 31, 2016

Total assets have decreased by \$162,460 or 15.4 percent, from December 31, 2016 to December 31, 2017. The fluctuation in the total assets of FMTAC was the net result of a decrease in the reinsurance balances receivable due to the receipt of funds from Tropical Storm Sandy reinsurers offset by an increase in investments. Investments increased due to collateral funding of Owner Controlled Insurance Programs ("OCIP") trust accounts. The decrease in total assets was also partially offset by a high premiums receivable balance due to additional OCIP premiums written.

December 31, 2016 versus December 31, 2015

Total assets have decreased by \$215,356 or 16.9 percent, from December 31, 2015 to December 31, 2016. The fluctuation in the total assets of FMTAC was the net result of a decrease in cash and cash equivalents and reinsurance recoverable offset by an increase in premiums receivable. The decrease in cash and cash equivalents was due to payment of a portion of the Tropical Storm Sandy claim in 2016 with funds received from reinsurers in 2015. Reinsurance recoverable also decreased due to reduction of reinsurance reserves and reimbursements received from reinsurers for the Tropical Storm Sandy claim. Premiums receivable increased due to addition premium charged for the renewal of the OCIP East Side Access workers compensation/general liability policy.

(In thousands)	As of December 31,			Increase/(Decrease)	
	2017	2016	2015	2017-2016	2016-2015
LIABILITIES AND NET POSITION					
CURRENT LIABILITIES	\$ 306,520	\$ 500,324	\$ 359,701	\$ (193,804)	\$ 140,623
NONCURRENT LIABILITIES	406,129	378,397	770,140	27,732	(391,743)
RESTRICTED NET POSITION	<u>181,545</u>	<u>177,933</u>	<u>142,169</u>	<u>3,612</u>	<u>35,764</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 894,194</u>	<u>\$ 1,056,654</u>	<u>\$ 1,272,010</u>	<u>\$ (162,460)</u>	<u>\$ (215,356)</u>

Significant Changes in Liabilities

December 31, 2017 versus December 31, 2016

Total liabilities from December 31, 2016 to December 31, 2017 have decreased by \$166,072 or 18.9 percent. The decrease in liabilities is primarily due to a decrease in losses payable due payment of the Tropical Storm Sandy property claim, which was partially offset by an increase in unearned premiums due to additional OCIP casualty and builder risk premiums being written in 2017.

December 31, 2016 versus December 31, 2015

Total liabilities from December 31, 2015 to December 31, 2016 have decreased by \$251,120 or 22.2 percent. The decrease in liabilities is primarily due Tropical Storm Sandy property claim related activity, specifically the reduction of loss reserves due to settlement of the claim and related loss payments made in 2016.

Significant Changes in Net Position

December 31, 2017 versus December 31, 2016

In 2017, the restricted net position increase of \$3,612 is comprised of operating revenues of \$133,826 and non-operating income of \$18,157, less operating expenses of \$148,371.

December 31, 2016 versus December 31, 2015

In 2016, the restricted net position increase of \$35,764 is comprised of operating revenues of \$162,559 and non-operating income of \$12,803, less operating expenses of \$139,598.

Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)	2017	2016	2015	Increase/(Decrease)	
				2017-2016	2016-2015
OPERATING REVENUES	\$ 133,826	\$ 162,559	\$ 80,092	\$ (28,733)	\$ 82,467
OPERATING EXPENSES	<u>148,371</u>	<u>139,598</u>	<u>107,959</u>	<u>8,773</u>	<u>31,639</u>
OPERATING (LOSS) / INCOME	(14,545)	22,961	(27,867)	(37,506)	50,828
NON-OPERATING INCOME / (LOSS)	<u>18,157</u>	<u>12,803</u>	<u>3,508</u>	<u>5,354</u>	<u>9,295</u>
CHANGE IN NET POSITION	3,612	35,764	(24,359)	(32,152)	60,123
RESTRICTED NET POSITION— Beginning of year	<u>177,933</u>	<u>142,169</u>	<u>166,528</u>	<u>35,764</u>	<u>(24,359)</u>
RESTRICTED NET POSITION— End of year	<u>\$ 181,545</u>	<u>\$ 177,933</u>	<u>\$ 142,169</u>	<u>\$ 3,612</u>	<u>\$ 35,764</u>

Operating Revenues—The decrease of \$28,733 or 17.7 percent, over the 2016 operating revenues is primarily due to decreased earned premium from the Owner Controlled Insurance Programs (“OCIP”) casualty programs compared to prior years. Earned Premium for OCIP casualty programs are based on completion of the project construction.

The increase of \$82,467 or 103.0 percent, over the 2015 operating revenues is primarily due to increased earned premium from the Owner Controlled Insurance Programs (“OCIP”) Liberty program compared to prior years. Earned Premium for OCIP Liberty program is based on completion of the project construction.

