

# ***Metropolitan Transportation Authority***

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

**Independent Auditors' Report**

**Consolidated Financial Statements**

Years Ended December 31, 2005 and 2004

# METROPOLITAN TRANSPORTATION AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Board of  
Metropolitan Transportation Authority

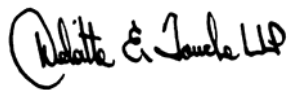
We have audited the accompanying consolidated balance sheets of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of December 31, 2005 and 2004, and the consolidated statements of revenues, expenses and changes in net assets, and consolidated cash flows 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 the consolidated financial statements based on our audits. We did not audit the financial statements of the New York City Transit Authority ("MTA New York City Transit"), Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway"), and the Metropolitan Suburban Bus Authority ("MTA Long Island Bus"), which represent 55 percent and 55 percent, and 43 percent and 45 percent, of the assets and revenues of the MTA, respectively, as of and for the years ended December 31, 2005 and 2004. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for MTA New York City Transit, MTA Staten Island Railway and MTA Long Island Bus, is based solely on the report of the other auditors.

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 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 and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the MTA, as of December 31, 2005 and 2004, and the changes in the consolidated statements of revenues, expenses and changes in net assets, and consolidated cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 18 is not a required part of the consolidated financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the MTA's management. We and the other auditors 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 audit was conducted for the purpose of forming an opinion on the MTA's consolidated basic financial statements. The schedule of pension funding progress, schedule of financial plan to financial statement reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, and the schedule of 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 schedule of pension funding progress has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic consolidated financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole. The schedule of financial plan to financial statement reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, and the schedule of subsidy accrual reconciliation between financial plan and financial statements have not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, accordingly, we express no opinion on them.

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

April 14, 2006

# METROPOLITAN TRANSPORTATION AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED DECEMBER 31, 2005 AND 2004 (Amounts in Millions)

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### 1. OVERVIEW OF THE FINANCIAL STATEMENTS

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

**Consolidated Financial Statements** include:

Consolidated Balance Sheets which provide information about the nature and amounts of investments in resources (assets) and the obligations to Metropolitan Transportation Authority (the "MTA") 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's operations during the period and can be used to determine how the MTA has funded its costs.

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

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

**Required Supplementary Information** provides information concerning the MTA's progress in funding its obligation to provide pension benefits to its employees.

**Management's Discussion and Analysis** provides a narrative overview and analysis of the financial activities of the MTA for the years ended December 31, 2005 and 2004. This management discussion and analysis is intended to serve as an introduction to the MTA's consolidated financial statements. It provides an assessment of how the MTA's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the MTA's overall financial position. It may contain opinions, assumptions, or conclusions by the MTA's management that should not be considered a replacement for, and must be read in conjunction with, the consolidated financial statements.

### 2. FINANCIAL REPORTING ENTITY

The Metropolitan Transportation Authority 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.

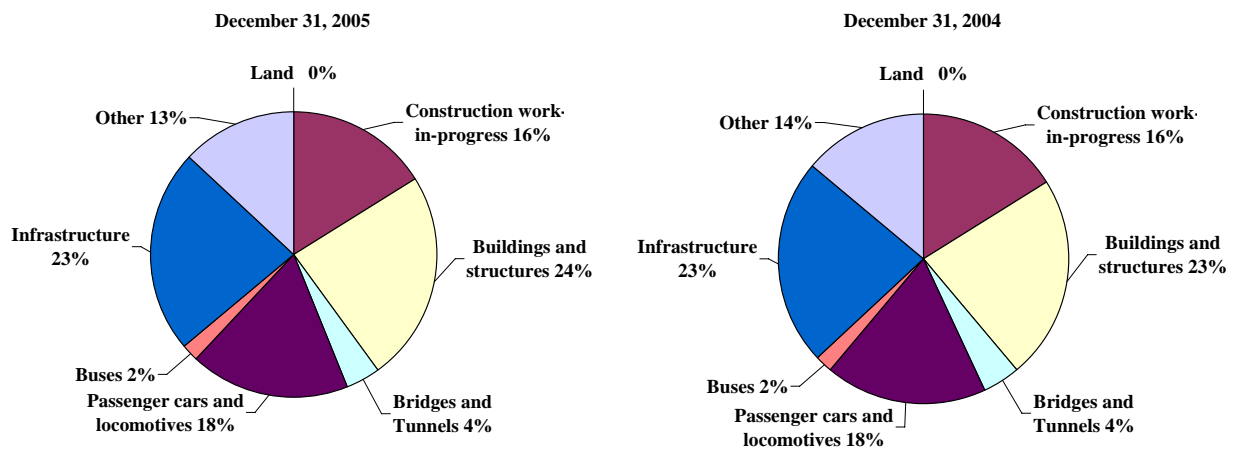
### **3. CONDENSED FINANCIAL INFORMATION**

The following sections discuss the significant changes in the MTA’s financial position for the years ended December 31, 2005 and 2004. 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’s consolidated financial statements. All dollar amounts are in millions.

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

	<b>December 2005</b>	<b>December 2004</b>	<b>December 2003</b>
Capital assets, net (see Note 5)	\$ 35,900	\$ 33,654	\$ 31,556
Other assets	<u>10,726</u>	<u>10,183</u>	<u>10,474</u>
Total assets	<u>\$ 46,626</u>	<u>\$ 43,837</u>	<u>\$ 42,030</u>

**Capital Assets, Net**



**December 31, 2005 versus 2004**

- Net capital assets increased at December 31, 2005 by \$2,246. The most significant portion of the increase occurred in buildings and structures, \$1,120, followed by infrastructure, \$813, and passenger cars and locomotives, \$632, and other, \$623. These increases were partially offset by normal depreciation expenses, the decommissioning of 196 M-1 electric passenger cars from MTA Long Island Rail Road service and the demolition of the ADA overpass in Jamaica. Some of the more significant projects contributing to the increase included:
  - Rehabilitation of the East River tunnel, including safety and ventilation improvement projects on MTA Long Island Rail Road line.
  - Rehabilitation of the Atlantic Terminal complex area.
  - Construction of a new substation in Babylon yard of MTA Long Island Rail Road contributed to the increase in both buildings and equipment. This project work will support MTA Long Island Rail Road’s future yard track re-configuration efforts while the substation supplies power through the yard tracks and the adjacent main line tracks on the Montauk Branch.
  - Placing 214 new M-7 electric cars into service on the MTA Long Island Rail Road system and 134 on the MTA Metro-North Railroad system and the incurring of additional costs for construction, testing and quality assurance oversight.

- Installation of an audio-visual paging system at the Jamaica Station and platform announcement systems for 121 stations.
- Continuation of the Jamaica Station rehabilitation and the construction of an inter-modal transportation center which links MTA Long Island Rail Road, JFK, AirTrain, and MTA New York City Transit subway and bus lines.
- Capitalization of the Stillwell Avenue reconstruction project in Coney Island and upgrade to the Police radio communication system.
- Various shop, yard and depot rehabilitations, upgrades and replacements, and road, track and infrastructure improvements throughout the systems.
- Several passenger station rehabilitations on the MTA New York City Transit subway lines.
- Rehabilitation of the tunnel walls and roadway of the Brooklyn-Battery Tunnel.
- Replacement of the deck at the Triborough and Bronx-Whitestone Bridges, including span replacement on the Bronx-Whitestone Bridge.
- Other assets had a net increase of \$543.
- The major items contributing to this change include:
  - A net increase in current and non-current investments and capital leases of \$491 due to various reasons, including an increase in agency pool funds available, but not immediately required for operating expenses, MRT receipts due to the increase in MRT funds collected by the State and remitted to the MTA, an increase in Transportation Revenue Bond proceeds due to new issuance at the end of the year, (the proceeds of which were not totally used,) proceeds available from MTA Bridges and Tunnels Bonds not totally used, an increase in the Transportation Revenue Debt Service Fund and adjustment to fair market value and income received for capital leases. These increases were partially offset by, reductions in funds from bond and non-bond sources used to fund capital expenditures and debt service payments.
  - Other current receivables and prepaid expenses had a net increase of \$19. Material and supplies increased by \$18. Other non current assets increased by \$49, offset by a reduction of \$48 in recoverables from New York State.

December 31, 2004 versus 2003

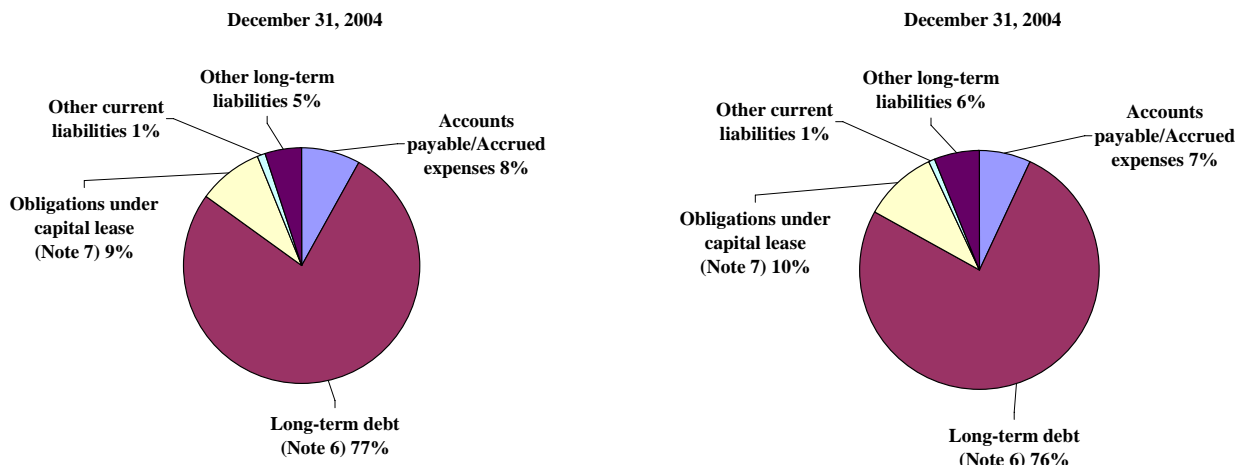
- Net capital assets increased in 2004 by \$2,098. The most significant portion of the increase occurred in infrastructure, \$892, followed by other, \$622, and passenger cars and locomotives, \$566. These increases were partially offset by normal depreciation expenses. Some of the more significant projects included:
  - Rehabilitation of track on the Main Line, Port Washington West Hempstead Branches and Atlantic Avenue Tunnel and installation of the third rail on the mainline of the MTA Long Island Rail Road.
  - Updating of the Valley Stream and Queens interlocking with a microprocessor-logic.
  - Rehabilitation of the Atlantic Terminal and construction of a new transit entry area.

- Placing new M-7 electric cars into service on both the commuter rail systems and the incurring of additional costs for construction, testing and quality assurance oversight.
- Continuation of the Jamaica Station rehabilitation and the construction of an inter-modal transportation center which links MTA Long island Rail Road, JFK, AirTrain, and MTA New York City Transit subway and bus lines.
- Acquisition of 188 new articulated CNG and hybrid buses for the MTA New York City Transit.
- Various shop, yard, and depot rehabilitations, upgrades and replacements
- Several passenger station rehabilitations on the MTA New York City Transit subway lines.
- Rehabilitation of the tunnel walls and roadway of the Brooklyn-Battery Tunnel.
- Rehabilitation of the Battery-Parking Garage.
- Replacement of the deck at the Triborough and Bronx-Whitestone Bridges, including span replacement on the Bronx-Whitestone Bridge.
- Replacement of structural steel and the repairing of the drainage system at the Throgs Neck Bridge.
- Other assets had a net decrease of \$291. The major items contributing to this change include:
  - An increase of \$320 in investments due primarily to an increase in MRT special assistance funds, various non-bond proceeds and available Dedicated Tax Fund funds.
  - A net decrease in receivables of \$212. This decrease is due primarily to receipt of the \$200 World Trade Center insurance settlement.
  - A decrease in prepaid and other current and noncurrent assets of \$399 also contributed to the decrease. A related group of the MTA changed its method of accounting for certain assets and liabilities related to its employee benefit plan in 2004.

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

	<b>December 2005</b>	<b>December 2004</b>	<b>December 2003</b>
Current liabilities	\$ 2,834	\$ 2,487	\$ 2,384
Long-term liabilities	<u>25,799</u>	<u>23,754</u>	<u>22,133</u>
Total liabilities	<u><u>\$ 28,633</u></u>	<u><u>\$ 26,241</u></u>	<u><u>\$ 24,517</u></u>

## Total Liabilities



### *Significant Changes in Liabilities Include:*

#### December 31, 2005 versus 2004

- Current liabilities increased by \$347.
- This net increase is due primarily to:
  - Accounts payable and accrued expense having a net increase of \$327. Accounts payable increased by \$157 due primarily to timing differences in invoices submitted for payment. Accrued expenses increased by a net of \$170 due primarily to an increase in retirement and death benefits of \$105 due to an increase in pension accruals for payments due in 2006 to the New York City Employees Retirement System, an increase of \$26 in vacation and sick pay benefits, an increase of \$19 in salaries, wages and payroll taxes due in part to the calculation of Retroactive Wage Adjustments for Metro-North Railroad unions that have not settled their contracts. A reduction in interest expense of \$6, an increase in the current portion of estimated liability from injuries arising to persons of \$9 and miscellaneous other of \$17 account for the remaining increase.
  - Other current liabilities had a net increase of \$20. This was due to a reduction of \$6 in the current portion of long term debt and an increase of \$26 for deferred revenue due to an increase in the value of unused MetroCards.
- Non-current liabilities increased by \$2,045. This net increase is primarily related to:
  - The net increase of \$2,044 in Long Term Debt – MTA is authorized to issue bonds to refund outstanding bonds and to finance transit and commuter capital projects. MTA Bridges and Tunnels is authorized to issue bonds to finance its own bridge and tunnel capital projects and/or transit and commuter capital projects and to refund outstanding bonds. During 2005, MTA and MTA Bridges and Tunnels issued the following bonds to finance transit and commuter capital projects, refund certain outstanding Bonds and to finance MTA Bridges and Tunnels' projects:
    - \$350 MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A
    - \$650 MTA Transportation Revenue Bonds, Series 2005A
    - \$750 MTA Transportation Revenue Bonds, Series 2005B

- \$150 MTA Transportation Revenue Bonds, Series 2005C
- \$250 MTA Transportation Revenue Variable Rate Bonds, Series 2005D
- \$250 MTA Transportation Revenue Variable Rate Bonds, Series 2005E
- \$469 MTA Transportation Revenue Bonds, Series 2005F
- \$250 MTA Transportation Revenue Variable Rate Bonds, Series 2005G
- \$173 MTA Transportation Revenue Refunding Bonds, Series 2005H
- \$150 MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A
- \$800 MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B

December 31, 2004 versus 2003

- Total liabilities increased by \$1,724.
- Other liabilities increased by \$103. This net increase is due primarily to:
  - An increase in the current portion of retirement and death benefits of \$58 and the current portion of long-term debt of \$98 which is partially offset by reductions in accounts payable of \$176 and other miscellaneous increases of \$123.
- Long-term liabilities increased by \$1,621. This net increase is primarily related to:
  - The increase of \$1,896 for Long Term Debt – MTA is authorized to issue bonds to refund outstanding bonds and to finance transit and commuter capital projects. MTA Bridges and Tunnels is authorized to issue bonds to finance its own bridge and tunnel capital projects and/or transit and commuter capital projects and to refund outstanding bonds. During 2004, MTA and MTA Bridges and Tunnels issued the following bonds to refund outstanding bonds, and to finance transit and commuter capital projects:
    - \$250 MTA Dedicated Tax Fund Bonds, Series 2004A
    - \$500 MTA Dedicated Tax Fund Variable Rate Bonds, Series 2004B
    - \$120 MTA Dedicated Tax Fund Bonds, Series 2004C
    - \$280 MTA Dedicated Tax Fund Variable Rate Bonds, Series 2004D
    - \$500 MTA Transportation Revenue Bonds, Series 2004A
    - \$250 MTA Bridges & Tunnels Subordinate Revenue Variable Rate Bonds, Series 2004A
  - An increase of \$56 in the long-term portion of estimated liabilities arising from injuries to persons.

