

Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Consolidated Financial Statements as of and for the
Years Ended December 31, 2010, and 2009,
Required Supplementary Information,
Supplementary Information and
Independent Auditors' Report

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

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

We have audited the accompanying consolidated balance sheets of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of December 31, 2010 and 2009, and the consolidated statements of revenues, expenses and changes in net assets, and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the MTA's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

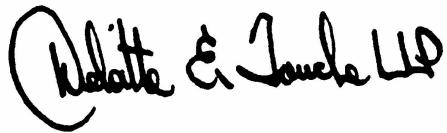
In our opinion, based on our audits, such consolidated financial statements present fairly, in all material respects, the financial position of the MTA, as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles 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.

As described in Note 2 to the financial statements, in 2010, the MTA adopted Governmental Accounting Standards Board (GASB) Statement No 53, *Accounting and Financial Reporting for Derivative Instruments*.

The Management's Discussion and Analysis on pages 3 through 27, the Schedule of Pension Funding Progress on page 103, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 104 are not a required part of the basic consolidated financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the MTA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the MTA's consolidated basic financial statements. The schedule of financial plan to financial statements reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, and schedule of consolidated subsidy accrual reconciliation between financial plan and financial statements are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. This supplementary information is the responsibility of the MTA's management. The accompanying supplemental information, schedule of financial plan to financial statements reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, and schedule of consolidated subsidy accrual reconciliation between financial plan and financial statements, has been subjected to the auditing procedures applied by us in the audits of the basic consolidated financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

April 21, 2011

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS **YEARS ENDED DECEMBER 31, 2010 AND 2009** **(\$ In Millions)**

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, Required Supplementary Information, and Supplementary Information.

Management's Discussion and Analysis

This MD&A provides a narrative overview and analysis of the financial activities of the MTA Group for the years ended December 31, 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 year, and can be used to determine how the MTA has funded its costs.

The Consolidated Statements of Cash Flows, which provide information about the MTA Group's cash receipts, cash payments and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities.

Notes to the Consolidated Financial Statements

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

Required Supplementary Information

The required supplementary information provides information 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 years ended December 31, 2010 and 2009. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, the information contained within the summaries of the consolidated financial statements and the various exhibits presented were derived from the MTA Group’s consolidated financial statements. All dollar amounts (except where otherwise expressly noted) are in millions.

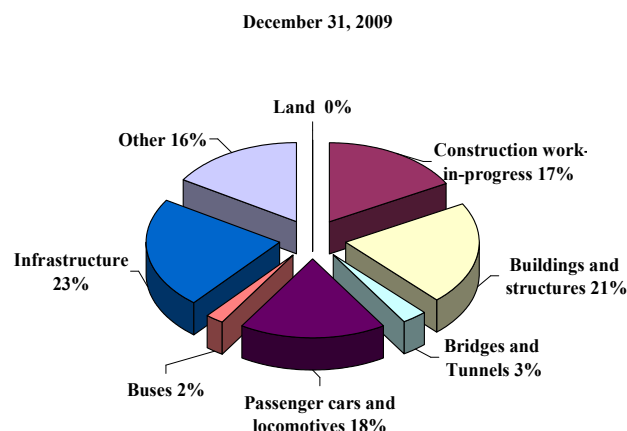
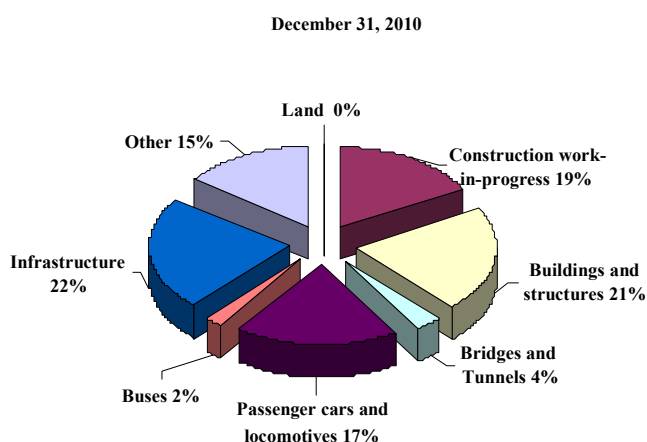
Total Assets, Distinguished Between Capital Assets, Net and Other Assets

Capital assets include, but 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.

| | December 2010 | December 2009 | December 2008 | Increase/(Decrease) 2010 - 2009 | 2009 - 2008 |
|-----------------------------------|------------------|------------------|------------------|------------------------------------|-----------------|
| (In millions) | | | | | |
| Capital assets — net (see Note 6) | \$ 50,133 | \$ 47,229 | \$ 43,323 | \$ 2,904 | \$ 3,906 |
| Other assets | <u>10,082</u> | <u>9,012</u> | <u>10,134</u> | <u>1,070</u> | <u>(1,122)</u> |
| Total assets | <u>\$ 60,215</u> | <u>\$ 56,241</u> | <u>\$ 53,457</u> | <u>\$ 3,974</u> | <u>\$ 2,784</u> |

Capital Assets, Net



Significant Changes in Assets Include:

December 31, 2010 versus 2009

- Net capital assets increased at December 31, 2010 by \$2,904. The largest increase of \$1,626 is related to construction work-in-progress and land. Assets related to infrastructure increased by \$834; buses increased by \$163; buildings and structures increased by \$743; new passenger cars and locomotives purchases increased by \$425; bridges and tunnels by \$276; and other capital assets by \$668. These increases were partially offset by additional accumulated depreciation of \$2,000. 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 \$109.4.
 - Interagency security projects at Penn Station, Jamaica Station and 63rd Street Tunnel for an additional cost of \$4.8.
 - 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 163 buses all placed in service in the current year.
 - Power substations modernization and rehabilitation for 70th 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 the Poughkeepsie Station the roof replacement continues 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 continued 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 \$1,070. 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 \$1,078 as a result of:
 - The net increase of \$974 in current and noncurrent investments is derived mainly from an increase in MTAHQ funds in the amount of \$904, FMTAC by \$42 and MTA Bridges and Tunnels by \$28. The MTAHQ's increase is directly related to capital funds available from the issuance of Transportation Revenue Bonds, Series 2010A for \$364, Series 2010B for \$657, Series 2010C for \$510 and Series 2010E for \$750, during January, February, June and December of 2010, respectively. Dedicated Tax Fund Bonds, Series 2010A for \$503 were issued in March 2010. 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 \$104 due to an increase of collateral funds related to The Bank of America capital lease in the amount of \$10 and the reinvestment of securities that matured in December 2009 in the amount of \$63.
- Net increase in receivables in the amount of \$68 due to:
 - Other subsidies including Urban Tax, New York State and New York City School Aid receivable increased by \$62, while the New York City subsidy receivable to MTA Bus increased by \$34.
 - Other receivables decreased by a net of \$38. The decrease was derived mainly from FMTAC due to collection on outstanding receivable balances.
- Material and supplies decreased by \$2. The decrease reflects the usage of parts and supplies for agency operations.
- Decrease in other noncurrent assets of \$239 was derived mainly from MTAHQ. Un-requisitioned funds for MTA New York City Transit and MTA Bus capital expenditures accrued at year-end were lower in the current year.
- Deferred outflows from derivative instruments increased by \$360 and derivative assets increased by \$14 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 statement (See Note 2). Period to period changes in the fair market value of effective hedges are reported as deferred derivative inflows/outflows (See Note 7).

December 31, 2009 versus 2008

- Net capital assets increased at December 31, 2009 by \$3,906. The largest increase of \$1,904 is related to construction work-in-progress. New Passenger cars, and locomotives purchases resulted in those items increasing by \$1,323; assets related to infrastructure increased by \$984; buildings and structures, \$759; other acquisitions \$432; acquisition of buses \$326; bridges and tunnels, \$78; and the acquisition of land increased by \$4. These increases were partially offset by additional accumulated depreciation of \$1,904. 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.

- Improvements to MTA Long Island Rail Road’s infrastructure road-assets continued under the 2009 Track Program that provided the replacement of various track elements and branches at a cost of \$60.6, installation of a microprocessor signal system at Valley Interlocking for an additional cost of \$31.8, work on Long Island City yard of \$14.7 and the replacement of the composite third rail, third rail cable, protection board and signal power lines at various locations at a cost of \$44.1.
- Rehabilitation of line structures and subway tunnels.
- System-wide track replacement, train shed repairs and bridges rehabilitation.
- Upgrading of shops and yards such as Babylon, Long Island City and Richmond Hills.
- Continued work on signals and communication assets, with a number of projects nearing completion, such as the fiber optic network and various microprocessor signal projects.
- Work on security projects, including hardening of Penn Station, Jamaica, and the 63rd Street Tunnel with an additional cost of \$4.8.
- Design and installation of a pilot Communications Based Train Control system on the Canarsie Line.
- Design and construction of a new depot at the Grand Avenue Facility.
- Improvements in infrastructure, including maintenance facilities.
- Work on the East Side Access project in 2009.
- Installation of chemical, biological, and radiological early detection equipment in Grand Central Terminal.
- Replacement of the deck of the Bronx-Whitestone Bridge, Throgs Neck Bridge and Robert F. Kennedy Bridge.
- Rehabilitation of the upper level suspension spans at the Verrazzano-Narrows Bridge and the lower deck replacement at the Henry Hudson Bridge.
- Other assets net decreased by \$1,122. The items contributing to this change include, but are not limited to:
 - Decrease in current and noncurrent investments and investments held under capital leases of \$983 as a result of:
 - The net decline on investments of \$658 relates to a decrease of operating and capital funds available due to the usage of bond proceeds for capital expenditures and redemption of bonds (See Note 3 and 7), while operating funds were applied to cover current year operating losses.
 - The net decline in leases of \$325 resulted from capital leases debt service payments on Philip Morris and Met Life leases and the termination of AmSouth 2 and AmSouth 4

leases. Also, the fair value loss on the investment held to maturity for capital leases payment accounted for the decline.

- Net reduction of \$94 on receivable accounts is due mainly to:
 - Capital project receivable from Federal and State governments decreased by \$121. The change was due to \$135 decrease in MTAHQ receivables from Federal, State and other grant requisitions for 2008 but received in 2009. The decrease was partially offset by an increase of \$14 for MTAHQ receivables from Connecticut Department of Transportation for the M8 train cars.
 - The introduction of a more efficient collection method reduced receivables due from New York City by \$43.
 - Receivable from Hudson Yard Corporation decreased by \$33 due to funds received in the last quarter of 2009.
 - State and regional mass transit tax receivable increased by \$76. Though the 2009 appropriation was lower than 2008, the payments from New York State government decreased.
 - Other receivables had a net increase of \$27. The increase was due mainly to MTAHQ receivable from real estate management.
- Increase in material and supplies \$17. The increase is to insure availability of parts and supplies for emergency needs.
- Increase in prepaid expense and other current assets of \$9. This resulted from an increase at MTA New York City Transit in the amount of \$5, and MTA Metro North Railroad in the amount \$7 offset by a decrease of \$2 by MTA Long Island Railroad and \$1 by FMTAC. The Metro North increase was primarily due to the timing of a track lease payment for the Port Jervis line.
- Decrease in other noncurrent assets of by \$157. The MTAHQ decrease of \$157 was due primarily to a reduction of un-requisitioned of funds for MTA New York City Transit and MTA Bus capital expenditures.

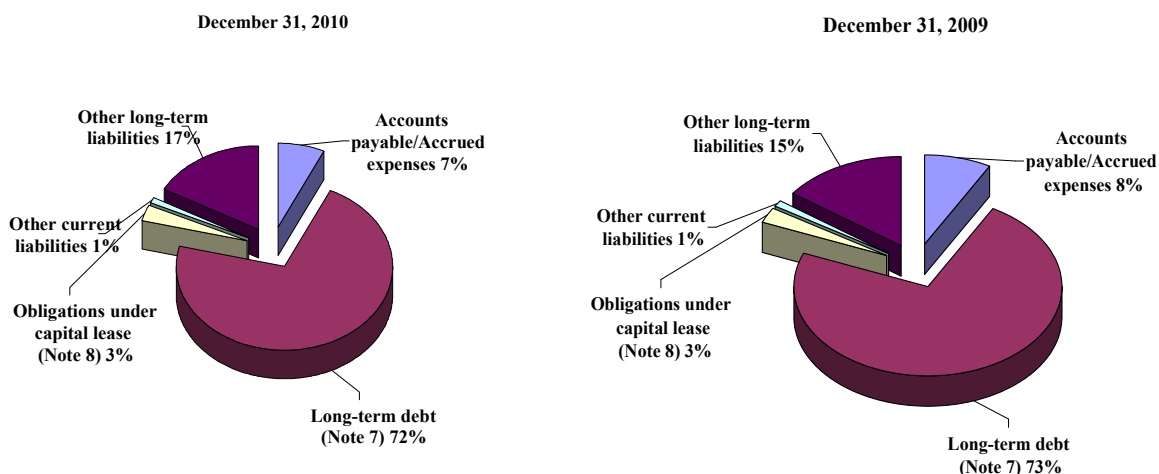
Total Liabilities, Distinguishing Between Long-Term Liabilities and Other Liabilities

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.

| | December 2010 | December 2009 | December 2008 | Increase/(Decrease) | |
|-----------------------|------------------|------------------|------------------|---------------------|-----------------|
| (In millions) | | | | 2010 - 2009 | 2009 - 2008 |
| Current liabilities | \$ 3,962 | \$ 4,427 | \$ 3,613 | \$ (465) | \$ 814 |
| Long-term liabilities | <u>39,377</u> | <u>34,373</u> | <u>31,510</u> | <u>5,004</u> | <u>2,863</u> |
| Total liabilities | <u>\$ 43,339</u> | <u>\$ 38,800</u> | <u>\$ 35,123</u> | <u>\$ 4,539</u> | <u>\$ 3,677</u> |

Total Liabilities



Significant Changes in Liabilities Include:

December 31, 2010 versus 2009

Current liabilities decreased by \$465 due to a decrease in accounts payable and accrued expenses in the amount of \$245 and an decrease in other current liabilities by \$220.

- Accounts payable and accrued expenses decreased by \$245 which was derived from:
 - A decrease in accounts payable of \$150 due to accelerated payments on invoices prior to December 15, 2010 related to conversion to a new shared service payment system on January 01, 2011.
 - A decrease in accrued expenses of \$95 due to:
 - A decrease in the current portion of retirement and death benefits decreased of \$108. This decrease was derived mainly from MTA New York City Transit in the amount of \$83 attributable to a lag in pension payment at the end of 2009.
 - An increase in the estimated liability arising from injuries to person increased by \$27. This was due to the annual actuarial valuation.

- An increase in interest payable of \$11 due to the issuance of bonds in 2010 by MTAHQ and MTA Bridges and Tunnels (see Note 7).
- An increase in vacation and sick benefit costs of \$9 as a result of higher number of days accumulated by the employees at the end of the current year.
- A decrease in other accrued liabilities of \$36, of which \$20 was derived from the MTAHQ and \$30 from FMTAC. The decrease at MTAHQ was from a reduction in capital accruals due to accelerated payments on invoices during December 2010. Revenue recognition of \$30 in unearned premiums accounted for the decrease in FMTAC's accrued liabilities. These decreases were offset by an increase in MTA New York City Transit liabilities in the amount of \$8.
- Other current liabilities decreased of \$220 was derived from:
 - An increase in deferred revenues of \$33 due to an increase of unredeemed fare cards sold by MTA New York City Transit in the amount of \$18 and unredeemed MTA Bridges and Tunnels tolls of \$12.
 - A net decrease of \$252 in the current portion of long-term debt, consisting of an increase of \$39 for MTAHQ and a decrease of \$291 in MTA Bridges and Tunnels debt.
- Noncurrent liabilities increased by \$5,004 due to:
 - An increase in postemployment benefits other than pensions ("OPEB") of \$1,170. The increase represents the annual OPEB cost per the interim actuarial valuation provided in March 2011 for the year 2010.
 - An increase in long-term debt of \$3,230 (See Note 7 for additional information on long-term debt) are as follows:
 - An increase in MTA Bridges and Tunnels bonds in the amount of \$302 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 remarketed General Revenue Variable Rate Bonds, Series 2001C of \$140. In October 2010, MTA Bridges and Tunnels also issued General Revenue Bonds, Series 2010A in the amount of \$347.
 - An increase in MTAHQ bonds in the amount of \$2,928 due primarily to the issuance of new debt in 2010 as follows:
 - Transportation Revenue Bonds, Series 2010A was issued in the amount of \$364; Series 2010B for \$657, Series 2010C for \$510 Series 2010D for \$754 and Series 2010E in the amount of \$750 in January, February, July, November and December 2010, respectively.
 - Dedicated Tax Fund Bonds, Series 2010A of \$503 in March 2010.
 - Obligations under capital lease increased by \$12 due primarily to principal and interest payments in future years.

