

**Metropolitan
Transportation Authority**
(A Component Unit of the State of New York)

Independent Accountants' Review Report

**Consolidated Financial Statements
Period Ended September 30, 2009**

METROPOLITAN TRANSPORTATION AUTHORITY

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To the Members of the Board of
Metropolitan Transportation Authority

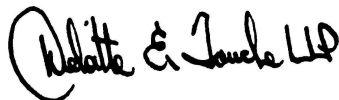
We have reviewed the accompanying consolidated interim balance sheet of the Metropolitan Transportation Authority (the "Authority"), a component unit of the State of New York, as of September 30, 2009, and the related consolidated statements of revenues, expenses and changes in net assets, and consolidated cash flows for the periods ended September 30, 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 83 through 87 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.



January 15, 2010

METROPOLITAN TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS PERIODS ENDED SEPTEMBER 30, 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:

Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the MTA Group for the nine months ended September 30, 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.

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.

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 nine months ended September 30, 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.

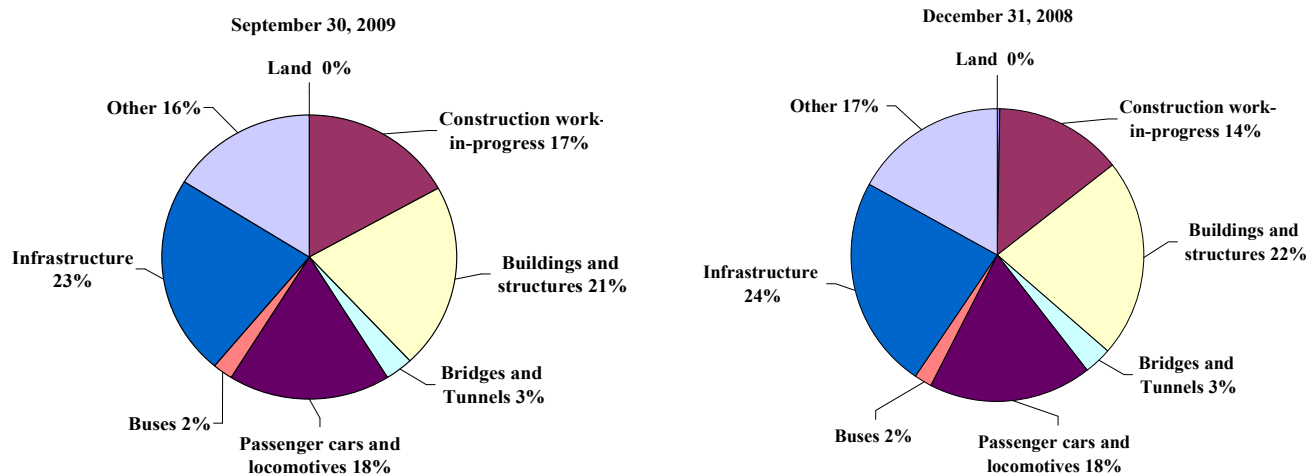
Total Assets, Distinguished Between Capital Assets, Net and Other Assets

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

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

(In millions)	September 2009 (Unaudited)	December 2008	December 2007
Capital assets — net (see Note 6)	\$ 45,877	\$ 43,323	\$ 40,611
Other assets	<u>10,139</u>	<u>10,134</u>	<u>11,158</u>
Total assets	<u>\$ 56,016</u>	<u>\$ 53,457</u>	<u>\$ 51,769</u>

Capital Assets, Net



September 30, 2009 versus December 31, 2008

- As of September 30, 2009 net capital assets increased by \$2,554 with the largest increase of \$1,829 accounted for by construction work-in-progress asset group. Passenger cars and locomotives net increased was \$995; infrastructure increased by \$460; acquisition of buses increased by \$217; net buildings and structures increased by \$205. Other net capital assets increased by a net of \$281 and the acquisition of land increased by \$3. These increases were partially offset by current year depreciation expenses of \$1,438. Some of the more significant projects contributing to the increase included:
 - Rehabilitation and upgrading line structures on main subways lines for a total of \$ 264.8. LIRR rehabilitation of the Atlantic Avenue Viaduct and the 2009 Track Program, as well as various other Line Structure projects for an additional \$152.2.

- Various signal and communication projects continued ongoing work for an additional \$34.3 related to Babylon Branch Improvements, Audio Video Public Address System expansion and microprocessor upgrades at various interlockings.
- Passenger Stations rehabilitations continued for Atlantic Terminal Complex, Jamaica Fit-Out and Seaford Station at a cost of \$30.3.
- Projects upgrading Shops and Yards such as the M of W Repair Facility and Long Island City Yard incurred an additional cost of \$12.6.
- Placed into service 430 subways cars and 381 buses.
- Hudson Line Station improvements which includes track 4 platforms for the Philipse Manor, the Scarborough stations, and an elevated walkway roof repairs for the Ossining stations. Also a terra cotta and roof replacement for the Poughkeepsie station, and rebuilding works for the Tarrytown, Port Chester and Mamaroneck Stations.
- Installation of chemical, biological, and radiological early detection equipment at Grand Central Terminal.
- System-wide track replacement, train shed repairs and bridges rehabilitation.
- Deck replacements at Robert F. Kennedy Bridge, the Whitestone Bridge and the Throgs Neck Bridge, which included structural rehabilitation. Lower level deck replacement at the Henry Hudson Bridge, and rehabilitation of the upper level suspension spans at the Verrazano Narrow Bridge and replacement of all exhaust fans at the Queens Midtown Tunnel.
- Other assets had a net increase of \$5. The items contributing to this change include, but are not limited to:
 - Cash decreased by \$48. The decrease in cash was mainly due to the termination of 2002 QTE Amsouth 2 and 4 capital leases,
 - Investments decreased by \$677. Current investments decreased by \$595 due to usage of bond proceeds for capital expenditures, and payment of debt service. Funds available for operating expenses were reduced considerably for agencies' operations. The net decline of Mortgage Recording Tax funds by \$144 was due to lower collection of MRT taxes. Investment held under capital leases declined by \$42 mainly due to payments to the lessee, amortization, and the termination of two leases.
 - The increase of \$943 in net receivables was primarily due to:

State and regional mass transit taxes increased by \$890. The 2009-2010 New York State budget appropriated less funds for State and Regional Mass Transit Tax than in the 2008-2009 budget, the rate of receipt was less frequent. That low receipt resulted in a greater receivable outstanding.

State and local operating assistance receivable increased 175. Although the 2009-2010 New York State budget appropriated less funds for State and Regional Mass Transit Tax than in 2008-2009 budget. In addition, the rate of receipt was less frequent. The low receipts resulted in a greater receivable outstanding.

Station maintenance billed and unbilled receivable increased by \$9. Current legislation provides that MTAHQ bill New York City and the counties the cost for station maintenance use and operations for twelve months. On May 27, 2009 MTA board approved an increase of .931% based on the consumer price index for the New York City area, for station maintenance.

Other Subsidy inclusive of urban tax and New York State and City school tax increased by \$7 as a result of additional Paratransit expenses incurred by the Transit Authority.

In 2009, the outstanding receivable from December 2008 for the Connecticut Department of Transportation was received, which accounts for the \$9 decrease subsidy receivable as of September 30, 2009.

New York City subsidy decreased by \$40. The amount received in May 2009 covered payment for the 2008 balances.

Capital project receivable from the Federal and State government decreased by \$79 due to lower State Grant requisitions and timing of reimbursements.

Receivables from Build America Bonds subsidy increased by \$11. Payment is due from the Federal Government in the fourth quarter 2009.

- To insure availability of parts and supplies for emergency needs, materials and supplies inventory increased by \$24 from December 31, 2008.
- Advance to defined benefit pension and other prepaid expenses decreased by \$46 due to the amortization of original cost.
- Other non current assets decreased by \$164. The variance is a result of a reduction of un-requisitioned funds for NYCTA and MTA Bus capital expenditures by MTA Headquarters.

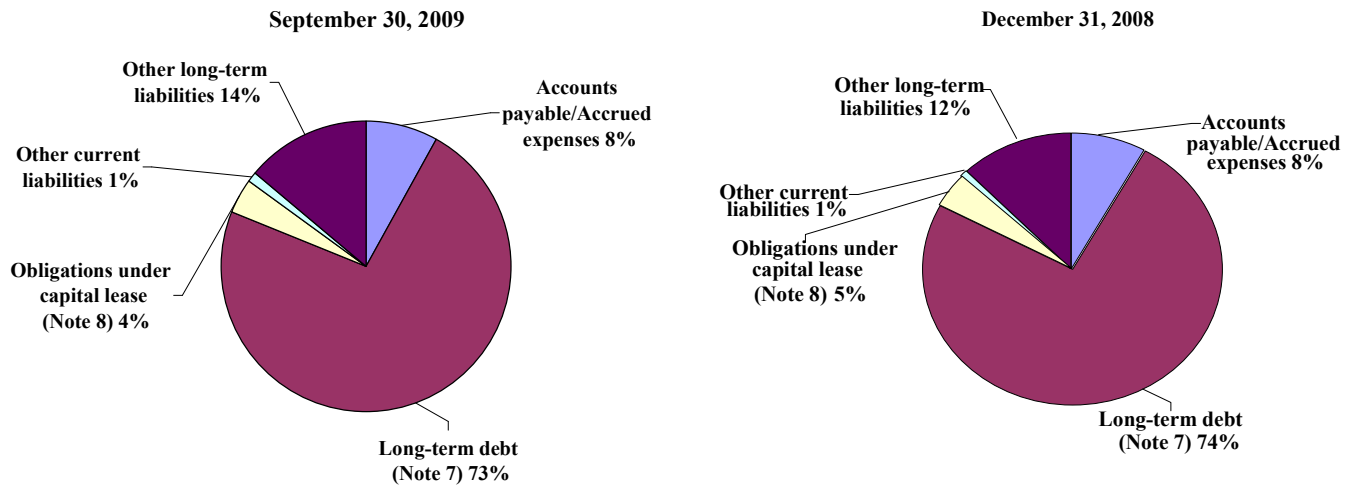
Total Liabilities, Distinguishing Between Long-Term Liabilities and Other Liabilities

Current liabilities include: account payable, interest payable, salary, wages, vacation, payroll taxes and other employee benefits payable. Current portion of long-term debt and deferred revenue also make up current liabilities.

Long-term liabilities consist of retirement and death benefits payable, accruals for liabilities arising from injuries to persons, post employment benefit payable, obligations under capital leases and long-term debt.

(In millions)	September 2009 (Unaudited)	December 2008	December 2007
Current liabilities	\$ 5,049	\$ 3,613	\$ 3,492
Long-term liabilities	<u>34,287</u>	<u>31,510</u>	<u>28,980</u>
Total liabilities	<u>\$ 39,336</u>	<u>\$ 35,123</u>	<u>\$ 32,472</u>

Total Liabilities



September 30, 2009 versus December 31, 2008

- Current liabilities increased by \$1,436. This net increase is due to an increase in accounts payable and accrued expenses in the amount of \$555, and an increase in other current liabilities of \$881.
 - Accounts payable and accrued expenses net increase of \$555 was due to:
 - Salaries, wages, benefits, and payroll taxes increased by \$122 due mainly to accrued wage rate increases in anticipation of labor contract resolution. Accounts payable decreased by \$31 due primarily to timing. The issuance of fixed rate Transportation Revenue Bonds in the last quarter of 2008 and new bonds in 2009 is mainly responsible for the increase in interest payable in the amount of \$209. The current portion of retirement and death benefits increased by \$303. The current accrual is based on actuarial data. Other liabilities declined by \$48.
 - Other current liabilities increased by \$878 due to:
 - Current portion of long-term debt increased by \$779. MTA Bridges and Tunnels increased by \$107 and MTAHQ increased by \$672. The total increase reflects the impact of the Revenue Anticipation Notes for \$600 issued by the MTAHQ payable in 2009. Debt service payments due in 2010 also contributed to the increase.
 - An increase of \$127 in deferred revenue related mainly to an increase in unredeemed fare cards and advance payments received for advertising.
 - A decrease of \$25 in current portion of obligations under capital leases resulting from the termination of two leases and principal payments made in 2009.

