



Metropolitan Transportation Authority

Audit Committee Meeting

May 2019

Committee Members

F. Ferrer, Chair
H. Mihaltses, Vice Chair
S. Feinberg
D. Jones
M. Lynton

Audit Committee Meeting

Monday, 5/20/2019

8:00 - 9:00 AM ET

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

1. PUBLIC COMMENTS

2. APPROVAL OF MINUTES

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3. AUDIT COMMITTEE WORK PLAN

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2019 WORKPLAN - Detailed - Page 9

4. MANAGEMENT REVIEW OF MTA CONSOLIDATED FINANCIAL STATEMENTS

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5. DRAFT 2018 AUDITED FINANCIAL STATEMENTS

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6. 2018 INVESTMENT COMPLIANCE REPORT

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7. FINANCIAL INTEREST REPORTS

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8. ERM UPDATE AND INTERNAL CONTROL GUIDELINES

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9. COMPLIANCE WITH THE REQUIREMENTS OF THE INTERNAL CONTROL ACT

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10. INFORMATION TECHNOLOGY REPORT

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11. OPEN AUDIT RECOMMENDATIONS

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12. EXECUTIVE SESSION

**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
TUESDAY, JANUARY 22, 2019 – 3:30 P.M.
RONAN BOARD ROOM – 20TH FLOOR
2 BROADWAY**

The following were present:

Honorable:

Neal Zuckerman
Mitchell Pally

Andrew Albert
Norman Brown

M. Fucilli - MTA
P. Kane - MTA
M. Murray - MTA
M. Garner - MTA

R. Foran - MTA
W. Hibri - MTA
T. Habib - MTA
N. Din - MTA

M. Fritz - Deloitte
J. Strohmeier - Deloitte
P. Zurita - Deloitte
K. Reinhart - Deloitte

Also in attendance:

H. Fromm - MTA

1. PUBLIC COMMENTS PERIOD

There were no public speakers.

2. APPROVAL OF MINUTES

The minutes of the December 12, 2018 Audit Committee meeting were approved.

3. AUDIT COMMITTEE WORK PLAN

The Auditor General presented the Work Plan, noting that the Committee will meet four times in 2019 and the agenda items for these meetings are presented in the agenda book for the Committee's approval. He noted one change to the proposed plan and that is the Investment Compliance Report, originally scheduled for July, is being moved to the May meeting.

A motion was made and seconded to approve the Work Plan.

4. REVIEW OF 3rd QUARTER 2018 MTA CONSOLIDATED FINANCIAL STATEMENTS

Mike Fritz (Deloitte) deferred to Jill Strohmeier to present the results of Deloitte's review of the 3rd Quarter 2018 MTA Consolidated Financial Statements. Jill said their review found the financial statements were consistent with that of the previous quarter and prior year; that there were no adjustments made to the accounts or changes in accounting policies and principles: and, overall, resulted in an "unmodified" or "clean" opinion. Chair Zuckerman requested that, for sake of clarity and transparency, the word "DRAFT" stamped across the pages of the financial statements be removed and Deloitte agreed it will be done going forward. Chair Zuckerman also asked questions relating to "Appropriations, Grants & Other Receipts;" MTA investments, changes in revenue subsidies and GASB 84, to which responses were provided by Pat Kane (MTA Comptroller) and Jill Strohmeier.

A motion was made and seconded to accept the 3rd Quarter 2018 financial statements as presented.

5. MANAGEMENT'S REVIEW OF PENSION PLANS

Pat Kane provided the Committee with a high-level review of the six pension plans presented in the Agenda book, namely: the MTA Defined Benefit Pension Plan, MaBSTOA Pension Plan, LIRR Plan for Additional Pensions, MNR Cash Balance Plan, MTA Deferred Compensation Program, and MTA Retiree Welfare Benefits (OPEB) Plan. He noted that the pension plans financial statements as of December 31, 2017 were prepared in accordance with GAAP, using the accounting standards established by the Government Accounting Standards Board (GASB). Pat highlighted the net assets of each of the plans. He said that GASB 73 and 74 were considered in the preparation of the financial statements, with GASB 74 having an impact on the OPEB Plan financial statements, due to the recognition of unfunded liabilities. Pat also highlighted the net liability of each of the pension plans and stated that the total consolidated pensions had a net liability of \$30.5 billion and net assets of \$24.0 billion or a funded ratio of 78.8% and the OPEB Plan had a liability of \$21.4 billion and net assets of 370 million or a funded ratio of 1.73%. Lastly, Pat presented a graph which compared MTA's Consolidated Pension plan and OPEB plan funded ratio against the funded ratios of the other 49 state public employee pension plans, noting that MTA's consolidated pension funded ratio of 78.8% fared better than most of other state pension funds. There were discussions about the MTA funded liability ratio being lower than the NY State's 94.5% funding ratio and the MTA's OPEB Plan funding which was significantly lower than most of the other states public employee funding level.

6. 2017 PENSION PLAN AUDITS

Jill Strohmeyer presented the results of Deloitte's audit of MTA Defined Benefit Pension Plan, MaBSTOA Pension Plan, LIRR Plan for Additional Pensions, MNR Cash Balance Plan, MTA Deferred Compensation Program, and MTA Retiree Welfare Benefits (OPEB) Plan as of December 31, 2017 by going through the "required communication" that was previously distributed to the committee. She discussed, among other things, the auditor's responsibilities, the objective of the financial audit, the audit procedures and risk assessments performed, the emphasis of matter paragraphs, the required supplemental information and management representation letters. She said the pension plan financial statements were prepared in accordance with Generally Accepted Accounting Principles and subjected to an audit conducted the Generally Accepted Auditing Standards; that there were no changes to the accounting policies, procedures and estimates, except for the changes required as a result of the adoption of GASB 74; no disagreements with plan's management and that their audit resulted in a "clean" or "unmodified" opinion.

Member Albert inquired why NYC Transit was not mentioned in the required communication letter and Jill responded that it is because NYC Transit's Pension Plan is part of the city's plan, which is audited by another firm. Chair Zuckerman commented on the need to highlight certain items on the supplemental information and asked Deloitte to give examples of the tests performed in the pension audit. Jill cited that focus of the audit was on investments and cited several procedures they performed which included, among others, verifying prices using third party experts, validating sales and purchase transactions, verifying accuracy of employee and employer contributions with the use of actuarial specialists and testing benefit payments. Chair Zuckerman inquired if Deloitte uses third party actuarial specialists and Jill said it uses its own specialists.

A motion was made and seconded to accept the audit reports on the financial statements of the six pension plans as of and for the year ended December 31, 2017.

7. AUDIT INNOVATION TOOL

Jill Strohmeyer introduced Chris Weaver and Harshit Sinha, members of Deloitte's Data Analytics & Innovation Group, who were here in response to the committee's request for Deloitte to provide the Committee with a sample of "tools" it uses in the audit of MTA financial statements. They then proceeded to make a video presentation about one of the "tools" Deloitte used in auditing MTA's Pension Plan data: Demographic Data Analytics. They described how the "tool" is used in performing qualitative and quantitative analysis of demographic data (date of birth, sex, hire date, salaries, beneficiaries, retirement date and others), year-to-year changes, the analysis velocity and the accuracy of the results. There were discussions about the availability of the tool, user access and the security of demographic data. Chair Zuckerman thanked Deloitte's team for the demonstration and said that, as part of the efforts to have the committee and financial staff exposed to audit trends, new tools and best practices, requests for similar presentations would be made in the future.

8. DDCR PERFORMANCE UPDATE

Michael Garner (Chief Diversity Officer) introduced Naeem Din (Deputy CDO) to make the DDCR presentation on contract closeouts and the requested information on the LIRR's Third Track Projects. Naeem referred to the materials presented in the agenda book and stated that DDCR: closed out 1,340 contracts and 28 more in progress of being closed out as of December 31, 2018; conducted 667 site visits in 2018 or an average of 56 visits per month. Naeem also discussed the goal attainment on the two LIRR Third Track Projects: the third track expansion and project management where he noted each have assigned MBE/WBE goal of 15% and the attainment to date was relatively low as the projects were at their early stages of completion. Member Pally inquired as to when the goals are usually achieved. Michael responded that it is usually towards the end of the contract and that DDCR actively monitors the contractors and their subcontractors' participation to ensure goal achievement. Michael announced that Naeem will be retiring and expressed his appreciation for his work at DDCR. The committee expressed its thanks as well.

9. 2018 AUDIT PLAN STATUS AND 2019 AUDIT PLAN

The Auditor General first introduced his direct reports: Michele Woods, Mike Prado and Wenny Formanes and thanked them and the entire audit staff for accomplishing the audit results. The AG stated that in year 2018 Audit Services made 472 recommendations to improve governance, transparency and controls at the MTA while reducing risk. He cited the achievements of the Sandy audit unit since it was established in 2013 with this Committee's approval to fulfill MTA's commitment to the fund grantors, the FTA: 112 projects completed and 296 recommendations made to improve controls and adjust submitted costs totaling \$60.2 million. The AG also highlighted some of the audits completed in 2018 which included, among others, the procurements under Executive Order 168, certain aspects of the Subway Action Plan, MNR's Sleep Apnea program, and the Commuter Railroad Fare Evasion. The AG the presented the 2019 Audit Plan and described the audit plan formulation, including the audit plan sources and strategies, the risk factor considerations, the solicitation from agency officials, the independent accountants and consultation with the Managing Director and Acting Chairman. The AG said that the formal documented risk assessment process resulted in the identification of 612 auditable units of which 145 are planned to be audited in 2019. The AG provided a snapshot of some of the planned audits that are to be undertaken in 2019 under these functional areas of: Finance, Service Delivery, Safety, Procurement, Revenue, Human Resources, Technology and Capital Program. Lastly, the AG discussed the allocation of MTA Audit Services resources to each agency and the audit strategies for 2019.

Member Pally inquired if part of procurement section of audit plan included verifying that agencies are implementing the "cost containment" recommendations made by the Board. The AG confirmed that it is covered in the plan. There were discussions about the 612 auditable units and its coverage over a 5-year period, the accuracy of fare evasion estimates and focusing audits on areas that have the greatest value to the MTA.

A motion was made and seconded to approve the 2019 Audit Plan as presented.

10. EXECUTIVE SESSION

Upon motion duly made and seconded, the Committee voted to convene an executive session to discuss the sensitive data at the MTA.

11. 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

2019 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/Non-Audit Activities	Committee Chair & Members
Follow-Up Items	Committee Chair & Members
Status of Audit Activities	Auditor General/Chief Compliance Officer/ Chief Financial Officers/MTAIG Controllers/External Auditor
Executive Sessions	As Appropriate

II. SPECIFIC AGENDA ITEMS

January 2019

Quarterly Financial Statements – 3 rd Quarter 2018	External Auditor/CFOs
Pension Plans	Comptroller/External Auditor
Audit Innovation Tool	External Auditor
DDCR Performance Measures	Chief Diversity Officer
MTAAS 2018/2019 Audit Plans	Auditor General
Security of Sensitive Data	Chief Information Security Officer

May 2019

Review of MTAConsolidated Financial Statements	Comptroller
2018 Audited Financial Statements	External Auditor/CFOs/Controllers
Investment Compliance Report	External Auditor
Financial Interest Reports	Chief Compliance Officer
ERM Update & Internal Control Guidelines	Chief Compliance Officer
Compliance with Internal Control Act	Chief Compliance Officer/Agency ICOs
Information Technology Report	Chief Information Security Officer
Open Audit Recommendations	Agency ICOs/Chief Compliance Officer
Contingent Liabilities/Third Party Lawsuits	General Counsels/External Auditor

July 2019

Quarterly Financial Statements – 1 st Quarter 2019	External Auditor/CFOs
Single Audit Report	External Auditor/CFOs
Management Letter Reports	External Auditor/CFOs/Controllers
ERM Update, Ethics and Compliance Program	Chief Compliance Officer
MTAAS 2019 Audit Plan Status Report	Auditor General
Security of Sensitive Data	Chief Information Security Officer
MTA/IG Presentation	Inspector General
DDCR Performance Measures	Chief Diversity Officer

October 2019

Quarterly Financial Statements – 2 nd Quarter 2019	External Auditor/CFOs
Appointment of External Auditors	Committee Chair & Members
Deloitte Audit Approach Plans	External Auditor
Review of MTA/IG's Office	External Auditor/IG
Review of Audit Committee Charter	CCO and Committee Chair
Annual Audit Committee Report	Committee Chair

2019 AUDIT COMMITTEE WORK PLAN

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

JANUARY 2019

Quarterly Financial Statements - 3rd Quarter 2018

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 2018.

Pension Plans

i Management's Review of MTA-Managed/Controlled Pension Plan Financial Statements

The MTA Comptroller will present a management's review of the 2017 MTA-managed and controlled Pension Plan financial statements, including changes in the plan's net position, the required supplementary information and any new GASB statements or statutory regulations affecting the financial statements.

ii Audit of the Pension Plans Financial Statements

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.

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.

MTAAS 2018/2019 Audit Plans

i. 2018 Audit Plan Status

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 in 2018.

ii 2019 Audit Plan

A discussion by Audit Services of the areas scheduled to be reviewed in 2019 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.

Security of Sensitive Data

The MTA Chief Security Information Officer will make a presentation to the Committee on the security of sensitive data at the MTA.

MAY 2019

Management's Review of MTA Consolidated Financial Statements

The MTA Comptroller will present a management's review of the 2018 MTA consolidated financial statements, including changes in capital, net assets, other assets and operating revenues and expenses.

2018 Audited Financial Statements

The MTA public accounting firm will review the results and conclusions of their examination of the 2018 Financial Statements. 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.

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.

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.

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 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 Security 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.

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.

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.

JULY 2019

Quarterly Financial Statements – 1st Quarter 2019

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 2019.

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.

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.

ERM Update and Ethics & Compliance Program

The MTA Chief Compliance Officer will brief the Committee (i) on the status of agency compliance with the ERM guidelines and any new or emerging risk and (ii) selected aspects of the MTA Ethics and Compliance Program.

MTAAS 2019 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.

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.

MTA/IG Presentation

The Inspector General will make a presentation to the Committee on the OIG activities and coordination with MTA Audit Services.

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.

OCTOBER 2019

Quarterly Financial Statements - 2nd Quarter 2019

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 2019.

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 2019 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 2019 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 2019. 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, 2018 AND 2017**

**MANAGEMENT'S REVIEW
AUDIT COMMITTEE MEETING
MAY 20, 2019**



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 2018

GASB #	Title	Effective Date
GASB 75	<u>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</u> establishes standards of accounting and financial reporting for postemployment benefits other than pensions ("OPEB")	Fiscal year 2018
GASB 85	<u>Omnibus 2017</u> , addresses practice issues identified during the implementation and application of certain GASB statements.	Fiscal year 2018
GASB 86	<u>Certain Debt Extinguishment Issues</u> , establishes standards of accounting and financial reporting for in-substance defeasance of debt.	Fiscal year 2018



MTA CONSOLIDATED STATEMENT OF NET POSITION FOR YEARS ENDED 12/31/2018 & 12/31/2017

\$'s in Millions	DECEMBER 31,	
	2018	2017
ASSETS		
Cash & Investments	\$ 5,921	\$6,671
Accounts Receivables (Net)	1,117	1,066
Capital Assets (Net)	72,511	68,060
Other Assets	789	796
TOTAL ASSETS	<u>80,338</u>	<u>76,593</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows : Refundings & Fair Market Value of Swaps	1,467	1,643
Deferred Outflows for Pensions	1,397	2,044
Deferred Outflows for OPEB	1,496	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>4,360</u>	<u>3,687</u>
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 84,698	\$ 80,280
LIABILITIES		
Long-term debt	42,169	40,098
Post employment benefits other than pension	20,335	16,731
Net Pension Liability	6,487	8,105
Liability for injury claims	4,254	3,851
Other liabilities	6,386	5,765
TOTAL LIABILITIES	<u>79,631</u>	<u>74,550</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows: Refundings	23	26
Deferred Inflows from Pensions	1,070	480
Deferred Inflows from OPEB	21	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,114</u>	<u>506</u>
NET POSITION	3,953	5,224
TOTAL LIABILITIES, DEFERRED INFLOWS & NET POSITION	\$ 84,698	\$ 80,280



MTA CONSOLIDATED FINANCIAL STATEMENTS

ASSETS & DEFERRED OUTFLOWS

\$'s in Millions

	DECEMBER 31,		CHANGE	
	2018	2017	\$	%
CASH & INVESTMENTS	\$5,921	\$6,671	(\$750)	(11%)
RECEIVABLES	1,117	1,066	51	5%
CAPITAL ASSETS (Net)	72,511	68,060	4,451	7%
OTHER ASSETS	789	796	(7)	(1%)
TOTAL ASSETS	\$80,338	\$76,593	\$3,745	5%
DEFERRED OUTFLOWS: OTHER	1,467	1,643	(176)	(11%)
DEFERRED OUTFLOWS FOR PENSIONS	1,397	2,044	(647)	(32%)
DEFERRED OUTFLOWS FOR OPEB	1,496	0	1,496	NA
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$4,360	\$3,687	\$673	18%

TOTAL ASSETS & DEFERRED OUTFLOWS	\$84,698	\$80,280	\$4,419	6%
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- Cash & Investments decreased \$750 due primarily to decreased investments of \$1,008.
- Receivables increased \$51 due to increases in amounts due from NY State.
- Capital assets increased \$4,451 as a result of increased capital investments.
- Other assets decreased \$7 due primarily to a decrease in prepaid expenses.
- Total deferred outflows of resources increased \$673 due primarily to new deferred outflows for OPEB of \$1,496 as a result of implementing GASB 75. Offsetting this were decreases in deferred outflows from pensions and other deferred outflows of \$823



MTA CONSOLIDATED FINANCIAL STATEMENTS

LIABILITIES & DEFERRED INFLOWS

\$'s in Millions

	DECEMBER 31,		CHANGE	
	2018	2017	\$	%
LONG-TERM DEBT	42,169	40,098	\$2,071	5%
OTHER POST EMPLOYMENT BENEFITS	20,335	16,731	3,604	22%
NET PENSION LIABILITIES	6,487	8,105	(1,618)	
LIABILITIES FOR INJURY CLAIMS	4,254	3,851	403	10%
OTHER LIABILITIES	6,386	5,765	621	11%
TOTAL LIABILITIES	\$79,631	\$74,550	\$5,081	7%
DEFERRED INFLOWS FOR DEBT REFUNDINGS	23	26	(3)	(12%)
DEFERRED INFLOWS FOR PENSIONS	1,070	480	590	123%
DEFERRED INFLOWS FOR OPEB	21	0	21	NA
TOTAL DEFERRED INFLOWS OF RESOURCES	\$1,114	\$506	\$608	120%

- Long-term debt increased \$2,071 due to net new borrowings.
- OPEB liability increased \$3,604 due to implementation of new GASB 75.
- Net Pension liability decreased \$1,618 due primarily to higher than assumed pension investment returns.
- Liabilities for injury claims increased \$403 due to increased workmen's comp claims.
- Other liabilities increased \$621 due primarily to increases in accrued expenses and accrued capital expenditures.
- Total Deferred Inflows of resources increased \$608 due primarily to an increase in deferred inflows fro pensions due to higher than assumed pension investment earnings.



MTA CONSOLIDATED FINANCIAL STATEMENTS

NET POSITION

\$'s in Millions	DECEMBER 31,		CHANGE	
	2018	2017	\$	%
NET INVESTMENT IN CAPITAL ASSETS	30,000	\$28,250	\$1,750	6%
RESTRICTED FOR DEBT SERVICE	454	516	(62)	(12%)
RESTRICTED FOR CLAIMS	206	182	24	13%
RESTRICTED FOR OTHER PURPOSES	1,230	983	247	25%
UNRESTRICTED	(27,937)	(24,707)	(3,230)	(13%)
TOTAL NET POSITION	\$3,953	\$5,224	(\$1,271)	(24%)

- Net investment in Capital Assets increased \$1,750 due to an increase in net capital assets of \$4,392, offset by an increase in net capital related liabilities of \$2,642.
- Restricted for debt service decreased \$62 due to a decrease in debt service related investments.
- Restricted for claims increased \$24 due to an increases in FMTAC loss reserves.
- Net Position for other purposes increased \$247 due to an increase in other restricted investments
- Unrestricted net position decreased \$3,230 due to an increase in the OPEB liability of \$3,604, offset by a net increase in deferred inflows and outflows of \$65, and a surplus before depreciation and capital grants & appropriations of \$309



MTA CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

\$'s in Millions	DECEMBER 31,		CHANGE	
	2018	2017	\$	%
NET CASH FROM OPERATING ACTIVITIES	(\$4,284)	(\$3,834)	(\$450)	(12%)
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	7,050	6,601	449	7%
NET CASH FROM CAPITAL & RELATED FINANCING ACTIVITIES	(3,334)	(3,098)	(236)	(8%)
NET CASH FROM INVESTING ACTIVITIES	826	(118)	944	(800%)
NET CHANGE IN CASH	258	(449)	707	(157%)
CASH - BEGINNING OF YEAR	283	732	(449)	(61%)
CASH - END OF YEAR	\$541	\$283	\$258	91%



MTA CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

\$'s in Millions

	DECEMBER 31,		CHANGE	
	2018	2017	\$	%
OPERATING REVENUES	\$8,736	\$8,673	\$63	1%
OPERATING EXPENSES	(16,841)	(16,850)	9	0%
OPERATING DEFICIT	(8,105)	(8,177)	72	1%
SUBSIDIES & TAX REVENUES	7,113	6,496	617	9%
LESS: INTEREST EXPENSE	(1,460)	(1,517)	57	4%
DEFICIT BEFORE CAPITAL GRANTS & APPROPRIATIONS	(2,452)	(3,198)	746	23%
CAPITAL GRANTS & APPROPRIATIONS	2,302	2,662	(360)	(14%)
CHANGE IN NET POSITION	(\$150)	(\$536)	\$386	72%
NET POSITION - BEGINNING OF YEAR	5,224	5,607		
RESTATEMENT OF BEGINNING NET POSITION - ADOPTION OF GASB NO 75	(1,121)	0	(1,121)	
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	0	153	(153)	
NET POSITION - END OF YEAR	\$3,953	\$5,224	(\$1,271)	(24%)



MTA CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2018			
	Financial Plan Estimate	Financial Statement Actual	VARIANCE	
			\$	%
Total Operating Revenues	\$8,782	\$8,736	(\$46)	(1%)
Operating Expenses:				
Total Labor Expenses	11,490	10,496	(994)	(9%)
Total Non-Labor Expenses	3,902	3,666	(236)	(6%)
Depreciation	2,697	2,679	(18)	(1%)
Total Operating Expenses	18,089	16,841	(1,248)	(7%)
Net Operating Deficit	\$ (9,307)	\$ (8,105)	\$1,202	(13%)
Dedicated Taxes, & Subsidies	7,242	7,238	(4)	(0%)
Debt Service (<i>Financial Plan includes Interest+Principal</i>)	(2,559)	(1,460)	1,099	
Conversion to Cash Basis: Non Cash Liability Adj's	4,286	(125)	(4,411)	
(Deficit) Before Capital Grants & Appropriations	(\$338)	(\$2,452)	(\$2,114)	



MTA CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION FOR THE PERIOD ENDED DECEMBER 31, 2018 (\$ in millions)

Financial Plan Actual Operating Loss at 12/31/2018	\$ (9,307)
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The Financial Plan Includes:

1 Higher other operating revenues	(46)
2 Higher labor expense primarily from higher OPEB expense which did not reflect GASB 75 OPEB implementation adjustments	994
3 Higher non-labor expense primarily from higher estimated maintenance expense	102
4 Other expense adjustments	152

Total Operating Reconciling Items	1,202
--	--------------

Audited Financial Statements Operating Loss at 12/31/2018	(\$8,105)
--	------------------

Financial Plan Deficit after Subsidies and Debt Service at 12/31/2018	(\$338)
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The Financial Plan Actual Includes:

1 Debt Service Bond Principal Payments	1,099
2 Adjustments for non-cash liabilities:	
Depreciation	(2,697)
Unfunded OPEB Expense	(1,809)
Unfunded GASB 68 pension adjustment	240
Other Non-cash liability adjustment	(20)
	<u>(4,286)</u>

The Audited Financial Statements Includes:

3 Lower subsidies and other non-operating revenues & expenses	(129)
4 Total Operating Reconciling Items (from above)	1,202

Audited Financial Statements Deficit Before Capital Grants & Appropriations at 12/31/2018	(\$2,452)
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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, 2018 and 2017
Required Supplementary Information,
Supplementary Information and
Independent Auditors' Report

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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, 2018 and 2017, 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, 2018 and 2017, 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.

As described in Note 2 to the financial statements, in 2018, the MTA adopted Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the MTA's Net Pension Liability and Related Ratios for the Single Employer Pension Plans, the Schedule of the MTA's Proportionate Share of Net Pension Liabilities of Cost-Sharing Multiple-Employer Pension Plans, the Schedule of the MTA's Contributions for All Pension Plans, the Schedule of Changes in the MTA's Net OPEB Liability and Related Ratios, and the Schedule of the MTA's Contributions to the OPEB Plan, as listed in the table of contents, 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.

May 20, 2019

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, 2018 AND 2017

(\$ 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, 2018 and 2017. 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 and net other postemployment benefits ("OPEB") liability, employer contributions for the OPEB and pension plans, actuarial assumptions used to calculate the net pension liability and net OPEB liability, historical trends, and other required supplementary information related to the MTA Group's cost-sharing multiple-employer defined benefit pension plans.

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, 2018 and 2017. 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

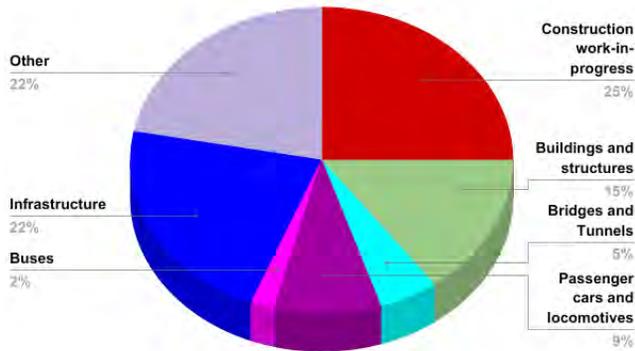
Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of buses, equipment, passenger cars, and locomotives.

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.

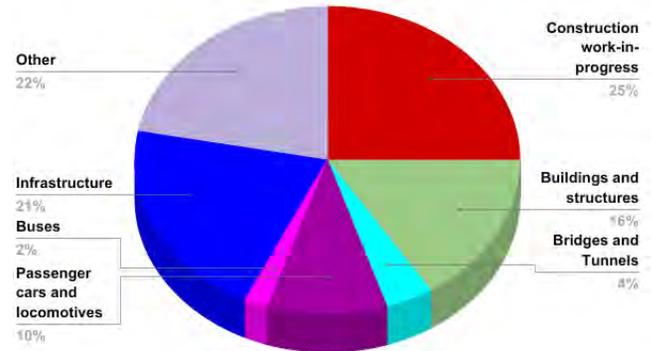
Deferred outflows of resources reflect: changes in fair market values of hedging derivative instruments that are determined to be effective, unamortized loss on refunding, deferred outflows from pension activities, and deferred outflows from OPEB activities.

(In millions)	December 31,			Increase / (Decrease)	
	2018	2017	2016	2018 - 2017	2017 - 2016
Capital assets — net (see Note 6)	\$ 72,511	\$ 68,060	\$ 64,518	\$ 4,451	\$ 3,542
Other assets	7,827	8,533	9,268	(706)	(735)
Total Assets	80,338	76,593	73,786	3,745	2,807
Deferred outflows of resources	4,360	3,687	3,832	673	(145)
Total assets and deferred outflows of resources	\$ 84,698	\$ 80,280	\$ 77,618	\$ 4,418	\$ 2,662

Capital Assets, Net - December 31, 2018



Capital Assets, Net - December 31, 2017



Significant Changes in Assets and Deferred Outflows of Resources Include:

December 31, 2018 versus December 31, 2017

- Net capital assets increased at December 31, 2018 by \$4,451 or 6.5%. There was an increase in infrastructure of \$2,424, an increase in other capital assets of \$1,813, an increase in construction in progress of \$1,074, an increase in buildings and structures of \$741, an increase in bridges and tunnels of \$550, an increase in buses of \$195, and a decrease in passenger cars and locomotives of \$482. That was offset by a net increase in accumulated depreciation of \$1,864. 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:
 - o Repairs and improvements of all MTA Bridge and Tunnels' facilities.
 - o Improvements to MTA Long Island Railroad's road-assets, replacement of signal power lines, various right-of-way enhancements and upgrades of radio communications.
 - o Continued improvements to MTA Metro-North Railroad stations, tracks and structures, power rehabilitation of substations, and security.
 - o Subway and bus real-time customer information and communications systems.
 - o 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 \$706 or 8.3%. The major items contributing to this change include:
 - A decrease in investments of \$1,008 mainly due to use of funds for capital projects.
 - An increase in current and non-current receivables of \$51 primarily due to an increase in subsidies from New York City for MTA New York City Transit and MTA Bus of \$102, an increase in Federal and State grants for capital projects of \$22, a net decrease in other subsidies of \$24 and a decrease in receivables from New York State for Service Contract Bonds of \$33. There was also a net decrease in various current and non-current receivables of \$16.
 - An increase in cash of \$258 from net cash flow activities.
 - A net decrease in various other current and noncurrent assets of \$7.
- Deferred outflows of resources increased by \$673 or 18.3%. This increase in deferred outflows is primarily related to OPEB activities of \$1,496 due to the implementation of GASB Statement No. 75, lower deferred outflows related to pensions of \$647 due to changes in the actuarially determined calculations for the pension plans related to changes in certain actuarial assumptions. There was also a decrease in the fair value of derivative instruments of \$79, and a decrease in deferred outflows for unamortized losses on refundings of \$97.

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 noncurrent 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.

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

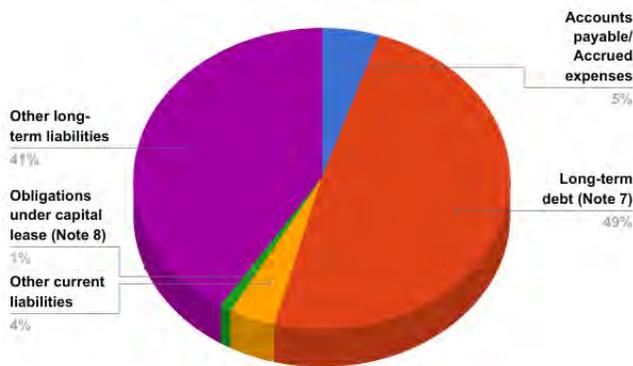
Current liabilities include: accounts payable, accrued expenses, current portions of long-term debt, capital lease obligations, pollution remediation liabilities, unredeemed fares and tolls, and other current liabilities.

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

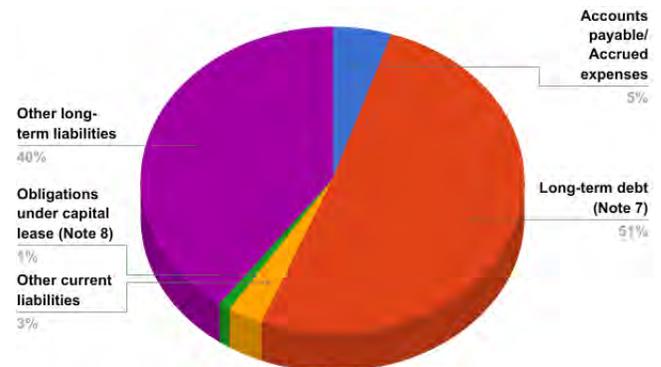
Deferred inflows of resources reflect unamortized gains on refunding, pension related deferred inflows, and deferred inflows from OPEB activities.

(In millions)	December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 - 2017	2017 - 2016
Current liabilities	\$ 7,609	\$ 6,246	\$ 6,003	\$ 1,363	\$ 243
Non-current liabilities	72,022	68,304	65,684	3,718	2,620
Total liabilities	79,631	74,550	71,687	5,081	2,863
Deferred inflows of resources	1,114	506	324	608	182
Total liabilities and deferred inflows of resources	\$ 80,745	\$ 75,056	\$ 72,011	\$ 5,689	\$ 3,045

Total Liabilities - December 31, 2018



Total Liabilities - December 31, 2017



Significant Changes in Liabilities and Deferred Inflows of Resources Include:

December 31, 2018 versus December 31, 2017

- Current liabilities increased by \$1,363 or 21.8%. The net increase in current liabilities was primarily due to a net increase of \$87 in other accrued expenses, an increase in capital accruals of \$325, an increase in estimated liability arising from injuries to persons (Note 11) of \$39, an increase in unearned premiums of \$9, an increase in interest payable of \$6, an increase of \$54 in employee related accruals. In addition, there was an increase in unearned revenues of \$210, largely due to grant funds received in advance before expenditures for grants have been incurred, a decrease in accounts payable due to vendors of \$137, an increase of current portion of long-term debt of \$746 due to new bond issues, an increase in the current portion of pollution remediation projects of \$11, and an increase in various other current liabilities of \$13 primarily due to an increase in derivative fuel hedge liability (Note 15) of \$12.



- Non-current liabilities increased by \$3,718 or 5.4%. This increase was mainly due:
 - An increase in the non-current portion of long-term debt of \$1,325 primarily due to 2018 bond issuances (See Note 7).
 - An increase in net OPEB liability of \$3,604 as a result of adopting GASB Statement No. 75 (Note 5).
 - An increase in estimated liability arising from injuries to persons (Note 10) of \$364 due to revised actuarial calculations of the workers' compensation reserve.
 - A net increase in other various non-current liabilities of \$43 primarily due to an increase in pollution remediation projects requiring corrective work requirements.
 - A decrease in pension liability of \$1,618, resulting from actuarial calculations as required by GASB Statement No. 68 (see Note 4).
- Deferred inflows of resources increased by \$608 or 120.2%, primarily due to higher deferred inflows related to pensions of \$590 as a result of changes in the actuarially determined calculations for the pension plans for changes in certain actuarial assumptions. An increase in deferred inflows related to OPEB of \$21 as a result of adopting GASB Statement No. 75, and a decrease in the gain on refunding of debt of \$3.

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.

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

(In millions)	December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 - 2017	2017 - 2016
Net investment in capital assets	\$ 30,000	\$ 28,250	\$ 25,756	\$ 1,750	\$ 2,494
Restricted for debt service	454	516	352	(62)	164
Restricted for claims	206	182	178	24	4
Restricted for other purposes	1,230	983	935	247	48
Unrestricted	(27,937)	(24,707)	(21,614)	(3,230)	(3,093)
Total Net Position	<u>\$ 3,953</u>	<u>\$ 5,224</u>	<u>\$ 5,607</u>	<u>\$ (1,271)</u>	<u>\$ (383)</u>

Significant Changes in Net Position Include:

December 31, 2018 versus December 31, 2017

At December 31, 2018, total net position decreased by \$1,271 or 24.3%, when compared with December 31, 2017. This change is a result of net non-operating revenues of \$5,653 and appropriations, grants and other receipts externally restricted for capital projects of \$2,302, offset by restatement of beginning net position of \$1,121 and by operating losses of \$8,105.

The net investment in capital assets increased by \$1,750 or 6.2%. Funds restricted for debt service, claims and other purposes increased by \$209 or 12.4% in the aggregate, mainly due to scheduled debt service payments. Unrestricted net position decreased by \$3,230 or 13.1%.

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%.

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

(In millions)	December 31, 2018	December 31, 2017	December 31, 2016	Increase/(Decrease)	
				2018 - 2017	2017 - 2016
Operating revenues					
Passenger and tolls	\$ 8,131	\$ 8,084	\$ 7,899	\$ 47	\$ 185
Other	605	589	621	16	(32)
Total operating revenues	<u>8,736</u>	<u>8,673</u>	<u>8,520</u>	<u>63</u>	<u>153</u>
Non-operating revenues					
Grants, appropriations and taxes	6,407	5,722	5,972	685	(250)
Other	839	782	756	57	26
Total non-operating revenues	<u>7,246</u>	<u>6,504</u>	<u>6,728</u>	<u>742</u>	<u>(224)</u>
Total revenues	<u>15,982</u>	<u>15,177</u>	<u>15,248</u>	<u>805</u>	<u>(71)</u>
Operating expenses					
Salaries and wages	6,300	5,968	5,627	332	341
Retirement and other employee benefits	2,447	2,742	2,892	(295)	(150)
Postemployment benefits other than pensions	1,749	2,155	2,146	(406)	9
Depreciation and amortization	2,679	2,611	2,447	68	164
Other expenses	3,666	3,374	3,036	292	338
Operating expenses	16,841	16,850	16,148	(9)	702
Net expenses related to asset impairment	-	-	2	-	(2)
Total operating expenses	<u>16,841</u>	<u>16,850</u>	<u>16,150</u>	<u>(9)</u>	<u>700</u>
Non-operating expenses					
Interest on long-term debt	1,460	1,517	1,463	(57)	54
Loss on disposal of subway cars	125	-	-	125	-
Other net non-operating expenses	8	8	7	-	1
Total non-operating expenses	<u>1,593</u>	<u>1,525</u>	<u>1,470</u>	<u>68</u>	<u>55</u>
Total expenses	<u>18,434</u>	<u>18,375</u>	<u>17,620</u>	<u>59</u>	<u>755</u>
Loss before appropriations, grants and other receipts					
externally restricted for capital projects	(2,452)	(3,198)	(2,372)	746	(826)
Appropriations, grants and other receipts					
externally restricted for capital projects	2,302	2,662	2,168	(360)	494
Change in net position	(150)	(536)	(204)*	386	(332)
Net position, beginning of year	5,224	5,607	5,811	(383)	(204)
Restatement of beginning net position - adoption of GASB No. 75	(1,121)	-	-	(1,121)	-
Cumulative effect of change in accounting principle	-	153	-	(153)	153
Net position, end of year	<u>\$ 3,953</u>	<u>\$ 5,224</u>	<u>\$ 5,607</u>	<u>\$ (1,271)</u>	<u>\$ (383)</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, 2018 versus 2017

- Total operating revenues increased by \$63 or 0.7%. This increase was mainly due to an increase in toll revenue of \$64 primarily due an increase in vehicle crossings for the year ended December 31, 2018, when compared to the year ended December 31, 2017. Other operating revenues increased by \$16 due to higher advertising revenues collected on behalf of all agencies. The increase was offset by a decrease in fare revenue of \$17 due to lower ridership.
- Total non-operating revenues increased by \$742 or 11.4%.
 - Total grants, appropriations, and taxes increased by \$685. This was due to an increase in tax-supported subsidies from New York City and local service areas of \$155 mainly due to higher Urban Tax of \$161, offset by a decline in Mortgage Recording Tax subsidies of \$6. Tax-supported subsidies from New York State increased by \$24 primarily due to an increase in Mass Transportation Trust Fund of \$27, a decrease in Payroll Mobility Tax of \$26, an increase in Operating Assistance of \$19 and an increase in MTA Aid of \$4. Other subsidies increased by \$506 primarily from subsidy support of NYS and NYC for the Subway Action Plan of \$508, a decrease in NYS Service Contract subsidy of \$4, and an increase in Build America Bond subsidy of \$2.



- Other non-operating revenues increased by \$57 primarily due to an increase in subsidies from the Connecticut Department of Transportation for the MTA Metro-North Railroad of \$31, an increase in subsidies from New York City of \$57 for MTA Bus and MTA Staten Island Railway. This was offset by a net decrease in non-operating revenues of \$31.
- Labor costs decreased by \$369 or 3.4%. The major changes within this category are:
 - Salaries, wages and overtime increased by \$332 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 decreased by \$406 as a result of adopting GASB Statement No. 75.
 - Retirement and employee benefits decreased by \$295 primarily due to lower pension expenses based upon the current actuarial valuation under GASB Statement No. 68.
- Non-labor operating costs increased by \$360 or 6%. The variance was primarily due to:
 - An increase in pollution remediation projects of \$93 primarily due to additional identification of areas of exposure requiring corrective work requirements.
 - An increase in professional service contracts of \$120 due to changes in consulting services requirements.
 - An increase in depreciation of \$68 primarily due to more assets placed in service in the current year.
 - A decrease in insurance of \$26 due to lower property and liability reserve requirements.
 - An increase in electric power of \$52 and fuel of \$34 due to changes in rates and consumption.
 - An increase in material and supplies by \$49, mainly due to revised maintenance and repairs requirements for transit and commuter systems.
 - An increase in paratransit service contracts of \$62 primarily due to higher paratransit taxi expenses.
 - A decrease in claims arising from injuries to persons of \$88 based on the most recent actuarial valuations.
 - A net decrease in other various expenses of \$4.
- Total net non-operating expenses increased by \$68 or 4.5% primarily due to an increase in the loss on disposal of subway cars of \$125 offset by a decrease in interest on long-term debt of \$57.
- Appropriations, grants and other receipts externally restricted for capital projects decreased by \$360 or 13.5%, mainly due to timing in the availability of Federal and State grants for capital projects

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 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 3.8% 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.

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 2018 decreased relative to 2017, with ridership down by 80.7 million trips (3.1%). The decrease is driven by Subway ridership, which declined by 47.3 million trips (2.7%), and MTA New York City Transit Bus ridership, which declined by 33.3 million trips (5.5%). In addition, MTA Bus ridership declined by 766 thousand trips (0.6%) and MTA Staten Island Railway ridership declined by 82 thousand trips (1.8%). Commuter rail experienced a small increase in ridership in 2018, with MTA Long Island Rail Road ridership increasing by 607 thousand trips (0.7%) and MTA Metro-North Railroad ridership increasing by 58 thousand trips (0.1%). The overall decline in ridership in 2018 was comprised of a 27.6 million decline in the first quarter, an 18.2 million decline in the second quarter, a 21.4 million decline in the third quarter and a 13.5 million decline in the fourth quarter, all compared with the corresponding quarter in 2017. The decline in bus ridership is consistent with a trend that began in 2009 and has been observed nationally, while declining subway ridership is a more recent trend, beginning in the third quarter of 2016; recent bus and subway ridership trends have been attributed to increased fare evasion, planned subway service changes to accommodate construction and maintenance/repair work, increase in use of for-hire vehicle services, and increases in telecommuting and the use of e-commerce. Vehicle traffic at MTA Bridges and Tunnels facilities increased by 12.3 million crossings (4.0%) in 2018 compared to 2017. This increase was comprised of a 2.5 million increase in the first quarter, a 4.1 million increase in the second quarter, a 2.7 million increase in the third quarter, and a 3.1 million increase in the fourth quarter, all compared to the corresponding quarter in 2017. Congestion pricing in Manhattan has been approved.

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2018 than in 2017 by 67.3 thousand jobs (1.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last thirty-three

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 2018 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, private inventory investment, and federal government spending; these were partially offset by negative contributions from residential fixed investment, and state and local government spending. Imports, which are a subtraction in the Gross Domestic Product (“GDP”) calculation, increased. The deceleration in RGDP growth, relative to the third quarter’s revised 3.4% growth rate, reflected a deceleration in private inventory investment, personal consumption expenditures and federal government spending, as well as a downturn in state and local government spending; these were partially offset by an acceleration nonresidential fixed investment, as well as an upturn in exports and a smaller increase in imports.

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 2018, with the metropolitan area index increasing by 1.8%, while the national index increased by 2.2%, when compared with the fourth quarter of 2017. A 5.3% increase in the regional price of energy products, along with a 3.9% national increase, impacted overall inflation; in the metropolitan area, the CPI-U exclusive of energy products increased by 1.6%, while nationally, inflation exclusive of energy products was 2.1%. The spot price for New York Harbor conventional gasoline fell by 3.8%, from an average price of \$1.77 per gallon to an average price of \$1.70 per gallon, between the fourth quarters of 2017 and 2018.

The Federal Open Market Committee (“FOMC”) raised its target for the Federal Funds rate four times in 2018, with the target range set at 1.5% to 1.75% in March, 1.75% to 2.0% in June, 2.0% to 2.25% in September, and 2.25% to 2.5%—the current target level—in December. This was a slight acceleration in rate increases compared to 2017, when the target level was increased three times. The December increase was in view of continued labor market strength and rising economic activity, as job gains were strong and the unemployment rate remained low. Household spending continued to grow strongly, while growth in business fixed investment moderated from its rapid rate of growth in the first three quarters of 2018. Overall inflation and inflation for items other than food and energy remained close to 2 percent and indicators of longer-term inflation expectations were little changed. The FOMC expects that the economic expansion will be sustained, labor market conditions will remain strong, and inflation will remain near the 2 percent objective. In light of muted inflationary pressures and global economic and financial developments, the FOMC has indicated its patience in determining the timing and size of future rate adjustments, assessing realized and expected economic conditions relative to its dual mandate of maximizing employment and targeting 2 percent inflation.

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 2018 were lower than the fourth quarter of 2017 by \$2.5 (2.2%); receipts in the fourth quarter of 2018 were \$8.8 (7.5%) lower than receipts from the third quarter of 2018. Despite the gradual overall recovery of MRT receipts that began in 2012, average monthly receipts in 2018 remain \$26.9 (42.3%) lower 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 transactions 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 \$11.2 (7.7%) higher in the fourth quarter of 2018 than receipts for the fourth quarter of 2017; receipts in the fourth quarter of 2018 were \$12.2 (7.2%) lower than receipts from the third quarter of 2018. Average monthly receipts in 2018 were \$19.0 (25.8%) 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, 2018, operating revenues increased by \$67.6 to \$1,999.6 as compared to December 31, 2017. Traffic in 2018 set a new record with 322.3 million crossings, surpassing the previous high of 310 million crossings from the previous year. MTA Bridges and Tunnels tolls accounted for 98.8% and 98.9% of operating revenues in 2018 and 2017, 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, 2018 was 94.4% compared to 90.4% as of December 31, 2017. The average weekday market shares for passenger and commercial vehicles were 95.1% and 91.5% for 2018 and 2017, respectively.

MTA New York City Transit - Total revenue from fares was \$4,447 in 2018, a decrease of \$40, or 0.9%, compared to 2017. This decrease was due mostly to lower ridership trends. Total ridership was 2,259 million passengers in 2018, a decrease of 80 million, or 3.4%, from 2017.

MTA Long Island Rail Road – Total operating revenue for the year ended December 31, 2018 was \$789.4, which was higher by \$8.8 or 1.1% compared to the year ended December 31, 2017. For the same comparative period, operating expenses were higher by \$70.0 or 3.7%, totaling \$2.0 billion for the year ended December 31, 2018.

MTA Metro-North Railroad – For the year ended December 31, 2018, operating revenues totaled \$792.1, an increase of \$1.2 or 0.2% compared to 2017. During the same period, operating expenses increased by \$59.2 or 3.6% to \$1,683.1. Fare revenue for 2018 increased by 0.9% to \$740.3 compared to 2017. Passenger fares accounted for 93.4% and 92.7% of operating revenues in 2018 and 2017, 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, 2018 was \$447.9 compared to \$452.8 at December 31, 2017.

Capital Programs

At December 31, 2018, \$20,317 had been committed and \$7,517 had been expended for the combined 2015-2019 MTA Capital Programs and the 2015-2019 MTA Bridges and Tunnels Capital Program, and \$27,832 had been committed and \$22,501 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and \$24,103 had been committed and \$23,684 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. On April 25, 2018, the MTA Board approved a full amendment to increase the 2015-2019 Capital Programs to \$33,270 reflecting updated project cost estimates, emerging new needs across the agencies, and reallocation of funds within the East Side Access and Regional Investment programs, among others. On June 1, 2018, the CPRB deemed approved the revised 2015-2019 Capital Programs for the Transit and Commuter systems totaling \$30,334, as submitted. The revised 2015-2019 MTA Bridges and Tunnels Capital Program totaling \$2,936, as approved by the MTA Board in April 2018, was not subject to CPRB approval.

By December 31, 2018, the revised 2015-2019 Capital Programs provided \$33,273 in capital expenditures, of which \$16,742 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; \$5,323 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$7,652 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$243 relates to Planning and Customer Service; \$376 relates to MTA Bus Company initiatives; and \$2,936 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 \$7,968 in MTA Bonds, \$2,936 in MTA Bridges and Tunnels dedicated funds, \$8,640 in funding from the State of New York, \$7,308 in Federal Funds, \$2,666 from City Capital Funds, \$2,145 in pay-as-you-go (“PAYGO”) capital, \$1,018 from asset sale/leases, and \$592 from Other Sources.

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.

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, 2018, the 2010-2014 MTA Capital Programs reflected an overall decrease of \$424 primarily due to reallocation of funds within the East Side Access and Regional Investment programs. Of the \$31,597 in capital expenditures, \$11,365 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; \$3,882 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$5,920 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; \$2,022 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities; and \$7,551 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 \$11,483 in MTA Bonds, \$2,025 in MTA Bridges and Tunnels dedicated funds, \$7,594 in Federal Funds, \$132 in MTA Bus Federal and City Match, \$719 from City Capital Funds, and \$1,322 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 \$6,329 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.

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, 2018, the 2005-2009 MTA Capital Programs budget increased by \$684 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 \$24,401 now provided in capital expenditures, \$11,516 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; \$7,721 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 \$10,955 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, \$7,836 in Federal Funds, \$2,838 in City Capital Funds, and \$1,322 from other sources.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The 2018 November Financial Plan

The 2018 MTA November Financial Plan (the “November Plan” or “Plan”), which includes the 2018 November Forecast, the 2019 Final Proposed Budget and a Financial Plan for the years 2019-2022, updates the July Financial Plan. The November Plan which was presented to the MTA Board on December 10, 2018 included the following initiatives and goals, each of which continue to be MTA management priorities:

- *Hold projected fare/toll increases to 4% in 2019 and 2021.* The November Plan continues to project net 4% biennial fare/toll increases (the equivalent of 2% per year), which is lower than the projected two-year inflation rates of 5.3% and 4.7% in 2019 and 2021, respectively. Consistent with recent financial plans, a March 1st implementation was assumed for both the 2019 and 2021 increases. The annualized yield of these increases was projected in the November Plan to be \$316 million and \$321 million, respectively.
- *Achieve annually recurring savings targets.* Since the February Plan 2018, nearly \$1.9 billion in recurring savings have been identified over the November Plan period. The November Plan maintains the commitment to fully identify the savings goals targeted in the earlier Financial Plans, but did not include any additional savings targets.
- *Maintenance of prior plan investments.* The November Plan maintains major investments for the MTA Long Island Rail Road “Forward” Plan, the “Bus Plans” at MTA New York City Transit and MTA Bus, and the MTA Metro-North Railroad “Way Ahead” Plan. Also included is maintenance of the Subway Action Plan, which will be funded from Phase 1 of congestion pricing, using fees from for-hire vehicle trips.
- *Additional maintenance and operations investments.* Another \$216 million over the November Plan period will be invested in additional maintenance and operating needs, including:
 - At MTA New York City Transit, replacing, modifying, updating and maintaining various components of HVAC systems.
 - At MTA Metro-North Railroad, installation of various components at Grand Central Terminal to ensure safety and state of good repair of building systems; update to dry-water line systems at stations; enhanced diesel fleet maintenance; and indefinite extension of weekend bus service between Rockland County and the Hudson and Harlem Lines in Westchester County.

- At MTA Long Island Rail Road and MTA Metro-North Railroad, increase of support for weather-related operational coverage requirements.
- *Bus and subway service guidelines.* Bus and subway service guidelines, which have been reviewed and approved by the MTA Board, are used to maintain an appropriate level of service based upon actual ridership on a route. The guidelines provided an objective standard of maximum loads for different times of day, and are intended to minimize the occurrences when buses or trains are either overcrowded or underutilized. During years of ridership growth, these service guidelines were the basis for increased service where it was warranted, but over the past several years as ridership has declined, reductions based on service guideline standards had been deferred. With ridership levels not rebounding, the November Plan included MTA New York City Transit proposed service guideline adjustments beginning in 2020 that are projected to result in savings of \$41 million annually, with reductions of \$10 million for subway service and \$31 million for bus service.

Tropical Storm Sandy Update

The total allocation of emergency relief funding from the Federal Transit Administration (“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 \$4.803 billion have been executed, including six grants in the amounts of \$194, \$886, \$685, \$344, \$788, and \$1,090, respectively, for repair/local priority resiliency and fourteen grants for competitive resiliency totaling \$816. As of December 31, 2018, MTA has drawn down a total of \$2.101 billion in grant reimbursement for eligible operating and capital expenses. The balance of funds to be drawn down from all twenty 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. At MTA and Amtrak’s request, in April 2018, FTA transferred \$14 of MTA’s emergency relief allocation to the Federal Railroad Administration (“FRA”) to allow Amtrak to execute a portion of MTA Long Island Rail Road’s Competitive Resilience scope.

MTA expects to submit grant requests for the remainder of its FTA emergency relief allocation as follows: \$891 in Federal Fiscal Year 2019 and \$118 in Federal Fiscal Year 2020.

Labor Update

During the fourth quarter of 2018, labor unions representing employees at various MTA agencies reached new agreements. The following summarizes the status of collective bargaining at each MTA agency through the end of the third quarter of 2018.

MTA Long Island Rail Road – As of December 31, 2018, MTA Long Island Rail Road had approximately 7,600 employees. Approximately 6,694 of the MTA Long Island Rail Road employees were represented by 11 different unions in 19 bargaining units. MTA Long Island Rail Road has reached agreement with all its unions. Significantly, the agreements all contain general wage increases that conform to those present in the pattern-setting TWU Local 100 agreement with MTA New York City Transit; and, consistent with MTA’s Financial Plan, they were all designed to result in net going-out costs that match the costs of the TWU agreement.

MTA Metro-North Railroad – As of December 31, 2018, MTA Metro-North Railroad had reached agreements with ten bargaining units covering approximately 55% of its 5,582 represented employees. Included in this number is a new agreement, reached in October between Metro-North and the Transport Workers Union of America (“TWU Locals 2001 and 2055”), which will cover approximately 600 coach cleaners and car mechanics. This will be a 29.5 month agreement—running from March 16, 2017 to August 31, 2019 and, like all the others with MTA Metro-North Railroad’s unions, it is consistent with the railroad wage pattern established at MTA Long Island Rail Road. MTA Metro-North Railroad’s remaining represented population is covered by agreements that, while now considered “amendable” under the Railway Labor Act, remain in effect. The railroad is engaged in collective bargaining with these remaining units and it is expected that settlements will be reached that will also conform to the established railroad wage pattern.

MTA Headquarters – In the final two quarters of 2018, labor agreements with approximately 47% of MTA Headquarters employees expired. On August 31, 2018, an agreement with 79 clerical and administrative workers represented by the International Brotherhood of Teamsters Local 808 lapsed; and on October 14, 2018 the agreements covering approximately 741 MTA Police employees covered by the Police Benevolent Association (“PBA”) and by the Commanding Officers Association (“COA”) expired. However, collective bargaining efforts to reach new agreements are currently underway.

At the end of 2018, MTA Headquarters Business Service Center had 293 employees, approximately 230 of whom are represented by several clerical/administrative unions. The largest such union, representing approximately 219 employees, is the Transportation Communications Union (“TCU”), Local 643 whose contract covers the period from April 1, 2015 through March 31, 2020.

In January 2014, the Information Technology Department consolidated all agency IT functions and positions under MTA Headquarters. As of June 2018, the department had 985 employees, approximately 453 of whom are represented. The two predominant unions are the TCU Local 982 and TWU Local 100, which together account for more than 90% of the IT Department’s represented workforce. MTA had a prevailing agreement with the TCU in the third quarter of 2018, and it will expire December 31, 2019. In many respects, it is similar to the BSC agreement, including 401(k) plan eligibility as opposed to a defined benefit

pension plan for new hires. An agreement with TWU local 100 that is consistent with the established bargaining pattern was also in effect through the third quarter, and it expires July 13, 2019.

MTA Headquarters' thirty-eight month collective bargaining agreement with TCU employees in the Procurement Department will remain in effect until March 30, 2020. The agreement is similar to those reached with TCU's employees in the IT Department and at the Business Service Center.

MTA New York City Transit Authority/Manhattan and Bronx Surface Transit Operating Authority – Effective January 16, 2017, MTA New York City Transit and MaBSTOA entered into a 28-month labor contract agreement with TWU Local 100. This agreement, which has been ratified by the TWU membership and approved by the MTA Board, has an expiration date of May 15, 2019. At the time of the agreement, there were an estimated 35,243 active employees represented by TWU Local 100, of which MTA New York City Transit had 29,643 and MaBSTOA had 5,600. Also effective on January 16, 2017, MTA New York City Transit entered into separate 28 month labor contract agreements with Amalgamated Transit Union (“ATU”) Locals 1056 and 726. This agreement, which was ratified by the ATU membership and approved by the MTA Board, also has an expiration of May 15, 2019. The ATU Locals 1056 and 726 represent 3,456 employees. In September 2017, MTA New York City Transit also reached agreement with TWU Local 100 Computer and Telecommunications employees together with Career & Salary Employees who had been formerly represented by TWU Local 106 (“TSO”). Together, 508 hourly employees are represented by these two groups. The agreements are very similar in structure to the earlier TWU Local 100 agreement, and the going-out cost for both groups together match the expectations of the Financial Plan.

MTA Bus Company – As of December 31, 2018, MTA Bus Company had 4,182 employees (full and part time), approximately 3,832 of whom are represented by five different unions. TWU Local 100, by far the largest of them, with 2,264 represented employees, bargained together with TWU Local 100 at MTA New York City Transit and MaBSTOA to reach an agreement that will be effective through May 15, 2019.

After intensive negotiations between MTA Bus Company and employees represented by ATU 1179, an arbitration award was issued that will cover approximately 814 employees from the period from May 22, 2012 through October 31, 2019 – essentially, the same length of time covered by MTA New York City Transit's current agreement with TWU Local 100 and its previous 5 year agreement with that union. Overall, the provisions of the decision are similar to those of the two TWU agreements; however, the impasse award also decided certain outstanding issues regarding ATU 1179's employee pension benefits and their funding.

Subsequent to the May impasse arbitration with ATU Local 1179, MTA Bus Company reached an agreement with a second ATU unit—Local 1181— which represents approximately 254 hourly employees. As with ATU Local 1179, the 88-month ATU Local 1181 agreement, which expires October 31, 2019, covers an equal length of time as the two most recent labor agreements between MTA New York City Transit and TWU Local 100; and it is consistent with the cost pattern established by those agreements. The agreement also contains essentially the same pension modifications and means of funding these changes that were laid out in the impasse arbitration with ATU Local 1179.

MTA Bridges and Tunnels – As of December 31, 2018, MTA Bridges and Tunnels had 1,392 employees, approximately 947 of whom were represented by four different unions. On May 22, 2014 MTA Bridges and Tunnels entered into a Memorandum of Understanding (“DC 37 Local 1931 MOU”) with DC 37 Local 1931, representing maintenance employees (approximately 34% of B&T's current represented population). That agreement ran from October 15, 2009 through October 14, 2012 and was consistent with MTA's bargaining pattern as expressed in the 2009-2012 TWU Local 100 collective bargaining agreement. Through the third quarter of 2018, negotiations for a new agreement continued.

On July 17, 2014, an Interest Arbitration Award was issued for the Bridge and Tunnel Officers Benevolent Association, representing (as of December 31, 2018) approximately 48% of B&T's total represented population. The term of this award is for the May 18, 2009 through May 17, 2012 bargaining round and was consistent with the TWU Local 100 2009-2012 pattern. Negotiations for a new agreement continued through the third quarter of 2018.

On January 30, 2015, MTA Bridges and Tunnels entered into a Memorandum of Agreement (“MOA”) with the Superior Officers Benevolent Association (“SOBA”) representing approximately supervisory officers—around 16% of B&T's represented population. This MOA was ratified by SOBA and was approved by the MTA Board on February 25, 2015. The agreement ran from March 15, 2009 through March 14, 2012 and was consistent with MTA's bargaining pattern as expressed in the 2009-2012 TWU Local 100 collective bargaining agreement. Negotiations for a new agreement continued through the third quarter of 2018.

On March 17, 2015, a seven year and four-month agreement, March 3, 2010 through July 2, 2017, was reached with DC 37 Local 1655, which represents clerical employees constituting approximately 3% of B&T's represented population. The agreement is consistent with the pattern set by the DC 37 Citywide agreement for the same period.

MTA Staten Island Railway - As of December 31, 2018, MTA Staten Island Railway had 337 employees, approximately 308 of whom were represented by four different unions. At the end of the third quarter of 2018, MTA Staten Island Railway had reached agreement with one of these unions—the TCU, covering approximately 25 station cleaners, station agents, clerks and stock workers. The 28-month agreement, spanning the period from December 17, 2017 through April 16, 2019, matches the pattern-setting agreement reached between MTA New York City Transit and TWU Local 100, and it is consistent with MTA



Staten Island Railway’s Financial Plan for the period. Meanwhile, contracts with the railway’s other three unions have all expired. Its contract with the Sheet Metal, Air, Rail and Transportation Workers International Association (“SMART”) Local 1440 (formerly the United Transportation Union), covering approximately 243 employees, expired on February 15, 2017; the railway’s agreement with the American Train Dispatchers Association (“ADTA”) covering 13 represented employees expired on December 16, 2016; and the agreement with Subway Surface Supervisors Association (“SSSA”), covering 16 represented employees, expired on February 15, 2017. Negotiations for successor agreements were underway throughout the final quarter.

SSSA has petitioned to represent MTA Staten Island Railway employees in the title of Supervisor Maintenance, Supervisor Car Equipment (mechanical), Supervisor Electrical Maintenance, Supervisor Electronic Maintenance, Supervisor Power/Signals, Supervisor Timekeeping, and Supervisor Operational Support. The Public Employment Relations Board (“PERB”) has certified SSSA as the exclusive negotiating agent for this unit of 11 employees. An initial collective bargaining agreement was reached on February 25, 2017. Negotiations for a successor agreement are forthcoming.

Congestion Zone Surcharges

In April 2018, the approved 2018-2019 New York State Budget established State legislation providing additional long-term sources of revenue to address the financial needs of the MTA and its affiliates and subsidiaries. Among other things, the State legislation imposed, beginning January 1, 2019, the following:

- A surcharge of \$2.75 on for-hire transportation trips (“For-Hire Transportation Surcharge”) provided by motor vehicles carrying passengers for hire (or \$2.50 in the case of taxicabs that are subject to the \$0.50 tax on hailed trips that are part of the MTA Aid Trust Account Receipts), other than pool vehicles, ambulances and busses, on each trip that (1) originates and terminates south of and excluding 96th Street in the Borough of Manhattan (“Congestion Zone”), (2) originates anywhere in the State and terminates within the Congestion Zone, (3) originates in the Congestion Zone and terminates anywhere in the State, or (4) originates anywhere in the State, enters into the Congestion Zone while in transit, and terminates anywhere in the State;
- A surcharge of \$0.75 for each person (“Pool Vehicle Surcharge”, which, together with the For-Hire Transportation Surcharge, is referred to herein collectively as the “Congestion Zone Surcharges”) who both enters and exits a pool vehicle (certain carpool arrangements set forth in the April 2018 Legislation) in the State and who is picked up in, dropped off in, or travels through the Congestion Zone; and
- Certain fines relating to bus rapid transit lane restrictions (“Rapid Transit Lane Fines”) captured by the use of stationary and mobile (on-bus) bus lane photo devices on up to ten bus rapid transit routes designated by the New York City Department of Transportation.

The Congestion Zone Surcharges do not apply to transportation services administered by or on behalf of MTA, including paratransit services.

The April 2018 Legislation also created the New York City Transportation Assistance Fund, held by MTA, and the following three accounts therein:

- Subway Action Account,
- Outer Borough Transportation Account, and
- General Transportation Account.

Funds in the Subway Action Plan Account may be used exclusively for funding the operating and capital costs of the Subway Action Plan (such plan developed by MTA New York City Transit and approved by the MTA Board).

Funds in the Outer Borough Transportation Account may be used exclusively for funding (1) the operating and capital costs of MTA facilities, equipment and services in the counties of Bronx, Kings, Queens and Richmond, and any projects improving transportation connections from such counties to Manhattan, or (2) a toll reduction program for any crossing under the jurisdiction of MTA or MTA Bridges and Tunnels.

Funds in the General Transportation Account may be used for funding the operating and capital costs of MTA. In each case, funds may be used for various operations and capital needs or for debt service and reserve requirements.

Confirmation of Chairman

On April 1, 2019, Governor Andrew M. Cuomo announced the appointment of Patrick Foye as Chairman of the MTA, following the New York State Senate’s confirmation, on April 1, 2019, of Governor Cuomo’s nomination of Mr. Foye.

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF NET POSITION

AS OF DECEMBER 31, 2018 AND 2017

(\$ in millions)

	December 31, 2018	December 31, 2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 541	\$ 283
Unrestricted investments (Note 3)	2,915	3,689
Restricted investments (Note 3)	1,487	1,783
Restricted investments held under capital lease obligations (Notes 3 and 8)	4	4
Receivables:		
Station maintenance, operation, and use assessments	119	119
State and regional mass transit taxes	108	140
Mortgage Recording Tax receivable	43	36
State and local operating assistance	11	10
Other receivable from New York City and New York State	289	187
Due from Build America Bonds	1	1
Capital project receivable from federal and state government	143	121
Other	463	425
Less allowance for doubtful accounts	(128)	(62)
Total receivables — net	1,049	977
Materials and supplies	624	608
Prepaid expenses and other current assets (Note 2)	145	170
Total current assets	6,765	7,514
NON-CURRENT ASSETS:		
Capital assets (Notes 6):		
Land and construction work-in-progress	18,269	17,195
Other capital assets (net of accumulated depreciation)	54,242	50,865
Unrestricted investments (Note 3)	46	55
Restricted investments (Note 3)	546	485
Restricted investments held under capital lease obligations (Notes 3 and 8)	382	372
Other non-current receivables	58	46
Receivable from New York State	10	43
Other non-current assets	20	18
Total non-current assets	73,573	69,079
TOTAL ASSETS	80,338	76,593
DEFERRED OUTFLOWS OF RESOURCES:		
Accumulated decreases in fair value of derivative instruments (Note 7)	329	408
Loss on debt refunding (Notes 7)	1,138	1,235
Deferred outflows related to pensions (Note 4)	1,397	2,044
Deferred outflows related to OPEB (Note 5)	1,496	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	4,360	3,687
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 84,698	\$ 80,280

See notes to the consolidated financial statements.

(Continued)

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF NET POSITION

AS OF DECEMBER 31, 2018 AND 2017

(\$ in millions)

	December 31, 2018	December 31, 2017
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 470	\$ 607
Accrued expenses:		
Interest	210	204
Salaries, wages and payroll taxes	327	307
Vacation and sick pay benefits	1,020	988
Current portion — retirement and death benefits	16	14
Current portion — estimated liability from injuries to persons (Notes 10)	454	415
Capital accruals	737	412
Unearned premiums	264	255
Other	693	606
Total accrued expenses	3,721	3,201
Current portion — loan payable (Note 7)	15	14
Current portion — long-term debt (Note 7)	2,552	1,806
Current portion — obligations under capital lease (Note 8)	4	4
Current portion — pollution remediation projects (Note 12)	31	20
Derivative fuel hedge liability (Note 14)	12	-
Unearned revenues	804	594
Total current liabilities	7,609	6,246
NON-CURRENT LIABILITIES:		
Net pension liability (Note 4)	6,487	8,105
Estimated liability arising from injuries to persons (Notes 10)	3,800	3,436
Net OPEB liability (Note 5)	20,335	16,731
Loan payable (Note 7)	104	100
Long-term debt (Notes 7)	39,617	38,292
Obligations under capital leases (Notes 8)	443	436
Pollution remediation projects (Note 12)	108	59
Contract retainage payable	406	376
Derivative liabilities (Note 7)	346	422
Other long-term liabilities	376	347
Total non-current liabilities	72,022	68,304
TOTAL LIABILITIES	79,631	74,550
DEFERRED INFLOWS OF RESOURCES:		
Gain on debt refunding	23	26
Deferred inflows related to pensions (Note 4)	1,070	480
Deferred inflows related to OPEB (Note 5)	21	-
TOTAL DEFERRED INFLOWS OF RESOURCES	1,114	506
NET POSITION:		
Net investment in capital assets	30,000	28,250
Restricted for debt service	454	516
Restricted for claims	206	182
Restricted for other purposes (Note 2)	1,230	983
Unrestricted	(27,937)	(24,707)
TOTAL NET POSITION	3,953	5,224
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 84,698	\$ 80,280

See notes to the consolidated financial statements.

(Concluded)

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2018 AND 2017

(\$ in millions)

	December 31, 2018	December 31, 2017
OPERATING REVENUES:		
Fare revenue	\$ 6,155	\$ 6,172
Vehicle toll revenue	1,976	1,912
Rents, freight, and other revenue	605	589
Total operating revenues	8,736	8,673
OPERATING EXPENSES:		
Salaries and wages	6,300	5,968
Retirement and other employee benefits	2,447	2,742
Postemployment benefits other than pensions (Note 5)	1,749	2,155
Electric power	482	430
Fuel	185	151
Insurance	(29)	(3)
Claims	437	525
Paratransit service contracts	455	393
Maintenance and other operating contracts	633	645
Professional service contracts	545	425
Pollution remediation projects (Note 12)	106	13
Materials and supplies	637	588
Depreciation (Note 2)	2,679	2,611
Other	215	207
Total operating expenses	16,841	16,850
OPERATING LOSS	(8,105)	(8,177)
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations and taxes:		
Tax-supported subsidies — NYS:		
Mass Transportation Trust Fund subsidies	633	606
Metropolitan Mass Transportation Operating Assistance subsidies	1,687	1,668
Payroll Mobility Tax subsidies	1,669	1,695
MTA Aid Trust Account subsidies	296	292
Tax-supported subsidies — NYC and Local:		
Mortgage Recording Tax subsidies	447	453
Urban Tax subsidies	700	539
Other subsidies:		
New York State Service Contract subsidy	1	5
Operating Assistance - 18-B program	376	376
Build America Bond subsidy	90	88
NYS/NYC Subway Action Plan	508	-
Total grants, appropriations and taxes	\$ 6,407	\$ 5,722

See notes to the consolidated financial statements.

(Continued)



(A Component Unit of the State of New York)

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

YEARS ENDED DECEMBER 31, 2018 AND 2017

(\$ In millions)

	December 31, 2018	December 31, 2017
NON-OPERATING REVENUES (EXPENSES):		
Connecticut Department of Transportation	\$ 134	\$ 103
Subsidies paid to Dutchess, Orange, and Rockland Counties	(9)	(9)
Interest on long-term debt (Note 2)	(1,460)	(1,517)
Station maintenance, operation and use assessments	168	165
Operating subsidies recoverable from NYC	560	503
Loss on disposal of subway cars	(125)	-
Other net non-operating expenses	(22)	12
Net non-operating revenues	<u>5,653</u>	<u>4,979</u>
LOSS BEFORE APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	(2,452)	(3,198)
APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>2,302</u>	<u>2,662</u>
CHANGE IN NET POSITION	(150)	(536)
NET POSITION— Beginning of year	5,224	5,607
Restatement of beginning net position - adoption of GASB No. 75 (Note 2)	(1,121)	-
Cumulative effect of change in accounting principle (Note 2)	<u>-</u>	<u>153</u>
NET POSITION — End of year	<u>\$ 3,953</u>	<u>\$ 5,224</u>

See notes to the consolidated financial statements.

(Concluded)

Note: During 2017, MTA Bridges and Tunnels changed to a more preferable method of amortizing bond premiums and discounts, constant yield. This change in method was accounted for on a prospective basis.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(\$ In millions)

	December 31, 2018	December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 8,161	\$ 8,072
Rents and other receipts	790	730
Payroll and related fringe benefits	(9,609)	(9,384)
Other operating expenses	(3,626)	(3,252)
Net cash used by operating activities	(4,284)	(3,834)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	6,937	6,486
Operating subsidies from CDOT	122	124
Subsidies paid to Dutchess, Orange, and Rockland Counties	(9)	(9)
Net cash provided by noncapital financing activities	7,050	6,601
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	1,528	6,093
MTA Bridges and Tunnels bond proceeds	1,443	2,723
MTA bonds refunded/reissued	(1,058)	(4,890)
MTA Bridges and Tunnels bonds refunded/reissued	(648)	(1,974)
MTA anticipation notes proceeds	3,191	2,252
MTA anticipation notes redeemed	(512)	(1,624)
MTA credit facility proceeds	4	204
MTA credit facility refunded	-	(200)
Grants and appropriations	2,171	3,158
Payment for capital assets	(6,454)	(6,000)
Debt service payments	(2,999)	(2,840)
Net cash used by capital and related financing activities	(3,334)	(3,098)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of long-term securities	(6,135)	(8,190)
Sales or maturities of long-term securities	6,283	8,761
Net sales (purchases) or maturities of short-term securities	567	(753)
Earnings on investments	111	64
Net cash provided by (used by) investing activities	826	(118)
NET INCREASE (DECREASE) IN CASH	258	(449)
CASH — Beginning of year	283	732
CASH — End of year	\$ 541	\$ 283

See notes to the consolidated financial statements.

(Continued)

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(\$ In millions)

	December 31, 2018	December 31, 2017
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY		
OPERATING ACTIVITIES:		
Operating loss (Note 2)	\$ (8,105)	\$ (8,177)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	2,679	2,611
Net increase in payables, accrued expenses, and other liabilities	956	1,806
Net increase in deferred outflows related to pensions	647	(381)
Net increase in deferred outflows related to OPEB	(1,496)	-
Net increase (decrease) in deferred inflows related to pensions	590	185
Net increase (decrease) in deferred inflows related to OPEB	21	-
Net increase in net pension liability and related accounts	(1,618)	202
Net increase in net OPEB liability and related accounts	3,603	-
Net decrease in receivables	(188)	7
Net decrease in materials and supplies and prepaid expenses	(1,373)	(87)
NET CASH USED BY OPERATING ACTIVITIES	\$ (4,284)	\$ (3,834)
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:		
Noncash investing activities:		
Interest expense includes amortization of net (premium) / discount (Note 2)	\$ 24	\$ 223
Interest expense which was capitalized	49	59
Total Noncash investing activities	73	282
Noncash capital and related financing activities:		
Capital assets related liabilities	677	412
Capital leases related liabilities	447	436
Total Noncash capital and related financing activities	1,124	848
TOTAL NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES	\$ 1,197	\$ 1,130

See notes to the consolidated financial statements.

(Concluded)

Note: During 2017, MTA Bridges and Tunnels changed to a more preferable method of amortizing bond premiums and discounts, constant yield. This change in method was accounted for on a prospective basis.



(A Component Unit of the State of New York)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

(\$ 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, 2018 and 2017 totaled \$6.4 billion and \$5.7 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 — The MTA adopted the following GASB Statements for the year ended December 31, 2018:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes standards of accounting and financial reporting for postemployment benefits other than pensions (“OPEB”) that is provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. For defined benefit OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB plans are also addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. As a result of adopting this Statement, the MTA is reporting net OPEB liabilities, deferred outflows of resources and deferred inflows of resources for the MTA Retiree Welfare Benefits Plan (“OPEB Plan”) and recognizing OPEB expenses in accordance with the provisions of the Statement. The financial statement impact resulting from the implementation of GASB Statement No. 75 and GASB Statement No. 85 is the restatement of 2018 beginning net position, a decrease of \$1.121 billion, representing the retroactive effect of adoption. The MTA did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 75 and GASB Statement No. 85. A net OPEB liability of \$20.335 billion, deferred outflow of resources of \$1.496 billion, and deferred inflows of resources of \$21.101 million were reported at December 31, 2018. The MTA recognized OPEB expense of \$1.749 billion for the year-end December 31, 2018. Refer to Note 5 for more information regarding the MTA OPEB Plan.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues identified during the implementation and application of certain GASB statements. The provisions of this Statement amend and clarify guidance under a variety of topics with the intent to enhance consistency in the application of accounting and reporting requirements. This Statement specifically issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits (“OPEB”). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no impact on the MTA’s financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, establishes standards of accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The requirements

of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no 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
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>	2019
89	<i>Accounting for Interest Cost Incurred Before the End of a Construction Period</i>	2020
90	<i>Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61</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, 2018 and 2017.

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

Materials and Supplies — Materials and supplies are valued principally at average cost, net of obsolescence reserve at December 31, 2018 and 2017 of \$171 and \$166, respectively.

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, 2018, the MTA paid to Dutchess, Orange and Rockland Counties the 2017 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.

NYS/NYC Subway Action Plan — In April 2018, the approved 2018-2019 New York State Budget committed both New York State (“NYS”) and New York City (“NYC”) to equally cover the costs of the 2017-2018 Subway Action Plan (“SAP”), which was launched at the direction of Governor Andrew Cuomo in July 2017 to take extraordinary measures to stabilize and improve the more than 100-year old New York City subway system. The SAP includes a comprehensive \$836 million investment to address system failures, breakdowns, delays and deteriorating customer service, and position the New York City subway system for future modernization. The SAP provided the MTA with funds already used to advance the SAP, as well as additional operating and capital funding to cover the cost of the remaining SAP through the end of 2018. The MTA started receiving the SAP funding in April 2018 and received the full funding by the end of 2018. For the year-end December 31, 2018, the MTA received \$508 million and \$328 million of operating and capital funding, respectively, from the NYS and NYC.



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 2017 and 2018. As of December 31, 2018, MTA New York City Transit collected \$55.3 from the State and New York City. The remaining balance of \$15 due from New York City was received in January 2019.

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 \$3.6 and \$7.6 for the years ended December 31, 2018 and 2017 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, 2018 and 2017 were \$22.7 and \$21.8, respectively. The amounts recovered for the years ended December 31, 2018 and 2017 were approximately \$14.8 and \$14.2, 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 \$217.3 in the year ended December 31, 2018, and \$181.9 in the year ended December 31, 2017. Total paratransit expenses, including paratransit service contracts, were \$537.1 and \$477.0 in 2018 and 2017, 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 November 1, 2012, the self-insured retention limits for ELF were increased to the following amounts: \$10 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 for MTA Staten Island Railway; and \$2.6 for MTAHQ and MTA Bridges and Tunnels. 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, 2018, the balance of the assets in this program was \$152.6.

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, 2018, 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, MTA Bus 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, 2018, 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, 2018, 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, 2018, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2018, 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.

FMTAC’s property insurance program has been expanded to include \$125 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 82% of “certified” losses in 2018, 81% of “certified” losses in 2019 and 80% of “certified” losses in 2020, as covered by



the Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) of 2015. The remaining 18% (2018) , 19% (2019) and 20% (2020) 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 \$160 in 2018, \$180 in 2019 and \$200 in 2020. The United States government’s reinsurance is in place through December 31, 2020.

To supplement the reinsurance to FMTAC through the TRIPRA program, MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 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 , 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 and 20% of any “certified” act of terrorism up to a maximum recovery of \$215 for any one occurrence and in the annual aggregate during 2020 (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 18% “certified” acts of terrorism insurance in 2018 or (3) 100% of any “certified” terrorism loss which exceeds \$5 and less than the \$100 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 or 100% of any “certified” terrorism loss which exceeds \$5 and less than the \$200 TRIPRA trigger up to a maximum recovery of \$200 for any occurrence and in the annual aggregate during 2020.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$193.5 in 2018 , \$204.3 in 2019 and \$215 in 2020. 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, 2020.

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*, which established 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. The MTA reported under this standard for its Postemployment Benefits Other Than Pensions for the year ended December 31, 2017.

Effective for the year ended December 31, 2018, the MTA adopted the standards of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 85, *Omnibus* for the OPEB Plan.

GASB has issued Statements No. 74 and 75, which replaced GASB Statements No. 43 and 45. The effective date of GASB Statement No. 74 (which applies to financial reporting on a plan basis) is the year ended December 31, 2017. The effective date of GASB Statement No. 75 (which applies to financial reporting by contributing employers) is the year ended December 31, 2018.

The MTA recognizes a net OPEB liability, which represents the excess of the total OPEB liability over the fiduciary net position of the OPEB Plan, measured as of the measurement date of the plan.

Changes in the net OPEB liability during the year are recorded as OPEB expense, or as deferred outflows of resources or deferred inflows of resources relating to OPEB depending on the nature of the change, in the year incurred. Changes in net OPEB liability that are recorded as deferred outflows of resources or deferred inflows of resources that arise from changes in actuarial assumptions and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the year in which they are incurred. Projected earnings on qualified OPEB plan investments are recognized as a component

of OPEB expenses. Differences between projected and actual investment earnings are reported as deferred outflows of resources or deferred inflow of resources as a component of OPEB expense on a closed basis over a five-year period beginning with the year in which the difference occurred.

Restatement of Beginning Net Position

The effect of the implementation of GASB No. 75 and 85 is a restatement of 2018 beginning net position to retroactively report the beginning balances for net OPEB liability, deferred outflows of resources related to OPEB, deferred inflows of resources related to OPEB, and the removal of any net OPEB obligations (assets) along with any payables to the OPEB Plan, as follows (in millions):

Net position as of December 31, 2017, as previously reported	\$5,224
Composition of Restatement:	
Deferred outflows related to contributions, beginning of the year	651
Net OPEB liability, beginning of the year	(18,464)
Other accrued liabilities	(39)
Accrued OPEB liabilities, as previously reported	16,731
Total Restatement:	<u>(1,121)</u>
Net position as of December 31, 2017, as restated	<u>\$4,103</u>

Premium and 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.