- Noncurrent portion of estimated liabilities arising from injuries to persons increased by \$188 as a result of 2010 actuarial calculations.
- Noncurrent liability for pollution remediation project costs decreased by \$6 due to payments and adjustments to remediation costs.
- Other long-term liabilities decreased by \$19 due to:
 - A decrease in FMTAC's RCAMP deposit of \$35; and
 - An increase in MTAHQ's liability due to additional collateral fund requirements of \$17.
- Derivative liabilities increased by \$373 and derivative liabilities-off market elements increased by \$42. 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 \$27 due to new capital projects undertaken by various agencies.

December 31, 2009 versus 2008

- Current liabilities increased by \$814. This net increase is due to an increase in accounts payable and accrued expenses in the amount of \$365, and an increase in other current liabilities by \$449.
- Accounts payable and accrued expenses increase of \$365 was derived from:
 - An increase of \$4 in accounts payable due to timing differences on invoices submitted for payment.
 - Accrued expenses increased by \$361. This increase included:
 - Increase on interest payable by \$14 due to the issuance of bonds in 2009 by MTAHQ and MTA Bridges and Tunnels (see Note 7).
 - Wage rate increases in 2009 played a significant role in the \$58 increase in salaries, wages and payroll taxes. Allocation of the variance is heavily distributable to New York City Transit Authority \$61 and other agencies \$10. The only exception to the increase was MTA Bus whom experienced a decrease of \$13 because of the receipt of retroactive wages covering the period April 2006 through 2009.
 - Vacation and sick benefit costs increased by \$28 as a result of higher number of days accumulated by the employees at the end of the current year.
 - The current portion of retirement and death benefits increased by \$145 with the major contributors being MTA New York City Transit with a total of \$124 and MTAHQ \$11. MTA Long Island Railroad and MTA Metro North Railroad had a combined overall increase of \$10. The MTA New York City Transit increase is due mainly to higher accruals of pension costs based on the New York City Employees' Retirement System bill received at the end of the year. For the other agencies, the increase was derived mainly from variances between estimated and actual required

actuarial contributions. Unlike 2008, the ARC was known before year-end and the agencies were able to provide payments on time.

- An increase in current portion of estimated liabilities from injuries to persons (Note 8) in the amount of \$23. The change was due mainly to an increase in insurance reserves.
- Other accrued liabilities increased by \$93. This increase was mainly due to an increase in MTAHQ capital and operating accruals.
- Other current liabilities increase of \$449 was derived from:
 - Other current liabilities had a net increase of \$438. The current portion of long-term debt increased by \$663, made up of \$402 for MTA Bridges and Tunnels increase and \$261 for MTAHQ. The total increase reflects the debt service requirements for 2010. Current portion of obligation under capital leases decreased by \$225 due to principal payments on Philip Morris and Met Life leases and the termination of Amsouth 2 and Amsouth 4 leases respectively.
 - Deferred revenues increased by \$11 due to an increase of unredeemed fare cards sold by MTA New York City Transit.
- Noncurrent liabilities increased by \$2,863. This net increase is primarily related to:
 - Increase of \$1,095 for postemployment benefits other than pension (“OPEB”). The increase represents the annual OPEB cost less the actuarial required contributions. This disclosure is due to the implementation of GASB statement No. 45 adopted by the MTA in 2007. The actuarial report was updated in 2009 with a valuation date of January 1, 2008.
 - Long-term debt increased by \$1,637. (See Note 7 for additional information on Long-Term Debt).
 - The increase in MTA Bridges and Tunnels bonds is due primarily to the issuance of several series: General Revenue Bonds Series 2009A in February 2009 for \$475, General Revenue Bonds Series 2009B (Build America Bonds) in September of 2009 in the amount of \$200 and General Revenue Bond Anticipation Notes Series 2009 for \$149 in November of 2009. From those issuances, MTA Bridges and Tunnels redeemed \$197.9 of General Revenue Variable Rate Bonds, Series 2005B-1 in February 2009. In addition, \$50 of Subordinate Revenue Bonds, Series 2000CD was refunded.
 - The increase in long-term debt at MTA was derived from the issuance of new debt in 2009:
 - i. Dedicated Tax Fund Bonds in March 2009, Series 2009A for \$261.7; in April, Series 2009B and 2009C for \$500 and \$750, respectively.
 - ii. Transportation Revenue Bonds, Series 2009A was issued in the amount of \$502. During the first quarter of 2009, \$82 of Transportation Revenue Bond Commercial Paper was issued.

- Obligations under capital lease decreased by \$34. That decrease was primarily due to the downgrading of AIG and the termination of AmSouth 2 and AmSouth 4 principal and interest payments in 2009.
- Decrease in noncurrent liability pollution remediation project costs recorded for the first time in 2008, decreased by \$5. This decrease was due to payments and adjustments to remediation cost.
- Other long-term liabilities increased by \$28. These increases derived mainly from MTAHQ with a total increase of \$27, offset by a decrease in FMTAC by \$2. The increase at MTAHQ reflects the increase of \$30 in capital leases deferred liability. For a few leases, MTAHQ had to provide collateral funds to secure future payments and possible default from the insurance companies. This increase was offset by a decrease in tenant deposits in the amount of \$3. FMTAC's decrease of \$2 was derived from RCAMP deposit liability offset by a reduction in 2009 claim payments.
- Noncurrent portion of estimated liabilities arising from injuries to persons increased by \$132 as a result of the 2009 actuarial calculation.

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

| | December 2010 | December 2009 | December 2008 | Increase/(Decrease) | |
|---|------------------|------------------|------------------|---------------------|-----------------|
| | | | | 2010 - 2009 | 2009 - 2008 |
| (In millions) | | | | | |
| Invested in capital assets, net of related debt | \$ 19,264 | \$ 18,779 | \$ 15,790 | \$ 485 | \$ 2,989 |
| Restricted for debt service | 1,279 | 1,161 | 972 | 118 | 189 |
| Restricted for claims | 146 | 127 | 96 | 19 | 31 |
| Unrestricted | <u>(3,813)</u> | <u>(2,626)</u> | <u>1,476</u> | <u>(1,187)</u> | <u>(4,102)</u> |
| Total Net Assets | <u>\$ 16,876</u> | <u>\$ 17,441</u> | <u>\$ 18,334</u> | <u>\$ (565)</u> | <u>\$ (893)</u> |

Significant Changes in Net Assets Include:

December 31, 2010 versus 2009

At December 31, 2010, the total net assets decreased by \$565 when compared with December 31, 2009. This change includes net non-operating revenues of \$3,787 and appropriations, grants, and other receipts externally restricted for capital projects of \$1,938. The increase is offset by operating losses of \$6,290.

The investment in capital assets, net of related debt, increased by \$485. Funds restricted for debt service and claims increased by \$137 and unrestricted net assets decreased by \$1,187.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

| (In millions) | December 31, 2010 | December 31, 2009 | December 31, 2008 | Increase/(Decrease) | |
|--|------------------------------|------------------------------|------------------------------|----------------------------|--------------------|
| | | | | 2010 - 2009 | 2009 - 2008 |
| Operating revenues | | | | | |
| Passenger and tolls | \$ 6,003 | \$ 5,682 | \$ 5,515 | \$ 321 | \$ 167 |
| Other | <u>416</u> | <u>384</u> | <u>417</u> | <u>32</u> | <u>(33)</u> |
| Total operating revenues | <u>6,419</u> | <u>6,066</u> | <u>5,932</u> | <u>353</u> | <u>134</u> |
| Nonoperating revenues | | | | | |
| Grants, appropriations and taxes | 4,579 | 3,754 | 3,949 | 825 | (195) |
| Other | <u>555</u> | <u>459</u> | <u>249</u> | <u>96</u> | <u>210</u> |
| Total nonoperating revenues | <u>5,134</u> | <u>4,213</u> | <u>4,198</u> | <u>921</u> | <u>15</u> |
| Total revenues | <u>11,553</u> | <u>10,279</u> | <u>10,130</u> | <u>1,274</u> | <u>149</u> |
| Operating expenses | | | | | |
| Salaries and wages | 4,611 | 4,658 | 4,560 | (47) | 98 |
| Retirement and other employee benefits | 1,907 | 1,894 | 1,876 | 13 | 18 |
| Postemployment benefits other than pensions | 1,529 | 1,442 | 1,656 | 87 | (214) |
| Depreciation and amortization | 2,000 | 1,940 | 1,791 | 60 | 149 |
| Other expenses | <u>2,662</u> | <u>2,567</u> | <u>2,440</u> | <u>95</u> | <u>127</u> |
| Total operating expense | <u>12,709</u> | <u>12,501</u> | <u>12,323</u> | <u>208</u> | <u>178</u> |
| Nonoperating Expense | | | | | |
| Interest on long-term debt | 1,299 | 1,254 | 1,209 | 45 | 45 |
| Change in fair value of derivative financial instruments (Note 7) | 41 | - | - | 41 | - |
| Other nonoperating expense | <u>7</u> | <u>8</u> | <u>11</u> | <u>(1)</u> | <u>(3)</u> |
| Total nonoperating expense | <u>1,347</u> | <u>1,262</u> | <u>1,220</u> | <u>85</u> | <u>42</u> |
| Total expenses | <u>14,056</u> | <u>13,763</u> | <u>13,543</u> | <u>293</u> | <u>220</u> |
| Appropriations, grants and other receipts externally restricted for capital projects | <u>1,938</u> | <u>2,591</u> | <u>2,450</u> | <u>(653)</u> | <u>141</u> |
| Change in net assets | (565) | (893) | (963) | 328 | 70 |
| Net assets, beginning of year | <u>17,441</u> | <u>18,334</u> | <u>19,297</u> | <u>(893)</u> | <u>(963)</u> |
| Net assets, end of year | <u>\$ 16,876</u> | <u>\$ 17,441</u> | <u>\$ 18,334</u> | <u>\$ (565)</u> | <u>\$ (893)</u> |

Revenues and Expenses, by Major Source:

Year ended December 31, 2010 versus 2009

- Total operating revenues for the year ended December 31, 2010 were \$353 higher than for the year ended December 31, 2009.
 - Fare revenue increased by \$236. 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 \$85. The additional revenues were primarily the result of a full year at the higher toll rates implemented on July 12, 2009. Paid traffic totaled 291.6 vehicles in 2010, which was 0.1% more than the prior year's level.
 - Other operating revenues increased by \$32. This increase is due primarily to student and elderly reimbursements for paratransit expenses.
- Total non-operating revenue increased by \$921.
 - Total grants, appropriations, and taxes were higher by \$825 for the year ended December 31, 2010. The increase derived mainly from the Mobility Tax, which was introduced in 2009 by the State of New York for the benefit of the MTA. During the current year, the amount allocated to the MTA was \$1,662 or an increase of \$790 over 2009. Build America Bonds subsidy provided by the Federal Government was \$49 higher than the prior year. Other taxes, specifically, Mortgage Recording Tax, Urban Tax and Mass Transportation Trust Fund receipts continued to decline with a total decrease of \$14.
- Total operating expenses for the year ended December 31, 2010, were higher than the year ended December 31, 2009 by \$208. This increase reflects an increase in labor costs of \$53 and an increase in non-labor expenses in the amount of \$155.
 - The labor costs, including retirement and other employee benefits, increase relates to the following:
 - Salaries and wages decreased by \$47 due to reductions in headcount and overtime costs.
 - Retirement and employee benefits increased by \$13. This unfavorable variance was accounted for by an increase in health and welfare of \$59 primarily due to higher health insurance rates.
 - Postemployment benefits other than pensions increased by \$87. A revised 2010 actuarial annual health cost trend assumption is responsible for the decrease reported.
- Non-labor operating costs were higher by \$155. Major increases include: claims with an increase of \$90, pollution remediation by \$11, fuel and propulsion power by \$17 and depreciation costs by \$60 due to the additional facilities coming on line. The favorable variance is reflected primarily in materials and supplies with a decreased cost of \$19, paratransit and other service contracts by \$14 and insurance by \$9.

- Total non-operating expenses increased by \$85
 - Interest expense on long-term debt increased by \$45 due to the issuance of new bonds in 2010.
 - Change in fair value of derivative financial instruments increased by \$41. Hedges that are regarded as ineffective because the effectiveness test is not met are recognized as investment derivatives and the changes in fair market value from period to period are reported as non-operating revenues or expenses in the statement of revenues, expenses and changes in net assets (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 \$653. The increase was derived mainly from an increase in Federal funding, New York State Bond funding and fixed assets purchased with bond proceeds.

Year ended December 31, 2009 versus 2008

- Total operating revenues for the year ended December 31, 2009 were \$134 higher than for the year ended December 31, 2008.
 - Fare revenue increased by \$109. The increase was due mainly to the June 2009 fare increase that was partly offset by lower ridership because of a weak local economy. Toll revenues increased by \$58, 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 2008 levels at the end of 2009.
 - Other operating revenues decreased by \$33. This decrease is due primarily from a reduction in paratransit urban tax revenues and City school and elderly reimbursements for paratransit expenses.
- Total operating expenses for the year ended December 31, 2009 were higher than the year ended December 31, 2008 by \$178. This increase reflects a decrease of labor cost by \$98 and an increase of non-labor expenses in the amount of \$276.
 - Labor costs, including retirement and other employee benefits decrease relates to the following:
 - Salaries and wages increase of \$98 is due to wage rate and headcount increases primarily for customer safety, maintenance programs, and operation of additional bus routes by MTA Bus.
 - Retirement and employee benefits increased by \$38 due to a pension cost increase of \$152 and a decrease in health and welfare and other fringe benefit costs of \$114. The pension cost increase derived mainly from the MTA New York City Transit of \$71 due to higher contributions required by New York City Employees' Retirement System and from the MTA Long Island Railroad with an increase of \$50. Other agencies increased by \$31 mainly due to an increase of the ARC caused by a decline on the investment value of the pension fund. Health and welfare and other fringe benefits costs decrease derived from the usage of the reserve established in prior years to cover for medical costs, and from legislative changes affecting payout rates

- Postemployment benefits other than pensions decreased by \$214. The significant decrease is due to a decrease in the annual health cost trend assumption.
 - Non-labor operating costs were higher by \$276. Cost elements contributing to this increase were claims, and service contracts of \$213. The unfavorable variance was due to adjustments on the reserve expenses related to established employee and customer lawsuits. Paratransit expenses increased by \$71 for MTA New York City Transit, due to increased trip volumes and the impact of new contract costs. Traction, propulsion power and fuel for buses and trains decreased by \$96 – a benefit derived from lower prices of fuel compared with the prior year. Insurance expense increase by \$10 from higher costs of property and liability premiums. Depreciation costs increased by \$149 in line with capital asset additions. The net increase for material and supplies and professional services contracts was \$7, while maintenance, pollution remediation and other expenses declined by \$78.
- Total grants, appropriations, and taxes were lower by \$195 for the year ended December 31, 2009 compared with the year ended December 31, 2008. The decrease was due to the decline in Mass Transportation Operating Assistance subsidy of \$345 and Tax supported subsidies from New York City and local in the amount of \$716. These decreases were partially offset by an increase of \$872 in Mobility Tax, which was introduced in 2009 by the State of New York for the benefit of the MTA.
- Interest expense on long-term debt increased by \$45 due to the issuance of new bonds in 2009.
- Appropriations and grants increased by \$141. The increase was derived mainly from Federal funding, New York State Bond funding and FEMA, 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 December 2010, MTA system-wide utilization was 0.2% lower (5.1 million fewer trips) than ridership through December 2009, while vehicle-crossing levels at MTA Bridges and Tunnels facilities declined by 0.5%. In spite of steady improvements in the economy through the third quarter, the volume of ridership and bridge and tunnel crossings was subdued by fare and toll increases that went into effect in June and July, respectively. Utilization was also negatively impacted by an extraordinary blizzard at the end of December, and by a slight reversal in the fourth quarter of earlier economic improvements.

At the end of the fourth quarter of 2010, seasonally adjusted non-agricultural employment in New York City showed an increase of 40,000 jobs, up 1.1% compared with the same quarter of 2009.

This 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, and finally a small *decline* in employment in the fourth quarter. Employment grew in seven of the first nine months of 2010, regaining 44,000 of the 130,000 jobs lost in 2009. The final quarter of 2010 actually saw a loss of 4,500 jobs, and while New York City's employment improved relative to 2009, it remained 2.5% lower than in the fourth quarter 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. The CEI's steady downward movement, from peak levels in April/May 2008 to troughs in November/December 2009, describes an economic downturn that persisted beyond the official announcement by the National Bureau of Economic Research that the recession had ended in June.

