

# Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Accountants' Review Report

Consolidated Financial Statements as of and for the  
Period Ended September 30, 2010

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

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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Members of the Board of  
Metropolitan Transportation Authority

We have reviewed the accompanying consolidated interim balance sheet of the Metropolitan Transportation Authority (the "Authority"), a component unit of the State of New York, as of September 30, 2010, and the related consolidated interim statements of revenues, expenses and changes in net assets, and consolidated interim cash flows for the nine-month periods ended September 30, 2010 and 2009. This consolidated interim financial information is the representation of the Authority's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information 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 consolidated interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

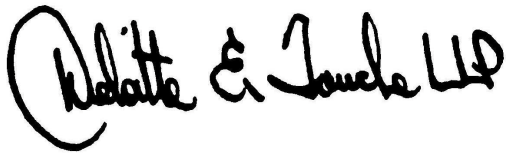
As discussed in the notes to the financial statements, the MTA is a component unit of the State of New York. The MTA requires significant subsidies from and has material transactions with The City of New York and the State of New York and depends on certain tax revenues that are economically sensitive.

The Management's Discussion and Analysis on pages 3 through 19, the Schedule of Pension Funding Progress on page 96, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 97 are not a required part of the basic consolidated interim financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the MTA'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 Schedule of Financial Plan to Financial Statements Reconciliation on page 98, Schedule of Consolidated Reconciliation Between Financial Plan and Financial Statements on page 99, and Schedule of Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements on page 100 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, 2009 were audited by us, and based on our audit; we expressed an unqualified opinion on them in our report dated April 26, 2010. We also applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation to the 2009 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.

A handwritten signature in black ink, reading "Deloitte & Touche LLP". The signature is written in a cursive, stylized font. The "D" is large and loops around the "eloitte". The "Touche" is written in a similar cursive style, and "LLP" is at the end.

January 24, 2011

# **METROPOLITAN TRANSPORTATION AUTHORITY**

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** **PERIODS ENDED SEPTEMBER 30, 2010 AND 2009** **(\$ In Millions)**

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### **1. OVERVIEW OF THE CONSOLIDATED 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.

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

This MD&A provides a narrative overview and analysis of the financial activities of the MTA Group for the periods ended September 30, 2010 and 2009. This management discussion and analysis is intended to serve as an introduction to the MTA Group's consolidated financial statements. It provides an assessment of how the MTA Group's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the MTA Group's overall financial position. It may contain opinions, assumptions, or conclusions by the MTA Group's management that must be read in conjunction with, and should not be considered a replacement for, the consolidated financial statements.

#### ***The Consolidated Financial Statements***

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***

The notes provide information that is essential to understanding the consolidated financial statements, such as the MTA Group's accounting methods and policies, details of cash and investments, employee benefits, long-term debt, lease transactions, future commitments and contingencies of the MTA Group, and information about other events or developing situations that could materially affect the MTA Group's financial position.

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

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

### ***Supplementary Information***

The supplementary information provides a series of reconciliations between the MTA Group financial plan and audited financial statements.

## **2. FINANCIAL REPORTING ENTITY**

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

### **MTA Related Groups**

- 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, 2010. 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.

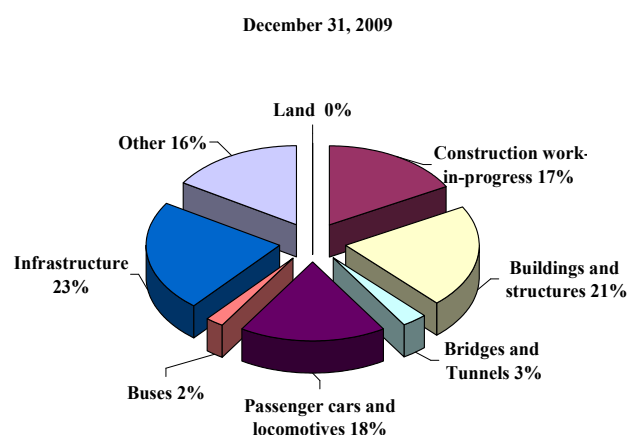
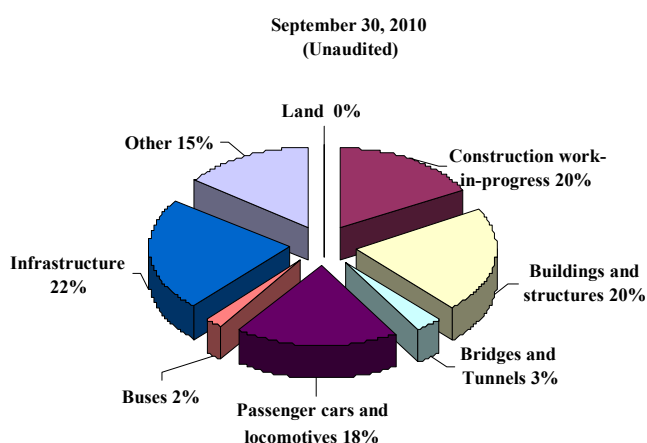
#### Total Assets, Distinguished Between Capital Assets, Net and Other Assets

Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of busses, equipment, passenger cars, and 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 2010 (Unaudited)	December 2009	December 2008
Capital assets — net (see Note 6)	\$ 49,356	\$ 47,229	\$ 43,323
Other assets	<u>11,343</u>	<u>9,012</u>	<u>10,134</u>
Total assets	<u>\$ 60,699</u>	<u>\$ 56,241</u>	<u>\$ 53,457</u>

#### Capital Assets, Net



### ***Significant Changes in Assets Include:***

#### September 30, 2010 versus December 31, 2009

- Net capital assets increased at September 30, 2010 by \$2,127. The largest increase of \$1,914 is related to construction work-in-progress and land. Assets related to infrastructure increased by \$476. New passenger cars and locomotives purchases increased by \$402; acquisition of buses and other equipment \$388; buildings and structures, \$276. These increases were partially offset by additional accumulated depreciation of \$1,329. Some of the more significant projects contributing to the increase included:
  - Rehabilitation of the East River Tunnel, safety and substation improvements, ventilation projects and mainline corridor improvements.
  - Rehabilitation of the Atlantic Avenue Viaduct and the Powell Creek and Hog Island Channel as well as various other line structure projects for a total of \$207.6.
  - Interagency security projects at Penn Station, Jamaica Station and 63rd Street Tunnel for an additional cost of \$40.9.
  - Various signal and communication projects incurred by the MTA Long Island Rail Road and related to the Centralized Traffic Control System, the installation of the Fiber Optic Network and microprocessor upgrades at various interlockings.
  - Rehabilitation of line structures and subway tunnels.
  - Purchase of 202 R160 cars and 72 buses all placed in service in the current year.
  - Power Substations Modernization and rehabilitation for 70<sup>th</sup> and Green Streets and the Interborough Rapid Transit (IRT) lines.
  - Hudson Line and Tarrytown Station improvements continue with installation of precast platform and removal of old platform. At Poughkeepsie Station the roof replacement continue with work near completion. On the New Haven Line, Port Chester and Rye Stations improvement continue with replacement of station building sidewalk and lighting installation on the inbound platforms.
  - System-wide track replacement, train shed repairs and bridges rehabilitation.
  - Improvements in infrastructure, including replacement of main lines switch, equipment ventilation, lighting and signal communication.
  - Work on the East Side Access project continues in 2010.
  - The replacement of the decks of the Bronx-Whitestone Bridge, and Robert F. Kennedy Bridge was completed as well as the suspension spans at the Verrazano-Narrows Bridge and deck replacement and structural rehabilitation at the Throgs Neck Bridge.
- Other assets net increased by \$2,331. The items contributing to this change include, but are not limited to:



- Increase in current and noncurrent investments and investments held under capital leases of \$981 as a result of:
  - The net increase in current and noncurrent investments of \$869 is derived mainly from an increase in MTAHQ funds in the amount of \$803, FMTAC by \$53 and MTA Bridges and Tunnels by \$13 respectively. The MTAHQ's increase is directly related to capital funds available from the issuance of Transportation Revenue Bonds, Series 2010A for \$364, 2010B for \$657 and 2010C for \$510, during January, February and June of 2010 respectively. Dedicated Tax Funds Bonds, Series 2010A for \$503 and the Revenue Anticipation Notes ("RAN") 2010 for \$475 were issued in March 2010. The Metropolitan Commuter Transportation Mobility Tax ("MCTMT") and Metropolitan Mass Transportation Operating Assistance Fund ("MMTOA") subsidies contributed in a minor degree to the unfavorable variance in the investment portfolio. These increases were partially offset by capital expenditures and redemption of bonds (See Notes 3 and 7), while operating funds were applied to cover current year operating losses.
  - Investments under capital lease obligations increased by \$112 due to an increase of collateral funds provided to The Bank of America capital lease in the amount of \$10 and reinvesting securities that matured in December 2009 in the amount of \$64. Restricted investments held for capital lease obligations increased by \$38 due to change in the market value of securities.
  - Net increase in receivables in the amount of \$1,226 due to:
    - Capital project receivable from federal and state governments increased by \$148 together with the sale of the Atlantic Yard. These increases were partially offset by a decrease of federal funds dedicated to commuter and transit capital project costs.
    - State and regional mass transit taxes receivable and State and local operating assistance increased by \$849 and \$163, respectively. The significant increase is due to current year subsidy accruals and the State and City limited remittance to the MTA as of September 2010.
    - Other receivables increased by a net of \$66. The variance was due mainly to an increase of a \$35 in receivable from the federal government for Build America Bonds. Subsidy receivable from New York City increased by \$93 due to a larger MTA Bus deficit which is funded by New York City. The increases were offset by net decreases of \$62 of which the decline in Station maintenance receivable of \$34 was the main contributing factor.
- Material and supplies increased by \$15. The increase is to insure availability of parts and supplies for emergency needs.
- Decrease in other noncurrent assets of \$191 derived mainly from MTAHQ. Un-requisitioned funds for MTA New York City Transit and MTA Bus capital expenditures declined in the first nine months of the year.
- Deferred outflows from derivative instruments increased by \$545 and derivative assets increased by \$1 due to the implementation of GASB Statement No. 53 in which hedges are classified as either effective or non-effective following one of the methods proposed by the

standard (See Note 2). Effective hedges are reported as deferred inflows/outflows depending on whether or not the expectations are beneficial (See Note 7).

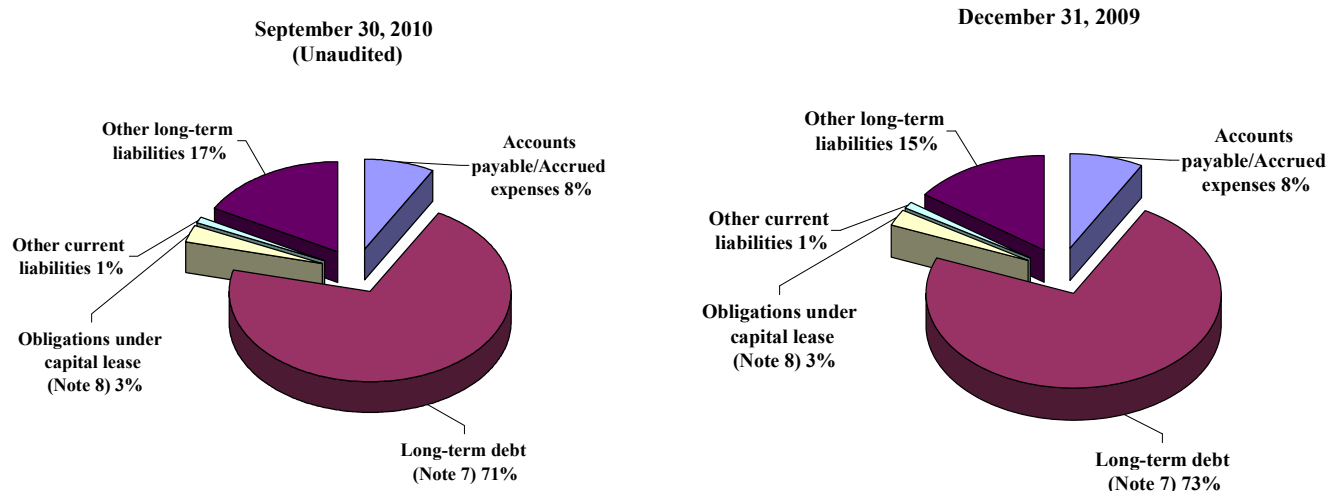
### **Total Liabilities, Distinguishing Between Long-Term Liabilities and Other Liabilities**

Current liabilities include: accounts 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.

<b>(In millions)</b>	<b>September 2010 (Unaudited)</b>	<b>December 2009</b>	<b>December 2008</b>
Current liabilities	\$ 5,307	\$ 4,427	\$ 3,613
Long-term liabilities	<u>38,034</u>	<u>34,373</u>	<u>31,510</u>
Total liabilities	<u>\$ 43,341</u>	<u>\$38,800</u>	<u>\$35,123</u>

### **Total Liabilities**



### ***Significant Changes in Liabilities Include:***

#### September 30, 2010 versus December 31, 2009

Current liabilities increased by \$880. This is due to an increase in accounts payable and accrued expenses in the amount of \$464 and an increase in other current liabilities by \$416.

- Accounts payable and accrued expenses increase of \$464 was derived from:

- A decrease of \$66 in accounts payable due to timing differences on invoices submitted for payment.
- Accrued expenses increased by \$530. This decrease included:
  - Wages declined by \$62 due to reduction in headcount. The favorable variance was derived mainly from MTA New York City Transit by \$52 and MTA Metro-North Railroad by \$11.
  - The current portion of retirement and death benefits increased by \$232. The increase was derived mainly from variances between estimated and actual required actuarial contributions.
  - Increase on interest payable by \$255 due to the issuance of bonds in 2010 by MTAHQ and MTA Bridges and Tunnels (see Note 7).
  - Vacation and sick benefit costs increased by \$5 as a result of higher number of days accumulated by the employees at the end of the current period.
  - Other accrued liabilities increased by \$99, due mainly to an increase in deferred liability relating to the Atlantic Yard sale.
- Other current liabilities increase of \$416 was derived from:
  - Other current liabilities related to current portion of long-term debt increased by a net of \$334 and includes an increase of \$530 for MTAHQ while MTA Bridges and Tunnels decreased by \$196. The total increase reflects the debt service requirements for 2010.
  - Deferred revenues increased by \$77 due to an increase of unredeemed fare cards sold by MTA New York City Transit.
- Noncurrent liabilities increased by \$3,661. This net increase is primarily related to:
  - Increase of \$887 for postemployment benefits other than pension (“OPEB”). The increase represents the annual OPEB cost per the revised actuarial estimated projection made in August 2010 less the actuarial required contributions made in the current year.
  - Long-term debt increased by \$2,116. (See Note 7 for additional information on Long-Term Debt).
    - The increase in MTA Bridges and Tunnels bonds in the amount of \$147 is due primarily to the issuance of the General Revenue Mandatory Tender Bonds in January 2010 for \$150 and the remarketing of the mandatory tender Series 2009A-1. On September 29, 2010, MTA Bridges and Tunnels issued General Revenue Variable Rate Bonds of \$140 affecting a mandatory tender, purchase and remarketing of the currently outstanding Series 2001C Bonds.
    - The increase in long-term debt at MTAHQ in the amount of \$1,969 was derived from the issuance of new debt in 2010:
      - Transportation Revenue Bonds, Series 2010A was issued in the amount of \$364; 2010B for \$657 and Series 2010C in the amount of \$510, in January, February and July 2010 respectively.