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

	<b>December 2005</b>	<b>December 2004</b>	<b>December 2003</b>
Invested in capital assets, net of related debt	\$ 14,044	\$ 13,678	\$ 13,671
Restricted for debt service	1,069	828	2,130
Unrestricted	<u>2,880</u>	<u>3,090</u>	<u>1,712</u>
Total	<u>\$ 17,993</u>	<u>\$ 17,596</u>	<u>\$ 17,513</u>

December 31, 2005 versus 2004

At December 31, 2005, the total net assets increased by \$397 from December 31, 2004. This increase includes net non-operating revenues of \$2,901, and appropriations, grants and other receipts externally restricted for capital projects of \$1,050, partially offset by operating losses of \$3,554.

Capital assets net of related debt increased by \$366.

Funds restricted for debt service increased by \$241 due to the issuance of new bonds.

December 31, 2004 versus 2003

At December 31, 2004, the total net assets increased by \$83 from December 31, 2003. This increase includes non-operating revenue of \$2,498, and appropriations, grants and other receipts externally restricted for capital projects of \$761, offset by operating losses of \$3,176.

Capital assets net of related debt increased by \$7.

Funds restricted for debt service decreased by \$1,302 mainly due to the payment of debt service on January 1, 2004 for MTA Bridges and Tunnels bonds and the payments made on May 15 and November 15, 2004 for the Transportation Revenues Bonds and Dedicated Tax bonds.

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

	December 2005	December 2004	December 2003
Operating Revenues			
Passenger and tolls	\$ 4,811	\$ 4,521	\$ 4,228
Other	<u>387</u>	<u>316</u>	<u>316</u>
Total operating revenues	<u>5,198</u>	<u>4,837</u>	<u>4,544</u>
Nonoperating Revenues			
Grants, appropriations and taxes	3,466	2,847	2,394
Other	<u>464</u>	<u>513</u>	<u>723</u>
Total nonoperating revenues	<u>3,930</u>	<u>3,360</u>	<u>3,117</u>
<b>Total Revenues</b>	<u>9,128</u>	<u>8,197</u>	<u>7,661</u>
Operating Expenses			
Salaries and wages	3,819	3,645	3,548
Retirement and other employee benefits	1,618	1,403	1,185
Depreciation and amortization	1,474	1,344	1,235
Other expenses	<u>1,841</u>	<u>1,621</u>	<u>1,614</u>
Total operating expense	<u>8,752</u>	<u>8,013</u>	<u>7,582</u>
Nonoperating Expense			
Interest on long-term debt	984	819	780
Other nonoperating expense	<u>45</u>	<u>43</u>	<u>70</u>
Total nonoperating expense	<u>1,029</u>	<u>862</u>	<u>850</u>
<b>Total Expenses</b>	<u>9,781</u>	<u>8,875</u>	<u>8,432</u>
Appropriations, grants and other receipts externally restricted for capital projects	<u>1,050</u>	<u>761</u>	<u>1,422</u>
Change in net assets	397	83	651
Net assets, beginning of period	<u>17,596</u>	<u>17,513</u>	<u>16,862</u>
Net assets, end of period	<u>\$ 17,993</u>	<u>\$ 17,596</u>	<u>\$ 17,513</u>

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

### December 31, 2005 versus 2004

- Total operating revenues for the year ended December 31, 2005 were \$361 higher than in the year ended December 31, 2004.
  - Fare revenues and vehicle toll revenues were higher than in the prior year due to the fare adjustment implemented for 30-day and 7-day Unlimited Ride MetroCards, and the express bus fare increases that went into effect on February 27, 2005; the commuter rail fares that went into effect on March 1, 2005; and the increased bridge and tunnel crossing charge schedule that went into effect on March 13, 2005. In addition, revenues of \$45 from the MTA Bus Company that went into operation in 2005 are included for the first time. Revenues that could have been realized from the adjusted MTA New York City Transit fares were reduced by the effect of the holiday bonus fare program and the effect of the three day strike in December 2005.
- Total operating expenses for the year ended December 31, 2005 were higher than the year ended December 31, 2004 by \$739.
  - Labor costs, including retirement and other employee benefits, were higher by approximately \$389. Contractual increases are the primary reason for the \$174 labor cost increases in addition to increased overtime due to service disruptions on the transit system, track and platform clearance during the winter snows, and a reduction in capital project reimbursable work at MTA Long Island Rail Road due to a delay in approval of funding for the 2005 – 2009 Capital Program. Included for the first time are the labor and employee benefit costs of the MTA Bus Company which total \$96. Rate increases have resulted in higher cost for health, welfare, pension and other benefit programs.
  - Non-labor operating costs were higher by approximately \$350. Cost elements contributing to this increase were depreciation resulting in part from new capital assets being placed into service, \$130, traction and propulsion power, and fuel expense increases of \$98 are due primarily to New York Power Authority rate increases and higher fuel costs. Maintenance and other operating contracts increased by \$52 primarily from higher facility power rate increases, real estate rentals and increased heating fuel costs and major maintenance and bridge painting expense. Paratransit Service Contract cost increased \$23 primarily due to increased trip volume.
- Total grants, appropriations and taxes were higher by approximately \$619 for the year ended December 31, 2005 compared to the year ended December 31, 2004. The major components of the increase are Tax supported subsidies-NYS and Tax supported subsidies-NYC and local. The increase in tax supported subsidies from New York State is due primarily to an increase in the appropriation of Metropolitan Mass Transportation Operating Assistance in 2005 over 2004 of \$231 (primarily due to increasing the regional sales tax from .25 of 1 percent to .375 of 1 percent effective June 1, 2005). The increase in tax supported subsidies, NYC and local is primarily due to an increase in the urban tax of \$268 and an increase in the Mortgage Recording Tax 2 of \$91. In addition Mortgage Recording Tax 1 was increased from 25 cents per \$100 of mortgage recorded to 30 cents per \$100 of mortgage recorded effective June 1, 2005. Operating subsidies-NYS contributed a net of \$24 to the increase.

#### December 31, 2004 versus 2003

- Total operating revenues for the twelve months ended December 31, 2004 were \$293 higher than in the twelve months ended December 31, 2003.
  - Fare revenues and vehicle toll revenues were higher than the prior year due primarily to the full-year impact of the fare and toll increases that became effective in May 2003. Also impacting revenues were ridership and vehicle bridge and tunnel crossings, which showed a modest increase as the New York City economy continued to improve.
- Total operating expenses for the twelve months ended December 31, 2004 were higher than December 31, 2003 by \$431.
  - Labor costs, including retirement and other employee benefits, were higher by approximately \$315 for the twelve months ended December 31, 2004 when compared to the twelve months ended December 31, 2003. The labor cost increase is due primarily to a 3 percent salary increase approved in 2004 and to higher pension, health and welfare cost..
  - Non-labor costs were higher by approximately \$116 for the twelve months ended December 31, 2004 when compared to the twelve months ended December 31, 2003. Cost elements contributing to this increase were depreciation resulting from new capital assets being placed into service, maintenance and other operating contracts and fuel and power expense. These higher costs were partially offset by lower costs in materials and supplies, claims, and professional service contracts.
  - Total grants, appropriations, and taxes were higher by approximately \$453 for the twelve months ended December 31, 2004 compared to the twelve months ended December 31, 2003. This is predominantly the result of the NYS budget being approved in August 2004 with increases in NYS and Local operating subsidies and an increase in tax supported subsidies.

#### **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 2005, system-wide utilization posted a modest increase, with MTA ridership .95 percent higher (22.4 million more trips) compared with ridership through December 2004. Vehicle crossings at MTA Bridges and Tunnels facilities were 1 percent lower (3.1 million fewer crossings) through December 2005 when compared to the same period in 2004. Vehicle traffic decreased (3.2 percent) during the last quarter of 2005 compared to the last quarter of 2004.

In December 2004, the MTA Board adopted a strategy to begin the process of placing MTA back on sound financial footing in the years to come. The gap closing measures approved include: implementation of agency expense reductions which maintain fundamental service levels, the implementation of fare and toll increases, and the establishment of a stabilization account to offset a potential decline in real estate related tax subsidies. Fares on MTA New York City Transit subways and buses, MTA Staten Island Railway and MTA Long Island Bus increased on February 27, 2005,

fares on MTA Long Island Rail Road and MTA Metro-North Railroad increased on March 1, 2005, and tolls at MTA Bridges and Tunnels facilities increased on March 13, 2005.

Beginning with Thanksgiving 2005, the MTA Board approved a Holiday Fare Program that provided a range of discounts and free trips on MTA services. The benefits of these promotional fare initiatives are: it provides environmental benefits by encouraging use of mass transit for traveling in and around the metropolitan region during the holiday season – one of the most heavily traffic congested periods of the year; it enables MTA customers who are confronting record high gas and heating fuel prices to realize additional savings through increased use of mass transit; and it contributes to the economic health of the region by incentivizing the use of mass transit for discretionary trips for shopping and entertainment. The financial impact from this program is still being evaluated.

Commencing on December 20, 2005 and lasting through December 22, 2005, a union strike against MTA New York City Transit, MaBSTOA and MTA Bus resulted in a complete suspension of subway, local bus and express bus service operated by those agencies. Including residual impacts on the day following the strike, it is estimated that 23 million fewer subway and bus trips were taken because of the shut-down.

Between January 2005 and December 2005, New York City added almost 30,000 new jobs compared to 2004. The regional recovery continued to gain strength, benefiting from the current economic expansion, the rebuilding of the downtown infrastructure and the economic stimulus provided through the MTA's multi-billion-dollar capital programs which create an annual average of 21,000 private sector jobs, \$1,100 in wages, \$100 in state and local revenues and \$2,500 in economic activity.

The recoveries of the national and regional economies have resulted in a more inflationary climate. The consumer price index in the New York metropolitan area increased 3.9 percent in 2005, the largest increase since 1991. The rising cost of energy in the aftermath of the Gulf Coast hurricanes had a tremendous impact on the consumer price index: the energy component of the index increased 18.1 percent in 2005, while the consumer price index excluding energy increased only 3.0 percent in 2005. The consumer price index excluding energy increased 2.6 percent in December 2005 compared to December 2004. The New York Harbor spot price for conventional gasoline averaged \$1.57 per gallon in 2005, an increase of 33.1 percent over the 2004 average spot price. The average spot price in December 2005 was \$1.60 per gallon, an increase of 50 percent over the same period in 2004.

Low mortgage rates have lifted the housing boom to a new level, increasing the forecast for real estate transaction tax revenues by \$365 in 2005. For over a year, economists have been predicting that mortgage rates will increase. While mortgage rates have increased to date, the rate of increase had little adverse impact on real estate activity. Breaking from historical precedent, consumer interest rates have only increased slightly over the past year, while the Federal Funds Rate has increased.

As the national economy has emerged from recession, the Federal Reserve Board has adjusted its monetary policies in an effort to keep inflation under control. Since the end of June 2004, through December 2005, the Federal Reserve Board has raised the Federal Funds Rate by one-quarter point on each of thirteen occasions. Five of the thirteen rate increases occurred during 2004, and eight have occurred in 2005. The last 2005 Federal Funds Rate increase occurred on December 13, when the Fed's increased the rate from 4.00 percent to 4.25 percent. Since June 2003, the Federal Funds Rate increased from a 46 year low of 1.00 percent in June 2003 to 4.25 percent by the end of 2005, its highest level since April 2001. Despite these increases, 30-year conforming fixed-rate mortgage

rates increased only modestly during the fourth quarter of 2005, fluctuating in a narrow band in the low to mid six percent range.

**Results of Operations** – Paid MTA Bridges and Tunnels traffic reached 300.3 million vehicles, which is 2.6 million vehicles or .9 percent less than 2004's traffic volume. This decline can be attributed in part to one day less (no leap year day) and consumer fears regarding fuel prices in early September following hurricane Katrina and severe rainfall in October also contributed to the reduced traffic volume. The E-ZPass electronic collection system continued to facilitate the management of heavy traffic volumes. On an average weekday in 2005, 73.8 percent of all MTA Bridges and Tunnels traffic used E-ZPass compared to 72.5 percent in 2004.

MTA New York City Transit's fare revenues in 2005 were higher than in 2004 by \$73 or 2.8 percent. A major contributing factor to the revenue increases were the fare adjustments implemented on February 27, 2005 which raised the price of 7 day and 30 day passes and the express bus fare. Total ridership was 2,190 million, an increase of .09 percent over 2004. The ridership growth can be attributed to an improving City economy and higher tourism also contributed to the fare revenue increase. MTA New York City Transit's revenues would have been significantly higher if the three day strike in December had not occurred and the holiday fare bonus program had not been offered.

MTA Long Island Rail Road ridership for 2005 was 80.1 million, an increase of .9 percent over 2004. Total revenues increased by approximately \$31.5 or 8.0 percent. This increase is attributed, in large part to the fare increase that went into effect on March 1, 2005 as well as an improving economy and rising gasoline prices.

MTA Metro-North Railroad ridership increased on the East of Hudson (Harlem, Hudson and New Haven) Lines during 2005 by 3.7 percent over 2004. This ridership growth reflects the arrival of the new M-7 cars, marketing, service expansion initiatives, including new late night service, and the improved regional economy. A fare increase on travel that begins or ends in the State of Connecticut was effective as of January 1, 2005. A fare increase on travel in New York State took effect on March 1, 2005.

The MTA receives the equivalent of four quarters of Metropolitan Mass Transportation Operating Assistance receipts each year, with the State advancing the first quarter of each succeeding calendar year's receipts into 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. 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 have generally exceeded expectations due primarily to the high level of home buying and refinancings caused by historically low interest rates. Due to, among other things, the Federal Reserve Bank's continuation of its interest rate increases and the adverse consequences those actions are expected to have on the level of activity in the real estate market, the MTA does not expect that its collection of mortgage recording taxes will continue at the current levels.

**Capital Programs-** Capital programs covering the years 2005-2009 have been approved by the MTA Board 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 Bridges and Tunnels Board. The 2005–2009 Commuter Capital Program and the 2005–2009 Transit Capital program (collectively, the “2005–2009 MTA Capital Programs”) have been approved by the Metropolitan Transportation Authority Capital Program Review Board (the “CPRB”).

