

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

Independent Auditors' Review Report

Consolidated Financial Statements as of and for the
Period Ended March 31, 2013

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

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INDEPENDENT AUDITORS' REVIEW REPORT

To the Members of the Board of
Metropolitan Transportation Authority

We have reviewed the accompanying consolidated interim statement of net position of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of March 31, 2013, and the related consolidated interim statements of revenues, expenses and changes in net position, and cash flows for the three-month periods ended March 31, 2013 and 2012 (the "consolidated interim financial information").

Management's Responsibility for the Consolidated Interim Financial Information

MTA management is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the consolidated interim financial information in accordance with the applicable financial reporting framework.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the consolidated interim financial information referred to above for it to be in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of a Matter

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

As described in Note 2 to the consolidated interim financial statements, the MTA adopted Governmental Accounting Standards Board ("GASB") Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 21, the Schedule of Funding Progress on page 98, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 99 be presented to supplement the consolidated interim financial statements. Such information, although not a part of the consolidated interim

financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated interim financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated interim financial statements, and other knowledge we obtained during our review of the consolidated interim financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

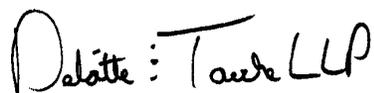
Supplementary Information

Our review was conducted for the purpose of expressing the limited assurance described in the preceding paragraph on the MTA's consolidated interim financial statements. The schedule of financial plan to financial statements reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, and schedule of consolidated subsidy accrual reconciliation between financial plan and financial statements are presented for the purposes of additional analysis and are not a required part of the consolidated interim financial statements.

The schedule of financial plan to financial statements reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, and schedule of consolidated subsidy accrual reconciliation between financial plan and financial statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the consolidated interim financial statements. Such information has been subjected to the analytical procedures and inquiries applied in the review of the basic consolidated interim financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated interim financial statements or to the consolidated interim financial statements themselves, and other additional procedures and we are not aware of any material modifications that should be made thereto in order for such information to be in conformity with accounting principles generally accepted in the United States of America when considered in relation to the basic consolidated interim financial statements taken as a whole.

Report on Condensed Consolidated Balance Sheet as of December 31, 2012

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of net position of the MTA as of December 31, 2012, and the related consolidated statement of revenues, expenses and changes in net position and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 24, 2013, which contains an explanatory paragraph regarding the adoption of Governmental Accounting Standards Board ("GASB") Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. In our opinion, the accompanying condensed consolidated statement of net position of the MTA as of December 31, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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

June 5, 2013

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
PERIODS ENDED MARCH 31, 2013 AND 2012
(\$ In Millions)**

1. OVERVIEW OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

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

Management's Discussion and Analysis

This MD&A provides a narrative overview and analysis of the financial activities of the Metropolitan Transportation Authority and its consolidated subsidiaries and affiliates (the "MTA" or "MTA Group") for the periods ended March 31, 2013 and 2012. This management discussion and analysis is intended to serve as an introduction to the MTA Group's consolidated financial statements. It provides an assessment of how the MTA Group's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the MTA Group's overall financial position. It may contain opinions, assumptions, or conclusions by the MTA Group's management that must be read in conjunction with, and should not be considered a replacement for, the consolidated financial statements.

The Consolidated Financial Statements

Consolidated Statements of Net Position, which provide information about the nature and amounts of resources with present service capacity that the MTA Group presently controls (assets), consumption of net assets by the MTA Group that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the MTA Group has little or no discretion to avoid (liabilities), and acquisition of net assets by the MTA Group that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position.

Consolidated Statements of Revenues, Expenses, and Changes in Net Position, which provide information about the MTA's changes in net position for the year then ended and accounts for all of the year's revenues and expenses, measures the success of the MTA Group's operations during the period, and can be used to determine how the MTA has funded its costs.

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

Notes to the Consolidated Financial Statements

The notes provide information that is essential to understanding the consolidated financial statements, such as the MTA Group's accounting methods and policies, details of cash and investments, employee benefits, long-term debt, lease transactions, future commitments and contingencies of the

MTA Group, and information about other events or developing situations that could materially affect the MTA Group's financial position.

Required Supplementary Information

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

Supplementary Information

The supplementary information provides a series of reconciliations between the MTA Group financial plan and the audited consolidated statements of revenues, expenses and changes in net position.

2. FINANCIAL REPORTING ENTITY

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

MTA Related Groups

- Headquarters ("MTAHQ") provides general oversight, planning and administration, including budget, cash management, finance, legal, real estate, treasury, risk management, and other functions to the related groups listed below.
- The Long Island Rail Road Company ("MTA Long Island Rail Road") provides passenger transportation between New York City and Long Island.
- Metro-North Commuter Railroad Company ("MTA Metro-North Railroad") provides passenger transportation between New York City and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in New York State and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway") provides passenger rail transportation on Staten Island.
- Metropolitan Suburban Bus Authority ("MTA Long Island Bus") provides public service in Nassau and Queens Counties. The Authority's Lease and Operating Agreement with Nassau County, dated January 15, 1973, as amended, was terminated effective December 31, 2011.
- First Mutual Transportation Assurance Company ("FMTAC") operates as a captive insurance company to provide insurance coverage for property and primary liability.
- New York City Transit Authority ("MTA New York City Transit") and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority ("MTA Bridges and Tunnels") operates seven toll bridges, two tunnels, and the Battery Parking Garage.

- MTA Capital Construction Company (“MTA Capital Construction”) provides oversight for the planning, design, and construction of current and future major MTA system expansion projects.
- MTA Bus Company (“MTA Bus”) operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.

3. CONDENSED FINANCIAL INFORMATION

The following sections discuss the significant changes in the MTA Group’s financial position as of and for the three months ended March 31, 2013. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, the information contained within the summaries of the consolidated financial statements and the various exhibits presented were derived from the MTA Group’s consolidated financial statements. All dollar amounts (except where otherwise expressly noted) are in millions.

Total Assets and Deferred Outflows of Resources, Distinguished Between Capital Assets, Other Assets and Deferred Outflows of Resources

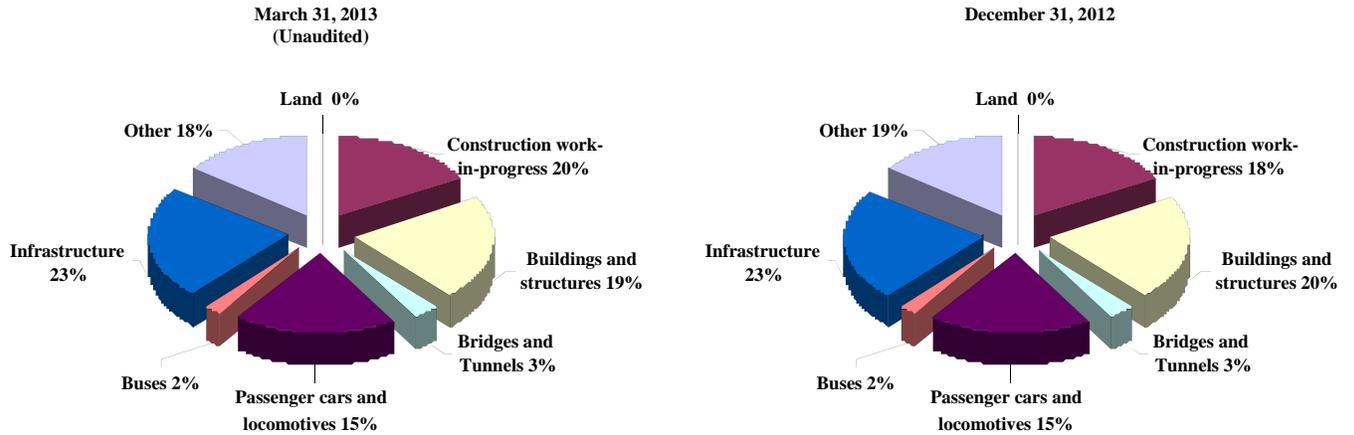
Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of buses, equipment, passenger cars, and locomotives.

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

Deferred outflows of resources reflect changes in fair market values of hedging derivative instruments that are determined to be effective.

| (In millions) | March 2013 (Unaudited) | December 2012 | December 2011 | Increase/(Decrease) | |
|---|---------------------------------------|--------------------------|--------------------------|----------------------------|--------------------|
| | | | | 2013 - 2012 | 2012 - 2011 |
| Capital assets — net (see Note 6) | \$ 54,303 | \$ 53,916 | \$ 51,837 | \$ 387 | \$ 2,079 |
| Other assets | 8,980 | 8,548 | 9,950 | 432 | (1,402) |
| Deferred outflows of resources | <u>1,263</u> | <u>630</u> | <u>712</u> | <u>633</u> | <u>(82)</u> |
| Total assets and deferred outflows of resources | <u>\$ 64,546</u> | <u>\$ 63,094</u> | <u>\$ 62,499</u> | <u>\$ 1,452</u> | <u>\$ 595</u> |

Capital Assets, Net



Significant Changes in Assets and Deferred Outflows of Resources Include:

March 31, 2013 versus December 31, 2012

- Net capital assets increased at March 31, 2013 by \$387. This increase is attributable to increases in construction work-in-progress of \$921 and acquisition of buses of \$6. Other capital assets decreased by \$20. The net increases were offset by additional accumulated depreciation of \$532. Some of the more significant projects contributing to the net increase included:
 - Continued progress on East Side Access, Second Avenue Subway and Number 7 Extension Project.
 - Infrastructure work included:
 - Roadway drainage, firelines and ceiling repairs at three facilities, namely Robert F. Kennedy, the Bronx-Whitestone Bridge, and the Verrazano-Narrows bridge;
 - Switch replacement and power distribution equipment at the Brooklyn-Battery Tunnel, upper and lower level toll plazas; and
 - Electrical upgrade at all facilities.
 - Track rehabilitation and replacement on the East River Tunnel and Constructions of three Montauk Bridges.
 - Various signal and communication projects incurred by the MTA Transit Authority on the Flushing Line, Church and Lexington Avenues. MTA Long Island Rail Road and related Centralized Traffic Control System and Positive Train Control System.
 - Acquisition of buses and subway cars (not yet in service) by MTA New York Transit in the amount of \$113.
- Other assets increased by \$432. The major items contributing to this change include:
 - Increase in receivable from State mass transit taxes and operating assistance of \$1,763. The increase was attributable to New York State approving the 2013-2014 budget in March 2013.

- Cash and cash equivalent increased by \$93 mainly due to reinsurance recovery relating to tropical storm Sandy.
- Receivables due from New York City increased by \$29 was derived mainly from MTA New York City Transit and MTA Bus for paratransit expenses.
- Other State and Local subsidy increased by \$34 due mainly to MTA Staten Island Railway operating expense recoverable from New York City.
- Net decrease in current and non-current investments and investments held under capital leases of \$368, due mainly to the termination of capital leases and unfavorable variances on the market value of the investments.
- Decrease in other noncurrent assets of \$1,173 is attributable to a reduction in deferred bond issuance costs of \$560, as a result of adopting GASB Statement No. 65 which requires debt issuance cost be recognized as an expense. In addition, un-requisitioned funds for capital expenditures for MTA New York City Transit and MTA Bus decreased from December 31, 2012.
- Deferred outflows of resources increased by \$633 due to reporting changes required by GASB Statement No. 65. Unamortized gains/losses on refunding of debt of \$695 are now reflected in this section. Prior to GASB Statement No. 65, such were netted against long-term debt. The above increase was offset by the change in the fair market value of derivative instruments of \$62 (See Notes 2 and 8).

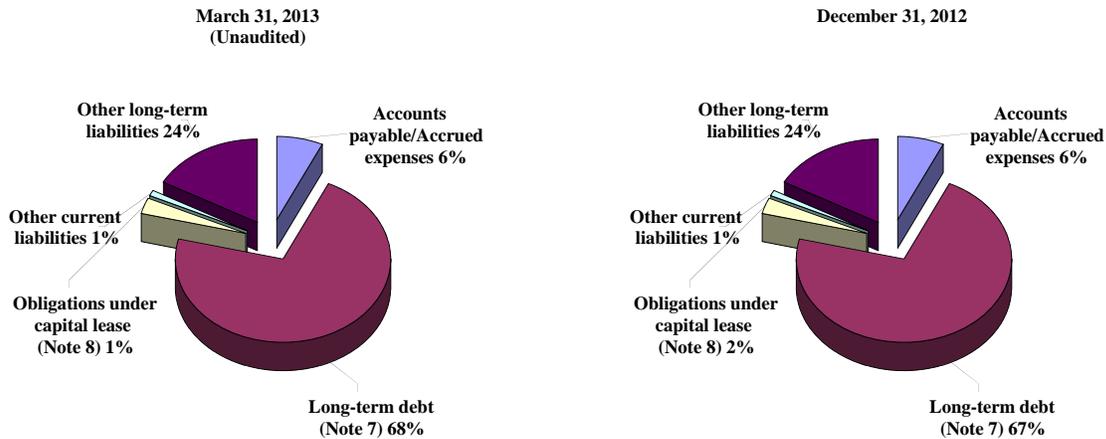
Total Liabilities, Distinguishing Between Current Liabilities and Non-Current Liabilities

Current liabilities include: accounts payable, current portions of liabilities for long-term debt, pollution remediation, claims liabilities, and capital lease obligations in addition to unredeemed fares and tolls, and other current liabilities.

Non-Current liabilities include: long-term debt, capital lease obligations, claims for injuries to persons, post-employment benefits and other non-current liabilities.

| (In millions) | March 2013 (Unaudited) | December 2012 | December 2011 | Increase/(Decrease) | |
|-------------------------|---------------------------------------|--------------------------|--------------------------|----------------------------|--------------------|
| | | | | 2013 - 2012 | 2012 - 2011 |
| Current liabilities | \$ 3,942 | \$ 4,304 | \$ 4,444 | \$ (362) | \$ (140) |
| Non-Current liabilities | <u>44,201</u> | <u>43,111</u> | <u>42,039</u> | <u>1,090</u> | <u>1,072</u> |
| Total liabilities | <u>\$48,143</u> | <u>\$47,415</u> | <u>\$46,483</u> | <u>\$ 728</u> | <u>\$ 932</u> |

Total Liabilities



Significant Changes in Liabilities Include:

March 31, 2013 versus December 31, 2012

Current liabilities decreased by \$362. The major items contributing to this change include:

- A decrease in accounts payable of \$129 due to timing.
- A decrease in accrued expenses of \$316 due largely to:
 - A decrease in the current portion of retirement and death benefits of \$191. This decrease was derived mainly from MTA New York City Transit in the amount of \$196, attributable to a payment to the New York City Employees' Retirement System ("NYCERS").
 - A decrease of \$444 in other accrued expenses due to a reduction of accruals for capital expenditures.
 - A decrease of \$5 in accrued payroll and benefits and wages due to timing and decreased headcount.
 - An increase of \$299 in interest payable. The increase was due to the issuance of bonds in the later part of 2012.
 - An increase of \$18 in the current portion of estimated liabilities from injuries to persons (See Note 11) as a result of changes in insurance reserve requirements.
- A decrease in the current portion of long-term debt of \$35 due to payment occurred in January 1, 2013.
- An increase of \$120 in unredeemed fares and tolls, mainly due to unused fare cards sold by MTA New York City Transit.

Noncurrent liabilities increased by \$1,090. The major items contributing to this change include:

- An increase of \$456 in postemployment benefits other than pensions (“OPEB”) as a result of updated actuarial calculations (See Note 5).
- An increase of \$9 in the noncurrent portion of estimated liabilities arising from injuries to persons as a result of an actuarial increase in the per capita claims cost assumption.
- An increase of \$1,008 in long-term debt due to issuance of Transportation Revenue Bonds, Series 2013A, Subordinate Revenue Refunding Bonds, Series 2013A and General Revenue Refunding Bonds, Series 2013B (See Note 8). Also contributing to this increase was a re-class of unamortized gains/losses on refunding of debt of \$695, which are now reflected in Deferred Outflows of Resources.
- Contract retainage payable increased by \$10 due to the new capital projects undertaken by various MTA agencies.
- A decrease of \$306 in long-term lease obligation due to terminations of several leases and payments incurred in January 2013 (See Note 9).
- A decrease of \$28 in other long-term liabilities due partly to the termination of the Philip Morris capital lease.
- A decrease of \$64 in derivative liabilities due to change in market value.

Total Net Position, Distinguishing Among Net Investment in Capital Assets, Restricted Amounts, and Unrestricted Amounts

| | March 2013 (Unaudited) | December 2012 | December 2011 | Increase/(Decrease) | |
|----------------------------------|------------------------------|------------------|------------------|---------------------|-----------------|
| (In millions) | | | | 2013 - 2012 | 2012 - 2011 |
| Net Investment in capital assets | \$ 21,346 | \$ 22,023 | \$ 20,172 | \$ (677) | \$ 1,851 |
| Restricted for debt service | 1,267 | 1,231 | 1,214 | 36 | 17 |
| Restricted for claims | 160 | 176 | 159 | (16) | 17 |
| Unrestricted | <u>(6,370)</u> | <u>(7,751)</u> | <u>(5,529)</u> | <u>1,381</u> | <u>(2,222)</u> |
| Total Net Position | <u>\$ 16,403</u> | <u>\$ 15,679</u> | <u>\$ 16,016</u> | <u>\$ 724</u> | <u>\$ (337)</u> |

Significant Changes in Net Position Include:

March 31, 2013 versus December 31, 2012

At March 31, 2013, total net position increased by \$724 when compared with December 31, 2012. This change includes net non-operating revenues of \$2,326 and appropriations, grants and other receipts externally restricted for capital projects of \$617. This increase is offset by operating losses of \$1,659 and a restatement of beginning net position of \$560 as a result of adopting GASB Statement No 65.

The net investment in capital assets decreased by \$677. Funds restricted for debt service and claims increased by \$20 while unrestricted net position increased by \$1,381.

