

Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Accountants' Review Report

Consolidated Interim Financial Statements
Period Ended September 30, 2008

METROPOLITAN TRANSPORTATION AUTHORITY

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Members of the Board of
Metropolitan Transportation Authority

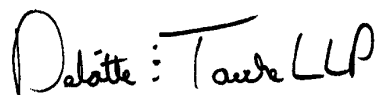
We have reviewed the accompanying consolidated interim balance sheet of the Metropolitan Transportation Authority (the "Authority"), a component unit of the State of New York, as of September 30, 2008, and the related consolidated statements of revenues, expenses and changes in net assets, and consolidated cash flows for the periods ended September 30, 2008 and 2007, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these consolidated financial statements is the representation of the management of the Authority.

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

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

The supplemental schedules listed in the table of contents on pages 84 through 86 are presented for the purpose of additional analysis and are not a required part of the basic consolidated interim financial statements. These schedules are the responsibility of the Authority's management. Such schedules were not audited or reviewed by us and, accordingly we do not express an opinion or any other form of assurance on them.

The consolidated financial statements for the year ended December 31, 2007 were audited by us, and based on our audit and the reports of other auditors, we expressed an unqualified opinion on them in our report dated April 24, 2008, we also applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation to the 2007 Management's Discussion and Analysis and other supplementary information required by the Governmental Accounting Standards Board and such report expressed no opinion on the information. We have not performed any auditing procedures since the date of such report.



January 9, 2009

METROPOLITAN TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIODS ENDED SEPTEMBER 30, 2008

(See Independent Accountants' Review Report)

(\$ in Millions)

1. OVERVIEW OF THE FINANCIAL STATEMENTS

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

Consolidated Interim 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, which provide information about the MTA's cash receipts, cash payments and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities.

Notes to the Consolidated Interim Financial Statements provide information that is essential to understanding the consolidated interim 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 and postemployment benefits to its employees.

Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the MTA for the nine months ended September 30, 2008 and 2007 and the 12 months ended December 31, 2007. This management discussion and analysis is intended to serve as an introduction to the MTA's consolidated interim 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 must be read in conjunction with, and should not be considered a replacement for, the consolidated financial statements.

2. FINANCIAL REPORTING ENTITY

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

MTA Related Groups

- Headquarters (“MTAHQ”) provides general oversight, planning and administration, including budget, cash management, finance, legal, real estate, treasury, risk management, and other functions to the related groups listed below.
- The Long Island Rail Road Company (“MTA Long Island Rail Road”) provides passenger transportation between New York City and Long Island.
- Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) provides passenger transportation between New York City and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in New York State and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority (“MTA Staten Island Railway”) provides passenger rail transportation on Staten Island.
- Metropolitan Suburban Bus Authority (“MTA Long Island Bus”) provides public bus service in Nassau and Queens counties.
- First Mutual Transportation Assurance Company (“FMTAC”) operates as a captive insurance company to provide insurance coverage for property and primary liability.
- New York City Transit Authority (“MTA New York City Transit”) and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”) provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority (“MTA Bridges and Tunnels”) operates seven toll bridges, two tunnels, and the Battery Parking Garage.
- MTA Capital Construction Company (“MTA Capital Construction”) provides oversight for the planning, design, and construction of current and future major MTA system expansion projects.
- MTA Bus Company (“MTA Bus”) operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.

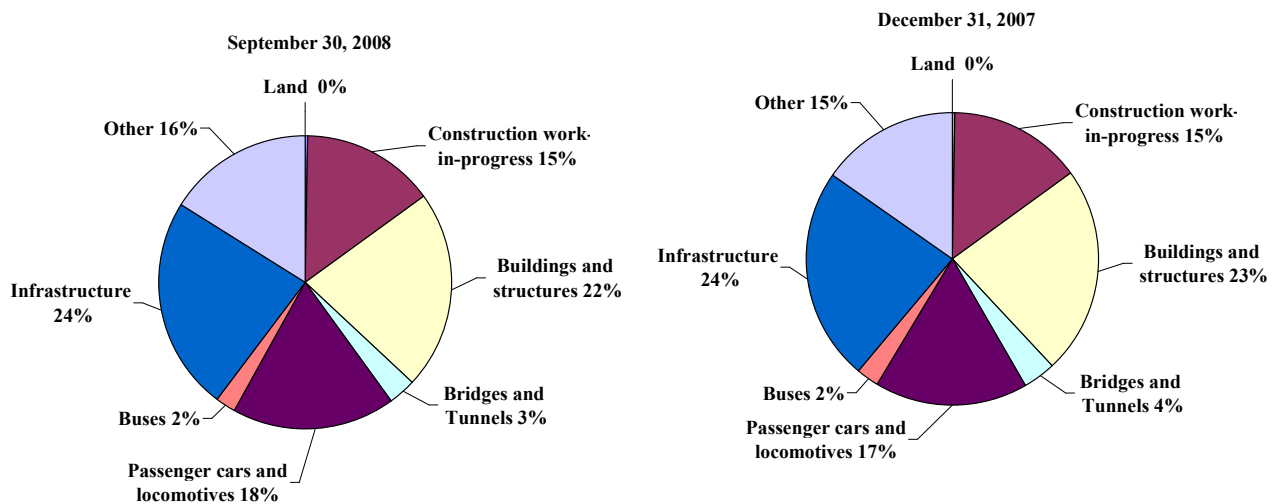
3. CONDENSED INTERIM FINANCIAL INFORMATION

The following sections discuss the significant changes in the MTA’s financial position for the nine months ended September 30, 2008. 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 interim financial statements and the various exhibits presented were derived from the MTA’s consolidated interim financial statements. All dollar amounts are in millions.

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

	September 2008 (Unaudited)	December 2007	December 2006
Capital assets, net (see Note 6)	\$ 42,416	\$ 40,611	\$ 38,307
Other assets	<u>11,021</u>	<u>11,158</u>	<u>11,778</u>
Total assets	<u>\$ 53,437</u>	<u>\$ 51,769</u>	<u>\$ 50,085</u>

Capital Assets, Net



September 30, 2008 versus December 31, 2007

- Net capital assets increased at September 30, 2008 by \$1,805. The largest increase, \$869, occurred in other capital assets (which includes work trains, service vehicles, passenger stations and other equipment, excluding passenger cars and locomotives and buses), infrastructure, \$868; passenger cars and locomotives, \$807; buildings and structures, \$220; construction in progress, \$352 and acquisition of buses decreased by \$8. These increases were partially offset by additional accumulated depreciation of \$1,303. Some of the more significant projects contributing to the increase included:

MTA Long Island Rail Road

- Rehabilitation of the East River Tunnel, safety and substation improvements, ventilation projects and mainline corridor improvements.
- Upgrading of shops and yards such as Babylon, Long Island City and Richmond Hills.
- Continued work on signals and communication assets, with a number of projects nearing completion, such as the fiber optic network and various microprocessor signal projects.

- Rehabilitation of passenger stations, including the Atlantic Terminal, Broadway, Seaford and Valley Stream.
- Work on security projects, including hardening of Penn Station, Jamaica, and the 63rd Street Tunnel.

MTA New York City Transit

- Design and installation of a pilot Communications Based Train Control System on the Canarsie Line.
- Station rehabilitation at various locations on various lines, and the Fulton Street Transit Center.
- Placement into service of 374 R160 subway cars and 10 buses during 2008.
- Rehabilitation of line structures and subway tunnels.
- Design and construction of a new depot at the Grand Avenue Facility.

MTA Metro-North Railroad

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

MTA Bridges and Tunnels

- Rehabilitation of abutments, retaining walls and the replacement of the deck of the Throgs Neck Bridge.
- Rehabilitation of the electrical system on suspension spans at the Verrazzano-Narrows Bridge, the lower deck replacement at the Henry Hudson Bridge, the replacement of all fans at the Queens Midtown Tunnel and rehabilitation of the roadway and drainage system at the Brooklyn Battery Tunnel.
- Replacement of all exhaust fans at the Queens Midtown Tunnel.
- Other assets had a net decrease of \$137. The items contributing to this change include, but are not limited to:
 - Increase in cash by \$26 primarily due to an increase of \$9 by MTA Headquarters related to increases in operating and capital cash funds available. Also affecting the cash position is FMTAC's increase of \$17.
 - Decrease in current and noncurrent investments and investments held under capital leases of \$639. The net decline of \$433 in investment was due to the usage of bond proceeds for capital and

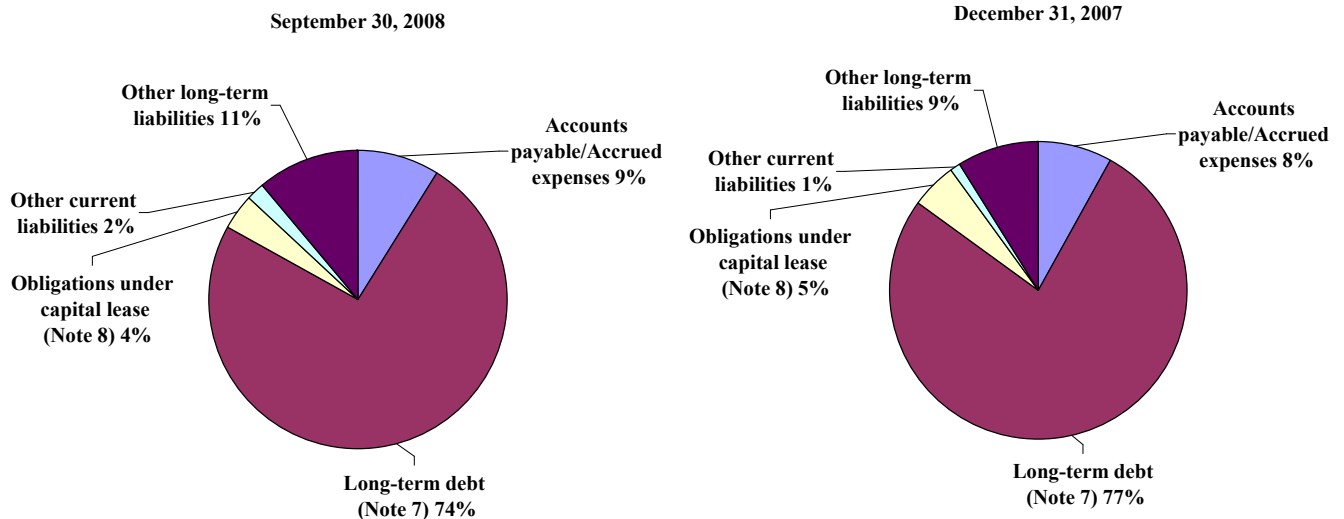
operating expenditures, and the redemption of bonds., The net decline in leases of \$211 resulted from the termination of a lease and principal and interest payments.

- State and Regional Mass Transit Tax Receivable increased by \$635. That increase was because as of September 30, 2008 only 59% of MMTOA’s current year appropriation was collected. At the end of 2007 there was no receivable outstanding.
- Decrease in station maintenance, operation, and use assessments receivable by \$30. The December 2007 receivable reflected nine months of accruals, while September 2008 reflected six months of accruals. The amount billed in May for the period 4/1/07 – 3/31/08 was fully paid in September 2008.
- Increase in Capital Project receivable from Federal and State Government by \$88 due to an increase of State Grants requisitions in the amount of \$62, Nassau County of \$14 and a CDOT receivable of \$13 for M8 cars.
- State and Local Operating Assistance Receivable increased by \$136 due to uncollected funds for the year 2008.
- MRT Receivable decreased by \$13 due to a decline in Revenues to be collected. This reflects the decline of the real estate market in New York City and the seven other counties within the MTA’s service area.
- Increase in material and supplies \$38. The increase is to insure availability of parts and supplies for emergency needs.
- Decrease in advances to defined benefit pension by \$94 was due to amortization of prepaid expenses and an unfunded liability.
- Decrease of prepaid expense and other current assets by \$109 due mainly to pension payments and insurance premiums.
- Decrease in other noncurrent assets \$81. This was due primarily to unrequisioned funds for New York City Transit and MTA Bus capital expenditures. The decrease was partially offset by miscellaneous increases in bond issue costs.

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

	September 2008 (Unaudited)	December 2007	December 2006
Current liabilities	\$ 3,927	\$ 3,492	\$ 3,073
Long-term liabilities	<u>30,628</u>	<u>28,980</u>	<u>27,649</u>
Total liabilities	<u>\$ 34,555</u>	<u>\$ 32,472</u>	<u>\$ 30,722</u>

Total Liabilities



Significant Changes in Liabilities Include:

September 30, 2008 versus December 31, 2007

- Current liabilities increased by \$435. This net increase is due primarily to:
 - Accounts payable and accrued expenses having a net increase of \$485. This is primarily due to:
 - Increase in accounts payable by \$341, due primarily to timing.
 - The salaries, wages and payroll taxes accrual increased by \$42. NYCTA increased by \$51 due to timing differences of pay dates in September 2008 vs December 2007. The retro wage accrual in September 2008 resulted in an increase of \$16 for MTA Bus, and \$4 for TBTA. The above increases were offset by decreases due to the reversal of accrued liability done in 2007 in anticipation of 2008 payments in the amount of \$19 at LIRR and \$10 at Metro North.
 - Decrease in other accrued expenses by \$361. The MTAHQ capital and operating accrual decreased by \$329 while New York City Transit decreased by \$15 and FMTAC decreased by \$19. In particular capital accruals were substantially reduced in the third quarter due to an accelerated payment process.
 - Interest payable increased by \$177 of which \$116 is at Headquarters and \$61 at TBTA. The increase is derived from a) new Fixed Rate Transportation Revenue Bonds issued in 2008 for MTAHQ and General Revenues Bonds issued by TBTA; b) Also at the end of September 2008 larger accruals are reported since the payments of the bonds will take place on November 15, 2008 (4½ months of accruals at the end of September versus 1½ at the end of December).
 - Deferred revenues increased by \$58. Major increases were derived from New York City Transit, \$45; Bridges and Tunnels, \$10; Long Island Railroad, \$1; and Metro North, \$2. New York City Transit's increase of deferred revenue is mainly due to an increase of unredeemed fare cards and advance payments related to advertising revenue.
 - Increase in the current portion of pollution remediation by \$20 as part of the implementation of GASB 49.

- Decrease in current portion of long-term debt by \$128 related to the impact of debt service payments for Transportation Service Bonds, Certificate of Participation (“COPS”) Bonds, and MTA Bridges and Tunnels General Revenue Bonds.
- Noncurrent liabilities increased by \$1,648. This net increase is primarily related to:
 - Increase of \$997 for other postemployment benefits other than pension (OPEB). This increase is due to the implementation of GASB 45. This statement requires systematic accrual-based measurement and recognition of OPEB costs.
 - Long-term debt increased by \$751 with an increase in TBTA liability of \$1,592, and a decrease in MTA of \$893.

The increase in TBTA bonds is due primarily to the issuance of several series: Series 2008A&B in March of 2008 in the amount of \$1,075, Series 2008C in July of 2008 in the amount of \$629.9 and Series D for \$491.1 in July of 2008. From those issuances TBTA redeemed in May of 2008, \$175 of 2004 D-1&2 Subordinate Bonds. During August and September of 2008 other Bonds were redeemed for a total of \$498.0 related to the Series 2002D1-3, Series 2002G1-2 and Series 2004A-3.

The decrease of MTA liability is due mainly to the redemption of bonds. Though Transportation Revenues Bonds were issued in February of 2008 in the amount of \$1,000 and DTF Bonds were issued in June for \$352.9 and in August in the amount of \$348.2, the following redemption took place:

March 2008, \$430 of DTF Bonds Series 2007A1-5
 May 2008, \$472.2 of Transportation Rev Bonds Series 2004A1-4
 May 2008, \$200 of Transportation Rev Bonds Series 2002G2
 May 2008, \$135 of DTF Bonds Series 2004D1-2
 August 2008, \$345 of DTF Bonds Series 2004B3,5 and 2004D1
 June 2008, \$345 of DTF Series 2005A.

