

Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Accountants' Review Report

Consolidated Financial Statements

Period Ended March 31, 2009

METROPOLITAN TRANSPORTATION AUTHORITY

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Members of the Board of
Metropolitan Transportation Authority

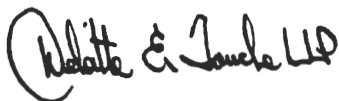
We have reviewed the accompanying consolidated interim balance sheet of the Metropolitan Transportation Authority (the "Authority"), a component unit of the State of New York, as of March 31, 2009, and the related consolidated statements of revenues, expenses and changes in net assets, and consolidated cash flows for the periods ended March 31, 2009 and 2008, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these consolidated financial statements is the representation of the management of the Authority.

A review consists principally of inquiries of Authority personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The supplemental schedules listed in the table of contents on pages 86 through 90 are presented for the purpose of additional analysis and are not a required part of the basic consolidated interim financial statements. These schedules are the responsibility of the Authority's management. Such schedules were not audited or reviewed by us and, accordingly we do not express an opinion or any other form of assurance on them.

The consolidated financial statements for the year ended December 31, 2008 were audited by us, and based on our audit and the reports of other auditors, we expressed an unqualified opinion on them in our report dated April 22, 2009, which contains an explanatory paragraph regarding the adopting of Governmental Accounting Standards Board ("GASB") Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. We also applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation to the 2008 Management's Discussion and Analysis and other supplementary information required by the Governmental Accounting Standards Board and such report expressed no opinion on the information. We have not performed any auditing procedures since the date of such report.



June 17, 2009

METROPOLITAN TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS PERIODS ENDED MARCH 31, 2009 AND 2008 (\$ in Millions)

1. OVERVIEW OF THE FINANCIAL STATEMENTS

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

Consolidated Financial Statements include:

Consolidated Balance Sheets, which provide information about the nature and amounts of investments in resources (assets) and the obligations to Metropolitan Transportation Authority and its consolidated subsidiaries and affiliates (the "MTA Group") creditors (liabilities), with the difference between the two reported as net assets.

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets, which provide information about the MTA's changes in net assets 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 period, 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 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 provides information concerning the MTA Group's progress in funding its obligation to provide pension benefits and postemployment benefits to its employees.

Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the MTA Group for the three months ended March 31, 2009 and 2008. 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.

2. FINANCIAL REPORTING ENTITY

The Metropolitan Transportation Authority ("MTA") was established under the New York Public Authorities Law and is a public benefit corporation and a component unit of the State of New York

whose mission is to continue, develop, and improve public transportation and to develop and implement a unified public transportation policy in the New York metropolitan area.

MTA Related Groups

- Headquarters (“MTAHQ”) provides general oversight, planning and administration, including budget, cash management, finance, legal, real estate, treasury, risk management, and other functions to the related groups listed below.
- The Long Island Rail Road Company (“MTA Long Island Rail Road”) provides passenger transportation between New York City and Long Island.
- Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) provides 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.
- Staten Island Rapid Transit Operating Authority (“MTA Staten Island Railway”) provides passenger rail transportation on Staten Island.
- Metropolitan Suburban Bus Authority (“MTA Long Island Bus”) provides public bus service in Nassau and Queens counties.
- First Mutual Transportation Assurance Company (“FMTAC”) operates as a captive insurance company to provide insurance coverage for property and primary liability.
- New York City Transit Authority (“MTA New York City Transit”) and its subsidiary, the 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.
- MTA Capital Construction Company (“MTA Capital Construction”) provides oversight for the planning, design, and construction of current and future major MTA system 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.

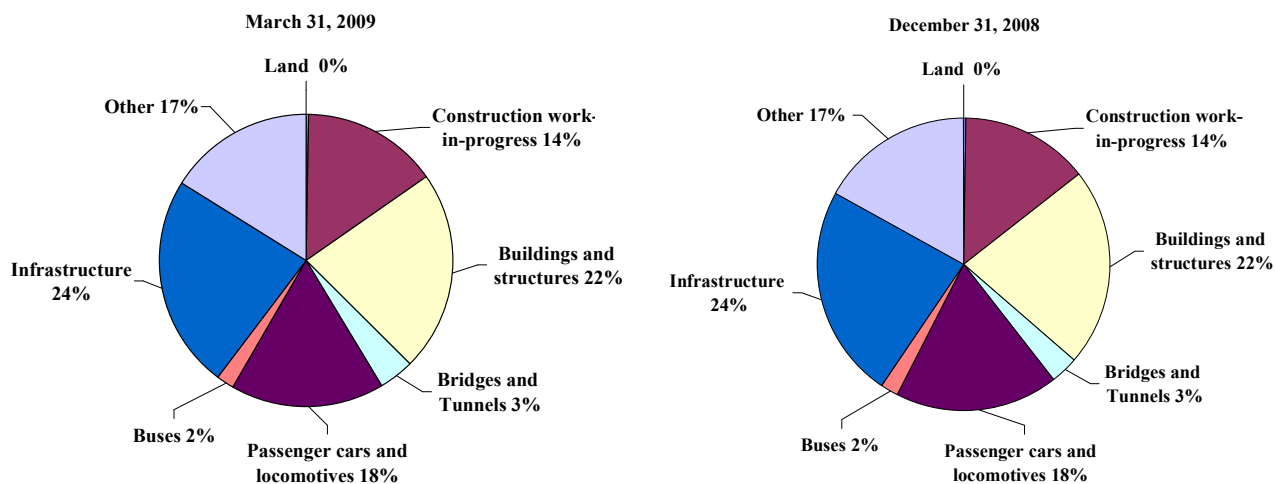
3. CONDENSED FINANCIAL INFORMATION

The following sections discuss the significant changes in the MTA Group’s financial position for the three months ended March 31, 2009. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, the information contained within the summaries of the consolidated financial statements and the various exhibits presented were derived from the MTA Group’s consolidated financial statements. All dollar amounts (except where otherwise expressly noted) are in millions.

Total Assets, Distinguished Between Capital Assets, Net and Other Assets

(In Millions)	March 2009 (Unaudited)	December 2008	December 2007
Capital assets, net (see Note 6)	\$ 43,918	\$ 43,323	\$ 40,611
Other assets	<u>9,414</u>	<u>10,134</u>	<u>11,158</u>
Total assets	<u>\$ 53,332</u>	<u>\$ 53,457</u>	<u>\$ 51,769</u>

Capital Assets, Net



March 31, 2009 versus December 31, 2008

- Net capital assets increased at March 31, 2009 by \$595. The largest increase, \$367, occurred in construction work-in-progress. Passenger cars and locomotives increased by \$351; infrastructure increased by \$46; buildings and structures increased by \$26; acquisition of buses increased by \$56. Other capital assets increased by \$220 and the acquisition of land increased by \$2. These increases were partially offset by additional accumulated depreciation of \$473. Some of the more significant projects contributing to the increase included:

MTA Long Island Rail Road

- Rehabilitation of the Atlantic Avenue Viaduct and the 2009 Track Program, as well as various other Line Structure projects incurred an additional \$27.5.
- Passenger Stations rehabilitations continued for Atlantic Terminal Complex, Jamaica Fit-Out and Seaford Station at a cost of \$14.5.

- Various signal and communication projects continued ongoing work for an additional \$11.7 related to Babylon Branch Improvements, AVPS expansion and microprocessor upgrades at various interlockings.
- Projects upgrading Shops and Yards such as the M of W Repair Facility and Long Island City Yard incurred an additional cost of \$5.0.
- Interagency security projects at Penn Station, Jamaica Station and the 63rd Street tunnel incurred an additional cost of \$2.8.

MTA New York City Transit

- Design and installation of a pilot Communications Based Train Control system on the Canarsie Line.
- Station rehabilitation at various locations on various lines, and the Fulton Street Transit.
- Placement into service of 170 R160 subway cars and 111 buses during 2009 for a total cost of \$63.
- Rehabilitation of line structures and subway tunnels.
- Design and construction of a new depot at the Grand Avenue Facility and reconstruction Castleton Depot.

MTA Metro-North Railroad

- Parking and access improvement at Cortlandt.
- Hudson Line Station improvements in Cortlandt, Poughkeepsie, Ossining, Philipse Manor and Scarborough.
- Installation of chemical, biological, and radiological early detection equipment in Grand Central Terminal.
- On-going Yankee Stadium station construction.
- System-wide track replacement, train shed repairs and bridges rehabilitation.

MTA Bridges and Tunnels

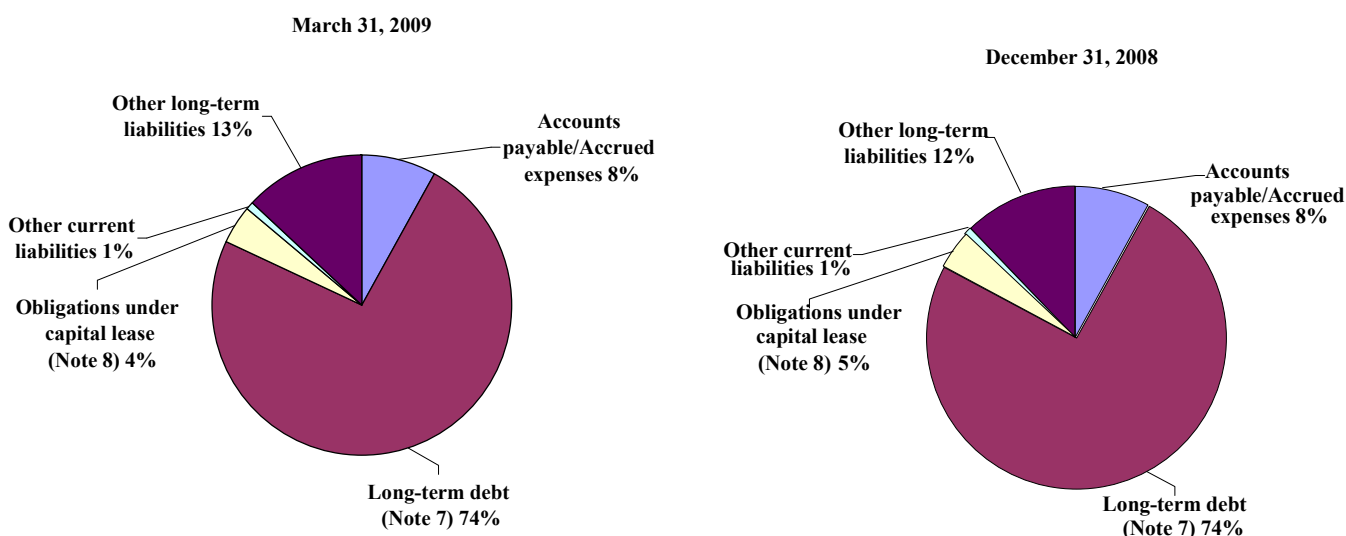
- Rehabilitation of abutments, retaining walls and the replacement of the deck of the Throgs Neck Bridge.
- Rehabilitation of the electrical system on suspension spans at the Verrazzano-Narrows Bridge, the lower deck replacement at the Henry Hudson Bridge, the replacement of all fans at the Queens Midtown Tunnel and rehabilitation of the roadway and drainage system at the Brooklyn Battery Tunnel.
- Replacement of all exhaust fans at the Queens Midtown Tunnel.

- Other assets had a net decrease of \$720. The items contributing to this change include, but are not limited to:
 - Decrease in cash by \$50 primarily due to a decrease of \$56 at MTA Headquarters related to decreases in operating and capital cash funds. The above decrease was offset by a net increase of \$6 by the other agencies.
 - Decrease in current and noncurrent investments and investments held under capital leases of \$596. The net decline of \$559 in investments was due to the usage of bond proceeds for capital and operating expenditures as well as debt payments. The net decline in leases of \$37 was due to the utilization of funds to pay amounts to the Royal Bank of Scotland and Region Bank in the amounts of \$15.6 and \$24.4, respectively, related to the termination of the Amsouth 2 and Amsouth 4 leases. The MTA recognized a gain of \$3.5 related to these lease terminations.
 - Capital project receivable from federal and state government decreased by \$154 due mainly to a decrease in grants requisitions from the State in the amount of \$155 and Nassau County in the amount of \$3. The above decreases were offset by an increase in requisitions of \$4 for Federal grants.
 - State and Regional Mass Transit Tax receivable decreased by \$9. The reduction was due to lower petroleum taxes collected by New York State in the first quarter of 2009 compared with the same period last year.
 - Station maintenance unbilled receivable increased by \$36. The current receivable represents twelve months of accruals versus nine months at December 31, 2008. The billing period for station maintenance runs April 2008 through March 2009. The MTA will bill the counties in May 2009 and expects to collect receipts prior to September 2009.
 - Mortgage Recording Tax receivable decreased by \$2 due to a decrease in revenues reflected by the decline of real estate sales in New York City and the seven other counties within the MTA's service area.
 - Other subsidy increased by \$28 due to timing of reimbursements from New York City for seniors and schoolchildren expenses.
 - Other receivable increased by \$60 with a major increase at the MTA New York City Transit for \$42 due to an increase in advertising and paratransit revenues. MTA Bridges and Tunnels increased by \$20 from amounts owed by third party E-Z Pass agencies.
 - Due from NYC decreased by \$8 as a result of a reduction in subsidy provided by NYC to MTA Bus.
 - Increase in material and supplies of \$17 purchased to insure availability of parts and supplies for emergency needs.
 - Advance to defined benefit pension decreased by \$4 due to the amortization of prepaid expenses.
 - Other non current assets decreased by \$37. This decrease is primarily due to a lower amount of unrequisioned funds for MTA New York City Transit and MTA Bus capital expenditures. The decrease was partially offset by miscellaneous increases in deferred bond issue costs.

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

(In Millions)	March 2009 (Unaudited)	December 2008	December 2007
Current liabilities	\$ 4,067	\$ 3,613	\$ 3,492
Long-term liabilities	<u>32,244</u>	<u>31,510</u>	<u>28,980</u>
Total liabilities	<u>\$ 36,311</u>	<u>\$ 35,123</u>	<u>\$ 32,472</u>

Total Liabilities



Significant Changes in Liabilities Include:

March 31, 2009 versus December 31, 2008

- Current liabilities increased by \$454. This net increase is due to an increase in accounts payable and accrued expenses in the amount of \$174, and an increase in other current liabilities of \$280.
 - Accounts payable and accrued expenses increase of \$174 was derived from:
 - A decrease of \$100 in accounts payable due to timing differences on invoices submitted for payment.
 - An increased of \$274 in accrued expenses which was due mainly to:
 - Interest payable increased by \$164 of which \$114 related to MTAHQ and \$50 related to MTA Bridges and Tunnels. The increase was derived from new Fixed Rate

Transportation Revenue Bonds issued in the last quarter of 2008 by MTAHQ and MTA Bridges and Tunnels as well as new bonds issued in 2009, Dedicated Tax Fund Bonds, Series 2009A and MTA Bridges and Tunnels General Revenue Bonds, Series 2009A-1 and A-2. Since the interest on fixed rate bonds are payable on May 15, and November 15, at the end of the first quarter the interest accrued was higher compared to the total interest accrued at December 31, 2008.

- The salaries, wages and payroll taxes accrual increased by \$90. The major increase was by the MTA New York City Transit for a total increase of \$66. Variances were due mainly to accruals of contractual union increases as well as timing differences on payroll due dates.
 - The current portion of retirement and death benefits increased by \$11.
 - An increase in the current portion of estimated liabilities from injuries to persons (Note 8) in the amount of \$2.
- The increase of \$280 in other current liabilities was due primarily to:
 - Current portion of long-term debt increased by \$138. MTA Bridges and Tunnels increased by \$107 and MTAHQ increased by \$31. The total increase reflects the impact of debt service payments made in January of 2009 for MTA and MTA Bridges and Tunnels bonds and changes in the unamortized book value and defeasance cost at the end of the period for outstanding bonds. For MTA Bridges and Tunnels, the increase also reflects the principal payments due in January 2010 related to new bond issuances in 2009 in the amount of \$153.
 - A decrease of \$29 in current portion of obligations under capital lease resulting from the termination of two leases and principal payments made in 2009.
 - An increase of \$126 in deferred revenue related mainly to an increase on unredeemed fare cards and advance payments received related to advertising revenues.
 - Noncurrent liabilities increased by \$734. This net increase was primarily related to:
 - Increase of \$352 related to accruals for other postemployment benefits other than pension (“OPEB”).
 - Long-term debt increased by \$381 due primarily to the issuance of MTA Dedicated Tax Fund bonds, Series 2009A in March of 2009 in the amount of \$261.7 and in February 2009 TBTA General Revenue Bonds, Series 2009 A-1 and 2009A-2 were issued in the amount of \$150 and \$325 respectively. These increases were offset by the refinancing of MTA Bridges and Tunnels Series 2005 B-1 in the amount of \$197.
 - Long-term obligations under capital lease decreased by \$35. The decrease was primarily related to the termination of AmSouth 2 and AmSouth 4 capital leases as a result of AIG’s downgrade.
 - Increase in other long term liabilities of \$25. This increase was mainly due to an increase in collateralization for the Bank of New York capital lease in the amount of \$37 as a result of the downgrade of insurer AMBAC. This increase was partially offset by the reduction in deferred liability of \$15 as a result of the termination of two lease agreements.

Total Net Assets, Distinguishing Among Amounts Invested in Capital Assets, Net of Related Debt, Restricted Amounts, and Unrestricted Amounts

(In Millions)

	March 2009 (Unaudited)	December 2008	December 2007
Invested in capital assets, net of related debt	\$ 16,075	\$ 15,790	\$ 15,903
Restricted for debt service	1,265	972	996
Restricted for claims	99	96	92
Unrestricted	<u>(418)</u>	<u>1,476</u>	<u>2,306</u>
Total	<u>\$ 17,021</u>	<u>\$ 18,334</u>	<u>\$ 19,297</u>

March 31, 2009 versus December 31, 2008

At March 31, 2009, the total net assets decreased by \$1,313 from December 31, 2008. This decrease reflects a net operating loss of \$1,624, net non-operating revenues of \$14 and appropriations, grants and other receipts externally restricted for capital projects of \$297.

The investment in capital assets, net of related debt, increased by \$285. Funds restricted for debt service and claims increased by \$296 and unrestricted net assets decreased by \$1,894 due partially to a loss from operations.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(In Millions)	March 31, 2009 (Unaudited)	March 31, 2008
Operating Revenues		
Passenger and tolls	\$ 1,285	\$ 1,289
Other	109	110
Total operating revenues	<u>1,394</u>	<u>1,399</u>
Nonoperating Revenues		
Grants, appropriations and taxes	325	514
Other	-	74
Total nonoperating revenues	<u>325</u>	<u>588</u>
Total Revenues	<u>1,719</u>	<u>1,987</u>
Operating Expenses		
Salaries and wages	1,161	1,141
Retirement and other employee benefits	344	328
Postemployment benefits other than pensions	439	417
Depreciation and amortization	474	426
Other expenses	600	592
Total operating expense	<u>3,018</u>	<u>2,904</u>
Nonoperating Expense		
Interest on long-term debt	301	284
Other nonoperating expense	10	1
Total nonoperating expense	<u>311</u>	<u>285</u>
Total Expenses	<u>3,329</u>	<u>3,189</u>
Appropriations, grants and other receipts externally restricted for capital projects	<u>297</u>	<u>171</u>
Change in net assets	(1,313)	(1,031)
Net assets, beginning of year	<u>18,334</u>	<u>19,297</u>
Net assets, end of year	<u>\$ 17,021</u>	<u>\$ 18,266</u>

Revenues and Expenses, by Major Source:

March 31, 2009 versus March 31, 2008

- Total operating revenues for the three months ended March 31, 2009 were \$5 lower than for the three months ended March 31, 2008.
 - Fare and toll revenue decreased by \$4. The recessionary economic situation impacted mainly the commuter transportation revenues. The MTA New York City Transit revenues increased by \$4 due to the March 2, 2008 fare increase. MTA Metro-North Rail Road and MTA Long Island Railroad revenues declined by \$6 due to a reduction in ridership. Toll revenues declined by \$3 due to a decline in vehicular traffic on the bridges of 5 percent.
- Total operating expenses for the three months ended March 31, 2009 were higher than the three months ended March 31, 2008 by \$114.
 - Labor costs, including retirement and other employee benefits, were higher by approximately \$58.