Condensed Statements of Revenues, Expenses and Changes in Net Position

| (In millions) | March 31, 2013 (Unaudited) | March 31, 2012 (Unaudited) | March 31, 2011 (Unaudited) | Increase/(Decrease) | |
|--|----------------------------------|----------------------------------|----------------------------------|---------------------|-----------------|
| | | | | 2013 - 2012 | 2012 - 2011 |
| Operating revenues | | | | | |
| Passenger and tolls | \$ 1,608 | \$ 1,578 | \$ 1,524 | \$ 30 | \$ 54 |
| Other | <u>138</u> | <u>121</u> | <u>109</u> | <u>17</u> | <u>12</u> |
| Total operating revenues | <u>1,746</u> | <u>1,699</u> | <u>1,633</u> | <u>47</u> | <u>66</u> |
| Nonoperating revenues | | | | | |
| Grants, appropriations and taxes | 2,555 | 2,346 | 2,260 | 209 | 86 |
| Other | <u>160</u> | <u>149</u> | <u>123</u> | <u>11</u> | <u>26</u> |
| Total nonoperating revenues | <u>2,715</u> | <u>2,495</u> | <u>2,383</u> | <u>220</u> | <u>112</u> |
| Total revenues | <u>4,461</u> | <u>4,194</u> | <u>4,016</u> | <u>267</u> | <u>178</u> |
| Operating expenses | | | | | |
| Salaries and wages | 1,203 | 1,172 | 1,180 | 31 | (8) |
| Retirement and other employee benefits | 474 | 428 | 366 | 46 | 62 |
| Postemployment benefits other than pensions | 554 | 551 | 398 | 3 | 153 |
| Depreciation and amortization | 532 | 516 | 504 | 16 | 12 |
| Other expenses | <u>641</u> | <u>605</u> | <u>621</u> | <u>36</u> | <u>(16)</u> |
| Operating expenses | 3,404 | 3,272 | 3,069 | 132 | 203 |
| Net impairment and related expenses | <u>1</u> | <u>-</u> | <u>-</u> | <u>1</u> | <u>-</u> |
| Total operating expense | <u>3,405</u> | <u>3,272</u> | <u>3,069</u> | <u>133</u> | <u>203</u> |
| Nonoperating Expense | | | | | |
| Interest on long-term debt | 333 | 363 | 349 | (30) | 14 |
| Change in fair value of derivative financial instruments (Note 7) | (1) | (1) | (5) | - | 41 |
| Other nonoperating expense | <u>57</u> | <u>15</u> | <u>9</u> | <u>42</u> | <u>6</u> |
| Total nonoperating expense | <u>389</u> | <u>377</u> | <u>353</u> | <u>12</u> | <u>24</u> |
| Total expenses | <u>3,794</u> | <u>3,649</u> | <u>3,422</u> | <u>145</u> | <u>227</u> |
| Appropriations, grants and other receipts externally restricted for capital projects | <u>617</u> | <u>400</u> | <u>395</u> | <u>217</u> | <u>5</u> |
| Change in net position | 1,284 | 945 | 989 | 339 | (44) |
| Net position, beginning of year | <u>15,679</u> | <u>16,016</u> | <u>16,876</u> | <u>(337)</u> | <u>(860)</u> |
| Restatement of beginning net position | <u>(560)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net position, end of year | <u>\$ 16,403</u> | <u>\$ 16,961</u> | <u>\$ 17,865</u> | <u>\$ (558)</u> | <u>\$ (904)</u> |

Revenues and Expenses, by Major Source:

Period ended March 31, 2012 versus March 31, 2012

- Total operating revenues increased by \$47.
 - Fare and toll revenue increased by \$30 was due to higher ridership for the period ended March 31, 2013 compared with the same period in 2012.
 - Other operating revenues increased by \$17. The increase derived from advertising revenues collected in the first quarter of 2013 on behalf of all agencies.
- Total non-operating revenue increased by \$220.
 - Total grants, appropriations, and taxes were higher by \$209 for the period ended March 31, 2013. The major increase of \$171 derived from higher New York State Mass Transit Tax Subsidy approved by the New York State Budget in March of 2013. Mortgage Recording Tax funds increased by \$20 while Mobility Tax decreased by \$43. Urban Tax and other reimbursement from New York City for the benefit of the MTA New York City Transit increased by \$64.
 - Other non-operating revenues increase of \$11 reflects an increase in subsidy from Connecticut Department of Transportation of \$5 and New York City reimbursable expenses for MTA Staten Island Railway and MTA Bus of \$5 respectively.
- Total operating expenses increased by \$133.
 - Labor costs increased by \$80. The increase was mainly due to:
 - Increased postemployment benefits other than pensions of \$3 as a result of changes in actuarial estimates.
 - Increased retirement and employee benefits of \$46 as a result of increased pension costs of \$18 and increased health and welfare and other benefit costs of \$13 due to higher health insurance rates, while vision, dental, and life insurance costs increased by \$11.
 - Salaries and wages increase of \$31 was due mainly to an increase of overtime cost at MTA New York City Transit.
 - Non-labor operating costs increased by \$53. The unfavorable variance was due to:
 - The increase of \$5 in traction and fuel due to higher fuel cost.
 - Increase in depreciation by \$16 due to additional facilities coming on line.
 - Increase in claims expense arising from injuries to persons of \$10 due to actuarial calculations, while insurance expenses increased by \$7.
 - Other operating expenses increased by \$19 mainly due to the subsidy provided to cover Cross Bay Bridge fares for a total amount of \$4.
 - Decrease in maintenance and other operating contracts of \$6.

- Total non-operating expenses increased by \$12.
 - Interest on long-term debt decreased by \$30, due to the defeasance and redemption of bonds during 2012. In particular, the defeasance of the Service Contract Bonds by New York State for 70.6% impacted current accrual of interest expenses.
 - Other non-operating expenses increased by \$42 and derived mainly from unrealized gains.
- Appropriations, grants and other receipts externally restricted for capital projects increased by \$217, mainly due to the use of federal grants and State Bonds.

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.

Preliminary MTA system-wide utilization was 1.40% lower (9.2 million fewer trips) in the first quarter of 2013 than in the first quarter of 2012 in spite of a steady improvement in New York City employment. Vehicle-crossing levels at MTA Bridges and Tunnels facilities decreased by 2.27% compared to the first quarter of 2012, as gasoline prices, though slightly improved, remained near historic highs. The decrease in both ridership and vehicle crossings in the first quarter of 2013 reflects the expected demand shift from the system-wide fare and toll increase that took place in March, but it is also attributable to unseasonably favorable weather throughout the first quarter of 2012 and to the fact that there were more days in the leap year February of 2012.

For the first quarter of 2013, seasonally adjusted non-agricultural employment in New York City shows an increase of 67.5 thousand jobs (up 1.8% compared with the first quarter of 2012). After increasing in each quarter of 2011, employment continued to improve throughout all of 2012, and the first quarter of 2013 marks the eleventh quarter in a row of job growth for New York City. Taking a slightly broader perspective, the 135 thousand non-agricultural jobs that had been lost in New York City between the third quarter of 2008 and the fourth quarter of 2009 were fully offset by employment gains through the end of 2011; and with increases continuing through the first quarter of 2013, employment levels are higher than at any time in the past ten years.

The employment gains for New York City in the first quarter are consistent with an increase in national output, according to early estimates by the Bureau of Economic Analysis. Positive contributions from personal consumption expenditure, private inventory investment, exports, residential investment and non-residential fixed investment were only partly offset by a decline in government spending and an increase in imports, resulting in a projected annual growth rate in Real Gross Domestic Product ("RGDP") of 2.5%. The improvement of RGDP follows the slowed growth of 0.4% in the 4th quarter of 2012, when the largest national defense spending cuts in forty years led to pronounced decreases in federal government consumption expenditures and gross investment. Nevertheless, RGDP grew 2.2% for 2012 as a whole.

The New York City metropolitan area's price inflation was higher than the national average in the first quarter of 2013: while the consumer price index for all urban consumers ("CPI-U") in the New

York City metropolitan area grew at 2.15%, the average for all U.S. cities was 1.68%. The overall rise in consumer prices was partly attributable to energy inflation: the consumer price index for energy products increased, relative to the first quarter of 2012, by 3.11% in New York-New Jersey-Long Island area, while the consumer price index exclusive of energy increased by 2.05%. In contrast to the rise in the overall price of energy products, the spot price for New York Harbor conventional gasoline declined 2.37% -- from an average price of \$3.011 to an average of \$2.940 per gallon between the first quarters of 2012 and 2013. However, gasoline prices have trended sharply up since the first quarter of 2009, and its price in the first quarter of 2013 was among the highest seen since the record levels of 2008.

In March 2013, the Federal Reserve Bank (the “Bank”) announced that its Open Market Committee would continue targeting the Federal Funds rate to the range of 0% to 0.25%, a range consistent with its statutory dual mandate to foster maximum employment within a context of price stability. The Federal Funds rate has remained in this range since late 2008. In fact, the Bank began to pursue expansionary intervention more than a year earlier as a response to the impending economic downturn. Since the third quarter of 2007, the Federal Reserve Bank has sought to mitigate the consequences of recession by loosening the tight credit conditions that resulted from the national mortgage crisis. The current recovery has been slower than the last, and the Federal Reserve has taken measures that contrast sharply with those it took to keep inflation under control as the economy began to emerge from the recession of 2001-2003. In spite of modestly improving national employment levels, the Federal Open Market Committee noted in March that unemployment rates remained elevated, while fiscal policies had become more restrictive; and with inflation running slightly below the Committee’s long-term objective, the Fed decided to maintain its accommodative stance in order to foster more rapid improvements in labor markets.

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 (“MRT”) and Urban Tax, two important sources of MTA revenue. Mortgage Recording Tax collections were \$24.7 (40.7%) higher in the first quarter of 2013 than they were in the same quarter of 2012. After the steady fall in MRT revenues that resulted from the financial and real estate crisis, MTA’s monthly receipts remained virtually flat for three years beginning in the first quarter of 2009. The first quarter of 2013 continues a discernible upward trend in monthly MRT revenues that has been driven by real estate activity since the first quarter of 2012. Nevertheless, average monthly receipts in the first quarter were \$18.0 (63.2%) worse than in 2007, just prior to the steep decline of this revenue source.

MTA’s receipts of Urban Taxes – those based on commercial activity within New York City – have demonstrated a pronounced rise since 2010, increasing on a year-over-year basis in eleven of the last twelve quarters-- the only exception being the third quarter of 2012, when strong receipts of \$101.1 compared unfavorably to even stronger receipts of \$131.9 one year earlier. In the first quarter of 2013 revenues from Urban Taxes of \$168.3 was \$73.1 (76.9%) higher than one year earlier.

Results of Operations

Paid traffic for the first quarter of 2013 totaled 65.5 million vehicles, which was 1.5 million fewer vehicles than the first quarter of 2012. Traffic was up 0.514 million in January primarily due to favorable weather this year, but those gains were more than offset by 1.4 million fewer vehicles in February. Over half of this decline, 0.745 million crossings, was due to the absence of a “leap day” or 29th calendar day. Toll revenues totaled \$357.3 through the first quarter of 2013, which was \$5.7 greater than last year at this time.

The E-ZPass electronic toll collection system experienced significant year-to-year increases in market. Total average market share as of March 31, 2013 was 83.0% compared with 81.2% in 2012.

The average weekday market shares were 84.7% and 83.1% for March 31, 2013 and 2012, respectively.

MTA New York City Transit total operating revenues for the first three months ended March 31, 2013 increased by \$29.3 or 3.0% compared with the first three months of 2012. Increase in bus and subway riderships are credited for the comparative increase in operating revenues.

The MTA Long Island Rail Road operating revenues during the first three months of 2013 increased by \$3.7 or 2.5% compared with the first three months of 2012. Ridership continues to rise based on a steadily improving economy and popular new service to Barclays Center boosted the number of railroad customers above the previous first quarter of 2012.

MTA Metro-North Railroad's operating revenue during the first three months of 2013 increased by \$4.0 or 2.7% compared to the first three months of 2012. During the same period of time, operating expenses increased by \$11.8 or 3.8%. This increase in revenues is primarily a reflection of improved economic conditions in the New York metropolitan market and revenues earned from non-commutation ridership.

The MTA receives the equivalent of four quarters of Metropolitan Mass Transportation Operating Assistance ("MMTOA") receipts each year, with the state advancing the first quarter of each succeeding calendar year's receipts in the fourth quarter of the current year. This results in little or no Metropolitan Mass Transportation Operating Assistance receipts being received during the first quarter of each calendar year. The MTA has made other provisions to provide for cash liquidity during this period. During March 2013, the State appropriated \$1.5 billion in MMTOA funds. 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. The total MRT collected as at December 31, 2012 increased by 14.3% compared to December 2011 from \$244.8 to \$279.7. However, the total MRT collected in the first quarter of 2013 increased by 40.6% compared to March 2012 from \$60.7 to \$85.3.

Capital Programs

At March 31, 2013, \$10,205 had been committed and \$3,918 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and \$23,354 had been committed and \$20,277 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and \$21,484 had been committed and \$20,879 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

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

2010-2014 Capital Program — Capital programs covering the years 2010-2014 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the "2010-2014 Commuter Capital Program"), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, the MTA Bus Company, and the rail system operated by MTA Staten Island Railway (the "2010-2014 Transit Capital Program") were originally approved by the MTA Board in September 2009. The capital programs were subsequently submitted to the CPRB in October 2009. This plan was disapproved by the CPRB, without prejudice, in December 2009 allowing the State Legislature to review funding issues in their 2010 session. The capital program for the toll bridges and tunnels operated by MTA Bridges and Tunnels (the "2010-

2014 MTA Bridges and Tunnels Capital Program”) was approved by the MTA Board in September 2009 and was not subject to CPRB approval. The MTA Board approved the revised plan for the Transit and Commuter systems on April 28, 2010 and CPRB approval of the five year program of projects was obtained on June 1, 2010. The approved CPRB program fully funded only the first two years (2010 and 2011) of the plan, with a commitment to come back to CPRB with a funding proposal for the last three years for the Transit and Commuter Programs. On December 21, 2011, the MTA Board approved an amendment to the 2010-2014 capital program for the Transit, Commuter and Bridges and Tunnels systems that fund the last three years of the program through a combination of self-help (efficiency improvements and real estate initiatives), participation by our funding partners, and innovative and pragmatic financing arrangements. On March 27, 2012, the CPRB deemed approved the amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted.

As approved by the CPRB in March 2012, the 2010–2014 MTA Capital Programs and the 2010–2014 MTA Bridges and Tunnels Capital Program provided for \$24,274 in capital expenditures, of which \$11,649 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; \$3,860 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$5,739 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$335 relates to a multi-faceted security program including MTA Police Department; \$315 relates to MTA Interagency; \$297 relates to MTA Bus Company initiatives; and \$2,079 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities.

On December 19, 2012, the MTA Board approved an amendment to the 2010-2014 Capital Programs to add projects for the repair and restoration of MTA agency assets damaged as a result of Tropical Storm Sandy, which struck the region on October 29, 2012. The revised programs provide for an additional \$4,755 in Sandy recovery-related capital expenditures: \$3,449 for transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$455 for the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$48 for MTA Capital Construction; \$25 for MTA Bus Company; and \$778 for MTA Bridges and Tunnels. On January 23, 2013 the amended 2010-2014 MTA Capital Program (the “2010-2014 Capital Program”) as submitted was deemed approved by the Review Board. Future Capital Program amendment(s) will address mitigation initiatives needed to improve the resiliency of the MTA system.

The combined funding sources for the CPRB-approved 2010–2014 MTA Capital Programs and 2010–2014 MTA Bridges and Tunnels Capital Program include \$10,503 in MTA Bonds, \$2,079 in MTA Bridges and Tunnels dedicated funds, \$6,303 in Federal Funds, \$167 in MTA Bus Federal and City Match, \$762 from City Capital Funds, and \$1,490 from other sources. Also included is a \$2,200 Railroad Rehabilitation and Improvement Financing (“RRIF”) loan to support East Side Access, administered by the Federal Railroad Administration, and \$770 in State Assistance funds added to re-establish a traditional funding partnership. The funding strategy for Tropical Storm Sandy repair and restoration assumes the receipt of \$3,805 in insurance and federal reimbursement proceeds (including interim borrowing by MTA to cover delays in the receipt of such proceeds), supplemented, to the extent necessary, by external borrowing of up to \$950 in additional MTA and MTA Bridges and Tunnels bonds.

At March 31, 2013, \$10,205 had been committed and \$3,918 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program.

2005-2009 Capital Program — Capital programs covering the years 2005-2009 were originally approved by the MTA Board in April 2005 and subsequently by the CPRB in July 2005 for (1) the

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

As last amended by the MTA Board, the 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program, provided for \$23,717 in capital expenditures. By March 31, 2013, the 2005–2009 MTA Capital Programs budget increase by \$869 primarily due to the receipt of new American Recovery and Reinvestment Act (“ARRA”) funds and additional City Capital funds for MTA Capital Construction work still underway. Of the \$24,586 now provided in capital expenditures, \$11,612 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$3,792 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$495 relates to a security program throughout the transit, commuter and bridge and tunnel network; \$163 relates to certain interagency projects; \$7,177 relates generally to the expansion of existing rail networks for both the transit and commuter systems to be managed by the MTA Capital Construction Company (including the East Side Access, Second Avenue Subway and No. 7 subway line); \$1,195 relates to the ongoing repairs of, and replacements to, bridge and tunnel facilities operated by MTA Bridges and Tunnels; and \$152 relates to capital projects for the MTA Bus.

The combined funding sources for the MTA Board-approved 2005–2009 MTA Capital Programs and 2005–2009 MTA Bridges and Tunnels Capital Program include \$9,883 in MTA and MTA Bridges and Tunnels Bonds (including funds for LaGuardia Airport initiative), \$1,450 in New York State general obligation bonds approved by the voters in the November 2005 election, \$9,119 in Federal Funds, \$2,790 in City Capital Funds, and \$1,344 from other sources.