- Obligations under capital lease decreased by \$222 due to a) principal payments done in January, and July of 2008 for \$13.8, each payment for the lease Bank of NYC Lease Trust; b) on May 2, 2008 a termination of a QTE – Fleet Capital Lease transaction originated in 2002 in the amount of \$205.6. For the termination of this lease MTA is recognizing a loss of \$14 though the economic benefit was originally of \$40.5.
- Increase for pollution remediation projects costs, which are being recorded for the first time in 2008, for a total noncurrent cost of \$85.
- Decrease in Other Long Term Liabilities by \$47. This decrease is derived from New York City Transit in the amount of \$23 and Long Island Rail Road for \$49. These decreases were partially offset by an increase in long term liability at MTAHQ in the amount of \$11 and FMTAC \$14.

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

	September 2008 (Unaudited)	December 2007	December 2006
Invested in capital assets, net of related debt	\$ 15,602	\$ 15,903	\$ 14,777
Restricted for debt service and claims	1,480	1,088	1,095
Unrestricted	<u>1,800</u>	<u>2,306</u>	<u>3,491</u>
Total	<u>\$ 18,882</u>	<u>\$ 19,297</u>	<u>\$ 19,363</u>

September 30, 2008 versus December 31, 2007

At September 30, 2008, the total net assets decreased by \$415 from December 31, 2007. This decrease includes net nonoperating revenues of \$2,879 and appropriations, grants, and other receipts externally restricted for capital projects of \$1,476 offset by operating losses of \$4,770.

The investment in capital assets, net of related debt, decreased by \$301 though purchasing of fixed assets increased by \$1,805. The related debt increased by \$2,106.

Funds restricted for debt service and claims increased by \$392 due to the issuance of new debt, and unrestricted decreased by \$506.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	September 30, 2008	September 30, 2007
	(Unaudited)	
Operating Revenues		
Passenger and tolls	\$ 4,139	\$ 3,909
Other	<u>312</u>	<u>320</u>
Total operating revenues	<u>4,451</u>	<u>4,229</u>
Nonoperating Revenues		
Grants, appropriations and taxes	3,378	3,903
Other	<u>370</u>	<u>235</u>
Total nonoperating revenues	<u>3,748</u>	<u>4,138</u>
Total Revenues	<u>8,199</u>	<u>8,367</u>
Operating Expenses		
Salaries and wages	3,402	3,193
Retirement and other employee benefits	1,426	1,279
Postemployment benefits other than pensions	1,251	1,182
Depreciation and amortization	1,308	1,251
Other expenses	<u>1,834</u>	<u>1,628</u>
Total operating expense	9,221	8,533
Nonoperating Expense		
Interest on long-term debt	865	786
Other nonoperating expense	<u>4</u>	<u>4</u>
Total nonoperating expense	<u>869</u>	<u>790</u>
Total Expenses	<u>10,090</u>	<u>9,323</u>
Appropriations, grants and other receipts externally restricted for capital projects	<u>1,476</u>	<u>1,130</u>
Change in net assets	(415)	174
Net assets, beginning of year	<u>19,297</u>	<u>19,363</u>
Net assets, end of year	<u>\$ 18,882</u>	<u>\$ 19,537</u>

Revenues and Expenses, by Major Source:

September 30, 2008 versus September 30, 2007

- Total operating revenues for the nine months ended September 30, 2008 were \$222 higher than for the nine months ended September 30, 2007.
 - Fare and toll revenue increased by \$230 primarily due to an increase in passenger revenue of \$211 as a result of increased ridership and a fare increase that took place in March 2008. Toll revenues increased by \$19 despite a traffic decrease mainly due to a toll increase that went into effect in March of 2008.
- Total operating expenses for the nine months ended September 30, 2008 were higher than nine months ended September 30, 2007 by \$688.
 - Labor costs, including retirement and other employee benefits, were higher by approximately \$425. This is primarily due to payroll and overtime increases of \$209 for wage rate increases and headcount increases mostly for customer safety, maintenance programs, and operation of additional bus routes by MTA Bus Co. New York City Transit's expenses were higher due to wage increases and additional headcount to support customer safety. Long Island Rail Road, Metro-North Railroad, Bridges and Tunnels and MTAHQ also incurred increases due to wages and increased headcount as well. Health and Welfare increased by \$85. The increase in Health and Welfare arises mainly from increases in rates and headcount. Pension expenses increased by \$59 due to rate increases and increased headcount. Other fringe benefits increased by \$14, due primarily to increases in the Workers' Compensation reserve. Postemployment benefits other than pensions increased by \$69 based on actuarial calculations which include normal cost of retirees plus amortization and interest cost.
 - Nonlabor operating costs were higher by \$263. Cost elements contributing to this increase were fuel for buses and trains of \$101 due to higher fuel costs. Depreciation costs increased \$57 due to additional capital assets placed into service. Paratransit service contractors increased \$41 due to increased trip volume. Maintenance and other Operating contracts increased \$42 due to increases in heating fuel, facility power and maintenance costs. Pollution remediation projects were \$40. These costs were reported for the first time in 2008, as required by GASB 49.
- Total Grants, Appropriations, and Taxes were lower by \$525 for the nine months ended September 30, 2008 compared to the same period in 2007. The major components of the decrease are Tax-supported Subsidies-NYC and Local related to the Mortgage Recording Tax and Urban Tax.
- Operating subsidies recoverable from Connecticut Department of Transportation and NYC related to Metro-North Railroad's New Haven Line and MTA Bus increased by \$190. The favorable variance was due to higher operating expenses.
- Interest Expense on long-term debt increased by \$79 due to the issuance of new bonds in the first nine months of 2008.
- Appropriations and grants increased by \$346. The increase was derived mainly from Federal funding, NY State Bond funding and FEMA, as well as fixed assets purchased with Bond proceeds.

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

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

Through September 2008, MTA system-wide utilization, including MTA Bus, was 4.4 percent higher (84.7 million more trips) than ridership through September 2007. At the same time, vehicle crossing levels at MTA Bridges and Tunnels facilities were 2.6 percent lower (5.9 million fewer crossings), which suggests commuters substituted towards mass transit, as gasoline prices remained high throughout the quarter.

Between the third quarter of 2007 and the third quarter of 2008, non-agricultural employment survey results indicate that New York City added twenty five thousand new jobs. However, according to the Federal Reserve Bank's Coincident Economic Indicator, an index of broad economic activity, the regional economy experienced slow growth at best in the third quarter of 2008. Compared with the third quarter of 2007, the CEI for New Jersey declined slightly by 0.7 percent, New York State's remained virtually unchanged, and the CEI for New York City grew by 2.4 percent. It should be borne in mind that this comparison is retrospective, revealing how the economies have fared in the year between the third quarters of 2007 and 2008; looking forward, on the other hand, only modest prospective growth may be inferred from 2008 monthly CEI's. Through September 2008, the annualized growth rate of CEI's for New Jersey and New York State are -1.1 and -1.0 percent, respectively. The CEI for New York City, which has been bolstered in part by the rebuilding of the downtown infrastructure and by the MTA's multi-billion dollar capital program, has grown at an annual rate of 1.5 percent.

The City's economic growth in the third quarter was accompanied by an increase in consumer prices that was just lower than the average for all U.S. cities: the consumer price index (CPI-U) in the New York metropolitan area increased by 5.2 percent in the third quarter of 2008 relative to the third quarter of 2007, while the U.S. city average consumer price index increased 5.3 percent. Third quarter energy prices were the main contributor to overall inflation: at the start of the first quarter of 2008, energy prices surpassed those prevailing in the second and third quarters of last year, which were themselves even higher than in the immediate aftermath of Hurricane Katrina. Energy prices continued their rapid rise during the second quarter of 2008 and into the third quarter. Although the CPI for energy fell in August and September, at the end of the quarter, energy prices remained 27 percent higher than in the third quarter of 2007. Consumer prices excluding energy were only 3.3 percent higher. The New York Harbor spot price for conventional gasoline averaged \$2.95 per gallon in the third quarter, a tremendous increase of 41.8 percent compared to the average spot price in the third quarter of 2007. Like energy prices overall, the price of gasoline began to fall in the third quarter, but at the end of the September they remained high by historical standards. This continues to influence travel mode choices as evident from greater than expected MTA system ridership levels.

Although New York City continued to experience relatively modest growth, the national economy was sluggish in the third quarter of 2008, deteriorating from its second quarter pace of expansion. Real Gross Domestic Product ("GDP") grew at an annual rate just above zero, following a growth rate of 2.8 percent in the second quarter of 2008 and a growth rate of 0.9 percent in the first quarter. The activities of the Federal Reserve Bank over the past twelve months have been aimed at forestalling a recession by ameliorating the tight credit conditions that have resulted from the national mortgage crisis. Consequently, the Federal Reserve Bank's expansionary interventions since the third quarter of 2007 contrast sharply with the measures it took to keep inflation under control as the economy emerged from

the recession of 2001-2003. In the third quarter of 2007, the Federal Reserve Board elected to lower the Federal Funds Rate by a half point, from 5.25 to 4.75 percent, the first diminution since the end of June 2003. Confronting a deepening contraction in housing markets and mounting insecurity in financial markets, the bank further subjected the Federal Funds Rate to a series of downward adjustments in the first and second quarters of 2008: it was lowered by three-quarters of a point on January 22 and half a point on January 30; it was lowered again in March 2008 by another three-quarters of a point, and once again in April by one quarter of a point, resulting in a Federal Funds Rate of 2.0 percent, its lowest level since December 2004. While the economy began in the second quarter to show signs of revival, the decision this past June to refrain from once again lowering the Federal Funds rate indicated that promoting continued growth through further monetary expansion would entail considerable inflation risk. The Federal Funds rate was not lowered further in the third quarter.

The influence of Federal Reserve monetary policy on the mortgage market is a matter of interest to the MTA, since variability of mortgage rates can affect the number of real estate transactions and can thereby impact receipts from the Mortgage Recording Tax and Urban Tax, two important sources of MTA revenue. In spite of the aggressiveness of the Federal Reserve Bank, its Beige Books—published in July and September-- reported little that augured well for regional real estate markets. In both the July and September reports, bank lenders comparing current conditions to those prevailing one year earlier noted weaker demand for home mortgages and a decline in refinancing activity, as well as a tightening of credit standards across all loan categories and an increasing rate of delinquency on home mortgages. Demand for commercial mortgages fell between July and September, and lenders reported an increasing number of deals falling through on Manhattan co-ops and condos. Sales activity and prices fell for both commercial and residential real estate in the suburbs.

The tidings of the Beige Books were borne out in continued lower receipts of real estate taxes in the third quarter of 2008. All indications are that the region is still beset by the economic factors that have created a slowdown in residential and commercial property sales. Urban tax receipts through the third quarter fell by 36.2 percent compared with their 2007 level, while total MRT receipts fell by 39.9 percent. Both MRT-1 and MRT-2 receipts declined in the MTA region as a whole. Through September, revenues from MRT-1 dropped 39.2 percent and MRT-2 revenues fell by 41.3 percent. MRT-1 is paid on all mortgages, while MRT-2 is paid only on residential mortgages where the structure contains one to six individual dwelling units. The steady decline in both MRT-1 and MRT-2, which has occurred in all three quarters of 2008, provides the strongest indication in some time of a slowdown across the entire MTA region in both commercial and residential real estate markets.

Results of Operations –MTA Bridges and Tunnels' paid traffic level for the first nine months ended September 30, 2008 reached 223.0 million vehicles. Total volume was 5.9 million or 2.6% percent lower in 2008 compared to the same period in 2007. Most of the decline is attributable to higher gas prices and a slowdown in the local economy. Despite the lower traffic trends, toll revenues through September 2008 reached \$959.0 million, which was \$18.7 million, or 2.0 percent greater than the first nine months of 2007. The higher revenues were generated from the toll increase implemented on March 16, 2008, as well as from an additional day of collection in February 2008 due to the leap year.

The E-ZPass electronic toll collection system continued to facilitate the management of heavy traffic volumes. Total average market share during the first nine months of 2008 was 74.0 percent compared to 73.2 percent in 2007. The average weekday market shares were 76.2 percent and 75.5 percent for the first nine months of 2008 and 2007, respectively. Average weekend market shares for the same periods were 68.6 percent and 67.8 percent, respectively.

MTA New York City Transit's fare revenues for the nine months ended September 30, 2008 were higher than in 2007 by \$148.5 or 7.0 percent due to increased subway ridership, the March 2008 fare increase and the effect of one additional day for the leap year.

MTA Long Island Rail Road's ridership for the nine months ended June 30, 2008 was at 66.8 million on passenger revenues of \$381.6, or 91 percent of total revenue. Revenues increased by approximately \$24.7 or 7 percent for the nine months ended September 30, 2008 over the nine months ended September 30, 2007. The average fare increase of 4 percent effective March 1, 2008 contributed to the revenue increase. Additionally, ridership continues to increase in all ticket types attributed to the rising gasoline prices, changes in travel patterns for commuters and increases in noncommutation travel on MTA Long Island Rail Road.

MTA Metro-North Railroad's operating revenue increased by \$23.4 or approximately 6.2 percent for the nine months ended September 30, 2008 over the nine months ended September 30, 2007. Year to date 2008 fare revenue and ridership increased by 6.7 percent and 4.8 percent respectively, over the same period in 2007. The increases occurred on the Hudson, Harlem and New Haven lines for monthly and weekly commutation as well as noncommutation ridership.

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 in the fourth quarter of the current year. This results in little or no Metropolitan Mass Transportation Operating Assistance receipts being received during the first quarter of each calendar year. The MTA has made other provisions to provide for cash liquidity during this period. During the first quarter of 2008, the state did not advance any payments of MMTOA assistance to the MTA from MTA's 2008 appropriation. There has been no change in the timing of the state's payment of, or MTA's receipt of, Dedicated Mass Transportation Trust Fund ("MTTF") receipts, which MTA anticipates will be sufficient to make monthly principal and interest deposits into the Debt Service Fund for the Dedicated Tax Fund Bonds.

Over the last few years, the mortgage recording taxes payable to the MTA generally exceeded expectations, due primarily to the high level of home buying and refinancing encouraged by historically low interest rates. In the last quarter of 2007, however, the national downturn in housing markets began to impact the frequency of local real estate transactions, and the collection of mortgage recording taxes fell. In spite of the Federal Reserve Bank's determination to forestall a recession by successively lowering interest rates, the MTA expects mortgage recording taxes to continue to decline in 2008.

Capital Programs – At September 30, 2008, \$12,550 had been committed and \$5,581 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and \$20,313 had been committed and \$18,092 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

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

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Throughout 2008, ratings of municipal bond insurers were lowered by the three rating agencies, thereby lowering the ratings of certain MTA and MTA Bridges and Tunnels bonds insured by such insurers. The bond insurer downgrades have affected municipal issuers nationwide, including all major New York State issuers, in terms of market volatility and increased interest costs on variable rate bonds. These downgrades have not affected the underlying MTA and MTA Bridges and Tunnels bond ratings.

Additionally many regularly scheduled auctions of variable rate bonds currently in the auction mode have been failing since there are not enough buy orders to cover sell orders. In the event of a "failed" auction, certain auctions provide for the periodic rate for such bonds to be set at a stated percentage of one month LIBOR (London Interbank Offered Rate) index, while others have a high maximum rate, ranging from 12% to 15%. Beginning in February 2008, MTA and TBTA auctions began to fail periodically at their

respective defined maximum rate. As a result, throughout 2008, MTA has refunded \$1,103 of auction rate bonds, and converted \$450 to variable rate demand bonds using bank letters of credit.