Salary and wage increases of \$20 was primarily due to wage rate increases and headcount increases mostly for customer safety, maintenance programs, and operation of additional bus routes by MTA Bus.

Retirement and employee benefits expenses increased by \$16 with a major increase in health and welfare expenses by \$15, followed by pension expenses in the amount of \$18 while other fringe benefits decreased by \$17 due to a reduction of reimbursable expenses related to salaries and fringes. The increase in health and welfare arises mainly from increases in rates and headcount. Changes in pension expenses are based on current actuarial valuations. Other fringe benefits increases were due primarily to increases in the workers' compensation expenses.

Postemployment benefits other than pensions increased by \$22. Current cost was based on actuarial calculations which include normal cost of retirees plus amortization and interest costs.

- Non-labor operating costs were higher by \$56. Cost elements contributing to this increase were traction, propulsion power cost for \$16, depreciation costs for \$48 due to additional capital assets placed into service. The cost of paratransit service contractors increased \$19 due to increased trip volume and maintenance and other operating contracts of \$11. These increases were offset by decreases on pollution remediation costs of \$16, fuel costs for buses and trains by \$19, and a decrease in other costs, professional services contracts and claims of \$3.
- Total grants, appropriations, and taxes were lower by \$189 for the three months ended March 31, 2009 compared with the three months ended March 31, 2008. The major components of the decrease are related to decreases in tax-supported subsidies-NYC and local as a result of lower mortgage recording tax and urban tax of \$91. Local operating assistance declined by \$62. Tax supported subsidies-NYS decreased by \$36 resulting entirely from a lower amount of Petroleum Business Taxes collected by NYS and allocated to the MTA.

- Interest expense on long-term debt increased by \$17 due mainly to the issuance of new bonds in late 2008 and in 2009.
- Appropriations and grants increased by \$126. The increase was derived mainly from Federal funding, NY State Bond funding and FEMA.

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

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

Through March 2009, MTA system-wide utilization, including MTA Bus, was 2.1 percent lower (13.4 million fewer trips) than ridership through March 2008. At the same time, vehicle crossing levels at MTA Bridges and Tunnels facilities were 5.0 percent lower (3.5 million fewer crossings), falling in spite of lower gasoline prices compared to 2008.

Between the first quarter of 2008 and the first quarter of 2009, non-agricultural employment survey results indicate that New York City lost seventy-four thousand jobs. Regional economic malaise was further evinced by the Federal Reserve Bank's Coincident Economic Indicator ("CEI"), an index of broad economic activity. According to the CEI, the regional economy continued to contract in the first quarter of 2009. Compared with the first quarter of 2008, the CEI for New Jersey declined by 4.5 percent, New York State's fell by 5.2 percent, and the CEI for New York City fell 3.2 percent. It should be borne in mind that this comparison of CEIs at two points in time — the first quarter of 2008 compared with the same quarter of 2009 — does not detail how the economies fared in the intervening months. New York City's economy continued to grow in each month of the first and second quarters of 2008, but continually contracted thereafter, evidenced by falling CEI's in the next nine consecutive months. Both New Jersey and New York State, on the other hand, experienced nearly uninterrupted economic decline over the entire span.

The stalling of the City's economy that persisted into the first quarter of 2009 was accompanied by higher inflation than for the average of all U.S. cities: the consumer price index (CPI-U) in the New York metropolitan area increased slightly by 1.3 percent in the fourth quarter of 2008 relative to the fourth quarter of 2007, while the U.S. city average consumer price index was virtually unchanged. As the national economy slid deeper into recession, falling demand for goods and services restrained prices, and this was especially true for energy. After having risen in the second and third quarters of 2008 beyond even the heights reached in the aftermath of Hurricane Katrina, energy prices began to reverse, falling precipitously for six straight months. Only in the first quarter of 2009 have energy prices begun to rise once more, so that at the end of the quarter, energy turned out to be 17.7 percent cheaper than in the first quarter of 2008. Meanwhile, consumer prices excluding energy were 3.0 percent higher. The New York Harbor spot price for conventional gasoline averaged \$1.22 per gallon in the first quarter, a pronounced decrease of 49.4 percent compared to the average spot price in the first quarter of 2008. Following the pattern of overall energy prices, the price of gasoline had begun to fall in the third quarter, declining in each of the last six months of 2008, and only began once again to increase in the first quarter of 2009. While lower fuel prices may have contributed to some substitution from mass transit to automobiles, use of both transportation modes declined under the impact of a

generally ailing economy. Less employment and lower consumer confidence translated to fewer commuter and discretionary trips, both via subway and buses and automobiles.

The contraction of New York City's economy in the first quarter of 2009 mirrored what was happening to the national economy. Real Gross Domestic Product ("GDP") declined at an annual rate of 6.1 percent in the first quarter, following a 6.3 percent fall in the previous quarter. Facing the myriad challenges of this particularly pernicious downturn, the intention of the Federal Reserve Bank over the past eighteen months was first to forestall an impending recession and, having failed that, to mitigate its consequences by loosening the tight credit conditions that resulted from the national mortgage crisis. Consequently, the Federal Reserve Bank's expansionary interventions since the third quarter of 2007 contrasted sharply with the measures it took to keep inflation under control as the economy emerged from the recession of 2001-2003. In the third quarter of 2007, the Federal Reserve Board elected to lower the Federal Funds Rate by a half point, from 5.25 to 4.75 percent, the first diminution since the end of June 2003. Confronting a deepening contraction in housing markets and mounting insecurity in financial markets, the bank further subjected the Federal Funds Rate to a series of downward adjustments throughout 2008: it was lowered by three-quarters a point on January 22 and half a point on January 30; it was lowered again in March 2008 by another three-quarters of a point, in April by one quarter of a point, and twice again in October, each time by a half point. With inflationary concerns numbed by the decline in energy prices, the Federal Open Market Committee announced on December 16, 2008 that it would target a Federal Funds rate of between zero and one quarter per cent. There obviously remained little scope for the Bank to lower the rate through further open market operations, and it remained in the zero to one-quarter percent range throughout the first quarter of 2009.

The influence of Federal Reserve monetary policy on the mortgage market is a matter of interest to the MTA, since variability of mortgage rates can affect the number of real estate transactions and can thereby impact receipts from the Mortgage Recording Tax and Urban Tax, two important sources of MTA revenue. In spite of the aggressiveness of the Federal Reserve Bank, its Beige Books - published in January and March - gave mixed reports, at best, of regional real estate market activity. On one hand, the January Beige Book described a revival of Manhattan's co-op and condo market, along with increased vigor in residential rentals and a temporary improvement in the office rental market; but weakening loan demand, especially for mortgages, did not augur well for residential real estate, and indeed, the single-family home market in New York and New Jersey remained sluggish. In March, there were few signs of improvement in real estate markets, overall. Although the rental market continued to improve, the market for office space retreated slightly, and the residential housing market remained anemic. At the same time, bankers reported low demand for loans and increasing delinquency rates.

The suggestion in the Beige Books of continuing troubles in real estate markets was, in fact, borne out by the continuation of lower receipts of real estate taxes in the first quarter of 2009. Urban tax receipts through March 2009 fell by 75.2 percent compared with their 2008 level, while total MRT receipts fell by 56.6 percent. Both MRT-1 and MRT-2 receipts declined in the MTA region as a whole. Through March 2009, revenues from MRT-1 dropped 59 percent and MRT-2 revenues fell by 51 percent. MRT-1 is paid on all mortgages, while MRT-2 is paid only on residential mortgages where the structure contains one to six individual dwelling units. The steady decline in both MRT-1 and MRT-2 through each of the previous four quarters of 2008, clearly indicates that regional real estate markets are slogging through the most severe downturn in some time.

Results of Operations –MTA Bridges and Tunnels' paid traffic for the first three months in 2009 totaled 67.1 vehicles, which was 3.5, or 5 percent less than the volume over the same period in 2008. Toll revenues dropped as well, but not as sharply due to the toll increase implemented on March 16 of

2008. Year-to-date toll revenues through March 2009 reached \$290.1, which was \$3.2, or 1.1 percent less than the first quarter of 2008.

The E-Z Pass electronic toll collection system continued to facilitate the management of heavy traffic volumes. Commercial vehicles saw some growth, while declines occurred in all other categories. Total average market share during the year 2009 was 73.9 percent compared to 74.8 percent in 2008. The average weekday market shares were 76.1 percent and 76.9 percent for the three months of 2009 and 2008, respectively. Average weekend market shares for the same periods were 68.7 percent and 69.1 percent, respectively.

MTA New York City Transit's fare revenues for the period ended March 31, 2009 were higher than in 2008 by \$4.3 or 0.6 percent due to increased subway ridership, and the March 2008 fare increase.

MTA Long Island Rail Road's ridership for the three months ending March 31, 2009 stood at 19.7 million with passenger revenues of \$114.8 which represent 93 percent of total revenues. Farebox Revenues increased by \$3.1 or 3 percent versus the three months ended March 31, 2008. The current economic environment is having a negative impact and contributing to lower ridership and revenues.

MTA Metro-North Railroad's operating revenue decreased by \$1.4 or 1.1 percent compared to the first three months of 2008. Year to date Fare Revenues and Ridership decreased by 2.3 percent, respectively, over the same period in 2008. The decreases occurred on the Hudson, Harlem and New Haven lines for monthly and weekly commutation as well as non-commutation ridership.

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 the first quarter of 2009, the state did not advance any payments of MMTOA assistance to the MTA from MTA's 2009 appropriation. 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.

Over the last few years, the mortgage recording taxes payable to the MTA generally exceeded expectations, due primarily to the high level of home buying and refinancing encouraged by historically low interest rates. In the last quarter of 2007, however, the national downturn in housing markets began to impact the frequency of local real estate transactions, and the collection of mortgage recording taxes fell. In spite of the Federal Reserve Bank's determination to forestall a recession by successively lowering interest rates. The total amount collected in 2008 was reduced by 42.4 percent from \$686.9 to \$395.5. In 2009 Mortgage recording taxes continues to decline at an even higher rate. The total amount collected for the period ending March 31, 2009 was \$53.1 or 56.6 percent less than the amount collected during the same period in 2008.

Capital Programs – At March 31, 2009, \$15,561 had been committed and \$7,984 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and \$20,488 had been committed and \$18,750 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

MTA's and MTA Bridges and Tunnels' Capital Programs are described in Note 1 to the consolidated financial statements.

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

During the first three months of 2009, capital market conditions remained volatile. Poor credit quality of bond insurers continued to put pressure on the auction and insured segments of the MTA's variable rate portfolio. Auctions for all of the \$863.5 of auction rate bonds outstanding as of the end of March 31, 2009, have been failing and the interest rate for such bonds is determined based on a multiple of LIBOR (London Interbank Offered Rate). MTA continues to closely monitor the performance of its auction rate bonds, insured variable rate demand bonds and variable rate bonds for which liquidity is provided by the lower rated banks.

MTA Legislation:

On May 7, 2009, New York State enacted legislation providing additional sources of revenues in the form of taxes, fees and surcharges to address the MTA's financial needs. The new law (Chapter 25 of the Laws of 2009) among other things:

- imposes a payroll mobility tax of 0.34 percent on payrolls within the metropolitan commuter transportation district (MCTD) (effective as of March 1, 2009);
- imposes a supplemental fee of one dollar for each six month period of validity of a learner's permit or license issued to a person residing in the MCTD (effective September 1, 2009);
- imposes a supplemental fee of twenty-five dollars per year on the registration and renewals of registrants of motor vehicles who reside within the MCTD (effective September 1, 2009);
- imposes on taxicab owners a tax of fifty cents per ride on taxicab rides originating in New York City and terminating within the MCTD (effective November 1, 2009);
- imposes a supplemental tax of five percent of the cost of rentals of automobiles on rental within the MCTD (effective June 1, 2009).

The new law contains appropriations for payment of the mobility tax revenues and the other above-referenced taxes and fees to the MTA. It also amends the Public Authorities Law in a number of ways, including by providing for the chair of the MTA to serve as its chief executive officer, effective upon appointment of a person to a new term as MTA chairman.

The new sources of revenue noted above are preliminarily projected to provide an additional \$1.1 billion to MTA for calendar year 2009, and an additional \$1.8 billion to MTA in calendar year 2010.

2009 Fare and Toll Charge Adjustments:

After passage of the new legislation providing for additional sources of revenue to the MTA, a special meeting of the MTA board was convened on May 11, 2009 to address 2009 fare and toll charge adjustments. At the May 11, 2009 meeting, the board rescinded the fare and toll increases adopted on March 25, 2009, which had been structured to yield a 23% increase in passenger and toll revenues and adopted revised fare and crossing charge schedules that will increase existing fares and tolls by approximately 10%. Implementation of the newly adopted fare and toll schedules is anticipated in late June and early July, 2009.

2009 Scheduled Service Reductions:

The MTA's February Financial Plan included a number of significant deficit reduction measures in order to achieve a balanced 2009 budget and reduced budget gaps thereafter. These included reductions to service and other deficit reducing actions. In view of the noted passage of legislation providing additional funding to MTA, it is anticipated that the MTA board at its regularly scheduled May board

meeting will revisit the need for implementation of any of the previously authorized scheduled service reductions.

Adjustments to 2009-2012 Financial Plan and 2009 Budget:

Further adjustments to the 2009-2012 Financial Plan and the 2009 Budget are anticipated in order to incorporate, among other things, the amount and timing of receipt of revenues MTA expects to receive as a result of the new legislation, the previously-announced projections of revenue diminishment as a result of a drop in real estate related tax receipts, New York State subsidies, and ridership/toll revenue (such forecast of diminished revenues having occurred subsequent to the issuance of the February Financial Plan), the revised level of fare and toll increases adopted by the board on May 11, 2009, and anticipated changes in the scheduled service reductions expected to be addressed at the regularly scheduled board meeting in May.

On April 29, 2009, the MTA board approved, on a temporary basis, an amendment to revise the budget and reporting procedures applicable to the MTA and all of its operating agencies for the 2010 budget process. The MTA board will be formally requested to and is expected to rescind the April action that authorized the temporary budgeting procedures at its regularly scheduled meeting in May. Thereafter the MTA staff expects to follow its ordinary budgeting and reporting procedures and schedule for making such adjustments to the 2009-2012 Financial Plan and 2009 Budget, which contemplates adjustments to the 2009 Budget and the 2009-2012 Financial Plan to be presented to the MTA board at its July meeting.

MTA will continue to closely monitor its finances, including the subsidies referenced above, and will continue to update all MTA receipts and expenditures and propose actions that are necessary to maintain budgetary balance.

MTA Executive Director/Chief Executive Officer

On May 7, 2009, Mr. Elliot G. Sander, the Executive Director and Chief Executive Officer of the MTA, announced that he would be departing from this position in late May, 2009. The above-noted legislation enacted in early May, 2009, amends the Public Authorities Law to provide for the chair of the MTA to serve as MTA's chief executive officer, upon appointment of a person to a new term as MTA chairman. The Office of the Governor has announced that a search is underway with respect to such appointment.

Preliminary Financial Results and Other Factors:

The ability of MTA to achieve the 2009 balanced budget and reduce projected budget gaps in 2010 through 2012 reflected in the February Financial Plan for 2009-2012 is dependent upon a number of factors including general economic, market and employment conditions in the State, the City and the MTA Commuter Transportation District. Fuel and energy costs and other expenses beyond MTA's control are likely to remain volatile. Worsening economic conditions could also adversely affect projected fare receipts from the Transit and Commuter Systems and toll revenues from MTA Bridges and Tunnels, in particular, if the rate of unemployment in the core business district increases further.

Information on certain real estate-related subsidy cash receipts is available through March 2009 and shows such receipts to be significantly below budgeted levels for the first three months of the year. Through March 2009, real estate-related taxes and subsidies were \$123 or 56 percent below budget. Regional mortgage recording tax ("MRT") receipts were \$40 or 42 percent below budget, while New York City Urban Tax receipts were \$84 or 67 percent below budget.

The State has advised MTA that projections of dedicated tax collections for MTA's current fiscal year are now estimated to be up to \$200 lower than amounts appropriated in the State's enacted Budget and as assumed in the February Financial Plan. The State has also advised MTA that portions of the monthly cash receipts from the dedicated tax collections may be paid to MTA at times later than those assumed by MTA in its February Financial Plan. Notwithstanding the forgoing, MTA expects to receive its portion of the dedicated tax collections in 2009 by calendar year-end.

MTA will continue to closely monitor its finances, including the subsidies referenced above. The July Financial Plan will include re-estimates of all MTA receipts and expenditures and will also include proposals for actions that are necessary to maintain budgetary balance.

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METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2009 AND DECEMBER 31, 2008

(\$ in Millions)

	March 31, 2009 (Unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	\$ 156	\$ 206
Restricted investment (Notes 3)	513	1,083
Unrestricted investments (Note 3)	-	246
Restricted investments held under capital lease obligations (Notes 3 and 8)	272	245
Receivables:		
Station maintenance, operation, and use assessments	144	108
State and regional mass transit taxes	41	50
Mortgage Recording Tax receivable	18	20
State and local operating assistance	6	7
Other subsidies	46	18
Connecticut Department of Transportation	7	14
New York City	55	63
Due from Hudson Yards Infrastructure Corporation	33	33
Capital project receivable from federal and state government	155	309
Other	268	208
Less allowance for doubtful accounts	(23)	(23)
Total receivables - net	750	807
Materials and supplies	431	414
Advance to defined benefit pension trust	62	66
Prepaid expenses and other current assets (Note 2)	140	133
Total current assets	2,324	3,200
NONCURRENT ASSETS:		
Capital assets - net (Note 6)	43,918	43,323
Restricted investment held under capital lease obligations (Notes 3 and 8)	1,035	1,099
Restricted investments (Notes 3)	2,181	1,890
Unrestricted investments (Note 3)	43	77
Receivable from New York State	2,145	2,145
Other noncurrent assets	1,686	1,723
Total noncurrent assets	51,008	50,257
	\$ 53,332	\$ 53,457
TOTAL ASSETS		

(Continued)

See Independent Accountants' Review Report and notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2009 AND DECEMBER 31, 2008

(\$ in millions)

	March 31, 2009 (Unaudited)	December 31, 2008
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 397	\$ 497
Accrued expenses:		
Interest	382	218
Salaries, wages and payroll taxes	303	213
Vacation and sick pay benefits	725	716
Current portion — retirement and death benefits	270	259
Current portion — estimated liability from injuries to persons (Not	207	205
Other	662	664
Total accrued expenses	2,549	2,275
Current portion — long-term debt (Note 7)	329	191
Current portion — obligations under capital lease (Note 8)	211	240
Current portion of pollution remediation projects (Note 11)	20	19
Deferred revenue	517	391
Other	44	-
Total current liabilities	4,067	3,613
NONCURRENT LIABILITIES:		
Retirement and death benefits	40	40
Estimated liability arising from injuries to persons (Note 9)	1,138	1,125
Post employment benefits other than pensions (Note 5)	2,990	2,638
Long-term debt (Note 7)	26,317	25,936
Obligations under capital leases (Note 8)	1,157	1,192
Pollution remediation projects (Note 11)	85	86
Contract retainage payable	213	214
Other long-term liabilities	304	279
Total noncurrent liabilities	32,244	31,510
Total liabilities	36,311	35,123
NET ASSETS:		
Invested in capital assets — net of related debt	16,075	15,790
Restricted for debt service	1,265	972
Restricted for claims	99	96
Unrestricted	(418)	1,476
Total net assets	17,021	18,334
TOTAL LIABILITIES AND NET ASSETS	\$ 53,332	\$ 53,457

(Concluded)

See independent Accountants' Review Report and notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS PERIOD ENDED MARCH 31, 2009 AND 2008 (\$ in millions)

	March 31, 2009 (Unaudited)	March 31, 2008
OPERATING REVENUES:		
Fare revenue	\$ 995	\$ 996
Vehicle toll revenue	290	293
Rents, freight, and other revenue	109	110
Total operating revenues	1,394	1,399
OPERATING EXPENSES:		
Salaries and wages	1,161	1,141
Retirement and other employee benefits	344	328
Postemployment benefits other than pensions	439	417
Traction and propulsion power	90	74
Fuel for buses and trains	41	60
Claims	43	46
Paratransit service contracts	86	67
Maintenance and other operating contracts	143	132
Professional service contracts	40	47
Pollution remediation projects (Note 11)	6	22
Materials and supplies	146	138
Depreciation	474	426
Other	5	6
Total operating expenses	3,018	2,904
OPERATING LOSS	(1,624)	(1,505)
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations, and taxes:		
Tax-supported subsidies — NYS	135	171
Tax-supported subsidies — NYC and local	190	281
Operating subsidies — NYS	-	-
Operating subsidies — NYC and local	-	62
Total grants, appropriations, and taxes	\$ 325	\$ 514