At March 31, 2013, \$23,354 had been committed and \$20,277 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. By March 31,

2013, the budget increased by \$629, primarily due to the receipt of ARRA funds, transfers from the 2005-2009 Capital Program, and MTA operating sources required to fund cost increases for work still underway. This revised budget now provides \$21,776 in capital expenditures, of which \$10,456 relates to ongoing repairs of, and replacements to, the Transit System operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$4,036 relates to ongoing repairs of, and replacements to, the Commuter System operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$5,353 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$203 relates to planning and design and customer service projects; \$244 relates to World Trade Center repair projects; \$982 relates to the ongoing repairs and replacements to MTA Bridges and Tunnels facilities; and \$502 relates to MTA Bus.

The combined funding sources for the MTA Board-approved 2000–2004 MTA Capital Programs and 2000–2004 MTA Bridges and Tunnels Capital Program (with revisions through the July 2008) include \$7,387 in bonds, \$7,434 in Federal funds, \$4,561 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002, and \$2,394 from other sources.

At March 31, 2013, \$21,484 had been committed and \$20,879 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.

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

During the three months of 2013, deteriorated credit quality of bond insurers continued to put pressure on the auction segments of the MTA's variable rate portfolio. Auctions for all of the \$310.1 of auction rate bonds outstanding (the interest rate for such bonds is determined based on a multiple of the London Interbank Offered Rate) as of the end of March 31, 2013, had been failing. MTA continues to closely monitor the performance of its auction rate bonds, insured variable rate demand bonds and variable rate demand bonds for which liquidity is provided by the lower rated banks.

The MTA Financial Plan 2013-2016

General - The 2012 November Financial Plan, which includes the 2012 November Forecast, the 2013 Final Proposed Budget and the Financial Plan for the years 2013-2016 was presented to the MTA Board at its November 28, 2012 meeting. At its December 19, 2012 meeting, the MTA Board adopted the 2013 Final Proposed Budget, including the 2013 November Budget Projections and the associated 2013-2016 Financial Plan, in the form presented at the November Board meeting (collectively, the November Plan).

On February 26, 2013, the MTA Board was provided with the MTA 2013 Adopted Budget and the 2013-2016 Financial Plan (collectively, the February Plan), which incorporates Board approved actions, previously set forth "below-the-baseline" in the November Plan, into the Financial Plan budget and forecasts and certain non-material technical adjustments. It also establishes a 12-month allocation of the 2013 Adopted Budget. Further information regarding the adjustments is provided below, under the subheading "February Modifications to the November Plan." Copies of the 2013 Adopted Budget and the 2013-2016 Financial Plan are posted on MTA's website (www.mta.info) under "MTA Info/Financial Information-Budget."

MTA is required to balance its budget on a cash basis; the February Plan achieves budget balance for 2013 and projects deficits in out-years that will need to be addressed by future cost reductions, fare

and toll adjustments and additional subsidies. The four-year financial plan assumes a level of capital spending consistent with the approved Transit and Commuter Capital Programs, projected capital spending requirements of MTA Bridges and Tunnels and estimated amounts to cover interim financing as well as any required long-term financing related to infrastructure damage resulting from Tropical Storm Sandy.

While the financial impacts from Tropical Storm Sandy (described below) are substantial, they will not alter the long-term financial strategy of MTA. This strategy includes continuous pursuit of recurring cost reductions, “net-zero” wage growth, biennial fare and toll increases, and increased reserves and liquidity, while addressing long-term healthcare, pension and debt service vulnerabilities. The strategy excludes any budget-driven service reductions.

Tropical Storm Sandy Update

Preliminary estimates (slightly revised from the assumptions in the Financial Plan) put MTA (including MTA Bridges and Tunnels) losses, excluding costs relating to any future plans for implementing resiliency measures against future storms (hardening) at various facilities, at approximately \$5 billion, including: an estimated \$4.8 billion in damages to MTA’s infrastructure and an estimated \$288 operating loss (lost fare and toll revenue along with expenses necessary to prepare for and re-establish service after Tropical Storm Sandy). MTA Bridges and Tunnels operating losses estimated at \$59 are included in the MTA estimates and infrastructure losses to MTA Bridges and Tunnels, estimated at \$778, are similarly included in the \$4.8 billion estimate.

On December 19, 2012, the MTA and the MTA Bridges and Tunnels Boards approved \$2.5 billion in bond anticipation note issuance authority consisting of \$2.0 billion for transit and commuter purposes under either the MTA Transportation Revenue Obligation Resolution or the MTA Dedicated Tax Fund Obligation Resolution, and \$500 for MTA Bridges and Tunnels under the MTA Bridges and Tunnels General Revenue Obligation Resolution. The MTA and the MTA Bridges and Tunnels Boards also authorized the issuance of bonds to retire bond anticipation notes described above. On March 13, 2013, the MTA and MTA Bridges and Tunnels Boards authorized the use of the proceeds of such bond anticipation notes for the interim financing of other capital costs included in MTA’s approved Capital Programs and MTA Bridges and Tunnels projected capital-spending requirements. Depending on the timing for the incurrence of the costs of repairs relating to Tropical Storm Sandy and the receipt of insurance and federal reimbursements, authorization may be sought in the future for the issuance of additional bond anticipation notes and bonds.

Reinsurers of the MTA property insurance program have already committed to an initial advance payment of \$100 on the insurance recovery, over \$95.9 of which has been received by MTA to date. MTA is preparing claims in furtherance of obtaining additional recoveries of Sandy-related damages and losses under the property insurance policy.

In addition, the Sandy Relief Act, passed in late January, 2013, provides a total of \$10.9 billion in FTA Emergency Relief funding for affected public transportation facilities for infrastructure repairs, debris removal, emergency protection measures, costs to restore service and hardening costs. MTA is eligible to submit requests for funding under the Sandy Relief Act.

Of the \$10.9 billion amount, under the Sandy Relief Act, an initial tranche of \$2 billion was to be allocated by the FTA by the end of March 2013. On March 6, 2013, the Secretary of Transportation announced that \$193.9 had been allocated to MTA in response to a request MTA submitted for \$196.3, representing reimbursements for costs associated with preparing MTA’s system for the storm and for restoring service post-storm (including costs associated with operating service for free immediately after the storm). On March 29, 2013, the FTA published its allocations for the remainder of the \$2 billion. MTA was allocated an additional \$1.0 billion, bringing MTA’s total allocation from

the FTA to \$1.194 billion from the first \$2 billion tranche of FTA Emergency Relief funds. On May 23, 2013 the FTA allocated an additional \$3.7 billion to our regions transportation providers. The MTA will receive \$2.6 billion of this additional allocation bringing MTA's total allocation to \$3.8 billion. The funds made available through this additional allocation includes \$898 set aside to help the MTA with resiliency projects to help ensure transit assets are better able to withstand future disasters. FTA approval of specific grants will need to be obtained prior to MTA's actual receipt or expenditure of any of these allocated funds

The remaining \$5.2 billion in FTA Emergency Relief funds appropriated under the Sandy Relief Act is anticipated to be made available after the allocation of the \$5.7 billion noted above. Of this amount, the Act provides \$4.1 billion "to carry out projects related to reducing risk of damage from future disasters in areas impacted by Hurricane Sandy." This latter amount has been reduced by \$545 as a result of the Federal Sequestration. Allocation of these funds is anticipated to adhere more closely to certain of the customary procedures for award of FTA grant moneys, such as submission of grants for approval, grant execution, requisition of moneys subsequent to expenditure and reimbursement within 24 to 48 hours. MTA expects to file requests to the FTA for funding of both repair/restoration costs and hardening costs from these remaining FTA Emergency Relief funds. No specific portion of these \$5.2 billion in remaining funds appropriated to the FTA Emergency Relief program (less Federal Sequestration reductions) is currently allocated to MTA.

The amendment to the MTA 2010-2014 Capital Program covering Sandy-related repair and restoration costs has already been deemed approved by the Capital Program Review Board; that amendment anticipates Sandy-related federal funding as the predominant funding source for such repair and restoration projects. MTA is currently considering additional projects relating to the hardening of its facilities against future storm or other catastrophe damage and expects to submit an additional amendment to the Capital Program Review Board addressing the costs of such projects in the near future. It is anticipated that Sandy-related federal funding would need to be the predominant source of funding for such hardening projects.

MTA Bridges and Tunnels is seeking recovery from FEMA for Sandy-related repair and restoration costs. FEMA has already committed to funding \$6.2. MTA thus far has received payment from FEMA, for \$3.2, to cover a portion of MTA Bridges and Tunnels expenses for emergency protective measures.

Risks to the February Plan

As with the November Plan, there are risks inherent in the February Plan. The February Plan continues to assume:

- Labor settlements will include three years of net-zero wage growth.
- Additional efficiency savings will be identified and that those efforts will be sustainable.
- State budget actions will reflect full remittance to MTA of all funds collected on its behalf.

The February Plan is also based upon the preliminary estimates of Tropical Storm Sandy recovery costs and assumptions as to the timing of required expenditures and the receipts of moneys from the federal government and MTA's insurers.

Additionally, while there have been indications of regional economic recovery, the long-term economic effects of Tropical Storm Sandy are unknown and the national recovery remains tepid. Should the recovery falter and adversely affect the regional economy, MTA has limited financial reserves to offset lower-than-expected operating revenues, taxes and subsidies. The Federal Sequestration will not affect amounts expected to be received by MTA as Federal Formula and Bus Grants as those FTA grant programs are exempt from the sequestration. The FTA's Capital

Investment Grant program, which includes the FFGA-New Starts program, could receive a 5% cut. MTA believes that the 2013 Federal fiscal year allocations for Second Avenue Subway and East Side Access have been reduced by \$16.8 and \$11.8, respectively. These reductions in federal funds will not affect the progress of work for these projects. The \$5.383 billion referenced above for Sandy-related hardening measures (as part of the \$10.9 billion portion of funds from the Federal Transit Administration's Emergency Relief program) has been reduced by \$545. However, the impact to the MTA related to this reduction is yet to be determined. Finally, the Federal Sequestration could also reduce amounts expected to be received by MTA as subsidy payments relating to the interest on MTA's outstanding federally taxable Build America Bonds by 8.7%, which on an annualized aggregate basis could result in a reduction of \$8.4 in the subsidy of approximately \$96 that the MTA had been expecting to receive annually. Such Federal Sequestration reduction rate is expected to be applied to subsidy payments for the 2013 Federal fiscal year.

There are also vulnerabilities beyond the February Plan period including rising employee and retiree healthcare costs, the risk of lower investment returns on pensions, and the possibility of higher interest rates, which would have a significant impact on debt service payments to support the MTA capital program.

The following items were not reflected in the February Plan:

2012 Actual Cash Results and Cash Balance Projections - MTA's 2012 closing net cash balance was \$229, which includes the use of the \$297 carryover from 2011. This result was \$178 more favorable than the final estimate that was included in the February Plan, with most of the difference coming from lower agency spending. While the overall impact is expected to improve cash results for the 2013-2014 period, there are some important caveats:

- Some \$48 of that favorable change was from timing-related Tropical Storm Sandy losses that will adversely impact 2013.
- In some cases, agency efforts on Tropical Storm Sandy recovery in 2012 precluded other work that will be ultimately need to be performed.
- The February Plan assumed that the \$75 loan from the OPEB account that was needed to offset some of the projected 2012 operating impacts of Tropical Storm Sandy would not be paid back until 2015, when the final receipt recovery from insurance or the Federal government was projected. A portion of 2012 savings can be used to pay back the loan in 2013.

Preliminary 2013 Results - Preliminary early-year results have been somewhat favorable, mostly from higher real estate transaction taxes.

Passenger revenues through February were \$11.4 (1.4%) unfavorable due to harsh winter weather and the residual impacts of Sandy. Toll revenues, however, were favorable by \$3.6 (1.7%) due to higher traffic attributable to higher City employment, and lower than forecasted impacts on traffic of the toll increase. February year-to-date operating expenses before non-cash liability adjustments were \$36, or 2.1%, favorable, although most of that variance was the result of lower timing-related activity in OTPS expense categories. Lower year-to-date debt service costs (\$43) reflect refunding savings, lower interest rates and timing.

Combined real estate tax receipts through April were strong (\$86 favorable against the 2013 Adopted Budget). Most of this increase was the result of higher collections from the Real Property Transfer Tax (RPTT) portion of the Urban Tax. Combined receipts of the payroll mobility tax, MTA Aid, and PBT taxes were \$39 unfavorable year-to-date, some of which may be timing-related.

NYS Enacted Budget Update - The New York State Enacted Budget has appropriated in aggregate, and on a calendar year basis, \$40 more than what is included in the MTA 2013 Budget. However, for some of those subsidies, specifically the payroll mobility tax and the MTA Aid which accounts for approximately \$15 of the increase, there is no guarantee that those monies will actually be generated since the State will pay only funds collected up to the amount of the appropriation.

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METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF NET POSITION

MARCH 31, 2013 AND DECEMBER 31, 2012

(\$ In millions)

| | March 31, 2013 (Unaudited) | December 31, 2012 |
|---|----------------------------------|----------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| CURRENT ASSETS: | | |
| Cash (Note 3) | \$ 326 | \$ 233 |
| Unrestricted investments (Note 3) | 1,728 | 1,976 |
| Restricted investment (Note 3) | 1,218 | 985 |
| Restricted investments held under capital lease obligations (Notes 3 and 9) | 85 | 347 |
| Receivables: | | |
| Station maintenance, operation, and use assessments | 157 | 118 |
| State and regional mass transit taxes | 1,656 | 103 |
| Mortgage Recording Tax receivable | 27 | 28 |
| State and local operating assistance | 218 | 8 |
| Other subsidies | 122 | 88 |
| Connecticut Department of Transportation | 7 | - |
| Due from Build America Bonds | 3 | 1 |
| New York City | 165 | 136 |
| Due from Nassau County for Long Island Bus | 14 | 14 |
| Capital project receivable from federal and state government and other | 79 | 91 |
| Other | 1,015 | 1,004 |
| Less allowance for doubtful accounts | <u>(33)</u> | <u>(34)</u> |
| Total receivables — net | <u>3,430</u> | <u>1,557</u> |
| Materials and supplies | 434 | 410 |
| Advance to defined benefit pension trust — MaBSTOA | 37 | 37 |
| Advance to defined benefit pension trust — MTA | 20 | 39 |
| Prepaid expenses and other current assets (Note 2) | <u>101</u> | <u>98</u> |
| Total current assets | <u>7,379</u> | <u>5,682</u> |
| NONCURRENT ASSETS: | | |
| Capital assets — net (Note 6) | 54,303 | 53,916 |
| Unrestricted investments (Note 3) | 38 | 81 |
| Restricted investments (Note 3) | 430 | 366 |
| Restricted investment held under capital lease obligations (Notes 3 and 9) | 388 | 500 |
| Receivable from New York State | 374 | 374 |
| Derivative assets | 12 | 13 |
| Other noncurrent assets | <u>359</u> | <u>1,532</u> |
| Total noncurrent assets | <u>55,904</u> | <u>56,782</u> |
| TOTAL ASSETS | <u>63,283</u> | <u>62,464</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | |
| Accumulated decreases in fair value of derivative instruments | 568 | 630 |
| Gain/loss on refunding debt | <u>695</u> | <u>-</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>1,263</u> | <u>630</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 64,546</u> | <u>\$ 63,094</u> |

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

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF NET POSITION

MARCH 31, 2013 AND DECEMBER 31, 2012

(\$ In millions)

| | March 31, 2013 (Unaudited) | December 31, 2012 |
|--|----------------------------------|----------------------|
| LIABILITIES AND NET POSITION | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 404 | \$ 533 |
| Accrued expenses: | | |
| Interest | 498 | 199 |
| Salaries, wages and payroll taxes | 310 | 315 |
| Vacation and sick pay benefits | 782 | 775 |
| Current portion — retirement and death benefits | 22 | 213 |
| Current portion — estimated liability from injuries to persons (Note 11) | 313 | 295 |
| Other | 220 | 664 |
| Total accrued expenses | <u>2,145</u> | <u>2,461</u> |
| Current portion — long-term debt (Note 8) | 757 | 792 |
| Current portion — obligations under capital lease (Note 9) | 20 | 27 |
| Current portion — pollution remediation projects (Note 13) | 34 | 29 |
| Unredeemed fares and tolls | 582 | 462 |
| Total current liabilities | <u>3,942</u> | <u>4,304</u> |
| NONCURRENT LIABILITIES: | | |
| Retirement and death benefits | 38 | 37 |
| Estimated liability arising from injuries to persons (Note 11) | 1,773 | 1,764 |
| Post employment benefits other than pensions (Note 5) | 8,610 | 8,154 |
| Long-term debt (Note 8) | 32,032 | 31,025 |
| Obligations under capital leases (Note 9) | 503 | 809 |
| Pollution remediation projects (Note 11) | 87 | 82 |
| Contract retainage payable | 301 | 291 |
| Derivative liabilities | 469 | 533 |
| Derivative liabilities- off market elements | 125 | 125 |
| Other long-term liabilities | 263 | 291 |
| Total noncurrent liabilities | <u>44,201</u> | <u>43,111</u> |
| Total liabilities | <u>48,143</u> | <u>47,415</u> |
| NET POSITION: | | |
| Net investment in capital assets | 21,346 | 22,023 |
| Restricted for debt service | 1,267 | 1,231 |
| Restricted for claims | 160 | 176 |
| Unrestricted | (6,370) | (7,751) |
| Total net position | <u>16,403</u> | <u>15,679</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 64,546</u> | <u>\$ 63,094</u> |

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

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION PERIODS ENDED MARCH 31, 2013 AND 2012