- Dedicated Tax Fund Bonds in March 2010, Series 2010A for \$503.
  - Revenue Anticipation Notes, in March 2010, Series 2010 for \$475.
  - Revenue Anticipation Notes, in September 2010, Series 2010 for \$100.
- Obligations under capital lease decreased by \$9. That decrease was primarily due to principal and interest payments in 2010.
  - Decrease in noncurrent liability pollution remediation project costs of \$6. This decrease was due to payments and adjustments to remediation costs.
  - Other long-term liabilities decreased by \$17. FMTAC's decrease of \$28 was derived from RCAMP deposit liability. The decrease was offset by an increase of \$11 in MTAHQ's liability due to additional collateral fund requirements.
  - Derivative liabilities increased by \$562 and derivative liabilities-off market elements increased by \$45. GASB Statement No. 53 requires state and local government entities to disclose the fair value of derivative instruments including hedges (See Notes 2 and 7).
  - Contract retainage payable increased by \$28 due to new capital projects undertaken by various agencies.

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

	<b>September 2010 (Unaudited)</b>	<b>December 2009</b>	<b>December 2008</b>
<b>(In millions)</b>			
Invested in capital assets, net of related debt	\$ 18,223	\$ 18,779	\$ 15,790
Restricted for debt service	1,697	1,161	972
Restricted for claims	170	127	96
Unrestricted	<u>(2,732)</u>	<u>(2,626)</u>	<u>1,476</u>
Total Net Assets	<u>\$ 17,358</u>	<u>\$ 17,441</u>	<u>\$ 18,334</u>

***Significant Changes in Net Assets Include:***

September 30, 2010 versus December 31, 2009

At September 30, 2010, the total net assets decreased by \$83 when compared with December 31, 2009. This change includes net non-operating revenues of \$3,221 and appropriations, grants, and other receipts externally restricted for capital projects of \$1,421 offset by operating losses of \$4,725.

The investment in capital assets, net of related debt, decreased by \$556. Funds restricted for debt service and claims increased by \$579 and unrestricted net assets decreased by \$106.

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

(In millions)	September 30, 2010	September 30, 2009
	(Unaudited)	
Operating revenues		
Passenger and tolls	\$ 4,476	\$ 4,190
Other	<u>292</u>	<u>291</u>
Total operating revenues	<u>4,768</u>	<u>4,481</u>
Nonoperating revenues		
Grants, appropriations and taxes	3,839	2,695
Other	<u>411</u>	<u>377</u>
Total nonoperating revenues	<u>4,250</u>	<u>3,072</u>
Total revenues	<u>9,018</u>	<u>7,553</u>
Operating expenses		
Salaries and wages	3,431	3,464
Retirement and other employee benefits	1,573	1,502
Postemployment benefits other than pensions	1,145	1,317
Depreciation and amortization	1,471	1,438
Other expenses	<u>1,873</u>	<u>1,863</u>
Total operating expense	<u>9,493</u>	<u>9,584</u>
Nonoperating Expense		
Interest on long-term debt	964	930
Hedge expenses	61	-
Other nonoperating expense	<u>4</u>	<u>8</u>
Total nonoperating expense	<u>1,029</u>	<u>938</u>
Total expenses	<u>10,522</u>	<u>10,522</u>
Appropriations, grants and other receipts externally restricted for capital projects	<u>1,421</u>	<u>1,315</u>
Change in net assets	(83)	(1,654)
Net assets, beginning of year	<u>17,441</u>	<u>18,334</u>
Net assets, end of year	<u>\$ 17,358</u>	<u>\$ 16,680</u>

***Revenues and Expenses, by Major Source:***

Period ended September 30, 2010 versus September 30, 2009

- Total operating revenues for the period ending September 30, 2010 were \$287 higher than for the period ended September 30, 2009.
  - Fare revenue increased by \$203. The increase was due mainly to the fare increases that took effect on June 17, 2009 partially offset by lower ridership because of a relatively weak local economy. Toll revenues increased by \$83, which resulted from the toll increase that went into effect on July 12, 2009. Despite lower traffic volumes, the toll increase was enough to increase revenues above 2009 levels.
- Total operating expenses for the period ending September 30, 2010, were lower than the period ending September 30, 2009 by \$91. This decrease reflects a decrease in labor costs of \$134 and an increase in non-labor expenses in the amount of \$43.
  - The labor costs, including retirement and other employee benefits, decrease relates to the following:
    - Salaries and wages decreased by \$33 due to reductions in headcount and overtime costs.
    - Retirement and employee benefits increased by \$71. This unfavorable variance was accounted for by an increase in pension costs of \$27 and health and welfare of \$50. The above increases were offset by decrease of \$6 in other labor expenses.
    - Postemployment benefits other than pensions decreased by \$172. A revised 2010 actuarial annual health cost trend assumption is responsible for the significant decrease reported.
  - Non-labor operating costs were higher by \$43. Major increases include: claims with an increase of \$33, paratransit and other service contracts in the amount of \$6 and depreciation costs increased by \$33 due to the addition of assets. The favorable variance is reflected primarily in materials and supplies with a decreased cost of \$28. Other costs including insurance, fuel cost for buses and trains decreased by \$1.
- Total grants, appropriations, and taxes were higher by \$1,144 for the period ending September 30, 2010. The increase derived mainly from the Mobility Tax which was introduced in 2009 by the State of New York for the benefit of MTA. During the current period, the amount allocated to the MTA was \$1,250. Build America Bond subsidy provided by the Federal Government was \$47 in the current period. Other taxes, specifically, Mortgage Recording Tax, Urban Tax and MTTF Receipt continued to decline with a total decrease of \$153.
- Interest expense on long-term debt increased by \$34 due to the issuance of new bonds in 2010.
- Derivative expenses increased by \$61. Hedges that are regarded as ineffective because effectiveness test is not met are recognized as investment derivatives and reported as non-operating revenues or expenses in the income statement (See Note 2). GASB Statement No. 53 requires state and local government entities to disclose the fair value of derivative instruments including hedges.

- Appropriations and grants increased by \$106. The increase was derived mainly from an increase in Federal funding, New York State Bond funding and Federal Emergency Management Agency, as well as fixed assets purchased with bond proceeds.

#### **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 2010, MTA system-wide utilization was 0.2% lower (3.8 million fewer trips) than ridership through September 2009. At the same time, vehicle-crossing levels at MTA Bridges and Tunnels facilities remained virtually unchanged from the third quarter of 2009, with employment in and around New York City nearly matching its level from 2009.

At the end of the third quarter of 2010, seasonally adjusted non-agricultural employment in New York City was not significantly different from the third quarter of 2009, with fewer than 2,000 jobs lost out of 3.7 million. This small change, however, represents the net result of a continual decline in employment throughout 2009, followed by employment gains in each of the first three quarters of 2010. In 2009, the City lost 133,000 jobs (3.5% of the 3.8 million jobs that existed in 2008). The first nine months of 2010 saw nearly continual employment growth, and 46,000 jobs were regained over that period. In spite of a large monthly decline in employment in June, partly attributable to the termination of temporary Federal Census jobs, and a smaller drop in seasonally adjusted employment in September, employment through the third quarter of 2010 improved 1.3% over its level at the end of 2009. However, even though employment continually grew through the third quarter of 2010, each quarter's rate of growth was lower than the last; and employment remains 2.3% lower than at the end of 2008.

The malaise of 2009 was reflected in the Federal Reserve Bank's Coincident Economic Indicator ("CEI"), an index of broad economic activity, which fell sharply and continuously for New York City, New York State and New Jersey throughout almost all of 2009. As an index, the value attained at any moment by the CEI has no real meaning, but its steady downward movement, from peak levels in April/May 2008 to troughs in November/December 2009, describes a temporal delimitation of the current recession.

Regional CEI's indicated mixed economic fortunes for New York State, New Jersey and New York City, revealing that if initial signs of recovery could be discerned in the third quarter, they were limited to the city. For New Jersey, the CEI fell by 1% in the third quarter, relative to the third quarter of 2009. In fact, through September of this year, its CEI has fallen for eight consecutive months. The CEI for New York State also declined relative to the third quarter of 2009; but most of this decline happened in the fourth quarter of 2009. By contrast with New Jersey, New York State's CEI rose subsequently, and continued to rise in every month of 2010 except September; however, these monthly improvements were so small that a decisive economic expansion is barely perceptible from the trend. For New York City, the story is different: after twelve straight months

of contraction in 2009, the first three quarters of 2010 showed unambiguous economic expansion, with CEI's rising in every month. In spite of rising CEI's-- the visible trend for New York City and the less pronounced path for New York State-- regional indexes remain well below where they were in the first quarter of 2009. This is true also of New Jersey, which experienced a relentless slowing of its economy through most of 2009, with continued economic contraction throughout almost all of 2010.

Incipient signs of economic improvement for New York City, conveyed by rising employment and CEI's in the first through third quarters of 2010, are consistent with what was happening to the national economy: Real Gross Domestic Product ("RGDP") improved in the third quarter. However, it showed slower growth than at the end of 2009 and the beginning of 2010. Third quarter growth occurred at an annual rate of 2.0%, higher than the 1.6% of the second quarter, but much lower than the reassuring 3.7% in the first quarter of 2010 and the 5.0% in the final quarter of 2009. The U.S. economy, after four consecutive quarters of profound decline, beginning with the third quarter of 2008, has experienced five quarters in a row of economic growth.

In the second quarter of 2010, New York City Metropolitan Area's price inflation was higher than the national average: while the CPI for the New York City Metropolitan Area grew at 1.4%, the average for all U.S. metropolitan areas was only 1.2%. Energy prices in New York City actually subdued overall price inflation, rising much slower than the general price level: while the CPI exclusive of energy was 1.4% higher in the third quarter of 2010 than in the third quarter of 2009, energy inflation was only 1.1% over that period. The New York Harbor spot price for conventional gasoline increased more dramatically than energy prices, rising 8.2% between the third quarters of 2009 and 2010, from an average price of \$1.820 to an average of \$1.969 per gallon. Most of this increase, however, occurred prior to the third quarter of 2010; part occurred in the last quarter of 2009, with gas prices continuing to rise until April of 2010. They subsequently fell in May, June, July and August. The continuation of the upward trend into the second quarter of 2010 did much to reverse the steep decline in gasoline prices between June and December of 2008 that had brought the average spot price to a five-year low. Increased automobile fuel prices, relative to the third quarter of 2010, partly explain the decline in year-to-date traffic crossings at MTA bridges; however, while some substitution between automobiles and public transit was likely, use of both transportation modes declined with the fall in the city's employment between the third quarters of 2009 and 2010.

Citing the slowing growth of RGDP in the third quarter, the Federal Reserve Bank elected to keep the Federal Funds rate targeted to between 0.0% and 0.25%, the same rate that prevailed in the first two quarters of 2010. 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 and into 2010. In September 2010, the Federal Open Market Committee announced its determination to hold fast to the current low rate, believing that the slowing pace of economic recovery and the slackness in resource utilization would undermine inflation.

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. According to the Federal Reserve's October 2010 Beige Book, regional real estate markets produced ambiguous signs in the second quarter. Reportedly, Manhattan's condo and co-op markets were holding steady, while new lease signings and rents for apartments edged up; however, residential markets outside of the city—especially in New Jersey and Western New York—apparently softened, coincident with the expiration of the home buyer tax credit.

The mixed impression given by the October Beige Book was reflected by MTA receipts of real estate taxes. While receipts of Urban Taxes—those associated closely with commercial activity—rose in each quarter of 2010, receipts of Mortgage Recording Taxes showed no such improvement, remaining at a level slightly lower than at the end of 2009. Furthermore, although Urban Tax receipts in the third quarter of 2010 were 15% higher than they were one year ago, this improvement was relative to receipts that were quite close to the bottom of a trough: Urban Tax revenues had been \$63.7 in the first quarter of 2007, but had fallen to \$11.6 by the third quarter of 2009. In this light, the increase in the third quarter of 2010 leaves much room for improvement. Meanwhile, the merely modest quarterly improvement in residential market activity in the third quarter of 2010 meant that MRT revenues remained slightly better than their lowest level in five years. The quarterly improvement of 11.7% left receipts 9% lower than in the third quarter of 2009, and 38.4% lower than in the third quarter of 2008.

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

MTA Bridges and Tunnels' paid traffic for the nine months ended September 30, 2010 operating revenue increased by \$84.7 compared to the nine months ended September 30, 2009. Toll revenues increased by \$82.5 mainly due to the toll increase effective July 12, 2009.

The E-ZPass electronic toll collection system experienced small changes in market share. Total average market share as of September 30, 2010 was 75.4% compared with 73.4% in 2009. The average weekday market shares were 77.5% and 75.5% for the nine months of 2010 and 2009.

MTA New York City Transit's total operating revenues for the nine months ended September 30, 2010 was above the prior-year period by \$152.9 or 6.1%. Fare revenues were higher by \$155.9 or 6.8%, primarily due to the June 2009 fare increase.

MTA Long Island Railroad's Ridership for the period January to September 2010 stood at 61.2 on passenger revenues of \$393, which represents 94% of total revenues. Farebox Revenue increased by \$15.1 or 4% versus the nine months ended September 30, 2009. Overall ridership for the period decreased by approximately 2%. The disparity between the increased revenue and the decreased ridership is attributable to the 10.2% fare increase of June 17, 2009.

MTA Metro-North Railroad's operating revenue during the first nine months of 2010 increased by \$24.3 or 6.1% compared with the first nine months of 2009. Year to date 2010 fare revenue and ridership increased by 5.6% and 1.2% respectively. The increase in revenue occurred on the Hudson,

Harlem and New Haven Lines for monthly and weekly commutation as well as non-commutation ridership. On June 17, 2009, MTA Metro-North Railroad implemented a fare increase of approximately 10%.

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 2010, 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 continue to decline at an even higher rate. The total amount collected for the year ended December 31, 2009 was reduced by 38% from \$395.5 to \$244.6. The total MRT collected as at September 30, 2010 declined by 1.8% compared to September 2009 from \$179.2 to \$176.1.

### ***Capital Programs***

At September 30, 2010, \$711 had been committed and \$47 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and \$20,077 had been committed and \$13,799 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and \$21,261 had been committed and \$19,716 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 2010, poor credit quality of bond insurers continued to put pressure on the auction segments of the MTA’s variable rate portfolio. Auctions for all of the \$861 of auction rate bonds outstanding (the interest rate for such bonds is determined based on a multiple of the London Interbank Offered Rate) as of the end of September 30, 2010, have been failing and 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.

***July Financial Plan.*** On July 28, 2010, the MTA presented its 2011 Preliminary Budget and July Financial Plan 2011-2014 (the July Plan) to the Board, which after deficit reducing actions and revised revenue forecasts, projects on an MTA consolidated basis ending net cash balances/(deficits) of \$12 in 2010, \$67 in 2011, (\$92) in 2012, \$156 in 2013, and (\$141) in 2014.

The MTA's July Plan reflects the revised revenue projections for the Payroll Mobility Tax (PMT) and other dedicated taxes, made by MTA in January and February 2010 lowering the PMT forecast by \$336 and the Metropolitan Mass Transportation Operating Assistance Fund (MMTOA) forecast by \$33 in 2010, based on updated information from New York State Division of the Budget. In addition, MTA has further revised the PMT estimate downward by \$50 in 2010 based on actual collection data through June 2010. MTA has also revised both the real estate tax collections for 2010 downward by \$112 and the petroleum business tax receipts downward by \$32 compared to the February Financial Plan estimate.

In addition, the MTA made a determination to continue the New York City Student Transit Pass Program following a commitment by New York State and New York City to reimburse the MTA for a portion of its revenue loss associated with providing this service. Taking into account these commitments, continuation of this program will negatively impact the Financial Plan by \$6 in 2010, \$20 in 2011 and \$145 annually in 2012 through 2014 when compared with the February Plan.

The July Plan incorporates the effects of the proposed fare and toll revenue yield increases of 7.5% in 2011 and 2013. The 2011 proposed 7.5% fare and toll yield increase is projected to provide additional revenues of \$413 in 2011, \$432 in 2012, \$437 in 2013 and \$441 in 2014. The 2013 proposed 7.5% fare and toll yield increase is projected to provide additional revenues of \$457 in 2013 and \$474 in 2014.