(Continued)

See Independent Accountants' Review Report and notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

PERIODS ENDED MARCH 31, 2009 AND 2008

(\$ in millions)

	March 31, 2009 (Unaudited)	March 31, 2008
Connecticut Department of Transportation	\$ 19	\$ 15
Subsidies paid to Dutchess, Orange, and Rockland Counties	(1)	(1)
Interest on long-term debt	(301)	(284)
Station maintenance, operation and use assessments	36	35
Other non-operating (expense) revenue	<u>(64)</u>	<u>24</u>
Net non operating revenues	<u>14</u>	<u>303</u>
LOSS BEFORE APPROPRIATIONS	(1,610)	(1,202)
APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>297</u>	<u>171</u>
CHANGE IN NET ASSETS	(1,313)	(1,031)
NET ASSETS — Beginning of period	<u>18,334</u>	<u>19,297</u>
NET ASSETS — End of period	<u>\$ 17,021</u>	<u>\$ 18,266</u>
		(Concluded)

See Independent Accountants' Review Report and notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

PERIODS ENDED MARCH 31, 2009 AND 2008

(\$ in millions)

	March 31, 2009 (Unaudited)	March 31, 2008 (Unaudited)
CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 1,356	\$ 1,349
Rents and other receipts	96	135
Payroll and related fringe benefits	(1,471)	(1,471)
Other operating expenses	(672)	(660)
Net cash used in operating activities	(691)	(647)
CASH FLOWS PROVIDED BY/(USED IN) NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	283	490
Operating subsidies from CDOT	19	25
Subsidies paid to Dutchess, Orange, and Rockland counties	(7)	(12)
Net cash provided by noncapital financing activities	295	503
CASH FLOWS PROVIDED BY/(USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	259	1,043
MTA Bridges and Tunnels bond proceeds	473	1,108
MTA bonds refunded	-	(430)
MTA Bridges and Tunnels bonds refunded	(198)	-
MTA anticipation notes proceeds	82	-
Capital lease payments	(43)	(8)
Grants and appropriations	523	279
CDOT capital contributions	-	1
Capital expenditures	(1,310)	(930)
Debt service payments	(224)	(249)
Net cash used in capital and related financing activities	(438)	814
CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES:		
Purchase of long-term securities	(8,316)	(2,673)
Sales or maturities of long-term securities	8,486	1,442
Sales of short term securities	608	541
Earnings on investments	6	38
Net cash provided by in investing activities	784	(652)
NET (DECREASE) INCREASE IN CASH	(50)	18
CASH — Beginning of period	206	130
CASH — End of period	\$ 156	\$ 148

(Continued)

See Independent Accountants' Review Report and notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

PERIODS ENDED MARCH 31, 2009 AND 2008

(\$ in millions)

	March 31, 2009 (Unaudited)	March 31, 2008
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (1,624)	\$ (1,505)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	474	426
Net increase in payables, accrued expenses, and other liabilities	453	398
Net decrease (increase) in receivables	18	(5)
Net (increase)/decrease in materials and supplies and prepaid expenses	<u>(12)</u>	<u>39</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (691)</u>	<u>\$ (647)</u>

See Independent Accountants' Review Report and notes to financial statements.

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD ENDED MARCH 31, 2009 AND AS OF DECEMBER 31, 2008 (\$ in millions)

1. BASIS OF PRESENTATION

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

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

Metropolitan Transportation Authority and Related Groups —

- Metropolitan Transportation Authority Headquarters (“MTAHQ”) provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the related groups listed below.
- The Long Island Rail Road Company (“MTA Long Island Rail Road”) provides passenger transportation between New York City (“NYC”) and Long Island.
- Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority (“MTA Staten Island Railway”) provides passenger transportation on Staten Island.
- Metropolitan Suburban Bus Authority (“MTA Long Island Bus”) provides public bus service in NYC and Nassau County, New York.
- 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, MTA Long Island Bus, FMTAC, MTA Capital Construction, and MTA Bus,

collectively are referred to herein as MTA. MTA Long Island Rail Road and MTA Metro-North Railroad are referred to collectively as the Commuter Railroads.

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

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

Although the MTA Group collect fares for the transit and commuter service they provide and receive revenues from other sources such as the leasing out of real property assets and the licensing of advertising, such revenues, including forecast increased revenues from fare increases, are not sufficient to cover all operating expenses associated with such service. 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. Operating subsidies to the MTA Group for transit and commuter service in the current year total \$3.9 billion.

Capital Program - The MTA Group has ongoing capital programs, which except for MTA Bridges and Tunnels, MTA Long Island Bus and MTA Bus 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.

2005-2009 Capital Program – Capital programs covering the years 2005-2009 were originally approved by the MTA Board in April 2005 and subsequently by the CPRB in July 2005 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, and the rail system operated by MTA Staten Island Railway (the “2005–2009 Transit Capital Program”), and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2005–2009 MTA Bridges and Tunnels Capital Program”). The 2005–2009 MTA Bridges and Tunnels Capital Program was effective upon adoption by the MTA Board in April 2005. 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 submitted to the CPRB for approval in July 2008, but was subsequently withdrawn.

As last amended by the MTA Board, the 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program, provide for \$23,717 in capital expenditures, of which \$11,154 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; \$3,617 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$6,899 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$495 relates to a multi-faceted security program; \$198 relates to MTA interagency initiatives including MTA Police Department plus an MTA-wide integrated computer systems initiative, \$145 relates to MTA Bus company initiatives; and \$1,209 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities.

The combined funding sources for the MTA Board-approved 2005–2009 MTA Capital Programs and 2005–2009 MTA Bridges and Tunnels Capital Program include \$9,430 in MTA and MTA Bridges and Tunnels Bonds, \$1,450 in New York State general obligation bonds approved by the voters in the November 2005 election, \$8,892 in Federal Funds, and \$3,945 from other sources.

At March 31, 2009, \$15,561 had been committed and \$7,984 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program.

2000-2004 Capital Program – Capital programs covering the years 2000-2004 were originally approved by the MTA Board in April 2000 and subsequently by the CPRB in May 2000 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2000-2004 Commuter Capital Program”), (2) the transit system operated by the MTA New York City Transit and its subsidiary, MaBSTOA, and the rail system operated by MTA Staten Island Railway (the “2000-2004 Transit Capital Program”), and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the 2000-2004 MTA Bridges and Tunnels Capital Program”). The 2000-2004 MTA Bridges and Tunnels Capital Program was effective upon adoption by the MTA Board in April 2000. The 2000-2004 amended Commuter Capital Program and the 2000-2004 amended Transit Capital Program (collectively, the “2000-2004 MTA Capital Programs”) were most recently amended by the MTA Board in December 2006. This latest 2000-2004 MTA Capital Program amendment was submitted to the CPRB for approval in April 2007, but was subsequently vetoed.

As last amended by the MTA Board, the 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program, provide for \$21,147 in capital expenditures, of which \$10,295 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; \$3,959 relates to ongoing repairs of, and replacements to, the Commuter System operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$4,689 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$450 relates to planning and design and customer service projects; \$249 relates to World Trade Center repair projects; \$1,003 relates to the ongoing repairs and replacements to MTA Bridges and Tunnels facilities; and \$502 relates to MTA Bus.

The combined funding sources for the MTA Board-approved 2000–2004 MTA Capital Programs and 2000–2004 MTA Bridges and Tunnels Capital Program include \$7,919 in bonds, \$6,522 in Federal funds, \$4,575 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002, and \$2,131 from other sources.

At March 31, 2009, \$20,472 had been committed and \$18,674 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

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. SIGNIFICANT ACCOUNTING POLICIES

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, the MTA applies all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30, 1989, that do not conflict with GASB pronouncements. The MTA has elected not to apply FASB Standards issued after November 30, 1989.

Estimates — Financial statements prepared in accordance with GAAP require the use of estimates made by management for certain account balances and transactions. Actual results may differ from these estimates.

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

Basis of Accounting — The MTA follows enterprise fund and accrual basis of accounting, which is similar in presentation to private business enterprises.

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

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

All investments are recorded on the balance sheets at fair value and all investment income, including changes in the fair value of investments, is reported as revenue on the statement of revenues, expenses and changes in net assets. Fair values have been determined using quoted market values at March 31, 2009 and December 31, 2008.

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

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

Capital Assets — Properties and equipment are carried at cost and are depreciated on a straight-line basis over estimated useful lives. Expenditures for maintenance and repairs are charged to operations as incurred.

Liability Insurance — FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program called the Excess Loss Fund (“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, 2001, but before November 1, 2006, the self-insured retention limits are: \$7 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2 million for MTA Long Island Bus; and \$1.4 million for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2006, the self-insured retention limits for ELF were increased to the following amounts: \$8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus; and \$1.6 million for MTAHQ and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2008, the balance of the assets in this program was \$62.1.

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 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 million.

On March 1, 2009, the “nonrevenue fleet” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA Group with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides \$8 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, 2009, the “Access-A-Ride” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit’s Access-A-Ride program, including the contracted operators. This policy provides a \$3 million per occurrence limit with a \$1 million per occurrence deductible.

On December 15, 2008, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$8 million per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance – Effective October 31, 2007, FMTAC renewed the all-agency property insurance program. For the period October 31, 2007 through May 1, 2009, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 million per occurrence. The total program limit has been maintained at \$1.25 billion per occurrence covering property of the related entities collectively. With the exception of acts of terrorism (both domestic and foreign), FMTAC is reinsured in the domestic, London, European, and Bermuda marketplaces for this coverage. Given the absence of major catastrophes in 2006 and 2007, available capacity has emerged, along with pricing reductions. As a result, FMTAC was able to obtain additional reinsurance capacity over last year and has fully reinsured the all-risk component for the full \$1.25 billion, subject to certain program sublimits.

The property insurance, which was subject to a renewal on October 31, 2007, provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverages.

With respect to acts of terrorism, FMTAC is reinsured by the United States Government for 85 percent of “certified” losses, as covered by the Terrorism Risk Insurance Act (TRIA) of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. Until 2007, the Act only provided coverage for acts sponsored by foreign organizations. The remaining 15 percent of MTA Group losses would be covered under an additional policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed \$100 million (“trigger”).

To supplement the reinsurance to FMTAC through TRIA of 2007, the MTA obtained an additional commercial reinsurance policy with Lexington Insurance Co. Lexington Insurance Company is part of the AIG Property and Casualty Group (the Insurance Group). The 16 companies comprising the Insurance Group were all profitable in 2008. The various companies comprising the Insurance Group, which are incorporated in four states, New York, Pennsylvania, Delaware and Illinois, are protected from weaknesses in the financial position of American International Group, Inc. by insurance regulations in each of the above-referenced states. These statutory protections are designed to protect policyholders from the financial weaknesses at American International Group, Inc. That policy provides coverage for (1) 15 percent of any “certified” act of terrorism - up to a maximum recovery of \$183.75 million for any one occurrence, or (2) 100 percent of any “certified” terrorism loss which does not reach the \$100 million trigger – up to a maximum recovery of \$100 million for any occurrence. This coverage expires on April 30, 2009. Recovery under this policy is subject to a retention of \$25 million per occurrence and \$75 million in the annual aggregate – in the event of multiple losses during the policy year. Should the MTA Group’s retention in any one year exceed \$75 million, future losses in that policy year are subject to a retention of just \$7.5 million.

Operating Revenues

Passenger Revenue and Tolls — Revenues from the sale of tickets, tokens, electronic toll collection system, and farecards are recognized as income as they are used. Deferred revenue is recorded for the estimated amount of unused tickets, and farecards.

Nonoperating Revenues

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

Mortgage Recording Taxes ("MRT") — Under NYS law, the MTA receives capital and operating assistance through a Mortgage Recording Tax (MRT-1), which is collected by NYC and the seven other counties within the MTA's service area, at the rate of .25 of one percent of the debt secured by certain real estate mortgages. Effective June, 2005, the rate was increased from 25 cents per 100 dollars of recorded mortgage to 30 cents per 100 dollars of recorded mortgage. The MTA also receives an additional Mortgage Recording Tax (MRT-2) of .25 of one percent of certain mortgages secured by real estate improved or to be improved by structures containing one to six 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 percent to certain transit operations and 45 percent 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 moneys being returned under the conditions set forth in the governing statute if the Commuter Railroads are operating at a deficit). As of March 31, 2009 and March 31, 2008, the amount allocated to NYS Suburban Highway Transportation Fund was \$0 and \$0 respectively. Of the New York City Transit portion, the MTA distributed \$0 and \$0 as of March 31, 2009 and March 31, 2008, respectively.
- The first \$5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange, and Rockland 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 June 1, 2005 increase in MRT-1 from 25 cents per \$100 of recorded mortgage to 30 cents. As of March 31, 2009, the MTA distributed \$0 to MTA Bus and paid to Dutchess, Orange and Rockland Counties the 2008 excess amounts of MRT1 and MRT-2 totaling \$5.7.
- In addition, MTA New York City Transit receives operating assistance directly from NYC through a mortgage recording tax at the rate of .625 of one percent of the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of the assessed value (collectively referred to as "Urban Tax Subsidies") of certain properties.

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 nonregistration 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 pay operating and capital costs. The MMTOA receipts are comprised of .375 of one percent

regional sales tax (which was increased effective June 1, 2005 from .25 of one percent), a temporary 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 percent to certain transit operations (not including MTA Bus) and 15 percent to the commuter railroads operations. Revenues from this funding source are recognized based upon amounts of tax reported collected by NYS, to the extent of the appropriation.

Operating Subsidies Recoverable from Connecticut Department of Transportation (“CDOT”) — The portion of the deficit from operations relating to MTA Metro-North Railroad’s New Haven line is recoverable from CDOT. Under the terms of a renewed Service Agreement, which began on January 1, 2000, and the 1998 resolution of an arbitration proceeding initiated by the State of Connecticut, CDOT pays 100 percent of the net operating deficit of MTA Metro-North Railroad’s branch lines in Connecticut (New Canaan, Danbury, and Waterbury), 65 percent of the New Haven mainline operating deficit, and a fixed fee for the New Haven line’s share of the net operating deficit of Grand Central Terminal (“GCT”) calculated using several years as a base, with annual increases for inflation and a one-time increase for the cost of operating GCT’s North End Access beginning in 1999. The Service Agreement also provides that CDOT pay 100 percent of the cost of nonmovable capital assets located in Connecticut, 100 percent of movable capital assets to be used primarily on the branch lines and 65 percent 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 renewed for an additional five years beginning January 1, 2005. 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 are subject to audit by CDOT. Years subsequent to 2000 remain subject to final audit.

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 June 30, under provisions of the NYS Public Authorities Law. This funding is recognized as revenue based upon an amount, fixed by statute, for the costs to operate and maintain passenger stations and is revised annually by the increase or decrease of the regional Consumer Price Index.

- Pursuant to an agreement NYS and NYC each pays to MTA \$44.2 and \$45 respectively annually to cover a portion of the cost of the free-fare student program. The State, however, reduced its \$45 contribution for the 2007 – 2008 school year by approximately \$2.0 to \$43, which was received in 2008. The estimated cost of this program is approximately \$179 for the 2008-2009 school year. It is believed the City will continue to provide for the continuation of the City’s \$45 contribution for the 2008-2009 school year, of which \$15 was received in December 2008. The Authority’s approved 2009 Adopted Budget assumes that the remaining \$30 from the City will be received in 2009. The State’s full \$45 for the 2008-2009 school year

was reduced to \$25.3 and it will be received in 2009. The Authority's 2010-2012 Financial Plan assumes the continuation of the joint funding of the free fare program for students.

- Policing of the transit system is carried out by the NYC Police Department at NYC's expense. The MTA, however, continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by NYC. The MTA received approximately \$1.0 in the three months ended March 31, 2009, and \$0.9 in the three months ended March 31, 2008 for the reimbursement of Transit police costs.
- Federal law and regulations require a paratransit system for passengers who are not able to ride the buses and trains because of their disabilities. Pursuant to an agreement between NYC and the MTA, MTA New York City Transit had assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. The services are provided by private vendors under contract with MTA New York City Transit. NYC reimburses the MTA for the lesser of 33 percent of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6.0 percent of gross Urban Tax Subsidies, or an amount that is 20.0 percent greater than the amount paid by the NYC for the preceding calendar year. Fare revenue and reimbursements aggregated approximately \$21.3 for the three months ended March 31, 2009 and \$25.3 in the three months ended March 31, 2008.

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

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, subsidies paid to counties, etc.) are reported as non-operating expenses.

Recent Accounting Pronouncements —

The MTA has completed the process of evaluating the impact that will result from adopting GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of assets and Future Revenues. The MTA has concluded that GASB Statement No. 48 had no impact on its financial position, results from operations, and cash flows. The Statement establishes criteria that governments will use to ascertain whether proceeds received should be reported as revenues or as a liability. The Statement is effective for fiscal periods beginning after December 15, 2006.

MTA Has implemented GASB Statement No. 50, Pension Disclosure. This Statement, which amend Statement No. 25 and 27, require Defined Benefit Pension Plans and sole and agent employers to present on the notes disclosures or RSI: the funded status of the plan as of the most recent actuarial valuation, the aggregate cost method used to determine the annual required contribution, and if applicable legal or contractual maximum contribution rate. This Statement was effective for periods beginning after June 15, 2007.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets. The MTA is therefore unable to disclose the impact GASB Statement No. 51 will have on its financial position

results of operations, and cash flows when such statement is adopted. This statement amends GASB Statement No. 34, paragraphs 19–21, and GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, paragraphs 9e, 16, and 18 and relates to the recognition and recording of intangible assets as capital assets in the statement of net assets. The requirements of this Statement are for financial statements for periods beginning after June 15, 2009.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. The MTA is therefore unable to disclose the impact GASB Statement No. 53 will have on its financial position results of operations, and cash flows when such statement is adopted. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments, and addresses hedge accounting requirements. This statement is effective for financial statements for periods beginning after June 15, 2009.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. This statement is effective for financial statements for periods beginning after June 15, 2010.

3. CASH AND INVESTMENTS

Cash, including deposits in transit, consists of the following at March 31, 2009 and December 31, 2008:

	March 2009		December 2008	
	(Unaudited)			
(In Millions)	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	\$ 76	\$ 76	\$ 130	\$ 127
Uninsured and not collateralized	<u>80</u>	<u>31</u>	<u>76</u>	<u>37</u>
	<u>\$ 156</u>	<u>\$ 107</u>	<u>\$ 206</u>	<u>\$ 164</u>

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

The MTA, on behalf of the Transit operations, MTA Bridges and Tunnels, MTA Long Island Bus, and MTA Bus operations, invests funds which are not immediately required for the MTA's operations in securities permitted by the New York State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds.

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

MTA holds most of its investments at a custodian bank. The custodian must meet certain banking institution criteria enumerated in MTA's Investment Guidelines. The Investment Guidelines also require the Treasury Division to hold at least \$100 of its portfolio with a separate emergency custodian bank. The purpose of this deposit is in the event that the MTA's main custodian cannot execute transactions due to an emergency outside of the custodian's control, the MTA has an immediate alternate source of liquidity.

Investments, at fair value, consist of the following at March 31, 2009 and December 31, 2008:

(In Millions)	March 2009	December 2008
	(Unaudited)	
Repurchase agreements	\$ 504	\$ 780
U.S. Treasuries due 2008 - 2022	1,066	1,071
Investments restricted for capital lease obligations:		
US Treasury Notes	170	-
STIF	74	153
Other Agencies	<u>1,063</u>	<u>1,191</u>
Sub-total	1,307	1,344
Other Agencies due 2009 - 2022	972	1,264
* Asset & Mortgage Back Securities	12	16
* Commercial Mortgage Backed Securities	31	35
* Corporate Bonds	112	88
* Foreign Bonds	30	31
* Equities	<u>10</u>	<u>11</u>
Total	<u>\$ 1,307</u> <u>\$ 4,044</u>	<u>\$ 1,344</u> <u>\$ 4,640</u>

*FMTAC Investment

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 balance sheet. The MTA's investment policy states that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment.