(\$ In millions)

| | March 31, 2013 (Unaudited) | March 31, 2012 |
|--|----------------------------------|-------------------|
| OPERATING REVENUES: | | |
| Fare revenue | \$ 1,251 | \$ 1,226 |
| Vehicle toll revenue | 357 | 352 |
| Rents, freight, and other revenue | <u>138</u> | <u>121</u> |
| Total operating revenues | <u>1,746</u> | <u>1,699</u> |
| OPERATING EXPENSES: | | |
| Salaries and wages | 1,203 | 1,172 |
| Retirement and other employee benefits | 474 | 428 |
| Postemployment benefits other than pensions (Note 5) | 554 | 551 |
| Traction and propulsion power | 129 | 112 |
| Fuel for buses and trains | 70 | 82 |
| Claims | 62 | 52 |
| Paratransit service contracts | 90 | 89 |
| Maintenance and other operating contracts | 98 | 104 |
| Professional service contracts | 43 | 44 |
| Pollution remediation projects (Note 13) | 1 | 3 |
| Materials and supplies | 116 | 113 |
| Depreciation | 532 | 516 |
| Other | <u>32</u> | <u>6</u> |
| Total operating expenses | 3,404 | 3,272 |
| Asset impairment and related expenses (Note 7) | <u>1</u> | <u>-</u> |
| OPERATING LOSS | <u>(1,659)</u> | <u>(1,573)</u> |
| NON-OPERATING REVENUES (EXPENSES): | | |
| Grants, appropriations, and taxes: | | |
| Tax-supported subsidies — NYS | 1,651 | 1,483 |
| Tax-supported subsidies — NYC and local | 245 | 161 |
| Operating subsidies — NYS | 188 | 188 |
| Operating subsidies — NYC and local | 29 | 29 |
| Build America Bond subsidy | 2 | 2 |
| Mobility Tax | <u>440</u> | <u>483</u> |
| Total grants, appropriations, and taxes | <u>\$ 2,555</u> | <u>\$ 2,346</u> |

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

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION PERIODS ENDED MARCH 31, 2013 AND 2012

(\$ In millions)

| | March 31, 2013 | March 31, 2012 |
|--|-------------------|-------------------|
| | (Unaudited) | |
| NON-OPERATING REVENUES (EXPENSES): | | |
| Connecticut Department of Transportation | \$ 22 | \$ 17 |
| Subsidies paid to Dutchess, Orange, and Rockland Counties | (1) | (1) |
| Interest on long-term debt | (333) | (363) |
| Station maintenance, operation and use assessments | 39 | 38 |
| Operating subsidies recoverable from NYC | 99 | 94 |
| Other non-operating revenue | (56) | (14) |
| Change in fair value of derivative financial instruments (Note 8) | <u>1</u> | <u>1</u> |
| Net non-operating revenues | <u>2,326</u> | <u>2,118</u> |
| GAIN BEFORE APPROPRIATIONS | 667 | 545 |
| APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS | <u>617</u> | <u>400</u> |
| CHANGE IN NET POSITION | 1,284 | 945 |
| NET POSITION— Beginning of period | <u>15,679</u> | <u>16,016</u> |
| Restatement of beginning net position (Note 2) | <u>(560)</u> | <u>-</u> |
| NET POSITION — End of period | <u>\$ 16,403</u> | <u>\$ 16,961</u> |

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

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF CASH FLOWS

PERIODS ENDED MARCH 31, 2013 AND 2012

(\$ In millions)

| | March 31, 2013 | March 31, 2012 |
|--|-------------------|-------------------|
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Passenger receipts/tolls | \$ 1,662 | \$ 1,624 |
| Rents and other receipts | 123 | 66 |
| Payroll and related fringe benefits | (1,910) | (1,701) |
| Other operating expenses | <u>(741)</u> | <u>(624)</u> |
| Net cash used by operating activities | <u>(866)</u> | <u>(635)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Grants, appropriations, and taxes | 812 | 864 |
| Operating subsidies from CDOT | 8 | 30 |
| Subsidies paid to Dutchess, Orange, and Rockland Counties | <u>(3)</u> | <u>(3)</u> |
| Net cash provided by noncapital financing activities | <u>817</u> | <u>891</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| MTA bond proceeds | 581 | 852 |
| MTA bonds refunded/reissued | (1) | (440) |
| MTA anticipation notes proceeds | 994 | 1,669 |
| MTA anticipation notes redeemed | (994) | (1,669) |
| Capital lease payments and terminations | (104) | (11) |
| Grants and appropriations | 673 | 383 |
| Payment for capital assets | (996) | (1,054) |
| Debt service payments | <u>(138)</u> | <u>(184)</u> |
| Net cash provided/(used) by capital and related financing activities | <u>15</u> | <u>(454)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of long-term securities | (1,442) | (620) |
| Sales or maturities of long-term securities | 854 | 751 |
| Sales of short term securities | 683 | 47 |
| Earnings on investments | <u>32</u> | <u>19</u> |
| Net cash provided by investing activities | <u>127</u> | <u>197</u> |
| NET INCREASE IN CASH | 93 | (1) |
| CASH — Beginning of period | <u>233</u> | <u>203</u> |
| CASH — End of period | <u>\$ 326</u> | <u>\$ 202</u> |

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

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF CASH FLOWS

PERIODS ENDED MARCH 31, 2013 AND 2012

(\$ In millions)

| | March 31, 2013 | March 31, 2012 |
|---|-------------------|-------------------|
| | (Unaudited) | |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES: | | |
| Operating loss | \$ (1,660) | \$ (1,573) |
| Adjustments to reconcile to net cash used in operating activities: | | |
| Depreciation and amortization | 532 | 516 |
| Gain on asset impairment and related expenses | 1 | - |
| Net increase in payables, accrued expenses, and other liabilities | 249 | 517 |
| Net increase in receivables | (6) | (64) |
| Net decrease/(increase) in materials and supplies and prepaid expenses | <u>18</u> | <u>(31)</u> |
| NET CASH USED BY OPERATING ACTIVITIES | <u>\$ (866)</u> | <u>\$ (635)</u> |

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:

At March 31, 2013 and 2012, the MTA had capital assets related liabilities of \$293 and \$322, respectively.

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

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR PERIODS ENDED MARCH 31, 2013 AND 2012

(\$ In millions)

1. BASIS OF PRESENTATION

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

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

Metropolitan Transportation Authority and Related Groups

- Metropolitan Transportation Authority Headquarters (“MTAHQ”) provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the related groups listed below.
- The Long Island Rail Road Company (“MTA Long Island Rail Road”) provides passenger transportation between New York City (“NYC”) and Long Island.
- Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority (“MTA Staten Island Railway”) provides passenger transportation on Staten Island.
- Metropolitan Suburban Bus Authority (“MTA Long Island Bus”) provides public service in Nassau and Queens Counties. The Authority’s Lease and Operating Agreement with Nassau County, dated January 15, 1973, as amended, was terminated effective December 31, 2011.
- 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, FMTAC, MTA Capital Construction, and MTA Bus, collectively are referred to herein as MTA. MTA Long Island Rail Road and MTA Metro-North Railroad are referred to collectively as the Commuter Railroads.

- New York City Transit Authority (“MTA New York City Transit”) and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”), provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority (“MTA Bridges and Tunnels”) operates seven toll bridges, two tunnels, and the Battery Parking Garage, all within the five boroughs of New York City.

MTA New York City Transit and MTA Bridges and Tunnels are operationally and legally independent of the MTA. These related groups enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, they are included in the MTA’s consolidated financial statements because of the MTA’s financial accountability for these entities and they are under the direction of the MTA Board (a reference to “MTA Board” means the board of MTAHQ and/or the boards of the other MTA Group entities that apply in the specific context, all of which are comprised of the same persons). Under accounting principles generally accepted in the United States of America (“GAAP”), the MTA is required to include these related groups in its financial statements. While certain units are separate legal entities, they do have legal capital requirements and the revenues of all of the related groups of the MTA are used to support the organization as a whole. The components do not constitute a separate accounting entity (fund) since there is no legal requirement to account for the activities of the components as discrete accounting entities. Therefore, the MTA financial statements are presented on a consolidated basis with segment disclosure for each distinct operating activity.

Although the MTA Group collect fares for the transit and commuter service, they provide and receive revenues from other sources, such as the leasing out of real property assets, and the licensing of advertising. Such revenues, including forecast-increased revenues from fare increases, are not sufficient to cover all operating expenses associated with such services. Therefore, to maintain a balanced budget, the members of the MTA Group providing transit and commuter service rely on operating surpluses transferred from MTA Bridges and Tunnels, operating subsidies provided by NYS and certain local governmental entities in the MTA commuter district, and service reimbursements from certain local governmental entities in the MTA commuter district and from the State of Connecticut. Operating subsidies to the MTA Group for transit and commuter service in the current period totaled \$2.5 billion.

2. SIGNIFICANT ACCOUNTING POLICIES

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

In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, 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.

The MTA has completed the process of evaluating the impact of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement reclassifies and recognizes certain items currently reported as assets and liabilities as one of four financial statement elements: deferred outflow of resources, outflow of resources, deferred inflow of resources, and inflow of resources. As a result of adopting GASB Statement No. 65, gains/losses on refunding debt are no longer part of long-term debt but were reclassified separately under the section “Deferred Outflow of Resources.” The financial impact resulting from the implementation of Statement No. 65 is the restatement of 2013 beginning net position by \$560 for unamortized bond issuance costs incurred in prior years. As a result of this pronouncement, current bond issuance costs expensed for period ended March 31, 2013 was \$75.7.

The MTA has completed the process of evaluating the impact of GASB Statement No. 66, which amends GASB Statement No.10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement also amends GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The MTA has determined that GASB Statement No. 66 had no impact on its financial position, results of operations, and cash flows and therefore it is not applicable to its operation at the present time.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and required supplementary information ("RSI") for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions in Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and RSI. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Statement No. 69 requires the use of carrying values to measure the assets and liabilities in a government merger and requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. Statement No. 69 also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. Statement No. 69 provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. Statement No. 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The

requirements of Statement No. 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

The MTA has not completed the process of evaluating the impact of GASB Statement No.70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. Statement No.70 also requires, A government guarantor to consider qualitative factors when determining if a payment on its guarantee is *more likely than not* to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The requirements of this Statement are effective for reporting periods beginning after June 15, 2013. Early application of the standard is encouraged.

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

Principles of Consolidation — The consolidated financial statements consist of MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, FMTAC, MTA Bus, MTA Capital Construction, MTA New York City Transit (including its subsidiary MaBSTOA), MTA Bridges and Tunnels, and MTA Long Island Bus for 2011 periods/years presented in the financial statements. All related group transactions have been eliminated for consolidation purposes.

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

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

All investments are recorded on the statement of net position 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 position. Fair values have been determined using quoted market values at March 31, 2013 and December 31, 2012.

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

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

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

Pollution remediation projects —Pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (See Note 12). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations, which previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: the Authority is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the Authority is named by a regulator as a responsible or potentially responsible party to participate in remediation; the Authority voluntarily commences or legally obligates itself to commence remediation efforts; or the Authority is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

Operating Revenues — *Passenger Revenue and Tolls* — Revenues from the sale of tickets, tokens, electronic toll collection system, and farecards are recognized as income when used.

Non-operating Revenues

Operating Assistance — The MTA Group receives, subject to annual appropriation, NYS operating assistance funds that are 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 is collected by NYC and the seven other counties within the MTA's service area, at the rate of .25 of one percent of the debt secured by certain real estate mortgages. Effective September 2005, the rate was increased from 25 cents per 100 dollars of recorded mortgage to 30 cents per 100 dollars of recorded mortgage. The MTA also receives an additional Mortgage Recording Tax ("MRT-2") of .25 of one percent of certain mortgages secured by real estate improved or to be improved by structures containing one to nine dwelling units in the MTA's service area. MRT-1 and MRT-2 taxes are recognized as revenue based upon reported amounts of taxes collected.

- MRT-1 proceeds are initially used to pay MTAHQ's operating expenses. Remaining funds, if any, are allocated 55% to certain transit operations and 45% to the commuter railroads operations. The commuter railroad portion is first used to fund the NYS Suburban Highway Transportation Fund in an amount not to exceed \$20 annually (subject to the moneys being returned under the conditions set forth in the governing statute if the Commuter Railroads are operating at a deficit). As of March 31, 2013 and 2012, the amount allocated to NYS Suburban Highway Transportation Fund was \$0 and \$0, respectively. Of the MTA New York City Transit portion, the MTA distributed \$0 and \$0 as of March 31, 2013 and 2012, respectively.

- The first \$5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange, and Rockland (“DOR”) Fund (\$1.5 each for Dutchess and Orange Counties and \$2 for Rockland County). Additionally, the MTA must transfer to each County’s fund an amount equal to the product of (i) the percentage by which each respective County’s mortgage recording tax payments (both MRT-1 and MRT-2) to the MTA increased over such payments in 1989 and (ii) the base amount received by each county as described above. The counties do not receive any portion of the September 1, 2005 increase in MRT-1 from 25 cents per \$100 of recorded mortgage to 30 cents. As of March 31, 2013, the MTA paid to Dutchess, Orange and Rockland Counties the 2012 excess amounts of MRT-1 and MRT-2 totaling \$1.9.
- In addition, MTA New York City Transit receives operating assistance directly from NYC through a mortgage recording tax at the rate of 0.625 of one percent of the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of the assessed value (collectively referred to as “Urban Tax Subsidies”) of certain properties.

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

Supplemental Aid — Also, in 2009 several amendments to the existing tax law provided the MTA supplemental revenues to be deposited into the AID Trust Account of the Metropolitan Transportation Authority Financial Assistance Fund established pursuant to section 92 of the State Finance law. These supplemental revenues relates to: 1) supplemental learner permit/license fee in the Metropolitan Commuter Transportation District 2) supplemental registration fee 3) supplemental tax on every taxicab owner per taxicab ride on every ride that originated in the city and terminates anywhere within the territorial boundaries of the Metropolitan Commuter Transportation District 4) supplemental tax on passenger car rental. This Supplemental Aid Tax is provided to the MTA in conjunction with the Mobility Tax.

Dedicated Taxes — Under NYS law, subject to annual appropriation, the MTA receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund (“MTTF”) and Metropolitan Mass Transportation Operating Assistance Fund (“MMTOA”). The MTTF receipts consist of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and non-registration fees. Effective October 1, 2005, the State increased the amount of motor vehicle fees deposited into the MTTF for the benefit of the MTA. MTTF receipts are applied first to meet certain debt service requirements or obligations and second to pay operating and capital costs. The MMTOA receipts are comprised of 0.375 of one percent regional sales tax (which was increased effective June 1, 2005 from 0.25 of one percent), a temporary regional franchise tax surcharge, a portion of taxes on certain transportation and transmission companies, and an additional portion of the business privilege tax imposed on petroleum businesses. MMTOA receipts, to the extent that MTTF receipts are not sufficient to meet debt service requirements, will also be applied to certain debt service obligations, and secondly to operating and capital costs of the Transit System, and the Commuter Railroads.

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

Build America Bond Subsidy — The Authority is receiving cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the Series of Bonds issued as “Build America Bonds” and authorized by the Recovery Act. The Internal Revenue Code of 1986 imposes requirements that MTA must meet and continue to meet after the issuance in order to receive the cash subsidy payments. The interest on these bonds is fully subject to Federal income taxation. The “Build America Bonds” program ended on December 31, 2010.

Operating Subsidies Recoverable from Connecticut Department of Transportation (“CDOT”) — A portion of the deficit from operations relating to MTA Metro-North Railroad’s New Haven line is recoverable from CDOT. Under the terms of a renewed Service Agreement, which began on January 1, 2000, and the 1998 resolution of an arbitration proceeding initiated by the State of Connecticut, CDOT pays 100.0% of the net operating deficit of MTA Metro-North Railroad’s branch lines in Connecticut (New Canaan, Danbury, and Waterbury), 65.0% of the New Haven mainline operating deficit, and a fixed fee for the New Haven line’s share of the net operating deficit of Grand Central Terminal (“GCT”) calculated using several years as a base, with annual increases for inflation and a one-time increase for the cost of operating GCT’s North End Access beginning in 1999. The Service Agreement also provides that CDOT pay 100% of the cost of non-movable capital assets located in Connecticut, 100% of movable capital assets to be used primarily on the branch lines and 65.0% of the cost of other movable capital assets allocated to the New Haven line. Remaining funding for New Haven line capital assets is provided by the MTA. The Service Agreement provides for automatic five-year renewals unless a notice of termination has been provided. The Service Agreement has been automatically extended for an additional five years beginning January 1, 2010 subject to the right of CDOT or MTA to terminate the agreement on eighteen month’s written notice. Capital assets completely funded by CDOT are not reflected in these financial statements, as ownership is retained by CDOT. The Service Agreement provides that final billings for each year be subject to audit by CDOT. Years 2000-2009 have been audited and are final.

Reimbursement of Expenses — The cost of operating and maintaining the passenger stations of the Commuter Railroads in NYS is assessable by the MTA to NYC and the other counties in which such stations are located for each NYS fiscal year ending September 30, under provisions of the NYS Public Authorities Law. This funding is recognized as revenue based upon an amount, fixed by statute, for the costs to operate and maintain passenger stations and is revised annually by the increase or decrease of the regional Consumer Price Index.

In 1995, The City ceased reimbursing the Authority for the full costs of the free/reduced fare program for students (the Student Fare Program). Beginning in 1996, the State and The City each began paying \$45 per annum to the Authority toward the cost of the Student Fare Program. In 2009, the State reduced their \$45 reimbursement to \$6.3.

The 2010 Adopted Budget proposed that the Student Fare Program be eliminated and student fares be phased in, with the first phase to commence September 1, 2010. In June 2010, following fare reimbursement commitments of \$25.3 from New York State and \$45.0 from the City, the Authority declined to proceed with the proposal to eliminate the Student Fare Program. These fare reimbursement commitments were paid to the Authority during 2011 and 2012.

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 Authority received approximately \$0 in 2013 and \$2.1 for the three months ended March 31, 2013 and 2012 from the City 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 33.0% of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6.0% of gross Urban Tax Subsidies, or an amount that is 20.0% greater than the amount paid by the NYC for the preceding calendar year. Fare revenues and the City reimbursement aggregated approximately \$46.3 and \$36.8 for the three months ended March 31, 2013 and 2012, respectively.

Grants and Appropriations — Grants and appropriations for capital projects are recorded when requests are submitted to the funding agencies for reimbursement of capital expenditures and beginning in 2001 were recorded as nonoperating revenues in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. These amounts are reported separately after Total Nonoperating Revenues in the Statements of Revenues, Expenses, and Changes in Net Position.