- Noncurrent liabilities increased by \$2,777. This net increase was primarily related to:
 - Increase of \$1,063 related to accruals for other postemployment benefits other than pension (“OPEB”). The increase represents the actuarial required contribution related to the current period net of any payment incurred during the period. In 2009, a preliminary calculation provided by the Actuary, reported an increase on the required contributions with respect to 2008. Final disclosure from the Actuary will be provided later in 2009.
 - Long-term debt increased by \$1,684 due primarily to, the issuance of MTA Dedicated Tax Fund bonds, Series 2009A in March of 2009 in the amount of \$261.7. In April of 2009 Series B and C were issued in the amount of \$500 and \$750 respectively. 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 \$198 and Series 2000 C and D for \$50 respectively. On September 10, 2009, TBTA issued \$200 General revenue Bonds, series 2009B as taxable Build America Bonds. Other variances are due to amortization of premiums and discounts of prior bond issuances.
 - Long-term obligations under capital lease decreased by \$41. The decrease was primarily related to the termination of Amsouth-2 and Amsouth-4 capital leases as a result of AIG’s downgrade.
 - Estimated liability arising from injuries to persons increased by \$38. Contract retainage increased by \$5. The increase on contract retainage is derived from the fact that retainage withheld during the current period was higher than payments of retainage liability.
 - Other long-term liabilities increased by \$26. This increase results from the decision to provide more collateral funds to secure future payments and prevent possible default from the insurance companies on their capital lease obligations.

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

(In millions)	September 2009 (Unaudited)	December 2008	December 2007
Invested in capital assets, net of related debt	\$ 16,925	\$ 15,790	\$ 15,903
Restricted for debt service	1,454	972	996
Restricted for claims	140	96	92
Unrestricted	<u>(1,839)</u>	<u>1,476</u>	<u>2,306</u>
Total	<u>\$ 16,680</u>	<u>\$ 18,334</u>	<u>\$ 19,297</u>

September 30, 2009 versus December 31, 2008

At September 30, 2009, the total net assets decreased by \$1,654 from December 31, 2008. This decrease reflects a net operating loss of \$5,103, net non-operating revenues of \$2,134 and appropriations, grants and other receipts externally restricted for capital projects of \$1,315. The investment in capital assets, net of related debt, increased by \$1,135. Funds restricted for debt service and claims increased by \$526 and unrestricted net assets decreased by \$3,315 due partially to a loss from operations.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(In millions)	September 30, 2009 (Unaudited)	September 30, 2008 (Unaudited)
OPERATING REVENUES:		
Passenger and tolls	\$ 4,190	\$ 4,139
Other	<u>291</u>	<u>312</u>
Total operating revenues	<u>4,481</u>	<u>4,451</u>
NONOPERATING REVENUES:		
Grants, appropriations and taxes	2,695	3,378
Other	<u>377</u>	<u>370</u>
Total nonoperating revenues	<u>3,072</u>	<u>3,748</u>
Total revenues	<u>7,553</u>	<u>8,199</u>
OPERATING EXPENSES:		
Salaries and wages	3,464	3,402
Retirement and other employee benefits	1,502	1,426
Postemployment benefits other than pensions	1,317	1,251
Depreciation and amortization	1,438	1,308
Other expenses	<u>1,863</u>	<u>1,834</u>
Total operating expense	<u>9,584</u>	<u>9,221</u>
NONOPERATING EXPENSE:		
Interest on long-term debt	930	865
Other nonoperating expense	<u>8</u>	<u>4</u>
Total nonoperating expense	<u>938</u>	<u>869</u>
Total Expenses	<u>10,522</u>	<u>10,090</u>
APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>1,315</u>	<u>1,476</u>
CHANGE IN NET ASSETS	(1,654)	(415)
NET ASSETS — Beginning of year	<u>18,334</u>	<u>19,297</u>
NET ASSETS — End of year	<u>\$ 16,680</u>	<u>\$ 18,882</u>

Revenues and Expenses, by Major Source:

September 30, 2009 versus September 30, 2008

- Total operating revenues for the nine months ended September 30, 2009 were \$30 greater than for the nine months ended September 30, 2008.
 - Fare revenue increased by \$27. The increase was due mainly to the June 2009 fare increase that was partly offset by lower ridership because of a weak local economy. Toll revenues increased by \$24 which resulted from the toll increase that went into effect on July 12, 2009. Despite lower traffic volumes, the toll increase was enough to push revenues above 2008 levels during the third quarter.
 - Other operating revenues decreased by \$21. This decrease is due primarily from a reduction on school, elderly and paratransit reimbursements in the amount of \$24.5 offset partially by an increase in advertising revenues of \$3.5.
- Total operating expenses for the nine months ended September 30, 2009 were higher than the nine months ended September 30, 2008 by \$363.

- Labor costs, including retirement and other employee benefits, were higher by approximately \$204 and includes:

Salary and wage increases of \$62 was primarily due to retroactive wage rate increases partially offset by a decrease in reimbursable cost.

Health and welfare expenses increased by \$24 due to the rising cost of medical expenses and increased headcount. The decrease of \$24 in reimbursable overhead was mainly due to a rise in labor expenses.

The unfavorable variance of \$122 for Pension expenses is derived from an updated actuarial valuation. Other fringe benefits decreased by \$46 due to a reduction of worker's compensation costs.

Postemployment benefits other than pensions increased by \$66. Current cost was based on actuarial calculations which include normal cost of retirees plus amortization of unfunded liability and interest costs.

- Non-labor operating costs were higher by \$159. Cost elements contributing to this increase were:

Traction propulsion power cost with an increase of \$16 due to higher energy costs.

Depreciation cost increased by \$130 due to additional capital assets placed into service.

Paratransit service contractors cost increased by \$63 due to a higher transportation cost and increased trip volume.

Usage of outside sources for current operations increased professional services contracts by \$9.

Claims expenses increased by \$72. This resulted from higher payments and accrual of workers compensation costs as well as establishing reserves for current lawsuits.

Increase of \$12 in other business expenses. This was due mostly to a new legislated corporate business tax instituted in 2009.

The above increases were offset by decrease in fuel costs of \$100, and pollution remediation project costs of \$29.

The favorable variance of \$16 in maintenance and other operating contracts resulted from the drop in heating fuel prices.

- Total non operating revenue and expenses for the period ending September 30, 2009 were lower than the nine months ended September 30, 2008 by \$745.
- Total grants, appropriations, and taxes were lower by \$683 for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008. The major components of the decrease are related to decreases in State Subsidy for Mass Transit Taxes in the amount of \$242 while Petroleum Business Taxes collected by NYS and allocated to the MTA increased by \$4. The unfavorable variance of \$441 in tax-supported, State and Local subsidies resulted mainly from lower mortgage recording tax, urban tax and state aid. Subsidy from New York State to cover debt service and local share of operating assistance decreased by a net of \$1. Build America Bond subsidy, which began in September 2009 increased Federal subsidies by \$11.
- Subsidies from Connecticut DOT and subsidy from New York City for MTA Bus increased by \$30 from the same period in 2008 due to higher wages and related fringe expenses for the New Haven Line.
- The favorable variance in other non operating income of \$25 was mainly from payments on the hedge fuel contract of \$12.
- Issuance of new bonds in late 2008 and in 2009 accounts for the increase in interest expense on long-term debt increased by \$65.
- Appropriations and grants decreased by \$161. The decrease was due mainly to timing.

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 September 2009, MTA system-wide utilization was 3.2% lower (64.3 million fewer trips) than ridership through September 2008. At the same time, vehicle crossing levels at MTA Bridges and Tunnels facilities declined by 1.8% (4.0 million fewer crossings) in spite of lower gasoline prices than in 2008.

Between the third quarter of 2008 and the third quarter of 2009, seasonally-adjusted non-agricultural employment survey results indicate that New York City lost eighty-seven thousand jobs. However, this

loss is attributable mostly to what occurred between August 2008 and June 2009, when 123,000 jobs were lost. Seasonally adjusted employment began to make a reversal in the third quarter of 2009, regaining 52,600 jobs in July and August; but employment went on the decline again in September, when the gains of the previous two months were completely erased. Compared with the second quarter, employment registered only a very slight increase (less than 1%).

The Federal Reserve Bank's Coincident Economic Indicator ("CEI"), an index of broad economic activity, fell in the third quarter of 2009 relative to the third quarter of 2008. The CEI for New Jersey fell by 4.4%, New York State's fell by 6.3%, and the CEI for New York City fell 3.6%. Compared with the second quarter, however, the index improved marginally for both New York City and New York State (by around 1% and 0.5%, respectively). While this was no indication of a vital regional economy, the index's steadiness in the third quarter followed three consecutive quarters of contraction. Job growth in July and August buoyed the index, in spite of September's disappointing turnaround.

In the third quarter of 2009, New York City's economy experienced mild price deflation, with the CPI falling less than one percent; but this decline was less than for the average of all U.S. cities: the U.S. city average CPI showed prices falling by 1.6% between the third quarter of 2008 and the third quarter of 2009. Deflation, both nationally and locally, has been the result of the steep fall in energy prices that occurred in late 2008 and earlier this year. In the second and third quarters of 2008, energy prices fell precipitously for six straight months as a result of depressed demand for goods and services, and they remained stable throughout the winter of 2009. Only in the second and third quarters of 2009 did energy prices begin to rise slightly, so that at the end of September, energy turned out to be 21.6% cheaper than in the third quarter of 2008. Meanwhile, third quarter consumer prices excluding energy were 1.3% higher than in 2008. The New York Harbor spot price for conventional gasoline averaged \$1.82 per gallon in the third quarter, a pronounced decrease of 38.3% compared with the average spot price in the third quarter of 2008. Initially following a pattern similar to that of general energy prices, the price of gasoline began to fall in the third quarter of 2008, declining in each of the last six months of the year; however, from then on, gasoline prices rose steadily, increasing in each month of 2009, except for July. While lower fuel prices than in 2008 may have contributed to some substitution from mass transit to automobiles, use of both transportation modes declined with the city's loss of employment.

The ambivalence of economic signals for New York City—the not significantly changed quarterly employment mirrored by an inert CEI—belied what was happening to the national economy in the third quarter of 2009: Real Gross Domestic Product ("RGDP") experienced a decided improvement at an annual rate of 3.5% in the third quarter, led by personal consumption expenditures, exports, private inventory investment, federal government spending, and residential fixed investment. The growth of RGDP followed four straight quarters of decline, with falls of 6.4% and by 0.7% in the first and second quarters, respectively.

Notwithstanding the third quarter growth in RGDP, the Federal Reserve Bank elected to keep the Federal Funds rate targeted to between 0 and 0.25%, the same rate that prevailed in the second quarter of 2009. From the first signs of the impending economic downturn nearly two years ago, the intention of the Federal Reserve Bank has been first to forestall a 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 have 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%, 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 of 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 all of 2009, including the third quarter.