In connection with certain lease transactions described in Note 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 obligation.

Investments had weighted average yields of 1.3 percent and 2.8 percent for the three months ended March 31, 2009 and December 31, 2008, respectively.

Of the above cash and investments, amounts designated for internal purposes by management were as follows at March 31, 2009 and December 31, 2008:

(In Millions)	March 2009 (Unaudited)	December 2008
Construction or acquisition of capital assets	\$ 877	\$ 956
Funds received from affiliated agencies for investment	241	688
Debt service	549	353
Payment of claims	356	363
Restricted for capital leases	1,307	1,387
Other	<u>734</u>	<u>693</u>
Total	<u>\$ 4,064</u>	<u>\$ 4,440</u>

Credit Risk — At March 31, 2009 and December 31, 2008, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization:

Quality Rating Moody's (In Millions)	March 31, 2009 (Unaudited)	Percent of Portfolio		December 31, 2008	Percent of Portfolio	
A-1+	\$ 592	18.73	%	\$ 890	24.43	%
A-1	-	-		-	-	
AAA	608	19.31		570	15.66	
AA	23	0.74		17	0.49	
A	85	2.76		66	1.84	
BB	-	-		-	-	
BBB	34	1.09		33	0.90	
C	-	-		-	-	
Not Rated	514	16.32		828	22.70	
Government	<u>1,301</u>	<u>41.05</u>		<u>1,239</u>	<u>33.98</u>	
Total	3,157	<u>100.00</u>	%	3,643	<u>100.00</u>	%
Capital Leases	<u>887</u>			<u>997</u>		
Total Investment	<u>\$ 4,044</u>			<u>\$ 4,640</u>		

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The greater the duration of a bond or portfolio of bonds, the greater its price volatility will be in response to a change in

interest rate risk and vice versa. Duration is an indicator of bond price's sensitivity to a 100 basis point change in interest rates.

(In Millions)	March 2009		December 2008	
	(Unaudited)			
Securities	<u>Fair Value</u>	<u>Duration</u>	<u>Fair Value</u>	<u>Duration</u>
U.S. Treasuries	\$ 1,066	0.36	\$ 1,071	0.32
U.S. Agencies	961	0.54	1,252	0.72
Tax Benefits Lease Investments	420	14.20	347	16.50
Repurchase Agreement	504	0.00	780	0.00
Certificate of Deposits	11	0.00	11	0.00
Asset-Backed Securities (1)	12	1.41	16	1.94
Commercial Mortgage-Backed Securities (1)	31	3.11	35	4.10
Foreign Bonds (1)	30	0.00	31	4.06
Corporates (1)	<u>112</u>	<u>4.88</u>	<u>89</u>	<u>2.44</u>
Total fair value	<u>3,147</u>		<u>3,632</u>	
Modified duration		2.07		2.07
Equities (1)	<u>10</u>		<u>11</u>	
Total	<u>3,157</u>		<u>3,643</u>	
Investments with no duration reported	<u>887</u>		<u>997</u>	
Total Investments	<u>\$ 4,044</u>		<u>\$ 4,640</u>	

(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 Related Entities. The investment activity covers all operating and capital funds, including bond proceeds, and the activity is governed by State statutes, bond resolutions and the Board-adopted investment guidelines (the "Investment Guidelines"). The MTA Act currently permits the Related Entities to invest in the following general types of obligations:

- obligations of the State or the United States Government;
- obligations the principal and interest of which 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.

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's or banks 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;
- certain mortgage backed securities in amounts no greater than five percent of FMTAC's admitted assets.

FMTAC may also invest nonreserve 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

Substantially all of the MTA Group entities related groups and pension plans have separately issued financial statements that are publicly available and contain descriptions and supplemental information regarding employee benefit plans. These statements may be obtained by contacting the administrative office of the respective related group.

Pension Plans - The MTA Group entities sponsor and participate in a number of pension plans for their employees. These plans are not component units of the MTA and are not included in the combined financial statements.

Defined Benefit Pension Plans

Single-Employer Pension Plans

MTA Long Island Rail Road Plan for Additional Pensions

Plan Description - The Long Island Rail Road Plan for Additional Pensions (“the LIRR Plan”) is a single-employer pension defined benefit plan pension that provides retirement, disability and death benefits to plan members and beneficiaries. Members include employees hired prior to January 1, 1988. The LIRR Plan is administered by the MTA Defined Benefit Pension Plan Board of Managers of Pensions. The LIRR Board has the authority to establish or amend obligations to the LIRR Plan. The LIRR Plan is a governmental plan and accordingly, is not subject to the funding and other requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”). The pension plan has a separately issued financial statement that is publicly available and contains required descriptions and supplemental information regarding the employee benefit plan. The statements may be obtained by writing to Metropolitan Transportation Authority, Comptroller, 345 Madison Avenue, New York, New York 10017-3739.

Funding Policy - The LIRR Plan has both non-contributory and contributory requirements. Participants who entered qualifying service before July 1, 1978 are not required to contribute. Participants who entered qualifying service on or after July 1, 1978 contribute 3 percent of their wages. The MTA Long Island Rail Road contributes additional amounts based on actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. The current rate is 123.98 percent of annual covered annual payroll.

The funded status of the LIRR Plan as of January 1, 2008 the most recent actuarial valuation date, is as follows:

	2008
(In Millions)	
Annual required contribution ("ARC")	\$ 100.3
Interest on net pension obligation	3.2
Adjustment to ARC	<u>(3.8)</u>
Annual pension cost	99.7
Actual contributions made	<u>(100.0)</u>
Decrease in net pension obligation	(0.3)
Net pension obligation beginning of year	<u>40.4</u>
Net pension obligation end of year	<u><u>\$ 40.1</u></u>

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost</u>	<u>% of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation</u>
(In Millions)			
12/31/2008	\$ 99.7	100.23 %	\$ 40.1
12/31/2007	100.4	100.50	40.4
12/31/2006	106.5	101.91	175.6

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

Funded Status and Funding Progress - As January 1, 2008, the most recent actuarial valuation date, the LIRR Plan was 34.5 percent funded. The actuarial accrued liability for benefits was \$1,560.1, and the actuarial value of assets \$537.6, resulting in an unfunded actuarial accrued liability ("UAAL") of \$1,022.5. The covered payroll (annual payroll of active employees covered by the LIRR plan) was \$80.9, and the ratio of the UAAL to the covered payroll was 1,263.5 percent.

Actuarial Methods and Assumptions- Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The significant actuarial methods and assumptions used in the LIRR Plan actuarial valuation at January 1, 2008 were not changed from those used for the LIRR Plan at January 1, 2006 with the exception of the mortality assumption which was revised to reflect the RP-2000 Disabled Annuitant mortality table for males and females and used beginning with the January 1, 2007 Valuation. The significant actuarial methods and assumptions used in the LIRR Plan at January 1, 2006 were as follows: the

actuarial cost method and amortization method used was the entry age normal cost for all periods. For January 1, 2006 the amortization period for unfunded accrued liability was 27 years, with payments a level dollar amount. The asset valuation method utilized was a 5-year smoothing method for all periods. The investment rate of return was 8.0 percent for all periods. Investments and administrative expenses are paid from plan assets of the LIRR Plan. The remaining amortization period at December 31, 2008 was 25 years.

Metro North Cash Balance Plan

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

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

MTA Metro-North Railroad’s funding policy with respect to the MNR Cash Balance Plan was to contribute the full amount of the pension benefit obligation (PBO) of approximately \$2.9 to the trust fund in 1989. As participants retire, distributions from the MNR Cash Balance Plan have been made by the Trustee. MTA Metro-North Railroad anticipated that no further payments would be made to the MNR Cash Balance Plan. However, the January 1, 2005 actuarial valuation resulted in an unfunded accrued liability of \$110 and the \$0.7 annual required contribution was paid to the MNR Cash Balance Plan in 2005. The January 1, 2007 actuarial valuation resulted in an unfunded accrued liability of \$.075 and the \$.01 annual required contribution was paid to the MNR Cash Balance Plan in 2007. The January 1, 2008 actuarial valuation resulted in an unfunded accrued liability of \$.065 and the \$.014 annual required contribution was paid to the MNR Cash Balance Plan in 2008. The market value of net assets available for benefits in the trust fund at December 31, 2008 was \$1.2, which is less than the current PBO of \$1.3. The MTA Metro-North Railroad has accrued this unfunded liability.

The funded status of the MNR Cash Balance Plan as of January 1, 2008 the most recent actuarial valuation date is as follows:

(In Thousands)	2008
Annual required contribution	\$ 14.0
Interest on net pension obligation	(4.0)
Adjust to annual required contribution	<u>10.0</u>
Annual pension cost	20.0
Actual contributions	<u>(14.0)</u>
Increase in net obligation	6.0
Net pension obligation beginning of year	<u>(78.0)</u>
Net pension obligation end of year	<u>\$ (72.0)</u>

Three-Year Trend Information

Year Ended	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
(In Thousands)			
12/31/2008	\$ 20.0	68.73 %	\$ (72.0)
12/31/2007	16.0	58.83	(78.0)
12/31/2006	20.0	63.91	(85.0)

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

Funded Status and Funding Progress - As of January 1, 2008, the most recent actuarial valuation date, the MNR Cash Balance Plan was 95.4 percent funded. The actuarial accrued liability for benefits was \$1.4, and the actuarial value of assets was \$1.3, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.065. The covered payroll (annual payroll of active employees covered by the plan) was \$6.8, and the ratio of the UAAL to the covered payroll was 1.0 percent.

Further information about the MNR Plan is more fully described in the separately issued financial statements which can be obtained by writing to the MTA Metro-North Railroad Chief Financial Officer, 347 Madison Avenue, New York, New York 10017-3739.

Actuarial Methods and Assumptions- Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and

actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Manhattan and Bronx Surface Transit Operating Authority

Plan Description – MTA New York City Transit contributes to the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) Plan (the “MaBSTOA Plan”), a single employer governmental retirement plan. MaBSTOA provides retirement, disability, and death benefits to plan members and beneficiaries which are similar to those benefits provided by New York City Employees’ Retirement System to similarly situated MTA New York City Transit employees. The Plan assigns the authority to establish and amend the benefit provisions to the MaBSTOA Board. MaBSTOA issues a publicly available financial report that includes financial statements and required supplementary information for the MaBSTOA Plan. That report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, Operations Accounting, 2 Broadway, 15th Floor, New York, NY 10004.

Funding Policy – MaBSTOA’s funding policy requires periodic employer contributions which are actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. It is MaBSTOA’s policy to fund, at a minimum, the current year’s normal pension cost plus amortization of the unfunded actuarial accrued liability. For employees, the Plan has both contributory and noncontributory requirements depending on the date of entry into service. Employees entering qualifying service on or before July 26, 1976 are non-contributing. Certain employee entering qualifying service on or after July 27, 1976 are required to contribute 3% of their salary (See 2000 Plan Amendments) MaBSTOA’s contribution rate is 35.9 percent of annual covered payroll.

MTA New York City Transit’s contributions to the MaBSTOA Plan for the years ended December 31, 2008, 2007 and 2006 were \$201.9, \$179.2 and 159.6, respectively, equal to the annual required contributions for each year.

The funded status of the MaBSTOA Plan as of January 1, 2008, the most recent actuarial valuation date is as follows:

(In Millions)	2008
Annual required contribution	\$ 201.9
Interest on net pension obligation	(3.7)
Adjust to annual required contribution	<u>5.1</u>
Annual pension cost	203.3
Actual contributions	<u>(201.9)</u>
Increase in net obligation	1.4
Net pension obligation beginning of year	<u>(46.0)</u>
Net pension obligation end of year	<u>\$ (44.6)</u>

Year Ending	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
(In Millions)			
12/31/2008	\$ 203.3	99.3 %	\$ (44.6)
12/31/2007	180.7	99.2	(46.0)
12/31/2006	157.6	165.0	(47.5)

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

Funded Status and Funding Progress – As of January 1, 2008, the most recent actuarial valuation date, the MaBSTOA Plan was 58.2 percent funded. The actuarial accrued liability for benefits was \$2,045.0, and the actuarial value of assets \$1,190.8, resulting in an unfunded actuarial accrued liability (UAAL) of \$854.1. The covered payroll (annual payroll of active employees covered by the MaBSTOA Plan) was \$562.2, and the ratio of the UAAL to the covered payroll was 151.9 percent.

Actuarial Methods and Assumptions – Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The January 1, 2008 valuation reflects the actuarial assumptions adopted by the MTA New York City Transit based on the 2001 – 2005 Experience Study effective with the valuation. These changes increased the life expectancy for members included in the valuation, incorporated future anticipated mortality improvements, decreased rates of turnover and modified rates of retirement, so fewer retirements are expected for members with less than 20 years of service and more retirements are expected for members with at least 20 years of service. These changes increased the unfunded accrued liability by \$135.5, which is being amortized over 10 years, and increased the total employer contribution by \$24.4.

The assumptions include an 8.0 percent investment rate of return and assumed general wage increases of 3.5 percent to 18.0 percent for operating employees and 4.5 percent and 7.0 percent for non-operating employees per year, depending on years of service. This also includes an inflation component of 2.5 percent per year.

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

	Single-Employer Plans		
	LIRR	MaBSTOA	MNR Cash Balance Plan
	1/1/2008	1/1/2008	1/1/2008
Required contribution rates:	(In Millions)		(In Thousands)
Plan members			
Employer:	variable	variable	variable
	actuarially	actuarially	actuarially
	determined	determined	determined
Employer contributions made in 2008	\$ 100.0	\$ 201.9	\$ 14.0
Three-year trend information:			
Annual Required Contribution			
2008	\$ 100.3	\$ 201.9	\$ 14.0
2007	100.9	179.2	10.0
2006	108.5	159.6	13.0
Percentage of ARC contributed:			
2008	100%	100%	100%
2007	100%	100%	100%
2006	100%	163%	100%
Annual Pension Cost (APC):			
2008	\$ 99.7	\$ 203.3	\$ 20.0
2007	100.4	180.7	16.0
2006	106.5	157.6	20.0
Net Pension Obligation (NPO) (assets) at end of year:			
2008	\$ 40.1	\$ (44.6)	\$ (72.0)
2007	40.4	(46.0)	(78.0)
2006	175.6	(47.5)	(85.0)
Percentage of APC contributed:			
2008	100%	99%	69%
2007	101%	99%	59%
2006	102%	165%	64%
Components of APC			
Annual required contribution (ARC)	\$ 100.3	\$ 201.9	\$ 14.0
Interest on NPO	3.2	(3.7)	(4.0)
Adjustment of ARC	(3.8)	5.1	10.0
APC	99.7	203.3	20.0
Contributions made	(100.0)	(201.9)	(14.0)
Change in NPO (assets)	(0.3)	1.4	6.0
NPO (assets) beginning of year	40.4	(46.0)	(78.0)
NPO (assets) end of year	\$ 40.1	\$ (44.6)	\$ (72.0)

Single-Employer Plans

	LIRR	MaBSTOA	MNR Cash Balance Plan
Actuarial cost method	Entry age normal	Entry age normal frozen initial liability	Entry age normal frozen initial liability
Method to determine actuarial value of plan assets	5-year smoothing	5-year smoothing	5-year smoothing
Investment return	8.00%	8.00%	6.49%
Projected salary increases	3.5%	3.5% - 18.0%	3.5% - 36.2%
Consumer price inflation	2.50%	2.50%	2.50%
Amortization method and period	level dollar / 25 years	level dollar / 16 years	level dollar / 10 years
Period closed or open	closed	closed	closed

Cost-Sharing Multiple-Employer Plans

MTA Defined Benefit Plan

Plan Description - The MTA Defined Benefit Pension Plan ("MTA Plan") is a cost sharing multiple-employer pension plan. The Plan includes certain MTA Long Island Rail Road nonrepresented employees hired after December 31, 1987, and MTA Metro-North Railroad nonrepresented employees, certain MTA Long Island Bus employees 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 Long Island Rail Road represented employees hired after December 31, 1988, employees of MTA Staten Island Railway 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, and death benefits for their covered employees. Annual pension costs and related information about this plan are presented in the following table for all years presented as if the plan was a single-employer plan at the MTA level. The MTA Plan may be amended by action of the MTA Board.

A stand-alone financial report may be obtained by writing to the MTA Comptroller, 347 Madison Avenue, New York, New York, 10017.

Funding policy - Employer contributions are actuarially determined on an annual basis and are recognized when due. Employee contributions to the Plan are recognized in the period in which the contributions are due. There are no contributions required under the MSBA Employee's Pension Plan. The current rate is 89.1 percent of annual covered payroll. The

contribution requirements of the plan members and the MTA are established and may be amended by the MTA Board. The MTA's contributions to the Plan for the years ending December 31, 2008, 2007 and 2006 were \$107.8, \$106.6 and \$72.6, respectively, equal to the required contributions for each year.

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

Effective January 1, 1995, covered MTA Metro-North Railroad and MTA Long Island Rail Road non-represented employees are required to contribute to the Plan to the extent that their Railroad Retirement Tier II employee contribution is less than the pre-tax cost of the 3% employee contributions. Effective October 1, 2000, employee contributions, if any, were eliminated after ten years of making contributions to the Plan. MTA Metro-North Railroad employees may purchase prior service from January 1, 1983 through December 31, 1995 and MTA Long Island Rail Road employees may purchase prior service from January 1, 1988 through December 31, 1995 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. Participants of the MTA Police Programs contribute to that program at various rates.

Covered MTA Metro-North Railroad and MTA Long Island Rail Road represented employees who first became eligible to be Plan participants on or after January 1, 2004 and MTA Staten Island Railway employees contribute 3 percent of salary. For these MTA Long Island Rail Road and MTA Staten Island Railway employees, contributions are not required after the completion of ten years of credited service. For certain Metro-North represented employees, the 3 percent contributions are required until January 1, 2017 and for others, June 30, 2017.

Covered MTA Bus employees contribute a fixed dollar amount which varies by depot. Currently, at Yonkers Depot, the employees contribute \$21.50 per week at College Point, Baisley Park and LaGuardia Depots, represented employees contribute \$29.06 per week, at Eastchester, \$25.00 per week at Spring Creek, cleaners contribute \$23.15 per week and bus drivers and other titles \$32.00 per week. The plans covering the non-represented employees at Yonkers, Spring Creek, Baisley Park and LaGuardia and all employees at JFK and Far Rockaway are non-contributory. (Note: the dollar figures in this paragraph are in dollars, not millions of dollars).

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

Plan Description - MTA New York City Transit and MTA Bridges and Tunnels contribute to the NYCERS, a cost-sharing multiple-employer retirement system for employees of NYC and certain other governmental units. NYCERS combines features of a defined-benefit pension plan with those of a defined-contribution pension plan. NYCERS provides pension benefits to retired employees based on salary and length of service. In addition, NYCERS provides disability benefits, cost-of-living adjustments, and death benefits subject to satisfaction of certain service requirements and other provisions. The NYCERS plan functions in accordance with existing NYS statutes and NYC laws and may be amended by action of the State Legislature. NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York City Employees' Retirement System, 340 Jay Street, Brooklyn, New York 11201.

Funding Policy - NYCERS is a contributory plan, except for certain employees who entered prior to July 27, 1976 who make no contribution. Employees who entered qualifying service after July 1976, contribute 3 percent of their salary. The State Legislature passed legislation in 2000 that suspended the 3 percent contribution for most employees who have 10 years or more membership. MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. The rates are 18.0 percent and 14.3 percent, respectively, of covered payroll. The contribution requirements of plan members and MTA New York City Transit and MTA Bridges and Tunnels are established and amended by law. MTA New York City Transit's required contributions for NYCERS fiscal years ended December 31, 2008, 2007 and 2006 were \$480.9, \$443.3 and \$333.2 respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2008, 2007 and 2006 were \$20.4, \$18.5. and \$12.9 respectively. All contributions were equal to or in excess of the actuary's recommendation, plus interest.