The July Plan also includes additional strict spending constraints and budget reductions which are projected to result in combined annualized savings of approximately \$525 starting in 2011. In 2010, MTA has achieved significant savings by reducing operating expenses and improving efficiency. MTA reduced non-represented administrative payrolls by 20% at MTA Headquarters and by 15% at all other agencies, eliminating 977 positions and saving \$74 in 2010 and over \$100 annually thereafter. In May, the MTA began implementing a package of service cuts which were designed to have the least customer impact, resulting in savings of \$61 in 2010 and over \$100 annually thereafter. Specific areas company-wide were targeted for immediate cost reductions in order to overhaul the way MTA does business. These savings initiatives, known as the Budget Reduction Program, include: reducing material and supply costs by renegotiating contract terms with MTA's largest suppliers; reducing non-essential material expenditures and controlling inventory; eliminating or deferring projects that fail to meet rigorous financial or customer service benefit criteria; controlling the escalating cost of paratransit service; and managing overtime costs. Targeted cuts were made in maintenance, cleaning and customer service. MTA Bridges and Tunnels has undertaken a "top-to-bottom" reorganization. Total savings from the Budget Reduction Program agency-wide are approximately \$200 in 2010 and each year thereafter. To date, under the actions described above, the administrative cuts, service reductions and Budget Reduction Program, the MTA has achieved savings of \$381 in 2010 and recurring annual savings of over \$500 in 2011 and beyond. The July Plan includes a headcount total that is 3,470 positions lower (including the 977 administration positions referenced above) than projected in the 2009 November Baseline Plan – a 5% reduction.

MTA has also benefited from some positive operating results. The July Plan projects a \$67 increase in combined fare and toll revenue due to higher than expected utilization. Lower expenses for energy, pensions, health and welfare and debt service are projected to save almost \$190 in 2010 compared to the February Financial Plan.

Also, the July Plan seeks additional cost and productivity savings. As a part of the new MTA Efficiency Initiative, administrative, paratransit and overtime expenses will be further reduced in 2011. Under the New Labor Initiative, MTA will seek to stabilize its finances by controlling wage and benefit costs. The July Plan assumes that each new labor contract will not impose any additional financial burden on the MTA for two years; this result can be achieved through a combination of salary, wage and fringe benefit cost reductions, productivity improvements or contributions to benefits. Non-represented employees did not receive any wage increase in 2009 and are not scheduled to receive any increase in 2010. Taken

together, the New Efficiency Initiative and the New Labor Initiative are projected to provide savings of \$113 in 2011 and growing to \$403 in 2014.

The July Plan includes other actions designed to address the long-term financial stability of MTA including making the assumption that Nassau County will resume total funding of Long Island Bus operations for savings of \$100 over the plan period. MTA is currently in negotiations with Nassau County to resolve this issue. Nassau County is considering the possibility of severing the operating agreement with the MTA and running the operation itself, possibly utilizing private contractors.

As a cash management action, MTA will be foregoing the 2010 payment for unfunded future retirees' health and other benefits of \$57. For further information see MTA 2010 Combined Continuing Disclosure Filings Appendix A page A-144 and Appendix B Note 5 to the Consolidated Financial Statements. The Plan assumes that payments will be made for unfunded future retirees' health and other benefits for each of the years 2011 through 2014. The July Plan further provides for the repayment of a \$500 interagency loan in five annual installments beginning in 2012.

The July Plan assumes modest increases in consolidated ridership and vehicle crossings in 2010. MTA projects that consolidated ridership and vehicle crossings, along with farebox and toll revenue, will produce moderate and sustained increases each year from 2011 through 2014 in line with the projected emergence of the regional economy from recession into a period of modest growth. Forecasted MMTOA tax receipts, which are based on New York State's most recent revenue projections, are expected to be higher than the February Plan for all years 2011 through 2014. While in the July Plan real estate tax receipts are projected to grow every year, the forecast reflects a slower recovery than was assumed in the February Plan forecast, particularly due to continued weakness in the commercial real estate market.

***Subsequent Developments.*** Since the presentation of the July 2010 Financial Plan, there have been other developments:

***NYS Subsidy Reduction.*** The latest funding cuts by New York State in Chapter 313 of the Laws of 2010 (The FMAP Contingency Allocation Plan), enacted in the Summer 2010 and effective on September 16, 2010 due to a reduction in the Federal Medicaid Assistance Percentage (FMAP) matching rate, are reducing the dedicated taxes and subsidies earmarked for the MTA in the New York State 2010-11 Budget by \$16.7 in 2010. This amount represents 1.1 percent of all remaining allotments to the MTA in the State's 2010-2011 Budget that had not yet been paid to the MTA as of September 15, 2010, with the exception of the Payroll Mobility Tax which is exempt from the cuts by the legislation.

***Medical Benefits Contract.*** MTA recently completed negotiating a new medical benefits contract to provide medical health services to approximately 150,000 NYC Transit and MTA Bus employees, retirees and their dependents. This five-year contract is estimated to cost \$3.2 billion, providing MTA with estimated savings of \$57 in 2011 and more than \$350 over the life of the contract, compared with the projected cost of retaining the current medical health benefit coverage structure. These estimates do not take into account the effect of the recently passed federal health care reform law. The new medical health benefit plan will go into effect on January 1, 2011.

***Additional Pension Costs.*** Recently, the New York State Office of the State Comptroller lowered the assumed rate of return on the New York State and Local Retirement System (NYSLERS) from 8.0% to 7.5%, a 0.50% reduction. This decision was prompted by the likelihood that the plan assets would yield lower projected returns than had been anticipated. This lower overall return will result in participating employers having to make higher annual required contributions (ARC) for employees in that plan. NYSLERS is a small part of MTA's total pension costs; however, similar reductions in pension return assumptions are being made by pension advisors nationwide; and there is the likelihood that the other MTA pension plans will also be projecting lower investment returns, resulting in higher contributions. A

preliminary analysis of expanding the lower return assumption to the other plans estimates that the MTA could experience additional costs of \$50 in 2011, expanding to at \$150 per year, thereafter.

***Fare and Toll Yield Increases.*** The initial fare proposals were presented to the MTA Board on July 28, 2010 and a formal public comment period was held by the MTA from August 23 through September 21, 2010. After the public comment period, the final fare proposal was submitted to the Board for approval. On October 7, 2010, the MTA Board approved changes in transit and commuter rail fares. Two alternative structures for bridge and tunnel crossing tolls were presented to the Board at the October 7, 2010 meeting. The final action on the bridge and tunnel crossing tolls took place at the October 27, 2010 Board meeting. The approved transit and commuter rail fare increases and the proposed bridge and tunnel crossing toll increases are expected to generate 7.5% in additional revenue yield as outlined in the July Plan, see above.

***Payroll Mobility Tax Litigation.*** Numerous municipalities within the MTA region have initiated suits against the MTA seeking declaratory relief and a stay against further collection of the Payroll Mobility Tax. Each of these actions is in its earliest stages. Most of the claims in these actions are substantially similar to ones asserted in the *Hampton Transportation Ventures Inc. v. Silver* action and MTA believes such claims to be without merit. MTA is reviewing each of the complaints in its entirety, including additional claims, and intends to vigorously defend these actions.

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# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

## CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

(\$ In millions)

	September 30, 2010 (Unaudited)	December 31, 2009
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash (Note 3)	\$ 162	\$ 348
Restricted investment (Note 3)	1,603	623
Unrestricted investments (Note 3)	1,225	1,255
Restricted investments held under capital lease obligations (Notes 3 and 8)	84	10
Receivables:		
Station maintenance, operation, and use assessments	75	109
State and regional mass transit taxes	975	126
Mortgage Recording Tax receivable	19	23
State and local operating assistance	172	9
Other subsidies	20	13
Connecticut Department of Transportation	-	6
Due from Build America Bonds	36	1
New York City	113	20
Capital project receivable from federal and state government and other	336	188
Other	209	235
Less allowance for doubtful accounts	<u>(16)</u>	<u>(17)</u>
Total receivables — net	<u>1,939</u>	<u>713</u>
Materials and supplies	446	431
Advance to defined benefit pension trust	62	64
Prepaid expenses and other current assets (Note 2)	<u>112</u>	<u>142</u>
Total current assets	<u>5,633</u>	<u>3,586</u>
NONCURRENT ASSETS:		
Capital assets — net (Note 6)	49,356	47,229
Restricted investment held under capital lease obligations (Notes 3 and 8)	1,047	1,009
Restricted investments (Note 3)	595	542
Unrestricted investments (Note 3)	84	218
Receivable from New York State	2,063	2,091
Derivative assets	1	-
Deferred outflows from derivative instruments	545	-
Other noncurrent assets	<u>1,375</u>	<u>1,566</u>
Total noncurrent assets	<u>55,066</u>	<u>52,655</u>
TOTAL	<u>\$ 60,699</u>	<u>\$ 56,241</u>

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

(Continued)

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

**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2010 AND DECEMBER 31, 2009**  
**(\$ In millions)**

	September 30, 2010 (Unaudited)	December 31, 2009
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 435	\$ 501
Accrued expenses:		
Interest	487	232
Salaries, wages and payroll taxes	209	271
Vacation and sick pay benefits	749	744
Current portion — retirement and death benefits	636	404
Current portion — estimated liability from injuries to persons (Note 9)	229	228
Other	<u>856</u>	<u>757</u>
Total accrued expenses	<u>3,166</u>	<u>2,636</u>
Current portion — long-term debt (Note 7)	1,188	854
Current portion — obligations under capital lease (Note 8)	16	15
Current portion — pollution remediation projects (Note 11)	23	19
Deferred revenue	<u>479</u>	<u>402</u>
Total current liabilities	<u>5,307</u>	<u>4,427</u>
<b>NONCURRENT LIABILITIES:</b>		
Retirement and death benefits	51	52
Estimated liability arising from injuries to persons (Note 9)	1,313	1,257
Post employment benefits other than pensions (Note 5)	4,620	3,733
Long-term debt (Note 7)	29,689	27,573
Obligations under capital leases (Note 8)	1,149	1,158
Pollution remediation projects (Note 11)	75	81
Contract retainage payable	240	212
Derivative liabilities	562	-
Derivative liabilities-off market elements	45	-
Other long-term liabilities	<u>290</u>	<u>307</u>
Total noncurrent liabilities	<u>38,034</u>	<u>34,373</u>
Total liabilities	<u>43,341</u>	<u>38,800</u>
<b>NET ASSETS:</b>		
Invested in capital assets — net of related debt	18,223	18,779
Restricted for debt service	1,697	1,161
Restricted for claims	170	127
Unrestricted	<u>(2,732)</u>	<u>(2,626)</u>
Total net assets	<u>17,358</u>	<u>17,441</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 60,699</u></u>	<u><u>\$ 56,241</u></u>

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

(Concluded)

# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

## CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

(\$ In millions)

	September 30, 2010	September 30, 2009
	(Unaudited)	
OPERATING REVENUES:		
Fare revenue	\$ 3,410	\$ 3,207
Vehicle toll revenue	1,066	983
Rents, freight, and other revenue	<u>292</u>	<u>291</u>
Total operating revenues	<u>4,768</u>	<u>4,481</u>
OPERATING EXPENSES:		
Salaries and wages	3,431	3,464
Retirement and other employee benefits	1,573	1,502
Postemployment benefits other than pensions (Note 5)	1,145	1,317
Traction and propulsion power	248	248
Fuel for buses and trains	143	136
Insurance	-	7
Claims	239	206
Paratransit service contracts	287	272
Maintenance and other operating contracts	395	405
Professional service contracts	142	141
Pollution remediation projects (Note 11)	10	11
Materials and supplies	376	404
Depreciation	1,471	1,438
Other	<u>33</u>	<u>33</u>
Total operating expenses	<u>9,493</u>	<u>9,584</u>
OPERATING LOSS	<u>(4,725)</u>	<u>(5,103)</u>
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations, and taxes:		
Tax-supported subsidies — NYS	1,840	1,999
Tax-supported subsidies — NYC and local	306	301
Operating subsidies — NYS	194	194
Operating subsidies — NYC and local	191	190
Build America Bond subsidy	58	11
Mobility Tax	<u>1,250</u>	<u>-</u>
Total grants, appropriations, and taxes	<u>\$ 3,839</u>	<u>\$ 2,695</u>

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

(Continued)



# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

## CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

(\$ In millions)

	September 30, 2010	September 30, 2009
	(Unaudited)	
NON-OPERATING REVENUES (EXPENSES):		
Connecticut Department of Transportation and NYC	\$ 59	\$ 267
Subsidies paid to Dutchess, Orange, and Rockland Counties	(4)	(4)
Interest on long-term debt	(964)	(930)
Station maintenance, operation and use assessments	115	110
Operating subsidies recoverable from NYC for MTA Bus	234	-
Other non-operating revenue (expense)	3	(4)
Change in fair value of derivative financial instruments (Note 7)	<u>(61)</u>	<u>-</u>
Net non operating revenues	<u>3,221</u>	<u>2,134</u>
LOSS BEFORE APPROPRIATIONS	(1,504)	(2,969)
APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>1,421</u>	<u>1,315</u>
CHANGE IN NET ASSETS	(83)	(1,654)
NET ASSETS — Beginning of period	<u>17,441</u>	<u>18,334</u>
NET ASSETS — End of period	<u>\$ 17,358</u>	<u>\$ 16,680</u>
See Independent Accountants' Review Report and notes to the consolidated financial statements.		(Concluded)

# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

(\$ In millions)

	September 30, 2010	September 30, 2009
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 4,636	\$ 4,333
Rents and other receipts	243	225
Payroll and related fringe benefits	(5,120)	(4,826)
Other operating expenses	(1,728)	(1,938)
Net cash used in operating activities	(1,969)	(2,206)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	2,840	1,879
Operating subsidies from CDOT	60	61
Subsidies paid to Dutchess, Orange, and Rockland counties	(7)	(9)
MTA revenue anticipation notes	581	-
Net cash provided by noncapital financing activities	3,474	1,931
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	2,045	1,518
MTA Bridges and Tunnels bond proceeds	161	673
TBTA bonds refunded	(150)	(248)
MTA anticipation notes proceeds	-	687
Capital lease receipts	10	-
Capital lease payments	(4)	(46)
Grants and appropriations	1,716	1,405
Capital expenditures	(3,689)	(3,691)
Debt service payments	(897)	(863)
Net cash used in capital and related financing activities	(808)	(565)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of long-term securities	(3,757)	(3,630)
Sales or maturities of long-term securities	2,103	3,772
Sales of short term securities	744	617
Earnings on investments	27	33
Net cash (used in)/provided by in investing activities	(883)	792
NET DECREASE IN CASH	(186)	(48)
CASH — Beginning of period	348	206
CASH — End of period	\$ 162	\$ 158

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

(Continued)

# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

(\$ In millions)

	September 30, 2010 (Unaudited)	September 30, 2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (4,725)	\$ (5,103)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,471	1,438
Net increase in payables, accrued expenses, and other liabilities	1,104	1,435
Net decrease in receivables	115	37
Net decrease/(increase) in materials and supplies and prepaid expenses	<u>66</u>	<u>(13)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (1,969)</u>	<u>\$ (2,206)</u>

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

(Concluded)

# **METROPOLITAN TRANSPORTATION AUTHORITY**

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

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **PERIODS ENDED SEPTEMBER 30, 2010 AND 2009**

**(\$ In millions)**

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## **1. BASIS OF PRESENTATION**

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

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

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

- Metropolitan Transportation Authority Headquarters (“MTAHQ”) provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the related groups listed below.
- The Long Island Rail Road Company (“MTA Long Island Rail Road”) provides passenger transportation between New York City (“NYC”) and Long Island.
- Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority (“MTA Staten Island Railway”) provides passenger transportation on Staten Island.
- 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 totaled \$3.8 billion in 2009 and 3.0 billion for the nine months ended June 30, 2010.