The movement of regional CEI's in 2010 indicates mixed economic fortunes for New York State, New Jersey and New York City, and reveals the tenuousness of economic recovery. The CEI for New York State increased by less than 1% relative to the fourth quarter of 2009, and all of this increase occurred in the first seven months of 2010; for the state as a whole, the CEI declined in each month after July. In New Jersey, the CEI fell by slightly less than 1% relative to the fourth quarter of 2009. Its CEI, in fact, showed monthly declines ten times in 2010, including in each month of the fourth quarter. While economic expansion was at best tepid in the region as a whole, New York City experienced a more decided expansion: relative to the fourth quarter of 2009, the CEI for the City increased 2.3%; however, even in New York City, CEIs fell in each month of the last quarter, suggesting that most economic improvement in 2010 happened in the first three quarters of the year.

Incipient signs of economic improvement for New York City in the first three quarters of 2010, conveyed by rising employment and higher CEI's, were consistent with what was happening to the national economy, as Real Gross Domestic Product ("RGDP") improved in each of the first three quarters. Third quarter growth occurred at an annual rate of 2.6%, 1.7% in the second quarter, 3.7% in the first quarter and 5.0% in the final quarter of 2009.

The reversal of regional CEI's in the final quarter, however, diverges with that quarter's upswing of RGDP, implying a difference in timing between the national and regional business cycles: the Bureau of Economic Analysis estimates that RGDP actually grew at an annual rate of 2.8% in the last quarter. The U.S. economy, after four consecutive quarters of profound decline, beginning with the third quarter of 2008, has experienced six quarters in a row of economic growth.

In the fourth 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 1.3%. Energy was a main driver of overall price inflation in the metropolitan area, rising much faster than the general price level: while the CPI exclusive of energy was only 1.1% higher in the fourth quarter of 2010 than in the fourth quarter of 2009, energy inflation was 5.1% over that period. The New York Harbor spot price for conventional gasoline increased more dramatically than energy prices, rising 16.7% between the fourth quarters of 2009 and 2010, from an average price of \$1.942 to an average of \$2.266 per gallon. Most of this increase occurred in the fourth quarter itself, which experienced a 15.1% price increase over the third quarter. The continuation of the upward gasoline price trend into the fourth quarter of 2010 did much to reverse the steep decline 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 fourth quarter of 2009, 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 fourth quarters of 2009 and 2010.

Citing the slow pace of economic recovery in the fourth 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 three 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 December 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 December 2010 Beige Book, regional real estate markets were stable or softer since its report in October. Reportedly, residential real estate prices drifted lower in much of New York and northern New Jersey, but generally held steady in New York City. Activity in Manhattan's condo and co-op markets slipped, except at the high end (real estate valued at over \$8 million), and the rental market for apartments also slackened, with landlords resorting to incentives—as they did in 2009—to attract new tenants.

The impression given by the October Beige Book of continuing weakness in real estate markets was partly borne out by MTA receipts of real estate taxes, even though, at the end of 2010, MTA revenues from both commercial and residential real estate transactions were showing modest improvements. While receipts of Urban Taxes—those associated closely with commercial activity—rose in each quarter of 2010, receipts of Mortgage Recording Taxes only began to improve after the second quarter, and at the end of the year remained at approximately the same level as at the end of 2009. Urban Tax receipts in the last quarter were much stronger than in 2009 (up 62%); but this improvement was relative to receipts that were at the bottom of a trough: Urban Tax revenues had been \$248 million in the first quarter of 2007, but had fallen to \$35 million by the fourth quarter of 2009. In this light, the increase to \$57 million by the fourth quarter of 2010 leaves much room for improvement. Meanwhile, the merely modest improvements in collections from residential market activity in the third and fourth quarters of 2010 followed a second quarter in which MRT revenues were at their lowest level in five years. The quarterly improvements of 11.6%

and 2.9% in the third and fourth quarters, respectively, left receipts less than 1% higher than in the fourth quarter of 2009, and 20.8% lower than in the fourth quarter of 2008.

Results of Operations

MTA Bridges and Tunnels' paid traffic for the year ended December 31, 2010 operating revenue increased by \$87.2 compared to December 31, 2009. Toll revenues increased by \$84.9 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 December 31, 2010 was 75.8% compared with 73.9% in 2009. The average weekday market shares were 77.9% and 76.0% for 2010 and 2009 respectively.

MTA New York City Transit's total operating revenues for the year ended December 31, 2010 was above the prior-year by \$215.8 or 6.4%. Fare revenues were higher by \$186.9 or 5.8%, primarily due to the June 2009 fare increase.

In 2010, The MTA Long Island Rail Road continued to experience a decline in ridership as a result of the weak economy and poor job market. Ridership stood at 81.6 million on passenger revenues of \$523.2 million, which represents 94% of total revenues. Ridership of 81.5 million represented a decrease of 2% from 83.0 million riders in 2009 for both commuter and off-peak markets.

MTA Metro-North Railroad's operating revenue during the year ended December 31, 2010 increased by \$24.6 or 4.9% compared with the year ended December 31, 2009. Year to date 2010 fare revenue and ridership increased by 1.2% and 1.6% respectively. This increase is primarily a reflection of improved economic conditions in the New York metropolitan market and a full year of revenues earned from the fare increase implemented on June 17, 2009.

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 December 31, 2010 declined by 3.5% compared to December 2009 from \$244.6 to \$236.1.

Capital Programs

At December 31, 2010, \$1,910 had been committed and \$269 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and \$21,242 had been committed and \$14,909 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and \$21,304 had been committed and \$19,947 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels 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 approved by the CPRB in June 2010, the 2010–2014 MTA Capital Programs and the 2010–2014 MTA Bridges and Tunnels Capital Program provided for \$26,265 in capital expenditures. Since the plan approval, the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program increased by \$2 and now provide for \$26,267 in capital expenditures, of which \$12,834 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; \$4,254 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$5,741 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; \$325 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, \$6,683 in Federal Funds, \$206 in MTA Bus Federal and City Match, \$1,013 from other sources, and \$9,912 from future State and local funding.

At December 31, 2010, \$1,910 had been committed and \$270 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. At December 31, 2010, the 2005-2009 MTA Capital Programs budget increased by \$627, primarily due to the receipt of new American Recovery and Reinvestment Act (“ARRA”) funds. Of the \$24,344 now provided in capital expenditures, \$11,592 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; \$3,783 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$495 relates to a security program throughout the transit, commuter and bridge and tunnel network; \$206 relates to certain interagency projects; \$6,909 relates generally to the expansion of existing rail networks for both the transit and commuter systems to be managed by the MTA Capital Construction Company (including the East Side Access, Second Avenue Subway and #7 subway line); \$1,221 relates to the ongoing repairs of, and replacements to, bridge and tunnel facilities operated by MTA Bridges and Tunnels; and \$138 relates to capital projects for the MTA Bus.

The combined funding sources for the MTA Board-approved 2005–2009 MTA Capital Programs and 2005–2009 MTA Bridges and Tunnels Capital Program include \$9,372 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, \$9,603 in Federal Funds, and \$3,919 from other sources.

At December 31, 2010, \$21,242 had been committed and \$14,909 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. At December 31, 2010, the 2000-2004 MTA Capital Programs budget increased by \$610, primarily due to the receipt of ARRA funds, transfers from the 2005-2009 Capital Program, and MTA operating sources required to fund cost increases for work still underway. This revised budget now provides

\$21,757 in capital expenditures, of which \$10,449 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; \$3,987 relates to ongoing repairs of, and replacements to, the Commuter System operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$5,360 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$233 relates to planning and design and customer service projects; \$244 relates to World Trade Center repair projects; \$982 relates to the ongoing repairs and replacements to MTA Bridges and Tunnels facilities; and \$502 relates to MTA Bus.

The combined funding sources for the MTA Board-approved 2000–2004 MTA Capital Programs and 2000–2004 MTA Bridges and Tunnels Capital Program (with revisions through the July 2008) include \$8,035 in bonds, \$6,940 in Federal funds, \$4,575 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002, and \$2,207 from other sources.

At December 31, 2010, \$21,304 had been committed and \$19,947 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

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

During the twelve months of 2010, deteriorated 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 December 31, 2010, have been failing. MTA continues to closely monitor the performance of its auction rate bonds, insured variable rate demand bonds and variable rate demand bonds for which liquidity is provided by the lower rated banks.

November Financial Plan. On November 17, 2010, the 2011 Final Proposed Budget and November Financial Plan 2011-2014 (the November Plan) were presented to the MTA Board. Subsequently, on December 15, 2010, the MTA Board adopted the 2011 Final Proposed Budget and approved the November Plan's projections and gap closing actions. The November Plan, after deficit reducing actions and revised revenue forecasts, projects, on an MTA consolidated basis, ending net cash balances/(deficits) of \$3 million in 2010, \$8 million in 2011, (\$207) million in 2012, (\$2) million in 2013, and (\$440) million in 2014.

The 2011 Preliminary Budget and July Financial Plan 2011-2014 (the July Plan) included strict spending constraints and budget reductions expected to result in a combined annualized savings of approximately \$525 million starting in 2011, including a 15% reduction in administrative positions across all operating agencies and a 20% reduction at MTA Headquarters, a management wage freeze, overtime reductions, a top-to-bottom overhaul of MTA Bridges and Tunnels, renegotiation of contracts with major suppliers, and implementation of a package of service cuts which were designed to have the least customer impact. The savings projected in the July Plan are substantially on track at this time, and the elements are being carried forward in the November Plan.

The November Plan includes additional MTA efficiencies which are projected to provide an estimated \$75 million in savings in 2011, growing to \$200 million by 2014. The projected 2011

savings of \$75 million are fully identified as described below and include a new medical benefits contract, strategic sourcing, consolidation of certain functions, and inventory savings.

Health Benefits Re-Bid – \$33 million – MTA New York City Transit has negotiated a new medical benefits contract to provide medical health services to approximately 150,000 MTA New York City Transit and MTA Bus employees, retirees and their dependents. When fully implemented, this three-year contract with a two-year renewal option is estimated to provide MTA with annual savings in excess of \$50 million when compared with the projected cost of retaining the current medical health benefit coverage structure.

Strategic Sourcing – \$20 million – Strategic sourcing is the business practice of selecting capable and qualified suppliers for the provision of goods and services required to satisfy user needs at the lowest cost. This is achieved through specification standardization and optimization, procurement process improvements and inter-agency collaboration. An analysis of calendar year 2009 procurements across the MTA family identified ten categories of expenditures worth \$880 million. Aggressive application of this business practice is projected to save a recurring \$20 million per year.

Consolidations – \$15 million – Information Technology is a key area where consolidations are projected to result in additional savings. These areas include the data center, help desk, e-mail networks, wide area network and security monitoring. In addition, a reassessment of the entire IT operation has resulted in the identification of certain projects that will be eliminated. Other consolidations and related efficiencies have begun in the communications area.

Inventory Savings – \$7 million – MTA Long Island Rail Road is anticipating cash savings based on a thorough examination of the material acquisition requirements to support its 2011 rolling stock maintenance programs.

Another key element of the November Plan is the “net zero” initiative for wage cost growth for two years. Under this initiative, wage increases must be offset with corresponding productivity improvements. The “net-zero” initiative is projected to provide savings of \$32 million in 2011, growing to more than \$220 million by 2014. Non-represented employees did not receive any wage increase in 2009 and are not scheduled to receive any increase in 2010, generating annual recurring savings of \$14 million.

The November Plan continues the assumption from the July Plan of the repayment of the \$500 million interagency loan to the Capital Financing Fund that is used to help balance the operating budget cash flow requirements. The repayment will be made in five annual installments beginning in 2012. If this loan is not repaid, the MTA will be unable to meet obligated capital program expenditures, further increasing the \$10 billion funding gap in the 2010-2014 Capital Program. The November Plan also eliminates MTA subsidization of the MTA Long Island Bus deficit for a projected savings of \$96 million over the November Plan period.

The November Plan reflects the fare and toll increases approved in October 2010 for implementation in 2011 as well as another 7.5% revenue increase planned for 2013. On October 7, 2010, the MTA Board approved the 2011 changes in transit and commuter rail fares. The bridge and tunnel crossing toll increases for 2011 were approved at the October 27, 2010 Board meeting. The approved transit and commuter rail fare increases, excluding MTA Bus revenues, and bridge and tunnel crossing toll increases are expected to provide additional revenues of \$411 million in 2011, \$429 million in 2012, \$434 million in 2013 and \$438 million in 2014. The projected 2013 7.5% fare and toll yield increase, excluding yield increases for MTA Bus, is estimated to provide additional revenues of \$454 million in 2013 and \$470 million in 2014.

While the November Plan is a continuation of the strategy laid out in July, there are changes in some underlying assumptions and actions. The most significant of these are summarized below.

Pension Rate of Return Assumption – In September, the Office of the State Comptroller lowered the assumed investment rate of return for the New York State and Local Employees' Retirement System (NYSLERS) from 8.0% to 7.5%, a 0.5% reduction. This lower assumed rate of return will result in higher pension costs for participating employers. While contributions to NYSLERS are only a small portion of the MTA's total pension costs, the November Plan anticipates lower return assumptions being likely to also be made in other pension plans to which MTA contributes. The November Plan, accordingly, increases its estimate of pension costs by \$34 million in 2011, \$139 million in 2012, \$145 million in 2013 and \$154 million in 2014. To the extent that actual increases differ from these amounts, the 2011-2014 Financial Plan will be adjusted.

Baseline Change – Overall, the baseline changes from July show positive and negative variances in a number of categories. The net result has been a further deterioration in the bottom line in the out years with significant deficits remaining in 2012 and 2014. Subsidy forecasts are up; however, passenger revenue forecasts have not increased as much as was anticipated in the July Plan. Baseline expenses are increasing slightly due to health and welfare rate increases, higher costs for workers' compensation and some new needs for maintenance and security. Debt service costs will be lower in 2010 primarily as a result of lower interest rates on variable debt. That lower debt service when combined with timing savings and the release of the remaining \$50 million general reserve resulted in a net improvement to 2010 cash balances. As a result, the July decision to eliminate the \$57 million 2010 contribution to the GASB 45 Fund (relating to the \$13.2 billion unfunded retiree healthcare liability) was reversed.

MTA Bridges and Tunnels Holdback – In the July Plan, it was proposed that a portion of the 7.5% toll increases for 2011 and 2013 (equivalent to 2.5% in each year) be used to fund new MTA Bridges and Tunnels capital projects through pay-as-you-go funding and debt service on additional debt. Given the continuing stress during the 2011-2014 Plan Period, the November Plan assumes that the \$88 million of projects anticipated to be funded from pay-as-you-go funding will be funded from MTA Bridges and Tunnels' Necessary Reconstruction Reserve and the corresponding revenues will be available to support the operating budget.

Energy Hedges – As set forth in the July Plan, the November Plan continues to assume that the MTA will set aside \$100 million to cover a portion of its costs for diesel fuel and natural gas in connection with the execution of fuel hedge agreements. The MTA Board authorized the fuel-hedging program in an amount up to \$100 million at its meeting on December 15. This will give the MTA the opportunity to lock-in favorable pricing and provide a measure of price protection for a portion of anticipated fuel needs should prices rise significantly above projections.

The November Plan shows balances in 2010 and 2011 with thin margins, and shows increased deficits in the out-years, largely due to the impact of the change in the estimated pension costs discussed above. It should be noted that even with the planned 2013 fare/toll revenue increases of 7.5%, the MTA does not quite break even in 2013. Between now and the July 2011 Financial Plan, the MTA will identify additional actions to address the 2012 to 2014 deficits. However, it is clear that the MTA's financial resources and situation remain stressed.

If management's focus on achieving the initiatives included in the November Plan dissipates, the November Plan is at risk of not achieving its financial goals. The November Plan assumes a slight recovery in economic conditions which will result in modest increases in taxes and fare/toll revenues. It also assumes that all State aid collected for MTA and projected to be appropriated is

actually paid out. Finally, the November Plan assumes a willingness of MTA's workforce, as represented by their unions, to establish a new working relationship that is sustainable in the current economic climate.

Policy Actions

Repayment of Loan to Capital Financing Fund – The Plan anticipates the repayment of a Board-authorized \$500 million interagency loan from the “Capital Financing Fund” (non-bond proceed funds dedicated to capital programs) to the operating budget. This interagency loan has been needed to balance operating cash flow requirements until revenues, including state subsidies, are received. This \$500 million will be needed for obligated capital program expenditures. The Plan anticipates repaying this loan in five annual installments beginning in 2012.

Eliminate MTA Funding of Long Island Bus Deficit – While MTA operates the Nassau County bus system, the County owns all assets and is responsible for funding operations. Prior to 2000, the County covered the deficit but in that year began to reduce its financial support, relying on MTA contributions to fill the subsidy gap. Since 2000, Nassau County has failed to contribute \$140 million toward its funding obligation. If this continues unchanged this year, Nassau will underfund its obligation. The MTA has advised Nassau County that it no longer intends to subsidize this operation; the Plan, therefore, includes the elimination of any MTA subsidy for projected net savings of \$100 million over the Plan Period.