Operating Expenses—Operating expenses between 2016 and 2017 increased by 6.2 percent, or \$8,773. Actuarial determined loss and loss adjustment expenses decreased and was offset by an increase in underwriting expenses primarily due to safety expenses for the OCIP Second Avenue Subway project.

Operating expenses between 2015 and 2016 increased by 29.3 percent, or \$31,639. This increase is primarily attributable to an increase in the estimated reserve for the Station and Force and the OCIP program along with an increase in the MTA risk management fee.

Non-operating Income—Non-operating income between 2016 and 2017 increased by 41.8 percent, or \$5,354. This is a result of an increase in income primarily from net unrealized gains on investments held by FMTAC.

Non-operating income between 2015 and 2016 increased by 265.0 percent, or \$9,295. This is a result of an increase in income primarily from net unrealized gains on investments held by FMTAC.

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, 2017, all programs administered by FMTAC have been reviewed and approved.

As of December 31, 2017 and 2016, 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— For 2017, Best estimates catastrophe loss of \$52.9 billion, the highest ever reported and over twice that reported in 2016. Consequently, the industry reported an underwriting loss of \$23.5 billion, four times larger than that reported in 2016. Despite the large catastrophe losses, the total industry pre-tax income was \$21.5 billion, down 47% from the prior year. In addition, the industry reported a 6.8% increase in policyholders' surplus to \$733 billion aided by \$39 billion in unrealized gains, leaving the industry well capitalized despite record catastrophes.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Metro-North Railroad Derailment—On December 1, 2013, 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 2017, FMTAC paid \$10,000 in losses relating to this claim. At December 31, 2017, FMTAC has a reserve of \$0 in these financial statements.

MTA Long Island Rail Road—New Hyde Park Collision. On October 8, 2016 while the MTA Long Island Rail Road was conducting track work east of the New Hyde Park Station on track placed out of service, a piece of track equipment derailed fouling live track and was struck by a train carrying passengers, causing the passenger train to derail. The majority of the personal injury claims appear to be soft-tissue, with a few fractures and Post Traumatic Stress Disorder claims. The most seriously injured claimant allegedly sustained two fractured legs, requiring five surgeries to date. The current outstanding reserves are \$20 million; which includes the Force \$11 million self-insured retention ("SIR").

MTA Long Island Rail Road - Atlantic Terminal Bumper Block Strike. An incident occurred on January 4, 2017 when an MTA Long Island Rail Road Far Rockaway Line train struck a bumper block in the Atlantic Terminal-Brooklyn Station. At this time, there does not appear to be any catastrophic injuries stemming from this incident with worst injuries seen so far are bone fractures and various trauma to the head/neck. If plaintiffs are successful in their claims against MTA Long Island Rail Road, damages could impact FMTAC and excess layers of insurance. The current outstanding reserves are \$4.7 million; which is within the Stations \$11million SIR.

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.

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FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	\$ 144,895	\$ 228,387
Investments (Note 4)	78,545	38,982
Funds held by reinsurer (Note 5)	12,719	16,045
Premiums receivable due from affiliates (Note 7)	190,421	114,349
Interest income receivable (Note 4)	2,367	2,089
Reinsurance balances receivable	-	292,222
Prepaid Losses	207	-
Other assets	37	27
Total current assets	<u>429,191</u>	<u>692,101</u>
NONCURRENT ASSETS:		
Investments (Note 4)	448,845	354,274
Reinsurance recoverable	12,245	6,268
Incentive reward receivable	3,913	4,011
Total noncurrent assets	<u>465,003</u>	<u>364,553</u>
TOTAL ASSETS	<u>\$ 894,194</u>	<u>\$ 1,056,654</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Unearned premiums	\$ 243,894	\$ 147,853
Ceded premium payable	11,126	864
Loss and loss adjustment expense liability (Note 6)	44,495	41,033
Losses payable	-	305,670
Due to affiliates	4,561	3,714
Accrued expenses	2,444	1,190
Total current liabilities	<u>306,520</u>	<u>500,324</u>
NONCURRENT LIABILITIES:		
Loss and loss adjustment expense liability (Note 6)	388,207	363,029
Reinsurance recoverable reserves (Note 6)	12,245	6,268
Owner Controlled Insurance Programs liability (Note 5)	5,677	9,100
Total noncurrent liabilities	<u>406,129</u>	<u>378,397</u>
Total liabilities	712,649	878,721
RESTRICTED NET POSITION	<u>181,545</u>	<u>177,933</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 894,194</u>	<u>\$ 1,056,654</u>

See notes to financial statements.