Operating and Non-operating Expenses — Operating and non-operating expenses are recognized in the accounting period in which the liability is incurred. All expenses related to operating the Authority (e.g. salaries, insurance, depreciation, etc.) are reported as operating expenses. All other expenses (e.g. interest on long-term debt, subsidies paid to counties, etc.) are reported as non-operating expenses.

Liability Insurance — FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program ("ELF") that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: \$8 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 for MTAHQ and MTA Bridges and Tunnels. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limits are: \$9 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2012 the self-insured retention limits for ELF were increased to the following amounts: \$10 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 for MTA Staten Island Railway; and \$2.6 for MTAHQ and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 per occurrence with a \$50 annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On March 31, 2013, the balance of the assets in this program was \$60.8.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 for a total limit of \$400 (\$350 excess of \$50). In certain

circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of \$50.

On March 1, 2013, the “nonrevenue fleet” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA Group with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides \$10 per occurrence limit with a \$0.5 per occurrence deductible for MTA Long Island Rail Road, MTA Staten Island Rapid Transit Operating Authority, MTA Police, MTA Metro-North Railroad, MTA Inspector General and MTA Headquarters. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On March 1, 2013, the “Access-A-Ride” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit’s Access-A-Ride program, including the contracted operators. This policy provides a \$3 per occurrence limit with a \$1 per occurrence deductible.

On December 15, 2012, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$10 per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance — Effective May 1, 2013, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25 per occurrence self-insured retention (“SIR”), subject to an annual \$75 aggregate as well as certain exceptions summarized below. The total program is \$500 per occurrence covering property of the related entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 per occurrence.

The property insurance policy provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage. Acts of terrorism (both domestic and foreign) are covered under the Terrorism Risk Insurance Program described below.

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

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) program, the MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 15% of any “certified” act of terrorism — up to a maximum recovery of \$161.25 for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15% “certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds \$5 and less than the \$100 TRIPRA trigger — up to a maximum recovery of \$100 for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2013. Recovery under this policy is subject to a retention of \$25 per occurrence and \$75 in the annual aggregate — in the event of multiple losses during the policy year. Should the MTA Group’s retention in any one year exceed \$75 future losses in that policy year are subject to a retention of \$7.5.

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

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

3. CASH AND INVESTMENTS

The Bank balances are insured up to \$250 thousand in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited. Cash, including deposits in transit, consists of the following at March 31, 2013 and December 31, 2012 (in millions):

| | March 2013 | | December 2012 | |
|---|----------------------------|-------------------------|----------------------------|-------------------------|
| | Carrying Amount | Bank Balance | Carrying Amount | Bank Balance |
| | (Unaudited) | | | |
| FDIC insured or collateralized deposits | \$ 142 | \$ 148 | \$ 121 | \$ 114 |
| Uninsured and not collateralized | <u>184</u> | <u>126</u> | <u>112</u> | <u>71</u> |
| | <u>\$ 326</u> | <u>\$ 274</u> | <u>\$ 233</u> | <u>\$ 185</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 and MTA Bus operations, invests funds which are not immediately required for the MTA’s operations in securities permitted by the New York State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds.

The MTA’s uninsured and uncollateralized deposits are primarily held by commercial banks in the metropolitan New York area and are subject to the credit risks of those institutions.

MTA holds most of its investments at a custodian bank. The custodian must meet certain banking institution criteria enumerated in MTA’s Investment Guidelines. The Investment Guidelines also require the Treasury Division to hold at least \$100 of its portfolio with a separate emergency custodian bank. The purpose of this deposit is in the event that the MTA’s main custodian cannot execute transactions due to an emergency outside of the custodian’s control, the MTA has an immediate alternate source of liquidity.

Investments, at fair value, consist of the following at March 31, 2013 and December 31, 2012 (in millions):

| | March 2013 (Unaudited) | December 2012 |
|---|---------------------------------------|-------------------------------|
| Repurchase agreements | \$ 310 | \$ 393 |
| Commercial paper | 528 | 50 |
| Federal Agencies due 2013 | 736 | 683 |
| U.S. Treasuries due 2013–2021 | 1,514 | 1,952 |
| Investments restricted for capital lease obligations: | | |
| US Treasury Notes due 2013-2033 | \$ 171 | \$ 174 |
| Short-Term Investment Fund | 77 | 77 |
| Federal Agencies due 2013-2034 | 40 | 145 |
| Other Agencies due 2030 | <u>185</u> | <u>451</u> |
| Sub-total | <u>473</u> | <u>847</u> |
| Other Agencies due 2013-2030 | 78 | 99 |
| Asset & Mortgage Back Securities* | 22 | 21 |
| Commercial Mortgage Backed Securities* | 54 | 60 |
| Corporate Bonds* | 138 | 119 |
| Foreign Bonds* | 19 | 17 |
| Equities* | <u>15</u> | <u>14</u> |
| Total | <u>\$ 473</u> <u>\$ 3,887</u> | <u>\$ 847</u> <u>\$ 4,255</u> |

*These securities are only included in the FMTAC portfolio

Fair values include accrued interest to the extent that interest is included in the carrying amounts. Accrued interest on investments other than Treasury bills and coupons is included in other receivables on the statement of net position. 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 9, the MTA has purchased securities or entered into payment undertaking, letter of credit, or similar type agreements or instruments (guaranteed investment contracts) with financial institutions, which generate sufficient proceeds to make basic rent and purchase option payments under the terms of the leases. If the obligors do not perform, the MTA may have an obligation to make the related rent payments.

All investments, other than the investments restricted for capital lease obligations, are either insured or registered and held by the MTA or its agent in the MTA's name. Investments restricted for capital lease obligations are either held by MTA or its agent in the MTA's name or held by a custodian as collateral for MTA's obligation to make rent payments under capital lease obligation. Investments had weighted average yields of 0.27% and 0.44% for the three months ended March 31, 2013 and December 31, 2012 respectively.

Of the above cash and investments, amounts designated for internal purposes by management were as follows at March 31, 2013 and December 31, 2012 (in millions):

| | March 2013 (Unaudited) | December 2012 |
|--|---------------------------------------|--------------------------|
| Construction or acquisition of capital assets | \$ 1,766 | \$ 1,402 |
| Funds received from affiliated agencies for investment | 422 | 353 |
| Debt service | 825 | 417 |
| Payment of claims | 537 | 498 |
| Restricted for capital leases | 473 | 849 |
| Other | <u>782</u> | <u>644</u> |
| Total | <u>\$ 4,805</u> | <u>\$ 4,163</u> |

Credit Risk — At March 31, 2013 and December 31, 2012, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization (in millions):

| Quality Rating Moody's | March 2013 (Unaudited) | Percent of Portfolio | December 31, 2012 | Percent of Portfolio |
|-----------------------------------|---------------------------------------|---------------------------------|------------------------------|---------------------------------|
| A-1+ | \$ 501 | 14 % | \$ 435 | 11 % |
| A-1 | 528 | 14 | 50 | 1 |
| AAA | 125 | 3 | 137 | 4 |
| AA+ | 354 | 10 | 474 | 12 |
| AA | 33 | 1 | 35 | 1 |
| A | 90 | 2 | 77 | 2 |
| BBB | 43 | 1 | 32 | 1 |
| Not rated | 415 | 11 | 502 | 13 |
| Government | <u>1,651</u> | <u>44</u> | <u>2,102</u> | <u>55</u> |
| Total | 3,740 | <u>100 %</u> | 3,844 | <u>100 %</u> |
| Equities and capital leases | <u>147</u> | | <u>411</u> | |
| Total investment | <u>\$ 3,887</u> | | <u>\$ 4,255</u> | |

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

| (In millions) Securities | March 2013 (Unaudited) | | December 2012 | |
|---|------------------------------|----------|------------------|----------|
| | Fair Value | Duration | Fair Value | Duration |
| U.S. Treasuries | \$ 1,515 | 0.87 | \$ 1,952 | 1.47 |
| Federal Agencies | 71 | 0.51 | 683 | 0.06 |
| Other Agencies | 736 | 0.12 | 92 | 0.48 |
| Tax Benefits Lease Investments | 338 | 11.73 | 448 | 10.82 |
| Repurchase Agreement | 310 | - | 393 | - |
| Certificate of Deposits | 7 | - | 7 | - |
| Commercial Paper | 528 | - | 50 | - |
| Asset-Backed Securities ⁽¹⁾ | 22 | 0.68 | 21 | 0.83 |
| Commercial Mortgage-Backed Securities ⁽¹⁾ | 54 | 0.33 | 60 | 0.25 |
| Foreign Bonds ⁽¹⁾ | 19 | 0.24 | 17 | 0.22 |
| Corporates ⁽¹⁾ | 138 | 0.25 | 119 | 0.25 |
| Total fair value | 3,738 | | 3,842 | |
| Modified duration | | 1.47 | | 2.05 |
| Equities ⁽¹⁾ | 15 | | 14 | |
| Total | 3,753 | | 3,856 | |
| Investments with no duration reported | 134 | | 399 | |
| Total investments | \$ 3,887 | | \$ 4,255 | |

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

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

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

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

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

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

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

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

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

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

- certain equities; and

- certain mutual funds.

FMTAC is prohibited from making the following investments:

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

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

4. EMPLOYEE BENEFITS

Substantially all of the MTA Group entities, related groups and pension plans have separately issued financial statements that are publicly available and contain descriptions and supplemental information regarding employee benefit plans. These statements may be obtained by contacting the administrative office of the respective related group.

Pension Plans — The MTA Group entities sponsor and participate in a number of pension plans for their employees. These plans are not component units of the MTA and are not included in the combined financial statements.

Defined Benefit Pension Plans

Single-Employer Pension Plans

MTA Long Island Rail Road Plan for Additional Pensions

Plan Description — The Long Island Rail Road Plan for Additional Pensions (“the LIRR Plan”) is a single-employer defined benefit pension plan that provides retirement, disability and death benefits to plan members and beneficiaries. Members include employees hired prior to January 1, 1988. The LIRR Plan is administered by the MTA Defined Benefit Pension Plan Board of Managers of Pensions which has the authority to establish or amend obligations to the LIRR Plan. The LIRR Plan is a governmental plan and accordingly, is not subject to the funding and other requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”). The pension plan has a separately issued financial statement that is publicly available and contains required descriptions and supplemental information regarding the employee benefit plan. The statements may be obtained by writing to, Long Island Rail Road, Controller, 92-02 Sutphin Boulevard, Jamaica, New York 11435.

Funding Policy — The LIRR Plan has both non-contributory and contributory requirements. Participants who entered qualifying service before July 1, 1978 are not required to contribute. Participants who entered qualifying service on or after July 1, 1978 contribute 3% of their wages. The MTA Long Island Rail Road contributes additional amounts based on actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. The current rate is 289.79% of annual covered payroll.

The funded status of the LIRR Plan as of January 1, 2012, the most recent actuarial valuation date is as follows (in millions):

| | 2012 | 2011 |
|--|----------------|----------------|
| Annual required contribution (“ARC”) | \$ 116.0 | \$ 108.9 |
| Interest on net pension obligation | 2.9 | 3.1 |
| Adjustment to ARC | <u>(3.7)</u> | <u>(3.7)</u> |
| Annual pension cost | 115.2 | 108.3 |
| Actual contributions made | <u>(116.0)</u> | <u>(108.3)</u> |
| Decrease in net pension obligation | (0.8) | - |
| Net pension obligation beginning of year | <u>38.5</u> | <u>38.5</u> |
| Net pension obligation end of year | <u>\$ 37.7</u> | <u>\$ 38.5</u> |

Three-Year Trend Information

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability “AAL” | Unfunded Actuarial Accrued Liability “UAAL” | Funded Ratio | Covered Payroll | UAAL as % of Covered Payroll |
|--------------------------|---------------------------|-----------------------------------|---|--------------|-----------------|------------------------------|
| 1/1/2012 | \$437.4 | \$1,633.3 | \$1,195.8 | 26.78 % | \$ 40.0 | 2987.14 % |
| 1/1/2011 | 476.0 | 1,572.3 | 1,096.3 | 30.30 | 51.2 | 2,142.94 |
| 1/1/2010 | 503.4 | 1,583.6 | 1,080.2 | 31.79 | 65.2 | 1,656.80 |

| Year Ended | Annual Pension Cost “APC” | Annual Required Contribution “ARC” | Annual Contribution | ARC as a % of Covered Payroll | % of APC Contributed | Net Pension Obligation |
|------------|---------------------------|------------------------------------|---------------------|-------------------------------|----------------------|------------------------|
| 12/31/2012 | \$115.2 | \$ 116.0 | \$ 116.0 | 289.79 % | 100.70 % | \$ 37.75 |
| 12/31/2011 | 108.3 | 108.9 | 108.3 | 213.02 | 100.00 | 38.50 |
| 12/31/2010 | 106.6 | 107.3 | 119.6 | 164.50 | 112.17 | 38.50 |

The schedule of pension funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress — As of January 1, 2012, the most recent actuarial valuation date, the LIRR Plan was 26.8% funded. The actuarial accrued liability for benefits was \$1,633.3, and the actuarial value of assets was \$437.4, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$1,195.8. The covered payroll (annual payroll of active employees covered by the LIRR Plan) was \$40.0, and the ratio of the UAAL to the covered payroll was 2,987.1%.

Actuarial Methods and Assumptions — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The significant actuarial methods and assumptions used in the LIRR Plan actuarial valuation at January 1, 2011 and 2010 were not changed from those used for the LIRR Plan at January 1, 2009 with the exception of the mortality assumption which was revised to reflect the RP-2000 Disabled Annuitant mortality table for males and females and used beginning with

the January 1, 2007 Valuation. The significant actuarial methods and assumptions used in the LIRR Plan at January 1, 2011 were as follows: the actuarial cost method and amortization method used was the entry age normal cost for all periods. For January 1, 2010 the amortization period for unfunded accrued liability was 26 years, with payments a level dollar amount. The asset valuation method utilized was a 5-year smoothing method for all periods. The investment rate of return assumption was lowered from 8.0% to 7.50% for periods going forward. Investments and administrative expenses are paid from plan assets of the LIRR Plan. The remaining amortization period at December 31, 2012 was 21 years.

Metro North Cash Balance Plan

Plan Description — The Metro-North Commuter Railroad Company Cash Balance Plan (the “MNR Cash Balance Plan”) is a single employer, defined benefit pension plan. The MNR Plan covers non-collectively bargained employees, formerly employed by Conrail, who joined MTA Metro-North Railroad as management employees between January 1 and September 30, 1983, and were still employed as of December 31, 1988. Effective January 1, 1989, these employees were covered under the Metro-North Commuter Railroad Defined Contribution Plan for Management Employees (the “Management Plan”) and the MNR Cash Balance Plan was closed to new participants. The assets of the Management Plan have been merged with the Metropolitan Transportation Authority Defined Benefit Plan for Non-Represented Employees as of the asset transfer date of July 14, 1995. The MNR Cash Balance Plan is designed to satisfy the applicable requirements for governmental plans under Section 401(a) and 501(a) of the Internal Revenue Code. Accordingly, the MNR Cash Balance Plan is tax-exempt and is not subject to the provisions of the Employee Retirement Income Security Act (“ERISA”) of 1974. This plan provides retirement and death benefits to plan members and beneficiaries.

Funding Policy — Funding for the MNR Cash Balance Plan is provided by MTA Metro-North Railroad which is a public benefit corporation that receives funding for its operations and capital needs from the MTA and the Connecticut Department of Transportation (“CDOT”). Certain funding by MTA is made to MTA Metro-North Railroad on a discretionary basis. The continuance of funding for the MNR Cash Balance Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

MTA Metro-North Railroad’s funding policy with respect to the MNR Cash Balance Plan was to contribute the full amount of the pension benefit obligation (“PBO”) of approximately \$2.9 to the trust fund in 1989. As participants retire, distributions from the MNR Cash Balance Plan have been made by the Trustee. MTA Metro-North Railroad anticipated that no further payments would be made to the MNR Cash Balance Plan. However, over several subsequent years, actuarial valuations resulted in unfunded accrued liabilities, which were paid to the Plan. The January 1, 2010, actuarial valuation resulted in an unfunded accrued liability of \$.012 and the \$.012 was paid to the Plan in 2010. The January 1, 2011 actuarial valuation resulted in an unfunded surplus whereby the actuarial value of assets exceeded the actuarial liability and, no payments were required in 2011. Similarly, the January 1, 2012 actuarial valuation resulted in an unfunded surplus and thus no payments were required in 2012. The market value of net assets available for benefits in the trust fund at December 31, 2012, was \$0.878 which is in excess of the current PBO of \$0.854.

The funded status of the MNR Cash Balance Plan as of January 1, 2012, the most recent actuarial valuation date is as follows (in thousands):

| | 2012 | 2011 |
|--------------------------------------|------------------|------------------|
| Annual required contribution ("ARC") | \$ 0.0 | \$ 0.0 |
| Interest on net pension obligation | (2.7) | (3.4) |
| Adjust to ARC | <u>11.7</u> | <u>11.8</u> |
| Annual pension cost | <u>9.0</u> | <u>8.4</u> |
| Increase in net pension asset | 9.0 | 8.4 |
| Net pension asset beginning of year | <u>(60.3)</u> | <u>(68.7)</u> |
| Net pension asset end of year | <u>\$ (51.3)</u> | <u>\$ (60.3)</u> |

Three-Year Trend Information

| (In thousands) | | | | | | |
|----------------|---------------------------|------------------------------------|---------------------|-------------------------------|----------------------|-------------------|
| Year Ended | Annual Pension Cost "APC" | Annual Required Contribution "ARC" | Annual Contribution | ARC as a % of Covered Payroll | % of APC Contributed | Net Pension Asset |
| 12/31/2012 | \$ 9.0 | \$ - | \$ - | 0.00 % | 0.00 % | \$ (51.3) |
| 12/31/2011 | 8.4 | - | - | 0.00 | 0.00 | (60.3) |
| 12/31/2010 | 8.7 | 1.8 | 11.9 | 0.04 | 136.78 | (68.7) |

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability "AAL" | Unfunded Actuarial Accrued Liability/ (Surplus) "UAAL" | Funded Ratio | Covered Payroll | UAAL as % of Covered Payroll |
|--------------------------|---------------------------|-----------------------------------|--|--------------|-----------------|------------------------------|
| 1/1/2012 | \$ 1,006.4 | \$ 991.9 | \$ (14.5) | 101.50 % | \$ - | 0.00 % |
| 1/1/2011 | 1,008.5 | 970.9 | (37.5) | 103.90 | - | 0.00 |
| 1/1/2010 | 1,074.9 | 1,086.7 | 11.9 | 98.91 | 4,496.1 | 0.26 |

The schedule of pension funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress — As of January 1, 2012, the most recent actuarial valuation date, the MNR Cash Balance Plan was 101.5% funded. The actuarial accrued liability for benefits was \$0.992, and the actuarial value of assets was \$1.006, resulting in an actuarial accrued surplus of \$(0.015). The covered payroll (annual payroll of active employees covered by the plan) was \$0, and the ratio of the UAAL to the covered payroll was 0.00%.