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, 2018 and 2017 (in millions):

	2018		2017	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	\$ 75	\$ 62	\$ 88	\$ 87
Uninsured and not collateralized	<u>466</u>	<u>406</u>	<u>195</u>	<u>143</u>
Total Balance	<u>\$ 541</u>	<u>\$ 468</u>	<u>\$ 283</u>	<u>\$ 230</u>

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

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

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, 2018 and 2017 (in millions):

Investments by fair value level	December 31,	Fair Value Measurements		December 31,	Fair Value Measurements	
	2018	Level 1	Level 2	2017	Level 1	Level 2
Debt Securities:						
U.S. treasury securities	\$ 3,325	\$ 2,984	\$ 341	\$ 4,333	\$ 4,053	\$ 280
U.S. government agency	387	261	126	387	144	243
Commercial paper	758	-	758	877	-	877
Asset-backed securities	45	-	45	39	-	39
Commercial mortgage-backed securities	81	-	81	30	-	30
Foreign bonds	16	16	-	9	9	-
Corporate bonds	133	133	-	149	149	-
Tax Benefit Lease Investments:						
U.S. treasury securities	178	178	-	177	177	-
U.S. government agency	112	-	112	114	-	114
Repurchase agreements	223	223	-	122	122	-
Money Market Funds	-	-	-	6	-	6
Total debt securities	5,258	3,795	1,463	6,243	4,654	1,589
Equity securities	-	-	-	25	25	-
Total investments by fair value level	5,258	\$ 3,795	\$ 1,463	6,268	\$ 4,679	\$ 1,589
Other	122			120		
Total Investments	\$ 5,380			\$ 6,388		

Investments classified as Level 1 of the fair value hierarchy, totaling \$3,795 and \$4,679 as of December 31, 2018 and 2017, 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 \$238 and \$357, U.S. treasury securities totaling \$341 and \$280, commercial paper totaling \$758 and \$877, asset-backed securities totaling \$45 and \$39, commercial mortgage-backed securities totaling \$81 and \$30, and money market instruments totaling \$0 and \$6, as of December 31, 2018 and 2017, 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 2.36% and 1.18% for the years ended December 31, 2018 and 2017, respectively.

Credit Risk — At December 31, 2018 and 2017, 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, 2018	Percent of Portfolio	December 31, 2017	Percent of Portfolio
A-1+	\$ 283	5%	\$ 336	5%
A-1	758	14%	869	14%
AAA	217	4%	101	2%
AA+	52	1%	53	1%
AA	31	1%	24	1%
A	76	1%	91	1%
BB	-	-	1	-
BBB	38	1%	43	1%
Not rated	240	5%	154	2%
U.S. Government	3,563	68%	4,571	73%
Total	5,258	100%	6,243	100%
Equities and capital leases	122		145	
Total investment	\$ 5,380		\$ 6,388	

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. While the MTA does not have a formal policy for interest rate risk, New York State statutes govern the MTA's investment policy. 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 a 100 basis point change in interest rates.

(In millions)	December 31, 2018		December 31, 2017	
	Fair Value	Duration (in years)	Fair Value	Duration (in years)
U.S. Treasuries	\$ 3,325	3.00	\$ 4,333	2.19
Federal Agencies	387	5.91	387	4.15
Tax benefits lease investments	290	8.06	291	9.12
Repurchase agreement	223	-	122	-
Certificate of deposits	-	-	6	-
Commercial paper	758	-	877	0.04
Asset-backed securities ⁽¹⁾	45	1.94	39	1.08
Commercial mortgage-backed securities ⁽¹⁾	81	5.55	30	5.63
Foreign bonds ⁽¹⁾	16	6.20	9	-
Corporates ⁽¹⁾	133	4.43	149	5.27
Total fair value	5,258		6,243	
Modified duration		3.01		2.37
Equities ⁽¹⁾	-		25	
Total	5,258		6,268	
Investments with no duration reported	122		120	
Total investments	\$ 5,380		\$ 6,388	

⁽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:

- Public Authorities Law Sections 1265(4) (MTA), 1204(19) (MTA New York City Transit Authority) and 553(21) (MTA Bridges and Tunnels);
- Public Authorities Law Section 2925 Investment of funds by public authorities and public benefit corporations; general provisions; and
- 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 Rail Road non-represented employees hired after December 31, 1987, MTA Metro-North Railroad non-represented employees, certain employees of the former MTA Long Island Bus hired prior to January 23, 1983, MTA Police, MTA Long Island Rail Road represented employees hired after December 31, 1987, certain MTA Metro-North Railroad represented employees, MTA Staten Island Railway represented and non-represented employees and certain employees of the MTA Bus Company (“MTA Bus”). The MTA, MTA Long Island Rail Road, 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. The report can be accessed on the New York State Comptroller's website at www.osc.state.ny.us/retire/about_us/financial_statements_index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244-001.

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 Rail Road 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 non represented 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 55/25 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 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, 57/25 Plan 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, LaGuardia, 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, LaGuardia 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, LaGuardia 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, LaGuardia 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 participants 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, Laguardia 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, Laguardia, 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 non represented 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, 2018, January 1, 2017 and January 1, 2016, the dates of the most recent actuarial valuations, membership data for the following pension plans are as follows:

Membership at:	January 1, 2018		January 1, 2017		TOTAL
	MNR Cash Balance Plan	Additional Plan	MaBSTOA Plan	MTA Defined Benefit Plan	
Active Plan Members	2	146	8,739	18,048	26,935
Retirees and beneficiaries receiving benefits	26	5,833	5,523	10,861	22,243
Vested formerly active members not yet receiving benefits	15	28	1,006	1,433	2,482
Total	43	6,007	15,268	30,342	51,660

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



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 Rail Road's Board of Managers of Pensions (1.5% in 2017 and 2016), 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 Rail Road's Board of Managers of Pensions (1.5% in 2017 and 2016).

Funding for the Additional Plan by the MTA Long Island Rail Road is provided by MTA. Certain funding by MTA is made to the MTA Long Island Rail Road on a discretionary basis. The continuance of the MTA Long Island Rail Road'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 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 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 (in thousands) 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 Rail Road 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 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 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 Rail Road 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 Rail Road represented employees who became participants after January 30, 2008 contribute 4% of salary. For the MTA Staten Island Railway employees, contributions are not required after the completion of ten years of credited service. MTA Long Island Rail Road represented employees are required to make the employee contributions for ten years, 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, June 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).

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 for the years ended December 31, 2018 and 2017 are as follows:

Year-ended December 31, (\$ in millions)	2018	2017
	Actual Employer Contributions	Actual Employer Contributions
Additional Plan	\$ 59.5	\$ 221.5
MaBSTOA Plan	205.4	202.7
MNR Cash Balance Plan	- *	- *
MTA Defined Benefit Plan	339.8	321.9
NYCERS	807.1	800.9
NYSLERS	14.5	14.0
Total	\$ 1,426.3	\$ 1,561.0

*MNR Cash Balance Plan's actual employer contribution for the years ended December 31, 2018 and 2017 was \$5 thousand and \$0 thousand, respectively.

Net Pension Liability

The MTA's net pension liabilities for each of the pension plans reported at December 31, 2018 and December 31, 2017 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.

Pension Plan	Plan Measurement Date	Plan Valuation Date	Plan Measurement Date	Plan Valuation Date
	Additional Plan	December 31, 2017	January 1, 2017	December 31, 2016
MaBSTOA Plan	December 31, 2017	January 1, 2017	December 31, 2016	January 1, 2016
MNR Cash Balance Plan	December 31, 2017	January 1, 2018	December 31, 2016	January 1, 2017
MTA Defined Benefit Plan	December 31, 2017	January 1, 2017	December 31, 2016	January 1, 2016
NYCERS	June 30, 2018	June 30, 2016	June 30, 2017	June 30, 2015
NYSLERS	March 31, 2018	April 1, 2017	March 31, 2017	April 1, 2016

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, 2017	January 1, 2016	January 1, 2017	January 1, 2016	January 1, 2018	January 1, 2017
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.	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.	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%.	2.50%	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	
	January 1, 2017	January 1, 2016	June 30, 2016	June 30, 2015	April 1, 2017	April 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 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 Local 100 MTA Bus hourly employees.	Varies by years of employment, and employee group; 3.0% General Wage Increases for TWU Local 100 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%; 3.00% 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, 2018, 2017, and 2016 valuations for the MTA plans are based on an experience study covering the period from January 1, 2006 to December 31, 2011. The mortality assumption used in the January 1, 2018 and January 1, 2017 valuations are based on an experience study for all MTA plans covering the period from January 1, 2011 to December 1, 2015. The mortality assumption used in the January 1, 2016 valuation 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 in the January 1, 2017 valuation was the RP-2014 Disabled Annuitant mortality table for males and females. Assumption utilized in the January 1, 2016 valuation was the RP-2000 Disabled Annuitant mortality table for males and females. 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, 2016 and June 30, 2015 valuations are based, in part, on the Gabriel, Roeder, Smith & Company (“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, 2017 and April 1, 2016 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, 2017	7.00%
MaBSTOA Plan	December 31, 2017	7.00%
MNR Cash Balance Plan	December 31, 2017	4.00%
MTA Defined Benefit Plan	December 31, 2017	7.00%
NYCERS	June 30, 2018	7.00%
NYSLERS	March 31, 2018	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%	1.96%	10.00%	1.96%
US High Yield Bonds	8.00%	4.62%	8.00%	4.62%
Global Bonds	10.00%	0.34%	10.00%	0.34%
Emerging Markets Bonds	3.00%	3.30%	3.00%	3.30%
US Large Caps	10.00%	4.31%	10.00%	4.31%
US Small Caps	5.50%	5.57%	5.50%	5.57%
Global Equity	10.00%	4.99%	10.00%	4.99%
Foreign Developed Equity	10.00%	5.57%	10.00%	5.57%
Emerging Markets Equity	3.50%	7.91%	3.50%	7.91%
Global REITs	5.00%	5.62%	5.00%	5.62%
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%	3.35%	15.00%	3.35%
	100.00%		100.00%	
Assumed Inflation - Mean		2.50%		2.50%
Assumed Inflation - Standard Deviation		1.85%		1.85%
Portfolio Nominal Mean Return		6.80%		6.80%
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 Expected Real Rate of Return	Target Asset Allocation	Long - Term Expected Real Rate of Return
US Core Fixed Income	10.00%	1.96%	100.00%	1.41%
US High Yield Bonds	8.00%	4.62%		
Global Bonds	10.00%	0.34%		
Emerging Markets Bonds	3.00%	3.30%		
US Large Caps	10.00%	4.31%		
US Small Caps	5.50%	5.57%		
Global Equity	10.00%	4.99%		
Foreign Developed Equity	10.00%	5.57%		
Emerging Markets Equity	3.50%	7.91%		
Global REITs	5.00%	5.62%		
Private Real Estate Property	3.00%	3.64%		
Private Equity	7.00%	8.99%		
Hedge Funds - MultiStrategy	15.00%	3.35%		
	100.00%		100.00%	
Assumed Inflation - Mean		2.50%		2.50%
Assumed Inflation - Standard Deviation		1.85%		1.85%
Portfolio Nominal Mean Return		6.80%		3.92%
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 Expected Real Rate of Return	Target Asset Allocation	Long - Term Expected Real Rate of Return
U.S. Public Market Equities	29.00%	6.30%	36.00%	4.55%
International Public Market Equities	13.00%	7.00%	14.00%	6.35%
Emerging Public Market Equities	7.00%	9.50%	0.00%	0.00%
Private Market Equities	7.00%	10.40%	10.00%	7.50%
Fixed Income	33.00%	2.20%	17.00%	1.31%
Alternatives (Real Assets, Hedge Funds)	11.00%	5.50%	3.00%	5.29%
Real Estate			10.00%	5.55%
Absolute Return Strategies			2.00%	3.75%
Opportunistic Portfolio			3.00%	5.68%
Cash			1.00%	-0.25%
Inflation-indexed Bonds			4.00%	1.25%
	100.00%		100.00%	
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,	Discount Rate			
	2018		2017	
	Plan Measurement Date	Rate	Plan Measurement Date	Rate
Additional Plan	December 31, 2017	7.00%	December 31, 2016	7.00%
MaBSTOA Plan	December 31, 2017	7.00%	December 31, 2016	7.00%
MNR Cash Balance Plan	December 31, 2017	4.00%	December 31, 2016	4.00%
MTA Defined Benefit Plan	December 31, 2017	7.00%	December 31, 2016	7.00%
NYCERS	June 30, 2018	7.00%	June 30, 2017	7.00%
NYSLERS	March 31, 2018	7.00%	March 31, 2017	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, 2018, based on the December 31, 2017 measurement date, and for the year ended December 31, 2017, based on the December 31, 2016 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, 2016	\$ 1,526,304	\$ 777,217	\$ 749,087	\$ 3,536,747	\$ 2,555,735	\$ 981,012
Changes for fiscal year 2017:						
Service Cost	1,874	-	1,874	84,394	-	84,394
Interest on total pension liability	101,477	-	101,477	246,284	-	246,284
Effect of economic /demographic (gains) or losses	1,890	-	1,890	11,826	-	11,826
Effect of assumption changes or inputs	-			6,347	-	6,347
Benefit payments	(159,717)	(159,717)	-	(209,122)	(209,122)	-
Administrative expense	-	(1,070)	1,070	-	(207)	207
Member contributions	-	760	(760)	-	19,713	(19,713)
Net investment income	-	112,614	(112,614)	-	350,186	(350,186)
Nonemployer contributions	-	145,000	(145,000)	-	-	-
Employer contributions	-	76,523	(76,523)	-	202,684	(202,684)
Balance as of December 31, 2017	<u>\$ 1,471,828</u>	<u>\$ 951,327</u>	<u>\$ 520,501</u>	<u>\$ 3,676,476</u>	<u>\$ 2,918,989</u>	<u>\$ 757,487</u>

	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	<u>\$ 1,526,304</u>	<u>\$ 777,217</u>	<u>\$ 749,087</u>	<u>\$ 3,536,747</u>	<u>\$ 2,555,735</u>	<u>\$ 981,012</u>



	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, 2016	\$ 566	\$ 574	\$ (8)	\$ 4,761,877	\$ 3,419,971	\$ 1,341,906
Changes for fiscal year 2017:						
Service Cost	-	-	-	148,051	-	148,051
Interest on total pension liability	21	-	21	335,679	-	335,679
Effect of plan changes	-	-	-	76,511	-	76,511
Effect of economic / demographic (gains) or losses	12	-	12	(27,059)	-	(27,059)
Effect of assumption changes or inputs	-	-	-	10,731	-	10,731
Benefit payments	(71)	(71)	-	(232,976)	(232,976)	-
Administrative expense	-	-	-	-	(4,502)	4,502
Member contributions	-	-	-	-	31,027	(31,027)
Net investment income	-	20	(20)	-	516,153	(516,153)
Employer contributions	-	-	-	-	321,861	(321,861)
Balance as of December 31, 2017	<u>\$ 528</u>	<u>\$ 523</u>	<u>\$ 5</u>	<u>\$ 5,072,814</u>	<u>\$ 4,051,534</u>	<u>\$ 1,021,280</u>

	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
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	<u>\$ 566</u>	<u>\$ 574</u>	<u>\$ (8)</u>	<u>\$ 4,761,877</u>	<u>\$ 3,419,971</u>	<u>\$ 1,341,906</u>

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, 2017			December 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%)
	(in thousands)			(in thousands)		
Additional Plan	\$ 636,713	\$ 520,501	\$ 419,474	\$ 871,350	\$ 749,087	\$ 642,973
MaBSTOA Plan	1,166,477	757,487	409,121	1,376,916	981,012	643,826
MTA Defined Benefit Plan	1,648,216	1,021,280	492,284	1,936,639	1,341,906	840,176
	(in whole dollars)			(in whole dollars)		
MNR Cash Balance Plan	\$ 35,109	\$ 5,235	\$ (21,154)	\$ 25,200	\$ (7,899)	\$ (37,092)

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, 2016 and June 30, 2015 actuarial valuations, rolled forward to June 30, 2018 and June 30, 2017, respectively, and the proportion percentage of the aggregate net pension liability allocated to the MTA:

	NYCERS	
	June 30, 2018	June 30, 2017
	(\$ in thousands)	
MTA's proportion of the net pension liability	23.682%	24.096%
MTA's proportionate share of the net pension liability	\$ 4,176,941	\$ 5,003,811

The following table presents the MTA's proportionate share of the net pension liability of NYSLERS based on the April 1, 2017 and April 1, 2016 actuarial valuations, rolled forward to March 31, 2018 and March 31, 2017, respectively, and the proportion percentage of the aggregate net pension liability allocated to the MTA:

	NYSLERS	
	March 31, 2018	March 31, 2017
	(\$ in thousands)	
MTA's proportion of the net pension liability	0.327%	0.311%
MTA's proportionate share of the net pension liability	\$ 10,553	\$ 29,239

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, 2018 and 2017 and to NYSLERS for the plan's fiscal year-end March 31, 2018 and 2017, 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, 2018			June 30, 2017		
	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	\$ 6,402,891	\$ 4,176,941	\$ 2,298,962	\$ 7,231,780	\$ 5,003,811	\$ 3,046,531

Measurement Date:	March 31, 2018			March 31, 2017		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
NYSLERS	\$ 79,847	\$ 10,553	\$ (48,067)	\$ 93,385	\$ 29,239	\$ (24,995)

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

For the years ended years ended December 31, 2018 and 2017, the MTA recognized pension expense related to each pension plan as follows (in \$ thousands):

Pension Plan	December 31,	
	2018	2017
Additional Plan	\$ 47,936	\$ 84,583
MaBSTOA Plan	116,967	156,302
MNR Cash Balance plan	16	(10)
MTA Defined Benefit Plan	316,900	346,535
NYCERS	510,157	595,905
NYSLERS	13,885	17,486
Total	\$ 1,005,861	\$ 1,200,801

For the years ended years ended December 31, 2018 and 2017, 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, 2018	Additional Plan		MaBSTOA Plan		MNR Cash Balance Plan		MTA Defined Benefit Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources						
Differences between expected and actual experience	\$ -	\$ -	\$ 19,549	\$ 36,673	\$ -	\$ -	\$ 141,294	\$ 23,748
Changes in assumptions	-	-	5,370	-	-	-	9,406	46,880
Net difference between projected and actual earnings on pension plan investments	-	22,499	-	83,734	16	2	-	112,897
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-	-	-	50,989	50,989
Employer contributions to the plan subsequent to the measurement of net pension liability	59,500	-	205,433	-	5	-	339,800	-
Total	<u>\$ 59,500</u>	<u>\$ 22,499</u>	<u>\$ 230,352</u>	<u>\$ 120,407</u>	<u>\$ 21</u>	<u>\$ 2</u>	<u>\$ 541,489</u>	<u>\$ 234,514</u>

For the Year Ended December 31, 2018	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	\$ -	\$ 403,424	\$ 3,763	\$ 3,110	\$ 164,606	\$ 466,955
Changes in assumptions	63,653	-	6,998	-	85,427	46,880
Net difference between projected and actual earnings on pension plan investments	-	234,268	-	14,927	16	468,327
Changes in proportion and differences between contributions and proportionate share of contributions	46,817	36,998	3,363	66	101,169	88,053
Employer contributions to the plan subsequent to the measurement of net pension liability	426,474	-	14,501	-	1,045,713	-
Total	<u>\$ 536,944</u>	<u>\$ 674,690</u>	<u>\$ 28,625</u>	<u>\$ 18,103</u>	<u>\$ 1,396,931</u>	<u>\$ 1,070,215</u>

**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	<u>\$ 254,023</u>	<u>\$ -</u>	<u>\$ 302,761</u>	<u>\$ 47,891</u>	<u>\$ 20</u>	<u>\$ 4</u>	<u>\$ 667,734</u>	<u>\$ 63,033</u>

**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	<u>\$ 785,775</u>	<u>\$ 364,422</u>	<u>\$ 33,162</u>	<u>\$ 4,572</u>	<u>\$ 2,043,474</u>	<u>\$ 479,922</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 plan to amortize the annual differences between expected and actual experience, changes in proportion and 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	8.10
NYCERS	6.01	6.01	6.01
NYSLERS	5.00	5.00	5.00

For the years ended December 31, 2018 and 2017, \$1,045.7 and \$1,179.4 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, 2019 and December 31, 2018, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2018 will be recognized as pension expense as follows:

	Additional Plan	MaBSTOA Plan	MNR Cash Balance plan	MTA Defined Benefit Plan (in thousands)	NYCERS	NYSLERS	Total
Year Ending December 31:							
2019	\$ 1,989	\$ (4,711)	\$ 5	\$ 25,730	\$ 29,753	\$ 3,386	\$ 56,152
2020	(1,713)	(13,424)	7	6,224	(133,502)	2,884	(139,524)
2021	(12,173)	(50,126)	2	(45,688)	(259,448)	(7,083)	(374,516)
2022	(10,602)	(32,481)	-	(39,989)	(116,871)	(3,166)	(203,109)
2023	-	3,856	-	13,351	(83,319)	-	(66,112)
Thereafter	-	1,398	-	7,547	(833)	-	8,112
	<u>\$ (22,499)</u>	<u>\$ (95,488)</u>	<u>\$ 14</u>	<u>\$ (32,825)</u>	<u>\$ (564,220)</u>	<u>\$ (3,979)</u>	<u>\$ (718,997)</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 Asset Allocation Programs offer two options for those participants who would like to make retirement investing easy – the MTA Target Year Funds and Goal maker. Investments will be automatically diversified among a range of investment options.
- 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 Barclays Capital U.S. Aggregate (bond) index. The typical objective of an index fund is to achieve approximately the same return as that specific market index. Index funds provide investors with lower-cost investments because they are less expensive to administer than actively managed funds.
- 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 selected indices. The funds provide a diversified array of distinct asset classes, with a single option in each class. They combine the value and growth disciplines to create a “core” portfolio for the mid-cap and international categories.
- Tier 4 – The Self-Directed Mutual Fund Option is designed for the more experienced investors. The fund 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 \$18,500 dollars or \$24,500 dollars for those over age 50 for the year ended December 31, 2018.

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:

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

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:

Years of Service	Vested Percentage
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.

MTA Headquarters – Commanding Officers - 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 contributions shall be made monthly and shall be considered MTA Police contributions. 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 accept rollovers from all eligible retirement plans (as defined by the Code), including 401(a), 457, 401(k), 403(b), and rollover IRAs.

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

	December 31, 2018	December 31, 2017
	(In thousands)	
Employer 401K contributions	\$ 4,392	\$ 4,109

5. OTHER POSTEMPLOYMENT BENEFITS

The MTA participates in a defined benefit other postemployment benefits (“OPEB”) plan for its employees, the Metropolitan Transportation Authority Retiree Welfare Benefits Plan (“OPEB Plan”). A description of the Plan follows:

(1) Plan Description

The MTA Retiree Welfare Benefits Plan (“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. Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Amounts contributed to the OPEB Plan are held in an irrevocable trust and may not be used for any other purpose than to fund the costs of health and welfare benefits of its eligible participants.

The OPEB 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 OPEB Plan Board of Managers, comprised of the MTA Chairman, MTA Chief Financial Officer and MTA Director of Labor Relations, are the administrators of the OPEB Plan. The MTA Board has the right to amend, suspend or terminate the OPEB 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.

Benefits Provided — The benefits provided by the OPEB Plan include medical, pharmacy, dental, vision, life insurance and a Medicare supplemental plan. The different types of benefits provided vary by agency, employee type (represented employees versus non-represented) and the relevant collective bargaining agreements. Certain benefits are provided upon retirement as defined in the applicable pension plan. Certain agencies provide benefits to certain former employees if separated from service within 5 years of attaining retirement eligibility. Employees of the MTA 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. Certain represented employees of MTA Metro-North Railroad participate in the 401(k) Plan. Eligible employees of the MTA may elect to join the New York State Voluntary Defined Contribution Plan (“VDC”).

The MTA participates in the New York State Health Insurance Program (“NYSHIP”) and provides medical and prescription drug benefits, including Medicare Part B reimbursements, to many of its retirees. NYSHIP offers 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, MTA Staten Island Railway represented employees as of March 1, 2010, June 1, 2010 or January 1, 2013 depending on the union 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.

OPEB Plan Eligibility — To qualify for benefits under the OPEB Plan, a former employee of the MTA must:

- i. have retired;
- ii. be receiving a pension (except in the case of the 401(k) Plan);
- iii. have at least 10 years of credited service as a member of NYCERS, NYSLERS, the MTA Defined Benefit Plan, the Additional Plan, the MaBSTOA Plan, the MNR Cash Balance Plan, the 401(k) Plan or the VDC; and
- iv. have attained the minimum age requirement (unless within 5 years of commencing retirement for certain members). A represented retired employee may be eligible only pursuant to the relevant collective bargaining agreement.

Surviving Spouse and Other Dependents —

- Lifetime coverage is provided to the surviving spouse (not remarried) or domestic partner and surviving dependent children to age 26 of retired managers and certain non-represented retired employees.
- Represented retired employees must follow the guidelines of their collective bargaining agreements regarding continued health coverage for a surviving spouse or domestic partner and surviving dependents. The surviving spouse coverage continues until spouse is eligible for Medicare for represented employees of MTA New York City Transit and MTA Staten Island Railway, retiring on or after:
 - o May 21, 2014 for Transport Workers Union (“TWU”) Local 100;

- o September 24, 2014 for Amalgamated Transit Union (“ATU”) Local 726;
 - o October 29, 2014 for ATU Local 1056;
 - o March 25, 2015 for Transportation Communication Union (“TCU”); and
 - o December 16, 2015 for United Transportation Union (“UTU”) and American Train Dispatchers Association (“ATDA”).
- Lifetime coverage is provided to the surviving spouse (not remarried) or domestic partner and surviving dependents of retired uniform members of the MTA Police Department.
 - Lifetime coverage is provided to the surviving spouse (not remarried) or domestic partner and surviving dependent children to age 26 of uniformed members of the MTA Police Department whose death was sustained while in performance of duty.

The OPEB Plan Board of Managers has the authority to establish and amend the benefits that will be covered under the OPEB Plan, except to the extent that they have been established by collective bargaining agreement.

Employees Covered by Benefit Terms — As of July 1, 2017, the date of the most recent actuarial valuation, the following classes of employees were covered by the benefit terms:

	<u>Number of Participants</u>
Active plan members	72,047
Inactive plan members currently receiving benefit payments	45,330
Inactive plan members entitled to but not yet receiving benefit payments	254
Total	<u>117,631</u>

Contributions — The MTA is not required by law or contractual agreement to provide funding for the OPEB Plan, other than the “pay-as-you-go” (“PAYGO”) amounts. PAYGO is the cost of benefits necessary to provide the current benefits to retirees and eligible beneficiaries and dependents. Employees are not required to contribute to the OPEB Plan. The OPEB Plan Board has the authority for establishing and amending the funding policy. For the year-ended December 31, 2018, the MTA paid \$696.1 of PAYGO to the OPEB Plan.

During 2012, the MTA funded \$250 into the Trust an additional \$50 during 2013. There have been no further contributions made to the Trust. The discount rate estimates investment earnings for assets earmarked to cover retiree health benefits. Under GASB Statement No. 75, the discount rate depends on the nature of underlying assets for funded plans. Since the amount of benefits paid in 2017 exceeded the current market value of the assets, a depletion date is assumed to occur immediately. Therefore, the discount rate is set equal to the municipal bond index. The MTA elected the Bond Buyer General Obligation 20-Bond Municipal Bond Index. As a result, the discount rates as of December 31, 2017 and December 31, 2016, the measurement dates, are 3.44% and 3.78%, respectively.

Employer contributions include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy arises when an employer allows a retiree and their dependents to continue on the active plans and pay the active premiums. Retirees are not paying the true cost of their benefits because they have higher utilization rates than actives and therefore, are partially subsidized by the active employees. As shown in the following table, for the year ended December 31, 2017, the employer made a cash payment for retiree healthcare of \$71,101 as part of the employer’s payment for active-employee healthcare benefits. For purposes of GASB Statement No. 75, this payment made on behalf of the active employees should be reclassified as benefit payments for retiree health care to reflect the retirees’ underlying age-adjusted, retiree benefit costs.

Blended and Age-adjusted Premium (in thousands)	<u>2017 Retirees</u>
Total blended premiums	\$579,893
Employment payment for retiree healthcare	71,101
Net Payments	<u>\$650,994</u>

(2) Actuarial Assumptions

Actuarial valuation involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as future employment, mortality and health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.



Projections of benefits for financial reporting purposes are based on the substantive plan, which refers to the plan terms as understood by the employer and the plan members at the time of the valuation, including only changes to plan terms that have been made and communicated to employees. The projections include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members at that time. The MTA may not be obligated to provide the same types or levels of benefits to retirees in the future.

The total OPEB liability was determined by an actuarial valuation performed on July 1, 2017. Update procedures were used to roll forward the total OPEB liability to December 31, 2017, the measurement date. The actuarial valuations were performed using the following actuarial assumptions, applied to all periods included in the measurement, unless specified:

Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%, net of expenses
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Normal cost increase factor	4.50%
Investment rate of return	6.50%
Salary increases	3%. Varies by years of service and differs for members of the various pension plans

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 2018. These assumptions are combined with long-term assumptions for dental and vision benefits of an annual trend of 4.0% plus Medicare Part B reimbursements of an annual trend of 4.5%, but not more than projected medical and pharmacy trends excluding any excise tax adjustments. The self-insured trend is applied directly for represented employees of MTA New York City Transit, MTA Staten Island Railway and MTA Bus. For purposes of estimating the impact of the excise tax, the NYSHIP trend for MTA Bridges and Tunnels reflects that certain represented members do not receive prescription drug coverage through NYSHIP.

Healthcare Cost Trend Rates — The following lists illustrative rates for the NYSHIP and self-insured trend assumptions (all amounts are in percentages).

Fiscal Year	NYSHIP		TBTA		Self-Insured	
	< 65	> = 65	< 65	> = 65	< 65	> = 65
2018	8.5	8.2	7.5	4.9	6.8	9.1
2019	6.2	5.5	5.8	3.1	6.2	5.3
2020	5.8	5.3	5.6	3.9	5.8	5.2
2021	5.5	5.2	5.3	4.4	5.5	5.2
2022	7.2	5.1	5.1	5.1	11.1	5.1
2023	6.1	5.1	5.1	5.1	6.0	5.1
2024	6.1	5.0	5.0	5.0	5.9	5.0
2025	5.9	5.0	5.0	5.0	5.8	5.0
2026	5.9	5.0	5.0	5.0	5.8	5.0
2027	5.8	4.9	5.0	4.9	5.7	4.9
2037	5.6	5.0	5.9	5.0	5.5	5.0
2047	5.4	5.9	5.6	4.9	5.3	4.9
2057	5.1	5.4	5.2	4.8	5.1	5.2
2067	4.8	5.0	4.9	4.6	4.8	4.8
2077	4.2	4.3	4.2	4.0	4.1	4.5
2087	4.1	4.2	4.2	4.0	4.1	4.4
2097	4.1	4.2	4.2	4.7	4.1	4.4

For purposes of applying the Entry Age Normal Cost method, the healthcare trend prior to the valuation date are based on the ultimate rates, which are 4.1% for medical and pharmacy costs prior to age 65, 4.2% for NYSHIP costs at age 65 and later (4.6% for certain MTA Bridges and Tunnels represented members), and 4.3% for self-insured medical and pharmacy costs at age 65 and later.

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.

(3) Net OPEB Liability

At December 31, 2018, the MTA reported a net OPEB liability of \$20,335. The MTA's net OPEB liability was measured as of the OPEB Plan's fiscal year-end of December 31, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of July 1, 2017, and rolled forward to December 31, 2017.

OPEB Plan Fiduciary Net Position — The fiduciary net position has been determined on the same basis used by the OPEB plan. The OPEB plan uses the accrual basis of accounting under which contributions from the employer are recognized when paid. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at fair value based on quoted market prices or Net Asset Value. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report or at www.mta.info.

Expected Rate of Return on Investments — The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
U.S. core fixed income	13.0%	1.96%
Global bonds	15.0%	0.34%
Emerging markets bonds	5.0%	3.30%
Global equity	35.0%	4.99%
Non-U.S. equity	15.0%	5.84%
Global REITs	5.0%	5.62%
Hedge funds - multistrategy	12.0%	3.35%
Total	100%	
Assumed Inflation - Mean		2.50%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Nominal Mean return		6.29%
Portfolio Standard Deviation		11.37%
Long Term Expected Rate of Return selected by MTA		6.50%

Discount Rate — The discount rate used in this valuation to measure the total OPEB liability was updated to incorporate GASB Statement No. 75 guidance.

The plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan's fiduciary net position is not projected to be sufficient. Therefore, the discount rate is set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index as of December 31, 2017 of 3.44%.



Changes in Net OPEB Liability — Changes in the MTA’s net OPEB liability for the year ended December 31, 2018, based on the December 31, 2017 measurement date, are as follows:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(in thousands)		
Balance as of December 31, 2016	\$ 18,787,254	\$ 322,982	\$ 18,464,272
Changes for the year:			
Service Cost	884,548	-	884,548
Interest on total OPEB liability	731,405	-	731,405
Effect of plan changes	27,785	-	27,785
Effect of economic/demographic gains or losses	13,605	-	13,605
Effect of assumptions changes or inputs	911,465	-	911,465
Benefit payments	(650,994)	(650,994)	-
Employer contributions	-	650,994	(650,994)
Net investment income	-	47,370	(47,370)
Administrative expenses	-	0	0
Net changes	<u>1,917,814</u>	<u>47,370</u>	<u>1,870,444</u>
Balance as of December 31, 2017	<u>\$ 20,705,068</u>	<u>\$ 370,352</u>	<u>\$ 20,334,716</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate — The following presents the net OPEB liability of the MTA, calculated using the discount rate of 3.44%, as well as what the MTA’s net OPEB 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 the measurement date:

	1% Decrease (2.44%)	Discount Rate (3.44%)	1% Increase (4.44%)
	(in thousands)		
Net OPEB liability	\$ 23,407,072	\$ 20,334,716	\$ 17,817,307

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates — The following presents the net OPEB liability of the MTA, calculated using the current healthcare cost trend rates, as well as what the MTA’s net OPEB liability would be if it were calculated using trend rates that are 1-percentage point lower or 1-percentage point higher than the actual healthcare trend rate used for the measurement date:

	1% Decrease	Healthcare Cost Current Trend Rate*	1% Increase
	(in thousands)		
Net OPEB liability	\$ 17,394,102	\$ 20,334,716	\$ 24,043,932

*For further details, refer to the Health Care Cost Trend Rates tables in the Actuarial Assumptions section of this Note Disclosure

(4) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the MTA recognized OPEB expense of \$1.75 billion.

At December 31, 2018, the MTA reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows (\$ in thousands):

	December 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,767	\$ -
Changes of assumptions	788,294	-
Net difference between projected and actual earnings on OPEB plan investments	-	21,101
Employer contributions to the plan subsequent to the measurement of net OPEB liability	696,065	-
Total	<u>\$ 1,496,126</u>	<u>\$ 21,101</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 changes in assumptions are amortized over a 7.4-year closed period, beginning the year in which the deferred amount occurs.

For the year ended December 31, 2018, \$696.1 was reported as deferred outflows of resources related to OPEB. This amount includes both MTA's contributions subsequent to the measurement date and an implicit rate subsidy adjustment that will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2018 will be recognized in OPEB expense as follows (in thousands):

Year Ended December 31, 2018:

2019	\$	119,734
2020		119,734
2021		119,734
2022		119,734
2023		125,010
Thereafter		<u>175,014</u>
	\$	<u><u>778,960</u></u>

6. CAPITAL ASSETS

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

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

Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 25 to 50 years for buildings, 2 to 40 years for equipment, and 25 to 100 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset whichever is less. Capital assets consist of the following at December 31, 2016, December 31, 2017 and December 31, 2018 (in millions):

	Balance December 31, 2016	Additions / Reclassifications	Deletions / Reclassifications	Balance December 31, 2017	Additions / Reclassifications	Deletions / Reclassifications	Balance December 31, 2018
Capital assets not being depreciated:							
Land	\$ 203	\$ 14	\$ -	\$ 217	\$ -	\$ -	\$ 217
Construction work-in-progress	16,256	6,491	5,769	16,978	7,528	6,454	18,052
Total capital assets not being depreciated	16,459	6,505	5,769	17,195	7,528	6,454	18,269
Capital assets being depreciated:							
Buildings and structures	17,458	751	493	17,716	746	5	18,457
Bridges and tunnels	3,316	288	-	3,604	550	-	4,154
Equipment:							
Passenger cars and locomotives	13,863	1	4	13,860	303	785	13,378
Buses	3,446	213	46	3,613	321	126	3,808
Infrastructure	22,078	1,783	27	23,834	2,438	14	26,258
Other	20,122	2,602	18	22,706	1,825	12	24,519
Total capital assets being depreciated	80,283	5,638	588	85,333	6,183	942	90,574
Less accumulated depreciation:							
Buildings and structures	6,683	530	290	6,923	495	4	7,414
Bridges and tunnels	746	37	-	783	23	-	806
Equipment:							
Passenger cars and locomotives	6,839	371	4	7,206	397	660	6,943
Buses	2,005	250	39	2,216	233	126	2,323
Infrastructure	8,635	672	21	9,286	803	17	10,072
Other	7,316	751	13	8,054	728	8	8,774
Total accumulated depreciation	32,224	2,611	367	34,468	2,679	815	36,332
Total capital assets being depreciated - net	48,059	3,027	221	50,865	3,504	127	54,242
Capital assets - net	\$ 64,518	\$ 9,532	\$ 5,990	\$ 68,060	\$ 11,032	\$ 6,581	\$ 72,511

Interest capitalized in conjunction with the construction of capital assets for the years ended December 31, 2018 and 2017 was \$49.3 and \$58.9, 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, 2018 and 2017, these securities, which are not included in these financial statements, totaled \$81.7 and \$114.8, respectively, and had a market value of \$53.2 and \$83.7, respectively.

7. LONG-TERM DEBT

(In millions)	Original Issuance	December 31, 2017	Issued	Retired	December 31, 2018
MTA:					
Transportation Revenue Bonds					
1.37%–6.68% due through 2057	\$ 36,369	\$ 21,028	\$ 680	\$ 785	\$ 20,923
Bond Anticipation Notes					
5.0% due through 2021	7,607	1,516	3,003	512	4,007
State Service Contract Bonds					
4.125%–5.70% due through 2031	2,395	68	-	68	-
Dedicated Tax Fund Bonds					
2.05%–5.00% due through 2057	11,039	5,371	-	187	5,184
	<u>57,410</u>	<u>27,983</u>	<u>3,683</u>	<u>1,552</u>	<u>30,114</u>
Net unamortized bond premium	-	1,578	279	298	1,559
	<u>57,410</u>	<u>29,561</u>	<u>3,962</u>	<u>1,850</u>	<u>31,673</u>
TBTA:					
General Revenue Bonds					
4.00%–5.77% due through 2050	16,680	7,218	1,055	610	7,663
Bond Anticipation Notes					
5.77% due through 2032	400	165	-	165	-
Subordinate Revenue Bonds					
4.00%–5.77% due through 2032	4,066	1,386	-	364	1,022
	<u>21,146</u>	<u>8,769</u>	<u>1,055</u>	<u>1,139</u>	<u>8,685</u>
Net unamortized bond premium	-	581	129	84	626
	<u>21,146</u>	<u>9,350</u>	<u>1,184</u>	<u>1,223</u>	<u>9,311</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	-	130	-	2	128
	<u>1,057</u>	<u>1,187</u>	<u>-</u>	<u>2</u>	<u>1,185</u>
Total	<u>\$ 79,613</u>	<u>\$ 40,098</u>	<u>\$ 5,146</u>	<u>\$ 3,075</u>	<u>\$ 42,169</u>
Current portion		<u>\$ 1,806</u>			<u>\$ 2,552</u>
Long-term portion		<u>\$ 38,292</u>			<u>\$ 39,617</u>

(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	\$ 3,803	\$ 3,984	\$ 21,028
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>7,000</u>	<u>6,328</u>	<u>27,983</u>
Net unamortized bond premium	-	1,345	740	507	1,578
	<u>53,727</u>	<u>28,656</u>	<u>7,740</u>	<u>6,835</u>	<u>29,561</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	-	7	130
	<u>1,057</u>	<u>1,194</u>	<u>-</u>	<u>7</u>	<u>1,187</u>
Total	<u>\$ 74,875</u>	<u>\$ 38,922</u>	<u>\$ 10,687</u>	<u>\$ 9,511</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>

MTA Transportation Revenue Bonds —Prior to 2018, MTA issued sixty-one 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 \$31,419. 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 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 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 29, 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 August 8, 2018, S&P Global Ratings lowered its long-term rating on all outstanding MTA Transportation Revenue Bonds to A from A+.

On August 21, 2018, MTA extended the direct pay letter of credit from U.S. Bank National Association that is associated with Transportation Revenue Variable Rate Bonds, Subseries 2015E-1 for three years to August 20, 2021.

On August 22, 2018, MTA effectuated a mandatory tender and remarketed \$95.180 MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2005E-1 and \$71.385 MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2005E-3 because their irrevocable direct-pay LOCs with Bank of Montreal were expiring by their terms and was substituted with separate irrevocable direct-pay LOCs each issued by PNC Bank, National Association. Each LOC will expire on August 20, 2021.

On August 23, 2018, MTA issued \$207.220 MTA Transportation Revenue Refunding Green Bonds, 2018B. The Series 2018B bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2028. Proceeds from the transaction were used to refund the following bonds: \$35 MTA Dedicated Tax Fund Refunding Bonds, Subseries 2008B-3a; \$73.985 MTA Transportation Revenue Bonds, Series 2008C; \$19.805 MTA Transportation Revenue Variable Rate Bonds, Subseries 2015E-1; \$49.510 MTA Transportation Revenue Variable Rate Bonds, Subseries 2015E-2; \$39.610 MTA Transportation Revenue Variable Rate Bonds, Subseries 2015E-3; \$13.010 MTA Transportation Revenue Variable Rate Bonds, Subseries 2015E-4; and \$13.010 MTA Transportation Revenue Variable Rate Bonds, Subseries 2015E-5.

On September 5, 2018, MTA effectuated a mandatory tender of \$193.460 MTA Transportation Revenue Variable Rate Bonds, Subseries 2015E-2 because its irrevocable direct-pay LOC with Bank of Tokyo-Mitsubishi UFJ Ltd. was expiring by its terms and MTA executed a Bond Purchase Agreement and Firm Remarketing Agreement constituting a Private Placement with Royal Bank of Canada to replace the expiring LOC. The Initial Mandatory Purchase date for the Subseries 2015E-2 bonds is September 5, 2023.

On September 5, 2018, MTA effectuated a mandatory tender and remarketed \$154.850 MTA Transportation Revenue Variable Rate Bonds, Subseries 2015E-3; \$70.350 MTA Transportation Revenue Variable Rate Bonds, Subseries 2015E-4; and \$48.185 MTA Transportation Revenue Variable Rate Bonds, Subseries 2015E-5 because their respective irrevocable direct-pay LOCs were expiring by their terms. The LOC relating to the Subseries 2015E-3 issued by Citibank, N.A. was substituted with a LOC issued by Bank of America, N.A. The LOC will expire on September 2, 2022. The LOCs relating to the Subseries 2015E-4 and Subseries 2015E-5 issued by Bank of the West and U.S. Bank National Association, respectively, were substituted with a LOC issued by PNC Bank, National Association as both Subseries were combined into one (Subseries 2015E-4). The LOC for the combined Subseries 2015E-4 will expire on September 3, 2021.

On October 11, 2018, MTA extended the direct pay LOCs from TD Bank, N.A. that are associated with Transportation Revenue Variable Rate Bonds, Subseries 2002G-1g and Transportation Revenue Variable Rate Refunding Bonds, Subseries 2012G-2. The respective LOCs will be extended for three years to November 1, 2021.

On October 30, 2018, MTA effectuated a mandatory tender and remarketed \$38.270 MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002G-1f and \$137.175 MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2005D-1 because their current interest rate periods were expiring by their terms. Both the Series 2002G-1f and 2005D-1 Bonds were remarketed in Term Rate Mode as Floating Rate Tender Notes (“FRNs”) with a purchase date of July 1, 2021 and with an interest rate of 67% of 1-month LIBOR plus 0.65%.

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 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 June 19, 2018, MTA issued \$1,600 of MTA Transportation Revenue Bond Anticipation Notes, Series 2018B to generate new money proceeds to finance existing approved transit and commuter projects. The Series 2018B Notes are fixed rate tax-exempt notes with a final maturity of May 15, 2021.

On October 10, 2018, MTA issued \$900 of MTA Transportation Revenue Bond Anticipation Notes, Series 2018C to generate new money proceeds to finance existing approved transit and commuter projects. The Series 2018C Notes were issued as fixed rate tax-exempt notes with an all-in True Interest Cost of 2.294% and a final maturity of September 1, 2021.

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 2018, 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, there are no outstanding bonds. 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 2018, MTA issued twenty-two 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 \$9,769. 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 MTF 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.

MTA Certificates of Participation — Prior to 2018, 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 2018, MTA Bridges and Tunnels issued twenty- nine 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 \$12,422. 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 24, 2018, MTA effectuated a mandatory tender and remarketed \$122.635 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 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 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 June 27, 2018, MTA effectuated a mandatory tender and remarketed \$107.275 of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Bonds, Series 2001C because the irrevocable direct-pay LOC relating to the Series 2001C Bonds issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd., was expiring by its terms and was substituted with an irrevocable direct-pay LOC issued by State Street Bank and Trust Company. The LOC will expire on June 26, 2023.

On June 27, 2018, MTA effectuated a mandatory tender and remarketed \$190.300 of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Refunding Bonds, Subseries 2005B-3 because the irrevocable direct-pay LOC relating to the Subseries 2005B-3 Bonds issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd., was expiring by its terms and was substituted with an irrevocable direct-pay LOC issued by State Street Bank and Trust Company. The LOC will expire on June 26, 2023.

On August 30, 2018, MTA issued \$270.090 Triborough Bridge and Tunnel Authority General Revenue Refunding Bonds, Series 2018B. The Series 2018B bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2031. Proceeds from the transaction were used to refund the following bonds: \$195.450 TBTA General Revenue Bonds, Series 2008C; and \$123.300 TBTA Subordinate Revenue Bonds, Series 2008D.

On August 30, 2018, MTA issued \$159.280 Triborough Bridge and Tunnel Authority General Revenue Refunding Bonds, Series 2018C. The Series 2018C bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2038. Proceeds from the transaction were used to refund \$181.135 Triborough Bridge and Tunnel Authority General Revenue Bonds, Subseries 2009A-2.

On September 26, 2018, MTA effectuated a mandatory tender and remarketed \$107.280 Triborough Bridge and Tunnel Authority General Revenue Variable Rate Bonds, Series 2001B because its irrevocable direct-pay LOC relating to the Series 2001B Bonds issued by State Street Bank, was expiring by its terms. The Series 2001B Bonds were remarketed in Term Rate Mode as Secured Overnight Financing Rate (SOFR) Tender Notes with a purchase date of September 26, 2019.

On October 4, 2018, MTA issued \$125.000 of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Bonds, Series 2018D. The Series 2018D bonds were issued in Term Rate Mode as tax-exempt SOFR Tender Notes with a purchase date of October 1, 2020, and with an interest rate of 67% of SOFR plus 0.50%. The Series 2018D bonds have a final maturity of November 15, 2038.

On October 30, 2018, MTA effectuated a mandatory tender and remarketed \$162.995 of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Bonds, Series 2002F because the irrevocable direct-pay Letter of Credit (LOC) relating to the Series 2002F bonds issued by Landesbank Hessen-Thüringen Girozentrale was expiring by its terms and was substituted with an irrevocable direct-pay LOC issued by Citibank, N.A. The new LOC will expire on October 29, 2021.

On November 28, 2018, MTA effectuated a mandatory tender and remarketed \$43.800 Triborough Bridge and Tunnel Authority General Revenue Variable Rate Refunding Bonds, Subseries 2005B-4d and \$38.700 Triborough Bridge and Tunnel Authority General Revenue Variable Rate Refunding Bonds, Subseries 2005B-4c because their current interest rate periods were set to expire by their terms. Both the Subseries 2005B-4c and 2005B-4d Bonds were combined into one series, Subseries 2005B-4c, and remarketed as Variable Interest Rate Obligations in Daily Mode supported by an irrevocable direct-pay Letter of Credit issued by U.S. Bank National Association. The LOC will expire on May 26, 2022.

On December 12, 2018, MTA issued \$148.470 Triborough Bridge and Tunnel Authority General Revenue Variable Rate Refunding Bonds, Series 2018E. Proceeds from the transaction were used to refund MTA Bridges and Tunnels Subordinate Revenue Bonds, Subseries 2013D-2a and Subseries 2013D-2b. The Series 2018E bonds were issued as taxable Variable Interest Rate Obligations in Weekly Mode supported by an irrevocable direct-pay Letter of Credit (LOC) issued by Bank of America, N.A. The LOC will expire on December 12, 2022.

MTA Bridges and Tunnels Subordinate Revenue Bonds — Prior to 2018, 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 depository (“Depository”), 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 Depository, 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 Depository.

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 \$34,397. 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, 2018 and 2017, 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, 2018	December 31, 2017
MTA Transit and Commuter Facilities:		
Transit Facilities Revenue Bonds	\$ 169	\$ 189
Commuter Facilities Revenue Bonds	172	193
Transit and Commuter Facilities Service Contract Bonds	-	28
Dedicated Tax Fund Bonds	42	61
MTA New York City Transit — Transit Facilities Revenue		
Bonds (Livingston Plaza Project)	-	8
MTA Bridges and Tunnels:		
General Purpose Revenue Bonds	674	694
Special Obligation Subordinate Bonds	102	115
Mortgage Recording Tax Bonds	-	-
Total	<u>\$ 1,159</u>	<u>\$ 1,288</u>

For the year ended December 31, 2018, MTA refunding transactions decreased aggregate debt service payments by \$105 and provided an economic gain of \$110. During the year ended December 31, 2017, MTA refunding transactions decreased aggregate debt service payments by \$647 and provided an economic gain of \$534. Details of bond refunding savings for December 31, 2018 and December 31, 2017 are as follows:

Bonds Refunded in 2018	(In millions)	Series	Date issued	Par value Refunded	Debt Service Savings
Transportation Revenue Bonds		TRB 2018B	08/23/2018	\$ 207	\$ 30
MTA Bridges and Tunnels General Revenue Bonds		TBTA 2018B	08/30/2018	270	80
		TBTA 2018C	08/30/2018	159	(5)
				<u>429</u>	<u>75</u>
Total Bond Refunding Savings				<u>\$ 636</u>	<u>\$ 105</u>
Bonds Refunded in 2017	(In millions)	Series	Date issued	Par value Refunded	Debt Service Savings
Transportation Revenue Bonds		TRB 2017A-2	03/16/2017	\$ 137	\$ 22
		TRB 2017B	09/20/2017	662	91
		TRB 2017C	12/14/2017	2,021	170
		TRB 2017D	12/21/2017	643	56
				<u>3,463</u>	<u>339</u>
Dedicated Tax Fund Bonds		DTF 2017B-2	05/17/2017	371	47
MTA Bridges and Tunnels General Revenue Bonds		TBTA 2017B	01/19/2017	903	199
		TBTA 2017C-1	11/17/2017	521	62
				<u>1,424</u>	<u>261</u>
Total Bond Refunding Savings				<u>\$ 5,258</u>	<u>\$ 647</u>

For the year ended December 31, 2018, the accounting gain on bond refundings totaled \$1. For the year ended December 31, 2017, the accounting loss on bond refundings totaled \$359.

Unamortized gains and losses related to bond refundings were as follows:

(In millions)	December 31, 2016	(Gain)/ loss on refunding	Current year amortization	December 31, 2017	(Gain)/loss on refunding	Current year amortization	December 31, 2018
MTA:							
Transportation Revenue Bonds	\$ 557	\$ 222	\$ (51)	\$ 728	\$ (2)	\$ (56)	\$ 670
State Service Contract Bonds	(7)	-	(3)	(10)	-	(2)	(12)
Dedicated Tax Fund Bonds	215	55	(16)	254	-	(16)	238
	<u>765</u>	<u>277</u>	<u>(70)</u>	<u>972</u>	<u>(2)</u>	<u>(74)</u>	<u>896</u>
TBTA:							
General Revenue Bonds	171	82	(20)	233	1	(25)	209
Subordinate Revenue Bonds	32	-	(2)	30	-	3	33
	<u>203</u>	<u>82</u>	<u>(22)</u>	<u>263</u>	<u>1</u>	<u>(22)</u>	<u>242</u>
Total	<u>\$ 968</u>	<u>\$ 359</u>	<u>\$ (92)</u>	<u>\$ 1,235</u>	<u>\$ (1)</u>	<u>\$ (96)</u>	<u>\$ 1,138</u>

Debt Service Payments — Future principal and interest debt service payments at December 31, 2018 are as follows (in millions):

	MTA		MTA BRIDGES AND TUNNELS		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 2,235	\$ 1,447	\$ 317	\$ 347	\$ 2,552	\$ 1,794
2020	1,497	1,354	321	336	1,818	1,690
2021	2,447	1,242	324	322	2,771	1,564
2022	816	1,176	336	307	1,152	1,483
2023	975	1,094	362	291	1,337	1,385
2024-2028	5,284	4,091	2,138	1,177	7,422	5,268
2029-2033	6,332	2,980	2,351	701	8,683	3,681
2034-2038	5,549	1,975	1,346	399	6,895	2,374
2039-2043	3,424	937	667	135	4,091	1,072
2044-2048	1,222	337	497	30	1,719	367
2049-2053	764	137	26	2	790	139
2054-2058	626	29	-	-	626	29
Thereafter	-	-	-	-	-	-
	<u>\$ 31,171</u>	<u>\$ 16,799</u>	<u>\$ 8,685</u>	<u>\$ 4,047</u>	<u>\$ 39,856</u>	<u>\$ 20,846</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 2001C* — 4.00% per annum.
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2001B* — 4.00% per annum plus the current fixed floating rate note spread.

- *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.
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2018D* — 4.00% per annum plus the current fixed floating rate note spread.
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2018E* — 4.00% per annum.

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, 2018 are as follows:

Loans Payable (in millions)

Year	Principal	Interest	Total
2019	\$ 15	\$ 2	\$ 17
2020	14	2	16
2021	14	1	15
2022	12	1	13
2023	10	1	11
2024-2028	35	2	37
2029-2033	19	1	20
2034-2038	0	0	0
Total	<u>\$ 119</u>	<u>\$ 10</u>	<u>\$ 129</u>
Current portion	\$ 15		
Long-term portion	104		
Total NYPA Loans Payable	<u>\$ 119</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.

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, 2018 and 2017.



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.

<u>Resolution</u>	<u>Series</u>	<u>Swap</u>	<u>Provider (Insurer)</u>	<u>Type of Facility</u>	<u>Exp. Date</u>
Transportation Revenue	2002G-1g	Y	TD Bank, N.A.	LOC	11/1/2021
Transportation Revenue	2005D-2	Y	Helaba	LOC	11/10/2022
Transportation Revenue	2005E-1	Y	PNC Bank, National Association	LOC	8/20/2021
Transportation Revenue	2005E-2	Y	Bank of America, N.A.	LOC	12/10/2021
Transportation Revenue	2005E-3	Y	PNC Bank, National Association	LOC	8/20/2021
Transportation Revenue	2012G-2	Y	TD Bank, N.A.	LOC	11/1/2021
Transportation Revenue	2015E-1	N	U.S. Bank National Association	LOC	8/20/2021
Transportation Revenue	2015E-3	N	Bank of America, N.A.	LOC	9/2/2022
Transportation Revenue	2015E-4	N	PNC Bank, National Association	LOC	9/3/2021
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	2001C	Y	State Street	LOC	6/26/2023
MTA Bridges and Tunnels General Revenue	2002F	Y	Citibank, N.A.	LOC	10/29/2021
MTA Bridges and Tunnels General Revenue	2003B-1	N	Bank of America, N.A.	LOC	1/21/2022
MTA Bridges and Tunnels General Revenue	2005A	Y	TD Bank, N.A.	LOC	1/28/2020
MTA Bridges and Tunnels General Revenue	2005B-2	Y	Citibank, N.A.	LOC	1/23/2021
MTA Bridges and Tunnels General Revenue	2005B-3	Y	State Street	LOC	6/26/2023
MTA Bridges and Tunnels General Revenue	2018E	N	Bank of America, N.A.	LOC	12/12/2022

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, 2018 and 2017, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2017 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, 2018	
						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	\$ 190.30	\$ (24.025)
MTA Bridges and Tunnels Senior Revenue Bonds	2005B-2,3,4	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	570.900	(72.074)
MTA Bridges and Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	22.650	(2.339)
MTA Bridges and Tunnels Senior Revenue Bonds	2005C (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	12/5/2016	40.275	(1.326)
MTA Bridges and Tunnels Subordinate Revenue Bonds	2000ABCD	SIFMA Fixed Payer	Cash Flow	Synthetic Instrument	8/12/1998	11.150	(0.264)
MTA Dedicated Tax Fund Bonds	2008A	Libor Fixed Payer	Cash Flow	Synthetic Instrument	3/8/2005	324.670	(36.330)
MTA Transportation Revenue Bonds	2002D-2	Libor Fixed Payer	Cash Flow	Synthetic Instrument	7/11/2002	200.000	(55.474)
MTA Transportation Revenue Bonds	2005D & 2005E	Libor Fixed Payer	Cash Flow	Synthetic Instrument	9/10/2004	365.860	(53.882)
MTA Transportation Revenue Bonds	2012G	Libor Fixed Payer	Cash Flow	Synthetic Instrument	12/12/2007	356.775	(66.854)
MTA Transportation Revenue Bonds	2002G-1 (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	127.660	(7.869)
MTA Transportation Revenue Bonds	2011B (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	69.590	(12.498)
Total						\$ 2,279.830	\$ (332.935)

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)



	Changes In Fair Value		Fair Value at December 31, 2018		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	\$78.790	Debt	\$(332.935)	\$2,279.830

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, 2018).

Metropolitan Transportation Authority						
Related Bonds	Notional Amount as of 12/31/18	Effective Date	Maturity Date	Terms	Counterparty and Ratings(S&P / Moody's / Fitch)	Fair Value as of 12/31/18
TRB 2002D-2	\$ 200.000	01/01/07	11/01/32	Pay 4.45%; receive 69% 1M LIBOR	JPMorgan Chase Bank, NA (A+ / Aa2 / AA)	\$ (55.474)
TRB 2005D & 2005E	274.395	11/02/05	11/01/35	Pay 3.561%; receive 67% 1M LIBOR	UBS AG (A+ / Aa3 / AA-)	(40.411)
TRB 2005E	91.465	11/02/05	11/01/35	Pay 3.561%; receive 67% 1M LIBOR	AIG Financial Products ⁽¹⁾ (BBB+ / Baa1 / BBB+)	(13.471)
TRB 2012G	356.775	11/15/12	11/01/32	Pay 3.563%; receive 67% 1M LIBOR	JPMorgan Chase Bank, NA (A+ / Aa2 / AA)	(66.854)
DTF 2008A	324.670	03/24/05	11/01/31	Pay 3.3156%; receive 67% 1M LIBOR	Bank of New York Mellon (AA- / Aa2 / AA)	(36.330)
Total	\$ 1,247.305					\$ (212.540)

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

MTA Bridges and Tunnels						
Related Bonds	Notional Amount as of 12/31/18	Effective Date	Maturity Date	Terms	Counterparty and Ratings (S&P / Moody's / Fitch)	Fair Value as of 12/31/18
TBTA 2002F & 2003B-2	\$ 190.300	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	Citibank, N.A. (A+ / A1 / A+)	\$ (24.025)
TBTA 2005B-2	190.300	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	JPMorgan Chase Bank, NA (A+ / Aa2 / AA)	(24.025)
TBTA 2005B-3	190.300	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	BNP Paribas North America (A / Aa3 / A+)	(24.025)
TBTA 2005B-4	190.300	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	UBS AG (A+ / Aa3 / AA-)	(24.024)
TBTA 2000ABCD	11.150	01/01/01	01/01/19	Pay 6.08%; receive SIFMA-15 bp ¹	JPMorgan Chase Bank, NA (A+ / Aa2 / AA)	(0.264)
TRB 2002G-1 & 2011B TBTA 2005A & 2001C ²	130.088 ³	04/01/16	01/01/30	Pay 3.52%; receive 67% 1M LIBOR	U.S. Bank N.A. (AA- / A1 / AA-)	(12.016) ³
TRB 2002G-1 & 2011B TBTA 2005A & 2001C ²	130.087 ³	04/01/16	01/01/30	Pay 3.52%; receive 67% 1M LIBOR	Wells Fargo Bank, N.A. (A+ / Aa2 / AA-)	(12.016) ³
Total	\$ 1,032.525					\$ (120.395)

¹ 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.

² 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.

³ 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

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, 2018, 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, 2018, 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+	Aa2	AA	\$758,225	33.26%
UBS AG	A+	Aa3	AA-	464,695	20.38
The Bank of New York Mellon	AA-	Aa2	AA	324,670	14.24
Citibank, N.A.	A+	A1	A+	190,300	8.35
BNP Paribas North America, Inc.	A	Aa3	A+	190,300	8.35
U.S. Bank National Association	AA-	A1	AA-	130,088	5.71
Wells Fargo Bank, N.A.	A+	Aa2	AA-	130,087	5.70
AIG Financial Products Corp.	BBB+	Baa1	BBB+	91,465	4.01
Total				\$2,279,830	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 Lienrating 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.	BelowBaa2 (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, 2018, the aggregate mid-market valuation of the MTA's swaps subject to collateral posting agreements was (\$184.940); 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, 2018, the aggregate mid-market valuation of MTA Bridges and Tunnels' swaps subject to collateral posting agreements was (\$120.362); 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 highest rating)
Bank of New York Mellon	N/A—MTA does not post collateral	Aa3/AA- & above: \$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- & above: \$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 Tunnels' 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	Variable-Rate Bonds		Net Swap Payments	Total
December 31, 2018	Principal	Interest		
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	65.7	40.1	(4.1)	101.6
2024-2028	328.7	173.3	(15.5)	486.6
2029-2033	790.8	423.2	(6.5)	1,207.6
2034-2038	108.4	22.7	(1.1)	130.1

MTA Bridges and Tunnels				
(in millions)				
Year Ended	Variable-Rate Bonds		Net Swap Payments	Total
December 31, 2018	Principal	Interest		
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	28.6	33.8	(6.8)	55.6
2024-2028	201.9	144.5	(32.0)	314.4
2029-2033	644.2	43.2	(10.1)	677.3
2034-2038	-	2.5	-	2.5

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 the Federal National Mortgage Association (“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, 2018, the market value of total collateral funds was \$37.7.

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, 2018, the market value of total collateral funds was \$53.1.

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:

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



- the Ground Lease demising the Retail Podium Severed Parcel.
- 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:

- i. The lease transfers ownership of the property to the lessee by the end of the lease term.
- ii. The lease contains a bargain purchase option.
- iii. The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- iv. 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, 2018:

Year	ERY	WRY	Total
2019	18	16	34
2020	19	16	35
2021	19	32	51
2022	19	33	52
2023	19	33	52
Thereafter	868	1,525	2,393
Total	\$962	\$1,655	\$2,617

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 \$1.1 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, 2018, 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 57.6%, 7.5% and 34.9%, respectively. MTAs’ sublease is for a year-to-year term, automatically extended, except upon the giving of a non-extension 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, 2018 and 2017, of \$234 and \$228, respectively. The MTA made rent payments of \$25 and \$25 for the years ended December 31, 2018 and 2017, 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 2018, the total of the rental payments charged to MTA New York City Transit and MTA Bridges and Tunnels was \$4.52 and \$1.84 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, 2018 and 2017, is as follows (in millions):

	December 31, 2018	December 31, 2017
Capital lease - building	\$196	\$196
Less accumulated amortization	(92)	(88)
Capital lease - building - net	<u>\$104</u>	<u>\$108</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 \$67.4 and \$68.1 for the years ended December 31, 2018 and 2017, respectively.

At December 31, 2018, the future minimum lease payments under non-cancelable leases are as follows (in millions):

Years	Operating	Capital
2019	\$ 79	\$ 24
2020	78	33
2021	75	24
2022	80	75
2023	80	19
2024–2028	416	107
2029–2033	446	557
2034–2038	313	159
2039–2043	275	175
2044–2048	264	174
Thereafter	261	200
Future minimum lease payments	<u>\$ 2,367</u>	1,547
Amount representing interest		(1,100)
Total present value of capital lease obligations		447
Less current present value of capital lease obligations		4
Noncurrent present value of capital lease obligations		<u>\$ 443</u>

Capital Leases Schedule

For the Year Ended December 31, 2018
(in millions)

Description	December 31, 2017	Increase	Decrease	December 31, 2018
Sumitomo	\$ 15	\$ -	\$ -	\$ 15
Met Life	6	-	-	6
Met Life Equity	19	-	-	19
Bank of New York	22	-	-	22
Bank of America	37	2	-	39
Bank of America Equity	16	-	-	16
Sumitomo	31	1	5	27
Met Life Equity	52	3	-	55
Grand Central Terminal & Harlem Hudson Railroad Lines	14	-	-	14
2 Broadway Lease Improvement	173	4	-	177
2 Broadway	55	2	-	57
Total MTA Capital Lease	\$ 440	\$ 12	\$ 5	\$ 447
Current Portion Obligations under Capital Lease	4			4
Long Term Portion Obligations under Capital Lease	<u>\$ 436</u>			<u>\$ 443</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	\$ 433	\$ 12	\$ 5	\$ 440
Current Portion Obligations under Capital Lease	4			4
Long Term Portion Obligations under Capital Lease	<u>\$ 429</u>			<u>\$ 436</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, 2018 and 2017 is presented below (in millions):

	December 31, 2018	December 31, 2017
Balance - beginning of year	\$ 3,851	\$ 3,441
Activity during the year:		
Current year claims and changes in estimates	870	832
Claims paid	(467)	(422)
Balance - end of year	4,254	3,851
Less current portion	(454)	(415)
Long-term liability	\$ 3,800	\$ 3,436

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. Pollution remediation obligations are estimates and subject to changes resulting from price increase or reductions, technology, or changes in applicable laws or regulations. The MTA does not expect any recoveries of cost that would have a material effect on the recorded obligations.

The MTA recognized pollution remediation expenses of \$106 and \$13 for the December 31, 2018 and 2017, respectively. A summary of the activity in pollution remediation liability at December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Balance at beginning of year	\$ 79	\$ 88
Current year expenses/changes in estimates	106	13
Current year payments	(46)	(22)
Balance at end of year	139	79
Less current portion	31	20
Long-term liability	\$ 108	\$ 59

The MTA's pollution remediation liability primarily consists of future remediation activities associated with asbestos removal, lead abatement, ground water contamination, arsenic contamination and soil remediation.



13. CURRENT AND NON-CURRENT LIABILITIES

Changes in the activity of current and non-current liabilities for the years ended December 31, 2018 and 2017 are presented below:

	Balance December 31, 2016			Balance December 31, 2017			Balance December 31, 2018		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance	Additions	Reductions
Current liabilities:									
Accounts payable	\$ 526	\$ 81	\$ -	\$ 607	\$ -	\$ (137)	\$ 470		
Interest	226	-	(22)	204	6	-	210		
Salaries, wages and payroll taxes	251	56	-	307	20	-	327		
Vacation and sick pay benefits	911	77	-	988	32	-	1,020		
Current portion — retirement and death benefits	15	-	(1)	14	2	-	16		
Capital accrual	436	-	(24)	412	325	-	737		
Unearned premiums	149	106	-	255	9	-	264		
Other accrued expenses	499	107	-	606	87	-	693		
Unearned revenues	571	23	-	594	210	-	804		
Total current liabilities	\$ 3,584	\$ 450	\$ (47)	\$ 3,987	\$ 691	\$ (137)	\$ 4,541		
Non-current liabilities:									
Contract retainage payable	\$ 309	\$ 67	\$ -	\$ 376	\$ 30	\$ -	\$ 406		
Other long-term liabilities	317	30	-	347	29	-	376		
Total non-current liabilities	\$ 626	\$ 97	\$ -	\$ 723	\$ 59	\$ -	\$ 782		

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

Counterparty	JPM Ventures Energy Corporation	Cargill	Goldman Sachs					
Trade Date	1/26/2017	2/28/2017	3/28/2017	4/27/2017	5/30/2017	6/27/2017	7/26/2017	8/29/2017
Effective Date	1/1/2018	2/1/2018	3/1/2018	4/1/2018	5/1/2018	6/1/2018	7/1/2018	8/1/2018
Termination Date	12/31/2018	1/31/2019	2/28/2019	3/31/2019	4/30/2019	5/31/2019	6/30/2019	7/31/2019
Price/Gal	\$1.7485	\$1.6824	\$1.6090	\$1.5915	\$1.6085	\$1.5225	\$1.6180	\$1.6315
Original Notional Quantity	2,923,252	2,923,256	2,923,255	2,887,174	2,914,270	2,914,264	2,914,252	2,914,252

Counterparty	Goldman Sachs	Macquarie Energy LLC						
Trade Date	9/22/2017	10/26/2017	11/29/2017	12/27/2017	1/31/2018	2/28/2018	3/28/2018	4/24/2018
Effective Date	9/1/2018	10/1/2018	11/1/2018	12/1/2018	1/1/2019	2/1/2019	3/1/2019	4/1/2019
Termination Date	8/31/2019	9/30/2019	10/31/2019	11/30/2019	12/31/2019	1/31/2020	2/29/2020	3/31/2020
Price/Gal	\$1.7205	\$1.7635	\$1.8520	\$1.9050	\$1.9570	\$1.8815	\$1.9805	\$2.0795
Original Notional Quantity	2,914,244	2,612,515	2,870,561	2,870,574	2,870,565	2,786,237	2,853,500	2,799,258

Counterparty	Goldman Sachs	Goldman Sachs	BOA_Merrill	Goldman Sachs	Goldman Sachs	Cargill	BOA_Merrill
Trade Date	5/29/2018	6/26/2018	7/31/2018	8/29/2018	9/25/2018	10/30/2018	11/27/2018
Effective Date	5/1/2019	6/1/2019	7/1/2019	8/1/2019	9/1/2019	10/1/2019	11/1/2019
Termination Date	4/30/2020	5/31/2020	6/30/2020	7/31/2020	8/31/2020	9/30/2020	10/31/2020
Price/Gal	\$2.1590	\$2.1755	\$2.1730	\$2.2145	\$2.2885	\$2.2455	\$1.9213
Original Notional Quantity	2,841,090	2,841,069	2,820,856	2,831,924	2,831,922	2,831,934	3,023,197

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, 2018, the total outstanding notional value of the ULSD contracts was 49.8 million gallons with a negative fair market value of \$12. 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, 2018	Metro - North		Long Island	New York City Transit	Triborough Bridge and Tunnel	Eliminations	Consolidated
	MTA	Railroad	Railroad	Authority	Authority		Total
Current assets	\$ 5,337	\$ 206	\$ 244	\$ 633	\$ 461	\$ (116)	\$ 6,765
Capital assets	11,032	5,092	6,826	43,195	6,366	-	72,511
Other Assets	11,829	5	-	-	4	(10,776)	1,062
Intercompany receivables	696	95	153	1,627	730	(3,301)	-
Deferred outflows of resources	1,528	315	435	1,738	487	(143)	4,360
Total assets and deferred outflows of resources	\$ 30,422	\$ 5,713	\$ 7,658	\$ 47,193	\$ 8,048	\$ (14,336)	\$ 84,698
Current liabilities	\$ 4,374	\$ 316	\$ 272	\$ 1,900	\$ 836	\$ (89)	\$ 7,609
Non-current liabilities	34,509	2,070	3,705	21,609	10,249	(120)	72,022
Intercompany payables	2,655	65	48	-	512	(3,280)	-
Deferred inflows of resources	147	68	88	759	52	-	1,114
Total liabilities and deferred inflows of resources	\$ 41,685	\$ 2,519	\$ 4,113	\$ 24,268	\$ 11,649	\$ (3,489)	\$ 80,745
Net investment in capital assets	\$ (26,670)	\$ 5,079	\$ 6,826	\$ 43,018	\$ 2,026	\$ (279)	\$ 30,000
Restricted	1,716	-	-	-	902	(728)	1,890
Unrestricted	13,691	(1,885)	(3,281)	(20,093)	(6,529)	(9,840)	(27,937)
Total net position	\$ (11,263)	\$ 3,194	\$ 3,545	\$ 22,925	\$ (3,601)	\$ (10,847)	\$ 3,953
For the year ended December 31, 2018							
Fare revenue	\$ 228	\$ 740	\$ 740	\$ 4,447	\$ -	\$ -	\$ 6,155
Vehicle toll revenue	-	-	-	-	1,976	-	1,976
Rents, freight and other revenue	78	52	49	446	24	(44)	605
Total operating revenue	306	792	789	4,893	2,000	(44)	8,736
Total labor expenses	1,119	1,044	1,205	6,853	275	-	10,496
Total non-labor expenses	525	409	416	2,118	242	(44)	3,666
Depreciation	105	230	362	1,833	149	-	2,679
Total operating expenses	1,749	1,683	1,983	10,804	666	(44)	16,841
Operating (deficit) surplus	(1,443)	(891)	(1,194)	(5,911)	1,334	-	(8,105)
Subsidies and grants	1,359	135	-	825	10	(794)	1,535
Tax revenue	4,760	-	-	3,252	-	(2,580)	5,432
Interagency subsidy	702	422	1,906	285	-	(3,315)	-
Interest expense	(1,169)	-	-	(17)	(290)	16	(1,460)
Other	(2,449)	(1)	-	(115)	-	2,711	146
Total non-operating revenues (expenses)	3,203	556	1,906	4,230	(280)	(3,962)	5,653
Loss before appropriations	1,760	(335)	712	(1,681)	1,054	(3,962)	(2,452)
Appropriations, grants and other receipts externally restricted for capital projects	(3,249)	441	-	2,652	(600)	3,058	2,302
Change in net position	(1,489)	106	712	971	454	(904)	(150)
Net position, beginning of year	(10,023)	3,838	4,246	21,148	(4,042)	(9,943)	5,224
Restatement of beginning net position	249	(750)	(1,413)	806	(13)	-	(1,121)
Net position, end of year	\$ (11,263)	\$ 3,194	\$ 3,545	\$ 22,925	\$ (3,601)	\$ (10,847)	\$ 3,953
For the year ended December 31, 2018							
Net cash (used in) / provided by operating activities	\$ (1,305)	\$ (457)	\$ (834)	\$ (3,359)	\$ 1,517	\$ 154	\$ (4,284)
Net cash provided by / (used in) non-capital financing activities	6,427	542	825	4,224	(693)	(4,275)	7,050
Net cash (used in) / provided by capital and related financing activities	(6,095)	(74)	13	(811)	(600)	4,233	(3,334)
Net cash provided by / (used in) investing activities	1,204	-	-	(44)	(222)	(112)	826
Cash at beginning of year	199	15	5	56	8	-	283
Cash at end of year	\$ 430	\$ 26	\$ 9	\$ 66	\$ 10	\$ -	\$ 541

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	\$ 227	\$ 236	\$ 586	\$ 471	\$ (111)	\$ 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	77	159	1,884	635	(3,506)	-
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	\$ 7,617	\$ (13,763)	\$ 80,280
Current liabilities	\$ 3,017	\$ 288	\$ 253	\$ 1,876	\$ 1,039	\$ (227)	\$ 6,246
Non-current liabilities	33,469	1,185	2,282	21,390	10,093	(116)	68,303
Intercompany payables	2,885	53	34	-	506	(3,477)	1
Deferred inflows of resources	51	21	22	391	21	-	506
Total liabilities and deferred inflows of resources	\$ 39,422	\$ 1,547	\$ 2,591	\$ 23,657	\$ 11,659	\$ (3,820)	\$ 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	13,655	(976)	(1,856)	(19,996)	(6,489)	(9,045)	(24,707)
Total net position	\$ (10,023)	\$ 3,838	\$ 4,246	\$ 21,148	\$ (4,042)	\$ (9,943)	\$ 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	1,282	1,014	1,156	7,088	319	6	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	1,869	1,624	1,913	10,703	783	(42)	16,850
Operating (deficit) surplus	(1,567)	(833)	(1,132)	(5,791)	1,149	(3)	(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)	414	1,504	305	-	(1,104)	-
Interest expense	(1,271)	-	-	(16)	(248)	18	(1,517)
Other	(1,314)	102	-	5	(55)	1,439	177
Total non-operating revenues (expenses)	1,396	516	1,504	3,644	(295)	(1,786)	4,979
Loss before appropriations	(171)	(317)	372	(2,147)	854	(1,789)	(3,198)
Appropriations, grants and other receipts externally restricted for capital projects	(443)	409	-	1,860	(572)	1,408	2,662
Change in net position	(614)	92	372	(287)	282	(381)	(536)
Net position, beginning of the 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	\$ (10,023)	\$ 3,838	\$ 4,246	\$ 21,148	\$ (4,042)	\$ (9,943)	\$ 5,224
For the year ended December 31, 2017							
Net cash (used in) / provided by operating activities	\$ (1,244)	\$ (466)	\$ (781)	\$ (2,835)	\$ 1,413	\$ 79	\$ (3,834)
Net cash provided by / (used in) non-capital financing activities	5,898	536	798	3,732	(732)	(3,631)	6,601
Net cash (used in) / provided by capital and related financing activities	(5,031)	(69)	(24)	(908)	(604)	3,538	(3,098)
Net cash provided by / (used in) investing activities	51	-	-	6	(189)	14	(118)
Cash at beginning of year	525	14	12	61	120	-	732
Cash at end of year	\$ 199	\$ 15	\$ 5	\$ 56	\$ 8	\$ -	\$ 283



16. SUBSEQUENT EVENTS

On January 3, 2019, MTA executed a 2,856,019 gallon ultra-low sulfur diesel fuel hedge at an all-in price of \$1.7885 (whole dollars) per gallon. The hedge covers the period from December 2019 through November 2020.

On January 29, 2019, MTA executed a 2,856,014 gallon ultra-low sulfur diesel fuel hedge at an all-in price of \$1.939 (whole dollars) per gallon. The hedge covers the period from January 2020 through December 2020.

On February 6, 2019, MTA issued \$454 Transportation Revenue Green Bonds, Series 2019A. Proceeds from the transaction were used to pay off the existing outstanding 2017C-1 Transportation Revenue Bond Anticipation Notes in the amount of \$500. The Series 2019A bonds were issued as \$191 Subseries 2019A-1, \$163 Subseries 2019A-2, and \$100 Subseries 2019A-3. The Subseries 2019A-1 bonds were issued as mandatory tender bonds with an initial purchase date of November 15, 2024. The Subseries 2019A-2 and 2019A-3 bonds were issued as fixed rate tax-exempt bonds with final maturities of November 15, 2045, and November 15, 2046, respectively.

On February 6, 2019, MTA issued \$750 MTA Transportation Revenue Bond Anticipation Notes, Series 2019A to generate new money proceeds to finance existing approved transit and commuter projects and to retire the outstanding Taxable Revenue Anticipation Note. The Series 2019A Notes were issued as fixed rate tax-exempt notes with an all-in True Interest Cost of 2.069% and a final maturity of February 3, 2020.

On February 28, 2019, MTA executed a 2,793,123 gallon ultra-low sulfur diesel fuel hedge at an all-in price of \$2.052 (whole dollars) per gallon. The hedge covers the period from February 2020 through January 2021.

On March 19, 2019, MTA issued \$750 Dedicated Tax Fund Bond Anticipation Notes, Series 2019A to (i) finance existing approved transit and commuter projects, (ii) pay interest on the Series 2019A Notes accruing through maturity, and (iii) pay certain financing, legal, and miscellaneous expenses. The Series 2019A Notes bear interest at a rate of 5.00% and have a final maturity of March 1, 2022.

On March 28, 2019, MTA effectuated a mandatory tender and remarketed \$50 of Transportation Revenue Bonds, Subseries 2012A-3.

On March 28, 2019, MTA executed a 2,849,714 gallon ultra-low sulfur diesel fuel hedge at an all-in price of \$2.005 (whole dollars) per gallon. The hedge covers the period from March 2020 through February 2021.

The New York State Fiscal Year 2019-2020 Enacted Budget established the Central Business District Tolling Program (CBD Tolling Program), the goals of which are to reduce traffic congestion in the Manhattan Central Business District, improve air quality, and provide a stable and reliable funding source for the repair and revitalization of the MTA's public transportation systems. The CBD Tolling Program revenues are not expected to begin to flow to MTA until at least early 2021. MTA Bridges and Tunnels is directed to establish the CBD Tolling Capital Lockbox Fund. Monies in the fund cannot be commingled with any other MTA Bridges and Tunnel monies. Funds on deposit in the CBD Tolling Capital Lockbox Fund shall be applied to: (1) operating, administration and other necessary expenses relating to the program, or to DOT pursuant to the MOU; and (2) costs of MTA capital projects included in the 2020-2024 Capital Program or any successor capital program. The 2019-2020 State Enacted Budget further provides that capital project costs paid for by the CBD Tolling Capital Lockbox Fund are subject to the following revenue split: (1) 80 percent for MTA New York City Transit, MaBSTOA, MTA Staten Island Railway and MTA Bus capital project costs, with priority given to subway system, new signaling, new subway cars, track and car repair, accessibility, buses and bus system improvements and further investments in expanding transit availability in the outer boroughs; (2) 10 percent for MTA Long Island Rail Road capital projects, including parking facilities, rolling stock, capacity enhancements, accessibility and expanding transit availability; and (3) 10 percent for MTA Metro-North Railroad capital projects including parking facilities, rolling stock, capacity enhancements, accessibility and expanding transit availability.

The 2019-2020 State Enacted Budget also establishes two additional sources of annually recurring MTA capital program subsidy revenues. These are (i) a portion of new City property derived real estate transfer tax receipts and (ii) certain incremental City-based internet sales tax allocations. The real estate transfer tax is derived from two new real estate transfer taxes imposed in the City on transfers of high value residential properties beginning with conveyances occurring on or after July 1, 2019. The internet sales tax is MTA's allocated portion of the State and City sales taxes, including those collected from Internet marketplace providers based outside the State under changes in the sales tax law effected in the 2019-2020 State Enacted Budget.