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

Plan Description - MTAHQ and MTA Long Island Bus employees who were hired after January 23, 1983, are members of NYSLERS. In addition, employees of the Capital Company who are on its payroll are also members of NYSLERS. NYSLERS is a cost-sharing multiple-employer plan and offers a broad spectrum of benefits, including retirement, death and disability benefits, and cost of living adjustments. Further information about the plan is more fully described in the publicly available statement of NYSLERS and may be obtained by writing to New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York, 12244-0001.

Funding Policy - Employees who became members prior to July 27, 1976 make no contributions. Employees who became members after that date contribute 3 percent of salary. In 2000, the State Legislature passed legislation that suspends the 3 percent contribution for employees who have 10 years or more of membership. The Capital Company MTAHQ and MTA Long Island Bus are required to contribute at an actuarially determined rate. The current rate of annual covered payroll for MTAHQ and MTA Long Island Bus respectively is 8.3 percent and 8.0 percent. The MTAHQ NYSLERS contributions for the years ended December 31, 2008, 2007 and 2006 was approximately 5.7 percent, 5.5 percent, and 5.7 percent respectively. The MTA Long Island Bus NYSLERS contributions for the years ended December 31, 2008, 2007 and 2006 were approximately \$5.2, \$5.1, and 5.4 respectively.

Defined Contribution Plans

Single-Employer

The Long Island Rail Road Company Money Purchase Plan (the "Money Purchase Plan") is a defined contribution plan that covers certain represented employees who began service with MTA Long Island Rail Road after December 31, 1987. Beginning January 1, 2004, employees who were participants in the Money Purchase Plan have become participants in a New Program in the MTA Plan (the "New Program") and have similar benefits as those applicable to non-represented employees of MTA Long Island Rail Road in the MTA Plan. The MTA Board has voted to terminate the Money Purchase Plan and the Money Purchase Plan was terminated effective March 31, 2008. The Money Purchase Plan is currently making distributions of all participant accounts.

The Metro-North Commuter Railroad Company Defined Contribution Pension Plan for Agreement Employees (the "Agreement Plan"), established January 1, 1988, covers represented employees in accordance with applicable collective bargaining agreements. Under this plan, MTA Metro-North Railroad contributed an amount equal to 4 percent of each eligible employee's gross compensation to the Agreement Plan on that employee's behalf. For employees who have 19 or more years of service, MTA Metro-North Railroad contributes 7 percent. In addition, employees may voluntarily contribute up to the amount of MTA Metro-North Railroad's contribution to the Agreement Plan, on an after-tax basis. The Agreement Plan is administered by MTA Metro-North Railroad and the Agreement Plan's Board of Managers of Pension. Effective January 1, 2004, certain employees who were participants of the Agreement Plan became participants in the New Program in the MTA Plan and have similar benefits as those applicable to nonrepresented employees of MTA Metro-North Railroad in the MTA Plan. In 2007, the remaining represented employees also became participants in the New Program, unless they opted-out of the New Program. The "opt-out" employees became participants of the MTA 401(k) plan with the same employer contributions as the Agreement Plan. The MTA Board has voted to terminate this Agreement Plan and the Agreement Plan was terminated effective December 16, 2008. The Agreement Plan is currently making distributions of all participant accounts.

Deferred Compensation Plans

As permitted by Internal Revenue Code Section 457, the MTA has established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Plan assets and liabilities are not reflected on the MTA's combined balance sheets.

Certain MTA Group employees are also eligible to participate in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k) (the "401(k) Plan"). Participation in the 401(k) Plan is available to most represented and nonrepresented employees. MTA Bus on behalf of certain MTA Bus employees and MTA Metro-North Railroad on behalf of those employees who opted-out of participation in the MTA Plan make contributions to the 401(k) Plan. The rate for the employer contribution varies. All amounts of compensation deferred under the 401(k) Plan, and all income attributable to such compensation, are in trust for the exclusive use of the participants and their beneficiaries. Accordingly, the 401(k) Plan is not reflected in the accompanying combined balance sheets.

5. OTHER POSTEMPLOYMENT BENEFITS

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

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

OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the plan.

The MTA elected not to record the entire amount of the Unfunded Accrued Liability ("UAAL") in the year ended December 31, 2007, and record the net annual OPEB cost. The MTA also elected not to fund the UAAL more rapidly than on a pay-as-you-go basis. The UAAL relating to post-employment benefits decreased from \$13.6 billion as of December 31, 2007 to \$13.2 billion as of December 31, 2008. The end of the year liability equals the amount as of the beginning of the year plus interest at 4.2% less amortization amount included in the Annual Required Contribution for the prior year less or plus assumption changes and plan changes.

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

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

GASB Statement No. 45 requires the valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2007 and was performed with a valuation date of January 1, 2006 (except MTABus that has an evaluation date of January 1, 2007). The total number of plan participants as of December 31, 2008 and December 31, 2007 receiving retirement benefits is 45 thousand and 38 thousand respectively.

Since the MTA is a participating employer in NYSHIP, it does not issue a stand-alone financial report regarding post-employment benefits. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Service, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

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

For determining the ARC, the MTA has chosen to use Frozen Initial Liability (the "FIL Cost Method") cost method, one of the cost methods in accordance with the parameters of GASB Statement No. 45. The initial liability is amortized over a 22 year period.

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

Actuarial Methods and Assumptions — The FIL Cost Method was used for determining the Normal Cost. The Entry Age Normal ("EAN") Cost Method was used to determine the Frozen Accrued Liability and will be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. This method determines the Frozen Accrued Liability for each individual based on a level percent of pay for service accrued through the initial valuation date. The difference between the Actuarial Present Value of Benefits and the Frozen Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

The OPEB-specific actuarial assumptions used in the twelve months ended December 31, 2008, OPEB actuarial valuations are as follows:

Valuation date	January 1, 2006 (January 1, 2007 for MTA Bus)
Actuarial cost method	Frozen Initial Liability
Discount rate	4.2%
Per-Capita retiree contributions	*

* In general, all coverages are paid for by the MTA. The exceptions are for Bridges and Tunnels, where surviving spouses pay a portion of the premium (10% for single coverage, 25% for dependent coverage) and MTA Headquarters where members retired prior to 1997 pay a portion of the premium, depending on the year they retired.

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

Per Capita Claim Costs — For members of NYSHIP and certain MTA Staten Island Railway and MTA New York City Transit members who retired prior to NYSHIP availability, unadjusted premiums were used.

For (1) some of the self-insured benefits provided to pre-NYSHIP MTA New York City Transit members, (2) TWU Local 100, ATU 1056, and ATU 726 represented employees, and (3) MTA Bus employees, per capita claim costs adjusted by age were used. A sample of these claim costs are shown below:

Age	TWU Local 100 GHI Medical	TWU Local 100 Pharmacy	Pre-NYSHIP Group 1 Hospital	Pre-NYSHIP Retirees Pharmacy	Pre-NYSHIP Group 2 Hospital
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Male Employees

30–34	132.40	41.43	79.28	46.79	69.79
35–39	157.83	59.00	98.72	66.64	86.91
40–44	199.16	75.24	131.16	84.97	115.47
45–49	256.98	100.57	178.35	113.59	157.01
50–54	320.34	121.05	234.54	136.72	206.48
55–59	364.78	126.36	277.66	142.71	244.44
60–64	473.09	149.15	372.58	168.45	328.00

Age	TWU Local 100 GHI Medical	TWU Local 100 Pharmacy	Pre-NYSHIP Group 1 Hospital	Pre-NYSHIP Retirees Pharmacy	Pre-NYSHIP Group 2 Hospital
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Female Employees

30–34	259.97	69.63	173.83	78.64	153.03
35–39	257.28	82.61	167.05	93.30	147.07
40–44	261.23	101.58	162.14	114.73	142.74
45–49	294.56	127.90	181.72	144.45	159.97
50–54	330.81	150.66	210.21	170.16	185.06
55–59	352.73	164.37	233.16	185.64	205.27
60–64	432.35	181.08	304.58	204.52	268.14

Medicare Part B Premiums — The Medicare Part B premium reimbursement was included in the 2006 premium for those members covered by NYSHIP. Recently NYSHIP issued revised premiums for 2007 removing this reimbursement. Assuming the adjustment to the 2006 premium rate would be similar to that announced for 2007, the impact of using the revised premium rates (including the percentage increase in the premium rates from 2006 to 2007) on the ARC for the MTA was estimated. For other members, where applicable, the reimbursement was determined using the 2006 premium level and increasing this amount by the Health Care Cost Trend rates.

Health Care Cost Trend Rates —

Fiscal Year	Trend	Fiscal Year	Trend
2008	10.5	2015	7.0
2009	10.0	2016	6.5
2010	9.5	2017	6.0
2011	9.0	2018	5.5
2012	8.5	2019+	5.0
2013	8.0		

In addition, 2006 premiums and claim costs were trended 11 percent to 2007.

Participation — For members that participate in NYSHIP, 100 percent of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For groups that do not participate in NYSHIP, various coverage election rates are used. The following table displays the election rates used for future union retirees in MTA New York City Transit:

	TWU 100	ATU 1056	ATU 726
Future Retiree Plan Election Percentage			
GHI	65 %	65 %	35 %
HIP	35	35	49
Aetna	0	0	16
Medicare HIP/Aetna HMO Elections			
VIP 1	80 %	100 %	75 %
VIP 2	20	0	0
Aetna	0	0	25

Dependent Coverage — Current retirees are valued using coverage reported by the MTA. Based on an analysis of members who retired within the last 5 years, we have assumed that, for future retirees, 85 percent of male members and 55 percent of female members elect family coverage with a spouse.

Demographic Assumptions:

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

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

Postretirement Healthy Lives — RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 133 percent of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue collar adjustments were used for management members of MTAHQ.

Postretirement Disabled Lives — 75 percent of the rates from the RP-2000 Disabled Annuitant mortality table for males and females. At age 85 and later for males and age 77 and later for females, the disability rates are set to the male and female healthy rates, respectively.

Turnover and retirement rates — All demographic assumptions were based on assumptions utilized in the 2006 actuarial valuations for the pension plans, with the exception of the mortality assumption. The following is a table displaying the various sources of the assumptions utilized by group.

Group	Pension Plan
MaBSTOA	MaBSTOA
New York City Transit	NYCERS — NYCT
MTA Bridges and Tunnels	NYCERS — MTA Bridges and Tunnels
LIRR Pre-1988	LIRR Plan
LIRR Post-1987	MTA DB Plan
Metro-North Mgrs and ACRE	MTA DB Plan
Metro-North Other Unions	DC Plan — used same as ACRE
MTA Police	MTA DB Plan
Headquarters Mgrs and IBT	NYSLERS
Long Island Bus Pre-1983	MTA DB Plan
Long Island Bus Post-1982	NYSLERS
Staten Island Railway	MTA DB Plan
Yonkers, Eastchester, College Point	MTA DB Plan
Baisley Park, LaGuardia	TWU — NYC Private Bus Lines Pension Plan
JFK	Green Bus Lines Pension Plan
Spring Creek	Command — Local 1181 Pension Plan

Vestee Coverage — For members that participate in NYSHIP, certain vestees (members who have terminated employment with 10 or more years of retirement service credit, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the applicable agency upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vestees are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vestees, which were only provided by Headquarters.

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

The following table shows the elements of the MTA's annual OPEB cost for the year, the amount actually paid, and changes in the MTA's net OPEB obligation to the plan for the twelve month period ended December 31, 2008 and 2007 and for the three month period ended March 31, 2009. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

(In Millions)	March 31, 2009 (Unaudited)	December 31, 2008	December 31, 2007
Annual required contribution ("ARC")	\$ 469.3	\$ 1,727.6	\$ 1,575.5
Interest on net OPEB obligation	27.7	54.1	0.0
Adjustment to ("ARC")	<u>(57.9)</u>	<u>(113.0)</u>	<u>0.0</u>
Annual OPEB cost	439.1	1,668.7	1,575.5
Payments made	<u>87.6</u>	<u>320.5</u>	<u>285.5</u>
Increase in net OPEB obligation	351.5	1,348.2	1,290.0
Net OPEB obligation — beginning of period	<u>2,638.2</u>	<u>1,290.0</u>	<u>0.0</u>
Net OPEB obligation — end of period	<u>\$ 2,989.7</u>	<u>\$ 2,638.2</u>	<u>\$ 1,290.0</u>

The MTA's annual OPEB cost, the percentage of annual OPEB cost contributed to, and the net OPEB obligation for the year ended December 31, 2008 and 2007 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
(In Millions)			
December 31, 2008	\$ 1,668.7	19.2 %	\$ 2,638.2
December 31, 2007	1,575.5	18.1	1,290.0

The Authorities funded status of the Plan is as follows:

Year Ended	Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability (AAL) {b}	Unfunded Actuarial Accrued Liability (UAAL) {c}={b}-{a}	Funded Ratio {a}/{c}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c}/{d}
(In Millions)							
December 31, 2008	January 1, 2006	-	\$ 13,241	\$ 13,241	-	\$4,557.1	290.6 %
December 31, 2007	January 1, 2006	-	13,623	13,623	-	4,381.9	310.9 %

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

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, 2007, December 31, 2008 and March 31, 2009:

(In Millions)	Balance December 31, 2007	Additions	Deletions	Balance December 31, 2008	Additions	Deletions	Balance March 31, 2009 (Unaudited)
Capital assets — not being depreciated:							
Land	\$ 146	\$ 6	\$ -	\$ 152	\$ 2	\$ -	\$ 154
Construction work-in-progress	<u>5,955</u>	<u>1,521</u>	<u>1,486</u>	<u>5,990</u>	<u>389</u>	<u>22</u>	<u>6,357</u>
Total capital assets — not being depreciated	<u>6,101</u>	<u>1,527</u>	<u>1,486</u>	<u>6,142</u>	<u>391</u>	<u>22</u>	<u>6,511</u>
Capital assets, being depreciated:							
Buildings and structures	13,229	502	26	13,705	26	-	13,731
Bridges and tunnels	1,814	83	-	1,897	-	-	1,897
Equipment:	-	-	-	-	-	-	-
Passenger cars and locomotives	10,292	1,191	6	11,477	351	-	11,828
Buses	2,453	67	-	2,520	72	16	2,576
Infrastructure	13,624	1,097	22	14,699	46	-	14,745
Other	<u>9,876</u>	<u>1,565</u>	<u>5</u>	<u>11,436</u>	<u>221</u>	<u>1</u>	<u>11,656</u>
Total capital assets — being depreciated	<u>51,288</u>	<u>4,505</u>	<u>59</u>	<u>55,734</u>	<u>716</u>	<u>17</u>	<u>56,433</u>
Less accumulated depreciation:							
Buildings and structures	3,889	374	-	4,263	95	-	4,358
Bridges and tunnels	384	17	-	401	4	-	405
Equipment:	-	-	-	-	-	-	-
Passenger cars and locomotives	3,334	376	2	3,708	110	-	3,818
Buses	1,513	147	-	1,660	28	-	1,688
Infrastructure	4,029	459	11	4,477	120	-	4,597
Other	<u>3,629</u>	<u>418</u>	<u>3</u>	<u>4,044</u>	<u>117</u>	<u>1</u>	<u>4,160</u>
Total accumulated depreciation	<u>16,778</u>	<u>1,791</u>	<u>16</u>	<u>18,553</u>	<u>474</u>	<u>1</u>	<u>19,026</u>
Total capital assets — being depreciated — net	<u>34,510</u>	<u>2,714</u>	<u>43</u>	<u>37,181</u>	<u>242</u>	<u>16</u>	<u>37,407</u>
Capital assets — net	<u>\$40,611</u>	<u>\$4,241</u>	<u>\$1,529</u>	<u>\$43,323</u>	<u>\$ 633</u>	<u>\$ 38</u>	<u>\$43,918</u>

Interest capitalized in conjunction with the construction of capital assets at March 31, 2009 and December 31, 2008 was \$13.2 and \$79.3, 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.

For certain construction projects, the MTA holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At March 31, 2009 and December 31, 2008 these securities totaled \$107.5 and \$112.3, respectively, and had a market value of \$112.6 and \$120.9, respectively, and are not included in these financial statements.

7. LONG-TERM DEBT

(In Millions)	Original Issuance	December 31, 2008	Issued	Retired	Refunded	March 31, 2009 (Unaudited)
MTA:						
Transportation Revenue Bonds 2.25%–5.752% due through 2036	\$ 12,501	\$ 11,112	-	-	\$ -	\$ 11,112
Transportation Revenue Bond Anticipation Notes Commercial Paper	750	668	82	-	-	750
State Service Contract Bonds 3.00%–5.50% due through 2031	2,395	2,194	-	25	-	2,169
Dedicated Tax Fund Bonds 3.00%–6.25% due through 2037	4,572	3,636	262	-	-	3,898
Certificates of Participation 4.40%–5.625% due through 2030	<u>807</u>	<u>411</u>	<u>-</u>	<u>10</u>	<u>-</u>	<u>401</u>
	<u>\$ 21,025</u>	18,021	344	35	-	18,330
Less net unamortized bond discount and premium		<u>(347)</u>	<u>(3)</u>	<u>17</u>	<u>-</u>	<u>(367)</u>
		<u>17,674</u>	<u>341</u>	<u>52</u>	<u>-</u>	<u>17,963</u>
TBTA:						
General Revenue Bonds 4.00%–5.77% due through 2033	\$ 6,920	6,259	325	213	-	6,371
Subordinate Revenue Bonds 4.00%–5.77% due through 2032	<u>2,858</u>	<u>2,048</u>	<u>150</u>	<u>27</u>	<u>-</u>	<u>2,171</u>
	<u>\$ 9,778</u>	8,307	475	240	-	8,542
Less net unamortized bond discount and premium		<u>146</u>	<u>(2)</u>	<u>3</u>	<u>-</u>	<u>141</u>
		<u>8,453</u>	<u>473</u>	<u>243</u>	<u>-</u>	<u>8,683</u>
Total		<u>26,127</u>	<u>\$ 814</u>	<u>\$ 295</u>	<u>-</u>	<u>26,646</u>
Current portion		<u>(191)</u>				<u>(329)</u>
Long-term portion		<u>\$ 25,936</u>				<u>\$ 26,317</u>

MTA Transportation Revenue Bonds – Prior to 2009, MTA issued twenty five 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 \$13,220.3. The Transportation Revenue Bonds are MTA's special obligations payable solely from transit and commuter systems revenues and certain state and local operating subsidies.

MTA Bond Anticipation Notes (commercial paper program) – From time to time, MTA issues Transportation Revenue Bond Anticipation Notes in accordance with the terms and provisions of the General Resolution described in the preceding paragraph in the form of commercial paper to fund its transit and commuter capital needs. The interest rate payable on the notes depends on the maturity and market conditions at the time of issuance. Payment of principal and interest on the notes are additionally secured by a letter of credit issued by ABN AMRO Bank N.V. The MTA Act requires MTAHQ to periodically (at least each five years) refund its commercial paper notes with bonds.

MTA State Service Contract Bonds – Prior to 2009, 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. 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 2009, MTA issued thirteen 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 \$5,632.1. The Dedicated Tax Fund Bonds are MTA's special obligations payable solely from monies held in the Pledged Amounts Account of the MTA Dedicated Tax Fund. State law requires that the MTTF revenues and MMTOA revenues (described above in footnote 2 under "Nonoperating Revenues") be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund.

During the first quarter of 2009, the MTA issued one series of Dedicated Tax Fund Bonds. On March 12, it issued the Dedicated Tax Fund Bonds, Series 2009A in the amount of \$261.7 to finance capital projects of the subway, bus and commuter rail systems of the MTA and its affiliates and subsidiaries.

MTA Certificates of Participation – Prior to 2009, MTA (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad), MTA New York City Transit and MTA Bridges and Tunnels executed and delivered three series of Certificates of Participation in the aggregate principal amount of \$807.3 to finance certain building and leasehold improvements to an office building at Two Broadway in Manhattan occupied principally by MTA New York City Transit, MTA Bridges and Tunnels, MTA Capital Construction, and MTAHQ. The aggregate principal amount of \$807.3 includes approximately \$357.9 of refunding bonds. The Certificates of Participation represent proportionate interests in the principal and interest components of Base Rent paid severally, but not jointly, in their respective proportionate shares by MTA New York City Transit, MTA, and MTA Bridges and Tunnels, pursuant to a Leasehold Improvement Sublease Agreement.