Energy Hedges – The Financial Plan assumed that the MTA set aside \$100 million to lock-in favorable pricing for a portion of our 2011 diesel fuel and natural gas requirements and provide a measure of protection should prices rise significantly above projections. As a result of the previously discussed unfavorable adjustment in debt service costs and other technical adjustments in the February Financial Plan, the 2010 hedge assumption was reduced to \$65 million to maintain a positive cash balance. In 2011, contracts for \$75 million will be executed for 2012.

MetroCard Green Fee and Cost Savings – The MTA prints 170 million MetroCards each year at an annual cost of nearly \$13 million. Many of these cards are used once and then discarded, often ending up as litter in the system. To overcome this waste by encouraging customers to re-use their MetroCards, MTA is implementing a \$1.00 “green” fee for each new MetroCard bought in the subway system, where it is just as easy to refill a card as to get a new one. The estimated financial impact is a combination of additional revenue from the fee and lower costs from producing fewer cards.

Re-estimates

Pension Rate of Return – The Office of the State Comptroller lowered the assumed investment rate of return for the New York State and Local Employees' Retirement System (NYSLERS) from 8.0% to 7.5%, a 0.5% reduction. This lower assumed rate of return resulted in participating employers having to make higher annual required contributions for employees in that plan of \$34 million in 2011, \$139 million in 2012, \$145 million in 2013 and \$154 million in 2014. These increases have been incorporated into the baseline. To the extent that actual increases differ from these amounts, the subsequent Financial Plan will be adjusted.

* * * * *

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

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

| | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash (Note 3) | \$ 200 | \$ 348 |
| Unrestricted investments (Note 3) | 1,431 | 1,255 |
| Restricted investment (Note 3) | 1,663 | 623 |
| Restricted investments held under capital lease obligations (Notes 3 and 8) | 85 | 10 |
| Receivables: | | |
| Station maintenance, operation, and use assessments | 112 | 109 |
| State and regional mass transit taxes | 116 | 126 |
| Mortgage Recording Tax receivable | 20 | 23 |
| State and local operating assistance | 21 | 9 |
| Other subsidies | 75 | 13 |
| Connecticut Department of Transportation | 9 | 6 |
| Due from Build America Bonds | 5 | 1 |
| New York City | 54 | 20 |
| Capital project receivable from federal and state government and other | 189 | 188 |
| Other | 197 | 235 |
| Less allowance for doubtful accounts | <u>(17)</u> | <u>(17)</u> |
| Total receivables — net | <u>781</u> | <u>713</u> |
| Materials and supplies | 429 | 431 |
| Advance to defined benefit pension trust — MaBSTOA | 41 | 64 |
| Advance to defined benefit pension trust | 21 | - |
| Prepaid expenses and other current assets (Note 2) | <u>139</u> | <u>142</u> |
| Total current assets | <u>4,790</u> | <u>3,586</u> |
| NONCURRENT ASSETS: | | |
| Capital assets — net (Note 6) | 50,133 | 47,229 |
| Unrestricted investments (Note 3) | 69 | 218 |
| Restricted investments (Note 3) | 449 | 542 |
| Restricted investment held under capital lease obligations (Notes 3 and 8) | 1,038 | 1,009 |
| Receivable from New York State | 2,035 | 2,091 |
| Deferred outflows from derivative instruments | 360 | - |
| Derivative assets | 14 | - |
| Other noncurrent assets | <u>1,327</u> | <u>1,566</u> |
| Total noncurrent assets | <u>55,425</u> | <u>52,655</u> |
| TOTAL ASSETS | <u>\$ 60,215</u> | <u>\$ 56,241</u> |

See notes to consolidated financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2010 AND 2009

(\$ In millions)

| | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 351 | \$ 501 |
| Accrued expenses: | | |
| Interest | 243 | 232 |
| Salaries, wages and payroll taxes | 273 | 271 |
| Vacation and sick pay benefits | 753 | 744 |
| Current portion — retirement and death benefits | 296 | 404 |
| Current portion — estimated liability from injuries to persons (Note 9) | 255 | 228 |
| Other | <u>721</u> | <u>757</u> |
| Total accrued expenses | <u>2,541</u> | <u>2,636</u> |
| Current portion — long-term debt (Note 7) | 602 | 854 |
| Current portion — obligations under capital lease (Note 8) | 16 | 15 |
| Current portion — pollution remediation projects (Note 11) | 17 | 19 |
| Deferred revenue | <u>435</u> | <u>402</u> |
| Total current liabilities | <u>3,962</u> | <u>4,427</u> |
| NONCURRENT LIABILITIES: | | |
| Retirement and death benefits | 39 | 52 |
| Estimated liability arising from injuries to persons (Note 9) | 1,445 | 1,257 |
| Post employment benefits other than pensions (Note 5) | 4,903 | 3,733 |
| Long-term debt (Note 7) | 30,803 | 27,573 |
| Obligations under capital leases (Note 8) | 1,170 | 1,158 |
| Pollution remediation projects (Note 12) | 75 | 81 |
| Contract retainage payable | 239 | 212 |
| Derivative liabilities | 373 | - |
| Derivative liabilities-off market elements | 42 | - |
| Other long-term liabilities | <u>288</u> | <u>307</u> |
| Total noncurrent liabilities | <u>39,377</u> | <u>34,373</u> |
| Total liabilities | <u>43,339</u> | <u>38,800</u> |
| NET ASSETS: | | |
| Invested in capital assets — net of related debt | 19,264 | 18,779 |
| Restricted for debt service | 1,279 | 1,161 |
| Restricted for claims | 146 | 127 |
| Unrestricted | <u>(3,813)</u> | <u>(2,626)</u> |
| Total net assets | <u>16,876</u> | <u>17,441</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 60,215</u> | <u>\$ 56,241</u> |

See notes to 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

YEARS ENDED DECEMBER 31, 2010 AND 2009

(\$ In millions)

| | December 31, 2010 | December 31, 2009 |
|--|----------------------|----------------------|
| OPERATING REVENUES: | | |
| Fare revenue | \$ 4,586 | \$ 4,350 |
| Vehicle toll revenue | 1,417 | 1,332 |
| Rents, freight, and other revenue | <u>416</u> | <u>384</u> |
| Total operating revenues | <u>6,419</u> | <u>6,066</u> |
| OPERATING EXPENSES: | | |
| Salaries and wages | 4,611 | 4,658 |
| Retirement and other employee benefits | 1,907 | 1,894 |
| Postemployment benefits other than pensions (Note 5) | 1,529 | 1,442 |
| Traction and propulsion power | 325 | 318 |
| Fuel for buses and trains | 190 | 180 |
| Insurance | - | 9 |
| Claims | 455 | 365 |
| Paratransit service contracts | 380 | 370 |
| Maintenance and other operating contracts | 529 | 551 |
| Professional service contracts | 219 | 216 |
| Pollution remediation projects (Note 12) | 19 | 8 |
| Materials and supplies | 508 | 527 |
| Depreciation | 2,000 | 1,940 |
| Other | <u>37</u> | <u>23</u> |
| Total operating expenses | <u>12,709</u> | <u>12,501</u> |
| OPERATING LOSS | <u>(6,290)</u> | <u>(6,435)</u> |
| NON-OPERATING REVENUES (EXPENSES): | | |
| Grants, appropriations, and taxes: | | |
| Tax-supported subsidies — NYS | 2,025 | 2,089 |
| Tax-supported subsidies — NYC and local | 447 | 400 |
| Operating subsidies — NYS | 194 | 192 |
| Operating subsidies — NYC and local | 191 | 190 |
| Build America Bond subsidy | 60 | 11 |
| Mobility Tax | <u>1,662</u> | <u>872</u> |
| Total grants, appropriations, and taxes | <u>\$ 4,579</u> | <u>\$ 3,754</u> |

See notes to 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 YEARS ENDED DECEMBER 31, 2010 AND 2009

(\$ In millions)

| | December 31, 2010 | December 31, 2009 |
|--|----------------------|----------------------|
| NON-OPERATING REVENUES (EXPENSES): | | |
| Connecticut Department of Transportation and NYC | \$ 81 | \$ 89 |
| Subsidies paid to Dutchess, Orange, and Rockland Counties | (7) | (8) |
| Interest on long-term debt | (1,299) | (1,254) |
| Station maintenance, operation and use assessments | 152 | 146 |
| Operating subsidies recoverable from NYC for MTA Bus | 309 | 268 |
| Other non-operating revenue (expense) | 13 | (44) |
| Change in fair value of derivative financial instruments (Note 7) | <u>(41)</u> | <u>-</u> |
| Net non operating revenues | <u>3,787</u> | <u>2,951</u> |
| LOSS BEFORE APPROPRIATIONS | (2,503) | (3,484) |
| APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS | <u>1,938</u> | <u>2,591</u> |
| CHANGE IN NET ASSETS | (565) | (893) |
| NET ASSETS — Beginning of period | <u>17,441</u> | <u>18,334</u> |
| NET ASSETS — End of period | <u>\$ 16,876</u> | <u>\$ 17,441</u> |

See notes to consolidated financial statements.

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

(\$ In millions)

| | December 31, 2010 | December 31, 2009 |
|--|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Passenger receipts/tolls | \$ 6,218 | \$ 5,844 |
| Rents and other receipts | 306 | 273 |
| Payroll and related fringe benefits | (7,125) | (6,727) |
| Other operating expenses | <u>(2,436)</u> | <u>(2,721)</u> |
| Net cash used in operating activities | <u>(3,037)</u> | <u>(3,331)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Grants, appropriations, and taxes | 4,940 | 4,388 |
| Operating subsidies from CDOT | 77 | 77 |
| Subsidies paid to Dutchess, Orange, and Rockland counties | (8) | (11) |
| MTA revenue anticipation notes | 1,131 | - |
| MTA revenue anticipation notes redeemed | <u>(475)</u> | <u>-</u> |
| Net cash provided by noncapital financing activities | <u>5,665</u> | <u>4,454</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| MTA bond proceeds | 3,807 | 2,029 |
| MTA Bridges and Tunnels bond proceeds | 519 | 825 |
| MTA bonds refunded | (250) | - |
| TBTA bonds refunded | (299) | (248) |
| MTA anticipation notes proceeds | - | 686 |
| MTA anticipation notes redeemed | (750) | (600) |
| Capital lease receipts | 11 | - |
| Capital lease payments | (6) | (78) |
| Grants and appropriations | 2,040 | 2,373 |
| Capital expenditures | (4,868) | (5,185) |
| Debt service payments | <u>(1,981)</u> | <u>(1,569)</u> |
| Net cash used in capital and related financing activities | <u>(1,777)</u> | <u>(1,767)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of long-term securities | (4,793) | (4,971) |
| Sales or maturities of long-term securities | 3,897 | 5,249 |
| Sales of short term securities | (144) | 469 |
| Earnings on investments | <u>41</u> | <u>39</u> |
| Net cash (used in)/provided by in investing activities | <u>(999)</u> | <u>786</u> |
| NET (DECREASE)/INCREASE IN CASH | (148) | 142 |
| CASH — Beginning of period | <u>348</u> | <u>206</u> |
| CASH — End of period | <u>\$ 200</u> | <u>\$ 348</u> |

See notes to consolidated financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

(\$ In millions)

| | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Operating loss | \$ (6,290) | \$ (6,435) |
| Adjustments to reconcile to net cash used in operating activities: | | |
| Depreciation and amortization | 2,000 | 1,940 |
| Net increase in payables, accrued expenses, and other liabilities | 1,139 | 1,369 |
| Net decrease/(increase) in receivables | 99 | (162) |
| Net decrease/(increase) in materials and supplies and prepaid expenses | <u>15</u> | <u>(43)</u> |
| NET CASH USED IN OPERATING ACTIVITIES | <u>\$ (3,037)</u> | <u>\$ (3,331)</u> |

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:

At December 31, 2010 and 2009, the MTA had capital asset related liabilities of \$535 and \$677, respectively.

See notes to consolidated financial statements.

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(\$ In millions)

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 in the current year totaled \$4.6 billion.

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.

New Accounting Standards —The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. This statement amends GASB Statement No. 34, *Basic Financial Statements* -

and Management's Discussion and Analysis – for State and Local Governments, 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 completed the process of evaluating GASB Statement No. 51, and has determined that the Statement will have no impact on its financial position, results of operations, and cash flows and therefore is not applicable at this time. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

The GASB has issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments. 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. The requirements of this new Statement are effective for financial statements for periods beginning after June 15, 2009. As a result, the MTA is reporting expenses, derivative liabilities and derivative assets in the amounts of \$41, \$373 and \$14 respectively in its financial statements as of and for the year ended December 31, 2010. Also recognized in the same year are deferred outflows from derivative instruments and derivative liabilities-off market elements in amounts \$360 and \$42 respectively. The MTA does not have readily available sufficient objective and verifiable information to restate amounts for periods prior to the implementation of GASB Statement No. 53.

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*. This Statement establishes 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 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 requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 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.

Use of Management 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 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 December 31, 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 12). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations, which previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: the 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 December 31, 2010 and December 31, 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 December 31, 2010 and December 31, 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 December 31, 2010, the MTA paid to Dutchess, Orange and Rockland Counties the 2009 excess amounts of MRT-1 and MRT-2 totaling \$2.9 The 2010 excess amounts for MRT1 & MTR2 is of \$2.13 will be paid in 2011.
- 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 December 31, 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, 2010C-1 and 2010E in the amounts of \$363.9, \$607.8, \$467.7 and \$750 respectively
- TBTA General Revenue Bonds, Series 2010A-2 in the amount of \$280.4.

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 (the Student Fare Program). Beginning in 1996, the State and The City each began paying \$45 million per annum to the Authority toward the cost of the Student Fare Program. In 2009, the State reduced their \$45 million reimbursement to \$6.3 million.

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 01, 2010. In June 2010, following fare reimbursement commitments of \$25.3 million from New York State and \$45.0 million from The City, the Authority declined to proceed with the proposal to eliminate the Student Fare Program. These fare reimbursement commitments were paid to the Authority during 2010.

- 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 million and \$3.8 million in 2010 and 2009, respectively for the reimbursement of transit police costs. In addition, \$1.2 million was received in January 2011 for calendar 2010.
- 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 the City reimbursement aggregated approximately \$102.6 million in 2010 and \$85.1 million in 2009. Total paratransit expenses, including paratransit service contracts, were \$458.8 million and \$440.5 million in 2010 and 2009, respectively.

Grants and Appropriations — Grants and appropriations for capital projects are recorded when requests are submitted to the funding agencies for reimbursement of capital expenditures 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 December 31, 2010, the balance of the assets in this program was \$74.1 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, 2010, 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 December 31, 2010 and 2009 (in millions):

| | December 2010 | | December 2009 | |
|---|----------------------------|-------------------------|----------------------------|-------------------------|
| | Carrying Amount | Bank Balance | Carrying Amount | Bank Balance |
| FDIC insured or collateralized deposits | \$ 132 | \$ 145 | \$ 37 | \$ 37 |
| Uninsured and not collateralized | <u>68</u> | <u>48</u> | <u>311</u> | <u>269</u> |
| | <u>\$ 200</u> | <u>\$ 193</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 December 31, 2010 and 2009 (in millions):

| | December 2010 | December 2009 |
|---|---------------------------------|---------------------------------|
| Repurchase agreements | \$ 730 | \$ 425 |
| Commercial paper | 250 | - |
| Federal Agencies due 2010-2012 | 843 | 524 |
| U.S. Treasuries due 2010-2022 | 1,424 | 1,270 |
| Investments restricted for capital lease obligations: | | |
| US Treasury Notes | 165 | 88 |
| Short-Term Investment Fund | 77 | 76 |
| Federal Agencies | 117 | 108 |
| Other Agencies | <u>764</u> | <u>747</u> |
| Sub-total | 1,123 | 1,019 |
| Other Agencies due 2010-2030 | 135 | 194 |
| Asset & Mortgage Back Securities* | 14 | 13 |
| Commercial Mortgage Backed Securities* | 39 | 36 |
| Corporate Bonds* | 130 | 123 |
| Foreign Bonds* | 31 | 39 |
| Equities* | <u>16</u> | <u>14</u> |
| Total | <u>\$ 1,123</u> <u>\$ 4,735</u> | <u>\$ 1,019</u> <u>\$ 3,657</u> |

*These securities are only included in the FMTAC portfolio

Fair values include accrued interest to the extent that interest is included in the carrying amounts. Accrued interest on investments other than Treasury bills and coupons is included in other receivables on the balance sheet. The MTA's investment policy states that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment.

In connection with certain lease transactions described in Note 8, the MTA has purchased securities or entered into payment undertaking, letter of credit, or similar type agreements or instruments (guaranteed investment contracts) with financial institutions, which generate sufficient proceeds to make basic rent and purchase option payments under the terms of the leases. If the obligors do not perform, the MTA may have an obligation to make the related rent payments.