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 easiness of the Federal Reserve Bank monetary policy, its Beige Books - published in July and September - gave little indication of improvement in New York City's real estate market activity. According to the reports, the softness in residential and commercial markets is attributable to both weak demand for mortgages and to the unwillingness of lenders to loosen lending standards, a situation reinforced by increasing delinquency rates on home mortgages. Manhattan's office vacancy rates rose moderately in July and August, while rents fell. Likewise, the city's co-op and condo market slackened, with prices reportedly continuing to fall.

The impression conveyed by the Beige Books of a continuing malady in real estate markets was, in fact, borne out by the continuation of lower MTA receipts of real estate taxes in the third quarter of 2009. Urban tax receipts through September 2009 fell by 75.2% compared with their 2008 level, while total MRT receipts fell by 44.3%. Both MRT-1 and MRT-2 receipts declined in the MTA region as a whole. Through September 2009, revenues from MRT-1 dropped 47.4% and MRT-2 revenues fell by 38.2%. 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 six quarters clearly indicates that regional real estate markets in the third quarter were still slogging through the most severe downturn in some time.

Results of Operations — MTA Bridges and Tunnels' paid traffic for the first nine months in 2009 totaled 219.0 vehicles, which was 4.1, or 1.9% less than the volume over the same period in 2008. Most of the decline is attributable to recessionary economic conditions and the toll increase that went into effect on July 12, 2009. There was also one less day in February 2009 because 2008 was a leap year. Despite the lower volumes, the toll increase was enough to push revenues above 2008 levels during the third quarter. Through September, toll revenues in 2009 were \$24.1 or 2.5% above the same period in 2008.

The E-ZPass electronic toll collection system experienced small changes in market share. Commercial vehicles saw some growth, while declines occurred in all other categories. Total average market share during the year 2009 was 73.4% compared with 74.0% in 2008. The average weekday market shares were 75.8% and 76.2% for the nine months of 2009 and 2008. Average weekend market shares for the same aforementioned periods were 68.1% and 68.5% respectively.

MTA New York city Transit's operating revenues for the first nine months of 2009 exceeded the prior-year period by \$14.1 or 0.6%. The favorable variance was primarily due to the June 2009 fare increase partly offset by lower ridership caused by a weak local economy.

MTA Long Island Rail Road's ridership for the nine months ending September 30, 2009 stood at Ridership for the nine months of 2009 stood at 62.4 on passenger revenues of \$377.9, which represents 93% of total revenues. Farebox Revenue decreased by \$3.8 or 1% versus the nine months ended

September 30, 2008. The current economic environment is having a negative impact and contributing to lower ridership and revenues.

MTA Metro-North Railroad's Fare Revenue and Ridership decreased by 1.4% and 4.0%, respectively, compared to 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 compared to 2007 was reduced by 42.4% 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 September 30, 2009 was \$182 or 44% less than the amount collected during the same period in 2008.

Capital Programs — At September 30, 2009, \$18,111 had been committed and \$9,757 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and \$20,709 had been committed and \$19,049 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 nine 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 September 30, 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.

On July 1, 2009 Assured Guaranty acquired Financial Security Assurance Holdings Ltd., a parent company of Financial Security Assurance, Inc. ("FSA"). The guarantees and insurance policies from FSA remain unchanged. FSA's ratings of Aa3 by Moody's, AAA by S&P and AA+ by Fitch did not

change in light of the acquisition.

On July 28, 2009, Standard and Poor's downgraded Ambac Assurance Corporation ("Ambac") from BBB to CC. In addition, on July 29, 2009, Moody's downgraded Ambac from Ba3 to Caa2.

On August 5, 2009, the two interest rate swaps to which Lehman Brothers Special Financing Inc. ("LBSFI") was a counterparty, along with an investment agreement with LBSFI relating to the reserve fund for 2 Broadway COPs, were all terminated. A net negotiated termination payment of \$9.589 was paid to LBSFI reflecting all three transactions as well as a payment of amounts accrued under the swaps since the LBSFI bankruptcy. The termination of the three transactions was approved by the Lehman Brothers Creditors Committee.

July Financial Plan.

On July 29, 2009, the MTA presented to its Board the July Financial Plan 2010-2013 (the July Plan), which, after deficit reducing actions and revised revenue projections, projects a net cash surplus of \$29 in 2009, \$39 in 2010 and \$1 in 2011, while projecting cash deficits of (\$352) and (\$223) for 2012 and 2013, respectively.

These revised revenue projections reflect, among other things, the revenue impacts of the May Legislation described above and the 2009 fare and toll adjustments of approximately 10% that were adopted by the Board on May 11, 2009 and were implemented in late June and early July 2009. In addition, the July Plan includes projected fare/toll yield increases of 7.5% in 2011 and 2013.

The July Plan also includes additional strict spending constraints and additional budget reductions which are projected to result in combined annualized savings of approximately \$300 starting in 2009. The July Plan assumes that employees will contribute through productivity and labor savings, as well as a management wage freeze in 2009. The July Plan recognizes the continued fall-off of real estate transactions as a result of a continued weak real estate market and the overall effect of the regional economy on employment, ridership levels and pensions. It also assumes that a portion of the new tax revenues will go towards paying for some capital expenses in the form of "Pay-As-You-Go Capital."

TWU Arbitration Award.

An arbitration hearing which closed in June 2009 resulted in an award, which purports to set terms of a contract effective January 16, 2009 between the TWU, Local 100 and MTA New York City Transit and MaBATO. The arbitration award is under court review. The legal challenges to the award have been fully argued and briefed. The arbitration award would result in significantly higher costs than what was anticipated in the July Financial Plan. The July Plan assumed a 2009 wage increase of 1.47%, followed by CPI-U increases of 1.87% in 2010 and 2.23% in 2011. The arbitration panel, however, awarded a much higher set of wage increases. While the award delays wage increases for the first two years of the contract, overall, it results in wage increases that approximate 4% in 2009, 4% in 2010, and 3% in 2011. However, preliminary estimates indicate that this award would cost the MTA approximately \$100 in 2010 and \$250 in 2011 over the amounts already included in the July Financial Plan. The MTA is seeking to vacate the decision as legally flawed. The case is fully briefed and argued and awaits the judge's decision.

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 Capital Programs.

On August 13, 2009, the Review Board approved an amendment to the 2005-2009 MTA Capital Programs increasing their value to approximately \$20.4 billion in order to recognize changes in project costs, add and defer projects, modify investment strategies and to incorporate \$1.0 billion of new federal funding for these Programs to support East Side Access and the Second Avenue Subway.

Section 1269(b) of the Public Authorities Law requires MTA to submit capital plans to the MTA Capital Program Review Board (the Review Board). New five-year Proposed MTA Capital Programs (Programs) for the Transit and Commuter Systems for the 2010-2014 period have been submitted by MTA to the Review Board. The Programs, totaling approximately \$25.6 billion, were reviewed and authorized for submission to the Review Board by the MTA Board at its September meeting held on September 23, 2009. Included in the Programs is approximately \$19.8 billion for core investments for the ongoing replacement needs of the existing Transit and Commuter Systems and MTA Bus and \$5.7 billion to finish East Side Access and the Second Avenue Subway. The Programs include \$15.7 billion of identified funding - including \$6 billion of new bonding authorized by the May Legislation - leaving a \$10 billion funding gap. The new bonding, in combination with other identified revenues, provides for two years of program funding. Progressing the full five-year plan will require the identification of additional funding beyond that provided in the May Legislation or adjustments to the proposed Capital Programs to address the \$10 billion funding gap.

MTA Management.

The above-noted May Legislation amended the Public Authorities Law to provide for the chair of the MTA to serve as its chief executive officer, effective upon appointment by the Governor, with the advice and consent of the State Senate, of a chairman to fill the new term of office created by the legislation. On July 14, 2009, Governor Paterson announced his selection of Jay H. Walder to fill the new term of office. On September 10, 2009, the State Senate confirmed that nomination, thereby finalizing the appointment of Mr. Walder as chair and chief executive officer of the MTA. Mr. Walder is leaving his position as Global Leader of McKinsey's Infrastructure Practice to assume the MTA chairmanship. Mr. Walder is a former Executive Director and Chief Financial Officer of the MTA and former Managing Director of Finance and Planning at Transport for London (TfL).

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METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2009 AND DECEMBER 31, 2008

(\$ In millions)

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	\$ 158	\$ 206
Restricted investment (Note 3)	665	1,083
Unrestricted investments (Note 3)	38	246
Restricted investments held under capital lease obligations (Notes 3 and 8)	276	245
Receivables:		
Station maintenance, operation, and use assessments	117	108
State and regional mass transit taxes	940	50
Mortgage Recording Tax receivable	23	20
State and local operating assistance	182	7
Other subsidies	25	18
Connecticut Department of Transportation	5	14
Due from Build American Bonds	11	-
New York City	23	63
Due from Hudson Yards Infrastructure Corporation	-	33
Capital project receivable from federal and state government	230	309
Other	217	208
Less allowance for doubtful accounts	<u>(23)</u>	<u>(23)</u>
Total receivables — net	1,750	807
Materials and supplies	438	414
Advance to defined benefit pension trust	53	66
Prepaid expenses and other current assets (Note 2)	<u>100</u>	<u>133</u>
Total current assets	<u>3,478</u>	<u>3,200</u>
NONCURRENT ASSETS:		
Capital assets — net (Note 6)	45,877	43,323
Restricted investment held under capital lease obligations (Notes 3 and 8)	1,026	1,099
Restricted investments (Note 3)	864	1,890
Unrestricted investments (Note 3)	1,094	77
Receivable from New York State	2,118	2,145
Other noncurrent assets	<u>1,559</u>	<u>1,723</u>
Total noncurrent assets	<u>52,538</u>	<u>50,257</u>
TOTAL	<u>\$ 56,016</u>	<u>\$ 53,457</u>

See independent accountants' review report and notes to consolidated financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2009 AND DECEMBER 31, 2008

(\$ In millions)

	September 30, 2009 (Unaudited)	December 31, 2008
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 466	\$ 497
Accrued expenses:		
Interest	427	218
Salaries, wages and payroll taxes	318	213
Vacation and sick pay benefits	733	716
Current portion — retirement and death benefits	559	259
Current portion — estimated liability from injuries to persons (Note 9)	208	205
Other	<u>616</u>	<u>664</u>
Total accrued expenses	2,861	2,275
Current portion — long-term debt (Note 7)	970	191
Current portion — obligations under capital lease (Note 8)	215	240
Current portion — pollution remediation projects (Note 11)	19	19
Deferred revenue	<u>518</u>	<u>391</u>
Total current liabilities	<u>5,049</u>	<u>3,613</u>
NONCURRENT LIABILITIES:		
Retirement and death benefits	40	40
Estimated liability arising from injuries to persons (Note 9)	1,163	1,125
Post employment benefits other than pensions (Note 5)	3,701	2,638
Long-term debt (Note 7)	27,620	25,936
Obligations under capital leases (Note 8)	1,151	1,192
Pollution remediation projects (Note 11)	88	86
Contract retainage payable	219	214
Other long-term liabilities	<u>305</u>	<u>279</u>
Total noncurrent liabilities	<u>34,287</u>	<u>31,510</u>
Total liabilities	<u>39,336</u>	<u>35,123</u>
NET ASSETS:		
Invested in capital assets — net of related debt	16,925	15,790
Restricted for debt service	1,454	972
Restricted for claims	140	96
Unrestricted	<u>(1,839)</u>	<u>1,476</u>
Total net assets	<u>16,680</u>	<u>18,334</u>
TOTAL	<u>\$ 56,016</u>	<u>\$ 53,457</u>

See independent accountants' review report and notes to consolidated financial statements.