The MTA Board approved the 2005–2009 MTA Capital Programs and the MTA Bridges and Tunnels 2005-2009 Capital Program through December 31, 2005, which provides for \$21,145 in capital expenditures, of which \$11,300 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, \$3,558 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad, \$4,465 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction, \$495 relates to a multi-faceted security program, \$159 relates to MTA interagency initiatives including MTA Police Department plus an MTA-wide integrated computer systems initiative, and \$1,168 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities.

The combined funding sources for the approved 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program include \$9,317 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, \$6,588 in Federal funds, and \$3,790 from other sources.

Capital programs covering the years 2000–2004 have been approved by the MTA Board for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (“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 (“2000–2004 Transit Capital Program”), and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (“2000–2004 MTA Bridges and Tunnels Capital Program”). The 2000–2004 MTA Bridges and Tunnels Capital Program was effective upon adoption by the MTA Bridges and Tunnels Board. The 2000–2004 Commuter Capital Program and the 2000–2004 Transit Capital program (collectively, the “2000–2004 MTA Capital Programs”) have been approved by the CPRB.

The CPRB approved the 2000–2004 MTA Capital Programs and the 2000–2004 MTA Bridges and Tunnels Capital Program through December 31, 2005, which provides for \$20,894 in capital expenditures, of which \$10,227 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, \$3,894 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad, \$4,532 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction, \$490 relates to planning and design and customer service projects, \$249 relates to World Trade Center repair projects, \$1,035 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities, and \$467 relates to MTA Bus.

The combined funding sources for the approved 2000–2004 MTA Capital Programs and the 2000–2004 MTA Bridges and Tunnels Capital Program include \$7,919 in bonds, \$6,482 in Federal funds, \$4,575 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002 and \$1,918 from other sources.

## 5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

***Increase in Subsidies*** - Effective June 1, 2005, (1) the MTA's portion of the regional sales tax in the commuter transportation district was increased from .25 of 1 percent to .375 of 1 percent and (2) the MRT-1 portion of the MTA's mortgage recording taxes was increased from 25 cents per 100 dollars of recorded mortgage to 30 cents per 100 dollars of recorded mortgage.

***Creation of MTA Bus Company*** - MTA Bus was created as a public benefit corporation subsidiary of MTA in 2004 specifically to operate certain City bus routes. At its meeting in December 2004, the MTA Board approved a letter agreement with the City of New York (the "City") with respect to MTA Bus' establishment and operation of certain bus routes (the "City Bus Routes") in areas then served by private bus operators in Manhattan, the Bronx, Queens and Brooklyn pursuant to franchises granted by the City. The letter agreement with the City provides for the following:

- A lease by the City to MTA Bus of the bus assets to operate the City Bus Routes.
- The City agrees to pay MTA Bus the difference between the actual cost of operation of the City Bus Routes (other than certain capital costs) and all revenues and subsidies received by MTA Bus and allocable to the operation of the City Bus Routes. The letter agreement permits the parties after a period of 18 months to negotiate an agreement to establish a formula-based approach for the payment of the City subsidy.
- If the City fails to timely pay any of the subsidy amounts due for a period of 30 days, MTA Bus has the right, after an additional 10 days, to curtail, suspend or eliminate service and may elect to terminate the agreement. The City can terminate the agreement on one year's notice.

MTA Bus completed its consolidation of the various bus routes of the seven original companies during the first quarter of 2006.

***Additional Bond Issues During 2005*** – During 2005, MTA and MTA Bridges and Tunnels issued the following series of bonds:

- On February 15, 2005, the MTA issued MTA Transportation Revenue Bonds, Series 2005A in the amount of \$650. These bonds were issued to finance transit and commuter projects.
- On March 24, 2005, the MTA issued MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A in the amount of \$350. These bonds were issued to refund and defease outstanding dedicated tax fund bonds.
- On May 11, 2005, MTA Bridges and Tunnels issued MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A in the amount of \$150. These bonds were issued to finance MTA Bridges and Tunnels' bridge and tunnel projects.
- On July 1, 2005, the MTA issued MTA Transportation Revenue Bonds, Series 2005B in the amount of \$750. These bonds were issued to finance transit and commuter projects.
- On July 7, 2005, MTA Bridges and Tunnels issued MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005B in the amount of \$800. These bonds were issued to refund certain outstanding MTA Bridges and Tunnels bonds and to finance MTA Bridges and Tunnels' bridge and tunnel projects.

- On November 2, 2005, the MTA issued MTA Transportation Revenue Bonds, Series 2005C in the amount of \$150, MTA Transportation Revenue Variable Rate Bonds, Series 2005D in the amount of \$250, and MTA Transportation Revenue Variable Rate Bonds, Series 2005E in the amount of \$250. These bonds were issued to finance transit and commuter projects.
- On December 6, 2005, the MTA issued MTA Transportation Revenue Bonds, Series 2005F in the amount of \$469 and MTA Transportation Revenue Variable Rate Bonds, Series 2005G in the amount of \$250. These bonds were issued to pay the principal portion of MTA's outstanding commercial paper program.
- On December 6, 2005, the MTA issued MTA Transportation Revenue Refunding Bonds, Series 2005H in the amount of \$173. These bonds were issued to refund certain outstanding MTA bonds.

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**METROPOLITAN TRANSPORTATION AUTHORITY**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2005 AND 2004**  
**(Dollars in Millions)**

	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash (Note 3)	\$ 138	\$ 124
Investments (Note 3)	<u>1,561</u>	<u>1,495</u>
Receivables:		
Station maintenance, operation and use assessments	98	94
State and regional mass transit taxes	52	46
MRT receivable	63	51
State and local operating assistance	8	8
Other subsidies	35	29
Connecticut Department of Transportation	19	19
New York City	26	27
Other	328	256
Less allowance for doubtful accounts	<u>(47)</u>	<u>(34)</u>
Total receivables - net	582	496
Materials and supplies	292	274
Prepaid expenses and other current assets (Notes 2 and 4)	<u>90</u>	<u>157</u>
Total current assets	<u>2,663</u>	<u>2,546</u>
<b>NONCURRENT ASSETS:</b>		
Capital assets - net (Note 5)	35,900	33,654
Restricted investment held under capital lease obligations (Note 3 and 7)	2,505	2,479
Investments (Note 3)	2,196	1,797
Receivable from New York State	2,294	2,342
Other noncurrent assets	<u>1,068</u>	<u>1,019</u>
Total noncurrent assets	<u>43,963</u>	<u>41,291</u>
<b>TOTAL ASSETS</b>	<u>\$ 46,626</u>	<u>\$ 43,837</u>

(continued)

See notes to consolidated financial statements.

# METROPOLITAN TRANSPORTATION AUTHORITY

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

(Dollars in Millions)

	2005	2004
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 431	\$ 274
Accrued expenses:		
Interest	191	197
Salaries, wages and payroll taxes	174	155
Vacation and sick pay benefits	607	581
Current portion - retirement and death benefits	207	102
Current portion - estimated liability from injuries to persons (Note 8)	191	182
Other	<u>396</u>	<u>379</u>
Total accrued expenses	1,766	1,596
Current portion - long-term debt (Note 6)	306	312
Current portion - obligations under capital lease (Note 7)	7	7
Deferred revenue	<u>324</u>	<u>298</u>
Total current liabilities	<u>2,834</u>	<u>2,487</u>
<b>NONCURRENT LIABILITIES:</b>		
Retirement and death benefits (Note 4)	60	59
Estimated liability arising from injuries to persons (Note 8)	983	945
Long-term debt (Note 6)	21,653	19,609
Obligations under capital lease (Note 7)	2,642	2,634
Contract retainage payable	216	206
Other long-term liabilities	<u>245</u>	<u>301</u>
Total noncurrent liabilities	<u>25,799</u>	<u>23,754</u>
Total liabilities	<u>28,633</u>	<u>26,241</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	14,044	13,678
Restricted for debt service	1,069	828
Unrestricted	<u>2,880</u>	<u>3,090</u>
Total net assets	<u>17,993</u>	<u>17,596</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 46,626</u>	<u>\$ 43,837</u>

(Concluded)

See notes to consolidated financial statements.

# METROPOLITAN TRANSPORTATION AUTHORITY

## CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2005 AND 2004 (Dollars in Millions)

	2005	2004
OPERATING REVENUES		
Fare revenue	\$ 3,606	3,424
Vehicle toll revenue	1,205	1,097
Rents, freight, and other revenue	<u>387</u>	<u>316</u>
Total operating revenues	<u>5,198</u>	<u>4,837</u>
OPERATING EXPENSES:		
Salaries and wages	3,819	3,645
Retirement and other employee benefits	1,618	1,403
Traction and propulsion power	253	203
Fuel for buses and trains	143	95
Insurance	67	66
Claims	90	133
Paratransit service contracts	158	135
Maintenance and other operating contracts	460	408
Professional service contracts	227	180
Materials and supplies	405	370
Depreciation	1,474	1,344
Other	<u>38</u>	<u>31</u>
Total operating expenses	<u>8,752</u>	<u>8,013</u>
OPERATING LOSS	<u>(3,554)</u>	<u>(3,176)</u>
NON OPERATING REVENUES (EXPENSES)		
Grants, appropriations and taxes:		
Tax supported subsidies-NYS	1,665	1,442
Tax supported subsidies-NYC and local	1,383	1,011
Operating subsidies - NYS	230	206
Operating subsidies - NYC and local	<u>188</u>	<u>188</u>
Total grants, appropriations and taxes	<u>3,466</u>	<u>2,847</u>

(Continued)

See notes to consolidated financial statements.

# METROPOLITAN TRANSPORTATION AUTHORITY

## CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2005 AND 2004 (Dollars in Millions)

	2005	2004
Operating subsidies recoverable from Connecticut Department of Transportation related to New Haven Line	\$ 44	\$ 52
Subsidies paid to Dutchess, Orange and Rockland Counties	(23)	(22)
Suburban Highway Transportation Fund subsidy	(20)	(20)
Interest on long-term debt	(984)	(819)
Station maintenance, operation and use assessments	134	129
Loss on disposal of subway cars	(2)	(1)
Unrealized gain on investment	7	15
Other nonoperating revenue	<u>279</u>	<u>317</u>
Net non operating revenues	<u>2,901</u>	<u>2,498</u>
LOSS BEFORE APPROPRIATIONS	(653)	(678)
APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>1,050</u>	<u>761</u>
CHANGE IN NET ASSETS	397	83
NET ASSETS, BEGINNING OF YEAR	<u>17,596</u>	<u>17,513</u>
NET ASSETS, END OF YEAR	<u>\$ 17,993</u>	<u>\$ 17,596</u>

(Concluded)

See notes to consolidated financial statements.

# METROPOLITAN TRANSPORTATION AUTHORITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(Dollars in Millions)

	2005	2004
<b>CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES:</b>		
Passenger receipts/tolls	\$ 5,006	\$ 4,663
Rents and other receipts	233	208
Payroll and related fringe benefits	(5,254)	(4,902)
Other operating expenses	<u>(1,709)</u>	<u>(1,569)</u>
Net cash used in operating activities	<u>(1,724)</u>	<u>(1,600)</u>
<b>CASH FLOWS PROVIDED BY/(USED IN) NONCAPITAL FINANCING ACTIVITIES:</b>		
Grants, appropriations and taxes	3,592	2,773
Operating subsidies from CDOT	44	54
Suburban transportation fund subsidy	-	(39)
Subsidies paid to Dutchess, Orange and Rockland counties	(22)	(20)
WTC insurance claims	<u>-</u>	<u>200</u>
Net cash provided by noncapital financing activities	<u>3,614</u>	<u>2,968</u>
<b>CASH FLOWS PROVIDED BY/(USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
MTA bond proceeds	3,409	2,045
TBTA bond proceeds	950	250
MTA bonds refunded	(528)	(345)
TBTA bonds refunded	(772)	-
MTA anticipation notes proceeds	-	300
MTA anticipation notes redeemed	(720)	-
Capital lease payments	(27)	(53)
Grants and appropriations	1,423	1,409
CDOT capital contributions	3	4
Capital expenditures	(3,641)	(3,470)
Debt service payments	<u>(1,616)</u>	<u>(1,318)</u>
Net cash used in capital and related financing activities	<u>(1,519)</u>	<u>(1,178)</u>
<b>CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES:</b>		
Purchase of long-term securities	(2,941)	(2,254)
Sales of maturities of securities - long-term	2,858	2,640
Purchase of short-term securities	(377)	(647)
Earnings on investments	<u>103</u>	<u>61</u>
Net cash used in investing activities	<u>(357)</u>	<u>(200)</u>
NET INCREASE/(DECREASE) IN CASH	14	(10)
CASH, BEGINNING OF YEAR	<u>124</u>	<u>134</u>
CASH, END OF YEAR	<u>\$ 138</u>	<u>\$ 124</u>

See notes to consolidated financial statements.

(Continued)

# METROPOLITAN TRANSPORTATION AUTHORITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2005 AND 2004 (Dollars in Millions)

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	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (3,554)	\$ (3,176)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,474	1,344
Net increase/(decrease) in payables, accrued expenses and other liabilities	275	(41)
Net (increase)/decrease in receivables	(1)	239
Net decrease in materials and supplies and prepaid expenses	<u>82</u>	<u>34</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (1,724)</u>	<u>\$ (1,600)</u>

(Concluded)

See notes to consolidated financial statements.

# METROPOLITAN TRANSPORTATION AUTHORITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2005 AND 2004 (Dollars in Millions)

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### 1. BASIS OF PRESENTATION

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

These consolidated financial statements are of the Metropolitan Transportation Authority, including its related groups (collectively, the “MTA”) 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.
- 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 financial statements because of the MTA’s financial accountability for these entities and they are under the direction of the MTA Board. 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.

**Capital Program** - The MTA has ongoing capital programs, which except for MTA Bridges and Tunnels, MTA Long Island Bus and MTA Bus, are subject to the approval of the Metropolitan Transportation Authority Capital Program Review Board (“CPRB”), and which are designed to improve public transportation in the New York Metropolitan area.

*2005-2009 Capital Program* – Capital programs covering the years 2005-2009 have been approved by the MTA Board 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 Bridges and Tunnels Board. The 2005–2009 Commuter Capital Program and the 2005–2009 Transit Capital program (collectively, the “2005–2009 MTA Capital Programs”) have been approved by the CPRB.

The MTA Board approved the 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program through December 31, 2005, which provides for \$21,145 in capital expenditures, of which \$11,300 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, \$3,558 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad, \$4,465 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction, \$495 relates to a multi-faceted security program, \$159 relates to MTA interagency initiatives including MTA Police Department plus an MTA-wide integrated computer systems initiative, and \$1,168 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities.

The combined funding sources for the approved 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program include \$9,317 in MTA and MTA Bridges and Tunnel Bonds, \$1,450 in New York State general obligation bonds approved by the voters in the November 2005 election, \$6,588 in Federal Funds and \$3,790 from other sources.

At December 31, 2005, \$2,088 had been committed and \$443 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 have been approved by the MTA Board 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 Bridges and Tunnels Board. The 2000-2004 Commuter Capital Program and the 2000-2004 Transit Capital Program (collectively, the “2000-2004 MTA Capital Programs”) have been approved by the CPRB.

The CPRB approved the 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program through December 31, 2005, which provides for \$20,894 in capital expenditures, of which \$10,227 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, \$3,894 relates to ongoing repairs of, and replacements to, the Commuter System operated by MTA Long Island Rail Road and MTA Metro-North Railroad, \$4,532 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction, \$490 relates to planning and design and customer service projects, \$249 relates to World Trade Center repair projects, \$1,035 relates to the ongoing repairs and replacements to MTA Bridges and Tunnels facilities, and \$467 relates to MTA Bus.