Third Quarter Financings:

- MTA sold two series of fixed-rate bonds on July 16th, the \$630 TBTA (MTA Bridges and Tunnels) General Revenue Bonds, Series 2008C and the \$491 TBTA (MTA Bridges and Tunnels) Subordinate Revenue Bonds, Series 2008D (collectively, the Series 2008 Bonds) totaling \$1,121. Proceeds from the 2008 Bonds were used to refinance existing \$650 in outstanding commercial paper and other indebtedness issued by the MTA and MTA Bridges and Tunnels.
- MTA sold the \$348 of Dedicated Tax Fund Bonds Series 2006B on August 1, as Variable Rate Demand Obligations in the Weekly Mode. These bonds were issued to refund outstanding Dedicated Tax Fund Auction Rate Mode Bonds, Subseries 2004B-3 and 2004B-5. Liquidity support on the 2008 B Bonds is provided by four irrevocable direct-pay Letters of Credit (LOC) issued by: The Bank of Nova Scotia (Subseries B-1), BNP Paribas (Subseries B-2), Lloyds TSB (Subseries B-3) and KBC Bank (Subseries B-4).
- MTA restarted \$750 of the Commercial Paper program on September 26th with \$650 to be issued starting October 1, 2008. The program is backed by a \$750 letter of credit (LOC) from Netherlands based ABN AMRO Bank N.V. This issuance is a continuation of a program that has been in place since 1998, with renewals of the LOC from time to time as necessary.

Notable Counterparty Rating Changes:

- The ratings of AIG Financial Products Corp. (“AIG FPC”) which is guaranteed by corporate parent American International Group, Inc. (“AIG”) were changed on September 15, 2008 as follows: downgrade by Moody's from Aa3 to A2; downgrade by Standard & Poor's from AA- to A-; downgrade from Fitch from AA- to A .
- On September 15, 2008, Lehman Brothers Holdings, Inc. (“LBHI”) filed a petition under Chapter 11 of the U.S. Bankruptcy Code. As a consequence LBHI was downgraded on September 15-16, 2008 to B3/D/D from Moody's, Standard & Poor's and Fitch respectively. Standard & Poor's and Fitch subsequently withdrew their ratings on September 25th and October 27, 2008 respectively. A subsidiary, Lehman Brothers Special Financing Inc (“LBSFI”) which operated with a credit guarantee from LBHI consequently was similarly downgraded.

On September 15, 2008, Lehman Brothers Holding Company Inc. (“LBHI”) announced that it had filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York. LBHI also announced that none of the broker dealer or other subsidiaries of LBHI was included in the Chapter 11. The directors of certain UK affiliates of LBHI also have taken steps to place those companies into administration.

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

the security for this investment and is evaluating its options with respect to the bankruptcy filing by LBHI.

At September 30, 2008, the two interest rate swaps to which LBSFI was a counterparty had a combined recorded fair market value of negative \$13.859, which represented a theoretical payment that would be owed by MTA to LBSFI if the agreements were terminated on that date. As a result of the bankruptcy filing of LBHI, on September 19, 2008, MTA advised LBSF that an event of default now exists in respect to the two interest rate swaps. As a result of the event of default, all cashflows arising out of the transactions have ceased and MTA is proceeding with a formal market quotation process as provided for in the ISDA Master Agreement with LBSFI to replace LBSFI. The market quotation process involves soliciting bids from interested parties to assume the obligations of LBSFI in the transactions. MTA has not recorded any change in its accounting treatment of the transactions and pending a successful resolution of the market quotation process, will not in the future need to make any such change.

In addition to the interest rate swaps described above, MTA, also through its Transportation Revenue Bond Resolution, has an existing interest rate swap with AIG FPC. The notional amount of the transaction is \$100 million with an approximate fair market value on September 30, 2008 of negative \$6.522. This value represents the amount owed by MTA if the transaction were to be terminated. Although AIG was recently downgraded, no events of default currently exist with respect to this transaction.

The fair market value of MTA's interest rate swaps changes daily primarily as a result of capital markets changes. MTA's swaps with LBSFI use the London Interbank Offered Rate (1 month) as the variable rate received. Factors that influence LIBOR are local interest rates, banks expectations of future rate movements, liquidity in the London markets or changes in the dollar. The relative financial health of MTA's counterparties, in this case LBSFI are important in the transaction, but do not directly impact the fair market value of the transaction.

METROPOLITAN TRANSPORTATION AUTHORITY
CONSOLIDATED BALANCE SHEETS
PERIODS ENDED SEPTEMBER 30, 2008 AND DECEMBER 31, 2007
(See Independent Accountants' Review Report)
(\$ in Millions)

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	\$ 156	\$ 130
Investments (Note 3)	1,366	1,703
Restricted investment held under capital lease obligations (Notes 3 and 8)	13	8
Receivables:		
Station maintenance, operation, and use assessments	74	104
State and regional mass transit taxes	682	47
Mortgage Recording Tax receivable	30	43
State and local operating assistance	144	8
Other subsidies	76	81
Connecticut Department of Transportation	15	20
New York City	71	101
Due from Hudson Yards Infrastructure Corporation	33	67
Capital project receivable from federal and state government	297	209
Other	228	222
Less allowance for doubtful accounts	<u>(23)</u>	<u>(23)</u>
Total receivables - net	1,627	879
Materials and supplies	419	381
Advance to defined benefit pension trust	72	166
Prepaid expenses and other current assets (Note 2)	<u>149</u>	<u>258</u>
Total current assets	<u>3,802</u>	<u>3,525</u>
NONCURRENT ASSETS:		
Capital assets - net (Note 6)	42,416	40,611
Restricted investment held under capital lease obligations (Notes 3 and 8)	1,272	1,483
Investments (Notes 3 and 6)	2,128	2,224
Receivable from New York State	2,171	2,197
Other noncurrent assets	<u>1,648</u>	<u>1,729</u>
Total noncurrent assets	<u>49,635</u>	<u>48,244</u>
TOTAL ASSETS	<u>\$ 53,437</u>	<u>\$ 51,769</u>

(Continued)

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

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS PERIODS ENDED SEPTEMBER 30, 2008 AND DECEMBER 31, 2007 (See Independent Accountants' Review Report) (\$ in Millions)

	September 30, 2008 (Unaudited)	December 31, 2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 788	\$ 447
Accrued expenses:		
Interest	378	201
Salaries, wages and payroll taxes	273	231
Vacation and sick pay benefits	702	684
Current portion - retirement and death benefits	507	228
Current portion - estimated liability from injuries to persons (Note 9)	188	199
Other	390	751
Total accrued expenses	2,438	2,294
Current portion - long-term debt (Note 7)	263	391
Current portion - obligations under capital lease (Note 8)	7	7
Current portion of pollution remediation projects	20	-
Deferred revenue	411	353
Total current liabilities	3,927	3,492
NONCURRENT LIABILITIES:		
Retirement and death benefits	40	42
Estimated liability arising from injuries to persons (Note 9)	1,094	1,033
Post employment benefits other than pensions (Note 5)	2,287	1,290
Long-term debt (Note 7)	25,266	24,515
Obligations under capital leases (Note 8)	1,397	1,619
Pollution remediation projects	85	-
Contract retainage payable	202	177
Other long-term liabilities	257	304
Total noncurrent liabilities	30,628	28,980
Total liabilities	34,555	32,472
NET ASSETS:		
Invested in capital assets, net of related debt	15,602	15,903
Restricted for debt service and claims	1,480	1,088
Unrestricted	1,800	2,306
Total net assets	18,882	19,297
TOTAL LIABILITIES AND NET ASSETS	\$ 53,437	\$ 51,769

(Concluded)

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

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (See Independent Accountants' Review Report) (\$ in Millions)

	September 30, 2008	September 30, 2007
	(Unaudited)	
OPERATING REVENUES:		
Fare revenue	\$ 3,180	\$ 2,969
Vehicle toll revenue	959	940
Rents, freight, and other revenue	<u>312</u>	<u>320</u>
Total operating revenues	<u>4,451</u>	<u>4,229</u>
OPERATING EXPENSES:		
Salaries and wages	3,402	3,193
Retirement and other employee benefits	1,426	1,279
Postemployment benefits other than pensions	1,251	1,182
Traction and propulsion power	232	236
Fuel for buses and trains	236	135
Insurance	8	29
Claims	134	115
Paratransit service contracts	209	168
Maintenance and other operating contracts	421	379
Professional service contracts	132	145
Pollution remediation projects	40	-
Materials and supplies	401	388
Depreciation	1,308	1,251
Other	<u>21</u>	<u>33</u>
Total operating expenses	<u>9,221</u>	<u>8,533</u>
OPERATING LOSS	<u>(4,770)</u>	<u>(4,304)</u>
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations, and taxes:		
Tax-supported subsidies-NYS	2,237	2,085
Tax-supported subsidies - NYC and local	742	1,419
Operating subsidies - NYS	208	208
Operating subsidies - NYC and local	<u>191</u>	<u>191</u>
Total grants, appropriations, and taxes	<u>\$ 3,378</u>	<u>\$ 3,903</u>

(Continued)

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

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (See Independent Accountants' Review Report) (\$ in Millions)

	September 2008	September 2007
	(Unaudited)	
Operating subsidies recoverable from Connecticut Department on NYC	\$ 237	\$ 47
Subsidies paid to Dutchess, Orange, and Rockland Counties	(4)	(4)
Interest on long-term debt	(865)	(786)
Station maintenance, operation and use assessments	112	107
Other non-operating revenue	<u>21</u>	<u>81</u>
Net non operating revenues	<u>2,879</u>	<u>3,348</u>
INCOME (LOSS) BEFORE APPROPRIATIONS	(1,891)	(956)
APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>1,476</u>	<u>1,130</u>
CHANGE IN NET ASSETS	(415)	174
NET ASSETS, BEGINNING OF PERIOD	<u>19,297</u>	<u>19,363</u>
NET ASSETS, END OF PERIOD	<u>\$ 18,882</u>	<u>\$ 19,537</u>

(Concluded)

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

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENT OF CASH FLOWS PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (See Independent Accountants' Review Report) (\$ in Millions)

	September 2008 (Unaudited)	September 2007
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 4,336	\$ 4,096
Rents and other receipts	227	170
Payroll and related fringe benefits	(4,642)	(4,508)
Other operating expenses	(1,740)	(1,635)
Net cash used in operating activities	(1,819)	(1,877)
CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	2,962	2,990
Operating subsidies from CDOT	51	49
Suburban Transportation Fund Subsidy	-	(20)
Subsidies paid to Dutchess, Orange, and Rockland counties	(15)	(18)
Net cash provided by noncapital financing activities	2,998	3,001
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	2,164	434
MTA Bridges and Tunnels bond proceeds	2,275	228
MTA bonds refunded	(2,348)	(211)
TBTA bonds refunded	-	-
MTA Bridges and Tunnels bonds refunded	(673)	(91)
MTA anticipation notes proceeds	-	750
MTA anticipation notes redeemed	-	-
MTA anticipation notes redeemed	(650)	(439)
Capital lease payments	(15)	(24)
Grants and appropriations	1,486	1,523
CDOT capital contributions	1	-
Capital expenditures	(3,165)	(3,105)
Debt service payments	(849)	(1,206)
Net cash used in capital and related financing activities	(1,774)	(2,141)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
(Purchase)/Sales of long-term securities	(5,538)	(3,667)
Sales of maturities of securities - long-term	7,127	3,443
(Purchase)/Sale of short-term securities	(1,071)	1,120
Earnings on investments	103	132
Net cash provided by in investing activities	621	1,028
NET INCREASE IN CASH	26	11
CASH, BEGINNING OF PERIOD	130	155
CASH, END OF PERIOD	\$ 156	\$ 166

(Continued)

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

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENT OF CASH FLOWS PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (See Independent Accountants' Review Report) (\$ in Millions)

	September 2008	September 2007
	(Unaudited)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (4,770)	\$ (4,304)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,308	1,251
Net increase in payables, accrued expenses, and other liabilities	1,414	1,234
Net decrease in receivables	87	1
Net decrease (increase) in materials and supplies and prepaid expenses	<u>142</u>	<u>(59)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (1,819)</u>	<u>\$ (1,877)</u>

(Concluded)

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

METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (See Independent Accountants' Review Report) (\$ in Millions)

1. BASIS OF PRESENTATION

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

These consolidated interim 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 of New York.

- MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, MTA Long Island Bus, FMTAC, MTA Capital Construction, and MTA Bus, collectively are referred to herein as MTA. MTA Long Island Rail Road and MTA Metro-North Railroad are referred to collectively as the Commuter Railroads.
- New York City Transit Authority (“MTA New York City Transit”) and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”), provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority (“MTA Bridges and Tunnels”) operates seven toll bridges, two tunnels, and the Battery Parking Garage, all within the five boroughs of New York City.

MTA New York City Transit and MTA Bridges and Tunnels are operationally and legally independent of the MTA. These related groups enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, they are included in the MTA’s consolidated financial statements because of the MTA’s financial accountability for these entities and they are under the direction of the MTA Board. 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 are designed to improve public transportation in the New York Metropolitan area.

2005-2009 Capital Program – Capital programs covering the years 2005-2009 were originally approved by the MTA Board in April 2005 and subsequently by the CPRB in July 2005 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2005–2009 Commuter Capital Program”), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, and the rail system operated by MTA Staten Island Railway (the “2005–2009 Transit Capital Program”), and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2005–2009 MTA Bridges and Tunnels Capital Program”). The 2005–2009 MTA Bridges and Tunnels Capital Program was effective upon adoption by the MTA Board in April 2005. The 2005–2009 amended Commuter Capital Program and the 2005–2009 Transit Capital program (collectively, the “2005–2009 MTA Capital Programs”) were last amended by the MTA Board in July 2008. This latest 2005-2009 MTA Capital Program amendment was submitted to the CPRB for approval in July 2008, but was subsequently withdrawn.

As last amended by the MTA Board, the 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program, provide for \$23,717 in capital expenditures, of which \$11,154 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$3,617 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$6,899 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital

Construction; \$495 relates to a multi-faceted security program; \$198 relates to MTA interagency initiatives including MTA Police Department plus an MTA-wide integrated computer systems initiative, \$145 relates to MTA Bus company initiatives; and \$1,209 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities.

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

At September 30, 2008, \$12,550 had been committed and \$5,581 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program.

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

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

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

At September 30, 2008, \$20,313 had been committed and \$18,092 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 operating and capital policies. Those policies permit investments in, among others, obligations of the U.S. Treasury, its agencies and instrumentalities, and repurchase agreements secured by such obligations. FMTAC's investment policies comply with New York State Comptroller guidelines and New York State Department of Insurance guidelines.

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

All investments are recorded on the balance sheets at fair value and all investment income, including changes in the fair value of investments, is reported as revenue on the statement of revenues, expenses and changes in net assets. Fair values have been determined using quoted market values at September 30, 2008 and December 31, 2007.

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

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

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

Liability Insurance – FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program (“ELF”) that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2001, but before November 1, 2006, the self-insured retention limits are: \$7 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2 million for MTA Long Island Bus; and \$1.4 million for MTA and MTA Bridges and Tunnels. Effective November 1, 2006, the self-insured retention limits for ELF were increased to the following amounts: \$8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus; and \$1.6 million for 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 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the MTA, its subsidiaries and affiliates above their specifically assigned self-insured retention with a limit of \$50 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On September 30, 2008, the balance of the assets in this program was \$77.6 million.

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

On March 1, 2008, the “nonrevenue 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 \$8 million per occurrence limit with a \$0.5 million per occurrence deductible. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On March 1, 2008, the “Access-A-Ride” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit’s Access-A-Ride program, including the contracted operators. This policy provides a \$3 million per occurrence limit with a \$1 million per occurrence deductible.