MTA Bridges and Tunnels General Revenue Bonds – Prior to 2009, MTA Bridges and Tunnels issued fifteen 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 \$7,525.3. 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.

During the first quarter of 2009, MTA Bridges and Tunnels issued one series of General Revenue Bonds to finance bridge and tunnel projects and to refund outstanding indebtedness. On February 11, MTA Bridges and Tunnels issued \$150 Triborough Bridge and Tunnel General Revenue Mandatory Tender Bonds, Series 2009A-1 and \$325 General Revenue Bonds, Series 2009A-2. In addition to financing projects for MTA Bridges and Tunnels, Series 2009A-1 proceeds could be used to refinance certain MTA Bridges and Tunnels Senior or Subordinate Revenue bonds.

Series 2009A-2 proceeds were used for new money purposes as well as to refund \$197.9 of Triborough Bridge and Tunnel General Revenue Variable Rate Refunding Bonds, Series 2005B-1.

MTA Bridges and Tunnels Subordinate Revenue Bonds – Prior to 2009, MTA Bridges and Tunnels issued ten series of Subordinate Revenue Bonds secured under its 2001 Subordinate Revenue Resolution Authorizing Subordinate Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of \$2,903. 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.

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 \$28,877 compared with issuances totaling approximately \$19,718 as of March 31, 2009. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the 2000-2004 MTA Capital Program and the 2005-2009 MTA Capital program.

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 balance sheets.

On February 19, 2009, MTA Bridges and Tunnels refunded \$197.9 of Triborough Bridge and Tunnel General Revenue Variable Rate Refunding Bonds, Series 2005B-1. The Series 2005B-1 was refunded due to the deteriorated credit quality of the liquidity provider on these bonds, Depfa Bank, and thus economic gain or loss resulting from the refunding was not MTA's primary consideration.

In accordance with GASB Statement No. 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, gains or losses resulting from debt refundings have been deferred and will be amortized over the lesser of the remaining life of the old debt or the life of the new debt.

At March 31, 2009 and December 31, 2008, 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)	March 31, 2009 (Unaudited)	December 31, 2008
MTA Transit and Commuter Facilities:		
Transit Facilities Revenue Bonds	\$ 1,004	\$ 1,004
Commuter Facilities Revenue Bonds	1,145	1,145
Commuter Facilities Subordinate Revenue Bonds	13	13
Transit and Commuter Facilities Service Contract Bonds	772	772
Dedicated Tax Fund Bonds	1,346	1,346
Excess Loss Trust Fund	7	7
MTA Transportation Revenue Bonds	156	156
MTA New York City Transit — Transit Facilities Revenue Bonds (Livingston Plaza Project)	102	102
MTA Bridges and Tunnels:		
General Purpose Revenue Bonds	2,079	2,079
Special Obligation Subordinate Bonds	208	208
Mortgage Recording Tax Bonds	201	201
Total	<u>\$ 7,033</u>	<u>\$ 7,033</u>

Debt Service Payments — Principal and interest debt service payments at March 31, 2009 are as follows:

(In Millions)	MTA BRIDGES AND TUNNELS							
	MTA						Debt Service	
	Principal	Interest	Senior Revenue		Subordinate Revenue		Principal	Interest
			Principal	Interest	Principal	Interest		
			(Unaudited)					
2009	181	802	32	268	11	95	224	1,165
2010	393	813	136	300	199	102	728	1,215
2011	398	800	144	293	51	100	593	1,193
2012	436	782	141	296	55	97	632	1,175
2013	450	761	148	290	56	94	654	1,145
2014–2018	2,659	3,449	908	1,262	357	418	3,924	5,129
2019–2023	3,338	2,747	1,155	1,023	433	318	4,926	4,088
2024–2028	4,382	1,876	1,391	756	435	202	6,208	2,834
2029–2033	4,196	781	1,654	36	574	58	6,424	875
2034–2038	1,114	120	662	100	-	-	1,776	220
Thereafter	33	3	-	-	-	-	-	3
	<u>\$ 17,580</u>	<u>\$ 12,934</u>	<u>\$ 6,371</u>	<u>\$ 4,624</u>	<u>\$ 2,171</u>	<u>\$ 1,484</u>	<u>\$ 26,089</u>	<u>\$ 19,042</u>

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

- *Transportation Revenue Refunding Bonds, Series 2002B* – 4.00% per annum
- *Transportation Revenue Refunding Bonds, Series 2002D* – 4.00% per annum on Subseries 2002D-1 and 4.45% per annum on subseries 2002D-2 taking into account the interest rate swap

- *Transportation Revenue Refunding Bonds, Series 2002G* – 4.00% per annum
- *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
- *Transportation Revenue Bonds, Series 2005G* – 4.00% per annum
- *Transportation Revenue Bonds, Series 2008B* – 4.00% per annum, after the mandatory tender date
- *Dedicated Tax Fund Bonds, Series 2002B* – 4.06% per annum until September 1, 2013 based on the interest rate swap and 4.00% per annum thereafter
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A* – 3.3156% per annum on the hedged portion related to the interest rate swaps, and 4.00% per annum on the unhedged portion
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008B* – 4.00% per annum
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000AB* – 6.08% per annum taking into account the interest rate swap
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000CD* – 6.07% per annum taking into account the interest rate swap
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2001B and Series 2001C* – 5.777% per annum taking into account the interest rate swap and 4.00% per annum on portions not covered by the interest rate swap
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002F* – 5.634% and 3.076% per annum taking into account the interest rate swaps and 4% per annum on portions not covered by the interest rate swaps
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2003B* – 3.076% per annum taking into account the interest rate swap and 4.00% per annum on portions not covered by the interest rate swap
- *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* – 3.513% per annum based on the Basis Risk Interest Rate Swap through January 1, 2012 and 3.076% per annum based on the Initial Interest Rate Swaps thereafter.
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2008B* – 4.00% per annum, after the mandatory tender date
- *Certificates of Participation, Series 2004A* – 3.542% per annum taking into account the interest rate swaps

Tax Rebate Liability - Under the Internal Revenue Code of 1986, the MTA accrues a liability for an amount of rebateable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. The arbitrage liability is payable to the federal government every five years and is reported as part of other long-term liabilities. MTA made an arbitrage payment of \$1.9 in 2007. No payment was incurred in 2008.

MTA and MTA Bridges and Tunnels have entered into several Standby Bond Purchase Agreements (SBPA) and Letter of Credit Agreements (LOC) as listed on the table below:

Resolution	Series	Swap	Provider (Insurer)	Type of Facility	Exp. Date
Transportation Revenue	2002D-1	N	West LB (FSA)	SBPA	5/9/2012
Transportation Revenue	2002D-2	Y	Dexia (FSA)	SBPA	5/27/2011
Transportation Revenue	2002G-1	N	Bank of Nova Scotia (Ambac)	LOC	10/7/2011
Transportation Revenue	2005D-1	Y	Helaba	LOC	11/7/2011
Transportation Revenue	2005D-2	Y	Helaba	LOC	11/10/2010
Transportation Revenue	2005E	Y	Fortis	LOC	10/9/2012
Transportation Revenue	2005G	N	BNP Paribas	LOC	12/8/2010
Transportation Revenue	Commercial Paper	N	ABN AMRO	LOC	12/8/2010
Dedicated Tax Fund	2002B	Y	Dexia (FSA)	SBPA	5/7/2014
Dedicated Tax Fund	2008A	Y	Dexia (FSA)	SBPA	6/25/2011
Dedicated Tax Fund	2008B-1	N	Bank of Nova Scotia	LOC	8/5/2011
Dedicated Tax Fund	2008B-2	N	BNP Paribas (NY Branch)	LOC	8/5/2011
Dedicated Tax Fund	2008B-3	N	Lloyds TSB Bank plc (NY Branch)	LOC	8/5/2011
Dedicated Tax Fund	2008B-4	N	KBC Bank N.V.	LOC	8/5/2011
MTA Bridges and Tunnels Subordinate	2000AB	Y	JPMorgan (FSA)	SBPA	10/7/2014
MTA Bridges and Tunnels Subordinate	2000CD	Y	Lloyds TSB Bank (NY) (FSA)	SBPA	10/7/2014
MTA Bridges and Tunnels General Revenue	2001B	Y	State Street (Ambac)	LOC	9/30/2011
MTA Bridges and Tunnels General Revenue	2001C	Y	Bayerische LB (Ambac)	LOC	9/30/2010
MTA Bridges and Tunnels General Revenue	2002F	Y	ABN AMRO	SBPA	11/8/2012
MTA Bridges and Tunnels General Revenue	2003B	Y	Dexia	SBPA	7/7/2012
MTA Bridges and Tunnels General Revenue	2005A	N	Dexia	SBPA	5/9/2012
MTA Bridges and Tunnels General Revenue	2005B-2	Y	Dexia	SBPA	7/6/2012
MTA Bridges and Tunnels General Revenue	2005B-3	Y	Bank of America	SBPA	7/6/2012
MTA Bridges and Tunnels General Revenue	2005B-4	Y	Landesbank Baden-Wurttemberg (NY)	SBPA	12/29/2015

Swap Agreements Relating to Synthetic Fixed Rate Debt

Board-adopted Guidelines. The Related Entities adopted guidelines governing the use of swap contracts to manage the interest rate exposure of their debt. The Guidelines establish specific requirements that must be satisfied for a Related Entity to enter into a swap contract, such as suggested swap terms and objectives, credit ratings of the counterparties, collateralization requirements and reporting requirements.

Objectives of the Swaps. In order to protect against the potential of rising interest rates, to achieve a lower net cost of borrowing, to reduce exposure to changing interest rates on a related bond issue, or, in some cases where Federal tax law prohibits an advance refunding, to achieve debt service savings through a synthetic fixed rate, MTA, MTA Bridges and Tunnels and MTA New York City Transit have entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA, MTA Bridges and Tunnels and MTA New York City Transit would have paid to issue fixed-rate debt.

Fair Value. Relevant market interest rates on the valuation date (March 31, 2009) of the swaps reflected in the following charts in all cases were higher than market interest rates on the effective date of the swaps. Consequently, as of the valuation date, all of the swaps had negative fair values. A negative fair value means that MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would have to pay the counterparty that approximate amount to terminate the swap. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be entitled to receive a payment from the counterparty to terminate the swap; consequently, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the swap be terminated.

The fair values listed in the following tables represent the theoretical cost to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bond due on the date of each future net settlement on the swap. In the event both parties continue to perform their obligations under the swap, there is not a risk of termination and neither party is required to make a termination payment to the other. MTA, MTA Bridges and Tunnels and MTA New York City Transit are not aware of any event that would lead to a termination event with respect to any of their existing swaps. See "*Termination Risk*" below.

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

MTA TRANSPORTATION REVENUE BONDS							
<u>Associated Bond Issue</u>	Notional Amounts as of 03/31/09 (Unaudited) (in millions)	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	Fair Values as of 03/31/09 (Unaudited) (in millions)	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2002D-2	\$200.000	01/01/07	4.45	69% of one-month LIBOR ⁽¹⁾	\$ (74.838)	11/01/32	JPMorgan Chase, NA
Series 2005D and Series 2005E	500.000	11/02/05	3.561	67% of one-month LIBOR	(106.142)	11/01/35	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.
Series 2012 ⁽²⁾	359.450	11/15/12	3.563	67% of one-month LIBOR	(56.286)	11/01/32	JPMorgan Chase Bank, NA
Series 2012 ⁽²⁾	153.700	11/15/12	3.563	67% of one-month LIBOR	(25.690)	11/01/32	Lehman Brothers Special Financing Inc.
Total	\$1,213.15				\$ (262.956)		

⁽¹⁾ London Interbank Offered Rate.

⁽²⁾ Under the Series 2012 swaps, counterparties JPMorgan Chase Bank, NA and Lehman Brothers Special Financing Inc. have an option to cancel these swaps on June 15, 2012 prior to the effective date listed above. In the event each swap is canceled, each counterparty is required to make monthly cancellation payments to the MTA commencing on December 1, 2012 and ending on November 1, 2032.

MTA DEDICATED TAX FUND BONDS							
<u>Associated Bond Issue</u>	Notional Amounts as of 03/31/09 (Unaudited) (in millions)	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	Fair Values as of 03/31/09 (Unaudited) (in millions)	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2002B	\$440.000	09/05/02	4.06 %	Actual bond rate until 04/30/10, and thereafter, SIFMA	\$ (42.308)	09/01/13	Morgan Stanley Capital Services Inc.
Series 2008A ⁽³⁾	343.520	03/24/05	3.3156	67% of one-month LIBOR	(57.235)	11/01/31	Citigroup Financial Products Inc.
Total	\$783.520				\$ (99.543)		

⁽³⁾ On June 25, 2008, the Confirmation dated as of March 8, 2005 between the Counterparty and MTA was amended to define Related Bonds as MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A. On June 26, 2008, MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A associated with the swap prior to the amendment described above, were refunded.

<u>MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS</u>							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 03/31/09 (Unaudited) (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 03/31/09 (Unaudited) (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2001B and 2001C ⁽⁴⁾	\$177.700	01/01/02	5.777%	Actual bond rate	\$ (35.671)	01/01/19	Citigroup Financial Products Inc.
Series 2002F ^{(5) (6)}	77.000	01/01/00	5.634	Actual bond rate	(8.335)	01/01/13	Ambac Financial Services, L.P.
Series 2002F ⁽⁷⁾	158.155	07/07/05	3.076	67% of one-month LIBOR	(23.577)	01/01/32	Citibank, N.A.
Series 2003B ⁽⁷⁾	39.745	07/07/05	3.076	67% of one-month LIBOR	(5.924)	01/01/32	Citibank, N.A.
Series 2005B ⁽⁷⁾	593.700	07/07/05	3.076	67% of one-month LIBOR	(88.503)	01/01/32	33% each – JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG
Series 2005B	791.600	07/07/05	67% of one-month LIBOR plus 43.7 basis points ⁽⁸⁾	SIFMA minus 10 basis points	(4.756)	01/01/12	UBS AG
Total	\$1,837.900				\$(166.766)		

(4) In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of \$19,204,000.

(5) In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of \$8,400,000.

(6) On December 3, 2008, the Confirmation, dated as of February 24, 1999, and as amended on October 8, 2002, between the Counterparty and MTA Bridges and Tunnels was amended to define Bonds, after December 4, 2008, as MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds Series 2002F. On December 12, 2008, MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds Series 2002C associated with the swap prior to the amendment described above, were refunded.

(7) On February 19, 2009, MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B-1 associated with the swap in connection with Series 2005B Bonds, 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 and from November 1, 2027 through November 1, 2030, to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A.

(8) For the purpose of mitigating the basis risk during the escrow period with respect to the \$797.2 million notional amount swaps entered into in connection with the Series 2005B Bonds, MTA Bridges and Tunnels will pay 67% of one-month LIBOR plus 43.7 basis points to the UBS AG and receive a variable rate equal to the SIFMA Index minus 10 basis points.

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 03/31/2009 (Unaudited) (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 03/31/2009 (Unaudited) (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2000AB ⁽⁹⁾	\$175.300	01/01/01	6.08 %	Actual bond rate	\$ (36.233)	01/01/19	JPMorgan Chase Bank, NA
Series 2000CD ⁽¹⁰⁾	175.300	01/01/01	6.07	SIFMA minus 15 basis points ⁽¹¹⁾	(37.533)	01/01/19	Citigroup Financial Products Inc.
Total	\$350.600				\$ (73.766)		

⁽⁹⁾ In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying to MTA Bridges and Tunnels a premium of \$22,740,000.

⁽¹⁰⁾ On April 9, 2009, \$50 million of MTA Bridges and Tunnels Subordinate Revenue Bonds, Series 2000CD has been refunded. A portion of the swap associated the aforementioned bonds has been reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B.

⁽¹¹⁾ In accordance with the swaption entered into on August 12, 1998, Citigroup Financial declared that an Alternative Floating Rate Event occurred on November 5, 2008 and as a result, the calculation for the Variable Rate MTA Bridges and Tunnels is to receive was changed from the Actual Bond Rate to SIFMA Municipal Swap Index minus 15 basis points. The Alternate Floating Rate Event was triggered due to the purchase without resale of Series 2000CD bonds by the liquidity provider, Lloyds TSB.

2 Broadway Certificates of Participation Swaps

In addition to the foregoing, MTA, MTA New York City Transit and MTA Bridges and Tunnels entered into separate ISDA Master Agreements with UBS AG relating to the \$357.925 Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities) in connection with the refunding of certain certificates of participation originally executed to fund certain improvements to the office building located at 2 Broadway in Manhattan. The 2 Broadway swaps have (1) an effective date of September 22, 2004, (2) a fixed rate paid of 3.092%, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67% of one-month LIBOR minus 45 basis points, and (4) a termination date of January 1, 2030. Based on the aggregate notional amount of \$353.050 outstanding as of March 31, 2009, MTA New York City Transit is responsible for \$242.550 aggregate notional amount of the swaps, MTA for \$74.125 aggregate notional amount, and MTA Bridges and Tunnels for \$36.375 aggregate notional amount. As of March 31, 2009, the aggregate unaudited fair value of the swaps was (\$58.428).

Counterparty Ratings

The current ratings of the counterparties are as follows as of March 31, 2009:

<u>Counterparty</u>	<u>Ratings of the Counterparty or its Credit Support Provider</u>		
	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>
AIG Financial Products Corp.	A-	A3	A
Ambac Financial Services, L.P.	A	Baa1	NR
BNP Paribas North America, Inc.	AA	Aa1	AA
Citibank, N.A.	A+	A1	A+
Citigroup Financial Products Inc.	A	A3	A+
JPMorgan Chase Bank, NA	A+	Aa3	AA-
Lehman Brothers Special Financing Inc.	NR	WR	NR
Morgan Stanley Capital Services Inc.	A	A2	A
UBS AG	A+	Aa2	A+

Except as set forth below, the notional amounts of the swaps match the principal amounts of the associated bonds. The following table sets forth the notional amount and the outstanding principal amount as of March 31, 2009 for the swap where the notional amount does not match the outstanding principal amount of the associated bonds.

<u>Associated Bond Issue</u>	<u>Principal Amount of Bonds (in millions) (Unaudited)</u>	<u>Notional Amount (in millions) (Unaudited)</u>
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	\$286.020	\$177.700
MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B	\$224.245	\$39.745
MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A	\$351.375	\$343.520

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

Risks Associated with the Swap Agreements

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

- **Credit Risk** – The counterparty becomes insolvent or is otherwise not be able to perform its financial obligations. In the event of a deterioration in the credit ratings of the counterparty or MTA/MTA Bridges and Tunnels/MTA New York City Transit, the swap agreement may require that collateral be posted to secure the party's obligations under the swap agreement. See "*Collateralization*" below. Further, ratings deterioration by either party below levels agreed to in each transaction could result in a termination event requiring a cash settlement of the future value of the transaction. See "*Termination Risk*" below.
- **Basis Risk** – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA, MTA Bridges and Tunnels or MTA New York City Transit on the associated bonds may not be the same. If the counterparty's rate under the swap is lower than the bond interest rate, then the counterparty's payment under the swap agreement does not fully reimburse MTA, MTA Bridges and Tunnels or MTA New York City Transit for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty's rate on the swap, there is a net benefit to MTA, MTA Bridges and Tunnels or MTA New York City Transit.
- **Termination Risk** – The swap agreement will be terminated and MTA, MTA Bridges and Tunnels or MTA New York City Transit will be required to make a termination payment to the counterparty and, in the case of a swap agreement which was entered into for the purpose of creating a synthetic fixed rate for an advance refunding transaction may also be required to take action to protect the tax exempt status of the related refunding bonds.
- **Rollover Risk** – The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds on a variable rate bond issuance, and MTA, MTA Bridges and Tunnels or MTA New York City Transit may be exposed to then market rates and cease to receive the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk. The following table shows, as of March 31, 2009, the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA and/or MTA Bridges and Tunnels, or in connection with the 2 Broadway Certificates of Participation refunding. The notional amount totals below include all five swaps (including the UBS basis risk swap) in connection with the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B. The counterparties have the ratings set forth above.