REQUIRED SUPPLEMENTARY INFORMATION

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

(\$ in thousands)

Plan Measurement Date (December 31):	Additional Plan				MaBSTOA Plan			
	2017	2016	2015	2014	2017	2016	2015	2014
Total pension liability:								
Service cost	\$ 1,874	\$ 2,752	\$ 3,441	\$ 3,813	\$ 84,394	\$ 82,075	\$ 77,045	\$ 72,091
Interest	101,477	104,093	106,987	110,036	246,284	236,722	232,405	223,887
Effect of economic / demographic (gains) or losses	1,890	15,801	6,735	-	11,826	13,784	(68,997)	-
Effect of assumption changes or inputs	-	-	-	-	6,347	-	-	-
Differences between expected and actual experience	-	-	-	-	-	-	-	(1,596)
Benefit payments and withdrawals	(159,717)	(158,593)	(157,071)	(156,974)	(209,122)	(187,823)	(179,928)	(175,447)
Net change in total pension liability	(54,476)	(35,947)	(39,908)	(43,125)	139,729	144,758	60,525	118,935
Total pension liability—beginning	1,526,304	1,562,251	1,602,159	1,645,284	3,536,747	3,391,989	3,331,464	3,212,529
Total pension liability—ending (a)	1,471,828	1,526,304	1,562,251	1,602,159	3,676,476	3,536,747	3,391,989	3,331,464
Plan fiduciary net position:								
Employer contributions	76,523	81,100	100,000	407,513	202,684	220,697	214,881	226,374
Nonemployer contributions	145,000	70,000	-	-	-	-	-	-
Member contributions	760	884	1,108	1,304	19,713	18,472	16,321	15,460
Net investment income	112,614	58,239	527	21,231	350,186	212,260	(24,163)	105,084
Benefit payments and withdrawals	(159,717)	(158,593)	(157,071)	(156,974)	(209,122)	(187,823)	(179,928)	(175,447)
Administrative expenses	(1,070)	(611)	(1,218)	(975)	(208)	(186)	(88)	(74)
Net change in plan fiduciary net position	174,110	51,019	(56,654)	272,099	363,253	263,420	27,023	171,397
Plan fiduciary net position—beginning	777,217	726,198	782,852	510,753	2,555,736	2,292,316	2,265,293	2,093,896
Plan fiduciary net position—ending (b)	951,327	777,217	726,198	782,852	2,918,989	2,555,736	2,292,316	2,265,293
Employer's net pension liability—ending (a)-(b)	\$ 520,501	\$ 749,087	\$ 836,053	\$ 819,307	\$ 757,487	\$ 981,011	\$ 1,099,673	\$ 1,066,171
Plan fiduciary net position as a percentage of the total pension liability	64.64%	50.92%	46.48%	48.86%	79.40%	72.26%	67.58%	68.00%
Covered payroll	\$ 20,500	\$ 29,312	\$ 39,697	\$ 43,267	\$ 749,666	\$ 716,527	\$ 686,674	\$ 653,287
Employer's net pension liability as a percentage of covered payroll	2539.03%	2555.56%	2106.09%	1893.61%	101.04%	136.91%	160.14%	163.20%

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.

REQUIRED SUPPLEMENTARY INFORMATION

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

(continued)

(\$ in thousands)

Plan Measurement Date (December 31):	MNR Cash Balance Plan				MTA Defined Benefit Plan			
	2017	2016	2015	2014	2017	2016	2015	2014
Total pension liability:								
Service cost	\$ -	\$ -	\$ -	\$ -	\$ 148,051	\$ 138,215	\$ 124,354	\$ 121,079
Interest	21	24	29	32	335,679	308,009	288,820	274,411
Effect of economic / demographic (gains) or losses	12	(15)	(10)	-	(27,059)	86,809	121,556	2,322
Effect of assumption changes or inputs	-	-	18	-	10,731	-	(76,180)	-
Effect of plan changes	-	-	-	-	76,511	73,521	6,230	-
Benefit payments and withdrawals	(71)	(77)	(113)	(88)	(232,976)	(209,623)	(199,572)	(191,057)
Net change in total pension liability	(38)	(68)	(76)	(56)	310,937	396,931	265,208	206,755
Total pension liability—beginning	566	634	710	766	4,761,877	4,364,946	4,099,738	3,892,983
Total pension liability—ending (a)	528	566	634	710	5,072,814	4,761,877	4,364,946	4,099,738
Plan fiduciary net position:								
Employer contributions	-	23	18	-	321,861	280,768	221,694	331,259
Member contributions	-	-	-	-	31,027	29,392	34,519	26,006
Net investment income	20	16	6	41	516,153	247,708	(45,122)	102,245
Benefit payments and withdrawals	(71)	(77)	(113)	(88)	(232,976)	(209,623)	(199,572)	(191,057)
Administrative expenses	-	-	3	(3)	(4,502)	(3,051)	(1,962)	(9,600)
Net change in plan fiduciary net position	(51)	(38)	(86)	(50)	631,563	345,194	9,557	258,853
Plan fiduciary net position—beginning	574	612	698	748	3,419,971	3,074,777	3,065,220	2,806,367
Plan fiduciary net position—ending (b)	523	574	612	698	4,051,534	3,419,971	3,074,777	3,065,220
Employer's net pension liability—ending (a)-(b)	\$ 5	\$ (8)	\$ 22	\$ 12	\$ 1,021,280	\$ 1,341,906	\$ 1,290,169	\$ 1,034,518
Plan fiduciary net position as a percentage of the total pension liability	99.05%	101.41%	96.53%	98.36%	79.87%	71.82%	70.44%	74.77%
Covered payroll	\$ 471	\$ 846	\$ 1,474	\$ 2,274	\$ 1,857,026	\$ 1,784,369	\$ 1,773,274	\$ 1,679,558
Employer's net pension liability as a percentage of covered payroll	1.06%	-0.95%	1.49%	0.53%	55.00%	75.20%	72.76%	61.59%

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.

REQUIRED SUPPLEMENTARY INFORMATION

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

(\$ in thousands)

	NYCERS Plan			
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Plan Measurement Date:				
MTA's proportion of the net pension liability	23.682%	24.096%	23.493%	23.585%
MTA's proportionate share of the net pension liability	\$ 4,176,941	\$ 5,003,811	\$ 5,708,052	\$ 4,773,787
MTA's actual covered payroll	\$ 3,216,837	\$ 3,154,673	\$ 3,064,007	\$ 2,989,480
MTA's proportionate share of the net pension liability as a percentage of the MTA's covered payroll	129.846%	158.616%	186.294%	159.686%
Plan fiduciary net position as a percentage of the total pension liability	78.826%	74.805%	69.568%	73.125%
	NYSLERS Plan			
	March 31, 2018	March 31, 2017	March 31, 2016	March 31, 2015
Plan Measurement Date:				
MTA's proportion of the net pension liability	0.327%	0.311%	0.303%	0.289%
MTA's proportionate share of the net pension liability	\$ 10,553	\$ 29,239	\$ 48,557	\$ 9,768
MTA's actual covered payroll	\$ 105,269	\$ 96,583	\$ 87,670	\$ 87,315
MTA's proportionate share of the net pension liability as a percentage of the MTA's covered payroll	10.025%	30.273%	55.386%	11.187%
Plan fiduciary net position as a percentage of the total pension liability	98.240%	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.

REQUIRED SUPPLEMENTARY INFORMATION

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

(\$ in thousands)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Additional Plan*										
Actuarially Determined Contribution	\$ 59,196	\$ 76,523	\$ 83,183	\$ 82,382	\$ 112,513	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	59,500	221,523	151,100	100,000	407,513	-	-	-	-	-
Contribution Deficiency (Excess)	<u>\$ (304)</u>	<u>\$ (145,000)</u>	<u>\$ (67,917)</u>	<u>\$ (17,618)</u>	<u>\$ (295,000)</u>	<u>\$ -</u>				
Covered Payroll	<u>\$ 13,076</u>	<u>\$ 20,500</u>	<u>\$ 29,312</u>	<u>\$ 39,697</u>	<u>\$ 43,267</u>	<u>\$ -</u>				
Contributions as a % of Covered Payroll	466.49%	1080.62%	515.49%	251.91%	941.87%	N/A	N/A	N/A	N/A	N/A
MaBSTOA Plan										
Actuarially Determined Contribution	\$ 202,509	\$ 202,924	\$ 220,697	\$ 214,881	\$ 226,374	\$ 234,474	\$ 228,918	\$ 186,454	\$ 200,633	\$ 204,274
Actual Employer Contribution	205,434	202,684	220,697	214,881	226,374	234,474	228,918	186,454	200,633	204,274
Contribution Deficiency (Excess)	<u>\$ (2,925)</u>	<u>\$ 240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	<u>\$ 776,200</u>	<u>\$ 749,666</u>	<u>\$ 716,527</u>	<u>\$ 686,674</u>	<u>\$ 653,287</u>	<u>\$ 582,081</u>	<u>\$ 575,989</u>	<u>\$ 579,696</u>	<u>\$ 591,073</u>	<u>\$ 569,383</u>
Contributions as a % of Covered Payroll	26.47%	27.04%	30.80%	31.29%	34.65%	40.28%	39.74%	32.16%	33.94%	35.88%
Metro-North Cash Balance Plan*										
Actuarially Determined Contribution	\$ 5	\$ -	\$ 23	\$ -	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	5	-	23	14	-	-	-	-	-	-
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14)</u>	<u>\$ 5</u>	<u>\$ -</u>				
Covered Payroll	<u>\$ 268</u>	<u>\$ 471</u>	<u>\$ 846</u>	<u>\$ 1,474</u>	<u>\$ 2,274</u>	<u>\$ -</u>				
Contributions as a % of Covered Payroll	2.03%	0.00%	2.68%	0.96%	0.00%	N/A	N/A	N/A	N/A	N/A
MTA Defined Benefit Plan*										
Actuarially Determined Contribution	\$ 331,566	\$ 316,916	\$ 290,415	\$ 273,700	\$ 271,523	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	339,800	321,861	280,767	221,694	331,259	-	-	-	-	-
Contribution Deficiency (Excess)	<u>\$ (8,234)</u>	<u>\$ (4,945)</u>	<u>\$ 9,648</u>	<u>\$ 52,006</u>	<u>\$ (59,736)</u>	<u>\$ -</u>				
Covered Payroll	<u>\$ 2,030,695</u>	<u>\$ 1,857,026</u>	<u>\$ 1,784,369</u>	<u>\$ 1,773,274</u>	<u>\$ 1,679,558</u>	<u>\$ -</u>				
Contributions as a % of Covered Payroll	16.83%	17.33%	15.73%	12.50%	19.72%	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.

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REQUIRED SUPPLEMENTARY INFORMATION

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

(continued)

(\$ in thousands)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
NYCERS										
Actuarially Determined Contribution	\$ 807,097	\$ 800,863	\$ 797,845	\$ 736,212	\$ 741,223	\$ 736,361	\$ 731,983	\$ 657,771	\$ 574,555	\$ 548,721
Actual Employer Contribution	807,097	800,863	797,845	736,212	741,223	736,361	731,983	657,771	574,555	548,721
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 3,974,494	\$ 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
Contributions as a % of Covered Payroll	20.31%	21.25%	22.64%	21.07%	20.49%	25.02%	25.02%	22.68%	19.90%	19.59%
NYSLERS **										
Actuarially Determined Contribution	\$ 14,501	\$ 13,969	\$ 12,980	\$ 15,792	\$ 13,816	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	14,501	13,969	12,980	15,792	13,816	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 109,210	\$ 103,787	\$ 94,801	\$ 86,322	\$ 84,041	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	13.28%	13.46%	13.69%	18.29%	16.44%	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.

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

	Additional Plan			
Valuation Dates:	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Measurement Date:	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
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.	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.
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.
Salary increases:	3.00%	3.00%	3.00%	3.00%
Actuarial assumptions:				
Discount Rate:	7.00%	7.00%	7.00%	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.	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 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.
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:	N/A	N/A	N/A	N/A
Inflation/Railroad Retirement Wage Base:	2.50%; 3.50%	2.50%; 3.50%	2.50%; 3.50%	2.50%; 3.50%
Cost-of-Living Adjustments:	N/A	N/A	N/A	N/A

REQUIRED SUPPLEMENTARY INFORMATION

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

	MaBSTOA Plan			
Valuation Dates:	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Measurement Date:	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Actuarial cost method:	Frozen Initial Liability (FIL)			
Amortization method:	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.	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 Market value restart as of 1/1/96, then gains/losses over a 5-year period. Gains/losses are five-year moving average of market values based on market value of assets.
Salary increases:	Varies by years of employment and employment type.	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%
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.	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 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.
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.
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:	RP-2014 Disabled 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.	75% of the rates from the RP-2000 Healthy Annuitant mortality table for males and females.
Inflation/Railroad Retirement Wage Base:	2.50%	2.50%	2.50%	2.50%
Cost-of-Living Adjustments:	1.375% per annum	1.375% per annum	1.375% per annum	1.375% per annum

REQUIRED SUPPLEMENTARY INFORMATION

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

(continued)

	MNR Cash Balance Plan			
Valuation Dates:	January 1, 2018	January 1, 2017	January 1, 2016	January 1, 2014
Measurement Date:	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Actuarial cost method:	Unit Credit Cost	Unit Credit Cost	Unit Credit Cost	Unit Credit Cost
Amortization method:	One-year amortization of the unfunded liability, if any.	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).
Asset Valuation Method:	Actuarial value equals market value.	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.
Salary increases:	N/A	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 minimus.
Actuarial assumptions:				
Discount Rate:	4.00%	4.00%	4.00%	4.50%
Investment rate of return :	4.00%, net of investment expenses.	4.00%, net of investment expenses.	4.00%, net of investment expenses.	4.50%, net of investment expenses.
Mortality:	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA. Mortality assumption is based on a 2017 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. 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.
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.
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:	N/A	N/A	N/A	N/A
Inflation/Railroad Retirement Wage Base:	2.50%	2.30%	2.30%	2.50%
Cost-of-Living Adjustments:	N/A	N/A	N/A	N/A

REQUIRED SUPPLEMENTARY INFORMATION

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

(continued)

	MTA Defined Benefit Plan			
	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Valuation Dates:	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Measurement Date:	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Actuarial cost method:	Entry Age Normal Cost			
Amortization method:	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.	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 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.
Salary increases:	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. 3.5% for MTA Bus hourly employees.	Varies by years of employment, and employee group.
Actuarial assumptions:				
Discount Rate:	7.00%	7.00%	7.00%	7.00%
Investment rate of return :	7.00%	7.00%	7.00%	7.00%
Mortality:	Pre-retirement and post-retirement 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.	Pre-retirement and post-retirement 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.	Pre-retirement and post-retirement 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.	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. Ortality 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.
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:	RP-2014 Disabled Annuitant mortality table for males and females	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:	2.50%; 3.50%	2.50%; 3.50%	2.50%; 3.50%	2.50%; 3.00%
Cost-of-Living Adjustments:	55% of inflation assumption or 1.375%, if applicable.	55% of inflation assumption or 1.375%, if applicable.	55% of inflation assumption or 1.375%, if applicable.	55% of inflation assumption or 1.375%, if applicable.

REQUIRED SUPPLEMENTARY INFORMATION
Notes to Schedule of the MTA's Contributions for All Pension Plans
(continued)

	NYCERS Plan			
	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Valuation Dates:	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement Date:	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Actuarial cost method:	Entry Age Normal Cost			
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.	Increasing Dollar for Initial Unfunded; Level Dollar for Post 2010 Unfunded.
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.	Modified six-year moving average of market values with a Market Value Restart as of June 30, 2011.
Salary increases:	3% per annum.	3% per annum.	3% per annum.	3% per annum.
Actuarial assumptions:				
Discount Rate:	7.00%	7.00%	7.00%	7.00%
Investment rate of return :	7.00%, 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.	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.
Pre-retirement:	N/A	N/A	N/A	N/A
Post-retirement Healthy Lives:	N/A	N/A	N/A	N/A
Post-retirement Disabled Lives:	N/A	N/A	N/A	N/A
Inflation/Railroad Retirement Wage Base:	2.50%	2.50%	2.50%	2.50%
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.	1.5% per annum for Auto COLA and 2.5% per annum for Escalation.

REQUIRED SUPPLEMENTARY INFORMATION

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

(continued)

	NYSLERS Plan			
	April 1, 2017	April 1, 2016	April 1, 2015	April 1, 2014
Valuation Dates:	April 1, 2017	April 1, 2016	April 1, 2015	April 1, 2014
Measurement Date:	March 31, 2018	March 31, 2017	March 31, 2016	March 31, 2015
Actuarial cost method:	Aggregate Cost method	Aggregate Cost method	Aggregate Cost method	Aggregate Cost method
Amortization method:	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.	Evenly over the remaining working lifetimes of the active membership.
Asset Valuation Method:	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.	5-year level smoothing of the difference between the actual gain and the expected gain using the assumed investment rate of return.
Salary increases:	3.80%	3.80%	3.80%	4.90%
Actuarial assumptions:				
Discount Rate:	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.	7.5%, net of investment expenses.
Mortality:	Annuitant mortality rates are based on NYSLERS's 2015 experience study of the period April 1, 2010 through March 31, 2015 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.	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
Post-retirement Healthy Lives:	N/A	N/A	N/A	N/A
Post-retirement Disabled Lives:	N/A	N/A	N/A	N/A
Inflation/Railroad Retirement Wage Base:	2.50%	2.50%	2.50%	2.70%
Cost-of-Living Adjustments:	1.3% per annum.	1.3% per annum.	1.3% per annum.	1.4% per annum.



REQUIRED SUPPLEMENTARY INFORMATION

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

(concluded)

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 significant legislative changes in benefit for the June 30, 2016 valuation for the NYCERS plan.

There were no significant legislative changes in benefit for the April 1, 2017 valuation for the NYSLERS plan.

Changes of Assumptions:

There were no significant changes in the economic and demographic assumptions used in the June 30, 2016 valuation for the NYCERS plan.

There were no significant changes in the economic and demographic assumptions used in the April 1, 2017 valuation for the NYSLERS plan.

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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the MTA's Net OPEB Liability and Related Ratios and Notes to Schedule

(\$ in thousands)	OPEB Plan
Plan Measurement Date (December 31):	2017
Total OPEB liability:	
Service cost	\$ 884,548
Interest on total OPEB liability	731,405
Effect of plan changes	27,785
Effect of economic/demographic (gains) or losses	13,605
Effect of assumption changes or inputs	911,465
Benefit payments	(650,994)
Net change in total OPEB liability	1,917,814
Total OPEB liability—beginning	18,787,254
Total OPEB liability—ending (a)	20,705,068
Plan fiduciary net position:	
Employer contributions	650,994
Net investment income	47,370
Benefit payments	(650,994)
Net change in plan fiduciary net position	47,370
Plan fiduciary net position—beginning	322,982
Plan fiduciary net position—ending (b)	370,352
Net OPEB liability—ending (a)-(b)	\$ 20,334,716
Plan fiduciary net position as a percentage	
of the total OPEB liability	1.79%
Covered payroll	\$ 5,394,332
Net OPEB liability as a percentage of covered payroll	376.96%

Notes to Schedule:

Changes of benefit terms: In the July 1, 2017 actuarial valuation, there were no changes to the benefit terms.

Changes of assumptions: In the July 1, 2017 actuarial valuation, there was a change in assumptions. The discount rate used to measure liabilities was updated to incorporate GASB 75 guidance and changed to reflect the current municipal bond rate.

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.



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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the MTA's Contributions to the OPEB Plan for the years ended December 31:

(\$ in thousands)	2018	2017
Actuarially Determined Contribution	N/A	N/A
Actual Employer Contribution (1)	\$ 696,065	\$ 650,994
Contribution Deficiency (Excess)	N/A	N/A
Covered Payroll	\$ 6,903,700	\$ 5,394,200
Actual Contribution as a Percentage of Covered Payroll	10.08%	12.07%

⁽¹⁾ Actual employer contribution includes the implicit rate of subsidy adjustment of \$74,484 and \$71,101 for the years ended December 31, 2018 and 2017, respectively.

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.



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REQUIRED SUPPLEMENTARY INFORMATION

Notes to Schedule of the MTA's Contributions to the OPEB Plan:

Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%, net of expenses
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Normal cost increase factor	4.50%
Investment rate of return	6.50%
Salary increases	3%. Varies by years of service and differs for members of the various pension plans.

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

(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, 2018
(\$ in millions)

Category	Financial Plan Actual	Statement GAAP Actual	Variance
REVENUE:			
Farebox revenue	\$ 6,153	\$ 6,155	\$ 2
Vehicle toll revenue	1,967	1,976	9
Other operating revenue	662	605	(57)
Total revenue	8,782	8,736	(46)
OPERATING EXPENSES:			
Labor:			
Payroll	5,213	5,230	17
Overtime	1,051	1,070	19
Health and welfare	1,322	1,156	(166)
Pensions	1,093	966	(127)
Other fringe benefits	880	880	-
Postemployment benefits	2,425	1,749	(676)
Reimbursable overhead	(494)	(555)	(61)
Total labor expenses	11,490	10,496	(994)
Non-labor:			
Electric power	475	482	7
Fuel	186	185	(1)
Insurance	11	(29)	(40)
Claims	376	437	61
Paratransit service contracts	452	455	3
Maintenance and other	779	633	(146)
Professional service contract	576	545	(31)
Pollution remediation project costs	20	106	86
Materials and supplies	668	637	(31)
Other business expenses	225	215	(10)
Total non-labor expenses	3,768	3,666	(102)
Depreciation	2,697	2,679	(18)
Other Expenses Adjustment	134	-	(134)
Total operating expenses	18,089	16,841	(1,248)
NET OPERATING LOSS	\$ (9,307)	\$ (8,105)	\$ 1,202

(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, 2018**

(\$ in millions)

Accrued Subsidies	Financial Plan Actual	Financial Statement GAAP Actual	Variance	
Mass transportation operating assistance	\$ 1,687	\$ 1,687	\$ -	
Mass transit trust fund subsidies	629	633	4	{1}
Mortgage recording tax 1 and 2	445	447	2	{1}
MRT transfer	(10)	(9)	1	{1}
Urban tax	647	700	53	
State and local operating assistance	376	376	-	
Station maintenance	172	168	(4)	
Connecticut Department of Transportation (CDOT)	127	134	7	
Subsidy from New York City for MTA Bus and SIRTOA	588	560	(28)	{1}
NYS Grant for debt service	-	1	1	{3}
Build American Bonds Subsidy	-	90	90	
Mobility tax	2,073	1,965	(108)	{1}
NYS/NYC Subway Action Plan	508	508	-	{1}
Other non-operating income	-	(22)	(22)	{2}
Total accrued subsidies	7,242	7,238	(4)	
Net operating deficit before subsidies and debt service	(9,307)	(8,105)	1,202	
Debt Service	(2,559)	(1,460)	1,099	
Loss on disposal of subway cars	-	(125)	(125)	
Conversion to Cash basis: Depreciation	2,697	-	(2,697)	
Conversion to Cash basis: OPEB Obligation	1,809	-	(1,809)	
Conversion to Cash basis: GASB 68 pension adjustment	(240)	-	240	
Conversion to Cash basis: Pollution & Remediation	20	-	(20)	
Other Cash Flow adjustments	-	-	-	
Total net operating surplus/(deficit) before appropriations, grants and other receipts restricted for capital projects	\$ (338)	\$ (2,452)	\$ (2,114)	

{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.



(A Component Unit of the State of New York)

SUPPLEMENTARY INFORMATION

SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION

RECONCILING ITEMS

FOR THE YEAR ENDED DECEMBER 31, 2018

(\$ in millions)

Financial Plan Actual Operating Loss at December 31, 2018	\$ (9,307)
The Financial Plan Actual Includes:	
1 Higher other operating revenues	(46)
2 Higher labor expense primarily from higher OPEB expense projections, which does not reflect GASB No. 75 OPEB implementation	994
3 Higher non-labor expense primarily from higher maintenance expense projections	102
4 Other expense adjustments	152
Total operating reconciling items	<u>1,202</u>
Financial Statements Operating Loss at December 31, 2018	<u>(8,105)</u>
Financial Plan Deficit after Subsidies and Debt Service	(338)
The Audited Financial Statements Includes:	
1 Lower dedicated taxes and subsidies	(4)
2 Lower debt service expense (excludes bond principal payments)	1,099
3 Adjustments for non-cash liabilities:	
Depreciation	(2,697)
Loss on disposal of subway cars	(125)
Unfunded OPEB Expense	(1,809)
Unfunded GASB 68 Pension adjustment	240
Unfunded Pollution Remediation Expense	(20)
4 Total operating reconciling items (from above)	<u>1,202</u>
Financial Statement Loss Before Capital Appropriations	<u>\$ (2,452)</u>

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New York City Transit Authority

(Component Unit of the Metropolitan Transportation
Authority)

Consolidated Financial Statements as of and
for the Years Ended December 31, 2018 and 2017,
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, 2018 and 2017, 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.

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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, 2018 and 2017, 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 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.

As described in Note 2 to the consolidated financial statements, in 2018, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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, Schedule of Changes in the Authority's Net Pension Liability and Related Ratios for the MABSTOA Pension Plan, Schedule of the Authority's Proportionate Share of the Net Pension Liability in the NYCERS Pension Plan, Schedule of the Authority's Contributions to all Pension Plans, Schedule of the Authority's Proportionate Share of the Net OPEB Liability in the MTA OPEB Plan, and Schedule of the Authority's Contributions to the OPEB Plan, as listed in the table of contents, 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.

May 20, 2019

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018 and 2017. 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.

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Required Supplementation Information:

The Required Supplementary Information provides information concerning the Authority's net pension liability and net other postemployment benefits (OPEB) liability, employer contributions for the pension plans and OPEB, related ratios and actuarial assumptions used to calculate the net pension liability and net OPEB liability.

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, 2018 and 2017. 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 generally accepted accounting principles in the United States of America.

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

(In millions)	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Increase/(Decrease)</u>	
				<u>2018-2017</u>	<u>2017-2016</u>
Capital assets	\$ 66,465	\$ 63,507	\$ 60,526	\$ 2,958	\$ 2,981
Accumulated depreciation	<u>(23,270)</u>	<u>(22,190)</u>	<u>(20,549)</u>	<u>(1,080)</u>	<u>(1,641)</u>
Capital assets, net of accumulated depreciation	43,195	41,317	39,977	1,878	1,340
Other assets	<u>2,260</u>	<u>2,470</u>	<u>2,717</u>	<u>(210)</u>	<u>(247)</u>
Total assets	<u>45,455</u>	<u>43,787</u>	<u>42,694</u>	<u>1,668</u>	<u>1,093</u>
Deferred outflows of resources	<u>1,738</u>	<u>1,018</u>	<u>1,402</u>	<u>720</u>	<u>(384)</u>
Total assets and deferred outflows of resources	<u>\$ 47,193</u>	<u>\$ 44,805</u>	<u>\$ 44,096</u>	<u>\$ 2,388</u>	<u>\$ 709</u>

The Authority's capital assets totaled \$66,465 at December 31, 2018. Of the total, depots, yards, signals, and stations were 48.8%, subway cars and buses accounted for 18.5% and track and structures were 20.7%. These gross capital assets exclude significant infrastructure assets such as tunnels and elevated

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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, 2018 versus 2017

Capital assets increased from December 31, 2017 to December 31, 2018 by \$2,958, or 4.7%. This increase was primarily due to station rehabilitation work of \$1,170 and signals work of \$1,073. Accumulated depreciation has increased by \$1,080, or 4.9% due to annual depreciation expense of \$1,833, partly offset by normal retirements of \$128 related to buses and other capital assets, and \$625 related to disposal of subway cars as result of reviewing the current fleet of cars.

Other assets decreased by \$210, or 8.5%, compared with the prior year. This decrease was mostly due to a decrease in receivables from the MTA for the purchase of capital assets of \$245.

Deferred outflows of resources increased \$720, or 70.7% compared with the prior year. The net increase was primarily due to an increase of \$1,012 related to OPEB resulting from the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, partially offset by a decrease of \$292 related to pensions based upon the most current 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 Notes 6 and 7 to the consolidated financial statements for more information regarding the Authority's pension and postemployment benefits other than pension, respectively.

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 a decrease 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 current 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 consolidated financial statements for more information regarding the Authority's pensions.

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

(In millions)	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Increase/(Decrease)</u>	
				<u>2018-2017</u>	<u>2017-2016</u>
Current liabilities	\$ 1,900	\$ 1,875	\$ 1,710	\$ 25	\$ 165
Long-term liabilities	<u>21,609</u>	<u>21,390</u>	<u>20,741</u>	<u>219</u>	<u>649</u>
Total liabilities	<u>23,509</u>	<u>23,265</u>	<u>22,451</u>	<u>244</u>	<u>814</u>
Deferred inflows of resources	<u>759</u>	<u>392</u>	<u>210</u>	<u>367</u>	<u>182</u>
Total liabilities and deferred inflows of resources	<u>\$ 24,268</u>	<u>\$23,657</u>	<u>\$22,661</u>	<u>\$ 611</u>	<u>\$ 996</u>

At the end of 2018, the Authority's liabilities consisted primarily of employee fringe benefit-related liabilities (for retirement, health and other benefits) of 61.9%, net pension liability of 20.1%, and injuries to persons (public liability and workers' compensation) of 13.1%. Included in the employee fringe benefit-related liabilities was \$13,784 of post-employment benefits other than pensions.

Significant changes in liabilities include:

December 31, 2018 versus 2017

Liabilities increased from December 31, 2017 to December 31, 2018 by \$244, or 1.0%. Current liabilities increased by \$25, or 1.3%, and long-term liabilities increased by \$219, or 1.0%.

The net increase in current liabilities was mainly due to higher salaries, wages and payroll taxes of \$19, due to wage and headcount increases and an increase in estimated liability arising from injuries to persons of \$19, based upon an updated actuarial valuation. The increase was partly offset by lower levels of accounts payable in connection with various maintenance initiatives, including the Subway Action Plan, of \$18, and a decrease in revenue advances of \$16 due to timing of receipts at year end.

The net increase in long-term liabilities was primarily due to the addition of \$886 of net OPEB liability resulting from the adoption of GASB Statement No. 75, a \$267 increase in the estimated liability arising from injuries to persons, and a decrease in net pension liability of \$982, based upon the most current actuarial valuations.

Deferred inflows of resources increased by \$367, or 93.6% compared with prior year. The increase was primarily due to an increase of \$14 related to OPEB resulting from the adoption of GASB Statement No. 75, and an increase of \$353 related to pensions based upon the most current actuarial valuation report in accordance with GASB Statements No. 68 and GASB No. 71. Refer to Notes 6 and 7 to the consolidated financial statements for more information regarding the Authority's pension and postemployment benefits other than pension, respectively.

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%.

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The net increase in current liabilities was mainly due to higher levels of accounts payable in connection with various maintenance initiatives, including the Subway 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 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 consolidated 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>2018</u>	<u>2017</u>	<u>2016</u>	<u>Increase/(Decrease)</u>	
				<u>2018-2017</u>	<u>2017-2016</u>
Net investment in capital assets	\$ 43,018	\$ 41,144	\$ 39,808	\$ 1,874	\$ 1,336
Unrestricted	<u>(20,093)</u>	<u>(19,996)</u>	<u>(18,373)</u>	<u>(97)</u>	<u>(1,623)</u>
Total net position	<u>\$ 22,925</u>	<u>\$ 21,148</u>	<u>\$ 21,435</u>	<u>\$ 1,777</u>	<u>\$ (287)</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, 2018 versus 2017

Total net position was \$22,925 at the end of 2018, a net increase of \$1,777, or 8.4% from the end of 2017. The net increase was primarily due to an operating loss of \$5,911 offset by net nonoperating income of \$4,230, capital contributions from the MTA of \$2,652, and a restatement of beginning net position of \$806 related to the adoption of GASB Statement No. 75 (see Note 2 to the consolidated financial statements).

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.

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

(In millions)	Year Ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018-2017	2017-2016
Operating revenues	\$ 4,893	\$ 4,912	\$ 4,859	\$ (19)	\$ 53
Operating expenses	(10,804)	(10,703)	(10,650)	(101)	(53)
Operating loss	<u>(5,911)</u>	<u>(5,791)</u>	<u>(5,791)</u>	<u>(120)</u>	<u>-</u>
Nonoperating revenues (expenses):					
Subsidies: New York State and The City of New York	4,072	3,345	3,670	727	(325)
Triborough Bridge and Tunnel Authority	290	310	313	(20)	(3)
Interest expense	(17)	(16)	(20)	(1)	4
Other nonoperating revenue/(expenses)	10	5	3	5	2
Loss on disposal of subway cars	<u>(125)</u>	<u>-</u>	<u>-</u>	<u>(125)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>4,230</u>	<u>3,644</u>	<u>3,966</u>	<u>586</u>	<u>(322)</u>
Loss before capital contributions	<u>(1,681)</u>	<u>(2,147)</u>	<u>(1,825)</u>	<u>466</u>	<u>(322)</u>
Capital contributions	<u>2,652</u>	<u>1,860</u>	<u>1,918</u>	<u>792</u>	<u>(58)</u>
Change in net position	971	(287)	93	1,258	(380)
Net position — beginning of year	21,148	21,435	21,342	(287)	93
Restatement of beginning net position — adoption of GASB No. 75	<u>806</u>	<u>-</u>	<u>-</u>	<u>806</u>	<u>-</u>
Net position — end of year	<u>\$22,925</u>	<u>\$21,148</u>	<u>\$21,435</u>	<u>\$ 1,777</u>	<u>\$ (287)</u>

Revenue from Fares/Ridership

(In millions)	2018	2017	2016	Increase/(Decrease)	
				2018-2017	2017-2016
Subway revenue	\$ 3,427	\$ 3,441	\$ 3,351	\$ (14)	\$ 90
Bus revenue	929	952	966	(23)	(14)
Expired fare media revenue	70	76	80	(6)	(4)
Paratransit revenue	<u>21</u>	<u>18</u>	<u>18</u>	<u>3</u>	<u>-</u>
Total revenue from fares	<u>\$ 4,447</u>	<u>\$ 4,487</u>	<u>\$ 4,415</u>	<u>\$ (40)</u>	<u>\$ 72</u>
Total ridership (millions)	<u>2,259</u>	<u>2,339</u>	<u>2,404</u>	<u>(80)</u>	<u>(65)</u>
Non-student average fare	<u>\$ 2.03</u>	<u>\$ 1.98</u>	<u>\$ 1.90</u>	<u>\$ 0.05</u>	<u>\$ 0.08</u>

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2018 versus 2017

Total revenue from fares was \$4,447 in 2018, a decrease of \$40, or 0.9%, due mostly to lower ridership trends. Total ridership was 2,259, a decrease of 80, or 3.4% from 2017.

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.

Operating Expenses, by Major Function

(In millions)	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Increase/(Decrease)</u>	
				<u>2018-2017</u>	<u>2017-2016</u>
Salaries and wages	\$ 4,107	\$ 3,901	\$ 3,632	\$ 206	\$ 269
Health and welfare	836	860	830	(24)	30
Pensions	599	706	800	(107)	(94)
Other fringe benefits	489	410	592	79	(182)
Reimbursed overhead expenses	(347)	(304)	(263)	(43)	(41)
Postemployment benefits other than pensions	1,170	1,516	1,613	(346)	(97)
Electric Power	301	265	250	36	15
Fuel	112	95	78	17	17
Insurance	67	72	74	(5)	(2)
Public liability claims	226	279	251	(53)	28
Paratransit service contracts	455	393	384	62	9
Maintenance and other operating contracts	234	246	223	(12)	23
Professional service contracts	197	172	134	25	38
Pollution remediation projects	84	8	10	76	(2)
Materials and supplies	353	319	312	34	7
Depreciation	1,833	1,682	1,650	151	32
Other expenses	<u>88</u>	<u>83</u>	<u>80</u>	<u>5</u>	<u>3</u>
Total operating expenses	<u>\$ 10,804</u>	<u>\$ 10,703</u>	<u>\$ 10,650</u>	<u>\$ 101</u>	<u>\$ 53</u>

2018 versus 2017

Total operating expenses increased by \$101 or 0.9% compared to 2017 as follows:

- Salaries and wages were higher than 2017 by \$206 or 5.3%. Payroll increased by \$114 or 3.4% as most represented and non-represented personnel received wage increases in 2018 and headcount increased. Overtime expenses increased by \$92, or 15.5%, due mostly to support Subway Action Plan requirements.
- Health and welfare expenses decreased by \$24, or 2.8%, due primarily to decreased rates for health and welfare plans as a result of credits received from one of the main health care providers.
- Pension expenses decreased by \$107, or 15.2%, based on the most current actuarial valuation.
- Other fringe benefit expenses increased by \$79, or 19.3%, due primarily to higher workers' compensation reserve requirements from 2017, based upon a current actuarial valuation.

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- Post-employment benefits other than pensions decreased by \$346, or 22.8%, resulting from the adoption of GASB Statement No. 75.
- Electric power expenses increased by \$36, or 13.6% due to higher prices.
- Fuel expenses increased by \$17, or 17.9%, due mostly to higher prices and consumption.
- Public liability claims expenses decreased by \$53, or 19.0%, based on the most current actuarial valuation update.
- Paratransit service contract expenses increased by \$62, or 15.8%, due to growth in advance reservation E-Hail services.
- Pollution remediation project expenses significantly increased to \$84 versus \$8 in 2017, due to the identification of additional areas of exposure requiring corrective work requirements.
- Depreciation expenses increase by \$151, or 9.0%, due to additional assets reaching beneficial use.

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 Subway Action Plan and various maintenance programs and operations requirements. Overtime expenses increased by 27.6%, due mostly to support the Subway 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 current actuarial valuation.
- Electric power expenses increased by \$15, or 6.0% due to higher prices.
- 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.

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- 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.

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 \$2,652 in 2018 and \$1,860 in 2017, 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 increased by \$971 in 2018 before a restatement of beginning net position of \$806 to result in a total net position \$22,925 at the end of 2018. The accumulated prior year net position restatement of \$806 was related to the adoption of GASB Statements No. 75 (See note 2 to the consolidated financial statements).

Budget Highlights

Total operating revenues in 2018 of \$4,893 were lower than budget by \$103, or 2.1%. Total revenue from fares under budget by \$104, or 2.3%, due mostly to lower ridership trends, including the impact of adverse weather early in the year. Other operating revenues were above budget by \$1, or 0.2%.

Total operating expenses in 2018 of \$10,804 were under budget by \$486, or 4.3%. Labor-related expenses of \$6,853 were under budget by \$693, or 9.2%. This result was due primarily to a decrease in post-employment benefits other than pensions of \$643, or 35.4%, due to the adoption of GASB Statement No. 75. Additionally, overtime expenses were higher by \$219, or 47.0%, due largely to Subway Action Plan requirements and vacancy coverages. Non-labor expenses were above budget by \$208, or 5.5%, due largely to additional pollution remediation project requirements of \$84.1 million, additional public liability claims reserve requirements of \$54, and higher depreciation expenses of \$4.8 million, due to additional assets reaching beneficial use. Paratransit service contract expenses were also above budget by \$39, or 9.4%, due mostly to increased E-Hail activity.

OVERALL FINANCIAL POSITION, RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS

Results of Operations and Overall Financial Position

Total revenue from fares was \$4,447 in 2018, a decrease of \$40 or 0.9% from 2017. Total ridership was 2,259 million, a decrease of \$80 or 3.4% from 2017. Total operating expenses, including depreciation,

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other post-employment benefits and environmental remediation expenses, were \$10,804 in 2018, an increase of \$101 or 0.9%.

Going forward, the stability of the Authority's financial position is subject to certain risks, requiring the efficient management of costs, including the establishment of new cost reduction programs, in order to counteract any adverse impacts to revenue streams or cost increases.

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. New York City Transit (NYCT) consists of urban subway and bus systems, including paratransit service.

Preliminary NYCT system-wide utilization in 2018 decreased by 79.3 million trips (3.4%) relative to 2017. The decrease is driven by Subway ridership, which declined by 47.3 million trips (2.7%), and New York City Transit Bus ridership, which declined by 33.3 million trips (5.5%). In addition, the decline in bus ridership is consistent with a trend that began in 2009 and has been observed nationally, while declining subway ridership is a more recent trend, beginning in the third quarter of 2016. Recent bus and subway ridership trends have been attributed to increased fare evasion, planned subway service changes to accommodate construction and maintenance/repair work, increase in use of for-hire vehicle services, and increases in telecommuting and the use of e-commerce. 2018 Paratransit ridership increased 1.28 million trips (14.9%) from 2017, with accelerated growth since April 2018 due to the popularity of E-Hail services.

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2018 than in 2017 by 67.3 thousand jobs (1.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last thirty-three 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 2018 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, private inventory investment, and federal government spending. These were partially offset by negative contributions from residential fixed investment, and state and local government spending. Imports, which are a subtraction in the Gross Domestic Product ("GDP") calculation, increased. The deceleration in RGDP growth, relative to the third quarter's revised 3.4% growth rate, reflected a deceleration in private inventory investment, personal consumption expenditures and federal government spending, as well as a downturn in state and local government spending. These were partially offset by an acceleration in nonresidential fixed investment, as well as an upturn in exports and a smaller increase in imports.

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 2018, with the metropolitan area index increasing by 1.8 %, while the national index increased by 2.2%, when compared with the fourth quarter of 2017. A 5.3% increase in the regional price of energy products, along with a 3.9% national increase, impacted overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.6%, while nationally, inflation exclusive of energy products was 2.1%. The spot price for New York Harbor conventional gasoline fell by 3.8%, from an average price of \$1.77 per gallon to an average price of \$1.70 per gallon, between the fourth quarters of 2017 and 2018.

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The Federal Open Market Committee (“FOMC”) raised its target for the Federal Funds rate four times in 2018, with the target range set at 1.5% to 1.75% in March, 1.75% to 2.0% in June, 2.0% to 2.25% in September, and 2.25% to 2.5%—the current target level—in December. This was a slight acceleration in rate increases compared to 2017, when the target level was increased three times. The December increase was in view of continued labor market strength and rising economic activity, as job gains were strong and the unemployment rate remained low. Household spending continued to grow strongly, while growth in business fixed investment moderated from its rapid rate of growth in the first three quarters of 2018. Overall inflation and inflation for items other than food and energy remained close to 2 percent and indicators of longer-term inflation expectations were little changed. The FOMC expects that the economic expansion will be sustained, labor market conditions will remain strong, and inflation will remain near the 2 percent objective. In light of muted inflationary pressures and global economic and financial developments, the FOMC has indicated its patience in determining the timing and size of future rate adjustments, assessing realized and expected economic conditions relative to its dual mandate of maximizing employment and targeting 2 percent inflation.

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.

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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, 2018, \$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. In 2011, the program received \$0.2 billion in HYIC funds to cover the full value of additional work associated with the Number 7 Extension.

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 \$7.8 billion in federal funds, \$1.5 billion from the New York State voter approved State-Wide Transportation Bond Act, \$11.0 billion in bonds, and \$4.1 billion from other sources.

At December 31, 2018, \$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 MTA Board in April 2010. In June 2010, the CPRB approved the 2010-2014 Capital Program totaling \$23.8 billion, as submitted, of which the Authority's share was \$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

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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 March 27, 2012, the CPRB approved the amended 2010-2014 Capital Program as submitted for the Transit and Commuter systems totaling \$22.2 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 \$3.4 billion. On January 23, 2013, the amended program for the Transit and Commuter systems totaling \$26.2 billion as submitted was deemed approved by the CPRB. On July 24, 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 26, 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 3, 2014, the amended program for the Transit and Commuter systems totaling \$31.8 billion 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 for the Transit and Commuter systems totaling \$29.2 billion as submitted was deemed approved by the CPRB. Reallocation between programs, subsequent to the amendments resulted in the overall plan totaling \$31.6 billion, of which the Authority's share is \$17.1 billion.

The combined funding sources for the 2010-2014 Capital Program are comprised of \$11.5 billion in MTA bonds, \$7.6 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 \$1.3 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, 2018, \$15.0 billion has been encumbered to Authority projects from the 2010-2014 approved plan, of which approximately \$11.4 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 MTA 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

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\$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. On April 25, 2018, the MTA Board approved a full amendment to increase the 2015-2019 Capital Programs to \$33.3 billion reflecting updated project cost estimates, emerging new needs across the agencies, and reallocation of funds within the East Side Access and Regional Investment programs, among others. On June 1, 2018, the CPRB deemed approved the revised 2015-2019 Capital Programs for the Transit and Commuter systems totaling \$30.3 billion as submitted. The Authority's share of the amended capital program was \$16.7 billion. The revised 2015-2019 MTA Bridges and Tunnels Capital Program totaling \$2.9 billion as approved by the MTA Board in April 2018, was not subject to CPRB approval.

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 535 railcars to replace railcars reaching the end of their useful lives; 1,441 new buses, including 1,086 standard, 305 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 and Times Square stations.

The combined funding sources for the 2015-2019 Capital Program are comprised of \$8.0 billion in MTA Bonds, \$2.9 billion in MTA Bridges and Tunnels dedicated funds, \$8.6 billion in funding from the State of New York, \$7.3 billion in Federal Funds, \$2.7 billion from City Capital Funds, \$2.1 billion in pay-as-you-go (PAYGO) capital, and \$1.6 billion from Other Sources.

At December 31, 2018, \$10.9 billion has been encumbered to Authority projects from the 2015-2019 approved plan, of which approximately \$3.8 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 2019 Financial Plan includes certain risks such as:

- Biennial fare increases approximating inflation
- Achieving efficiencies/consolidations
- *Congestion Zone Surcharges* – In April 2018, the approved 2018-2019 New York State Budget established State legislation providing additional long-term sources or revenue to address the financial needs of the MTA and its affiliates and subsidiaries.

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

CONSOLIDATED STATEMENTS OF NET POSITION DECEMBER 31, 2018 AND 2017 (In thousands)

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 65,833	\$ 55,891
MTA investment pool (Note 4)	359,677	308,060
Receivables:		
Billed and unbilled charges due from New York City	20,738	16,140
Accrued subsidies	104,881	45,709
Due from MTA and constituent Authorities (Note 9)	465,743	528,925
Other	121,452	140,153
Less allowance for doubtful accounts	<u>(10,166)</u>	<u>(10,041)</u>
Net receivables	702,648	720,886
Materials and supplies — at average cost — net	294,008	291,773
Prepaid expenses and other current assets	<u>36,348</u>	<u>46,397</u>
Total current assets	<u>1,458,514</u>	<u>1,423,007</u>
NONCURRENT ASSETS:		
Due from MTA for the purchase of capital assets (Note 9)	801,569	1,046,693
Capital assets (Note 5):		
Construction work-in-progress	4,313,656	4,313,546
Other capital assets, net of accumulated depreciation	38,717,964	36,833,976
Leased property under capital lease, net of accumulated amortization (Note 5)	66,662	69,073
Leasehold improvements on property, net of accumulated depreciation (Note 5)	96,584	99,808
Restricted deposits and other escrow funds	<u>545</u>	<u>796</u>
Total assets	<u>45,455,494</u>	<u>43,786,899</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Related to pensions (Note 6)	725,795	1,017,872
Related to OPEB (Note 7)	<u>1,011,825</u>	<u>-</u>
Total deferred outflows of resources	<u>1,737,620</u>	<u>1,017,872</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 47,193,114</u>	<u>\$ 44,804,771</u>

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF NET POSITION DECEMBER 31, 2018 AND 2017 (In thousands)

	2018	2017
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 170,656	\$ 188,654
Accrued expenses:		
Salaries, wages, and payroll taxes	172,957	153,588
Vacation, sick pay, and other benefits	750,113	741,307
Retirement and death benefits	12,679	11,812
Estimated liability arising from injuries to persons (Note 14)	297,223	278,243
Pollution remediation projects (Note 15)	15,514	6,485
Other	142,621	149,829
Total accrued expenses	1,391,107	1,341,264
Unredeemed farecards	301,321	293,737
Revenue advances	27,801	43,802
Loans Payable (Note 8)	9,192	8,140
Total current liabilities	1,900,077	1,875,597
NONCURRENT LIABILITIES:		
Obligation under capital lease, long-term (Note 5)	176,623	172,612
Net pension liability (Note 6)	4,730,720	5,713,213
Net OPEB liability (Note 7)	13,783,851	12,897,429
Estimated liability arising from injuries to persons (Note 14)	2,788,187	2,521,141
Loans Payable (Note 8)	67,884	58,683
Pollution remediation projects (Note 15)	62,054	25,940
Restricted deposits and other escrow funds	545	796
Total liabilities	23,509,941	23,265,411
DEFERRED INFLOWS OF RESOURCES:		
Related to pensions (Note 6)	744,271	391,559
Related to OPEB (Note 7)	14,323	-
Total deferred inflows of resources	758,594	391,559
NET POSITION:		
Net investment in capital assets	43,018,243	41,143,791
Unrestricted	(20,093,664)	(19,995,990)
Total net position	22,924,579	21,147,801
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 47,193,114	\$ 44,804,771

See notes to consolidated financial statements.

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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, 2018 AND 2017

(In thousands)

	2018	2017
OPERATING REVENUES:		
Rapid transit	\$ 3,426,813	\$ 3,441,124
Surface transit	928,768	952,363
Expired fare media	70,414	75,743
Paratransit fares	20,547	17,526
School, elderly, and paratransit reimbursement	280,810	248,356
Advertising and other (Note 10)	165,336	176,522
	<u>4,892,688</u>	<u>4,911,634</u>
Total operating revenues		
	<u>4,892,688</u>	<u>4,911,634</u>
OPERATING EXPENSES:		
Salaries and wages	4,106,773	3,900,763
Health and welfare	835,982	860,115
Pensions	598,539	705,581
Other fringe benefits	489,257	409,671
Reimbursed overhead expenses	(347,451)	(304,409)
Postemployment benefits other than pensions	1,170,142	1,516,299
Electric power	301,001	265,304
Fuel	112,183	95,440
Insurance	67,313	72,101
Public liability claims	225,666	278,671
Paratransit service contracts	455,471	392,849
Maintenance and other operating expenses (Note 12)	233,963	245,875
Professional service contracts	197,373	172,184
Environmental remediation	84,138	8,537
Materials and supplies	353,250	319,469
Depreciation	1,832,839	1,681,857
Other expenses (Note 11)	88,093	82,909
	<u>10,804,532</u>	<u>10,703,216</u>
Total operating expenses		
	<u>10,804,532</u>	<u>10,703,216</u>
OPERATING LOSS	<u>(5,911,844)</u>	<u>(5,791,582)</u>

See notes to consolidated financial statements.

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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, 2018 AND 2017

(In thousands)

	2018	2017
NONOPERATING REVENUES:		
Tax-supported subsidies:		
New York State (Note 2)	\$ 2,551,146	\$ 2,493,630
New York City	700,607	539,133
Operating Assistance subsidies:		
New York State	158,672	158,672
New York City	158,672	158,672
Triborough Bridge and Tunnel Authority	290,135	310,367
Less amounts provided to Staten Island Rapid Transit Operating Authority	(5,392)	(5,190)
Other subsidies:		
NYS/NYC Subway Action Plan (Note 2)	507,812	-
Total subsidies revenues	4,361,652	3,655,284
Interest expense	(16,547)	(15,999)
Interest income and other nonoperating revenues	10,268	5,023
Loss on disposal of subway cars	(125,288)	-
Total nonoperating income	4,230,085	3,644,308
LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,681,759)	(2,147,274)
CAPITAL CONTRIBUTIONS (Note 2)	2,652,328	1,859,701
CHANGE IN NET POSITION	970,569	(287,573)
NET POSITION:		
Beginning of year	21,147,801	21,435,374
Restatement of beginning net position - adoption of GASB No. 75 (Note 2)	806,209	-
End of year	\$ 22,924,579	\$ 21,147,801

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017 (In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passengers, tenants, advertisers, and others	\$ 4,869,771	\$ 4,900,586
Cash payments for payroll and related employee costs	(6,271,609)	(6,021,359)
Cash payments to suppliers for goods and services	<u>(1,957,653)</u>	<u>(1,713,868)</u>
Net cash used in operating activities	<u>(3,359,491)</u>	<u>(2,834,641)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies received	4,247,909	3,708,896
Advance from MTA Bus	-	22,948
Payment to MTA Bus	<u>(22,948)</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>4,224,961</u>	<u>3,731,844</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments	(8,582)	(8,241)
Interest paid	(2,032)	(3,252)
Payments on MTA Transportation bonds issued to fund capital assets	(1,234,053)	(1,230,718)
Subsidies designated for debt service payments	314,791	320,910
Capital project costs incurred for capital program	(1,296,525)	(1,184,004)
Cash transferred to capital program fund	(1,288)	(1,344)
Reimbursement of capital project costs from MTA	<u>1,416,396</u>	<u>1,198,007</u>
Net cash used in capital and related financing activities	<u>(811,293)</u>	<u>(908,642)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in MTA investment pool	(51,617)	2,615
Interest on investments	<u>7,382</u>	<u>3,538</u>
Net cash (used in) provided by investing activities	<u>(44,235)</u>	<u>6,153</u>
NET INCREASE (DECREASE) IN CASH	9,942	(5,286)
CASH — Beginning of year	<u>55,891</u>	<u>61,177</u>
CASH — End of year	<u>\$ 65,833</u>	<u>\$ 55,891</u>

See notes to consolidated financial statements.

(Continued)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017 (In thousands)

	2018	2017
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (5,911,844)	\$ (5,791,582)
Adjustments to reconcile operating loss to net cash used in operating activities — depreciation	1,832,839	1,681,857
On-behalf payments related to rent (Note 5)	4,520	4,138
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Increase in operating receivables	(30,501)	(11,753)
Decrease (increase) in prepaid expenses and other current assets	10,049	(1,656)
Increase in materials and supplies	(2,235)	(17,371)
Decrease in deferred outflows of resources related to pensions	292,077	384,302
Increase in deferred outflows of resources related to OPEB	(1,011,825)	-
Increase in farecard liability	7,584	705
Increase in accrued salaries, wages and payroll taxes	19,369	30,392
(Decrease) increase in accounts payable and other accrued liabilities	(26,533)	36,353
Increase in accrued vacation, sick pay and other benefits	8,806	65,993
Increase in accrued retirement and death benefits	867	177
Decrease in net pension liability	(982,493)	(786,915)
Increase in net OPEB liability	1,692,631	1,102,586
Increase in deferred inflows of resources related to pensions	352,712	181,408
Increase in deferred inflows of resources related to OPEB	14,323	-
Increase in estimated liability arising from injuries to persons	286,026	292,440
Increase (decrease) in liability for environmental pollution remediation	84,137	(5,715)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (3,359,491)</u>	<u>\$ (2,834,641)</u>
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES — Contributed capital assets		
	<u>\$ 2,232,490</u>	<u>\$ 1,434,712</u>

See notes to consolidated financial statements.

(Concluded)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (\$ 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

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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, 2018.

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.

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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, 2018:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes standards of accounting and financial reporting for postemployment benefits other than pensions (OPEB) that is provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. For defined benefit OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB plans are also addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. As a result of adopting this Statement, the Authority is reporting net OPEB liabilities, deferred outflows of resources and deferred inflows of resources for the MTA Retiree Welfare Benefits Plan (OPEB Plan) and recognizing OPEB expenses in accordance with the provisions of the Statement. The financial statement impact resulting from the implementation of GASB Statement No. 75 and GASB Statement No. 85 is the restatement of 2018 beginning net position, an increase of \$806.2 million, representing the retroactive effect of adoption. The Authority did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 75 and GASB Statement No. 85. A net OPEB liability of \$13.8 billion, deferred outflow of resources of \$1.0 billion, and deferred inflows of resources of \$14.3 million were reported at December 31, 2018. The Authority recognized

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OPEB expense of \$1.2 billion for the year-end December 31, 2018. Refer to Note 7 for more information regarding the MTA OPEB Plan.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues identified during the implementation and application of certain GASB statements. The provisions of this Statement amend and clarify guidance under a variety of topics with the intent to enhance consistency in the application of accounting and reporting requirements. This Statement specifically issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits (OPEB). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no impact on the Authority's financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, establishes standards of accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no impact on the Authority'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 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
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>	2019
89	<i>Accounting for Interest Cost Incurred Before the End of a Construction Period</i>	2020
90	<i>Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61</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.

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- 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, 2018 and 2017, \$265.6 million and \$262.2 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 2018 and 2017.

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,

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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.

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The composition of New York State tax-supported subsidies for 2018 and 2017 is as follows (in thousands):

	<u>Accrued Revenue</u>	
	<u>2018</u>	<u>2017</u>
Petroleum business tax*	\$ 229,720	\$ 194,242
Metro mass tax	1,140,040	1,124,265
Payroll Mobility tax	<u>1,181,386</u>	<u>1,175,123</u>
	<u>\$2,551,146</u>	<u>\$2,493,630</u>

* Net of \$314,791 and \$320,910 for debt service payments in 2018 and 2017, 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 \$217.3 million in 2018 and \$181.9 million in 2017. Total paratransit expenses, including paratransit service contracts, were \$536.5 million and \$474.7 million in 2018 and 2017, 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 2018 and 2017, 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 2017 and 2018. For the year ended December 31, 2018, the Authority collected \$55.3 million from the State and The City. The remaining balance of \$15.0 million due from The City was received in January 2019.

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

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received approximately \$3.6 million and \$7.6 million in 2018 and 2017, respectively for the reimbursement of transit police costs.

NYS/NYC Subway Action Plan — In April 2018, the approved 2018-2019 New York State Budget committed both New York State (“NYS”) and New York City (“NYC”) to equally cover the costs of the 2017-2018 Subway Action Plan (“SAP”), which was launched at the direction of Governor Andrew Cuomo in July 2017 to take extraordinary measures to stabilize and improve the more than 100-year old New York City subway system. The SAP includes a comprehensive \$836 million investment to address system failures, breakdowns, delays and deteriorating customer service, and position the New York City subway system for future modernization. The SAP provided the MTA with funds already used to advance the SAP, as well as additional operating and capital funding to cover the cost of the remaining SAP through the end of 2018. The MTA, on behalf of the Authority, started receiving the SAP funding in April 2018 and received the full funding by the end of 2018.

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 \$13.3 million to the New York Health Insurance Plan (NYSHIP) and \$23.0 million in risk management related insurance coverage during 2018. 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.

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

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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, 2018 and 2017, consist of the following (in thousands):

	2018	2017
Capital assets contributed by MTA from:		
Federal grants	\$ 1,019,030	\$ 1,152,343
Other than federal grants	2,522,316	1,484,686
Petroleum business taxes received for principal and interest payments on debt	314,791	320,910
Principal and interest payments on MTA Transportation bonds issued to fund capital assets	(895,247)	(884,094)
Decrease in funds due from MTA for purchase of capital assets	<u>(308,562)</u>	<u>(214,144)</u>
Total capital contributions	<u>\$ 2,652,328</u>	<u>\$ 1,859,701</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 at December 31, 2018 and 2017 of \$76.3 million and \$74.6 million, respectively.

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.

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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 \$113.8 million and \$131.3 million as of December 31, 2018 and 2017, respectively.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which established 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. The Authority reported under this standard for its Postemployment Benefits Other Than Pensions for the year ended December 31, 2017.

Effective for the year ended December 31, 2018, the Authority adopted the standards of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 85, *Omnibus* for the OPEB Plan.

GASB has issued Statements No. 74 and 75, which replaced GASB Statements No. 43 and 45. The effective date of GASB Statement No. 74 (which applies to financial reporting on a plan basis) is the year ended December 31, 2017. The effective date of GASB Statement No. 75 (which applies to financial reporting by contributing employers) is the year ended December 31, 2018.

The Authority recognizes a proportionate share of the net OPEB liability for the MTA's cost-sharing multiple-employer OPEB Plan, which represents the excess of the total OPEB liability over the fiduciary net position of the OPEB Plan, measured as of the measurement date of the plan.

Changes in the net OPEB liability during the year are recorded as OPEB expense, or as deferred outflows of resources or deferred inflows of resources relating to OPEB depending on the nature of the change, in the year incurred. Changes in net OPEB liability that are recorded as deferred outflows of resources or deferred inflows of resources that arise from changes in actuarial assumptions and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the year in which they are incurred. Projected earnings on qualified OPEB plan investments are recognized as a component of OPEB expenses. Differences between projected and actual investment earnings are reported as deferred outflows of resources or deferred inflow of resources as a component of OPEB expense on a closed basis over a five-year period beginning with the year in which the difference occurred.

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.

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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.

Restatement of Beginning Net Position — The effect of the implementation of GASB No. 75 and 85 is a restatement of 2018 beginning net position to retroactively report the beginning balances for net OPEB liability, deferred outflows of resources related to OPEB, deferred inflows of resources related to OPEB, and the removal of any net OPEB obligations (assets) along with any payables to the OPEB Plan, as follows (in millions):

Net position as of December 31, 2017, as previously reported	\$ 21,147,801
Composition of Restatement:	
Deferred outflows related to contributions, beginning of the year	441,879
Net OPEB liabilities, beginning of the year	(12,533,099)
Previously accrued OPEB liabilities	<u>12,897,429</u>
Total Restatement:	<u>806,209</u>
Net position as of December 31, 2017, as restated	<u><u>\$ 21,954,010</u></u>

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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, 2018 and 2017 (in thousands):

	2018		2017	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured and collateralized deposits	\$ 20,160	\$ 5,772	\$ 17,643	\$ 17,434
Less escrow and other restricted deposits	(770)	(770)	(1,027)	(1,042)
Commercially insured funds on-hand and in-transit	<u>46,443</u>	<u>-</u>	<u>39,275</u>	<u>-</u>
	<u>\$ 65,833</u>	<u>\$ 5,002</u>	<u>\$ 55,891</u>	<u>\$ 16,392</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 \$7.8 million and \$3.6 million for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the Authority had an investment pool balance of \$359.7 million and \$308.1 million, respectively.

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5. CAPITAL ASSETS

Capital assets, at December 31, 2018 and 2017, consist of the following (in thousands):

	December 2017	Additions / Reclassifications	Deletions / Reclassifications	December 2018
Capital assets not being depreciated:				
Construction work-in-progress	\$ 4,313,546	\$ 3,712,416	\$ (3,712,306)	\$ 4,313,656
Total capital assets not being depreciated	<u>4,313,546</u>	<u>3,712,416</u>	<u>(3,712,306)</u>	<u>4,313,656</u>
Capital assets being depreciated:				
Subway cars	9,518,101	302,423	(749,945)	9,070,579
Buses	2,980,392	321,637	(125,927)	3,176,102
Track and structures	13,066,307	696,480	-	13,762,787
Depots and yards	4,626,940	89,515	-	4,716,455
Stations	18,783,695	1,170,534	-	19,954,229
Signals	6,682,880	1,072,803	-	7,755,683
Service vehicles	381,593	8,087	-	389,680
Building	166,733	-	-	166,733
Other	<u>2,564,310</u>	<u>175,000</u>	<u>(2,525)</u>	<u>2,736,785</u>
Total capital asset being depreciated	<u>58,770,951</u>	<u>3,836,479</u>	<u>(878,397)</u>	<u>61,729,033</u>
Less accumulated depreciation:				
Subway cars	(4,679,712)	(241,110)	624,657	(4,296,165)
Buses	(1,749,206)	(194,556)	125,927	(1,817,835)
Track and structures	(4,703,038)	(346,254)	-	(5,049,292)
Depots and yards	(2,059,491)	(136,268)	-	(2,195,759)
Stations	(5,081,366)	(550,047)	-	(5,631,413)
Signals	(1,904,469)	(226,231)	-	(2,130,700)
Service vehicles	(164,735)	(16,428)	-	(181,163)
Building	(86,185)	(3,305)	-	(89,490)
Other	<u>(1,508,773)</u>	<u>(113,004)</u>	<u>2,525</u>	<u>(1,619,252)</u>
Total accumulated depreciation	<u>(21,936,975)</u>	<u>(1,827,203)</u>	<u>753,109</u>	<u>(23,011,069)</u>
Total capital assets being depreciated—net	<u>36,833,976</u>	<u>2,009,276</u>	<u>(125,288)</u>	<u>38,717,964</u>
Capital assets—net	<u>\$ 41,147,522</u>	<u>\$ 5,721,692</u>	<u>\$ (3,837,594)</u>	<u>\$ 43,031,620</u>

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	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	<u>2,452,076</u>	<u>114,950</u>	<u>(2,716)</u>	<u>2,564,310</u>
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	<u>(1,418,095)</u>	<u>(93,394)</u>	<u>2,716</u>	<u>(1,508,773)</u>
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>

Capitalized interest totaled \$8.5 million and \$9.6 million in 2018 and 2017, 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 to \$111 per month. Rent expense, on a cash basis, under the lease was approximately \$1.3 million in 2018 and 2017.

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

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occupancy needs. The agencies will be responsible for obligations under the lease based on such actual occupancy percentages. Actual occupancy percentages at December 31, 2018, for the Authority, TBTA and MTA (including MTA Bus, MTA Capital Construction Company and MTA Business Service Center) were 57.6%, 7.5% and 34.9%, respectively. The Authority's sublease is for a year-to-year term, automatically extended, except upon the giving of a nonextension notice by the Authority.

The lease is comprised of both operating and capital elements, with the portion of the lease attributable to the land recorded as an operating lease, and the portion of the lease attributable to the building recorded as a capital lease. The Authority reflected capital lease obligation as of December 31, 2018 and 2017 of \$176.6 million and \$172.6 million, respectively. Operating rent expenses under the Authority's lease amounted to \$7.5 million in 2018 and 2017.

MTA pays the lease payments on behalf of the Authority and subsequently makes monthly chargebacks in the form of rental payments. During 2018, the total of the rental payments charged to the Authority was \$4.5 million less than the lease payment made by MTA on behalf of the Authority.

At December 31, 2018, future minimum lease payments under the Authority's lease are as follows (in thousands):

Years Ending December 31	Operating	Capital
2019	\$ 7,452	\$ 13,543
2020	7,452	13,543
2021	7,452	13,543
2022	7,452	13,543
2023	7,452	13,543
2024–2028	37,260	77,586
2029–2033	37,260	98,121
2034–2038	37,260	116,440
2039–2043	37,260	128,878
2044–2048	33,531	128,077
	<u>219,831</u>	<u>616,817</u>
Total minimum lease payments	219,831	616,817
Less interest		<u>(440,194)</u>
Present value of net minimum lease payments		<u>\$ 176,623</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, 2018 and 2017, is as follows (in thousands):

	2018	2017
Capital lease — building	\$114,489	\$114,489
Less accumulated amortization	<u>(47,827)</u>	<u>(45,416)</u>
Capital lease — building — net	<u>\$ 66,662</u>	<u>\$ 69,073</u>

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The amount of such improvements apportioned to the Authority as of December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
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>(211,412)</u>	<u>(208,188)</u>
Total leasehold improvements	<u>\$ 96,584</u>	<u>\$ 99,808</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.

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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.

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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.

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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.

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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, 2017 and 2016, the date of the latest actuarial valuations:

	<u>2017</u>	<u>2016</u>
Active Plan Members	8,594	8,515
Retirees and beneficiaries receiving benefits	5,609	5,468
Vested formerly active members not yet receiving benefits	<u>1,151</u>	<u>1,100</u>
Total	<u><u>15,354</u></u>	<u><u>15,083</u></u>

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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.

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The Authority's contributions to the MaBSTOA plan amounted to \$205.4 million and \$202.7 million for the year ended December 31, 2018 and 2017, 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. The Authority's contributions to NYCERS for the years ended December 31, 2018 and 2017 were \$768.4 million and \$759.6 million, respectively.

Net Pension Liability

The Authority's net pension liabilities for each of the pension plans reported at December 31, 2018 and 2017 were measured as of December 31, 2017 and 2016, respectively for the MaBSTOA plan and June 30, 2018 and 2017, respectively for NYCERS. The total pension liability for each of the pension plans were determined as of the actuarial valuation dates of January 1, 2017 and 2016 for MaBSTOA plan and June 30, 2016 and 2015 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.

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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 each of the pension plans as follows:

Valuation Date:	MaBSTOA		NYCERS	
	January 1, 2017	January 1, 2016	June 30, 2016	June 30, 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 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 an experience study for the plan covering the period from January 1, 2011 to December 1, 2015.	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	RP-2014 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

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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.

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, 2017 and June 30, 2018, 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%	1.96%
US High Yield Bonds	8.00%	4.62%
Global Bonds	10.00%	0.34%
Emerging Markets Bonds	3.00%	3.30%
US Large Caps	10.00%	4.31%
US Small Caps	5.50%	5.57%
Global Equity	10.00%	4.99%
Foreign Developed Equity	10.00%	5.57%
Emerging Markets Equity	3.50%	7.91%
Global REITs	5.00%	5.62%
Private Real Estate Property	3.00%	3.64%
Private Equity	7.00%	8.99%
Hedge Funds - MultiStrategy	15.00%	3.35%
	<u>100.00%</u>	
Assumed Inflation - Mean		2.50%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Arithmetic Mean Return as per Actuary		6.80%
Portfolio Standard Deviation		11.54%
Long Term Expected Rate of Return selected by MTA		7.00%

<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%	6.30%
International Public Market Equities	13.00%	7.00%
Emerging Public Market Equities	7.00%	9.50%
Private Market Equities	7.00%	10.40%
Fixed Income	33.00%	2.20%
Alternatives (Real Assets, Hedge Funds)	11.00%	5.50%
	<u>100.00%</u>	
Assumed Inflation - Mean		2.50%
Long Term Expected Rate of Return		7.00%

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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, 2017 and June 30, 2018, 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, 2018 and 2017 were as follows (in thousands):

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance as of December 31, 2016	\$ 3,536,747	\$ 2,555,735	\$ 981,012
Changes for fiscal year 2017:			
Service Cost	84,393	-	84,393
Interest on total pension liability	246,284	-	246,284
Effect of economic/demographic (gains) or losses	11,826	-	11,826
Effect of assumptions changes or inputs	6,347	-	6,347
Benefit payments and withdrawals	(209,122)	(209,122)	-
Administrative expense	-	(208)	208
Member contributions	-	19,713	(19,713)
Net investment income	-	350,186	(350,186)
Employer contributions	-	202,684	(202,684)
Balance as of December 31, 2017	<u>\$ 3,676,475</u>	<u>\$ 2,918,988</u>	<u>\$ 757,487</u>
	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>

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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:

	<u>December 31, 2017</u>			<u>December 31, 2016</u>		
	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	\$ 1,166,477	\$ 757,487	\$ 409,121	\$ 1,376,916	\$ 981,012	\$ 643,826

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, 2018 and 2017, and the proportion percentage of the net pension liability of NYCERS allocated to the Authority:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
	(in millions)	
The Authority's proportion of the net pension liability	22.527 %	22.788 %
The Authority's proportionate share of the net pension liability	\$ 3,973.23	\$ 4,732.20

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, 2018 and 2017, 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:

	<u>June 30, 2018</u>			<u>June 30, 2017</u>		
	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	\$ 6,090,641	\$ 3,973,233	\$ 2,186,848	\$ 6,839,258	\$ 4,732,201	\$ 2,881,174

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

For the year ended December 31, 2018 and 2017, the Authority recognized pension expense, gross of reimbursements, related to each pension plan as follows (in thousands):

Pension Plans	December 31,	
	2018	2017
MaBSTOA	\$ 126,833	\$ 164,753
NYCERS	<u>509,342</u>	<u>576,316</u>
Total	<u>\$ 636,175</u>	<u>\$ 741,069</u>

For the years ended December 31, 2018 and 2017, 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, 2018	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	\$ 19,549	\$ 36,673	\$ -	\$ 383,748	\$ 19,549	\$ 420,421
Changes in actuarial assumptions	5,370	-	60,549	-	65,919	-
Net difference between projected and actual earnings on pension plan investments	-	83,734	-	222,843	-	306,577
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	46,817	17,273	46,817	17,273
Employer contributions to plan subsequent to the measurement date of net pension liability	<u>205,433</u>	<u>-</u>	<u>388,077</u>	<u>-</u>	<u>593,510</u>	<u>-</u>
Total	<u>\$ 230,352</u>	<u>\$ 120,407</u>	<u>\$ 495,443</u>	<u>\$ 623,864</u>	<u>\$ 725,795</u>	<u>\$ 744,271</u>

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	<u>202,684</u>	<u>-</u>	<u>380,369</u>	<u>-</u>	<u>583,053</u>	<u>-</u>
Total	<u>\$ 302,760</u>	<u>\$ 47,891</u>	<u>\$ 715,112</u>	<u>\$ 343,668</u>	<u>\$ 1,017,872</u>	<u>\$ 391,559</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.

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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
MaBSTOA	6.50	N/A	6.50
NYCERS	6.01	6.01	6.01

For the years ended December 31, 2018 and 2017, \$593.5 million and \$583.1 million 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2018 will be recognized as pension expense as follows (in thousands):

Year Ending December 31:	MaBSTOA	NYCERS	Total
2019	\$ (4,711)	\$ 31,047	\$ 26,336
2020	(13,424)	(122,810)	(136,234)
2021	(50,126)	(242,613)	(292,739)
2022	(32,481)	(106,793)	(139,274)
2023	3,856	(74,583)	(70,727)
Thereafter	<u>1,398</u>	<u>(746)</u>	<u>652</u>
Total	<u>\$ (95,488)</u>	<u>\$(516,498)</u>	<u>\$(611,986)</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 participates in a defined benefit other postemployment benefits (OPEB) plan for its employees, the Metropolitan Transportation Authority Retiree Welfare Benefits Plan (OPEB Plan). A description of the Plan follows:

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Plan Description

The MTA Retiree Welfare Benefits Plan (OPEB Plan) and the related Trust Fund (Trust) was established on January 1, 2009 for the exclusive benefit of MTA and related agencies retired employees and their eligible spouses and dependents, to fund some of the OPEB provided in accordance with the Authority's various collective bargaining agreements. Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Amounts contributed to the OPEB Plan are held in an irrevocable trust and may not be used for any other purpose than to fund the costs of health and welfare benefits of its eligible participants.

The OPEB 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 cost-sharing multiple-employer defined benefit OPEB plan.

The OPEB Plan Board of Managers, comprised of the MTA Chairman, MTA Chief Financial Officer and MTA Director of Labor Relations, are the administrators of the OPEB Plan. The MTA Board has the right to amend, suspend or terminate the OPEB 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.

Benefits Provided — The benefits provided by the OPEB Plan include medical, pharmacy, dental, vision, life insurance and a Medicare supplemental plan. The different types of benefits provided vary by employee type (represented employees versus non-represented) and the relevant collective bargaining agreements. Certain benefits are provided upon retirement as defined in the applicable pension plan. The Authority provides benefits to certain former employees if separated from service within 5 years of attaining retirement eligibility. Employees of the Authority are members of NYCERS and the MaBSTOA Plan.

The Authority participates in the New York State Health Insurance Program (NYSHIP) and provides medical and prescription drug benefits, including Medicare Part B reimbursements, to many of its retirees. NYSHIP offers 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 health plan 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 Service, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

OPEB Plan Eligibility — To qualify for benefits under the OPEB Plan, a former employee of the Authority must:

- (a) have retired;
- (b) be receiving a pension;
- (c) have at least 10 years of credited service as a member of NYCERS or the MaBSTOA Plan; and
- (d) have attained the minimum age requirement (unless within 5 years of commencing retirement for certain members). A represented retired employee may be eligible only pursuant to the relevant collective bargaining agreement.

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Surviving Spouse and Other Dependents —

- Lifetime coverage is provided to the surviving spouse (not remarried) or domestic partner and surviving dependent children to age 26 of retired managers and certain non-represented retired employees.
- Represented retired employees must follow the guidelines of their collective bargaining agreements regarding continued health coverage for a surviving spouse or domestic partner and surviving dependents. The surviving spouse coverage continues until spouse is eligible for Medicare for represented employees, retiring on or after:
 - May 21, 2014 for Transport Workers Union (TWU) Local 100;
 - September 24, 2014 for Amalgamated Transit Union (ATU) Local 726;
 - October 29, 2014 for ATU Local 1056;

The OPEB Plan Board of Managers has the authority to establish and amend the benefits that will be covered under the OPEB Plan, except to the extent that they have been established by collective bargaining agreement.

Contributions — The Authority is not required by law or contractual agreement to provide funding for the OPEB Plan, other than the “pay-as-you-go” (PAYGO) amounts. PAYGO is the cost of benefits necessary to provide the current benefits to retirees and eligible beneficiaries and dependents. Employees are not required to contribute to the OPEB Plan. The OPEB Plan Board has the authority for establishing and amending the funding policy. For the year-ended December 31, 2018, the Authority paid \$468.8 million of PAYGO to the OPEB Plan, including an implicit rate subsidy adjustment of \$19.9 million.

During 2012, the MTA funded \$250 million into the Trust and an additional \$50 million during 2013. There have been no further contributions made to the Trust. The discount rate estimates investment earnings for assets earmarked to cover retiree health benefits. Under GASB Statement No. 75, the discount rate depends on the nature of underlying assets for funded plans. Since the amount of benefits paid in 2017 exceeded the current market value of the assets, a depletion date is assumed to occur immediately. Therefore, the discount rate is set equal to the municipal bond index. The MTA elected the Bond Buyer 20-Bond General Obligation Index. As a result, the discount rates as of December 31, 2017 and December 31, 2016, the measurement dates, are 3.44% and 3.78%, respectively.

Employer contributions include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy arises when an employer allows a retiree and their dependents to continue on the active plans and pay the active premiums. Retirees are not paying the true cost of their benefits because they have higher utilization rates than actives and therefore are partially subsidized by the active employees. As shown in the following table, for the year ended December 31, 2017, the employer made a cash payment for retiree healthcare of \$19.6 million as part of the employer’s payment for active-employee healthcare benefits. For purposes of GASB Statement No. 75, this payment made on behalf of the active employees should be reclassified as benefit payments for retiree health care to reflect the retirees’ underlying age-adjusted, retiree benefit costs.

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Blended and Age-adjusted Premium	2017
	Retirees
	(in thousands)
Total blended premiums	\$ 422,260
Employment payment for retiree healthcare	19,619
Net Payments	<u>\$ 441,879</u>

Net OPEB Liability

The Authority's proportionate share of the Plan's net OPEB liability reported at December 31, 2018 was measured as of the OPEB Plan's fiscal year-end of December 31, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of July 1, 2017, and rolled forward to December 31, 2017. The Authority's proportion of the net OPEB liability was based on a projection of the Authority's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating employers. The following table presents the Authority's proportionate share of the net OPEB liability and corresponding proportion percentage at the measurement date:

	December 31, 2017
	(in thousands)
The Authority's proportion of the net OPEB liability	67.878 %
The Authority's proportionate share of the net OPEB liability	\$ 13,783,851

OPEB Plan Fiduciary Net Position — The fiduciary net position has been determined on the same basis used by the OPEB plan. The OPEB plan uses the accrual basis of accounting under which contributions from the employer are recognized when paid. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at fair value based on quoted market prices or Net Asset Value. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report or at www.mta.info.

Actuarial Assumptions

Actuarial valuation involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as future employment, mortality and health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan, which refers to the plan terms as understood by the employer and the plan members at the time of the valuation, including only changes to plan terms that have been made and communicated to employees. The projections include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members at that time. The Authority may not be obligated to provide the same types or levels of benefits to retirees in the future.

The total OPEB liability was determined by an actuarial valuation performed on July 1, 2017. Update procedures were used to roll forward the total OPEB liability to December 31, 2017, the measurement date. The actuarial valuations were performed using the following actuarial assumptions, applied to all periods included in the measurement, unless specified:

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Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Investment rate of return	6.50%

Salary Scale — Salary increases vary by years of service and differ for members of NYCERS and the MaBSTOA Plan. Rates are shown below:

Years of Service	NYCERS	Years of Service	MaBSTOA	
	Rate of Increase		Operating Employee Rate	Non-operating Employee Rate
0	19.0 %	0	12.0 %	5.5 %
1	14.0	1	15.0	7.0
2	10.0	2	15.0	7.0
3	7.0	3	6.0	6.3
4	5.0	4	3.5	5.0
5	4.0	5+	3.5	4.0
6+	3.5			

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 the Authority. Long-term trend increases are 4% for dental and vision benefits and 4.5% for Medicare Part B reimbursements, but no more than projected medical and pharmacy trends. The self-insured trend is applied directly for represented employees.

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Healthcare Cost Trend Rates — The following lists illustrative rates for the NYSHIP and self-insured trend assumptions:

Year Ending	NYSHIP Trend		Self-Insured Trend	
	Pre-65 Trend	Post-65 Trend	Pre-65 Trend	Post-65 Trend
2018	8.50 %	8.20 %	6.80 %	9.10 %
2019	6.20 %	5.50 %	6.20 %	5.30 %
2020	5.80 %	5.30 %	5.80 %	5.20 %
2021	5.50 %	5.20 %	5.50 %	5.20 %
2022	7.20 %	5.10 %	11.10 %	5.10 %
2023	6.10 %	5.10 %	6.00 %	5.10 %
2024	6.10 %	5.00 %	5.90 %	5.00 %
2025	5.90 %	5.00 %	5.80 %	5.00 %
2026	5.90 %	5.00 %	5.80 %	5.00 %
2027	5.80 %	4.90 %	5.70 %	4.90 %
2037	5.60 %	5.00 %	5.50 %	5.00 %
2047	5.40 %	5.90 %	5.30 %	4.90 %
2057	5.10 %	5.40 %	5.10 %	5.20 %
2067	4.80 %	5.00 %	4.80 %	4.80 %
2077	4.20 %	4.30 %	4.10 %	4.50 %
2087	4.10 %	4.20 %	4.10 %	4.40 %
2097	4.10 %	4.20 %	4.10 %	4.40 %

For purposes of applying the Entry Age Normal cost method, the healthcare trend prior to the valuation date are based on the ultimate rates, which are 4.1% for medical and pharmacy costs prior to age 65, 4.2% for NYSHIP costs at age 65 and later, and 4.3% for self-insured medical and pharmacy costs at age 65 and later.

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 MaBSTOA pension plan.

Preretirement — RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments.

Postretirement Healthy Lives — 95% of 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 — RP-2014 Disabled Annuitant mortality table for males and females.

Expected Rate of Return on Investments — The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>
US Core Fixed Income	13.00%	1.96%
Global Bonds	15.00%	34.00%
Emerging Market Bonds	5.00%	3.30%
Global Equity	35.00%	4.99%
Non-US Equity	15.00%	5.84%
Global REITs	5.00%	5.62%
Hedge Funds - MultiStrategy	12.00%	3.35%
	<u>100.00%</u>	
Assumed Inflation - Mean		2.50%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Arithmetic Mean Return as per Actuary		6.29%
Portfolio Standard Deviation		11.37%
Long Term Expected Rate of Return selected by MTA		6.50%

Discount Rate — The discount rate used in this valuation to measure the total OPEB liability was updated to incorporate GASB Statement No. 75 guidance.

The plan’s fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan’s fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan’s fiduciary net position is not projected to be sufficient. Therefore, the discount rate is set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index as of December 31, 2017 of 3.44%.