On December 15, 2007, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$8 million per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance – Effective October 31, 2007, FMTAC renewed the all-agency property insurance program. For the period October 31, 2007 through May 1, 2009, FMTAC directly insures property damage claims of the related entities in excess of a \$25 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 million per occurrence. The total program limit has been maintained at \$1.25 billion per occurrence covering property of the related entities collectively. With the exception of acts of terrorism (both domestic and foreign), FMTAC is reinsured

in the domestic, London, European, and Bermuda marketplaces for this coverage. Given the absence of major catastrophes in 2006 and 2007, available capacity has emerged, along with pricing reductions. As a result, FMTAC was able to obtain additional reinsurance capacity over last year and has fully reinsured the all-risk component for the full \$1.25 billion, subject to certain program sublimits.

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

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

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

Operating Revenues

Passenger Revenue and Tolls - Revenues from the sale of tickets, tokens, electronic toll collection system, and farecards are recognized as income as they are used. Deferred revenue is recorded for the estimated amount of unused tickets, 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, 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 September 30, 2008 and September 30, 2007 the amount allocated to NYS Suburban Highway Transportation Fund was \$0 and \$0 respectively. Of the New York City Transit portion, the MTA distributed \$115.3 and \$0 as of September 30, 2008 and September 30, 2007, 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 September 30, 2008 and 2007, were \$0 and \$0, respectively. In the period of January to September of 2008, the MTA distributed \$24.6 to MTA Bus and paid to Dutchess, Orange and Rockland Counties the 2007 excess amounts of MRT1 and MRT-2 totaling \$11.7.
- In addition, MTA New York City Transit receives operating assistance directly from NYC through a mortgage recording tax at the rate of .625 of one percent of the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of the assessed value (collectively referred to as "Urban Tax Subsidies") of certain properties.
- *Dedicated Taxes* - Under NYS law, subject to annual appropriation, the MTA receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund ("MTTF") and Metropolitan Mass Transportation Operating Assistance Fund ("MMTOA"). The MTTF receipts consist of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and nonregistration fees. Effective October 1, 2005, the State increased the amount of motor vehicle fees deposited into the MTTF for the benefit of the MTA. MTTF receipts are applied first to meet certain debt service requirements or obligations and second to pay operating and capital costs. The MMTOA receipts are comprised of .375 of one percent regional sales tax (which was increased effective June 1, 2005 from .25 of one percent), a temporary regional franchise tax surcharge, a portion of taxes on certain transportation and transmission companies, and an additional portion of the business privilege tax imposed on petroleum businesses. MMTOA receipts, to the extent that MTTF receipts are not sufficient to meet debt service requirements, will also be applied to certain debt service obligations, and secondly to operating and capital costs of the Transit System, and the Commuter Railroads.

The State Legislature enacts in an annual budget bill for each state fiscal year an appropriation to the MTA Dedicated Tax Fund for the then-current state fiscal year and an appropriation of the amounts projected by the Director of the Budget of the State to be deposited in the MTA Dedicated Tax Fund for the next succeeding state fiscal year. The assistance deposited into the MTTF is required by law to be allocated, after provision for debt service on Dedicated Tax Fund Bonds (see Note 7), 85 percent to certain Transit Operations (not including MTA Bus) and 15 percent to the Commuter Railroads. Revenues from this funding source are recognized based upon amounts of tax reported collected by NYS, to the extent of the appropriation.

- *Operating Subsidies Recoverable from Connecticut Department of Transportation (“CDOT”)* - The portion of the deficit from operations relating to MTA Metro-North Railroad’s New Haven line is recoverable from CDOT. Under the terms of a renewed Service Agreement, which began on January 1, 2000, and the 1998 resolution of an arbitration proceeding initiated by the State of Connecticut, CDOT pays 100 percent of the net operating deficit of MTA Metro-North Railroad’s branch lines in Connecticut (New Canaan, Danbury, and Waterbury), 65 percent of the New Haven mainline operating deficit, and a fixed fee for the New Haven line’s share of the net operating deficit of Grand Central Terminal (“GCT”) calculated using several years as a base, with annual increases for inflation and a one-time increase for the cost of operating GCT’s North End Access beginning in 1999. The Service Agreement also provides that CDOT pay 100 percent of the cost of nonmovable capital assets located in Connecticut, 100 percent of movable capital assets to be used primarily on the branch lines and 65 percent of the cost of other movable capital assets allocated to the New Haven line. Remaining funding for New Haven line capital assets is provided by the MTA. The Service Agreement provides for automatic five-year renewals unless a notice of termination has been provided. The Service Agreement has been automatically renewed for an additional five years beginning January 1, 2005. Capital assets completely funded by CDOT are not reflected in these financial statements, as ownership is retained by CDOT. The Service Agreement provides that final billings for each year are subject to audit by CDOT. Years subsequent to 2000 remain subject to final audit.
- *Reimbursement of Expenses* - The cost of operating and maintaining the passenger stations of the Commuter Railroads in NYS is assessable by the MTA to NYC and the other counties in which such stations are located for each NYS fiscal year ending June 30, under provisions of the NYS Public Authorities Law. This funding is recognized as revenue based upon an amount, fixed by statute, for the costs to operate and maintain passenger stations and is revised annually by the increase or decrease of the regional Consumer Price Index.
- Pursuant to an agreement NYS and NYC each pays to MTA \$44.2 and \$45 respectively annually to cover a portion of the cost of the free-fare student program. The estimated cost of this program is approximately \$173 for the 2007-2008 school year. NYC provided for the City’s \$45 contribution for the 2007-2008 school year, of which \$15 was received in December 2007 and MTA NYC Transit approved 2008 Adopted Budget’s remaining \$30 from NYC was received in June 2008. It also contains the State \$30.7 already received and assumes the remaining \$13.5 for the 2007-2008 school year will be received in 2008. The Transit Operation’s 2009–2011 Financial Plan assumes the continuation of the joint funding of the free-fare program for students.
- Policing of the transit system is carried out by the NYC Police Department at NYC’s expense. The MTA, however, continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by NYC. The MTA received approximately \$3.8 in the nine months ended September 30, 2008, and \$2.8 in the nine months ended September 30, 2007 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 had assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. The services are provided by private vendors under contract with MTA New York City Transit. NYC reimburses the MTA for the lesser of 33 percent of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6.0 percent of gross Urban Tax Subsidies, or an amount that is 20.0 percent greater than the amount paid by the City for the preceding calendar year. Fare revenue and reimbursements aggregated approximately \$74 in the nine months ended September 30, 2008, and \$84.3 in the nine months ended September 30, 2007.
- *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 completed the process of evaluating the impact that will result from adopting GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions and has disclosed the required information as per this statement in Note 5. The Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The Statement was effective for financial statement periods beginning after December 15, 2006.

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

The MTA has implemented GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. The Statement is effective for fiscal periods beginning after December 15, 2007. For the period ended September 30, 2008 the MTA recorded expenses of \$40.0 as a result of adopting GASB Statement No. 49.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets. The MTA is therefore unable to disclose the impact GASB Statement No. 51 will have on its financial position results of operations, and cash flows when such statement is adopted. This statement amends GASB Statement 34, paragraphs 19-21, and GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, paragraphs 9e, 16, and 18 and relates to the recognition and recording of intangible assets as capital assets in the statement of net assets. The requirements of this Statement are for financial statements for periods beginning after June 15, 2009.

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

3. CASH AND INVESTMENTS

Cash, including deposits in transit, consists of the following at September 30, 2008 and 2007:

	September 2008 (Unaudited)		December 2007	
	(Amounts in Millions)			
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	\$ 29	\$ 27	\$ 69	\$ 69
Uninsured and not collateralized	<u>127</u>	<u>77</u>	<u>61</u>	<u>79</u>
	<u>\$ 156</u>	<u>\$ 104</u>	<u>\$ 130</u>	<u>\$ 148</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 September 30, 2008 and December 31, 2007:

	September 2008 (Unaudited)	December 2007
	(Amounts in Millions)	
Repurchase agreements	\$ 678	\$ 585
U.S. Treasuries due 2008 - 2022	1,609	1,967
Investments restricted for capital lease obligations:		
US Treasury Notes	-	8
Treasury Strips	105	112
Other Agencies	<u>1,180</u>	<u>1,371</u>
Sub-total of investments restricted for capital leases	1,285	1,491
Other Agencies due 2008 - 2021	1,207	1,276
Commercial Paper due 2008	<u>-</u>	<u>99</u>
Total	<u>\$ 1,285</u> <u>\$ 4,779</u>	<u>\$ 1,491</u> <u>\$ 5,418</u>

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

In connection with certain lease transactions described in Note 8, the MTA has purchased securities or entered into payment undertaking, letter of credit, or similar type agreements or instruments (guaranteed investment contracts) with financial institutions that have a credit rating of AAA by Standard and Poor's, 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 2.5 percent and 4.1 percent for the nine months ended September 30, 2008 and December 31, 2007, respectively.

Of the above cash and investments, amounts held for restricted purposes were as follows at September 30, 2008 and December 31, 2007:

	September 2008	December 2007
	(Unaudited)	
	(Amounts in Millions)	
Construction or acquisition of capital assets	745	\$ 1,975
Funds received from related groups for investment	861	830
Debt service	610	230
Payment of claims	333	296
Restricted for capital leases	1,285	1,491
Other	<u>705</u>	<u>306</u>
 Total	 <u>\$ 4,539</u>	 <u>\$ 5,128</u>

Credit Risk

At September 30, 2008, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization:

Quality Rating	Total	Percent of Portfolio
Moody's		
A-1+	\$ 678	17.88%
AAA*	520	13.71%
AA	25	0.66%
A	75	1.98%
BBB	29	0.76%
Not Rated	704	18.57%
Government	<u>1,761</u>	<u>46.44%</u>
Total	<u>\$ 3,792</u>	<u>100.00%</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The greater the duration of a bond or portfolio of bonds, the greater its price volatility will be in response to a change in interest rate risk and vice versa. Duration is an indicator of bond price's sensitivity to a 100 basis point change in interest rates.

<u>Securities</u>	<u>Fair Value</u>	<u>Duration</u>
U.S. Treasuries	\$ 1,609	0.32
U.S. Agencies	990	0.43
Tax Benefits Lease Investments	295	16.23
Repurchase Agreement	678	0.00
Certificate of Deposits	11	0.00
Asset-Backed Securities (1)	19	1.89
Collateralized Mortgage-Backed Securities (1)	37	3.87
Corporates (1)	138	5.15
Total Fair Value	<u>3,777</u>	
Modified Duration		1.76
Equities (1)	<u>15</u>	
Total	<u>\$ 3,792</u>	

(1) These securities are only included in the FMTAC portfolio. The portfolio in total has 1.8% exposure to CMOs and only 6% is invested in ABS securities. Further, of the 6% in ABS, only approximately 1% is in Home Equity securities with the remaining exposure split between car loans, ABS utility, and credit cards. The exposures are also in the top of each securities capital structure. The ABS and mortgage sectors have seen spreads widen during the volatility over the last several months yet the securities continue to receive payments and paydown monthly. Speeds within the mortgage-related sector have slowed and the average life is extending in some securities.

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

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

Investment obligations and collateral are held by one of MTA's custodians or trustees.

FMTAC is created as a MTA subsidiary and is licensed as a captive direct insurer and reinsurer by the New York State Department of Insurance. As such FMTAC is responsible for the investment

management of its funds. The investment activity is governed by State statutes and the FMTAC Board-adopted investment guidelines.

The minimum surplus to policyholders and reserve instruments are invested in the following investments:

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

FMTAC may also invest nonreserve instruments in a broader range of investments including the following general types of obligations:

- certain equities;
- certain mutual funds.

FMTAC is prohibited from making the following investments:

- Investment in an insolvent entity;
- Any investment as a general partner.
- Any investment found to be against public policy.

FMTAC investment guidelines do include other investments, but FMTAC has limited itself to the above permissible investments at this time.

4. EMPLOYEE BENEFITS

Substantially all of the MTA'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 Plan for Additional Pensions ("Additional Plan") is a contributory, defined benefit pension plan that covers employees who began service with MTA Long Island Rail Road prior to January 1, 1988. This plan is in addition to the Long Island Rail Road Company Pension Plan which merged into the MTA Defined Benefit Pension Plan in 2006 (discussed below). Benefit provisions are established by MTA Long Island Rail Road and are based on length of qualifying service and final average compensation.

- The MaBSTOA Pension Plan is a defined benefit plan covering substantially all of its employees. In accordance with applicable collective bargaining agreements, the plan's benefits, in general, are the same as those which a similarly situated NYC Transit Authority employee would receive from the New York City Employees' Retirement System. This plan assigns authority to amend the plan and determine employer contributions to the MaBSTOA Board.
- For the plan years ended December 31, 2007 and 2006, MTA New York City Transit made contributions to the MaBSTOA Plan of \$179.2 and \$159.6, respectively, equal to or in excess of the required contributions for each year. The MTA Board in 2006 approved amendments authorizing the MaBSTOA Plan to invest in alternative investments. Such investments will be subject to specific investment guidelines and monitored by the Plan's independent investment adviser. On September 28 and October 25, 2006, MTA made contributions to the MaBSTOA Plan of \$100.0 and \$.3 to reduce unfunded pension liabilities. In December 2006, MTA New York City Transit made an advance payment of \$12.5.
- MTA Staten Island Railway has a contributory defined benefit plan that was a single-employer public employee retirement system covering certain employees. Authority to amend the plan and to determine contributions rests with the MTA Board. In 2005, that plan was merged with the MTA Defined Benefit Pension Plan and administered by the MTA.
- *Multi-Employer Pension Plan* - The MTA Defined Benefit Pension Plan ("MTA Plan"), is a cost sharing multiple-employer pension plan. The Plan includes certain MTA Long Island Rail Road nonrepresented employees hired after December 31, 1987, and MTA Metro-North Railroad nonrepresented employees, certain MTA Long Island Bus employees hired prior to January 23, 1983, MTA Police, certain MTA Long Island Rail Road represented employees hired after December 31, 1987, certain MTA Metro-North Railroad represented employees, employees of MTA Staten Island Railway and certain employees of the MTA Bus Company ("MTA Bus"). MTA Long Island Rail Road, MTA Metro-North Railroad, MTA, MTA Staten Island Railway and MTA Bus contribute to the MTA Plan, which offers distinct retirement, disability, and death benefits for covered MTA Metro-North Railroad and MTA Long Island Rail Road employees, covered MTA Bus employees, and participants of the MTA 20-Year Police Retirement Program, MTA Long Island Bus Employees' Pension Plan, and the Staten Island Railway Pension Program. Participants of the MTA Police Program contribute to that program 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.
- Beginning in 2005, certain employees of MTA Bus became participants of defined benefit programs within the MTA Plan. Those programs, most of which are contributory, are based on the pension plans which covered these employees when they were employed by the bus companies which previously provided the service now provided by MTA Bus.
- The MTA Board in 2006 approved plan and trust amendments to provide for and implement the merger of the Long Island Rail Road Company Pension Plan into the MTA Plan. The Board also approved amendments pursuant to which the Long Island Rail Road Plan for Additional Pensions, which includes the same members as the Long Island Rail Road Company Pension Plan, will participate in the MTA Plan's Master Trust. The Board of Managers of Pensions of the MTA Plan also administers the Long Island Rail Road Plan for Additional Pensions. In addition, the Board approved amendments authorizing the MTA Plan to invest in alternative investments. Such investments will be subject to specific investment guidelines and monitored by the Plan's independent investment adviser. On September 28, 2006, MTA made a contribution to the MTA Master Trust of \$363.7 to reduce unfunded pension liabilities of the MTA Plan and the Long

Island Rail Road Plan for Additional Pensions. This amount has been allocated \$229.7 to the MTA Plan and \$134.0 to the Long Island Rail Road Plan for Additional Pensions. On October 25, 2006, an additional \$1.4 was contributed to the Trust. In 2007, an additional contribution of \$100 was transferred into the Trust. Of that, \$49 will be allocated to the Long Island Rail Road Additional Plan and \$51 to the MTA Defined Benefit Pension Plan. The amount allocated to these Plans will be used to cover the Actuarial Required Contribution for 2008.