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
OPERATING REVENUES:		
Gross premiums written	\$ 280,459	\$ 238,127
Premiums ceded	(51,279)	(52,256)
Change in unearned premiums	<u>(95,354)</u>	<u>(23,312)</u>
Total operating revenues	<u>133,826</u>	<u>162,559</u>
OPERATING EXPENSES:		
Loss and loss adjustment	129,227	124,134
Underwriting	11,077	4,350
General and administrative	<u>8,067</u>	<u>11,114</u>
Total operating expenses	<u>148,371</u>	<u>139,598</u>
OPERATING (LOSS)/INCOME	<u>(14,545)</u>	<u>22,961</u>
NON-OPERATING INCOME:		
Net investment income	<u>18,157</u>	<u>12,803</u>
Total non-operating income	<u>18,157</u>	<u>12,803</u>
CHANGE IN NET POSITION	3,612	35,764
RESTRICTED NET POSITION—Beginning of year	<u>177,933</u>	<u>142,169</u>
RESTRICTED NET POSITION—End of year	<u>\$ 181,545</u>	<u>\$ 177,933</u>

See notes to financial statements.

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY
(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums and other receipts	\$ 164,057	\$ 102,899
Other operating expenses	<u>(131,294)</u>	<u>(229,762)</u>
Net cash provided / (used in) by operating activities	<u>32,763</u>	<u>(126,863)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(485,655)	(351,094)
Sales and maturities of investments	355,679	374,048
Earnings on investments	<u>13,721</u>	<u>10,211</u>
Net cash (used in) / provided by investing activities	<u>(116,255)</u>	<u>33,165</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(83,492)	(93,698)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>228,387</u>	<u>322,085</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 144,895</u>	<u>\$ 228,387</u>
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED / (USED IN) BY OPERATING ACTIVITIES:		
Operating (loss) / income	\$ (14,545)	\$ 22,961
Adjustments to reconcile to net cash used in operating activities:		
Net decrease in accounts payable, accrued expenses and other liabilities	(166,071)	(251,121)
Net increase in receivables	<u>213,379</u>	<u>101,297</u>
Net cash provided by operating activities	<u>\$ 32,763</u>	<u>\$ (126,863)</u>

See notes to financial statements.

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY
(Component Unit of the Metropolitan Transportation Authority)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands, except as noted)

1. BASIS OF PRESENTATION

Reporting Entity—First Mutual Transportation Assurance Company (the “Company”), a component unit 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 of New York and is included in the State of New York’s Comprehensive Annual Financial Report of the Comptroller as a public benefit corporation.

FMTAC is operationally and legally independent of the MTA. FMTAC enjoys certain rights typically associated with separate legal status. However, FMTAC is included in the MTA’s consolidated financial statements as a blended component unit because of the MTA’s financial accountability, and FMTAC is under the direction of the MTA Board (a reference to “MTA Board” means the board of MTA and/or the boards of the FMTAC and other MTA component units 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 FMTAC in its consolidated financial statements.

The New York captive insurance statute requires a \$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*.

GASB has issued the following pronouncements that may affect the future financial position, results of operations, cash flows, or financial presentation of the FMTAC upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB		MTA Required
Statement No.	GASB Accounting Standard	Year of Adoption
85	<i>Omnibus 2017</i>	2018

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 with a maturity of three months or less when purchased. Cash equivalents are stated at amortized 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 component unit of the MTA. The MTA and its subsidiaries are exempt from income taxes.

3. CASH AND CASH EQUIVALENTS

At December 31, 2017 and 2016, cash and cash equivalents consisted of (in thousands):

	2017		2016	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits	\$ 250	\$ 250	\$ 250	\$ 250
Loss escrows	5,829	5,829	4,608	4,608
Funds for security trust	25,025	25,025	124,147	124,147
Uninsured deposits	<u>113,791</u>	<u>88,612</u>	<u>99,382</u>	<u>99,930</u>
	<u>\$ 144,895</u>	<u>\$ 119,716</u>	<u>\$ 228,387</u>	<u>\$ 228,935</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 \$5,829 and \$4,608 as of December 31, 2017 and 2016, respectively.

All other funds are invested by the Company as described in Note 4.

4. INVESTMENTS

The fair value and cost basis of investments consist of the following at December 31, 2017 and 2016 (in thousands):

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Funds for claim payments	\$ 258,258	\$ 245,413	\$ 271,525	\$ 263,346
Security trust funds	255,878	256,654	103,626	103,911
Funds for letter of credit	<u>13,254</u>	<u>13,147</u>	<u>18,105</u>	<u>17,980</u>
	<u>\$ 527,390</u>	<u>\$ 515,214</u>	<u>\$ 393,256</u>	<u>\$ 385,237</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.

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, 2017 and 2016.

The yield to maturity rate was 3.01% for the year ended December 31, 2017, and 4.16% for the year ended December 31, 2016. The change in net unrealized gain on investments for the years ended December 31, 2017 and 2016, was a \$4,158 and \$2,693, respectively.

Interest Rate Risk and Investments at Fair Value

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 a bond price's sensitivity to 100 basis point change in interest rates. Duration is expressed as a number of years.

The Company categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the Company's investments. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Listed below are the recurring fair value measurements as of December 31, 2017 and 2016. Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for those securities.