Sensitivity of the Authority’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate — The following presents the Authority’s proportionate share of the net OPEB liability, as well as what the Authority’s proportionate share of the net OPEB 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 the measurement:

	1% Decrease (2.44%)	Discount Rate (3.44%)	1% Increase (4.44%)
	(in thousands)		
Proportionate share of the net OPEB liability	\$ 15,888,151	\$ 13,783,851	\$ 12,093,955

Sensitivity of the Authority’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates — The following presents the Authority’s proportionate share of the net OPEB liability, as well as what the Authority’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates used for the measurement:

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	<u>1% Decrease</u>	Healthcare Cost Current Trend Rate *	<u>1% Increase</u>
		(in thousands)	
Proportionate share of the net OPEB liability	\$ 11,806,693	\$ 13,783,851	\$ 16,320,436

*For further details, refer to the Health Care Cost Trend Rates tables in the Actuarial Assumptions section of this Note Disclosure.

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the Authority recognized OPEB expense of \$1.2 billion, which represents its proportionate share of the Plan's OPEB expense.

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, changes in assumptions and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a 7.4-year close period, beginning the year in which the deferred amount occurs.

At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows (\$ in thousands):

	December 31, 2018	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 7,987	\$ -
Changes in assumptions	535,075	-
Net difference between projected and actual earnings on OPEB plan investments	-	14,323
Employer contributions to the plan subsequent to the measurement of net OPEB liability	468,763	-
Total	<u>\$ 1,011,825</u>	<u>\$ 14,323</u>

For the year ended December 31, 2018, \$468.8 million was reported as deferred outflows of resources related to OPEB. This amount includes both Authority's contributions subsequent to the measurement date and an implicit rate subsidy adjustment that will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2018 will be recognized in OPEB expense as follows:

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Year ending December 31:

2019	\$	81,273
2020		81,273
2021		81,273
2022		81,273
2023		84,853
Thereafter		118,794
Total	\$	<u>528,739</u>

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, 2018 are as follows (in thousand):

Year	Principal	Interest	Total
2019	9,192	1,042	\$ 10,234
2020	8,569	914	9,483
2021	7,977	795	8,772
2022	6,866	686	7,552
2023	5,181	602	5,783
2024-2028	20,236	1,751	21,987
2029-2033	18,621	653	19,274
2034-2038	434	4	438
Total	<u>\$ 77,076</u>	<u>\$ 6,447</u>	<u>\$ 83,523</u>
Less current portion	<u>(9,192)</u>		
Long-term loans payable	<u>\$ 67,884</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

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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 and Due from MTA for the purchase of capital assets, included in the accompanying consolidated statements of net position.

Related party transactions consist of the following at December 31, 2018 and 2017 (in thousands):

	2018		2017	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 8,185,011	\$ (7,017,255)	\$ 6,831,272	\$ (6,386,894)
Constituent authorities	<u>110,582</u>	<u>(11,026)</u>	<u>121,700</u>	<u>(37,153)</u>
Total MTA and constituent authorities	<u>\$ 8,295,593</u>	<u>\$ (7,028,281)</u>	<u>\$ 6,952,972</u>	<u>\$ (6,424,047)</u>

10. ADVERTISING AND OTHER INCOME

Advertising and other income for the years ended December 31, 2018 and 2017, consist of (in thousands):

	2018	2017
Advertising revenue	\$ 112,186	\$ 112,564
Metrocard green fee surcharge	22,274	22,499
Transit Adjudication Bureau collections	9,539	13,867
Station income	6,582	8,392
Rental income	9,976	14,945
Fare media transaction fees	4,560	4,562
All other	<u>219</u>	<u>(307)</u>
	<u>\$ 165,336</u>	<u>\$ 176,522</u>

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11. OTHER EXPENSES

Other expenses for the years ended December 31, 2018 and 2017, consist of (in thousands):

	2018	2017
Credit and debit card fees for fare media sales	\$ 50,956	\$ 48,886
Fare media sales commissions	12,780	13,269
NYS Metro Commuter Transportation Mobility Tax expense	15,388	14,446
Print and office supplies	7,455	6,265
Allowance for uncollectible accounts	1,407	(1,096)
Business travel, meetings, and conventions	631	402
Dues and subscriptions	437	2,149
Other miscellaneous expenses	<u>(961)</u>	<u>(1,412)</u>
	<u>\$ 88,093</u>	<u>\$ 82,909</u>

12. MAINTENANCE AND OTHER OPERATING EXPENSES

Maintenance and other operating expenses for the years ended December 31, 2018 and 2017, consist of (in thousands):

	2018	2017
Operating maintenance and repair services	\$105,276	\$ 86,866
Facility maintenance and repairs	16,555	18,565
Real estate rentals (including 2 Broadway operating expenses)	24,085	27,702
Security services	13,172	16,597
Refuse and recycling	8,063	10,460
Telephone services	7,594	9,970
Tire and tube rentals	14,131	13,037
Janitorial and custodial services	5,734	5,874
Water and sewage	6,949	9,259
Specialized equipment	1,281	2,792
Bridge, tunnel and highway tolls	4,835	4,579
Uniforms	4,404	5,048
Ticket stock material	3,198	3,795
Safety equipment and supplies	11,263	11,250
Other miscellaneous expenses	<u>7,423</u>	<u>20,081</u>
	<u>\$233,963</u>	<u>\$245,875</u>

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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 active ultra-low sulfur diesel (ULSD) hedges in whole dollars:

Counterparty	Cargill	Goldman Sachs	Goldman Sachs	Goldman Sachs	Goldman Sachs	Goldman Sachs
Trade Date	2/28/2017	3/28/2017	4/27/2017	5/30/2017	6/27/2017	7/26/2017
Effective Date	2/1/2018	3/1/2018	4/1/2018	5/1/2018	6/1/2018	7/1/2018
Termination Date	1/31/2019	2/28/2019	3/31/2019	4/30/2019	5/31/2019	6/30/2019
Price/Gal	\$1.68	\$1.61	\$1.59	\$1.61	\$1.52	\$1.62
Notional Qnty (Gal)	2,923,256	2,923,255	2,887,174	2,914,270	2,914,264	2,914,252
Counterparty	Goldman Sachs	Goldman Sachs	Goldman Sachs	Goldman Sachs	Goldman Sachs	Goldman Sachs
Trade Date	8/29/2017	9/22/2017	10/26/2017	11/29/2017	12/27/2017	1/31/2018
Effective Date	8/1/2018	9/1/2018	10/1/2018	11/1/2018	12/1/2018	1/1/2019
Termination Date	7/31/2019	8/31/2019	9/30/2019	10/31/2019	11/30/2019	12/31/2019
Price/Gal	\$1.63	\$1.72	\$1.76	\$1.85	\$1.91	\$1.96
Notional Qnty (Gal)	2,914,252	2,914,244	2,612,515	2,870,561	2,870,574	2,870,565
Counterparty	Goldman Sachs	Goldman Sachs	Macquarie Energy LLC	Goldman Sachs	Goldman Sachs	BOA_Merrill
Trade Date	2/28/2018	3/28/2018	4/24/2018	5/29/2018	6/26/2018	7/31/2018
Effective Date	2/1/2019	3/1/2019	4/1/2019	5/1/2019	6/1/2019	7/1/2019
Termination Date	1/31/2020	2/29/2020	3/31/2020	4/30/2020	5/31/2020	6/30/2020
Price/Gal	\$1.88	\$1.98	\$2.08	\$2.16	\$2.18	\$2.17
Notional Qnty (Gal)	2,786,237	2,853,500	2,799,258	2,841,090	2,841,069	2,820,856
Counterparty	Goldman Sachs	Goldman Sachs	JPM Ventures Energy Corp	Cargill	BOA_Merrill	
Trade Date	8/29/2018	9/25/2018	10/1/2018	10/30/2018	11/27/2018	
Effective Date	8/1/2019	9/1/2019	1/1/2018	10/1/2019	11/1/2019	
Termination Date	7/31/2020	8/31/2020	12/31/2018	9/30/2020	10/31/2020	
Price/Gal	\$2.21	\$2.29	\$1.75	\$2.25	\$1.92	
Notional Qnty (Gal)	2,831,924	2,831,922	2,923,252	2,831,934	3,023,197	

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. As of December 31, 2018, the total outstanding notional value of the ULSD contracts was \$49.7 million gallons with a negative fair market value of \$12 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 \$1.3 million and \$0.7 million in 2018 and 2017, respectively.

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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, 2018 and 2017, is as follows (in thousands):

	2018	2017
Balance at beginning of year	\$2,799,384	\$2,506,944
Activity during the year:		
Current year claims and changes in estimates	587,166	548,144
Claims paid	<u>(301,140)</u>	<u>(255,704)</u>
Balance at end of year	3,085,410	2,799,384
Less current portion	<u>(297,223)</u>	<u>(278,243)</u>
Long-term liability	<u>\$2,788,187</u>	<u>\$2,521,141</u>

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 million for the Authority. 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 million for Authority. Effective November 1, 2012, the self-insured retention limits for ELF was increased to \$10 million for the Authority. Effective October 31, 2015 the self-insured retention limit for ELF was increased to \$11 million for the Authority. 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

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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, 2018, the balance of the assets in this program was \$152.6 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, 2018, 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 the Authority.

On March 1, 2018, 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.

Property Insurance — Effective May 1, 2018, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2018, 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.

FMTAC’s property insurance program has been expanded to include 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 82% of “certified” losses in 2018, 81% of “certified” losses in 2019 and 80% of “certified” losses in 2020, as covered by the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) of 2015. The remaining 18% (2018), 19% (2019) and 20% (2020) 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

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trigger of \$160 million in 2018, \$180 million in 2019 and \$200 million in 2020. 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) 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, 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 and 20% of any "certified" act of terrorism up to a maximum recovery of \$215 million for any one occurrence and in the annual aggregate during 2020, (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 \$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 or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$200 million TRIPRA trigger up to a maximum recovery of \$200 million for any occurrence and in the annual aggregate during 2020.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$193.5 million in 2018, \$204.3 million in 2019 and \$215 million in 2020, 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, 2020.

During 2018 there were FMTAC excess loss claim reimbursements of \$2.6 million to the Authority. FMTAC had open claims for the Authority at December 31, 2018. At December 31, 2018, FMTAC had \$978 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 2018 and 2017, the Authority recognized \$84.1 million and \$8.5 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. The Authority does not expect any recoveries of cost that would have a material effect on the recorded obligations

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A summary of the activity in pollution remediation liability at December 31, 2018 and 2017, were as follows (in thousands):

	2018	2017
Balance at beginning of year	\$ 32,425	\$ 38,140
Activity during the year:		
Changes in estimates	84,138	8,537
Payments	<u>(38,995)</u>	<u>(14,252)</u>
Balance at end of year	77,568	32,425
Less current portion	<u>(15,514)</u>	<u>(6,485)</u>
Long-term liability	<u>\$ 62,054</u>	<u>\$ 25,940</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.

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16. CONDENSED COMPONENT UNIT INFORMATION

The following table presents condensed financial information for MaBSTOA, a component unit of the Authority (in thousands):

December 31:	2018	2017
Current assets	\$ 252,012	\$ 154,226
Capital assets	483,573	370,723
Deferred outflows of resources	<u>230,352</u>	<u>302,760</u>
Total assets and deferred outflows of resources	<u>965,937</u>	<u>827,709</u>
Current liabilities	265,731	248,852
Non-current liabilities	1,508,406	3,875,075
Deferred inflows of resources	<u>120,407</u>	<u>47,891</u>
Total liabilities and deferred inflows of resources	<u>1,894,544</u>	<u>4,171,818</u>
Net Investment in capital assets	483,573	370,723
Unrestricted	<u>(1,412,180)</u>	<u>(3,714,832)</u>
Total net position	<u>\$ (928,607)</u>	<u>\$ (3,344,109)</u>
For the Year Ended December 31:		
Fare revenue	\$ 429,700	\$ 441,312
Advertising and other revenue	<u>15,654</u>	<u>16,634</u>
Total operating revenue	<u>445,354</u>	<u>457,946</u>
Total labor expenses	1,100,959	1,270,700
Total non-labor expenses	128,065	156,170
Depreciation	<u>62,868</u>	<u>52,726</u>
Total operating expenses	<u>1,291,892</u>	<u>1,479,596</u>
Operating (deficit) surplus	<u>(846,538)</u>	<u>(1,021,650)</u>
Loss before capital contributions	(846,538)	(1,021,650)
Capital contributions	<u>3,262,040</u>	<u>933,616</u>
Change in net position	2,415,502	(88,034)
Net position, beginning of the year	<u>(3,344,109)</u>	<u>(3,256,075)</u>
Net position, end of year	<u>\$ (928,607)</u>	<u>\$ (3,344,109)</u>

17. SUBSEQUENT EVENTS

On February 27, 2019, the MTA Board voted to increase the Authority's Subway and Bus fares effective April 21, 2019. MetroCard seven-day passes increased from \$32 to \$33 and MetroCard thirty-day

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passes increased from \$121 to \$127. The base fare of \$2.75 and the single-ride ticket fare of \$3.00 remained the same. The bonus value of five percent is eliminated.

The New York State Fiscal Year 2019-2020 Enacted Budget established the Central Business District Tolling Program (CBD Tolling Program), the goals of which are to reduce traffic congestion in the Manhattan Central Business District, improve air quality, and provide a stable and reliable funding source for the repair and revitalization of the MTA's public transportation systems. The CBD Tolling Program revenues are not expected to begin to flow to MTA until at least early 2021. MTA Bridges and Tunnels is directed to establish the CBD Tolling Capital Lockbox Fund. Monies in the fund cannot be commingled with any other MTA Bridges and Tunnel monies. Funds on deposit in the CBD Tolling Capital Lockbox Fund shall be applied to: (1) operating, administration and other necessary expenses relating to the program, or to DOT pursuant to the MOU; and (2) costs of MTA capital projects included in the 2020-2024 Capital Program or any successor capital program. The 2019-2020 State Enacted Budget further provides that capital project costs paid for by the CBD Tolling Capital Lockbox Fund are subject to the following revenue split: (1) 80 percent for MTA New York City Transit, MaBSTOA, MTA Staten Island Railway and MTA Bus capital project costs, with priority given to subway system, new signaling, new subway cars, track and car repair, accessibility, buses and bus system improvements and further investments in expanding transit availability in the outer boroughs; (2) 10 percent for MTA Long Island Rail Road capital projects, including parking facilities, rolling stock, capacity enhancements, accessibility and expanding transit availability; and (3) 10 percent for MTA Metro-North Railroad capital projects including parking facilities, rolling stock, capacity enhancements, accessibility and expanding transit availability.

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REQUIRED SUPPLEMENTARY INFORMATION

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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)

	2017	2016	2015	2014
Total pension liability:				
Service cost	\$ 84	\$ 82	\$ 77	\$ 72
Interest	246	237	233	224
Differences between expected and actual experience	12	14	(69)	(2)
Change of assumptions	6	-	-	-
Benefit payments and withdrawals	<u>(209)</u>	<u>(188)</u>	<u>(180)</u>	<u>(175)</u>
Net change in total pension liability	139	145	61	119
Total pension liability—beginning	<u>3,537</u>	<u>3,392</u>	<u>3,331</u>	<u>3,212</u>
Total pension liability—ending(a)	<u>3,676</u>	<u>3,537</u>	<u>3,392</u>	<u>3,331</u>
Fiduciary net position:				
Employer contributions	202	221	215	226
Member contributions	20	19	16	15
Net investment income	350	212	(24)	105
Benefit payments and withdrawals	(209)	(188)	(180)	(175)
Administrative expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	363	264	27	171
Plan fiduciary net position—beginning	<u>2,556</u>	<u>2,292</u>	<u>2,265</u>	<u>2,094</u>
Plan fiduciary net position—ending(b)	<u>2,919</u>	<u>2,556</u>	<u>2,292</u>	<u>2,265</u>
Employer's net pension liability—ending(a)-(b)	<u>\$ 757</u>	<u>\$ 981</u>	<u>\$ 1,100</u>	<u>\$ 1,066</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79.4 %</u>	<u>72.3 %</u>	<u>67.6 %</u>	<u>68.0 %</u>
Covered-employee payroll	<u>750</u>	<u>717</u>	<u>687</u>	<u>653</u>
Employer's net pension liability as a percentage of covered-employee payroll	<u>100.9 %</u>	<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.

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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 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY IN THE NYCERS PENSION PLAN AT JUNE 30: (In millions)

	2018	2017	2016	2015
The Authority's proportion of the net pension liability	22.527 %	22.788 %	22.227 %	22.380 %
The Authority's proportionate share of the net pension liability	\$ 3,973	\$ 4,732	\$ 5,400	\$ 4,530
The Authority's actual covered-employee payroll	\$ 3,090	\$ 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	128.576 %	156.481 %	184.300 %	158.277 %
Plan fiduciary net position as a percentage of the total pension liability	78.826 %	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:	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially Determined Contribution	\$ 202.5	\$ 202.9	\$ 220.7	\$ 214.9	\$ 226.4	\$ 234.5	\$ 228.9	\$ 186.5	\$ 200.6	\$ 204.3
Actual Employer Contribution	<u>205.4</u>	<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>
Contribution Deficiency (Excess)	<u>\$ (2.9)</u>	<u>\$ 0.2</u>	<u>\$ -</u>							
Covered Payroll	776.2	749.7	716.5	686.7	653.3	582.1	576.0	579.7	591.1	569.4
Contributions as a % of Covered Payroll	26.5 %	27.0 %	30.8 %	31.3 %	34.7 %	40.3 %	39.7 %	32.2 %	33.9 %	35.9 %
NYCERS:	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially Determined Contribution	\$ 768.4	\$ 759.6	\$ 753.2	\$ 694.4	\$ 708.2	\$ 702.9	\$ 695.8	\$ 630.1	\$ 549.1	\$ 523.9
Actual Employer Contribution	<u>768.4</u>	<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>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	3,841.0	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
Contributions as a % of Covered Payroll	20.0 %	21.0 %	22.2 %	20.8 %	20.5 %	25.0 %	24.9 %	22.7 %	20.0 %	19.7 %

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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, 2017 and 2016 funding valuation for the MaBSTOA pension plan as follows:

	MaBSTOA	
Valuation Date	January 1, 2017	January 1, 2016
Measurement Date	December 31, 2017	December 31, 2016
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)

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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 THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY IN THE MTA OPEB PLAN AT: (In millions)

Plan Measurement Date (December 31):	2017
The Authority's proportion of the net OPEB liability	67.88%
The Authority's proportionate share of the net OPEB liability	\$ 13,784
The Authority's covered payroll	\$ 3,619
The Authority's proportionate share of the net OPEB liability as a percentage of its covered payroll	380.88%
Plan fiduciary net position as a percentage of the total OPEB liability	1.79%

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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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 THE OPEB PLAN AND NOTES TO SCHEDULE OF THE AUTHORITY'S CONTRIBUTION TO THE OPEB PLAN FOR THE YEARS ENDED DECEMBER 31: (In millions)

	2018	2017
Actuarially Determined Contribution	n/a	n/a
Actual Employer Contribution ⁽¹⁾	\$ 468.8	\$ 441.9
Contribution Deficiency (Excess)	<u>n/a</u>	<u>n/a</u>
Covered Payroll	4,617.2	3,618.6
Actual Contribution as a Percentage of Covered Payroll	10.15%	12.21%

(1) Actual employer contribution includes the implicit rate of subsidy adjustment of \$19.9 and \$19.6 for the years ended December 31, 2018 and 2017, respectively.

Notes to Schedule of the Authority's Contribution to the OPEB Plan:

Methods and assumptions used to determine contribution rates:

Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Investment rate of return	6.50%

Changes of benefit terms: In the July 1, 2017 actuarial valuation, there were no changes to the benefit terms.

Changes of assumptions: In the July 1, 2017 actuarial valuation, there was a change in assumptions. The discount rate used to measure liabilities was updated to incorporate GASB 75 guidance and changed to reflect the current municipal bond rate.

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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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, 2018 and 2017,
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 financial statements of net position of the MTA Long Island Rail Road, a component unit of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2018 and 2017, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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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, 2018 and 2017, 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.

As described in Note 2 to the financial statements, in 2018, MTA Long Island Rail Road adopted Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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, 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 and Notes to the Schedule of MTA Long Island Rail Road’s Contributions to all Pension Plans, the Schedule of MTA Long Island Rail Road’s Proportionate Share of Net OPEB Liability in the MTA OPEB Plan, and the Schedule and Notes to the Schedule of MTA Long Island Rail Road’s Contribution to the MTA OPEB Plan, as listed in the table of contents, 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 audit 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.

May 20, 2019

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MTA LONG ISLAND RAIL ROAD
(Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2018 AND 2017
(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, 2018 and 2017. 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 MD&A 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

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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, 2018 and 2017. 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

	As of December 31,			Increase/(Decrease)	
	2018	2017	2016	2018-2017	2017-2016
Capital assets—net	\$ 6,825,946	\$ 6,102,261	\$ 5,713,950	\$ 723,685	\$ 388,311
Other assets	396,978	394,845	309,451	2,133	85,394
Deferred outflows of Resources	<u>434,776</u>	<u>339,676</u>	<u>365,634</u>	<u>95,100</u>	<u>(25,958)</u>
Total assets and Deferred Outflows of Resources	<u>\$ 7,657,700</u>	<u>\$ 6,836,782</u>	<u>\$ 6,389,035</u>	<u>\$ 820,918</u>	<u>\$ 447,747</u>

Significant Changes in Assets and Deferred Outflows of Resources—

In 2018, capital assets increased by \$723.7 million or 11.9% compared to December 2017. 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 2018 Track Program that provided replacement of various track elements and branches at a cost of \$45.6 million. Additional work under the prior year track program resulted in a cost of \$32 million. LIRR completed the Main Line Double Track at a cost of \$357.5 million. Trains can now start or extend to Ronkonkoma instead of Farmingdale. The additional track has also provided greater flexibility during perturbed situations which has resulted in improved on time performance along this branch. Continuing with compliance with positive train control, additional upgrades were made to the signal system from

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Speonk to Montauk at a cost of \$8.3 million. Hicksville station improvements included \$7.7 million in replacement costs for wood ties and ballast. Line poles and applicable hardware at various locations along the Right of Way were replaced at a cost of \$4.8 million. These poles carry cable lines which provide services to LIRR communication system including fiber optic cable, signal cabling and supervisory control lines. Concrete ties were replaced along the Port Jefferson branch at a cost of \$4.8 million. In the Long Island City Yard, reconstruction of tracks 9 through 12 were completed. This included restoration of third rail systems, switch replacements, flood protection walls and gates and construction of car cleaning platforms totaling \$3.2 million. The circuit breaker House F tower totaled \$2.9 million in costs. The Hillside interlocking training facility upgrade totaled \$1.4 million. Lastly, various improvements to road related assets totaled \$2.5 million.

- Under the Main Line Double Track project, new platforms and station at Pine Lawn and a new south platform at Wyandanch were completed costing \$98.9 million. Hicksville Station Improvements were completed at a cost of \$65 million. These improvements included two new hydraulic elevators, elevated platforms, replacement of two existing escalators and replacement of concrete stairways with new aluminum stairs and handrails. In addition, new platform canopies and platform waiting rooms were completed along with new electrical, lighting, heating and communication systems. Two new elevators to provide ADA accessibility from ground level to platforms at the Flushing Main Street station were completed costing \$22.9 million. The Wantagh Station Platform Replacement project was completed at a cost of \$28.1 million. This project included rehabilitation of the existing elevated 12 car center island platform, a new elevator, replacement of an escalator, new lighting and communications systems. Rehabilitation of the Port Washington substation building and association equipment was completed at a cost of \$19.8 million. The Long Beach substation was also replaced at a cost of \$4 million. The Wyandanch Station Building and Steward Manor Platform were replaced as part of an enhanced station initiative costing \$7.4 million and \$5.1 million respectively. In addition, another enhanced station initiative project for these six stations: Great Neck, Bayside, Northport, Valley Stream, Ronkonkoma and Baldwin was completed at a cost of \$10.2 million. Various bridge rehabilitation projects were completed at a cost of \$37.9 million which included costs for Buckram Bridge of \$13.4 million. Security projects at various locations were completed costing \$4.4 million. Lastly, various structural improvements, including upgrading parking lots resulted in an additional \$8.9 million increase to buildings and structures.
- Continued additions and improvements to the West End Concourse in Penn Station included new entrances, elevators and LED lighting totaling \$30 million. Continued improvements to the East River Tunnel Traction Power Substation resulted in an additional \$1.0 million increase to leasehold improvements.
- The vehicles were purchased totaling \$4.7 million in 2018. Purchases of trailers and snow equipment totaled \$1.4 million. Equipment including CCTV cameras was purchased for the Flushing Main Street Station totaling \$3.1 million. Equipment was also purchased for the Hicksville Station Improvements including CCTV cameras totaling \$4.2 million. Emergency management equipment including generators, payloaders, trucks and a trailer totaling \$1.4 million were also purchased in 2018. Thirty-five advertising displays for seven LIRR train stations were installed totaling \$2.7 million. The purchases of various types of machinery and equipment resulted in an additional \$2.9 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 \$124.5 million due to the emphasis on Positive Train Control on all main-line tracks to comply with Rail Safety Improvement Act of 2018, the signal replacement program, Centralized Train Control and Centralized Traffic Control.
- Shops & Yards work in progress increased by \$79.9 million primarily due to the design and build construction of the new Morris Park Locomotive Shop containing the Diesel Shop, Bone Yard, Stores Building and Employee Facilities and preliminary design and construction of a new Mid-Suffolk Yard.

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- Passenger cars work in progress incurred an additional cost of \$32.2 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 \$40.4 million mainly due to additional costs for the Enhanced Station Initiative projects for upgrades to various passenger stations as well as the Nostrand Avenue Station Rehabilitation.
- Line Structures work –in –progress decreased \$1.3 million primarily due to capitalization of the Double Track and Hicksville Station Improvements and additional costs for the 2017 Track Program projects in 2018.
- A decrease of \$22.8 million resulted from program administration, project material, security projects, and NYSDOT projects.

These increases are partially offset by increases in accumulated depreciation and amortization of \$723.7 million.

Other assets increased in 2018 by \$2.1 million or 1.0% primarily due to an increase in the investment account funds received from MTA HQ for payment of checks issued and an increase in material and supplies. The increase was offset by decreases in outstanding pre-bills, invoices for capital and reimbursable expenditures, a large customer advance was utilized to offset payments and LIRR reaching a settlement with another customer for outstanding invoices.

Deferred outflows of resources increased by \$95.1 million or 28.0% due to the first-year implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The increase was offset by a decrease in deferred outflows for pensions. See Note 2 of the audited financial statements for further information.

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

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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.

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

	As of December 31,			Increase/(Decrease)	
	2018	2017	2016	2018-2017	2017-2016
Current liabilities	\$ 319,379	\$ 287,383	\$ 284,283	\$ 31,996	\$ 3,100
Noncurrent liabilities	3,705,007	2,281,333	2,206,978	1,423,674	74,355
Deferred inflows of Resources	<u>88,490</u>	<u>21,959</u>	<u>23,562</u>	<u>66,531</u>	<u>(1,603)</u>
Total liabilities and Deferred Inflows of Resources	<u>\$ 4,112,876</u>	<u>\$ 2,590,675</u>	<u>\$ 2,514,823</u>	<u>\$ 1,522,201</u>	<u>\$ 75,852</u>

Significant Changes in Liabilities and Deferred Inflows of Resources—

In 2018, total liabilities increased by \$1.5 billion or 58.8% compared to 2017.

- Noncurrent liabilities increased by \$1.4 billion primarily due to the recognition of the GASB Statement No. 75 Net Post-Employment Benefits Other than Pensions (“OPEB”) liability of \$1.7 billion, and was offset by a decrease in Pension liability of \$312.4 million.

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.

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

	As of December 31,			Increase/(Decrease)	
	2018	2017	2016	2018-2017	2017-2016
Net investment in capital assets	\$ 6,825,946	\$ 6,102,261	\$ 5,713,950	\$ 723,685	\$ 388,311
Unrestricted	<u>(3,281,122)</u>	<u>(1,856,154)</u>	<u>(1,839,738)</u>	<u>(1,424,968)</u>	<u>(16,416)</u>
Total net position	<u>\$ 3,544,824</u>	<u>\$ 4,246,107</u>	<u>\$ 3,874,212</u>	<u>\$ (701,283)</u>	<u>\$ 371,895</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, 2018 versus 2017

Total net position increased by \$701.3 million in 2018. The decrease was comprised of the restatement of the beginning net position by \$1.4 billion due to the adoption of GASB Statement No. 75 and operating and capital contributions from the MTA of \$1.9 billion offset by an operating loss of \$1.2 billion.

December 31, 2017 versus 2016

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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.

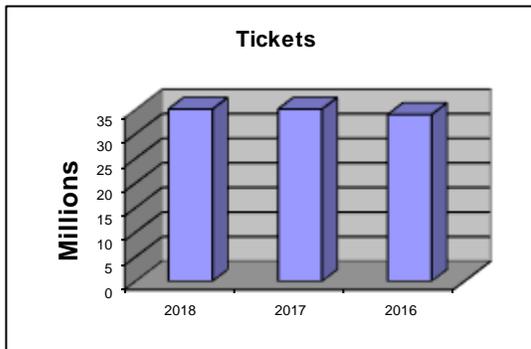
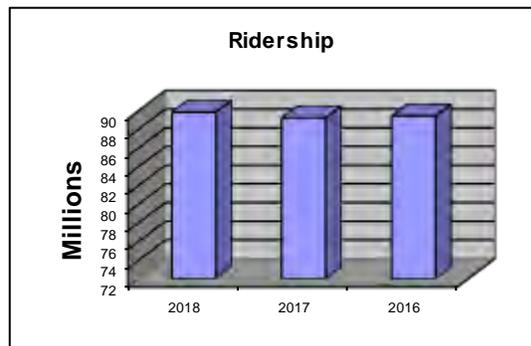
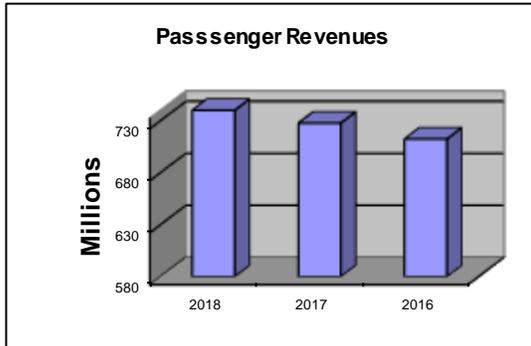
Condensed Statements of Revenues, Expenses and Changes in Net Position

	December 31,		
	2018	2017	2016
Operating revenues	\$ 789,373	\$ 780,571	\$ 767,959
Operating expenses	<u>(1,982,876)</u>	<u>(1,912,893)</u>	<u>(1,785,776)</u>
Operating loss	<u>(1,193,503)</u>	<u>(1,132,322)</u>	<u>(1,017,817)</u>
Nonoperating revenues:			
Operating subsidies from MTA	824,348	798,040	568,425
Capital contributions	1,080,692	706,132	494,429
FTA/FEMA reimbursement	<u>311</u>	<u>45</u>	<u>-</u>
Total nonoperating revenues	<u>1,905,351</u>	<u>1,504,217</u>	<u>1,062,854</u>
Change in net position	711,848	371,895	45,037
Net position—beginning of year	4,246,107	3,874,212	3,829,175
Restatement of beginning net position	<u>(1,413,131)</u>	<u>-</u>	<u>-</u>
Net position—end of year	<u>\$ 3,544,824</u>	<u>\$ 4,246,107</u>	<u>\$ 3,874,212</u>

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Revenues and Expenses by Major Source

Operating Revenues



In 2018, The MTA Long Island Rail Road experienced its highest ridership since the post-war record of 91.8 million passengers in 1949. During 2018, the LIRR carried 89.8 million customers, which was a 0.7 percent increase from 89.2 million customers in 2017. When adjusted for the same number of calendar workdays, the 2018 ridership was 0.5 percent above the 2017 level. 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 2018 Non-Commutation market experienced growth of 1.3% compared to 2017, outpacing the growth of the 2018 Commutation market, which increased 0.2%. In 2018, two major sporting events occurred that contributed to the increase, the US Open golf tournament in Southampton and the Triple Crown at Belmont Park.

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

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Program taking place at Penn Station. The LIRR estimates that 438,000 riders were lost during the summer program.

Operating Expenses by Categories

	2018	2017	2016	Increase/(Decrease)	
				2018-2017	2017-2016
Salaries and wages	\$ 687,085	\$ 633,269	\$ 628,286	\$ 53,816	\$ 4,983
Health and welfare	83,109	100,334	95,788	(17,225)	4,546
Pension	117,870	138,418	126,150	(20,548)	12,268
Other fringe benefits	97,037	81,731	90,214	15,306	(8,483)
Other post employment benefits (OPEB)	219,751	202,218	147,844	17,533	54,374
Electric power	88,946	84,769	77,567	4,177	7,202
Fuel	21,068	16,253	14,305	4,815	1,948
Insurance	19,880	20,524	22,690	(644)	(2,166)
Claims	13,505	18,301	16,588	(4,796)	1,713
Maintenance and other operating contracts	73,056	90,287	63,924	(17,231)	26,363
Environmental remediation	1,936	3,401	(1,756)	(1,465)	5,157
Professional service contracts	46,657	35,779	25,800	10,878	9,979
Materials and supplies	136,464	121,812	128,537	14,652	(6,725)
Depreciation and amortization	362,333	340,114	333,594	22,219	6,520
Other expenses	14,179	25,683	16,245	(11,504)	9,438
Total operating expenses	<u>\$ 1,982,876</u>	<u>\$ 1,912,893</u>	<u>\$ 1,785,776</u>	<u>\$ 69,983</u>	<u>\$ 127,117</u>

Significant Changes to Operating Expenses in 2018—

Total 2018 operating expenses increased by \$70.0 million or 3.7% over 2017 as follows:

- Salaries and wages increased by \$53.8 million or 8.5% primarily due to yearly wage increases, maintenance and weather-related overtime.
- Pension costs decreased by \$20.5 million or 14.8% primarily as a result of the latest actuarial valuation report.
- Other Post-Employment Benefits (“OPEB”) increased by \$17.5 million or 8.7% primarily as a result of the latest actuarial valuation report and the implementation of GASB Statement No. 75.
- Electric power increased by \$4.2 million or 4.9% primarily due to higher rates and consumption.
- Maintenance and other operating contracts decreased by \$17.2 million or 19.1% primarily due to lower maintenance expenditures associated with West End Concourse projects and maintenance for transformers, elevator / escalators and non-revenue vehicles. The increase was partially offset by higher expenses for emergency bussing and equipment and vehicle rentals.
- Professional Service Contracts increased by \$10.9 million or 30.4% primarily due to expensing various projects that are not capital eligible, partially offset by lower marketing initiatives, MTA chargebacks and reduced spending on other professional service contracts.

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- Depreciation and amortization increased by \$22.2 million or 6.5% primarily due to additional depreciation for new assets capitalized in 2018.
- Other expenses decreased \$11.5 million or 44.8% primarily due to the insurance payment reimbursing expenses for the New Hyde Park train derailment, lower bad debt reserve and the demolition of the Flushing building that had a remaining book value recorded in 2017.

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 Nonoperating Revenues in 2018

In 2018, operating subsidies from the MTA increased by \$26.3 million or 3.3%. 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 \$80.1 million due to general wage increases.
- Materials and Supplies increased by \$29.6 million due to advance material purchases and higher production plan purchases.
- Maintenance and other operating contracts increased by \$23.5 million primarily due to the State of Good Repair at Penn Station.
- 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 decreased by \$8.6 million primarily due to the State of Good Repair at Penn Station in 2017.

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

- Capital and Other Reimbursements increased by \$59.9 million primarily due to the timing of activity and reimbursement for capital and other reimbursements.

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- Farebox revenue increased by \$17.2 million due to the fare increase in March 2017.

In 2018, nonoperating capital project subsidies from MTA increased by \$374.6 million or 53.0%. 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 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.

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 2018 decreased relative to 2017, with ridership down by 80.7 million trips (3.1%). The decrease is driven by Subway ridership, which declined by 47.3 million trips (2.7%), and MTA New York City Transit Bus ridership, which declined by 33.3 million trips (5.5%). In addition,

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MTA Bus ridership declined by 766 thousand trips (0.6%) and MTA Staten Island Railway ridership declined by 82 thousand trips (1.8%). Commuter rail experienced a small increase in ridership in 2018, with MTA Long Island Rail Road ridership increasing by 607 thousand trips (0.7%) and MTA Metro-North Railroad ridership increasing by 58 thousand trips (0.1%). The overall decline in ridership in 2018 was comprised of a 27.6 million decline in the first quarter, an 18.2 million decline in the second quarter, a 21.4 million decline in the third quarter and a 13.5 million decline in the fourth quarter, all compared with the corresponding quarter in 2017. The decline in bus ridership is consistent with a trend that began in 2009 and has been observed nationally, while declining subway ridership is a more recent trend, beginning in the third quarter of 2016; recent bus and subway ridership trends have been attributed to increased fare evasion, planned subway service changes to accommodate construction and maintenance/repair work, increase in use of for-hire vehicle services, and increases in telecommuting and the use of e-commerce. Vehicle traffic at MTA Bridges and Tunnels facilities increased by 12.3 million crossings (4.0%) in 2018 compared to 2017. This increase was comprised of a 2.5 million increase in the first quarter, a 4.1 million increase in the second quarter, a 2.7 million increase in the third quarter, and a 3.1 million increase in the fourth quarter, all compared to the corresponding quarter in 2017. Congestion pricing in Manhattan—currently being debated in the New York State legislature with the potential to be adopted in April 2019 for implementation as early as 2021—could impact future 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 2018 than in 2017 by 67.3 thousand jobs (1.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last thirty-three 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 2018 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, private inventory investment, and federal government spending; these were partially offset by negative contributions from residential fixed investment, and state and local government spending. Imports, which are a subtraction in the Gross Domestic Product (“GDP”) calculation, increased. The deceleration in RGDP growth, relative to the third quarter’s revised 3.4% growth rate, reflected a deceleration in private inventory investment, personal consumption expenditures and federal government spending, as well as a downturn in state and local government spending; these were partially offset by an acceleration nonresidential fixed investment, as well as an upturn in exports and a smaller increase in imports.

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 2018, with the metropolitan area index increasing by 1.8 %, while the national index increased by 2.2%, when compared with the fourth quarter of 2017. A 5.3% increase in the regional price of energy products, along with a 3.9% national increase, impacted overall inflation; in the metropolitan area, the CPI-U exclusive of energy products increased by 1.6%, while nationally, inflation exclusive of energy products was 2.1%. The spot price for New York Harbor conventional gasoline fell by 3.8%, from an average price of \$1.77 per gallon to an average price of \$1.70 per gallon, between the fourth quarters of 2017 and 2018.

The Federal Open Market Committee (“FOMC”) raised its target for the Federal Funds rate four times in 2018, with the target range set at 1.5% to 1.75% in March, 1.75% to 2.0% in June, 2.0% to 2.25% in September, and 2.25% to 2.5%—the current target level—in December. This was a slight acceleration in rate increases compared to 2017, when the target level was increased three times. The December increase was in view of continued labor market strength and rising economic activity, as job gains were strong and the unemployment rate remained low. Household spending continued to grow strongly, while growth in business fixed investment moderated from its rapid rate of growth in the first three quarters of 2018. Overall inflation and inflation for items other than food and energy remained close to 2 percent and indicators of longer-term

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inflation expectations were little changed. The FOMC expects that the economic expansion will be sustained, labor market conditions will remain strong, and inflation will remain near the 2 percent objective. In light of muted inflationary pressures and global economic and financial developments, the FOMC has indicated its patience in determining the timing and size of future rate adjustments, assessing realized and expected economic conditions relative to its dual mandate of maximizing employment and targeting 2 percent inflation.

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 2018 were lower than the fourth quarter of 2017 by \$2.5 (2.2%); receipts in the fourth quarter of 2018 were \$8.8 (7.5%) lower than receipts from the third quarter of 2018. Despite the gradual overall recovery of MRT receipts that began in 2012, average monthly receipts in 2018 remain \$26.9 (42.3%) lower 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 transactions 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 \$11.2 (7.7%) higher in the fourth quarter of 2018 than receipts for the fourth quarter of 2017; receipts in the fourth quarter of 2018 were \$12.2 (7.2%) lower than receipts from the third quarter of 2018. Average monthly receipts in 2018 were \$19.0 (25.8%) lower than the monthly average for 2007, just prior to the steep decline in Urban Tax revenues.

Results of Operations— One of the most reliable predictors of customer satisfaction is the ability of the LIRR to deliver passengers to their intended destinations on time. For 2018, the LIRR's OTP was 90.4%, a decline of 1.3% from the 2017 OTP rate of 91.4%.

The railroad attained a mean distance between failures (MDBF)—the distance a train travels before experiencing a mechanical problem—of 185,217 miles, which was the 2018 goal of 200,000 miles by 7.4%, and represents, a 9.8% decrease from 2017. The Maintenance of Equipment Department's increased maintenance efforts have also continued to provide a reliable C-3 fleet. While the C-3 MDBF of 107,389 miles fell below the 2018 goal by 12%, it continued to remain in the five best annual C-3 MDBF years since inception. 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. The combined diesel fleet achieved an MDBF of 51,731 miles, which was below the goal by 20.4%. The decline was attributable to the lower diesel fleet MDBF from its record-high previous years, parts obsolescence, low spare ratio, and budget driven maintenance program decisions in 2010 which affected traction motor reliability.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program—The MTA Long Island Rail Road completed the Main Line Double Track, improvements to both Pine Lawn and Wyandanch Stations, Hicksville Station Improvements, new elevators at Flushing Main Street Station, Wantagh Station platform replacement, rehabilitation of both the Port Washington and Long Beach Substations, several stations were enhanced due to the Station Initiative project, additional upgrades to the signal system from Speonk to Montauk, various bridge rehabilitation projects, improvements and additions to the West End Concourse and Annual Track Program Replacement.

LIRR completed the Main Line Double Track. Trains can now start or extend to Ronkonkoma instead of Farmingdale. The additional track has also provided greater flexibility during perturbed situations which has resulted in improved on time performance along this branch. Under the Main Line Double Track project, new platforms and station at Pine Lawn and a new south platform at Wyandanch were completed. Hicksville Station Improvements included replacement for wood ties and ballast were also completed. These improvements included two new hydraulic elevators, elevated platforms, replacement of two existing escalators and replacement of concrete stairways with new aluminum stairs and handrails. In addition, new platform canopies and platform waiting rooms were completed along with new electrical, lighting, heating and communication systems.

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Two new elevators to provide ADA accessibility from ground level to platforms at the Flushing Main Street station were completed. The Wantagh Station Platform Replacement project included rehabilitation of the existing elevated 12 car center island platform, a new elevator, replacement of an escalator, new lighting and communications systems.

Rehabilitation of the Port Washington substation building and association equipment was completed. The Long Beach substation was also replaced in 2018. Various bridge rehabilitation projects were completed including Buckram Bridge. The Long Beach substation was also replaced at a cost of \$4 million. The Wyandanch Station Building and Steward Manor Platform were replaced as part of an enhanced station initiative. In addition, another enhanced station initiative project was completed in 2018 for these six stations: Great Neck, Bayside, Northport, Valley Stream, Ronkonkoma and Baldwin.

Continuing with compliance with positive train control, additional upgrades were made to the signal system from Speonk to Montauk. In addition, Positive Train Control new statutory requirements for federal compliance in 2018 allowing LIRR to request an alternative schedule extending the project to December 31, 2020.

Continuing additions and improvements to the West End Concourse in Penn Station included new entrances, elevators and LED lighting were completed. In addition, there was continued improvements to the East River Tunnel Traction Power Substation.

The 2018 Annual Track Program continued LIRR's cyclical replacement of track assets, including replacement of 16,801 mechanized ties on the Babylon and Montauk branches and 4,130 on the Port Jefferson; 10,802 concrete ties on the Main Line; 19 grade crossings at various locations; and 64,027 pieces of contingency welded rail on the Port Jefferson branch and 43,208 on the Main Line.

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".

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Customer Service— The LIRR continues to explore ways to improve customer communication. As part of LIRR Forward, the LIRR met regularly with elected officials and members of the public to receive feedback on LIRR services, including "customer conversation" Q&A sessions hosted by the LIRR President and senior staff, "meet the manager" sessions and focus groups. The LIRR Public Information Office (PIO) improved messaging protocols to provide recovery estimates for service disruptions as well as provide early morning messages in advance of anticipated disruptions. Station signage is more accurate and timely as they now included estimated time of arrivals for all trains. The LIRR worked along with the MTA in developing and testing a new and improved MyMTA Application. The LIRR is developing a website/application to allow customers to see on a map where their train is, the number of cars and potential disruptions along its path. This website will be available in January 2019.

Customer Amenities - During 2018, LIRR completed and advanced several improvement projects, that will enhance the customer experience. These included:

- Hicksville Station improvements were completed. This station project included 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 was completed. This project replaced the station platform, platform waiting room, canopy, escalator, platform lighting, communications and security systems, and drainage. A new elevator was installed to make the station wheelchair accessible.

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- With the completion of Main Line Double Track one year early, The LIRR has been able to extend and/or start trains in Ronkonkoma instead of Farmingdale. The additional track has also provided greater flexibility during perturbed situations which has resulted in an improved-on time performance along this branch since the project was completed in September 2018.
- Advanced improvements to the Flushing-Main Street Station were completed. This project included the installation of new hydraulic elevators, platform railings, staircases, lighting, station plaza, tactile warning strips on platform edges, CCTV security cameras, and ticket office.
- LIRR continues construction of a new platform at Jamaica Station, which will provide additional train service between Jamaica and Brooklyn, as part of the East Side Access service plan.

Separately, in 2018 the LIRR Main Line Expansion project (Main Line Third Track) began heavy construction between Floral Park and Hicksville. Demolition began and utilities relocated at Covert Avenue. Construction began at the Harrison Garage in Mineola. Construction began at Carle Place including utility relocation and demolition of the eastbound platform. 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 2018, the LIRR "Overall Customer Satisfaction" decreased to 76% from 77% in 2017. In the context of comparing 2018 vs. 2017 survey results, the 2018 customer satisfaction score remained relatively steady despite a record number of track work programs and signal improvements that contributed to service changes impacting customer perceptions. Overall Train Service Satisfaction decreased (75% in 2018 vs. 76% in 2017). Historically, customers perceive OTP as the most important service attribute when assessing customer satisfaction. The survey score for "On Time Performance" in 2018 decreased to 71% from 73% in 2017. There were a significant number of planned and unplanned service disruptions during 2018 that likely resulted in the lower satisfaction scores. On the positive side, there is a consistent trend in high satisfaction scores related to employees, including Courtesy and Responsiveness of Conductors which scored 91%. Among all of the survey attributes, customers using mobile ticketing gave the highest satisfaction score to MTA eTix scoring 92% in 2018.

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MTA LONG ISLAND RAIL ROAD

(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION

DECEMBER 31, 2018 AND 2017

(Dollars in thousands)

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 8,677	\$ 5,441
Fare cards	14,049	10,444
Invested funds at MTA	22,681	9,573
Receivables:		
Passenger	8,193	11,327
Due from MTA and affiliated agencies (Note 11)	129,930	149,844
Due from NYSDOT	3,121	384
Rents	6,447	3,009
Other	30,338	42,220
Less allowance for doubtful accounts	<u>(7,198)</u>	<u>(7,443)</u>
Receivables—net	<u>170,831</u>	<u>199,341</u>
Materials and supplies, net of allowance of \$48,161 and \$48,596 in 2018 and 2017, respectively	150,049	136,588
Prepaid expenses and other current assets	<u>30,691</u>	<u>33,458</u>
Total current assets	<u>396,978</u>	<u>394,845</u>
NONCURRENT ASSETS:		
Capital assets (Notes 2 and 5):		
Land and construction work-in-progress	1,648,818	1,395,871
Other Capital assets (net of accumulated depreciation)	<u>5,177,128</u>	<u>4,706,390</u>
Total noncurrent assets	<u>6,825,946</u>	<u>6,102,261</u>
Total assets	<u>7,222,924</u>	<u>6,497,106</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows for pension (Note 7)	241,629	339,676
Deferred outflows for postemployment benefits other than pensions (Note 8)	<u>193,147</u>	<u>-</u>
Total deferred outflows of resources	<u>434,776</u>	<u>339,676</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,657,700</u>	<u>\$ 6,836,782</u>

See notes to financial statements

(Continued)

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MTA LONG ISLAND RAIL ROAD

(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION

DECEMBER 31, 2018 AND 2017

(Dollars in thousands)

	2018	2017
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 102,322	\$ 99,153
Due to MTA and affiliated agencies (Note 11)	47,413	34,319
Accrued expenses and other liabilities:		
Salary, wages and payroll taxes	33,006	32,661
Vacation and sick pay benefits	75,331	71,657
Current portion—retirement and death benefits	2,881	1,943
Current portion—estimated liability arising from injuries to persons (Note 9)	35,663	24,064
Current portion—loan repayment (Note 10)	3,077	3,026
Environmental remediation (Note 13)	6,734	4,791
Total accrued expenses	<u>156,692</u>	<u>138,142</u>
Unearned revenues	<u>12,952</u>	<u>15,769</u>
Total current liabilities	<u>319,379</u>	<u>287,383</u>
NONCURRENT LIABILITIES:		
Estimated liability arising from injuries to persons (Note 9)	93,551	87,788
Net pension liability	882,051	1,194,417
Postemployment benefits other than pensions (Note 8)	2,602,499	869,786
Environmental remediation (Note 13)	21,858	24,427
Loan repayment (Note 10)	21,658	22,826
Other long-term liabilities (Note 14)	83,390	82,089
Total noncurrent liabilities	<u>3,705,007</u>	<u>2,281,333</u>
Total liabilities	<u>4,024,386</u>	<u>2,568,716</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows from pension	85,786	21,959
Deferred inflows from post employment benefits other than pensions	<u>2,704</u>	<u>-</u>
Total deferred inflows of resources	<u>88,490</u>	<u>21,959</u>
NET POSITION:		
Net investment in capital assets	6,825,946	6,102,261
Unrestricted deficit	<u>(3,281,122)</u>	<u>(1,856,154)</u>
Total net position	<u>3,544,824</u>	<u>4,246,107</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 7,657,700</u>	<u>\$ 6,836,782</u>

See notes to financial statements.

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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, 2018 AND 2017
(Dollars in thousands)

	2018	2017
OPERATING REVENUES:		
Passenger	\$ 740,477	\$ 727,597
Rents and utilities	27,822	24,511
Advertising	11,938	12,201
Food and beverage	550	2,819
Other	8,586	13,443
Total operating revenues	<u>789,373</u>	<u>780,571</u>
OPERATING EXPENSES:		
Salaries and wages	687,085	633,269
Retirement and other employee benefits	298,016	320,483
Post Employment Benefits other than pensions	219,751	202,218
Electric Power	88,946	84,769
Fuel	21,068	16,253
Insurance	19,880	20,524
Claims	13,505	18,301
Maintenance and other operating contracts	73,056	90,287
Environmental remediation	1,936	3,401
Professional service contracts	46,657	35,779
Material and supplies	136,464	121,812
Depreciation and amortization	362,333	340,114
Other	14,179	25,683
Total operating expenses	<u>1,982,876</u>	<u>1,912,893</u>
OPERATING LOSS	<u>(1,193,503)</u>	<u>(1,132,322)</u>
NONOPERATING REVENUES:		
Operating subsidies from MTA	824,348	798,040
FTA/FEMA Reimbursement	311	45
Total nonoperating revenues	<u>824,659</u>	<u>798,085</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(368,844)	(334,237)
CAPITAL CONTRIBUTIONS—		
MTA contributions for capital projects	<u>1,080,692</u>	<u>706,132</u>
CHANGE IN NET POSITION	711,848	371,895
NET POSITION—Beginning of year	<u>4,246,107</u>	<u>3,874,212</u>
Restatement of beginning net position (Note 2)	<u>(1,413,131)</u>	-
NET POSITION—End of year	<u>\$ 3,544,824</u>	<u>\$ 4,246,107</u>

See notes to financial statements.

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MTA LONG ISLAND RAIL ROAD (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017 (Dollars in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts	\$ 741,523	\$ 727,335
Rents, advertising, and other receipts	44,337	52,834
Payroll and related fringe	(1,123,848)	(1,114,134)
Other operating expenses	<u>(496,262)</u>	<u>(446,668)</u>
Net cash used in operating activities	<u>(834,250)</u>	<u>(780,633)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating subsidies from MTA	824,348	798,040
FTA/FEMA reimbursement	<u>311</u>	<u>45</u>
Cash provided by noncapital financing activities	<u>824,659</u>	<u>798,085</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions from MTA	1,843,727	1,132,663
Capital expenditures incurred for capital program	<u>(1,830,900)</u>	<u>(1,157,122)</u>
Net cash provided by/(used in) capital financing activities	<u>12,827</u>	<u>(24,459)</u>
NET INCREASE (DECREASE) IN CASH	3,236	(7,007)
CASH—Beginning of year	<u>5,441</u>	<u>12,448</u>
CASH—End of year	<u>\$ 8,677</u>	<u>\$ 5,441</u>
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (1,193,503)	\$ (1,132,322)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	362,333	340,114
Net increase in accounts payable, accrued expenses, other liabilities, unearned revenues	1,522,200	75,852
Net (increase) decrease in receivables	(2,752)	(77,112)
Net (increase) decrease in materials and supplies, prepaid expenses and other current assets, other assets	<u>(1,522,528)</u>	<u>12,835</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (834,250)</u>	<u>\$ (780,633)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital assets	\$ 744,882	\$ 428,697
Capital assets related liabilities	<u>85,965</u>	<u>55,033</u>
TOTAL NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 830,847</u>	<u>\$ 483,730</u>

See notes to financial statements.

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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, 2018 AND 2017
(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, 2018:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes standards of accounting and financial reporting for postemployment benefits other than pensions (“OPEB”) that is provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements that meet the following criteria:

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- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. For defined benefit OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB plans are also addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. As a result of adopting this Statement, the MTA is reporting net OPEB liabilities, deferred outflows of resources and deferred inflows of resources for the MTA Retiree Welfare Benefits Plan (“OPEB Plan”) and recognizing OPEB expenses in accordance with the provisions of the Statement. The financial statement impact resulting from the implementation of GASB Statement No. 75 and GASB Statement No. 85 is the restatement of 2018 beginning net position, a decrease of \$701.3 Million, representing the retroactive effect of adoption. The MTA Long Island Rail Road did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 75 and GASB Statement No. 85. A net OPEB liability of \$2.6 billion, deferred outflow of resources of \$102 million, and deferred inflows of resources of \$2.7 million were reported at December 31, 2018. The MTA Long Island Rail Road recognized OPEB expense of \$219.8 million for the year-end December 31, 2018. Refer to Note 8 for more information regarding the MTA OPEB Plan.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues identified during the implementation and application of certain GASB statements. The provisions of this Statement amend and clarify guidance under a variety of topics with the intent to enhance consistency in the application of accounting and reporting requirements. This Statement specifically issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits (“OPEB”). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no impact on the MTA Long Island Rail Road’s financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, establishes standards of accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is deceased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no impact on the MTA Long Island Rail Road’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.

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GASB Statement No.	GASB Accounting Standard	MTA Required Year of Adoption
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>	2019
89	<i>Accounting for Interest Cost Incurred Before the End of a Construction Period</i>	2020
90	<i>Majority Equity Interests - An Amendment of GASB Statements No. 14 and No.61</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.

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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

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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, 2018, the balance of the assets in this program was \$152.6 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, 2018, 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, MTA Bus 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, 2018, 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, 2018, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2018, 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.

FMTAC’s property insurance program has been expanded to include \$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 Metro Cat 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 Metro Cat 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 82% of “certified” losses in 2018, 81% of “certified” losses in 2019 and 80% of “certified” losses in 2020, as covered by the Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) of 2015. The remaining 18% (2018), 19% (2019) and 20% (2020) 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 \$160 million in 2018, \$180 million in 2019 and \$200 million in 2020. The United States government’s reinsurance is in place through December 31, 2020.

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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) 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, 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 and 20% of any “certified” act of terrorism up to a maximum recovery of \$215 million for any one occurrence and in the annual aggregate during 2020 (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 \$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 or 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$200 million TRIPRA trigger up to a maximum recovery of \$200 million for any occurrence and in the annual aggregate during 2020.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$193.5 million in 2018, \$204.3 million in 2019 and \$215 million in 2020. 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, 2020.

All Agency Protective Liability— FMTAC All-Agency Protective Liability Program. Under the All-Agency Protective Liability Program (“AAPL”), FMTAC directly insures the Related Entities against claims arising out of work performed by independent contractors on capital projects. The policy provides coverage of \$2 million per occurrence.

FMTAC All-Agency Protective Excess Liability Program. FMTAC directly insures the Related Entities to provide excess coverage on top of the AAPL. The policy provides coverage of \$9 million in excess of \$2 million per occurrence, with an \$18 million annual aggregate. Any excess is covered by the ELF program.

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, 2018 and 2017, 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.

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

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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, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, which 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 government employers. Long Island Rail Road reported under this standard for its Postemployment Benefits Other Than Pensions for the year ended December 31, 2017.

Effective for the year ended December 31, 2018, the Long Island Rail Road adopted the standards of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 85, *Omnibus* for the OPEB Plan.

GASB has issued Statements No. 74 and 75, which replaced GASB Statements No. 43 and 45. The effective date of GASB Statement No. 74 (which applies to financial reporting on a plan basis) is the year ended December 31, 2017. The effective date of GASB Statement No. 75 (which applies to financial reporting by contributing employers) is the year ended December 31, 2018.

The Long Island Rail Road recognizes a proportionate share of the net OPEB liability for the MTA's cost-sharing multiple-employer OPEB Plan, which represents the excess of the total OPEB liability over the fiduciary net position of the OPEB Plan, measured as of the measurement date of the plan.

Changes in the net OPEB liability during the year are recorded as OPEB expense, or as deferred outflows of resources or deferred inflows of resources relating to OPEB depending on the nature of the change, in the year incurred. Changes in net OPEB liability that are recorded as deferred outflows of resources or deferred inflows of resources that arise from changes in actuarial assumptions and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the year in which they are incurred. Projected earnings on qualified OPEB plan investments are recognized as a component of OPEB expenses. Differences between projected and actual investment earnings are reported as deferred outflows of resources or deferred inflow of resources as a component of OPEB expense on a closed basis over a five-year period beginning with the year in which the difference occurred.

Restatement of Beginning Net Position

The effect of the implementation of GASB No. 75 and 85 is a restatement of 2018 beginning net position to retroactively report the beginning balances for net OPEB liability, deferred outflows of resources related to OPEB, deferred inflows of resources related to OPEB, and the removal of any net OPEB obligations (assets) along with any payables to the OPEB Plan, as follows:

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Net position as of December 31, 2017, as previously reported	\$	4,246,107
Composition of Restatement:		
Deferred outflows related to contributions, beginning of the year		83,430
Net OPEB liabilities, beginning of the year		(2,366,347)
Accrued OPEB liabilities		<u>869,786</u>
Total Restatement:		<u>(1,413,131)</u>
Net position as of December 31, 2017, as restated	\$	<u><u>2,832,976</u></u>

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 2018 and 2017 that were not insured were maintained in major financial institutions considered by management to be secure. As of December 31, 2018 and 2017, cash consists of:

	2018		2017	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured (FDIC) or collateralized deposits	\$ 2,766	\$ 4,112	\$ 2,488	\$ 2,393
Uninsured and noncollateralized fund on-hand and in-transit	<u>5,911</u>	<u>-</u>	<u>2,953</u>	<u>-</u>
Total cash	<u><u>\$ 8,677</u></u>	<u><u>\$ 4,112</u></u>	<u><u>\$ 5,441</u></u>	<u><u>\$ 2,393</u></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

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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, 2018 and 2017, are as follows:

	As of December 31, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	As of December 31, 2017	Additions/ Reclassifications	Deletions/ Reclassifications	As of December 31, 2018
Capital assets, not being depreciated:							
Land	\$ 48,112	\$ -	\$ -	\$ 48,112	\$ -	\$ -	\$ 48,112
Construction work-in-progress	<u>1,035,908</u>	<u>1,070,022</u>	<u>758,170</u>	<u>1,347,760</u>	<u>1,533,666</u>	<u>1,280,720</u>	<u>1,600,706</u>
Total capital assets, not being depreciated	<u>1,084,020</u>	<u>1,070,022</u>	<u>758,170</u>	<u>1,395,872</u>	<u>1,533,666</u>	<u>1,280,720</u>	<u>1,648,818</u>
Capital assets, being depreciated:							
Leasehold improvements	8,502	37,896	-	46,398	30,117	-	76,515
Pennsylvania Station leasehold	44,600	-	-	44,600	-	-	44,600
Buildings and structure	3,330,615	153,842	5,120	3,479,337	312,948	2,277	3,790,008
Equipment:							
Passenger cars and locos	2,631,685	-	3,540	2,628,145	-	26,413	2,601,732
Equipment and other	624,360	26,172	4,020	646,512	20,497	3,448	663,561
Infrastructure—road	<u>3,135,322</u>	<u>203,645</u>	<u>16,686</u>	<u>3,322,281</u>	<u>470,665</u>	<u>14,250</u>	<u>3,778,696</u>
Total capital assets, being depreciated	<u>9,775,084</u>	<u>421,555</u>	<u>29,366</u>	<u>10,167,273</u>	<u>834,227</u>	<u>46,388</u>	<u>10,955,112</u>
Less accumulated depreciation/amortization:							
Leasehold improvements	8,502	1,088	-	9,590	2,109	-	11,699
Pennsylvania Station leasehold	42,772	1,500	-	44,272	328	-	44,600
Buildings and structure	1,181,384	88,631	256	1,269,759	97,314	1,197	1,365,876
Equipment:							
Passenger cars and locos	1,475,897	96,454	3,540	1,568,811	96,421	26,413	1,638,819
Equipment and other	431,197	25,299	3,987	452,509	26,878	3,373	476,014
Infrastructure—road	<u>2,005,402</u>	<u>127,227</u>	<u>16,686</u>	<u>2,115,943</u>	<u>139,283</u>	<u>14,250</u>	<u>2,240,976</u>
Total accumulated depreciation/amortization	<u>5,145,154</u>	<u>340,199</u>	<u>24,469</u>	<u>5,460,884</u>	<u>362,333</u>	<u>45,233</u>	<u>5,777,984</u>
Total capital assets, being depreciated/amortized—net	<u>4,629,930</u>	<u>81,356</u>	<u>4,897</u>	<u>4,706,389</u>	<u>471,894</u>	<u>1,155</u>	<u>5,177,128</u>
Capital assets—net	<u>\$ 5,713,950</u>	<u>\$ 1,151,378</u>	<u>\$ 763,067</u>	<u>\$ 6,102,261</u>	<u>\$ 2,005,560</u>	<u>\$ 1,281,875</u>	<u>\$ 6,825,946</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, 2018 and 2017, is \$2,667 and \$2,567, respectively.

On April 24, 2015, Governor Cuomo announced that the Federal Railroad Administration had 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. The MTA will issue its Transportation Revenue Bond directly to the Federal Railroad Administration and will

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repay the obligation over 22½ years at a fixed interest rate of 2.38%. As of December 31, 2018, \$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 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.

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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*

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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 $\frac{1}{3}$ 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.

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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, 2017 and January 1, 2016, the date of the latest actuarial valuation:

	2017	2016
Active plan members	146	216
Retirees and beneficiaries receiving benefits	5,833	5,900
Vested formerly active members not yet receiving benefits	<u>28</u>	<u>38</u>
Total	<u>6,007</u>	<u>6,154</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 2018 and 2017), 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 2018 and 2017).

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 451.83% for the year ended December 31, 2018. The actual contributions for the year ended December 31, 2018 was \$59,500.

Contributions as a percent of covered payroll was 373.29% for the year ended December 31, 2017. The actual contributions for the year ended December 31, 2017 was \$76,523.

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

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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 12.97% for the year ended December 31, 2017. The actual contributions for the year ended December 31, 2017 was \$114,854.

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.

Net Pension Liability—MTA Long Island Rail Road's net pension liabilities for each of the pension plans reported at December 31, 2018 were measured as of December 31, 2017. The total pension liability for each of the pension plans was determined by an actuarial valuation as of the valuation date of January 1, 2017, 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.

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Actuarial Assumptions—The total pension liability in the January 1, 2017 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 16-year period from January 1, 2017) 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 2017, per annum, net of investment expenses.	Net rate of 7.0% for 2017, 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.

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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%	1.96%	10.00%	1.96%
US High Yield Bonds	8.00%	4.62%	8.00%	4.62%
Global Bonds	10.00%	0.34%	10.00%	0.34%
Emerging Market Bonds	3.00%	3.30%	3.00%	3.30%
US Large Caps	10.00%	4.31%	10.00%	4.31%
US Small Caps	5.50%	5.57%	5.50%	5.57%
Global Equity	10.00%	4.99%	10.00%	4.99%
Foreign Developed Equity	10.00%	5.57%	10.00%	5.57%
Emerging Market Equity	3.50%	7.91%	3.50%	7.91%
Global REITS	5.00%	5.62%	5.00%	5.62%
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%	3.35%	15.00%	3.35%
Assumed Inflation - Mean		2.50%		2.50%
Assumed Inflation - Standard Deviation		1.85%		1.85%
Portfolio Nominal Mean Return		6.80%		6.80%
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, 2018, 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.

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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, 2018, based on the December 31, 2017 measurement date, are as follows:

	Additional Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance—December 31, 2016	\$ 1,526,304	\$ 777,217	\$ 749,087
Changes for calendar year 2017:			
Service cost	1,874	-	1,874
Interest on total pension liability	101,477	-	101,477
Effect of economic/demographic gains or losses	1,890	-	1,890
Benefit payments and withdrawals	(159,717)	(159,717)	-
Non-employer contributions	-	145,000	(145,000)
Employer contributions	-	76,523	(76,523)
Member contributions	-	760	(760)
Net Investment Income	-	112,614	(112,614)
Administrative expense	-	(1,070)	1,070
Balance—December 31, 2017	<u>\$ 1,471,828</u>	<u>\$ 951,327</u>	<u>\$ 520,501</u>

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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 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>

The following presents the MTA Long Island Rail Road's net pension liability calculated at the measurement dates 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:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
2017			
Net pension liability	<u>\$ 636,713</u>	<u>\$ 520,501</u>	<u>\$ 419,474</u>
2016			
Net pension liability	<u>\$ 871,350</u>	<u>\$ 749,087</u>	<u>\$ 642,973</u>

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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, 2017, 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	35.402 %
MTA Long Island Railroad's proportionate share of the net pension liability	\$ 361,550

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

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 at the measurement date 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%)
2017			
MTA Long Island Railroad's proportionate share of the net pension liability	<u>\$ 583,495</u>	<u>\$ 361,550</u>	<u>\$ 174,276</u>

	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>

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

For the year ended December 31, 2018 and 2017, MTA Long Island Rail Road recognized pension expense related to each pension plans as follows:

	2018	2017
Pension Plans		
Additional Plan	\$ 47,936	\$ 84,583
MTA Defined Benefit Plan	<u>120,937</u>	<u>99,463</u>
 Total	 <u>\$ 168,873</u>	 <u>\$ 184,046</u>

At December 31, 2018, 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	\$ -	\$ -	\$ 3,244	\$ -	\$ 3,244	\$ -
Changes in assumptions	-	-	-	(16,169)	-	(16,169)
Net difference between projected and actual earnings on pension plan investments	-	(22,499)	48,732	-	48,732	(22,499)
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	15,298	-	15,298	-
Employer contribution to plan subsequent to the measurement date of net pension liability	<u>59,500</u>	<u>-</u>	<u>114,854</u>	<u>-</u>	<u>174,354</u>	<u>-</u>
 Total	 <u>\$ 59,500</u>	 <u>\$ (22,499)</u>	 <u>\$ 182,128</u>	 <u>\$ (16,169)</u>	 <u>\$ 241,628</u>	 <u>\$ (38,668)</u>

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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:

	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	\$ -	\$ -	\$ 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>

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 \$174,354 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 related to pensions at December 31, 2017 will be recognized as pension expense as follows:

Year Ending December 31	Additional Plan	MTA Defined Benefit Plan	Total
2018	\$ 1,989	\$ 11,202	\$ 13,191
2019	(1,712)	4,475	2,763
2020	(12,173)	(13,430)	(25,603)
2021	(10,602)	(11,776)	(22,378)
2022	-	6,072	6,072
Thereafter	<u>-</u>	<u>7,435</u>	<u>7,435</u>
Total	<u>\$ (22,498)</u>	<u>\$ 3,978</u>	<u>\$ (18,520)</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 participates in a defined benefit other postemployment benefits (“OPEB”) plan for its employees, the Metropolitan Transportation Authority Retiree Welfare Benefits Plan (“OPEB Plan”). A description of the Plan follows:

(1) Plan Description

The MTA Retiree Welfare Benefits Plan (“OPEB Plan”) and the related Trust Fund (“Trust”) was established on January 1, 2009 for the exclusive benefit of MTA and related agencies retired employees and their eligible spouses and dependents, to fund some of the OPEB provided in accordance with the MTA Long Island Rail Road’s various collective bargaining agreements. Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Amounts contributed to the OPEB Plan are held in an irrevocable trust and may not be used for any other purpose than to fund the costs of health and welfare benefits of its eligible participants.

The OPEB 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 cost-sharing multiple-employer defined benefit OPEB plan.

The OPEB Plan Board of Managers, comprised of the MTA Chairman, MTA Chief Financial Officer and MTA Director of Labor Relations, are the administrators of the OPEB Plan. The MTA Board has the right to amend, suspend or terminate the OPEB 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.

Benefits Provided — The benefits provided by the OPEB Plan include medical, pharmacy, dental, vision, life insurance and a Medicare supplemental plan. The different types of benefits provided vary by agency, employee type (represented employees versus non-represented) and the relevant collective bargaining agreements. Certain benefits are provided upon retirement as defined in the applicable pension plan. Certain agencies provide benefits to certain former employees if separated from service within 5 years of attaining retirement eligibility. Employees of the MTA Long Island Rail Road are members of the following pension plans: the MTA Defined Benefit Plan and the Additional Plan.

The MTA Long Island Rail Road participates in the New York State Health Insurance Program (“NYSHIP”) and provides medical and prescription drug benefits, including Medicare Part B reimbursements, to many of its members. NYSHIP offers a Preferred Provider Organization (“PPO”) plan and several Health Maintenance Organization (“HMO”) plans.

The MTA Long Island Rail Road 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.

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OPEB Plan Eligibility — To qualify for benefits under the OPEB Plan, a former employee of the MTA Long Island Rail Road must:

- (a) have retired;
- (b) be receiving a pension;
- (c) have at least 10 years of credited service as a member of the MTA Defined Benefit Plan and the Additional Plan; and
- (d) have attained the minimum age requirement (unless within 5 years of commencing retirement for certain members). A represented retired employee may be eligible only pursuant to the relevant collective bargaining agreement.

Surviving Spouse and Other Dependents —

- Lifetime coverage is provided to the surviving spouse (not remarried) or domestic partner and surviving dependent children to age 26 of retired managers and certain non-represented retired employees.

The OPEB Plan Board of Managers has the authority to establish and amend the benefits that will be covered under the OPEB Plan, except to the extent that they have been established by collective bargaining agreement.

Contributions — The MTA Long Island Rail Road is not required by law or contractual agreement to provide funding for the OPEB Plan, other than the “pay-as-you-go” (“PAYGO”) amounts. PAYGO is the cost of benefits necessary to provide the current benefits to retirees and eligible beneficiaries and dependents. Employees are not required to contribute to the OPEB Plan. The OPEB Plan Board has the authority for establishing and amending the funding policy. For the year-ended December 31, 2018, the MTA Long Island Rail Road paid \$90,613 of PAYGO to the OPEB Plan.

During 2012, the MTA funded \$250 million into the Trust and an additional \$50 million during 2013. There have been no further contributions made to the Trust. The discount rate estimates investment earnings for assets earmarked to cover retiree health benefits. Under GASB Statement No. 75, the discount rate depends on the nature of underlying assets for funded plans. Since the amount of benefits paid in 2017 exceeded the current market value of the assets, a depletion date is assumed to occur immediately. Therefore, the discount rate is set equal to the municipal bond index. The MTA elected the Bond Buyer General Obligation 20-Bond Municipal Bond Index. As a result, the discount rates as of December 31, 2017 and December 31, 2016, the measurement dates, are 3.44% and 3.78%, respectively.

Employer contributions include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy arises when an employer allows a retiree and their dependents to continue on the active plans and pay the active premiums. Retirees are not paying the true cost of their benefits because they have higher utilization rates than actives and therefore are partially subsidized by the active employees. As shown in the following table, for the year ended December 31, 2017, the employer made a cash payment for retiree healthcare of \$23,608 as part of the employer’s payment for active-employee healthcare benefits. For purposes of GASB Statement No. 75, this payment made on behalf of the active employees should be reclassified as benefit payments for retiree health care to reflect the retirees’ underlying age-adjusted, retiree benefit costs.

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Blended and Age-adjusted Premium (in thousands)	2017 Retirees
Total blended premiums	59,822
Employment payment for retiree healthcare	23,608
Net Payments	83,430

(2) Net OPEB Liability

At December 31, 2018, the MTA Long Island Rail Road reported a net OPEB liability of \$2,602,499 for its proportionate share of the Plan's net OPEB liability. The net OPEB liability was measured as of the OPEB Plan's fiscal year-end of December 31, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of July 1, 2017, and rolled forward to December 31, 2017. The MTA Long Island Rail Road's proportion of the net OPEB liability was based on a projection of the MTA Long Island Rail Road's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating employers. At December 31, 2018, the MTA Long Island Rail Road's proportion was 12.82% percent.

OPEB Plan Fiduciary Net Position — The fiduciary net position has been determined on the same basis used by the OPEB plan. The OPEB plan uses the accrual basis of accounting under which contributions from the employer are recognized when paid. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at fair value based on quoted market prices or Net Asset Value. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report or at www.mta.info.

(3) Actuarial Assumptions

Actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as future employment, mortality and health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan, which refers to the plan terms as understood by the employer and the plan members at the time of the valuation, including only changes to plan terms that have been made and communicated to employees. The projections include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members at that time. The MTA Long Island Rail Road may not be obligated to provide the same types or levels of benefits to retirees in the future.

The total OPEB liability was determined by an actuarial valuation performed on July 1, 2017. Update procedures were used to roll forward the total OPEB liability to December 31, 2017, the measurement date. The actuarial valuations were performed using the following actuarial assumptions, applied to all periods included in the measurement, unless specified:

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Discount rate	3.44%, net of expenses
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Normal cost increase factor	4.50%
Investment rate of return	6.50%

Members hired prior to January 1, 1988, Salaries are assumed to increase 3.0% per year.

Salary Scale - salaries are assumed to increase by years of service.
Rates are shown below:

Managers Hired on or after January 1, 1988

<u>Years of Service</u>	<u>Rate of Increase</u>
0	6.00%
1	5.00%
2	4.25%
3	4.00%
4+	3.50%

Represented Employees hired on or after January 1, 1988

<u>Years of Service</u>	<u>Rate of Increase</u>
0	3.25%
1	10.50%
2	10.00%
3	9.75%
4	9.25%
5	14.75%
6+	3.25%

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. The NYSHIP trend reflects actual increases in premiums to participating agencies through 2018. These assumptions are combined with long-term assumptions for dental and vision benefits of an annual trend of 4.0% plus Medicare Part B reimbursements of an annual trend of 4.5%, but not more than projected medical trends excluding any excise tax adjustments.

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Healthcare Cost Trend Rates — The following lists illustrative rates for the (all amounts are in percentages).

Fiscal Year	NYSHIP	
	< 65	>=65
2018	8.50%	8.20%
2019	6.20%	5.50%
2020	5.80%	5.30%
2021	5.50%	5.20%
2022	7.20%	5.10%
2023	6.10%	5.10%
2024	6.10%	5.00%
2025	5.90%	5.00%
2026	5.90%	5.00%
2027	5.80%	4.90%
2037	5.60%	5.00%
2047	5.40%	5.90%
2057	5.10%	5.40%
2067	4.80%	5.00%
2077	4.20%	4.30%
2087	4.10%	4.20%
2097	4.10%	4.20%

For purposes of applying the Entry Age Normal Cost method, the healthcare trend prior to the valuation date are based on the ultimate rates, which are 4.1% for medical and pharmacy costs prior to age 65, 4.2% for NYSHIP costs at age 65 and later, and 4.3% for self-insured and pharmacy costs at age 65 and later.

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.

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

Expected Rate of Return on Investments — The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Rate of Return</u>
US Core Fixed Income	13.00%	1.96%
Global Bonds	15.00%	0.34%
Emerging Market Bonds	5.00%	3.30%
Global Equity	35.00%	4.99%
Non-US Equity	15.00%	5.84%
Global REITS	5.00%	5.62%
Hedge Funds-Multi Strategy	12.00%	3.35%
Total	100.00%	

Long Term Expected Rate of Return selected by MTA 6.50%

Discount Rate — The discount rate used in this valuation to measure the total OPEB liability was updated to incorporate GASB Statement No. 75 guidance.

The plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan's fiduciary net position is not projected to be sufficient. Therefore, the discount rate is set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index as of December 31, 2017 of 3.44%.

Sensitivity of the MTA Long Island Rail Road's Proportionate Share of the Net OPEB Liability to Changes in the Discount

Rate — The following presents the MTA Long Island Rail Road's proportionate share of the net OPEB liability, as well as what the MTA Long Island Rail Road's proportionate share of the net OPEB 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 the measurement:

	1% Decrease (2.44%)	Discount Rate (3.44%)	1% Increase (4.44%)
	(in thousands)		
Proportionate share of the net OPEB liability	\$ 3,000,787	\$ 2,602,499	\$ 2,284,179

Sensitivity of the MTA Long Island Rail Road's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates — The following presents the MTA Long Island Rail Road's proportionate share of the net OPEB liability, as well as what the MTA Long Island Rail Road's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates used for the measurement:

	1% Decrease	Healthcare Cost Current Trend Rate *	1% Increase
	(in thousands)		
Proportionate share of the net OPEB liability	\$ 2,229,924	\$ 2,602,499	\$ 3,082,423

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*For further details, refer to the Health Care Cost Trend Rates tables in the Actuarial Assumptions section of this Note Disclosure.

(4) OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the MTA Long Island Rail Road recognized OPEB expense of \$219,752, which represents its proportionate share of the Plan’s OPEB expense.

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, changes in assumptions and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a 7.4 year close period, beginning the year in which the deferred amount occurs.

At December 31, 2018, the MTA Long Island Rail Road reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows (\$ in thousands):

	December 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,508	\$ -
Changes in assumptions	101,026	-
Net difference between projected and actual earnings on OPEB plan investments	-	(2,704)
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Employer contributions to the plan subsequent to the measurement of net OPEB liability	90,613	
Total	\$ 193,147	\$ (2,704)

For the year ended December 31, 2018, \$193,147 was reported as deferred outflows of resources related to OPEB. This amount includes both MTA Long Island Rail Road’s contributions subsequent to the measurement date and an implicit rate subsidy adjustment that will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2018 will be recognized in OPEB expense as follows:

Year ending December 31:	
2019	\$ 15,344
2020	15,344
2021	15,344
2022	15,344
2023	16,023
Thereafter	22,431
	\$ 99,830

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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, 2018 and 2017, is presented below:

	2018	2017
Balance—beginning of year	\$ 111,853	\$ 99,898
Activity during the year:		
Current year claims and changes in estimates	45,407	28,074
Claims paid	<u>(28,046)</u>	<u>(16,119)</u>
Balance—end of year	129,214	111,853
Less current portion	<u>(35,663)</u>	<u>(24,064)</u>
Long-term liability	<u>\$ 93,551</u>	<u>\$ 87,789</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, 2018 are as follows:

Loans Payable

Year	Principal	Interest	Total
2019	\$ 3,077	\$ 654	\$ 3,731
2020	3,131	576	3,707
2021	3,033	491	3,524
2022	2,876	412	3,288
2023	2,956	332	3,288
2024-2028	9,662	722	10,384
Total	\$ 24,735	\$ 3,187	\$ 27,922

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.

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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, 2018 and 2017, is shown in the following table:

	2018	2017
Payments to MTA and affiliated agencies	\$ 162,408	\$ 148,267
Payments from MTA and affiliated agencies	449,477	300,659

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, 2018 and 2017, consists of:

	2018		2017	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 129,553	\$ (18,996)	\$ 149,032	\$ (10,910)
Affiliated agencies	<u>377</u>	<u>(28,417)</u>	<u>812</u>	<u>(23,409)</u>
Total MTA and affiliated agencies	<u>\$ 129,930</u>	<u>\$ (47,413)</u>	<u>\$ 149,844</u>	<u>\$ (34,319)</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, 2018, are as follows:

Years Ending December 31	
2019	\$ 2,970
2020	676
2021	688
2022	694
2023	712
2024	<u>469</u>
	<u>\$ 6,209</u>

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Total rent expense for the years ended December 31, 2018 and 2017, amounted to \$7,698 and \$9,092, 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. Presently, MTA Headquarters, NYCTA and TBTA occupy substantially all of the space at 2 Broadway and rent is paid directly to the landlord.

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, 2018 and 2017, 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 \$28,592 for 2018 and \$29,218 for 2017, primarily consisting of future remediation activities associated with lead and asbestos abatement.

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A summary of activity in estimated liability arising from environmental remediation as of December 31, 2018 and 2017 is presented below:

	2018	2017
Balance-beginning of year	\$ 29,218	\$ 30,308
Activity during the year:		
Current year remediation and changes in estimates	1,936	3,401
Remediation paid	<u>(2,562)</u>	<u>(4,491)</u>
Balance-end of year	28,592	29,218
Less current portion	<u>(6,734)</u>	<u>(4,791)</u>
Long-term liability	<u>\$ 21,858</u>	<u>\$ 24,427</u>

14. OTHER LONG-TERM LIABILITIES

MTA Long Island Rail Road has recorded \$80.5 million in 2018 and \$77.1 million in 2017, for the estimated long-term sick leave payout for employees and other long-term liabilities of \$2.9 million in 2018 and \$5.0 million in 2017. 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, 2018 and 2017 is presented below:

	2018	2017
Balance-beginning of year	\$ 82,089	\$ 88,160
Activity during the year:		
Current year sick leave payout and changes in estimates	6,678	(5,719)
Sick leave payout	(3,285)	(3,014)
Other long term liabilities	<u>(2,092)</u>	<u>2,662</u>
Balance-end of year	<u>\$ 83,390</u>	<u>\$ 82,089</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

On February 26, 2019, an MTA Long Island Rail Road eastbound train was struck by an automobile that had driven around down crossing gates at a rail grade crossing near the Westbury station. The car came to rest on the crossing where it was then struck by an MTA Long Island Rail Road westbound train. The driver of the automobile along with two passengers in the automobile were killed and a number of passengers and employees were injured. There is no indication from preliminary reports that MTA Long Island Rail Road was at fault in connection with this incident. At the present time, there is insufficient information to permit reasonable estimation of the total losses that may be associated with defense of claims against the Company arising from the February 26, 2019 grade crossing incident. As described earlier, Long Island Rail Road has insurance for liability claims under the MTA all-agency excess liability policy issued by First Mutual Transportation Assurance Company (FMTAC), which results where insurance would provide coverage to the Company if losses to be incurred by the Company in resolving claims from the February 26, 2019 grade crossing in an amount exceeding the Company's \$11 million self-insured retention.