- The MTA Plan may be amended by action of the MTA Board.

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

- The Metro-North Commuter Railroad Company Cash Balance Plan (“Cash Balance Plan”) is a single employer plan. The Cash Balance Plan covers noncollectively bargained employees, formerly employed by Conrail, who joined the MTA Metro-North Railroad as management employees prior to July 1, 1983, and were still employed as of December 31, 1988. Those currently employed are now covered by the MTA Defined Benefit Pension Plan. The MTA Metro-North Railroad funded the full amount of the pension benefit obligation (“PBO”) of \$2,977 to a separate trust fund in 1989. As participants retire, distributions from the Plan have been made by the trustee. The market value of net assets available for benefits in the trust fund at December 31, 2007 and 2006 was \$1,336 and \$1,361, respectively, which is less than the current PBO of \$1,398 and \$1,457, respectively. The MTA Metro-North Railroad has accrued this unfunded liability.

Annual pension costs and related information about each plan follows:

	Single-Employer Plans		
	LIRR	MaBSTOA	MTA Plan
Date of valuation	1/1/2007	1/1/2007	1/1/2007
Required contribution rates:			
Plan members	variable	variable	variable
Employer:	actuarially determined	actuarially determined	actuarially determined
Employer contributions made in 2007	\$ 100.9	\$ 179.2	\$ 81.7
Three-year trend information:			
Annual Required Contribution			
2007	\$ 100.9	\$ 179.2	\$ 81.7
2006	124.5	159.6	72.6
2005	109.1	153.4	58.2
Percentage of ARC contributed:			
2007	100%	100%	100%
2006	100%	163%	100%
2005	100%	100%	100%
Annual Pension Cost (APC):			
2007	\$ 100.4	\$ 180.7	\$ 86.6
2006	124.6	157.6	72.6
2005	109.2	151.4	58.2
Net Pension Obligation (NPO) (assets) at end of year:			
2007	40.4	(46.0)	-
2006	(4.6)	(47.5)	-
2005	(4.6)	54.9	-
Percentage of APC contributed:			
2007	100%	99%	100%
2006	100%	165%	100%
2005	100%	101%	100%
Components of APC			
Annual required contribution (ARC)	\$ 100.9	\$ 179.2	\$ 81.7
Interest on NPO	3.3	(3.8)	(32.8)
Adjustment of ARC	<u>(3.8)</u>	<u>5.3</u>	<u>37.7</u>
APC	100.4	180.7	86.6
Contributions made	<u>100.9</u>	<u>179.2</u>	<u>81.7</u>
Change in NPO (assets)	(0.5)	1.5	5.0
NPO (assets) beginning of year	<u>40.9</u>	<u>(47.5)</u>	<u>-</u>
NPO (assets) end of year	<u>\$ 40.4</u>	<u>\$ (46.0)</u>	<u>\$ 5.0</u>

	Single-Employer Plans		
	LIRR	MaBSTOA	MTA Plan
Actuarial cost method	Entry age normal	Entry age normal frozen initial liability	Entry age normal frozen initial liability
Method to determine actuarial value of plan assets	5-year smoothing	5-year smoothing	5-year smoothing
Investment return	8.00%	8.00%	8.00%
Projected salary increases	3.5%	3.5% - 18.0%	3.5% - 36.2%
Consumer price inflation	2.50%	2.50%	2.50%
Amortization method and period	level dollar / 27 years	level dollar / 30 years	level dollar / 23 years
Period closed or open	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. Employees who entered qualifying service after July 1976, contribute 3 percent of their salary. The State legislature passed legislation in 2000 that suspended the 3 percent contribution for most employees who have 10 years or more membership. MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. The contribution requirements of plan members and MTA New York City Transit and MTA Bridges and Tunnels are established and amended by law. MTA New York City Transit’s required contributions for NYCERS fiscal years ended September 30, 2008 and 2007 were \$429.5 and \$333.2, respectively. MTA Bridges and Tunnels’ contributions to NYCERS for the years ended September 30, 2008 and 2007 were \$14.5 and \$13.4, 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. In addition, employees of the Capital Company who are on its payroll are also members of NYSLERS. NYSLERS is a cost-sharing multiple-employer plan and offers a broad spectrum of benefits, including retirement, death and disability benefits, and cost of living adjustments. Employees who became members prior to July 27, 1976 make no contributions. Employees who became members after that date contribute 3 percent of salary. In 2000, the State Legislature passed legislation that members who have 10 or more years of membership are no longer required to make the 3 percent contribution. MTAHQ, the Capital Company, and MTA Long Island Bus recognize pension expense based upon annual assessments made by NYSLERS. NYSLERS pension expense was approximately \$4.0 and \$4.0, for the period ended September 30, 2008 and 2007, respectively. 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. Beginning January 1, 2004, employees who were participants in the Money Purchase Plan have become participants in a New Program in the MTA Plan ("New Program") and have similar benefits as those applicable to nonrepresented employees of MTA Long Island Rail Road in the MTA Plan. The MTA Board has voted to terminate this Plan and the Plan was terminated effective March 31, 2008. The Plan is currently making distributions of all participant accounts.

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 contributed 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 contribute up to the amount of MTA Metro-North Railroad's contribution to the plan, on an after-tax basis. The plan is administered by MTA Metro-North Railroad and the Plan's Board of Managers of Pension. Effective January 1, 2004, certain employees who were participants of the Agreement Plan became participants in the New Program in the MTA Plan and have similar benefits as those applicable to nonrepresented employees of MTA Metro-North Railroad in the MTA Plan. In 2007, the remaining represented employees also became participants in the New Program, unless they opted-out of the New Program. The "opt-out" employees became participants of the MTA 401(k) plan with the same employer contributions as the Agreement Plan. The MTA Board has voted to terminate this Plan.

	September 30, 2008 (\$ in Millions)		December 31, 2007 (\$ in Millions)	
	MNR Agreement Plan	LIRR Money Purchase Plan	MNR Agreement Plan	LIRR Money Purchase Plan
Employer contributions	-	-	\$ 5.1	\$ -
Employee contributions	-	-	\$ 0.3	\$ -

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 also 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 nonrepresented 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.

5. OTHER POSTEMPLOYMENT BENEFITS

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

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the plan.

Plan Description:

The Benefits provided by the MTA and its Agencies include medical, pharmacy, dental, vision, and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement and welfare fund contributions.

Annual OPEB Cost and Net OPEB Obligation:

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

For determining the ARC, the MTA has chosen to use Frozen Initial Liability (“FIL”) cost method with the initial liability amortized over a 22 year period.

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

Actuarial Methods and Assumptions:

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

Valuation Date:

January 1, 2006 (January 1, 2007 for MTA Bus Company)

Discount Rate:

4.2%

Per Capita Claim Costs:

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

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

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

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

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

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

Medicare Part B Premiums:

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

Health Care Cost Trend Rates:

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

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

Participation:

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

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

Dependent Coverage:

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

Demographic Assumptions:

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

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

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

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

Turnover and retirement rates:

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

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

Vestee Coverage:

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

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

The following table shows the elements of MTA's estimated net OPEB cost for the nine months ended September 30, 2008:

	September 30, 2008	December 31, 2007
Annual required contribution	\$ 1,295.7	\$ 1,575.5
Interest on net OPEB obligation	40.6	-
Adjustment to annual required contribution	(84.8)	-
Annual OPEB cost/expense	\$ 1,251.5	\$ 1,575.5
Payments made	(254.9)	285.5
Increase in net OPEB obligation	996.6	1,290.0
Net OPEB obligation - beginning of year	1,289.8	-
Net OPEB obligation - end of year	\$ 2,286.4	\$ 1,290.0

The MTA's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the nine months ended September 30, 2008 and the year ended December 31, 2007 is as follows:

Period Ended	Annual OPEB Cost (In Millions)	Percentage of Annual OPEB Cost to be Paid	Net OPEB Obligation (In Millions)
9/30/2008	\$ 1,251.5	20.4%	\$ 2,286.4
12/31/2007	\$ 1,575.5	18.10%	\$ 1,290.0

The Authorities funded status of the Plan is as follows:

Period Ended	Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability (AAL) {b}	Actuarial Accrued Liability (UAAL) {c}={b}-{a}	Funded Ratio {a}/{c}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c}/{d}
9/30/2008	1/1/2008	-	\$13,241.1	\$13,241.1	-	\$4,733.5	279.7%
12/31/2007	1/1/2006	-	\$13,623.2	\$13,623.2	-	\$4,551.4	299.3%

Actuarial Methods and Assumptions Used in Valuations: The OPEB-specific actuarial assumptions used in the nine months ended September 30, 2008, OPEB actuarial valuations are as follows:

Valuation Date	January 1, 2007
Actuarial Cost Method	Project Unit Credit Method
Discount Rate	4.2%
Per-Capita Retiree Contributions	-

6. CAPITAL ASSETS

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

Capital assets are stated at historical cost, or at estimated historical cost based on appraisals, or on other acceptable methods when historical cost is not available. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease.

Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 25 to 50 years for buildings, 2 to 40 years for equipment, and 25 to 100 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset whichever is less. Capital assets consist of the following at September 30, 2008 and December 31, 2007:

	Balance December 31, 2006			Balance December 31, 2007 (\$ in Millions)			Balance September 30, 2008 (Unaudited)
	2006	Additions	Deletions	2007	Additions	Deletions	
Capital assets, not being depreciated							
Land	\$ 137	\$ 9	\$ -	\$ 146	\$ -	\$ -	\$ 146
Construction work-in-progress	5,255	1,655	955	5,955	1,144	792	6,307
Total capital assets, not being depreciated	5,392	1,664	955	6,101	1,144	792	6,453
Capital assets, being depreciated							
Buildings and structures	12,867	424	62	13,229	220	-	13,449
Bridges and tunnels	1,712	102	-	1,814	-	-	1,814
Equipment	-						
Passenger cars and locomotives	9,634	661	3	10,292	809	2	11,099
Buses	2,238	215	-	2,453	10	18	2,445
Infrastructure	12,764	890	30	13,624	868	-	14,492
Other	8,841	1,044	9	9,876	872	3	10,745
Total capital assets, being depreciated	48,056	3,336	104	51,288	2,779	23	54,044
Less accumulated depreciation							
Buildings and structures	3,530	376	17	3,889	386	-	4,275
Bridges and tunnels	368	16	-	384	11	-	395
Equipment							
Passenger cars and locomotives	3,001	336	3	3,334	261	2	3,593
Buses	1,368	145	-	1,513	119	-	1,632
Infrastructure	3,615	430	16	4,029	339	-	4,368
Other	3,259	386	16	3,629	192	3	3,818
Total accumulated depreciation	15,141	1,689	52	16,778	1,308	5	18,081
Total capital assets, being depreciated, net	32,915	1,647	52	34,510	1,471	18	35,963
Capital assets, net	\$ 38,307	\$ 3,311	\$ 1,007	\$ 40,611	\$ 2,615	\$ 810	\$ 42,416

Interest capitalized in conjunction with the construction of capital assets at September 30, 2008 and December 31, 2007 was \$58.8 and \$62.8, 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 placed 374 new R160 subway cars and 10 new buses during the first nine months of 2008.

For certain construction projects, the MTA holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At September 30, 2008 and December 31, 2007 these securities totaled \$92.8 and \$82.4, respectively, and had a market value of \$105.6 and \$89.7, respectively, and are not included in these financial statements.

7. LONG -TERM DEBT

	Original Issuance	December 31, 2007	Issued	Retired	Refunded	September 30, 2008 (Unaudited)
MTA:						
Transportation Revenue Bonds 2.25% - 5.75% due through 2036	\$ 12,451	\$ 10,434	\$ 1,000	\$ 672	\$ -	\$ 10,762
Transportation Revenue Bond Anticipation Notes Commercial Paper	750	750	-	-	650	100
State Service Contract Bonds 3.00% - 5.50% due through 2031	2,395	2,243	-	49	-	2,194
Dedicated Tax Fund Bonds 3.00% - 6.25% due through 2037	6,433	4,272	701	1,255	-	3,718
Certificates of Participation 4.40% - 5.625% due through 2030	807	422	-	9	-	413
	\$ 22,836	18,121	1,701	1,985	650	17,187
Less net unamortized bond discount and premium		<u>(328)</u>	<u>42</u>	<u>34</u>	<u>-</u>	<u>(320)</u>
		\$ 17,793	\$ 1,743	\$ 2,019	\$ 650	\$ 16,867
TBTA:						
General Revenue Bonds 4.00% - 5.77% due through 2033	\$ 6,920	\$ 4,757	\$ 1,705	\$ 16	\$ -	\$ 6,446
Subordinate Revenue Bonds 4.00% - 5.77% due through 2032	<u>2,858</u>	<u>2,272</u>	<u>491</u>	<u>698</u>	<u>-</u>	<u>2,065</u>
	\$ 9,778	7,029	2,196	714	-	8,511
Less net unamortized bond discount and premium		<u>84</u>	<u>67</u>	<u>-</u>	<u>-</u>	<u>151</u>
		\$ 7,113	\$ 2,263	\$ 714	\$ -	\$ 8,662
Total		\$ 24,906	\$ 4,006	\$ 2,733	\$ 650	\$ 25,529
Current portion		(391)				(263)
Long-term portion		<u>\$ 24,515</u>				<u>\$ 25,266</u>

MTA Transportation Revenue Bonds – Prior to 2008, MTA issued twenty two 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 \$13,200. 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 the period ended September 30, 2008, the MTA issued three series of Transportation Revenue Bonds. On February 13, 2008, MTA issued the Transportation Revenue Bonds Series 2008A in the amount of \$512.5 and the Series 2008B Bonds in the amount of \$487.5. The combined

proceeds of the Transportation Revenue 2008 A and B Bonds were used to refund the following series of bonds: Dedicated Tax Fund Variable Rate Bonds (Auction Rate) Series 2007A1-5 with a combined par outstanding of \$430; the Transportation Revenue Variable Rate Refunding Bonds Series 2002G2 with a par of \$127.8; and the Transportation Revenue Bonds Series 2004A1-4 with a par outstanding of \$472.2. The Dedicated Tax Fund Bonds Series 2007 A1-5 were issued as insured Auction Rate Securities and the market for such bonds had ceased to operate efficiently. The Transportation Revenue Variable Rate Refunding Bonds Series 2002G2 were refunded due to rating downgrades of the insurer, Ambac Assurance Corporation. The Transportation Revenue Bonds Series 2004A1-4 were refunded due to rating downgrades of the insurers, CDC IXIS Financial Guaranty North America Inc. and XL Capital Assurance Inc.

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

MTA State Service Contract Bonds – Prior to 2008, 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 2008, MTA issued eleven series of Dedicated Tax Fund Bonds secured under its Dedicated Tax Fund Obligation Resolution adopted on March 26, 2002, the aggregate principal amount of \$4,931. The Dedicated Tax Fund Bonds are MTA's special obligations payable solely from monies held in the Pledged Amounts Account of the MTA Dedicated Tax Fund. State law requires that the MTTF revenues and MMTOA revenues (described above in footnote 2 under "Nonoperating Revenues") be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund.

During the period ended September 30, 2008, the MTA issued two series of Dedicated Tax Fund Bonds. On June 25, MTA issued the Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A in the amount of \$353 to refund the Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A. The refunding was precipitated by a ratings downgrade of the insurer on the 2005A bonds, XL Capital Assurance, Inc. The 2008A Bonds are insured by Financial Security Assurance, Inc. On August 7, MTA issued the Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008B in the amount of \$348. The refunded bonds included the \$100 Dedicated Tax Fund Bonds Series 2004B-3, the \$100 Dedicated Tax Fund Bonds Series 2004B-5, and the \$145 Dedicated Tax Fund Bonds Series 2004D-1. The refunding was precipitated by a ratings downgrade of the following insurers: 2004B-3 was insured by Financial Guaranty Insurance Company; 2004B-5 was insured by CDC IXIS Financial Guaranty North America, Inc. (CIFG NA); and the 2004D-1 was insured by Ambac Assurance Corporation.