<u>Counterparty</u>	<u>Notional Amount (in thousands) (Unaudited)</u>	<u>% of Total Notional Amount</u>
UBS AG	\$1,642,550	36.19%
JPMorgan Chase Bank, NA	932,650	20.55
Citigroup Financial Products Inc.	696,520	15.35
Morgan Stanley Capital Services Inc.	440,000	9.70
Lehman Brothers Special Financing Inc.	253,700	5.59
BNP Paribas North America, Inc.	197,900	4.36
Citibank, N.A.	197,900	4.36
AIG Financial Products Corp.	100,000	2.20
Ambac Financial Services, L.P.	77,000	1.70
Total	\$4,538,220	100.00%

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

- JPMorgan Chase Bank, NA with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000AB,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000CD,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C, and
- Ambac Financial Services, L.P. with respect to the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F (currently only one transaction outstanding under that Master Agreement),
- JPMorgan Chase Bank, NA with respect to the MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2 and Series 2012,
- Lehman Brothers Special Financing Inc. with respect to the MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2005E and Series 2012.

Under the terms of these agreements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the nondefaulting 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 nondefaulting party.

On September 15, 2008, Lehman Brothers Holdings, Inc. ("LBHI") filed a petition under Chapter 11 of the U.S. Bankruptcy Code. As a consequence LBHI was downgraded in September 2008 to B3/D/D by Moody's, Standard & Poor's and Fitch respectively. Standard & Poor's and Fitch subsequently withdrew their ratings on September 25th and October 27, 2008, respectively. A subsidiary, Lehman Brothers Special Financing Inc ("LBSFI") which operated with a credit guarantee from LBHI consequently was similarly downgraded and filed for bankruptcy on October 3, 2008.

As an active participant in the capital markets, MTA, has business relationships with LBHI and its subsidiaries. Among those relationships, LBSFI, is the counterparty (with an LBHI guarantee) on two interest rate swaps associated with MTA Transportation Revenue Bonds Series 2005E and Series 2012 (forward starting swap). The combined notional amount of the interest rate swaps is \$253.7. In addition, MTA New York City Transit, MTA (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad), and MTA Bridges and Tunnels, are party to a forward purchase agreement for a debt service reserve fund investment related to the 2 Broadway Certificates of Participation transaction. MTA retains ownership of the security for this investment and is evaluating its options with respect to the bankruptcy filing by LBHI.

At March 31, 2009, the two interest rate swaps to which LBSFI was a counterparty had a combined recorded fair market value of negative \$46.918, which represented a theoretical payment that would be owed by MTA to LBSFI if the agreements were terminated on that date. As a result of the bankruptcy filing of LBHI, on September 19, 2008, MTA advised LBSFI that an event of default now exists in respect to the two interest rate swaps. As a result of the event of default, all cashflows arising out of these transactions have ceased and MTA is proceeding with a formal market quotation process as provided for in the ISDA Master Agreement with LBSFI to replace LBSFI. The market quotation process involves soliciting bids from interested parties to assume the obligations of LBSFI in the transactions. MTA has not recorded any change in its accounting treatment of the transactions and pending a successful resolution of the market quotation process, does not expect to be required to make any such change in the future.

The fair market value of MTA's interest rate swaps changes daily primarily as a result of capital markets changes. MTA's swaps with LBSFI use the one month London Interbank Offered Rate (LIBOR) as the variable rate received. Factors that influence LIBOR are local interest rates, banks expectations of future rate movements, liquidity in the capital markets or changes in the value of the dollar. The relative financial health of MTA's counterparties, in this case LBSFI are important in the transaction, but do not directly impact the fair market value of the transaction.

In addition to the interest rate swaps described above, MTA, through its Transportation Revenue Bond Resolution, has an existing interest rate swap with AIG Financial Products Corp. ("AIG FPC"). The notional amount of the

transaction is \$100 with an approximate fair market value on March 31, 2009 of negative \$21.228. This value represents the amount owed by MTA if the transaction were to be terminated on that date.

The ratings of AIG FPC, which is guaranteed by corporate parent American International Group, Inc. (“AIG”) were changed on September 15, 2008 as follows: downgraded by Moody’s from Aa3 to A2; downgraded by Standard & Poor’s from AA- to A-; downgraded from Fitch from AA- to A. Subsequently, on October 3, 2008, Moody’s further downgraded AIG FPC to A3. Although AIG FPC was downgraded, no event of default currently exists with respect to this transaction.

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

MTA Transportation Revenue Bonds		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA bonds or the counterparty’s long-term unsecured debt falls to</u>	<u>Then the downgraded party must post collateral if its estimated termination payments are in excess of</u>
Series 2002D-2	<u>Fitch</u> – BBB+, <u>Moody’s</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
	<u>Fitch</u> – BBB and below or unrated, <u>Moody’s</u> – Baa2 and below or unrated by S&P & Moody’s, or <u>S&P</u> – BBB and below or unrated	\$0
Series 2005D and Series 2005E	<u>Fitch</u> – BBB+, <u>Moody’s</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
	<u>Fitch</u> – below BBB+, <u>Moody’s</u> – below Baa1, or <u>S&P</u> – below BBB+	\$0
Series 2012	<u>Fitch</u> – BBB+, <u>Moody’s</u> – Baa1, or <u>S&P</u> – BBB+	<u>\$10,000,000</u>
	<u>Fitch</u> – BBB and below or unrated, <u>Moody’s</u> – Baa2 and below or unrated by S&P & Moody’s, or <u>S&P</u> – BBB and below or unrated	<u>\$0</u>

MTA Dedicated Tax Fund Bonds		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to</u>	<u>Then the downgraded party must post collateral if its estimated termination payments are in excess of</u>
Series 2002B	<u>Fitch</u> – BBB+, or <u>S&P</u> – BBB+	\$10,000,000
	<u>Fitch</u> – BBB and below or unrated, or <u>S&P</u> – BBB and below or unrated	\$0
Series 2008A [Note: for this swap, MTA is not required to post collateral under any circumstances.]	<u>Fitch</u> – A-, or <u>Moody's</u> – A3, or <u>S&P</u> – A-	\$10,000,000
	<u>Fitch</u> – BBB+ and below, or <u>Moody's</u> – Baa1 and below, or <u>S&P</u> – BBB+ and below	\$0

2 Broadway Certificates of Participation		
<u>Associated Bond Issue</u>	<u>If the highest rating of the MTA Transportation Revenue Bonds falls to</u>	<u>Then MTA, MTA Bridges and Tunnels and MTA New York City Transit must post collateral if its estimated termination payments are in excess of</u>
Series 2004A	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$25,000,000
	<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0
	<u>If the highest rating of the Counterparty's long-term unsecured debt falls to</u>	<u>Then the Counterparty must post collateral if its estimated termination payments are in excess of</u>
Series 2004A	<u>Moody's</u> – Baa1 or lower, or <u>S&P</u> – BBB+ or lower	\$0

<u>MTA Bridges and Tunnels Senior Lien Revenue Bonds</u>		
<u>Associated Bond Issue</u>	If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
Series 2001B and 2001C	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2002F (swap with Ambac Financial Services, L.P.)	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Ambac is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2005B interest rate swap and basis risk swap, Series 2002 F (swap with Citibank, N.A.) and Series 2003 B	For counterparty, <u>Fitch</u> – A-, or <u>Moody's</u> – A3, or <u>S&P</u> – A-	\$10,000,000
	For MTA, <u>Fitch</u> – BBB+, or <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$30,000,000
	For MTA, <u>Fitch</u> – BBB, or <u>Moody's</u> – Baa2, or <u>S&P</u> – BBB	\$15,000,000
	For counterparty, <u>Fitch</u> – BBB+ and below, or <u>Moody's</u> – Baa1 and below, or <u>S&P</u> – BBB+ and below	\$0
	For MTA, <u>Fitch</u> – BBB- and below, or <u>Moody's</u> – Baa3 and below, or <u>S&P</u> – BBB- and below	\$0

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

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

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

The payments relating to debt service on the 2 Broadway swaps are parity obligations with respect to the sublease payments under the 2 Broadway Certificates of Participation, payable solely from available transportation revenues after the payment of the MTA's transportation revenue bonds and additional parity and subordinate bonds. All other payments, including the termination payments, are payable from substantially the same pool of available transportation revenues after the payment of the MTA's transportation revenue bonds and additional parity and subordinate 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, MTA Bridges and Tunnels and MTA New York City Transit have entered into separate ISDA Master Agreements with each counterparty that governs the terms of each swap with that counterparty, subject to individual terms negotiated in a confirmation.

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

MTA Transportation Revenue	
<u>Associated Bond Issue</u>	<u>Additional Termination Event(s)</u>
Series 2002D-2, Series 2005D and Series 2005E	The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.
Series 2012	The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.

MTA Dedicated Tax Fund	
<u>Associated Bond Issue</u>	<u>Additional Termination Event(s)</u>
Series 2002B	The ratings by S&P and Fitch of the Counterparty or the MTA Dedicated Tax Fund Bonds fall below "BBB-" or are withdrawn.
Series 2008A	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Fitch with respect to the MTA Dedicated Tax Fund Bonds falls below "BBB" or, in either case the ratings are withdrawn.

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

MTA Bridges and Tunnels Senior and Subordinate Revenue	
<u>Associated Bond Issue</u>	<u>Additional Termination Events</u>
<u>Senior Lien Revenue Bonds</u>	
Series 2001B and 2001C and Series 2002F (swap with Ambac Financial Services, L.P.)	<p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, Ambac Assurance Corporation.</p>
Series 2005B interest rate swap and basis risk swap, Series 2002 F (swap with Citibank, N.A.) and Series 2003 B	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Moody's with respect to the MTA Bridges and Tunnels Senior Lien Revenue Bonds falls below "BBB" or "Baa2," respectively, or , in either case the ratings are withdrawn.
<u>Subordinate Revenue Bonds</u>	
Series 2000AB and 2000CD	<p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, Financial Security Assurance Inc.</p>

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

<u>Associated Bond Issue</u>	<u>Bond Maturity Date</u>	<u>Swap Termination Date</u>
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	11/01/22	09/01/13
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	01/01/32	01/01/19
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F (swap with Ambac Financial Services, L.P.)	11/01/32	01/01/13
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F (swap with Citibank, N.A.)	11/01/32	1/1/2032
MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B	1/1/2033	1/1/2032

Swap payments and Associated Debt. The following tables contain the aggregate amount of estimated variable-rate bond debt service and net swap payments during certain years that such swaps were entered into in order to: protect against the potential of rising interest rates; achieve a lower net cost of borrowing; reduce exposure to changing

interest rates on a related bond issue; or, in some cases where Federal tax law prohibits an advance refunding, achieve debt service savings through a synthetic fixed rate. As rates vary, variable-rate bond interest payments and net swap payments will vary. Using the following assumptions, debt service requirements of MTA's and MTA Bridges and Tunnel's outstanding variable-rate debt and net swap payments are estimated to be as follows:

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

MTA (in millions) (Unaudited)				
Year Ending December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2009	\$ 1.8	\$ 59.6	\$ (3.4)	\$ 58.1
2010	1.9	59.6	(3.4)	58.1
2011	2.0	59.5	(3.4)	58.1
2012	2.0	59.4	(3.3)	58.1
2013	2.1	59.3	(3.4)	58.0
2014-2018	277.7	275.3	(17.6)	535.3
2019-2023	414.8	202.5	(14.5)	602.8
2024-2028	267.0	135.5	(8.1)	394.4
2029-2033	451.1	63.5	(1.6)	513.1
2034-2035	70.9	3.8	-	74.7

MTA Bridges and Tunnels (in millions) (Unaudited)				
Year Ending December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2009	\$ 49.4	\$ 71.6	\$ 4.4	125.4
2010	51.1	69.6	3.5	124.2
2011	54.1	67.4	2.6	124.2
2012	56.7	65.2	1.7	123.6
2013	59.8	62.8	(0.3)	122.3
2014-2018	360.7	272.7	(20.7)	612.7
2019-2023	218.5	215.2	(34.6)	399.1
2024-2028	279.2	165.7	(31.7)	413.2
2029-2033	703.2	47.8	(9.8)	741.1

8. LEASE TRANSACTIONS

Leveraged Lease Transactions: Subway Cars — During 1995, MTA Bridges and Tunnels entered into a sale/leaseback transaction with a third party whereby MTA Bridges and Tunnels sold certain subway cars, which were contributed by MTA New York City Transit, for net proceeds of \$84.2. These cars were subsequently leased back by MTA Bridges and Tunnels under a capital lease. The deferred credit of \$34.2 was netted against the carrying value of the leased assets, and the assets were

recontributed to the MTA New York City Transit. MTA Bridges and Tunnels transferred \$5.5 to the MTA, representing the net economic benefit of the transaction. The remaining proceeds, equal to the net present value of the lease obligation, of which \$71.3 was placed in an irrevocable deposit account at ABN AMRO Bank N.V. and \$7.5 was invested in U.S. Treasury Strips. The estimated yields and maturities of the deposit account and the Treasury Strips are expected to be sufficient to meet all of the regularly scheduled obligations under the lease as they become due, including the purchase option, if exercised. The capital lease obligation is included in other long-term liabilities. At the end of the lease term MTA Bridges and Tunnels has the option to purchase the subway cars for approximately \$106, which amount has been reflected in the net present value of the lease obligation, or to make a lease termination payment of approximately \$89.

Leveraged Lease Transactions: Hillside Facility — On March 31, 1997, the MTA entered into a lease/leaseback transaction with a third party whereby the MTA leased MTA Long Island Rail Road's Hillside maintenance facility to the third party. The term of the lease is 22 years, and the third party has the right to renew for a further 21.5 year term. The facility was subsequently subleased back to the MTA as a capital lease, and sub-subleased by the MTA to MTA Long Island Rail Road.

Under the terms of the lease/leaseback agreement, the MTA initially received \$314, which was utilized as follows. The MTA paid \$266 to Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), an affiliate of the third party's lender, which has the obligation to pay to the MTA an amount equal to the rent obligations under the sublease attributable to the debt service on the loan from the third party's lender. The MTA used \$21 to purchase Treasury securities, which are pledged as collateral to the third party. The value at maturity of these Treasury securities, together with the proceeds from the aforementioned obligation of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., is sufficient to pay all of the regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the 22 year sublease period, if the related purchase option is exercised. A further \$0.6 was used to pay for legal and other costs of the transaction, and \$3 was used to pay the first rental payment under the sublease. A further \$23 is the MTA's net benefit from the transaction, representing consideration for the tax benefits. MTA Bridges and Tunnels has entered into a guarantee with the third party that the sublease payments will be made. At March 31, 2009, the MTA has recorded a long-term capital obligation and capital asset of \$270 arising from the transaction.

Leveraged Lease Transactions: Subway and Rail Cars — On December 12, 1997, the MTA entered into two lease/leaseback transactions whereby the MTA leased certain of MTA Metro-North Railroad's rail cars to a third party and MTA New York City Transit leased certain subway maintenance cars to the same third party. The lease periods for MTA Metro-North Railroad's rail cars expire between 2009 and 2014, depending on the asset, and the lease period for MTA New York City Transit's subway maintenance cars expires in 2013. The third party has the right to renew the lease for an additional period of 12 years for MTA Metro-North Railroad cars, and a further 12 years for MTA New York City Transit's subway maintenance cars. The cars were subsequently subleased back to the MTA as a capital lease, and sub-subleased by the MTA to MTA Metro-North Railroad and MTA New York City Transit, respectively.

Under the terms of these lease/leaseback agreements, the MTA initially received \$76.6, which was utilized as follows: The MTA paid \$59.8 to an affiliate of the third party's lender, which has the obligation to pay to the MTA an amount equal to the rent obligations under the sublease attributable to the debt service on the loan from the third party's lender. The obligations of the affiliate of the third party's lender are guaranteed by American International Group, Inc. In connection with all of the obligations of American International Group, Inc. and its affiliates described in this Footnote 8, MTA continues to monitor the support being provided to American International Group, Inc. by the Federal Reserve and the publicly available information on the financial condition of American International

Group, Inc. The MTA used \$12.5 to purchase a Letter of Credit from an affiliate of the third-party's lender, guaranteed by American International Group, Inc. The payments to the MTA under the Letter of Credit, together with the aforementioned payments from the affiliate of the third-party's lender, are sufficient to pay all of the regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the related purchase options are exercised. At March 31, 2009, the MTA has recorded a long-term capital obligation and capital asset of \$38 arising from the transaction.

As a result of the downgrade of American International Group, Inc., the guarantor of the Letter of Credit, the provider of the Letter of Credit was required to pledge, and has pledged, collateral in the form of securities issued or guaranteed by the U.S. Government, including U.S. Treasury obligations and any other obligations the timely payment of principal of, and interest on, which are guaranteed by the U.S. Government and bonds, notes, debentures, obligations or other evidence of indebtedness issued and/or guaranteed by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Government National Mortgage Association or any other agency or instrumentality of the United States of America which are rated AAA by Standard & Poor's, which collateral has a market value in excess of the accreted value of its obligations. In the event of a failure of the obligor under the Letter of Credit and American International Group, Inc., as guarantor of such obligations, to perform, the transaction documents are structured to provide recourse to the securities that have been pledged as collateral for such obligations.

MTA has pledged additional collateral to cover the difference between the market value of the collateral provided by American International Group, Inc. and the nominal amount of the sum of MTA's rent payments plus the optional purchase option payments. The market value of the securities pledged as collateral by MTA was approximately \$7.3 as of March 31, 2009. As American International Group, Inc. increases the value of its collateral during the period through the remaining purchase option dates in 2013 and 2014, the MTA collateral will be released to MTA in an equivalent amount until MTA has no further collateralization obligation.

MTA exercised the purchase option on the first tranche of the lease related to MTA Metro-North Railroad assets and paid the first installment thereof on January 5, 2009. The final installment is due in December, 2009.

Leveraged Lease Transactions: Subway Cars — On September 25, 2002 and December 17, 2002 the MTA entered into four 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. The four leases expire in 2032, 2034, 2033, and 2033, respectively. 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 agreements, the MTA initially received \$1,514.9, which was utilized as follows: The MTA paid \$1,058.6 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to pay to the MTA an amount equal to the rent obligations under the leases attributable to the debt service on the related loans. The obligations of the affiliate of the third parties' lenders are guaranteed by Financial Security Assurance, Inc. The MTA also purchased Freddie Mac, FNMA, and U.S. Treasury debt 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 lenders to the third parties. In the case of one of the four leases, MTAHQ also purchased Freddie Mac debt securities, the value of which at maturity, together with the aforementioned payment from the affiliate of the third party lender and the value at maturity of the Freddie Mac securities that were purchased to provide

sufficient funds to make the lease rent payments equal to the debt service on the loan from the other lender to the third party, are sufficient to pay all regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the related purchase options are exercised. In the case of the other three leases, the MTA entered into Equity Payment Agreements with Premier International Funding Co. (which are guaranteed by Financial Security Assurance, Inc.) whereby that entity has the obligation to provide to the MTA the amounts necessary, together with the aforementioned payments from the affiliate of the third parties' lender and the value at maturity of the Freddie Mac, FNMA, and U.S. Treasury debt securities that were purchased to provide sufficient funds to make the lease rent payments equal to the debt service on the loan from the other lenders to the third parties, are sufficient to pay all regularly scheduled rent obligations, including the cost of exercising the respective fixed price purchase options, if such purchase options are exercised. In two of the three leases in which Premier International Funding Co. is the obligor under the Equity Payment Agreements, Premier International Funding Co. is required to pledge, and has pledged, collateral in the form of securities issued or guaranteed by the United States Government, including United States Treasury obligations, publicly traded U.S. Treasury Strips, Government National Mortgage Association obligations and any other obligations the timely payment of principal and interest of which are guaranteed by the United States Government, and bonds, notes, debentures, obligations or other evidence of indebtedness issued and/or guaranteed by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or any agency or instrumentality of the United States of America, which collateral has a market value in excess of the accreted value of its obligations.

In the event of a failure to perform by Premier International Funding Co., as obligor under the Equity Payment Agreements in the three leases, and Financial Security Assurance, Inc., as guarantor of such obligations, the transaction documents for the two leases in which such obligations are collateralized are structured to provide recourse to the securities that have been pledged as collateral for such obligations. The accreted value of the Equity Payment Agreement in the transaction in which the obligation of Premier International Funding Co., as obligor, and Financial Security Assurance, Inc., as guarantor, is uncollateralized was \$9.5 at March 31, 2009.