The combined funding sources for the approved 2000–2004 MTA Capital Programs and the 2000–2004 MTA Bridges and Tunnels Capital Program include \$7,919 in bonds, \$6,482 in Federal funds, \$4,575 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002 and \$1,918 from other sources.

At December 31, 2005, \$17,550 had been committed and \$12,750 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

The federal government has a contingent equity interest in assets acquired by the MTA with federal funds, and upon disposal of such assets, the federal government may have a right to its share of the proceeds from the sale. This provision has not been a substantial impediment to the MTA’s operation.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

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

Investments maturing and 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, 2005 and December 31, 2004.

***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.

***Self-Insurance and Risk Retention*** – On October 31, 2003, FMTAC, an insurance captive subsidiary of MTA, in return for the transfer of the existing assets, assumed an existing program that insured certain claims in excess of the self-insured retention limits of the agencies (“ELF”) on both a retrospective and prospective basis. The self-insured retention limits are: \$7 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2 for MTA Long Island Bus; and \$1.4 for MTA and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the MTA, its subsidiaries and affiliates above their specifically assigned self-insured retention with a limit of \$50 per occurrence with \$50 annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2005, the balance of the assets in this program was \$83.2. Effective October 31, 2005, an All-Agency Excess Liability Insurance Policy was renewed. The coverage affords the MTA and its subsidiaries and affiliates an additional limit of \$250, for a total limit of \$300 (\$250 excess of \$50). In certain circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of \$50.

**Property Insurance** – Effective October 31, 2004 through October 30, 2005, the MTA’s captive insurance company subsidiary, First Mutual Transportation Assurance Company (“FMTAC”), directly insures property damage claims of the MTA in excess of a \$25 per occurrence self-insurance retention, subject to an annual \$75 aggregate. The per occurrence and aggregate retentions are the same as in the annual policy effective October 31, 2003 through October 30, 2004. The aggregate limitation of \$1.25 billion per occurrence (up from \$1 billion for the preceding year) covers all property of the related entities collectively. The property insurance provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverages. With the exception of acts of terrorism (both domestic and foreign), FMTAC is reinsured in the domestic, London and European marketplaces for this coverage. With respect to acts of international terrorism covered by the Terrorism Risk Insurance Act of 2002 (“TRIA”), FMTAC is reinsured by the United States government for 90% of losses, subject to an annual cap on all losses payable under TRIA of \$100 billion. The remaining 10% of MTA losses would be covered under an additional policy described in the next sentence. With respect to acts of terrorism not covered by TRIA, the MTA obtained an additional commercial reinsurance policy that provides coverage against all acts of terrorism in an amount up to \$125 (up from \$100 for the preceding year) per occurrence (subject to the \$25 per occurrence self-insurance retention). In the event the occurrence is covered by TRIA, the coverage afforded by the additional policy provides for the payment of FMTAC’s 10% retention not covered by TRIA subject to a maximum recovery of \$97.5.

Effective October 31, 2005 through October 30, 2006, FMTAC directly insures property damage claims of the related entities in excess of a \$25 per occurrence self-insurance retention (SIR), subject to an annual \$75 aggregate. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 per occurrence. The total program limit has been maintained at \$1.25 billion per occurrence covering property of the related entities collectively. With the exception of acts of terrorism (both domestic and foreign), and subject to certain parts of the program limit that have been retained by FMTAC as discussed in the next paragraph, FMTAC is reinsured in the domestic, London and European marketplaces for this coverage. As a consequence of this year’s severe contraction in available market capacity at reasonable premium levels, FMTAC has not fully reinsured all tiers of the program limit. The following chart shows the portions of the tiers of the program limit that have been reinsured and the portions that have been retained by FMTAC. Within each tier, losses would be shared on a pro rata basis.

Incremental Insurance Loss	Amount Reinsured	Amount Retained by FMTAC
\$ 0 – 25	\$ 0.0	\$ 25.0
25 – 125	100.0	0.0
125 – 175	36.8	13.2
175 – 400	164.0	61.0
400 – 700	224.2	75.8
700 – 1,000	80.5	219.5
1,000 – 1,250	<u>250.0</u>	<u>0.0</u>
Total	<u>\$ 855.5</u>	<u>\$ 394.5</u>

The property insurance, which is subject to annual renewal on October 31, 2006, provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverages. With respect to acts of international terrorism committed by or on behalf of foreign interests, as covered by the Terrorism Risk Insurance Act of 2002, and amended by the Terrorism

Risk Insurance Extension Act of 2005 (“2005 TRIA”), FMTAC is reinsured by the United States Government for 90% such “certified” losses, subject to an annual cap on all losses payable under 2005 TRIA of \$100 billion. No federal compensation will be paid unless the aggregate industry insured losses exceed \$50. The remaining 10% of MTA losses would be covered under an additional policy described below. The 2005 TRIA coverage is provided through December 31, 2007, but subject to certain changes in 2007, including a lower reimbursement rate (85%) and a higher “trigger” for industry losses (\$100). With respect to terrorism losses not covered by the United States Government under 2005 TRIA, MTA obtained an additional commercial reinsurance policy that provides coverage for (1) 10% of any “certified” act of terrorism caused by foreign interests, or (2) 100% of any terrorism loss not “certified” by the United States Government. Coverage under this policy is subject to a limit of \$100 per occurrence and \$200 in the aggregate annually (subject to the \$25 per occurrence self-insurance retention).

On March 1, 2005, the “non-revenue fleet” automobile liability policy program was renewed. This program provides third party auto liability insurance protection for the MTA and its member agencies with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides \$7.0 per occurrence limit with a \$.5 per occurrence deductible. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On March 1, 2005, 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 \$3.0 per occurrence limit with a \$.5 per occurrence deductible. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible. FMTAC renewed its reinsurance policy whereby it reinsures the \$.250 excess of \$.250 on a per occurrence basis to various reinsurance companies.

FMTAC directly insures the primary \$7 in losses for Station Liability and Force Account Liability for MTA Metro-North Railroad and MTA Long Island Rail Road.

### ***Operating Revenues***

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

### ***Nonoperating Revenues***

- *Operating Assistance* - The MTA receives, subject to annual appropriation, NYS operating assistance funds that are generally recognized as revenue when all applicable eligibility requirements are met. Generally, funds received under the NYS operating assistance program are fully matched by contributions from NYC and the seven other counties within the MTA’s service area.
- *Mortgage Recording Taxes (“MRT”)* - Under NYS law, the MTA receives capital and operating assistance through a Mortgage Recording Tax (MRT-1), which is collected by NYC and the seven other counties within the MTA’s service area, at the rate of .25 of one percent of the debt secured by certain real estate mortgages. Effective June 1, 2005, the rate was increased from 25 cents per 100 dollars of recorded mortgage to 30 cents per 100 dollars of recorded mortgage. The MTA also receives an additional Mortgage Recording Tax (MRT-2) of .25 of one percent of certain mortgages secured by real estate improved or to be improved by structures containing one

to six dwelling units in the MTA's service area. MRT-1 and MRT-2 taxes are recognized as revenue based upon reported amounts of taxes collected.

- MRT-1 proceeds are initially used to pay MTAHQ's operating expenses. Remaining funds, if any, are allocated 55 percent to certain Transit Operations and 45 percent to the Commuter Railroads. 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, 2005 and 2004 the amount allocated to the NYS Suburban Highway Transportation Fund was \$20 and \$20, respectively. Of the MTA New York City Transit portion, the MTA distributed \$108.8 and \$52.9 as of December 31, 2005 and December 31, 2004, respectively.
- The first \$5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange and Rockland Fund (\$1.5 each for Dutchess and Orange Counties and \$2 for Rockland County). Additionally, the MTA must transfer to each County's fund an amount equal to the product of (i) the percentage by which each respective County's mortgage recording tax payments (both MRT-1 and MRT-2) to the MTA increased over such payments in 1989 and (ii) the base amount received by each county as described above. The counties do not receive any portion of the June 1, 2005 increase in MRT-1 from 25 cents per \$100 of recorded mortgage to 30 cents. Excess amounts transferable to the counties as of December 31, 2005 and December 31, 2004, were \$18.1 and \$17.3, respectively. Through December 31, 2005, the MTA has distributed \$0 from the MRT-2 funds to the Commuter Railroads and \$0 to MTA New York City Transit for their current operations. In the same period in 2004 the MTA distributed from the MRT-2 funds \$0 to the Commuter Railroads and \$90.4 to MTA New York City Transit for their current operations.
- In addition, MTA New York City Transit Authority receives operating assistance directly from NYC through a mortgage recording tax at the rate of .625 of one percent of the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of the assessed value (collectively referred to as "Urban Tax Subsidies") of certain properties.
- *Dedicated Taxes* - Under NYS law, subject to annual appropriation, the MTA receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund ("MTTF") and Metropolitan Mass Transportation Operating Assistance Fund ("MMTOA"). The MTTF receipts consist of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and non-registration fees. Effective October 1, 2005, the State increased the amount of motor vehicle fees deposited into the MTTF for the benefit of the MTA. MTTF receipts are applied first to meet certain debt service requirements or obligations and in the second instance are used 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 ¼ 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 6), 85 percent to certain Transit Operations and 15 percent to the Commuter Railroads. Revenues from this funding source are recognized based upon amounts of tax reported collected by NYS, to the extent of the appropriation.

- *Operating Subsidies Recoverable from Connecticut Department of Transportation (“CDOT”)* - The portion of the deficit from operations relating to MTA Metro-North Railroad’s New Haven line is recoverable from CDOT. Under the terms of a renewed Service Agreement, which began on January 1, 2000, and the 1998 resolution of an arbitration proceeding initiated by the State of Connecticut, CDOT pays 100 percent of the net operating deficit of MTA Metro-North Railroad’s branch lines in Connecticut (New Canaan, Danbury, and Waterbury), 65 percent of the New Haven mainline operating deficit, and a fixed fee for the New Haven line’s share of the net operating deficit of Grand Central Terminal (“GCT”) calculated using several years as a base, with annual increases for inflation and a one-time increase for the cost of operating GCT’s North End Access beginning in 1999. The Service Agreement also provides that CDOT pay 100 percent of the cost of non-movable capital assets located in Connecticut, 100 percent of movable capital assets to be used primarily on the branch lines and 65 percent of the cost of other movable capital assets allocated to the New Haven line. Remaining funding for New Haven line capital assets is provided by the MTA. The Service Agreement provides for automatic five-year renewals unless a notice of termination has been provided. The Service Agreement has been automatically renewed for an additional five years beginning January 1, 2005. Capital assets completely funded by CDOT are not reflected in these financial statements, as ownership is retained by CDOT. The Service Agreement provides that final billings for each year are subject to audit by CDOT. Years subsequent to 2000 remain subject to final audit.
- *Reimbursement of Expenses* - The cost of operating and maintaining the passenger stations of the Commuter Railroads in NYS is assessable by the MTA to NYC and the other counties in which such stations are located for each NYS fiscal year ending March 31, under provisions of the NYS Public Authorities Law. This funding is recognized as revenue based upon an amount, fixed by statute, for the costs to operate and maintain passenger stations and is revised annually by the increase or decrease of the regional Consumer Price Index.
- NYC no longer fully reimburses the MTA for costs of the free fare program for students. However, pursuant to an agreement NYS and NYC each pay \$45 annually. The estimated cost of this program is approximately \$156 for the 2005 - 2006 school year. It is believed that NYC will continue to provide for the City’s \$45 contribution for the 2005 - 2006 school year, of which \$15 was received in December 2005. The Transit Operations approved 2006 Adopted Budget assumes the remaining \$30 will be received in June 2006. It is also expected that the State’s full \$45 for the 2005–2006 school year will be received in 2006. The Transit Operation’s 2006–2009 Financial Plan assumes the continuation of the joint funding of the free fare program for students.
- As a result of the April 1995 merger of the transit police force into the NYC Police Department, policing of the transit system is being 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 \$3.8 in 2005, and \$3.2 in 2004 from NYC for the reimbursement of transit police costs.

- Federal law and regulations require a paratransit system for passengers who are not able to ride the buses and trains because of their disabilities. Pursuant to an agreement between NYC and the MTA, MTA New York City Transit, effective July 1, 1993, assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. NYC reimburses the MTA for the lesser of 33 percent of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6.0 percent of gross Urban Tax Subsidies, or an amount that is 20.0 percent greater than the amount paid by the City for the preceding calendar year. Fare revenue and reimbursements aggregated approximately \$73.9 in the twelve months ended December 31, 2005, and \$53.2 in the twelve months ended December 31, 2004. Total paratransit expenses, including paratransit service contracts were \$189.8 and \$159.5 in 2005 and 2004, 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.

**Recent Accounting Pronouncements** - The MTA has implemented GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. There was no impact on the MTA's financial position and results of operations for the years ended December 31, 2005 and December 31, 2004. The statement was effective for financial statements for periods beginning after June 15, 2004 and December 15, 2004, respectively.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and GASB Statement No 47 Accounting for Termination Benefits. Currently, MTA is unable to prepare the statement of plan net assets, the statement of changes in net assets, notes to the financial statements, and the required supplementary information as prescribed by GASB Statement No. 43. The statement is effective in three phases based on total annual revenues. The first phase (\$100 million or more of annual revenues) is effective for financial statement periods beginning after December 15, 2005, the second phase (total annual revenues of \$10 million or more but less the \$100 million) is effective for periods beginning after December 15, 2006, and the third phase (annual revenues of less than \$10 million) is effective for periods beginning after December 15, 2007.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 44, Economic Condition Reporting: The Statistical Section. The MTA is therefore unable to disclose the impact that adopting this statement will have on its statistical section when such statement is adopted. GASB Statement No. 44 is effective for statistical sections prepared for periods beginning after June 15, 2005.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The MTA is therefore unable to disclose the impact that adopting this statement will have on its financial position and results of operations when such statement is adopted. GASB Statement No. 45 is effective in three phases based on total annual revenues. The first phase (\$100 million or more of annual revenues) is effective for financial statement periods beginning after December 15, 2006, the second phase (total annual revenues of \$10 million or more but less the \$100 million) is effective for periods beginning after December 15, 2007, and the third phase (annual revenues of less than \$10 million) is effective for periods beginning after December 15, 2008.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 46, Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34. The MTA is therefore unable to disclose the impact that adopting this statement will have on its financial position and results of operations when such statement is adopted. The statement is effective for fiscal periods beginning after June 15, 2005.

### 3. CASH AND INVESTMENTS

Cash, including deposits in transit, consists of the following at December 31, 2005 and 2004:

	December 2005		December 2004	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	\$ 75	\$ 69	\$ 53	\$ 45
Uninsured and not collateralized	<u>63</u>	<u>6</u>	<u>71</u>	<u>30</u>
	<u>\$ 138</u>	<u>\$ 75</u>	<u>\$ 124</u>	<u>\$ 75</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.