MTA Certificates of Participation – Prior to 2008, 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 represent proportionate interests in the principal and interest components of Base Rent paid severally, but not jointly, in their respective proportionate shares by MTA New York City Transit, MTA, and MTA Bridges and Tunnels, pursuant to a Leasehold Improvement Sublease Agreement.

MTA Bridges and Tunnels General Revenue Bonds – Prior to 2008, MTA Bridges and Tunnels issued thirteen 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 \$5,849. The General Revenue Bonds are MTA Bridges and Tunnels' general obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels.

During 2008, MTA Bridges and Tunnels issued the following series of General Revenue Bonds to finance bridge and tunnel projects and to refund outstanding indebtedness: Series 2008A in the amount of \$822.8 and Series 2008B in the amount of \$252.2 were issued on March 27, 2008 and Series 2008C in the amount of \$629.9 was issued on July 30, 2008. The proceeds were used to finance Bridges and Tunnels projects as well as Transit and Commuter projects and also refinance outstanding indebtedness.

Also, in May of 2008 proceeds of the TBTA general bond resolution were used to redeem \$72.17 of MTA Transportation Revenue Bonds Series 2002G-2

MTA Bridges and Tunnels Subordinate Revenue Bonds – Prior to 2008, MTA Bridges and Tunnels issued nine 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 \$2,412. 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 2008 MTA Bridges and Tunnels issued \$491.1 of Subordinate Revenue Bonds. The proceeds were used to refinance outstanding indebtedness.

Debt Limitation - The New York State Legislature has imposed limitations on the aggregate amount of debt that the MTA and MTA Bridges and Tunnels can issue to fund the approved transit and commuter capital programs. The current aggregate ceiling, subject to certain exclusions, is \$28,877 compared with issuances totaling approximately \$19,565 at September 30, 2008. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the 2000-2004 MTA Capital Program and the 2005-2009 MTA Capital program.

Bond Refundings - 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 U.S. Treasury obligations that are placed in irrevocable trusts. The principal and interest within the trusts will be used to repay the refunded debt. The trust account assets and the refunded debt are excluded from the consolidated balance sheets.

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

During 2008, the MTA issued its Transportation Revenue Bonds, Series 2008A and Series 2008B in the aggregate principal amount of \$1,000 to refund certain outstanding Transportation Revenue and Dedicated Tax Fund bonds; MTA issued its Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A in the aggregate principal amount of \$353 to refund certain outstanding Dedicated Tax Fund bonds; and MTA issued its Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008B in the aggregate principal amount of \$348 to refund certain outstanding Dedicated Tax Fund bonds.

Additionally, during 2008, MTA Bridges and Tunnels issued its General Revenue Bonds, Series 2008A and Series 2008B in the aggregate principal amount of \$1,075 to refund certain outstanding MTA Transportation Revenue, MTA Dedicated Tax Fund bonds and MTA Bridges and Tunnels Subordinate Revenue bonds; MTA Bridges and Tunnels issued its General Revenue Bonds, Series 2008C and Subordinate Series 2008D in the aggregate principal amount of \$1,121 to refund certain outstanding MTA Bridges and Tunnels Subordinate Revenue and MTA Transportation Revenue Bond Anticipation Notes.

At September 30, 2008, the following amounts of MTA bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

	September 30, 2008 (Unaudited)	December 31, 2007
MTA Transit and Commuter Facilities:		
Transit Facilities Revenue Bonds	\$ 1,004	\$ 1,285
Commuter Facilities Revenue Bonds	1,145	1,419
Commuter Facilities Subordinate Revenue Bonds	13	16
Transit and Commuter Facilities Service Contract Bonds	772	835
Dedicated Tax Fund Bonds	1,346	1,330
Excess Loss Trust Fund	7	13
 MTA Transportation Revenue Bonds	 156	 113
MTA New York City Transit:		
Transit Facilities Revenue Bonds (Livingston Plaza Project)	102	-
MTA Bridges and Tunnels:		
General Purpose Revenue Bonds	2,079	2,135
Special Obligation Subordinate Bonds	208	219
Mortgage Recording Tax Bonds	201	207
 Total	 <u>7,033</u>	 <u>\$ 7,572</u>

Debt Service Payments:

	MTA		MTA BRIDGES AND TUNNELS				Debt Service	
	Principal	Interest	Senior Revenue		Subordinate Revenue		Principal	Interest
			Principal	Interest	Principal	Interest		
	(Amounts in Millions)							
	(Unaudited)							
2008	\$ 282	\$ 679	\$ 85	\$ 129	\$ 17	\$ 58	\$ 384	\$ 866
2009	168	788	49	306	38	108	255	1,202
2010	390	779	135	297	49	105	574	1,181
2011	391	762	142	290	51	102	584	1,154
2012	426	744	139	292	55	100	620	1,136
2013-2017	2,421	3,389	852	1,300	318	453	3,591	5,142
2018-2022	3,040	2,740	1,094	1,056	437	290	4,571	4,086
2023-2027	3,875	1,964	1,329	822	432	297	5,636	3,083
2028-2032	4,660	961	1,774	347	668	16	7,102	1,324
2033-2037	1,375	163	694	22	-	-	2,069	185
2038-2042	60	3	153	-	-	-	213	3
	<u>\$ 17,088</u>	<u>\$ 12,972</u>	<u>\$ 6,446</u>	<u>\$ 4,861</u>	<u>\$ 2,065</u>	<u>\$ 1,529</u>	<u>\$ 25,599</u>	<u>\$ 19,362</u>

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

- *Transportation Revenue Refunding Bonds, Series 2002B* – 4.00% per annum
- *Transportation Revenue Refunding Bonds, Series 2002D* – 4.00% per annum on Subseries 2002D-1 and 4.45% per annum on subseries 2002D-2 taking into account the interest rate swap
- *Transportation Revenue Refunding Bonds, Series 2002G* – 4.00% per annum
- *Transportation Revenue Bonds, Series 2005D* – 3.561% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2005E* – 3.561% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2005G* – 4.00% per annum
- *Transportation Revenue Bonds, Series 2008B* – 4.00% per annum, after the mandatory tender date
- *Dedicated Tax Fund Bonds, Series 2002B* – 4.06% per annum until September 1, 2013 based on the interest rate swap and 4.00% per annum thereafter
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A* – 3.3156% per annum on the hedged portion related to the interest rate swaps, and 4.00% per annum on the unhedged portion
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000A B* – 6.08% per annum taking into account the interest rate swap
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000CD* – 6.07% per annum taking into account the interest rate swap
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2001B and Series 2001C* – 5.777% per annum taking into account the interest rate swap and 4.00% per annum on portions not covered by the interest rate swap
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002C* – 5.634% per annum taking into account the interest rate swap and 4.00% per annum on portions not covered by the interest rate swap
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002F* – 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2003B* – 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 General Revenue Bonds, Series 2008B* – 4.00% per annum, after the mandatory tender date
- *Certificates of Participation, Series 2004A* – 3.542% per annum taking into account the interest rate swaps
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008B* - 4% per annum.

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

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

Resolution	Series	Swap	Provider (Insurer)	Type of Facility	Exp. Date
Transportation Revenue	2002D-1	N	West LB (FSA)	SBPA	5/9/2012
Transportation Revenue	2002D-2	Y	Dexia (FSA)	SBPA	5/27/2011
Transportation Revenue	2002G-1	N	Bank of Nova Scotia (Ambac)	SBPA	11/20/2008
Transportation Revenue	2005E	Y	Fortis	LOC	10/9/2012
Transportation Revenue	2005G	N	BNP Paribas	LOC	12/8/2010
Transportation Revenue	Commercial Paper	N	ABN AMRO	LOC	12/8/2010
Dedicated Tax Fund	2002B	Y	Dexia (FSA)	SBPA	5/7/2014
Dedicated Tax Fund	2008A	Y	Dexia (FSA)	SBPA	6/25/2011
Dedicated Tax Fund	2008B1	N	Bank of Nova Scotia	LOC	8/5/2011
Dedicated Tax Fund	2008B2	N	BNP Paribas (NY Branch)	LOC	8/5/2011
Dedicated Tax Fund	2008B3	N	Lloyds TSB Bank plc (NY Branch)	LOC	8/5/2011
Dedicated Tax Fund	2008B4	N	KBC Bank N.V.	LOC	8/5/2011
MTA Bridges and Tunnels Subordinate	2000AB	Y	JPMorgan (FSA)	SBPA	10/7/2014
MTA Bridges and Tunnels Subordinate	2000CD	Y	Lloyds TSB Bank (NY) (FSA)	SBPA	10/7/2014
MTA Bridges and Tunnels General Revenue	2001B	Y	State Street (Ambac)	SBPA	1/10/2009
MTA Bridges and Tunnels General Revenue	2001C	Y	Bayerische LB (Ambac)	SBPA	11/30/2015
MTA Bridges and Tunnels General Revenue	2002C	Y	West LB (Ambac)	SBPA	12/31/2015
MTA Bridges and Tunnels General Revenue	2002F	N	ABN AMRO	SBPA	11/8/2012
MTA Bridges and Tunnels General Revenue	2003B	N	Dexia	SBPA	7/7/2012
MTA Bridges and Tunnels General Revenue	2005A	N	Dexia	SBPA	5/9/2012
MTA Bridges and Tunnels General Revenue	2005B-1	Y	Depfa Bank	SBPA	7/7/2015
MTA Bridges and Tunnels General Revenue	2005B-2	Y	Dexia	SBPA	7/6/2012
MTA Bridges and Tunnels General Revenue	2005B-3	Y	Bank of America	SBPA	7/6/2012
MTA Bridges and Tunnels General Revenue	2005B-4	Y	Landesbank Baden-Wuerttemberg (NY)	SBPA	7/6/2015

Swap Agreements Relating to Synthetic Fixed Rate Debt

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

Objectives of the Swaps. In order to protect against the potential of rising interest rates, to achieve a lower net cost of borrowing, to reduce exposure to changing interest rates on a related bond issue, or, in some cases where

Federal tax law prohibits an advance refunding, to achieve debt service savings through a synthetic fixed rate, MTA, MTA Bridges and Tunnels and MTA New York City Transit have entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA, MTA Bridges and Tunnels and MTA New York City Transit would have paid to issue fixed-rate debt.

Fair Value. Relevant market interest rates on the valuation date (September 30, 2008) of the swaps reflected in the following charts in all cases were higher than market interest rates on the effective date of the swaps. Consequently, as of the valuation date, all of the swaps had negative fair values. A negative fair value means that MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would have to pay the counterparty that approximate amount to terminate the swap. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be entitled to receive a payment from the counterparty to terminate the swap; consequently, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the swap be terminated.

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

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

MTA TRANSPORTATION REVENUE BONDS							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 9/30/08 (Unaudited) (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 9/30/08 (Unaudited) (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2002D-2	200.000	01/01/07	4.45	69% of one-month LIBOR ⁽¹⁾	\$ (35.888)	11/01/32	Bear Stearns Capital Markets Inc.
Series 2005D and Series 2005E	500.000	11/02/05	3.561	67% of one-month LIBOR	(32.608)	11/01/35	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.
Series 2012 ⁽²⁾	359.450	11/15/12	3.563	67% of one-month LIBOR	(14.455)	11/01/32	Bear Stearns Capital Markets Inc.
Series 2012 ⁽²⁾	153.700	11/15/12	3.563	67% of one-month LIBOR	(7.337)	11/01/32	Lehman Brothers Special Financing Inc.
Total	\$1,213.15				\$ (90.288)		

⁽¹⁾ London Interbank Offered Rate.

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

MTA DEDICATED TAX FUND BONDS

<u>Associated Bond Issue</u>	<u>Notional Amounts as of 9/30/08 (Unaudited) (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 9/30/08 (Unaudited) (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2002B	\$440.000	09/05/02	4.06 %	Actual bond rate until 04/30/10, and thereafter, BMA	\$ (18.489)	09/01/13	Morgan Stanley Capital Services Inc.
Series 2008A	345.060	03/24/05	3.3156	67% of one-month LIBOR	(11.387)	11/01/31	Citigroup Financial Products Inc.
Total	\$785.060				\$ (29.876)		

MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 9/30/08 (Unaudited) (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 9/30/08 (Unaudited) (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2001B and 2001C ⁽³⁾	\$177.900	01/01/02	5.777%	Actual bond rate	\$ (25.061)	01/01/19	Citigroup Financial Products Inc.
Series 2002C ⁽⁴⁾	77.100	01/01/00	5.634	Actual bond rate	(6.215)	01/01/13	Ambac Financial Services, L.P.
Series 2005B	794.400	07/07/05	3.076	67% of one-month LIBOR	(2.024)	01/01/32	25% each – Citibank, N.A., JPMorgan Chase Bank, BNP Paribas North America, Inc. and UBS AG
Series 2005B	794.400	07/07/05	67% of one-month LIBOR plus 43.7 basis points ⁽⁵⁾	BMA minus 10 basis points	(1.768)	01/01/12	UBS AG
Total	\$1,843.800				\$ (35.068)		

⁽³⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of \$19,204,000.

⁽⁴⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of \$8,400,000.

⁽⁵⁾ For the purpose of mitigating the basis risk during the escrow period with respect to the \$797.2 million notional amount swaps entered into in connection with the Series 2005B Bonds, MTA Bridges and Tunnels will pay 67% of one-month LIBOR plus 43.7 basis points to the UBS AG and receive a variable rate equal to the BMA Index minus 10 basis points.

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 9/30/2008 (Unaudited) (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 9/30/2008 (Unaudited) (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2000AB ⁽⁶⁾	\$188.600	01/01/01	6.08 %	Actual bond rate	\$ (26.720)	01/01/19	Bear Stearns Capital Markets Inc.
Series 2000CD Error! Bookmark not defined.	188.600	01/01/01	6.07	Actual bond rate	(26.625)	01/01/19	Citigroup Financial Products Inc.
Total	\$558.225				\$ (53.345)		

⁽⁶⁾ In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying to MTA Bridges and Tunnels a premium of \$22,740,000.

2 Broadway Certificates of Participation Swaps

In addition to the foregoing, MTA, MTA New York City Transit and MTA Bridges and Tunnels entered into separate ISDA Master Agreements with UBS AG relating to the \$357.925 Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities) in connection with the refunding of certain certificates of participation originally executed to fund certain improvements to the office building located at 2 Broadway in Manhattan. The 2 Broadway swaps have (1) an effective date of September 22, 2004, (2) a fixed rate paid of 3.092%, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67% of one-month LIBOR minus 45 basis points, and (4) a termination date of January 1, 2030. Based on the aggregate notional amount of \$355.525 outstanding as of September 30, 2008, MTA New York City Transit is responsible for \$244.250 aggregate notional amount of the swaps, MTA for \$74.650 aggregate notional amount, and MTA Bridges and Tunnels for \$36.625 aggregate notional amount. As of September 30, 2008, the aggregate unaudited fair value of the swaps was (\$18.023).

Counterparty Ratings

The current ratings of the counterparties are as follows as of September 30, 2008:

<u>Counterparty</u>	<u>Ratings of the Counterparty or its Credit Support Provider</u>		
	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>
AIG Financial Products Corp.	A-	A2	A
Ambac Financial Services, L.P.	AA	Aa3	NR
Bear Stearns Capital Markets Inc.	AA-	Aa2	AA-
BNP Paribas North America, Inc.	AA+	Aa1	AA
Citibank, N.A.	AA	Aa1	AA-
Citigroup Financial Products Inc.	AA-	Aa3	AA-
JPMorgan Chase Bank	AA-	Aa2	AA-
Lehman Brothers Special Financing Inc.	NR	B1	B
Morgan Stanley Capital Services Inc.	A+	A1	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 September 30, 2008 for the swap where the notional amount does not match the outstanding principal amount of the associated bonds.