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

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

PERIODS ENDED SEPTEMBER 30, 2009 AND 2008

(\$ In millions)

	September 30, 2009	September 30, 2008
	(Unaudited)	
OPERATING REVENUES:		
Fare revenue	\$ 3,207	\$ 3,180
Vehicle toll revenue	983	959
Rents, freight, and other revenue	291	312
Total operating revenues	4,481	4,451
OPERATING EXPENSES:		
Salaries and wages	3,464	3,402
Retirement and other employee benefits	1,502	1,426
Postemployment benefits other than pensions (Note 5)	1,317	1,251
Traction and propulsion power	248	232
Fuel for buses and trains	136	236
Insurance	7	8
Claims	206	134
Paratransit service contracts	272	209
Maintenance and other operating contracts	405	421
Professional service contracts	141	132
Pollution remediation projects (Note 11)	11	40
Materials and supplies	404	401
Depreciation	1,438	1,308
Other	33	21
Total operating expenses	9,584	9,221
OPERATING LOSS	(5,103)	(4,770)
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations, and taxes:		
Tax-supported subsidies — NYS	1,999	2,237
Tax-supported subsidies — NYC and local	301	742
Operating subsidies — NYS	194	208
Operating subsidies — NYC and local	190	191
Build America Bond subsidy	11	0
Total grants, appropriations, and taxes	\$ 2,695	\$ 3,378

See independent accountants' review report and notes to consolidated financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

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

PERIODS ENDED SEPTEMBER 30, 2009 AND 2008

(\$ In millions)

	September 30, 2009	September 30, 2008
	(Unaudited)	
NON-OPERATING REVENUES (EXPENSES):		
Connecticut Department of Transportation and NYC	\$ 267	\$ 237
Subsidies paid to Dutchess, Orange, and Rockland Counties	(4)	(4)
Interest on long-term debt	(930)	(865)
Station maintenance, operation and use assessments	110	112
Other non-operating (expense) revenue	(4)	21
	<u>2,134</u>	<u>2,879</u>
Net non operating revenues		
	<u>2,134</u>	<u>2,879</u>
LOSS BEFORE APPROPRIATIONS	(2,969)	(1,891)
APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS		
EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>1,315</u>	<u>1,476</u>
CHANGE IN NET ASSETS	(1,654)	(415)
NET ASSETS — Beginning of period	<u>18,334</u>	<u>19,297</u>
NET ASSETS — End of period	<u>\$ 16,680</u>	<u>\$ 18,882</u>

See independent accountants' review report and notes to consolidated financial statements.

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

PERIODS ENDED SEPTEMBER 30, 2009 AND 2008

(\$ In millions)

	September 30, 2009	September 30, 2008
	(Unaudited)	
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 4,333	\$ 4,336
Rents and other receipts	225	227
Payroll and related fringe benefits	(4,826)	(4,642)
Other operating expenses	<u>(1,938)</u>	<u>(1,740)</u>
Net cash used in operating activities	<u>(2,206)</u>	<u>(1,819)</u>
CASH FLOWS PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	1,879	2,962
Operating subsidies from CDOT	61	51
Subsidies paid to Dutchess, Orange, and Rockland counties	<u>(9)</u>	<u>(15)</u>
Net cash provided by noncapital financing activities	<u>1,931</u>	<u>2,998</u>
CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	1,518	2,164
MTA Bridges and Tunnels bond proceeds	673	2,275
MTA bonds refunded	-	(2,348)
TBTA bonds refunded	(248)	-
MTA Bridges and Tunnels bonds refunded	-	(673)
MTA anticipation notes proceeds	687	-
MTA anticipation notes redeemed	-	(650)
Capital lease payments	(46)	(15)
Grants and appropriations	1,405	1,486
CDOT capital contributions	-	1
Capital expenditures	(3,691)	(3,165)
Debt service payments	<u>(863)</u>	<u>(849)</u>
Net cash used in capital and related financing activities	<u>(565)</u>	<u>(1,774)</u>
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchase of long-term securities	(3,630)	(5,538)
Sales or maturities of long-term securities	3,772	7,127
Sales of short term securities	617	(1,071)
Earnings on investments	<u>33</u>	<u>103</u>
Net cash provided by in investing activities	<u>792</u>	<u>621</u>
NET (DECREASE) INCREASE IN CASH	(48)	26
CASH — Beginning of period	<u>206</u>	<u>130</u>
CASH — End of period	<u>\$ 158</u>	<u>\$ 156</u>

See independent accountants' review report and notes to consolidated financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS PERIODS ENDED SEPTEMBER 30, 2009 AND 2008 (\$ in millions)

	September 30, 2009	September 30, 2008
	(Unaudited)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (5,103)	\$ (4,770)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,438	1,308
Net increase in payables, accrued expenses, and other liabilities	1,435	1,414
Net decrease in receivables	37	87
Net (increase) decrease in materials and supplies and prepaid expenses	(13)	142
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (2,206)</u>	<u>\$ (1,819)</u>

See independent accountants' review report and notes to financial statements.

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD ENDED SEPTEMBER 30, 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 resubmitted to the CPRB for approval in July 2008, and was approved in August 2009.

As last amended by the MTA Board, the 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program, 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 September 30, 2009, \$18,111 had been committed and \$9,757 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. However, to reconcile with the MTA Board’s approval of the 2005-2009 Capital Program amendment in July 2008, we have updated the 2000-2004 Program to reflect its value through July 2008. This revised budget now provides \$21,151 in capital expenditures, of which \$10,453 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; \$3,960 relates to ongoing repairs of, and replacements to, the Commuter System operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$4,754 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$235 relates to planning and design and customer service projects; \$249 relates to World Trade Center repair projects; \$999 relates to the ongoing repairs and replacements to MTA Bridges and Tunnels facilities; and \$501 relates to MTA Bus.

The combined funding sources for the MTA Board-approved 2000–2004 MTA Capital Programs and 2000–2004 MTA Bridges and Tunnels Capital Program (with revisions through the July 2008) include \$7,919 in bonds, \$6,516 in Federal funds, \$4,575 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002, and \$2,141 from other sources.

At September 30, 2009, \$20,709 had been committed and \$19,049 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 September 30, 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 (“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 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2 for MTA Long Island Bus; and \$1.4 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 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 for MTA Long Island Bus; and \$1.6 for MTAHQ and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 per occurrence with a \$50 annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On September 30, 2009, the balance of the assets in this program was \$66.7.

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

On March 1, 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 per occurrence limit with a \$0.5 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 per occurrence limit with a \$1 per occurrence deductible.

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

Property Insurance — Effective May 1, 2009, FMTAC renewed the all-agency property insurance program. For the period May 1, 2009 to May 1, 2010 at 12:00 AM, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25 per occurrence self-insured retention (“SIR”), subject to an annual \$75 aggregate. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 per occurrence. The total program limit has been reduced to \$1.075 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.

The property market in 2008 experienced one of its worst years for insured property losses on record this coupled with the instability in the financial markets; property treaty reinsurance rates increasing 8% on average with some in excess of 30%; rating agencies scrutinizing the stability of insurers; and increases in insurer modeling estimates resulted in a premium upswing in the property market. As a result of reduced coverage afforded in the \$150M excess of \$1.075B layer and current property market conditions driving the price in this layer higher, FMTAC decided to eliminate the reinsurance layer reducing the program limit to \$1.075 billion.

The property insurance, which was subject to a renewal on May 1, 2009, provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

With respect to acts of terrorism, FMTAC is reinsured by the United States Government for 85% of “certified” losses, as covered by the Terrorism Risk Insurance Act (“TRIA”) of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. Until 2007, the Act only provided coverage for acts sponsored by foreign organizations. The remaining 15% 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 (“trigger”).

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) program, the MTA obtained an additional commercial reinsurance policy with Lexington Insurance Co. Lexington Insurance Company is part of the AIU Holdings, Inc. The insurance companies within AIU currently has an S&P rating of A+ and an AM best rating of A XV. AIU Holdings will be formed by American International Group, Inc. (“AIG”) to act as a General Insurance holding company. The Group will include Commercial Insurance Group, Foreign General Unit, and other property and casualty operations with its own board of directors, management team and brand distinct from AIG. The various companies comprising the Insurance Group, which are incorporated in four states, New York, Pennsylvania, Delaware and Illinois, are protected 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% of any “certified” act of terrorism — up to a maximum recovery of \$161.25 for any one occurrence, or (2) 100% of any “certified” terrorism loss which exceeds \$5 and less than \$100 TRIPRA trigger — up to a maximum recovery of \$100 for any occurrence. This coverage expires at midnight on May 1, 2010. Recovery under this policy is subject to a retention of \$25 per occurrence and \$75 in the annual aggregate — in the event of multiple losses during the policy year. FMTAC is also subject to an additional TRIPRA Captive deductible when recovering under the 15% “certified” acts of terrorism insurance. Should the MTA Group’s retention in any one year exceed \$75 future losses in that policy year are subject to a retention of just \$7.5.

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.

Non-operating 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 September, 2005, the rate was increased from 25 cents per 100 dollars of recorded mortgage to 30 cents per 100 dollars of recorded mortgage. The MTA also receives an additional Mortgage Recording Tax (“MRT-2”) of .25 of one percent of certain mortgages secured by real estate improved or to be improved by structures containing one to nine dwelling units in the MTA’s service area. MRT-1 and MRT-2 taxes are recognized as revenue based upon reported amounts of taxes collected.

- MRT-1 proceeds are initially used to pay MTAHQ’s operating expenses. Remaining funds, if any, are allocated 55% to certain transit operations and 45% to the commuter railroads operations. The commuter railroad portion is first used to fund the NYS Suburban Highway Transportation Fund in an amount not to exceed \$20 annually (subject to the moneys being returned under the conditions set forth in the governing statute if the Commuter Railroads are operating at a deficit). As of September 30, 2009 and September 30, 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 September 30, 2009 and September 30, 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 September 1, 2005 increase in MRT-1 from 25 cents per \$100 of recorded mortgage to 30 cents. As of September 30, 2009, the MTA distributed \$23.2 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% to certain transit operations (not including MTA Bus) and 15% to the commuter railroads operations. Revenues from this funding source are recognized based upon amounts of tax reported collected by NYS, to the extent of the appropriation.

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% of the net operating deficit of MTA Metro-North Railroad's branch lines in Connecticut (New Canaan, Danbury, and Waterbury), 65% of the New Haven mainline operating deficit, and a fixed fee for the New Haven line's share of the net operating deficit of Grand Central Terminal ("GCT") calculated using several years as a base, with annual increases for inflation and a one-time increase for the cost of operating GCT's North End Access beginning in 1999. The Service Agreement also provides that CDOT pay 100% of the cost of nonmovable capital assets located in Connecticut, 100% of movable capital assets to be used primarily on the branch lines and 65% of the cost of other movable capital assets allocated to the New Haven line. Remaining funding for New Haven line capital assets is provided by 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. For the school year 2008-2009 the State reduced its contribution even more to \$25.3. 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 and the remaining \$30 were received in June of 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 \$2.8 in the nine months ended September 30, 2009, and \$1.9 in the nine months ended September 30, 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% of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6.0% of gross Urban Tax Subsidies, or an amount that is 20.0% greater than the amount paid by the NYC for the preceding calendar year. Fare revenue and reimbursements aggregated approximately \$41.9 for the nine months ended September 30, 2009 and \$48.4 in the nine months ended September 30, 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 —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 is 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 September 30, 2009 and December 31, 2008 (in millions):

	September 2009		December 2008	
	(Unaudited)			
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	\$ 88	\$ 81	\$ 130	\$ 127
Uninsured and not collateralized	<u>70</u>	<u>22</u>	<u>76</u>	<u>37</u>
	<u>\$ 158</u>	<u>\$ 103</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 September 30, 2009 and December 31, 2008 (in millions):

	September 2009 (Unaudited)	December 2008
Repurchase agreements	\$ 561	\$ 780
U.S. Treasuries due 2009–2022	961	1,071
Investments restricted for capital lease obligations:		
US Treasury Notes	167	
Short-Term Investment Fund	74	153
Other Agencies	<u>1,061</u>	<u>1,191</u>
Sub-total	1,302	1,344
Other Agencies due 2009-2030	913	1,224
Asset & Mortgage Back Securities*	14	56
Commercial Mortgage Backed Securities*	34	35
Corporate Bonds*	125	88
Foreign Bonds*	40	31
Equities*	<u>13</u>	<u>11</u>
Total	<u>\$ 1,302</u> <u>\$ 3,963</u>	<u>\$ 1,344</u> <u>\$ 4,640</u>

*These securities are only included in the FMTAC portfolio

Fair values include accrued interest to the extent that interest is included in the carrying amounts. Accrued interest on investments other than Treasury bills and coupons is included in other receivables on the 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% and 2.8% at September 30, 2009 and December 31, 2008, respectively.