Investments, at fair value, consist of the following at December 31, 2005 and 2004:

	December 2005		December 2004	
Repurchase agreements	\$ 627		\$ 583	
U.S. Treasuries due 2005 - 2020	1,384		899	
Investments restricted for capital lease obligations				
US Treasury Notes	\$ 8		16	
Treasury Strips	138		160	
Other Agencies	<u>2,359</u>		<u>2,303</u>	
Sub-total	2,505		2,479	
Commercial Paper	685		-	
Other Agencies due 2005 - 2011	<u>1,061</u>		<u>1,810</u>	
Total	<u>\$2,505</u>	<u>\$6,262</u>	<u>\$2,479</u>	<u>\$5,771</u>

Fair values include accrued interest to the extent that interest is included in the carrying amounts. Accrued interest on investments other than Treasury bills and coupons is included in other receivables on the balance sheet. The MTA's investment policy states that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment. The net unrealized gain on investments for the years ended December 31, 2005 and 2004 were \$6.8 and 15.3, respectively

In connection with certain lease transactions described in Note 7, 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 that have a credit rating of AAA by Standard and Poors, which generate sufficient proceeds to make 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 are either insured or registered and held by the MTA or its agent in the MTA's name. Investments had weighted average yields of 4.1 percent and 2.5 percent for the years ended December 31, 2005 and 2004, respectively.

Of the above cash and investments, amounts held for restricted purposes were as follows at December 31, 2005 and 2004:

	December 2005	December 2004
Construction or acquisition of capital assets	\$ 1,301	\$ 1,534
Funds received from affiliated agencies for investment	897	601
Debt service	590	463
Payment of claims	304	280
Restricted for capital leases	2,505	2,479
Other	<u>558</u>	<u>295</u>
Total	<u>\$ 6,155</u>	<u>\$ 5,652</u>

#### 4. EMPLOYEE BENEFITS

Substantially all of the MTA's 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 calling the administrative office of the respective related group.

**Pension Plans** - The MTA sponsors and participates in a number of pension plans for its 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** - The Long Island Rail Road Company Pension Plan and the Long Island Rail Road Company Plan for Additional Pensions ("Additional Plan") are contributory, defined-benefit pension plans that cover employees who began service with MTA Long Island Rail Road prior to January 1, 1988. Benefit provisions are established by MTA Long Island Rail Road and are based on length of qualifying service and final average compensation.

- The TWU-MSBA Employees' Pension Plan ("MSBA Plan") is a contributory, defined-benefit plan covering substantially all its employees who began service prior to January 23, 1983. Persons employed after that date are covered by NYS Employees' Retirement System ("NYSERS"). In 1999, the "MSBA Plan," which was administered under terms of the TWU-MSBA Employees' Pension Trust, was merged with the MTA Defined-Benefit Plan and administered by the MTA.
- The MaBSTOA Pension Plan is a defined-benefit plan covering substantially all of its employees. This plan assigns authority to amend the plan and determine contributions to the MaBSTOA Board.
- For the plan years ended December 31, 2005 and 2004, MTA New York City Transit made contributions to the MaBSTOA Plan of \$153.4 and \$142, respectively, equal to the required contributions for each year. During the year ended December 31, 2004, MTA New York City Transit made advance payments of \$70.0 resulting in the recognition of a pension asset in the combined balance sheets.
- MTA Staten Island Railway has a contributory defined benefit plan that is a single-employer public employee retirement system covering certain employees. Authority to amend the plan and to determine contributions rests with the MTA Board.
- *Multi-Employer Pension Plan* - The MTA Defined-Benefit Pension Plan ("MTA Plan"), a defined benefit pension plan for certain MTA Long Island Rail Road non-represented and MTA Metro-North Railroad non-represented employees hired after December 31, 1987, certain MTA Long Island Bus employees hired prior to January 23, 1983, MTA Police, and certain MTA Long Island Rail Road represented employees hired after December 31, 1997 and certain MTA Metro-North Railroad represented employees, is a cost-sharing multiple-employer retirement plan. MTA Long Island Rail Road, MTA Metro-North Railroad and MTA contribute to the MTA Plan, which offers distinct retirement, disability, and death benefits for covered MTA Metro-North Railroad and MTA Long Island Rail Road employees, MTA 20-year Police Retirement Plan and MTA Long Island Bus Employees' Pension Plan. MTA Police contribute to the MTA Plan at various rates. 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. A stand-alone financial report may be obtained by writing to the MTA Comptroller, 347 Madison Avenue, New York, New York, 10017.
- MTA Long Island Rail Road, MTA Metro-North Railroad, MTA, and MTA Long Island Bus recognized 2005 and 2004 pension cost based upon an assessment, which on average was 12.11 percent and 12.13 percent respectively, of annual compensation. The MTA Plan may be amended by action of the MTA Board.

Annual pension costs and related information about each plan follows:

	<b>Single-Employer Plans</b>			
	<b>LIRR</b>	<b>SIRTOA</b>	<b>MaBSTOA</b>	<b>MTA Plan</b>
Date of valuation	1/1/2005	1/1/2005	1/1/2005	1/1/2005
Required contribution rates:				
Plan members	variable	3.00% (1st 10 yrs.)	variable	variable
Employer:	actuarially determined	actuarially determined	actuarially determined	actuarially determined
Employer contributions made in 2005	\$ 109.1	\$ 1.8	\$ 153.4	\$ 58.2
Three-year trend information:				
Annual Pension Cost (APC):				
2005	\$ 109.2	\$ 1.8	\$ 151.4	\$ 58.2
2004	102.9	1.5	140.1	54.7
2003	63.8	1.6	135.2	28.2
Net Pension Obligation (NPO) (assets) at end of year:				
2005	(4.6)	-	54.9	-
2004	(4.7)	-	57.0	-
2003	(4.8)	-	58.9	-
Percentage of APC contributed:				
2005	100%	100%	101%	100%
2004	100%	100%	101%	100%
2003	100%	100%	101%	89%
Components of APC				
Annual required contribution (ARC)	\$ 109.1	\$ 1.8	\$ 153.4	\$ 58.2
Interest on NPO	(0.3)	-	4.6	-
Adjustment of ARC	(0.4)	-	6.6	-
APC	109.2	1.8	151.4	58.2
Contributions made	<u>109.1</u>	<u>1.8</u>	<u>153.5</u>	<u>58.2</u>
Change in NPO (assets)	0.1	-	(2.1)	-
NPO (assets) beginning of year	<u>(4.7)</u>	<u>-</u>	<u>57.0</u>	<u>-</u>
NPO (assets) end of year	<u>\$ (4.6)</u>	<u>\$ -</u>	<u>\$ 54.9</u>	<u>\$ -</u>

	<b>Single-Employer Plans</b>			
	<b>LIRR</b>	<b>SIRTOA</b>	<b>MaBSTOA</b>	<b>MTA Plan</b>
Actuarial cost method	Entry age normal	Entry age normal frozen initial liability	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	5-year smoothing
Investment return	8.00%	8.00%	8.00%	8.00%
Projected salary increases	3.5%	4.0% - 11.0%	3.5% - 18.0%	3.5% - 36.2%
Consumer price inflation	2.50%	2.50%	2.50%	2.50%
Amortization method and period	level dollar / 28 years	level dollar / 21 years	level dollar / 30 years	level dollar / 23 years
Period closed or open	closed	closed	closed	closed

### ***Cost-Sharing Multiple-Employer Plans***

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

*Plan Description* – MTA New York City Transit and MTA Bridges and Tunnels contribute to the New York City Employees' Retirement System, 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, 335 Adams Street, Suite 2300, 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 and for employees who entered qualifying service after July 1976, who contribute 3 percent of their salary. The State legislature passed legislation in 2000 that suspended the 3 percent contribution for employees who have 10 years or more of credited service. MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. 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 ending June 30, 2006, and 2005 were \$307.9 and \$176.0, respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2005 and 2004 were \$10.1, and \$5.0, respectively, which were equal to or in excess of the actuary's recommendation, plus interest.

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

*Plan Description and Funding Policy* - MTAHQ and MTA Long Island Bus employees who were hired after January 23, 1983, are members of NYSLERS. NYSLERS is a cost sharing multiple-employer plan and offers a broad spectrum of benefits including retirement and disability benefits. Generally, employees contribute 3 percent of salary. In 2000, the State legislature passed legislation that suspends the 3 percent contribution of members who have 10 or more years of credited service. MTAHQ and MTA Long Island Bus recognize pension expense based upon annual assessments made by NYSLERS. NYSLERS pension expense was approximately \$11.8 and \$11.2, for the years ended December 31, 2005 and 2004, respectively, and was equal to the annual required contributions for each year. 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.

***Defined Contribution Plans***

*Single-Employer*

The Long Island Rail Road Company Money Purchase Plan ("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. Employees participating in the plan contribute a percent of their compensation and MTA Long Island Rail Road has annually approved matching contributions which have ranged from 3 percent to 5 percent of their compensation. The Plan is administered by the MTA Long Island Rail Road Board of Managers of Pension. The MTA Board is responsible for establishing or amending the Plan's provisions and contribution requirements.

The Metro-North Commuter Railroad Company Defined Contribution Pension Plan for Agreement Employees ("Agreement Plan"), established January 1, 1988, covers represented employees in accordance with applicable collective bargaining agreements. Under this plan, MTA Metro-North Railroad will contribute an amount equal to 4 percent of each eligible employee's gross compensation to the plan on that employee's behalf. For employees who have 19 or more years of service MTA Metro-North Railroad contributes 7 percent. In addition, employees may voluntarily match MTA Metro-North Railroad's contribution to the plan, on an after-tax basis. The plan is administered by an employee of MTA Metro-North Railroad and the MTA Metro-North Railroad Board of Managers of Pension. The MTA Board of Directors is responsible for establishing or amending the Plan's provisions and contribution requirements.

	<b>December 31 2005</b>		<b>December 31, 2004</b>	
	LIRR Money Purchase Plan	MNCR Agreement Plan	LIRR Money Purchase Plan	MNCR Agreement Plan
Employer contributions	\$ -	\$ 10.8	\$ -	\$ 11.7
Employee contributions	0.7	0.6	1.1	0.7

**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 employees are eligible to participate in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). Participation in the plan is available to most represented and non-represented employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are in trust for the exclusive use of the participants and their beneficiaries. Accordingly, this plan is not reflected in the accompanying combined balance sheets.

MTA Long Island Rail Road previously reported the market value of assets in the Additional Pension Plan that are held in Grantor Trust account with JP Morgan Chase & Company as an asset and corresponding liability since all rights of the employee or beneficiary are unsecured contracted rights against the MTA Long Island Rail Road. In accordance with an amendment to the Additional Plan's Trust Agreement, the assets of the trust are no longer subject to claims of general creditors and accordingly as of January 1, 2004, such assets and liabilities are no longer reflected in the consolidated financial statements.

**Other Post-Employment Benefits** - In addition to providing pension benefits, the MTA provides healthcare, life insurance, and survivor benefits for certain retired employees and their families. These benefits are recorded on a pay-as-you-go basis. The cost of the benefits is shared in varying proportions by the employer and employee. The number of retirees and costs of providing the benefits by the MTA are as follows:

	December 31 2005		December 31, 2004	
	Number of Participants (Actual)	Cost of Benefits	Number of Participants (Actual)	Cost of Benefits
MTA Total	39,218	\$ 233.0	38,658	\$ 211.4

## 5. CAPITAL ASSETS

Capital assets and improvements include all land, buildings, equipment, and infrastructure of the MTA having a minimum useful life of two years, having a cost of more than \$.025.

Capital assets are generally 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, 2005 and 2004:

	Balance December 31, 2003			Balance December 31, 2004			Balance December 31, 2005		
	Balance	Additions	Deletions	Balance	Additions	Deletions	Balance	Additions	Deletions
Capital assets, not being depreciated									
Land	\$ 124	\$ 1	\$ -	\$ 125	\$ 11	\$ -	\$ 136		
Construction work-in-progress	5,020	2,000	1,549	5,471	1,629	1,459	5,641		
Total capital assets, not being depreciated	5,144	2,001	1,549	5,596	1,640	1,459	5,777		
Capital assets, being depreciated									
Buildings and structures	10,230	469	7	10,692	1,295	175	11,812		
Bridges and tunnels	1,350	254	-	1,604	43	-	1,647		
Equipment									
Passenger cars and locomotives	7,953	656	90	8,519	716	84	9,151		
Buses	1,738	121	7	1,852	205	1	2,056		
Infrastructure	9,743	900	8	10,635	819	6	11,448		
Other	6,522	626	4	7,144	628	5	7,767		
Total capital assets, being depreciated	37,536	3,026	116	40,446	3,706	271	43,881		
Less accumulated depreciation									
Buildings and structures	2,556	300	-	2,856	328	17	3,167		
Bridges and tunnels	324	13	-	337	16	-	353		
Equipment									
Passenger cars and locomotives	2,414	271	62	2,623	297	79	2,841		
Buses	1,028	107	7	1,128	119	1	1,246		
Infrastructure	2,523	350	6	2,867	372	4	3,235		
Other	2,279	302	4	2,577	342	3	2,916		
Total accumulated depreciation	11,124	1,343	79	12,388	1,474	104	13,758		
Total capital assets, being depreciated, net	26,412	1,683	37	28,058	2,232	167	30,123		
Capital assets, net	\$ 31,556	\$ 3,684	\$ 1,586	\$ 33,654	\$ 3,872	\$ 1,626	\$ 35,900		

Interest capitalized in conjunction with the construction of capital assets at December 31, 2005 and December 31, 2004 is \$70 and \$68, 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. The MTA New York City Transit scrapped 10 subway cars and 3 buses during the year ended 2005 and recorded a loss on disposal of \$1.9, and 40 buses during the year ended December 31, 2004 and recorded a loss of \$.8. In the 12 months ended December 31, 2005, MTA Long Island Railroad retired 196 fully depreciated M-1 electric cars from revenue service. In addition, the ADA overpass in Jamaica was demolished and taken out of service and a loss on disposal of assets of \$18 was recorded.

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, 2005 and December 31, 2004 these securities totaled \$76.1 and \$60.9, respectively, and had a market value of \$85.1 and \$60.7 respectively, and are not included in these financial statements.

## 6. LONG -TERM DEBT

	December 31, 2004	Issued	Retired	Refunded	December 31, 2005
MTA:					
Transportation Revenue Bonds 2.25% - 5.752% due through 2035	\$ 6,569	\$ 2,942	\$ 122	\$ 182	\$ 9,207
Transportation Revenue Bond Anticipation Notes Commercial Paper	720	-	720	-	-
State Service Contract Bonds 3.00% - 5.50% due through 2031	2,374	-	42	-	2,332
Dedicated Tax Fund Bonds 3.00% - 6.25% due through 2031	3,305	350	63	314	3,278
Certificates of Participation 4.40% - 5.625% due through 2029	<u>453</u>	<u>-</u>	<u>10</u>	<u>-</u>	<u>443</u>
	13,421	3,292	957	496	15,260
Less net unamortized bond discount and premium	<u>(457)</u>	<u>115</u>	<u>(13)</u>	<u>34</u>	<u>(363)</u>
	<u>\$ 12,964</u>	<u>\$ 3,407</u>	<u>\$ 944</u>	<u>\$ 530</u>	<u>\$ 14,897</u>
TBTA:					
General Revenue Bonds 4.00% - 5.77% due through 2033	\$ 4,431	\$ 950	\$ 78	\$ 717	\$ 4,586
Subordinate Revenue Bonds 4.00% - 5.77% due through 2032	<u>2,404</u>	<u>-</u>	<u>40</u>	<u>-</u>	<u>2,364</u>
	6,835	950	118	717	6,950
Less net unamortized bond discount and premium	<u>122</u>	<u>-</u>	<u>10</u>	<u>-</u>	<u>112</u>
	<u>\$ 6,957</u>	<u>\$ 950</u>	<u>\$ 128</u>	<u>\$ 717</u>	<u>\$ 7,062</u>
Combined total	\$ 19,921	<u>\$ 4,357</u>	<u>\$ 1,072</u>	<u>\$ 1,247</u>	\$ 21,959
Current portion	<u>(312)</u>				<u>(306)</u>
Long-term portion	<u>\$ 19,609</u>				<u>\$ 21,653</u>

***MTA Transportation Revenue Bonds*** – Prior to 2004, MTA issued nine series of Transportation Revenue Bonds secured under its General Resolution Authorizing Transportation Revenue Obligation adopted on March 26, 2002 in the aggregate principal amount of \$6,195. The Transportation Revenue Bonds are MTA’s special obligations payable solely from transit and commuter systems revenues and certain state and local operating subsidies.