Further information about the MNR Plan is more fully described in the separately issued financial statements which can be obtained by writing to the MTA Metro-North Railroad Chief Financial Officer, 347 Madison Avenue, New York, New York 10017-3739.

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

The significant actuarial methods and assumptions used in January 1, 2012 valuation were the projected unit credit cost method and an investment rate of return of 4.5% per year. The accrued benefit for the unit credit cost method is defined by the plan and is usually used when the annual benefit accrual is a flat dollar amount or a constant percentage of the participant's current annual salary. The asset valuation method utilized was the market value per the Trustee. There was no projected salary increase assumptions used in the January 1, 2011 valuation as the participants of the Plan were covered under the management Plan effective January 1, 1989. For participants of the Plan eligible for additional benefits, the additional benefits were not valued as the potential liability for this benefit is de minimus.

Manhattan and Bronx Surface Transit Operating Authority

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

Funding Policy — MaBSTOA's funding policy requires periodic employer contributions which are actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. It is MaBSTOA's policy to fund, at a minimum, the current year's normal pension cost plus amortization of the unfunded actuarial accrued liability. For employees, the Plan has both contributory and noncontributory requirements depending on the date of entry into service. Employees entering qualifying service on or before July 26, 1976 are non-contributing. Certain employees entering qualifying service on or after July 27, 1976 but before April 1, 2012 are required to contribute 3% of their salary and others are required to contribute 2%. Also, certain post-July 27, 1976 employees hired before April 1, 2012 contribute 1.85% in addition to their 3% contributions, if required. Effective October 1, 2000, certain post-July 27, 1976 employees hired before April 1, 2012 who have been members for 10 years or have 10 years of credited service are no longer required to make the 3% contributions. As a result of pension reform legislation passed in 2012 that affected MTA New York City Transit employees, similarly situated MaBSTOA employees hired on or after April 1, 2012 contribute 3% (although certain employees contribute 2%), with additional rates starting April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service. MaBSTOA's contribution rate is 39.7% of annual covered payroll. MTA New York City Transit's contributions to the MaBSTOA Plan for the years ended December 31, 2012, 2011 and 2010 were \$228.9 \$186.5, and \$200.6, respectively, equal to the annual required contributions for each year.

The funded status of the MaBSTOA Plan as of January 1, 2012, the most recent actuarial valuation date is as follows (in millions):

| | 2012 | 2011 |
|--|------------------|------------------|
| Annual required contribution | \$ 228.9 | \$ 186.5 |
| Interest on net pension asset | (2.9) | (3.3) |
| Adjust to annual required contribution | <u>4.8</u> | <u>5.2</u> |
| Annual pension cost | 230.8 | 188.4 |
| Actual contributions | <u>(228.9)</u> | <u>(186.5)</u> |
| Decrease in net pension asset | 1.9 | 1.9 |
| Net pension asset beginning of year | <u>(39.3)</u> | <u>(41.2)</u> |
| Net pension asset end of year | <u>\$ (37.4)</u> | <u>\$ (39.3)</u> |

Three-Year Trend Information

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Initial Entry Age (b) | Unfunded (AAL) (UAAL) (b-a) (In millions) | Funded Ratio (a/b) | Covered Payroll (c) | (UAAL) As a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|---|---|--------------------|---------------------|---|
| 1/1/2012 | \$ 1,624.3 | \$ 2,482.8 | \$ 858.5 | 65.42 % | \$ 576.0 | 149.1 % |
| 1/1/2011 | 1,527.1 | 2,213.3 | 686.2 | 69.00 | 579.7 | 118.4 |
| 1/1/2010 | 1,396.9 | 2,133.9 | 737.0 | 65.50 | 591.1 | 124.7 |

| Year Ended | Annual Pension Cost (APC) (In millions) | Percentage of APC Contributed | Net Pension Asset |
|------------|---|-------------------------------|-------------------|
| 12/31/2012 | \$ 230.8 | 99.2 % | \$ (37.4) |
| 12/31/2011 | 188.4 | 99.0 | (39.3) |
| 12/31/2010 | 202.3 | 99.2 | (41.2) |

The schedule of pension funding progress, presented as RSI following the notes to the consolidated financial statements, present multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress — As of January 1, 2012, the most recent actuarial valuation date, the MaBSTOA Plan was 65.4% funded. The actuarial accrued liability for benefits was \$2,482.8 and the actuarial value of assets \$1,624.3, resulting in an unfunded actuarial accrued liability (UAAL) of \$858.5. The covered payroll (annual payroll of active employees covered by the MaBSTOA Plan) was \$576.0, and the ratio of the UAAL to the covered payroll was 149.1%.

Actuarial Methods and Assumptions — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The January 1, 2012 valuation reflects a change to the interest rate assumption from 8.0% to 7.5% as well as modifications to the postretirement mortality assumption to assume longer life expectancies for members who retire with a service retirement and their beneficiaries. These changes increased the unfunded actuarial accrued liability by \$205.6, which is being amortized over 10 years and the employer contribution payable as at December 31, 2012 by \$30.0.

The assumptions included an 7.5% investment rate of return, prior to expenses and assumed general wage increases of 3.5% to 18.0% for operating employees and 4.5% and 7.0% for non-operating employees per year, depending on years of service. This also includes an inflation component of 2.5% per year.

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

| | Single-Employer Plans | | |
|---|---------------------------------------|---------------------------------------|---------------------------------------|
| | LIRR | MaBSTOA | MNR Cash Balance Plan |
| Date of valuation | 1/1/2012 | 1/1/2012 | 1/1/2012 |
| Required contribution rates: | (\$ in millions) | | (\$ in thousands) |
| Plan members | | | |
| Employer: | variable actuarially determined | variable actuarially determined | variable actuarially determined |
| Employer contributions made in 2012 | \$ 116.0 | \$ 228.9 | \$ 0.0 |
| Three-year trend information: | | | |
| Annual Required Contribution | | | |
| 2012 | \$ 116.0 | \$ 228.9 | \$ 0.0 |
| 2011 | 108.9 | 186.5 | 0.0 |
| 2010 | 107.3 | 200.6 | 1.8 |
| Percentage of ARC contributed: | | | |
| 2012 | 100.7 % | 100.0 % | 0.0 % |
| 2011 | 100.0 | 100 | 0 |
| 2010 | 112.0 | 100 | 661 |
| Annual Pension Cost (APC): | | | |
| 2012 | \$ 115.2 | \$ 230.8 | \$ 9.0 |
| 2011 | 108.3 | 188.4 | 8.4 |
| 2010 | 106.6 | 202.3 | 8.7 |
| Net Pension Obligation (NPO) (asset) at end of year: | | | |
| 2012 | \$ 37.8 | \$ (37.4) | \$ (51.3) |
| 2011 | 38.5 | (39.3) | (60.3) |
| 2010 | 38.5 | (41.2) | (68.7) |
| Percentage of APC contributed: | | | |
| 2012 | 101 % | 99 % | 0 % |
| 2011 | 100 | 99 | 0 |
| 2010 | 112 | 99 | 137 |
| Components of APC | | | |
| Annual required contribution (ARC) | \$ 116.0 | \$ 228.9 | \$ 0.0 |
| Interest on NPO | 2.9 | (2.9) | (2.7) |
| Adjustment of ARC | <u>(3.7)</u> | <u>4.8</u> | <u>11.7</u> |
| APC | 115.2 | 230.8 | 9.0 |
| Contributions made | <u>(116.0)</u> | <u>(228.9)</u> | <u>0.0</u> |
| Change in NPO (asset) | (0.8) | 1.9 | 9.0 |
| NPO (asset) beginning of year | <u>38.5</u> | <u>(39.3)</u> | <u>(60.3)</u> |
| NPO (asset) end of year | <u>\$ 37.7</u> | <u>\$ (37.4)</u> | <u>\$ (51.3)</u> |

| | Single-Employer Plans | | |
|--|------------------------------|---|------------------------------|
| | LIRR | MaBSTOA | MNR Cash Balance Plan |
| Actuarial project unit cost method | Entry age normal | Entry age normal frozen initial liability | Unit credit cost |
| Method to determine actuarial value of plan assets | 5-year smoothing | 5-year smoothing | 5-year smoothing |
| Investment return | 7.50 % | 7.50 % | 5.00 % |
| Projected salary increases | 3.50 % | 3.5%–18.0% | N/A |
| Consumer price inflation | 2.50 % | 2.50 % | 2.50 % |
| Amortization method and period | level dollar/ 21 years | level dollar/ 13 years | level dollar/ 8 years |
| Period closed or open | closed | closed | closed |

Cost-Sharing Multiple-Employer Plans

MTA Defined Benefit Plan

Plan Description — The MTA Defined Benefit Pension Plan (“MTA Plan”) is a cost sharing multiple-employer pension plan. The Plan includes certain MTA Long Island Rail Road non-represented employees hired after December 31, 1987, MTA Metro-North Railroad non-represented employees, certain employees of the former MTA Long Island Bus hired prior to January 23, 1983, MTA Police, MTA Long Island Rail Road represented employees hired after December 31, 1987, certain MTA Metro-North Railroad represented employees, MTA Long Island Rail Road represented employees hired after December 31, 1987, employees of MTA Staten Island Railway and certain employees of the MTA Bus Company (“MTA Bus”). MTA Long Island Rail Road, MTA Metro-North Railroad, MTA, MTA Staten Island Railway and MTA Bus contribute to the MTA Plan, which offers distinct retirement, disability, and death benefits for their covered employees. Annual pension costs and related information about this plan are presented in the following table for all years presented as if the plan was a single-employer plan at the MTA level. The MTA Plan may be amended by action of the MTA Board.

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

Funding policy — Employer contributions are actuarially determined on an annual basis and are recognized when due. Employee contributions to the Plan are recognized in the period in which the contributions are due. There are no contributions required for the MTA Long Island Bus Employees’ Pension Plan. The current funded ratio of actuarial accrued assets over actuarial accrued liability is 81.3% of annual covered payroll. The contribution requirements of the plan members and the MTA are established and may be amended by the MTA Board. The MTA’s contributions to the Plan for the years ended December 31, 2012, 2011 and 2010 were \$212.4, \$166.2, and \$155.3, respectively, equal to the required contributions for each year.

The following summarizes the types of employee contributions made to the Plan:

Effective January 1, 1995, covered MTA Metro-North Railroad and MTA Long Island Rail Road non-represented employees are required to contribute to the Plan to the extent that their Railroad Retirement Tier II employee contribution is less than the pre-tax cost of the 3% employee contributions. Effective October 1, 2000, employee contributions, if any, were eliminated after ten years of making contributions to the Plan. MTA Metro-North Railroad employees may purchase prior service from January 1, 1983 through December 31, 1995 and MTA Long Island Rail Road employees may purchase prior service from January 1, 1988 through December 31, 1995 by paying the contributions that would have been required of that employee for the years in question, calculated as described in the first sentence, had the Plan been in effect for those years. Police Officers who become participants of the MTA Police Program prior to January 1, 2010 contribute to that program at various rates. Police Officers who become participants on or after January 1, 2010 contribute 3% up to the completion of 30 years of service, the maximum amount of service credit allowed.

Covered MTA Metro-North Railroad represented employees and MTA Long Island Rail Road represented employees who first became eligible to be Plan participants prior to January 30, 2008 and MTA Staten Island Railway employees contribute 3% of salary. MTA Long Island Rail Road represented employees who became participants after January 30, 2008 contribute 4% of salary. For the MTA Staten Island Railway employees, contributions are not required after the completion of ten years of credited service. MTA Long Island Rail Road represented employees are required to make the employee contributions for ten years. Certain Metro-North represented employees are required to make the employee contributions until January 1, 2017 and others until June 30, 2017.

Covered MTA Bus employees are required to contribute a fixed dollar amount, which varies, by depot. Currently, non-represented employees at Yonkers Depot and non-represented employees hired after June 30, 2007 at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia, and Spring Creek Depots, contribute \$21.50 per week. Non-represented employees at Eastchester hired prior to 2007 contribute \$25 per week. Represented employees at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia and Yonkers Depots contribute \$29.06 per week; Spring Creek represented employees contribute \$32.00 per week. Certain limited number of represented employees promoted prior to the resolution of a bargaining impasse continue to participate in the plan that was in effect before their promotion. Certain remaining non-represented employees at Baisley Park, Far Rockaway, JFK, LaGuardia and Spring Creek Depots in the pension program covering only such employees make no contributions to those programs. (Note: the dollar figures in this paragraph are in dollars, not millions of dollars).

MTA Bus is required to make significant annual contributions to the MTA Plan on a current basis. Pursuant to the January 1, 2012 actuarial valuation for the MTA Plan, which included amounts for actuarial assets and liabilities relating to both active and retired members for all former private plans, with the exception of represented members of the TWU — New York City Private Bus Lines Pension Trust, MTA Bus recorded pension expense equal to the valuation annual required contribution of \$40.6 and \$32.7 for the calendar years ended December 31, 2012 and 2011, respectively. Both of these employer contributions were paid to the MTA Plan in their respective years. As stated above, the Transport Workers Union — New York City Private Bus Lines Pension Trust, which includes represented employees of the former Queens Surface, Triboro Coach, and Jamaica Bus lines, has not been merged into the MTA Plan as of December 31, 2011. The City of New York is liable for any unfunded pension liability as of the date of each plan's merger into the MTA Plan.

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

Plan Description — MTA New York City Transit and MTA Bridges and Tunnels contribute to NYCERS, a cost-sharing multiple-employer retirement system for employees of NYC and certain other governmental units. NYCERS combines features of a defined-benefit pension plan with those of a

defined-contribution pension plan. NYCERS provides pension benefits to retired employees based on salary and length of service. In addition, NYCERS provides disability benefits, cost-of-living adjustments, and death benefits subject to satisfaction of certain service requirements and other provisions. The NYCERS plan functions in accordance with existing NYS statutes and NYC laws and may be amended by action of the State Legislature. NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York City Employees' Retirement System, 335 Adams Street, Suite 2300, Brooklyn, New York 11201 – 3724.

Funding Policy — NYCERS is a contributory plan, except for certain employees who entered prior to July 27, 1976 who make no contribution. Most employees who entered qualifying service after July 26, 1976 but before April 2012 contribute 3% of their salary, with certain MTA New York City Transit employees contributing 2%. Also, certain post-July 27, 1976 employees hired before April 1, 2012 contribute 1.85% in addition to their 3% contributions, if required, and a small group of such employees contribute 3.83% in addition to the 3% contributions, if required. The State Legislature passed legislation in 2000 that suspended the 3% contribution for most employees hired before April 1, 2013 who have been members for 10 or more years. As a result of pension reform legislation passed in 2012, most employees hired on or after April 1, 2012 contribute 3% (although certain MTA New York City Transit employees contribute 2%), with additional rates starting April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service. MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. The rates are 20.5% and 19.5%, respectively, of covered payroll. The contribution requirements of plan members and MTA New York City Transit and MTA Bridges and Tunnels are established and amended by law. MTA New York City Transit's required contributions for NYCERS fiscal years ended June 30, 2012, 2011 and 2010 were \$694.8, \$608.7, and \$563.8, respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2012, 2011 and 2010 were \$36.2, \$27.7, and \$25.5, respectively. All contributions were equal to or in excess of the actuary's recommendation, plus interest.

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

Plan Description — Employees of MTAHQ and the former MTA Long Island Bus who were hired after January 23, 1983, are members of NYSLERS. In addition, employees of the Capital Company who are on its payroll are also members of NYSLERS. NYSLERS is a cost-sharing multiple-employer plan and offers a broad spectrum of benefits, including retirement, death and disability benefits, and cost of living adjustments. Further information about the plan is more fully described in the publicly available statement of NYSLERS and may be obtained by writing to New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York, 12244-0001.

Funding Policy — Employees who became members prior to July 27, 1976 make no contributions. Employees who became members after July 27, 1976 but before April 1, 2012 contribute 3% of salary, but since 2000, the 3% contribution is suspended for those employees who have 10 years or more of membership. Employees who become members on or after January 1, 2010 are required to contribute for all their years of service. As a result of pension reform legislation passed in 2012, employees hired on or after April 1, 2012 contribute 3%, with additional rates starting April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service. MTAHQ, which included the Capital Company, and MTA Long Island Bus are required to contribute at an actuarially determined rate. The current actuarial rate of annual covered payroll for MTAHQ and MTA Long Island Bus respectively is 18.1% and 0%. The MTAHQ NYSLERS contributions for the years ended December 31, 2012, 2011 and 2010 was approximately \$14.7, \$10.5, and \$7.1, respectively. The MTA Long Island Bus NYSLERS contributions for the years ended December 31, 2012, 2011 and 2010 were approximately \$0.3, \$9.8, and \$7.1, respectively.