<u>Associated Bond Issue</u>	<u>Principal Amount of Bonds (in millions) (Unaudited)</u>	<u>Notional Amount (in millions) (Unaudited)</u>
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	\$291.520	\$177.900
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002C	\$101.915	\$77.100

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

Risks Associated with the Swap Agreements

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

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

Credit Risk. The following table shows, as of September 30, 2008, the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA and/or MTA Bridges and Tunnels, or in connection with the 2 Broadway Certificates of Participation refunding. The notional amount totals below include all five swaps (including the UBS basis risk swap) in connection with the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B. The counterparties have the ratings set forth above.

<u>Counterparty</u>	<u>Notional Amount (in thousands) (Unaudited)</u>	<u>% of Total Notional Amount</u>
UBS AG	\$1,648,525	36.04%
Bear Stearns Capital Markets Inc.	748,050	16.35
Citigroup Financial Products Inc.	711,560	15.55
Morgan Stanley Capital Services Inc.	440,000	9.62
Lehman Brothers Special Financing Inc.	253,700	5.55
JPMorgan Chase Bank	198,600	4.34
BNP Paribas North America, Inc.	198,600	4.34
Citibank, N.A.	198,600	4.34
AIG Financial Products Corp.	100,000	2.19
Ambac Financial Services, L.P.	<u>77,100</u>	<u>1.69</u>
Total	\$4,574,735	100.00%

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

- Bear Stearns Capital Markets Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000AB,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000CD,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C, and
- Ambac Financial Services, L.P.
- Bear Stearns Capital Markets Inc. with respect to the MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2 and Series 2012,
- Lehman Brothers Special Financing Inc. with respect to the MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2005E and Series 2012.

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

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

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

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

	Fitch – BBB and below or unrated, Moody’s – Baa2 and below or unrated by S&P & Moody’s, or S&P – BBB and below or unrated	\$0
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MTA Dedicated Tax Fund Bonds		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA bonds or the counterparty’s long-term unsecured debt falls to</u>	<u>Then the downgraded party must post collateral if its estimated termination payments are in excess of</u>
Series 2002B	<u>Fitch</u> – BBB+, or <u>S&P</u> – BBB+	\$10,000,000
	<u>Fitch</u> – BBB and below or unrated, or <u>S&P</u> – BBB and below or unrated	\$0
Series 2008A [Note: for this swap, MTA is not required to post collateral under any circumstances.]	<u>Fitch</u> – A-, or <u>Moody’s</u> – A3, or <u>S&P</u> – A-	\$10,000,000
	<u>Fitch</u> – BBB+ and below, or <u>Moody’s</u> – Baa1 and below, or <u>S&P</u> – BBB+ and below	\$0

2 Broadway Certificates of Participation		
<u>Associated 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&P</u> – BBB+	\$25,000,000
	<u>Fitch</u> – BBB and below or unrated, <u>Moody’s</u> – Baa2 and below or unrated by S&P & Moody’s, or <u>S&P</u> – BBB and below or unrated	\$0
	<u>If the highest rating of the Counterparty’s long-term unsecured debt falls to</u>	<u>Then the Counterparty must post collateral if its estimated termination payments are in excess of</u>
	<u>Moody’s</u> – Baa1 or lower, or <u>S&P</u> – BBB+ or lower	\$0

MTA Bridges and Tunnels Senior Lien Revenue Bonds		
<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' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2002C	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Ambac is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2005B interest rate swap and Series 2005B basis risk swap	For counterparty, <u>Fitch</u> – A-, or <u>Moody's</u> – A3, or <u>S&P</u> – A-	\$10,000,000
	For MTA, <u>Fitch</u> – BBB+, or <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$30,000,000
	For MTA, <u>Fitch</u> – BBB, or <u>Moody's</u> – Baa2, or <u>S&P</u> – BBB	\$15,000,000
	For counterparty, <u>Fitch</u> – BBB+ and below, or <u>Moody's</u> – Baa1 and below, or <u>S&P</u> – BBB+ and below	\$0
	For MTA, <u>Fitch</u> – BBB- and below, or <u>Moody's</u> – Baa3 and below, or <u>S&P</u> – BBB- and below	\$0

MTA Bridges and Tunnels Subordinate Revenue Bonds		
<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 2000AB	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Bear Stearns is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2000CD	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	

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

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

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

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

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

MTA Transportation Revenue and Dedicated Tax Fund Bonds	
<u>Associated Bond Issue</u>	<u>Additional Termination Event(s)</u>
<u>Transportation Revenue Bonds</u>	
Series 2002D-2, Series 2005D and Series 2005E	The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.
Series 2012	The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.
<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 2008A Bonds	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Fitch with respect to the MTA Dedicated Tax Fund Bonds falls below "BBB" or, in either case the ratings are withdrawn.

2 Broadway		
<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.

MTA Bridges and Tunnels Senior and Subordinate Revenue Bonds	
<u>Associated Bond Issue</u>	<u>Additional Termination Events</u>
<u>Senior Lien Revenue Bonds</u>	
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, Ambac Assurance Corporation.</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.
<u>Subordinate Revenue Bonds</u>	
Series 2000AB and 2000CD	<p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, Financial Security Assurance Inc.</p>

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

<u>Associated Bond Issue</u>	<u>Bond Maturity Date</u>	<u>Swap Termination Date</u>
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	11/01/22	09/01/13
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	01/01/32	01/01/19
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002C	01/01/33	01/01/13

Swap payments and Associated Debt. The following tables contain the aggregate amount of estimated variable-rate bond debt service and net swap payments during certain years that such swaps were entered into in order to: protect against the potential of rising interest rates; achieve a lower net cost of borrowing; reduce exposure to changing interest rates on a related bond issue; or, in some cases where Federal tax law prohibits an advance refunding, achieve debt service savings through a synthetic fixed rate. As rates vary, variable-rate bond interest payments and net swap payments will vary. Using the following assumptions, debt service requirements of MTA's and MTA Bridges and Tunnel's outstanding variable-rate debt and net swap payments are estimated to be as follows:

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

MTA (in millions)				
	<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>
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	1.7	59.2	(3.4)	57.6
2012	1.8	59.1	(3.3)	57.6
2013-2017	208.8	282.8	(17.6)	474.0
2018-2022	435.1	218.8	(15.5)	638.4
2023-2027	255.4	145.2	(9.5)	391.0
2028-2032	473.2	82.2	(2.6)	552.8
2033-2036	104.3	7.8	-	112.1

MTA Bridges and Tunnels (in millions)				
	<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>
2008	\$ 34.1	\$ 62.6	\$ 4.9	101.6
2009	36.4	61.1	4.4	101.9
2010	38.2	59.6	3.5	101.4
2011	41.1	58.0	2.6	101.7
2012	43.4	56.2	1.7	101.3
2013-2017	267.9	250.5	(14.5)	503.9
2018-2022	169.3	203.0	(34.2)	338.2
2023-2027	156.2	173.8	(32.4)	297.6
2028-2032	805.9	79.6	(15.8)	869.7
2033-2036	6.5	-	-	6.5

8. LEASE TRANSACTIONS

Leveraged Lease Transactions: Subway Cars - During 1995, MTA Bridges and Tunnels entered into a sale/leaseback transaction with a third party whereby 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 at ABN AMRO Bank N.V. and \$7.5 was invested in U.S. Treasury Strips. The estimated yields and maturities of the deposit account and the Treasury Strips are expected to be sufficient to meet all of the regularly scheduled obligations under the lease as they become due, including the purchase option, if exercised. The capital lease obligation is included in other long-term liabilities. At the end of the lease term MTA Bridges and Tunnels has the option to purchase the subway cars for approximately \$106, which amount has been reflected in the net present value of the lease obligation, or to make a lease termination payment of approximately \$89.

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

Under the terms of the lease/leaseback agreement, the MTA initially received \$314, which was utilized as follows. The MTA paid \$266 to Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), an affiliate of the third party's lender, which has the obligation to pay to the MTA an amount equal to the rent obligations under the sublease attributable to the debt service on the loan from the third party's lender. The MTA used \$21 to purchase Treasury securities, which are pledged as collateral to the third party. The value at maturity of these Treasury securities, together with the proceeds from the aforementioned obligation of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., is sufficient to pay all of the regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the 22 year sublease period, if the related purchase option is exercised. A further \$0.6 was used to pay for legal and other costs of the transaction, and \$3 was used to pay the first rental payment under the sublease. A further \$23 is the MTA's net benefit from the transaction, representing consideration for the tax benefits. MTA Bridges and Tunnels has entered into a guarantee with the third party that the sublease payments will be made. At September 30, 2008, the MTA has recorded a long-term capital obligation and capital asset of \$272 arising from the transaction.

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

back to the MTA as a capital lease, and sub-subleased by the MTA to MTA Metro-North Railroad and MTA New York City Transit, respectively.

Under the terms of these lease/leaseback agreements, the MTA initially received \$76.6, which was utilized as follows: The MTA paid \$59.8 to an affiliate of the third party's lender, which has the obligation to pay to the MTA an amount equal to the rent obligations under the sublease attributable to the debt service on the loan from the third party's lender. The obligations of the affiliate of the third party's lender are guaranteed by American International Group, Inc. In connection with all of the obligations of American International Group, Inc. and its affiliates described in this Footnote 8, MTA continues to monitor the support being provided to American International Group, Inc. by the Federal Reserve and the publicly available information on the financial condition of American International Group, Inc. The MTA used \$12.5 to purchase a Letter of Credit from an affiliate of the third-party's lender, guaranteed by American International Group, Inc. The payments to the MTA under the Letter of Credit, together with the aforementioned payments from the affiliate of the third-party's lender, are sufficient to pay all of the regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the related purchase options are exercised. At September 30, 2008, the MTA has recorded a long-term capital obligation and capital asset of \$41 arising from the transaction.

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

The MTA and the equity investor are in disagreement as to whether the downgrade of the guarantor of the Letter of Credit triggers a requirement under the transaction documents that the MTA replace the Letter of Credit with a substitute obligation meeting certain specified credit and other requirements. The MTA and the equity investor have agreed to extend the required date of compliance to January 13, 2009. Before that date, the MTA expects to resolve this issue with the equity investor, comply with the replacement requirement or seek other remedies. The MTA does not expect to incur any material long-term net cost for compliance with the replacement requirement.

Leveraged Lease Transactions: Subway Cars - On September 25, 2002 and December 17, 2002 the MTA entered into four sale/leaseback transactions whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit subway cars to the MTA, the MTA sold those cars to third parties, and the MTA leased those cars back from such third parties. The MTA subleased the cars to MTA New York City Transit. The four leases expire in 2032, 2034, 2033, and 2033, respectively. At the lease expiration, the MTA has the option of either exercising a fixed price purchase option for the cars or returning the cars to the third party owner.

Under the terms of the sale/leaseback agreements, the MTA initially received \$1,514.9, which was utilized as follows: The MTA paid \$1,058.6 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to pay to the MTA an amount equal to the rent obligations under

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

In the event of a failure to perform by Premier International Funding Co., as obligor under the Equity Payment Agreements in the three leases, and Financial Security Assurance, Inc., as guarantor of such obligations, the transaction documents for the two leases in which such obligations are collateralized are structured to provide recourse to the securities that have been pledged as collateral for such obligations. The accreted value of the Equity Payment Agreement in the transaction in which the obligation of Premier International Funding Co., as obligor, and Financial Security Assurance, Inc., as guarantor, is uncollateralized was \$9.2 at September 30, 2008.

The amount remaining after payment of transaction expenses, \$96.2, was the MTA's net benefit from these four transactions.

Leveraged Lease Transactions: Qualified Technological Equipment - - On December 19, 2002, the MTA entered into four sale/leaseback transactions whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit qualified technological equipment (QTE) relating to the MTA New York City Transit automated fare collection system to the MTA. The MTA sold that equipment to third parties and the MTA leased that equipment back from such third parties. The MTA subleased the equipment to MTA New York City Transit. The four leases expire in 2022, 2020, 2022, and 2020, respectively. At the lease expiration the MTA has the option of either exercising a fixed-price purchase option for the equipment or returning the equipment to the third-party owner.

Under the terms of the sale/leaseback agreements the MTA initially received \$507.4, which was utilized as follows: The MTA paid \$316.2 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to pay to MTA an amount equal to the rent obligations under the leases attributable to the debt service on the loan from certain of the third parties' lenders. The MTA also purchased FNMA and U.S. Treasury debt securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lenders to the third parties. In the case of three of the four leases the MTA also purchased U.S. Treasury debt securities in amounts and with maturities which are expected to be sufficient to pay the remainder of the regularly scheduled lease rent payments under those leases and the purchase price due upon exercise by the MTA of the related purchase options if exercised. In the case of the other lease, the MTA entered into an Equity Payment Undertaking Agreement with XL Insurance (Bermuda) Ltd. (which was guaranteed by XL Financial Assurance Ltd.) whereby that entity had the obligation to provide to the MTA the amounts necessary to make the remainder of the equity portion of the basic lease rent payments under that lease and to pay the equity portion of the purchase price due upon exercise by the MTA of the purchase option if exercised. The amount remaining after payment of transaction expenses, \$57.6, was the MTA's net benefit from these four transactions. As consideration for the cooperation of the City of New York in these transactions, including the transfer of any property interests held by the City on such equipment to MTA New York City Transit and the MTA, the MTA is obligated to pay to the City 24.11 percent of the net benefit received from these four QTE transactions. At September 30, 2008, the MTA had paid the City of New York \$13.7.

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

On September 16, 2008, the MTA learned that American International Group, Inc. was downgraded to a level that under the transaction documents for two of the remaining three QTE leases required the MTA to replace the applicable Equity Credit Default Option Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. The MTA has entered into agreements with the equity investor in those two transactions which grants MTA the right to effect an early termination of those transactions that would avoid the replacement requirement. MTA has taken actions that obligate MTA to terminate the transactions on in January, 2009. The MTA expects that it will achieve a net gain of approximately \$3 as a result of such termination.

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

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

Leveraged Lease Transactions: Subway Cars - On September 25, 2003 and September 29, 2003, the MTA entered into two sale/leaseback transactions whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit subway cars to the MTA, the MTA sold those cars to third parties, and the MTA leased those cars back from such third parties. The MTA subleased the cars to MTA New York City Transit. Both leases expire in 2033. At the lease expiration, MTAHQ has the option of either exercising a fixed-price purchase option for the cars or returning the cars to the third-party owner.

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

On September 16, 2008, the MTA learned that American International Group, Inc. was downgraded to a level that under the terms of the transaction documents for the sale/leaseback transaction that closed on September 29, 2003, the MTA is required to replace or restructure the applicable Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. On December 17, 2008, MTA terminated the Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. and provided replacement collateral in the form of U.S. Treasury strips. The Resolution Funding Corporation (REFCO) debt security that was being held in pledge was released to MTA. On November 6, 2008, the MTA learned that Ambac Assurance Corp., the provider of the credit enhancement that insures the MTA's contingent obligation to pay a portion of the termination values upon an early termination in both the September 25, 2003 and September 29, 2003 transactions, was downgraded to a level that requires the provision of new credit enhancement facilities for each lease by December 21, 2008. On December 17, 2008, MTA terminated the Ambac Assurance Corp. surety bond for the lease transaction that closed on December 29, 2003 and provided a short term U.S. Treasury debt obligation as replacement collateral. The cost of the

replacement collateral was \$32. It is anticipated that during 2009, MTA will acquire a letter of credit or financial insurance to replace the U.S. Treasury security as collateral in that transaction at which point such U.S. Treasury security will be released back to MTA. MTA has reached an agreement with the equity investor in the transaction that closed on September 25, 2003 which extends the period during which MTA is permitted to replace the Ambac Assurance Corp. surety bond to January 12, 2009. MTA anticipates that on or before that date it will terminate the Ambac Assurance Corp. surety bond for that transaction and provide a U.S. Treasury security as replacement collateral for the underlying contingent obligation. The estimated cost of such U.S. Treasury security is approximately \$40.