Of the above cash and investments, amounts designated for internal purposes by management were as follows at September 30, 2009 and December 31, 2008 (in millions):

	September 2009 (Unaudited)	December 2008
Construction or acquisition of capital assets	\$ 649	\$ 1,975
Funds received from affiliated agencies for investment	486	830
Debt service	652	230
Payment of claims	412	296
Restricted for capital leases	1,302	1,491
Other	<u>397</u>	<u>306</u>
Total	<u>\$ 3,898</u>	<u>\$ 5,128</u>

Credit Risk — At September 30, 2009 and December 31, 2008, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization (in millions):

Quality Rating Moody's	September 30, 2009 (Unaudited)	Percent of Portfolio	December 31, 2008	Percent of Portfolio
A-1+	\$ 647	21.03 %	\$ 890	24.43 %
A-1				
AAA	529	17.19	570	15.66
AA	29	0.94	17	0.49
A	61	1.98	66	1.84
BB				
BBB	46	1.49	33	0.90
C	44	1.43		
Not rated	578	18.79	828	22.70
Government	<u>1,143</u>	<u>37.15</u>	<u>1,239</u>	<u>33.98</u>
Total	3,077	<u>100.00 %</u>	3,643	<u>100.00 %</u>
Capital leases	<u>886</u>		<u>997</u>	
Total investment	<u>\$ 3,963</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) Securities	September 2009 (Unaudited)		December 2008	
	Fair Value	Duration	Fair Value	Duration
U.S. Treasuries	\$ 961	0.32	\$ 1,071	0.32
U.S. Agencies	902	0.37	1,252	0.72
Tax Benefits Lease Investments	415	13.35	347	16.50
Repurchase Agreement	561		780	
Certificate of Deposits	11		11	
Asset-Backed Securities ⁽¹⁾	14	1.65	16	1.94
Commercial Mortgage-Backed Securities ⁽¹⁾	34	3.38	35	4.10
Foreign Bonds ⁽¹⁾	40		31	4.06
Corporates ⁽¹⁾	125	4.88	89	2.44
Total fair value	3,063		3,632	
Modified duration		2.18		2.07
Equities ⁽¹⁾	14		11	
Total	3,077		3,643	
Investments with no duration reported	886		997	
Total investments	<u>\$ 3,963</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; and
- 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 defined benefit pension plan that provides retirement, disability and death benefits to plan members and beneficiaries. Members include employees hired prior to January 1, 1988. The LIRR Plan is administered by the 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, Long Island Rail Road, Comptroller, 92-02 Sutphin Boulevard, Jamaica, New York 11435.

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

The funded status of the LIRR Plan as of January 1, 2008 the most recent actuarial valuation date, is as follows (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>\$ 40.1</u>

Three-Year Trend Information

Year Ended (Amounts in millions)	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
December 31, 2008	\$ 99.7	100.23 %	\$ 40.1
December 31, 2007	100.4	100.50	40.4
December 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 of January 1, 2008, the most recent actuarial valuation date, the LIRR Plan was 34.5% funded. The actuarial accrued liability for benefits was \$1,560.1, and the actuarial value of assets was \$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%.

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 assumption was 8.0% 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 September 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. 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):

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><u>\$ (72.0)</u></u>

Three-Year Trend Information

Year Ended (Amounts in thousands)	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
December 31, 2008	\$ 20.0	68.73 %	\$ (72.0)
December 31, 2007	16.0	58.83	(78.0)
December 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% 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%.

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.

The significant actuarial methods and assumptions used in January 1, 2008 valuation were the unit credit cost method and an investment rate of return of 5% per year. The accrued benefit for the unit credit cost method is defined by the plan and is usually used when the annual benefit accrual is a flat dollar amount or a constant percentage of the participant's current annual salary. The asset valuation method utilized was the market value per the Trustee. There was no projected salary increase assumptions used in the January 1, 2008 valuation as the participants of the Plan were covered under the management Plan effective January 1, 1989. For participants of the Plan eligible for additional benefits, the additional benefits were not valued as the potential liability for this benefit is de minimus.

Manhattan and Bronx Surface Transit Operating Authority

Plan Description — MTA New York City Transit contributes to the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) Plan (the "MaBSTOA Plan"), a single employer governmental retirement plan. The MaBSTOA Plan provides retirement, disability, and death benefits to plan members and beneficiaries which are similar to those benefits provided by the 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 employees entering qualifying service on or after July 27, 1976 are required to contribute 3% of their salary and others are required to contribute 2%. Also, certain post-July 27, 1976 employees contribute 1.85% in addition to their 3% contributions, if required. Effective 2000, certain post-July 27, 1976 employees who have been members for 10 years or have 10 years of credited service are no longer required to make the 3% contributions. MaBSTOA's contribution rate is 35.9% 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):

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 (Amounts in millions)	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
December 31, 2008	\$ 203.3	99.3 %	\$ (44.6)
December 31, 2007	180.7	99.2	(46.0)
December 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% 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%.

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

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

	Single-Employer Plans		
	LIRR	MaBSTOA	MNR Cash Balance Plan
Date of valuation	1/1/2008	1/1/2008	1/1/2008
Required contribution rates:	(\$ in millions)		(\$ in thousands)
Plan members			
Employer:	variable actuarially determined	variable actuarially determined	variable actuarially 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	<u>(3.8)</u>	<u>5.1</u>	<u>10.0</u>
APC	99.7	203.3	20.0
Contributions made	<u>(100.0)</u>	<u>(201.9)</u>	<u>(14.0)</u>
Change in NPO (assets)	(0.3)	1.4	6.0
NPO (assets) beginning of year	<u>40.4</u>	<u>(46.0)</u>	<u>(78.0)</u>
NPO (assets) end of year	<u>\$ 40.1</u>	<u>\$ (44.6)</u>	<u>\$ (72.0)</u>

	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	3.50 %	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 non-represented employees hired after December 31, 1987, MTA Metro-North Railroad non-represented 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 for the MSBA Employees’ Pension Plan. The current funded ratio of actuarial accrued assets over actuarial accrued liability is 89.1% 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 Program contribute to that program at various rates.

Covered MTA Metro-North Railroad represented employees and MTA Long Island Rail Road represented employees who first became eligible to be Plan participants prior to January 30, 2008 and MTA Staten Island Railway employees contribute 3% of salary. MTA Long Island Rail Road represented employees who became participants after January 30, 2008 contribute 4% of salary. For the MTA Staten Island Railway employees, contributions are not required after the completion of ten years of credited service. MTA Long Island Rail Road and Metro-North represented employees are required to make the employee contributions for ten years. Certain Metro-North represented employees are required to make the employee contributions until January 1, 2017 and others until 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 programs covering only 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 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. Most employees who entered qualifying service after July 1976, contribute 3% of their salary. Certain MTA New York City Transit employees contribute 2%. Also, certain post-July 27, 1976 employees contribute 1.85% in addition to their 3% contributions, if required, and a small group of such employees contribute 3.83% in addition to the 3% contributions, if required. The State Legislature passed legislation in 2000 that suspended the 3% contribution for most employees who have been members for 10 or more years. MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. The rates are 18.0% and

14.3%, respectively, of covered payroll. The contribution requirements of plan members and MTA New York City Transit and MTA Bridges and Tunnels are established and amended by law. MTA New York City Transit's required contributions for NYCERS fiscal years ended 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% of salary. In 2000, the State Legislature passed legislation that suspends the 3% contribution for employees who have 10 years or more of membership. MTAHQ, which included the Capital Company 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% and 8.0%. The MTAHQ NYSLERS contributions for the years ended December 31, 2008, 2007 and 2006 was approximately 5.7%, 5.5%, and 5.7%, 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% 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%. 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 non-represented 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 non-represented 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
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
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% to 2007.

Participation — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For groups that do not participate in NYSHIP, various coverage election rates are used. The following table displays the election rates used for future union retirees in MTA 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% of male members and 55% 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% 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% 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 June 30, 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)	September 30, 2009 (Unaudited)	December 31, 2008	December 31, 2007
Annual required contribution ("ARC")	\$ 1,408.0	\$ 1,727.6	\$ 1,575.5
Interest on net OPEB obligation	83.1	54.1	-
Adjustment to ("ARC")	<u>(173.6)</u>	<u>(113.0)</u>	<u>-</u>
Annual OPEB cost	1,317.5	1,668.7	1,575.5
Payments made	<u>(254.9)</u>	<u>(320.5)</u>	<u>(285.5)</u>
Increase in net OPEB obligation	1,062.6	1,348.2	1,290.0
Net OPEB obligation — beginning of period	<u>2,638.2</u>	<u>1,290.0</u>	<u>-</u>
Net OPEB obligation — end of period	<u>\$ 3,700.8</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 (in millions):

	Annual	Percentage of	Net OPEB
Year Ended	OPEB Cost	Annual OPEB	Obligation
(In millions)		Cost	
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 (in millions):

Year Ended (In millions)	Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability (AAL) {b}	Unfunded Actuarial Accrued Liability (UAAL) {c}={b}-{a}	Funded Ratio {a}/{c}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c}/{d}
December 31, 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 September 30, 2009 (in millions):

	Balance December 31, 2007	Additions	Deletions	Balance December 31, 2008	Additions	Deletions	Balance September 30, 2009 (Unaudited)
Capital assets — not being depreciated:							
Land	\$ 146	\$ 6	\$ -	\$ 152	\$ 3	\$ -	\$ 155
Construction work-in-progress	<u>5,955</u>	<u>1,521</u>	<u>1,486</u>	<u>5,990</u>	<u>2,034</u>	<u>205</u>	<u>7,819</u>
Total capital assets — not being depreciated	<u>6,101</u>	<u>1,527</u>	<u>1,486</u>	<u>6,142</u>	<u>2,037</u>	<u>205</u>	<u>7,974</u>
Capital assets, being depreciated:							
Buildings and structures	13,229	502	26	13,705	215	10	13,910
Bridges and tunnels	1,814	83	-	1,897	-	-	1,897
Equipment:							
Passenger cars and locomotives	10,292	1,191	6	11,477	995	-	12,472
Buses	2,453	67	-	2,520	217	-	2,737
Infrastructure	13,624	1,097	22	14,699	460	-	15,159
Other	<u>9,876</u>	<u>1,565</u>	<u>5</u>	<u>11,436</u>	<u>284</u>	<u>3</u>	<u>11,717</u>
Total capital assets — being depreciated	<u>51,288</u>	<u>4,505</u>	<u>59</u>	<u>55,734</u>	<u>2,171</u>	<u>13</u>	<u>57,892</u>
Less accumulated depreciation:							
Buildings and structures	3,889	374	-	4,263	283	-	4,546
Bridges and tunnels	384	17	-	401	13	-	414
Equipment:							
Passenger cars and locomotives	3,334	376	2	3,708	345	-	4,053
Buses	1,513	147	-	1,660	86	-	1,746
Infrastructure	4,029	459	11	4,477	362	-	4,839
Other	<u>3,629</u>	<u>418</u>	<u>3</u>	<u>4,044</u>	<u>349</u>	<u>2</u>	<u>4,391</u>
Total accumulated depreciation	<u>16,778</u>	<u>1,791</u>	<u>16</u>	<u>18,553</u>	<u>1,438</u>	<u>2</u>	<u>19,989</u>
Total capital assets — being depreciated — net	<u>34,510</u>	<u>2,714</u>	<u>43</u>	<u>37,181</u>	<u>733</u>	<u>11</u>	<u>37,903</u>
Capital assets — net	<u>\$40,611</u>	<u>\$4,241</u>	<u>\$1,529</u>	<u>\$43,323</u>	<u>\$2,770</u>	<u>\$ 216</u>	<u>\$45,877</u>