All investments, other than the investments restricted for capital lease obligations, are either insured or registered and held by the MTA or its agent in the MTA's name. Investments restricted for capital lease obligations are either held by MTA or its agent in the MTA's name or held by a custodian as collateral for MTA's obligation to make rent payments under capital lease obligation. Investments had weighted average yields of 0.4% and 0.7% for the years ended December 31, 2010 and December 31, 2009 respectively.

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

| | December 2010 | December 2009 |
|--|--------------------------|--------------------------|
| Construction or acquisition of capital assets | \$ 1,847 | \$ 740 |
| Funds received from affiliated agencies for investment | 331 | 245 |
| Debt service | 441 | 423 |
| Payment of claims | 457 | 422 |
| Restricted for capital leases | 1,125 | 1,084 |
| Other | <u>568</u> | <u>771</u> |
| Total | <u>\$ 4,769</u> | <u>\$3,685</u> |

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

| Quality Rating Moody's | December 31, 2010 | Percent of Portfolio | December 31, 2009 | Percent of Portfolio |
|-----------------------------------|------------------------------|---------------------------------|------------------------------|---------------------------------|
| A-1+ | \$ 849 | 21.16 % | \$ 384 | 13.04 % |
| AAA | 582 | 14.51 | 576 | 19.57 |
| AA | 44 | 1.10 | 31 | 1.05 |
| A | 87 | 2.17 | 84 | 2.85 |
| BB | 2 | 0.05 | 2 | 0.08 |
| BBB | 39 | 0.97 | 44 | 1.49 |
| Not rated | 744 | 18.54 | 379 | 12.87 |
| Government | <u>1,665</u> | <u>41.50</u> | <u>1,444</u> | <u>49.05</u> |
| Total | 4,012 | <u>100.00 %</u> | 2,944 | <u>100.00 %</u> |
| Capital leases | <u>723</u> | | <u>713</u> | |
| Total investment | <u>\$ 4,735</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 | December 2010 | | December 2009 | |
|--|------------------|-------------|------------------|-------------|
| | Fair Value | Duration | Fair Value | Duration |
| U.S. Treasuries | \$ 1,424 | 0.42 | \$ 1,270 | 0.22 |
| Federal Agencies | 843 | 0.29 | 524 | 0.34 |
| Other Agencies | 135 | 1.44 | 194 | 0.28 |
| Tax Benefits Lease Investments | 400 | 13.76 | 306 | 17.87 |
| Repurchase Agreement | 730 | - | 425 | - |
| Commercial Paper | 250 | - | - | - |
| Asset-Backed Securities ⁽¹⁾ | 14 | 2.02 | 13 | 1.77 |
| Commercial Mortgage-Backed Securities ⁽¹⁾ | 39 | 2.89 | 36 | 3.11 |
| Foreign Bonds ⁽¹⁾ | 31 | 3.64 | 39 | 5.39 |
| Corporates ⁽¹⁾ | <u>130</u> | <u>4.30</u> | <u>123</u> | <u>4.68</u> |
| Total fair value | 3,996 | | 2,930 | |
| Modified duration | | 1.84 | | 2.28 |
| Equities ⁽¹⁾ | <u>16</u> | | <u>14</u> | |
| Total | 4,012 | | 2,944 | |
| Investments with no duration reported | <u>723</u> | | <u>713</u> | |
| Total investments | <u>\$ 4,735</u> | | <u>\$ 3,657</u> | |

⁽¹⁾ These securities are only included in the FMTAC portfolio

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

- obligations of the State or the United States Government;
- obligations the principal and interest of which are guaranteed by the State or the United States government;
- obligations issued or guaranteed by certain Federal agencies;

- repurchase agreements fully collateralized by the obligations of the foregoing United States Government and Federal agencies;
- certain certificates of deposit of banks or trust companies in the State;
- certain banker's acceptances with a maturity of 90 days or less;
- certain commercial paper;
- certain municipal obligations; and
- certain mutual funds up to \$10 in the aggregate.

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, 2010 the most recent actuarial valuation date is as follows (in millions):

| | 2010 | 2009 |
|---|----------------|----------------|
| Annual required contribution (“ARC”) | \$ 107.3 | \$ 108.7 |
| Interest on net pension obligation | 3.1 | 3.2 |
| Adjustment to ARC | <u>(3.8)</u> | <u>(3.8)</u> |
| Annual pension cost | 106.6 | 108.1 |
| Actual contributions made | <u>(119.6)</u> | <u>(96.7)</u> |
| (Decrease)/increase in net pension obligation | (13.0) | 11.4 |
| Net pension obligation beginning of year | <u>51.5</u> | <u>40.1</u> |
| Net pension obligation end of year | <u>\$ 38.5</u> | <u>\$ 51.5</u> |

Three-Year Trend Information

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability “AAL” | Unfunded Actuarial Accrued Liability “UAAL” | Funded Ratio | Covered Payroll | UAAL as % of Covered Payroll |
|--------------------------------|---------------------------------|--|---|-----------------|--------------------|---------------------------------------|
| 1/1/2010 | \$503.4 | \$1,583.6 | \$1,080.2 | 31.79 % | \$ 65.2 | 1656.80 % |
| 1/1/2009 | 483.9 | 1,590.5 | 1,106.5 | 30.43 | 72.7 | 1,521.67 |
| 1/1/2008 | 537.6 | 1,560.1 | 1,022.5 | 34.46 | 80.9 | 1,263.53 |

| Year Ended | Annual Pension Cost “APC” | Annual Required Contribution “ARC” | Annual Contribution | ARC as a % of Covered Payroll | % of APC Contributed | Net Pension Obligation |
|---------------|------------------------------------|---|------------------------|--|----------------------------|------------------------------|
| 12/31/2010 | \$106.6 | \$ 107.2 | \$ 119.6 | 164.50 % | 112.17% | 38.60 % |
| 12/31/2009 | 108.1 | 108.7 | 96.7 | 149.45 | 89.44 | 51.50 |
| 12/31/2008 | 99.7 | 100.3 | 100.0 | 123.98 | 100.23 | 40.10 |

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, 2010, the most recent actuarial valuation date, the LIRR Plan was 31.8% funded. The actuarial accrued liability for benefits was \$1,583.6, and the actuarial value of assets was \$503.4, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$1,080.2. The covered payroll (annual payroll of active employees covered by the LIRR plan) was \$65.2, and the ratio of the UAAL to the covered payroll was 1,656.8%.

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, 2010 and 2009 were not changed from those used for the LIRR Plan at January 1, 2008 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, 2010 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, 2010 was 23 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. However, over several subsequent years, actuarial valuations resulted in unfunded accrued liabilities, which were paid to the Plan. The January 1, 2009, actuarial valuation resulted in an unfunded accrued liability of \$.002 and the \$.0003 annual required contribution was paid to the Plan in 2009. The January 1, 2010, actuarial valuation resulted in an unfunded accrued liability of \$.012 and the \$.012 was paid to the Plan in 2010. The market value of net assets available for benefits in the trust fund at December 31, 2010, was \$1.008, which is less than the current PBO of \$1.061 and therefore MTA Metro-North Railroad has accrued \$0.053 for this unfunded liability.

The funded status of the MNR Cash Balance Plan as of January 1, 2010, the most recent actuarial valuation date is as follows (in thousands):

| | 2010 | 2009 |
|---|------------------|------------------|
| Annual required contribution | \$ 1.8 | \$ 0.3 |
| Interest on net pension obligation | (3.2) | (3.6) |
| Adjust to annual required contribution | <u>10.1</u> | <u>10.1</u> |
| Annual pension cost | 8.7 | 6.8 |
| Actual contributions | <u>(11.9)</u> | <u>(0.3)</u> |
| (Decrease) Increase in net pension obligation | (3.2) | 6.5 |
| Net pension asset beginning of year | <u>(65.5)</u> | <u>(72.0)</u> |
| Net pension asset end of year | <u>\$ (68.7)</u> | <u>\$ (65.5)</u> |

Three-Year Trend Information

| (In thousands) | | | | | | |
|--------------------------|---------------------------|-----------------------------------|---|--------------|-----------------|------------------------------|
| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability "AAL" | Unfunded Actuarial Accrued Liability "UAAL" | Funded Ratio | Covered Payroll | UAAL as % of Covered Payroll |
| 1/1/2010 | \$ 1,074.9 | \$ 1,086.7 | \$ 11.9 | 98.91 | \$ 4,496.1 | 0.26 % |
| 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 |

| Year Ended | Annual Pension Cost "APC" | Annual Required Contribution "ARC" | Annual Contribution | ARC as a % of Covered Payroll | % of APC Contributed | Net Pension Obligation |
|------------|---------------------------|------------------------------------|---------------------|-------------------------------|----------------------|------------------------|
| 12/31/2010 | \$ 8.7 | \$ 1.8 | \$ 11.9 | 0.04 % | 136.78 % | \$ (68.7) |
| 12/31/2009 | 6.8 | 0.3 | 0.3 | 0.01 | 4.41 | (65.5) |
| 12/31/2008 | 20.0 | 14.0 | 14.0 | 0.20 | 68.73 | (72.0) |

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, 2010, the most recent actuarial valuation date, the MNR Cash Balance Plan was 98.9% funded. The actuarial accrued liability for benefits was \$1.087, and the actuarial value of assets was \$1.075, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.012. The covered payroll (annual payroll of active employees covered by the plan) was \$4.5, and the ratio of the UAAL to the covered payroll was 0.26%.

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, 2010 valuation were the projected unit credit cost method and an investment rate of return of 5.63% 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, 2010 valuation as the participants of the Plan were covered under the management Plan effective January 1, 1989. For participants of the Plan eligible for additional benefits, the additional benefits were not valued as the potential liability for this benefit is de minimus.

Manhattan and Bronx Surface Transit Operating Authority

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

Funding Policy — MaBSTOA's funding policy requires periodic employer contributions which are actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. It is MaBSTOA's policy to fund, at a minimum, the current year's normal pension cost plus amortization of the unfunded actuarial accrued liability. For employees, the Plan has both contributory and noncontributory requirements depending on the date of entry into service. Employees entering qualifying service on or before July 26, 1976 are non-contributing. Certain employees entering qualifying service on or after July 27, 1976 are required to contribute 3% of their salary and others are required to contribute 2%. Also, certain post-July 27, 1976 employees contribute 1.85% in addition to their 3% contributions, if required. Effective 2000, certain post-July 27, 1976 employees who have been members for 10 years or have 10 years of credited service are no longer required to make the 3% contributions. MaBSTOA's contribution rate is 35.9% of annual covered payroll. MTA New York City Transit's contributions to the MaBSTOA Plan for the years ended December 31, 2010, 2009 and 2008 were \$200.6, \$204.2 and \$201.9, respectively, equal to the annual required contributions for each year.

The funded status of the MaBSTOA Plan as of January 1, 2010, the most recent actuarial valuation date is as follows (in millions):

| | 2010 | 2009 |
|--|------------------|------------------|
| Annual required contribution | \$ 200.6 | \$ 204.3 |
| Interest on net pension asset | (3.4) | (3.6) |
| Adjust to annual required contribution | <u>5.1</u> | <u>5.2</u> |
| Annual pension cost | 202.3 | 205.9 |
| Actual contributions | <u>(200.6)</u> | <u>(204.2)</u> |
| Decrease in net pension asset | 1.7 | 1.7 |
| Net pension asset beginning of year | <u>(42.9)</u> | <u>(44.6)</u> |
| Net pension asset end of year | <u>\$ (41.2)</u> | <u>\$ (42.9)</u> |

Three-Year Trend Information

| | Year Ending | Annual Pension Cost (APC) (In thousands) | Percentage of APC Contributed | Net Pension Asset |
|--|------------------------|---|--|------------------------------|
| | 12/31/2010 | \$ 202.3 | 99.2 % | \$ (41.2) |
| | 12/31/2009 | 205.9 | 99.2 | (42.9) |
| | 12/31/2008 | 203.3 | 99.3 | (44.6) |

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Accrued Liability (AAL) Initial Entry Age (b) | Unfunded (AAL) (UAAL) (b-a) (In millions) | Funded Ratio (a/b) | Covered Payroll (c) | (UAAL) As a Percentage of Covered Payroll ((b-a)/c) |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 1/1/2010 | \$ 1,396.9 | \$ 2,133.9 | \$ 737.0 | 65.50 % | \$ 591.1 | 124.7 % |
| 1/1/2009 | 1,190.0 | 1,977.4 | 787.4 | 60.20 | 569.4 | 138.3 |
| 1/1/2008 | 1,190.8 | 2,045.0 | 854.1 | 58.22 | 562.2 | 151.9 |

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, 2010, the most recent actuarial valuation date, the MaBSTOA Plan was 65.5% funded. The actuarial accrued liability for benefits was \$2,133.9 and the actuarial value of assets \$1,396.9, resulting in an unfunded actuarial accrued liability (UAAL) of \$737.0. The covered payroll (annual payroll of active employees covered by the MaBSTOA Plan) was \$591.1, and the ratio of the UAAL to the covered payroll was 124.7%.

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 January 1, 2010 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:

| | Single-Employer Plans | | |
|--|---------------------------------|---------------------------------|---------------------------------|
| | LIRR | MaBSTOA | MNR Cash Balance Plan |
| Date of valuation | 1/1/2010 | 1/1/2010 | 1/1/2010 |
| Required contribution rates: | (\$ in millions) | | (\$ in thousands) |
| Plan members | | | |
| Employer: | variable actuarially determined | variable actuarially determined | variable actuarially determined |
| Employer contributions made in 2010 | \$ 119.6 | \$ 200.6 | \$ 11.9 |
| Three-year trend information: | | | |
| Annual Required Contribution | | | |
| 2010 | \$ 107.3 | \$ 200.6 | \$ 1.8 |
| 2009 | 108.7 | 204.3 | 0.3 |
| 2008 | 100.3 | 201.9 | 14.0 |
| Percentage of ARC contributed: | | | |
| 2010 | 112.0 % | 100.0 % | 661.0 % |
| 2009 | 89.0 | 100 | 100 |
| 2008 | 100 | 100 | 100 |
| Annual Pension Cost (APC): | | | |
| 2010 | \$ 106.6 | \$ 202.3 | \$ 8.7 |
| 2009 | 108.1 | 205.9 | 6.8 |
| 2008 | 99.7 | 203.3 | 20.0 |
| Net Pension Obligation (NPO) (asset) at end of year: | | | |
| 2010 | \$ 38.5 | \$ (41.2) | \$ (68.7) |
| 2009 | 51.5 | (42.9) | (65.5) |
| 2008 | 40.1 | (44.6) | (72.0) |
| Percentage of APC contributed: | | | |
| 2010 | 112 % | 99 % | 137 % |
| 2009 | 89 | 99 | 4 |
| 2008 | 100 | 99 | 69 |
| Components of APC | | | |
| Annual required contribution (ARC) | \$ 107.3 | \$ 200.6 | \$ 1.8 |
| Interest on NPO | 3.1 | (3.4) | (3.2) |
| Adjustment of ARC | <u>(3.8)</u> | <u>5.1</u> | <u>10.1</u> |
| APC | 106.6 | 202.3 | 8.7 |
| Contributions made | <u>(119.6)</u> | <u>(200.6)</u> | <u>(11.9)</u> |
| Change in NPO (asset) | (13.0) | 1.7 | (3.2) |
| NPO (asset) beginning of year | <u>51.5</u> | <u>(42.9)</u> | <u>(65.5)</u> |
| NPO (asset) end of year | <u>\$ 38.5</u> | <u>\$ (41.2)</u> | <u>\$ (68.7)</u> |

| | Single-Employer Plans | | |
|--|------------------------|---|---|
| | LIRR | MaBSTOA | MNR Cash Balance Plan |
| Actuarial project unit 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% | N/A |
| Consumer price inflation | 2.50 % | 2.50 % | 2.50 % |
| Amortization method and period | level dollar/ 23 years | level dollar/ 16 years | level dollar/ 8 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 87.8% 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, 2010, 2009 and 2008 were \$ 155.3, \$146.2, and \$107.8, 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 are required to contribute a fixed dollar amount, which varies, by depot. Currently, non-represented employees at Yonkers Depot and non-represented employees hired after June 30, 2007 at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia, and Spring Creek Depots, contribute \$21.50 per week. Non-represented employees at Eastchester hired prior to 2007 contribute \$25 per week. Represented employees at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia and Yonkers Depots contribute \$29.06 per week; Spring Creek represented employees contribute \$32.00 per week. Certain limited number of represented employees promoted prior to the resolution of a bargaining impasse continue to participate in the plan that was in effect before their promotion. Certain 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 19.5% and 18.8%, 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, 2011, 2010 and 2009 were \$563.8, \$532.8, and \$515.0, respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2010, 2009 and 2008 were \$25.5, \$24.8, and \$20.4, 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 actuarial rate of annual covered payroll for MTAHQ and MTA Long Island Bus respectively is 11.4% and 11.3%. 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, 2010, 2009 and 2008 were approximately \$7.1, \$4.1 and \$5.2, 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.