Defined Contribution Plans

Single-Employer — The Long Island Rail Road Company Money Purchase Plan (the “Money Purchase Plan”) was a defined contribution plan that covers certain represented employees who began service with MTA Long Island Rail Road after December 31, 1987. Beginning January 1, 2004, employees who were participants in the Money Purchase Plan have become participants in a New Program in the MTA Plan (the “New Program”) and have similar benefits as those applicable to non-represented employees of MTA Long Island Rail Road in the MTA Plan. The MTA Board has voted to terminate the Money Purchase Plan and the Money Purchase Plan was terminated effective March 31, 2008. The Money Purchase Plan made final distributions of all participant accounts on or about January 6, 2010.

The Metro-North Commuter Railroad Company Defined Contribution Pension Plan for Agreement Employees (the “Agreement Plan”), established January 1, 1988, covers represented employees in accordance with applicable collective bargaining agreements. Under this plan, MTA Metro-North Railroad contributed an amount equal to 4% of each eligible employee’s gross compensation to the Agreement Plan on that employee’s behalf. For employees who have 19 or more years of service, MTA Metro-North Railroad contributes 7%. In addition, employees may voluntarily contribute up to the amount of MTA Metro-North Railroad’s contribution to the Agreement Plan, on an after-tax basis. The Agreement Plan is administered by MTA Metro-North Railroad and the Agreement Plan’s Board of Managers of Pension. Effective January 1, 2004, certain employees who were participants of the Agreement Plan became participants in the New Program in the MTA Plan and have similar benefits as those applicable to non-represented employees of MTA Metro-North Railroad in the MTA Plan. In 2007, the remaining represented employees also became participants in the New Program, unless they opted-out of the New Program. The “opt-out” employees became participants of the MTA 401(k) plan with the same employer contributions as the Agreement Plan. The MTA Board has voted to terminate this Agreement Plan and the Agreement Plan was terminated effective December 16, 2008.

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 statements of net position.

Certain MTA Group employees are also eligible to participate in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k) (the “401(k) Plan”). Participation in the 401(k) Plan is available to most represented and non-represented employees. MTA Bus on behalf of certain MTA Bus employees and MTA Metro-North Railroad on behalf of those employees who opted-out of participation in the MTA Defined Benefit Pension Plan make contributions to the 401(k) Plan. The rate for the employer contribution varies. All amounts of compensation deferred under the 401(k) Plan, and all income attributable to such compensation, are in trust for the exclusive use of the participants and their beneficiaries. Accordingly, the 401(k) Plan is not reflected in the accompanying combined statements of net position.

5. OTHER POSTEMPLOYMENT BENEFITS

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

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

actuarial accrued liabilities associated with the OPEB and to what extent progress is being made in funding the plan.

The MTA elected not to record the entire amount of the Unfunded Actuarial Accrued Liability (“UAAL”) in the year ended December 31, 2012, and record the net annual OPEB obligation. The MTA also elected not to fund the UAAL more rapidly than on a pay-as-you-go basis. The UAAL relating to post-employment benefits increased from \$13.2 billion at the end of 2010 to \$17.8 billion at the end of 2011. The end of the year liability equals the amount as of the beginning of the year plus interest at 4.0% less amortization amount included in the Annual Required Contribution for the prior year less or plus assumption changes and plan changes.

Plan Description — The benefits provided by the MTA Group include medical, pharmacy, dental, vision, and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursements and welfare fund contributions. The different types of benefits provided vary by agency and employee type (represented employees versus management). All benefits are provided upon retirement as stated in the applicable pension plan, although some agencies provide benefits to some members if terminated within 5 years of attaining retirement eligibility. Employees of the MTA Group are members of the following pension plans: the MTA Plan, the LIRR Plan, the MNR Plan, the MaBSTOA Plan, NYCERS and NYSLERS.

The MTA Group participates in the New York State Health Insurance Program (“NYSHIP”) to provide medical and prescription drug benefits, including Medicare Part B reimbursements to many of its members. NYSHIP provides a PPO plan and several HMO plans. Represented MTA New York City Transit, other MTA New York City Transit employees who retired prior to January 1, 1996 or January 1, 2001, and MTA Bus retirees do not participate in NYSHIP. These benefits are provided either through a self-insured health plan, a fully insured or an HMO.

GASB 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2011 and was performed with a valuation date of January 1, 2010. The total number of plan participants as of December 31, 2010 receiving retirement benefits was 39 thousand.

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

Annual OPEB Cost and Net OPEB Obligation — The MTA’s annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. The cumulative difference between the annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation (the “Net OPEB Obligation”), included on the statements of net position. The annual OPEB cost is equal to the annual required contribution (the “ARC”) less adjustments if a Net OPEB Obligation exists and plus the interest on Net OPEB Obligations. The ARC is equal to the normal cost plus an amortization of the unfunded frozen actuarial accrued liability.

For determining the ARC, the MTA has chosen to use Frozen Initial Liability (the “FIL Cost Method”) cost method, one of the cost methods in accordance with the parameters of GASB 45. The initial liability is amortized over a 22-year period. The remaining amortization period at December 31, 2012 is 17 years.

In order to recognize the liability over an employee’s career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the “Accrued Liability” or “Past Service Liability”), the part that is being earned this year (the “Normal Cost”), and the part that will be earned in future years (the “Future Service Liability”). Under the FIL Cost Method, an initial past service liability

is determined based on the Entry Age Normal (“EAN”) Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

Actuarial Methods and Assumptions — The Frozen Initial Liability (“FIL”) Cost Method is used for determining the Normal Cost. The Entry Age Normal (“EAN”) Cost Method is used to determine the initial Frozen Accrued Liability as well as any subsequent changes in Accrued Liability due to changes in the plan and/or actuarial assumptions. The initial Frozen Unfunded Accrued Liability was determined as of January 1, 2006 (2007 for MTA Bus Company) to be used in the financials for the 2007 calendar year. EAN will also be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. The EAN method determines the Accrued liability for each individual based on a level percent of pay for service accrued through the valuation date.

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

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

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

Valuation Date - The valuation date is the date that all participant and other pertinent information is collected and liabilities are measured. This date may not be more than 24 months prior to the beginning of the calendar year. The valuation date for this valuation is January 1 2010, which is 24 months prior to the beginning of the 2012 fiscal year, except for Metro-North Railroad. For this agency, the valuation date is January 1, 2011, due to the completion of the early retirement window during 2010.

Inflation Rate - 2.5% per annum compounded annually.

Discount Rate – GASB 45 provides guidance to employers in selecting the discount rate. The discount rate should be based on the estimated long-term investment yield on the investments that are expected to be used to finance the benefits. If there are no plan assets, assets of the employer should be used to derive the discount rate. This would most likely result in a lower discount rate and thus, liabilities significantly higher than if the benefits are prefunded. In recognition of the decrease in short-term investment yields, the discount rate for this valuation has been lowered from 4.2% to 4.0%.

Healthcare Reform - The valuation reflects the actuary understanding of the impact in future health costs due to the passage of the Patient Protection and Affordable Care Act (P.L.111-148) signed on March 23, 2010, as amended by the Health Care and Education Reconciliation Act (H.R.4872) signed on March 30, 2010. Specifically, the following assumptions have been modified:

- Reflected the potential excise tax beginning in 2018 separately for NYSHIP plans and self-insured union plans of Transit and MTA Bus Company. The excise tax equals 40% of the amount of the premium in excess of the threshold.
- Increased the dependent assumption for female members from 55% to 60% to reflect the fact that dependent children are covered until age 26.
- Increased the assumed coverage period to 7 years for all non-NYSHIP members with a dependent child.

The impact of these changes had a significant impact on the liabilities developed in this valuation. However, the actual impact on future health costs due to this legislation will depend on a number of factors, including future regulations that are not yet known.

The OPEB-specific actuarial assumptions used in the most recent biennial valuation are as follows:

| | |
|----------------------------------|---|
| Valuation date | January 1, 2010 for all agencies except Metro-North which was January 1, 2011 |
| Actuarial cost method | Frozen Initial Liability |
| Discount rate | 4.0% |
| Price inflation | 2.5% per annum, compounded annually |
| Per-Capita retiree contributions | * |
| Amortization method | Frozen Initial Liability |
| Amortization period | 18 years |
| Period closed or open | Closed |

* In general, all coverages are paid for by the MTA. The exceptions are for Bridges and Tunnels, where surviving spouses pay a portion of the premium (10% for single coverage, 25% for dependent coverage) and MTA Headquarters where members retired prior to 1997 pay a portion of the premium, depending on the year they retired.

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

Per Capita Claim Costs — For members of NYSHIP and certain MTA Staten Island Railway and MTA New York City Transit members who retired prior to NYSHIP availability, unadjusted premiums were used. The medical and pharmacy benefits provided to TWU Local 100, ATU 1056 and ATU 726 represented Transit members and represented MTA Bus Company members are self-insured as well as some Pre-NYSHIP Transit members. For these benefits, a per capita claims cost assumptions that vary by age, gender and benefit type was developed. The per capita costs assumptions reflect the change in medical carriers effective January 1, 2011 and are based on preliminary medical claims information. An assumption was made to “complete” the claims. Details on the per capita claim cost assumption as shown below:

The Health Cost Guidelines was used to develop Per Capita Claim Costs relativity factors that varied by benefit, age and gender for retirees of the TWU Local 100, ATU Local 726, ATU Local 1056 unions and MTA Bus Company for 2011. These were then combined to match the aggregate claim experience provided by MTA. Since there was a new medical carrier, claims experience was assumed to be 85% complete, which is consistent with MTA completion rates from 2010. Pharmacy claims were increased by 1% as an incurred versus paid claim adjustment. Finally, an administrative load was applied equal to 5.8% for Empire BCBS medical benefits, 3.8% for United Healthcare medical benefits and 0.6% for pharmacy benefits.

Medicare Part B Premiums — The Medicare Part B premium reimbursement was included in the 2008 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 5.5%. These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

Medicare Part D Premiums — GASB has issued a Technical Bulletin stating that the value of expected Retiree Drug Subsidy (“RDS”) payments to be received by an entity cannot be used to reduce the Actuarial Accrued Liability of OPEB benefits nor the Annual Required Contribution (“ARC”). Furthermore, actual contributions made (equal to the amount of claims paid in a year if the plan is not funded) will not be reduced by the amount of any subsidy payments received. Accordingly, the 2010 valuation excludes any RDS payments expected to be received by the MTA and its agencies.

Health Care Cost Trend - For those retirees participating in NYSHIP, the trend assumption used for 2011 and 2012 was 0.6% and 7.4%, respectively. The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 11.1 utilizing the baseline assumptions included in the model, except real GDP of 1.8% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors and potential excise taxes due to healthcare reform, separately for NYSHIP and non-NYSHIP benefits. These assumptions are combined with long-term assumptions for dental and vision benefits (4%) plus Medicare Part B reimbursements (5.5%). The NYSHIP trend reflects actual increases in premiums through 2012. The NYSHIP trend is used for six agencies plus the non-represented employees of MTA Bus. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements. For NYC Transit, this trend is weighted by liability with the non-NYSHIP trend assumption. The non-NYSHIP trend is applied directly for represented employees of MTA Bus. The following lists the NYSHIP and non-NYSHIP trend assumptions along with the resulting trends assumed for Transit.

Health Care Cost Trend Rates

| Fiscal Year | NYSHIP | Non-NYSHIP | | Transit | |
|-------------|--------|------------|------|---------|------|
| | | < 65 | >=65 | < 65 | >=65 |
| 2011 | 0.6 | 8.0 | 8.0 | 5.3 | 5.3 |
| 2012 | 7.4 | 7.2 | 7.2 | 7.3 | 7.3 |
| 2013 | 7.9 | 7.6 | 7.6 | 7.7 | 7.7 |
| 2014 | 6.6 | 6.3 | 6.3 | 6.4 | 6.4 |
| 2017 | 6.1 | 6.7 | 5.7 | 6.5 | 5.8 |
| 2022 | 5.8 | 5.8 | 5.5 | 6.3 | 5.6 |
| 2027 | 6.1 | 6.4 | 5.4 | 6.2 | 5.7 |
| 2032 | 6.7 | 6.2 | 5.4 | 6.3 | 5.9 |
| 2037 | 6.2 | 5.7 | 5.3 | 5.9 | 5.6 |
| 2042 | 5.9 | 5.5 | 5.2 | 5.6 | 5.5 |
| 2047 | 5.6 | 5.4 | 5.8 | 5.4 | 5.7 |

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

OPEB Participation By Agency as at January 1, 2010

| | NYC Transit | Long Island Rail Road | Metro- North Rail Road * | Bridges & Tunnels | MTAHQ | Long Island Bus | Staten Island Railway | MTA Bus Co. | Total |
|---|----------------|-----------------------------|--------------------------------|-------------------------|------------|-----------------------|-----------------------------|----------------|---------------|
| Active Members | | | | | | | | | |
| Number | 47,417 | 6,828 | 6,013 | 1,733 | 1,629 | 1,028 | 263 | 3,402 | 68,313 |
| Average Age | 48.5 | 42.8 | 46.1 | 44.9 | 44.5 | 47.5 | 46.2 | 46.0 | 47.4 |
| Average Service | 14.1 | 10.6 | 15.4 | 11.6 | 12.1 | 14.2 | 15.2 | 11.7 | 13.6 |
| Retirees | | | | | | | | | |
| Single Medical Coverage | 9,883 | 745 | 229 | 337 | 135 | 36 | 14 | 373 | 11,752 |
| Employee/Spouse Coverage | 17,093 | 2,499 | 737 | 707 | 249 | 143 | 34 | 759 | 22,221 |
| Employee/Child Coverage | 339 | 108 | 14 | 16 | 13 | 4 | | 14 | 508 |
| No medical Coverage | 837 | 2,165 | 1,388 | 52 | 0 | 355 | 81 | 9 | 4,887 |
| Total Number | <u>28,152</u> | <u>5,517</u> | <u>2,368</u> | <u>1,112</u> | <u>397</u> | <u>538</u> | <u>129</u> | <u>1,155</u> | <u>39,368</u> |
| Average Age | 70.9 | 66.2 | 70.9 | 66.5 | 64.1 | 69.6 | 69.1 | 68.5 | 70 |
| Total Number with Dental | 4,606 | 607 | 306 | 288 | 237 | 21 | 29 | 38 | 6,132 |
| Total Number with Vision | 23,981 | 607 | 306 | 288 | 237 | 21 | 29 | 1,128 | 26,597 |
| Total No. with Supplement | 24,832 | 1,805 | 0 | 814 | 0 | 66 | 13 | 779 | 28,309 |
| Average Monthly Supplement Amount (Excluding Part B Premium) | \$31 | \$170 | \$0 | \$197 | \$0 | \$133 | \$340 | \$25 | \$45 |
| Total No. with life Insurance | 4,616 | 5,156 | 1,646 | 280 | 272 | 519 | 114 | 38 | 12,641 |
| Average Life Insurance Amount | \$2,895 | \$23,146 | \$2,667 | \$5,000 | \$5,000 | \$7,081 | \$2,553 | \$5,000 | \$11,392 |

* MTA Metro-North Railroad as of January 1, 2011

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

Spouses are assumed to be the same age as the employee/retiree. 85% of male and 60% of female eligible members are assumed to elect family coverage upon retirement. No children are assumed. Actual family coverage elections for current retirees are used. If a current retiree's only dependent is a child, eligibility is assumed for an additional 7 years of dependent coverage if the member participates in NYSHIP (otherwise, 5 years) from the valuation date was assumed.

Demographic Assumptions:

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

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

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

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

Turnover and retirement rates — All demographic assumptions were based on assumptions utilized in the 2010 actuarial valuations for the pension plans, with the exception of the mortality assumption. The following is a table displaying the various sources of the assumptions utilized by group.

| Group | Pension Plan |
|------------------------------------|-------------------------------------|
| Transit – OA | MaBSTOA |
| Transit – TA | NYCERS – TA |
| TBTA | NYCERS – TBTA |
| LIRR Pre-1988 | LIRR Plan |
| LIRR Post-1987 | MTA DB Plan |
| Metro North Mgrs/Unions in DB Plan | MTA DB Plan |
| Metro North Other Unions | DC Plan–used same as DB Plan Union |
| MTA Police | MTA DB Plan |
| Headquarters Mgrs and IBT | NYSLERS |
| Long Island Bus Pre-1983 | MTA DB Plan |
| Long Island Bus Post-1982 | NYSLERS |
| Staten Island | MTA DB Plan |
| MTA Bus Companies | MTA DB Plan |
| College Point Depot – Non Rep | DC Plan-used same as MTA DB Non Rep |

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

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

The following table shows the elements of the MTA's annual OPEB cost for the period/year, the amount actually paid, and changes in the MTA's net OPEB obligation to the plan for the period ended March 31, 2013 and December 31, 2012. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

| (In millions) | March 31, 2013 (Unaudited) | December 31, 2012 |
|--|---|------------------------------|
| Annual required contribution ("ARC") | \$ 661.9 | \$ 2,647.5 |
| Interest on net OPEB obligation | 66.1 | 264.3 |
| Adjustment to ARC | <u>(173.9)</u> | <u>(695.7)</u> |
| OPEB cost | 554.1 | 2,216.1 |
| Payments made | <u>(98.6)</u> | <u>(420.5)</u> |
| Increase in net OPEB obligation | 455.5 | 1,795.6 |
| Contribution to OPEB Trust | - | (250.0) |
| Net OPEB obligation — beginning of period/year | <u>8,154.1</u> | <u>6,608.5</u> |
| Net OPEB obligation — end of period/year | <u>\$ 8,609.6</u> | <u>\$ 8,154.1</u> |

The MTA's annual OPEB cost, the percentage of annual OPEB cost contributed to, and the net OPEB obligation for the year ended December 31, 2012, 2011 and 2010 is as follows (in millions):

| Year Ended | Annual OPEB Cost | % of Annual Cost Contributed | Net OPEB Obligation |
|----------------------|-------------------------|-------------------------------------|----------------------------|
| (In Millions) | | | |
| December 31, 2012 | \$ 2,216.2 | 30.3 % | \$ 8,154.1 |
| December 31, 2011 | 2,103.2 | 18.9 | 6,608.5 |
| December 31, 2010 | 1,528.6 | 23.5 | 4,902.7 |

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

| Year Ended (In millions) | Valuation Date * | Actuarial Value of Assets {a} | Actuarial Accrued Liability (AAL) {b} | Unfunded Actuarial Accrued Liability (UAAL) {c}={b}-{a} | Funded Ratio {a}/{c} | Covered Payroll {d} | Ratio of UAAL to Covered Payroll {c}/{d} |
|-------------------------------------|-------------------------|--------------------------------------|--|--|-----------------------------|----------------------------|---|
| December 31, 2012 | January 1, 2010 | - | \$ 17,764 | \$ 17,764 | - | \$ 4,600.0 | 386.1 % |

* MTA Metro-North Railroad as of January 1, 2011

The required schedule of funding progress for the MTA Postemployment Benefit Plan immediately following the notes to the financial statements presents multiyear trend information about whether the

actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

6. CAPITAL ASSETS

Capital assets and improvements include all land, buildings, equipment, and infrastructure of the MTA having a minimum useful life of two years and having a cost of more than \$25 thousand.