Interest capitalized in conjunction with the construction of capital assets at September 30, 2009 and December 31, 2008 was \$40.2 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 September 30, 2009 and December 31, 2008 these securities totaled \$129.8 and \$112.3, respectively, and had a market value of \$125.9 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	June 30, 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	600		600			600
3.00%–5.50% due through 2031	2,395	2,194	-	51	-	2,143
Dedicated Tax Fund Bonds						
3.00%–6.25% due through 2037	4,572	3,636	1,512	-	-	5,148
Certificates of Participation						
4.40%–5.625% due through 2030	807	411	-	10	-	401
	<u>\$21,625</u>	<u>18,021</u>	<u>2,194</u>	<u>61</u>	<u>-</u>	<u>20,154</u>
Less net unamortized bond discount and premium		<u>(347)</u>	<u>7</u>	<u>52</u>	<u>-</u>	<u>(392)</u>
		<u>17,674</u>	<u>2,201</u>	<u>113</u>	<u>-</u>	<u>19,762</u>
TBTA:						
General Revenue Bonds						
4.00%–5.77% due through 2033	\$ 6,920	6,259	525	15	198	6,571
Subordinate Revenue Bonds						
4.00%–5.77% due through 2032	2,858	2,048	150	27	50	2,121
	<u>\$ 9,778</u>	<u>8,307</u>	<u>675</u>	<u>42</u>	<u>248</u>	<u>8,692</u>
Less net unamortized bond discount and premium		<u>146</u>	<u>(2)</u>	<u>8</u>	<u>-</u>	<u>136</u>
		<u>8,453</u>	<u>673</u>	<u>50</u>	<u>248</u>	<u>8,828</u>
Total		<u>\$26,127</u>	<u>\$2,874</u>	<u>\$163</u>	<u>\$ 248</u>	<u>28,590</u>
Current portion		<u>(191)</u>				<u>(970)</u>
Long-term portion		<u>\$25,936</u>				<u>\$27,620</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.

On July 7th, 2009, the MTA issued Revenue Anticipation Notes, Series 2009 in the amount of \$600 to

finance, on a short-term basis, a portion of MTA operating and maintenance expenses addressing a timing mismatch between revenues and operating expenses due to the anticipated delays in receipt of Regional Mobility Tax and MMTOA subsidy transfers from New York State.

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.

In March 2009, MTA 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. In April 2009, MTA issued \$500 of tax-exempt Dedicated Tax Fund Bonds, Series 2009B. Simultaneously with the issuance of the 2009B Bonds, MTA issued \$750 Dedicated Tax Fund Bonds, Series 2009C as taxable Build America Bonds. The Build America Bonds program was authorized in the American Recovery and Reinvestment Act of 2009 and includes an interest subsidy of 35% to be paid to MTA by the U.S. Treasury for the life of the bonds. Proceeds of the combined issues will be used for existing approved transit and commuter capital projects. A portion of the 2009B Bonds may also be used to refund existing Transportation Revenue or Dedicated Tax Fund indebtedness.

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.

On February 11, 2009, MTA Bridges and Tunnels issued \$150 Triborough Bridge and Tunnel Authority General Revenue Mandatory Tender Bonds, Series 2009A-1 and \$325 General Revenue Bonds, Series 2009A-2. 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. On April 9, 2009, a portion of Series 2009A-1 proceeds were used to refinance \$50 of Triborough Bridge and Tunnel Authority Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and D with the remainder of the proceeds used to finance capital projects of MTA Bridges and Tunnels. On September 10, 2009, MTA Bridges and Tunnels issued \$200 Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2009B as taxable Build America Bonds. The Series 2009B proceeds were used to finance capital projects of MTA Bridges and Tunnels.

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 \$20,957 as of September 30, 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.

During 2009, MTA Bridges and Tunnels refunded \$197.9 of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Refunding Bonds, Series 2005B-1. The Series 2005B-1 Bonds were 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.

On April 9, 2009, \$50 of MTA Bridges and Tunnels Subordinate Revenue Bonds, Series 2000C and D were refunded from the proceeds of MTA Bridges and Tunnels General Revenue Mandatory Tender Bonds, Series 2009A-1.

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 September 30, 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)	September 30, 2009 (Unaudited)	December 31, 2008
MTA Transit and Commuter Facilities:		
Transit Facilities Revenue Bonds	\$ 761	\$ 1,004
Commuter Facilities Revenue Bonds	718	1,145
Commuter Facilities Subordinate Revenue Bonds	10	13
Transit and Commuter Facilities Service Contract Bonds	713	772
Dedicated Tax Fund Bonds	1,309	1,346
Excess Loss Trust Fund	-	7
MTA Transportation Revenue Bonds	156	156
MTA New York City Transit — Transit Facilities Revenue Bonds (Livingston Plaza Project)	91	102
MTA Bridges and Tunnels:		
General Purpose Revenue Bonds	1,856	2,079
Special Obligation Subordinate Bonds	199	208
Mortgage Recording Tax Bonds	<u>182</u>	<u>201</u>
Total	<u>\$ 5,995</u>	<u>\$ 7,033</u>

Debt Service Payments — Principal and interest debt service payments at September 30, 2009 are as follows (in millions):

	MTA		MTA BRIDGES AND TUNNELS				Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	(Unaudited)							
2009	\$ 755	\$ 689	\$ 32	\$ 126	\$ 11	\$ 40	\$ 798	\$ 855
2010	390	857	136	313	199	99	725	1,269
2011	408	880	144	304	47	97	599	1,281
2012	444	862	141	307	50	95	635	1,264
2013	458	840	147	300	51	92	656	1,232
2014–2018	2,702	3,840	908	1,317	325	413	3,935	5,570
2019–2023	3,392	3,127	1,155	1,078	429	318	4,976	4,523
2024–2028	4,453	2,240	1,391	811	435	202	6,279	3,253
2029–2033	4,288	1,125	1,654	91	574	58	6,516	1,274
2034–2038	1,581	409	818	142	-	-	2,399	551
Thereafter	<u>533</u>	<u>58</u>	<u>45</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>578</u>	<u>60</u>
	<u>\$ 19,404</u>	<u>\$ 14,927</u>	<u>\$ 6,571</u>	<u>\$ 4,791</u>	<u>\$ 2,121</u>	<u>\$ 1,414</u>	<u>\$ 28,096</u>	<u>\$ 21,132</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% and 6.07% per annum taking into account the interest rate swaps and 4.00% per annum on portions not covered by the interest rate swaps
- *MTA Bridges and Tunnels General Revenue Bonds, Series 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. To date, no payment was made in 2009.

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	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	LOC	9/30/2011
MTA Bridges and Tunnels General Revenue	2001C	Y	Bayerische LB	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-Wuerttemberg (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 (September 30, 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 positive.

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

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

MTA TRANSPORTATION REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 09/30/09 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 09/30/09 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2002D-2	200.000	01/01/07	4.450 %	69% of one-month LIBOR ⁽¹⁾	\$ (55.344)	11/01/32	JPMorgan Chase, NA
Series 2005D and Series 2005E	400.000	11/02/05	3.561	67% of one-month LIBOR ⁽¹⁾	(57.027)	11/01/35	75% – UBS AG 25% – AIG Financial Products Corp.
Series 2012 ⁽²⁾	359.450	11/15/12	3.563	67% of one-month LIBOR ⁽¹⁾	(32.185)	11/01/32	JPMorgan Chase Bank, NA
Total	\$959.450				\$ (144.556)		

(1) London Interbank Offered Rate.

(2) Under the Series 2012 swaps, JPMorgan Chase Bank, NA has an option to cancel the swaps on June 15, 2012 prior to the effective date listed above. In the event the swap is canceled, JPMorgan Chase Bank, NA 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							
Associated Bond Issue	Notional Amounts as of 09/30/09 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 09/30/09 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2002B	\$440.000	09/05/02	4.060 %	Actual bond rate until 04/30/10, and thereafter, SIFMA ⁽³⁾	\$ (38.224)	09/01/13	Morgan Stanley Capital Services Inc.
Series 2008A ⁽⁴⁾	343.520	03/24/05	3.316	67% of one-month LIBOR ⁽¹⁾	(36.200)	11/01/31	Citigroup Financial Products Inc.
Total	\$783.520				\$ (74.424)		

⁽³⁾ Securities Industry and Financial Markets Association Municipal Swap Index

⁽⁴⁾ 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.

MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 09/30/09 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 09/30/09 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2001B and 2001C ⁽⁵⁾	\$177.700	01/01/02	5.777%	Actual bond rate	\$ (32.531)	01/01/19	Citigroup Financial Products Inc.
Series 2002F ⁽⁶⁾	77.000	01/01/00	5.404	Actual bond rate	(6.617)	01/01/13	Ambac Financial Services, L.P.
Series 2002F ⁽⁷⁾	158.155	07/07/05	3.076	67% of one-month LIBOR ⁽¹⁾	(12.479)	01/01/32	Citibank, N.A.
Series 2003B ⁽⁷⁾	39.745	07/07/05	3.076	67% of one-month LIBOR ⁽¹⁾	(3.136)	01/01/32	Citibank, N.A.
Series 2003B ⁽⁸⁾	50.000	01/01/01	6.070	SIFMA ⁽³⁾ minus 15 basis points ⁽¹²⁾	(9.671)	01/01/19	Citigroup Financial Products Inc.
Series 2005B ⁽⁷⁾	593.700	07/07/05	3.076	67% of one-month LIBOR ⁽¹⁾	(46.845)	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 ⁽⁹⁾	SIFMA ⁽³⁾ minus 10 basis points	(4.869)	01/01/12	UBS AG
Total	\$1,887.900				\$ (116.148)		

(5) 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.

(6) 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.

(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) 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 with the aforementioned bonds has been reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B.

(9) 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							
Associated Bond Issue	Notional Amounts as of 09/30/2009 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 09/30/2009 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2000AB ⁽¹⁰⁾	\$175.300	01/01/01	6.080 %	Actual bond rate	\$ (32.725)	01/01/19	JPMorgan Chase Bank, NA
Series 2000CD ⁽¹¹⁾	125.300	01/01/01	6.070	SIFMA ⁽³⁾ minus 15 basis points ⁽¹²⁾	(24.235)	01/01/19	Citigroup Financial Products Inc.
Total	\$300.600				\$ (56.960)		

⁽¹⁰⁾ 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.

⁽¹¹⁾ On April 9, 2009, \$50 of MTA Bridges and Tunnels Subordinate Revenue Bonds, Series 2000CD has been refunded. 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.