Fare Increase - As of February 27, 2019, the MTA Board adopted fare increases for the Company, which became effective on April 21, 2019. Monthly railroad ticket holders will begin paying the higher fare with their May ticket. Most MTA Long Island Rail Road rail tickets will increase an average of 3.96 percent, depending on ticket type and distance traveled.

The New York State Fiscal Year 2019-2020 Enacted Budget established the Central Business District Tolling Program (CBD Tolling Program), the goals of which are to reduce traffic congestion in the Manhattan Central Business District, improve air quality, and provide a stable and reliable funding source for the repair and revitalization of the MTA's public transportation systems. The CBD Tolling Program revenues are not expected to begin to flow to MTA until at least early 2021. MTA Bridges and Tunnels is directed to establish the CBD Tolling Capital Lockbox Fund. Monies in the fund cannot be commingled with any other MTA Bridges and Tunnel monies. Funds on deposit in the CBD Tolling Capital Lockbox Fund shall be applied to: (1) operating, administration and other necessary expenses relating to the program, or to DOT pursuant to the MOU; and (2) costs of MTA capital projects included in the 2020-2024 Capital Program or any successor capital program. The 2019-2020 State Enacted Budget further provides that capital project costs paid for by the CBD Tolling Capital Lockbox Fund are subject to the following revenue split: (1) 80 percent for MTA New York City Transit, MaBSTOA, MTA Staten Island Railway and MTA Bus capital project costs, with priority given to subway system, new signaling, new subway cars, track and car repair, accessibility, buses and bus system improvements and further investments in expanding transit availability in the outer boroughs; (2) 10 percent for MTA Long Island Rail Road capital projects, including parking facilities, rolling stock, capacity enhancements, accessibility and expanding transit availability; and (3) 10 percent for MTA Metro-North Railroad capital projects including parking facilities, rolling stock, capacity enhancements, accessibility and expanding transit availability.

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REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

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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)

	2017	2016	2015	2014
TOTAL PENSION LIABILITY:				
Service cost	\$ 1,874	\$ 2,752	\$ 3,441	\$ 3,813
Interest	101,477	104,093	106,987	110,036
Differences between expected and actual experience	1,890	15,801	6,735	-
Benefit payments and withdrawals	<u>(159,717)</u>	<u>(158,593)</u>	<u>(157,071)</u>	<u>(156,974)</u>
Net change in total pension liability	(54,476)	(35,947)	(39,908)	(43,125)
TOTAL PENSION LIABILITY—Beginning	<u>1,526,304</u>	<u>1,562,251</u>	<u>1,602,159</u>	<u>1,645,284</u>
TOTAL PENSION LIABILITY—Ending(a)	<u>1,471,828</u>	<u>1,526,304</u>	<u>1,562,251</u>	<u>1,602,159</u>
FIDUCIARY NET POSITION:				
Employer contributions	76,523	81,100	100,000	407,513
Non-Employer contributions	145,000	70,000	-	-
Member contributions	760	884	1,108	1,304
Net investment income	112,614	58,239	527	21,231
Benefit payments and withdrawals	(159,717)	(158,593)	(157,071)	(156,974)
Administrative expenses	<u>(1,070)</u>	<u>(611)</u>	<u>(1,218)</u>	<u>(975)</u>
Net change in plan fiduciary net position	174,110	51,019	(56,654)	272,099
PLAN FIDUCIARY NET POSITION—Beginning	<u>777,217</u>	<u>726,198</u>	<u>782,852</u>	<u>510,753</u>
PLAN FIDUCIARY NET POSITION—Ending(b)	<u>951,327</u>	<u>777,217</u>	<u>726,198</u>	<u>782,852</u>
EMPLOYER'S NET PENSION LIABILITY—Ending(a)-(b)	<u>\$ 520,501</u>	<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>64.64 %</u>	<u>50.92 %</u>	<u>46.48 %</u>	<u>48.86 %</u>
COVERED—EMPLOYEE PAYROLL	<u>\$ 20,500</u>	<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>2,539.07 %</u>	<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.

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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)

	2017	2016	2015	2014
MTA Long Island Railroad's proportion of the net pension liability	<u>35.402 %</u>	<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>\$ 361,550</u>	<u>\$ 455,330</u>	<u>\$ 456,653</u>	<u>\$ 361,771</u>
MTA Long Island Railroad's actual covered-employee payroll	<u>\$ 794,719</u>	<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>45.494 %</u>	<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>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.

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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)

	2018	2017	2016	2015	2014
Additional Plan					
Actuarially determined contribution	\$ 59,195,693	\$ 76,523,056	\$ 83,182,872	\$ 82,381,698	\$ 112,512,532
Actual employer contribution	<u>59,500,000</u>	<u>76,523,056</u>	<u>81,100,000</u>	<u>100,000,000</u>	<u>407,512,532</u>
Contribution deficiency (excess)	<u>\$ (304,307)</u>	<u>\$ -</u>	<u>\$ 2,082,872</u>	<u>\$ (17,618,302)</u>	<u>\$ (295,000,000)</u>
Covered payroll	<u>\$ 13,168,691</u>	<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>451.83 %</u>	<u>373.29 %</u>	<u>276.68 %</u>	<u>251.91 %</u>	<u>941.86 %</u>
MTA Defined Benefit Pension Plan					
Actuarially determined contribution	\$ 114,854,414	\$ 109,304,403	\$ 101,964,855	\$ 96,400,000	\$ 94,951,686
Actual employer contribution	<u>114,854,414</u>	<u>111,459,116</u>	<u>99,800,000</u>	<u>68,500,000</u>	<u>123,849,954</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (2,154,713)</u>	<u>\$ 2,164,855</u>	<u>\$ 27,900,000</u>	<u>\$ (28,898,268)</u>
Covered payroll	<u>\$ 885,247,422</u>	<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>12.97 %</u>	<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.

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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, 2017 funding valuation for the Single-Employer pension plan as follows:

	Additional Plan
Valuation dates	January 1, 2017
Measurement date	December 31, 2017
Actuarial cost method	Entry Age Normal Cost
Amortization method	Period specified in current valuation report (closed 16 year period beginning January 1, 2017) 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, 2017 funding valuation.

Changes of Assumptions—There were no changes since the prior valuation.

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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 OPEB LIABILITY IN THE MTA OPEB PLAN AT:
(In thousands)

Plan Measurement Date (December 31):	2017
MTA Long Island Rail Road's proportion of the net OPEB liability	12.185%
MTA Long Island Rail Road's proportionate share of the net OPEB liability	\$ 2,602,499
MTA Long Island Rail Road's covered payroll	\$ 645,382
MTA Long Island Rail Road's proportionate share of the net OPEB liability as a percentage of its covered payroll	403.25%
Plan fiduciary net position as a percentage of the total OPEB liability	1.79%

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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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 CONTRIBUTIONS TO THE MTA OPEB PLAN AND NOTES TO THE SCHEDULE OF THE MTA LONG ISLAND RAIL ROAD'S CONTRIBUTIONS TO THE MTA OPEB PLAN FOR THE YEARS ENDED DECEMBER 31:
(In thousands)

	<u>2018</u>	<u>2017</u>
Actuarially Determined Contribution	N/A	N/A
Actual Employer Contribution ⁽¹⁾	\$ 90,613	\$ 83,430
Contribution Deficiency (Excess)	<u>N/A</u>	<u>N/A</u>
Covered Payroll	911,672	645,382
Actual Contribution as a Percentage of Covered Payroll	9.94%	12.93%

(1) Actual employer contribution includes the implicit rate of subsidy adjustment of \$24,843 and \$23,608 for the year ended December 31, 2018 and 2017, respectively.

Notes to Schedule of the MTA Long Island Rail Road's Contribution to the OPEB Plan:

Methods and assumptions used to determine contribution rates:

Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%, net of expenses
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Normal cost increase factor	4.50%
Investment rate of return	6.50%

Changes of benefit terms: In the July 1, 2017 actuarial valuation, there were no changes to the benefit terms.

Changes of assumptions: In the July 1, 2017 actuarial valuation, there was a change in assumptions. The discount rate used to measure liabilities was updated to incorporate GASB 75 guidance and changed to reflect the current municipal bond rate.

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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**Metro-North Commuter
Railroad Company**

(Component Unit of the Metropolitan Transportation
Authority)

Financial Statements as of and for the
Years Ended December 31, 2018 and 2017,
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 financial 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, 2018 and 2017, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 purpose 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.

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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, 2018 and 2017, 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 Railroad also relies on subsidies from the Connecticut Department of Transportation to support the Connecticut operations of the New Haven Line. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, in 2018, MTA Metro-North Railroad adopted Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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, the Schedule of Changes in the MTA Metro-North Commuter Railroad Company’s Net Pension Liability and Related Ratios for the Metro-North 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 and Notes to the Schedule of MTA Metro-North Commuter Railroad Company’s Contributions to all Pension Plans, the Schedule of MTA Metro-North Railroad’s Proportionate Share of Net OPEB Liability in the MTA OPEB Plan, and the Schedule and Notes to the Schedule of MTA Metro-North Railroad’s Contribution to the MTA OPEB Plan, as listed in the table of contents, 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 audit 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.

May 20, 2019

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METRO-NORTH COMMUTER RAILROAD COMPANY (Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2018 AND 2017 (\$ 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, 2018 and 2017. 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 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.

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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, the Notes to Schedule of MTA Metro-North Commuter Railroad Company's Contributions to all Pension Plans, the Schedule of MTA Metro-North Commuter Railroad Company's Proportionate Share of the Net Other Post Employment Benefit Liability in the MTA Other Post Employment Benefit Plan, and the Schedule and Notes of MTA Metro-North Commuter Railroad Company's Contributions to Other Post Employment Benefit Plan and Notes to Schedule of Contributions to the Other Post Employment 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, 2018 and 2017. Additionally, an examination of major economic factors and industry trends that have contributed to these changes is provided. It should be

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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 for pensions reflect changes in pension valuation and employer contributions subsequent to the measurement date.

Deferred outflows of resources for other post-employment benefits ("OPEB") reflect changes in the valuation of OPEB and employer contributions subsequent to the measurement date of December 31, 2017 as a result of the implementation of GASB Statement No. 75 – Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. See note 2 of the audited financial statements for further information.

	As of December 31,			Increase/(Decrease)	
	2018	2017	2016	2018-2017	2017-2016
Capital assets—net	\$5,092,456	\$4,827,990	\$4,615,918	\$264,466	\$ 212,072
Other assets	305,301	309,043	295,266	(3,742)	13,777
Deferred Outflows of resources for Pensions	199,557	247,750	231,582	(48,193)	16,168
Deferred Outflows of resources for OPEB	<u>115,823</u>	<u>-</u>	<u>-</u>	<u>115,823</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$5,713,137</u>	<u>\$5,384,783</u>	<u>\$5,142,766</u>	<u>\$328,354</u>	<u>\$ 242,017</u>

Significant changes in Assets and Deferred Outflows of resources include:

December 31, 2018 versus 2017

- Net capital assets increased from 2017 to 2018 by \$264,466 or 5.48%. Increases in construction work-in-progress of \$332,480 included \$77,450 of Positive Train Control ("PTC"), \$56,181 for Harmon Shop Improvements and \$40,517 for Enhanced Station Initiative. Major additions to capital assets in 2018 were \$150,889 and included \$51,585 for the reconfiguration of Substation Bridge 23 at Mt. Vernon East, \$21,669 for turn-out and interlocking switch replacements, \$17,882 for Grand Central Terminal ("GCT") leaks remediation, and \$17,547 for 2016 Cyclical Track Program. These increases were offset by depreciation and amortization of \$218,903.
- Other assets decreased in 2018 by \$3,742 or 1.21%. Increase in cash primarily due to receipt of \$10,726 in the landmark account established under the 1997 Grand Central Terminal Continuing Maintenance Agreement; Materials and supplies net of reserve increased by \$8,849 due to spares supporting PTC initiatives, M7 and M8 fleet support, and Maintenance of Way maintenance programs including replacement of switches, turnouts and rails. These increases were offset by a decrease of \$18,248 in accounts receivable and a decrease of \$3,440 in prepaid assets. Accounts receivable decreased primarily due to the Amtrak payment of \$51,000 for its proportionate share of

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operating and capital costs under Section 212 of the Passenger Rail Investment and Improvement Act (“PRIIA”) of 2008. The decrease in accounts receivable was also attributable to the return of funds invested by MTA for OPEB funding for \$11,862.

- Deferred outflows of resources for Pensions decreased by \$48,193 or 19.45% due to decrease in the differences between expected and actual experience of \$9,990; decrease in difference between projected versus actual plan investment earnings of \$62,344; decrease in difference of contributions made after measurement date of \$3,671; offset by the recognition of actuarial assumption changes or inputs of \$3,396; and increase in the proportion and differences in employer contributions of \$24,416.
- Deferred outflows of resources for OPEB increased by \$115,823 under GASB Statement No. 75 due to the recognition of the difference between expected and actual experience of \$898; actuarial assumptions or inputs of \$60,162; and contributions after measurement date of \$54,763.

December 31, 2017 versus 2016

- Net capital assets increased from December 31, 2016 to December 31, 2017 by \$212,072 or 4.6%. Increases in construction work-in-progress of \$286,514 primarily for Harmon Shop Improvements and Positive Train Control. 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, and \$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 PRIIA; 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 for Pensions 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.

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.

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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)	
	2018	2017	2016	2018-2017	2017-2016
Current liabilities	\$ 380,854	\$ 341,491	\$ 322,374	\$ 39,363	\$ 19,117
Noncurrent liabilities	2,070,254	1,185,194	1,049,654	885,060	135,540
Deferred inflows of resources for Pensions	66,254	20,584	24,972	45,670	(4,388)
Deferred inflows of resources for OPEB	1,610	-	-	1,610	-
Total liabilities and deferred inflows of resources	<u>\$ 2,518,972</u>	<u>\$ 1,547,269</u>	<u>\$ 1,397,000</u>	<u>\$ 971,703</u>	<u>\$ 150,269</u>

Significant changes in liabilities include:

December 31, 2018 versus 2017

- Current liabilities increased in 2018 by \$39,363 or 11.53%. The increase is primarily in accounts payable of \$6,634 due to the timing of payments to vendors; Due to MTA and affiliated agencies of \$11,678 due to timing of reimbursements; salaries, wages and payroll taxes of \$7,073 due to higher wages in 2018 and retroactive wage adjustment accruals; vacation and sick pay benefits of \$10,832 resulting from the revised eligibility rules for sick buyback in the labor agreements. In addition, there was an increase in other liabilities of \$10,421 primarily due to receipt of \$10,726 in the landmark account established under the 1997 Grand Central Terminal Continuing Maintenance Agreement. These increases were offset by a decrease of \$5,770 due to CDOT for PRIIA reimbursements made by Amtrak.
- Non-current liabilities increased in 2018 by \$885,060 or 74.68%. The increase was primarily attributable to the recognition of net OPEB liability for unfunded plans as required under GASB Statement No. 75 for \$1,571,315 offset by the reversal of OPEB liability under GASB Statement No. 45 for \$609,329. Additionally, the liability for environmental remediation increased by \$14,840 primarily for the Harmon Shop replacement project. These increases were offset by a decrease in net pension liability of \$90,093 primarily due to improved performance on pension plan assets and a decrease of \$3,916 in New York Power Authority (“NYPA”) loans modified at the completion of the phase II energy efficiency project at Grand Central Terminal.

December 31, 2017 versus 2016

- Current liabilities increased in 2017 by \$19,117 or 5.9%. 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 NYPA loans of \$18,518 from current to non-current liabilities; decrease in the current claims liability of \$7,358 based upon the actuarial estimates and decrease in other accounts payable of \$2,056 primarily due to timing of payments to vendors.

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- Non-current liabilities increased in 2017 by \$135,540 or 12.9% primarily due to the change in the actuarial valuation for health care cost for OPEB of \$98,809. Liabilities also increased due to change in claims estimate of \$16,189 and an increase in NYPA loans of \$18,518 due to the reclassification from current to non-current liabilities.

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

	As of December 31,			Increase/(Decrease)	
	2018	2017	2016	2018-2017	2017-2016
Net investment in capital assets	\$ 5,255,697	\$ 4,814,097	\$ 4,601,744	\$ 441,600	\$ 212,353
Unrestricted	<u>(2,061,533)</u>	<u>(976,583)</u>	<u>(855,978)</u>	<u>(1,084,950)</u>	<u>(120,605)</u>
Total net position	<u>\$ 3,194,164</u>	<u>\$ 3,837,514</u>	<u>\$ 3,745,766</u>	<u>\$ (643,350)</u>	<u>\$ 91,748</u>

In 2018, the total net position decrease of \$643,350 is primarily attributable to the implementation of GASB Statement No. 75 and increase in operating expenses due to wage increases for employees offset by increased payments made by MTA for capital projects and increased subsidies received from CDOT.

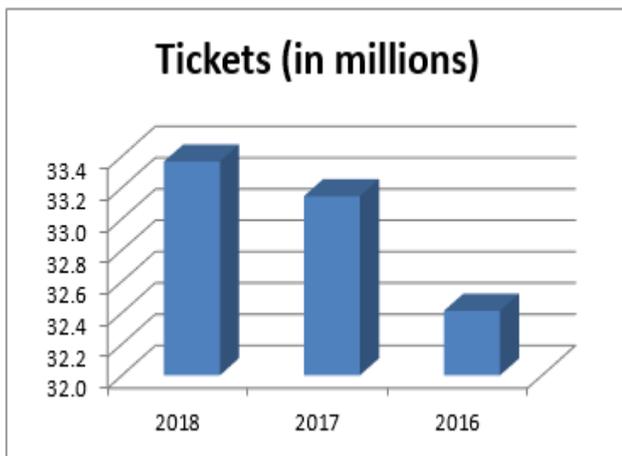
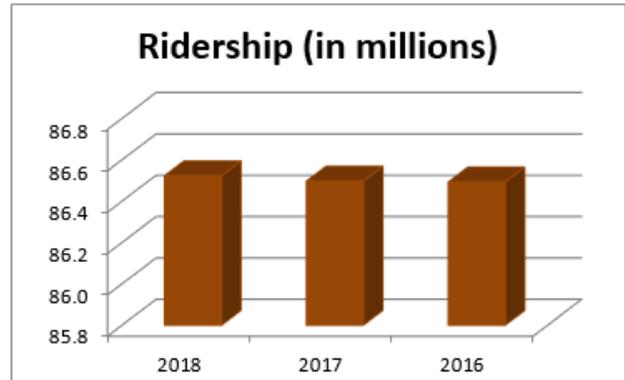
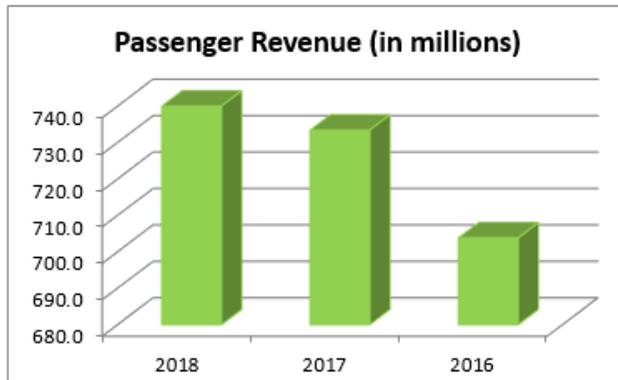
In 2017, the total net position increase of \$91,748 is attributable to increased fare revenues as a result of the full year impact of the Connecticut 6% fare increase implemented in December 2016 as well as a New York 3.75% fare increase implemented in March 2017. The increase in revenues is offset 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.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Years Ended December 31,			Favorable/(Unfavorable)	
	2018	2017	2016	2018-2017	2017-2016
Operating revenues	\$ 792,054	\$ 790,927	\$ 754,100	\$ 1,127	\$ 36,827
Operating expenses	(1,683,114)	(1,623,895)	(1,500,455)	(59,219)	(123,440)
Asset impairment & related expenses	<u>-</u>	<u>-</u>	<u>(976)</u>	<u>-</u>	<u>976</u>
Operating loss	<u>(891,060)</u>	<u>(832,968)</u>	<u>(747,331)</u>	<u>(58,092)</u>	<u>(85,637)</u>
Total nonoperating revenues	<u>997,884</u>	<u>924,716</u>	<u>793,751</u>	<u>73,168</u>	<u>130,965</u>
Change in net position	106,824	91,748	46,420	15,076	45,328
Net position—beginning of year	3,837,514	3,745,766	3,699,346	91,748	46,420
Restatement of beginning net position	<u>(750,174)</u>	<u>-</u>	<u>-</u>	<u>(750,174)</u>	<u>-</u>
Net position—end of year	<u>\$ 3,194,164</u>	<u>\$ 3,837,514</u>	<u>\$ 3,745,766</u>	<u>\$ (643,350)</u>	<u>\$ 91,748</u>

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Operating Revenues by Major Source



Passenger fares accounted for 93.4% and 92.7% of operating revenues in 2018 and 2017, respectively. The remaining revenue represents collection of rental income from stores in and around passenger stations and revenue generated from advertising.

MTA Metro-North (East of Hudson) passenger revenue increased in 2018 by \$6.605 million or 0.9%. The revenue increase is primarily a reflection of the full year impact of the March 19, 2017 New York State 3.75% fare increase. **MTA Metro-North (West of Hudson) passenger revenue increased in 2018 by \$192.1 thousand or 1.3%.**

MTA Metro-North (East of Hudson) ridership increased in 2018 by 31.78 thousand or 0.04% from 2017. However, when adjusted for the same number of calendar workdays, the 2018 ridership decreased by 125.2 thousand or 0.1%. West of Hudson ridership decreased in 2018 by \$5.8 thousand or -0.36% from 2017.

MTA Metro-North (East of Hudson) passenger revenue increased in 2017 by \$29,874 or 4.3%, and ridership increased by 70.7 thousand or 0.08%. 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.

Expenses by Category

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December 31, 2018 versus 2017

Salaries and wages increased by \$24,700 or 4.1% in 2018 over 2017. This increase is primarily due to the wage increases for the MTA Metro-North's represented and non-represented staff, and increased accruals for earned but unused sick time resulting from the revised eligibility rules for sick buyback in the labor agreements.

Retirement and Other Employee Benefits decreased by \$14,640 or 5.3% in 2018 over 2017. Health and welfare expenses decreased by \$12,976 primarily due to the implementation of GASB Statement No. 75 (see Note 8). Included in premiums paid for active employees is an "implicit subsidy" related to retirees resulting in a decrease of \$18,346. Employee claims decreased \$12,244 due to lower projections as per the actuarial calculation. Also contributing to the decrease was the higher overhead costs recovery by \$5,967. These decreases were offset by increase in pension expenses by \$12,963. Railroad Retirement of \$3,655 primarily due to an increase in the maximum tax earnings base.

Postemployment Benefits other than Pensions increased by \$20,543 or 15.6%. This is primarily due to changes in the valuation of OPEB and employer contributions subsequent to the measurement date of December 31, 2017 as a result of the implementation of GASB Statement No. 75.

Electric Power costs increased by \$9,115 or 13.8% as compared to 2017. This increase reflects higher rates in 2018.

Fuel costs increased by \$4,919 or 29.3% as compared to 2017. This increase primarily reflects an increase in diesel fuel rates.

Claims costs decreased by \$4,345 or 45.7% as compared to 2017. This is primarily due to a decrease in in NJT claim reserves and expenses.

Maintenance and Other Operating Contracts increased \$6,674 or 6.6%. MTA Police Services increased by \$2,171 primarily due to increased salaries. Increased maintenance and repairs of \$2,049, equipment and vehicle rental of \$888, escalator and elevator maintenance of \$863, environmental testing and services of \$829, weed control and clearing of \$711, and revenue vehicle maintenance of \$673. These increases were offset by lower safety equipment and supplies of \$1,705 as compared to 2017.

Professional service contracts increased by \$1,559 or 4.4%. This increase is primarily due to higher consolidated services charges from MTA of \$1,031, higher allocated MTA Information Technology (IT) costs for the New Haven Line of \$979, and legal expenses of \$849, offset by lower outside professional service contracts of \$880 and lower marketing expenses of \$566 as compared to 2017.

Environmental Remediation increased by \$16,124 or 1,314.1% and is mainly attributable to the environmental abatement and disposal costs associated with demolition and excavation activities of the Harmon Shop replacement project.

Materials and supplies increased by \$3,966 or 4.3% primarily due to an increase in usage of maintenance materials for revenue vehicles of \$3,584.

Other business expenses increased by \$160 or 0.5% primarily due to increased New Jersey Transit subsidies of \$1,671, increased print and stationery supplies of \$420, credit card fees of \$412 resulting from increased usage of MTA eTix®, and decreased expense recoveries of \$276. These increases were offset by a decrease in bad debts of \$758, decrease in travel for meetings and conventions of \$212, and

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decrease in miscellaneous expenses of \$1,662 primarily due to the write-off in 2017 of a GCT study and evaluation for a planned capital project that was discontinued.

Depreciation expense decreased by \$9,693 or 4.0%. Capital improvements relating to leak remediation in GCT, track improvements and a new substation increased depreciation by \$2,369. Offsetting this increase was the cessation of depreciation for assets that reached the end of their depreciable lives including Park Avenue tunnel improvements, GCT escalators and ticket selling equipment.

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 earnings 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

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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.

Nonoperating Revenues by Major Source

MTA Contributions for Capital Projects — MTA capital contributions increased in 2018 by \$33,092 or 8.1%. The increase in 2018 is primarily due to the \$77,450 contribution for Positive Train Control.

MTA Operating Subsidies — MTA operating subsidies are driven by the excess of operating expenses over fare and other revenues. These subsidies increased in 2018 over 2017 by \$8,288 or 2.0%, primarily due to a \$78,998 increase in reimbursements for operating projects. Fare revenue collection increased by \$6,966 due to fare increases. Total labor related disbursements increased by \$43,399 and non-labor disbursements increased by \$43,459.

CDOT Subsidies Relating to the New Haven Line — Amounts due from CDOT for operating subsidies increased in 2018 by approximately \$32,218 or 31.4%. This increase is primarily attributable to \$15,026 of labor and fringe due to higher wage rates and related taxes and health care benefit costs, as well as, increases in propulsion, materials and other costs of \$12,949. Also contributing to this increase are lower Amtrak recoveries of \$4,347 due to timing difference in the recognition of PRIIA accruals and payments. These increases were offset by lower administrative asset allocation to CDOT of \$104. 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 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

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operations, the MTA must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Preliminary MTA system-wide utilization in 2018 decreased relative to 2017, with ridership down by 80.7 million trips (3.1%). The decrease is driven by Subway ridership, which declined by 47.3 million trips (2.7%), and New York City Transit Bus ridership, which declined by 33.3 million trips (5.5%). In addition, MTA Bus ridership declined by 766 thousand trips (0.6%) and Staten Island Railway ridership declined by 82 thousand trips (1.8%). Commuter rail experienced a small increase in ridership in 2018, with Long Island Rail Road ridership increasing by 607 thousand trips (0.7%) and Metro-North Railroad ridership increasing by 58 thousand trips (0.1%). The overall decline in ridership in 2018 was comprised of a 27.6 million decline in the first quarter, an 18.2 million decline in the second quarter, a 21.4 million decline in the third quarter and a 13.5 million decline in the fourth quarter, all compared with the corresponding quarter in 2017. The decline in bus ridership is consistent with a trend that began in 2009 and has been observed nationally, while declining subway ridership is a more recent trend, beginning in the third quarter of 2016; recent bus and subway ridership trends have been attributed to increased fare evasion, planned subway service changes to accommodate construction and maintenance/repair work, increase in use of for-hire vehicle services, and increases in telecommuting and the use of e-commerce. Vehicle traffic at MTA Bridges and Tunnels facilities increased by 12.3 million crossings (4.0%) in 2018 compared to 2017. This increase was comprised of a 2.5 million increase in the first quarter, a 4.1 million increase in the second quarter, a 2.7 million increase in the third quarter, and a 3.1 million increase in the fourth quarter, all compared to the corresponding quarter in 2017. Congestion pricing in Manhattan—currently being debated in the New York State legislature with the potential to be adopted in April 2019 for implementation as early as 2021—could impact future 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 2018 than in 2017 by 67.3 thousand jobs (1.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last thirty-three 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 2018 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, private inventory investment, and federal government spending; these were partially offset by negative contributions from residential fixed investment, and state and local government spending. Imports, which are a subtraction in the Gross Domestic Product (“GDP”) calculation, increased. The deceleration in RGDP growth, relative to the third quarter’s revised 3.4% growth rate, reflected a deceleration in private inventory investment, personal consumption expenditures and federal government spending, as well as a downturn in state and local government spending; these were partially offset by an acceleration nonresidential fixed investment, as well as an upturn in exports and a smaller increase in imports.

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 2018, with the metropolitan area index increasing by 1.8 %, while the national index increased by 2.2%, when compared with the fourth quarter of 2017. A 5.3% increase in the regional price of energy products, along with a 3.9% national increase, impacted overall inflation; in the metropolitan area, the CPI-U exclusive of energy products increased by 1.6%, while nationally, inflation exclusive of energy products was 2.1%. The spot price for New York Harbor conventional gasoline fell by 3.8%, from an average price of \$1.77 per gallon to an average price of \$1.70 per gallon, between the fourth quarters of 2017 and 2018.

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The Federal Open Market Committee (“FOMC”) raised its target for the Federal Funds rate four times in 2018, with the target range set at 1.5% to 1.75% in March, 1.75% to 2.0% in June, 2.0% to 2.25% in September, and 2.25% to 2.5%—the current target level—in December. This was a slight acceleration in rate increases compared to 2017, when the target level was increased three times. The December increase was in view of continued labor market strength and rising economic activity, as job gains were strong and the unemployment rate remained low. Household spending continued to grow strongly, while growth in business fixed investment moderated from its rapid rate of growth in the first three quarters of 2018. Overall inflation and inflation for items other than food and energy remained close to 2 percent and indicators of longer-term inflation expectations were little changed. The FOMC expects that the economic expansion will be sustained, labor market conditions will remain strong, and inflation will remain near the 2 percent objective. In light of muted inflationary pressures and global economic and financial developments, the FOMC has indicated its patience in determining the timing and size of future rate adjustments, assessing realized and expected economic conditions relative to its dual mandate of maximizing employment and targeting 2 percent inflation.

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 2018 were lower than the fourth quarter of 2017 by \$2.5 million (2.2%); receipts in the fourth quarter of 2018 were \$8.8 million (7.5%) lower than receipts from the third quarter of 2018. Despite the gradual overall recovery of MRT receipts that began in 2012, average monthly receipts in 2018 remain \$26.9 million (42.3%) lower 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 transactions 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 \$11.2 million (7.7%) higher in the fourth quarter of 2018 than receipts for the fourth quarter of 2017; receipts in the fourth quarter of 2018 were \$12.2 million (7.2%) lower than receipts from the third quarter of 2018. Average monthly receipts in 2018 were \$19.0 million (25.8%) lower than the monthly average for 2007, just prior to the steep decline in Urban Tax revenues.

Results of Operations

Metro-North’s system-wide on-time performance for 2018 operated 2.9% below goal at 90.1 %, while train delay minutes increased by 53% from the previous year. The Hudson Line performed at 90%; the Harlem Line at 91.8%; and the New Haven Line at 88.9%.

West-of-Hudson on-time performance operated 4.8% below goal at 90.7%.

Rolling Stock “mean distance between failures” (MDBF) experienced a reduction due to the implementation of new Positive Train Control (PTC) equipment that generated additional failures. 2018 MDBF was 144,017, which is 28% below the goal of 200,000 miles. Excluding PTC failures, the adjusted MDBF is near goal at 195,247. Car availability was also adversely impacted due to installations of PTC Equipment resulting in a 98.5% “consist compliance rate,” which is the percentage of cars required for service and providing seats for customers each day.

Challenges to service delivery in 2018 included continuation of aggressive track inspections and maintenance, which required temporary speed restrictions, and ongoing catenary replacement on the east end of the New Haven Line. Additionally, we experienced four significant weather events; blizzards in January and March along with tornadoes in May and October.

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Total Metro-North annual ridership in 2018 was approximately 87.1 million rides, 144,598 rides lower than the previous year. Total ridership includes East of Hudson, West of Hudson and Connecting Services.

East of Hudson ridership for the year was approximately 84.9 million, 0.1% or 125,205 rides lower than the 2017 ridership of 85 million rides.

Combined ridership on Metro-North's three connecting services was about 580,267, down by 8,848 rides or 1.5% versus 2017. However, ridership increased by 0.1% on the Hudson Rail Link, while decreasing on the Haverstraw-Ossining and the Newburgh-Beacon ferries by 3.1% and 8.4% respectively.

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.

The 2017 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 2017 have been adjusted to reflect the 2018 calendar workdays.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program — The MTA Metro-North Railroad's portion of the MTA's capital program for 2015-2019 totals \$2.462 billion. This program provides for fleet modernization of \$394 million, shop and yard improvements of \$470 million, GCT, stations and parking improvements of \$536.5 million, tracks and structures repairs and improvements of \$437.1 million, communications and signals upgrade of \$310.3 million and power rehabilitation and improvements of \$111.8 million. \$639.6 million has been allocated for 2017 and \$818.4 million for 2018 for these projects.

Metro-North Railroad's portion of the 2010-2014 capital program is \$1.533 billion, including allocations of \$65 million for 2017 and \$36.5 million for 2018. 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 addressed infrastructure state of good repair needs, including tracks, passenger stations, communications and 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.

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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. A 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.

On February 27, 2019, the MTA Board approved and authorized the implementation of increased fare levels for travel on the Hudson and Harlem Lines, as well as the New Haven Line for travel between stations in New York State only, effective April 21, 2019. Fares will not increase on Metro-North Railroad Pascack Valley and Port Jervis lines. The increase is approximately 3.85% or less, for all weekly and monthly passes, with increase limitations of no more than \$15.00 for monthly tickets, and \$5.75 for weekly passes. There will be no fare increases on monthly tickets or weekly tickets currently at or above \$460.00, and \$147.00, respectively. Some one-way fares will have larger percentage increases as fares must occur in \$0.25 increments. Any one-way fare increase greater than 6% has been limited to not more than \$0.50 per ride.

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 April 26, 2018, an amendment to the 1991 agreement was executed which incorporates the applicable terms of the NEC cost allocation policy retroactively from October 1, 2015. The Amtrak expense recoveries (shared with CDOT at 65%) were approximately \$27.8 million in 2018 and \$26.1 million in 2017.

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METRO-NORTH COMMUTER RAILROAD COMPANY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION

DECEMBER 31, 2018 AND 2017

(\$ in thousands)

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 25,736	\$ 15,187
Fare cards	15,413	17,265
Invested funds at MTA (Note 2)	18,915	6,634
Receivables:		
Passenger	3,777	4,158
Due from MTA and affiliated agencies (Note 12)	76,211	58,361
Due from NYSDOT	658	1,329
Due from Amtrak	2,416	32,729
Rents	5,605	9,534
Other	1,241	1,468
Less allowance for doubtful accounts	<u>(3,765)</u>	<u>(3,188)</u>
Receivables—net	<u>86,143</u>	<u>104,391</u>
Materials and supplies—net of reserve for obsolescence of \$43,768 and \$40,209 in 2018 and 2017, respectively (Note 2)	125,420	116,572
Prepaid expenses and other current assets	<u>28,901</u>	<u>32,341</u>
Total current assets	<u>300,528</u>	<u>292,390</u>
NONCURRENT ASSETS:		
Capital assets (Notes 2 and 5):		
Land and construction work-in-progress	1,608,828	1,276,349
Other capital assets (net of accumulated depreciation)	3,483,628	3,551,641
Invested funds at MTA (Note 2)	68	11,931
Other	<u>4,704</u>	<u>4,722</u>
Total noncurrent assets	<u>5,097,228</u>	<u>4,844,643</u>
TOTAL ASSETS	<u>5,397,756</u>	<u>5,137,033</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows for Pension	199,557	247,750
Deferred Outflows for Other Post Employment Benefits	<u>115,823</u>	<u>-</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>315,380</u>	<u>247,750</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 5,713,136</u>	<u>\$ 5,384,783</u>

See notes to financial statements.

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METRO-NORTH COMMUTER RAILROAD COMPANY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION DECEMBER 31, 2018 AND 2017 (\$ in thousands)

	2018	2017
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 79,885	\$ 73,251
Due to MTA and affiliated agencies (Note 12)	64,789	53,111
Due to CDOT	25,376	31,146
Accrued expenses:		
Salaries, wages and payroll taxes	51,424	44,351
Vacation and sick pay benefits	100,588	89,756
Other	28,858	18,436
Total accrued expenses	<u>180,870</u>	<u>152,543</u>
Current portion - retirement and death benefits	64	94
Current portion of estimated liability arising from injuries to persons (Note 10)	15,523	15,553
Current portion - loans payable (Note 6)	2,648	2,756
Current portion - obligations under capital lease (Note 9)	158	148
Current portion - environmental remediation (Note 11)	710	721
Unearned passenger revenue	<u>10,831</u>	<u>12,168</u>
Total current liabilities	<u>380,854</u>	<u>341,491</u>
NONCURRENT LIABILITIES:		
Net liability for other postemployment benefits (Note 8)	1,571,315	609,329
Net pension liability (Note 7)	370,703	460,796
Estimated liability arising from injuries to persons (Note 10)	59,970	58,849
Loans payable (Note 6)	14,602	18,518
Capital lease obligation (Note 9)	13,435	13,746
Environmental remediation (Note 11)	18,225	3,385
Other long-term liabilities	<u>22,004</u>	<u>20,571</u>
Total noncurrent liabilities	<u>2,070,254</u>	<u>1,185,194</u>
TOTAL LIABILITIES	<u>2,451,108</u>	<u>1,526,685</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows from Pensions	66,254	20,584
Deferred Inflows from Other Post Employment Benefits	<u>1,610</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>67,864</u>	<u>20,584</u>
NET POSITION:		
Net Investment in Capital Assets	5,255,697	4,814,097
Unrestricted	<u>(2,061,533)</u>	<u>(976,583)</u>
Total net position	<u>3,194,164</u>	<u>3,837,514</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 5,713,136</u>	<u>\$ 5,384,783</u>

See notes to financial statements.

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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, 2018 AND 2017 (\$ in thousands)

	2018	2017
OPERATING REVENUES:		
Passenger	\$ 740,271	\$ 733,409
Rents and utilities	42,307	39,990
Advertising	9,476	13,567
Other income	-	3,961
Total operating revenues	<u>792,054</u>	<u>790,927</u>
OPERATING EXPENSES:		
Salaries and wages	628,233	603,533
Retirement and other employee benefits	263,686	278,326
Postemployment benefits other than pensions	152,362	131,819
Electric Power	75,264	66,149
Fuel	21,736	16,817
Insurance	17,480	17,343
Claims	5,162	9,507
Maintenance and other operating contracts	107,398	100,724
Professional service contracts	36,983	35,424
Environmental Remediation	17,351	1,227
Materials and supplies	95,223	91,257
Depreciation and amortization	230,485	240,178
Other expense	<u>31,751</u>	<u>31,591</u>
Total operating expenses	<u>1,683,114</u>	<u>1,623,895</u>
OPERATING LOSS	<u>(891,060)</u>	<u>(832,968)</u>
NONOPERATING REVENUES (EXPENSES) (Notes 2 and 14):		
Operating subsidies from MTA	421,913	413,625
CDOT subsidies	134,762	102,544
Other Non-operating revenues (expenses)	<u>(391)</u>	<u>39</u>
Net nonoperating revenues	<u>556,284</u>	<u>516,208</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(334,776)	(316,760)
CAPITAL CONTRIBUTIONS:		
MTA contributions for capital projects	<u>441,600</u>	<u>408,508</u>
Change in Net Position	106,824	91,748
NET POSITION—Beginning of year	3,837,514	3,745,766
Restatement of beginning net position - GASB 75 implementation	<u>(750,174)</u>	<u>-</u>
NET POSITION—End of year	<u>\$3,194,164</u>	<u>\$3,837,514</u>

See notes to financial statements.

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METRO-NORTH COMMUTER RAILROAD COMPANY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017 (\$ in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts	\$ 739,212	\$ 732,706
Rents, sundry, and other receipts	56,036	52,392
Payroll and related fringes	(973,145)	(964,656)
Other operating expenses	<u>(279,261)</u>	<u>(285,955)</u>
Net cash used in operating activities	<u>(457,158)</u>	<u>(465,513)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating subsidies from MTA	419,438	411,184
Operating subsidies from CDOT	121,544	123,525
Other Non-operating revenues, net	<u>794</u>	<u>988</u>
Net cash provided by noncapital financing activities	<u>541,776</u>	<u>535,697</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions from MTA	101,831	82,787
Capital expenditures	<u>(175,900)</u>	<u>(152,029)</u>
Net cash used in capital related financing activities	<u>(74,069)</u>	<u>(69,242)</u>
NET INCREASE IN CASH	10,549	942
CASH—Beginning of year	<u>15,187</u>	<u>14,245</u>
CASH—End of year	<u>\$ 25,736</u>	<u>\$ 15,187</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (891,060)	\$ (832,968)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation, amortization, and retirements	230,485	240,178
Net increase in payables	156,675	131,694
Net increase in farecards and receivables	40,270	6,562
Net increase (decrease) in materials and prepaid expenses	<u>6,472</u>	<u>(10,979)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (457,158)</u>	<u>\$ (465,513)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital assets	282,331	265,683
Capital assets and related liabilities	<u>38,334</u>	<u>39,115</u>
TOTAL NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 320,665</u>	<u>\$ 304,798</u>

See notes to financial statements.

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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, 2018 AND 2017 (\$ 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 financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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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 —

The MTA Metro-North adopted the following GASB Statements for the year ended December 31, 2018:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes standards of accounting and financial reporting for postemployment benefits other than pensions (“OPEB”) that is provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. For defined benefit OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB plans are also addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. As a result of adopting this Statement, the MTA Metro-North is reporting net OPEB liabilities, deferred outflows of resources and deferred inflows of resources for the MTA Metro-North Retiree Welfare Benefits Plan (“OPEB Plan”) and recognizing OPEB expenses in accordance with the provisions of the Statement. The financial statement impact resulting from the implementation of GASB Statement No. 75 and GASB Statement No. 85 is the restatement of 2018 beginning net position, a decrease of \$750.2 million, representing the retroactive effect of adoption. The MTA Metro-North did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 75 and GASB Statement No. 85. A net OPEB liability of \$1,571.3 million, deferred outflow of resources of \$115.8 million, and deferred inflows of resources of \$1.6 million were reported at December 31, 2018. The MTA Metro-North recognized OPEB expense of \$152.4 million for the year-end December 31, 2018. Refer to Note 8 for more information regarding the MTA Metro-North OPEB Plan.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues identified during the implementation and application of certain GASB statements. The provisions of this Statement amend and clarify guidance under a variety of topics with the intent to enhance consistency in the application of accounting and reporting requirements. This Statement specifically issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits (“OPEB”). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no impact on the MTA Metro-North’s financial statements.

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GASB Statement No. 86, *Certain Debt Extinguishment Issues*, establishes standards of accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no impact on the MTA Metro-North’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 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
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>	2019
89	<i>Accounting for Interest Cost Incurred Before the End of a Construction Period</i>	2020
90	<i>Majority Equity Interests - An Amendment of GASB Statements No. 14 and No.61</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 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.

Materials and Supplies — Materials and supplies, except for repaired and repairable items, are recorded at average cost. Reserve for obsolete and excess materials was \$43,768 and \$40,209 in 2018

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and 2017, respectively. Repaired items, such as engines and motors, are valued at 50% of their current 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.

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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 2017 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 \$60.7 million and \$59.9 million at December 31, 2018 and 2017, respectively. Accruals for sick leave benefits were \$39.9 million and \$29.8 million at December 31, 2018 and 2017, 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

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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, 2018, the balance of the assets in this program was \$152.6 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, 2018, 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, MTA Bus 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, 2018, 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, 2018, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2018, 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.

FMTAC’s property insurance program has been expanded to include \$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 82% of “certified” losses in 2018, 81% of “certified” losses in 2019 and 80% of “certified”

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losses in 2020, as covered by the Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) of 2015. The remaining 18% (2018), 19% (2019) and 20% (2020) 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 \$160 million in 2018, \$180 million in 2019 and \$200 million in 2020. 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) 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, 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 and 20% of any “certified” act of terrorism up to a maximum recovery of \$215 million for any one occurrence and in the annual aggregate during 2020 (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 \$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 or 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$200 million TRIPRA trigger up to a maximum recovery of \$200 million for any occurrence and in the annual aggregate during 2020.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$193.5 million in 2018, \$204.3 million in 2019 and \$215 million in 2020. 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, 2020.

All Agency Protective Liability—

FMTAC All-Agency Protective Liability Program. Under the All-Agency Protective Liability Program (“AAPL”), FMTAC directly insures the Related Entities against claims arising out of work performed by independent contractors on capital projects. The policy provides coverage of \$2 million per occurrence.

FMTAC All-Agency Protective Excess Liability Program. FMTAC directly insures the Related Entities to provide excess coverage on top of the AAPL. The policy provides coverage of \$9 million in excess of \$2 million per occurrence, with an \$18 million annual aggregate. Any excess is covered by the ELF program.

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

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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, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which established 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. The MTA Metro-North reported under this standard for its Postemployment Benefits Other Than Pensions for the year ended December 31, 2017.

Effective for the year ended December 31, 2018, the MTA Metro-North adopted the standards of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 85, *Omnibus* for the OPEB Plan.

GASB has issued Statements No. 74 and 75, which replaced GASB Statements No. 43 and 45. The effective date of GASB Statement No. 74 (which applies to financial reporting on a plan basis) is the year ended December 31, 2017. The effective date of GASB Statement No. 75 (which applies to financial reporting by contributing employers) is the year ended December 31, 2018.

The MTA Metro-North recognizes a proportionate share of the net OPEB liability for the MTA’s cost-sharing multiple-employer OPEB Plan, which represents the excess of the total OPEB liability over the fiduciary net position of the OPEB Plan, measured as of the measurement date of the plan.

Changes in the net OPEB liability during the year are recorded as OPEB expense, or as deferred outflows of resources or deferred inflows of resources relating to OPEB depending on the nature of the change, in the year incurred. Changes in net OPEB liability that are recorded as deferred outflows of resources or deferred inflows of resources that arise from changes in actuarial assumptions and differences between

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expected or actual experience are amortized over the weighted average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the year in which they are incurred. Projected earnings on qualified OPEB plan investments are recognized as a component of OPEB expenses. Differences between projected and actual investment earnings are reported as deferred outflows of resources or deferred inflow of resources as a component of OPEB expense on a closed basis over a five-year period beginning with the year in which the difference occurred.

Restatement of Beginning Net Position

The effect of the implementation of GASB Statements No. 75 and 85 is a restatement of 2018 beginning net position to retroactively report the beginning balances for net OPEB liability, deferred outflows of resources related to OPEB, deferred inflows of resources related to OPEB, and the removal of any net OPEB obligations (assets) along with any payables to the OPEB Plan, as follows (in millions):

Net position as of December 31, 2017, as previously reported	\$	3,838
Composition of Restatement:		
Deferred outflows related to contributions, beginning of the year		50
Net OPEB liabilities, beginning of the year		(1,409)
Accrued OPEB liabilities, as previously reported		609
Total Restatement:		<u>(750)</u>
Net position as of December 31, 2017, as restated	\$	<u>3,088</u>

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 2018 and 2017 that were not insured were maintained in major financial institutions.

At December 31, 2018 and 2017, cash consisted of (in thousands):

	2018		2017	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits (FDIC)	\$ 250	\$ 250	\$ 250	\$ 250
Collateralized deposits	16,041	16,041	3,880	3,880
Uninsured deposits—noncollateralized	2,438	2,439	2,354	1,487
Uninsured amounts held by ticket agents and deposits in transit	<u>7,008</u>	<u>-</u>	<u>8,703</u>	<u>-</u>
	<u>\$25,736</u>	<u>\$ 18,730</u>	<u>\$15,187</u>	<u>\$5,617</u>

Certain of these cash accounts are held in the name of a trustee; the carrying amount of the trustee accounts at December 31, 2018 and 2017 were \$7,717 and \$11,096, 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.

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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, 2018 and 2017:

	Balance December 31, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance December 31, 2017	Additions/ Reclassifications	Deletions/ Reclassifications	Balance December 31, 2018
Capital assets, not being depreciated:							
Land	\$ 79,527	\$ 7,214	\$ -	\$ 86,741	\$ 5	\$ -	\$ 86,746
Construction work-in-progress	910,302	455,656	176,356	1,189,602	494,635	162,155	1,522,082
Assets awaiting disposition	5	-	-	5	-	5	-
	<u>989,834</u>	<u>462,870</u>	<u>176,356</u>	<u>1,276,348</u>	<u>494,640</u>	<u>162,160</u>	<u>1,608,828</u>
Total capital assets, not being depreciated							
Capital assets, being depreciated:							
Roads	1,818,568	59,109	-	1,877,677	112,789	-	1,990,466
Buildings and structures	3,344,657	85,727	-	3,430,384	44,174	-	3,474,558
Buildings and structures under capital leases	28,372	-	-	28,372	-	-	28,372
West of Hudson improvements	246,992	4,526	-	251,518	647	-	252,165
Passenger cars	1,511,525	54	-	1,511,579	298	6,610	1,505,267
Locomotives	165,997	1,937	-	167,934	-	2,232	165,702
Other	316,979	14,566	2,901	328,644	4,912	3,089	330,467
	<u>7,433,090</u>	<u>165,919</u>	<u>2,901</u>	<u>7,596,108</u>	<u>162,820</u>	<u>11,931</u>	<u>7,746,997</u>
Total capital assets, being depreciated							
Less accumulated depreciation:							
Roads	1,077,491	50,192	-	1,127,683	48,589	-	1,176,272
Buildings and structures	1,532,095	104,861	-	1,636,956	98,845	-	1,735,801
Buildings and structures under capital leases	2,276	101	-	2,377	101	-	2,478
West of Hudson improvements	74,411	7,258	-	81,669	6,889	-	88,558
Passenger cars	766,638	51,902	-	818,540	51,683	6,610	863,613
Locomotives	109,896	6,424	12	116,308	6,944	2,149	121,103
Other	244,199	19,440	2,706	260,933	17,434	2,823	275,544
	<u>3,807,006</u>	<u>240,178</u>	<u>2,718</u>	<u>4,044,466</u>	<u>230,485</u>	<u>11,582</u>	<u>4,263,369</u>
Total accumulated depreciation							
Total capital assets, being depreciated—net							
	<u>3,626,084</u>	<u>(74,259)</u>	<u>183</u>	<u>3,551,642</u>	<u>(67,665)</u>	<u>349</u>	<u>3,483,628</u>
Capital assets—net							
	<u>\$ 4,615,918</u>	<u>\$ 388,611</u>	<u>\$ 176,539</u>	<u>\$ 4,827,990</u>	<u>\$ 426,975</u>	<u>\$ 162,509</u>	<u>\$ 5,092,456</u>

Interest costs of \$939 and \$1,570 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 2018 and 2017, 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,

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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, 2018 are as follows:

Year	Principal	Interest	Total
2019	\$2,648	\$229	\$2,877
2020	2,636	192	2,828
2021	2,630	154	2,784
2022	2,477	117	2,594
2023	2,241	83	2,324
2024-2027	4,618	73	4,691
Total	<u>\$17,250</u>	<u>\$848</u>	<u>\$18,098</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 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

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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. The 401(k) Plan received a favorable determination letter from the Internal Revenue Service dated October 27, 2016.

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 in 2017 and \$18,500 in 2018. For those over age 50, the maximums are \$24,000 for 2017 and \$24,500 for 2018.

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

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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, 2018 and 2017, no forfeitures reduced the Plan's expense.

The following is a summary of activity for the 401k deferred compensation program:

	2018	2017
Contributions:		
Employee contributions, net of loans	\$ 32,126	\$ 29,337
Participant rollovers	2,318	2,895
Employer contributions	<u>2,822</u>	<u>2,827</u>
Total contributions	<u>\$ 37,266</u>	<u>\$ 35,059</u>

The Trustee for the MTA Deferred Compensation Program is Prudential Bank & Trust Federal Savings Bank. 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 TCW-Metropolitan West Asset Management, William Blair, Jackson Square Partners and Alliance Bernstein. The financial advisor is Mercer Investment Consulting, Inc. which reviews the investment policies adopted 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:

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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, 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. This report is also available at www.mta.info.

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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 5 years of service with the 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 65. 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.

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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 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 10 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,

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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, 2018 and January 1, 2017, the date of the actuarial valuation:

	<u>January 1, 2018</u>	<u>January 1, 2017</u>
Active Plan Members	2	4
Retirees and beneficiaries receiving benefits	26	27
Vested formerly active members not yet receiving benefits	<u>15</u>	<u>13</u>
Total	<u>43</u>	<u>44</u>

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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 contributions were made to the Plan in several subsequent years.

Contributions as a percent of covered payroll were 2.03% for the year ended December 31, 2018. The actual contribution for the year ended December 31, 2018 was \$5. 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, MTA Metro-North Railroad non-represented employees are required to contribute to the Plan to the extent that 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, were required to make the employee contributions until 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 16.60% and 19.56% for the years ended December 31, 2018 and December 31, 2017, respectively. The actual contributions for the years ended December 31, 2018 and December 31, 2017 were \$116,005 and \$120,515 respectively.

Net Pension Liability

MTA Metro-North Railroad’s net pension liabilities for each of the pension plans reported at December 31, 2018 and December 31, 2017 were measured as of December 31, 2017 and December 31, 2016,

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respectively. The total pension liability at December 31, 2017 and December 31, 2016 for the MTA Defined Benefit Plan was determined by actuarial valuations as of the valuation date of January 1, 2017 and January 1, 2016, respectively. The total pension liability at December 31, 2017 and December 31, 2016 for the MNR Cash Balance plan was determined by actuarial valuations as of the valuation date of January 1, 2018 and January 1, 2017, 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, 2018, 2017 and 2016 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, 2018 MNR Cash Balance Plan	January 1, 2017 MTA Defined Benefit Plan	January 1, 2017 MNR Cash Balance Plan	January 1, 2016 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	2.5%	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, 2018
MNR Cash Balance
Plan

January 1, 2017
MTA Defined Benefit
Plan

January 1, 2017
MNR Cash
Balance Plan

January 1, 2016
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 2017 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 an experience analysis covering the period from January 1, 2011 to December 31, 2015.

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.

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.

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	January 1, 2018 MNR Cash Balance Plan	January 1, 2017 MTA Defined Benefit Plan	January 1, 2017 MNR Cash Balance Plan	January 1, 2016 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	RP-2014 Disabled Annuitant mortality table for males and females.	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.

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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, 2018 and January 1, 2017 and 7.00% for the MTA Defined Benefit Plan as of January 1, 2017 and January 1, 2016. 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, 2017	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 %	1.41 %	10.00 %	1.96 %
US High Yield Bonds			8.00 %	4.62 %
Global Bonds			10.00 %	0.34 %
Emerging Market Bonds			3.00 %	3.30 %
US Large Caps			10.00 %	4.31 %
US Small Caps			5.50 %	5.57 %
Global Equity			10.00 %	4.99 %
Foreign Developed Equity			10.00 %	5.57 %
Emerging Markets Equity			3.50 %	7.91 %
Global REITS			5.00 %	5.62 %
Private Real Estate Property			3.00 %	3.64 %
Private Equity			7.00 %	8.99 %
Hedge Funds - MultiStrategy			<u>15.00 %</u>	3.35 %
	<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		3.92 %		6.80 %
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, 2017 and December 31, 2016, the discount rates used to measure the total pension liability of the MNR Cash Balance and the MTA Defined Benefit Plan were 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.

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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, 2018, based on the December 31, 2017 measurement date and for the year ended December 31, 2017, based on the December 31, 2016 measurement date, are as follows:

December 31, 2018	Metro-North Cash Balance Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance as of December 31, 2016	\$ 566	\$ 574	\$ (8)
<i>Changes for calendar year 2016:</i>			
Interest on total pension liability	21	-	21
Effect of plan changes	-	-	-
Effect of economic /demographic (gains) or losses	12	-	12
Effect of assumption changes or inputs	-	-	-
Benefit payments	(71)	(71)	-
Administrative expense	-	-	-
Net investment income	-	20	(20)
Employer contributions	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Balance as of December 31, 2017	<u>\$ 528</u>	<u>\$ 523</u>	<u>\$ 5</u>

December 31, 2017	Metro-North Cash Balance Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
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)
	<u>-</u>	<u>23</u>	<u>(23)</u>
Balance as of December 31, 2016	<u>\$ 566</u>	<u>\$ 574</u>	<u>\$ (8)</u>

The following presents MTA Metro-North Railroad's net pension liability as of December 31, 2018 calculated using the current discount rate at January 1, 2018 of 4% for the Plan, as well as what the net pension liability

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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	\$35,109	\$ 5,235	\$(21,154)

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)

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:

	December 31, 2018	December 31, 2017
MTA Metro-North Railroad's proportion of the net pension liability	36.10 %	36.33 %
MTA Metro-North Railroad's proportionate share of the net pension liability	\$370,698	\$460,804

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, 2018 based upon the January 1, 2017 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

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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%
MTA Metro-North Railroad's proportionate share of the net pension liability	\$ 595,006	\$ 370,698	\$ 177,715

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%
MTA Metro-North Railroad's proportionate share of the net pension liability	\$ 703,581	\$ 460,804	\$ 305,236

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:

	December 31, 2018	December 31, 2017
Pension Plans		
MNR Cash Balance Plan	\$ 21	\$ (10)
MTA Defined Benefit Plan	<u>105,827</u>	<u>93,106</u>
Total	<u>\$ 105,849</u>	<u>\$ 93,096</u>

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At December 31, 2018, 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
Differences between expected and actual experience	\$ -	\$ -	\$ 51,007	\$ (8,573)	\$ 51,007	\$ (8,573)
Changes in assumptions	-	-	3,396	(16,924)	3,396	(16,924)
Net difference between projected and actual earnings on pension plan investments	15	(2)		(40,756)	15	(40,758)
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	28,295		28,295	-
Employer contribution to plan subsequent to the measurement date of net pension liability	-	-	116,844	-	116,844	-
Total	\$ 15	\$ (2)	\$ 199,542	\$ (66,253)	\$ 199,557	\$ (66,254)

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
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	\$ 20	\$ (4)	\$ 247,730	\$ (20,580)	\$ 247,750	\$ (20,584)

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 amounts of \$116,844 and \$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 years-ended December 31, 2019 and December 31, 2018,

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respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2018 will be recognized as pension expense (income) as follows:

Year ending December 31:	MNR Cash Balance Plan	MTA Defined Benefit Pension Plan	Total
2019	\$ 5	\$ 13,470	\$ 13,474
2020	7	6,428	6,434
2021	2	(12,312)	(12,310)
2022	0	(10,487)	(10,487)
2023	-	8,399	8,399
Thereafter	-	10,949	10,949
Total	<u>\$ 14</u>	<u>\$ 16,446</u>	<u>\$ 16,459</u>

8. OTHER POSTEMPLOYMENT BENEFITS

The MTA Metro-North participates in a defined benefit other postemployment benefits (“OPEB”) plan for its employees, the Metropolitan Transportation Authority Retiree Welfare Benefits Plan (“OPEB Plan”). A description of the Plan follows:

(1) Plan Description

The MTA Retiree Welfare Benefits Plan (“OPEB Plan”) and the related Trust Fund (“Trust”) was established on January 1, 2009 for the exclusive benefit of MTA and related agencies retired employees and their eligible spouses and dependents, to fund some of the OPEB provided in accordance with the MTA Metro-North’s various collective bargaining agreements. Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Amounts contributed to the OPEB Plan are held in an irrevocable trust and may not be used for any other purpose than to fund the costs of health and welfare benefits of its eligible participants.

The OPEB 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 cost-sharing multiple-employer defined benefit OPEB plan.

The OPEB Plan Board of Managers, comprised of the MTA Chairman, MTA Chief Financial Officer and MTA Director of Labor Relations, are the administrators of the OPEB Plan. The MTA Board has the right to amend, suspend or terminate the OPEB 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.

Benefits Provided — The benefits provided by the OPEB Plan include medical, pharmacy, dental, vision, life insurance and a Medicare supplemental plan. The different types of benefits provided vary by agency, employee type (represented employees versus non-represented) and the relevant collective bargaining agreements. Certain benefits are provided upon retirement as defined in the applicable pension plan. Certain agencies provide benefits to certain former employees if separated from service within 5 years of attaining retirement eligibility. Employees of the MTA Metro-North Railroad are members of the following pension plans: the MTA Defined Benefit Plan and the MNR Cash Balance Plan. Certain

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employees of MTA Metro-North Railroad participate in the 401(k) Plan. Eligible employees of the MTA may elect to join the New York State Voluntary Defined Contribution Plan (“VDC”).

The MTA Metro-North Railroad participates in the New York State Health Insurance Program (“NYSHIP”) and provides medical and prescription drug benefits, including Medicare Part B reimbursements, to many of its retirees. NYSHIP offers a Preferred Provider Organization (“PPO”) plan and several Health Maintenance Organization (“HMO”) plans.

The MTA Metro-North Railroad 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.

OPEB Plan Eligibility — To qualify for benefits under the OPEB Plan, a former employee of the MTA Metro-North Railroad must:

- (a) have retired;
- (b) be receiving a pension (except in the case of the 401(k) Plan);
- (c) have at least 10 years of credited service as a member of the MTA Defined Benefit Plan, the MNR Cash Balance Plan, the 401(k) Plan or the VDC; and
- (d) have attained the minimum age requirement (unless within 5 years of commencing retirement for certain members). A represented retired employee may be eligible only pursuant to the relevant collective bargaining agreement.

Surviving Spouse and Other Dependents —

- Lifetime coverage is provided to the surviving spouse (not remarried) or domestic partner and surviving dependent children to age 26 of retired managers and certain non-represented retired employees.

The OPEB Plan Board of Managers has the authority to establish and amend the benefits that will be covered under the OPEB Plan, except to the extent that they have been established by collective bargaining agreement.

Contributions — The MTA Metro-North Railroad is not required by law or contractual agreement to provide funding for the OPEB Plan, other than the “pay-as-you-go” (“PAYGO”) amounts. PAYGO is the cost of benefits necessary to provide the current benefits to retirees and eligible beneficiaries and dependents. Employees are not required to contribute to the OPEB Plan. The OPEB Plan Board has the authority for establishing and amending the funding policy. For the year-ended December 31, 2018, the MTA Metro-North paid \$54,763 of PAYGO to the OPEB Plan.

During 2012, the MTA funded \$250 million into the Trust and an additional \$50 million during 2013. There have been no further contributions made to the Trust. The discount rate estimates investment earnings for assets earmarked to cover retiree health benefits. Under GASB Statement No. 75, the discount rate depends on the nature of underlying assets for funded plans. Since the amount of benefits paid in 2017 exceeded the current market value of the assets, a depletion date is assumed to occur immediately. Therefore, the discount rate is set equal to the municipal bond index. The MTA elected the Bond Buyer General Obligation 20-Bond Municipal Bond Index. As a result, the discount rates as of December 31, 2017 and December 31, 2016, the measurement dates, are 3.44% and 3.78%, respectively.

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Employer contributions include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy arises when an employer allows a retiree and their dependents to continue on the active plans and pay the active premiums. Retirees are not paying the true cost of their benefits because they have higher utilization rates than actives and therefore are partially subsidized by the active employees. As shown in the following table, for the year ended December 31, 2017, the employer made a cash payment for retiree healthcare of \$16,674 as part of the employer's payment for active-employee healthcare benefits. For purposes of GASB Statement No. 75, this payment made on behalf of the active employees should be reclassified as benefit payments for retiree health care to reflect the retirees' underlying age-adjusted, retiree benefit costs.

Blended and Age-adjusted Premium (in thousands)	2017 Retirees
Total blended premiums	33,010
Employment payment for retiree healthcare	16,674
Net Payments	49,684

(2) Net OPEB Liability

At December 31, 2018, the MTA Metro-North reported a net OPEB liability of \$1,571,315 for its proportionate share of the Plan's net OPEB liability. The net OPEB liability was measured as of the OPEB Plan's fiscal year-end of December 31, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of July 1, 2017, and rolled forward to December 31, 2017. The MTA Metro-North's proportion of the net OPEB liability was based on a projection of the MTA Metro-North's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating employers. At December 31, 2018, the MTA Metro-North's proportion was 7.632%.

OPEB Plan Fiduciary Net Position — The fiduciary net position has been determined on the same basis used by the OPEB plan. The OPEB plan uses the accrual basis of accounting under which contributions from the employer are recognized when paid. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at fair value based on quoted market prices or Net Asset Value. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report or at www.mta.info.

(3) Actuarial Assumptions

Actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as future employment, mortality and health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan, which refers to the plan terms as understood by the employer and the plan members at the time of the valuation, including only changes to plan terms that have been made and communicated to employees. The projections include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit

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costs between the employer and plan members at that time. The MTA Metro-North may not be obligated to provide the same types or levels of benefits to retirees in the future.

The total OPEB liability was determined by an actuarial valuation performed on July 1, 2017. Update procedures were used to roll forward the total OPEB liability to December 31, 2017, the measurement date. The actuarial valuations were performed using the following actuarial assumptions, applied to all periods included in the measurement, unless specified:

Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%, net of expenses
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Normal cost increase factor	4.50%
Investment rate of return	6.50%

Salary Scale - salaries are assumed to increase by years of service.
Rates are shown below:

Managers Hired on or after January 1, 1988

<u>Years of Service</u>	<u>Rate of Increase</u>
0	6.00%
1	5.00%
2	4.25%
3	4.00%
4+	3.50%

Represented Employees hired on or after January 1, 1998

<u>Years of Service</u>	<u>Rate of Increase</u>
0	3.25%
1	10.50%
2	10.00%
3	9.75%
4	9.25%
5	14.75%
6+	3.25%

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. The NYSHIP trend reflects actual increases in premiums to participating agencies through 2018 Long-term trend increases are 4% for

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dental and vision benefits and 4.5% for Medicare Part B reimbursements, but not more than projected medical and pharmacy trends excluding any excise tax adjustments.

Healthcare Cost Trend Rates — The following lists illustrative rates for NYSHIP trend assumptions (all amounts are in percentages).

Fiscal Year	NYSHIP	
	< 65	>=65
2018	8.50%	8.20%
2019	6.20%	5.50%
2020	5.80%	5.30%
2021	5.50%	5.20%
2022	7.20%	5.10%
2023	6.10%	5.10%
2024	6.10%	5.00%
2025	5.90%	5.00%
2026	5.90%	5.00%
2027	5.80%	4.90%
2037	5.60%	5.00%
2047	5.40%	5.90%
2057	5.10%	5.40%
2067	4.80%	5.00%
2077	4.20%	4.30%
2087	4.10%	4.20%
2097	4.10%	4.20%

For purposes of applying the Entry Age Normal Cost method, the healthcare trend prior to the valuation date are based on the ultimate rates, which are 4.1% for medical and pharmacy costs prior to age 65, 4.2% for NYSHIP costs at age 65 and later, and 4.3% for self-insured and pharmacy costs at age 65 and later.

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.

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

Expected Rate of Return on Investments — The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Rate of Return</u>
US Core Fixed Income	13.00%	1.96%
Global Bonds	15.00%	0.34%
Emerging Market Bonds	5.00%	3.30%
Global Equity	35.00%	4.99%
Non-US Equity	15.00%	5.84%
Global REITS	5.00%	5.62%
Hedge Funds-Muliti Strategy	12.00%	3.35%
Total	100.00%	
Long Term Expected Rate of Return selected by MTA		6.50%

Discount Rate — The discount rate used in this valuation to measure the total OPEB liability was updated to incorporate GASB Statement No. 75 guidance.

The plan’s fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan’s fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan’s fiduciary net position is not projected to be sufficient. Therefore, the discount rate is set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index as of December 31, 2017 of 3.44%.

Sensitivity of the MTA Metro-North Railroad's Proportionate Share of the Net OPEB Liability to Changes in the Discount

Rate — The following presents the MTA Metro-North Railroad’s proportionate share of the net OPEB liability, as well as what the MTA Metro-North Railroad’s proportionate share of the net OPEB 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 the measurement:

	1% Decrease (2.44%)	Discount Rate (3.44%)	1% Increase (4.44%)
	(in thousands)		
Proportionate share of the net OPEB liability	\$ 1,786,428	\$ 1,571,355	\$ 1,359,817

Sensitivity of the MTA Metro-North Railroad's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates — The following presents the MTA Metro-North Railroad’s proportionate share of the net OPEB liability, as well as what the MTA Metro-North Railroad’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates used for the measurement:

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	1% Decrease	Healthcare Cost Current Trend Rate *	1% Increase
	(in thousands)		
Proportionate share of the net OPEB liability	\$ 1,327,518	\$ 1,571,355	\$ 1,835,033

*For further details, refer to the Health Care Cost Trend Rates tables in the Actuarial Assumptions section of this Note Disclosure.

(4) OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the MTA Metro-North Railroad recognized OPEB expense of \$152,362, which represents its proportionate share of the Plan's OPEB expense.

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, changes in assumptions and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a 7.4 year closed period, beginning the year in which the deferred amount occurs.

At December 31, 2018, the MTA Metro-North Railroad reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows (\$ in thousands):

	December 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 898	\$ -
Changes in assumptions	60,163	-
Net difference between projected and actual earnings on OPEB plan investments	-	(1,610)
Employer contributions to the plan subsequent to the measurement of net OPEB liability	54,762	-
Total	\$ 115,823	\$ (1,610)

For the year ended December 31, 2018, \$115,823 was reported as deferred outflows of resources related to OPEB. This amount includes both MTA Metro-North Railroad's contributions subsequent to the measurement date and an implicit rate subsidy adjustment that will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2018 will be recognized in OPEB expense as follows:

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Year ending December 31:

2019	\$	9,138
2020		9,138
2021		9,138
2022		9,138
2023		9,541
Thereafter		13,357
	\$	<u>59,450</u>

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. These deferred expenses are related to assumption of environmental liabilities and an incentive payment. In 2006, American Premier Underwriters, Inc. sold their rights to the leased property to Midtown Trackage Ventures, LLC. See Note 14 for the approval of MTA Board to purchase the leased property from 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 \$21,508 and \$20,831 in 2018 and 2017, which includes office space leased from MTA amounting to \$656 and \$782 in 2018 and 2017.

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At December 31, 2018, 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:

Operating	Harlem/Hudson Lease	Other	Total
2019	\$ 1,157	\$ 17,648	\$ 18,805
2020	1,157	18,664	19,821
2021	1,157	18,507	19,664
2022	1,157	18,050	19,207
2023	1,157	17,636	18,793
2024-2028	5,784	88,987	94,771
2029-2033	5,784	80,984	86,768
2034-2038	5,784	13,995	19,779
2039-2043	5,784	-	5,784
2044-2048	5,784	-	5,784
Thereafter	<u>261,426</u>	<u>-</u>	<u>261,426</u>
	<u>\$ 296,131</u>	<u>\$ 274,471</u>	<u>\$ 570,602</u>

Capital	Harlem/Hudson Lease
2019	\$ 606
2020	887
2021	887
2022	887
2023	887
2024-2028	4,434
2029-2033	4,434
2034-2038	4,434
2039-2043	4,434
2044-2048	4,434
Thereafter	<u>200,401</u>
	226,725
Amount representing interest	<u>(213,132)</u>
Present value of capital lease obligations	13,593
Less current portion	<u>(158)</u>
Long-term liability	<u>\$ 13,435</u>

All operating and capital payments subsequent to 2048 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.

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A summary of activity for the capital lease obligation for the years ended December 31, 2018 and 2017 is presented below:

	2018	2017
Balance—beginning of year	\$ 13,893	\$ 14,174
Activity during the year:		
Principal payments on lease	<u>(300)</u>	<u>(281)</u>
Balance—end of year	13,593	13,893
Less current portion	<u>(158)</u>	<u>(148)</u>
Long-term liability	<u>\$ 13,435</u>	<u>\$ 13,745</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, 2018 and 2017, is presented below:

	2018	2017
Balance—beginning of year	\$ 74,402	\$ 65,571
Activity during the year:		
Current year claims and changes in estimates	25,860	28,068
Claims paid—settlements only	<u>(24,769)</u>	<u>(19,237)</u>
Balance—end of year	75,493	74,402
Less current portion	<u>(15,523)</u>	<u>(15,553)</u>
Long-term liability	<u>\$ 59,970</u>	<u>\$ 58,849</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.

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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 \$17.4 million and \$1.2 million were recorded on the Statement of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2018 and 2017, 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 \$21.0 million (long-term) for 2018 and \$0.72 million (short-term) and \$6.2 million (long-term) for 2017 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, 2018 and 2017:

	2018	2017
Payments to MTA and affiliated agencies	\$ 194,110	\$ 187,389
Payments from MTA and affiliated agencies	136,693	125,675

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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, 2018 and 2017:

	<u>2018</u>		<u>2017</u>	
	<u>Receivable</u>	<u>(Payable)</u>	<u>Receivable</u>	<u>(Payable)</u>
MTA	\$ 75,893	\$ (48,140)	\$ 57,841	\$ (34,484)
Affiliated agencies	<u>319</u>	<u>(16,649)</u>	<u>520</u>	<u>(18,627)</u>
Total MTA and affiliated agencies	<u>\$ 76,212</u>	<u>\$ (64,789)</u>	<u>\$ 58,361</u>	<u>\$ (53,111)</u>

In addition, MTA Metro-North Railroad had investments in the MTA Investment Pool of \$18,983 and \$18,565 at December 31, 2018 and 2017, 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. Presently, the MTA, the MTA New York City Transit and the MTA Bridges and Tunnels occupy substantially all of the space at Two Broadway and rent is paid directly to the landlord.

13. OTHER LONG-TERM LIABILITIES

MTA Metro-North Railroad has recorded \$1,537 in 2018 and \$1,537 in 2017 for the deferred rent related to the Graybar lease (see Note 9). A summary of activity in other long-term liabilities for the years ended December 31, 2018 and 2017, is presented below:

	<u>2018</u>	<u>2017</u>
Balance—beginning of year	\$ 20,571	\$ 19,133
Activity during the year:		
Deferred rent on lease	1,537	1,537
Payments	(92)	(88)
Other	<u>(11)</u>	<u>(11)</u>
Balance—end of year	<u>\$ 22,005</u>	<u>\$ 20,571</u>

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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.

On November 15, 2018, the MTA Board granted approval to purchase Grand Central Terminal and the Harlem and Hudson railroad lines from Midtown Trackage Ventures, LLC. The purchase would put an end to a 280-year lease that gives the MTA a one-time window of opportunity to buy the assets, which closes in 11 months. The purchase price, approximately \$35 million, is equal to the net present value of the estimated rental stream the MTA had been paying under the lease, discounted at a rate of 6.25%.

15. ASSET IMPAIRMENT AND RELATED EXPENSES

The MTA allocated \$391.3 million in the 2017 amendment to the 2010-2014 Capital Program for MTA Metro-North Railroad 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. In 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. As of December 31, 2018, \$214.7 million has been expended; \$153.6 million for power, \$52.0 million for communication and signal improvements and \$9.1 million for right of way restoration.

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

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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 \$11 million self-insured retention, in addition to which there is excess insurance provided by third-party insurers.

16. SUBSEQUENT EVENTS

The New York State Fiscal Year 2019-2020 Enacted Budget established the Central Business District Tolling Program (CBD Tolling Program), the goals of which are to reduce traffic congestion in the Manhattan Central Business District, improve air quality, and provide a stable and reliable funding source for the repair and revitalization of the MTA's public transportation systems. The CBD Tolling Program revenues are not expected to begin to flow to MTA until at least early 2021. MTA Bridges and Tunnels is directed to establish the CBD Tolling Capital Lockbox Fund. Monies in the fund cannot be commingled with any other MTA Bridges and Tunnel monies. Funds on deposit in the CBD Tolling Capital Lockbox Fund shall be applied to: (1) operating, administration and other necessary expenses relating to the program, or to DOT pursuant to the MOU; and (2) costs of MTA capital projects included in the 2020-2024 Capital Program or any successor capital program. The 2019-2020 State Enacted Budget further provides that capital project costs paid for by the CBD Tolling Capital Lockbox Fund are subject to the following revenue split: (1) 80 percent for MTA New York City Transit, MaBSTOA, MTA Staten Island Railway and MTA Bus capital project costs, with priority given to subway system, new signaling, new subway cars, track and car repair, accessibility, buses and bus system improvements and further investments in expanding transit availability in the outer boroughs; (2) 10 percent for MTA Long Island Rail Road capital projects, including parking facilities, rolling stock, capacity enhancements, accessibility and expanding transit availability; and (3) 10 percent for MTA Metro-North Railroad capital projects including parking facilities, rolling stock, capacity enhancements, accessibility and expanding transit availability.

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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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY:				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest	21	24	29	32
Effect of liability gains and losses	12	(15)	(10)	-
Effect of assumption changes or inputs	-	-	18	-
Benefit payments and withdrawals	<u>(71)</u>	<u>(77)</u>	<u>(113)</u>	<u>(88)</u>
Net change in total pension liability	(38)	(68)	(76)	(56)
TOTAL PENSION LIABILITY—Beginning	<u>566</u>	<u>634</u>	<u>710</u>	<u>766</u>
TOTAL PENSION LIABILITY—Ending(a)	<u>528</u>	<u>566</u>	<u>634</u>	<u>710</u>
FIDUCIARY NET POSITION:				
Employer contributions	\$ -	\$ 23	\$ 18	\$ -
Net investment income	20	16	6	41
Benefit payments and withdrawals	(71)	(77)	(113)	(88)
Administrative expenses	<u>-</u>	<u>-</u>	<u>3</u>	<u>(3)</u>
Net change in plan fiduciary net position	(51)	(38)	(86)	(50)
PLAN FIDUCIARY NET POSITION—Beginning	<u>574</u>	<u>612</u>	<u>698</u>	<u>748</u>
PLAN FIDUCIARY NET POSITION—Ending(b)	<u>523</u>	<u>574</u>	<u>612</u>	<u>698</u>
EMPLOYER'S NET PENSION LIABILITY—Ending(a)-(b)	<u>\$ 5</u>	<u>\$ (8)</u>	<u>\$ 22</u>	<u>\$ 12</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>99.01 %</u>	<u>101.39 %</u>	<u>96.56 %</u>	<u>98.36 %</u>
COVERED-EMPLOYEE PAYROLL	\$ 268	\$ 648	\$ 995	\$ 2,080
EMPLOYER'S NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>- 64 - 1.95 %</u>	<u>(1.22)%</u>	<u>2.20 %</u>	<u>0.56 %</u>

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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 %)

at December 31:	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability	36.10 %	36.33 %	35.43 %	35.29 %
Proportionate share of the net pension liability	\$ 370,698	\$ 460,804	\$ 457,065	\$ 365,081
Actual covered-employee payroll	\$ 589,000	\$ 598,291	\$ 562,928	\$ 471,918
Proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll	62.94 %	77.02 %	81.19 %	77.36 %
Plan fiduciary net position as a percentage of the total pension liability	79.87 %	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.

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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)

	2018	2017	2016	2015	2014
MNR Cash Balance Plan					
Actuarially determined contribution	\$ 5,444	\$ -	\$ 22,721	\$ -	\$ 4,977
Actual employer contribution	<u>5,444</u>	<u>-</u>	<u>22,721</u>	<u>14,124</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,124)</u>	<u>\$ 4,977</u>
Covered payroll	<u>\$ 268,488</u>	<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>2.03 %</u>	<u>- %</u>	<u>2.68 %</u>	<u>0.96 %</u>	<u>- %</u>
MTA Defined Benefit Pension Plan					
Actuarially determined contribution	\$ 116,000,000	\$ 114,406,753	\$ 105,507,923	\$ 96,982,553	\$ 95,820,560
Actual employer contribution	<u>116,005,446</u>	<u>120,514,677</u>	<u>99,082,552</u>	<u>70,500,320</u>	<u>122,862,733</u>
Contribution deficiency (excess)	<u>\$ (5,446)</u>	<u>\$ (6,107,924)</u>	<u>\$ 6,425,371</u>	<u>\$ 26,482,233</u>	<u>\$ (27,042,173)</u>
Covered payroll	<u>\$ 698,638,597</u>	<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>16.60 %</u>	<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.

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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, 2018 funding valuation for the Metro-North Commuter Railroad Company Cash Balance Plan:

MNR Cash Balance Plan

Valuation Dates	January 1, 2018
Measurement Date	December 31, 2017
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	2.50%
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, 2018 funding valuation.

Changes of Assumptions

There were no changes of assumptions noted for the January 1, 2018 funding valuation.

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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 OPEB LIABILITY IN THE MTA OPEB PLAN

(In thousands, except %)

at December 31	<u>2017</u>
Proportion of the net OPEB liability	7.63 %
Proportionate share of the net OPEB liability	\$ 1,571,315
Actual covered-employee payroll	\$ 539,257
Proportionate share of the net OPEB liability as a percentage of the Authority's covered-employee payroll	291.39 %
Plan fiduciary net position as a percentage of the total OPEB liability	1.79 %

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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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 CONTRIBUTIONS
TO THE MTA OPEB PLAN AND NOTES TO SCHEDULE OF CONTRIBUTIONS TO THE MTA OPEB
PLAN FOR THE YEARS ENDED DECEMBER 31:

(IN THOUSANDS EXCEPT %)

	<u>2018</u>	<u>2017</u>
Actuarially Determined Contribution	N/A	N/A
Actual Employer Contribution ⁽¹⁾	\$ 54,762	\$ 49,684
Contribution Deficiency (Excess)	<u>N/A</u>	<u>N/A</u>
Covered Payroll	698,639	539,257
Actual Contribution as a Percentage of Covered Payroll	7.84%	9.21%

(1) Actual employer contribution includes the implicit rate of subsidy adjustment of \$18,346 and \$16,674 for the years ended December 31, 2018 and 2017, respectively.