Effective December 16, 2008, the MTA Board voted to terminate the Agreement. The Defined Contribution Plan and its assets were transferred. Due to the need to receive specific transfer instructions from the individual participants, the transfers continued into 2009 and consisted of \$13.7 in payments directly to the participants, \$0.7 to MTA Defined Benefit Pension Plan for the Agreement employees who chose to participate in that plan, \$0.02 to MTA 401(k) Plan for the Agreement employees who opted not to participate in the MTA Defined Benefit Pension Plan and \$0.7 to the MTA Master Trust. The transfer deductions totaled \$15.1.

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, 2010, 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 and 2010. 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 receiving retirement benefits was 39 thousand.

The MTA is a participating employer in NYSHIP. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Service, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

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, 2010 is 19 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 most recent biennial valuation are as follows:

| | |
|----------------------------------|-------------------------------------|
| Valuation date | January 1, 2008 |
| Actuarial cost method | Frozen Initial Liability |
| Discount rate | 4.2% |
| Price inflation | 2.5% per annum, compounded annually |
| Per-Capita retiree contributions | * |
| Amortization method | Frozen Initial Liability |
| Amortization period | 19 years |
| Period closed or open | Closed |

* 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

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

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

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

| Age | TWU Local 100 GHI Medical | TWU Local 100 Pharmacy | Pre-NYSHIP Group 1 Hospital | Pre-NYSHIP Retirees Pharmacy | Pre-NYSHIP Group 2 Hospital |
|-------------------------|--|---------------------------------------|--|---|--|
| Male Employees | | | | | |
| 30–34 | 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 |
| Female Employees | | | | | |
| 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 | - | - | 12 |

Medicare HIP/Aetna HMO Elections

| | | | |
|-------|------|-------|------|
| VIP 1 | 80 % | 100 % | 75 % |
| VIP 2 | 20 | - | - |
| Aetna | - | - | 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.

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

The following table shows the elements of the MTA’s annual OPEB cost for the year, the amount actually paid, and changes in the MTA’s net OPEB obligation to the plan for the years ended December 31, 2010 and December 2009. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

| (In millions) | December 31, 2010 | December 31, 2009 |
|---|------------------------------|------------------------------|
| Annual required contribution (“ARC”) | \$ 1,764.9 | \$ 1,609.3 |
| Interest on net OPEB obligation | 156.7 | 110.8 |
| Adjustment to ARC | <u>(392.9)</u> | <u>(277.8)</u> |
| Annual OPEB cost | 1,528.7 | 1,442.3 |
| Payments made | <u>(359.0)</u> | <u>(347.5)</u> |
| Increase in net OPEB obligation | 1,169.7 | 1,094.8 |
| Net OPEB obligation — beginning of year | <u>3,733.0</u> | <u>2,638.2</u> |
| Net OPEB obligation — end of year | <u>\$ 4,902.7</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 year ended December 31, 2010 is as follows (in millions):

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost | Net OPEB Obligation |
|-----------------------|-----------------------------|---|--------------------------------|
| (In Millions) | | | |
| December 31, 2010 | \$ 1,528.7 | 23.8 % | \$ 4,902.7 |
| December 31, 2009 | 1,442.3 | 24.1 | 3,733.0 |
| December 31, 2008 | 1,668.7 | 19.2 | 2,638.2 |

The Authorities funded status of the Plan is as follows (in millions):

| Year Ended (In millions) | Valuation Date | Actuarial Value of Assets {a} | Actuarial Accrued Liability (AAL) {b} | Unfunded Actuarial Accrued Liability (UAAL) {c}={b}-{a} | Funded Ratio {a}/{c} | Covered Payroll {d} | Ratio of UAAL to Covered Payroll {c}/{d} |
|-----------------------------|-------------------|---|---|--|----------------------------|---------------------------|--|
| December 31, 2010 | January 1, 2008 | - | \$ 13,165 | \$ 13,165 | - | \$ 4,212.0 | 312.6 % |

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 December 31, 2010 (in millions):

| | Balance December 31, 2008 | Additions | Deletions | Balance December 31, 2009 | Additions | Deletions | Balance December 31, 2010 |
|--|---------------------------------|----------------|---------------|---------------------------------|----------------|-----------------|---------------------------------|
| Capital assets — not being depreciated: | | | | | | | |
| Land | \$ 152 | \$ 4 | \$ - | \$ 156 | \$ 14 | \$ - | \$ 170 |
| Construction work-in-progress | <u>5,990</u> | <u>2,679</u> | <u>775</u> | <u>7,894</u> | <u>2,966</u> | <u>1,354</u> | <u>9,506</u> |
| Total capital assets — not being depreciated | <u>6,142</u> | <u>2,683</u> | <u>775</u> | <u>8,050</u> | <u>2,980</u> | <u>1,354</u> | <u>9,676</u> |
| Capital assets, being depreciated: | | | | | | | |
| Buildings and structures | 13,705 | 760 | 1 | 14,464 | 987 | 244 | 15,207 |
| Bridges and tunnels | 1,897 | 78 | - | 1,975 | 276 | - | 2,251 |
| Equipment: | | | | | | | |
| Passenger cars and locomotives | 11,477 | 1,333 | 10 | 12,800 | 474 | 49 | 13,225 |
| Buses | 2,520 | 326 | - | 2,846 | 163 | - | 3,009 |
| Infrastructure | 14,699 | 1,000 | 16 | 15,683 | 926 | 92 | 16,517 |
| Other | <u>11,436</u> | <u>444</u> | <u>12</u> | <u>11,868</u> | <u>727</u> | <u>59</u> | <u>12,536</u> |
| Total capital assets — being depreciated | <u>55,734</u> | <u>3,941</u> | <u>39</u> | <u>59,636</u> | <u>3,553</u> | <u>444</u> | <u>62,745</u> |
| Less accumulated depreciation: | | | | | | | |
| Buildings and structures | 4,263 | 381 | - | 4,644 | 302 | 40 | 4,906 |
| Bridges and tunnels | 401 | 17 | - | 418 | 19 | - | 437 |
| Equipment: | | | | | | | |
| Passenger cars and locomotives | 3,708 | 467 | 9 | 4,166 | 428 | 1 | 4,593 |
| Buses | 1,660 | 118 | - | 1,778 | 163 | - | 1,941 |
| Infrastructure | 4,477 | 490 | 15 | 4,952 | 613 | 76 | 5,489 |
| Other | <u>4,044</u> | <u>467</u> | <u>12</u> | <u>4,499</u> | <u>475</u> | <u>52</u> | <u>4,922</u> |
| Total accumulated depreciation | <u>18,553</u> | <u>1,940</u> | <u>36</u> | <u>20,457</u> | <u>2,000</u> | <u>169</u> | <u>22,288</u> |
| Total capital assets — being depreciated — net | <u>37,181</u> | <u>2,001</u> | <u>3</u> | <u>39,179</u> | <u>1,553</u> | <u>275</u> | <u>40,457</u> |
| Capital assets — net | <u>\$43,323</u> | <u>\$4,684</u> | <u>\$ 778</u> | <u>\$47,229</u> | <u>\$4,533</u> | <u>\$ 1,629</u> | <u>\$ 50,133</u> |

Interest capitalized in conjunction with the construction of capital assets at December 31, 2010 and, December 31, 2009 was \$55.5 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 December 31, 2010 and December 31, 2009, these securities totaled \$170.9 and \$144.9, respectively, and had a market value of \$178.4 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 | December 31, 2010 |
|--|----------------------|----------------------|----------------|----------------|-------------|----------------------|
| MTA: | | | | | | |
| Transportation Revenue Bonds | | | | | | |
| 2.00%–7.13% due through 2040 | \$16,039 | \$ 11,495 | \$3,269 | \$ 491 | \$ - | \$ 14,273 |
| Revenue Anticipation Notes | | | | | | |
| 2.0% due through 2010 | - | - | 475 | 475 | - | - |
| Transportation Revenue Bond Anticipation Notes | | | | | | |
| Commercial Paper 1 | - | 750 | - | 750 | - | - |
| Transportation Revenue Bond Anticipation Notes | | | | | | |
| Commercial Paper 2 | 650 | - | 650 | - | - | 650 |
| 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 | 102 | - | 5,513 |
| Certificates of Participation | | | | | | |
| 5.30%–5.625% due through 2030 | 807 | 398 | - | 13 | - | 385 |
| | <u>\$26,478</u> | <u>19,898</u> | <u>4,897</u> | <u>1,884</u> | <u>-</u> | <u>22,911</u> |
| Less net unamortized bond discount and premium | | <u>(404)</u> | <u>40</u> | <u>86</u> | <u>-</u> | <u>(450)</u> |
| | | <u>19,494</u> | <u>4,937</u> | <u>1,970</u> | <u>-</u> | <u>22,461</u> |
| TBTA: | | | | | | |
| General Revenue Bonds | | | | | | |
| 4.00%–5.77% due through 2033 | \$ 6,259 | 6,539 | 487 | 277 | - | 6,749 |
| Subordinate Revenue Bonds | | | | | | |
| 4.00%–5.77% due through 2032 | 2,198 | 2,259 | 150 | 348 | - | 2,061 |
| | <u>\$ 8,457</u> | <u>8,798</u> | <u>637</u> | <u>625</u> | <u>-</u> | <u>8,810</u> |
| Less net unamortized bond discount and premium | | <u>135</u> | <u>22</u> | <u>23</u> | <u>-</u> | <u>134</u> |
| | | <u>8,933</u> | <u>659</u> | <u>648</u> | <u>-</u> | <u>8,944</u> |
| Total | | <u>\$ 28,427</u> | <u>\$5,596</u> | <u>\$2,618</u> | <u>\$ -</u> | <u>\$ 31,405</u> |
| Current portion | | <u>(854)</u> | | | | <u>(602)</u> |
| Long-term portion | | <u>\$ 27,573</u> | | | | <u>\$ 30,803</u> |

MTA Transportation Revenue Bonds— Prior to 2010, MTA issued twenty six 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.

On November 23, 2010, MTA issued Transportation Revenue Bonds, Series 2010D in the amount of \$754.305. The Series 2010D bonds were issued as long-term fixed rate tax-exempt bonds, with serial bonds maturing in years 2011 thru 2020 and term bonds maturing in years 2034 and 2040. Proceeds of the issuance were used to retire the Transportation Revenue Bond Anticipation Notes, Series CP-1 Credit Enhanced in advance of the December 8, 2010 expiration of the letter of credit from ABN-AMRO Bank, N.V.

On December 7, 2010, MTA affected a mandatory tender of its Transportation Revenue Variable Rate Bonds, Series 2005G. MTA converted the Series 2005G Bonds from a Daily Mode into a Fixed Rate Mode. The conversion was precipitated by the expiration of the Series 2005G letter of credit issued by BNP Paribas on December 8, 2010.

On December 21, 2010, MTA issued Transportation Revenue Bonds, Series 2010E in the amount of \$750. The Series 2010E bonds are federally taxable “Build America Bonds” and were structured with two term bonds in 2030 (make whole call and callable), and one term bond in 2040 issued as make whole call. Proceeds of the Series 2010E bonds will be used to finance existing approved transit, commuter and bus 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.

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. As of December 31, 2010, MTA has drawn \$650 of the Series CP-2.

As discussed earlier, Transportation Revenue Bonds, Series 2010D retired \$750 of Transportation Revenue Bond Anticipation Notes, Series CP-1 Credit Enhanced, in advance of the December 8, 2010 expiration of the letter of credit from ABN-AMRO Bank, N.V. supporting Series CP-1.

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

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

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 \$23,087. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the approved Capital Programs.”

Bond Refundings — From time to time, the MTA and MTA Bridges and Tunnels issue refunding bonds to achieve debt service savings or other benefits. The proceeds of refunding bonds are generally used to purchase U.S. Treasury obligations that are placed in irrevocable trusts. The principal and interest within the trusts will be used to repay the refunded debt. The trust account assets and the refunded debt are excluded from the consolidated balance sheets.

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

At December 31, 2010 and December 31, 2009, the following amounts of MTA bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

| | December 31, 2010 | 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 | 792 | 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 | <u>161</u> | <u>182</u> |
| Total | <u>\$ 5,157</u> | <u>\$ 5,995</u> |

Debt Service Payments — Principal and interest debt service payments at December 31, 2010 are as follows (in millions):

| | MTA | | MTA BRIDGES AND TUNNELS | | | | Debt Service | |
|------------|------------------|------------------|-----------------------------|----------------------------|----------------------------------|---------------------------------|------------------|------------------|
| | Principal | Interest | Senior Revenue Principal | Senior Revenue Interest | Subordinate Revenue Principal | Subordinate Revenue Interest | Principal | Interest |
| | | | | | | | | |
| | | | | (Unaudited) | | | | |
| 2011 | \$ 445 | \$ 1,055 | \$ 149 | \$ 331 | \$ 47 | \$ 99 | \$ 641 | \$ 1,485 |
| 2012 | 488 | 1,065 | 152 | 323 | 50 | 96 | 690 | 1,484 |
| 2013 | 506 | 1,043 | 159 | 316 | 51 | 94 | 716 | 1,453 |
| 2014 | 543 | 1,038 | 177 | 306 | 55 | 91 | 775 | 1,435 |
| 2015 | 570 | 1,015 | 187 | 296 | 57 | 88 | 814 | 1,399 |
| 2016-2020 | 3,273 | 4,984 | 1,075 | 1,321 | 383 | 385 | 4,731 | 6,690 |
| 2021-2025 | 4,132 | 3,674 | 1,267 | 1,039 | 376 | 274 | 5,775 | 4,987 |
| 2026-2030 | 5,459 | 2,659 | 1,654 | 708 | 446 | 148 | 7,559 | 3,515 |
| 2031-2035 | 4,401 | 1,403 | 1,304 | 340 | 446 | 16 | 6,151 | 1,759 |
| 2036-2040 | 2,410 | 515 | 775 | 84 | - | - | 3,185 | 599 |
| Thereafter | <u>34</u> | <u>6</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>34</u> | <u>6</u> |
| | <u>\$ 22,261</u> | <u>\$ 18,457</u> | <u>\$ 6,899</u> | <u>\$ 5,064</u> | <u>\$ 1,911</u> | <u>\$ 1,291</u> | <u>\$ 31,071</u> | <u>\$ 24,812</u> |

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

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

- *Transportation Revenue Bonds, Series 2005D* — 3.561% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2005E* — 3.561% per annum taking into account the interest rate swaps
- *Transportation Revenue Refunding Bonds, Series 2005G* — 4.00% per annum through the Mandatory Tender Date of December 7, 2010
- *Transportation Revenue Bonds, Series 2008B* — 4.00% per annum, after the mandatory tender date
- *Transportation Revenue Bond Anticipation Notes, Series Commercial Paper-2 Credit Enhanced*— 4.00% per annum
- *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. No payments were made during the years ended December 31, 2010 and 2009.