⁽¹²⁾ 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 September 30, 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 September 30, 2009, the aggregate unaudited fair value of the swaps was (\$41.047).

Counterparty Ratings

The current ratings of the counterparties are as follows as of September 30, 2009:

Counterparty	Ratings of the Counterparty or its Credit Support Provider		
	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>
AIG Financial Products Corp.	A-	A3	BBB
Ambac Financial Services, L.P.	CC	Caa2	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-
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 September 30, 2009 for the swap where the notional amount does not match the outstanding principal amount of the associated bonds.

Associated Bond Issue	Principal Amount of Bonds (in millions) (Unaudited)	Notional Amount (in millions) (Unaudited)
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	\$89.745
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 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 September 30, 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.

Counterparty	Notional Amount (in thousands) (Unaudited)	% of Total Notional Amount
UBS AG	\$1,642,550	38.34%
JPMorgan Chase Bank, NA	932,650	21.77
Citigroup Financial Products Inc.	696,520	16.25
Morgan Stanley Capital Services Inc.	440,000	10.27
Citibank, N.A.	197,900	4.62
BNP Paribas North America, Inc.	197,900	4.62
AIG Financial Products Corp.	100,000	2.33
Ambac Financial Services, L.P.	77,000	1.80
Total	\$4,284,520	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,

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.

The fair market value of MTA's interest rate swaps changes daily primarily as a result of capital markets changes. Factors that influence LIBOR are 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, but do not directly impact the fair market value of the transaction.

Collateralization. Generally, the Credit Support Annex attached to the ISDA Master Agreement requires that if the outstanding ratings of MTA, MTA Bridges and Tunnels or MTA New York City Transit, as the case may be, or the counterparty falls to a certain level, the party whose rating falls is required to post collateral with a third-party custodian to secure its termination payments above certain threshold 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		
Associated Bond Issue	If the highest rating of the related MTA 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 2002D-2	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	\$10,000,000
Series 2005D and Series 2005E	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – below BBB+, Moody's – below Baa1, or S&P – below BBB+	\$10,000,000

MTA Transportation Revenue Bonds		
Associated Bond Issue	If the highest rating of the related MTA 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 2012	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	\$10,000,000

MTA Dedicated Tax Fund Bonds		
Associated Bond Issue	If the highest rating of the related MTA 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 2002B	Fitch – BBB+, or S&P – BBB+ Fitch – BBB and below or unrated, or S&P – BBB and below or unrated	\$10,000,000
Series 2008A [Note: for this swap, MTA is not required to post collateral under any circumstances.]	Fitch – A-, or Moody's – A3, or S&P – A- Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below	\$10,000,000

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

MTA Bridges and Tunnels Senior Lien Revenue Bonds		
Associated Bond Issue	If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
Series 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 (swap with Citibank, N.A.)	For counterparty, Fitch – A-, or Moody's – A3, or S&P – A-	\$10,000,000
	For MTA, Fitch – BBB+, or Moody's – Baa1, or S&P – BBB+	\$30,000,000
	For MTA, Fitch – BBB, or Moody's – Baa2, or S&P – BBB	\$15,000,000
	For counterparty, Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below	
	For MTA, Fitch – BBB- and below, or Moody's – Baa3 and below, or S&P – BBB- and below	

MTA Bridges and Tunnels Subordinate Revenue Bonds		
Associated Bond Issue	If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
Series 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 and Series 2003B ⁽¹⁾ (swap with Citigroup Financial Products Inc.)	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.	

(1) MTA Bridges and Tunnels Senior Lien bond.

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	
Associated Bond Issue	Additional Termination Event(s)
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	
Associated Bond Issue	Additional Termination Event(s)
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		
Associated Bond Issue	Counterparty	Additional Termination Event(s)
Series 2004A	UBS AG	Negative financial events relating to the swap insurer, Ambac Assurance Corporation.

MTA Bridges and Tunnels Senior and Subordinate Revenue	
Associated Bond Issue	Additional Termination Events
Senior Lien Revenue Bonds	
Series 2001B and 2001C and Series 2002F (swap with Ambac Financial Services, L.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. 2. Negative financial events relating to the related swap insurer, Ambac Assurance Corporation.
Series 2005B interest rate swap and basis risk swap, Series 2002 F (swap with Citibank, N.A.) and Series 2003 B (swap with Citibank, N.A.)	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.
Subordinate Revenue Bonds	
Series 2000AB and 2000CD and Series 2003B ⁽¹⁾ (swap with Citigroup Financial Products Inc.)	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. 2. Negative financial events relating to the related swap insurer, Financial Security Assurance Inc.

⁽¹⁾MTA Bridges and Tunnels Senior Lien bond.

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

Associated Bond Issue	Bond Maturity Date	Swap Termination Date
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	November 1, 2022	September 1, 2013
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	January 1, 2032	January 1, 2019
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F (swap with Ambac Financial Services, L.P.)	November 1, 2032	January 1, 2013
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F (swap with Citibank, N.A.)	November 1, 2032	January 1, 2032
MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B (swap with Citibank, N.A.)	January 1, 2033	January 1, 2032

Swap payments and Associated Debt. The following tables contain the aggregate amount of estimated variable-rate bond debt service and net swap payments during certain years that such swaps were entered into in order to: protect against the

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

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

MTA (in millions)				
Year Ending December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2009	\$ 1.8	\$ 59.6	\$ (2.9)	\$ 58.5
2010	1.9	59.6	(2.9)	58.5
2011	2.0	59.5	(2.9)	58.5
2012	2.0	59.4	(2.9)	58.5
2013	2.1	59.3	(3.0)	58.5
2014-2018	277.7	275.3	(15.5)	537.5
2019-2023	414.8	202.5	(12.7)	604.6
2024-2028	267.0	135.5	(6.7)	395.7
2029-2033	451.1	63.5	(1.0)	513.7
2034-2035	70.9	3.8	-	74.7

MTA Bridges and Tunnels (in millions)				
Year Ending December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2009	\$ 49.4	\$ 69.6	\$ 4.2	123.2
2010	51.1	67.6	3.4	122.1
2011	49.5	65.6	2.5	117.7
2012	51.7	63.6	1.6	116.9
2013	54.5	61.4	(0.3)	115.6
2014-2018	329.0	269.3	(20.7)	577.6
2019-2023	215.0	215.2	(34.6)	395.7
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 September 30, 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 September 30, 2009, the MTA has recorded a long-term capital obligation and capital asset of \$36 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. 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. The final installment of the purchase price 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 \$9.7 at September 30, 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% of the net benefit received from these four QTE transactions. At September 30, 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 September 3, 2003, the MTA entered into a sale/leaseback transaction whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit subway cars to the MTA, the MTA sold those cars to a third party, and the MTA leased those cars back from such third party. The MTA subleased the cars to MTA New York City Transit. The lease expires in 2033. At the lease expiration, the MTA has the option of either exercising a fixed-price purchase option for the cars or returning the cars to the third-party owner.

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

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

option of either exercising a fixed-price purchase option for the cars or returning the cars to the third-party owner.

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

On September 16, 2008, the MTA learned that American International Group, Inc. was downgraded to a level that under the terms of the transaction documents for the sale/leaseback transaction that closed on September 29, 2003, the MTA is required to replace or restructure the applicable Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. On December 17, 2008, MTA terminated the Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. and provided replacement collateral in the form of U.S. Treasury strips. The Resolution Funding Corporation (REFCO) debt security that was being held in pledge was released to MTA. On November 6, 2008, the MTA learned that Ambac Assurance Corp., the provider of the credit enhancement that insures the MTA's contingent obligation to pay a portion of the termination values upon an early termination in both the September 25, 2003 and September 29, 2003 transactions, was downgraded to a level that 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 \$35.5 and \$13.8 for the nine months ended September 30, 2009 and 2008 respectively.

At September 30, 2009, the future minimum lease payments under noncancelable leases are as follows (in millions):

	Operating	Capital
	(Unaudited)	
2009	\$ 20	\$ 285
2010	50	64
2011	48	70
2012	46	170
2013	45	73
2014–2018	213	400
2019–2023	207	395
2024–2028	213	274
2029–2033	227	1,075
2034–2038	251	701
Thereafter	<u>854</u>	<u>520</u>
	<u>\$ 2,174</u>	4,027
Amount representing interest		<u>(2,661)</u>
Present value of capital lease obligations		<u>\$ 1,366</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 September 30, 2009 and December 31, 2008 is presented below (in millions):

	September 30, 2009 (Unaudited)	December 31, 2008
Balance — beginning of period/year	\$ 1,330	\$ 1,232
Activity during the year:		
Current year claims and changes in estimates	206	284
Claims paid	<u>(165)</u>	<u>(186)</u>
Balance — end of year	1,371	1,330
Less current portion	<u>(208)</u>	<u>(205)</u>
Long-term liability	<u>\$ 1,163</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, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes standards for determining when expected pollution remediation outlays should be accrued as a liability or, if appropriate, capitalized. An operating expense and corresponding liability, measured at its current value using the expected cash flow method, have been recognized for certain pollution remediation obligations that are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations, which are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations, occur when any one of the following obligating events takes place:

- An imminent threat to public health due to pollution exists
- MTA is in violation of a pollution prevention-related permit or license
- MTA is named by a regulator as a responsible or potentially responsible party to participate in remediation

- MTA is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities, or
- MTA voluntarily commences or legally obligates itself to commence remediation efforts

Operating expense provision and corresponding liability measured at its current value using the expected cash flow method have been recognized for certain pollution remediation obligation that previously may not have been required to be recognized, or are not longer able to be capitalized as a component of a capital project. As of September 30, 2009, the MTA has recognized a total cost of \$10.6 and a pollution remediation liability of \$106.9.

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
September 30, 2009 (Unaudited)						
Operating revenue	\$ 211	\$ 805	\$ 2,507	\$ 993	\$ (35)	\$ 4,481
Depreciation and amortization	55	409	916	58	-	1,438
Subsidies and grants	1,770	-	584	-	(426)	1,928
Tax revenue	709	-	339	-	(281)	767
Interagency subsidy	245	-	58	(245)	(58)	-
Operating (deficit) surplus	(606)	(1,250)	(3,848)	601	-	(5,103)
Net (deficit) surplus	216	(1,179)	(762)	71	-	(1,654)
Capital expenditures	3,987	217	645	272	(1,430)	3,691
September 30, 2009 (Unaudited)						
Total assets	11,903	10,393	30,836	4,719	(1,835)	56,016
Net working capital	412	32	(1,907)	(387)	279	(1,571)
Long-term debt — (including current portion)	19,762	-	-	8,869	(41)	28,590
Net assets	(11,807)	9,118	24,319	(4,950)	-	16,680
September 30, 2009 (Unaudited)						
Net cash (used in)/provided by operating activities	(493)	(704)	(1,728)	665	54	(2,206)
Net cash provided by/(used in) noncapital financing activities	761	726	1,691	(232)	(1,015)	1,931
Net cash (used in)/provided by capital and related financing activities	(996)	(24)	(285)	(220)	960	(565)
Net cash provided by/(used in) investing activities	654	4	330	(212)	16	792
Cash at beginning of year	160	25	34	12	(25)	206
Cash at end of period	86	27	42	13	(10)	158

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

(Continued)

	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
September 30, 2008 (Unaudited)						
Operating revenue	207	810	2,492	969	(27)	4,451
Depreciation and amortization	51	374	828	55	-	1,308
Subsidies and grants	2,014	-	944	-	(785)	2,173
Tax revenue	756	-	656	-	(207)	1,205
Interagency subsidy	292		93	(292)	(93)	-
Operating (deficit) surplus	(613)	(1,176)	(3,565)	584	-	(4,770)
Net (deficit) surplus	2,440	(1,126)	(456)	(1,288)	15	(415)
Capital expenditures	3,062	216	621	689	(1,423)	3,165

September 30, 2008 (Unaudited)

Total assets	11,621	10,086	29,451	4,410	(2,131)	53,437
Net working capital	1,487	41	(389)	(236)	(1,028)	(125)
Long-term debt — (including current portion)	16,824			8,705	-	25,529
Net assets	(9,647)	8,946	24,663	(5,080)	-	18,882

September 30, 2008 (Unaudited)

Net cash (used in)/provided by operating activities	(325)	(663)	(1,546)	673	42	(1,819)
Net cash provided by/(used in) noncapital financing activities	2,618	705	1,863	(303)	(1,885)	2,998
Net cash provided by/(used in)/ and related financing activities	(2,913)	(31)	(440)	(233)	1,843	(1,774)
Net cash provided by/(used in) Investing activities	650	(13)	121	(137)	-	621
Cash at beginning of year	53	24	35	18	-	130
Cash at end of period	83	22	33	18	-	156

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

(Continued)

13. SUBSEQUENT EVENTS

In September 2009 the MTA Bridges and Tunnels Capital Program for 2010-2014 was approved. The Bridges and Tunnels Program is not subject to Capital Program Review Board (the Review Board).