Notes to Schedule of the MTA Metro-North Commuter Railroad Companies Contribution to the OPEB Plan:

Methods and assumptions used to determine contribution rates:

Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%, net of expenses
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Normal cost increase factor	4.50%

Changes of benefit terms: In the July 1, 2017 actuarial valuation, there were no changes to the benefit terms.

Changes of assumptions: In the July 1, 2017 actuarial valuation, there was a change in assumptions. The discount rate used to measure liabilities was updated to incorporate GASB 75 guidance and changed to reflect the current municipal bond rate.

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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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, 2018 and 2017,
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, 2018 and 2017, 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.

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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, 2018 and 2017, 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.

As described in Note 2 to the financial statements, in 2018, MTA Bus adopted Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 and the Schedule of MTA Bus’s Proportionate Share of Net Pension Liability in a Cost-Sharing Multiple-Employer Pension Plan; Schedule of MTA Bus’s Contributions for all Pension Plans; Schedule of MTA Bus’s Proportionate Share of Net OPEB Liability in the MTA OPEB Plan, and Schedule of MTA Bus’s Contributions to the MTA OPEB Plan and Notes to the Schedule of MTA Bus’s Contribution to the MTA OPEB Plan, as listed in the table of contents, 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.

May 20, 2019

MTA BUS COMPANY (Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2018 AND 2017 (\$ 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, 2018 and 2017. 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, (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.

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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, 2018, 2017 and 2016. 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

	2018	2017	2016	Increase (Decrease)	
		(In thousands)		2018-2017	2017-2016
Gross Capital Assets	\$ 897,746	\$ 856,923	\$ 831,958	\$ 40,823	\$ 24,965
Accumulated Depreciation	<u>(558,140)</u>	<u>(510,652)</u>	<u>(452,064)</u>	<u>(47,488)</u>	<u>(58,588)</u>
Net Capital Assets	339,606	346,271	379,894	(6,665)	(33,623)
Other Assets	<u>187,258</u>	<u>146,959</u>	<u>203,483</u>	<u>40,299</u>	<u>(56,524)</u>
Total Assets	<u>526,864</u>	<u>493,230</u>	<u>583,377</u>	<u>33,634</u>	<u>(90,147)</u>
Deferred outflows of resources	<u>132,421</u>	<u>102,998</u>	<u>104,192</u>	<u>29,423</u>	<u>(1,194)</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 659,285</u>	<u>\$ 596,228</u>	<u>\$ 687,569</u>	<u>\$ 63,057</u>	<u>\$ (91,341)</u>

Significant Changes in Assets Includes:

December 31, 2018 versus 2017

MTA Bus’s Gross Capital Assets amounted to \$897.7 million and \$856.9 million as of December 31, 2018 and 2017, respectively. Of the December 31, 2018 total, buses accounted for 70.3%, facilities and yards, data processing equipment and other were 4.3%, service vehicles were 0.4%, assets under construction consisting of buses and facility upgrades were 5.3%, and capital non bus were 19.7%.

Net Capital Assets decreased from December 31, 2017 by \$6.7 million or 1.9%. The net decrease is due to additions to fixed assets of \$40.8 million less depreciation of \$47.5 million. The additions and transfers included \$35.4 million to assets under construction for the Baisley Park, Spring Creek, Far Rockaway, JFK and LaGuardia depot renovations and upgrades, \$0.1 million for acquisition of service vehicles, and \$5.3 million for data processing equipment.

Other Assets increased by \$40.3 million or 27.4% compared with the prior year. This increase is due to an increase in subsidy receivable from New York City of \$53.4 million, offset by a decrease in other receivables of \$11.5 million, and a decrease in prepaid expenses and materials and supplies of \$1.6 million.

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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 \$82.1 million at December 31, 2018. See Note 6 to the financial statements for more information regarding MTA Bus's pensions.

As a result of adopting GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, MTA Bus is reporting deferred outflows of resources related to OPEB liabilities of \$50.4 million at December 31, 2018. See Note 7 to the financial statements for more information regarding MTA Bus's other post-employment benefits.

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.

Total Liabilities, Distinguishing Between Noncurrent Liabilities and Current Liabilities and Deferred Inflows of Resources

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	
				<u>2018-2017</u>	<u>2017-2016</u>
	<u>(In thousands)</u>				
Current Liability	\$ 297,811	\$ 276,800	\$ 317,161	\$ 21,011	\$ (40,361)
Noncurrent Liability	1,187,219	1,345,737	1,165,763	(158,518)	179,974
Total Liabilities	<u>1,485,030</u>	<u>1,622,537</u>	<u>1,482,924</u>	<u>(137,507)</u>	<u>139,613</u>
Deferred Inflows of Resources	<u>81,895</u>	<u>13,080</u>	<u>12,281</u>	<u>68,815</u>	<u>799</u>
Total liabilities and deferred inflows of resources	<u>\$ 1,566,925</u>	<u>\$ 1,635,617</u>	<u>\$ 1,495,205</u>	<u>\$ (68,692)</u>	<u>\$ 140,412</u>

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Significant Changes in Liabilities Includes:

December 31, 2018 versus 2017

At the end of 2018, MTA Bus's liabilities consisted primarily of post-employment benefits, 46.8%, amounts due to New York City Transit Authority ("NYCTA") and the MTA for intercompany transactions, including MTA investment pool borrowings, 10.1%, injuries to persons (workers compensation and public liability), 24.8%, and accrued retirement, 11.2%.

Total Liabilities decreased from December 31, 2017 to December 31, 2018 by \$137.5 million or 8.5%. Current Liabilities increased \$21.0 million or 7.6%, while Noncurrent Liabilities decreased by \$158.5 million or 11.8%.

The increase in Current Liabilities was due primarily to an increase in accounts payable of \$2.6 million and due to MTA and affiliated agencies of \$32.4 million, resulting from delays in subsidy receipts. These increases were offset by a decrease in accrued expenses of \$14.0 million, due to union contract settlements.

The decrease in Noncurrent Liabilities was due to a decrease in post-employment benefits other than pensions of \$84.4 million, a decrease in accrued retirement of \$103.1 million, a decrease in NYCTA/MTA intercompany capital loans of \$11.0 million, and a decrease in pollution remediation of \$0.2 million. These decreases were offset by an increase in liabilities from injuries to persons of \$40.2 million.

As a result of adopting GASB Statement No. 68, MTA Bus is reporting deferred inflows of resources related to pension liabilities of \$81.2 million at December 31, 2018. See Note 6 to the financial statements for more information regarding MTA Bus's pensions.

As a result of adopting GASB Statement No. 75, MTA Bus is reporting deferred inflows of resources related to OPEB liabilities of \$0.7 million at December 31, 2018. See Note 7 to the financial statements for more information regarding MTA Bus's post-employment benefits.

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 of \$61.7 million, an increase in liabilities from injuries to persons of \$65.8 million, and an increase in accrued retirement of \$64.0 million. These increases were offset by a decrease in NYCTA/MTA intercompany capital loans of \$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.

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

	2018	2017	2016	Increase (Decrease)	
				2018-2017	2017-2016
	(In thousands)				
Capital Assets, net of accumulated depreciation	\$ 339,606	\$ 346,271	\$ 379,894	\$ (6,665)	\$ (33,623)
Less: Intercompany capital loans	-	(11,031)	(22,574)	11,031	11,543
Net Investment in Capital Assets	339,606	335,240	357,320	4,366	(22,080)
Unrestricted (deficit)	(1,247,246)	(1,374,629)	(1,164,956)	127,383	(209,673)
Total Net Position	<u>\$ (907,640)</u>	<u>\$ (1,039,389)</u>	<u>\$ (807,636)</u>	<u>\$ 131,749</u>	<u>\$ (231,753)</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, 2018 versus 2017

Total net position was (\$907.6) million at the end of 2018, a net increase of \$131.7 million from the end of 2017. The net increase was comprised of capital contributions of \$26.7 million, net non-operating income of \$551.5 million, offset by operating losses (\$621.8) million, and restatement of beginning of net position of \$175.3 million, mainly due to the effect of adopting GASB 75.

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.

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Condensed Statements of Revenues, Expenses and Changes in Net Position

Year Ended December 31,

	2018	2017	2016
	(In thousands)		
Operating revenues	\$ 239,593	\$ 236,998	\$ 234,474
Operating expenses	<u>(861,359)</u>	<u>(957,930)</u>	<u>(832,397)</u>
Operating loss	<u>(621,766)</u>	<u>(720,932)</u>	<u>(597,923)</u>
Nonoperating revenues (expenses)			
Operating subsidies from NYC	516,981	449,769	447,839
Other Non-operating revenue/expenses	<u>34,539</u>	<u>34,936</u>	<u>34,623</u>
Total nonoperating revenues (expenses)	<u>551,520</u>	<u>484,705</u>	<u>482,462</u>
Loss before capital contributions	(70,246)	(236,227)	(115,461)
Capital contributed	<u>26,691</u>	<u>4,475</u>	<u>50,875</u>
Changes in net position	(43,555)	(231,752)	(64,586)
Net position, Beginning of year	(1,039,389)	(807,637)	(743,050)
RESTATEMENT OF BEGINNING NET POSITION (Note 2)	<u>175,304</u>	<u>-</u>	<u>-</u>
Net position, End of year	<u>\$ (907,640)</u>	<u>\$ (1,039,389)</u>	<u>\$ (807,636)</u>

Revenues from Fares/Ridership:

December 31, 2018 versus 2017

Bus revenues from fares totaled \$220.9 million in 2018 versus \$217.2 million in 2017, an increase of \$3.7 million, resulting from higher fares which went into effect in March 2017.

Total passenger ridership was 121.4 million in 2018 versus 122.2 million in 2017, a decrease of 0.8 million, or 0.7%. This decrease may be attributed in part to other transportation alternatives, such as those provided by ride-sharing companies.

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.

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Operating Expenses, by Major Function

	2018	2017	2016	Increase (Decrease)	
				2018-2017	2017-2016
	(In thousands)				
Salaries and wages	\$ 370,821	\$ 350,879	\$ 333,935	\$ 19,942	\$ 16,944
Retirement and other employee benefits	170,280	247,906	164,989	(77,626)	82,917
Post employment benefits other than pensions	64,487	82,863	84,461	(18,376)	(1,598)
Fuel	27,042	19,537	15,565	7,505	3,972
Electric power	1,968	1,772	1,542	196	230
Insurance	5,557	5,633	7,714	(76)	(2,081)
Public liability claims	61,798	88,297	63,400	(26,499)	24,897
Materials and supplies	44,017	47,969	43,812	(3,952)	4,157
Professional services	28,490	23,767	27,754	4,723	(3,987)
Pollution remediation services	217	222	41	(5)	181
Maintenance and other operating expenses	29,637	26,521	28,125	3,116	(1,604)
Depreciation	53,021	58,588	57,158	(5,567)	1,430
Other business expenses	4,024	3,976	3,901	48	75
Total operating expenses	<u>\$ 861,359</u>	<u>\$ 957,930</u>	<u>\$ 832,397</u>	<u>\$ (96,571)</u>	<u>\$ 125,533</u>

December 31, 2018 versus 2017

Total operating expenses decreased by \$96.6 million or 10.1% versus the prior year, as follows:

- Salaries and wages exceeded 2017 by \$19.9 million or 5.7%, due to increased salaries resulting from contract settlements/retroactive wage accruals.
- Retirement and other employee benefits decreased by \$77.6 million. An Arbitration Award between MTA Bus and TWU Local 100 providing enhanced benefits to covered employees resulted in a higher pension expense in 2017.
- Post-employment benefits other than pensions decreased by \$18.4 million in accordance with the provisions of adopting GASB 75.
- Fuel costs increased by \$7.5 million or 38.4%, 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.
- Public liability and no fault claims decreased by \$26.5 million. Due to reported losses for several accident years being greater than former actuary's estimates, the 2017 expense was adjusted higher.
- 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 increased by \$4.7 million.
- Other expenses consist of Automated Fare Collection ("AFC") revenue collection fees paid to New York City Transit Authority (\$1.8 million) or .0175 cents per AFC ridership transaction, office supplies and other miscellaneous charges.

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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.
- 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 \$517.0 million and \$449.8 million in 2018 and 2017, respectively. Projected subsidy amounts for calendar year 2019 are expected to be between \$500 and \$520 million depending on operating losses and timing of retroactive contract settlements.

In 2018, pursuant to MTA Board approval, MTA Bus received \$23.8 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 \$11.5 million on debt related to the NYCTA/MTA capital pool loan and \$9.5 million to pay commercial paper debt.

Capital contributions of \$26.7 million in 2018 and \$4.5 million in 2017 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 increased by \$131.7 million in 2018, which is comprised of capital contributions of \$26.7 million, net

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non-operating income of \$551.5 million, offset by operating losses (\$621.8) million, and restatement of beginning net position of \$175.3 million.

Budget Highlights

Financial:

Total revenue from fares in 2018 was \$220.9 million. Passenger revenue was up \$3.7 million over 2017 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 2018 to upgrade conditions and comply with environmental regulations. Additional work needs to be done to improve facility conditions in 2019 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 1,298 buses, which makes MTA Bus the 10th largest bus fleet in the United States and Canada, serving nearly 400,000 riders daily.

Between 2005 and 2018, 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 2018 decreased relative to 2017, with ridership down by 80.7 million trips (3.1%). The decrease is driven by Subway ridership, which declined by 47.3 million trips (2.7%), and MTA New York City Transit Bus ridership, which declined by 33.3 million trips (5.5%). In addition, MTA Bus ridership declined by 766 thousand trips (0.6%) and MTA Staten Island Railway ridership declined by 82 thousand trips (1.8%). Commuter rail experienced a small increase in ridership in 2018, with MTA Long Island Rail Road ridership increasing by 607 thousand trips (0.7%) and MTA Metro-North Railroad ridership increasing by 58 thousand trips (0.1%). The overall decline in ridership in 2018 was comprised of a 27.6 million decline in the first quarter, an 18.2 million decline in the second quarter, a 21.4 million decline in the third quarter and a 13.5 million decline in the fourth quarter, all compared with the corresponding quarter

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in 2017. The decline in bus ridership is consistent with a trend that began in 2009 and has been observed nationally, while declining subway ridership is a more recent trend, beginning in the third quarter of 2016; recent bus and subway ridership trends have been attributed to increased fare evasion, planned subway service changes to accommodate construction and maintenance/repair work, increase in use of for-hire vehicle services, and increases in telecommuting and the use of e-commerce. Vehicle traffic at MTA Bridges and Tunnels facilities increased by 12.3 million crossings (4.0%) in 2018 compared to 2017. This increase was comprised of a 2.5 million increase in the first quarter, a 4.1 million increase in the second quarter, a 2.7 million increase in the third quarter, and a 3.1 million increase in the fourth quarter, all compared to the corresponding quarter in 2017. Congestion pricing in Manhattan—currently being debated in the New York State legislature with the potential to be adopted in April 2019 for implementation as early as 2021—could impact future 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 2018 than in 2017 by 67.3 thousand jobs (1.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last thirty-three 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 2018 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, private inventory investment, and federal government spending; these were partially offset by negative contributions from residential fixed investment, and state and local government spending. Imports, which are a subtraction in the Gross Domestic Product (“GDP”) calculation, increased. The deceleration in RGDP growth, relative to the third quarter’s revised 3.4% growth rate, reflected a deceleration in private inventory investment, personal consumption expenditures and federal government spending, as well as a downturn in state and local government spending; these were partially offset by an acceleration nonresidential fixed investment, as well as an upturn in exports and a smaller increase in imports.

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 2018, with the metropolitan area index increasing by 1.8 %, while the national index increased by 2.2%, when compared with the fourth quarter of 2017. A 5.3% increase in the regional price of energy products, along with a 3.9% national increase, impacted overall inflation; in the metropolitan area, the CPI-U exclusive of energy products increased by 1.6%, while nationally, inflation exclusive of energy products was 2.1%. The spot price for New York Harbor conventional gasoline fell by 3.8%, from an average price of \$1.77 per gallon to an average price of \$1.70 per gallon, between the fourth quarters of 2017 and 2018.

The Federal Open Market Committee (“FOMC”) raised its target for the Federal Funds rate four times in 2018, with the target range set at 1.5% to 1.75% in March, 1.75% to 2.0% in June, 2.0% to 2.25% in September, and 2.25% to 2.5%—the current target level—in December. This was a slight acceleration in rate increases compared to 2017, when the target level was increased three times. The December increase was in view of continued labor market strength and rising economic activity, as job gains were strong and the unemployment rate remained low. Household spending continued to grow strongly, while growth in business fixed investment moderated from its rapid rate of growth in the first three quarters of 2018. Overall inflation and inflation for items other than food and energy remained close to 2 percent and indicators of longer-term inflation expectations were little changed. The FOMC expects that the economic expansion will be sustained, labor market conditions will remain strong, and inflation will remain near the 2 percent objective. In light of muted inflationary pressures and global economic and financial developments, the FOMC has indicated its

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patience in determining the timing and size of future rate adjustments, assessing realized and expected economic conditions relative to its dual mandate of maximizing employment and targeting 2 percent inflation.

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 2018 were lower than the fourth quarter of 2017 by \$2.5 (2.2%); receipts in the fourth quarter of 2018 were \$8.8 (7.5%) lower than receipts from the third quarter of 2018. Despite the gradual overall recovery of MRT receipts that began in 2012, average monthly receipts in 2018 remain \$26.9 (42.3%) lower 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 transactions 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 \$11.2 (7.7%) higher in the fourth quarter of 2018 than receipts for the fourth quarter of 2017; receipts in the fourth quarter of 2018 were \$12.2 (7.2%) lower than receipts from the third quarter of 2018. Average monthly receipts in 2018 were \$19.0 (25.8%) 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 \$220.9 million in 2018 versus \$217.2 million in 2017. Total ridership was 121.4 million in 2018 versus 122.2 million in 2017, a decrease in passenger ridership of 0.8 million, or 0.7%. The increase in revenue could be attributable to higher fares, which went into effect in March 2017. Both calendar year 2018 and 2017 ended with a cash and investment deficit of \$86.3 and \$60.5 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. In the amendment to the 2010-2014 program, the \$25 million originally budgeted for Bus Company’s Sandy recovery project was right sized to \$15 million. The amended capital programs, as submitted, were deemed approved by the CPRB on July 31, 2017.

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As of December 31, 2018, \$499 million has been committed under the 2000-2004 Program, of which \$495 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, 2018, \$146 million has been committed under the 2005-2009 Program, of which \$132 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, 2018, \$278 million has been committed under the 2010-2014 Program, of which \$225 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, 2018, \$97 million has been committed under the 2015-2019 Program, of which \$6 million 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, \$327.6 million in MTA Bond proceeds, and \$125.0 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 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 \$133 million in Federal funds, \$32 million in City funds, and \$211 million in MTA Bond proceeds.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Based on ridership and fleet size, MTA Bus Company remains within the top 10 largest bus companies 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. MTA Bus is part of the overall NYC Transit Bus Plan that includes bus network redesign, bus stop rationalization, bus lane enforcement and traffic light prioritization. This is part of the overall goal aimed at improving service and providing a positive customer experience. The utilization of technology to assist in meeting these

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and other objectives related to improvement in scheduling, fleet safety, reliability and appearance is continuing. Discussions regarding new fare payment methods are ongoing and implementation schedules will match those of the other MTA Agencies.

MTA Bus Company is included in the overall MTA Capital program plans. Facility improvements, a joint Bus Command Center and Radios System project with NYCT, the replacement of 257 express and 53 articulated buses are examples of current capially funded projects.

A total of three MTA Bus Select Bus Service (SBS) routes, the (Q52/53) that traverses the busy Woodhaven/Cross Bay Boulevard, Queens corridor and the (Q70) which provides service linking the main terminals of LaGuardia Airport with regional intermodal transit hubs in Jackson Heights and Woodside, is fully operational and has improved service on those corridors. Express Bus service that is pivotal to providing effective peak hour commuter service from the outer boroughs, account for approximately 48% of the total service.

MTA Bus Company's 2019 Adopted Budget includes total expenses, before depreciation and other post-employment benefits, of \$836.6 million. Total revenue is projected to be \$248.0 million, of which \$221.4 million is Farebox Revenue, \$20.7 million is Other Operating Revenue, and \$5.9 million is Capital and Other Reimbursements.

MTA Bus follows the MTA Agency fare increase schedule and rates as approved by the MTA Board, with the last increase taking effect April 21, 2019. Discussions at the NY State and NY City levels regarding the implementation of congestion pricing aimed at generating revenue for the Transit system are ongoing. NY City has increased it scheduled monthly subsidy to reflect current cashflow needs and reduce required breakeven settlements

Labor Update

Represented employees are covered under four labor contracts, ATU 1179 – expires October 31, 2019, ATU 1181 – expires October 31, 2019, TSO/TWU 106 – expired August 31, 2018, UTLO – expires June 30, 2019 and the largest, TWU 100 – expires May 15, 2019. Negotiations on expired and expiring contracts are ongoing.

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MTA BUS COMPANY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 175,618	\$ 176,654
Receivables:		
Due from affiliates - operating (Note 13)	47,120,479	62,069,338
Subsidy due from New York City	115,314,789	61,956,155
Other Subsidy	2,761,528	2,948,522
Other	3,727,488	37,399
Total receivables	168,924,284	127,011,414
Materials and supplies inventory	13,687,250	14,002,913
Prepaid expenses and other current assets	4,471,051	5,768,028
Total current assets	187,258,203	146,959,009
CAPITAL ASSETS:		
Land and construction work in progress— (Note 5)	50,708,051	34,651,510
Other capital assets — net of accumulated depreciation (Note 5)	288,898,024	311,620,003
Capital assets — net (Note 5)	339,606,075	346,271,513
Total Assets	526,864,278	493,230,522
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows for pensions (Note 6)	82,053,861	102,997,569
Deferred outflows for OPEB (Note 7)	50,367,030	-
Total Deferred Outflows of Resources	132,420,891	102,997,569
TOTAL ASSET AND DEFERRED OUTFLOWS OF RESOURCES	\$ 659,285,169	\$ 596,228,091
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 11,367,067	\$ 8,735,335
Accrued expenses:		
Salaries, wages and payroll taxes	25,385,283	42,089,990
Vacation and sick pay benefits	45,289,664	42,382,127
Current portion - Estimated liability from injuries to persons (Note 10)	47,000,000	45,000,000
Current portion - Pollution remediation projects (Note 12)	7,303,819	7,554,914
Other	11,840,605	13,828,758
Total accrued expenses	136,819,371	150,855,789
Due to MTA and other affiliated agencies (Note 13)	149,624,390	117,208,835
Total current liabilities	297,810,828	276,799,959
NONCURRENT LIABILITIES:		
Post employment benefits other than pensions (Note 7)	695,528,981	779,907,211
Estimated liability arising from injuries to persons (Note 10)	320,762,811	280,554,510
Net pension liability (Note 6)	166,590,528	269,740,170
Capital loans (Note 9)	-	11,031,602
Pollution remediation projects (Note 12)	4,336,977	4,503,859
Total noncurrent liabilities	1,187,219,297	1,345,737,352
Total liabilities	1,485,030,125	1,622,537,311
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows for pensions (Note 6)	81,179,092	13,079,725
Deferred inflows for OPEB (Note 7)	716,200	-
Total Deferred Inflows of Resources	81,895,292	13,079,725
NET POSITION:		
Net Investment in Capital Assets	339,606,075	335,239,911
Unrestricted (deficit)	(1,247,246,323)	(1,374,628,856)
Total net position	(907,640,248)	(1,039,388,945)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 659,285,169	\$ 596,228,091

See notes to financial statements.

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MTA BUS COMPANY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Fare revenue	\$ 220,887,114	\$ 217,164,459
Rents, freight, and other revenue	18,705,846	19,834,036
Total operating revenue	<u>239,592,960</u>	<u>236,998,495</u>
OPERATING EXPENSES:		
Salaries and wages	370,820,984	350,879,002
Retirement and other employee benefits	170,280,296	247,906,169
Post employment benefits other than pensions	64,486,680	82,862,694
Fuel	27,041,672	19,537,143
Electric power	1,967,928	1,771,655
Insurance	5,557,319	5,632,747
Public liability claims	61,797,574	88,296,744
Materials and supplies	44,017,323	47,968,734
Professional services	28,490,329	23,767,587
Pollution remediation services	217,533	222,459
Maintenance and other operating expenses	29,637,298	26,520,775
Depreciation	53,020,701	58,588,332
Other business expenses	4,023,759	3,976,155
Total operating expenses	<u>861,359,396</u>	<u>957,930,197</u>
OPERATING LOSS	<u>(621,766,436)</u>	<u>(720,931,702)</u>
NON-OPERATING REVENUES (EXPENSES):		
NYC Operating subsidies	516,981,345	449,768,711
Other Non-operating revenue/expenses	34,539,298	34,935,978
Total net non-operating revenues	<u>551,520,643</u>	<u>484,704,689</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(70,245,793)	(236,227,013)
CAPITAL CONTRIBUTION	<u>26,690,787</u>	<u>4,474,567</u>
CHANGES IN NET POSITION	(43,555,006)	(231,752,446)
NET POSITION — Beginning of year	(1,039,388,945)	(807,636,499)
RESTATEMENT OF BEGINNING NET POSITION (Note 2)	<u>175,303,703</u>	<u>-</u>
NET POSITION — End of year	<u>\$ (907,640,248)</u>	<u>\$ (1,039,388,945)</u>

See notes to financial statements.

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MTA BUS COMPANY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger, tenants, advertisers, and others	\$ 241,644,795	\$ 236,121,133
Cash payments for payroll and related employee costs	(590,920,077)	(542,785,694)
Cash payments to suppliers for goods and services	<u>(144,004,071)</u>	<u>(155,490,442)</u>
Net cash used in operating activities	<u>(493,279,353)</u>	<u>(462,155,003)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies received from NYC — operations	463,622,711	520,218,710
Receipt of mortgage recording tax revenue and NYCTA reimbursement	<u>35,351,409</u>	<u>36,406,580</u>
Net cash provided by noncapital financing activities	<u>498,974,120</u>	<u>556,625,290</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest paid	(1,410,532)	(1,905,590)
Capital contributed	26,690,787	4,474,567
Capital project costs incurred for capital program	(46,355,263)	(24,965,684)
Decrease in intercompany capital pool loan	<u>(11,031,602)</u>	<u>(11,542,284)</u>
Net cash used in capital and related financing activities	<u>(32,106,610)</u>	<u>(33,938,991)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase (Decrease) in invested funds at MTA	25,812,385	(61,127,157)
Earnings on investments	<u>598,422</u>	<u>434,988</u>
Net cash provided by/(used in) investing activities	<u>26,410,807</u>	<u>(60,692,169)</u>
NET DECREASE IN CASH	(1,036)	(160,873)
CASH — Beginning of year	<u>176,654</u>	<u>337,527</u>
CASH — End of year	<u>\$ 175,618</u>	<u>\$ 176,654</u>

See notes to financial statements.

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MTA BUS COMPANY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS (Continued) YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (621,766,436)	\$ (720,931,702)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	53,020,701	58,588,332
Changes in operating assets and liabilities:		
Decrease (Increase) in receivables	11,445,764	(13,096,192)
Decrease (Increase) in material and supplies, and prepaid expenses	762,774	(990,251)
Increase in payables, accrued expenses & other liabilities	<u>63,257,844</u>	<u>214,274,810</u>
Net Cash Used in Operating Activities	<u>\$ (493,279,353)</u>	<u>\$ (462,155,003)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA Contributed capital assets	<u>\$ 19,834,807</u>	<u>\$ 68,168,450</u>
Capital assets related liabilities	<u>\$ 0</u>	<u>\$ 11,031,602</u>

See notes to financial statements.

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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, 2018 AND 2017
(\$ IN THOUSANDS, EXCEPT AS NOTED)

1. BASIS OF PRESENTATION

Reporting Entity — The accompanying financial statements present 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”), 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, 2018 and 2017.

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

MTA Bus adopted the following GASB Statements for the year ended December 31, 2018:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes standards of accounting and financial reporting for postemployment benefits other than pensions (“OPEB”) that is provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. For defined benefit OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB plans are also addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. As a result of adopting this Statement, MTA Bus is reporting net OPEB liabilities, deferred outflows of resources and deferred inflows of resources for the MTA Retiree Welfare Benefits Plan (“OPEB Plan”) and recognizing OPEB expenses in accordance with the provisions of the Statement. The financial statement impact resulting from the implementation of GASB Statement No. 75 and GASB Statement No. 85 is the restatement of 2018 beginning net position, an increase of \$175.3 million, representing the retroactive effect of adoption. MTA Bus did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 75 and GASB Statement No. 85. A net OPEB liability of \$695.5 million, deferred outflow of resources of \$50.4 million, and deferred inflows of resources of \$0.7 million were reported at December 31, 2018. MTA Bus recognized OPEB expense of \$64.5 million for the year-end December 31, 2018. Refer to Note 7 for more information regarding the MTA OPEB Plan.

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GASB Statement No. 85, *Omnibus 2017*, addresses practice issues identified during the implementation and application of certain GASB statements. The provisions of this Statement amend and clarify guidance under a variety of topics with the intent to enhance consistency in the application of accounting and reporting requirements. This Statement specifically issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits (“OPEB”). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no impact on the MTA Bus’s financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, establishes standards of accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no 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 MTA Bus 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
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>	2019
89	<i>Accounting for Interest Cost Incurred Before the End of a Construction Period</i>	2020
90	<i>Majority Equity Interests - An Amendment of GASB Statements No. 14 and No.61</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

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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, 2018 and 2017, amounted to \$26.7 million and \$4.5 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

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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 2018 and 2017, MTA Bus received cash payments of \$463.6 million and \$520.2 million, respectively, in operating assistance from The City. At year end December 31, 2018 and 2017, MTA Bus recorded a subsidy receivable due from The City of approximately \$115.3 million and \$62.0 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 2018, MTA Bus reduced the Environmental Remediation Reserve Fund by \$0.4 million, based on actual cash expenditures, leaving a balance of \$7.3 million as of December 31, 2018. 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 \$23.8 million for 2018. The \$23.8 million received in 2018 was used to repay \$11.5 million (\$11.0 million in principal and \$0.5 million in interest) of the intercompany capital pool loan, and \$9.5 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

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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, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which established 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. MTA Bus reported under this standard for its Postemployment Benefits Other Than Pensions for the year ended December 31, 2017.

Effective for the year ended December 31, 2018, MTA Bus adopted the standards of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 85, *Omnibus* for the OPEB Plan.

GASB has issued Statements No. 74 and 75, which replaced GASB Statements No. 43 and 45. The effective date of GASB Statement No. 74 (which applies to financial reporting on a plan basis) is the year ended December 31, 2017. The effective date of GASB Statement No. 75 (which applies to financial reporting by contributing employers) is the year ended December 31, 2018.

MTA Bus recognizes a proportionate share of the net OPEB liability for the MTA's cost-sharing multiple-employer OPEB Plan, which represents the excess of the total OPEB liability over the fiduciary net position of the OPEB Plan, measured as of the measurement date of the plan.

Changes in the net OPEB liability during the year are recorded as OPEB expense, or as deferred outflows of resources or deferred inflows of resources relating to OPEB depending on the nature of the change, in the year incurred. Changes in net OPEB liability that are recorded as deferred outflows of resources or deferred inflows of resources that arise from changes in actuarial assumptions and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the year in which they are incurred. Projected earnings on qualified OPEB plan investments are recognized as a component of OPEB expenses. Differences between projected and actual investment earnings are reported as deferred outflows of resources or deferred inflow of resources as a component of OPEB expense on a closed basis over a five-year period beginning with the year in which the difference occurred.

Restatement of Beginning Net Position

The effect of the implementation of GASB No. 75 and 85 is a restatement of 2018 beginning net position to retroactively report the beginning balances for net OPEB liability, deferred outflows of resources related to OPEB, deferred inflows of resources related to OPEB, and the removal of any net OPEB obligations (assets) along with any payables to the OPEB Plan, as follows:

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Net position as of December 31, 2017, as previously reported	\$ (1,039,388)
Composition of Restatement:	
Accrued OPEB assets	-
Deferred outflows related to OPEB	-
Deferred outflows related to contributions, beginning of the year	22,095
Net OPEB liabilities, beginning of the year	(626,699)
Deferred inflows related to OPEB	-
Accrued OPEB liabilities	<u>779,907</u>
Total Restatement:	<u>175,303</u>
Net position as of December 31, 2017, as restated	\$ <u>(864,085)</u>

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

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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, 2018, the balance of the assets in this program was \$152.6 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, 2018, 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, 2018, 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, 2018, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2018, 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 program annual limit is \$800.0 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.

FMTAC’s property insurance program has been expanded to include \$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 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 82% of “certified” losses in 2018, 81% of “certified” losses in 2019 and 80% of

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“certified” losses in 2020, as covered by the Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) of 2015. The remaining 18% (2018), 19% (2019) and 20% (2020) 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 \$160.0 million in 2018, \$180.0 million in 2019 and \$200.0 million in 2020. 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) 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, 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, and 20% of any “certified” act of terrorism up to a maximum recovery of \$215.0 million for any one occurrence and in the annual aggregate during 2020 (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 \$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 or 100% of any “certified” terrorism loss which exceeds \$5.0 million and less than the \$200.0 million TRIPRA trigger up to a maximum recovery of \$200.0 million for any occurrence and in the annual aggregate during 2020.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$193.5 million in 2018, \$204.3 million in 2019, and \$215.0 million in 2020. 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, 2020.

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.

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Effective January 2, 2009, MTA Bus, established a self-insured workers' compensation program and has recorded a \$142.2 million liability reserve in the financial statements at December 31, 2018. During calendar year 2018, \$18.5 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

Cash in bank accounts are insured up to \$250,000 in the aggregate by the Federal Deposit Insurance Corporation ("FDIC") for each bank in which funds are deposited.

Cash in bank account balances in 2018 and 2017 that were not insured were maintained in major financial institutions. Management periodically reassess the credit worthiness of such financial institutions.

Cash at December 31, 2018 and 2017, consists of the following (not in thousands):

	2018		2017	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured (FDIC) and collateralized deposits	\$ 165,544	\$ 317,943	\$ 59,257	\$ 309,257
Commercially insured funds on-hand and in transit	<u>10,074</u>	<u>864,648</u>	<u>117,397</u>	<u>277,031</u>
Total cash	<u>\$ 175,618</u>	<u>\$ 1,182,591</u>	<u>\$ 176,654</u>	<u>\$ 586,288</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

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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 \$598,422 and \$434,988 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, MTA Bus had intercompany investment pool loans of \$86.3 million and \$60.5 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, 2018 and 2017, consist of the following (in whole dollars):

	December 2017	Additions	Cost Adjustments	Transfers / disposals	December 2018
Depreciable Assets					
Buses	\$ 631,630,202	\$ -	\$ 38,790	\$ (460,614)	\$ 631,208,378
Service Vehicles	3,124,808	382,786	-	(288,227)	3,219,367
Furniture, fixtures and equipment	13,345,975	7,022,634	-	(1,663,899)	18,704,710
Facilities & Yards	19,922,236	-	-	(3,119,964)	16,802,272
Capital Non Bus	<u>154,248,865</u>	<u>19,834,807</u>	<u>3,019,705</u>	<u>-</u>	<u>177,103,377</u>
	822,272,086	27,240,227	3,058,495	(5,532,704)	847,038,104
Non-Depreciable Assets					
Assets under construction	<u>34,651,510</u>	<u>46,323,383</u>	<u>(119,399)</u>	<u>(30,147,442)</u>	<u>50,708,052</u>
Total	<u>\$ 856,923,596</u>	<u>\$ 73,563,610</u>	<u>\$ 2,939,096</u>	<u>\$ (35,680,146)</u>	<u>\$ 897,746,156</u>
	December 2017	Additions	Cost Adjustments	Transfers / disposals	December 2018
Accumulated Depreciation					
Buses	\$ (468,236,299)	\$ (38,448,921)	\$ -	\$ 460,614	\$ (506,224,606)
Service Vehicles	(2,169,313)	(264,560)	-	288,227	(2,145,646)
Furniture, fixtures and equipment	(6,617,887)	(2,371,394)	-	1,663,899	(7,325,383)
Facilities & Yards	(15,756,497)	(533,763)	-	3,119,964	(13,170,297)
Capital Non Bus	<u>(17,872,087)</u>	<u>(11,402,062)</u>	<u>-</u>	<u>-</u>	<u>(29,274,149)</u>
Total	<u>(510,652,084)</u>	<u>(53,020,701)</u>	<u>-</u>	<u>5,532,704</u>	<u>(558,140,081)</u>
Net Capital Assets	<u>346,271,513</u>	<u>20,542,909</u>	<u>2,939,096</u>	<u>(30,147,442)</u>	<u>339,606,075</u>
Non-Depreciable Assets					
Assets under construction	-	-	-	-	-
TOTAL CAPITAL ASSETS	<u>\$ 346,271,513</u>	<u>\$ 20,542,909</u>	<u>\$ 2,939,096</u>	<u>\$ (30,147,442)</u>	<u>\$ 339,606,075</u>

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Capital assets as of December 31, 2017 and 2016, consist of the following (in whole dollars):

	December 2016	Additions	Cost Adjustments	Transfers / disposals	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
	<u>756,816,901</u>	<u>73,606,940</u>	<u>(8,151,755)</u>	<u>-</u>	<u>822,272,086</u>
Non-Depreciable Assets					
Assets under construction	75,141,011	32,659,336	-	(73,148,836)	34,651,510
Total	<u>\$ 831,957,912</u>	<u>\$ 106,266,276</u>	<u>\$ (8,151,755)</u>	<u>\$ (73,148,836)</u>	<u>\$ 856,923,596</u>
	December 2016	Additions	Cost Adjustments	Transfers / disposals	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	<u>(452,063,752)</u>	<u>(58,588,332)</u>	<u>-</u>	<u>-</u>	<u>(510,652,084)</u>
Net Capital Assets	<u>379,894,160</u>	<u>47,677,944</u>	<u>(8,151,755)</u>	<u>(73,148,836)</u>	<u>346,271,513</u>
Non-Depreciable Assets					
Assets under construction	-	-	-	-	-
TOTAL CAPITAL ASSETS	<u>\$ 379,894,160</u>	<u>\$ 47,677,944</u>	<u>\$ (8,151,755)</u>	<u>\$ (73,148,836)</u>	<u>\$ 346,271,513</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.

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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.

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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

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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, 2018 and 2017 were \$57.3 million and \$50.5 million, respectively. These costs represent the required actual contributions for the year stated.

Contributions as a percent of covered payroll is 15.6% for both years-ended December 31, 2018 and 2017.

Net Pension Liability

MTA Bus's net pension liability reported at December 31, 2018 was measured as of December 31, 2017. The total pension liability for the Plan was determined as of the actuarial valuation date of January 1, 2017, and rolled forward to the measurement date of December 31, 2017. MTA Bus's net pension liability reported at December 31, 2017 was measured as of December 31, 2016 and 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. 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 decreased \$103.15 million from the prior year due to an actuarial gain on the market value of assets.

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:

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<u>Valuation Date:</u>	<u>MTA Defined Benefit Plan</u>	
	<u>January 1, 2017</u>	<u>January 1, 2016</u>
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 Local 100 MTA Bus hourly employees.	Varies by years of employment, and employee group; 3.0% General Wage Increases for TWU Local 100 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. They reflect mortality improvements both before and after the measurement date.

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: Assumption utilized in the January 1, 2017 valuation was the RP-2014 Disabled Annuitant mortality table for males and females. Assumption utilized in the January 1, 2016 valuation was the RP-2000 Disabled Annuitant mortality table for males and females.

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:

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<u>Asset Class</u>	<u>MTA Defined Benefit Plan</u>	
	<u>Target Asset Allocation</u>	<u>Long-Term Expected RROR by Asset Class</u>
US Core Fixed Income	10.00%	1.96%
US High Yield Bonds	8.00%	4.62%
Global Bonds	10.00%	0.34%
Emerging Markets Bonds	3.00%	3.30%
US Large Caps	10.00%	4.31%
US Small Caps	5.50%	5.57%
Global Equity	10.00%	4.99%
Foreign Developed Equity	10.00%	5.57%
Emerging Markets Equity	3.50%	7.91%
Global REITs	5.00%	5.62%
Private Real Estate Property	3.00%	3.64%
Private Equity	7.00%	8.99%
Hedge Funds - MultiStrategy	15.00%	3.35%
	<u>100.00%</u>	
Assumed Inflation - Mean		2.50%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Nominal Mean Return		6.80%
Portfolio Standard Deviation		11.54%
Long Term Expected Rate of Return selected by MTA		7.00%

Discount Rate

As of December 31, 2018 and 2017, the discount rate used to measure the total pension liability of the MTA Defined Benefit Plan was 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.

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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, 2018, and 2017, and the proportion percentage of the net pension liability of the MTA Defined Benefit Plan allocated to MTA Bus:

	<u>2018</u>	<u>2017</u>
	(in millions, except for %)	
MTA Bus's proportionate share of the net pension liability	\$ 166.59	\$ 269.74
MTA Bus's proportion of the net pension liability	16.31%	20.10%

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:

<u>MTA Bus's proportionate share of the net pension liability</u>	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
	(in millions)		
2018	\$ 190.39	\$ 166.59	\$ 142.79
2017	308.27	269.74	231.21

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

For the years ended December 31, 2018 and 2017, MTA Bus recognized pension expense of \$43.2 million and \$116.5 million respectively, related to the pension plan. The 2017 expense was higher due to an Arbitration Award between MTA Bus and TWU Local 100 that provides enhanced benefits to covered employees.

At December 31, 2018 and 2017, MTA Bus reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows:

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	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,243	\$ (3,907)	\$ 25,974	\$ -
Changes in assumptions	1,547	(7,712)	-	(8,763)
Net difference between projected and actual earnings on pension plan investments	-	(18,571)	26,545	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(50,989)	-	(4,317)
Employer contribution to plan subsequent to the measurement date of net pension liability	57,264	-	50,479	-
Total	\$ 82,054	\$ (81,179)	\$ 102,998	\$ (13,080)

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.

\$57.3 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2018 will be recognized as pension expense as follows (not in thousands):

Year ending December 31:	
2019	\$ 3,330
2020	6,539
2021	15,079
2022	13,792
2023	4,348
Thereafter	13,301
Total	\$ 56,389

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

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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 \$18,500 or \$24,500 for those over age 50 for the year ending December 31, 2018.

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

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- 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, 2018 and 2017 were \$0.042 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, 2018 and 2017, no forfeiture money was used to offset the employer contributions or for plan expenses.

Status – As of December 31, 2018, 63.81% of MTA Bus employees were participating in the 401(k) Plan and 32.34% in the 457 Plan. Total of 43,252 participants from all the agencies were enrolled in the 401(k) Plan and 29,871 participants in the 457 Plan, with \$6.2 billion dollars in total net position for both Plans as of 12/31/2018. The average account balance in the Plans is \$67,979.

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.

	<u>2018</u>	<u>2017</u>
	<u>401K</u>	<u>401K</u>
Contributions:		
Employee contributions, net of loans	\$ 17,577	\$ 13,551
Participant rollovers	339	1,131
Employer contributions	42	65
Total contributions	<u>\$ 17,958</u>	<u>\$ 14,747</u>

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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

MTA Bus participates in a defined benefit other postemployment benefits (“OPEB”) plan for its employees, the Metropolitan Transportation Authority Retiree Welfare Benefits Plan (“OPEB Plan”). A description of the Plan follows:

(1) Plan Description

The MTA Retiree Welfare Benefits Plan (“OPEB Plan”) and the related Trust Fund (“Trust”) was established on January 1, 2009 for the exclusive benefit of MTA and related agencies retired employees and their eligible spouses and dependents, to fund some of the OPEB provided in accordance with MTA Bus’s various collective bargaining agreements. Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Amounts contributed to the OPEB Plan are held in an irrevocable trust and may not be used for any other purpose than to fund the costs of health and welfare benefits of its eligible participants.

The OPEB 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 cost-sharing multiple-employer defined benefit OPEB plan.

The OPEB Plan Board of Managers, comprised of the MTA Chairman, MTA Chief Financial Officer and MTA Director of Labor Relations, are the administrators of the OPEB Plan. The MTA Board has the right to amend, suspend or terminate the OPEB 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.

Benefits Provided — The benefits provided by the OPEB Plan include medical, pharmacy, dental, vision, life insurance and a Medicare supplemental plan. The different types of benefits provided vary by agency, employee type (represented employees versus non-represented) and the relevant collective bargaining agreements. Certain benefits are provided upon retirement as defined in the applicable pension plan. Certain agencies provide benefits to certain former employees if separated from service within 5 years of attaining retirement eligibility. Employees of MTA Bus are members of the following pension plans: the MTA Defined Benefit Plan.

The MTA Bus Company participates in the New York State Health Insurance Program (“NYSHIP”) and provides medical and prescription drug benefits, including Medicare Part B reimbursements, to many of its retirees. NYSHIP offers a Preferred Provider Organization (“PPO”) plan and several Health Maintenance Organization (“HMO”) plans. 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.

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The MTA Bus Company 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.

OPEB Plan Eligibility — To qualify for benefits under the OPEB Plan, a former employee of MTA Bus must:

- (a) have retired;
- (b) be receiving a pension (except in the case of the 401(k) Plan);
- (c) have at least 10 years of credited service as a member of the MTA Defined Benefit Plan; and
- (d) have attained the minimum age requirement.

Surviving Spouse and Other Dependents —

- Non-represented retired employees spouses coverage ceases at earlier of death or remarriage.
- Represented retired employees must follow the guidelines of their collective bargaining agreements regarding continued health coverage for a surviving spouse or domestic partner and surviving dependents. The surviving spouse coverage continues until spouse is eligible for Medicare for represented employees of MTA Bus retiring on or after:
 - November 9, 2015 for Transport Workers Union (“TWU”) Local 100, and
 - May 22, 2012 for Amalgamated Transit Union (“ATU”) Local 1179 and Local 1181;
- Coverage for children ceases at attainment of age 26.

The OPEB Plan Board of Managers has the authority to establish and amend the benefits that will be covered under the OPEB Plan, except to the extent that they have been established by collective bargaining agreement.

Contributions — MTA Bus is not required by law or contractual agreement to provide funding for the OPEB Plan, other than the “pay-as-you-go” (“PAYGO”) amounts. PAYGO is the cost of benefits necessary to provide the current benefits to retirees and eligible beneficiaries and dependents. Employees are not required to contribute to the OPEB Plan. The OPEB Plan Board has the authority for establishing and amending the funding policy. For the year-ended December 31, 2018, the MTA Bus paid \$21.6 million of PAYGO to the OPEB Plan.

During 2012, the MTA funded \$250 million into the Trust an additional \$50 million during 2013. There have been no further contributions made to the Trust. The discount rate estimates investment earnings for assets earmarked to cover retiree health benefits. Under GASB Statement No. 75, the discount rate depends on the nature of underlying assets for funded plans. Since the amount of benefits paid in 2017 exceeded the current market value of the assets, a depletion date is assumed to occur immediately. Therefore, the discount rate is set equal to the municipal bond index. The MTA elected the Bond Buyer General Obligation 20-Bond Municipal Bond Index. As a result, the discount rates as of December 31, 2017 and December 31, 2016, the measurement dates, are 3.44% and 3.78%, respectively.

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Employer contributions include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy arises when an employer allows a retiree and their dependents to continue on the active plans and pay the active premiums. Retirees are not paying the true cost of their benefits because they have higher utilization rates than actives and therefore are partially subsidized by the active employees. As shown in the following table, for the year ended December 31, 2017, the employer made a cash payment for retiree healthcare of \$909,000 as part of the employer's payment for active-employee healthcare benefits. For purposes of GASB Statement No. 75, this payment made on behalf of the active employees should be reclassified as benefit payments for retiree health care to reflect the retirees' underlying age-adjusted, retiree benefit costs.

Blended and Age-adjusted Premium	2017 Retirees
Total blended premiums	21,186
Employment payment for retiree healthcare	909
Net Payments	22,095

(2) Net OPEB Liability

At December 31, 2018, MTA Bus reported a net OPEB liability of \$695.5 million for its proportionate share of the Plan's net OPEB liability. The net OPEB liability was measured as of the OPEB Plan's fiscal year-end of December 31, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of July 1, 2017, and rolled forward to December 31, 2017. MTA Bus's proportion of the net OPEB liability was based on a projection of the MTA Bus's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating employers. At December 31, 2018, MTA Bus's proportion was 3.4%.

OPEB Plan Fiduciary Net Position — The fiduciary net position has been determined on the same basis used by the OPEB plan. The OPEB plan uses the accrual basis of accounting under which contributions from the employer are recognized when paid. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at fair value based on quoted market prices or Net Asset Value. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report or at www.mta.info.

(3) Actuarial Assumptions

Actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as future employment, mortality and health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan, which refers to the plan terms as understood by the employer and the plan members at the time of the valuation, including only changes to plan terms that have been made and communicated to employees. The projections include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members at that time. MTA Bus may not be obligated to provide the same types or levels of benefits to retirees in the future.

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The total OPEB liability was determined by an actuarial valuation performed on July 1, 2017. Update procedures were used to roll forward the total OPEB liability to December 31, 2017, the measurement date. The actuarial valuations were performed using the following actuarial assumptions, applied to all periods included in the measurement, unless specified:

Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%, net of expenses
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Normal cost increase factor	4.50%
Salary Increases	3.50%
Investment rate of return	6.50%

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 2018. 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 and pharmacy trends. of an annual trend of 4.5%, but not more than projected medical trends excluding any excise tax adjustments. The self-insured trend is applied directly for represented employees of NYC Transit, SIRTOA and MTA Bus.

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Healthcare Cost Trend Rates — The following lists illustrative rates for the NYSHIP and self-insured trend assumptions for MTA Bus (all amounts are in percentages).

Trend from Year Ending	NYSHIP		MTA Bus	
	< 65	>=65	< 65	>=65
2018	8.5	8.2	6.8	9.1
2019	6.2	5.5	6.2	5.3
2020	5.8	5.3	5.8	5.2
2021	5.5	5.2	5.5	5.2
2022	7.2	5.1	11.1	5.1
2023	6.1	5.1	6.0	5.1
2024	6.1	5.0	5.9	5.0
2025	5.9	5.0	5.8	5.0
2026	5.9	5.0	5.8	5.0
2027	5.8	4.9	5.7	4.9
2037	5.6	5.0	5.5	5.0
2047	5.4	5.9	5.3	4.9
2057	5.1	5.4	5.1	5.2
2067	4.8	5.0	4.8	4.8
2077	4.2	4.3	4.1	4.5
2087	4.1	4.2	4.1	4.4
2097	4.1	4.2	4.1	4.4

For purposes of applying the EntryAge Normal cost method, the healthcare trend prior to the valuation date are based on the ultimate rates, which are 4.1% for medical and pharmacy costs prior to age 65, 4.2% for NYSHIP costs at age 65 and later, and 4.3% for self-insured medical and pharmacy costs at age 65 and later.

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 post-retirement 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.

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Expected Rate of Return on Investments — The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Rate of Return</u>
US Core Fixed Income	13.0%	1.96%
Global Bonds	15.0%	0.34%
Emerging Markets Bonds	5.0%	3.30%
Global Equity	35.0%	4.99%
Non-US Equity	15.0%	5.84%
Global REITs	5.0%	5.62%
Hedge Funds - MultiStrategy	12.0%	3.35%
Total	100%	
Long Term Expected Rate of Return selected by MTA		6.50%

Discount Rate — The discount rate used in this valuation to measure the total OPEB liability was updated to incorporate GASB Statement No. 75 guidance.

The plan’s fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan’s fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan’s fiduciary net position is not projected to be sufficient. Therefore, the discount rate is set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index as of December 31, 2017 of 3.44%.

Sensitivity of MTA Bus’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate — The following presents MTA Bus’s proportionate share of the net OPEB liability, as well as what MTA Bus’s proportionate share of the net OPEB 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 the measurement:

	1% Decrease	Discount Rate	1% Increase
	(2.44%)	(3.44%)	(4.44%)
	(in millions)		
Proportionate share of the net OPEB liability	\$ 800.62	\$ 695.53	\$ 609.42

Sensitivity of MTA Bus’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates — The following presents MTA Bus’s proportionate share of the net

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OPEB liability, as well as what MTA Bus's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates used for the measurement:

	<u>1% Decrease</u>	<u>Healthcare Cost Current Trend Rate *</u>	<u>1% Increase</u>
		(in millions)	
Proportionate share of the net OPEB liability	\$ 594.95	\$ 695.53	\$ 822.40

* For further details, refer to the Health Care Cost Trend Rates tables in the Actuarial Assumptions section of this Note Disclosure.

(4) OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, MTA Bus recognized OPEB expense of \$64.5 million, which represents its proportionate share of the Plan's OPEB expense.

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, changes in assumptions and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a 7.4 year closed period, beginning the year in which the deferred amount occurs.

At December 31, 2018, MTA Bus reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows:

	<u>December 31, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 399	\$ -
Changes in assumptions	26,756	-
Net difference between projected and actual earnings on OPEB plan investments	-	(716)
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Employer contributions to the plan subsequent to the measurement of net OPEB liability	23,212	-
Total	<u>\$ 50,367</u>	<u>\$ (716)</u>

For the year ended December 31, 2018, \$50.4 million was reported as deferred outflows of resources related to OPEB. This amount includes both MTA Bus's contributions subsequent to the measurement date and an implicit rate subsidy adjustment that will be recognized as a reduction of the net OPEB

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liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2018 will be recognized in OPEB expense as follows:

Year ending December 31:	
2019	\$ 4,064
2020	4,064
2021	4,064
2022	4,064
2023	4,243
Thereafter	<u>5,940</u>
	<u>\$ 26,439</u>

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 July 1, 2017	MTA Bus Company
Active members:	
Number	4,040
Average age	47.4
Average service	11.2
Retirees:	
Single medical coverage	915
Employee/spouse coverage	737
Employee/child coverage	28
No medical coverage	<u>293</u>
Total number	1,973
Average age	70.9
Total number with dental	132
Total number with vision	1,663
Total number with supplement	1,472
Average monthly supplement amount (excluding Part B premium)	\$ 24.80
Total number with life insurance	1,476
Average life insurance amount	\$ 12,929

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 NYC Transit are assumed to cover a dependent. Actual coverage elections for

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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.

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 2018, MTA Bus received \$23.8 million in MRT-2 monies and subsequently used \$11.5 million of these funds to repay the balance of the \$113.8 million intercompany capital pool loan. Pursuant to the agreement, MTA Bus made monthly payments to the MTA and NYCTA over an amortization period of 12 years. As of December 31, 2018 and 2017, the outstanding principal balance of the intercompany capital pool loan amounts to \$0.0 and \$11.0 million, respectively.

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Intercompany Capital Pool Loan

Principal Amount	\$113,753
Rate	4.67%
Terms	12 Years

	<u>2018</u>	<u>2017</u>
Principal balance — beginning of year	\$ 11,032	\$ 22,574
Principal paid during year	<u>(11,032)</u>	<u>(11,542)</u>
Balance — end of year	<u>-</u>	<u>11,032</u>
Principal paid during year	11,032	11,542
Interest paid during year	<u>515</u>	<u>1,054</u>
Total payments	<u>\$ 11,547</u>	<u>\$ 12,596</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, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Balance — beginning of year	\$ 190,429	\$ 138,462
Activity during the year:		
Current year claims and changes in estimates	61,798	88,297
Claims paid	<u>(26,629)</u>	<u>(36,330)</u>
Balance — end of year	225,597	190,429
Less — current liability	<u>(30,000)</u>	<u>(30,000)</u>
Noncurrent liability	<u>\$ 195,597</u>	<u>\$ 160,429</u>

Not included in the 2018 and 2017 amounts are \$17.0 and \$15.0 million of current liability and \$125.2 and \$120.1 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.

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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 \$217,533 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, 2018 and 2017, the pollution remediation liability totaled \$11.6 million and \$12.1 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, 2018, the Environmental Remediation Reserve fund had a balance of \$7.3 million remaining for future Environmental projects.

	<u>2018</u>	<u>2017</u>
Balance beginning of year	\$ 12,059	\$ 12,343
Activity during the year:		
Current year changes in estimates	(34)	7
Payments	<u>(384)</u>	<u>(291)</u>
Balance end of year	11,641	12,059
Less - current liability	<u>(7,304)</u>	<u>(7,555)</u>
Non current liability	<u>\$ 4,337</u>	<u>\$ 4,504</u>

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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, 2018 and 2017:

	2018		2017	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 38,364	\$ 117,324	\$ 26,572	\$ 81,433
Affiliated agencies	<u>8,753</u>	<u>32,300</u>	<u>35,497</u>	<u>35,776</u>
Total MTA and affiliated agencies	<u>\$ 47,117</u>	<u>\$ 149,624</u>	<u>\$ 62,069</u>	<u>\$ 117,209</u>

14. SUBSEQUENT EVENTS

As of April XX, 2019, there were no materially significant subsequent events.

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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:

	2017	MTA Defined Benefit Plan		2014
		2016	2015	
		(in millions, except %)		
MTA Bus's proportion of the net pension liability	16.31%	20.10%	15.94%	16.51%
MTA Bus's proportionate share of the net pension liability	\$ 166.59	\$ 269.74	\$ 205.69	\$ 170.80
MTA Bus's actual covered-employee payroll	\$ 323.41	\$ 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	51.510%	82.831%	71.053%	54.607%
Plan fiduciary net position as a percentage of the total pension liability	79.87%	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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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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
MTA Defined Benefit Plan					
Actuarially Determined Contribution	\$ 56,730,919	\$ 52,132,718	\$ 44,927,266	\$ 43,851,553	\$ 45,717,151
Actual Employer Contribution	<u>57,263,638</u>	<u>50,478,821</u>	<u>44,299,995</u>	<u>45,928,494</u>	<u>46,605,811</u>
Contribution Deficiency (Excess)	<u>(532,719)</u>	<u>1,653,897</u>	<u>627,271</u>	<u>(2,076,941)</u>	<u>(888,660)</u>
Covered Payroll	367,801,828	323,411,424	325,651,222	289,491,290	312,783,778
Contributions as a % of Covered Payroll	15.57%	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: 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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MTA BUS COMPANY
(Component Unit of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF MTA BUS'S PROPORTIONATE SHARE OF NET OPEB LIABILITY IN THE MTA OPEB PLAN AT:

Plan Measurement Date (December 31):	2017
	(in millions, except %)
MTA Bus's proportion of the net OPEB liability	3.42%
MTA Bus's proportionate share of the net OPEB liability	\$ 695.53
MTA Bus's covered payroll	\$ 275.14
MTA Bus's proportionate share of the net OPEB liability as a percentage of its covered payroll	252.79%
Plan fiduciary net position as a percentage of the total OPEB liability	1.79%

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. 75, information was not readily available for periods prior to 2017.

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MTA BUS COMPANY (Component Unit of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) SCHEDULE OF MTA BUS'S CONTRIBUTIONS TO THE MTA OPEB PLAN AND NOTES TO SCHEDULE OF MTA BUS'S CONTRIBUTION TO THE MTA OPEB PLAN FOR THE YEARS ENDED DECEMBER 31:

	<u>2018</u>	<u>2017</u>
	(in millions, except %)	
Actuarially Determined Contribution	N/A	N/A
Actual Employer Contribution ⁽¹⁾	\$ 22.36	\$ 22.10
Contribution Deficiency (Excess)	<u>N/A</u>	<u>N/A</u>
Covered Payroll	367.80	275.14
Actual Contribution as a Percentage of Covered Payroll	6.08%	8.03%

(1) Actual employer contribution includes the implicit rate of subsidy adjustment of \$770,000 and \$909,000 for the years ended December 31, 2018 and 2017, respectively.

Notes to Schedule of MTA Bus's Contribution to the OPEB Plan:

Methods and assumptions used to determine contribution rates:

Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%, net of expenses
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Normal cost increase factor	4.50%
Salary Increases	3.50%
Investment rate of return	6.50%

Changes of benefit terms: In the July 1, 2017 actuarial valuation, there were no changes to the benefit terms.

Changes of assumptions: In the July 1, 2017 actuarial valuation, there was a change in assumptions. The discount rate used to measure liabilities was updated to incorporate GASB 75 guidance and changed to reflect the current municipal bond rate.

Changes in Actuarial Assumptions since Prior Valuation: The retirement rates for other non-represented members were revised to reflect changes in retirement eligibility conditions, as they are now eligible for MABSTOA style pension benefits. The impact of this change is considered a plan change.

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. 75, information was not readily available for periods prior to 2017.

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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, 2018 and 2017,
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, 2018 and 2017, 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.

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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, 2018 and 2017, 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 described in Note 2 to the financial statements, in 2018, the Authority adopted Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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, Schedule of the Authority’s Proportionate Share of Net Pension Liability in the New York City Employees’ Retirement System, Schedule of the Authority’s Contributions to the New York City Employees’ Retirement System, Schedule of the Authority’s Proportionate Share of Net OPEB Liability in the MTA OPEB Plan, and Schedule of the Authority’s Contributions to the OPEB Plan and Notes to the Schedule of the Authority’s Contribution to the OPEB Plan, as listed in the table of contents, 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.

May 20, 2019

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2018 AND 2017 (\$ 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, 2018 and 2017. 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.

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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 about the changes in the net pension liability and net other postemployment benefits ("OPEB") liability, employer contributions for the OPEB and pension plans, related ratios and actuarial assumptions used to calculate the net pension liability and net OPEB liability.

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 2018 and 2017. 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.

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(In thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	As of December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 - 2017	2017 - 2016
Capital Assets- Net	\$ 6,366,386	\$ 6,005,000	\$ 5,229,113	\$ 361,386	\$ 775,887
Other Assets	1,194,244	1,109,935	897,525	84,309	212,410
Deferred Outflows of Resources	<u>487,485</u>	<u>501,979</u>	<u>488,214</u>	<u>(14,494)</u>	<u>13,765</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 8,048,115</u>	<u>\$ 7,616,914</u>	<u>\$ 6,614,852</u>	<u>\$ 431,201</u>	<u>\$ 1,002,062</u>

Significant Changes in Assets and Deferred Outflows of Resources:

December 31, 2018 versus 2017:

Total assets and deferred outflows of resources increased by \$431,201 for the year ended December 31, 2018.

Capital assets, net increased \$361,386 for the year ended December 31, 2018. This increase was primarily due to additions to primary structures of \$550,019, property road and equipment of \$325,932, roadway of \$304,622, open road tolling systems and equipment of \$63,501 buildings and additions of \$34,549 and other of \$5,130. These increases in assets were offset by decreases in under construction work of \$774,105 and accumulated depreciation of \$148,262. See Capital Asset footnote for further details.

Other assets increased by \$84,309 for the year ended December 31, 2018. The increase was primarily due to higher restricted short-term investment funds with MTA of \$272,867 and higher accounts receivable of \$94,545, mainly from tolls by mail. There was also an increase in unrestricted short-term investments of \$51,059. The increases were offset by a decrease in contribution from MTA Headquarters of \$163,188 relating to a prior year portion of debt service savings and a decrease of \$87,112 for short-term restricted investments, mainly from lower bond proceeds and lower debt service funds. There was also a decrease of \$14,448 for unrestricted short-term investment funds with MTA due to drawdowns of investments in the NYCERS GASB 45 fund and GASB employee health contribution fund and an increase of \$71,264 for allowance for doubtful accounts, attributable to higher toll video receivables.

There was a decrease in deferred outflows of resources of \$14,494. This was due to a decrease in the deferred outflows related to pension of \$29,163 resulting from changes in the proportionate share of the net pension liability of NYCERS. There was also a decrease in the change in fair market value of derivative instruments of \$25,487, and a decrease in the unamortized loss on debt refunding of \$20,590. The decrease was offset by an increase in OPEB related Deferred Outflow of \$60,746, which was a result of change in accounting under GASB 75.

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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 of \$198,561 were reclassified to other asset categories. These increases in assets were offset by accumulated depreciation of \$234,117. See Capital Asset footnote for further details.

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 the 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.

(In thousands)

TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	As of December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 - 2017	2017 - 2016
Current Liabilities	\$ 1,325,463	\$ 1,527,864	\$ 1,071,562	\$ (202,401)	\$ 456,302
Noncurrent Liabilities	10,272,175	10,110,598	10,010,846	161,577	99,752
Deferred Inflow of Resources	<u>51,681</u>	<u>20,754</u>	<u>9,627</u>	<u>30,927</u>	<u>11,127</u>
 TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	 <u>\$ 11,649,319</u>	 <u>\$ 11,659,216</u>	 <u>\$ 11,092,035</u>	 <u>\$ (9,897)</u>	 <u>\$ 567,181</u>

Significant Changes in Liabilities and Deferred Inflows of Resources:

December 31, 2018 versus 2017:

Total liabilities and deferred inflows of resources decreased by \$9,897 for the year ended December 31, 2018.

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Current liabilities decreased by \$202,401 for the year ended December 31, 2018. There was a decrease in the current portion of long-term debt of \$173,203. See debt footnotes for further details. There were also decreases in accounts payable of \$66,205 and decreases in net payables to MTA of \$1,899. These decreases were offset by increases in unearned tolls revenue of \$25,523 mainly from unredeemed tolls, accrued salaries of \$9,291, mainly due to anticipated wage increases, and accrued vacation and sick pay benefits of \$3,420.

Non-current liabilities increased by \$161,577 for the year ended December 31, 2018. There was an increase in long-term debt of \$134,358. See debt footnotes for further details. There were also increases in the liability for other post-employment benefits other than pensions of \$113,978, which was due to change in accounting under GASB 75, and in estimated liability arising from injuries to persons of \$5,354. These increases were offset by a decrease in net pension liability of \$67,901 and net derivative liabilities of \$25,506. See derivative instrument footnotes for further details.

There was an increase in deferred inflows of resources relating to pensions of \$30,927 due to net increase of projected and actual earnings on pension plan investments as well as a change in proportionate share of \$30,071, and an increase of \$856, due to the adoption of GASB 75 related to OPEB.

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 salaries of \$6,379, mainly due to 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.

(In thousands)

NET POSITION	As of December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 - 2017	2017 - 2016
Net investment in capital assets	\$ 2,026,021	\$ 1,729,947	\$ 911,389	\$ 296,074	\$ 818,558
Restricted	902,346	716,586	511,153	185,760	205,433
Unrestricted	<u>(6,529,571)</u>	<u>(6,488,835)</u>	<u>(5,899,725)</u>	<u>(40,736)</u>	<u>(589,110)</u>
Total net position	<u>\$ (3,601,204)</u>	<u>\$ (4,042,302)</u>	<u>\$ (4,477,183)</u>	<u>\$ 441,098</u>	<u>\$ 434,881</u>

The negative net position has resulted from assets transferred to MTA and NYCTA, on prior years' debt financing incurred on their behalf.

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Significant Changes in Net Position:

December 31, 2018 versus 2017:

In 2018 the total net position increased by \$441,098. This was due to operating income of \$1,333,962 less non-operating expenses of \$280,481, less net transfers out of \$599,560 (principally operating surplus) and less the restatement to beginning net position of \$12,823.

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).

Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)	Years Ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 - 2017	2017 - 2016
OPERATING REVENUES	\$ 1,999,584	\$ 1,931,939	\$ 1,895,045	\$ 67,645	\$ 36,894
OPERATING EXPENSES	<u>(665,622)</u>	<u>(783,176)</u>	<u>(653,261)</u>	<u>117,554</u>	<u>(129,915)</u>
OPERATING INCOME	<u>1,333,962</u>	<u>1,148,763</u>	<u>1,241,784</u>	<u>185,199</u>	<u>(93,021)</u>
TOTAL NET NONOPERATING EXPENSES:	<u>(280,481)</u>	<u>(295,177)</u>	<u>(360,196)</u>	<u>14,696</u>	<u>65,019</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,053,481	853,586	881,588	199,895	(28,002)
TRANSFERS IN - MTA	102,396	168,574	369	(66,178)	168,205
TRANSFERS OUT	<u>(701,956)</u>	<u>(740,144)</u>	<u>(742,909)</u>	<u>38,188</u>	<u>2,765</u>
CHANGES IN NET POSITION	453,921	282,016	139,048	171,905	142,968
NET POSITION - BEGINNING OF YEAR	<u>(4,042,302)</u>	<u>(4,477,183)</u>	<u>(4,616,231)</u>	<u>434,881</u>	<u>139,048</u>
RESTATEMENT OF BEGINNING NET POSITION - GASB 75	<u>(12,823)</u>	<u>-</u>	<u>-</u>	<u>(12,823)</u>	<u>-</u>
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	<u>-</u>	<u>152,865</u>	<u>-</u>	<u>(152,865)</u>	<u>152,865</u>
NET POSITION - END OF YEAR	<u>\$ (3,601,204)</u>	<u>\$ (4,042,302)</u>	<u>\$ (4,477,183)</u>	<u>\$ 441,098</u>	<u>\$ 434,881</u>

Operating Revenues

For the year ended December 31, 2018, the operating revenues increased by \$67,645 as compared to December 31, 2017. Traffic in 2018 set a new record with 322.3 million crossings, surpassing the previous high of 310.0 million crossings from the previous year. See "Overall Financial Position and Results of Operations and

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Important Economic Conditions” below.

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.

Revenue by Major Source

MTA Bridges and Tunnels tolls accounted for 98.8% and 98.9% of operating revenues in 2018 and 2017, respectively. The remaining revenue primarily represented income from parking fees (net of operating expenses) collected at the Battery Parking Garage and fees collected from E-ZPass customers.

Toll revenues (net of bad debt expense relating to toll collections) were \$1,975,663 and \$1,911,857 for the years ended December 31, 2018 and December 31, 2017, respectively.

Operating Expenses

Operating expenses, including depreciation, decreased for the year ended December 31, 2018, as compared to the prior year by \$117,554. The decrease was primarily due to lower depreciation expense of \$92,831 attributable to prior year disposals of toll plazas and toll equipment, lower retirement and other employee benefits of \$19,242 and lower salary and wages of \$6,568. This was offset by increases in professional services of \$7,534, maintenance and other operating contracts of \$2,306, and other business expenses of \$8,636, mainly from toll collection processing fees and credit card fees.

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.

Non-operating Revenues (Expenses)

Net non-operating expenses decreased by \$14,696 for the year ended December 31, 2018. This decrease was mainly due to a prior year write-off of insurance recovery of \$58,500 partially offset by lower interest expense of \$45,130. There are no longer any insurance recoveries receivables outstanding.

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.

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 1.7% in 2017 and preliminary reports show average employment growth of 1.4% in 2018. Inflation was 2.0% in 2017 and 1.9% in 2018.

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At 322.3 million crossings, traffic in 2018 set a record, surpassing the previous high of 310.0 million crossings in 2017 by 4.0%. The increase is primarily due to improvements in the regional economy, stable gas prices, improved mobility achieved through cashless tolling, and the completion of Hurricane Sandy restoration construction at the Queens Midtown Tunnel and the Hugh L. Carey Tunnel. Toll revenue in 2018 totaled \$1.976 billion, which was \$63.8 million, or 3.3% greater than 2017. The additional revenue was due to the higher traffic and a full year's impact of the toll increase implemented on March 19, 2017.

Traffic in 2017 reached 310.0 million crossings, which was 0.8% above the total volume in 2016. 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.

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>2018</u>	<u>2017</u>	<u>2016</u>
Total	94.43%	90.35%	85.86%
Average Weekday	95.05%	91.49%	87.46%
Passenger Vehicles	94.98%	91.20%	86.86%
Commercial Vehicles	95.79%	94.50%	93.73%
Average Weekend	92.91%	87.50%	81.99%

SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program

MTA Bridges and Tunnels' facilities are all in a state of good repair. MTA Bridges and Tunnels' portion of the MTA's Capital Program for 2015-2019 totals \$2,936,307 (May 24, 2017 MTA Board Approved Plan Amendment) for normal replacement and system improvement projects. The commitments made during the fourth quarter 2018 were \$522,029 bringing the total commitment under the five-year plan to \$1,669,314.

MTA Bridges and Tunnels' portion of the Capital Program for 2010-2014 totals \$2,021,982 (May 24, 2017 MTA Board Approved Plan Amendment) for normal replacement and system improvement projects. There were no commitments made during the fourth quarter 2018. The total commitment under the five-year plan is \$1,963,444.

MTA Bridges 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 2018. The total commitment under the five-year plan is \$1,119,187.

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

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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, fire lines and ceiling repairs (Phase II) and replacement of electrical switchgear and power distribution equipment at the Hugh L. Carey 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% 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 Bridges and Tunnels' portion of the MTA's 2010-2014 Capital Program for Sandy Restoration and Resiliency totals \$766,002 (May 24, 2017 MTA Board Approved Plan Amendment), of which \$620,726 is for facility restoration and \$145,276 is for facility mitigation projects. The total commitments made during the fourth quarter 2018 were \$44. The total commitment under these plans is \$675,548 to date.

Approximately 95% 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 during the 2017 second quarter. 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, 2018, costs associated with the storm included repair and clean-up expenses of \$1.2 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.

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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.

Verrazano-Narrows Bridge Rebate Programs

The annualized cost of the 2017-2018 Verrazano-Narrows Bridge Rebate Programs (covering the period April 2017 through March 2018) was approximately \$20.8 million, with \$14 million for the 2017-2018 Verrazano-Narrows Bridge Commercial Rebate Program and for the 2017-2018 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 was 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 projected annualized cost of the 2018-2019 (covering the period April 2018 through March 2019) Verrazano-Narrows Bridge Rebate Programs and the rebate amounts for Staten Island Residents are estimated to be the same as in 2017-18.

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 2018-2019 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 2017-2018 Staten Island Resident Rebate and Verrazano-Narrows Bridge Commercial Programs and (b) the State provides (i) at least \$7 million for the 2018-2019 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 2018-2019 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 2018-2019 Verrazano-Narrows Bridge Rebate Programs, net of offsets, will be insufficient to fund the 2018-2019 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 2018-2019 Verrazano-Narrows Bridge Rebate Programs are fully depleted at any time during the 2018-2019 Verrazano-Narrows Bridge Rebate Programs annual period, the 2018-2019 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.

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION AS OF DECEMBER 31, 2018 AND 2017 (\$ in thousands)

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 10,296	\$ 8,420
Unrestricted investments (Note 4)	124,746	73,687
Restricted investments (Note 4)	197,682	284,794
Invested funds at MTA—unrestricted (Note 5)	15,075	29,523
Invested funds at MTA—restricted (Note 5)	704,654	431,787
Accrued interest receivable	2,114	1,634
Accounts receivable	232,852	138,307
Less allowance for doubtful accounts	(113,289)	(42,025)
Due from MTA (Note 19)	10,529	173,717
Prepaid expenses	6,050	6,541
Total current assets	<u>1,190,709</u>	<u>1,106,385</u>
NON-CURRENT ASSETS:		
Restricted investments (Notes 4 and 5)	9	5
Capital assets (Note 6):		
Land and construction work-in-progress	424,695	1,198,800
Other capital assets (net of accumulated depreciation)	5,941,691	4,806,200
Derivative assets (Note 15)	<u>3,526</u>	<u>3,545</u>
Total non-current assets	<u>6,369,921</u>	<u>6,008,550</u>
TOTAL ASSETS	<u>7,560,630</u>	<u>7,114,935</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Related to pensions (Note 7)	41,500	70,663
Related to other post-employment benefits (Note 8)	60,746	-
Accumulated decreases in fair value of derivative instruments (Note 15)	143,796	169,283
Loss on debt refunding	<u>241,443</u>	<u>262,033</u>
Total deferred outflows of resources	<u>487,485</u>	<u>501,979</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 8,048,115</u>	<u>\$ 7,616,914</u>

(Continued)

See notes to financial statements.

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION AS OF DECEMBER 31, 2018 AND 2017 (\$ in thousands)

	2018	2017
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 155,938	\$ 222,143
Accrued expenses:		
Interest	46,149	47,494
Payable to MTA (Note 19)	372,358	382,973
Payable to NYCTA—operating expense (Note 19)	757	778
Accrued salaries	36,631	27,340
Accrued vacation and sick pay benefits	19,843	16,423
Total accrued expenses	<u>475,738</u>	<u>475,008</u>
Current portion—long-term debt (Notes 11 to 14)	317,285	490,488
Current portion—estimated liability from injuries to persons (Note 17)	5,975	6,260
Due to NYCTA—operating surplus (Note 1 and 19)	43,233	40,910
Due to MTA—operating surplus (Note 1 and 19)	72,869	64,153
Unearned tolls revenue (includes \$64,498 and \$53,357 in 2018 and 2017, respectively, due to other toll agencies)	<u>254,425</u>	<u>228,902</u>
Total current liabilities	<u>1,325,463</u>	<u>1,527,864</u>
NON-CURRENT LIABILITIES:		
Estimated liability arising from injuries to persons (Note 17)	46,653	41,299
Post employment benefits other than pensions (Note 8)	823,748	709,770
Long-term debt (Notes 11 to 14)	8,993,740	8,859,382
Net pension liability (Note 7)	203,707	271,608
Derivative liabilities (Note 15)	123,921	155,426
Due to MTA—change in fair value of derivative (Note 15 and 18)	23,401	17,402
Obligations under capital leases (Note 16)	<u>57,005</u>	<u>55,711</u>
Total non-current liabilities	<u>10,272,175</u>	<u>10,110,598</u>
TOTAL LIABILITIES	<u>11,597,638</u>	<u>11,638,462</u>
DEFERRED INFLOWS OF RESOURCES:		
Related to pensions (Note 7)	50,825	20,754
Related to other post-employment benefits (Note 8)	<u>856</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>51,681</u>	<u>20,754</u>
NET POSITION:		
Net investment in capital assets	2,026,021	1,729,947
Restricted	902,346	716,586
Unrestricted	<u>(6,529,571)</u>	<u>(6,488,835)</u>
Total net position	<u>(3,601,204)</u>	<u>(4,042,302)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 8,048,115</u>	<u>\$ 7,616,914</u>

See notes to financial statements.

(Concluded)

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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, 2018 AND 2017

(\$ in thousands)

	2018	2017
OPERATING REVENUES:		
Bridges and tunnels	\$ 1,975,663	\$ 1,911,857
Building rentals and fees	22,986	18,574
Other income	935	1,508
Total operating revenues	<u>1,999,584</u>	<u>1,931,939</u>
OPERATING EXPENSES:		
Salaries and wages	131,235	137,803
Retirement and other employee benefits	74,619	93,861
Post employment benefits other than pensions	69,556	87,430
Electric power	4,474	3,683
Fuel	1,960	1,575
Insurance	11,755	12,101
Maintenance and other operating contracts	149,393	147,087
Professional service contracts	24,936	17,402
Materials and supplies	4,550	3,901
Depreciation	148,686	241,517
Other	43,273	34,637
Total operating expenses	<u>664,437</u>	<u>780,997</u>
Asset impairment and related expenses—(Note 10)	<u>1,185</u>	<u>2,179</u>
OPERATING INCOME	<u>1,333,962</u>	<u>1,148,763</u>
NON-OPERATING REVENUES (EXPENSES):		
Build America Bonds subsidy	8,511	8,143
Federal Emergency Management Agency reimbursement related to Tropical Storm Sandy	1,840	1,900
Interest expense (Note 2)	(288,360)	(243,230)
Interest expense—capital lease obligation	(5,075)	(4,967)
Change in fair value of derivative financial instruments (Note 15)	5,999	4,322
Change in fair value of derivative—due to MTA	(5,999)	(4,322)
Investment income	2,603	1,477
Provision for insurance recoveries	-	(58,500)
Total net non-operating expenses	<u>(280,481)</u>	<u>(295,177)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,053,481	853,586
TRANSFERS IN—Metropolitan Transportation Authority	102,396	168,574
TRANSFERS OUT (Note 1):		
New York City Transit Authority	(290,134)	(310,367)
Metropolitan Transportation Authority	<u>(411,822)</u>	<u>(429,777)</u>
CHANGE IN NET POSITION	453,921	282,016 *
NET POSITION—Beginning of year	(4,042,302)	(4,477,183)
Restatement of beginning net position - GASB 75 (Note 2)	(12,823)	-
Cumulative effect of change in accounting principle (Note 2)	-	152,865
NET POSITION—End of year	<u>\$ (3,601,204)</u>	<u>\$ (4,042,302)</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 was accounted for on a prospective basis.

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(Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(\$ in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tolls collected	1,977,301	1,879,785
Building rentals and fees received	24,015	19,949
Payroll and related fringe benefits	(225,333)	(239,070)
Other operating expenses	<u>(258,618)</u>	<u>(247,892)</u>
Net cash provided by operating activities	<u>1,517,365</u>	<u>1,412,772</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies paid to affiliated agencies	<u>(693,521)</u>	<u>(731,627)</u>
Net cash used in noncapital financing activities	<u>(693,521)</u>	<u>(731,627)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment for capital assets	(538,102)	(696,920)
Debt service payments	(490,270)	(290,000)
Bond proceeds	1,442,861	2,722,647
Bonds refunded	(647,550)	(1,973,870)
Interest payments	<u>(366,601)</u>	<u>(366,287)</u>
Net cash used in capital and related financing activities	<u>(599,662)</u>	<u>(604,430)</u>

See notes to financial statements.

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

(A Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(\$ in thousands)

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES:		
Gross sales of short-term securities	\$ 4,180,489	\$ 3,952,431
Gross purchases of short-term securities	<u>(4,402,795)</u>	<u>(4,141,145)</u>
Net cash used in investing activities	<u>(222,306)</u>	<u>(188,714)</u>
NET INCREASE/(DECREASE) IN CASH	1,876	(111,999)
CASH—Beginning of year	<u>8,420</u>	<u>120,419</u>
CASH—End of year	<u>\$ 10,296</u>	<u>\$ 8,420</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH OPERATING ACTIVITIES:		
Operating income	\$ 1,333,962	\$ 1,148,763
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	148,686	241,517
On-behalf payments related to rent (Note 16)	(1,840)	1,900
GASB 68 pension expense adjustment	(8,968)	6,274
GASB 75 OPEB expense adjustment	41,265	64,472
Net (increase) in receivables	(24,712)	(58,136)
Net increase (decrease) in operating payables	4,376	(28,314)
Net (increase) in prepaid expenses	(18,707)	(2,106)
Net increase in accrued salary costs, vacation & insurance	17,781	9,279
Net increase in unearned revenue	<u>25,522</u>	<u>29,122</u>
NET CASH OPERATING ACTIVITIES	<u>\$ 1,517,365</u>	<u>\$ 1,412,772</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital asset related liabilities	<u>\$ 62,750</u>	<u>\$ 69,634</u>
Interest expense includes amortization of net (premium)*	<u>\$ (81,759)</u>	<u>\$ (68,603)</u>
Interest expense which was capitalized	<u>\$ 33,666</u>	<u>\$ 35,739</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 was accounted for on a prospective basis.