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

| Resolution | Series | Swap | Provider (Insurer) | Type of Type of Facility | Exp. Date |
|---|----------|------|------------------------------------|--------------------------------|------------|
| Transportation Revenue | 2002D-1 | N | West LB (Assured) | SBPA | 5/9/2012 |
| Transportation Revenue | 2002D-2 | Y | Dexia (Assured) | 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 | 11/10/2012 |
| Transportation Revenue | 2005E | Y | BNP Paribas | LOC | 10/9/2012 |
| Transportation Revenue | CP-2 (A) | N | TD Bank, N.A. | LOC | 9/12/2013 |
| Transportation Revenue | CP-2 (B) | N | Barclays Bank | LOC | 9/12/2013 |
| Transportation Revenue | CP-2 (C) | N | Royal Bank of Canada | LOC | 9/14/2012 |
| Transportation Revenue | CP-2 (D) | N | Citibank, N.A. | LOC | 9/12/2013 |
| Dedicated Tax Fund | 2002B | Y | Dexia (Assured) | SBPA | 5/7/2014 |
| Dedicated Tax Fund | 2008A | Y | Dexia (Assured) | 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 (Assured) | SBPA | 10/7/2014 |
| MTA Bridges and Tunnels Subordinate | 2000CD | Y | Lloyds TSB Bank (NY) (Assured) | 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 | JP Morgan Chase Bank, N.A. | SBPA | 9/29/2015 |
| 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 December 31, 2010

| | Bond Resolution | Series | Type of Derivative | Cash Flow or Fair Value Hedge | Effective Methodology | Trade/Entered Date | Notional Amount as of 12/31/10 (in millions) | Fair Values as of 12/31/10 (in millions) |
|-------------------------|---|--------------------|---------------------------|--------------------------------------|------------------------------|---------------------------|---|---|
| Investment Swaps | MTA Bridges & Tunnels Senior Revenue Bonds | 2005B | Basis Swaps | N/a | N/a | 6/29/2005 | \$ 197.200 | \$ (0.884) |
| | 2 Broadway Certificate of Participation | 2004A | Pay-Fixed Swaps | N/a | N/a | 8/10/2004 | 350.475 | (40.165) |
| Hedging Swaps | MTA Transportation Revenue Bonds | 2002D-2 | Pay-Fixed Swaps | Cash Flow | Regression Analysis | 7/11/2002 | 200.000 | (51.090) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2005B | Basis Swaps | Cash Flow | Regression Analysis | 6/29/2005 | 591.600 | (2.653) |
| | MTA Transportation Revenue Bonds | 2012B | Forward Starting Swaps | Cash Flow | Expected Regression Analysis | 12/12/2007 | 359.450 | (29.478) |
| | MTA Dedicated Tax Fund Bonds | 2002B | Pay-Fixed Swaps | Cash Flow | Regression Analysis | 7/19/2002 | 440.000 | (37.521) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2002F (Citi 2005B) | Pay-Fixed Swaps | Cash Flow | Regression Analysis | 6/2/2005 | 169.750 | (11.621) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2002F (old 2002C) | Pay-Fixed Swaps | Cash Flow | Regression Analysis | 2/24/1999 | 59.400 | (2.050) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2003B (CFP 2000CD) | Pay-Fixed Swaps | Cash Flow | Regression Analysis | 8/12/1998 | 50.000 | (9.980) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2003B (Citi 2005B) | Pay-Fixed Swaps | Cash Flow | Regression Analysis | 6/2/2005 | 27.450 | (1.879) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2005B | Pay-Fixed Swaps | Cash Flow | Regression Analysis | 6/2/2005 | 591.600 | (40.499) |
| | MTA Transportation Revenue Bonds | 2005D & 2005E | Pay-Fixed Swaps | Cash Flow | Regression Analysis | 9/10/2004 | 400.000 | (53.056) |
| | MTA Dedicated Tax Fund Bonds | 2008A | Pay-Fixed Swaps | Cash Flow | Regression Analysis | 3/8/2005 | 340.250 | (33.766) |
| | MTA Bridges & Tunnels Subordinate Revenue Bonds | 2000AB | Swaption | Cash Flow | Consistent Critical Terms | 8/12/1998 | 161.200 | (31.181) |
| | MTA Bridges & Tunnels Subordinate Revenue Bonds | 2000CD | Swaption | Cash Flow | Regression Analysis | 8/12/1998 | 111.200 | (22.195) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2001B | Swaption | Cash Flow | Consistent Critical Terms | 2/24/1999 | 88.700 | (16.045) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2001C | Swaption | Cash Flow | Consistent Critical Terms | 2/24/1999 | 88.800 | (16.619) |

The fair value balances and notional amounts of derivative instruments outstanding at December 31, 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 December 31, 2010 | | Notional (in millions) |
|-------------------------------|----------------------------------|-------------------------|------------------------------------|-------------------------|---------------------------|
| | Classification | Amount (in millions) | Classification | Amount (in millions) | |
| Government activities | | | | | |
| Cash Flow hedges: | | | | | |
| Pay-fixed interest rate swaps | Deferred outflow of resources | (\$241.462) | Debt | (\$241.462) | \$2,278.450 |
| Forward starting swaps | Deferred outflow of resources | (29.478) | Debt | (29.478) | 359.450 |
| Basis swaps | Deferred outflow of resources | (2.653) | Debt | (2.653) | 591.600 |
| Swaption | Deferred outflow of resources | (86.040) | Debt | (86.040) | 449.900 |
| Investment hedges: | | | | | |
| Basis swaps | Investment Expense | (\$0.884) | Debt | (\$0.884) | \$197.200 |
| Pay-fixed interest rate swaps | Investment Expense | (40.165) | Debt | (40.165) | 350.475 |

For the year ended December 31, 2010, the MTA recorded \$41 as a loss related to the change in fair market value of certain investment swaps that are not accounted for as hedging activities.

For the year ended December 31, 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.

| Bond Resolution | Series | Premuim | Date of the Swaption Contract | Premium Payment Date |
|-----------------------------------|-------------------|----------------------------|--------------------------------------|-----------------------------|
| 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 |
| Total | | <u>\$73,084,000</u> | | |

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 (December 31, 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 12/31/10 (in millions) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values as of 12/31/10 (in millions) | Swap Termination Date | Counterparty |
| Series 2002D-2 | 200.000 | 01/01/07 | 4.450 % | 69% of one-month LIBOR ⁽¹⁾ | \$ (51.090) | 11/01/32 | JPMorgan Chase, NA |
| Series 2005D and Series 2005E | 400.000 | 11/02/05 | 3.561 | 67% of one-month LIBOR ⁽¹⁾ | (53.056) | 11/01/35 | 75% – UBS AG 25% – AIG Financial Products Corp. |
| Series 2012 ⁽²⁾ | 359.450 | 11/15/12 | 3.563 | 67% of one-month LIBOR ⁽¹⁾ | (29.478) | 11/01/32 | JPMorgan Chase Bank, NA |
| Total | \$959.450 | | | | \$ (133.624) | | |

⁽¹⁾ London Interbank Offered Rate.

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

| MTA DEDICATED TAX FUND BONDS | | | | | | | |
|------------------------------|---|----------------|-----------------|---|--|-----------------------|--------------------------------------|
| Associated Bond Issue | Notional Amounts as of 12/31/10 (in millions) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values as of 12/31/10 (in millions) | Swap Termination Date | Counterparty |
| Series 2002B | \$440.000 | 09/05/02 | 4.060 % | Actual bond rate until 04/30/10, and thereafter, SIFMA ⁽³⁾ | \$ (37.521) | 09/01/13 | Morgan Stanley Capital Services Inc. |
| Series 2008A ⁽⁴⁾ | 340.250 | 03/24/05 | 3.316 | 67% of one-month LIBOR ⁽¹⁾ | (33.766) | 11/01/31 | Citigroup Financial Products Inc. |
| Total | \$780.250 | | | | \$ (71.287) | | |

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

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

| MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS | | | | | | | |
|---|---|----------------|--|--|--|-----------------------|--|
| Associated Bond Issue | Notional Amounts as of 12/31/10 (in millions) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values as of 12/31/10 (in millions) | Swap Termination Date | Counterparty |
| Series 2001B ⁽⁵⁾ | \$88.700 | 01/01/02 | 5.777% | Actual bond rate | \$ (16.045) | 01/01/19 | Citigroup Financial Products Inc. |
| Series 2001C ⁽⁵⁾ | 88.800 | 01/01/02 | 5.777 | SIFMA ⁽³⁾ minus 15 Basis points ⁽¹⁰⁾ | (16.619) | 01/01/19 | Citigroup Financial Products Inc. |
| Series 2002F ⁽⁶⁾ | 59.400 | 01/01/00 | 5.404 | Actual bond rate | (2.050) | 01/01/13 | Ambac Financial Services, L.P. |
| Series 2002F ⁽⁷⁾ | 169.750 | 07/07/05 | 3.076 | 67% of one-month LIBOR ⁽¹⁾ | (11.621) | 01/01/32 | Citibank, N.A. |
| Series 2003B ⁽⁷⁾ | 27.450 | 07/07/05 | 3.076 | 67% of one-month LIBOR ⁽¹⁾ | (1.879) | 01/01/32 | Citibank, N.A. |
| Series 2003B ⁽⁸⁾ | 50.000 | 01/01/01 | 6.070 | SIFMA ⁽³⁾ minus 15 basis points ⁽¹³⁾ | (9.980) | 01/01/19 | Citigroup Financial Products Inc. |
| Series 2005B ⁽⁷⁾ | 591.600 | 07/07/05 | 3.076 | 67% of one-month LIBOR ⁽¹⁾ | (40.499) | 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 ⁽⁹⁾ | SIFMA ⁽³⁾ minus 10 basis points | (3.537) | 01/01/12 | UBS AG |
| Total | \$1,864.500 | | | | \$ (102.230) | | |

⁽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 12/31/2010 (in millions) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values as of 12/31/2010 (in millions) | Swap Termination Date | Counterparty |
| Series 2000AB ⁽¹¹⁾ | \$161.200 | 01/01/01 | 6.080 % | Actual bond rate | \$ (31.181) | 01/01/19 | JPMorgan Chase Bank, NA |
| Series 2000CD ⁽¹²⁾ | 111.200 | 01/01/01 | 6.070 | SIFMA ⁽³⁾ minus 15 basis points ⁽¹³⁾ | (22.195) | 01/01/19 | Citigroup Financial Products Inc. |
| Total | \$272.400 | | | | \$ (53.376) | | |

(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 December 31, 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 December 31, 2010, the aggregate fair value of the swaps was (\$40.165).

Counterparty Ratings

The current ratings of the counterparties are as follows as of December 31, 2010:

| Counterparty | Ratings of the Counterparty or its Credit Support Provider | | |
|--------------------------------------|---|----------------|--------------|
| | <u>S&P</u> | <u>Moody's</u> | <u>Fitch</u> |
| AIG Financial Products Corp. | A- | A3 | BBB |
| Ambac Financial Services, L.P. | NR | 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 December 31, 2010 for the swap where the notional amount does not match the outstanding principal amount of the associated bonds.

| Associated Bond Issue | Principal Amount of Bonds (in millions) | Notional Amount (in millions) |
|---|--|--|
| 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 | \$347.670 | \$340.250 |
| 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 December 31, 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) | % of Total Notional Amount |
|--------------------------------------|-----------------------------------|-------------------------------|
| UBS AG | \$1,636,475 | 38.71% |
| JPMorgan Chase Bank, NA | 917,850 | 21.71 |
| Citigroup Financial Products Inc. | 678,950 | 16.06 |
| Morgan Stanley Capital Services Inc. | 440,000 | 10.41 |
| Citibank, N.A. | 197,200 | 4.67 |
| BNP Paribas North America, Inc. | 197,200 | 4.67 |
| AIG Financial Products Corp. | 100,000 | 2.37 |
| Ambac Financial Services, L.P. | 59,400 | 1.40 |
| Total | \$4,227,075 | 100.00% |

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

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

Under the terms of these agreements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the nondefaulting party.

The fair market value of MTA's interest rate swaps changes daily primarily as a result of capital markets changes. Factors that influence LIBOR are local interest rates, banks expectations of future rate movements, liquidity in the capital markets or changes in the value of the dollar. The relative financial health of MTA's counterparties, but do not directly impact the fair market value of the transaction.

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

The following tables set forth the ratings criteria and threshold amounts relating to the posting of collateral set forth for MTA, MTA Bridges and Tunnels or MTA New York City Transit, as the case may be, and the counterparty for each swap agreement. In most cases, the Counterparty does not have a Fitch rating on its long-term unsecured debt, so that criteria would not be applicable in determining if the Counterparty is required to post collateral.

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

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

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

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

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

| MTA Bridges and Tunnels Subordinate Revenue Bonds | | |
|---|---|--|
| Associated Bond Issue | If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to | Then the downgraded party must post collateral if its estimated termination payments are in excess of |
| Series 2000AB | N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Bear Stearns is required to post collateral if its estimated termination payments are in excess of \$1,000,000. | |
| Series 2000CD and Series 2003B ⁽¹⁾ (swap with Citigroup Financial Products Inc.) | N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of \$1,000,000. | |

(1) MTA Bridges and Tunnels Senior Lien bond.

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

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

The payments relating to debt service on the 2 Broadway swaps are parity obligations with respect to the sublease payments under the 2 Broadway Certificates of Participation, payable solely from available transportation revenues after the payment of the MTA's transportation revenue bonds and additional parity and subordinate bonds. All other payments, including the termination payments, are payable from substantially the same pool of available transportation revenues after the payment of the MTA's transportation revenue bonds and additional parity and subordinate bonds.

The ISDA Master Agreement sets forth certain termination events applicable to all swaps entered into by the parties to that ISDA Master Agreement. MTA, MTA Bridges and Tunnels and MTA New York City Transit have entered into separate ISDA Master Agreements with each counterparty that governs the terms of each swap with that counterparty, subject to individual terms negotiated in a confirmation.

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

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

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

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

| MTA Bridges and Tunnels Senior and Subordinate Revenue | |
|--|---|
| Associated Bond Issue | Additional Termination Events |
| Senior Lien Revenue Bonds | |
| Series 2001B and 2001C and Series 2002F (swap with Ambac Financial Services, L.P.) | <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 in case of the swap associated with Series 2002F only.</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. |
| Subordinate Revenue Bonds | |
| Series 2000AB and 2000CD and Series 2003B ⁽¹⁾ (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> |

⁽¹⁾MTA Bridges and Tunnels Senior Lien bond.

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

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

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

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

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

| MTA (in millions) | | | | |
|----------------------------------|---------------------|----------|-------------------------|---------|
| Year Ended/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 |

| MTA Bridges and Tunnels (in millions) | | | | |
|--|---------------------|----------|----------------------|-------|
| Year Ended/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 December 31, 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 December 31, 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 \$10.42 at December 31, 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 December 31, 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 December 31, 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 December 31, 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 subleasee, 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 2010, the MTA made rent payments of \$43. In connection with the renovation of the building and for tenant improvements, the

MTA issued \$121 and \$328 in 2000 and 1999, respectively, of certificates of participation. In 2004, it issued approximately \$358 of certificates of participation that partially refunded the two previously issued certificates. As of December 31, 2010, there was \$385 in certificates of participation outstanding. (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 \$45.4 and \$47.4 for the years ended December 31, 2010 and 2009 respectively.

At December 31, 2010, the future minimum lease payments under non-cancelable leases are as follows (in millions):

| | Operating | Capital |
|---|-----------------|-----------------|
| 2011 | \$ 48 | \$ 69 |
| 2012 | 49 | 170 |
| 2013 | 48 | 72 |
| 2014 | 50 | 77 |
| 2015 | 49 | 58 |
| 2016–2020 | 200 | 408 |
| 2021–2025 | 228 | 378 |
| 2026–2030 | 245 | 205 |
| 2031–2035 | 261 | 1,615 |
| 2036–2040 | 444 | 187 |
| Thereafter | <u>360</u> | <u>421</u> |
| | <u>\$ 1,982</u> | 3,660 |
| Amount representing interest | | <u>(2,474)</u> |
| Total present value of capital lease obligations | | <u>1,186</u> |
| Less current present value of capital lease obligations | | <u>16</u> |
| Noncurrent present value of capital lease obligations | | <u>\$ 1,170</u> |

9. FUTURE OPTION

“In 2009, MTA and LIRR entered into an Air Space Parcel Purchase and Sale Agreement (“Agreement”) with Atlantic Yards Development Company, LLC (“AADC”) pursuant to which AADC has agreed to purchase fee title to six parcels of air space above the LIRR’s Atlantic Yard in Brooklyn, New York. Initial annual payments of \$2 (covering all six parcels) commence on June 1, 2012 and are due on the following three anniversaries of that date. Starting on June 1, 2016 and continuing on each anniversary thereof through and including June 1, 2031, an annual option payment in the amount of \$11.03 is due. The Agreement provides that all such payments are (i) fully earned by MTA as of the date due in consideration of the continuing grant to Developer of the rights to purchase the air space parcels, (ii) are non-refundable and (iii) shall be deemed to be payments on account of successive annual options granted to AADC.

After AADC and its affiliates have completed the new yard and transit improvements to be constructed by them at and in the vicinity of the site, AADC has the right from time to time until June 1, 2031 to close on the purchase of any or all of the six air rights parcels. The purchase price for the six parcels is an amount, when discounted at 6.5% per annum from the date of payment that equals a present value of \$80 as of January 1, 2010. The purchase price of any particular air space parcel is equal to a net present value as of January 1, 2010 of the product of that parcel’s percentage of the total gross square footage of permissible development on all six air space parcels multiplied by \$80.

10. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2010 and December 31, 2009 is presented below (in millions):

| | December 31, 2010 | December 31, 2009 |
|--|------------------------------|------------------------------|
| Balance — beginning of period/year | \$ 1,485 | \$ 1,330 |
| Activity during the year: | | |
| Current year claims and changes in estimates | 455 | 365 |
| Claims paid | <u>(240)</u> | <u>(210)</u> |
| Balance — end of year | 1,700 | 1,485 |
| Less current portion | <u>(255)</u> | <u>(228)</u> |
| Long-term liability | <u>\$ 1,445</u> | <u>\$ 1,257</u> |

11. COMMITMENTS AND CONTINGENCIES

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

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.

12. 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 December 31, 2010, the MTA has recognized a total cost of \$19 and a pollution remediation liability of \$92.