During 2004, the MTA issued the following series of Transportation Revenue Bonds to finance transit and commuter projects: Series 2004A in the amount of \$500.

During 2005, the MTA issued the following series of Transportation Revenue Bonds to finance transit and commuter projects or to refund outstanding bonds: Series 2005A in the amount of \$650; Series 2005B in the amount of \$750; Series 2005C in the amount of \$150; Series 2005D in the amount of \$250; Series 2005E in the amount of \$250; Series 2005F in the amount of \$469; Series 2005G in the amount of \$250; and Series 2005H in the amount of \$173. The Series 2005H was issued to redeem Series 2002C.

***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 a bank. The MTA Act requires MTA to periodically refund (at least each five years), its commercial paper notes with bonds.

As of December 31, 2005, MTA issued its Transportation Revenue Bonds, Series 2005F and Series 2005G to refund its outstanding commercial paper program in the amount of \$720.

***MTA State Service Contract Bonds*** – Prior to 2004, 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 2004, MTA issued three 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 \$2,241. The Dedicated Tax Fund Bonds are MTA’s special obligations payable solely from monies held in the Pledged Amounts Account of the MTA Dedicated Tax Fund. State law requires that the MTTF revenues and MMTOA revenues (described above in footnote 2 under “Nonoperating Revenues”) be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund.

During 2004, the MTA issued the following series of Dedicated Tax Fund Bonds to finance transit and commuter projects: Series 2004A in the amount of \$250; Series 2004B in the amount of \$500; Series 2004C in the amount of \$120; and Series 2004D in the amount of \$280.

During 2005, the MTA issued the following series of Dedicated Tax Fund Bonds to refund outstanding bonds: Series 2005A in the amount of \$350.

***MTA Certificates of Participation*** – Prior to 2004, MTA, MTA New York City Transit and MTA Bridges and Tunnels executed and delivered two series of Certificates of Participation in the aggregate principal amount of \$479 to finance certain building and leasehold improvements to an

office building at Two Broadway in Manhattan occupied principally by MTA New York City Transit, MTA Bridges and Tunnels, MTA Capital Construction and MTAHQ. The Certificates of Participation which 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.

In September, 2004 the MTA executed and delivered Variable Rate Certificates of Participation, Series 2004A in the amount of \$358 to refund certain outstanding certificates of participation.

***MTA Bridges and Tunnels General Revenue Bonds*** – Prior to 2004, MTA Bridges and Tunnels issued nine series of General Revenue Bonds secured under its General Resolution Authorizing General Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of \$4,476. 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.

MTA Bridges and Tunnels did not issue any General Revenue Bonds during 2004.

During 2005, MTA Bridges and Tunnels issued the following series of General Revenue Bonds to finance bridge and tunnel projects or to refund outstanding bonds: Series 2005A in the amount of \$150 and Series 2005B in the amount of \$800.

***MTA Bridges and Tunnels Subordinate Revenue Bonds*** – Prior to 2004, MTA Bridges and Tunnels issued eight 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 \$2,225. 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.

During 2004 MTA Bridges and Tunnels issued the following series of Subordinate Revenue Bonds to finance bridge and tunnel projects: Series 2004A in the amount of \$250.

***Debt Limitation*** - The NYS 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. For the 1992 through 2004 Capital Programs, the imposed limitation, subject to certain exclusions, is \$16,500 compared with issuances totaling approximately \$13,217 at December 31, 2005.

***Bond Refundings*** - During 2002 as part of the Debt Restructuring, the MTA and MTA Bridges and Tunnels retired most of their outstanding debt with either funds available or by issuing new bonds. From time to time, the MTA and MTA Bridges and Tunnels issue additional refunding bonds to achieve debt service savings or other benefits. The proceeds of refunding bonds are generally used to purchase US. Treasury obligations that were 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.

During 2004, the MTA, MTA New York City Transit and MTA Bridges and Tunnels executed and delivered 2 Broadway Certificates of Participation, Series 2004A in the aggregate principal amount of \$358 to refund certain outstanding Certificates of Participation.

During 2005, the MTA issued its Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A in the aggregate principal amount of \$350 to refund certain outstanding Dedicated Tax Fund Bonds, and MTA Bridges and Tunnels issued its General Revenue Variable Rate Refunding Bonds, Series 2005B in the aggregate principal amount of \$800 to refund certain outstanding General Revenue Bonds.

At December 31, 2005, 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.

MTA Transit and Commuter Facilities:

Transit Facilities Revenue Bonds	\$ 1,731
Commuter Facilities Revenue Bonds	1,637
Commuter Facilities Subordinate Revenue Bonds	20
Transit and Commuter Facilities Service Contract Bonds	951
Dedicated Tax Fund Bonds	1,395
Excess Loss Trust Fund	25

MTA New York City Transit:

Transit Facilities Revenue Bonds (Livingston Plaza Project)	129
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MTA Bridges and Tunnels:

General Purpose Revenue Bonds	2,376
Special Obligation Subordinate Bonds	221
Mortgage Recording Tax Bonds	<u>253</u>

Total	<u>\$ 8,738</u>
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**Debt Service Payments** - Principal and interest debt service payments (excluding refunded bonds) at December 31, 2005, are as follows:

	MTA		MTA BRIDGES AND TUNNELS				Aggregate	
	Principal	Interest	Senior Revenue		Subordinate Revenue		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 289	\$ 705	\$ 83	\$ 209	\$ 40	\$ 115	\$ 412	\$ 1,029
2007	296	693	84	206	43	113	423	1,012
2008	308	681	94	201	44	111	446	993
2009	323	668	98	197	48	108	469	973
2010	337	654	103	192	50	106	490	952
2011-2015	1,940	3,012	574	875	289	486	2,803	4,373
2016-2020	2,466	2,485	759	703	428	398	3,653	3,586
2021-2025	3,132	1,853	892	501	495	290	4,519	2,644
2026-2030	3,946	1,054	1,137	259	624	161	5,707	1,474
2031-2035	2,187	201	762	38	303	23	3,252	262
2036-2040	36	1	-	-	-	-	36	1
	<u>\$ 15,260</u>	<u>\$ 12,007</u>	<u>\$ 4,586</u>	<u>\$ 3,381</u>	<u>\$ 2,364</u>	<u>\$ 1,911</u>	<u>\$ 22,210</u>	<u>\$ 17,299</u>

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

- *Dedicated Tax Fund Refunding Bonds, Series 2005A* – 3.3156% per annum taking into account the interest rate swap
- *Transportation Revenue Bonds, Series 2005D* – 3.561% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2005E* – 3.561% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2005G* – 4.00% per annum
- *Dedicated Tax Fund Bonds, Series 2004D* – 4.00% per annum
- *Certificates of Participation, Series 2004A* – 3.542% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2004A* – 4.00% per annum
- *Dedicated Tax Fund Bonds, Series 2004B* – 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
- *Transportation Revenue Refunding Bonds, Series 2002B* – 4.00% per annum
- *Transportation Revenue Refunding Bonds, Series 2002D* – 4.00% per annum *and including net payments made by MTA under the swap agreements*
- *Transportation Revenue Refunding Bonds, Series 2002G* – 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2005A* – 4.00% per annum
- *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 Subordinate Revenue Bonds, Series 2004A* – 4.00% per annum
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000A and 2000B* – 4.00% per annum *and including net payments made by MTA Bridges and Tunnels under the swap agreements*
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002D* – 4.00% per annum

- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002F* – 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002G* – 4.00% per annum

**Tax Rebate Liability** - Under the Internal Revenue Code of 1986, the MTA accrues a liability for an amount of rebatable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. The arbitrage liability is payable to the federal government every five years and is reported as part of other long-term liabilities. MTA made an arbitrage payment of \$2.7 in 2005. No additional rebate liability was recorded for the year ended December 31, 2005.

## **Swap Agreements**

*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.

*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 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 the MTA New York City Transit would have paid to issue fixed-rate debt.

*Fair Value.* Relevant market interest rates on the valuation date of the swaps reflected in the following charts (December 31, 2005) in some cases were higher than, and in some cases were lower than, market interest rates on the effective date of the swaps. Consequently, as of the valuation date, some of the swaps had negative fair values and some had positive fair values. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels and MTA New York City Transit would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the swap be terminated.

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

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

<b>MTA TRANSPORTATION REVENUE BONDS</b>							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 12/31/05 (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 12/31/05 (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2002D-1	\$200.0	05/30/02	3.385	BMA <sup>(1)</sup>	\$ 0.0	01/01/06	Bear Stearns Capital Markets Inc.
Series 2002D-2	200.0	05/30/02	3.627	BMA	(0.6)	01/01/07	Bear Stearns Capital Markets Inc.
Series 2002D-2	200.0	01/01/07	4.45	69% of one-month LIBOR <sup>(2)</sup>	(27.6)	11/01/32	Bear Stearns Capital Markets Inc.
Series 2005D and Series 2005E	500.0	11/02/05	3.561	67% of one-month LIBOR	(16.9)	11/01/35	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.
Total	\$1,100.0				\$(45.1)		

(1) The Bond Market Association Municipal Swap Index™.

(2) London Interbank Offered Rate.

**MTA DEDICATED TAX FUND BONDS**

<u>Associated Bond Issue</u>	<u>Notional Amounts as of 12/31/05 (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 12/31/05 (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2002B	\$440.0	09/05/02	4.06 %	Actual bond rate until 04/30/10, and thereafter, BMA	\$(10.9)	09/01/13	Morgan Stanley Capital Services Inc.
Series 2005A	348.0	03/24/05	3.3156	67% of one-month LIBOR	(0.6)	11/01/31	Citigroup Financial Products Inc.
Proposed Series 2006A (Hedge)	350.0	04/27/06	3.171	67% of one-month LIBOR	7.6	11/01/36	60% – BNP Paribas North America, Inc. 40% – Lehman Brothers Inc.
Proposed Series 2006B (Hedge)	350.0	12/01/06	3.1419	67% of one-month LIBOR	8.6	11/01/36	Lehman Brothers Inc.
Total	\$1,488.0				\$4.7		

<b>MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS</b>							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 12/31/05 (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 12/31/05 (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2001B and 2001C <sup>(3)</sup>	\$255.1	01/01/02	5.777%	Actual bond rate	\$(31.3)	01/01/19	Citigroup Financial Products Inc.
Series 2002C <sup>(4)</sup>	77.2	01/01/00	5.634	Actual bond rate	(8.7)	01/01/13	Ambac Financial Services, L.P.
Series 2005B	800.0	07/07/05	3.076	67% of one-month LIBOR	25.4	01/01/32	25% each – Citibank, N.A., JPMorgan Chase Bank, BNP Paribas North America, Inc. and UBS AG
Series 2005B	800.0	07/07/05	67% of one-month LIBOR plus 43.7 basis points <sup>(5)</sup>	BMA minus 10 basis points	0.1	01/01/12	UBS AG
<b>Total</b>	<b>\$1,932.3</b>				<b>\$(14.5)</b>		

<sup>(3)</sup> In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of \$19.2.

<sup>(4)</sup> In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of \$8.4.

<sup>(5)</sup> For the purpose of mitigating the basis risk with respect to the \$800 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 BMA Index minus 10 basis points.

<b>MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS</b>							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 12/31/05 (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 12/31/05 (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2000A and 2000B <sup>(6)</sup>	\$223.9	01/01/01	6.08%	Actual bond rate	\$(34.0)	01/01/19	Bear Stearns Capital Markets Inc.
Series 2000C and 2000D	223.9	01/01/01	6.07	Actual bond rate	(33.8)	01/01/19	Citigroup Financial Products Inc.
Series 2002G-1	90.5	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	0.1	01/01/18	JPMorgan Chase Bank
Series 2002G-2	90.5	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	0.1	01/01/18	JPMorgan Chase Bank
Total	\$628.8				\$(67.6)		

<sup>(6)</sup> In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying to MTA Bridges and Tunnels a premium of \$22.7.

## 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 \$357.9 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 \$357.9 outstanding as of December 31, 2005, MTA New York City Transit is responsible for \$245.9 aggregate notional amount of the swaps, MTA for \$75.2 aggregate notional amount, and MTA Bridges and Tunnels for \$36.9 aggregate notional amount. As of December 31, 2005, the aggregate fair value of the swaps was \$(8.4).

### Counterparty Ratings

The current ratings of the counterparties, or their credit support providers, are as follows:

<u>Counterparty</u>	<u>Ratings of the Counterparty or its Credit Support Provider</u>		
	<u>S&amp;P</u>	<u>Moody's</u>	<u>Fitch</u>
AIG Financial Products Corp.	AA	Aa2	AA
Ambac Financial Services, L.P.	AAA	Aaa	AAA
Bear Stearns Capital Markets Inc.	A	A1	A+
BNP Paribas North America, Inc.	AA	Aa2	AA
Citigroup Financial Products Inc.	AA-	Aa1	AA+
JPMorgan Chase Bank	AA-	Aa2	A+
Lehman Brothers Special Financing Inc.	A+	A1	A+
Morgan Stanley Capital Services Inc.	A+	Aa3	AA-
UBS AG	AA+	Aa2	AA+

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, 2005 for the swap where the notional amount does not match the outstanding principal amount of the associated bonds.

<u>Associated Bond Issue</u>	<u>Principal Amount of Bonds (in millions)</u>	<u>Notional Amount (in millions)</u>
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002C	\$103.3	\$77.2

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

## Risks Associated with the Swap Agreements

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

- **Credit Risk** – The counterparty becomes insolvent or is otherwise not be able to perform its financial obligations. In the event of a deterioration in the credit ratings of the counterparty or MTA, MTA Bridges and Tunnels or 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 large termination payment to the counterparty.
- **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 get the benefit of the synthetic fixed rate for the duration of the bond issue.

*Credit Risk.* The following table shows the diversification, by percentage of notional amount, among the various counterparties that have currently 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 both Bear Stearns swaps relating to the Transportation Revenue Bonds, Series 2002D-2 (one of which swaps terminates on January 1, 2007, which is the date that the other swap becomes effective) and includes all five swaps (including the UBS basis risk swap) in connection with the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B. The counterparties have the ratings set forth above.