(In thousands)	2017		2017			
	Fair Value	Duration (years)	Total	Fair Value Measurements		
Investment Type				Level 1	Level 2	Level 3
Treasury ⁽¹⁾	\$ 216,824	1.99	\$ 216,824	\$ 216,824	\$ -	\$ -
Agency ⁽²⁾	51,285	4.14	51,285	-	51,285	-
Asset backed securities	39,293	1.08	39,293	-	39,293	-
Commercial mortgage backed securities	30,411	5.63	30,411	-	30,411	-
Foreign bonds	8,721	-	8,721	-	8,721	-
Corporate bonds	149,994	5.27	149,994	-	149,994	-
Total	496,528	3.01	496,528	216,824	279,704	-
Equities ⁽³⁾	25,122		25,122	25,122	-	-
	521,650		521,650	\$ 241,946	\$ 279,704	\$ -
Investments measured at amortized costs						
Commercial paper	8,109		8,109			
Less accrued interest	(2,369)		(2,369)			
Total investments	\$ 527,390		\$ 527,390			

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)	2016		2016			
	Fair Value	Duration (years)	Total	Fair Value Measurements		
Investment Type				Level 1	Level 2	Level 3
Treasury ⁽¹⁾	\$ 81,341	5.23	\$ 81,341	\$ -	\$ 81,341	\$ -
Agency ⁽²⁾	45,116	2.93	45,116	-	45,116	-
Asset backed securities	34,724	1.04	34,724	-	34,724	-
Commercial mortgage backed securities	33,469	3.04	33,469	-	33,469	-
Foreign bonds	13,329	-	13,329	13,329	-	-
Corporate bonds	166,110	2.56	166,110	166,110	-	-
Total	374,089	4.16	374,089	179,439	194,650	-
Equities ⁽³⁾	21,256		21,256	21,256	-	-
	395,345		395,345	\$ 200,695	\$ 194,650	\$ -
Less accrued interest	(2,089)		(2,089)			
Total investments	\$ 393,256		\$ 393,256			

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, 2017, 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	\$ 103,535	20.5 %
AA	24,224	4.8
A	90,874	18.0
BBB	42,571	8.4
BB	523	0.1
Not rated	26,086	5.2
Credit risk debt securities	287,813	57.0
U.S. Government bonds	216,824	43.0
Total fixed income securities	504,637	100.0 %
Equities	25,122	
Less accrued interest	(2,369)	
Total investments	\$ 527,390	

Credit Risk—At December 31, 2016, 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	\$ 88,196	23.6 %
AA	35,310	9.4
A	99,484	26.6
BBB	49,393	13.2
Not rated	<u>22,300</u>	<u>6.0</u>
Credit risk debt securities	294,683	78.8
U.S. Government bonds	<u>79,406</u>	<u>21.2</u>
Total fixed income securities	374,089	<u>100.0 %</u>
Equities	21,256	
Less accrued interest	<u>(2,089)</u>	
Total investments	<u>\$ 393,256</u>	

5. INSURANCE PROGRAMS

Property Program—Effective May 1, 2017, 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 \$800,000 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.

FMTAC's property insurance program has been expanded to include a further layer of \$125,000 of fully collateralized earthquake coverage for an event of a certain index value and for 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 May 23, 2017 to April 30, 2020. The expanded protection is reinsured by MetroCat Re Ltd. 2017-1, a Bermuda special purpose insurer independent from the MTA and formed to provide FMTAC with capital markets based property reinsurance. The MetroCat Re Ltd. 2017-1 reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is parametric and available for storm surge losses resulting from a storm that causes water levels that reach the specified index values, and also for an earthquake event of a certain index.

Terrorism Program— Effective May 1, 2016, FMTAC renewed the terrorism program. Commencing May 1, FMTAC directly insures certified terrorism 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 \$1,075,000 per occurrence covering property of the related entities collectively. FMTAC is reinsured in the domestic, London, and European marketplaces for this coverage. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7,500 per occurrence. The direct and reinsurance policies are for a three-year period, May 1, 2016 to May 1, 2019.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 83% of “certified” losses in 2017, as covered by the Terrorism Risk Insurance Act (“TRIA”) of 2015 (originally introduced in 2002). Under the 2015 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. The remaining 17% 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 \$140,000 (“trigger”) for 2017. The United States government’s reinsurance of FMTAC was extended for six years.

To supplement the reinsurance to FMTAC through the 2015 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) 17% of any “certified” act of terrorism in 2017—up to a maximum recovery of \$182,750 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 17% “certified” acts of terrorism insurance in 2017 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 \$140,000 for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2019. 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. In the event the annual aggregate is eroded, a self-insured retention of \$7,500 per occurrence would apply.