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

*2010-2014 Capital Program* — Capital programs covering the years 2010-2014 were originally approved by the MTA Board in September 2009 and subsequently submitted to the CPRB in October 2009 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2010–2014 Commuter Capital Program”), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, and the rail system operated by MTA Staten Island Railway (the “2010–2014 Transit Capital Program”), and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2010–2014 MTA Bridges and Tunnels Capital

Program”). This plan was disapproved by the CPRB in December 2009. A revised 2010-2014 Capital Program was approved by the CPRB in June 2010.

As first approved by the CPRB, the 2010–2014 MTA Capital Programs and the 2010–2014 MTA Bridges and Tunnels Capital Program, provide for \$26,265 in capital expenditures, of which \$12,841 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$4,257 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$5,739 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$335 relates to a multi-faceted security program including MTA Police Department; \$315 relates to MTA interagency, \$325 relates to MTA Bus Company initiatives; and \$2,453 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities.

The combined funding sources for the MTA Board-approved 2010–2014 MTA Capital Programs and 2010–2014 MTA Bridges and Tunnels Capital Program include \$6,000 in MTA Bonds, \$2,453 in MTA Bridges and Tunnels dedicated funds, \$6,640 in Federal Funds, \$160 in MTA Bus Federal and City Match, \$1,100 from other sources, and \$9,912 from future State and local funding.

At September 30, 2010, \$711 had been committed and \$47 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program.

*2005-2009 Capital Program* — Capital programs covering the years 2005-2009 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 2005-2009 MTA Capital Programs budget increased by \$652 as a result of new American Recovery and Reinvestment Act (“ARRA”) funds. Of the \$24,369 now provided in total capital expenditures, \$11,631 (+\$477 ARRA) 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; \$3,792 (+\$175 ARRA) relates to ongoing repairs of, and replacements to, the commuter

system operated by MTA Long Island Rail Road and MTA Metro-North Railroad. Budgets for the other agencies within the MTA Group remain consistent with the MTA Board decisions, as last approved in 2009 and reported in December 2009.

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, \$9,544 in Federal Funds, and \$3,945 from other sources.

At September 30, 2010, \$20,077 had been committed and \$13,799 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 \$21,417 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; \$5,021 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$234 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 2000-2004 MTA Capital Programs budget increased by \$423 as a result of new ARRA funds. Of the \$21,574 now provided in total capital expenditures, \$5,177 (+\$267 previously advanced ARRA+\$156 additional ARRA) relates to the expansion of existing rail networks for the transit system to be managed by MTA Capital Construction. Budgets for the other agencies within the MTA Group remain consistent with those reported in December 2009.

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, \$6,945 in Federal funds, \$4,575 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002, and \$2,135 from other sources.

At September 30, 2010, \$21,261 had been committed and \$19,716 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

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

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.

**Recent Accounting Pronouncements** — The MTA has completed the process of evaluating GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. 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 MTA has determined that GASB Statement No. 51 will have no impact on its financial position, results of operations, and cash flows and therefore is not applicable at this time.

The MTA has completed the process of evaluating the impact that will result from implementing GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and has reported the fair value of the derivatives on its bond portfolio. GASB Statement No. 53 deals with the recognition, measurement, and disclosure of information regarding derivative instruments, and addresses hedge accounting requirements. Hedging derivative instruments are supposed to significantly reduce financial risk by substantially offsetting the associated changes in cash flows or fair values of the underlying bond portfolio. As a result, the MTA is reporting expenses, derivative liabilities and deferred outflows from derivative instruments in the amounts of \$61, \$562 and \$545 respectively in its financial statements as of and for the nine-month period ended September 30, 2010. Also recognized in the same period are derivative assets and derivative liabilities-off market elements in amounts \$1 and \$45 respectively.

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.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions*, and Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement clarifies actuarially determined OPEB measures reported by an agent multiple-employer OPEB plan and its participating employers. Those measures should be determined by a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirement. The MTA is therefore unable to disclose the impact GASB Statement No. 57 will have on its financial position results of operations, and cash flows when such statement is adopted. This statement is effective for financial statements for periods beginning after June 15, 2011.



The MTA has completed the process of evaluating GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The MTA has determined that GASB Statement No. 58 will have no impact on its financial position, results of operations, and cash flows and therefore is not applicable to its operations at this time. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 59, *Financial Instruments Omnibus*. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCA)*. The requirement of this statement improve financial reporting by establishing recognition, measurement and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The Statement is effective for financial statements prepared by state and local governments for periods beginning after December 15, 2011.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements Nos. 14 and 34*. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The Statement is effective for financial statements prepared by state and local governments for periods beginning after December 15, 2011.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 62, *Codification of accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*. The Statement objective is to incorporate pronouncements that do not contradict or conflict with GASB pronouncements. This Statement is effective for financial statements for periods beginning after December 15, 2011.

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

**Principles of Consolidation** — The consolidated financial statements consist of MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, 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.

**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 September 30 and 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, 2010 and December 31, 2009.

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

**Pollution remediation projects** — Effective January 1, 2008, pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 11). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations, which previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: the Authority is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the Authority is named by a regulator as a responsible or potentially responsible party to participate in remediation; the Authority voluntarily commences or legally obligates itself to commence remediation efforts; or the Authority is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

**Operating Revenues** — *Passenger Revenue and Tolls* — Revenues from the sale of tickets, tokens, electronic toll collection system, and farecards are recognized as income when used. 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, 2010 and September 30, 2009, 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, 2010 and September 30, 2009, respectively.
- The first \$5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange, and Rockland (DOR) Fund (\$1.5 each for Dutchess and Orange Counties and \$2 for Rockland County). Additionally, the MTA must transfer to each County's fund an amount equal to the product of (i) the percentage by which each respective County's mortgage recording tax payments (both MRT-1 and MRT-2) to the MTA increased over such payments in 1989 and (ii) the base amount received by each county as described above. The counties do not receive any portion of the September 1, 2005 increase in MRT-1 from 25 cents per \$100 of recorded mortgage to 30 cents. As of September 30, 2010, the MTA paid to Dutchess, Orange and Rockland Counties the 2009 excess amounts of MRT-1 and MRT-2 totaling \$2.9.
- 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.

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

*Supplemental Aid* — Also in 2009 several amendments to the existing tax law provided the MTA supplemental revenues to be deposited into the AID Trust Account of the Metropolitan Transportation Authority Financial Assistance Fund established pursuant to section 92 of the State Finance law. These supplemental revenues relates to: 1) supplemental learner permit/license fee in the Metropolitan

Commuter Transportation District. 2) Supplemental Registration fee 3) Supplemental tax on every taxicab owner per taxicab ride on every ride that originated in the city and terminates anywhere within the territorial boundaries of the Metropolitan Commuter Transportation District 4) Supplemental tax on passenger car rental. This Supplemental Aid Tax is provided to the MTA in conjunction with the Mobility Tax.

*Dedicated Taxes* — Under NYS law, subject to annual appropriation, the MTA receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund (“MTTF”) and Metropolitan Mass Transportation Operating Assistance Fund (“MMTOA”). The MTTF receipts consist of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and 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.

*Build America Bond Subsidy* - The Authority is receiving cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the Series of Bonds issued as “Build America Bonds” and authorized by the Recovery Act. The Internal Revenue Code of 1986 imposes requirements that MTA must meet and continue to meet after the issuance in order to receive the cash subsidy payments. The interest on these bonds is fully subject to Federal income taxation. As of September 30, 2010, the Authority had issued the following “Build America Bonds”:

- MTA Dedicated Tax Fund Bonds Series 2010A-2 in the amount of \$443.2.
- MTA Transportation Revenue Bonds Series 2010A, 2010B-1 and 2010C-1 in the amounts of \$363.9, \$607.8, and \$467.7 respectively.

*Operating Subsidies Recoverable from Connecticut Department of Transportation (“CDOT”)* — A portion of the deficit from operations relating to MTA Metro-North Railroad’s New Haven line is recoverable from CDOT. Under the terms of a renewed Service Agreement, which began on January 1, 2000, and the 1998 resolution of an arbitration proceeding initiated by the State of Connecticut, CDOT pays 100% 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 non-movable capital assets located in Connecticut, 100% of movable capital assets to be used primarily on the branch lines and 65% of the cost of other movable capital assets allocated to the New Haven line. Remaining funding for New Haven line capital assets is provided by the MTA. The Service Agreement provides for automatic five-year renewals unless a notice of termination has been provided. The Service Agreement has been automatically extended for an additional five years beginning January 1, 2010 subject to the right of CDOT or MTA to terminate the agreement on eighteen month's written notice. Capital assets completely funded by CDOT are not reflected in these financial statements, as ownership is retained by CDOT. The Service Agreement provides that final billings for each year be subject to audit by CDOT. 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 September 30, under provisions of the NYS Public Authorities Law. This funding is recognized as revenue based upon an amount, fixed by statute, for the costs to operate and maintain passenger stations and is revised annually by the increase or decrease of the regional Consumer Price Index.

- In 1995, the City ceased reimbursing the Authority for the full costs of the free/reduced fare program for students. Beginning in 1996, the State and the City each began paying \$45 per annum to the Authority toward the cost of the program. In 2009, the State reduced their \$45 reimbursement to \$6.3. The total foregone revenue associated with this program is estimated to be \$214 for 2010. The 2010 Adopted Budget proposed that the Student Fare Program be eliminated and student fares be phased in, with the first phase to commence September 1, 2010. In June 2010, following fare reimbursement commitments of \$25.3 from New York State and \$45.0 from The City, the Authority declined to proceed with the proposal to eliminate the Student Fare Program.
- 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 \$4.9 for the nine months ended September 30, 2010 and \$2.8 in the nine months ended September 30, 2009 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 revenues and reimbursements aggregated approximately \$75.5 for the nine months ended September 30, 2010 and \$63.6 in the nine months ended September 30, 2009.

*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.

**Liability Insurance** — FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program (“ELF”) that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: \$8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 million for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2009, the self-insured retention limits for ELF were increased to the following amounts: \$9 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 million for MTAHQ and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On September 30, 2010, the balance of the assets in this program was \$72 million.

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

On March 1, 2010, 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 \$9 million per occurrence limit with a \$0.5 million per occurrence deductible for MTA Long Island Rail Road, MTA Staten Island Rapid Transit Operating Authority, MTA Police and MTA Metro-North Railroad; \$2.6 million per occurrence limit with a \$0.5 million per occurrence deductible for MTA Long Island Bus, Office of the MTA Inspector General and MTA Headquarters. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On March 1, 2010, the “Access-A-Ride” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit’s Access-A-Ride program, including the contracted operators. This policy provides a \$3 million per occurrence limit with a \$1 million per occurrence deductible.

On December 15, 2009, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$9 million per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

**Property Insurance** — Effective May 1, 2010, FMTAC renewed the all-agency property insurance program. For the period May 1, 2010 to May 1, 2011 at 12:00 AM, FMTAC directly insures property

damage claims of the other MTA Group entities in excess of a \$25 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 million per occurrence. The total program limit has been maintained at \$1.075 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, Asian, London, European and Bermuda marketplaces for this coverage.

The property insurance policy provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

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 million (“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 Chartis, Inc. That policy provides coverage for (1) 15% of any “certified” act of terrorism — up to a maximum recovery of \$161.25 million for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15% “certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$100 million TRIPRA trigger — up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2011. Recovery under this policy is subject to a retention of \$25 million per occurrence and \$75 million in the annual aggregate — in the event of multiple losses during the policy year. Should the MTA Group’s retention in any one year exceed \$75 million future losses in that policy year are subject to a retention of just \$7.5 million.

**Pension Plans** — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. The Authority has adopted this standard for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions (ARC) to the pension plan, calculated in accordance with certain parameters.

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

### 3. CASH AND INVESTMENTS

The Bank balances are insured up to \$250 in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited. Cash, including deposits in transit, consists of the following at September 30, 2010 and December 31, 2009 (in millions):

	<b>September 2010</b>		<b>December 2009</b>	
	<b>Carrying Amount (Unaudited)</b>	<b>Bank Balance</b>	<b>Carrying Amount</b>	<b>Bank Balance</b>
FDIC insured or collateralized deposits	\$ 40	\$ 32	\$ 37	\$ 37
Uninsured and not collateralized	<u>122</u>	<u>81</u>	<u>311</u>	<u>269</u>
	<u>\$ 162</u>	<u>\$ 113</u>	<u>\$ 348</u>	<u>\$ 306</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, 2010 and December 31, 2009 (in millions):

	<b>September 2010 (Unaudited)</b>	<b>December 2009</b>
Repurchase agreements	\$ 409	\$ 425
Commercial paper	20	-
Certificates of Deposit	9	10
Federal Agencies due 2010-2012	840	524
U.S. Treasuries due 2010-2022	1,799	1,270
Investments restricted for capital lease obligations:		
US Treasury Notes	171	88
Short-Term Investment Fund	77	76
Federal Agencies	127	108
Other Agencies	<u>756</u>	<u>747</u>
Sub-total	1,131	1,019
Other Agencies due 2010-2030	193	184
Asset & Mortgage Back Securities*	17	13
Commercial Mortgage Backed Securities*	39	36
Corporate Bonds*	134	123
Foreign Bonds*	33	39
Equities*	<u>14</u>	<u>14</u>
Total	<u>\$ 1,131</u> <u>\$ 4,638</u>	<u>\$ 1,019</u> <u>\$ 3,657</u>

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 0.5% and 0.7% for the nine months ended September 30, 2010 and December 31, 2009 respectively.

Of the above cash and investments, amounts designated for internal purposes by management were as follows at September 30, 2010 and December 31, 2009 (in millions):

	<b>September 2010 (Unaudited)</b>	<b>December 2009</b>
Construction or acquisition of capital assets	\$ 847	\$ 740
Funds received from affiliated agencies for investment	629	245
Debt service	979	423
Payment of claims	446	422
Restricted for capital leases	1,131	1,084
Other	<u>601</u>	<u>771</u>
Total	<u>\$ 4,633</u>	<u>\$ 3,685</u>

**Credit Risk** — At September 30, 2010 and December 31, 2009, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization (in millions):

<b>Quality Rating Moody's</b>	<b>September 30, 2010 (Unaudited)</b>	<b>Percent of Portfolio</b>	<b>December 31, 2009</b>	<b>Percent of Portfolio</b>
A-1+	\$ 589	15.00 %	\$ 384	13.04 %
AAA	705	17.94	576	19.57
AA	37	1.00	31	1.05
A	91	2.31	84	2.85
BB	2	0.05	2	0.08
BBB	41	1.04	44	1.49
Not rated	417	10.61	379	12.87
Government	<u>2,047</u>	<u>52.05</u>	<u>1,444</u>	<u>49.05</u>
Total	3,929	<u>100.00 %</u>	2,944	<u>100.00 %</u>
Capital leases	<u>709</u>		<u>713</u>	
Total investment	<u>\$ 4,638</u>		<u>\$ 3,657</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 2010 (Unaudited)		December 2009	
	Fair Value	Duration	Fair Value	Duration
U.S. Treasuries	\$ 1,799	0.33	\$ 1,270	0.22
Federal Agencies	840	0.37	524	0.34
Other Agencies	193	1.30	184	0.28
Tax Benefits Lease Investments	422	14.27	306	17.87
Repurchase Agreement	409	-	425	-
Certificate of Deposits	9	-	10	-
Commercial Paper	20	-	-	-
Asset-Backed Securities <sup>(1)</sup>	17	1.95	13	1.77
Commercial Mortgage-Backed Securities <sup>(1)</sup>	39	2.50	36	3.11
Foreign Bonds <sup>(1)</sup>	33	-	39	5.39
Corporates <sup>(1)</sup>	<u>134</u>	<u>4.50</u>	<u>123</u>	<u>4.68</u>
Total fair value	3,915		2,930	
Modified duration		2.15		2.28
Equities <sup>(1)</sup>	<u>14</u>		<u>14</u>	
Total	3,929		2,944	
Investments with no duration reported	<u>709</u>		<u>713</u>	
Total investments	<u>\$ 4,638</u>		<u>\$ 3,657</u>	

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

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

- obligations of the State or the United States Government;
- obligations 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.