On October 1, 2009, the new five-year Proposed MTA Capital Programs for the Transit and Commuter Systems for the 2010-2014 period were submitted by MTA to the Review Board.

On October 6, 2009, MTA issued Transportation Revenue Bonds, Series 2009A in the amount of \$502.32. This bond issue was comprised of two sub-series: Series A-1 in the amount of \$407.11, with a final maturity of November 15th, 2039, and Series A-2 in the amount of \$95.21 with a final maturity of November 15th, 2017. The Series A-1 bonds are federally taxable “Build America Bonds”, and the Series A-2 bonds are conventional fixed rate tax-exempt bonds. Proceeds of the 2009 Series A-1 Bonds, in its entirety, and Series A-2 Bonds, in part, will be used to finance existing approved transit and commuter projects. \$50 of the proceeds from the 2009 Series A-2 Bonds will be used to currently refund \$50 of the Transportation Revenue Bonds, Series 2008C maturing on November 15, 2009.

On October 15, 2009, Governor Paterson announced a deficit reduction plan to address the State's forecasted operating deficit for its fiscal year ending March 31, 2010. As part of the overall State plan, there were specific recommendations, requiring legislative action, to reduce appropriations of taxes which MTA had assumed would be received prior to December 31, 2009, by approximately \$113.

On November 5, 2009, the MTA announced the appointment of Thomas Prendergast as President of the New York City Transit Authority. Mr. Prendergast joins the New York City Transit Authority from Vancouver where he is currently the chief executive officer of Vancouver's South Coast British Columbia Transportation Authority. Mr. Prendergast will begin his tenure as President of the New York City Transit Authority on December 1, 2009. During the 1990s Mr. Prendergast also served as president of the Long Island Railroad and senior vice president of subways at New York City Transit. Mr. Prendergast replaces Howard Roberts, who resigned from his position on November 4, 2009.

On November 10, 2009, MTA Bridges and Tunnels issued MTA Bridges and Tunnels General Revenue Bond Anticipation Notes ("BAN"), Series 2009 in the amount of \$149.2. Proceeds from the Series 2009 BAN will be used to refund \$150 of MTA Bridges and Tunnels, Series 2009A-1 mandatory tender bonds due January 20, 2010 and/or to finance existing approved MTA Bridges and Tunnels capital projects. This BAN is expected to be refunded with an issuance of MTA Bridges and Tunnels bonds or notes prior to the maturity date of November 15, 2010.

On November 18, 2009, the MTA presented to its Board the November Financial Plan 2010-2013 (the November Plan), which, after deficit reducing actions and revised revenue projections, projects a net cash surplus of \$28 in 2009 and \$5 in 2010, while projecting cash deficits of (\$34) in 2011, (\$319) in 2012, and (\$58) in 2013.

Subsequent to presenting the November Plan, the MTA experienced several significant unfavorable developments. First, as part of the State's deficit reduction plan, the State Legislature reduced its prior appropriations to the MTA for 2009 by \$143 million. This is the first time that an existing appropriation to MTA has been reduced under circumstances in which the money was derived from a "dedicated" MTA tax and had already been collected by the State. Second, receipts from the recently enacted Regional Mobility Tax are significantly under-running projections. The State is projecting an estimated reduction of \$229 million for calendar year 2009. The State Division of Budget has advised MTA that it believes that a significant portion of the shortfall (\$179 million) is the result of timing and is expected to be made up in 2010. Over the 2009-2010 period, the combined losses from the above-noted subsequent developments are approximately \$300 million, with most coming in 2009.

Third, on December 11, 2009, an unfavorable ruling was issued in the legal proceeding in which MTA challenged the August TWU arbitration award. MTA is considering whether to appeal this judgment. If this award is implemented, it would cost the MTA significant sums beyond the amounts that were included in the July Plan, although the November Plan contained a one-time contingency of \$85 million to partially offset this and other financial risks.

Partially mitigating these losses in the short term are lower estimated debt service costs and the favorable timing of certain expenses of MTA.

On December 16, 2009, the Board approved the December Financial Plan 2010-2013 (the December Plan). The 2010 Budget which is part of the December Plan includes service reductions and other reductions to balance the 2010 Budget and end 2010 with a \$2 million cash balance. The out-years of the December Plan project a cash balance of \$1 million in 2011, a deficit of \$188 million in 2012, and a cash balance of \$65 million in 2013.

On December 30, 2009 the new five-year Proposed MTA Capital Programs for the Transit and Commuter Systems for the 2010-2014 period submitted to the Review Board on October 1, 2009 were rejected by the Review Board.

On December 31, 2009 MTA's outstanding \$600 of tax-exempt Revenue Anticipation Notes, Series 2009 obligation including interest payment of \$5.7 were paid.

On December 31, 2009 Gary Dellaverson retired as Chief Financial Officer of MTA. David Moretti, who currently serves as Executive Vice President of MTA Bridges and Tunnels, became Acting Chief Financial Officer of MTA effective January 1, 2010

On January 1, 2010 the provision in the Public Authorities Law that added non-voting members to the MTA Board expired. As of January 1, 2010, the MTA Board consists of the chairman and the sixteen other voting members.

On January 13, 2010 MTA issued \$364 Transportation Revenue Bonds, Series 2010A - Federally Taxable Issuer Subsidy Build America Bonds to finance transit and commuter projects.

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METROPOLITAN TRANSPORTATION AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULES 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]	0.1	0.1	0.1
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.

METROPOLITAN TRANSPORTATION AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS FOR THE MTA POSTEMPLOYMENT BENEFIT PLAN
YEARS 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 SEPTEMBER 30, 2009 (See independent accountants' review report) (\$ in millions)

FINANCIAL PLAN ACTUAL — Operating loss	\$ (5,063.7)
Reconciling items:	
The Financial Statement was adjusted after Financial Plan closed	2.0
The Financial Plan excluded Capital construction and East Side Access	(8.0)
The Financial Plan includes TBTA capital transfer to agencies	<u>(33.3)</u>
FINANCIAL STATEMENT — Operating loss	<u>\$ (5,103.0)</u>

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION (UNAUDITED)
CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2009
(See independent accountants' review report)
(\$ in millions)

Category	Financial Plan Actual	Financial Statement GAAP Actual	Variance
REVENUE:			
Farebox revenue	\$ 3,207.3	\$ 3,207.2	\$ (0.1)
Vehicle toll revenue	983.2	983.1	(0.1)
Other operating revenue	360.9	291.2	(69.7)
Total revenue	<u>4,551.4</u>	<u>4,481.5</u>	<u>(69.9)</u>
EXPENSES:			
Labor:			
Payroll	3,099.6	3,110.7	(11.1)
Overtime	368.6	352.9	15.7
Health and welfare	521.7	530.2	(8.5)
OPEB Current Payment	253.5	254.9	(1.4)
Pensions	872.3	871.8	0.5
Other fringe benefits	345.4	315.0	30.4
Postemployment benefits	1,066.6	1,062.5	4.1
Reimbursable overhead	(244.2)	(214.6)	(29.6)
Total labor expenses	<u>6,283.5</u>	<u>6,283.4</u>	<u>0.1</u>
Non-labor:			
Traction and propulsion power	248.5	248.5	-
Fuel for buses and trains	136.0	136.0	-
Insurance	17.2	7.3	9.9
Claims	147.2	205.9	(58.7)
Paratransit service contracts	271.9	271.9	-
Maintenance and other	411.4	405.1	6.3
Professional service contract	130.9	141.2	(10.3)
Pollution remediation project costs	9.7	10.6	(0.9)
Materials and supplies	402.1	403.9	(1.8)
Other business expenses	149.3	32.8	116.5
Total non-labor expenses	<u>1,924.2</u>	<u>1,863.2</u>	<u>61.0</u>
Other expenses adjustments:			
TBTA transfer	19.3	-	19.3
GASB general reserve	-	-	-
Interagency subsidy	(52.6)	-	(52.6)
Total other expense adjustments	<u>(33.3)</u>	<u>-</u>	<u>(33.3)</u>
Total expenses before depreciation	8,174.4	8,146.6	27.8
Depreciation	<u>1,440.7</u>	<u>1,437.9</u>	<u>2.8</u>
Total expenses	<u>9,615.1</u>	<u>9,584.5</u>	<u>30.6</u>
NET OPERATING SURPLUS/(DEFICIT)			
EXCLUDING SUBSIDIES AND DEBT SERVICES	<u>\$ (5,063.7)</u>	<u>\$ (5,103.0)</u>	<u>\$ (39.3)</u>

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION (UNAUDITED)
CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN
AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2009
(See independent accountants' review report)
(\$ in millions)

Accrued Subsidies	Financial Plan Actual	Financial Statement GAAP Actual	Variance	
Mass transportation operating assistance	\$ 1,465.4	\$ 1,465.4	\$ -	
Petroleum business tax	478.2	476.8	(1.4)	{1}
Mortgage recording tax 1 and 2	182.0	182.1	0.1	{1}
MRT transfer	(3.8)	(3.8)	-	
Urban tax	107.6	107.6	-	
State and local operating assistance	378.7	378.4	(0.3)	{1}
Additional mass transportation assistance program	5.6	5.6	-	
Nassau county subsidy to long island bus	10.5	10.5	-	
Station maintenance	109.9	109.9	-	
Connecticut department of transportation (CDOT)	69.1	70.8	1.7	{1}
NYS Grant for debt service		56.8	56.8	{2}
Build American Bonds Subsidy		10.6	10.6	{1}
Investment income	0.5	5.4	4.9	{3}
	<u>2,803.7</u>	<u>2,876.1</u>	<u>72.4</u>	
Total accrued subsidies				
Net operating surplus/(deficit) excluding accrued subsidies and debt service		<u>(5,103.0)</u>	<u>(5,103.0)</u>	
Total net operating surplus/(deficit)	<u>\$ 2,803.7</u>	<u>\$ (2,226.9)</u>	<u>\$ (5,030.6)</u>	
Interest on long-term debt	<u>\$ -</u>	<u>\$ 929.8</u>	<u>\$ -</u>	
Debt service	<u>\$ 1,055.5</u>	<u>\$ -</u>	<u>\$ -</u>	

{1} The financial statement includes actual and accrual.

{2} In the Financial Statement, funds received from NYS to cover debt service payments for Service Contract Bonds are included in the subsidies. The Financial Plan does not include either the funds received or disbursed.

{3} The Financial Plan excludes certain pool and capital income.