13. FUEL HEDGE

On October 1, 2008, MTA entered into a 15-month energy hedging strategy contact 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 December 31, 2010, the contract was settled for a net amount of \$1.3 in MTA's favor.

14. OPERATING ACTIVITY INFORMATION

| (In millions) | MTA | Commuters | Transit | Bridges and Tunnels | Eliminations | Consolidated Total |
|---|---------|-----------|----------|---------------------------|--------------|-----------------------|
| December 31, 2010 | | | | | | |
| Operating revenue | \$ 300 | \$ 1,131 | \$ 3,602 | \$ 1,433 | \$ (47) | \$ 6,419 |
| Depreciation and amortization | 89 | 539 | 1,290 | 82 | - | 2,000 |
| Subsidies and grants | 3,379 | - | 2,480 | 5 | (2,325) | 3,539 |
| Tax revenue | 885 | - | 438 | - | (283) | 1,040 |
| Interagency subsidy | 429 | - | 152 | (429) | (152) | |
| Operating (deficit) surplus | (940) | (1,573) | (4,735) | 913 | 45 | (6,290) |
| Net (deficit) surplus | (56) | (1,492) | 879 | 117 | (13) | (565) |
| Payment for capital assets | 5,041 | 245 | 896 | 242 | (1,556) | 4,868 |
| December 31, 2010 | | | | | | |
| Total assets | 22,077 | 10,612 | 33,574 | 5,148 | (11,196) | 60,215 |
| Net working capital | 2,533 | 44 | (982) | (121) | (646) | 828 |
| Long-term debt — (including current portion) | 22,461 | - | - | 8,984 | (40) | 31,405 |
| Net assets | (4,888) | 9,244 | 26,699 | (4,779) | (9,400) | 16,876 |
| December 31, 2010 | | | | | | |
| Net cash (used in)/provided by operating activities | (535) | (990) | (2,594) | 1,033 | 49 | (3,037) |
| Net cash provided by/(used in) noncapital financing activities | 4,851 | 977 | 3,051 | (406) | (2,808) | 5,665 |
| Net cash (used in)/provided by capital and related financing activities | (3,529) | (12) | (280) | (634) | 2,678 | (1,777) |
| Net cash provided by/(used in) investing activities | (953) | 26 | (162) | 6 | 84 | (999) |
| Cash at beginning of year | 286 | 21 | 33 | 11 | (3) | 348 |
| Cash at end of period | 120 | 22 | 48 | 10 | - | 200 |

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

(Continued)

| (In Millions) | MTA | Commuters | Transit | Bridges and Tunnels | Eliminations | Consolidated Total |
|---|----------|-----------|----------|---------------------------|--------------|-----------------------|
| December 31, 2009 | | | | | | |
| Operating revenue | \$ 290 | \$ 1,088 | \$ 3,385 | \$ 1,346 | \$ (43) | \$ 6,066 |
| Depreciation and amortization | 74 | 555 | 1,231 | 80 | - | 1,940 |
| Subsidies and grants | 1,704 | - | 1,171 | 1 | (1,016) | 1,860 |
| Tax revenue | 1,798 | - | 463 | - | (367) | 1,894 |
| Interagency subsidy | 314 | - | 92 | (314) | (92) | - |
| Operating (deficit) surplus | (900) | (1,627) | (4,772) | 817 | 47 | (6,435) |
| Net (deficit) surplus | (221) | (1,538) | 740 | 126 | - | (893) |
| Capital expenditures | 5,564 | 307 | 856 | 377 | (1,919) | 5,185 |
| December 31, 2009 | | | | | | |
| Total assets | 10,222 | 10,521 | 31,764 | 4,798 | (1,064) | 56,241 |
| Net working capital | 1,202 | 32 | (1,085) | (610) | (380) | (841) |
| Long-term debt — (including current portion) | 19,494 | - | - | 8,974 | (41) | 28,427 |
| Net assets | (12,700) | 9,215 | 25,820 | (4,894) | - | 17,441 |
| December 31, 2009 | | | | | | |
| Net cash (used in)/provided by operating activities | (802) | (947) | (2,532) | 889 | 61 | (3,331) |
| Net cash provided by/(used in) noncapital financing activities | 2,804 | 974 | 2,254 | (323) | (1,255) | 4,454 |
| Net cash (used in)/provided by capital and related financing activities | (2,601) | (25) | (175) | (398) | 1,432 | (1,767) |
| Net cash provided by/(used in) investing activities | 725 | (6) | 452 | (169) | (216) | 786 |
| Cash at beginning of year | 160 | 25 | 34 | 12 | (25) | 206 |
| Cash at end of period | 286 | 21 | 33 | 11 | (3) | 348 |

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

(Concluded)

15. SUBSEQUENT EVENTS

- MTA continues to employ a financial hedging strategy with respect to its fuel cost exposure. On March 2, 2011, as a result of a competitive bidding process, MTA executed two separate hedges with Deutsche Bank AG: 6,329,112 gallons of ultra-low sulfur diesel (“ULSD”) at a fixed price of \$3.16/gallon and 2,829,180 of natural gas at a fixed price of \$4.2415/MMBtu. Both hedges provide for 12 monthly settlements with the ULSD hedge beginning on March 1, 2011 and terminating on February 29, 2012, and the natural gas hedge beginning on April 1, 2011 and terminating on March 31, 2012. The settlements are based on the daily prices of the respective commodities whereby MTA will either receive a payment, or make a payment to Deutsche Bank AG depending on the floating price of the commodities in relation to the contract prices.

- On March 8, 2011, as a result of a competitive bidding process, MTA executed another ULSD hedge with Deutsche Bank AG for 6,417,456 gallons of ultra-low sulfur diesel at a fixed price of \$3.1165/gallon. This hedge provides for 12 monthly settlements beginning on April 1, 2011 and terminating on March 31, 2012. The settlements mechanics are as described in the paragraph above.
- On March 23, 2011, the MTA issued \$127.450 Dedicated Tax fund Refunding Bonds., Series 2011A. Proceeds of the issuance will be used to refund Dedicated Tax Fund Bonds, Series 2001A with an aggregate par amount of \$132.08.
- Updates to the February 2011 Financial Plan
 - Reductions in State subsidies – On February 1, the State released its Executive Budget. Among the many budget-balancing actions included in that document was a reduction of approximately \$200 million in aid to the MTA. However, the State will redirect \$100 million from economic development programs to the MTA Capital Program which will allow the MTA to forgo its \$100 million in planned Pay-As-You-Go funding from the operating budget. Therefore, the net impact from these two actions was a \$100 million reduction in funding for the MTA operating budget.
 - Lower revenue and higher expenses resulting from January inclement weather – Thirty-six inches of snow fell in Central Park in January, which is four and one-half times the average January snowfall of eight inches. Included within these snowfall totals were three major snowstorms that had significant impacts on service and revenues. As a result, January revenues were lower by 3.6% at NYCT, 4.5% at the LIRR and 1.1% at MNR. Toll revenues at B&T were 2.4% lower, reflecting the impact on traffic volume. Higher expenses related to snow removal and maintenance of tracks and facilities were also experienced and, in some cases, additional shop work to repair damage to the fleet is continuing. In total, January weather had a combined unfavorable impact on MTA revenues and expenses of over \$30 million.
 - Impact on expenses from increased energy prices – Rising fuel costs will have an impact on the MTA's expenses. In January, fuel expenses were \$2 million unfavorable, and prices have remained high.
 - Favorable combined real estate taxes – On a favorable note, combined real estate tax receipts for YTD February were \$26.7 million or 33.2% favorable. Sixty percent of the favorable YTD variance is the result of the \$1.8 billion purchase of 111 Eighth Avenue by Google, which netted MTA \$15.9 million in Real Property Transfer Tax. Excluding the Google purchase, YTD real estate tax receipts would have been \$10.8 million or 13.4% favorable.

While these subsequent developments will have an adverse impact on MTA finances, the MTA has already taken actions that will mitigate most of that impact. It has already developed a new expense reduction program of close to \$100 million for 2011 that will be included in the July Financial Plan. It also continues to identify strategic areas suitable for cost reduction through consolidations, strategic sourcing, health care, worker's compensation and the non-revenue vehicle fleet, and has retained several consulting firms to support some of these efforts. The MTA is confident that with this systematic approach to identifying areas for cost reduction, additional savings beyond those included in the 2011 Budget can be achieved.

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

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULES OF PENSION FUNDING PROGRESS

(\$ in millions)

| | January 1, 2010 | January 1, 2009 | January 1, 2008 |
|--|--------------------|--------------------|--------------------|
| LIRR [1]: | | | |
| a. Actuarial value of plan assets | \$ 503.4 | \$ 483.9 | \$ 537.6 |
| b. Actuarial accrued liability (AAL) | 1,583.6 | 1,590.5 | 1,560.1 |
| c. Total unfunded AAL (UAAL) [b-a] | 1,080.2 | 1,106.5 | 1,022.5 |
| d. Funded ratio [a/b] | 31.8 % | 30.4 % | 34.5 % |
| e. Covered payroll | \$ 65.2 | \$ 72.7 | \$ 80.9 |
| f. UAAL as a percentage of covered payroll [c/e] | 1656.8 % | 1522.0 % | 1263.5 % |
| MaBSTOA [2]: | | | |
| a. Actuarial value of plan assets | \$ 1,396.9 | \$ 1,190.0 | \$ 1,190.8 |
| b. Actuarial accrued liability (AAL) | 2,133.9 | 1,977.4 | 2,045.0 |
| c. Total unfunded AAL (UAAL) [b-a] | 737.0 | 787.4 | 854.1 |
| d. Funded ratio [a/b] | 65.5 % | 60.2 % | 58.2 % |
| e. Covered payroll | \$ 591.1 | \$ 569.4 | \$ 562.2 |
| f. UAAL as a percentage of covered payroll [c/e] | 124.7 % | 138.3 % | 151.9 % |
| MNR Cash Balance Plan [3]: | | | |
| a. Actuarial value of plan assets | \$ 1.075 | \$ 1.238 | \$ 1.3 |
| b. Actuarial accrued liability (AAL) | 1.087 | 1.241 | 1.4 |
| c. Total unfunded AAL (UAAL) [b-a] | 0.012 | 0.003 | 0.1 |
| d. Funded ratio [a/b] | 98.9 % | 99.8 % | 95.4 % |
| e. Covered payroll | \$ 4.5 | \$ 5.9 | \$ 6.8 |
| f. UAAL as a percentage of covered payroll [c/e] | 0.26 % | 0.04 % | 1.0 % |

- [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
(A Component Unit of the State of New York)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS FOR THE MTA POSTEMPLOYMENT BENEFIT PLAN

(\$ in millions)

| Year Ended | Actuarial Valuation Date | Actuarial Value of Assets {a} | Actuarial Accrual Liability (AAL) {b} | Unfunded Actuarial Accrual Liability (UAAL) {c} = {b} - {a} | Funded Ratio {a} / {c} | Covered Payroll {d} | Ratio of UAAL to Covered Payroll {c} / {d} |
|-------------------|--------------------------------|--|---|--|------------------------------|---------------------------|--|
| December 31, 2010 | January 1, 2008 | \$ - | \$ 13,165 | \$ 13,165 | \$ - | \$ 4,212.0 | 312.6 % |
| 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 |

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

SUPPLEMENTARY INFORMATION
SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2010

(\$ in millions)

| | |
|--|---------------------|
| FINANCIAL PLAN ACTUAL — Operating loss | \$ (6,221.8) |
| Reconciling items: | |
| The Financial Statement was adjusted after Financial Plan closed | (53.3) |
| Projection of OPEB cost by the Financial Plan was higher than actuary cost | 3.2 |
| The Financial Plan includes TBTA capital transfer to agencies | <u>(18.4)</u> |
| FINANCIAL STATEMENT — Operating loss | <u>\$ (6,290.3)</u> |

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

SUPPLEMENTARY INFORMATION
CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

(\$ in millions)

| Category | Financial Plan Actual | Financial Statement GAAP Actual | Variance |
|-------------------------------------|--------------------------|---------------------------------------|------------------|
| REVENUE: | | | |
| Farebox revenue | \$ 4,586.4 | \$ 4,586.4 | \$ - |
| Vehicle toll revenue | 1,417.0 | 1,417.0 | - |
| Other operating revenue | <u>491.4</u> | <u>415.7</u> | <u>(75.7)</u> |
| Total revenue | <u>6,494.8</u> | <u>6,419.1</u> | <u>(75.7)</u> |
| EXPENSES: | | | |
| Labor: | | | |
| Payroll | 4,171.4 | 4,193.1 | 21.7 |
| Overtime | 443.2 | 418.4 | (24.8) |
| Health and welfare | 738.2 | 759.9 | 21.7 |
| Pensions | 1,029.7 | 1,028.6 | (1.1) |
| Other fringe benefits | 540.0 | 411.3 | (128.7) |
| Postemployment benefits | 1,522.7 | 1,528.7 | 6.0 |
| Reimbursable overhead | <u>(345.1)</u> | <u>(292.6)</u> | <u>52.5</u> |
| Total labor expenses | <u>8,100.1</u> | <u>8,047.4</u> | <u>(52.7)</u> |
| Non-labor: | | | |
| Traction and propulsion power | 325.1 | 325.1 | - |
| Fuel for buses and trains | 189.9 | 190.1 | 0.2 |
| Insurance | 9.8 | - | (9.8) |
| Claims | 285.4 | 454.3 | 168.9 |
| Paratransit service contracts | 379.8 | 379.8 | - |
| Maintenance and other | 541.7 | 528.9 | (12.8) |
| Professional service contract | 203.1 | 219.6 | 16.5 |
| Pollution remediation project costs | 18.6 | 18.6 | - |
| Materials and supplies | 511.2 | 508.8 | (2.4) |
| Other business expenses | <u>189.6</u> | <u>37.2</u> | <u>(152.4)</u> |
| | <u>2,654.2</u> | <u>2,662.4</u> | <u>8.2</u> |
| Other expenses adjustments: | | | |
| TBTA transfer | 25.0 | - | (25.0) |
| GASB general reserve | 2.3 | - | (2.3) |
| Interagency subsidy | <u>(45.7)</u> | <u>-</u> | <u>45.7</u> |
| Total other expense adjustments | <u>(18.4)</u> | <u>-</u> | <u>18.4</u> |
| Total expenses before depreciation | 10,735.9 | 10,709.8 | (26.1) |
| Depreciation | <u>1,980.7</u> | <u>1,999.6</u> | <u>18.9</u> |
| Total expenses | <u>12,716.6</u> | <u>12,709.4</u> | <u>(7.2)</u> |
| NET OPERATING SURPLUS/(DEFICIT) | <u>\$ (6,221.8)</u> | <u>\$ (6,290.3)</u> | <u>\$ (68.5)</u> |

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

SUPPLEMENTARY INFORMATION
CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

(\$ in millions)

| Accrued Subsidies | Financial Plan Actual | Financial Statement GAAP Actual | Variance | |
|---|--------------------------------------|--|-------------------|-----|
| Mass transportation operating assistance | \$ 1,314.2 | \$ 1,313.3 | \$ (0.9) | {1} |
| Petroleum business tax | 602.3 | 602.3 | - | |
| Mortgage recording tax 1 and 2 | 236.1 | 236.1 | - | |
| MRT transfer | (9.6) | (7.1) | 2.5 | {1} |
| Urban tax | 201.4 | 201.4 | - | |
| State and local operating assistance | 378.4 | 378.8 | 0.4 | {1} |
| Additional mass transportation assistance program | 5.3 | 5.6 | 0.3 | {1} |
| Nassau county subsidy to long island bus | 9.1 | 9.1 | - | |
| Station maintenance | 152.0 | 152.0 | - | |
| Connecticut department of transportation (CDOT) | 75.6 | 80.7 | 5.1 | {1} |
| Subsidy from New York City for MTA Bus | 287.5 | 309.2 | 21.7 | {1} |
| NYS Grant for debt service | - | 110.4 | 110.4 | {1} |
| Build American Bonds Subsidy | - | 59.8 | 59.8 | {2} |
| Mobility tax | 1,662.3 | 1,662.3 | - | |
| Investment income | 0.8 | 2.3 | 1.5 | {1} |
| | <u>4,915.4</u> | <u>5,116.2</u> | <u>200.8</u> | |
| Total accrued subsidies | 4,915.4 | 5,116.2 | 200.8 | |
| Net operating (deficit)/surplus excluding accrued subsidies and debt service | <u>(6,221.8)</u> | <u>(6,290.3)</u> | <u>(68.5)</u> | |
| Total net operating (deficit)/surplus | <u>\$ (1,306.4)</u> | <u>\$ (1,174.1)</u> | <u>\$ 132.3</u> | |
| Interest on long-term debt | <u>\$ -</u> | <u>\$ 1,299.1</u> | <u>\$ 1,299.1</u> | |
| Debt service | <u>\$ 1,774.1</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.