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

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

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

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

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

FMTAC may also invest 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, 2009 the most recent actuarial valuation date is as follows (in millions):

	2009	2008
Annual required contribution ("ARC")	\$ 108.7	\$ 100.3
Interest on net pension obligation	3.2	3.2
Adjustment to ARC	<u>(3.8)</u>	<u>(3.8)</u>
Annual pension cost	108.1	99.7
Actual contributions made	<u>(96.7)</u>	<u>(100.0)</u>
Increase in net pension obligation	11.4	(0.3)
Net pension obligation beginning of year	<u>40.1</u>	<u>40.4</u>
Net pension obligation end of year	<u>\$ 51.5</u>	<u>\$ 40.1</u>

### Three-Year Trend Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability "AAL"	Unfunded Accrued Liability "UAL"	Funded Ratio	Covered Payroll	UAL as % of Covered Payroll
01/01/09	\$483.9	\$1,590.5	\$1,106.5	30.43 %	\$ 72.7	1521.67 %
01/01/08	537.6	1,560.1	1,022.5	34.46	80.9	1,263.53
01/01/07	509.1	1,543.5	1,034.4	32.98	94.0	1,100.45

Year Ended	Annual Pension Cost "APC"	Annual Required Contribution "ARC"	Annual Contribution	ARC as a % of Covered Payroll	% of APC Contributed	Net Pension Obligation
12/31/09	\$108.1	\$ 108.7	\$ 96.7	149.45 %	\$ 89.44	51.50 %
12/31/08	99.7	100.3	100.0	123.98	100.23	40.10
12/31/07	100.4	100.9	100.9	107.34	100.51	40.40

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, 2009, the most recent actuarial valuation date, the LIRR Plan was 30.4% funded. The actuarial accrued liability for benefits was \$1,590.5, and the actuarial value of assets was \$483.9, resulting in an unfunded actuarial accrued liability ("UAAL") of \$1,106.5. The covered payroll (annual payroll of active employees covered by the LIRR plan) was \$72.7, and the ratio of the UAAL to the covered payroll was 1,521.7%.

*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, 2009 and 2008 were not changed from those used for the

LIRR Plan at January 1, 2007 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, 2009 were as follows: the actuarial cost method and amortization method used was the entry age normal cost for all periods. For January 1, 2007 the amortization period for unfunded accrued liability was 26 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, 2009 was 24 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, 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 January 1, 2009 actuarial valuation resulted in an unfunded accrued liability of \$.02 and the \$.0003 annual required contribution was paid to the MNR Cash Balance Plan in 2009. The market value of net assets available for benefits in the trust fund at December 31, 2009 was \$1.01, which is less than the current PBO of \$1.01. The MTA Metro-North Railroad has accrued this unfunded liability.

The funded status of the MNR Cash Balance Plan as of January 1, 2009, the most recent actuarial valuation date is as follows (in thousands):

	2009	2008
Annual required contribution	\$ 0.3	\$ 14.0
Interest on net pension obligation	(3.6)	(4.0)
Adjust to annual required contribution	<u>10.1</u>	<u>10.0</u>
Annual pension cost	6.8	20.0
Actual contributions	<u>(0.3)</u>	<u>(14.0)</u>
Decrease in net pension asset	6.5	6.0
Net pension asset beginning of year	<u>(72.0)</u>	<u>(78.0)</u>
Net pension asset end of year	<u>\$ (65.5)</u>	<u>\$ (72.0)</u>

### Three-Year Trend Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability "AAL"	Unfunded Accrued Liability "UAL"	Funded Ratio	Covered Payroll	UAL as % of Covered Payroll
1/1/2009	\$ 1,238.8	\$ 1,241.2	\$ 2.3	99.81	\$ 5,936.3	0.04 %
1/1/2008	1,336.4	1,401.5	65.1	95.35	6,798.4	0.96
1/1/2007	1,361.4	1,436.0	74.6	94.80	6,842.9	1.09

Year Ended	Annual Pension Cost "APC"	Annual Required Contribution "ARC"	Annual Contribution	ARC as a % of Covered Payroll	% of APC Contributed	Net Pension Obligation
12/31/2009	\$ 6.8	\$ 0.3	\$ 0.3	0.01 %	0.05 %	\$ (65.5)
12/31/2008	20.0	14.0	14.0	0.20	68.73	(72.0)
12/31/2007	16.0	10.0	10.0	0.14	58.83	(78.0)

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, 2009, the most recent actuarial valuation date, the MNR Cash Balance Plan was 99.8% funded. The actuarial accrued liability for benefits was \$1.2, and the actuarial value of assets was \$1.2, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.002. The covered payroll (annual payroll of active employees covered by the plan) was \$5.9, and the ratio of the UAAL to the covered payroll was 0.04%.



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, 2009 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, 2009 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, 15<sup>th</sup> 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, 2009, 2008 and 2007 were \$204.2, \$201.9 and \$179.2, 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):

	<b>2009</b>	<b>2008</b>
Annual required contribution	\$ 204.3	\$ 201.9
Interest on net pension asset	(3.6)	(3.7)
Adjust to annual required contribution	<u>5.2</u>	<u>5.1</u>
Annual pension cost	205.9	203.3
Actual contributions	<u>(204.2)</u>	<u>(201.9)</u>
Decrease in net pension asset	1.7	1.4
Net pension asset beginning of year	<u>(44.6)</u>	<u>(46.0)</u>
Net pension asset end of year	<u>\$ (42.9)</u>	<u>\$ (44.6)</u>

### Three-Year Trend Information

<b>Year Ending</b>	<b>Pension Cost (APC)</b> (In thousands)	<b>APC Contributed</b>	<b>Net Pension Asset</b>
12/31/2009	\$ 205.9	99.2 %	\$ (42.9)
12/31/2008	203.3	99.3	(44.6)
12/31/2007	180.7	99.2	(46.0)

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Accrued Liability (AAL) Initial Entry Age (b)</b>	<b>Unfunded (AAL) (UAAL) (b-a)</b> (In millions)	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>(UAAL) As a Percentage of Covered Payroll ((b-a)/c)</b>
1/1/09	\$ 1,190.0	\$ 1,977.4	\$ 787.4	60.20 %	\$ 569.4	138.3 %
1/1/08	1,190.8	2,045.0	854.1	58.22	562.2	151.9
1/1/07	1,057.9	1,938.3	880.5	54.58	519.7	169.4

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, 2009, the most recent actuarial valuation date, the MaBSTOA Plan was 60.2% funded. The actuarial accrued liability for benefits was \$1,977.4, and the actuarial value of assets \$1,190.0, resulting in an unfunded actuarial accrued liability (UAAL) of \$787.4. The covered payroll (annual payroll of active employees covered by the MaBSTOA Plan) was \$569.4, and the ratio of the UAAL to the covered payroll was 138.3%.

*Actuarial Methods and Assumptions* — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The January 1, 2009 valuation reflects the actuarial assumptions adopted by the MTA New York City Transit based on the January 1, 2007 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 per year.

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:

	<b>Single-Employer Plans</b>		
	<b>LIRR</b>	<b>MaBSTOA</b>	<b>MNR Cash Balance Plan</b>
Date of valuation	1/1/2009	1/1/2009	1/1/2009
Required contribution rates:	(\$ in millions)		(\$ in thousands)
Plan members			
Employer:	variable actuarially determined	variable actuarially determined	variable actuarially determined
Employer contributions made in 2009	\$ 96.7	\$ 204.2	\$ 0.3
Three-year trend information:			
Annual Required Contribution			
2009	\$ 108.7	\$ 204.3	\$ 0.3
2008	100.3	201.9	14.0
2007	100.9	179.2	10.0
Percentage of ARC contributed:			
2009	88.9 %	100.0 %	100.0 %
2008	100	100	100
2007	100	100	100
Annual Pension Cost (APC):			
2009	\$ 108.1	\$ 205.9	\$ 6.8
2008	99.7	203.3	20.0
2007	100.4	180.7	16.0
Net Pension Obligation (NPO) (asset) at end of year:			
2009	\$ 51.5	\$ (42.9)	\$ (65.5)
2008	40.1	(44.6)	(72.0)
2007	40.4	(46.0)	(78.0)
Percentage of APC contributed:			
2009	89 %	99 %	0.05 %
2008	100	99	69
2007	101	99	59
Components of APC			
Annual required contribution (ARC)	\$ 108.7	\$ 204.3	\$ 0.3
Interest on NPO	3.2	(3.6)	(3.6)
Adjustment of ARC	<u>(3.8)</u>	<u>5.2</u>	<u>10.1</u>
APC	108.1	205.9	6.8
Contributions made	<u>(96.7)</u>	<u>(204.2)</u>	<u>(0.3)</u>
Change in NPO (asset)	11.4	1.7	6.5
NPO (asset) beginning of year	<u>40.1</u>	<u>(44.6)</u>	<u>(72.0)</u>
NPO (asset) end of year	<u>\$ 51.5</u>	<u>\$ (42.9)</u>	<u>\$ (65.5)</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 %	5.00 %
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/ 24 years	level dollar/ 17 years	level dollar/ 9 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 88.8% 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, 2009, 2008 and 2007 were \$ 146.2, \$107.8, and \$106.6, 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. Police Officers who become participants of the MTA Police Program prior to January 1, 2010 contribute to that program at various rates. Police Officers who become participants on or after January 1, 2010 contribute 3% up to the completion of 30 years of service, the maximum amount of service credit allowed.

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 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 who are required to contribute a fixed dollar amount, which varies, by depot. Currently, non-represented employees at employees at Yonkers Depot and, if hired after June 30, 2007, at Baisley Park, College Point, Eastchester, JFK, LaGuardia, and Spring Creek Depots, contribute \$21.50 per week; non-represented employees at Eastchester prior to 2007 contribute \$25 per week; represented employees at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia and Yonkers Depots contribute \$29.06 per week; Spring Creek represented cleaners contribute \$23.15 per week and other represented titles contribute \$32.00 per week. Certain remaining non-represented employees at Baisley Park, Far Rockaway, JFK, LaGuardia and Spring Creek Depots in the pension program covering only such employees make no contributions to those programs. (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 20.1% and 16.8%, respectively, of covered payroll. The contribution requirements of plan members and MTA New York City Transit and MTA Bridges and Tunnels are established and amended by law. MTA New York City Transit's required contributions for NYCERS fiscal years ended June 30, 2010, 2009 and 2008 were \$ 533.3, \$515.0, and \$443.3, respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2009, 2008 and 2007 were \$24.8, \$20.4, and \$18.5, 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. Since 2000, the 3% contribution is suspended for employees who have 10 years or more of membership. Employees who become members on or after January 1, 2010 are required to contribute for all their years of service. 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 7.1% and 7.0%. The MTAHQ NYSLERS contributions for the years ended December 31, 2009, 2008 and 2007 was approximately 7.1%, 5.7%, and 5.5%, respectively. The MTA Long Island Bus NYSLERS contributions for the years ended December 31, 2009, 2008 and 2007 were approximately \$4.1, \$5.2 and \$5.1, 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 made final distributions of all participant accounts on or about January 6, 2010.

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 made final distributions of all participant accounts on or about January 6, 2010.

*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 to what extent progress is being made in funding the plan.

The MTA elected not to record the entire amount of the Unfunded Actuarial Accrued Liability (“UAAL”) in the year ended December 31, 2009, and record the net annual OPEB obligation. The MTA also elected not to fund the UAAL more rapidly than on a pay-as-you-go basis. The UAAL relating to post-employment benefits decreased from \$13.6 billion at the end of 2007 to \$13.2 billion at the end of 2008 and remained the same for 2009. 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 provided either through a self-insured health plan, a fully insured or an HMO.

GASB Statement No. 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2009 and was performed with a valuation date of January 1, 2008. The total number of plan participants as of December 31, 2009 and December 31, 2008 receiving retirement benefits is 39 thousand and 39 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. The remaining amortization period at December 31, 2009 is 20 years.

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

**Actuarial Methods and Assumptions** — The Frozen Initial Liability (FIL) Cost Method is used for determining the Normal Cost. The Entry Age Normal (EAN) Cost Method is used to determine the initial Frozen Accrued Liability as well as any subsequent changes in Accrued Liability due to changes in the plan and/or actuarial assumptions. The initial Frozen Unfunded Accrued Liability was determined as of January 1, 2006 (2007 for MTA Bus Company) to be used in the financials for the 2007 fiscal year. EAN will also be used to determine the unfunded actuarial accrued liability in the GASB

45 supplementary schedules. The EAN method determines the Accrued liability for each individual based on a level percent of pay for service accrued through the valuation date.

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

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

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

The OPEB-specific actuarial assumptions used in the twelve months ended December 31, 2009, OPEB actuarial valuations are as follows:

Valuation date	January 1, 2009
Actuarial cost method	Frozen Initial Liability
Discount rate	4.2%
Price inflation	2.5% per annum, compounded annually
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
<b>Male Employees</b>					
30–34	168.4	45.6	103.6	56.6	84.5
35–39	200.7	65.0	129.0	80.6	105.2
40–44	253.3	82.9	171.4	102.8	139.7
45–49	326.8	110.8	233.1	137.5	190.0
50–54	407.4	133.4	306.5	165.4	249.8
55–59	464.0	139.2	362.9	172.7	295.8
60–64	601.7	164.3	486.9	203.8	396.9
<b>Female Employees</b>					
30–34	330.7	76.7	227.2	95.2	185.2
35–39	327.2	91.0	218.3	112.9	178.0
40–44	332.3	111.9	211.9	138.8	172.7
45–49	374.6	140.9	237.5	174.8	193.6
50–54	420.7	166.0	274.7	205.9	223.9
55–59	448.6	181.1	304.7	224.6	248.4
60–64	549.9	199.5	398.0	247.5	324.5

**Medicare Part B Premiums** — The Medicare Part B premium reimbursement was included in the 2008 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 6%. These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

For those retirees participating in NYSHIP, the trend assumption used for 2009 and 2010 was 0% and 4.3%, respectively. This was based on the fact that the 2009 NYSHIP premium was lower than 2008 and rose modestly in 2010. It also reflected actual premium increases for dental and vision benefits and Medicare Part B reimbursements.

For NYC Transit and MTA Bus Company, this trend was combined further with an assumed medical trend for other medical and pharmacy benefits not covered by NYSHIP. The combination was based on an estimated liability basis.

The trend assumption utilized in this valuation has changed from the assumption used in the previous valuation and lowered actuarial liabilities 5% to 10% for each agency. Further reflection of actual NYSHIP premiums for 2009 and 2010 further lowered the actuarial liabilities.

## Health Care Cost Trend Rates

Fiscal Year	NYSHIP	Non-NYSHIP	Transit	MTA Bus
2008	0.0 %	7.5	5.0 %	6.2
2009	4.3	7.0	6.2	6.6
2010	7.0	6.6	6.9	6.7
2011	6.6	6.2	6.4	6.2
2012	6.2	5.7	6.0	5.8
2017	6.1	5.6	5.9	5.7
2022	6.0	5.5	5.7	5.6
2027	5.9	5.4	5.7	5.5
2032	5.8	5.3	5.6	5.4
2037	5.5	4.9	5.2	5.0
2042	5.3	4.8	5.1	4.9
2047	5.2	4.7	5.0	4.8

**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 %	50 %
HIP	35	35	38
Aetna	0	0	12

#### Medicare HIP/Aetna HMO Elections

VIP 1	80 %	100 %	75 %
VIP 2	20	0	0
Aetna	0	0	25

**Dependent Coverage** — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For groups that do not participate in NYSHIP, details on coverage election rates can be found in NYC Transit and MTA Bus Company Sections IV.

Spouses are assumed to be the same age as the employee/retiree. 85% of male and 55% of female eligible members are assumed to elect family coverage upon retirement. No children are assumed. Actual family coverage elections for current retirees are used. If a current retiree's only dependent is a child, eligibility is assumed for an additional 7 years of dependent coverage if the member participates in NYSHIP (otherwise, 5 years) from the valuation date was assumed.