<u>Counterparty</u>	<u>Notional Amount (in millions)</u>	<u>% of Total Notional Amount</u>
UBS AG	\$1,657.9	30.1%
Citigroup Financial Products Inc.	1,027.0	18.6
Bear Stearns Capital Markets Inc.	823.9	15.0
Lehman Brothers Special Financing Inc.	590.0	10.7
Morgan Stanley Capital Services Inc.	440.0	8.0
BNP Paribas North America, Inc.	410.0	7.4
JPMorgan Chase Bank	381.0	6.9
AIG Financial Products Corp.	100.0	1.8
Ambac Financial Services, L.P.	<u>77.20</u>	1.4
Total	\$5,507.050	

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:

- Bear Stearns Capital Markets Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D,
- 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. (though there is only one transaction outstanding under that Master Agreement).

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

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

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

<b>MTA Transportation Revenue Bonds</b>		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to</u>	<u>Then the downgraded party must post collateral if its estimated termination payments are in excess of</u>
Series 2002D-1 and Series 2002D-2	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&amp;P</u> – BBB+	\$10.0
	<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&amp;P</u> – BBB and below or unrated	\$0.0
Series 2005D and Series 2005E	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&amp;P</u> – BBB+	\$10.0
	<u>Fitch</u> – below BBB+, <u>Moody's</u> – below Baa1, or <u>S&amp;P</u> – below BBB+	\$0.0

<b>MTA Dedicated Tax Fund Bonds</b>		
Associated Bond Issue	If the highest rating of the related MTA bonds or the counterparty's long-term <u>unsecured debt falls to</u>	Then the downgraded party must post collateral if its estimated termination <u>payments are in excess of</u>
Series 2002B	<u>Fitch</u> – BBB+, or <u>S&amp;P</u> – BBB+	\$10.0
	<u>Fitch</u> – BBB and below or unrated, or <u>S&amp;P</u> – BBB and below or unrated	\$0.0
Series 2005A [Note: for this swap, MTA is not required to post collateral under any circumstances.]	<u>Fitch</u> – A-, or <u>Moody's</u> – A3, or <u>S&amp;P</u> – A-	\$10.0
	<u>Fitch</u> – BBB+ and below, or <u>Moody's</u> – Baa1 and below, or <u>S&amp;P</u> – BBB+ and below	\$0.0
Series 2006A Hedge (April 27, 2006) and Series 2006B Hedge (December 1, 2006)	For counterparty, <u>Fitch</u> – A-, or <u>Moody's</u> – A3, or <u>S&amp;P</u> – A-	\$10.0
	For MTA, <u>Fitch</u> – BBB+, or <u>Moody's</u> – Baa1, or <u>S&amp;P</u> – BBB+	\$30.0
	For MTA, <u>Fitch</u> – BBB, or <u>Moody's</u> – Baa2, or <u>S&amp;P</u> – BBB	\$15.0
	For counterparty, <u>Fitch</u> – BBB+ and below, or <u>Moody's</u> – Baa1 and below, or <u>S&amp;P</u> – BBB+ and below	\$0.0
	For MTA, <u>Fitch</u> – BBB- and below, or <u>Moody's</u> – Baa3 and below, or <u>S&amp;P</u> – BBB- and below	\$0.0

<b>2 Broadway Certificates of Participation</b>		
<u>Associated Agencies</u>	<u>If the highest rating of the MTA Transportation Revenue Bonds falls to</u>	<u>Then MTA, MTA Bridges and Tunnels and MTA New York City Transit must post collateral if its estimated termination payments are in excess of</u>
MTA MTA Bridges and Tunnels MTA New York City Transit	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&amp;P</u> – BBB+	\$25.0
	<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&amp;P</u> – BBB and below or unrated	\$0.0
	<u>If the highest rating of the Counterparty's long-term unsecured debt falls to</u>	<u>Then the Counterparty must post collateral if its estimated termination payments are in excess of</u>
	<u>Moody's</u> – Baa1 or lower, or <u>S&amp;P</u> – BBB+ or lower	\$0.0

<b>MTA Bridges and Tunnels Senior Lien Revenue Bonds</b>		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to</u>	<u>Then the downgraded party must post collateral if its estimated termination payments are in excess of</u>
Series 2001B and 2001C	N/A – Because MTA Bridges and Tunnels's 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 \$1.0.	
Series 2002C	N/A – Because MTA Bridges and Tunnels's 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 \$1.0.	
Series 2005B interest rate swap and Series 2005B basis risk swap	For counterparty, <u>Fitch</u> – A-, or <u>Moody's</u> – A3, or <u>S&amp;P</u> – A-	\$10.0
	For MTA, <u>Fitch</u> – BBB+, or <u>Moody's</u> – Baa1, or <u>S&amp;P</u> – BBB+	\$30.0
	For MTA, <u>Fitch</u> – BBB, or <u>Moody's</u> – Baa2, or <u>S&amp;P</u> – BBB	\$15.0
	For counterparty, <u>Fitch</u> – BBB+ and below, or <u>Moody's</u> – Baa1 and below, or <u>S&amp;P</u> – BBB+ and below	\$00.0
	For MTA, <u>Fitch</u> – BBB- and below, or <u>Moody's</u> – Baa3 and below, or <u>S&amp;P</u> – BBB- and below	\$0.0

<b>MTA Bridges and Tunnels Subordinate Revenue Bonds</b>		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to</u>	<u>Then the downgraded party must post collateral if its estimated termination payments are in excess of</u>
Series 2000A and 2000B	N/A – Because MTA Bridges and Tunnels's 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 \$1.0.	
Series 2000C and 2000D	N/A – Because MTA Bridges and Tunnels's 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 \$1.0.	
Series 2002G-1 and 2002G-2	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&amp;P</u> – BBB+	\$10.0
	<u>Fitch</u> – Below BBB+, <u>Moody's</u> – Below Baa1, or <u>S&amp;P</u> – Below BBB+	\$0.0

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

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

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

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

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

<b>MTA Transportation Revenue and Dedicated Tax Fund Bonds</b>	
<u>Associated Bond Issue</u>	<u>Additional Termination Event(s)</u>
<u>Transportation Revenue Bonds</u>	
Series 2002D-1, Series 2002D-2 (both swaps), 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.
<u>Dedicated Tax Fund Bonds</u>	
Series 2002B	The ratings by S&P and Fitch of the Counterparty or the MTA Dedicated Tax Fund Bonds falls below "BBB-" or are withdrawn.
Series 2005A Bonds and Series 2006A and Series 2006B Hedges	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1", respectively, or the ratings of S&P or Fitch with respect to the MTA Dedicated Tax Fund Bonds falls below "BBB" or, in either case the ratings are withdrawn.

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

<b>MTA Bridges and Tunnels Senior and Subordinate Revenue Bonds</b>	
<u>Associated Bond Issue</u>	<u>Additional Termination Events</u>
<b><u>Senior Lien Revenue Bonds</u></b>	
Series 2001B and 2001C and Series 2002C	<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.</p>
Series 2005B interest rate swap and basis risk swap	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1", respectively, or the ratings of S&P or Moody's with respect to the MTA Bridges and Tunnels Senior Lien Revenue Bonds falls below "BBB" or "Baa2", respectively, or , in either case the ratings are withdrawn.
<b><u>Subordinate Revenue Bonds</u></b>	
Series 2000A, 2000B, 2000C and 2000D	<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.</p>
Series 2002G-1 and Series 2002G-2	<p>1. The ratings by S&amp;P and Moody's of the Counterparty or the MTA Bridges and Tunnels Subordinate Revenue Bonds falls below "BBB-" and "Baa3", respectively, or are withdrawn.</p> <p>2. MTA Bridges and Tunnels may terminate the swap at no cost on or after December 29, 2010 in the case of the Series 2002G-1 swap, and on or after January 5, 2011 in the case of the Series 2002G-2 swap.</p>

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

<u>Associated Bond Issue</u>	<u>Bond Maturity Date</u>	<u>Swap Termination Date</u>
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1	11/01/29	01/01/06
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	11/01/22	09/01/13
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	01/01/32	01/01/19
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002C	01/01/33	01/01/13
MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G <sup>(1)</sup>	11/01/32	01/01/18

It should also be noted that, in connection with the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A, 2000B, 2000C and 2000D, currently, all of the principal of the bonds is scheduled to be amortized through sinking fund redemption payments by the time of the swap's termination; however, MTA Bridges and Tunnels has retained the right to readjust the sinking fund payments to decrease the amounts of the sinking fund payments currently scheduled and to extend the amortization period of the Series 2000A – D Bonds to January 1, 2031. A readjustment of the sinking fund payments would not change the scheduled decreases in notional amounts of the associated swap. As a result, the principal amount of the bonds outstanding would exceed the notional amount of the associated swap. However, if MTA Bridges and Tunnels decided to readjust the sinking fund schedules, MTA Bridges and Tunnels would be exposed to rollover risk at the swap termination date. MTA Bridges and Tunnels could readjust such sinking fund redemption schedules only upon delivery of an opinion of nationally recognized bond counsel meeting the conditions of the bond resolutions. MTA Bridges and Tunnels has no current intention of exercising these rights.

*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's outstanding variable-rate debt and net swap payments are estimated to be as follows:

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

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<sup>(1)</sup> The swap relating to the Subseries 2002G-1 Bonds in the notional amount of \$90.5 may be terminated at the option of MTA Bridges and Tunnels on or after December 29, 2010, and the swap relating to the Subseries 2002G-2 Bonds in the notional amount of \$90.5 may be terminated at the option of MTA Bridges and Tunnels on or after January 5, 2011.

<b>MTA (in millions)</b>				
	<u>Variable-Rate Bonds</u>			
<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Swap Payments</u>	<u>Total</u>
2006	\$ 1.4	\$ 59.5	\$ (5.1)	\$ 55.9
2007	1.5	59.5	(3.4)	57.5
2008	1.5	59.4	(3.4)	57.5
2009	1.6	59.3	(3.4)	57.6
2010	1.7	59.3	(3.4)	57.6
2011-2015	92.8	293.1	(17.3)	368.6
2016-2020	354.5	249.5	(16.8)	587.1
2021-2025	347.6	170.6	(12.3)	506.0
2026-2030	339.4	111.9	(5.1)	446.2
2031-2035	345.9	30.0	(0.4)	375.5

<b>MTA Bridges and Tunnels (in millions)</b>				
	<u>Variable-Rate Bonds</u>			
<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Swap Payments</u>	<u>Total</u>
2006	\$ 22.1	\$ 72.3	\$ 5.4	\$ 99.7
2007	26.3	71.2	4.5	102.0
2008	34.1	69.8	3.5	107.4
2009	36.4	68.4	3.0	107.7
2010	38.2	66.9	2.1	107.2
2011-2015	251.3	306.2	(7.9)	549.5
2016-2020	264.4	248.1	(33.2)	479.3
2021-2025	205.2	208.8	(33.5)	380.5
2026-2030	514.2	146.8	(26.8)	634.1
2031-2035	436.5	9.2	(1.7)	444.0

## 7. 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. The term of the lease is 22 years, but 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 an affiliate of the third party's lender, which has the obligation to make a portion of sublease rent payments equal to this amount, thereby eliminating the need for the MTA to make these payments to the third party. The MTA used \$21 to purchase Treasury securities, which it deposited under pledge to the third party. This deposit, together with the aforementioned obligation of the third party's lender, resulted in a financial defeasance of all

sublease obligations, including the cost of purchasing the third party's remaining rights at the end of the 22 year sublease period, if the purchase option is exercised. A further \$.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, 2005, the MTA has recorded a long-term capital obligation and capital asset of \$282 arising from the transaction.

***Subway and Rail Cars*** - On December 12, 1997, the MTA entered into lease/leaseback transactions whereby the MTA leased certain of MTA Metro-North Railroad's rail cars to a third party and MTA New York City Transit leased certain subway maintenance cars to the same third party. The lease periods for MTA Metro-North Railroad's rail cars expire between 2009 and 2014, depending on the asset, and the lease period for MTA New York City Transit's subway maintenance cars expires in 2013. The third party has the right to renew the lease for an additional period of 12 years for MTA Metro-North Railroad cars, depending on the asset, 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 the lease/leaseback agreement, 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 make a portion of sublease rent payments equal to this amount, thereby eliminating the need for the MTA to make these payments to the third party. The MTA used \$12.5 to purchase a Letter of Credit from an affiliate of the third-party's lender, guaranteed by the third-party lender's parent. This payment, together with the aforementioned obligation of the third-party's lender, is sufficient to settle all obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the purchase options are exercised. At December 31, 2005, the MTA has recorded a long-term capital obligation and capital asset of \$49 arising from the transaction. The net proceeds are deferred and amortized to operations over the period of the lease.

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 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 make a portion of the lease rent payment equal to the debt service on the related loans, thereby eliminating the need for MTAHQ to make these payments to the third parties. 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 in amounts and with maturities which are expected to be sufficient to pay the remainder of the lease rent payments under that lease and the purchase price due upon exercise by the MTA of the purchase option if exercised. In the case of the other three leases, the MTA entered into Equity Payment Agreements with Premier International Funding Co. (which are guaranteed by Financial Security Assurance, Inc.) whereby that entity has the obligation to provide to the MTA the amounts necessary to make the remainder of the basic lease

rent payments under the leases and to pay the purchase price due upon exercise by the MTA of the purchase options if exercised. The amount remaining after payment of transaction expenses, \$96.2, was the MTA's net benefit from these four transactions. These amounts are deferred and amortized to operations over the period of the lease.

During 1995, MTA Bridges and Tunnels entered into a sale/leaseback transaction with a third party whereby the MTA Bridges and Tunnels sold certain subway cars, which were contributed by the 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 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 obligations under the lease as they become due. 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.

***QTE Lease Transactions*** - 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 make a portion of the lease rent payment equal to the debt service on the related loans, thereby eliminating the need for the MTA to make these payments to the third parties. 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 lease rent payments under those leases and the purchase price due upon exercise by the MTA of the 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 is guaranteed by XL Financial Assurance Ltd.) whereby that entity has the obligation to provide to the MTA the amounts necessary to make the remainder of the basic lease rent payments under that lease and to pay 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, 2005, MTA had paid the City of New York \$13.7.

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

Under the terms of the sale/leaseback agreement, the MTA initially received \$168.1 million, 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 make a portion of the lease rent payment equal to the debt service on the related loan, thereby eliminating the need for MTAHQ to make these payments to third parties. 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 rent under that lease and the purchase price due upon exercise by the MTA of the purchase option if exercised. The amount remaining after payment of transaction expenses, \$7.4, was the MTA's benefit from the transaction.

On September 25, 2003 and September 29, 2003, 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 MTA, MTA sold those cars to third parties, and MTA leased those cars back from such third parties. 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, MTA initially received \$294, which was utilized as follows: In the case of one of the leases MTA paid \$97 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to make a portion of the lease rent payment equal to the debt service on the related loan, thereby eliminating the need for MTA to make these payments to the third party. In the case of the other lease MTA purchased 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 loan from the other lender to the third party. In the case of both of the leases MTA also purchased REFCO debt securities that mature in 2030 under an agreement with AIG Matched Funding Corp. (guaranteed by American International Group, Inc.) whereby AIG Matched Funding Corp. receives the proceeds from the REFCO debt securities at maturity and is obligated to pay the remainder of the lease rent payments under those leases and the purchase price due upon exercise by MTA of the purchase options if exercised. The amount remaining after payment of transaction expenses, \$24, was MTA's net benefit from these two transactions. These amounts are deferred and amortized to operations over the period of the respective leases.