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, 2017, FMTAC also provides an All-Agency Excess Liability Policy to the MTA and its subsidiaries and affiliates with the limits: i) \$50,000 (50%) 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, 2017, the Company renewed its direct insurance for the first \$11,000 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, 2017, the net retention to the Company is \$2,000. The Company also issued a policy for \$9,000 excess of \$2,000 per occurrence with an \$18,000 annual aggregate.

Paratransit—On March 1, 2017, the MTA renewed its one-year auto liability policy with Travelers (Discover Re). Effective March 1, 2017, the Company renewed, with the MTA, a deductible reimbursement policy for the auto liability on the New York City Transit (“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, 2017, the Company assumed 100% of the Allocated Loss Adjusted Expenses.

Non-Revenue—Effective March 1, 2017, 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, 2017, the Company assumed 100% of the Allocated Loss Adjusted Expenses.

Owner-Controlled Insurance Programs (OCIP)—The MTA purchases Owner Controlled Insurance Programs 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 revenues, expenses, and changes in net position. 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, 2017 and 2016 (in thousands):

	2017	2016
NYCT structures lines	\$ 532	\$ 532
LIRR/MNCR 2000–2004 Capital Improvement Program	(2,095)	(2,093)
NYCT 2000–2004 line structures/shops, yards and depots Capital Improvements Program	717	1,144
NYCT 2000–2004 stations and escalators/elevators Capital Improvements Program	(683)	(683)
LIRR/MNR 2005–2009 Capital Improvement Program	(419)	(299)
CCC Second Ave. Subway	<u>7,625</u>	<u>10,499</u>
OCIP liability	<u>\$ 5,677</u>	<u>\$ 9,100</u>

The activity of all funds held by the OCIP reinsurer consists of the following for 2017 and 2016 (in thousands):

	2017	2016
Funds held by OCIP insurers—beginning of year	\$ 16,045	\$ 20,549
Interest income	97	109
Claims payments	<u>(3,423)</u>	<u>(4,613)</u>
Funds held by OCIP reinsurer	<u>\$ 12,719</u>	<u>\$ 16,045</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) Long Island Rail Road (“LIRR”)/Metro-North Commuter Railroad Company (“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 \$31 and \$18 during the years ended December 31, 2017 and 2016, 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 2017 and 2016, respectively, the Company had a net recovery of \$430 and \$18.

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, 2015, additional funding totaled \$10,691. The Company made claim payments totaling \$120 and \$485 during 2017 and 2016, 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 \$1 in interest income during the years ended December 31, 2017 and 2016, 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 2017 and 2016, \$8,983 and \$11,790 has been set aside to cover this exposure. During 2017 and 2016, the Company earned \$67 and \$89 in interest with \$2,874 and \$4,146 in loss payments on this OCIP. All interest generated will be used to pay for additional loss control services and a contractor incentive program.

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. On April 1, 2016, this coverage was renewed to April 1, 2021. The Company will now hold the collateral and loss funding for the first \$750 per occurrence resulting from Workers’ Compensation and the first \$1,900 from General Liability.

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 NYCT’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.

MTA 2015–2019 Combined Capital Construction Program—Effective June 30, 2017, the Company entered into a multi-year agreement with Starr Indemnity & Liability 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 2015–2019 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.

Effective June 30, 2017, the Company wrote a builders risk deductible reimbursement policy with the MTA for the 2015-2019 Combined Capital Construction Program with limits of \$250 per occurrence, \$1,000 per occurrence for peril of Flood with a \$25 contractor deductible per claim. The policy will expire on June 30, 2023.

6. LOSS AND LOSS ADJUSTMENT EXPENSES AND REINSURANCE

The following schedule presents changes in the loss and loss adjustment expense liabilities during 2017 and 2016 (in thousands):

	2017	2016
Loss and loss adjustment expenses—beginning of year	\$ 410,330	\$ 842,294
Loss reinsurance recoverable on unpaid losses and loss expenses	<u>(6,268)</u>	<u>(472,286)</u>
Net balance—beginning of year	404,062	370,008
Loss and loss adjustment expenses	129,227	124,134
Payments attributable to insured events of the current year	(100,587)	(88,441)
Change in expected timing of collection of recoverable	<u>-</u>	<u>(1,639)</u>
Net balance—end of year	432,702	404,062
Plus reinsurance recoverable on unpaid losses and loss expenses	<u>12,245</u>	<u>6,268</u>
Loss and loss adjustment expenses—end of year	444,947	410,330
Less current portion	<u>44,495</u>	<u>41,033</u>
Long-term liability	<u>\$ 400,452</u>	<u>\$ 369,297</u>

7. RELATED PARTY TRANSACTIONS

The Company provides insurance coverage for the MTA and its component units. The premium revenue from related parties during the period and receivable for the years ended December 31, 2017 and 2016, was as follows (in thousands):