**Demographic Assumptions:**

*Mortality* — 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 2008 actuarial valuations for the pension plans, with the exception of the mortality assumption. The following is a table displaying the various sources of the assumptions utilized by group.

Group	Pension Plan
Transit – OA	MaBSTOA
Transit – TA	NYCERS - TA
TBTA	NYCERS - TBTA
LIRR Pre-1988	LIRR Plan
LIRR Post-1987	MTA DB Plan
Metro North Mgrs/Unions in DB Plan	MTA DB Plan
Metro North Other Unions	DC Plan—used same as DB Plan Union
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	MTA DB Plan
MTA Bus Companies	MTA DB Plan
College Point Depot – Non Rep	DC Plan-used same as MTA DB Non Rep

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

<b>Age at Termination</b>	<b>Percent Electing</b>
< 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, 2009 and for the nine month period ended June 30, 2010. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

<b>(In millions)</b>	<b>September 30, 2010 (Unaudited)</b>	<b>December 31, 2009</b>
Annual required contribution ("ARC")	\$ 1,322.0	\$ 1,609.3
Interest on net OPEB obligation	117.6	110.8
Adjustment to ("ARC")	<u>(294.7)</u>	<u>(277.8)</u>
Annual OPEB cost	1,144.9	1,442.3
Payments made	<u>(258.0)</u>	<u>(347.5)</u>
Increase in net OPEB obligation	886.9	1,094.8
Net OPEB obligation — beginning of period	<u>3,733.0</u>	<u>2,638.2</u>
Net OPEB obligation — end of period	<u>\$ 4,619.9</u>	<u>\$ 3,733.0</u>

The MTA's annual OPEB cost, the percentage of annual OPEB cost contributed to, and the net OPEB obligation for the period ended December 31, 2009 is as follows (in millions):

<b>Ended</b>	<b>OPEB Cost</b>	<b>Cost</b>	<b>Obligation</b>
<b>(In Millions)</b>			
December 31, 2009	\$ 1,442.3	24.1 %	\$ 3,733.0
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):

<b>Year Ended (In millions)</b>	<b>Valuation Date</b>	<b>Actuarial Value of Assets {a}</b>	<b>Actuarial Accrued Liability (AAL) {b}</b>	<b>Actuarial Accrued Liability (UAAL) {c}={b}-{a}</b>	<b>Funded Ratio {a}/{c}</b>	<b>Covered Payroll {d}</b>	<b>Ratio of UAAL to Covered Payroll {c}/{d}</b>
December 31, 2009	January 1, 2008	-	\$ 13,165	\$ 13,165	-	\$ 4,212.0	312.6 %
December 31, 2008	January 1, 2006	-	13,241	13,241	-	4,557.0	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, 2008, December 31, 2009 and September 30, 2010 (in millions):

	Balance December 31, 2008	Additions	Deletions	Balance December 31, 2009	Additions	Deletions	Balance September 30, 2010 (Unaudited)
Capital assets — not being depreciated:							
Land	\$ 152	\$ 4	\$ -	\$ 156	\$ 1	\$ -	\$ 157
Construction work-in-progress	<u>5,990</u>	<u>2,679</u>	<u>775</u>	<u>7,894</u>	<u>2,376</u>	<u>463</u>	<u>9,807</u>
Total capital assets — not being depreciated	<u>6,142</u>	<u>2,683</u>	<u>775</u>	<u>8,050</u>	<u>2,377</u>	<u>463</u>	<u>9,964</u>
Capital assets, being depreciated:							
Buildings and structures	13,705	760	1	14,464	477	201	14,740
Bridges and tunnels	<u>1,897</u>	<u>78</u>	<u>-</u>	<u>1,975</u>	<u>-</u>	<u>-</u>	<u>1,975</u>
Equipment:							
Passenger cars and locomotives	11,477	1,333	10	12,800	451	49	13,202
Buses	<u>2,520</u>	<u>326</u>	<u>-</u>	<u>2,846</u>	<u>102</u>	<u>-</u>	<u>2,948</u>
Infrastructure	14,699	1,000	16	15,683	551	75	16,159
Other	<u>11,436</u>	<u>444</u>	<u>12</u>	<u>11,868</u>	<u>329</u>	<u>43</u>	<u>12,154</u>
Total capital assets — being depreciated	<u>55,734</u>	<u>3,941</u>	<u>39</u>	<u>59,636</u>	<u>1,910</u>	<u>368</u>	<u>61,178</u>
Less accumulated depreciation:							
Buildings and structures	4,263	381	-	4,644	202	40	4,806
Bridges and tunnels	<u>401</u>	<u>17</u>	<u>-</u>	<u>418</u>	<u>13</u>	<u>-</u>	<u>431</u>
Equipment:							
Passenger cars and locomotives	3,708	467	9	4,166	316	1	4,481
Buses	<u>1,660</u>	<u>118</u>	<u>-</u>	<u>1,778</u>	<u>120</u>	<u>-</u>	<u>1,898</u>
Infrastructure	4,477	490	15	4,952	477	59	5,370
Other	<u>4,044</u>	<u>467</u>	<u>12</u>	<u>4,499</u>	<u>343</u>	<u>42</u>	<u>4,800</u>
Total accumulated depreciation	<u>18,553</u>	<u>1,940</u>	<u>36</u>	<u>20,457</u>	<u>1,471</u>	<u>142</u>	<u>21,786</u>
Total capital assets — being depreciated — net	<u>37,181</u>	<u>2,001</u>	<u>3</u>	<u>39,179</u>	<u>439</u>	<u>226</u>	<u>39,392</u>
Capital assets — net	<u>\$43,323</u>	<u>\$4,684</u>	<u>\$ 778</u>	<u>\$47,229</u>	<u>\$2,816</u>	<u>\$ 689</u>	<u>\$ 49,356</u>

Interest capitalized in conjunction with the construction of capital assets at September 30, 2010 and December 31, 2009 was \$43.0 and \$53.7, respectively.

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

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, 2010 and December 31, 2009, these securities totaled \$145.5 and \$144.9, respectively, and had a market value of \$132.7 and \$145.4, respectively, and are not included in these financial statements.



## 7. LONG-TERM DEBT

(In millions)	Original Issuance	December 31, 2009	Issued	Retired	Refunded	September 30, 2010 (Unaudited)
MTA:						
Transportation Revenue Bonds						
2.00%–6.70% due through 2040	\$14,030	\$ 11,495	\$1,531	\$ -	\$ -	\$ 13,026
Revenue Anticipation Notes						
2.0% due through 2010	475	-	475	-	-	475
Revenue Anticipation Notes						
2.0% due through 2011	-	-	100	-	-	100
Transportation Revenue Bond Anticipation Notes						
Commercial Paper	750	750	-	-	-	750
State Service Contract Bonds						
4.125%–5.70% due through 2031	2,395	2,143	-	53	-	2,090
Dedicated Tax Fund Bonds						
3.00%–5.53% due through 2041	6,587	5,112	503	-	-	5,615
Certificates of Participation						
5.30%–5.625% due through 2030	807	398	-	10	-	388
	<u>\$25,044</u>	19,898	2,609	63	-	22,444
Less net unamortized bond discount and premium		(404)	16	64	-	(452)
		<u>19,494</u>	<u>2,625</u>	<u>127</u>	<u>-</u>	<u>21,992</u>
TBTA:						
General Revenue Bonds						
4.00%–5.77% due through 2033	\$ 6,259	6,539	140	155	-	6,524
Subordinate Revenue Bonds						
4.00%–5.77% due through 2032	2,198	2,259	150	178	-	2,231
	<u>\$ 8,457</u>	8,798	290	333	-	8,755
Less net unamortized bond discount and premium		135	11	16	-	130
		<u>8,933</u>	<u>301</u>	<u>349</u>	<u>-</u>	<u>8,885</u>
Total		<u>\$ 28,427</u>	<u>\$2,926</u>	<u>\$ 476</u>	<u>\$ -</u>	<u>\$ 30,877</u>
Current portion		(854)				(1,188)
Long-term portion		<u>\$ 27,573</u>				<u>\$ 29,689</u>

**MTA Transportation Revenue Bonds**— Prior to 2010, MTA issued twenty nine 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 \$13,722.62. The Transportation Revenue Bonds are MTA’s special obligations payable solely from transit and commuter systems revenues and certain state and local operating subsidies.

On January 6, 2010, the MTA issued Transportation Revenue Bonds, Series 2010A in the amount of \$363.945. The Series 2010A bonds are federally taxable “Build America Bonds” and have a final maturity of November 15, 2039. Proceeds of the issuance will be used to finance existing approved transit and commuter projects.

On January 27, 2010, the Board approved the issuance of up to \$700 million Revenue Anticipation Notes (“RANs”) to finance, on a short-term basis, the operating needs of the Transit and Commuter Systems in anticipation of State subsidies to be received later in the year.

On February 4, 2010, the MTA issued Transportation Revenue Bonds, Series 2010B in the amount of \$656.975. The Series 2010B bonds were comprised of two subseries. The Series 2010B-1 bonds are federally taxable “Build America Bonds” with serial bonds in years 2018 through 2024, and term bonds in 2031 and 2039. The Series 2010B-2 bonds were issued as traditional tax-exempt bonds, maturing in years 2011 through 2017. Proceeds of the issuance will be used to finance existing approved transit and commuter projects.

In accordance with the MTA Board action to authorize note issuances of up to \$700 in January, MTA issued \$475 of tax-exempt Revenue Anticipation Notes, Series 2010 on March 23, 2010. Proceeds from the Notes will be used to finance a portion of operating and maintenance expenses of the Transit and Commuter Systems and any amounts necessary to pay all costs incurred in connection with the issuance of the notes. The notes were issued at a price to yield 0.38% and mature on December 31, 2010. MTA will not issue additional RANs under the January authorization, but may seek authorization to issue additional notes if needed.

On June 10, 2010, MTA affected a mandatory tender of its Transportation Revenue Variable Rate Bonds, Series 2005E. On the Mandatory Purchase Date, the MTA substituted the irrevocable direct-pay letter of credit for the Series 2005E Bonds issued by Fortis with an irrevocable direct-pay letter of Credit issued by BNP Paribas.

On July 7, 2010, MTA issued Transportation Revenue Bonds, Series 2010C in the amount of \$510.485. The Series 2010C bonds were comprised of two subseries. The Series 2010C-1 bonds are federally taxable “Build America Bonds” with serial bonds in years 2016 through 2021, and term bonds in 2026, 2030 and 2040. The Series 2010C-2 bonds were issued as traditional tax-exempt bonds, maturing in years 2011 through 2015. Proceeds of the issuance will be used to finance existing approved transit and commuter projects.

**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. The letter of credit with ABN AMRO Bank N.V. expires on December 8, 2010.

On September 16, 2010, MTA issued \$900 in Transportation Revenue Bond Anticipation Notes, Series CP-2 Credit Enhanced. The notes were issued in the form of commercial paper with four subseries: A, B, C, and D. Subseries A is backed by a \$100 letter of credit from TD Bank, N.A. that has a stated expiration date of September 12, 2013. Subseries B is backed by a \$250 letter of credit from Barclays Bank that has a stated expiration date of September 12, 2013. Subseries C is backed by a \$350 letter of credit from Royal Bank of Canada that has a stated expiration date of September 14, 2012. Subseries D is backed by a \$200 letter of credit from Citibank, N.A. that has a stated expiration date of September 12, 2013. Proceeds from this transaction will be used to finance approved transit and commuter capital projects.

**MTA State Service Contract Bonds** — Prior to 2010, 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 2010, MTA issued sixteen 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 \$7,143.80. 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.

On March 17, 2010, the MTA issued Dedicated Tax Fund Bonds, Series 2010A in the amount of \$502.990. The Series 2010A bonds were comprised of two subseries. The Series 2010A-1 bonds were issued as traditional tax-exempt bonds, maturing in years 2011 through 2017. The Series 2010A-2 bonds are federally taxable "Build America Bonds" with serial bonds in years 2018 through 2025, and term bonds in 2030 and 2040. Proceeds of the issuance will be used to finance existing approved transit and commuter projects.

**MTA Certificates of Participation** — Prior to 2010, 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 2010, MTA Bridges and Tunnels issued seventeen 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 \$8,200.3. 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 September 29, 2010, MTA Bridges and Tunnels remarketed \$140.145 in General Revenue Variable Rate Bonds, Series 2001C supported by a new standby bond purchase agreement provided by JP Morgan Chase Bank, National Association

**MTA Bridges and Tunnels Subordinate Revenue Bonds** — Prior to 2010, 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 \$34,877 compared with issuances totaling approximately \$21,614, including Transportation Revenue Bonds, Series 2010C. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the 2000-2004 MTA Capital Programs, the 2005-2009 MTA Capital Programs and the first two years of the 2010-2014 MTA Capital Programs.

**Bond Refundings** — From time to time, the MTA and MTA Bridges and Tunnels issue refunding bonds to achieve debt service savings or other benefits. The proceeds of refunding bonds are generally

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.

	September 30, 2010 (Unaudited)	December 31, 2009
(In Millions)		
MTA Transit and Commuter Facilities:		
Transit Facilities Revenue Bonds	\$ 706	\$ 761
Commuter Facilities Revenue Bonds	685	718
Commuter Facilities Subordinate Revenue Bonds	7	10
Transit and Commuter Facilities Service Contract Bonds	651	713
Dedicated Tax Fund Bonds	983	1,309
MTA Transportation Revenue Bonds	156	156
MTA New York City Transit — Transit Facilities Revenue Bonds (Livingston Plaza Project)	80	91
MTA Bridges and Tunnels:		
General Purpose Revenue Bonds	1,728	1,856
Special Obligation Subordinate Bonds	191	199
Mortgage Recording Tax Bonds	161	182
Total	\$ 5,348	\$ 5,995

	MTA BRIDGES AND TUNNELS							
	MTA		Senior Revenue		Subordinate Revenue		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	(Unaudited)							
2010	\$ 918	\$ 754	\$ 121	\$ 144	\$ 170	\$ 43	\$ 1,209	\$ 941
2011	428	974	144	321	47	99	619	1,394
2012	475	975	147	314	50	96	672	1,385
2013	494	953	154	306	51	94	699	1,353
2014	529	949	170	297	55	91	754	1,337
2015-2019	3,053	4,081	995	1,324	363	405	4,411	5,810
2020-2024	3,848	3,422	1,165	1,049	393	296	5,406	4,767
2025-2029	4,909	2,522	1,537	737	409	176	6,855	3,435
2030-2034	4,551	1,382	1,440	376	543	34	6,534	1,792
2035-2039	2,385	562	801	109	-	-	3,186	671
Thereafter	104	11	-	-	-	-	104	11
	\$ 21,694	\$ 16,585	\$ 6,674	\$ 4,977	\$ 2,081	\$ 1,334	\$ 30,449	\$ 22,896

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 un-hedged 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* — 5.404% and 3.076% per annum taking into account the interest rate swaps and 4% per annum on portions not covered by the interest rate swaps
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2003B* — 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. No payment was made in 2009 and as of September 30, 2010.