*Other Lease Transactions* - On July 29, 1998, the MTAHQ, MTA New York City Transit, and MTA Bridges & Tunnels entered into a lease and related agreements whereby each agency, as sublessees, will rent, for an initial stated term of approximately 50 years, an office building at Two Broadway in lower Manhattan. The lease term expires on July 30, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. The lease comprises both operating (for the lease of land) and capital (for the lease of the building) elements. The total annual rental payments over the initial lease term are \$1,602 with rent being abated from the commencement date through June 30, 1999. During 2002 and 2001 the MTA made rent payments of \$21. In connection with the renovation of the building and for tenant improvements, the MTA issued \$121 and \$328 in 2000 and 1999, respectively, of long-term obligations (see Note 6). 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 \$32 through December 31, 2005 and \$50 through December 31, 2004.

At December 31, 2005, the future minimum lease payments under non-cancelable leases are as follows:

Year	Operating	Capital
2006	\$ 63	\$ 183
2007	32	1,146
2008	28	99
2009	27	307
2010	25	175
2011 - 2015	84	442
2016 - 2020	63	514
2021 - 2025	62	572
2026 - 2030	53	205
2031 - 2035	47	1,616
Thereafter	<u>452</u>	<u>605</u>
	<u>\$ 936</u>	5,864
Amount representing interest		<u>(3,215)</u>
Present value of capital lease obligations		<u>\$2,649</u>

## 8. 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, 2005 and 2004 is presented below:

	December 31, 2005	December 31, 2004
Balance, beginning of year	\$ 1,127	\$ 1,049
Activity during the year:		
Current year claims and changes in estimates	200	216
Claims paid	<u>(153)</u>	<u>(138)</u>
Balance, end of period	1,174	1,127
Less current portion	<u>(191)</u>	<u>(182)</u>
Long-term liability	<u>\$ 983</u>	<u>\$ 945</u>

## 9. COMMITMENTS AND CONTINGENCIES

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

Management has reviewed with counsel all actions and proceedings pending against or involving the MTA, 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.

**10. SEGMENT INFORMATION (Presented by Operating Activity)**

	<b>MTA</b>	<b>Commuters</b>	<b>Transit</b>	<b>Bridges and Tunnels</b>	<b>Eliminations</b>	<b>Total</b>
<b>December 31, 2005</b>						
Operating revenue	\$ 133	\$ 939	\$ 2,908	\$ 1,254	\$ (36)	\$ 5,198
Depreciation and amortization	35	434	955	50	-	1,474
Subsidies and grants	381	-	315	-	(156)	540
Tax revenue	2,295	-	1,565	-	(934)	2,926
Interagency subsidy	457	-	180	(457)	(180)	-
Operating (deficit) surplus	(442)	(1,208)	(2,765)	861	-	(3,554)
Net (deficit) surplus	313	(1,182)	1,111	153	-	395
Capital expenditures	3,618	214	708	166	(1,067)	3,639
<b>December 31, 2005</b>						
Total assets	10,487	9,087	25,430	3,571	(1,949)	46,626
Net working capital	(373)	(99)	49	(235)	487	(171)
Long-term debt - (including current portion)	14,897	-	-	7,107	(45)	21,959
Net assets	(9,069)	8,213	22,885	(4,036)	-	17,993
<b>December 31, 2005</b>						
Net cash used in operating activities	(411)	(683)	(1,543)	879	34	(1,724)
Net cash provided by noncapital financing activities	3,244	717	2,090	(479)	(1,958)	3,614
Net cash used in capital and related and related financing activities	(2,120)	(12)	(284)	(447)	1,344	(1,519)
Net cash provided by/(used in) Investing activities	(736)	(10)	(237)	46	580	(357)
Cash at beginning of year	58	17	36	13	-	124
Cash at end of year	34	29	63	12	-	138

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

(Continued)

	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Total
<b>December 31, 2004</b>						
Operating revenue	\$ 89	\$ 869	\$ 2,787	\$ 1,130	\$ (38)	\$ 4,837
Depreciation and amortization	28	379	892	45	-	1,344
Subsidies and grants	374	-	317	-	(159)	532
Tax revenue	1,791	-	1,329	-	(805)	2,315
Interagency subsidy	397	-	151	(397)	(151)	-
Operating (deficit) surplus	(313)	(1,145)	(2,496)	765	13	(3,176)
Net (deficit) surplus	(1,516)	456	1,286	(143)	-	83
Capital expenditures	3,484	219	723	463	(1,419)	3,470
<b>December 31, 2004</b>						
Total assets	9,611	8,531	24,115	3,341	(1,761)	43,837
Net working capital	523	(83)	(85)	(166)	(130)	59
Long-term debt - (including current portion)	12,964	-	-	7,003	(46)	19,921
Net assets	(7,703)	7,713	21,773	(4,187)	-	17,596
<b>December 31, 2004</b>						
Net cash used in operating activities	(299)	(732)	(1,428)	816	43	(1,600)
Net cash provided by noncapital financing activities	2,497	737	1,859	(379)	(1,746)	2,968
Net cash used in capital and related and related financing activities	(2,084)	(6)	(195)	(596)	1,703	(1,178)
Net cash provided by/(used in) Investing activities	(123)	(2)	(237)	162	-	(200)
Cash at beginning of year	67	20	37	10	-	134
Cash at end of year	58	17	36	13	-	124

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

(Concluded)

## 11. SETTLEMENT OF CLAIMS

The September 11, 2001 terrorist attack on the World Trade Center in New York resulted in the following significant items: (1) significant physical and structural damage to MTA New York City Transit's N, R, 1, and 9 lines and related facilities and stations; (2) temporary closure of some of MTA Bridges and Tunnels' bridges and tunnels, and certain restrictions imposed on the number of vehicle occupants when the facilities were reopened; (3) safety and security expenditures in and around the World Trade Center; and (4) temporary closure of MTA Metro-North Railroad's Grand Central Terminal and MTA Long Island Rail Road's Pennsylvania Station.

In April 2004, the MTA settled its claims with its property insurance carriers for damage caused as a result of the September 11, 2001 terrorist attack. The global settlement received in the amount of \$398 represents the settlement of claims for losses related to physical damage of property, loss of revenues, increased operating expenses, and other expenses related to the clean up of its facilities caused by the attack.

## 12. SUBSEQUENT EVENTS

*Amendment of 2005-2009 of Capital Program* – In January 2006, the MTA Board approved an amendment to the 2005-2009 Capital Program that was subsequently approved by the CPRB. The amendment adjusts the approved capital program to include Federal earmarks, reflect new MTA Bus funding as a result of MTA’s takeover of private buses, and updates project scopes, schedules and budgets. The revised five-year program now totals \$21,285. The overall increase to the program is primarily due to the addition of \$138 of Federal and matching funds to the MTA Bus capital program. New Federal earmarks and other dedicated Federal funding have resulted in a modest increase to the CPRB-based program.

*Issuance of New Commercial Paper Program* – During March 2006, the MTA issued \$450 in Transportation Revenue Bond Anticipation Notes secured by a letter of credit to begin a new commercial paper program to finance transit and commuter projects.

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# METROPOLITAN TRANSPORTATION AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF PENSION FUNDING PROGRESS (Dollars - In Millions)

	January 1, 2005	January 1, 2004	January 1, 2003
<b>LIRR</b>			
a. Actuarial value of plan assets	\$ 659.6	\$ 689.7	\$ 701.9
b. Actuarial accrued liability (AAL)	1,786.7	1,745.6	1,567.2
c. Total unfunded AAL (UAAL) [b-a]	1,127.1	1,055.9	865.3
d. Funded ratio [a/b]	36.9 %	39.5 %	44.8 %
e. Covered payroll	\$ 137.1	\$ 151.2	\$ 174.9
f. UAAL as a percentage of covered payroll [c/e]	822.1 %	698.3 %	494.7 %
<b>SIRTOA</b>			
a. Actuarial value of plan assets	\$ 38.6	\$ 36.8	\$ 34.4
b. Actuarial accrued liability (AAL)	46.3	44.8	42.4
c. Total unfunded AAL (UAAL) [b-a]	7.7	7.9	8.1
d. Funded ratio [a/b]	83.3 %	82.3 %	81.0 %
e. Covered payroll	\$ 16.2	\$ 15.5	\$ 15.7
f. UAAL as a percentage of covered payroll [c/e]	47.8 %	51.0 %	51.6 %
<b>MaBSTOA</b>			
a. Actuarial value of plan assets	\$ 762.1	\$ 713.2	\$ 629.8
b. Actuarial accrued liability (AAL)	1,680.5	1,663.3	1,564.6
c. Total unfunded AAL (UAAL) [b-a]	918.4	950.1	934.8
d. Funded ratio [a/b]	45.3 %	42.9 %	40.3 %
e. Covered payroll	\$ 479.5	\$ 460.9	\$ 450.6
f. UAAL as a percentage of covered payroll [c/e]	191.5 %	206.1 %	207.5 %
<b>MTA</b>			
a. Actuarial value of plan assets	\$ 463.6	\$ 391.6	\$ 243.2
b. Actuarial accrued liability (AAL)	625.5	554.0	268.0
c. Total unfunded AAL (UAAL) [b-a]	161.9	162.4	24.8
d. Funded ratio [a/b]	74.1 %	70.7 %	90.7 %
e. Covered payroll	\$ 480.8	\$ 451.1	\$ 154.0
f. UAAL as a percentage of covered payroll [c/e]	33.7 %	36.0 %	16.1 %

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# METROPOLITAN TRANSPORTATION AUTHORITY

## SUPPLEMENTARY INFORMATION SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION YEAR ENDED DECEMBER 31, 2005 (Dollars in Millions)

	<b>UNAUDITED</b>
<b>FINANCIAL PLAN ACTUAL - OPERATING LOSS</b>	<b><u>\$ (3,421.9)</u></b>
<b>Reconciling items:</b>	
TBTA Depreciation Expense - The Financial Plan subtracts the TBTA's depreciation in order to reflect the transfer of surplus revenues.	(49.8)
The Financial Statements include revenue and expense for the MTA Bus Company. The Financial Plan currently does not include the MTA Bus Company.	(87.9)
FMTAC revenues are recorded as operating on the Financial Plan and recorded as non-operating on the Financial Statements.	(8.0)
LI Bus expenses are higher on the Financial Statements due to the recording of reimbursable expenses. These expenses are eliminated against appropriations and grants received.	(6.3)
The Financial Plan includes TBTA capital transfer to agencies	22.7
Other miscellaneous adjustments and accruals.	<u>(2.8)</u>
<b>FINANCIAL STATEMENT - OPERATING LOSS</b>	<b><u><u>\$ (3,554.0)</u></u></b>

# METROPOLITAN TRANSPORTATION AUTHORITY

## SUPPLEMENTARY INFORMATION

### CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

(Dollars in Millions)

<u>Category</u>	<u>Financial Plan Actual (Unaudited)</u>	<u>Financial Statement GAAP Actual</u>	<u>Variance</u>
<b>REVENUE</b>			
Farebox Revenue	\$ 3,565.3	\$ 3,606.2	\$ 40.9
Vehicle Toll Revenue	1,204.9	1,204.9	-
Other Operating Revenue	435.9	387.2	(48.7)
<b>Total Revenue</b>	<b>5,206.1</b>	<b>5,198.3</b>	<b>(7.8)</b>
<b>EXPENSES</b>			
<b>Labor:</b>			
Payroll	3,362.1	3,440.8	(78.7)
Overtime	385.5	378.0	7.5
Health and Welfare	769.4	780.4	(11.0)
Pensions	641.6	647.3	(5.7)
Other Fringe Benefits	386.0	392.2	(6.2)
Reimbursable Overhead	(240.1)	(201.1)	(39.0)
<b>Total Labor Expenses</b>	<b>5,304.5</b>	<b>5,437.6</b>	<b>(133.1)</b>
<b>Non-Labor:</b>			
Traction and Propulsion Power	253.5	253.5	-
Fuel for Buses and Trains	138.2	143.3	(5.1)
Insurance	62.0	66.5	(4.5)
Claims	90.4	90.4	-
Paratransit Service Contracts	158.2	158.2	-
Maintenance and Other Operating Contracts	452.6	459.8	(7.2)
Professional Service Contract	216.4	226.6	(10.2)
Materials & Supplies	388.0	404.7	(16.7)
Other Business Expenses	156.5	38.1	118.4
Rounding	(0.1)	-	(0.1)
<b>Total Non-Labor Expenses</b>	<b>1,915.7</b>	<b>1,841.1</b>	<b>74.6</b>
<b>Other Expenses Adjustments:</b>			
TBTA Transfer	22.7	-	22.7
Interagency Subsidy	(34.7)	-	(34.7)
Other	1.0	-	1.0
<b>Total Other Expense Adjustments</b>	<b>(11.0)</b>	<b>-</b>	<b>(11.0)</b>
<b>Total Expenses Before Depreciation</b>	<b>7,209.2</b>	<b>7,278.7</b>	<b>(69.5)</b>
Depreciation	1,468.6	1,473.6	(5.0)
TBTA Depreciation Expense	(49.8)	-	(49.8)
<b>Total Expenses (Excluding TBTA Depreciation)</b>	<b>8,628.0</b>	<b>8,752.3</b>	<b>(124.3)</b>
<b>Net Operating Deficit Excluding Subsidies and Debt Service</b>	<b>\$ (3,421.9)</b>	<b>\$ (3,554.0)</b>	<b>\$ (132.1)</b>

# METROPOLITAN TRANSPORTATION AUTHORITY

## SUPPLEMENTARY INFORMATION

### CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2005

(Dollars in Millions)

<u>Accrued Subsidies</u>	Financial Plan <u>Actual</u> (Unaudited)	Financial Statement <u>GAAP Actual</u>	<u>Variance</u>
Mass Transportation Operating Assistance	\$ 982.1	\$ 982.1	\$ -
Petroleum Business Tax	561.2	561.2	-
Mortgage Recording Tax 1 and 2	743.5	743.6	0.1 {1}
MRT transfer	(43.1)	(43.1)	-
Urban Tax	557.4	628.3	70.9 {2}
State and Local Operating Assistance	378.8	378.8	-
Additional Mass Transportation Assistance Program	39.4	39.4	-
Nassau County Subsidy to Long Island Bus	10.5	10.5	-
Station Maintenance	133.7	133.7	-
Connecticut Department of Transportation (CDOT)	43.7	43.7	-
NYS Grant for Debt Service	-	122.0	122.0 {3}
Investment income	14.8	14.8	-
Adjustment for rounding	0.1	-	(0.1)
Total Accrued Subsidies	3,422.1	3,615.0	192.9
Net Operating Surplus/(Deficit) Excluding Accrued Subsidies and Debt Service	(3,421.9)	(3,554.0)	(132.1)
Total Net Operating Surplus/(Deficit)	<u>\$ 0.2</u>	<u>\$ 61.0</u>	<u>\$ 60.8</u>
Interest on Long-Term Debt		<u>\$ 976.4</u>	
Debt Service	<u>\$ 1,017.6</u>		

{1} The difference was due to rounding.

{2} The MTA Bus Company received operating assistance from New York City that was not included in the Financial Plan.

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