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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, 2018 AND 2017 (\$ 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-ZPass 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, 2018 and 2017, of \$116,102 and \$105,063, 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, 2018 and 2017, were as follows:

	2018	2017
Operating transfer	\$ 701,956	\$ 740,144
Investment income (excludes unrealized gain or loss)	<u>2,603</u>	<u>1,477</u>
	<u>\$ 704,559</u>	<u>\$ 741,621</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, 2018:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes standards of accounting and financial reporting for postemployment benefits other than pensions (“OPEB”) that is provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. For defined benefit OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB plans are also addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. As a result of adopting this Statement, the MTA is reporting net OPEB liabilities, deferred outflows of resources and deferred inflows of resources for the MTA Retiree Welfare Benefits Plan (“OPEB Plan”) and recognizing OPEB expenses in accordance with the provisions of the Statement. The financial statement impact resulting from the implementation of GASB Statement No. 75 and GASB Statement No. 85 is the restatement of 2018 beginning net position, a decrease of \$12.8 million, representing the retroactive effect of adoption. The MTA Bridges and Tunnels did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 75 and GASB Statement No. 85. A net OPEB liability of \$823.7 million, deferred outflow of resources of \$60.7 million, and deferred inflows of resources of \$0.856 million were reported at December 31, 2018. The MTA Bridges and Tunnels recognized OPEB expense of \$69.6 million for the year-end December 31, 2018. Refer to Note 8 for more information regarding the MTA OPEB Plan.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues identified during the implementation and application of certain GASB statements. The provisions of this Statement amend and clarify guidance under a variety of topics with the intent to enhance consistency in the application of accounting

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and reporting requirements. This Statement specifically issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits (“OPEB”). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no impact on the MTA Bridges and Tunnels financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, establishes standards of accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no 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
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, including and Direct Placements</i>	2019
89	<i>Accounting for Interest Cost Incurred Before the End of a Construction Period</i>	2020
90	<i>Majority Equity Interests - An Amendment of GASB Statements No.14 and No.61</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 – Revenue is recognized through the fully cashless toll collection system, comprising of toll collection activity and the Tolls-By-Mail video billing.

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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.

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.

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, 2018 and December 31, 2017.

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.

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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, 2018 and 2017 were \$774 and \$710, 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.

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- **Restricted:**

Nonexpendable — Net position subject to externally imposed stipulations such that the Authority maintains them permanently. For the years ended December 31, 2018 and 2017, 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, 2018 and 2017, the Authority had expendable restricted net position related to (1) Debt Service of \$145,431 and \$167,171, and (2) the Necessary Reconstruction Reserve of \$756,915 and \$549,415.

- **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.

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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*, which established 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. The MTA Bridges and Tunnels reported under this standard for its Postemployment Benefits Other Than Pensions for the year ended December 31, 2017.

Effective for the year ended December 31, 2018, the MTA Bridges and Tunnels adopted the standards of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 85, *Omnibus* for the OPEB Plan.

GASB has issued Statements No. 74 and 75, which replaced GASB Statements No. 43 and 45. The effective date of GASB Statement No. 74 (which applies to financial reporting on a plan basis) is the year ended December 31, 2017. The effective date of GASB Statement No. 75 (which applies to financial reporting by contributing employers) is the year ended December 31, 2018.

The MTA Bridges and Tunnels recognizes a proportionate share of the net OPEB liability for the MTA's cost-sharing multiple-employer OPEB Plan, which represents the excess of the total OPEB liability over the fiduciary net position of the OPEB Plan, measured as of the measurement date of the plan.

Changes in the net OPEB liability during the year are recorded as OPEB expense, or as deferred outflows of resources or deferred inflows of resources relating to OPEB depending on the nature of the change, in the year incurred. Changes in net OPEB liability that are recorded as deferred outflows of resources or deferred inflows of resources that arise from changes in actuarial assumptions and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the year in which they are incurred. Projected earnings on qualified OPEB plan investments are recognized as a component of OPEB expenses. Differences between projected and actual investment earnings are reported as deferred outflows of resources or deferred inflow of resources as a component of OPEB expense on a closed basis over a five-year period beginning with the year in which the difference occurred.

Restatement of Beginning Net Position

The effect of the implementation of GASB No. 75 and 85 is a restatement of 2018 beginning net position to retroactively report the beginning balances for net OPEB liability, deferred outflows of resources related to OPEB, deferred inflows of resources related to OPEB, and the removal of any net OPEB obligations (assets) along with any payables to the OPEB Plan, as follows (in thousands):

Net position as of December 31, 2017, as previously reported	\$	(4,042,302)
Composition of Restatement:		
Deferred outflows related to contributions, beginning of the year		26,407
Net OPEB liabilities, beginning of the year		(749,001)
Accrued OPEB liabilities		709,771
Total Restatement:		<u>(12,823)</u>
Net position as of December 31, 2017, as restated	\$	<u><u>(4,055,125)</u></u>

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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 \$24,641 and \$22,958 in 2018 and 2017, respectively. No contributions are made by participants. As of December 31, 2018 and 2017, 1,407 and 1,374 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 I30, *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.

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, 2018 and 2017 consists of the following:

	2018		2017	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits	\$ 250	\$ 250	\$ 250	\$ 250
Collateralized deposits	<u>10,046</u>	<u>9,862</u>	<u>8,170</u>	<u>7,976</u>
	<u>\$ 10,296</u>	<u>\$ 10,112</u>	<u>\$ 8,420</u>	<u>\$ 8,226</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.

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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, 2018 and 2017:

(In thousands)	December 31, 2018	Fair Value Measurements		December 31, 2017	Fair Value Measurements	
		Level 1	Level 2		Level 1	Level 2
Investments by fair value level:						
Debt securities:						
U.S. treasury securities	\$200,572	\$200,572	\$ -	\$255,651	\$255,651	\$ -
U.S. government agency	7,191	-	7,191	5	-	5
Commercial paper	94,828	-	94,828	74,840	-	74,840
Repurchase agreements	<u>19,846</u>	<u>19,846</u>	<u>-</u>	<u>27,990</u>	<u>27,990</u>	<u>-</u>
Total debt securities	322,437	220,418	102,019	358,486	283,641	74,845
Equity securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	322,437	<u>\$220,418</u>	<u>\$102,019</u>	358,486	<u>\$283,641</u>	<u>\$74,845</u>
Other	<u>-</u>			<u>-</u>		
Total investments	<u>\$322,437</u>			<u>\$358,486</u>		

Investments classified as Level 1 of the fair value hierarchy, totaling \$220,418 and \$283,641 as of December 31, 2018 and 2017, 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 \$7,191 and \$5, and commercial paper totaling \$94,828 and \$74,840, as of December 31, 2018 and 2017, 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 2.10% and 1.19% for the years ended December 31, 2018 and 2017, respectively.

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Investments available to pay operating and maintenance expenses, debt service and operating surplus transfers, at December 31, 2018 and 2017, are as follows:

Investments (in thousands)	2018	2017
CURRENT:		
Restricted:		
Bond Proceeds Fund	\$ 23,268	\$ 89,153
Primarily Necessary Reconstruction Fund	29,569	29,266
Debt Service Fund	143,203	163,474
Cost of Issuance Fund	<u>1,642</u>	<u>2,901</u>
Total current — restricted	197,682	284,794
Total current — unrestricted	<u>124,746</u>	<u>73,687</u>
Total — current	<u>\$ 322,428</u>	<u>\$ 358,481</u>
LONG-TERM:		
Restricted:		
Senior Revenue Bonds	<u>\$ 9</u>	<u>\$ 5</u>
Total long-term — restricted	<u>9</u>	<u>5</u>
Total — long-term	<u>\$ 9</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, 2018 and 2017.

The fair value of the above investments consists of \$124,746 and \$73,687 in 2018 and 2017 in unrestricted investments respectively, and \$197,691 and \$284,799 in 2018 and 2017 in restricted investments, respectively. Investments had weighted average monthly yields ranging from 1.251% to 2.101%, for the year ended December 31, 2018 and 0.5470% to 1.1880%, for the year ended December 31, 2017. The net unrealized gain (loss), respectively on investments was \$326 and \$103 for the years ended December 31, 2018 and 2017, respectively.

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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, 2018		December 31, 2017	
	Fair Value	Duration (In years)	Fair Value	Duration (In years)
U.S. Treasuries	\$ 200,572	0.01	\$ 255,651	0.05
Other agencies	7,191	0.01	5	0.01
Repurchase agreements	19,846	-	27,990	-
Commercial paper	94,828	0.00	74,840	0.01
Total fair value	322,437		358,486	
Modified duration	-	0.01	-	0.01
Total investments	\$ 322,437		\$ 358,486	

Credit Risk—At December 31, 2018 and 2017, 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, 2018	Percent of Portfolio	December 31, 2017	Percent of Portfolio
A-1+	\$ 7,191	2 %	\$ 5	0 %
A-1	94,828	29	74,840	21
Not Rated	19,846	7	27,990	8
U.S. Government	200,572	62	255,651	71
Total	322,437	100 %	358,486	100 %
Investment not rated	-		-	
Total investment	\$ 322,437		\$ 358,486	

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

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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, 2018 were \$15,075 for short-term unrestricted and \$704,654 for short-term restricted. The amounts for the year ended December 31, 2017 were \$29,523 for short-term unrestricted and \$431,787 for short-term restricted.

6. CAPITAL ADDITIONS AND DELETIONS

Capital assets at December 31 consisted of the following additions/reclassifications and deletions/reclassifications:

(In thousands)	Balance December 31, 2016	Additions	Deletions	Balance December 31, 2017	Additions	Deletions	Balance December 31, 2018
CAPITAL ASSETS NOT BEING DEPRECIATED:							
Land	\$ 52,940	\$ -	\$ -	\$ 52,940	\$ -	\$ -	\$ 52,940
Construction in progress	<u>1,015,424</u>	<u>1,050,702</u>	<u>920,266</u>	<u>1,145,860</u>	<u>513,308</u>	<u>1,287,413</u>	<u>371,755</u>
Total capital assets not being depreciated	<u>1,068,364</u>	<u>1,050,702</u>	<u>920,266</u>	<u>1,198,800</u>	<u>513,308</u>	<u>1,287,413</u>	<u>424,695</u>
CAPITAL ASSETS BEING DEPRECIATED:							
Building—2 Broadway	81,972	-	-	81,972	-	-	81,972
Primary structures	2,897,758	287,515	32	3,185,241	550,019	-	3,735,260
Toll plazas	277,399	(131,239)	146,160	-	-	-	-
Toll equipment	162,973	(59,766)	103,207	-	668	-	668
Buildings	662,473	(7,556)	24,199	630,718	34,549	-	665,267
Roadway	1,432,355	342,624	10,004	1,764,975	304,622	-	2,069,597
Property - Road & Equipment	-	118,465	6,810	111,655	325,932	-	437,587
ORT Systems & Equipment	-	320,475	-	320,475	63,501	-	383,976
Other	<u>217,410</u>	<u>9,050</u>	<u>-</u>	<u>226,460</u>	<u>4,462</u>	<u>-</u>	<u>230,922</u>
Total capital assets being depreciated	<u>5,732,340</u>	<u>879,568</u>	<u>290,412</u>	<u>6,321,496</u>	<u>1,283,753</u>	<u>-</u>	<u>7,605,249</u>
LESS ACCUMULATED DEPRECIATION:							
Building—2 Broadway	41,931	1,047	-	42,978	1,154	-	44,132
Primary structures	553,035	37,451	32	590,454	33,959	-	624,413
Toll plazas	140,181	5,979	146,160	-	-	-	-
Toll equipment	74,185	29,022	103,207	-	8	-	8
Buildings	187,926	25,139	24,199	188,866	16,169	-	205,035
Roadway	378,727	95,546	10,004	464,269	65,652	-	529,921
Property - Road & Equipment	-	24,762	6,810	17,952	6,901	-	24,853
ORT Systems & Equipment	-	8,403	-	8,403	17,686	-	26,089
Other	<u>195,606</u>	<u>6,768</u>	<u>-</u>	<u>202,374</u>	<u>6,733</u>	<u>-</u>	<u>209,107</u>
Total accumulated depreciation	<u>1,571,591</u>	<u>234,117</u>	<u>290,412</u>	<u>1,515,296</u>	<u>148,262</u>	<u>-</u>	<u>1,663,558</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED—Net of accumulated depreciation	<u>4,160,749</u>	<u>645,451</u>	<u>-</u>	<u>4,806,200</u>	<u>1,135,491</u>	<u>-</u>	<u>5,941,691</u>
CAPITAL ASSETS—Net	<u>\$ 5,229,113</u>	<u>\$ 1,696,153</u>	<u>\$ 920,266</u>	<u>\$ 6,005,000</u>	<u>\$ 1,648,799</u>	<u>\$ 1,287,413</u>	<u>\$ 6,366,386</u>

In 2018 and 2017, capital asset additions included \$21,175 and \$21,361, respectively, of costs incurred by engineers working on capital projects. Capitalized interest totaled \$33,666 and \$35,739 in 2018 and 2017, respectively.

7. EMPLOYEE BENEFITS

Plan Description

NYCERS — The New York City Employees Retirement System (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 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

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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 or 10 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 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.

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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 retire.

MTA Bridges and Tunnels is required to contribute at an actuarially determined rate. MTA Bridges and Tunnels contributions to NYCERS for the years ended December 31, 2018 and December 31, 2017 were \$38,697 and \$41,272, respectively.

Net Pension Liability — MTA Bridges and Tunnels net pension liability for the pension plan reported at December 31, 2018 was measured as of June 30, 2018 and 2017 for NYCERS. The total pension liability for the pension plan was determined as of the actuarial valuation dates as of June 30, 2016 and 2015 for NYCERS and updated to roll forward the total pension liability to the measurement dates. 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.

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, 2016	June 30, 2015
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

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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, 2018 and is summarized as follows:

Asset Class	NYCERS	
	Target Asset Allocation	Long-Term Expected Real Rate of Return
U.S. public market equities	29.00 %	6.30 %
International public market equities	13.00	7.00
Emerging public market equities	7.00	9.50
Private market equities	7.00	10.40
U.S. Fixed income	33.00	2.20
Alternatives (real assets, hedge funds)	11.00	5.50
	100.00 %	
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, 2018. 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, 2018 and 2017, and the proportion percentage of the net pension liability of NYCERS allocated to MTA Bridges and Tunnels:

	June 30, 2018	June 30, 2017
	(\$ in millions)	
Bridges and Tunnels proportion of the net pension liability	1.155%	1.308%
Bridges and Tunnels proportionate share of the net pension liability	\$203.71	\$271.61

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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, 2018 and 2017, 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:

	June 30, 2018			June 30, 2017		
	1% Decrease (6.0%)	Discount Rate (7.0%) (in millions)	1% Increase (8.0%)	1% Decrease (6.0%)	Discount Rate (7.0%) (in millions)	1% Increase (8.0%)
Bridges and Tunnels proportionate share of the net pension liability	\$312.28	\$203.71	\$112.12	\$ 392.56	\$ 271.61	\$ 165.38

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions — For the year ended December 31, 2018 and 2017, MTA Bridges and Tunnels recognized pension expense as follows (in thousands):

Pension Plans	December 31,	
	2018	2017
NYCERS	\$ 29,729	\$ 47,546

For the years ended December 31, 2018 and 2017, the MTA Bridges and Tunnels reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in millions)	
Differences between expected and actual experience	\$ -	\$ 19,675
Changes in assumptions	3,104	-
Net difference between projected and actual earnings on pension plan investments	-	11,426
Proportionate share of contributions	-	19,724
Employer contribution to plan subsequent to the measurement date of net pension liability	38,396	-
Total	\$ 41,500	\$ 50,825

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	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

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 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	6.01	6.01	6.01

For the year ended December 31, 2018 and 2017, \$38,396 and \$38,998, 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2018 will be recognized as pension expense as follows:

Year Ending December 31: (In millions)	Increase/(Decrease) in Pension Expense
2019	\$ 1,294
2020	10,692
2021	16,834
2022	10,078
2023	8,736
Thereafter	87
Total	\$ 47,721

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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 participates in a defined benefit other postemployment benefits (“OPEB”) plan for its employees, the Metropolitan Transportation Authority Retiree Welfare Benefits Plan (“OPEB Plan”). A description of the Plan follows:

(1) Plan Description

The MTA Retiree Welfare Benefits Plan (“OPEB Plan”) and the related Trust Fund (“Trust”) was established on January 1, 2009 for the exclusive benefit of MTA and related agencies retired employees and their eligible spouses and dependents, to fund some of the OPEB provided in accordance with the MTA Bridges and Tunnels various collective bargaining agreements. Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Amounts contributed to the OPEB Plan are held in an irrevocable trust and may not be used for any other purpose than to fund the costs of health and welfare benefits of its eligible participants.

The OPEB 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 cost-sharing multiple-employer defined benefit OPEB plan.

The OPEB Plan Board of Managers, comprised of the MTA Chairman, MTA Chief Financial Officer and MTA Director of Labor Relations, are the administrators of the OPEB Plan. The MTA Board has the right to amend, suspend or terminate the OPEB 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.

Benefits Provided — The benefits provided by the OPEB Plan include medical, pharmacy, dental, vision, life insurance and a Medicare supplemental plan. The different types of benefits provided vary by agency, employee type (represented employees versus non-represented) and the relevant collective bargaining agreements. Certain benefits are provided upon retirement as defined in the applicable pension plan. Certain agencies provide benefits to certain former employees if separated from service within 5 years of attaining retirement eligibility. Employees of MTA Bridges and Tunnels are members of the NYCERS pension plan.

MTA Bridges and Tunnels participates in the New York State Health Insurance Program (“NYSHIP”) and provides medical and prescription drug benefits, including Medicare Part B reimbursements, to many of its retirees. NYSHIP offers a Preferred Provider Organization (“PPO”) plan and several Health Maintenance Organization (“HMO”) plans.

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MTA Bridges and Tunnels 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.

OPEB Plan Eligibility — To qualify for benefits under the OPEB Plan, a former employee of MTA Bridges and Tunnels must:

- (a) have retired;
- (b) be receiving a pension (except in the case of the 401(k) Plan);
- (c) have at least 10 years of credited service as a member of NYCERS, and
- (d) have attained the minimum age requirement (unless within 5 years of commencing retirement for certain members). A represented retired employee may be eligible only pursuant to the relevant collective bargaining agreement.

Surviving Spouse and Other Dependents —

- Lifetime coverage is provided to the surviving spouse (not remarried) or domestic partner and surviving dependent children to age 26 of retired managers and certain non-represented retired employees.

The OPEB Plan Board of Managers has the authority to establish and amend the benefits that will be covered under the OPEB Plan, except to the extent that they have been established by collective bargaining agreement.

Contributions — MTA Bridges and Tunnels is not required by law or contractual agreement to provide funding for the OPEB Plan, other than the “pay-as-you-go” (“PAYGO”) amounts. PAYGO is the cost of benefits necessary to provide the current benefits to retirees and eligible beneficiaries and dependents. Employees are not required to contribute to the OPEB Plan. The OPEB Plan Board has the authority for establishing and amending the funding policy. For the year-ended December 31, 2018, MTA Bridges and Tunnels paid \$28,292 of PAYGO to the OPEB Plan.

During 2012, the MTA funded \$250 million into the Trust and an additional \$50 million during 2013. There have been no further contributions made to the Trust. The discount rate estimates investment earnings for assets earmarked to cover retiree health benefits. Under GASB Statement No. 75, the discount rate depends on the nature of underlying assets for funded plans. Since the amount of benefits paid in 2017 exceeded the current market value of the assets, a depletion date is assumed to occur immediately. Therefore, the discount rate is set equal to the municipal bond index. The MTA elected the Bond Buyer General Obligation 20-Bond Municipal Bond Index. As a result, the discount rates as of December 31, 2017 and December 31, 2016, the measurement dates, are 3.44% and 3.78%, respectively.

Employer contributions include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy arises when an employer allows a retiree and their dependents to continue on the active plans and pay the active premiums. Retirees are not paying the true cost of their benefits because they have higher utilization rates than actives and therefore are partially subsidized by the active employees. As shown in the following table, for the year ended December 31, 2017, the employer made a cash payment for retiree healthcare of \$3,450 as part of the employer’s payment for active-employee healthcare benefits. For purposes of GASB Statement No. 75, this payment made on behalf of the active employees should be reclassified as benefit payments for retiree health care to reflect the retirees’ underlying age-adjusted, retiree benefit costs.

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Blended and Age-adjusted Premium (in thousands)	2017 Retirees
Total blended premiums	22,957
Employment payment for retiree healthcare	3,450
Net Payments	26,407

(2) Net OPEB Liability

At December 31, 2018, MTA Bridges and Tunnels reported a net OPEB liability of \$823,748 for its proportionate share of the Plan's net OPEB liability. The net OPEB liability was measured as of the OPEB Plan's fiscal year-end of December 31, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of July 1, 2017, and rolled forward to December 31, 2017. The MTA Bridges and Tunnels proportion of the net OPEB liability was based on a projection of the MTA Bridges and Tunnels long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating employers. At December 31, 2018, the MTA Bridges and Tunnels proportion was 4.06 percent.

OPEB Plan Fiduciary Net Position — The fiduciary net position has been determined on the same basis used by the OPEB plan. The OPEB plan uses the accrual basis of accounting under which contributions from the employer are recognized when paid. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at fair value based on quoted market prices or Net Asset Value. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report or at www.mta.info.

(3) Actuarial Assumptions

Actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as future employment, mortality and health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan, which refers to the plan terms as understood by the employer and the plan members at the time of the valuation, including only changes to plan terms that have been made and communicated to employees. The projections include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members at that time. MTA Bridges and Tunnels may not be obligated to provide the same types or levels of benefits to retirees in the future.

The total OPEB liability was determined by an actuarial valuation performed on July 1, 2017. Update procedures were used to roll forward the total OPEB liability to December 31, 2017, the measurement date. The actuarial valuations were performed using the following actuarial assumptions, applied to all periods included in the measurement, unless specified:

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Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%, net of expenses
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Normal cost increase factor	4.50%
Investment rate of return	6.50%

Salary Increases

Salary Scale – salaries are assumed to increase by years of service. Rates are shown below:

<u>Years of Employment</u>	<u>Rate of Increase</u>
1	11.0%
2	10.0%
3	9.0%
4	8.0%
5	7.0%
6	6.0%
7	5.0%
8	4.0%
9	3.8%
10	3.6%
11+	3.5%

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. The NYSHIP trend reflects actual increases in premiums to participating agencies through 2018. These assumptions are combined with long-term assumptions for dental and vision benefits of an annual trend of 4.0% plus Medicare Part B reimbursements of an annual trend of 4.5%, but not more than projected medical trends excluding any excise tax adjustments. For purposes of estimating the impact of the excise tax, the NYSHIP trend for MTA Bridges and Tunnels reflects that certain represented members do not receive prescription drug coverage through NYSHIP.

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Healthcare Cost Trend Rates — The following lists illustrative rates for the NYSHIP and self-insured trend assumptions for MTA Bridges and Tunnels (all amounts are in percentages).

Fiscal Year	NYSHIP		MTA Bridges and Tunnels	
	< 65	>=65	< 65	>=65
2018	8.50%	8.20%	7.50%	4.90%
2019	6.20%	5.50%	5.80%	3.10%
2020	5.80%	5.30%	5.60%	3.90%
2021	5.50%	5.20%	5.30%	4.40%
2022	7.20%	5.10%	5.10%	5.10%
2023	6.10%	5.10%	5.10%	5.10%
2024	6.10%	5.00%	5.00%	5.00%
2025	5.90%	5.00%	5.00%	5.00%
2026	5.90%	5.00%	5.00%	5.00%
2027	5.80%	4.90%	5.00%	4.90%
2037	5.60%	5.00%	5.90%	5.00%
2047	5.40%	5.90%	5.60%	4.90%
2057	5.10%	5.40%	5.20%	4.80%
2067	4.80%	5.00%	4.90%	4.60%
2077	4.20%	4.30%	4.20%	4.00%
2087	4.10%	4.20%	4.20%	4.00%
2097	4.10%	4.20%	4.20%	4.70%

For purposes of applying the Entry Age Normal Cost method, the healthcare trend prior to the valuation date are based on the ultimate rates, which are 4.1% for medical and pharmacy costs prior to age 65, 4.2% for NYSHIP costs at age 65 and later (4.6% for certain MTA Bridges and Tunnels represented members), and 4.3% for self-insured medical and pharmacy costs at age 65 and later.

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.

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

Expected Rate of Return on Investments — The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 allocation and best estimates of arithmetic real rates of return for each major asset class summarized in the following table:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Core Fixed Income	13.00%	1.96%
Global Bonds	15.00%	0.34%
Emerging Markets Bonds	5.00%	3.30%
Global Equity	35.00%	4.99%
Non-US Equity	15.00%	5.84%
Global REITs	5.00%	5.62%
Hedge Funds - MultiStrategy	12.00%	3.35%
Total	100%	

Long Term Expected Rate of Return selected by MTA 6.50%

Discount Rate — The discount rate used in this valuation to measure the total OPEB liability was updated to incorporate GASB Statement No. 75 guidance.

The plan’s fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan’s fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan’s fiduciary net position is not projected to be sufficient. Therefore, the discount rate is set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index as of December 31, 2017 of 3.44%.

Sensitivity of the MTA Bridges and Tunnels Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate — The following presents the MTA Bridges and Tunnels proportionate share of the net OPEB liability, as well as what the MTA Bridges and Tunnels proportionate share of the net OPEB 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 the measurement:

	1% Decrease (2.44%)	Discount Rate (3.44%)	1% Increase (4.44%)
	(In millions)		
Proportionate share of the net OPEB liability	\$ 950.33	\$ 823.75	\$ 723.38

Sensitivity of the MTA Bridges and Tunnels Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates — The following presents the MTA Bridges and Tunnels proportionate share of the net OPEB liability, as well as what the MTA Bridges and Tunnels proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates used for the measurement:

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	<u>1% Decrease</u>	<u>Healthcare Cost Current Trend Rate *</u>	<u>1% Increase</u>
		(In millions)	
Proportionate share of the net OPEB liability	\$ 706.20	\$ 823.75	\$ 976.18

*For further details, refer to the Health Care Cost Trend Rates tables in the Actuarial Assumptions section of this Note Disclosure.

(4) OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, MTA Bridges and Tunnels recognized OPEB expense of \$69,556, which represents its proportionate share of the Plan's OPEB expense.

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, changes in assumptions and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a 7.4 year close period, beginning the year in which the deferred amount occurs.

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At December 31, 2018, MTA Bridges and Tunnels reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows (In thousands):

	December 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 477	\$ -
Changes in assumptions	31,977	-
Net difference between projected and actual earnings on OPEB plan investments	-	(856)
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Employer contributions to the plan subsequent to the measurement of net OPEB liability	28,292	-
Total	<u>\$ 60,746</u>	<u>\$ (856)</u>

For the year ended December 31, 2018, \$60,746 was reported as deferred outflows of resources related to OPEB. This amount includes both MTA Bridges and Tunnels contributions subsequent to the measurement date and an implicit rate subsidy adjustment that will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2018 will be recognized in OPEB expense as follows (In thousands):

Year ending December 31:	
2019	\$ 4,857
2020	4,857
2021	4,857
2022	4,857
2023	5,071
Thereafter	7,099
	<u>\$ 31,598</u>

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 2018 or 2017.

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, 2018 and 2017, costs associated with the storm included repair and clean-up expenses of \$1.2 million and \$2.1 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. During 2017, there was an insurance recovery of \$30,000 with the remaining balance of \$58,500 being written off.

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 2018:

- On January 25, 2018, MTA Bridges and Tunnels remarketed 2003B-1 of \$122,635 and 2005B-2 of \$190,300 from a Weekly mode to a Daily mode. On 2003B-1 and 2005B-2 the irrevocable direct-pay letter of credit issued by Wells Fargo is now issued from Bank of America and Citibank respectively.
- On February 1, 2018, MTA Bridges and Tunnels issued \$351,930 General Revenue Bonds, Series 2018A. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities and refunding of Series 2017A1-A6.
- On June 27, 2018, MTA Bridges and Tunnels remarketed 2001C of \$107,275 and 2005B-3 of \$190,300 from a Weekly mode to a Daily mode. On 2001C and 2005B-3 the irrevocable direct-pay letter of credit issued by Bank of Tokyo is now issued from State Street & Trust Co. respectively.
- On August 30, 2018, MTA Bridges and Tunnels issued \$270,090 General Revenue Bonds, Series 2018B. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities and refunding on 2008C, and 2008D Subordinate Bond. The loss on refunding related to the 2018B issuance was \$3,334, which will be amortized into interest expense over 13 years.
- On August 30, 2018, MTA Bridges and Tunnels issued \$159,280 General Revenue Bonds, Series 2018C. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities and refunding on 2009A-2. The gain on refunding related to the 2018C issuance was \$3,610, which will be amortized into interest expense over 20 years.
- On September 26, 2018, MTA Bridges and Tunnels remarketed 2001B of \$107,280 from a Weekly mode to the Term Rate Mode bearing interest at a variable rate based on the Secured Overnight Financing Rate (SOFR) index. On 2001B the irrevocable direct-pay letter of credit issued by State Street Bank and Trust Co is now issued by Bayerische Landesbank.
- On October 4, 2018, MTA Bridges and Tunnels issued \$125,000 General Revenue Bonds, Series 2018D. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities.
- On October 30, 2018, MTA Bridges and Tunnels remarketing of 2002F of \$162,995 will remain a daily mode. On 2002F the irrevocable direct-pay letter of credit issued by Citibank, N.A is now issued by Landesbank Hessen-Thuringen Girozentrale acting through its New York Branch.

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- On November 28, 2018, MTA Bridges and Tunnels remarketed 2005B-4c and 2005B-4d was consolidated to 2005B-4c to \$82,500 from a Term Rate Mode to a daily mode. On 2005B-4c obtain an irrevocable direct-pay letter of credit issued by U.S. Bank National Association.
- On December 12, 2018, MTA Bridges and Tunnels issued \$148,470 General Revenue Bonds, Series 2018E. The net proceeds were used refunding of Series 2013D-2a and 2013D-2b Taxable Subordinate 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 2017A1-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.

MTA Bridges and Tunnels' non-current portion of long-term debt as of December 31, 2018 and 2017 is comprised of the following:

(In thousands)	2018	2017
Senior Revenue Bonds (Notes 12)	\$8,079,079	\$7,582,254
Subordinate Revenue Bonds (Note 13)	<u>914,661</u>	<u>1,277,128</u>
Total long-term debt—net of premiums and discounts	<u>\$8,993,740</u>	<u>\$8,859,382</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	2001C	State Street	June 26, 2023
TBTA General Revenue	2002F	Citibank, N.A.	October 29, 2021
TBTA General Revenue	2003B-1	Bank of America, N.A.	January 21, 2022
TBTA General Revenue	2005A	TD Bank	January 28, 2020
TBTA General Revenue	2005B-2	Citibank, N.A.	January 28, 2021

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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, 2018, there were no term loans outstanding.

Bond Refundings — From time to time, 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 statement of net position.

At December 31, 2018 and 2017, the following amounts of MTA Bridges and Tunnels 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,	
	2018	2017
MTA Bridges and Tunnels:		
General Purpose Revenue Bonds	\$ 674	\$ 694
Special Obligation Subordinate Bonds	102	115
Mortgage Recording Tax Bonds	-	-
Total	\$ 776	\$ 809

For the year ended December 31, 2018, MTA Bridges and Tunnels refunding transactions decreased against aggregate debt service payments by \$75 million and provided an economic gain of \$82 million. For the year ended December 31, 2017, MTA Bridges and Tunnels refunding transactions decreased against aggregate debt service payments by \$261 million and provided an economic gain of \$195 million. Details of bond refunding savings for 2018 and 2017 are as follows:

Bonds Refunded in 2018 (In millions)	Series	Date Issued	Par Value Refunded	Debt Service Savings	Net Present Value of Savings
MTA Bridges and Tunnels General Revenue Bonds	TBTA 2018B	8/30/2018	\$ 270	\$ 80	\$ 62
	TBTA 2018C	8/30/2018	<u>159</u>	<u>(5)</u>	<u>20</u>
Total MTA Bridges and Tunnels General Revenue Bonds			<u>429</u>	<u>75</u>	<u>82</u>
Total Bond Refunding Savings			<u>\$ 429</u>	<u>\$ 75</u>	<u>\$ 82</u>

Bonds Refunded in 2017 (In millions)	Series	Date Issued	Par Value Refunded	Debt Service Savings	Net Present Value of Savings
MTA Bridges and Tunnels General Revenue Bonds	TBTA 2017B	1/19/2017	\$ 903	\$ 199	\$ 139
	TBTA 2017C-1	11/17/2017	<u>521</u>	<u>62</u>	<u>56</u>
Total MTA Bridges and Tunnels General Revenue Bonds			<u>1,424</u>	<u>261</u>	<u>195</u>
Total Bond Refunding Savings			<u>\$ 1,424</u>	<u>\$ 261</u>	<u>\$ 195</u>

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For the years ended December 31, 2018 and 2017, the accounting loss/gain on bond refundings totaled \$0.28 million and \$82 million, respectively. Unamortized losses related to bond refundings were as follows:

(In millions)	December 31, 2016	(Gain)/ Loss on Refunding	Current Year Amortization	December 31, 2017	(Gain)/ Loss on Refunding	Current Year Amortization	December 31, 2018
TBTA:							
General Revenue Bonds	\$ 171	\$ 82	\$ (20)	\$ 233	0.90	\$ (25)	\$ 209
Subordinate Revenue Bonds	<u>32</u>	<u>-</u>	<u>(2)</u>	<u>30</u>	<u>(0.62)</u>	<u>4</u>	<u>33</u>
	<u>203</u>	<u>82</u>	<u>(22)</u>	<u>263</u>	<u>0.28</u>	<u>(21)</u>	<u>242</u>

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12. DEBT — SENIOR REVENUE BONDS

Senior Revenue Bonds at December 31, 2018, consist of the following:

(In thousands)	Original Issuance	December 31, 2017	Issued	Principal Repayments	December 31, 2018
Series EFC 1996A	\$ 23,530	\$ 325	\$ -	\$ 325	\$ -
Series 2001B&C, 4.10% - 5.25%	296,400	225,425	-	10,870	214,555
Series 2002F	246,480	171,555	-	8,560	162,995
Series 2003B	250,000	174,645	-	5,960	168,685
Series 2005A	150,000	110,710	-	4,215	106,495
Series 2005B	800,000	573,900	-	3,000	570,900
Series 2008A	822,770	24,165	-	24,165	-
Series 2008B	252,230	166,770	-	-	166,770
Series 2008C	629,890	210,145	-	210,145	-
Series 2009A-1	150,000	76,760	-	8,365	68,395
Series 2009A-2	325,000	182,335	-	182,335	-
Series 2009B - BAB	200,000	200,000	-	-	200,000
Series 2010A-1	66,560	23,175	-	7,350	15,825
Series 2010A-2 - BAB	280,400	280,400	-	-	280,400
Series 2011A	609,430	115,945	-	21,070	94,875
Series 2012A	231,490	176,555	-	4,680	171,875
Series 2012B	1,353,055	1,184,990	-	95,385	1,089,605
Series 2013B	257,195	257,195	-	-	257,195
Series 2013C	200,000	153,740	-	3,815	149,925
Series 2014A	250,000	200,380	-	4,555	195,825
Series 2015A	225,000	198,885	-	2,895	195,990
Series 2015B	65,000	62,720	-	1,210	61,510
Series 2016A	541,240	523,265	-	10,915	512,350
Series 2017A	300,000	300,000	-	-	300,000
Series 2017B	902,975	902,975	-	-	902,975
Series 2017C	720,990	720,990	-	-	720,990
Series 2018A	-	-	351,930	-	351,930
Series 2018B	-	-	270,090	-	270,090
Series 2018C	-	-	159,280	-	159,280
Series 2018D	-	-	125,000	-	125,000
Series 2018E	-	-	148,470	-	148,470
	<u>\$ 10,149,635</u>	7,217,950	1,054,770	609,815	7,662,905
Add net unamortized bond (discount) and premium		<u>597,534</u>	<u>129,454</u>	<u>78,784</u>	<u>648,204</u>
		<u>\$ 7,815,484</u>	<u>\$ 1,184,224</u>	<u>\$ 688,599</u>	<u>\$ 8,311,109</u>

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Senior Revenue Bonds at December 31, 2017, consist of the following:

(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>	6,933,415	1,923,965	1,639,430	7,217,950
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 was accounted for on a prospective basis. This change resulted in an increase to unamortized premium of \$116,157 and bond payable of \$116,157.

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Debt Service Requirements:

Year Ending December 31 (In thousands)	Principal	Interest	Aggregate Debt Service
2019	\$ 232,030	\$ 311,341	\$ 543,371
2020	252,090	303,590	555,680
2021	251,560	291,927	543,487
2022	258,645	279,964	538,609
2023	281,260	267,800	549,060
2024–2028	1,785,450	1,114,425	2,899,875
2029–2033	2,065,655	694,607	2,760,262
2034–2038	1,345,790	398,605	1,744,395
2039–2043	667,525	134,863	802,388
2044–2048	497,375	30,182	527,557
2049–2051	<u>25,525</u>	<u>1,930</u>	<u>27,455</u>
	<u>\$ 7,662,905</u>	<u>\$ 3,829,234</u>	<u>\$ 11,492,139</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.

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13. DEBT — SUBORDINATE REVENUE BONDS

Subordinate Revenue Bonds at December 31, 2018, consist of the following:

(In thousands)	Original Issuance	December 31, 2017	Addition/ Retirements During 2018	December 31, 2018
Series 2000ABCD	\$ 147,850	\$ 57,700	\$ (38,850)	\$ 18,850
Series 2002E	756,095	139,825	(24,785)	115,040
Series 2008D	491,110	135,520	(135,520)	-
Series 2013A	761,599	743,480	(7,285)	736,195
Series 2013D	<u>313,975</u>	<u>309,220</u>	<u>(157,680)</u>	<u>151,540</u>
	<u>\$ 2,470,629</u>	1,385,745	(364,120)	1,021,625
Add net unamortized bond (discount) and premium		<u>(16,267)</u>	<u>(5,442)</u>	<u>(21,709)</u>
		<u>\$ 1,369,478</u>	<u>\$ (358,678)</u>	<u>\$ 999,916</u>

Subordinate Revenue Bonds at December 31, 2017, consist of the following:

(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	<u>313,975</u>	<u>310,495</u>	<u>(1,275)</u>	<u>309,220</u>
	<u>\$ 2,470,629</u>	1,627,694	(241,950)	1,385,745
Add net unamortized bond (discount) and premium*		<u>115,708</u>	<u>(131,975)</u>	<u>(16,267)</u>
		<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 was accounted for on a prospective basis. This change resulted in an increase to unamortized premium of \$107,635 and bond payable of \$107,635.

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Debt Service Requirements:

Year Ending December 31 (In thousands)	Principal	Interest	Aggregate Debt Service
2019	\$ 85,255	\$ 36,399	\$ 121,654
2020	69,000	33,231	102,231
2021	71,850	30,128	101,978
2022	76,325	26,823	103,148
2023	81,115	23,330	104,445
2023–2027	352,810	62,697	415,507
2028–2032	<u>285,270</u>	<u>5,531</u>	<u>290,801</u>
	<u>\$ 1,021,625</u>	<u>\$ 218,139</u>	<u>\$ 1,239,764</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.

14. 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, 2017	Issued	Principal Repayments & Retirements During 2018	December 31, 2018
Series 2017A1-A6	\$ 164,690	\$ -	\$ 164,690	\$ -
Add net unamortized bond premium	<u>218</u>	<u>-</u>	<u>218</u>	<u>-</u>
	<u>\$ 164,908</u>	<u>\$ -</u>	<u>\$ 164,908</u>	<u>\$ -</u>

15. 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

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substantially offsetting the associated changes in cash flows or fair values of the underlying bond portfolio.

For the year ended December 31, 2018, the MTA Bridges and Tunnels is reporting gains, derivative liabilities and deferred outflows from derivative instruments in the amounts of \$5,999, \$123,921 and \$143,796, respectively. The gain of \$5,999 is related to swaps on MTA bonds which is offset by a loss of \$5,999 reflected in other operating income. Also recognized in the same period are derivative assets of \$3,526.

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.

**GASB Statement No. 53- Accounting and Financial Reporting for Derivative Instruments
Summary Information as of December 31, 2018**

				Cash Flow or Fair Value Hedge	Effective Methodology	Trade/ Entered Date	Notional Amount as of 12/31/18 (in millions)	Fair Values as of 12/31/18 (in millions)
Investment Swap	MTA Transportation Revenue Bond	2002G-1	Pay-Fixed Swap	N/a	N/a	4/1/2016	127.660	(7.869)
	MTA Transportation Revenue Bond	2011B	Pay-Fixed Swap	N/a	N/a	4/1/2016	69.590	(12.498)
Hedging Swaps	MTA Bridges & Tunnels Senior Revenue Bonds	2002F (Citi 2005B)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	190.300	(24.025)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	22.650	(2.339)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	570.900	(72.074)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2001C	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	10/26/2016	40.275	(1.326)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2000ABCD	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	8/12/1998	11.150	(0.264)

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The fair value balances and notional amounts of derivative instruments outstanding at December 31, 2018, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2017 are as follows:

(In Millions)	Changes In Fair Value		Fair Value at December 31, 2018		Notional Amount
	Classification	Amount	Classification	Amount	
Government Activities					
Cash Flow hedges—					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ 25.487	Debt	\$ (100.028)	835.275
Investment Swap—					
Pay-fixed interest rate swaps	Investment expense	5.999	Debt	(20.367)	197.250

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

16. 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

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December 31, 2018, 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 57.6%, 7.5% and 34.9%, 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 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, 2018 and 2017, of \$57,005 and \$55,711, 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 2018, the total of the rental payments charged to MTA Bridges and Tunnels was \$1,840 less than the lease payment made by MTA on behalf of MTA Bridges and Tunnels.

Total net obligations under all capital leases as of December 31, 2018 and 2017, are as follows:

(In thousands)	2018	2017
Beginning of the year	\$ 55,711	\$ 54,524
Deletions	-	-
Additions	1,294	1,187
Amortization	<u>-</u>	<u>-</u>
End of year	<u>\$ 57,005</u>	<u>\$ 55,711</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, 2018 and 2017, is as follows (In thousands):

	2018	2017
Capital lease - building	\$ 81,865	\$ 81,865
Less accumulated amortization	<u>(44,132)</u>	<u>(42,978)</u>
Capital lease - building—net	<u>\$ 37,733</u>	<u>\$ 38,887</u>

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Net minimum capital and operating lease payments are as follows:

Years Ending December 31 (In thousands)	Capital Aggregate Lease Payments	Operating Aggregate Lease Payments
2019	\$ 4,371	\$ 2,405
2020	4,371	2,405
2021	4,371	2,405
2022	4,371	2,405
2023	4,371	2,405
2024-2028	25,041	12,026
2029-2033	31,669	12,026
2034-2038	37,581	12,026
2039-2043	41,595	12,026
2044-2048	<u>41,337</u>	<u>10,821</u>
Minimum future lease payments	199,078	70,950
Amount representing interest	<u>(142,073)</u>	<u>-</u>
Present value of capital lease obligations	<u>\$ 57,005</u>	<u>\$ 70,950</u>

Total accumulated depreciation under capital leases was approximately \$44,132 and \$42,978 in 2018 and 2017, respectively.

Rental amount incurred during 2018 and 2017 were \$565 and \$506, respectively.

17. 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.

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A summary of activity in estimated liability arising from injuries to persons, including employees, and damage to third-party property, as of December 31, 2018 and 2017, is as follows:

(In thousands)	2018	2017
Balance—beginning of year	\$ 47,559	\$ 43,633
Activity during the year:		
Current year claims and changes in estimates	6,852	7,836
Claims paid	<u>(1,783)</u>	<u>(3,910)</u>
Balance—end of year	52,628	47,559
Less current portion	<u>(5,975)</u>	<u>(6,260)</u>
Long-term liability	<u>\$ 46,653</u>	<u>\$ 41,299</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, 2018, the balance of the assets in this program was \$152.6 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

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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, 2018, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2018, 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.

FMTAC's property insurance program has been expanded to include \$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 82% of "certified" losses in 2018, 81% of "certified" losses in 2019 and 80% of "certified" losses in 2020, as covered by the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") of 2015. The remaining 18% (2018), 19% (2019) and 20% (2020) 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 \$160 million in 2018, \$180 million in 2019 and \$200 million in 2020. 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) 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, 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 and 20% of any "certified" act of terrorism up to a maximum recovery of \$215 for any one occurrence and in the annual aggregate during 2020 (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 \$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 or 100% of any "certified" terrorism loss which exceeds \$5 and less than the \$200 TRIPRA trigger up to a maximum recovery of \$200 for any occurrence and in the annual aggregate during 2020.

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Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$193.5 million in 2018 , \$204.3 million in 2019 and \$215 million in 2020. 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, 2020.

COMMITMENTS AND CONTINGENCIES

At December 31, 2018 and 2017, MTA Bridges and Tunnels had unused standby letters of credit, relative to insurance, amounting to \$2.712 million and \$2.712 million, respectively.

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.

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, 2018).

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MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/2018 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/2018 (in millions)	Swap Termination Date	Counterparty
Series 2002F ⁽¹⁾	\$ 190.300	07/07/05	3.076 %	67% of one-month LIBOR ⁽¹⁾	\$ (24.025)	01/01/32	Citibank, N.A.
Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e ⁽¹⁾	<u>570.900</u>	07/07/05	3.076	67% of one-month LIBOR ⁽¹⁾	<u>(72.074)</u>	01/01/32	33% each – JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG
Total	<u>\$ 761.200</u>				<u>\$ (96.099)</u>		

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/2018 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/2018 (in millions)	Swap Termination Date	Counterparty
Series 2000ABCD ⁽¹⁾⁽²⁾⁽³⁾	\$ 11.150	01/01/01	6.080 %	SIFMA – 15 bp	\$ (0.264)	01/01/19	JPMorgan Chase Bank, NA
Series 2005A	\$ 22.650	09/24/04	3.09	Lesser of Actual Bond or 67% of one-month LIBOR – 45 basis points	\$ (2.339)	01/01/30	U.S. Bank N.A., Wells Fargo Bank, N.A.
Series 2001C ⁽⁶⁾	<u>\$ 40.275</u>	04/01/16	3.52	67% of one-month LIBOR ⁽¹⁾	<u>\$ (1.326)</u>	01/01/30	U.S. Bank N.A., Wells Fargo Bank, N.A.
Total	<u>\$ 74.075</u>				<u>\$ (3.929)</u>		

⁽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

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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, 2018:

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, 2018 (In thousands):

<u>Series</u>	<u>Outstanding Principal</u>	<u>Notional Amount</u>
TBTA SUB 2000ABCD	\$ 18,850	\$ 11,150
TBTA 2005B-4 (a,b,c,d,e)	190,300	190,300
TBTA 2005B-3	190,300	190,300
TBTA 2005B-2 (a,b,c)	190,300	190,300
TBTA 2005A	106,495	22,650
TBTA 2003B (1,2,3)	168,685	27,305
TBTA 2002F	162,995	162,995
TBTA 2001C	107,275	40,275
2002G-1	127,660	127,660
2011B	99,560	69,590
Total	\$ 1,362,420	\$ 1,032,525

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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 Baal/BBB+ level), with partial posting requirements at higher rating levels (details on collateral posting discussed further under “Collateralization/Contingencies”). As of December 31, 2018, 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	\$ 201,450	19.51 %
UBS AG	190,300	18.43
Citibank, N.A.	190,300	18.43
BNP Paribas North America, Inc.	190,300	18.43
U.S. Bank National Association	130,087	12.60
Wells Fargo Bank, N.A.	130,088	12.60
Total	\$ 1,032,525	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

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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;		
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.

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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)	Below Baa2 (Moody's)

* 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).

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As of December 31, 2018, the aggregate mid-market valuation of MTA Bridges and Tunnels' swaps subject to collateral posting agreements was (\$120.395) 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.

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MTA BRIDGES AND TUNNELS (In millions)

Year Ending December 31	Variable-Rate Bonds		Net Swap	Total
	Principal	Interest	Payments	
2019	\$ 43.4	\$ 38.0	\$ (6.9)	\$ 74.5
2020	25.4	37.0	(6.9)	55.5
2021	26.6	36.0	(6.8)	55.8
2022	27.6	34.9	(6.8)	55.7
2023	28.6	33.8	(6.8)	55.6
2023–2026	201.9	144.5	(32.0)	314.4
2027–2031	644.2	43.2	(10.1)	677.3
2032–2035	0.0	2.5	0.0	2.5

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, 2018 and 2017 (in thousands):

	2018		2017	
	Receivable	(Payable)	Receivable	(Payable)
Due from (due to) MTA	\$ 10,529	\$ (445,227)	\$ 173,717	\$ (447,126)
Due from (due to) MTA	-	(23,401)	-	(17,402)
Due from (due to) affiliated agencies	-	(43,990)	-	(41,688)
	<u>\$ 10,529</u>	<u>\$ (512,618)</u>	<u>\$ 173,717</u>	<u>\$ (506,216)</u>

20. SUBSEQUENT EVENTS

At the February 27, 2019 MTA Board meeting, the Board approved a toll increase of 6.3% at MTA Bridges and Tunnels facilities. The increase is effective March 31, 2019.

The New York State Fiscal Year 2019-2020 Enacted Budget established the Central Business District Tolling Program (CBD Tolling Program), the goals of which are to reduce traffic congestion in the Manhattan Central Business District, improve air quality, and provide a stable and reliable funding source for the repair and revitalization of the MTA's public transportation systems. The CBD Tolling Program revenues are not expected to begin to flow to MTA until at least early 2021. MTA Bridges and Tunnels is directed to establish the CBD Tolling Capital Lockbox Fund. Monies in the fund cannot be commingled with any other MTA Bridges and Tunnel monies. Funds on deposit in the CBD Tolling Capital Lockbox Fund shall be applied to: (1) operating, administration and other necessary expenses relating to the program, or to DOT pursuant to the MOU; and (2) costs of MTA capital projects included in the 2020-2024 Capital Program or any successor capital program. The 2019-2020 State Enacted Budget further provides that capital project costs paid for by the CBD Tolling Capital Lockbox Fund are subject to the following revenue split: (1) 80 percent for MTA New York City Transit, MaBSTOA, MTA Staten Island Railway and MTA Bus capital project costs, with priority given to subway system, new signaling, new subway cars, track and car repair, accessibility, buses and bus system improvements and further investments in expanding transit availability in the outer boroughs;

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(2) 10 percent for MTA Long Island Rail Road capital projects, including parking facilities, rolling stock, capacity enhancements, accessibility and expanding transit availability; and (3) 10 percent for MTA Metro-North Railroad capital projects including parking facilities, rolling stock, capacity enhancements, accessibility and expanding transit availability.

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REQUIRED SUPPLEMENTARY INFORMATION

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF NET PENSION****LIABILITY IN THE NEW YORK CITY EMPLOYEES' RETIREMENT SYSTEM AT JUNE 30, 2018**

	NYCERS		
	2018	2017	2016
	(in millions)	(in millions)	(in millions)
Authority's proportion of the net pension liability	1.155 %	1.308 %	1.266 %
Authority's proportionate share of the net pension liability	\$ 203.71	\$ 271.61	\$ 307.60
Authority's actual covered-employee payroll	\$ 126.57	\$ 130.30	\$ 133.89
Authority's proportionate share of the net pension liability as a percentage of the			
Authority's covered-employee payroll	160.95 %	208.450 %	229.741 %
Plan fiduciary net position as a percentage of the total pension liability	78.83 %	74.80 %	69.57 %

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 38,697	\$ 41,272	\$ 44,609	\$ 41,812	\$ 33,023	\$ 33,461	\$ 36,183	\$ 27,671	\$ 25,455	\$ 24,821
Contributions in relation to the contractually required contribution	<u>38,697</u>	<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>
Contribution deficiency (excess)	<u>\$ -</u>									
Authority's covered-employee payroll	<u>\$ 133,494</u>	<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>
Contributions as a percentage of covered-employee payroll	<u>28.99 %</u>	<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>

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.

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY IN THE MTA OPEB PLAN AT: (In millions)

Plan Measurement Date (December 31):		<u>2017</u>
MTA Bridges and Tunnels proportion of the net OPEB liability		4.06%
MTA Bridges and Tunnels proportionate share of the net OPEB liability	\$	823.748
MTA Bridges and Tunnels covered payroll	\$	112.716
MTA Bridges and Tunnels proportionate share of the net OPEB liability as a percentage of its covered payroll		730.82%
Plan fiduciary net position as a percentage of the total OPEB liability		1.79%

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS TO THE MTA OPEB PLAN AND NOTES TO THE SCHEDULE OF THE AUTHORITY'S CONTRIBUTION TO THE MTA OPEB PLAN FOR THE YEARS ENDED DECEMBER 31:

(In thousands)

	<u>2018</u>	<u>2017</u>
Actuarially Determined Contribution	N/A	N/A
Actual Employer Contribution ⁽¹⁾	\$ 28,291	\$ 26,407
Contribution Deficiency (Excess)	<u>N/A</u>	<u>N/A</u>
Covered Payroll	133,494	112,716
Actual Contribution as a Percentage of Covered Payroll	21.19%	23.43%

- (1) Actual employer contribution includes the implicit rate of subsidy adjustment of \$3,650 and \$3,450 for the years ended December 31, 2018 and 2017, respectively.

Notes to Schedule of the MTA Bridges and Tunnels Contribution to the OPEB Plan:

Methods and assumptions used to determine contribution rates:

Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%, net of expenses
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Normal cost increase factor	4.50%
Investment rate of return	6.50%

Changes of benefit terms: In the July 1, 2017 actuarial valuation, there were no changes to the benefit terms.

Changes of assumptions: In the July 1, 2017 actuarial valuation, there was a change in assumptions. The discount rate used to measure liabilities was updated to incorporate GASB 75 guidance and changed to reflect the current municipal bond rate.

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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Staten Island Rapid Transit Operating Authority

(Component Unit of the Metropolitan Transportation
Authority)

Financial Statements as of and for the
Years Ended December 31, 2018 and 2017,
Required Supplementary Information, and
Independent Auditors' Report

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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, 2018 and 2017, 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.

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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, 2018 and 2017, 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.

As discussed in Note 2 to the financial statements, in 2018, the Authority adopted Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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, Schedule of SIRTOA’s Proportionate Share of the Net Pension Liability in the MTA Defined Benefit Pension Plan, Schedule of SIRTOA’s Contributions to the MTA Defined Benefit Pension Plan, Schedule of the SIRTOA’s Proportionate Share of the Net OPEB Liability in the MTA OPEB Plan, and Schedule of the SIRTOA’s Contributions to the OPEB Plan, as listed in the table of contents, 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.

May 20, 2019

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STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018 and 2017. 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, 2018 and 2017. 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 and net other postemployment benefits (OPEB) liability, employer contribution to its pension plan and OPEB, related ratios, and actuarial assumptions used to calculate the net OPEB liability.

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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, 2018 and 2017. 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:

	2018	December 31, 2017	2016	Increase/(Decrease)	
				2018–2017	2017–2016
Capital assets — net	\$ 335,949,919	\$ 292,166,424	\$ 250,479,031	\$ 43,783,495	\$ 41,687,393
Other assets	49,596,269	63,416,354	63,016,784	(13,820,085)	399,570
Deferred outflows of resources	<u>18,467,146</u>	<u>15,636,040</u>	<u>16,113,528</u>	<u>2,831,106</u>	<u>(477,488)</u>
Total assets and deferred outflows of resources	<u>\$ 404,013,334</u>	<u>\$ 371,218,818</u>	<u>\$ 329,609,343</u>	<u>\$ 32,794,516</u>	<u>\$ 41,609,475</u>

Significant changes in assets include:

December 31, 2018 versus 2017— Net capital assets increased from December 31, 2017 to December 31, 2018 by \$43,783,495 or 15.0%. This is due primarily to additions to capital assets. The net additions to capital assets of \$56,048,207 or 11.8% results from the increase in construction in progress, stations, track and vehicles, partly offset by an increase in accumulated depreciation of \$12,264,712 or 6.7% due to depreciation of assets. More detailed information about the Authority’s capital assets is presented in Note 5 to the financial statements.

Overall, other assets decreased by \$13,820,085 or 21.8% compared with the prior year. This decrease is primarily attributable to the decrease in the NYC operating recovery subsidy receivable of \$15,462,000 estimated for the operating deficit for calendar year 2018. The decrease is partially offset by an increase in receivable from NYC Department of Education of \$881,027 due to timing of payment at year-end,

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and increase in other receivable related to reimbursable work performed for outside agencies of \$431,729.

Deferred outflows of resources increased by \$2,831,106 or 18.1% compared with prior year. The net increase was primarily due to an increase of \$5,555,728 resulting from the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, partially offset by a decrease of \$2,724,622 related to pensions 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 Notes 6 and 7 to the financial statements for more information regarding SIRTOA's pension and postemployment benefits other than pension, respectively.

December 31, 2017 versus 2016— Net capital assets increased from December 31, 2016 to December 31, 2017 by \$41,687,393 or 16.6%. This is due primarily to additions to capital assets. The net additions to capital assets of \$52,159,150 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.

Total liabilities, distinguishing between long-term liabilities and current liabilities, and deferred inflows of resources:

	2018	December 31, 2017	2016	Increase/(Decrease)	
				2018-2017	2017-2016
Current liabilities	\$ 54,062,373	\$ 64,980,681	\$ 63,730,445	\$ (10,918,308)	\$ 1,250,236
Long-term liabilities	<u>106,899,022</u>	<u>81,326,103</u>	<u>70,511,392</u>	<u>25,572,919</u>	<u>10,814,711</u>
Total liabilities	<u>160,961,395</u>	<u>146,306,784</u>	<u>134,241,837</u>	<u>14,654,611</u>	<u>12,064,947</u>
Deferred inflows of resources	<u>3,962,877</u>	<u>1,240,562</u>	<u>1,427,887</u>	<u>2,722,315</u>	<u>(187,325)</u>
Total liabilities and deferred inflows of resources	<u>\$ 164,924,272</u>	<u>\$ 147,547,346</u>	<u>\$ 135,669,724</u>	<u>\$ 17,376,926</u>	<u>\$ 11,877,622</u>

Significant changes in liabilities include:

December 31, 2018 versus 2017 — Liabilities increased from December 31, 2017 to December 31, 2018 by \$14,654,611 or 10.0%. Current liabilities decreased by \$10,918,308, due primarily to a decrease

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of \$6,949,602 in Due to MTA for changes in the MTA investment pool, decrease of \$5,058,742 in Due to New York City Transit Authority related to the R44 Car Fleet maintenance inter-agency charges. The decrease was partly offset by the increase of \$1,128,381 in accrued retroactive salaries and wages primarily related to the United Transportation Union (“UTU”). The increase in long-term liabilities of \$25,572,919 was primarily the result of the addition of \$31,305,502 of net OPEB liability related to the adoption of GASB Statement No. 75, partially offset by a decrease in net pension liability of \$7,748,527 based upon the most current actuarial valuation.

Deferred inflows of resources increased by \$2,722,315 or 219.4% compared with prior year. The increase was primarily due to an increase of \$72,145 related to OPEB resulting from the adoption of GASB Statement No. 75, and an increase of \$2,650,170 related to pension based upon the most current actuarial valuation report in accordance with GASB Statements No. 68 and GASB No. 71. Refer to Notes 6 and 7 to the financial statements for more information regarding the Authority’s pension and postemployment benefits other than pension, respectively.

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 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.

Total net position, distinguishing among investment in capital assets, restricted amounts, and unrestricted amounts:

	2018	December 31, 2017	2016	Increase/(Decrease)	
				2018–2017	2017–2016
Investment in capital assets	\$ 335,949,919	\$ 292,166,424	\$ 250,479,031	\$ 43,783,495	\$ 41,687,393
Unrestricted deficit	<u>(96,860,857)</u>	<u>(68,494,952)</u>	<u>(56,539,412)</u>	<u>(28,365,905)</u>	<u>(11,955,540)</u>
Total net position	<u>\$ 239,089,062</u>	<u>\$ 223,671,472</u>	<u>\$ 193,939,619</u>	<u>\$ 15,417,590</u>	<u>\$ 29,731,853</u>

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, 2018 versus 2017 — Total net position was \$239,089,062 at the end of 2018, a net increase of \$15,417,590 or 6.9% from the end of 2017. The net increase was due to an operating loss of \$64,963,822 and decrease of \$22,779,722 for the restatement of beginning net position related to the adoption of GASB Statement No. 75 (see Note 2 to the financial statements), offset by nonoperating income of \$47,207,975, and MTA capital contributions of \$55,953,159.

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December 31, 2017 versus 2016 — Total net position was \$223,671,472 at the end of 2017, a net increase of \$29,731,853 or 15.3% 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 \$50,933,921.

Condensed statements of revenues, expenses, and changes in net position:

	Year Ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018-2017	2017-2016
Operating revenues	\$ 9,474,797	\$ 9,433,087	\$ 9,313,611	\$ 41,710	\$ 119,476
Operating expenses	<u>(74,438,619)</u>	<u>(88,616,823)</u>	<u>(78,733,292)</u>	<u>14,178,204</u>	<u>(9,883,531)</u>
Operating loss	(64,963,822)	(79,183,736)	(69,419,681)	14,219,914	(9,764,055)
Nonoperating revenues (expenses):					
Grants, appropriations, and taxes	5,392,320	5,189,792	5,189,792	202,528	-
Subsidies	43,073,000	53,434,400	50,156,000	(10,361,400)	3,278,400
Federal Transit Authority / Federal Emergency Management Agency reimbursement	-	-	(118,394)	-	118,394
Other nonoperating revenue/expenses - net	<u>(1,257,345)</u>	<u>(642,524)</u>	<u>(195,476)</u>	<u>(614,821)</u>	<u>(447,048)</u>
Total net nonoperating revenues	<u>47,207,975</u>	<u>57,981,668</u>	<u>55,031,922</u>	<u>(10,773,693)</u>	<u>2,949,746</u>
Loss before capital contributions	(17,755,847)	(21,202,068)	(14,387,759)	3,446,221	(6,814,309)
Capital contributions	<u>55,953,159</u>	<u>50,933,921</u>	<u>81,356,670</u>	<u>5,019,238</u>	<u>(30,422,749)</u>
Change in net position	38,197,312	29,731,853	66,968,911	8,465,459	(37,237,058)
Net position — beginning of year	223,671,472	193,939,619	126,970,708	29,731,853	66,968,911
Restatement of beginning net position — adoption of GASB No. 75	<u>(22,479,722)</u>	<u>-</u>	<u>-</u>	<u>(22,479,722)</u>	<u>-</u>
Net position — end of year	<u>\$ 239,389,062</u>	<u>\$ 223,671,472</u>	<u>\$ 193,939,619</u>	<u>\$ 15,717,590</u>	<u>\$ 29,731,853</u>

Revenues, by major source:

	Year Ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018-2017	2017-2016
Fare revenue	\$ 6,860,619	\$ 6,893,054	\$ 6,521,523	\$ (32,435)	\$ 371,531
Student and elderly reimbursement	1,790,508	1,873,885	1,835,426	(83,377)	38,459
Other	<u>823,670</u>	<u>666,148</u>	<u>956,662</u>	<u>157,522</u>	<u>(290,514)</u>
Total operating revenue	<u>\$ 9,474,797</u>	<u>\$ 9,433,087</u>	<u>\$ 9,313,611</u>	<u>\$ 41,710</u>	<u>\$ 119,476</u>

December 31, 2018 versus 2017 — Revenues from fares and student and elderly reimbursements were \$8,651,127 in 2018, a decrease of 1.3% from the prior year. Ridership in 2018 was 4.522 million, a decrease of 1.8% from 2017. The decrease in revenue was due mostly to lower ridership trends. Other revenues in 2018 consist mainly of advertising revenue and rental income. The increase in other revenues of \$157,522 or 23.6% from prior year was mainly related to advertising revenues.

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

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decrease in other revenues of \$290,514 or 30.4% from prior year was mainly related to advertising revenues.

Operating Expenses:

(In thousands)	Year Ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018-2017	2017-2016
Salaries and wages	\$ 27,916	\$ 26,277	\$ 24,095	\$ 1,639	\$ 2,182
Health and welfare	5,448	4,267	5,291	1,181	(1,024)
Pensions	5,503	6,595	5,592	(1,092)	1,003
Other post employment benefits	5,869	9,664	9,444	(3,795)	220
Other fringe benefits	3,271	6,331	3,728	(3,060)	2,603
Traction and propulsion power	4,668	3,991	3,560	677	431
Materials and supplies	3,072	2,917	2,433	155	484
Insurance	1,057	1,156	1,307	(99)	(151)
Public liability claims	1,204	695	475	509	220
Maintenance and other operating contracts	826	14,853	14,045	(14,027)	808
Professional service contracts	962	1,001	762	(39)	239
Environmental remediation	1,973	81	50	1,892	31
Depreciation	12,265	10,472	7,802	1,793	2,670
Other business expenses	405	317	149	88	168
Total operating expenses	<u>\$ 74,439</u>	<u>\$ 88,617</u>	<u>\$ 78,733</u>	<u>\$ (14,178)</u>	<u>\$ 9,884</u>

December 31, 2018 versus 2017 — Operating expenses decreased by \$14,178,204 or 16.0%. The increase of \$1,638,730 in salaries and wages was primarily due to an increase in the retroactive wage accrual for the UTU settlement. Health and welfare increased by \$1,181,811 mainly due to an increase in rates and premiums. Pension expenses decreased by \$1,092,388 based on the most current actuarial valuation. The decrease in other postemployment benefits of \$3,794,356 was due to the adoption of GASB Statement No. 75. Other fringe benefits decreased by \$3,060,372 due primarily to lower Workers' Compensation reserve requirements upon the latest actuarial valuation. Traction and propulsion power increased by \$676,371 due to higher prices and consumption. The decrease of \$14,027,057 in maintenance and other operating expenses was mainly related to the R44 Car Fleet maintenance project completed at the end of 2017. Environmental remediation expenses increased by \$1,892,502 due to additional identification of areas of exposure requiring pollution remediation work. Depreciation expense increased by \$1,792,954 mainly due to the completion in 2018 of station rehabilitation projects and Prince's Bay new substation.

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.

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

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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 \$55,953,159 in 2018 and \$50,933,921 in 2017 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 \$38,197,312 in 2018, before the restatement of the beginning net position, and increased by \$29,731,853 in 2017. The accumulated prior year net position restatement of \$22,779,722 was related to the adoption of GASB Statements No. 75 (see Note 2 to the financial statements).

Budget Highlights — Operating revenues in 2018 of \$9.475 million exceeded budget by a net \$0.158 million (1.7%), due mostly to favorable other operating revenue results. Farebox revenue results underran by \$0.072 million (1.0 percent).

Operating expenses (excluding depreciation expense, GASB Statements No. 68 and 75 adjustments and environmental remediation) of \$59.532 million were below Budget by \$0.647 million (1.1%). Labor expenses were lower than Budget by a net \$0.788 million (1.6 percent), including an underrun in health & welfare/OPEB current expenses of \$835 million (9.2%), due mostly to an implementation of a “market check” that resulted in lowering prices/rates, primarily involving medications, thus triggering credits to SIR’s projected higher expenses. Payroll expenses were below Budget by \$0.661 million (2.6%), due mostly to vacancies. Reimbursable overhead credits were favorable by \$0.943 million (over 100.0 %), due largely to higher reimbursable work requirements. Other fringe benefits were less than Budget by \$0.998 million (17.5 %), due primarily to lower Workers’ Compensation reserve requirements, based on a current actuarial update. Overtime expenses exceeded budget by \$1.752 million (94.0 %), due to additional project work and vacancy coverage requirements. Non labor expenses were slightly over Budget by a net \$0.141 million (1.2%).

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. New York City Transit (NYCT) consists of urban subway and bus systems, including paratransit service.

Preliminary NYCT system-wide utilization in 2018 decreased by 79.3 million trips (3.4%) relative to 2017. The decrease is driven by Subway ridership, which declined by 47.3 million trips (2.7%), and New York City Transit Bus ridership, which declined by 33.3 million trips (5.5%). In addition, the decline in bus ridership is consistent with a trend that began in 2009 and has been observed nationally, while declining subway ridership is a more recent trend, beginning in the third quarter of 2016. Recent bus and subway ridership trends have been attributed to increased fare evasion, planned subway service changes to accommodate construction and maintenance/repair work, increase in use of for-hire vehicle services, and increases in telecommuting and the use of e-commerce. 2018 Paratransit ridership

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increased 1.28 million trips (14.9%) from 2017, with accelerated growth since April 2018 due to the popularity of E-Hail services.

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2018 than in 2017 by 67.3 thousand jobs (1.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last thirty-three 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 2018 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, private inventory investment, and federal government spending. These were partially offset by negative contributions from residential fixed investment, and state and local government spending. Imports, which are a subtraction in the Gross Domestic Product (“GDP”) calculation, increased. The deceleration in RGDP growth, relative to the third quarter’s revised 3.4% growth rate, reflected a deceleration in private inventory investment, personal consumption expenditures and federal government spending, as well as a downturn in state and local government spending. These were partially offset by an acceleration nonresidential fixed investment, as well as an upturn in exports and a smaller increase in imports.

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 2018, with the metropolitan area index increasing by 1.8 %, while the national index increased by 2.2%, when compared with the fourth quarter of 2017. A 5.3% increase in the regional price of energy products, along with a 3.9% national increase, impacted overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.6%, while nationally, inflation exclusive of energy products was 2.1%. The spot price for New York Harbor conventional gasoline fell by 3.8%, from an average price of \$1.77 per gallon to an average price of \$1.70 per gallon, between the fourth quarters of 2017 and 2018.

The Federal Open Market Committee (“FOMC”) raised its target for the Federal Funds rate four times in 2018, with the target range set at 1.5% to 1.75% in March, 1.75% to 2.0% in June, 2.0% to 2.25% in September, and 2.25% to 2.5%—the current target level—in December. This was a slight acceleration in rate increases compared to 2017, when the target level was increased three times. The December increase was in view of continued labor market strength and rising economic activity, as job gains were strong and the unemployment rate remained low. Household spending continued to grow strongly, while growth in business fixed investment moderated from its rapid rate of growth in the first three quarters of 2018. Overall inflation and inflation for items other than food and energy remained close to 2 percent and indicators of longer-term inflation expectations were little changed. The FOMC expects that the economic expansion will be sustained, labor market conditions will remain strong, and inflation will remain near the 2 percent objective. In light of muted inflationary pressures and global economic and financial developments, the FOMC has indicated its patience in determining the timing and size of future rate adjustments, assessing realized and expected economic conditions relative to its dual mandate of maximizing employment and targeting 2 percent inflation.

Results of Operations and Overall Financial Position — Total revenue from fares and student and elderly reimbursements was \$8,651,127 in 2018, a decrease of 1.3% from 2017. Total ridership was 4.522 million, a decrease of 1.8% from 2017. Total non-reimbursable expenses, including depreciation,

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pension costs, other post-employment benefits and environmental remediation, were \$74,438,619 in 2018, an increase of 16.0%.

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, 2018, \$10.9 billion has been encumbered under the five-year plan, of which approximately \$3.8 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.

2018 SIRTOA projects incorporated into the overall program include the Purchase of 75 SIRTOA Passenger Railcars (\$257.5 million), Enhanced Station Initiative at Richmond Valley (\$7.9 million), Rehabilitation of Amboy Rd Bridge (\$7.2 million). Upcoming capital projects include mitigation measures to protect St. George Terminal Station and Yard from future storms (\$69.9 million), repair of identified structural and architectural defects within the station limits in 15 stations (\$5.8 million), and Radio Replacement project to transition from UHF radio channels to 800MHz (\$22.1 million).

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Going forward, the Authority's February 2019 Financial Plan includes certain risks such as:

- Biennial fare increases approximating inflation
- Achieving efficiencies/consolidations

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STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 92,190	\$ 84,738
Receivables:		
New York City Department of Education	1,756,838	875,811
NYC operating recovery	43,961,400	59,423,400
Due from MTA (Note 10)	39,039	63,409
MTA capital program funds receivable (Note 10)	693,645	668,340
Other	1,078,183	646,454
Less allowance for doubtful accounts	<u>(28,676)</u>	<u>(157,827)</u>
Net receivables	<u>47,500,429</u>	<u>61,519,587</u>
Materials and supplies — at average cost — net	1,578,769	1,356,211
Prepaid expense and other current assets	<u>424,881</u>	<u>455,818</u>
Total current assets	<u>49,596,269</u>	<u>63,416,354</u>
NONCURRENT ASSETS:		
Capital assets (Note 5):		
Construction work-in progress	79,504,845	35,296,465
Other capital assets, net of accumulated depreciation	<u>256,445,074</u>	<u>256,869,959</u>
Total capital assets, net of accumulated depreciation	<u>335,949,919</u>	<u>292,166,424</u>
Total assets	<u>385,546,188</u>	<u>355,582,778</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Related to pension (Note 6)	12,911,418	15,636,040
Related to OPEB (Note 7)	<u>5,555,728</u>	<u>-</u>
Total deferred outflows of resources	<u>18,467,146</u>	<u>15,636,040</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 404,013,334</u>	<u>\$ 371,218,818</u>

See notes to financial statements.

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STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION DECEMBER 31, 2018 AND 2017

	2018	2017
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,141,584	\$ 1,153,500
Accrued retroactive salaries and wages	1,719,416	591,035
Accrued sick and vacation pay	4,078,551	4,108,196
Accrued payroll taxes and related liabilities	680,940	593,207
Due to New York City Transit Authority (Note 10)	259,425	5,318,167
Due to MTA (Note 4 and 10)	44,719,064	51,668,666
Estimated liability arising from injuries to persons (Note 8)	1,050,886	1,321,814
Pollution remediation projects (Note 9)	412,507	226,096
	<u>54,062,373</u>	<u>64,980,681</u>
NONCURRENT LIABILITIES:		
Net pension liability (Note 6)	20,029,107	27,777,634
Net OPEB liability (Note 7)	69,429,243	38,123,741
Estimated liability arising from injuries to persons (Note 8)	15,629,840	14,359,540
Pollution remediation projects (Note 9)	1,810,832	1,065,188
	<u>106,899,022</u>	<u>81,326,103</u>
Total noncurrent liabilities	<u>106,899,022</u>	<u>81,326,103</u>
Total liabilities	<u>160,961,395</u>	<u>146,306,784</u>
DEFERRED INFLOWS OF RESOURCES:		
Related to pension (Note 6)	3,890,732	1,240,562
Related to OPEB (Note 7)	72,145	-
	<u>3,962,877</u>	<u>1,240,562</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,962,877</u>	<u>1,240,562</u>
NET POSITION:		
Investment in capital assets	335,949,919	292,166,424
Unrestricted	(96,860,857)	(68,494,952)
	<u>239,089,062</u>	<u>223,671,472</u>
Total net position	<u>239,089,062</u>	<u>223,671,472</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 404,013,334</u>	<u>\$ 371,218,818</u>
See notes to financial statements.		(Concluded)

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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, 2018 AND 2017

	2018	2017
OPERATING REVENUE:		
Fare revenue	\$ 6,860,619	\$ 6,893,054
Student fare reimbursement	1,756,836	1,840,213
Elderly fare reimbursement	33,672	33,672
Other	823,670	666,148
Total operating revenues	<u>9,474,797</u>	<u>9,433,087</u>
OPERATING EXPENSES:		
Salaries and wages	27,915,560	26,276,831
Health and welfare	5,448,322	4,266,511
Pensions	5,502,713	6,595,101
Other post employment benefits	5,869,316	9,663,672
Other fringe benefits	3,270,869	6,331,241
Traction and propulsion power	4,667,657	3,991,286
Materials and supplies	3,071,764	2,916,734
Insurance	1,057,551	1,156,407
Public liability claims (Note 2)	1,203,742	694,702
Maintenance and other operating expenses	826,431	14,853,488
Professional service contracts	961,835	1,001,398
Environmental remediation	1,973,280	80,778
Depreciation	12,264,712	10,471,757
Other business expenses	404,867	316,917
Total operating expenses	<u>74,438,619</u>	<u>88,616,823</u>
OPERATING LOSS	<u>(64,963,822)</u>	<u>(79,183,736)</u>
NONOPERATING REVENUE — Operating assistance subsidies:		
New York State tax supported subsidy	4,218,148	4,047,354
New York State — 18B Assistance	587,086	571,219
New York City — 18B Assistance	587,086	571,219
NYC operating recovery subsidy (Note 2)	43,073,000	53,434,400
Total nonoperating revenues	48,465,320	58,624,192
Other nonoperating (expenses) income - net	<u>(1,257,345)</u>	<u>(642,524)</u>
Total nonoperating income	<u>47,207,975</u>	<u>57,981,668</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(17,755,847)	(21,202,068)
CAPITAL CONTRIBUTIONS:		
MTA contributions for capital projects	<u>55,953,159</u>	<u>50,933,921</u>
Increase in net position	38,197,312	29,731,853
NET POSITION — Beginning of year	<u>223,671,472</u>	<u>193,939,619</u>
Restatement of beginning net position — adoption of GASB No. 75 (Note 2)	<u>(22,779,722)</u>	<u>-</u>
NET POSITION — End of year	<u>\$ 239,089,062</u>	<u>\$ 223,671,472</u>
See notes to financial statements.		

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STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts	\$ 7,790,556	\$ 8,607,444
Rent and other receipts	823,670	661,356
Payroll and related fringe benefits	(46,758,302)	(42,621,235)
Other operating expenses	<u>(15,026,771)</u>	<u>(26,143,126)</u>
Net cash used in operating activities	<u>(53,170,847)</u>	<u>(59,495,561)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies received	<u>62,572,077</u>	<u>57,537,813</u>
Net cash provided by noncapital financing activities	<u>62,572,077</u>	<u>57,537,813</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital project costs incurred for capital program	(2,781,501)	(2,281,148)
Interest paid	(1,270,210)	(689,824)
Payments on MTA Transportation bonds issued to fund capital assets	(1,038,073)	(545,439)
Reimbursement of capital project costs from MTA	<u>2,693,420</u>	<u>3,033,580</u>
Net cash used in capital and related financing activities	<u>(2,396,364)</u>	<u>(482,831)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in MTA investment pool	(7,002,608)	1,705,829
Interest and dividends on investment	5,194	16,098
Sale of investment	<u>-</u>	<u>219,279</u>
Net cash (used in) provided by investing activities	<u>(6,997,414)</u>	<u>1,941,206</u>
NET INCREASE (DECREASE) IN CASH	7,452	(499,373)
CASH — Beginning of year	<u>84,738</u>	<u>584,111</u>
CASH — End of year	<u>\$ 92,190</u>	<u>\$ 84,738</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES —		
MTA contributed capital assets to SIRTOA of \$55,953,159 and \$50,933,921 in 2018 and 2017, respectively.		

See notes to financial statements.

(Continued)

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STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss before non-operating revenues and contributions	\$ (64,963,822)	\$ (79,183,736)
Adjustments to reconcile operating loss to net cash used in operating activities — depreciation	12,264,712	10,471,757
Changes in operating assets and liabilities:		
Increase in receivable from New York City Department of Education	(881,027)	(130,914)
Decrease (increase) in receivable from MTA	24,370	(41,633)
Increase in other receivables	(560,880)	(192,325)
Increase in materials and supplies inventory	(222,558)	(407,424)
Decrease in other assets	30,937	74,761
Decrease in deferred outflows of resources related to pension	2,724,622	477,488
Increase in deferred outflows of resources related to OPEB	(5,555,728)	-
(Decrease) increase in accounts payable	(11,916)	131,413
Increase in accrued retroactive salaries and wages	1,128,381	591,035
(Decrease) increase in accrued sick & vacation	(29,645)	89,270
Increase (decrease) in payroll taxes and related liabilities	87,733	(484,288)
(Decrease) increase in net pension liability	(7,748,527)	172,938
Increase (decrease) in due to MTA	25,254	(588,478)
Decrease in due to New York City Transit Authority	(3,703,499)	(1,290,819)
Increase in net OPEB liability	8,525,780	7,081,773
Decrease in unamortized rent revenue	-	(4,792)
Increase in estimated liabilities arising from personal injuries	999,372	3,845,355
Increase in liability for environmental pollution remediation	1,973,279	80,383
Increase (decrease) in deferred inflows of resources related to pension	2,650,170	(187,325)
Increase in deferred inflows of resources related to OPEB	72,145	-
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (53,170,847)</u>	<u>\$ (59,495,561)</u>

See notes to financial statements.

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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, 2018 AND 2017

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 — SIRTOA adopted the following GASB Statements for the year ended December 31, 2018:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes standards of accounting and financial reporting for postemployment benefits other

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than pensions (“OPEB”) that is provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. For defined benefit OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB plans are also addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. As a result of adopting this Statement, SIRTOA is reporting net OPEB liabilities, deferred outflows of resources and deferred inflows of resources for the MTA Retiree Welfare Benefits Plan (“OPEB Plan”) and recognizing OPEB expenses in accordance with the provisions of the Statement. The financial statement impact resulting from the implementation of GASB Statement No. 75 and GASB Statement No. 85 is the restatement of 2018 beginning net position, a decrease of \$22,779,722, representing the retroactive effect of adoption. SIRTOA did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 75 and GASB Statement No. 85. A net OPEB liability of \$69,429,243, deferred outflow of resources of \$5,555,728, and deferred inflows of resources of \$72,145 were reported at December 31, 2018. SIRTOA recognized OPEB expense of \$5,869,316 for the year-end December 31, 2018. Refer to Note 7 for more information regarding MTA OPEB Plan.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues identified during the implementation and application of certain GASB statements. The provisions of this Statement amend and clarify guidance under a variety of topics with the intent to enhance consistency in the application of accounting and reporting requirements. This Statement specifically issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits (“OPEB”). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no impact on SIRTOA’s financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, establishes standards of accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no impact on SIRTOA’s financial statements.