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

**GASB Statemetn No. 53- Accounting and Financial Reporting for Derivative Instruments**  
**Summary Information as at September 30, 2010**

	<b>Bond Resolution</b>	<b>Series</b>	<b>Type of Derivative</b>	<b>Cash Flow or Fair Value Hedge</b>	<b>Effective Methodology</b>	<b>Trade/Entered Date</b>	<b>Notional Amount as of 09/30/10 (Unaudited) (in millions)</b>	<b>Fair Values as of 09/30/10 (Unaudited) (in millions)</b>
<b>Investment Swaps</b>	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Basis Swaps	N/a	N/a	6/29/2005	\$ 197.200	\$ (1.099)
	2 Broadway Certificate of Participation	2004A	Pay-Fixed Swaps	N/a	N/a	8/10/2004	350.475	(60.264)
<b>Hedging Swaps</b>	MTA Transportation Revenue Bonds	2002D-2	Pay-Fixed Swaps	Cash Flow	Regression Analysis	7/11/2002	200.000	(72.245)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Basis Swaps	Cash Flow	Regression Analysis	6/29/2005	591.600	(3.296)
	MTA Transportation Revenue Bonds	2012B	Forward Starting Swaps	Cash Flow	Expected Regression Analysis	12/12/2007	359.450	(58.860)
	MTA Dedicated Tax Fund Bonds	2002B	Pay-Fixed Swaps	Cash Flow	Regression Analysis	7/19/2002	440.000	(43.767)
	MTA Bridges & Tunnels Senior Revenue Bonds	2002F (Citi 2005B)	Pay-Fixed Swaps	Cash Flow	Regression Analysis	6/2/2005	169.750	(24.993)
	MTA Bridges & Tunnels Senior Revenue Bonds	2002F (old 2002C)	Pay-Fixed Swaps	Cash Flow	Regression Analysis	2/24/1999	59.400	(4.497)
	MTA Bridges & Tunnels Senior Revenue Bonds	2003B (CFP 2000CD)	Pay-Fixed Swaps	Cash Flow	Regression Analysis	8/12/1998	50.000	(10.809)
	MTA Bridges & Tunnels Senior Revenue Bonds	2003B (Citi 2005B)	Pay-Fixed Swaps	Cash Flow	Regression Analysis	6/2/2005	27.450	(4.042)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Pay-Fixed Swaps	Cash Flow	Regression Analysis	6/2/2005	591.600	(87.105)
	MTA Transportation Revenue Bonds	2005D & 2005E	Pay-Fixed Swaps	Cash Flow	Regression Analysis	9/10/2004	400.000	(84.298)
	MTA Dedicated Tax Fund Bonds	2008A	Pay-Fixed Swaps	Cash Flow	Regression Analysis	3/8/2005	341.910	(58.117)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2000AB	Swaption	Cash Flow	Consistent Critical Terms	8/12/1998	161.200	(33.845)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2000CD	Swaption	Cash Flow	Regression Analysis	8/12/1998	111.200	(24.039)
	MTA Bridges & Tunnels Senior Revenue Bonds	2001B	Swaption	Cash Flow	Consistent Critical Terms	2/24/1999	88.700	(17.177)
	MTA Bridges & Tunnels Senior Revenue Bonds	2001C	Swaption	Cash Flow	Consistent Critical Terms	2/24/1999	88.800	(17.755)

The fair value balances and notional amounts of derivative instruments outstanding at September 30, 2010, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2009 are as follows:

	Changes In Fair Value		Fair Value at September 30, 2010		Notional (Unaudited) (in millions)
	Classification	Amount (Unaudited) (in millions)	Classification	Amount (Unaudited) (in millions)	
<b>Government activities</b>					
Cash Flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	(\$389.873)	Debt	(\$389.873)	\$2,280.110
Forward starting swaps	Deferred outflow of resources	(58.860)	Debt	(58.860)	359.450
Basis swaps	Deferred outflow of resources	(3.296)	Debt	(3.296)	591.600
Swaption	Deferred outflow of resources	(92.816)	Debt	(92.816)	449.900
Investment hedges:					
Basis swaps	Investment Expense	(\$1.099)	Debt	(\$1.099)	\$197.200
Pay-fixed interest rate swaps	Investment Expense	(60.264)	Debt	(60.264)	350.475

For the nine-month period ended September 30, 2010, the MTA recorded \$61 as a loss related to the change in fair market value of certain investment swaps that are not accounted for as hedging activities.

Deferred outflows were recorded for \$545 as of September 30, 2010, related to the changes in fair market value of the hedging swaps.

Investment swaps and hedging swaps were recorded on the balance sheet at fair market value in the amounts of \$61 and \$501, respectively, as derivative liabilities at September 30, 2010. In addition, derivative assets were recorded for \$1 related to the fair market value of certain hedging swaps. Derivative liabilities related to off-market elements were recorded at September 30, 2010, for \$45.

During the nine-month period ended September 30, 2010, there were no derivative instruments reclassified from a hedging derivative instrument to an investment derivative instrument.



The summary above reflects a total number of seventeen (17) Swap transactions reviewed for GASB Statement No. 53 Hedge Accounting treatment. Of the total number of Swaps, fifteen (15) hedges were evaluated as effective related to the methodology of Consistent Critical Terms and Quantitative Methods and two (2) were evaluated as ineffective.

In regard to the Consistent Critical Terms method, if the critical terms of the potential hedging derivative instrument and the terms of the item it is hedging are the same, then the ending date of an interest rate swap is the same as the maturity date of the bonds. Since both are based on the Security Industry and Financial Market Association (SIFMA) Swap Index, then the potential hedging derivative instrument is presumed to be effective. Under such circumstances, any changes in the cash flows or fair value of the item being hedged is offset by changes in the cash flows or fair value of the potential hedging derivative. The MTA has employed this methodology and a total of three (3) such hedges were evaluated as effective.

For the remaining twelve (12) hedges, the Quantitative Method was utilized. Of the Quantitative methods specifically identified as: Synthetic Instrument Method; Dollar Offset Method; and Regression Analysis, the Regression Analysis was utilized to provide the effectiveness test.

The three methods measure the degree to which the changes in the fair value or cash flow of the potential hedging derivative instrument offset those of the item being hedged. GASB Statement No. 53 also allows for other acceptable quantitative methods that exert certain criteria. A potential hedging derivative that is not determined to be effective using one of the quantitative methods may be reevaluated using another method.

Therefore, the Quantitative Method related to Regression Analysis provided the hedge effective evaluation since these hedges reflect the statistical relationship between changes in the fair values or cash flow of a hedge item and its associated potential hedging derivative. For a potential hedging derivative instrument evaluation using regression analysis to be considered effective for financial reporting purposes, the analysis produced:

- an R-squared of a range at least 0.80;
- an F-statistic that indicates statistical significance at the 95% confidence level; and
- a regression coefficient for the slope between -1.25 and -0.80

These criteria have been met by the ten (10) remaining hedges and therefore been deemed effective for hedge accounting treatment.

In accordance with GASB Statement No. 53, four of the hedging swaps are classified as swaptions for which premiums were received by MTA Bridges and Tunnel at contracts inception as shown in the Table below. MTA Bridges and Tunnel have followed the relevant accounting required treatment and are amortizing the premiums over the life of the swap agreement.

<b>Bond Resolution</b>	<b>Series</b>	<b>Premium (Unaudited)</b>	<b>Date of the Swaption Contract</b>	<b>Premium Payment Date</b>
MTA Bridges & Tunnels-Senior	2001B & 2001C	\$19,204,000	2/24/1999	3/10/1999
MTA Bridges & Tunnels-Senior	2002F (old 2002C)	\$8,400,000	2/24/1999	3/10/1999
MTA Bridges & Tunnels-Subordinate	2000AB	\$22,740,000	8/12/1998	8/25/1998
MTA Bridges & Tunnels-Subordinate	2000CD	\$22,740,000	8/12/1998	8/25/1998
<b>Total</b>		<b>\$73,084,000</b>		

## 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, 2010) 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 09/30/10 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 09/30/10 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2002D-2	200.000	01/01/07	4.450 %	69% of one-month LIBOR <sup>(1)</sup>	\$ (72.245)	11/01/32	JPMorgan Chase, NA
Series 2005D and Series 2005E	400.000	11/02/05	3.561	67% of one-month LIBOR <sup>(1)</sup>	(84.298)	11/01/35	75% – UBS AG 25% – AIG Financial Products Corp.
Series 2012 <sup>(2)</sup>	359.450	11/15/12	3.563	67% of one-month LIBOR <sup>(1)</sup>	(58.860)	11/01/32	JPMorgan Chase Bank, NA
Total	\$959.450				\$ (215.403)		

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

<sup>(2)</sup> 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 09/30/10 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 09/30/10 (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 <sup>(3)</sup>	\$ (43.767)	09/01/13	Morgan Stanley Capital Services Inc.
Series 2008A <sup>(4)</sup>	341.910	03/24/05	3.316	67% of one-month LIBOR <sup>(1)</sup>	(58.117)	11/01/31	Citigroup Financial Products Inc.
Total	\$781.910				\$ (101.884)		

<sup>(3)</sup> Securities Industry and Financial Markets Association Municipal Swap Index

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

MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 09/30/10 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 09/30/10 Unaudited (in millions)	Swap Termination Date	Counterparty
Series 2001B <sup>(5)</sup>	\$88.700	01/01/02	5.777%	Actual bond rate	\$ (17.177)	01/01/19	Citigroup Financial Products Inc.
Series 2001C <sup>(5)</sup>	88.800	01/01/02	5.777	SIFMA <sup>(3)</sup> minus 15 Basis points <sup>(10)</sup>	(17.755)	01/01/19	Citigroup Financial Products Inc.
Series 2002F <sup>(6)</sup>	59.400	01/01/00	5.404	Actual bond rate	(4.497)	01/01/13	Ambac Financial Services, L.P.
Series 2002F <sup>(7)</sup>	169.750	07/07/05	3.076	67% of one-month LIBOR <sup>(1)</sup>	(24.993)	01/01/32	Citibank, N.A.
Series 2003B <sup>(7)</sup>	27.450	07/07/05	3.076	67% of one-month LIBOR <sup>(1)</sup>	(4.042)	01/01/32	Citibank, N.A.
Series 2003B <sup>(8)</sup>	50.000	01/01/01	6.070	SIFMA <sup>(3)</sup> minus 15 basis points <sup>(13)</sup>	(10.809)	01/01/19	Citigroup Financial Products Inc.
Series 2005B <sup>(7)</sup>	591.600	07/07/05	3.076	67% of one-month LIBOR <sup>(1)</sup>	(87.105)	01/01/32	33% each – JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG
Series 2005B	788.800	07/07/05	67% of one-month LIBOR plus 43.7 basis points <sup>(9)</sup>	SIFMA <sup>(3)</sup> minus 10 basis points	(4.394)	01/01/12	UBS AG
Total	\$1,864.500				\$ (170.772)		

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

(6) In accordance with a swaption entered into on February 24, 1999, the Counterparty paid 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 09/30/2010 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 09/30/2010 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2000AB <sup>(11)</sup>	\$161.200	01/01/01	6.080 %	Actual bond rate	\$ (33.846)	01/01/19	JPMorgan Chase Bank, NA
Series 2000CD <sup>(12)</sup>	111.200	01/01/01	6.070	SIFMA <sup>(3)</sup> minus 15 basis points <sup>(13)</sup>	(24,039)	01/01/19	Citigroup Financial Products Inc.
Total	\$272.400				\$ (57.885)		

(10) In accordance with a swaption entered into on February 24, 1999 with each Counterparty, and then amended and restated as of October 1, 2008, Citigroup Financial declared that an Alternative Floating Rate Event occurred on December 1, 2008 and as a result, the calculation for the Variable rate MTA Bridges and Tunnels to received was changed from the Actual Bond Rate to SIFMA Municipal Swap Index minus 15 basis points.

(11) 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.

(12) 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.

(13) 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 \$350.475 outstanding as of September 30, 2010, MTA New York City Transit is responsible for \$240.775 aggregate notional amount of the swaps, MTA for \$73.575 aggregate notional amount, and MTA Bridges and Tunnels for \$36.125 aggregate notional amount. As of September 30, 2010, the unaudited aggregate fair value of the swaps was (\$60.264).

### **Counterparty Ratings**

The current ratings of the counterparties are as follows as of September 30, 2010:

<b>Counterparty</b>	<b>Ratings of the Counterparty or its Credit Support Provider</b>		
	<u>S&amp;P</u>	<u>Moody's</u>	<u>Fitch</u>
AIG Financial Products Corp.	A-	A3	BBB
Ambac Financial Services, L.P.	R	Caa2	NR
BNP Paribas North America, Inc.	AA	Aa2	AA-
Citibank, N.A.	A+	A1	A+
Citigroup Financial Products Inc.	A	A3	A+
JPMorgan Chase Bank, NA	AA-	Aa1	AA-
Morgan Stanley Capital Services Inc.	A	A2	A
UBS AG	A+	Aa3	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, 2010 for the swap where the notional amount does not match the outstanding principal amount of the associated bonds.

<b>Associated Bond Issue</b>	<b>Principal Amount of Bonds (in millions) (Unaudited)</b>	<b>Notional Amount (in millions) (Unaudited)</b>
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	\$280.300	\$177.500
MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B	\$218.460	\$77.450
MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A	\$349.550	\$341.910
MTA Transportation Revenue Variable Rate Bonds, Series 2005E	\$250,000	\$150,000

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

## Risks Associated with the Swap Agreements

From MTA's, 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, 2010, 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 (Unaudited)
UBS AG	\$1,636,475	38.70%
JPMorgan Chase Bank, NA	917,850	21.71
Citigroup Financial Products Inc.	680,610	16.10
Morgan Stanley Capital Services Inc.	440,000	10.41
Citibank, N.A.	197,200	4.66
BNP Paribas North America, Inc.	197,200	4.66
AIG Financial Products Corp.	100,000	2.36
Ambac Financial Services, L.P.	59,400	1.40
Total	\$4,228,735	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.

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

<b>MTA Transportation Revenue Bonds</b>		
<b>Associated Bond Issue</b>	<b>If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to</b>	<b>Then the downgraded party must post collateral if its estimated termination payments are in excess of</b>
Series 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

<b>MTA Dedicated Tax Fund Bonds</b>		
<b>Associated Bond Issue</b>	<b>If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to</b>	<b>Then the downgraded party must post collateral if its estimated termination payments are in excess of</b>
Series 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

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

<b>MTA Bridges and Tunnels Senior Lien Revenue Bonds</b>		
<b>Associated Bond Issue</b>	<b>If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to</b>	<b>Then the downgraded party must post collateral if its estimated termination payments are in excess of</b>
Series 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	

<b>MTA Bridges and Tunnels Subordinate Revenue Bonds</b>		
<b>Associated Bond Issue</b>	<b>If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to</b>	<b>Then the downgraded party must post collateral if its estimated termination payments are in excess of</b>
Series 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 <sup>(1)</sup> (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 apply to the guarantor and not to the counterparty.

<b>MTA Transportation Revenue</b>	
<b>Associated Bond Issue</b>	<b>Additional Termination Event(s)</b>
Series 2002D-2, Series 2005D 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.

<b>MTA Dedicated Tax Fund</b>	
<b>Associated Bond Issue</b>	<b>Additional Termination Event(s)</b>
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.

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

<b>MTA Bridges and Tunnels Senior and Subordinate Revenue</b>	
<b>Associated Bond Issue</b>	<b>Additional Termination Events</b>
<b>Senior Lien Revenue Bonds</b>	
Series 2001B and 2001C and Series 2002F (swap with Ambac Financial Services, L.P.)	<p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, Ambac Assurance Corporation.</p>
Series 2005B interest rate swap and basis risk swap, Series 2002 F (swap with Citibank, N.A.) and Series 2003 B (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.
<b>Subordinate Revenue Bonds</b>	
Series 2000AB and 2000CD and Series 2003B <sup>(1)</sup> (swap with Citigroup Financial Products Inc.)	<p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, Financial Security Assurance Inc.</p>

<sup>(1)</sup>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:

<b>Associated Bond Issue</b>	<b>Bond Maturity Date</b>	<b>Swap Termination Date</b>
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.

<b>MTA (in millions)</b> <b>(Unaudited)</b>				
Year Ending December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
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	43.1	59.0	(3.1)	98.9
2015-2019	325.6	263.8	(15.2)	574.3
2020-2024	373.4	186.2	(11.7)	547.8
2025-2029	299.9	124.6	(5.4)	419.1
2030-2034	403.5	45.8	(1.0)	448.2
2035	36.2	1.2	(0.1)	37.2

<b>MTA Bridges and Tunnels</b> <b>(in millions)</b> <b>(Unaudited)</b>				
Year Ending December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
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	58.1	59.1	(2.0)	115.2
2015-2019	325.9	256.3	(25.7)	556.6
2020-2024	231.5	206.0	(34.1)	403.5
2025-2029	369.7	151.0	(36.4)	484.3
2030-2034	541.3	25.4	(5.1)	561.6

## 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, 2010, the MTA has recorded a long-term capital obligation and capital asset of \$267 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. 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 was paid in December 2009.