	2017		2016	
	Receivable	Earned	Receivable	Earned
LIRR	\$ 10,545	\$ 14,396	\$ 10,716	\$ 13,606
MNCR	6,601	10,960	7,409	9,491
MTA	<u>173,275</u>	<u>108,470</u>	<u>96,224</u>	<u>141,061</u>
	<u>\$ 190,421</u>	<u>\$ 133,826</u>	<u>\$ 114,349</u>	<u>\$ 164,158</u>

Included in General and Administrative expenses for the years ended December 31, 2017 and 2016, respectively, are amounts the MTA charged of \$7,260 and \$10,494, respectively, to FMTAC for risk management services provided to the Company of which \$4,561 and \$3,714 remain as a liability at December 31, 2017 and 2016, 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 \$10,900,000 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 SIR limit 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, 2017, FMTAC has a losses payable of \$0, along with a corresponding \$0 reinsurance recoverable receivable in these financial statements. At December 31, 2016, FMTAC has a losses payable of \$292,222, along with a corresponding reinsurance recoverable receivable in these financial statements. FMTAC paid \$312,211 and \$72,360 and recovered \$292,222 and \$72,360 of paid losses relating to this claim in 2017 and 2016, respectively.

9. METRO-NORTH RAILROAD DERAILMENT

On December 1, 2013, 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 2017 and 2016, FMTAC paid \$10,000 and \$20,000 in losses relating to this claim, respectively. At December 31, 2017, FMTAC has a reserve of \$0 in these financial statements.

10. SUBSEQUENT EVENTS

FMTAC evaluated subsequent events from January 1, 2018 through April 25, 2018, the date the financial statements were issued. FMTAC concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements.

* * * * *

Memorandum



Metropolitan Transportation Authority

State of New York

Date April 13, 2018

To All MTA Financial Disclosure Statement Filers

From Lamond W. Kears, Chief Compliance Officer 

Re Financial Disclosure Statement – 2018 Covering Calendar Year 2017

On or about April 13, 2018 the New York State Joint Commission on Public Ethics (“JCOPE”) will begin the process of e-mailing or mailing notices regarding the New York State Annual Financial Disclosure Statement (“FDS”) for 2018, covering calendar year 2017, to applicable employees. All employees who have been designated FDS filers have an obligation to file their FDS with JCOPE. This statement, whether completed on-line or hard copy, should be filled out carefully and filed with JCOPE no later than May 15, 2018 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. A copy of the Code can be found on MTA’s Intranet, Internet or obtained from MTA Corporate Compliance. As you complete your financial disclosure form, you should be aware of any or actual potential conflicts of interest that you may need to report.

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, 2018.

New employees that are required to file, who commence service after the MTA submits its written list of financial filers, will have 30 days upon receipt of notification from JCOPE to complete their financial disclosure statement.

Financial Interest Reports
April 13, 2018
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 call the Ethics Helpline at 888 U-ASK-MTA (888-827-5682) for guidance.

Memorandum



Metropolitan Transportation Authority

State of New York

Date April 13, 2018

To Members of the Board

From Lamond W. Kears, Chief Compliance Officer

Re Financial Disclosure Statement – 2018 Covering Calendar Year 2017

On or about Friday, April 13, 2018 JCOPE will begin emailing notices regarding the filing of the annual Financial Disclosure Statement for 2018, covering calendar year 2017. 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, should be filled out carefully and thoughtfully and filed with JCOPE no later than May 15, 2018.

In order to file your Financial Disclosure Statement, you will need to do the following:

1. Go to the JCOPE Website www.JCOPE.NY.GOV
2. Click "**Electronic Filing of Financial Disclosure Statements**"
3. Click the "**State Employees Other Filers**" button
4. You will be directed to the "NY.gov.ID" page
5. Enter your username and password. If you forgot your password click forgot password.
6. Follow the prompts to reset your new password

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: Veronique Hakim
Helene Fromm
Thomas Quigley

Memorandum



Metropolitan Transportation Authority

State of New York

Date April 11, 2018

To Audit Committee

From Lamond W. Kears, Chief Compliance Officer 

Re Annual Report on 2017 Financial Interest Reporting Compliance

At its January 1992 meeting, this Committee requested an annual report regarding compliance by MTA Headquarters and the MTA Agencies ("MTA") with the financial interest reporting requirements established by the Public Officers Law and the MTA's all Agency Code of Ethics as approved by the Board.

Pursuant to MTA's Code of Ethics and Public Officers Law §73-a, each year MTA identifies those employees who are required to file a Financial Disclosure Statement based upon earning in excess of the statutory amount and those employees who are designated policy makers. This information is sent to Joint Commission on Public Ethics. Employees in these categories receive notices from the Commission that they are required to complete a Financial Disclosure Statement which must be returned to the Commission by the statutory deadline of May 15.

At its January 1996 Board meeting, the Board Authorized and directed the Chairman or his designees to actively assist the Commission in its enforcement of the State's financial reporting requirements and to impose disciplinary action in appropriate cases.