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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	MTA Required Year of Adoption
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2019
87	<i>Leases</i>	2020
88	<i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>	2019
89	<i>Accounting for Interest Cost Incurred Before the End of a Construction Period</i>	2020
90	<i>Majority Equity Interests - An Amendment of GASB Statements No. 14 and No.61</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 two 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.

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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 2018 and 2017, 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, 2018, SIRTOA recorded a NYC operating recovery receivable and subsidy revenue of \$43,961,400 and \$43,073,000, respectively for the calendar year 2018. In 2018, SIRTOA received \$58,535,000 from The City for calendar year 2017 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).

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 at December 31, 2018 and 2017 of \$409,946 and \$542,856, respectively.

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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, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which established 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. SIRTOA reported under this standard for its Postemployment Benefits Other Than Pensions for the year ended December 31, 2017.

Effective for the year ended December 31, 2018, SIRTOA adopted the standards of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 85, *Omnibus* for the OPEB Plan.

GASB has issued Statements No. 74 and 75, which replaced GASB Statements No. 43 and 45. The effective date of GASB Statement No. 74 (which applies to financial reporting on a plan basis) is the year ended December 31, 2017. The effective date of GASB Statement No. 75 (which applies to financial reporting by contributing employers) is the year ended December 31, 2018.

SIRTOA recognizes a proportionate share of the net OPEB liability for MTA's cost-sharing multiple-employer OPEB Plan, which represents the excess of the total OPEB liability over the fiduciary net position of the OPEB Plan, measured as of the measurement date of the plan.

Changes in the net OPEB liability during the year are recorded as OPEB expense, or as deferred outflows of resources or deferred inflows of resources relating to OPEB depending on the nature of the change, in the year incurred. Changes in net OPEB liability that are recorded as deferred outflows of

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resources or deferred inflows of resources that arise from changes in actuarial assumptions and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the year in which they are incurred. Projected earnings on qualified OPEB plan investments are recognized as a component of OPEB expenses. Differences between projected and actual investment earnings are reported as deferred outflows of resources or deferred inflow of resources as a component of OPEB expense on a closed basis over a five-year period beginning with the year in which the difference occurred.

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.

Restatement of Beginning Net Position — The effect of the implementation of GASB No. 75 and 85 is a restatement of 2018 beginning net position to retroactively report the beginning balances for net OPEB liability, deferred outflows of resources related to OPEB, deferred inflows of resources related to OPEB, and the removal of any net OPEB obligations (assets) along with any payables to the OPEB Plan, as follows:

Net position as of December 31, 2017, as previously reported	\$ 223,671,472
Composition of Restatement:	
Deferred outflows related to contributions, beginning of the year	2,225,742
Net OPEB liabilities, beginning of the year	(63,129,205)
Previously accrued OPEB liabilities	38,123,741
Total Restatement:	<u>(22,779,722)</u>
Net position as of December 31, 2017, as restated	\$ <u>200,891,750</u>

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, 2018 and 2017, is due to deposits in transit offset by any outstanding checks.

At December 31, 2018 and 2017, cash consisted of:

	2018		2017	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits ("FDIC")	\$ 92,190	\$ 94,587	\$ 84,738	\$ 93,085
Uninsured deposits	-	-	-	-
	<u>\$ 92,190</u>	<u>\$ 94,587</u>	<u>\$ 84,738</u>	<u>\$ 93,085</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

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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 \$11,679 and \$10,011 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, SIRTOA had a negative investment pool balance of \$44,161,080 and \$51,163,688, respectively, as funds were used for working capital purposes to offset the timing of the NYC operating recovery subsidy. The \$44,161,080 and \$51,163,688 were included in the Due to MTA on the Statements of Net Position.

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5. CAPITAL ASSETS

Capital assets at December 31 consisted of the following:

	<u>December 2017</u>	<u>Additions / Reclassifications</u>	<u>Deletions / Reclassifications</u>	<u>December 2018</u>
Capital assets not being depreciated:				
Construction work-in-progress	\$ 35,296,465	\$ 56,048,207	\$ (11,839,827)	\$ 79,504,845
Total capital assets not being depreciated	<u>35,296,465</u>	<u>56,048,207</u>	<u>(11,839,827)</u>	<u>79,504,845</u>
Capital assets being depreciated:				
Track	35,254,473	-	-	35,254,473
Structures	71,695,488	20,001	-	71,715,489
Cars	28,772,654	-	-	28,772,654
Shops and yard	23,531,629	-	-	23,531,629
Stations	255,070,805	11,512,722	-	266,583,527
Signals	9,623,688	-	-	9,623,688
Vehicles	2,593,252	307,104	-	2,900,356
Equipment and other	<u>14,312,172</u>	<u>-</u>	<u>-</u>	<u>14,312,172</u>
Total capital asset being depreciated	<u>440,854,161</u>	<u>11,839,827</u>	<u>-</u>	<u>452,693,988</u>
Less accumulated depreciation:				
Track	(16,543,779)	(1,175,832)	-	(17,719,611)
Structures	(40,024,908)	(2,745,293)	-	(42,770,201)
Cars	(23,404,010)	(385,525)	-	(23,789,535)
Shops and yard	(18,986,755)	(469,225)	-	(19,455,980)
Stations	(64,758,639)	(6,856,695)	-	(71,615,334)
Signals	(6,269,575)	(178,385)	-	(6,447,960)
Vehicles	(1,547,016)	(374,775)	-	(1,921,791)
Equipment and other	<u>(12,449,520)</u>	<u>(78,982)</u>	<u>-</u>	<u>(12,528,502)</u>
Total accumulated depreciation	<u>(183,984,202)</u>	<u>(12,264,712)</u>	<u>-</u>	<u>(196,248,914)</u>
Total capital assets being depreciated - net	<u>256,869,959</u>	<u>(424,885)</u>	<u>-</u>	<u>256,445,074</u>
Capital assets - net	<u>\$ 292,166,424</u>	<u>\$ 55,623,322</u>	<u>(11,839,827)</u>	<u>335,949,919</u>

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	<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	\$ 52,159,150	\$ (162,865,811)	\$ 35,296,465
Total capital assets not being depreciated	<u>146,003,126</u>	<u>52,159,150</u>	<u>(162,865,811)</u>	<u>35,296,465</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	<u>14,267,010</u>	<u>45,162</u>	<u>-</u>	<u>14,312,172</u>
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	<u>(12,362,753)</u>	<u>(86,767)</u>	<u>-</u>	<u>(12,449,520)</u>
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>\$ 204,553,204</u>	<u>(162,865,811)</u>	<u>292,166,424</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.

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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 $\frac{1}{3}$ 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.

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The actual contributions for the year ended December 31, 2018 and 2017 were \$7,876,448 and \$6,132,000, respectively.

Net Pension Liability — SIRTOA’s net pension liability reported at December 31, 2018 was measured as of December 31, 2017. The total pension liability for the Plan was determined as of the actuarial valuation date of January 1, 2017, and rolled forward to the measurement date of December 31, 2017. 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. 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, 2017	January 1, 2016
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, 2017 and January 1, 2016 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, with certain assumptions modified subsequently. The postretirement mortality assumption is based on an experience analysis covering the period from January 1, 2011 to December 31, 2015. 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: RP-2014 Disabled Annuitant mortality table for males and females.

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.

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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%	1.96%
US High Yield Bonds	8.00%	4.62%
Global Bonds	10.00%	0.34%
Emerging Markets Bonds	3.00%	3.30%
US Large Caps	10.00%	4.31%
US Small Caps	5.50%	5.57%
Global Equity	10.00%	4.99%
Foreign Developed Equity	10.00%	5.57%
Emerging Markets Equity	3.50%	7.91%
Global REITs	5.00%	5.62%
Private Real Estate Property	3.00%	3.64%
Private Equity	7.00%	8.99%
Hedge Funds - MultiStrategy	15.00%	3.35%
	100.00%	
Assumed Inflation - Mean		2.50%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Arithmetic Mean Return as per Actuary		6.80%
Portfolio Standard Deviation		11.54%
Long Term Expected Rate of Return selected by MTA		7.00%

Discount Rate — As of December 31, 2017 and December 31, 2016, 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, 2017 and 2016 and the proportion percentage of the net pension liability of the Plan allocated to SIRTOA:

	December 31, 2017	December 31, 2016
SIRTOA's proportion of the net pension liability	2.12%	2.19%
SIRTOA's proportionate share of the net pension liability	\$ 20,029,107	\$ 27,777,634

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.

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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, 2017			December 31, 2016		
1% Decrease (6%)	Discount Rate (7%)	1% Increase (8%)	1% Decrease (6%)	Discount Rate (7%)	1% Increase (8%)
\$ 34,942,183	\$ 20,029,107	\$ 10,436,424	\$ 42,412,395	\$ 27,777,634	\$ 18,399,856

Pension Expense, Deferred Outflows of Resources and Deferred Inflow of Resources Related to Pension — For the years ended December 31, 2018 and 2017, SIRTOA recognized pension expense of \$5,502,713 and \$6,595,101, respectively, related to the Plan.

For the years ended December 31, 2018 and 2017, SIRTOA reported deferred outflows of resources and deferred inflows of resources for the Plan as follows:

	December 31, 2018		December 31, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,995,438	\$ 503,468	\$ 3,676,946	\$ -
Net difference between projected and actual earnings on pension plan investments	-	2,393,408	3,757,835	-
Changes in proportion and differences between contributions and proportionate share of contributions	1,840,121	-	2,069,259	-
Changes in actuarial assumptions	199,411	993,856	-	1,240,562
Employer contribution to plan subsequent to the measurement date of net pension liability	<u>7,876,448</u>	<u>-</u>	<u>6,132,000</u>	<u>-</u>
Total	<u>\$ 12,911,418</u>	<u>\$ 3,890,732</u>	<u>\$ 15,636,040</u>	<u>\$ 1,240,562</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.

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For the years ended December 31, 2018 and 2017, \$7,846,448 and \$6,132,000 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, 2019 and December 31, 2018, respectively. Other amounts reported as deferred outflows of resources related to pension at December 31, 2018 will be recognized as pension expense as follows:

Year ending December 31, 2018:

2019	\$ 951,940
2020	538,396
2021	(562,128)
2022	(496,807)
2023	471,100
Thereafter	<u>241,737</u>
Total	<u>\$ 1,144,238</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 2018 or 2017.

7. OTHER POSTEMPLOYMENT BENEFITS

SIROTA participates in a defined benefit other postemployment benefits ("OPEB") plan for its employees, the Metropolitan Transportation Authority Retiree Welfare Benefits Plan ("OPEB Plan"). A description of the Plan follows:

Plan Description — The MTA Retiree Welfare Benefits Plan ("OPEB Plan") and the related Trust Fund ("Trust") was established on January 1, 2009 for the exclusive benefit of MTA and related agencies retired employees and their eligible spouses and dependents, to fund some of the OPEB provided in accordance with SIRTOA's various collective bargaining agreements. Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Amounts contributed to the OPEB Plan are held in an irrevocable trust and may not be used for any other purpose than to fund the costs of health and welfare benefits of its eligible participants.

The OPEB 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 cost-sharing multiple-employer defined benefit OPEB plan.

The OPEB Plan Board of Managers, comprised of the MTA Chairman, MTA Chief Financial Officer and MTA Director of Labor Relations, are the administrators of the OPEB Plan. The MTA Board has the right to amend, suspend or terminate the OPEB 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.

Benefits Provided — The benefits provided by the OPEB Plan include medical, pharmacy, dental, vision, life insurance and a Medicare supplemental plan. The different types of benefits provided vary by employee type (represented employees versus non-represented) and the relevant collective bargaining agreements. Certain benefits are provided upon retirement as defined in the applicable pension plan. The

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Authority provides benefits to certain former employees if separated from service within 5 years of attaining retirement eligibility. Employees of SIRTOA are members of the MTA Defined Benefit Plan.

SIRTOA participates in the New York State Health Insurance Program (“NYSHIP”) and provides medical and prescription drug benefits, including Medicare Part B reimbursements, to many of its retirees. NYSHIP offers a Preferred Provider Organization (“PPO”) plan and several Health Maintenance Organization (“HMO”) plans. Represented employees who retired as of March 1, 2010, June 1, 2010 or January 1, 2013, depending on the union, do not participate in NYSHIP. These benefits are provided either through a self-insured health plan, a fully insured health plan or an HMO.

SIRTOA 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.

OPEB Plan Eligibility — To qualify for benefits under the OPEB Plan, a former employee of SIRTOA must:

- (a) have retired;
- (b) be receiving a pension;
- (c) have at least 10 years of credited service as a member of the MTA Defined Benefit Plan; and
- (d) have attained the minimum age requirement (unless within 5 years of commencing retirement for certain members). A represented retired employee may be eligible only pursuant to the relevant collective bargaining agreement.

Surviving Spouse and Other Dependents —

- Lifetime coverage is provided to the surviving spouse (not remarried) or domestic partner and surviving dependent children to age 26 of retired managers and certain non-represented retired employees.
- Represented retired employees must follow the guidelines of their collective bargaining agreements regarding continued health coverage for a surviving spouse or domestic partner and surviving dependents. The surviving spouse coverage continues until spouse is eligible for Medicare for represented employees of MTA Staten Island Railway, retiring on or after:
 - March 2015 for Transportation Communication Union (“TCU”); and
 - December 16, 2015 for United Transportation Union (“UTU”) and American Train Dispatchers Association (“ATDA”).

The OPEB Plan Board of Managers has the authority to establish and amend the benefits that will be covered under the OPEB Plan, except to the extent that they have been established by collective bargaining agreement.

Contributions — SIRTOA is not required by law or contractual agreement to provide funding for the OPEB Plan, other than the “pay-as-you-go” (“PAYGO”) amounts. PAYGO is the cost of benefits necessary to provide the current benefits to retirees and eligible beneficiaries and dependents. Employees are not required to contribute to the OPEB Plan. The OPEB Plan Board has the authority for establishing and amending the funding policy. For the year-ended December 31, 2018, SIRTOA paid \$2,820,325 of PAYGO to the OPEB Plan, including an implicit rate subsidy adjustment of \$283,000.

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During 2012, the MTA funded \$250 million into the Trust and an additional \$50 million during 2013. There have been no further contributions made to the Trust. The discount rate estimates investment earnings for assets earmarked to cover retiree health benefits. Under GASB Statement No. 75, the discount rate depends on the nature of underlying assets for funded plans. Since the amount of benefits paid in 2017 exceeded the current market value of the assets, a depletion date is assumed to occur immediately. Therefore, the discount rate is set equal to the municipal bond index. The MTA elected the Bond Buyer 20-Bond General Obligation Index. As a result, the discount rates as of December 31, 2017 and December 31, 2016, the measurement dates, are 3.44% and 3.78%, respectively.

Employer contributions include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy arises when an employer allows a retiree and their dependents to continue on the active plans and pay the active premiums. Retirees are not paying the true cost of their benefits because they have higher utilization rates than actives and therefore are partially subsidized by the active employees. As shown in the following table, for the year ended December 31, 2017, the employer made a cash payment for retiree healthcare of \$287,000 as part of the employer's payment for active-employee healthcare benefits. For purposes of GASB Statement No. 75, this payment made on behalf of the active employees should be reclassified as benefit payments for retiree health care to reflect the retirees' underlying age-adjusted, retiree benefit costs.

Blended and Age-adjusted Premium	2017	
	Retirees	
Total blended premiums	\$	1,938,742
Employment payment for retiree healthcare		287,000
Net Payments	\$	<u>2,225,742</u>

Net OPEB Liability — SIRTOA's proportionate share of the Plan's net OPEB liability reported at December 31, 2018 was measured as of the OPEB Plan's fiscal year-end of December 31, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of July 1, 2017, and rolled forward to December 31, 2017. SIRTOA's proportion of the net OPEB liability was based on a projection of SIRTOA's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating employers. The following table presents the SIRTOA's proportionate share of the net OPEB liability and corresponding proportion percentage at the measurement date:

	<u>December 31, 2017</u>	
SIRTOA's proportion of the net OPEB liability		0.342 %
SIRTOA's proportionate share of the net OPEB liability	\$	69,429,243

OPEB Plan Fiduciary Net Position — The fiduciary net position has been determined on the same basis used by the OPEB plan. The OPEB plan uses the accrual basis of accounting under which contributions from the employer are recognized when paid. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at fair value based on quoted market prices or Net Asset Value. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report or at www.mta.info.

Actuarial Assumptions — Actuarial valuation involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as future employment, mortality and health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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Projections of benefits for financial reporting purposes are based on the substantive plan, which refers to the plan terms as understood by the employer and the plan members at the time of the valuation, including only changes to plan terms that have been made and communicated to employees. The projections include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members at that time. SIRTOA may not be obligated to provide the same types or levels of benefits to retirees in the future.

The total OPEB liability was determined by an actuarial valuation performed on July 1, 2017. Update procedures were used to roll forward the total OPEB liability to December 31, 2017, the measurement date. The actuarial valuations were performed using the following actuarial assumptions, applied to all periods included in the measurement, unless specified:

Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Investment rate of return	6.50%

Salary Scale — Salary increases vary by years of service. Rates are shown below:

<u>Years of Service</u>	<u>Rate of Increase</u>
0	10.00 %
1	9.50
2	9.25
3	9.00
4	8.75
5	6.00
6+	3.25

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 SIRTOA. Long-term trend increases are 4% for dental and vision benefits and 4.5% for Medicare Part B reimbursements, but no more than projected medical and pharmacy trends. The self-insured trend is applied directly for represented employees.

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Healthcare Cost Trend Rates — The following lists illustrative rates for the NYSHIP and self-insured trend assumptions:

Year Ending	NYSHIP Trend		Self-Insured Trend	
	Pre-65 Trend	Post-65 Trend	Pre-65 Trend	Post-65 Trend
2018	8.50 %	8.20 %	6.80 %	9.10 %
2019	6.20 %	5.50 %	6.20 %	5.30 %
2020	5.80 %	5.30 %	5.80 %	5.20 %
2021	5.50 %	5.20 %	5.50 %	5.20 %
2022	7.20 %	5.10 %	11.10 %	5.10 %
2023	6.10 %	5.10 %	6.00 %	5.10 %
2024	6.10 %	5.00 %	5.90 %	5.00 %
2025	5.90 %	5.00 %	5.80 %	5.00 %
2026	5.90 %	5.00 %	5.80 %	5.00 %
2027	5.80 %	4.90 %	5.70 %	4.90 %
2037	5.60 %	5.00 %	5.50 %	5.00 %
2047	5.40 %	5.90 %	5.30 %	4.90 %
2057	5.10 %	5.40 %	5.10 %	5.20 %
2067	4.80 %	5.00 %	4.80 %	4.80 %
2077	4.20 %	4.30 %	4.10 %	4.50 %
2087	4.10 %	4.20 %	4.10 %	4.40 %
2097	4.10 %	4.20 %	4.10 %	4.40 %

For purposes of applying the Entry Age Normal cost method, the healthcare trend prior to the valuation date are based on the ultimate rates, which are 4.1% for medical and pharmacy costs prior to age 65, 4.2% for NYSHIP costs at age 65 and later, and 4.3% for self-insured medical and pharmacy costs age 65 and later.

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 Defined benefit plan.

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

Expected Rate of Return on Investments — The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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

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and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>
US Core Fixed Income	13.00%	1.96%
Global Bonds	15.00%	34.00%
Emerging Market Bonds	5.00%	3.30%
Global Equity	35.00%	4.99%
Non-US Equity	15.00%	5.84%
Global REITs	5.00%	5.62%
Hedge Funds - MultiStrategy	12.00%	3.35%
	<u>100%</u>	
Assumed Inflation - Mean		2.50%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Arithmetic Mean Return as per Actuary		6.29%
Portfolio Standard Deviation		11.37%
Long Term Expected Rate of Return selected by MTA		6.50%

Discount Rate — The discount rate used in this valuation to measure the total OPEB liability was updated to incorporate GASB Statement No. 75 guidance.

The plan’s fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan’s fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan’s fiduciary net position is not projected to be sufficient. Therefore, the discount rate is set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index as of December 31, 2017 of 3.44%.

Sensitivity of SIRTOA’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate — The following presents SIRTOA’s proportionate share of the net OPEB liability, as well as what SIRTOA’s proportionate share of the net OPEB 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 the measurement:

	<u>1% Decrease (2.44%)</u>	<u>Discount Rate (3.44%)</u>	<u>1% Increase (4.44%)</u>
Proportionate share of the net OPEB liability	\$ 80,028,599	\$ 69,429,243	\$ 60,917,235

Sensitivity of SIROTA’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates — The following presents SIROTA’s proportionate share of the net OPEB liability, as well as what SIROTA’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates used for the measurement:

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	Healthcare Cost Current		
	<u>1% Decrease</u>	<u>Trend Rate *</u>	<u>1% Increase</u>
Proportionate share of the net OPEB liability	\$ 59,470,300	\$ 69,429,243	\$ 82,206,018

*For further details, refer to the Health Care Cost Trend Rates tables in the Actuarial Assumptions section of this Note Disclosure.

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB — For the year ended December 31, 2018, SIRTOA recognized OPEB expense of \$5,869,316, which represents its proportionate share of the Plan’s OPEB expense.

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, changes in assumptions and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a 7.4-year close period, beginning the year in which the deferred amount occurs.

At December 31, 2018, SIROTA reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows:

	<u>December 31, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 40,231	\$ -
Changes in assumptions	2,695,172	-
Net difference between projected and actual earnings on OPEB plan investments	-	72,145
Employer contributions to the plan subsequent to the measurement of net OPEB liability	2,820,325	-
Total	<u>\$ 5,555,728</u>	<u>\$ 72,145</u>

For the year ended December 31, 2018, \$2,820,325 was reported as deferred outflows of resources related to OPEB. This amount includes both SIRTOA’s contributions subsequent to the measurement date and an implicit rate subsidy adjustment that will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2018 will be recognized in OPEB expense as follows:

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Year ending December 31:

2019	\$	409,370
2020		409,370
2021		409,370
2022		409,370
2023		427,407
Thereafter		<u>598,371</u>
Total	\$	<u><u>2,663,258</u></u>

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, 2018 and 2017, is as follows:

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	<u>2018</u>	<u>2017</u>
Balance — beginning of year	\$ 15,681,354	\$ 11,836,000
Activity during the year:		
Current year claims and changes in estimates	2,091,321	4,980,420
Claims paid	<u>(1,091,949)</u>	<u>(1,135,066)</u>
Balance — end of year	16,680,726	15,681,354
Less current portion	<u>(1,050,886)</u>	<u>(1,321,814)</u>
Long-term liability	<u>\$ 15,629,840</u>	<u>\$ 14,359,540</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 limit is \$2.3 million for SIRTOA. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limit is \$2.6 million for SIRTOA. Effective November 1, 2012, the self-insured retention limits for ELF was increased to \$3 million for SIRTOA. Effective October 31, 2015 the self-insured retention limits for ELF was increased to \$3.2 million for SIRTOA. 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, 2018, the balance of the assets in this program was \$152.6 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, 2018, the “nonrevenue fleet” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA Group, including SIRTOA. The policy provides \$11 million per occurrence limit with a \$0.5 million per occurrence deductible for SIRTOA. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

Property Insurance — Effective May 1, 2018, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2018, 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

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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.

FMTAC's property insurance program has been expanded to include \$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 82% of "certified" losses in 2018, 81% of "certified" losses in 2019 and 80% of "certified" losses in 2020, as covered by the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") of 2015. The remaining 18% (2018), 19% (2019) and 20% (2020) 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 \$160 million in 2018, \$180 million in 2019 and \$200 million in 2020. 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) 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, 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 and 20% of any "certified" act of terrorism up to a maximum recovery of \$215 million for any one occurrence and in the annual aggregate during 2020 (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 \$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 or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$200 million TRIPRA trigger up to a maximum recovery of \$200 million for any occurrence and in the annual aggregate during 2020.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$193.5 million in 2018, \$204.3 million in 2019 and \$215 million in 2020. 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, 2020.

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At December 31, 2018, SIRTOA has no outstanding claims requiring FMTAC coverage. At December 31, 2018, FMTAC had \$978 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 \$226,743 commencing January 14, 2019, with rent increasing at a rate of 2.5% per annum over the life of the lease.

<u>Years Ending</u> <u>December 31</u>	<u>Operating</u>
2019	\$ 226,743
2020	232,412
2021	238,222
2022	244,178
2023	<u>250,282</u>
Total minimum lease payments	<u>\$ 1,191,837</u>

Total rent expense for the years ended December 31, 2018 and 2017, were \$290,927 and \$220,975, respectively.

Pollution Remediation — In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in 2018 and 2017, SIRTOA recognized \$1,973,280 and \$80,778, 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. SIRTOA does not expect any recoveries of cost that would have a material effect on the recorded obligations.

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A summary of the activity in pollution remediation liability at December 31, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 1,291,284	\$ 1,210,901
Activity during the year:		
Change in estimates	1,973,280	80,778
Payments	<u>(1,041,225)</u>	<u>(395)</u>
Balance at end of year	2,223,339	1,291,284
Less current portion	<u>(412,507)</u>	<u>(226,096)</u>
Long-term liability	<u>\$ 1,810,832</u>	<u>\$ 1,065,188</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. RELATED PARTY TRANSACTIONS

SIRTOA 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 SIRTOA through intercompany billings. The MTA also provides funding for SIRTOA's capital investments via MTA debt issuance and federal capital grant pass-throughs. SIRTOA recognizes funds contributed for the purchase of capital assets as contributed capital in the consolidated statements of revenues, expenses, and changes in net position. The MTA also provides short-term loans, as required, to supplement SIRTOA's working capital needs.

SIRTOA has intercompany transactions with New York City Transit Authority related to farecard settlements, service agreements, shared operating contracts and other operating receivables and payables. State and City tax — supported subsidies received by SIRTOA from New York City Transit Authority to support operations are recorded as nonoperating revenues.

The resulting receivables and payables from the above transactions are recorded in Due to/from MTA, MTA capital program funds receivable, and Due to New York City Transit Authority, included in the accompanying consolidated statements of net position.

Related party transactions consist of the following at December 31, 2018 and 2017:

	<u>2018</u>		<u>2017</u>	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 768,986	\$ (44,755,366)	\$ 1,565,545	\$ (52,502,462)
New York City Transit Authority	<u>1,340,812</u>	<u>(1,600,237)</u>	<u>681,903</u>	<u>(5,937,070)</u>
Total MTA and New York City Transit Authority	<u>\$ 2,109,798</u>	<u>\$ (46,355,603)</u>	<u>\$ 2,247,448</u>	<u>\$ (58,439,532)</u>

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11. SUBSEQUENT EVENTS

On February 27, 2019, the MTA Board voted to increase SIRTOA's fare effective April 21, 2019. MetroCard seven-day passes increased from \$32 to \$33 and MetroCard thirty-day passes increased from \$121 to \$127. The base fare of \$2.75 and the single-ride ticket fare of \$3.00 remained the same. The bonus value of five percent is eliminated.

The New York State Fiscal Year 2019-2020 Enacted Budget established the Central Business District Tolling Program (CBD Tolling Program), the goals of which are to reduce traffic congestion in the Manhattan Central Business District, improve air quality, and provide a stable and reliable funding source for the repair and revitalization of the MTA's public transportation systems. The CBD Tolling Program revenues are not expected to begin to flow to MTA until at least early 2021. MTA Bridges and Tunnels is directed to establish the CBD Tolling Capital Lockbox Fund. Monies in the fund cannot be commingled with any other MTA Bridges and Tunnel monies. Funds on deposit in the CBD Tolling Capital Lockbox Fund shall be applied to: (1) operating, administration and other necessary expenses relating to the program, or to DOT pursuant to the MOU; and (2) costs of MTA capital projects included in the 2020-2024 Capital Program or any successor capital program. The 2019-2020 State Enacted Budget further provides that capital project costs paid for by the CBD Tolling Capital Lockbox Fund are subject to the following revenue split: (1) 80 percent for MTA New York City Transit, MaBSTOA, MTA Staten Island Railway and MTA Bus capital project costs, with priority given to subway system, new signaling, new subway cars, track and car repair, accessibility, buses and bus system improvements and further investments in expanding transit availability in the outer boroughs; (2) 10 percent for MTA Long Island Rail Road capital projects, including parking facilities, rolling stock, capacity enhancements, accessibility and expanding transit availability; and (3) 10 percent for MTA Metro-North Railroad capital projects including parking facilities, rolling stock, capacity enhancements, accessibility and expanding transit availability.

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REQUIRED SUPPLEMENTARY INFORMATION

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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)

	2017	2016	2015	2014
SIRTOA's proportion of the net pension liability	2.12%	2.19%	2.15%	2.16%
SIRTOA's proportionate share of the net pension liability	\$20,029	\$22,778	\$27,605	\$22,346
SIRTOA's actual covered-employee payroll	\$24,343	\$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	82.28%	80.67%	139.57%	119.05%
Plan fiduciary net position as a percentage of the total pension liability	79.87%	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)

	2018	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 6,930	\$ 6,719	\$ 6,360	\$ 5,885	\$ 5,865
Actual Employer Contribution	7,876	6,132	5,885	6,165	8,580
Contribution Deficiency (Excess)	(946)	587	475	(280)	(2,715)
Covered Payroll	24,343	23,461	28,235	19,779	18,770
Contribution as a % of Covered Payroll	32.36%	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, 2017 funding valuation.

Changes of Assumptions

There were no changes of benefit assumptions in the January 1, 2017 funding valuation.

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STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) SCHEDULE OF SIRTOA'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY IN THE MTA OPEB PLAN AT:

(In thousands)

Plan Measurement Date (December 31):	2017
SIRTOA's proportion of the net OPEB liability	0.34%
SIRTOA's proportionate share of the net OPEB liability	\$ 69,429
SIRTOA's covered payroll	\$ 20,061
SIRTOA's proportionate share of the net OPEB liability as a percentage of its covered payroll	346.09%
Plan fiduciary net position as a percentage of the total OPEB liability	1.79%

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY (Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) SCHEDULE OF SIRTOA'S CONTRIBUTIONS TO THE OPEB PLAN AND NOTES TO SCHEDULE OF SIRTOA'S CONTRIBUTION TO THE OPEB PLAN FOR THE YEARS ENDED DECEMBER 31:

(In thousands)

	<u>2018</u>	<u>2017</u>
Actuarially Determined Contribution	n/a	n/a
Actual Employer Contribution ⁽¹⁾	\$ 2,820	\$ 2,226
Contribution Deficiency (Excess)	<u>n/a</u>	<u>n/a</u>
Covered Payroll	24,343	20,061
Actual Contribution as a Percentage of Covered Payroll	11.58%	11.10%

(1) Actual employer contribution includes the implicit rate of subsidy adjustment of \$283.0 and \$287.0 for the years ended December 31, 2018 and 2017, respectively.

Notes to Schedule of SIRTOA's Contribution to the OPEB Plan:

Methods and assumptions used to determine contribution rates:

Valuation date	July 1, 2017
Measurement date	December 31, 2017
Discount rate	3.44%
Inflation	2.50%
Actuarial cost method	Entry Age Normal
Investment rate of return	6.50%

Changes of benefit terms: In the July 1, 2017 actuarial valuation, there were no changes to the benefit terms.

Changes of assumptions: In the July 1, 2017 actuarial valuation, there was a change in assumptions. The discount rate used to measure liabilities was updated to incorporate GASB 75 guidance and changed to reflect the current municipal bond rate.

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, 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.

(Signature Required)

May 20, 2019

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY (Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2018 AND 2017
(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, 2018 and 2017. 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.

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CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in the Company's financial position for the years ended December 31, 2018 and 2017. 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)	
	2018	2017	2016	2018-2017	2017-2016
ASSETS					
CURRENT ASSETS	\$ 434,726	\$ 429,191	\$ 692,101	\$ 5,535	\$(262,910)
NONCURRENT ASSETS	<u>543,601</u>	<u>465,003</u>	<u>364,553</u>	<u>78,598</u>	<u>100,450</u>
TOTAL ASSETS	<u>\$ 978,327</u>	<u>\$ 894,194</u>	<u>\$ 1,056,654</u>	<u>\$ 84,133</u>	<u>\$(162,460)</u>

Significant Changes in Assets

December 31, 2018 versus December 31, 2017

Total assets have increased by \$84,133 or 9.4 percent, from December 31, 2017 to December 31, 2018. The fluctuation in the total assets of FMTAC was the net result of an increase investments offset by a decrease in premium receivable due from affiliates. Investments increased mostly due to collateral funding of Owner Controlled Insurance Programs ("OCIP") trust accounts. The decrease in premiums receivable was due to the partial payment of the OCIP premiums by the affiliates.

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.

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(In thousands)	As of December 31,			Increase/(Decrease)	
	2018	2017	2016	2018-2017	2017-2016
LIABILITIES AND NET POSITION					
CURRENT LIABILITIES	\$ 321,252	\$ 306,520	\$ 500,324	\$ 14,732	\$ (193,804)
NONCURRENT LIABILITIES	450,929	406,129	378,397	44,800	27,732
RESTRICTED NET POSITION	<u>206,146</u>	<u>181,545</u>	<u>177,933</u>	<u>24,601</u>	<u>3,612</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 978,327</u>	<u>\$ 894,194</u>	<u>\$ 1,056,654</u>	<u>\$ 84,133</u>	<u>\$ (162,460)</u>

Significant Changes in Liabilities

December 31, 2018 versus December 31, 2017

Total liabilities from December 31, 2017 to December 31, 2018 have increased by \$59,532 or 8.4 percent. The increase in liabilities is primarily due to an increase in unearned premium and an increase to the actuarial determined loss and loss adjustment expense liability. Loss and loss adjustment expense liability increase primarily due to additional reserves related to the excess loss program.

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 as a result of the payment on the Tropical Storm Sandy claim, which was partially offset by an increase in unearned premiums due to additional OCIP casualty and builder risk premiums being written in 2017.

Significant Changes in Net Position

December 31, 2018 versus December 31, 2017

In 2018, the restricted net position increase of \$24,601 is comprised of operating revenues of \$154,268 and non-operating income of \$12,576, less operating expenses of \$142,243.

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.

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Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)	2018	2017	2016	Increase/(Decrease)	
				2018-2017	2017-2016
OPERATING REVENUES	\$ 154,268	\$ 133,826	\$ 162,559	\$ 20,442	\$ (28,733)
OPERATING EXPENSES	<u>142,243</u>	<u>148,371</u>	<u>139,598</u>	<u>(6,128)</u>	<u>8,773</u>
OPERATING INCOME/(LOSS)	12,025	(14,545)	22,961	26,570	(37,506)
NON-OPERATING INCOME / (LOSS)	<u>12,576</u>	<u>18,157</u>	<u>12,803</u>	<u>(5,581)</u>	<u>5,354</u>
CHANGE IN NET POSITION	24,601	3,612	35,764	20,989	(32,152)
RESTRICTED NET POSITION— Beginning of year	<u>181,545</u>	<u>177,933</u>	<u>142,169</u>	<u>3,612</u>	<u>35,764</u>
RESTRICTED NET POSITION— End of year	<u>\$ 206,146</u>	<u>\$ 181,545</u>	<u>\$ 177,933</u>	<u>\$ 24,601</u>	<u>\$ 3,612</u>

Operating Revenues—The increase of \$20,442 or 15.3 percent, over the 2017 operating revenues is primarily due to an increased in 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 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.

Operating Expenses—Operating expenses between 2017 and 2018 decreased by 4.1 percent, or \$6,128. The decrease was primarily due to a decrease in underwriting expenses primarily due to the end of payments for safety expenses for the OCIP Second Avenue Subway project.

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.

Non-operating Income—Non-operating income between 2017 and 2018 decreased by 30.7 percent, or \$5,581. This is a result of a decrease in income primarily from net unrealized gains on investments held by FMTAC partially offset an an increase in realized investment 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.

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, 2018, all programs administered by FMTAC have been reviewed and approved.

As of December 31, 2018 and 2017, 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-A.M. Best estimates the US industry had net catastrophe losses of \$37 billion in 2018, down from \$53 billion in 2017, but still the second highest since 2011. Best expects pre-tax operating income to rebound to nearly \$43 billion for 2018 driven by lower underwriting losses and moderately higher net investment income. Due to lower realized gains and unrealized losses on the industry's equity holdings, they anticipate a \$3.6 billion decline in policyholders' surplus to \$768 billion.

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. FMTAC has exhausted their \$50,000 limit related to this claim and has paid \$0 and \$10,000 in losses relating to this claim, in 2018 and 2017, respectively. Any additional claims related to this matter will be the responsibility of excess insurance layers.

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 \$4.9 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 \$9.1 million; which includes the Stations \$11 million 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.

NYCTA Bicycle Case- On April 10, 2016, the Plaintiff rode his bicycle, through a cordoned off construction site beneath the elevated BMT line on Broadway in Bushwick, Brooklyn. The MTA New York City Transit Authority was replacing rotted cross ties and lowering them into a designated "drop zone." Plaintiff was hit by a discarded tie that was being dropped to the ground per MTA New York

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City Transit Authority protocols. Plaintiff sustained severe and permanent injuries including paraplegia. A Kings County jury found the MTA New York City Transit Authority 100% liable and returned a \$110 million verdict. The Authority has a reasonable chance of persuading the trial court to order a new trial. FMTAC writes an all agency excess liability policy for \$50 million per occurrence in excess of the MTA New York Transit Authority's \$11 million self-insured retention. If the case is not settled, litigation is likely to continue for at least 3 years. The FMTAC excess liability policy covering October 31, 2015-October 31, 2016 would be responsible for any settlement up to \$40 million excess of the Agency retention of \$11 million.

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FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION DECEMBER 31, 2018 AND 2017 (In thousands)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	\$ 112,469	\$ 144,895
Investments (Note 4)	157,209	78,545
Funds held by reinsurer (Note 5)	14,399	12,719
Premiums receivable due from affiliates (Note 7)	147,197	190,421
Interest income receivable (Note 4)	3,418	2,367
Prepaid losses	-	207
Other assets	34	37
Total current assets	<u>434,726</u>	<u>429,191</u>
NONCURRENT ASSETS:		
Investments (Note 4)	526,690	448,845
Reinsurance recoverable	12,174	12,245
Incentive reward receivable	4,737	3,913
Total noncurrent assets	<u>543,601</u>	<u>465,003</u>
TOTAL ASSETS	<u>\$ 978,327</u>	<u>\$ 894,194</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Unearned premiums	\$ 258,108	\$ 243,894
Ceded premium payable	6,332	11,126
Loss and loss adjustment expense liability (Note 6)	49,385	44,495
Losses payable	1,776	-
Due to affiliates	4,088	4,561
Accrued expenses	1,563	2,444
Total current liabilities	<u>321,252</u>	<u>306,520</u>
NONCURRENT LIABILITIES:		
Loss and loss adjustment expense liability (Note 6)	432,293	388,207
Reinsurance recoverable reserves (Note 6)	12,174	12,245
Owner Controlled Insurance Programs liability (Note 5)	6,462	5,677
Total noncurrent liabilities	<u>450,929</u>	<u>406,129</u>
Total liabilities	<u>772,181</u>	<u>712,649</u>
RESTRICTED NET POSITION	<u>206,146</u>	<u>181,545</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 978,327</u>	<u>\$ 894,194</u>

See notes to financial statements.

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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, 2018 AND 2017 (In thousands)

	2018	2017
OPERATING REVENUES:		
Gross premiums written	\$ 208,131	\$ 280,459
Premiums ceded	(39,887)	(51,279)
Change in unearned premiums	<u>(13,976)</u>	<u>(95,354)</u>
Total operating revenues	<u>154,268</u>	<u>133,826</u>
OPERATING EXPENSES:		
Loss and loss adjustment	126,929	129,227
Underwriting	6,084	11,077
General and administrative	<u>9,230</u>	<u>8,067</u>
Total operating expenses	<u>142,243</u>	<u>148,371</u>
OPERATING INCOME/(LOSS)	<u>12,025</u>	<u>(14,545)</u>
NON-OPERATING INCOME:		
Net investment income	<u>12,576</u>	<u>18,157</u>
Total non-operating income	<u>12,576</u>	<u>18,157</u>
CHANGE IN NET POSITION	24,601	3,612
RESTRICTED NET POSITION—Beginning of year	<u>181,545</u>	<u>177,933</u>
RESTRICTED NET POSITION—End of year	<u>\$ 206,146</u>	<u>\$ 181,545</u>

See notes to financial statements.

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FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY (Component Unit of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017 (In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums and other receipts	\$ 206,912	\$ 164,057
Other operating expenses	<u>(94,354)</u>	<u>(131,294)</u>
Net cash provided by operating activities	<u>112,558</u>	<u>32,763</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(668,051)	(485,655)
Sales and maturities of investments	498,767	355,679
Earnings on investments	<u>24,300</u>	<u>13,721</u>
Net cash used in by investing activities	<u>(144,984)</u>	<u>(116,255)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(32,426)	(83,492)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>144,895</u>	<u>228,387</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 112,469</u>	<u>\$ 144,895</u>
RECONCILIATION OF OPERATING INCOME / (LOSS) TO NET CASH PROVIDED / (USED IN) BY OPERATING ACTIVITIES:		
Operating income/(loss)	\$ 12,025	\$ (14,545)
Adjustments to reconcile to net cash used in operating activities:		
Net increase/(decrease) in accounts payable, accrued expenses and other liabilities	59,532	(166,071)
Net decrease in receivables	<u>41,001</u>	<u>213,379</u>
Net cash provided by operating activities	<u>\$ 112,558</u>	<u>\$ 32,763</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, 2018 AND 2017
(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*.

New Accounting Standards—The MTA adopted the following GASB Statements for the year ended December 31, 2018:

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues identified during the implementation and application of certain GASB statements. The provisions of this Statement amend and clarify guidance under a variety of topics with the intent to enhance consistency in the application of accounting and reporting requirements. This Statement specifically issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits (“OPEB”). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The adoption of this Statement had no impact on the Company’s financial statements.

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 activities related to the 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, 2018 and 2017, cash and cash equivalents consisted of (in thousands):

	2018		2017	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits	\$ 250	\$ 250	\$ 250	\$ 250
Loss escrows	6,329	6,329	5,829	5,829
Funds for security trust	-	-	25,025	25,025
Uninsured deposits	<u>105,890</u>	<u>105,890</u>	<u>113,791</u>	<u>88,612</u>
	<u>\$ 112,469</u>	<u>\$ 112,469</u>	<u>\$ 144,895</u>	<u>\$ 119,716</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 \$6,329 and \$5,829 as of December 31, 2018 and 2017, 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, 2018 and 2017 (in thousands):

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Funds for claim payments	\$ 328,341	\$ 328,942	\$ 258,258	\$ 245,413
Security trust funds	344,087	344,247	255,878	256,654
Funds for letter of credit	<u>11,471</u>	<u>11,307</u>	<u>13,254</u>	<u>13,147</u>
	<u>\$ 683,899</u>	<u>\$ 684,496</u>	<u>\$ 527,390</u>	<u>\$ 515,214</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, 2018 and 2017.

The yield to maturity rate was 3.05% for the year ended December 31, 2018, and 3.01% for the year ended December 31, 2017. For the year ended December 31, 2018, the change in net unrealized gain/loss on investments was a decrease of \$12,775. For the year ended December 31, 2017, the change in net unrealized gain/loss on investments was an increase of \$4,158.

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, 2018 and 2017. 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)	2018		2018			
	Fair Value	Duration (years)	Total	Fair Value Measurements		
Investment Type				Level 1	Level 2	Level 3
Treasury ⁽¹⁾	\$ 306,032	2.88	\$ 306,032	\$ -	\$ 306,032	\$ -
Agency ⁽²⁾	105,233	5.90	105,233	-	105,233	-
Asset backed securities	45,302	1.94	45,302	-	45,302	-
Commercial mortgage backed securities	81,056	5.55	81,056	-	81,056	-
Foreign bonds	15,768	6.20	15,768	15,768	-	-
Corporate bonds	133,926	4.43	133,926	133,926	-	-
Total	687,317		687,317	\$ 149,694	\$ 537,623	\$ -
Less accrued interest	(3,418)		(3,418)			
Total investments	\$ 683,899		\$ 683,899			

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

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(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	158,715	337,813	-
Equities ⁽³⁾	25,122		25,122	25,122	-	-
Investments measured at amortized costs						
Commercial paper	8,109		8,109	-	8,109	-
	529,759		529,759	\$ 183,837	\$ 345,922	\$ -
Less accrued interest	(2,369)		(2,369)			
Total investments	<u>\$ 527,390</u>		<u>\$ 527,390</u>			

Including but not limited to:

⁽¹⁾ U.S. Treasury Notes

⁽²⁾ Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation

⁽³⁾ Exchange Traded Funds

Credit Risk—At December 31, 2018, 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	\$ 224,702	32.7 %
AA	31,381	4.6
A	75,953	11.1
BBB	38,442	5.6
BB	239	-
Not rated	<u>10,568</u>	<u>1.5</u>
Credit risk debt securities	381,285	55.5
U.S. Government bonds	<u>306,032</u>	<u>44.5</u>
Total fixed income securities	687,317	<u>100 %</u>
Less accrued interest	<u>(3,418)</u>	
Total investments	<u>\$ 683,899</u>	

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	<u>26,086</u>	<u>5.2</u>
Credit risk debt securities	287,813	57.0
U.S. Government bonds	<u>216,824</u>	<u>43.0</u>
Total fixed income securities	504,637	<u>100.0 %</u>
Equities	25,122	
Less accrued interest	<u>(2,369)</u>	
Total investments	<u>\$ 527,390</u>	

5. INSURANCE PROGRAMS

Property Program—Effective May 1, 2018, 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 deductible, 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 annual 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 four-year period, May 1, 2016 to May 1, 2020.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 82% of “certified” losses in 2018, 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 18% 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 \$160,000 (“trigger”) for 2018. 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) 18% of any “certified” act of terrorism in 2018—up to a maximum recovery of \$193,500 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 18% “certified” acts of terrorism insurance in 2018 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 \$160,000 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, 2018, FMTAC also provides an All-Agency Excess Liability Policy to the MTA and its subsidiaries and affiliates with the limits: i) \$75,000 (75%) 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, 2018, 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, 2018, 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, 2018, the MTA renewed its one-year auto liability policy with Travelers (Discover Re). Effective March 1, 2018, 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, 2018, the Company assumed 100% of the Allocated Loss Adjusted Expenses.

Non-Revenue—Effective March 1, 2018, 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, 2018, 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, 2018 and 2017 (in thousands):

	2018	2017
NYCT structures lines	\$ 532	\$ 532
LIRR/MNCR 2000–2004 Capital Improvement Program	(1,844)	(2,095)
NYCT 2000–2004 line structures/shops, yards and depots Capital Improvements Program	1,591	717
NYCT 2000–2004 stations and escalators/elevators Capital Improvements Program	1,424	(683)
LIRR/MNR 2005–2009 Capital Improvement Program	811	(419)
CCC Second Ave. Subway	<u>3,948</u>	<u>7,625</u>
OCIP liability	<u>\$ 6,462</u>	<u>\$ 5,677</u>

The activity of all funds held by the OCIP reinsurer consists of the following for 2018 and 2017 (in thousands):

	2018	2017
Funds held by OCIP insurers—beginning of year	\$ 12,719	\$ 16,045
Interest income	895	97
Reimbursement to the Company for Safety and Loss Control	(6,903)	-
Claims payments	<u>7,688</u>	<u>(3,423)</u>
Funds held by OCIP reinsurer	<u>\$ 14,399</u>	<u>\$ 12,719</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 \$635 and \$31 during the years ended December 31, 2018 and 2017, 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. the Company had a net recovery of \$5,121 and claim payments of \$430.

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, 2018, additional funding totaled \$10,737. In 2018 and 2017, respectively, the Company had a net recovery of \$1,183 and made claim payments of \$120. 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 \$32 and \$0 in interest income during the years ended December 31, 2018 and 2017, 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 2018 and 2017, \$5,534 and \$8,983 has been set aside to cover this exposure. During 2018 and 2017, the Company earned \$228 and \$67 in interest with \$1,382 of net recoveries and \$2,874 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.

East Side Access Project – Excess General Liability – Effective August 1, 2018, the company entered into program to insure \$10,000 per occurrence and aggregate of General Liability coverage in excess of \$2,000 for claims related to the East Side Access Project. The coverage expires on April 1, 2021

NYCT 2005–2009 Capital Improvements Projects—Effective August 1, 2006, the Company entered into a multi-year agreement with Liberty Mutual and the MTA 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 and the MTA 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 and the MTA 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.

MTA LIRR 3rd Track Program – Effective January 1, 2018, the Company entered into a multi-year agreement with Starr Indemnity & Liability Company and the MTA 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 until January 1, 2024.

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.

On January 1, 2018, the Company wrote a builders risk deductible reimbursement policy with the MTA for the LIRR 3rd Track project with limits of \$250 per occurrence with a \$25 contractor deductible per claim. The policy will expire on January 1, 2024.

6. LOSS AND LOSS ADJUSTMENT EXPENSES AND REINSURANCE

The following schedule presents changes in the loss and loss adjustment expense liabilities during 2018 and 2017 (in thousands):

	2018	2017
Loss and loss adjustment expenses liability—beginning of year	\$ 444,947	\$ 410,330
Loss reinsurance recoverable on unpaid losses and loss expenses	<u>(12,245)</u>	<u>(6,268)</u>
Net balance—beginning of year	432,702	404,062
Loss and loss adjustment expenses	126,929	129,227
Payments attributable to insured events of the current year	<u>(77,953)</u>	<u>(100,587)</u>
Net balance—end of year	481,678	432,702
Plus reinsurance recoverable on unpaid losses and loss expenses	<u>12,174</u>	<u>12,245</u>
Loss and loss adjustment expenses liability—end of year	493,852	444,947
Less current portion	<u>49,385</u>	<u>44,495</u>
Long-term liability	<u>\$ 444,467</u>	<u>\$ 400,452</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, 2018 and 2017, was as follows (in thousands):

	2018		2017	
	Receivable	Earned	Receivable	Earned
LIRR	\$ 12,314	\$ 15,205	\$ 10,545	\$ 14,396
MNCR	5,358	8,855	6,601	10,960
MTA	<u>129,525</u>	<u>130,208</u>	<u>173,275</u>	<u>108,470</u>
	<u>\$ 147,197</u>	<u>\$ 154,268</u>	<u>\$ 190,421</u>	<u>\$ 133,826</u>

Included in General and Administrative expenses for the years ended December 31, 2018 and 2017, respectively, are amounts the MTA charged of \$8,502 and \$7,260, respectively, to FMTAC for risk management services provided to the Company of which \$4,088 and \$4,561 remain as a liability at December 31, 2018 and 2017, respectively.

8. 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. FMTAC has exhausted their \$50,000 limit related to this claim and has paid \$0 and \$10,000 in losses relating to this claim, in 2018 and 2017, respectively. Any additional claims related to this matter will be the responsibility of excess insurance layers.

9. NYCTA BICYCLE CASE

On April 10, 2016, the Plaintiff rode his bicycle, through a cordoned off construction site beneath the elevated BMT line on Broadway in Bushwick, Brooklyn. The MTA New York City Transit Authority was replacing rotted cross ties and lowering them into a designated "drop zone." Plaintiff was hit by a discarded tie that was being dropped to the ground per MTA New York City Transit Authority protocols. Plaintiff sustained severe and permanent injuries including paraplegia. A Kings County jury found the MTA New York City Transit Authority 100% liable and returned a \$110 million verdict. The Authority has a reasonable chance of persuading the trial court to order a new trial. FMTAC writes an all agency excess liability policy for \$50 million per occurrence in- excess of the MTA New York Transit Authority's \$11 million self-insured retention. If the case is not settled, litigation is likely to continue for at least 3 years. The FMTAC excess liability policy covering October 31, 2015-October 31, 2016 would be responsible for any settlement up to \$40 million excess of the Agency retention of \$11 million.

10. SUBSEQUENT EVENTS

FMTAC evaluated subsequent events from January 1, 2019 through May 20, 2019, 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.

* * * * *

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Dear Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of the Metropolitan Transportation Authority (the "Authority"), a component unit of the State of New York, which comprise the consolidated statement of net position as of December 31, 2018, and the related consolidated statement of revenues, expenses and changes in net position and statement of consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 22, 2019, which expresses an unmodified opinion and includes emphasis-of-matter paragraphs that the Authority requires significant subsidies from other governmental entities and has adopted Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with the Authority's Investment Guidelines, the New York State ("NYS") Comptroller's Investment Guidelines, Section 2925 of the NYS Public Authorities Law, or Section 201.3 of the NYS Public Authorities Law (collectively, the "Investment Guidelines"), insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the Investment Guidelines, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the members of the board and management of the Authority, and the Office of the New York State Comptroller and is not intended to be and should not be used by anyone other than these specified parties.

May 20, 2019

Memorandum



Metropolitan Transportation Authority

State of New York

Date April 16, 2019

To All MTA Financial Disclosure Statement Filers

From Lamond W. Kearse, Chief Compliance Officer

A handwritten signature in black ink, appearing to be "L. Kearse", written over the name of the Chief Compliance Officer.

Re Financial Disclosure Statement – 2019 Covering Calendar Year 2018

Please be advised that 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 2019, covering calendar year 2018, 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, 2019 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, 2019.

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 16, 2019
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 May 20, 2019

To Audit Committee

From Lamond W. Kears, Chief Compliance Officer

A handwritten signature in black ink, appearing to read "Lamond W. Kears", written over the printed name in the "From" field.

Re Annual Report on 2018 Financial Interest Reporting Compliance

At its January 1992 meeting, this Committee requested an annual report regarding compliance by MTA Headquarters and its Agencies ("MTA") with the financial interest reporting requirements established by Public Officers Law and the MTA All Agency Code of Ethics.

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 ("Commission"). 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 disclosure 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, the annexed memoranda regarding compliance with financial disclosure was sent to all MTA employees and Board Members concurrently with the notice from the Commission.

The MTA will also continue actively to assist the Commission in its enforcement of the law. As of the date of this memorandum, there are no delinquent filers from 2018.

This year the MTA and each of its Agencies have over 6,900 filers. MTA Corporate Compliance will be monitoring compliance closely in the coming year.

c: Patrick J. Foye
Veronique Hakim
Helene Fromm
Thomas Quigley
Agency Ethics Officers



Enterprise Risk Management Committee Status Report

Report to the Audit Committee
May 20th, 2019



Period Snapshot

All Agencies are Currently at Various Stages of Documenting Risks, Controls and Testing for 2018-19 Annual Internal Control Program

All Agencies Working on Closing Open Material Weakness / Significant Deficiencies

ERM Committee Met During the Period to Discuss Significant Issues and MTA Organizational Changes

Agencies Continue to Document Their Vulnerability Assessments in the Oracle Governance Risk and Compliance (GRC) System

GRC (RSA Archer) System Replacement Phase 1 Scheduled to Go-Live 5/29/19

Summary of Control Activities

1,904 Total Business Processes

1,003 Total Significant Business Processes of which 503 were Reviewed

Approximately 4,782 Total Risks (all business processes)

Approximately 6,069 Total Controls (all business processes)

6 Total Material Weakness / Significant Deficiencies Are Still Pending

Strategy/Internal Driven Risk Change

Transformation

GRC Migration

New Initiatives

External Driven Risk Change

COSO Enterprise Risk Management



	May 2019	July 2018	Change (+/-)	Change (+/-)
Significant Business Processes	1,003	903	100	11.1%
Total Activities / Business Process	1,904	1,924	-20	-1.0%
Total Risks	4,782	4,807	-25	-0.5%
Total Controls	6,069	6,178	-109	-1.8%



Material Weakness / Significant Deficiencies

	January 2019 Reported	Closed	New	May 2019 Open
Total	21	15	0	6



Total Controls vs. % of Material Weakness / Significant Deficiencies

Agency	Total Controls	Open Material Weakness / Significant Deficiencies May 2019	% Total Material Weakness / Significant Deficiencies to Total Controls
B&T	348	-	0.00%
MTA HQ	529	-	0.00%
LIRR	1,422	1	0.10%
MNR	735	4	0.54%
MTA Bus	246	-	0.00%
MTA CC	514	1	0.2%
NYCT	2,275	-	0.00%
Enterprise	6,069	6	0.4%



Top Agency Risks

Risk Process
Cyber Security
Infrastructure and Equipment Maintenance
Reputational
Safety - Employee and Customer
Security
Succession Planning

Enterprise-Wide Risks

Risk Process
Cyber Security
Institutional Transformation
Reputational
Safety
Succession Planning



METROPOLITAN TRANSPORTATION AUTHORITY ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL GUIDELINES

Pursuant to Public Authorities Law Section 2931
Adopted by the Board on November 16, 2016

These guidelines apply to the Metropolitan Transportation Authority ("MTA"), the New York City Transit Authority, the Long Island Rail Road Company, The Metro-North Commuter Railroad Company, Staten Island Rapid Transit Operating Authority, Manhattan and Bronx Surface Transit Operating Authority, MTA Capital Construction, MTA Bus Company, Triborough Bridge and Tunnel Authority, and to all future affiliated or subsidiary agencies of the MTA (each of which is referred to severally and together, as the "Authority").

Article I. Purpose of Guidelines

The purpose of these guidelines is to establish an effective system of internal controls for the Authority which complies with the requirements of the New York State Government Accountability, Audit and Internal Control Act of 1999 ("the Act") amending Public Authorities Law ("PAL") Sections 2930 through 2932, and is consistent with the Standards for Internal Control in New York State published by the Office of the State Comptroller ("Comptroller Standards"), Guidelines issued by the Independent Authority Budget Office ("IABO"), standards established by the U.S. Government Accountability Office (GAO), and the Commission of Sponsoring Organizations of the Treadway Commission ("COSO") standards.

Article II. Requirements of the Act

In compliance with the requirements of PAL Section 2931 the MTA Board is required to:

1. Establish and maintain for the Authority guidelines for a system of internal control that are in accordance with the Act and internal control standards;
2. Establish and maintain for the MTA a system of internal controls and a program of internal control review. The program of internal review shall be designated to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of the necessary corrective actions and periodically assess the adequacy of the Authority's ongoing internal controls;
3. Make available to each member, officer and employee a clear and concise statement of the generally applicable managerial policies and standards with which he or she is expected to comply. Such statement shall emphasize the importance of effective internal controls to the Authority and the responsibility of each member, officer and employee for effective internal control;

METROPOLITAN TRANSPORTATION AUTHORITY

ENTERPRISE RISK MANAGEMENT/INTERNAL CONTROL GUIDELINES

Internal Control Number GRC002187

Page 1 of 10

4. Designate an internal control officer who shall report to the head of the Authority to implement and review the internal control responsibilities established pursuant to this section; and
5. Implement education and training efforts to ensure that Board Members, officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.

Article III. Guidelines Maintenance

These guidelines replace MTA All Agency Policy Directive 11-008 Accountability & Internal Control issued June 8, 1990.

These guidelines are subject to annual review by the Audit Committee. In advance of submission of these guidelines for such review, the Enterprise Risk Management Committee (“the Committee” defined in Article IV(B)) shall be responsible for preparing any proposed revisions to the guidelines necessary to ensure that they continue to be in compliance with the Act and consistent with the Comptroller standards, IABO guidelines and COSO standards.

Article IV. System of Internal Controls and Program of Internal Control Review

Section A. Enterprise Risk Management/Internal Controls

Enterprise Risk Management (“ERM”)/Internal Controls is defined as a process conducted by the Authority’s Board, management and other personnel, applied in a strategic setting and across the Authority, designed to identify potential events that may affect the entity, and manage risk to be within risk appetite, to provide reasonable assurance regarding the achievement of objectives in the following categories:

Strategic - high-level goals, aligned with and supporting Authority’s mission

Operations - effective and efficient use of the Authority’s resources

Reporting – reliability, timeliness, transparency of financial and non-financial reporting

Compliance - compliance with applicable laws, regulations, contracts and policies

The definition reflects certain fundamental concepts regarding ERM/Internal Control management. ERM/Internal Control management is:

- An ongoing and flowing process throughout the Authority
- Effected by people at every level within the Authority
- Applied in developing and implementing strategy
- Applied across the Authority, at every level and in all areas of responsibility

- Designed to identify potential risks that, if they occur, will affect the Authority

ERM/Internal Controls consists of eight interrelated components. These components are:

1. **Control Environment** – The internal environment encompasses the tone of the Authority, and sets the basis for how risk is viewed and addressed by employees, including risk management philosophy, integrity and ethical values, and the environment in which they operate.
2. **Objective Setting** – Objectives must exist before management can identify potential events affecting their achievement. Internal control management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the Authority’s’ mission.
3. **Event Identification** – Internal and external events affecting achievement of Authority’s objectives must be identified, distinguishing between risks and opportunities.
4. **Risk Assessment** – Risks are analyzed by, considering likelihood and impact, as the basis for computing the overall risk rating. The vulnerability of the Authority to various risks determines how they should be managed.
5. **Risk Response** – Management evaluates the available risk response options (avoiding, accepting, reducing or sharing) and selects the strategy that optimizes the cost-benefit goals of the Authority.
6. **Control Activities** – Policies and procedures are established and implemented to ensure that the risk responses strategy is established and effectively executed.
7. **Information and Communication** – Relevant information is identified, analyzed, and communicated in a form and timeframe that enable employees to effectively carry out their responsibilities.
8. **Monitoring** – Internal Controls are monitored and modifications made as necessary. Monitoring is accomplished through ongoing management activities, separate periodic evaluations, or both.

Internal Control Principles

All components and principles are relevant in establishing an effective internal control system for the Authority. In order for the authority to have an effective internal control system, the components of internal control must be successfully

designed, implemented, and functioning sufficiently. The principles represent the fundamental concepts which are associated with particular components within the system and apply to strategic, operating, reporting and compliance objectives. The principles supporting the components of internal controls are listed below.

Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Manages risk during change

Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys controls through policies and procedures

Information and Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

In the event that management determines that a principle is not relevant, such determination should be at a minimum be supported with documentation and a rationale of how, in the absence of that principle, the control is operating effectively.

Section B. Enterprise Risk Management Committee

The Enterprise Risk Management Committee (“the Committee”) has the authority and responsibility for ensuring compliance by the Authority with the Act, Comptroller Standards, IABO guidelines and COSO standards. In addition, the Committee has authority to oversee the ERM program as it relates to those Business Processes and their associated risks and controls that occur between multiple Agencies and may also:

- Advise on risk strategy,
- Assist with identifying risk appetite and tolerance
- Oversee risk exposures
- Review crisis management plans, and
- Support the internal control program

Authority Internal Control Officers or their designees serve on the Committee, which is chaired by the MTA Chief Compliance Officer. The Committee will meet as needed but generally not less than every six months to review and suggest improvements to the ERM program.

Section C. Vulnerability Assessments

Part 1. Components

Vulnerability (Risk) Assessments (“VA”) is an analysis of the potential exposure to a thing going wrong, what can happen if it does, and what controls, if any, are or should be in place to manage risk. The VA also defines how often and when controls are to be tested. Each VA must at a minimum contain the following:

- Identification of key business processes
- Objectives of each business process
- Risks to those objectives
- Effect and likelihood (in the absence of controls) of risks occurring and an overall vulnerability rating
- Controls in place to manage each risk to an acceptable level
- Testing frequency (based on vulnerability rating)
- Testing schedule (approximately when each control will be tested during a particular cycle)

Part 2. Controls

Controls will be classified as key, subordinate, secondary, or monitoring.

Key Controls -an internal control that is assessed by management that provides reasonable assurance that material errors will be prevented or detected in a timely manner and that without which the business process will break down.

Subordinate Controls- those internal controls that are utilized to supplement key controls. Subordinate controls can be compensating, mitigating or redundant as it relates to the key control.

Secondary Controls – those controls which are not key or subordinate controls.

Monitoring Controls - those controls that are not designed to mitigate risk but are designed to monitor non-critical business process risks.

Part 3. Assessing Risk Effect, Probability, and Overall Risk Rating

Risk within a business process is the inherent potential for events to occur that will negatively impact that business process, its objectives, and/or related activities. Vulnerability within a business process can be assessed by defining what negative event can reasonably occur (risk), evaluating their significance (effects) and estimating the likelihood that they can happen (probability). When assessing the effect if the risk occurs the following categories should be used in determining level of significance.

Significance Rating	Evaluation Criteria
<i>High (5)</i>	Will cause a failure of the business process to meet its objectives, or cause objective failure in other activities, which will, in turn, cause or expose the Authority to significant financial losses, interruptions in operations, failure to comply with laws and regulations, major waste of resources, failure to achieve stated goals, etc.
<i>Med High (4)</i>	May cause a failure of the business process to meet a significant part of its objectives, or impact the objectives of other activities, which may, in turn, expose the Authority to unacceptable financial losses, reductions to or ineffectiveness of operations, non-compliance with laws and regulations, sizable waste of resources, etc.
<i>Medium (3)</i>	May cause a failure of the business process to meet part of its objectives, which may, in turn, expose the Authority to unacceptable financial losses, inefficient operations, non-compliance with laws and regulations, waste of resources, etc.
<i>Medium Low (2)</i>	May cause the business process, or other activities, not to meet part of its objectives which, may, in turn, expose the Authority to potentially unacceptable financial losses, less effective or efficient operations, some non-compliance with laws and regulations, waste of resources, etc.
<i>Low (1)</i>	Unlikely to cause the activity not to meet part of its objectives. If the activity does not meet part of its objective, this, in turn, may cause or expose the Authority to potentially unacceptable financial losses, less efficient operations, some non-compliance with laws and regulations, less efficient use of resources, etc.

When assessing the likelihood the risk will occur the following categories should be used in determining level of likelihood.

Likelihood Rating	Evaluation Criteria (Assumes No Controls in Place)
<i>Extreme (5)</i>	Reasonable assumption that this risk will almost certainly occur
<i>High (4)</i>	Reasonable assumption that this risk will likely, but not certainly, occur
<i>Medium (3)</i>	Reasonable assumption that this risk may occur
<i>Low (2)</i>	Reasonable assumption that this risk will likely not occur
<i>Negligible (1)</i>	Reasonable assumption that this risk will not occur

The overall risk rating is used to identify the relative importance and required testing of each control. For ease of assessing, the impact of each risk multiply the numeric values associated with the significance rating and the likelihood rating to determine a relative overall risk rating to each risk: Effect x Probability = Vulnerability

Overall Risk Rating				
Very High (25-20)	High (19-16)	Medium (15-9)	Low (8-4)	Very Low (3-1)

Section D. Control Testing

The frequency of performing an internal control test is determined by the overall risk rating. Risks with very high or high overall risk rating are considered to be more critical than those in lower categories given that controls are used to manage risks to acceptable levels. Therefore controls over high risk activities must be tested more frequently. The Authority's testing cycle is classified as follows:

Vulnerability	Control Test Cycle
<i>Very High</i>	Annually (Minimum)
<i>High</i>	Not less than Every 2 years
<i>Moderate</i>	Not less than Every 3 years
<i>Low</i>	Not less than Every 4 years
<i>Very Low</i>	Not less than Every 5 years

Each Business Process Owner along with their Authority Internal Control Officer is responsible for creating test instructions. Test instructions should contain at a minimum the standard which will be used to judge the control, the methods which will be utilized to test the control, the sample size and test period. In addition the test instructions should include criteria for what constitutes passing versus failing of any given test.

Business Process Owners must maintain records, both electronic and paper, for each test. The records must include when the test was performed, by whom, what was tested, how it was done, scope (period of time covered), number of records reviewed, personnel involved, personnel interviewed, actions observed, errors found, conclusions and corrective action plans to be implemented. Records must be maintained at a minimum through at least one internal control review cycle (1-5 years) or as required by Authority's records retention policy.

The Committee shall establish standards for testing for the ERM business processes.

The Business Process Owners must provide proof of testing, including copies of all testing records at the request of the MTA Chief Compliance Officer, the Authority ICO for their respective Agency, MTA Audit Services, or the MTA Inspector General Office. Failure to provide testing documentation must be reported to the Chief Compliance Officer and the Agency President.

Section E. Internal Control Review and Assessment

The Authority shall conduct an annual Internal Control Review and Assessment ("ICRA") which is an examination and evaluation of the Authority's system of internal controls to ascertain whether adequate controls exist to:

- Encourage adherence to Authority's policies and procedures
- Promote operational efficiency and effectiveness
- Safeguard assets
- Create and maintain a safe environment for employees and customers
- Ensure reliability of accounting data

The results of the ICRA, at a minimum, reaffirms that there is reasonable assurance that controls are functioning as intended.

Based upon the result of the ICRA, the Authority's shall complete, as part of its Annual Report, an annual assessment of the effectiveness of internal control structures and procedures. The assessment is a written statement from the MTA Chief Compliance Officer setting forth the Authority has conducted a formal, documented process to assess the effectiveness of its internal control structure and procedures, and indicating whether or not the internal controls are adequate.

Section F. Certification and Summary Reports

The Chairman/Chief Executive Officer on behalf of the Authority shall complete a signed certification and summary report that the Authority's internal control program is compliant with the Act. In support of this certification each Agency President shall also sign a certification and summary report that their Agency is compliant with the Act.

Section G. Corrective Action Plans

If any control should fail the Control Testing or ICRA process, described in Section D and E above, a corrective action plan must be initiated. The corrective action plans will at a minimum list the severity of the issue as either:

- Material Weakness
- Significant Deficiency
- Deficiency
- Documentation Only

This corrective action plan shall also include:

- Actions to be undertaken
- Persons responsible for those actions
- Resources required to complete the corrective action
- Date corrective actions were completed or date by which they are expected to be achieved

Article V. Generally Applicable Managerial Policies and Standards

The Chairman/Chief Executive Officer of the Authority, together with Agency Presidents shall prepare and disseminate annually a statement emphasizing the tone at the top, the importance of effective internal controls and the responsibility of each officer and employee for effective internal controls. This statement should list the name and contact number of the Authority Internal Control Officer for their respective Agency and any other individuals who can be contacted for further information on internal controls.

Managerial policies and procedures for the performance of specific functions shall be articulated in administrative manuals, employee handbooks, job descriptions and applicable policy and procedure manuals. While it is not necessary for all employees to possess all manuals, employees should be provided with, or have access to, applicable policies and procedures for their position.

Each Agency shall establish procedures for policy lifecycle management, including but not limited to the creation, approval, maintenance, storage, monitoring and review of Agency specific policies and procedures. MTA Corporate Compliance shall establish procedures for all agency policy lifecycle management, including but not limited to the

creation, approval, maintenance, storage, monitoring and review of All Agency Policy Directives and Guidelines.

Article VI. Designation of an Internal Control Officer

The MTA Chief Compliance Officer shall serve as Internal Control Officer for the Authority and shall report to the Chairman and Chief Executive Officer of the Authority or his/her designee. The Chief Compliance Officer shall implement and review the internal control responsibilities established by these guidelines to ensure compliance by the Authority.

Each MTA Agency President shall appoint an Authority Internal Control Officer, who shall report to the Agency President or to his/her designee within the executive office

Article VII. Implementation of Education and Training Programs

Senior management and employees responsible for specific functions relating to the Authority's internal control program must attend recurring internal control training.

The training will utilize standardized material on Internal Controls developed by the Committee as well as the Office of the New York State Comptroller's Internal Control Guide-Compliance Road Map. Agencies may augment this guide, if necessary, to provide specialized instruction.

The Committee shall determine at a minimum which classification of employees should attend internal control training, including the method, content and frequency of such training.

Article VIII. MTA Audit Services

In order to maintain independence, MTA's Auditor General and MTA Audit Services shall not directly or indirectly manage the Authority's ERM/Internal Control program. MTA Audit Services shall evaluate the Authority's internal controls and operations, identify internal control weaknesses that have not been corrected and make recommendations to correct those weaknesses.

Memorandum



Metropolitan Transportation Authority

State of New York

To: Audit Committee

From: Lamond W. Kears, Chief Compliance Officer 

Date: March 28, 2019

Re: Management Assessment: Effectiveness of Internal Controls FY2017-18

The Metropolitan Transportation Authority's Chief Compliance Officer ("CCO") serves as the Chief Risk Officer for the MTA and each of its subsidiaries and affiliated entities. The CCO is responsible for overseeing the establishment and operation of the MTA's internal control program.

This statement certifies that management has documented and assessed the internal control structure and procedures of the MTA for the year ending December 31, 2018. In making this assessment, management used criteria set forth by MTA's Enterprise Risk Management/Internal Control Guidelines, Standards for Internal Control in New York State published by the Office of the State Comptroller, Guidelines issued by the Independent Authority Budget Office, and the Guidelines of the commission of Sponsoring Organizations of the Treadway Commission.

This assessment found that MTA's internal controls to be adequate, and to the extent that deficiencies were identified, the MTA has developed corrective action plans to reduce any corresponding risk.

Therefore, based upon the above I believe that as of December 31, 2018, the MTA's internal control structure and procedures are effective.

c: Fernando Ferrer, Acting Chairman
Senior Staff
Agency Presidents
Enterprise Risk Management Committee

Memorandum



Metropolitan Transportation Authority

State of New York

Date: March 13, 2019
To: All MTA Employees
From: Veronique Hakim, Managing Director 
Re: Annual Commitment to Efficient and Effective Internal Controls

The Metropolitan Transportation Authority (“MTA”) is committed to maintaining a system of efficient and effective internal controls. Internal controls is the integration of the activities, plans, attitudes, policies, and efforts of all MTA employees working together to provide reasonable assurance that we will achieve our objectives and mission.

The overall purpose of our internal controls system is to help the MTA: (1) promote orderly, economical, efficient and effective operations; (2) provide quality services for our stakeholders consistent with our mission; (3) safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud; (4) promote compliance with our Code of Ethics, laws, regulation, policies, contracts and management directives and; (5) develop and maintain reliable financial and management data which is accurately presented in timely reports.

Each employee is responsible for ensuring that we comply with our system of internal controls. For our internal controls to be most effective, each employee must be responsible for becoming familiar with our policies, operating procedures, and the legal requirements that apply to his or her job, and must abide by these requirements at all times.

If you want additional information about our internal controls program you can contact your Agency Internal Control Staff (list attached) or MTA Chief Compliance Officer, Lamond W. Kearsse at 646-252-1329 or MTA Deputy Chief Compliance Officer, Monica A. Murray at 646-252-1393.

**METROPOLITAN TRANSPORTATION AUTHORITY
2017-18 INTERNAL CONTROL COMPLIANCE CERTIFICATION**

METROPOLITAN TRANSPORTATION AUTHORITY

Authority Name

FERNANDO FERRER, ACTING CHAIRMAN

Chairman Governing Board

2 BROADWAY, NEW YORK, NY 10004

Authority Address

(212) 878-7200

Telephone Number

LAMOND W. KEARSE, CHIEF COMPLIANCE OFFICER

Name of Internal Control Officer

(646) 252-1330

Telephone Number

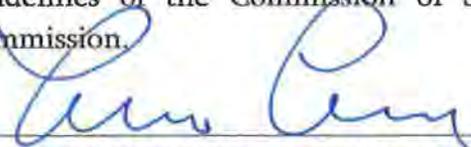
LKEARSE@MTAHQ.ORG

Email Address of Internal Control Officer

I hereby certify to the best of my knowledge and belief that as of December 31, 2018 the Metropolitan Transportation Authority Internal Controls Structure and Procedures are effective and

- Fully Compliant (Full compliance with all provisions)
- Partially Compliant (Partial compliance with some or all provisions)
- Not Compliant (Noncompliance with all provisions)

with the Enterprise Risk Management / Internal Control Guidelines Issued by the MTA Board, Standards for Internal Control in New York State published by the Office of the State Comptroller, Guidelines Issued by the Independent Authority Budget Office, and the Guidelines of the Commission of Sponsoring Organizations (COSO) of the Treadway Commission.



FERNANDO FERRER, ACTING CHAIRMAN

3/27/19
Date

MTA Information Technology

Audit Committee Report on IT

May 2019

Michael Moran, Acting CIO



Agenda

- 2018 major IT achievements
- 2019 major IT goals
- Internal Controls
- Application Rationalization
- IT Savings



2018 Major IT Achievements

- Completed cutover of fare media systems to new banking institution.
- Complete implementation of Duo 2-factor authentication for MetroNorth. Remaining agencies scheduled to be completed in November 2019.
- Upgraded Peoplesoft hardware and established new disaster recovery site in Albany.
- Windows 2010 desktop upgrade – completed 16,234 of 26,208 (62%) of desktops.
- NextGen network: 219 of 232 (94%) locations completed. 396 of 507 (78%) EAM locations completed.
- Completed NYCT Ultra Wide Band Proof of concept



2019 Major IT Goals

- Continue to update cybersecurity platforms.
- Implement Duo 2-factor authentication for all MTA access.
- Complete upgrade of all desktops to Windows 10.
- Continue implementation of network upgrades at all Agencies.
- Complete installation of additional mainframe for NYCT AFC redundancy.
- Continue to analyze redundant applications and rationalize applications where applicable based on business functionality.



Internal Controls

- MTA IT adopted the Critical Information Security Framework and consolidated the number of Internal Controls.
- 42 out of 44 controls passed testing (3 controls were under remediation and not fully tested)
- 2019 Initiatives:
 - Increase the frequency of testing from annually vs. quarterly for some controls, for timely remediation.
 - Vendor oversight will be an area of focus.
 - Leverage new GRC system as system of record.



Application Rationalization Program Recap

- ❑ Decommissioned 26 applications and after analysis, identified additional 35 apps that are in scope for rationalization (298 to 333).
- ❑ Assigned applications to rationalization programs, where applicable.
- ❑ Moved from Portfolio Analysis Phase to Rationalization Phase to perform fit gaps of business feature sets of applications in each program. Actively analyzing a total of 12 programs totaling 259 applications.
 - 45% of apps are in scope for decommission post analysis.
 - 14% of apps no longer in scope for decommission post analysis.
 - Continuing to analyze the remaining 41% of the apps
- ❑ Formed a dedicated team focused on analysis, fit gaps, and creating a repeatable process.
- ❑ Depending on scope of rationalization program and significant upfront investment will be required.



Application Rationalization 2019 Program Plan

- Complete the Fit Gap analysis for all 333 applications and determine # of apps in scope to be rationalized.
- Estimate the number of future targeted apps for each program area.
- Determine the potential savings for each of the program areas.
- Prioritize program areas for decommissioning.
- Obtain project and funding approval to proceed with rationalizing program areas with the first one being presented to the June IT Steering Committee.

	Work Stream (Program)	# of Apps in scope for Rationalization as of May 2019
1	Lost & Found	4
2	Kronos Timekeeping	11
3	Capital Finance	8
4	Enterprise Content Mgmt.	29
5	OMNY	43
6	CTSS	14
7	BSC Shared Service HR	12
8	Efficiency Testing System	3
9	EGIS Project	2
10	CDMS	13
11	EAM Program	84
12	Energy Management System	2
13	Enterprise Health and Safety	19
14	Incident Management	7
15	BSC Financials	4
16	MTA Intranet Review	7
17	MTA Time Rationalization	15
18	Data Warehouse	7
19	PeopleSoft Pension Module	7
20	Others	42
	Total Apps	333



MTA IT continues to drive savings by using resources more efficiently

- 2015 Budget reduction of 6%
 - 59 Positions (\$19.3m)
 - \$3.4m Non Labor
 - \$1.9m Operating Capital
- 2016 Budget reduction of 7%
 - 67 Positions (\$16.2m)
 - \$27.2m Non Labor
- 2017 Budget reduction
 - \$29.1m Non Labor
- 2018 Budget reduction
 - 61 positions (\$2.8m; \$7.6m annually)
 - \$3m annual IT Initiative Reserve Operating Capital

Note some staff additions were necessary:

Labor Agreements: Converted consulting positions to 67 permanent positions for technical support and service desk

New Project Requirements: 61 positions added to support cybersecurity, projects approved by IT Governance, EAM, and Capital Programs (e.g., M9s & PTC)

Total Savings 2015-2018 \$181m



Since 2015, IT Consolidation has yielded substantial savings for MTA

- Headcount Reductions – 187 positions permanently eliminated
 - Recurring annual savings: \$21 million (2018 value)
 - Additional one-time labor savings: \$25 million
- Operating Budget Non-Labor and Operating Capital Reductions
 - One-time savings: \$3 million
 - Recurring annual savings: \$36 million (2018 value)
- Total Financial Plan savings 2015-2025: **\$634 million**



Memorandum



Metropolitan Transportation Authority

State of New York

Date May 20, 2019

To Audit Committee

From Lamond W. Kearse, Chief Compliance Officer

A handwritten signature in black ink, appearing to be "LW Kearse", written over the name of the sender.

Re Open Audit Recommendation(s)

Based upon information received from MTA Audit Services (Audit), there are currently two open audit recommendations which have exceeded their original or approved revised implementation date by more than **six months**.

1. Audit of MNR Track Inspection and Maintenance

Report #: MTA-16-012

Finding: Track inspections may identify “defects”, which are subject to FRA requirements for remedial action, or “conditions” which may not require remedial action but need to be monitored. MTA Audit Services found 35 “conditions” were not reported on inspection reports or monitored. Track Management performed an independent inspection of these conditions and determined 65% of those conditions were either remediated, pending, or not reportable. They acknowledged that there is no requirement to document when remedial action for conditions is taken or to explain why they are dropped.

Recommendation: Condition Reporting and Centralized Monitoring – Audit recommended that Track management conduct a pilot program and use the results to determine if requiring remedial actions for conditions should be documented on inspection reports, and justification be documented when conditions are determined to be non-reportable without remedial action.

Status: Pending

Original Implementation Date: 12/31/17

2. Metro-North Railroad Audit of Sleep Apnea

Report #: MTA-17-146A

Finding: There was no signed contract in place between the MTA and the four new vendors approved for the award to provide medical services; screen; manage; coordinate; and monitor medical treatment for select employees for Obstructive Sleep Apnea (OSA) testing and treatment after the pilot program’s end.

Recommendation: MTA Procurement should finalize the contract process and execute signed agreements with the four vendors.

Status: Pending

Note: The recommended services are being provided without a signed contract. Audit expects that contracts, covering both LIRR and MNR, will be executed by the end of June.

Original Implementation Date: 6/30/18

c: Michael Fucilli, Auditor General
Enterprise Risk Management Committee