The remaining lease tranches related to MTA Metro-North Railroad assets expire in 2013 and 2014, depending on the asset, and the lease 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. 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, 2010, the MTA has recorded a long-term capital obligation and capital asset of \$33 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 can be released to MTA in an equivalent amount until MTA has no further collateralization obligation.

**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 FSA Capital Markets Services LLC (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 FSA Capital Markets Services LLC is the obligor under the Equity Payment Agreements, FSA Capital Markets Services LLC 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 FSA Capital Markets Services LLC 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 FSA Capital Markets Services LLC, as obligor, and Financial Security Assurance, Inc., as guarantor, is uncollateralized was \$10.01 at September 30, 2010.

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, 2010, 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 required the provision of new credit enhancement facilities for each lease by December 21, 2008.

On December 17, 2008, MTA terminated the Ambac Assurance Corp. surety bond for the lease transaction that closed on September 25, 2003 and provided a short-term U.S. Treasury debt obligation as replacement collateral. The cost of the replacement collateral was \$32. As a result of a mark-to-market of the securities provided as collateral as of January 31, 2009, \$8 of such \$32 in collateral value was released back to MTA in February 2009. In January 2010, additional replacement collateral was required to be added such that the total market value of the securities being held as replacement collateral, U.S. Treasury bills, was \$32.5 as of September 30, 2010.

On January 12, 2009, MTA provided a short-term U.S. Treasury debt obligation as additional collateral in addition to the Ambac Assurance Corp. surety bond for the lease transaction that closed on September 29, 2003. In January 2010, additional collateral was required to be added such that the total market value of the securities being held as additional collateral, U.S. Treasury bills, was \$39.2 as of September 30, 2010.

**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 sublessee, 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 \$34.8 and \$35.5 for the periods ended September 30, 2010 and 2009 respectively.

At September 30, 2010, the future minimum lease payments under non-cancelable leases are as follows (in millions):

	<b>Operating (Unaudited)</b>	<b>Capital</b>
2010	\$ 20	\$ 28
2011	51	70
2012	49	170
2013	49	73
2014	51	77
2015–2019	220	393
2020–20234	214	393
2025–2029	216	240
2030–2034	232	1,622
2035–2039	255	167
Thereafter	<u>800</u>	<u>487</u>
	<u>\$ 2,157</u>	3,720
Amount representing interest		<u>(2,555)</u>
Total present value of capital lease obligations		<u>1,165</u>
Less current present value of capital lease obligations		<u>16</u>
Noncurrent present value of capital lease obligations		<u>\$ 1,149</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 periods ended September 30, 2010 and December 31, 2009 is presented below (in millions):

	September 30, 2010 (Unaudited)	December 31, 2009
Balance — beginning of period/year	\$ 1,485	\$ 1,330
Activity during the year:		
Current year claims and changes in estimates	239	365
Claims paid	<u>(182)</u>	<u>(210)</u>
Balance — end of year	1,542	1,485
Less current portion	<u>(229)</u>	<u>(228)</u>
Long-term liability	<u>\$ 1,313</u>	<u>\$ 1,257</u>

## 10. COMMITMENTS AND CONTINGENCIES

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

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

## 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, 2010, the MTA has recognized a total cost of \$9.6 and a pollution remediation liability of \$98.

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

## **12. FUEL HEDGE**

On October 1, 2008, MTA entered into a 15-month energy hedging strategy contract to lock in fuel prices. MTA set-aside \$150 million in 2008 which was used to lock in pricing for more than one-half of its fuel budget for the contract period. The strategy employed is a financial hedge, which consists of a fixed-rate lock on forward delivery of NYMEX No. 2 heating oil. This commodity remains highly correlated to the fuel type being used by MTA, ultra low sulfur diesel, ("ULSD"). MTA executed four separate hedges with Merrill Lynch Capital Services, Inc. for a total of 49,770,000 gallons of ULSD at an average fixed price of \$2.9941/gallon. Each of the four contracts expired on December 31, 2009 and provided for 15 monthly settlements. The settlement is based on the daily price of NYMEX heating oil whereby MTA will either receive a payment, or make a payment to Merrill Lynch Capital Services, Inc. depending on the average monthly price of the commodity in relation to the average contract price of \$2.99/gallon.

The contract was renewed on December 22, 2009 for 35,607,600 gallons of ULSD at a fixed price of \$2.05/gallon for 2010. MTA set-aside \$73 million in 2009 which was used to lock in pricing for approximately one-half of its fuel budget for 2010. In addition, the Adopted Budget assumes that in 2010, the MTA will set-aside \$82 million to lock in one-half of its expected 2011 fuel requirement. As at September 30, 2010, the notional value on the contract was 11,869,200 gallons with a fair market value of \$2.3. Pursuant to GASB Statement No. 53 MTA, the fuel hedge is considered an effective cash flow hedge using the Dollar Offset Method.

### 13. OPERATING ACTIVITY INFORMATION

(In millions)	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
<b>September 30, 2010</b>						
<b>(Unaudited)</b>						
Operating revenue	\$ 219	\$ 842	\$ 2,660	\$ 1,077	\$ (30)	\$ 4,768
Depreciation and amortization	57	395	962	57	-	1,471
Subsidies and grants	2,925	-	1,075	3	(916)	3,087
Tax revenue	675	-	262	-	(185)	752
Interagency subsidy	337	-	98	(337)	(98)	-
Operating (deficit) surplus	(623)	(1,177)	(3,613)	688		(4,725)
Net (deficit) surplus	916	(1,119)	(285)	78	327	(83)
Capital expenditures	(3,757)	(174)	(680)	(203)	1,125	(3,689)
<b>September 30, 2010</b>						
<b>(Unaudited)</b>						
Total assets	13,012	10,567	32,729	5,163	(772)	60,699
Net working capital	2,444	14	(1,964)	(380)	212	326
Long-term debt — (including current portion)	21,992	-	-	8,925	(40)	30,877
Net assets	(12,890)	9,202	25,536	(4,816)	326	17,358
<b>September 30, 2010</b>						
<b>(Unaudited)</b>						
Net cash (used in)/provided by operating activities	(392)	(686)	(1,741)	800	50	(1,969)
Net cash provided by/(used in) noncapital financing activities	2,836	694	1,784	(302)	(1,538)	3,474
Net cash (used in)/provided by capital and related financing activities	(1,357)	(15)	(465)	(488)	1,517	(808)
Net cash provided by/(used in) investing activities	(1,271)	5	421	(11)	(27)	(883)
Cash at beginning of year	285	21	33	11	(2)	348
Cash at end of period	101	19	32	10		162

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

(Continued)

(In Millions)	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
<b>September 30, 2009 (Unaudited)</b>						
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
<b>September 30, 2009 (Unaudited)</b>						
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
<b>September 30, 2009 (Unaudited)</b>						
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.

(Concluded)

## 14. SUBSEQUENT EVENTS

On October 20, 2010, MTA Bridges and Tunnels issued \$346.96 Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2010A bonds. The Series 2010A bonds are comprised of two subseries. The Series 2010A-1 bonds are traditional tax-exempt bonds, maturing in years 2011 through 2020. The Series 2010A-2 bonds are federally taxable “Build America Bonds” maturing in years 2021 through 2040. \$150 of the proceeds is being used to refinance MTA Bridges & Tunnels General Revenue Bond Anticipation Notes, Series 2009. The remaining proceeds are being used to finance approved capital programs of MTA Bridges and Tunnels.

On November 17, 2010, the 2011 Final Proposed Budget - November Financial Plan 2011-2014 (the “November Plan” or “Plan”) was presented to the MTA Board and reaffirms the MTA’s commitment to making every dollar count and to establishing fiscal stability for the MTA’s finances. The November Plan builds on these efforts with additional MTA efficiencies with a projected annual savings of \$75 million in 2011 growing to \$200 million by 2014.



On November 23, 2010, the MTA issued Transportation Revenue Bonds, Series 2010D in the amount of \$754.305. The Series 2010D bonds were issued as traditional tax-exempt bonds, maturing in years 2011 through 2020. Proceeds of the issuance will be used to retire the Transportation Revenue Bond Anticipation Notes, Series CP-1 Credit Enhanced.

On December 7, 2010, MTA affected a mandatory tender of its Transportation Revenue Variable Rate Bonds, Series 2005G. On the mandatory purchase date, MTA will convert the Series 2005G Bonds from a Daily Mode into a Fixed Rate Mode.

On December 29, 2010, the MTA issued \$750 federally taxable Build America Transportation Revenue Bonds, Series 2010E. Proceeds of the issuance will be used 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, 2009	January 1, 2008	January 1, 2007
LIRR [1]:			
a. Actuarial value of plan assets	\$ 483.9	\$ 537.6	\$ 509.1
b. Actuarial accrued liability (AAL)	1,590.5	1,560.1	1,543.5
c. Total unfunded AAL (UAAL) [b-a]	1,106.5	1,022.5	1,034.4
d. Funded ratio [a/b]	30.4 %	34.5 %	33.0 %
e. Covered payroll	\$ 72.7	\$ 80.9	\$ 94.0
f. UAAL as a percentage of covered payroll [c/e]	1522.0 %	1263.5 %	1100.4 %
MaBSTOA [2]:			
a. Actuarial value of plan assets	\$ 1,190.0	\$ 1,190.8	\$ 1,057.9
b. Actuarial accrued liability (AAL)	1,977.4	2,045.0	1,938.3
c. Total unfunded AAL (UAAL) [b-a]	787.4	854.1	880.5
d. Funded ratio [a/b]	60.2 %	58.2 %	54.6 %
e. Covered payroll	\$ 569.4	\$ 562.2	\$ 519.7
f. UAAL as a percentage of covered payroll [c/e]	138.3 %	151.9 %	169.4 %
MNR Cash Balance Plan [3]:			
a. Actuarial value of plan assets	\$ 1.238	\$ 1.3	\$ 1.4
b. Actuarial accrued liability (AAL)	1.241	1.4	1.4
c. Total unfunded AAL (UAAL) [b-a]	0.003	0.1	0.1
d. Funded ratio [a/b]	99.8 %	95.4 %	94.8 %
e. Covered payroll	\$ 5.9	\$ 6.8	\$ 6.8
f. UAAL as a percentage of covered payroll [c/e]	0.04 %	1.0 %	1.1 %

[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

(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, 2009	January 1, 2008	\$ -	\$ 13,165	\$ 13,165	\$ -	\$ 4,212.0	312.6 %
December 31, 2008	January 1, 2006	-	13,241	13,241	-	4,557.0	290.6
December 31, 2007	January 1, 2006	-	13,623	13,623	-	4,381.9	310.9

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

**SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**  
**(See Independent Accountants' Review Report)**  
**(\$ in millions)**

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FINANCIAL PLAN ACTUAL — Operating loss	\$ (4,673.0)
Reconciling items:	
The Financial Statement was adjusted after Financial Plan closed	(20.3)
Projection of OPEB cost by the Financial Plan was higher than actuary cost	1.9
The Financial Plan excluded Capital construction and East Side Access	(1.1)
The Financial Plan includes TBTA capital transfer to agencies	<u>(32.3)</u>
FINANCIAL STATEMENT — Operating loss	<u>\$ (4,724.8)</u>

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

**SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**  
**(See Independent Accountants' Review Report)**  
**(\$ in millions)**

Category	Financial Plan Actual	Financial Statement GAAP Actual	Variance
REVENUE:			
Farebox revenue	\$ 3,409.9	\$ 3,409.9	\$ 0.0
Vehicle toll revenue	1,065.7	1,065.7	0.0
Other operating revenue	363.8	292.4	(71.4)
Total revenue	<u>4,839.4</u>	<u>4,768.0</u>	<u>(71.4)</u>
EXPENSES:			
Labor:			
Payroll	3,110.1	3,122.9	12.8
Overtime	324.7	308.3	(16.4)
Health and welfare	564.9	580.3	15.4
Pensions	895.8	899.0	3.2
Other fringe benefits	349.2	315.1	(34.1)
Postemployment benefits	1,146.4	1,144.5	(1.9)
Reimbursable overhead	(258.6)	(220.9)	37.7
Total labor expenses	<u>6,132.5</u>	<u>6,149.2</u>	<u>16.7</u>
Non-labor:			
Traction and propulsion power	247.9	247.9	0.0
Fuel for buses and trains	142.6	142.8	0.2
Insurance	11.4	(2.2)	(13.6)
Claims	176.9	239.2	62.3
Paratransit service contracts	287.1	287.1	0.0
Maintenance and other	399.2	395.5	(3.7)
Professional service contract	134.8	141.6	6.8
Pollution remediation project costs	9.5	9.6	0.1
Materials and supplies	378.2	376.2	(2.0)
Other business expenses	152.2	34.7	(117.5)
	<u>1,939.8</u>	<u>1,872.4</u>	<u>(67.4)</u>
Other expenses adjustments:			
TBTA transfer	15.6	-	(15.6)
GASB general reserve	-	-	0.0
Interagency subsidy	(47.9)	-	47.9
Total other expense adjustments	<u>(32.3)</u>	<u>-</u>	<u>32.3</u>
Total expenses before depreciation	8,040.0	8,021.6	(18.4)
Depreciation	1,472.4	1,471.2	(1.2)
Total expenses	<u>9,512.4</u>	<u>9,492.8</u>	<u>(19.6)</u>
NET OPERATING SURPLUS/(DEFICIT)	<u>\$ (4,673.0)</u>	<u>\$ (4,724.8)</u>	<u>\$ (51.8)</u>

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

**SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN**  
**AND FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**  
**(See Independent Accountants' Review Report)**  
**(\$ in millions)**

<b>Accrued Subsidies</b>	<b>Financial Plan Actual</b>	<b>Financial Statement GAAP Actual</b>	<b>Variance</b>	
Mass transportation operating assistance	\$ 1,328.6	\$ 1,329.7	\$ 1.1	
Petroleum business tax	448.4	454.8	6.4	
Mortgage recording tax 1 and 2	172.6	172.6	-	
MRT transfer	(5.9)	(3.8)	2.1	{1}
Urban tax	125.6	125.3	(0.3)	
State and local operating assistance	378.8	378.8	-	
Additional mass transportation assistance program	5.6	5.6	-	
Nassau county subsidy to long island bus	9.1	9.1	-	
Station maintenance	114.8	114.8	-	
Connecticut department of transportation (CDOT)	58.4	58.7	0.3	
Subsidy from New York City for MTA Bus	178.4	234.5	56.1	
NYS Grant for debt service	-	55.5	55.5	{1}
Build American Bonds Subsidy	-	57.9	57.9	{2}
Mobility tax	1,214.8	1,249.8	35.0	
Investment income	0.3	1.7	1.4	{1}
	<u>4,029.5</u>	<u>4,245.0</u>	<u>215.5</u>	
Total accrued subsidies	4,029.5	4,245.0	215.5	
Net operating (deficit)/surplus excluding accrued subsidies and debt service	<u>(4,673.0)</u>	<u>(4,724.8)</u>	<u>(51.8)</u>	
Total net operating (deficit)/surplus	<u>\$ (643.5)</u>	<u>\$ (479.8)</u>	<u>\$ 163.7</u>	
Interest on long-term debt	<u>\$ -</u>	<u>\$ 971.1</u>	<u>\$ -</u>	
Debt service	<u>\$ 1,397.1</u>	<u>\$ -</u>	<u>\$ -</u>	

{1} In the Financial Statement, funds received from the Federal Government NY State to cover debt service payments are included in the subsidies. The Financial Plan does not include either the funds received or disbursed.

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