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

On April 8, 1994, the MTA amended its lease for the Harlem/Hudson line properties, including Grand Central Terminal. This amendment initially extends the lease term, previously expiring in 2031, an additional 110 years and, pursuant to several other provisions, an additional 133 years. In addition, the amendment grants the MTA an option to purchase the leased property after the 25th anniversary of the amended lease. The amended lease comprises both operating (for the lease of land) and capital (for the lease of buildings and track structure) elements.

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

Total rent expense under operating leases approximated \$13.8 and \$15.4 for the six months ended September 30, 2008 and September 30, 2007 respectively.

At September 30, 2008, the future minimum lease payments under noncancelable leases are as follows:

Year	Operating (\$ in Millions) (Unaudited)	Capital
2008	\$ 19	\$ 50
2009	50	305
2010	48	174
2011	47	70
2012	45	170
2013 - 2017	213	425
2018 - 2022	202	693
2023 - 2027	211	313
2028 - 2032	216	336
2033 - 2037	242	1,435
Thereafter	<u>926</u>	<u>550</u>
	<u>\$ 2,219</u>	\$ 4,521
Amount representing interest		<u>(3,117)</u>
Present value of capital lease obligations		<u>\$ 1,404</u>

9. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the nine months ended September 30, 2008 and for the year ended December 31, 2007 is presented below:

	September 30, 2008 (Unaudited) (\$ in Millions)	December 31, 2007
Balance, beginning of year	\$ 1,232	\$ 1,160
Activity during the year:		
Current year claims and changes in estimates	207	260
Claims paid	<u>(157)</u>	<u>(188)</u>
Balance, end of year	1,282	1,232
Less current portion	<u>(188)</u>	<u>(199)</u>
Long-term liability	<u>\$ 1,094</u>	<u>\$ 1,033</u>

10. 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

11. OPERATING ACTIVITY INFORMATION

	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
September 30, 2008 (Unaudited)						
Operating revenue	\$ 207	\$ 810	\$ 2,492	\$ 969	\$ (27)	\$ 4,451
Depreciation and amortization	51	374	828	55	-	1,308
Subsidies and grants	2,014	-	944	-	(785)	2,173
Tax revenue	756	-	656	-	(207)	1,205
Interagency subsidy	292	-	93	(292)	(93)	-
Operating (deficit) surplus	(613)	(1,176)	(3,565)	584	-	(4,770)
Net (deficit) surplus	2,440	(1,126)	(456)	(1,288)	15	(415)
Capital expenditures	3,062	216	621	689	(1,423)	3,165
September 30, 2008 (Unaudited)						
Total assets	11,621	10,086	29,451	4,410	(2,131)	53,437
Net working capital	1,487	41	(389)	(236)	(1,028)	(125)
Long-term debt - (including current portion)	16,824	-	-	8,705	-	25,529
Net assets	(9,647)	8,946	24,663	(5,080)	-	18,882
September 30, 2008 (Unaudited)						
Net cash (used in)/provided by operating activities	(325)	(663)	(1,546)	673	42	(1,819)
Net cash provided by/(used in) noncapital financing activities	2,618	705	1,863	(303)	(1,885)	2,998
Net cash provided by/(used in)capital and related financing activities	(2,913)	(31)	(440)	(233)	1,843	(1,774)
Net cash provided by/(used in) Investing activities	650	(13)	121	(137)	-	621
Cash at beginning of year	53	24	35	18	-	130
Cash at end of period	83	22	33	18	-	156

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

(Continued)

11. OPERATING ACTIVITY INFORMATION

	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
September 30, 2007 (Unaudited)						
Operating revenue	\$ 185	\$ 770	\$ 2,350	\$ 950	\$ (26)	\$ 4,229
Depreciation and amortization	48	362	792	49	-	1,251
Subsidies and grants	1,881	-	543	-	(384)	2,040
Tax revenue	1,161	-	907	-	(205)	1,863
Interagency subsidy	322	-	107	(322)	(107)	-
Operating (deficit) surplus	(555)	(1,094)	(3,245)	590	-	(4,304)
Net (deficit) surplus	1,605	(1,047)	(444)	60	-	174
Capital expenditures	3,056	206	590	218	(964)	3,105
September 30, 2007 (Unaudited)						
Total assets	12,491	9,826	27,820	4,133	(2,174)	52,096
Net working capital	2,743	(15)	(265)	(265)	(949)	1,249
Long-term debt - (including current portion)	17,219	-	-	7,260	(43)	24,436
Net assets	(9,714)	8,840	24,223	(3,812)	-	19,537
September 30, 2007 (Unaudited)						
Net cash (used in)/provided by operating activities	(401)	(698)	(1,488)	670	40	(1,877)
Net cash provided by/(used in) noncapital financing activities	2,681	723	1,596	(324)	(1,675)	3,001
Net cash (used in)/provided by capital and related financing activities	(3,076)	(34)	(392)	(274)	1,635	(2,141)
Net cash provided by/(used in) Investing activities	800	7	290	(69)	-	1,028
Cash at beginning of year	79	25	38	13	-	155
Cash at end of period	83	23	44	16	-	166

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

(Concluded)

12. SUBSEQUENT EVENTS

- MTA completed a conversion and remarketing of the Transportation Revenue Series 2002G1 Bonds on October 9, 2008. The 2002G1 Bonds totaling \$200 are supported by an irrevocable direct-pay letter of credit from the Bank of Nova Scotia. Bond insurance previously provided by Ambac Assurance Corporation for the 2002G1 Bonds was terminated.
- MTA Bridges & Tunnels completed a conversion and remarketing of the Series 2001B and C Bonds on October 1, 2008. The 2001 B bonds totaling \$145.8 are supported by an irrevocable, direct-pay letter of credit from State Street Bank and Trust Company. The 2001C bonds totaling \$145.8 are supported by an irrevocable, direct pay letter of credit from Bayerische Landesbank (NY Branch). Bond insurance previously provided by Ambac Assurance Corporation for the 2001B and C Bonds was terminated.
- MTA sold \$550 of Transportation Revenue Bonds on Friday, October 17, 2008. Proceeds of the issue will be used to finance capital projects of the subway, bus and commuter rail systems of the MTA and its affiliates and subsidiaries and/or refinance any outstanding indebtedness issued by MTA or MTA Bridges and Tunnels for transit and commuter projects.
- MTA completed a conversion and remarketing of the Transportation Revenue Variable Rate Bonds Series 2005D1-4. The 2005D1 Bonds totaling \$90, and the 2005D2 Bonds totaling \$60 were combined to create the \$150 2005D1 Bonds which conversion was effected on November 7 with liquidity support in the form of an irrevocable direct-pay letter of credit from Helaba Bank. The 2005D3 Bonds totaling \$60 and the D4 Bonds totaling \$40 were combined to create the \$100 2005D2 Bonds which conversion was effected on November 11 with liquidity support in the form of an irrevocable direct-pay letter of credit from Helaba Bank. Bond insurance previously provided by CIFGNA for the 2005D1 and 2 Bonds was terminated. Bond insurance previously provided by FSA Insured for the 2005D3 and 4 Bonds was terminated.
- AIG FPC, a swap counterparty, was downgraded by Moody's on October 3 from A2 to A3.
- The MTA Bridges & Tunnels (TBTA) General Revenue Variable Rate Refunding Bonds, Series 2002C were refunded in whole on December 12, 2008. The amount of bonds outstanding at the time of the refunding was \$101.9. Proceeds of the Transportation Revenue Bonds, Series 2008C were used for the refunding.

- Starting on December 31, 2008 a term out funding event occurred with respect to the TBTA 2005B-1 bonds totaling \$194.250. The term out funding event occurred as a result of bonds being held by the liquidity bank, DEPFA Bank, due to failed remarketings for more than ninety days. The agreement with the bank requires an accelerated principal payment schedule of twenty equal semi-annual installments. Under the provisions of the term out, the first principal payment is due on July 1, 2009. The term out rate is equal to the base rate, which is defined as the higher of (i) the prime rate and (ii) fed funds rate plus .50%, plus 1.75%. TBTA is seeking replacement liquidity for DEPFA Bank due to the bank's lack of marketability. In the event that a replacement liquidity facility is not identified, TBTA may issue refunding bonds to refinance the current obligation.

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METROPOLITAN TRANSPORTATION AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF PENSION FUNDING PROGRESS (UNAUDITED)

(See Independent Accountants' Review Report)

(\$ In Millions)

	January 1, 2007	January 1, 2006	January 1, 2005
LIRR			
a. Actuarial value of plan assets	\$ 509.1	\$ 625.0	\$ 659.6
b. Actuarial accrued liability (AAL)	1,543.5	1,898.6	1,786.7
c. Total unfunded AAL (UAAL) [b-a]	1,034.4	1,273.6	1,127.1
d. Funded ratio [a/b]	33.0 %	32.9 %	36.9 %
e. Covered payroll	\$ 94.0	\$ 117.3	\$ 137.1
f. UAAL as a percentage of covered payroll [c/e]	1100.4 %	1085.8 %	822.1 %
MaBSTOA			
a. Actuarial value of plan assets	\$ 1,057.9	\$ 841.0	\$ 762.1
b. Actuarial accrued liability (AAL)	1,938.3	1,725.2	1,680.5
c. Total unfunded AAL (UAAL) [b-a]	880.5	884.2	918.4
d. Funded ratio [a/b]	54.6 %	48.7 %	45.3 %
e. Covered payroll	\$ 519.7	\$ 498.0	\$ 479.5
f. UAAL as a percentage of covered payroll [c/e]	169.4 %	177.5 %	191.5 %
MTA			
a. Actuarial value of plan assets	\$ 1,361.6	\$ 613.6	\$ 463.6
b. Actuarial accrued liability (AAL)	1,477.6	793.3	625.5
c. Total unfunded AAL (UAAL) [b-a]	116.0	179.7	161.9
d. Funded ratio [a/b]	92.2 %	77.4 %	74.1 %
e. Covered payroll	N/A*	N/A*	\$ 480.8
f. UAAL as a percentage of covered payroll [c/e]	N/A*	N/A*	33.7 %

*Not applicable since the benefits for former employees of New York Bus, Queens Surface and Liberty Lines are not related to Pay.

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METROPOLITAN TRANSPORTATION AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
 SCHEDULE OF FUNDING PROGRESS FOR THE MTA POSTEMPLOYMENT BENEFIT PLAN
 FOR THE PERIOD ENDED DECEMBER 31, 2007
 (See Independent Accountants' Review Report)
 (\$ in Millions)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrual Liability (AAL) Initial Entry Age (b)	Unfunded (AAL) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) As a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	-	\$ 13,241	\$ 13,241	-	\$ 4,733.5	279.7%
1/1/2006	-	\$ 13,623	\$ 13,623	-	\$ 4,551.4	299.3%

METROPOLITAN TRANSPORTATION AUTHORITY

**SUPPLEMENTARY INFORMATION
SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION
FOR THE PERIOD ENDED SEPTEMBER 30, 2008
(See Independent Accountants' Review Report)
(\$ in Millions)**

	UNAUDITED
FINANCIAL PLAN ACTUAL - OPERATING LOSS	<u>\$ (4,753.4)</u>
Reconciling items:	
FMTAC revenues are recorded as operating on the Financial Plan and recorded as non-operating on the Financial Statements.	17.5
Various agencies recorded adjustments to the Financial Statements after the Financial Plan was completed.	(58.4)
The Financial Plan excluded Capital Construction and East Side Access.	(6.5)
The Financial Plan includes TBTA capital transfer to agencies	<u>30.7</u>
FINANCIAL STATEMENT - OPERATING LOSS	<u>\$ (4,770.1)</u>

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION

CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED SEPTEMBER 30, 2008

(See Independent Accountants' Review Report)

(\$ in Millions)

<u>Category</u>	<u>Financial Plan Actual (Unaudited)</u>	<u>Financial Statement GAAP Actual</u>	<u>Variance</u>
<u>REVENUE</u>			
Farebox Revenue	\$ 3,180.3	\$ 3,180.3	\$ -
Vehicle Toll Revenue	959.0	959.0	-
Other Operating Revenue	335.7	312.2	23.5
Total Revenue	\$ 4,475.0	4,451.5	23.5
<u>EXPENSES</u>			
Labor:			
	3,044.3	3,072.7	(28.4)
Payroll	357.6	329.1	28.5
Overtime	515.5	506.5	9.0
Health and Welfare	232.6	-	232.6
Pensions	748.9	750.2	(1.3)
Other Fringe Benefits	359.9	360.8	(0.9)
Postemployment Benefits	964.7	1,251.1	(286.4)
Reimbursable Overhead	(227.1)	(191.5)	(35.6)
Total Labor Expenses	\$ 5,996.4	\$ 6,078.9	\$ (82.5)
Non-Labor:			
Traction and Propulsion Power	230.8	232.1	(1.3)
Fuel for Buses and Trains	235.9	235.9	-
Insurance	18.9	8.3	10.6
Claims	134.3	134.3	-
Paratransit Service Contracts	208.4	208.4	-
Maintenance and Other	425.7	420.9	4.8
Professional Service Contract	129.9	132.2	(2.3)
Materials & Supplies	40.1	40.2	(0.1)
Other Business Expenses	400.9	401.0	(0.1)
	131.9	21.2	110.7
Total Non-Labor Expenses	\$ 1,956.8	\$ 1,834.5	\$ 122.3
Other Expense Adjustments:			
TBTA Transfer	15.6	-	15.6
GASB General Reserve	-	-	-
Interagency Subsidy	(42.8)	-	(42.8)
Other	(3.5)	-	(3.5)
Total Other Expense Adjustments	(30.7)	-	(30.7)
Total Expenses Before Depreciation	\$ 7,922.5	\$ 7,913.4	\$ 9.1
Depreciation	1,305.9	1,308.2	(2.3)
Total Expenses	9,228.4	9,221.6	6.8
Net Operating Surplus/(Deficit) excluding Subsidies and Debt Services	\$ (4,753.4)	\$ (4,770.1)	\$ (16.7)

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION (UNAUDITED)

CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

(See Independent Accountants' Review Report)

(\$ 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	\$ 1,706.2	\$ 1,706.2	\$ -
Petroleum Business Tax	495.6	473.0	(22.6) {1}
Mortgage Recording Tax 1 and 2	326.6	326.3	(0.3) {2}
MRT transfer	(3.8)	(3.8)	-
Urban Tax	404.8	404.8	-
Operating subsidies from NYC	-	-	-
State and Local Operating Assistance	378.8	378.8	-
Additional Mass Transportation Assistance Program	19.6	19.6	-
Nassau County Subsidy to Long Island Bus	10.5	10.5	-
Station Maintenance	111.9	111.9	-
Connecticut Department of Transportation (CDOT)	49.4	237.3	187.9 {3}
NYS Grant for Debt Service	-	57.9	57.9 {4}
Investment Income	1.5	18.4	16.9 {5}
	<u>\$ 3,501.1</u>	<u>\$ 3,740.9</u>	<u>\$ 239.8</u>
Total Accrued Subsidies			
Net Operating Surplus/(Deficit)			
Excluding Accrued Subsidies and Debt Service	(5,811.6)	(4,770.1)	1,041.5
Total Net Operating Surplus/(Deficit)	<u>\$ (2,310.5)</u>	<u>\$ (1,029.2)</u>	<u>\$ 1,281.3</u>
Interest on Long-Term Debt		<u>\$ 865.1</u>	
Debt Service	<u>\$ 1,145.5</u>		

{1} Timing difference.

{2} Funds transferred to SIRTOA not recorded in the Financial Plan.

{3} New York City subsidy to the MTA Bus was not recorded in the Financial Plan.

{4} 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.

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