The amount remaining after payment of transaction expenses, \$96.2, was the MTA's net benefit from these four 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. The MTA subleased the equipment to MTA New York City Transit. The four leases expire in 2022, 2020, 2022, and 2020, respectively. At the lease expiration 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 sale/leaseback agreements the MTA initially received \$507.4, which was utilized as follows: The MTA paid \$316.2 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to pay to MTA an amount equal to the rent obligations under the leases attributable to the debt service on the loan from certain of the third parties' lenders. The MTA also purchased FNMA and U.S. Treasury debt 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 lenders to the third parties. In the case of three of the four leases 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 those leases and the purchase price due upon exercise by the MTA of the related purchase options if exercised. In the case of the other lease, the MTA entered into an

Equity Payment Undertaking Agreement with XL Insurance (Bermuda) Ltd. (which was guaranteed by XL Financial Assurance Ltd.) whereby that entity had the obligation to provide to the MTA the amounts necessary to make the remainder of the equity portion of the basic lease rent payments under that lease and to pay the equity portion of the purchase price due upon exercise by the MTA of the purchase option if exercised. The amount remaining after payment of transaction expenses, \$57.6, was the MTA's net benefit from these four transactions. As consideration for the cooperation of the City of New York in these transactions, including the transfer of any property interests held by the City on such equipment to MTA New York City Transit and the MTA, the MTA is obligated to pay to the City 24.11 percent of the net benefit received from these four QTE transactions. At March 31, 2009, the MTA had paid the City of New York \$13.7.

On February 7, 2008, the MTA learned that XL Insurance (Bermuda) Ltd. was downgraded to a level that under the applicable transaction documents required the MTA to replace the Equity Payment Undertaking Agreement with other permitted collateral. On May 2, 2008, the MTA entered into a termination agreement that terminated the QTE transaction in which the XL Insurance (Bermuda) Ltd. Equity Payment Undertaking Agreement served as equity collateral. In connection with such termination, the MTA transferred to the lessor in that transaction U.S. Treasury debt obligations, having a cost of approximately \$75, which obligations were substantially similar in amount and payment terms to the XL Insurance (Bermuda) Ltd. Equity Payment Undertaking Agreement. The MTA subsequently entered into an agreement with XL Insurance (Bermuda) Ltd. to terminate the XL Insurance (Bermuda) Ltd. Equity Payment Undertaking Agreement and XL Insurance (Bermuda) Ltd. paid the MTA \$61.

On September 16, 2008, the MTA learned that American International Group, Inc. was downgraded to a level that under the transaction documents for two of the remaining three QTE leases required the MTA to replace the applicable Equity Credit Default Option Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. MTA terminated those two leases in January, 2009 pursuant to early termination agreements with the equity investor. The MTA achieved a net gain of approximately \$3 as a result of such terminations.

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

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

Leveraged Lease Transactions: Subway Cars - On September 25, 2003 and September 29, 2003, the MTA entered into two sale/leaseback transactions whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit subway cars to the MTA, the MTA sold those cars to

third parties, and the MTA leased those cars back from such third parties. The MTA subleased the cars to MTA New York City Transit. Both leases expire in 2033. At the lease expiration, MTAHQ has the option of either exercising a fixed-price purchase option for the cars or returning the cars to the third-party owner.

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

On September 16, 2008, the MTA learned that American International Group, Inc. was downgraded to a level that under the terms of the transaction documents for the sale/leaseback transaction that closed on September 29, 2003, the MTA is required to replace or restructure the applicable Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. On December 17, 2008, MTA terminated the Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. and provided replacement collateral in the form of U.S. Treasury strips. The Resolution Funding Corporation (REFCO) debt security that was being held in pledge was released to MTA. On November 6, 2008, the MTA learned that Ambac Assurance Corp., the provider of the credit enhancement that insures the MTA's contingent obligation to pay a portion of the termination values upon an early termination in both the September 25, 2003 and September 29, 2003 transactions, was downgraded to a level that requires 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 December 29, 2003 and provided a short term U.S. Treasury debt obligation as replacement collateral. The cost of the replacement collateral was \$32. As a result of a mark-to-market of the securities provided as collateral as of January 31, 2009, \$8 of such \$32 in collateral value was released back to MTA. It is anticipated that during 2009, MTA will acquire a letter of credit or financial insurance to replace the U.S. Treasury security as collateral in that transaction at which point such U.S. Treasury security will be released back to MTA.

On January 12, 2009, following an extension of the due date for such action, 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 December 29, 2003. The cost of the additional collateral was \$37. It is anticipated that during 2009, MTA will acquire a letter of credit or financial insurance to replace the U.S. Treasury security as collateral in that transaction at which point such U.S. treasury security will be released back to MTA.

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 & Tunnels entered into a lease and related agreements whereby each agency, as subleasees, will rent, for an initial

stated term of approximately 50 years, an office building at Two Broadway in lower Manhattan. The lease term expires on July 30, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. The lease comprises both operating (for the lease of land) and capital (for the lease of the building) elements. The total annual rental payments over the initial lease term are \$1,602 with rent being abated from the commencement date through June 30, 1999. During 2002 and 2001 the MTA made rent payments of \$21. In connection with the renovation of the building and for tenant improvements, the MTA issued \$121 and \$328 in 2000 and 1999, respectively, of long-term obligations (see Note 7). The office building is principally occupied by MTA New York City Transit and MTA Bridges & Tunnels.

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. The amended lease comprises both operating (for the lease of land) and capital (for the lease of buildings and track structure) elements.

In August 1988, the MTA entered into a 99-year lease agreement with Amtrak for Pennsylvania Station. This agreement, with an option to renew, is for rights to the lower concourse level and certain platforms. The \$45 paid to Amtrak by the MTA under this agreement is included in other assets. This amount is being amortized over 30 years. In addition to the 99-year lease, MTA Long Island Rail Road entered into an agreement with Amtrak to share equally the cost of the design and construction of certain facilities at Pennsylvania Station. Under this agreement, the MTA may be required to contribute up to \$60 for its share of the cost. As of December 31, 2000 the project was closed and \$50 was included in property and equipment.

Total rent expense under operating leases approximated \$11.9 and \$8.7 for the three months ended March 31, 2009 and 2008 respectively.

At March 31, 2009, the future minimum lease payments under noncancelable leases are as follows:

(In Millions)	Operating (Unaudited)	Capital (Unaudited)
2009	40	297
2010	50	174
2011	47	70
2012	45	170
2013	45	76
2014–2018	213	400
2019–2023	207	705
2024–2028	213	274
2029–2033	227	1,075
2034–2038	251	701
Thereafter	<u>854</u>	<u>521</u>
	<u>\$ 2,192</u>	4,463
Amount representing interest		<u>(3,095)</u>
Present value of capital lease obligations		<u>\$ 1,368</u>

9. 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 three months ended March 31, 2009 and December 31, 2008 is presented below:

(In Millions)	March 31, 2009 (Unaudited)	December 31, 2008
Balance - beginning of year	\$ 1,330	\$ 1,232
Activity during the year:		
Current year claims and changes in estimates	61	284
Claims paid	<u>(46)</u>	<u>(186)</u>
Balance - end of year	1,345	1,330
Less current portion	<u>(207)</u>	<u>(205)</u>
Long-term liability	<u>\$ 1,138</u>	<u>\$ 1,125</u>

10. COMMITMENTS AND CONTINGENCIES

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

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

11. POLLUTION REMEDIATION COST

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

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

- MTA voluntarily commences or legally obligates itself to commence remediation efforts

Operating expense provision and corresponding liability measured at its current value using the expected cash flow method have been recognized for certain pollution remediation obligation that previously may not have been required to be recognized, or are not longer able to be capitalized as a component of a capital project. As of March 31, 2009, the MTA has recognized a total cost of \$6 and a pollution remediation liability of \$105.

The pollution remediation liability consists of future and present activities associated with asbestos removal and contamination of the soil at different facilities.

12. OPERATING ACTIVITY INFORMATION

(In Millions)	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
March 31, 2009 (Unaudited)						
Operating revenue	\$ 68	\$ 249	\$ 795	\$ 293	\$ (11)	\$ 1,394
Depreciation and amortization	19	135	301	19	-	474
Subsidies and grants	11	-	-	-	-	11
Tax revenue	291	-	91	-	(68)	314
Interagency subsidy	51	-	5	(51)	(5)	-
Operating (deficit) surplus	(225)	(447)	(1,140)	167	21	(1,624)
Net (deficit) surplus	(393)	(428)	(514)	23	(1)	(1,313)
Capital expenditures	(1,308)	(57)	(204)	(127)	386	(1,310)
March 31, 2009 (Unaudited)						
Total assets	10,070	10,296	29,806	4,495	(1,335)	53,332
Net working capital	(171)	16	(1,004)	(279)	(305)	(1,743)
Long-term debt — (including current portion)	17,962	-	-	8,725	(41)	26,646
Net assets	(11,621)	9,073	24,567	(4,998)	-	17,021
March 31, 2009 (Unaudited)						
Net cash (used in)/provided by operating activities	(163)	(242)	(475)	166	23	(691)
Net cash provided by/(used in) noncapital financing activities	156	259	129	(68)	(181)	295
Net cash (used in)/provided by capital and related financing activities	(524)	(8)	(96)	30	160	(438)
Net cash provided by/(used in) investing activities	455	(11)	451	(121)	10	784
Cash at beginning of year	160	25	34	12	(25)	206
Cash at end of period	84	23	43	19	(13)	156

NOTE: Only MTA and MTA Bridges and Tunnels agencies are issuing debt.

(Continued)

(In Millions)	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
March 31, 2008 (Unaudited)						
Operating revenue	\$ 65	\$ 253	\$ 793	\$ 297	\$ (9)	\$ 1,399
Depreciation and amortization	17	125	266	18	-	426
Subsidies and grants	72	-	-	-	-	72
Tax revenue	250	-	231	-	(39)	442
Interagency subsidy	86	-	19	(86)	(19)	-
Operating (deficit) surplus	(223)	(405)	(1,050)	173	-	(1,505)
Net (deficit) surplus	(20)	(390)	(648)	13	14	(1,031)
Capital expenditures	871	52	191	43	(227)	930
December 31, 2008						
Total assets	10,882	10,306	29,885	4,263	(1,879)	53,457
Net working capital	988	37	(393)	(359)	(686)	(413)
Long-term debt -	-	-	-	-	-	-
(including current portion)	17,673	-	-	8,496	(42)	26,127
Net assets	(10,852)	9,125	25,081	(5,020)	-	18,334
March 31, 2008 (Unaudited)						
Net cash (used in)/provided by operating activities	(151)	(244)	(457)	185	20	(647)
Net cash provided by/(used in) noncapital financing activities	418	257	330	(105)	(397)	503
Net cash provided by/(used in) capital and related financing activities	(330)	(3)	(180)	950	377	814
Net cash provided by/(used in) Investing activities	83	(11)	310	(1,034)	-	(652)
Cash at beginning of year	53	24	35	18	-	130
Cash at end of period	73	23	38	14	-	148

NOTE: Only MTA and MTA Bridges and Tunnels agencies are issuing debt.

(Concluded)

13. SUBSEQUENT EVENTS

On April 9, 2009, \$50 of MTA Bridges and Tunnels Subordinate Revenue Bonds, Series 2000CD were refunded from the proceeds of MTA Bridges and Tunnels General Revenue Mandatory Tender Bonds, Series 2009A-1. A portion of the swap associated with the aforementioned bonds has been reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B.

On April 10, 2009, Moody's Investors Service Inc. placed the MTA's Transportation Revenue Bonds rating on Watchlist for possible downgrade from the current A2 rating. Moody's explained that this action was prompted by the MTA's projected budget shortfalls and the absence of a long term funding solution to finance future debt service costs on the Transportation Revenue Bonds. The review is expected to be completed within 90 days. The Triborough and Tunnel Authority (TBTA) bonds and MTA's Dedicated Tax Fund bonds are supported by different revenue streams from MTA's Transportation Revenue Bonds and are not affected by the Watchlist action.

On April 23, MTA issued \$500 of tax-exempt DTF Bonds, Series 2009B. Simultaneously with the issuance of the 2009B Bonds, MTA issued \$750 of taxable Build America Bonds DTF Bonds, Series 2009C. Proceeds of the combined issues will be used for existing approved Transit and Commuter projects. A portion of the 2009B Bonds may also be used to refund existing Transportation Revenue or DTF indebtedness. The Build America Bonds program was authorized in the American Recovery and Reinvestment Act of 2009 and includes a subsidy of 35% of the coupon to be paid to MTA by the U.S. Treasury for the life of the bonds.

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METROPOLITAN TRANSPORTATION AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF PENSION FUNDING PROGRESS

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

(\$ in millions)

	January 1, 2008	January 1, 2007	January 1, 2006
LIRR [1]:			
a. Actuarial value of plan assets	\$ 537.6	\$ 509.1	\$ 625.0
b. Actuarial accrued liability (AAL)	1,560.1	1,543.5	1,898.6
c. Total unfunded AAL (UAAL) [b-a]	1,022.5	1,034.4	1,273.6
d. Funded ratio [a/b]	34.5 %	33.0 %	32.9 %
e. Covered payroll	\$ 80.9	\$ 94.0	\$ 117.3
f. UAAL as a percentage of covered payroll [c/e]	1263.5 %	1100.4 %	1085.8 %
MaBSTOA [2]:			
a. Actuarial value of plan assets	\$ 1,190.8	\$ 1,057.9	\$ 841.0
b. Actuarial accrued liability (AAL)	2,045.0	1,938.3	1,725.2
c. Total unfunded AAL (UAAL) [b-a]	854.1	880.5	884.2
d. Funded ratio [a/b]	58.2 %	54.6 %	48.7 %
e. Covered payroll	\$ 562.2	\$ 519.7	\$ 498.0
f. UAAL as a percentage of covered payroll [c/e]	151.9 %	169.4 %	177.5 %
MNR Cash Balance Plan [3]:			
a. Actuarial value of plan assets	\$ 1.3	\$ 1.4	\$ 1.5
b. Actuarial accrued liability (AAL)	1.4	1.4	1.6
c. Total unfunded AAL (UAAL) [b-a]	0.065	0.074	0.100
d. Funded ratio [a/b]	95.4 %	94.8 %	94.0 %
e. Covered payroll	\$ 6.8	\$ 6.8	\$ 7.9
f. UAAL as a percentage of covered payroll [c/e]	1.0 %	1.1 %	1.3 %

[1] The LIRR pension plan has a separately issued financial statement that is publicly available and contains required descriptions and supplemental information regarding the employee benefit plan. The statements may be obtained by writing to Metropolitan Transportation Authority, comptroller, 345 Madison Avenue, New York, New York 10017-3739.

[2] MaBSTOA issues a publicly available financial report that includes financial statements and required supplementary information for the MaBSTOA Plan. That report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, Operations Accounting, 2 Broadway, 15th Floor, New York, NY 10004.

[3] Further information about the MNR Plan is more fully described in the separately issued financial statements which can be obtained by writing to the MTA Metro-North Railroad Chief Financial Officer, 347 Madison Avenue, New York, New York 10017-3739.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS FOR THE MTA POSTEMPLOYMENT BENEFIT PLAN
YEAR ENDED DECEMBER 31, 2008 AND 2007
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)
(\$ in millions)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrual Liability (AAL) {b}	Unfunded Actuarial Accrual Liability (UAAL) {c} = {b} - {a}	Funded Ratio {a} / {c}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c} / {d}
December 31, 2008	January 1, 2006	\$ -	\$ 13,241	\$ 13,241	\$ -	\$4,557.1	290.6 %
December 31, 2007	January 1, 2006	-	13,623	13,623	-	4,381.9	310.9 %

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF FINANCIAL PLAN TO UNAUDITED FINANCIAL STATEMENTS RECONCILIATION FOR THE PERIOD ENDED MARCH 31, 2009

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

(\$ in millions)

FINANCIAL PLAN ACTUAL — OPERATING LOSS	<u>\$ (1,611.6)</u>
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Reconciling items:

FMTAC revenues are recorded as operating on the Financial Plan and recorded as non-operating on the Financial Statements	(2.4)
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Various agencies recorded adjustments to the Financial Statements after the Financial Plan was completed	(4.3)
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The Financial Statement was adjusted for OPEP after Financial Plan closed.	(5.9)
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The Financial Plan excluded Capital Construction and East Side Access	0.1
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FINANCIAL STATEMENT — OPERATING LOSS	<u>\$ (1,624.1)</u>
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METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION (UNAUDITED)

CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2009

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

(\$ in millions)

Category	Financial Plan Actual	Financial Statement GAAP Actual	Variance
REVENUE:			
Farebox revenue	\$ 995.3	\$ 995.1	\$ (0.2)
Vehicle toll revenue	290.1	290.1	0.0
Other operating revenue	119.1	108.9	(10.2)
Total revenue	<u>1,404.5</u>	<u>1,394.1</u>	<u>(10.4)</u>
EXPENSES:			
Labor:			
Payroll	1,032.3	1,046.1	(13.8)
Overtime	128.3	114.7	13.6
Health and welfare	175.6	175.8	(0.2)
OPEB Current Payment	84.4	320.5	(236.1)
Pensions	108.8	109.4	(0.6)
Other fringe benefits	119.5	126.0	(6.5)
Postemployment benefits	348.1	118.7	229.4
Reimbursable overhead	(78.0)	(67.2)	(10.8)
Total labor expenses	<u>1,919.0</u>	<u>1,944.0</u>	<u>(25.0)</u>
Non-labor:			
Traction and propulsion power	90.0	90.0	0
Fuel for buses and trains	42.2	41.4	0.8
Insurance	0.3	(1.3)	1.6
Claims	43.2	43.2	0.0
Paratransit service contracts	85.9	85.9	0
Maintenance and other	143.2	142.5	0.7
Professional service contract	37.8	39.8	(2.0)
Pollution remediation project costs	3.0	6.3	(3.3)
Materials and supplies	145.9	146.4	(0.5)
Other business expenses	49.8	6.0	43.8
	<u>641.3</u>	<u>600.2</u>	<u>41.1</u>
Other expenses adjustments:			
TBTA transfer	4.8	0.0	4.8
GASB general reserve	0.0	0.0	0.0
Interagency subsidy	(24.1)	0.0	(24.1)
Total other expense adjustments	<u>(19.3)</u>	<u>0</u>	<u>(19.3)</u>
Total expenses before depreciation	2,541.0	2,544.2	(3.2)
Depreciation	<u>475.1</u>	<u>474.0</u>	<u>1.1</u>
Total expenses	<u>3,016.1</u>	<u>3,018.2</u>	<u>(2.1)</u>
NET OPERATING SURPLUS/(DEFICIT)	<u>\$ (1,611.6)</u>	<u>\$ (1,624.1)</u>	<u>\$ 12.5</u>
EXCLUDING SUBSIDIES AND DEBT SERVICES			

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION (UNAUDITED)
CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN
AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2009
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)
(\$ in millions)

Accrued Subsidies	Financial Plan Actual	Financial Statement GAAP Actual	Variance	
Mass transportation operating assistance	\$ 0.0	\$ 0.0	\$ -	
Petroleum business tax	135.1	135.1	-	
Mortgage recording tax 1 and 2	53.1	82.4	29.3	{1}
MRT transfer	(1.3)	(1.3)	-	
Urban tax	44.1	44.1	-	
State and local operating assistance	0.0	0.0	-	
Additional mass transportation assistance program	0.0	0.0	-	
Nassau county subsidy to long island bus	10.5	10.5	-	
Station maintenance	36.0	36.0	-	
Connecticut department of transportation (CDOT)	-	-	-	
	67.8	72.0	4.2	{1}
NYS Grant for debt service	0.0	0.0	-	{2}
Investment income	0.0	2.7	2.7	
	<u>345.3</u>	<u>381.5</u>	<u>36.2</u>	
Total accrued subsidies				
Net operating surplus/(deficit) excluding accrued subsidies and debt service		<u>(1,624.1)</u>	<u>(1,624.1)</u>	
Total net operating surplus/(deficit)	<u>\$ 345.3</u>	<u>\$ (1,242.6)</u>	<u>\$ (1,587.9)</u>	
Interest on long-term debt	<u>\$ -</u>	<u>\$ 301.4</u>	<u>\$ -</u>	
Debt service	<u><u>\$ 353.3</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	

{1} The financial statement includes accrual.

{2} The financial plan will record investment in the 2nd quarter.