In accordance with the Board's directive, and in order to reinforce in the minds of all MTA employees the MTA's commitment to compliance with the State's financial disclosure requirements, I sent the annexed memorandum regarding compliance with financial disclosure to all MTA employees concurrently with the distribution by the Notice of the Commission.

The MTA will also continue actively to assist the Commission in its enforcement of the law. The Commission has a three-step enforcement process by which it notifies all delinquent filers and the MTA of the failure to file the required annual disclosure statement.

In approximately July or August the Commission sends confidential notices of a failure to file the State Disclosure Statement to all applicable employees. The filer has 15 days to file; in the event noncompliance continues, the Commission sends a notice of delinquency to the filer, to the MTA Chairman/CEO and the MTA Chief Compliance Officer.

MTA will notify delinquent filers of its receipt of the notice. The notices will stress to each delinquent filer that compliance with the filing requirements of MTA's Code of Ethics and State law is an urgent matter, and that an employee's failure to comply with the filing requirements can result in serious penalties, imposed pursuant to State law by the Commission, as well as in discipline, imposed by MTA Agencies pursuant to our Code of Ethics.

The Commission's final step for noncompliance following the public notice is to schedule an administrative hearing. Notice of an administrative hearing is sent to the Chairman of the MTA with a copy to the Chief Compliance Officer.

This year the MTA and each of its agencies have over 7,000 filers. As of the date of this memorandum, there are no delinquent filers from 2017.

MTA Corporate Compliance will be monitoring compliance closely in the coming year.

c: Veronique Hakim
Helene Fromm
Thomas Quigley
Agency Presidents
Agency General Counsels
Agency Ethics Officers

Metropolitan Transportation Authority
Department of Diversity and Civil Rights

Report to the Audit Committee
April 23, 2018



MTA Headquarters DDCR Update

Inactive Contracts – Status as of March 31, 2018

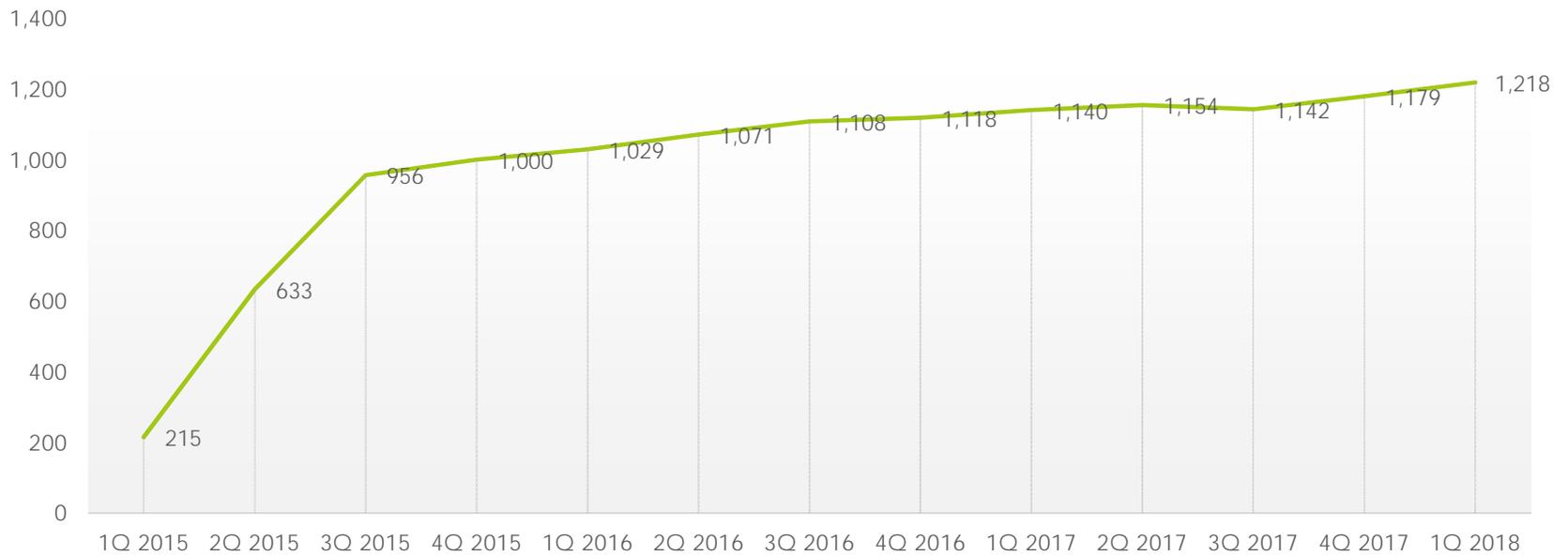
Inactive Contracts with Goals	#
1. Total Contracts Reviewed and Closed	925
2. Contracts Administratively Closed	293 ¹
Sub-Total	1,218 (95%)
3. Closeouts in Progress	18
4. Contracts Pending Agency Action	49
Total	1,285 ² (100%)

1. Contracts administratively closed because of the age of the contract (beyond the established seven-year record retention period).
2. Total number of inactive & closed contracts as of March 31, 2018.



MTA Headquarters DDCR Update

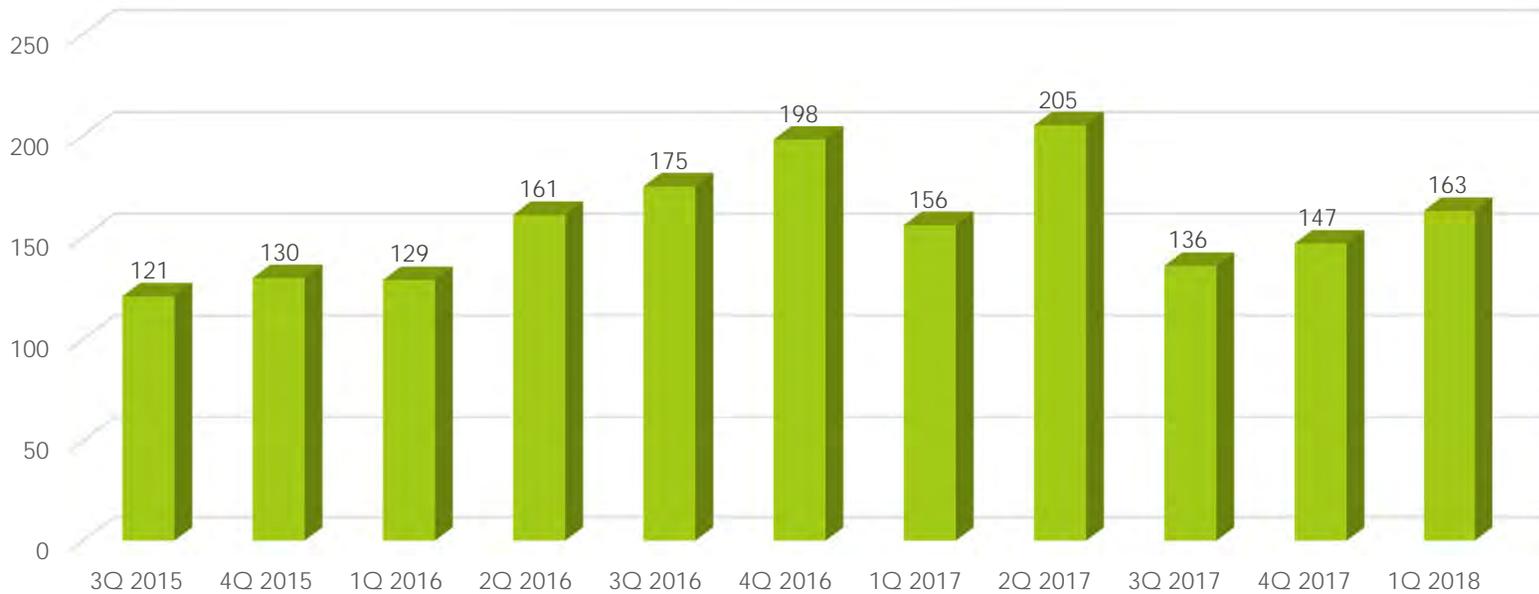
DDCR Contract Closeout Progression 1Q 2015 through 1Q 2018



MTA Headquarters DDCR Update

DDCR Project Site Visits: 3Q 2015 - 1Q 2018

Total Site Visits Performed = 1,721



MTA Headquarters DDCR Update

Goal Attainment on LIRR'S Third Track Projects

Managed By	Contract #	Prime Contractor	Current Contract Value	Start Date	Projected End Date	Assigned Goals	Current Attainment	Percentage of Completion
LIRR	6052A-9-3-C-CAP	ATC Group Services, LLC	\$307,888	1/24/2017	5/14/2018	MBE - 10%	MBE - 13%	57%
						WBE - 10%	WBE - 12%	
						SDVOB - 0%	SDVOB - N/A	
LIRR	6168A-01-02-A	Gannett Fleming-AECOM Rail Road Expansion Partnership	\$15,096,081	3/18/2016	10/31/2017	MBE - 15%	MBE - 23%	91%
						WBE - 15%	WBE - 18%	
						SDVOB - 0%	SDVOB - N/A	
MTACC	6240	3rd Track Constructors	\$1,457,117,010	1/12/2018	TBD	MBE - 15%	MBE - 0.05%	0.93%
						WBE - 15%	WBE - 0%	
						SDVOB - 6%	SDVOB - 0%	
MTACC	PS 868	Ove Arup & Partners	\$66,818,615	12/26/2017	TBD	MBE - 15%	MBE - 0%	0%
						WBE - 15%	WBE - 0%	
						SDVOB - 6%	SDVOB - 0%	