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

Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 25 to 50 years for buildings, 2 to 40 years for equipment, and 25 to 100 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset whichever is less. Capital assets consist of the following at December 31, 2011, December 31, 2012 and March 31, 2013 (in millions):

| | Balance December 31, 2011 | Additions | Deletions | Balance December 31, 2012 | Additions | Deletions | Balance March 31, 2013 (Unaudited) |
|--|---------------------------------|----------------|-----------------|---------------------------------|---------------|--------------|---|
| Capital assets — not being depreciated: | | | | | | | |
| Land | \$ 171 | \$ - | \$ - | \$ 171 | \$ - | \$ - | \$ 171 |
| Construction work-in-progress | <u>9,235</u> | <u>4,757</u> | <u>4,400</u> | <u>9,592</u> | <u>928</u> | <u>7</u> | <u>10,513</u> |
| Total capital assets — not being depreciated | <u>9,406</u> | <u>4,757</u> | <u>4,400</u> | <u>9,763</u> | <u>928</u> | <u>7</u> | <u>10,684</u> |
| Capital assets, being depreciated: | | | | | | | |
| Buildings and structures | 14,974 | 689 | 399 | 15,264 | 1 | - | 15,265 |
| Bridges and tunnels | 2,345 | 52 | 131 | 2,266 | - | - | 2,266 |
| Equipment: | | | | | | | |
| Passenger cars and locomotives | 13,241 | 137 | 37 | 13,341 | - | 7 | 13,334 |
| Buses | 1,961 | 605 | - | 2,566 | 6 | - | 2,572 |
| Infrastructure | 17,589 | 1,329 | 73 | 18,845 | - | - | 18,845 |
| Other | <u>13,566</u> | <u>1,616</u> | <u>122</u> | <u>15,060</u> | <u>2</u> | <u>16</u> | <u>15,046</u> |
| Total capital assets — being depreciated | <u>63,676</u> | <u>4,428</u> | <u>762</u> | <u>67,342</u> | <u>9</u> | <u>23</u> | <u>67,328</u> |
| Less accumulated depreciation: | | | | | | | |
| Buildings and structures | 4,582 | 410 | 56 | 4,936 | 109 | - | 5,045 |
| Bridges and tunnels | 459 | 22 | 28 | 453 | - | - | 453 |
| Equipment: | | | | | | | |
| Passenger cars and locomotives | 4,979 | 410 | 55 | 5,334 | 100 | 4 | 5,430 |
| Buses | 1,012 | 174 | - | 1,186 | 45 | - | 1,231 |
| Infrastructure | 5,751 | 574 | 24 | 6,301 | 145 | - | 6,446 |
| Other | <u>4,462</u> | <u>560</u> | <u>43</u> | <u>4,979</u> | <u>133</u> | <u>8</u> | <u>5,104</u> |
| Total accumulated depreciation | <u>21,245</u> | <u>2,150</u> | <u>206</u> | <u>23,189</u> | <u>532</u> | <u>12</u> | <u>23,709</u> |
| Total capital assets — being depreciated — net | <u>42,431</u> | <u>2,278</u> | <u>556</u> | <u>44,153</u> | <u>(523)</u> | <u>11</u> | <u>43,619</u> |
| Capital assets — net | <u>\$51,837</u> | <u>\$7,035</u> | <u>\$ 4,956</u> | <u>\$53,916</u> | <u>\$ 405</u> | <u>\$ 18</u> | <u>\$ 54,303</u> |

Interest capitalized in conjunction with the construction of capital assets at March 31, 2013, and December 31, 2013 was \$9.4 and \$47.9, respectively.

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

For certain construction projects, the MTA holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At March 31, 2013 and December 31, 2012, these securities totaled \$168.2 and \$160.2, respectively, had a market value of \$147.5 and \$144.2, respectively, and are not included in these financial statements.

7. ASSET IMPAIRMENT AND RELATED EXPENSES

On October 29, 2012, Tropical Storm Sandy made landfall just south of Atlantic City, New Jersey, as a post-tropical cyclone. The accompanying storm surge and high winds caused widespread damage to the physical transportation assets operated by MTA and its related groups. MTA expects to recoup most of the costs associated with repair or replacement of assets damaged by the storm over the next several years from a combination of insurance and federal government assistance programs.

As of December 31, 2012, the storm related impairment losses to the MTA's assets (based upon estimates of the extent of impairment of the historical or "book value" of affected assets) are estimated at \$531. Other 2012 costs associated with the storm included repair and clean-up expenses of \$106.4 which are also included in "Asset impairment and related expenses". For the three months ended March 31, 2013, storm related repair and clean-up expenses were \$1.

Offsetting these impairment losses is an estimated \$775 in probable insurance recoveries for losses under the property insurance policy. Additional recoveries under the MTA property insurance policy for Sandy-related damages and losses above that estimated sum are possible. Any additional insurance proceeds for Sandy-related losses in excess of the noted probable recoveries will be recognized for income purposes in future periods when such proceeds are estimable and all related contingencies are removed.

As noted, federal governmental assistance programs are anticipated to cover many of the Sandy-related costs associated with repair and replacement of assets damaged in the storm. The Disaster Relief Appropriations Act ("Sandy Relief Act") passed in late January, 2013, appropriated a total of \$10.9 billion in Public Transportation Emergency Relief Program funding to the Federal Transit Administration ("FTA") to assist affected public transportation facilities in connection with infrastructure repairs, debris removal, emergency protection measures, costs to restore service and hardening costs. The Sandy Relief Act also provided substantial funding for existing disaster relief programs of the Federal Emergency Management Agency ("FEMA").

Of the \$10.9 billion amount, under the Sandy Relief Act, an initial tranche of \$2 billion has been allocated by the FTA to affected state and local public transportation entities by the end of March 2013. On March 6, 2013, the Secretary of Transportation announced that \$193 had been allocated to MTA, representing principally reimbursements for costs associated with preparing MTA's system for the storm and for restoring service post-storm; the FTA subsequently entered into a grant agreement with the MTA obligating these funds. On March 29, 2013, the FTA published its allocations for the remainder of the initial \$2 billion. MTA was allocated an additional \$1.0 billion of these monies,

bringing MTA's total allocation from the first \$2 billion tranche of FTA Emergency Relief funds the FTA to \$1.193 billion. On May 23, 2013, the FTA allocated an additional \$3.7 billion to our regions transportation providers. The MTA will receive \$2.6 billion of this additional allocation bringing MTA's total allocation to \$3.8 billion. The funds made available through this additional allocation includes \$898 set aside to help the MTA with resiliency projects to help ensure transit assets are better able to withstand future disasters. FTA approval of specific grants will need to be obtained prior to MTA's actual receipt or expenditure of any of these allocated funds.

The remaining \$5.2 billion in FTA Emergency Relief funds appropriated under the Sandy Relief Act has not yet been allocated, and the amount available for Sandy relief projects is expected to be reduced by \$545 as a result of Federal Sequestration. No specific portion of these \$5.2 billion in remaining funds appropriated to the FTA Emergency Relief program (less Federal Sequestration reductions) is currently allocated to MTA. MTA expects to submit requests to the FTA for funding of both repair/restoration costs and hardening costs from these remaining FTA Emergency Relief funds.

For Sandy-related restoration and mitigation projects of TBTA, it is anticipated that FEMA will be a significant source of funding. FEMA has already committed to funding of \$6.2 of which the MTA has received \$3.2 thus far.

Monies granted by FTA and FEMA to MTA for restoration of specific assets damaged in connection with Tropical Storm Sandy related are anticipated to be reduced in amount (or subject to reimbursement) to the extent MTA also receives insurance proceeds covering damage to such specific assets.

8. LONG-TERM DEBT

| (In millions) | Original Issuance | December 31, 2012 | Issued | Retired (Unaudited) | Refunded | March 31, 2013 (Unaudited) |
|--|----------------------|----------------------|-----------------|------------------------|-----------------|----------------------------------|
| MTA: | | | | | | |
| Transportation Revenue Bonds 2.00%–5.50% due through 2046 | \$23,115 | \$ 16,428 | \$ 500 | \$ - | \$ - | \$ 16,928 |
| Transportation Revenue Bond Anticipation Notes Commercial Paper 2 | 900 | 900 | - | - | - | 900 |
| State Service Contract Bonds 4.125%–5.70% due through 2031 | 2,395 | 400 | - | 30 | - | 370 |
| Dedicated Tax Fund Bonds 3.00%–7.34% due through 2041 | 8,207 | 5,266 | - | - | - | 5,266 |
| Certificates of Participation 4.40%–5.75% due through 2030 | <u>807</u> | <u>101</u> | <u>-</u> | <u>0</u> | <u>-</u> | <u>101</u> |
| | <u>\$35,424</u> | 23,095 | 500 | 30 | - | 23,565 |
| Net unamortized bond discount and premium | | <u>(63)</u> | <u>81</u> | <u>(459)</u> | <u>50</u> | <u>427</u> |
| | | <u>23,032</u> | <u>581</u> | <u>(429)</u> | <u>50</u> | <u>23,992</u> |
| TBTA: | | | | | | |
| General Revenue Bonds 4.00%–5.77% due through 2038 | \$10,649 | 6,580 | 287 | 24 | 294 | 6,549 |
| Subordinate Revenue Bonds 4.00%–5.77% due through 2032 | <u>2,842</u> | <u>1,815</u> | <u>654</u> | <u>29</u> | <u>732</u> | <u>1,708</u> |
| | <u>\$13,491</u> | 8,395 | 941 | 53 | 1,026 | 8,257 |
| Net unamortized bond discount and premium | | <u>390</u> | <u>166</u> | <u>3</u> | <u>13</u> | <u>540</u> |
| | | <u>8,785</u> | <u>1,107</u> | <u>56</u> | <u>1,039</u> | <u>8,797</u> |
| Total | | <u>\$ 31,817</u> | <u>\$ 1,688</u> | <u>\$ (373)</u> | <u>\$ 1,089</u> | <u>\$ 32,789</u> |
| Current portion | | <u>(792)</u> | | | | <u>(757)</u> |
| Long-term portion | | <u>\$ 31,025</u> | | | | <u>\$ 32,032</u> |

MTA Transportation Revenue Bonds— Prior to 2013, MTA issued forty three Series of Transportation Revenue Bonds secured under its General Resolution Authorizing Transportation Revenue Obligations adopted on March 26, 2002 in the aggregate principal amount of \$22,955.14. The Transportation Revenue Bonds are MTA’s special obligations payable solely from transit and commuter systems revenues and certain state and local operating subsidies.

On January 24, 2013, the MTA issued Transportation Revenue Bonds, Series 2013A in the amount of \$500. Proceeds from the sale will be used to finance transit and commuter projects set forth in the approved MTA Capital Program.

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 above 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 letters of credit issued by TD Bank, N.A., Barclays Bank, Royal Bank of Canada and Citibank, N.A. As of March 31, 2013, MTA had \$900.0 of commercial paper notes outstanding. The MTA Act requires MTAHQ to periodically (at least each five years) refund its commercial paper notes with bonds.

MTA State Service Contract Bonds — Prior to 2013, 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 2013, MTA issued nineteen Series of Dedicated Tax Fund Bonds secured under its Dedicated Tax Fund Obligation Resolution adopted on March 26, 2002, in the aggregate principal amount of \$8,733.715. 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 Note 2 under “Nonoperating Revenues”) be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund.

MTA Certificates of Participation — Prior to 2013, MTA (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad), MTA New York City Transit and MTA Bridges and Tunnels executed and delivered three Series of Certificates of Participation in the aggregate principal amount of \$807.3 to finance certain building and leasehold improvements to an office building at Two Broadway in Manhattan occupied principally by MTA New York City Transit, MTA Bridges and Tunnels, MTA Capital Construction, and MTAHQ. The aggregate principal amount of \$807.3 includes approximately \$357.9 of refunding bonds. The Certificates of Participation represent proportionate interests in the principal and interest components of Base Rent paid severally, but not jointly, in their respective proportionate shares by MTA New York City Transit, MTA, and MTA Bridges and Tunnels, pursuant to a Leasehold Improvement Sublease Agreement. The Certificates of Participation are currently outstanding in the amount \$100.825.

MTA Bridges and Tunnels General Revenue Bonds — Prior to 2013, MTA Bridges and Tunnels issued twenty-one 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 \$10,625.08. The General Revenue Bonds are MTA Bridges and Tunnels’ general obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels.

On January 2, 2013, MTA remarketed \$29.6 of Triborough Bridge and Tunnel Authority General Revenue variable Rate Refunding Bonds, Subseries 2005B-4a. The Subseries 2005B-4a bonds will bear interest in the Term Rate Mode at variable rate equal to the applicable Adjusted LIBOR Rate.

On January 29, 2013, the MTA Triborough Bridge and Tunnel Authority issued \$257.195 General Revenue Refunding Bonds, Series 2013B. The bonds were issued to refund certain maturities of MTA Bridges and Tunnels General Revenue Bonds, Series 2006A, Series 2007A, Series 2008A, Series 2008C and Series 2009A-2.

MTA Bridges and Tunnels Subordinate Revenue Bonds — Prior to 2013, MTA Bridges and Tunnels issued ten Series of Subordinate Revenue Bonds secured under its 2001 Subordinate Revenue Resolution Authorizing Subordinate Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of \$2,903. The Subordinate Revenue Bonds are MTA Bridges and Tunnels’ special obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels after the payment of debt service on the MTA Bridges and Tunnels General Revenue Bonds described in the preceding paragraph.

On January 29, 2013, the MTA Triborough Bridge and Tunnel Authority issued \$653.965 Subordinate Revenue Refunding Bonds, Series 2013A. The bonds were issued to refund certain maturities of MTA Bridges and Tunnels Subordinate Revenue Bonds, Series 2002E, Series 2003A and Series 2008D.

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 \$39,544 compared with issuances totaling approximately \$26,471. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the approved Capital Programs.

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

There was no known cash investing or financing activity that affected the net asset at the end of the period ended March 31, 2013.

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

At March 31, 2013 and December 31, 2012, the following amounts of MTA bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

| (In Millions) | March 31, 2013 (Unaudited) | December 31, 2012 |
|---|---|------------------------------|
| MTA Transit and Commuter Facilities: | | |
| Transit Facilities Revenue Bonds | \$ 300 | \$ 300 |
| Commuter Facilities Revenue Bonds | 375 | 375 |
| Commuter Facilities Subordinate Revenue Bonds | 1 | 1 |
| Transit and Commuter Facilities Service Contract Bonds | 499 | 499 |
| Dedicated Tax Fund Bonds | 672 | 672 |
| | | |
| MTA New York City Transit — Transit Facilities Revenue Bonds (Livingston Plaza Project) | 46 | 57 |
| | | |
| MTA Bridges and Tunnels: | | |
| General Purpose Revenue Bonds | 1,154 | 1,173 |
| Special Obligation Subordinate Bonds | 162 | 163 |
| Mortgage Recording Tax Bonds | 94 | 117 |
| | | |
| Total | \$ 3,303 | \$3,357 |

Debt Service Payments — Principal and interest debt service payments at March 31, 2013 are as follows (in millions):

| | MTA BRIDGES AND TUNNELS | | | | | | | |
|------------|--------------------------------|-----------------|-----------------------|-----------------|----------------------------|-----------------|---------------------|-----------------|
| | MTA | | Senior Revenue | | Subordinate Revenue | | Debt Service | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | \$ 598 | \$ 1,166 | \$ 138 | \$ 331 | \$ 23 | \$ 128 | \$ 759 | \$ 1,625 |
| 2014 | 630 | 1,068 | 179 | 290 | 57 | 78 | 866 | 1,436 |
| 2015 | 639 | 949 | 189 | 280 | 59 | 75 | 887 | 1,304 |
| 2016 | 672 | 1,023 | 200 | 269 | 63 | 73 | 935 | 1,365 |
| 2017 | 659 | 976 | 208 | 264 | 67 | 69 | 934 | 1,309 |
| 2018-2022 | 3,280 | 3,903 | 1,154 | 1,176 | 438 | 240 | 4,872 | 5,319 |
| 2023-2027 | 4,269 | 3,245 | 1,368 | 921 | 498 | 186 | 6,135 | 4,352 |
| 2028-2032 | 5,587 | 2,498 | 1,827 | 495 | 503 | 117 | 7,917 | 3,110 |
| 2033-2037 | 3,657 | 1,302 | 928 | 223 | - | - | 4,585 | 1,525 |
| 2038-2042 | 2,563 | 364 | 358 | 29 | - | - | 2,921 | 393 |
| Thereafter | 111 | 8 | - | - | - | - | 111 | 8 |
| | <u>\$22,665</u> | <u>\$16,502</u> | <u>\$6,549</u> | <u>\$4,278</u> | <u>\$1,708</u> | <u>\$ 966</u> | <u>\$30,922</u> | <u>\$21,746</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* — 4.45% per annum on SubSeries 2002D-2 taking into account the interest rate swap
- *Transportation Revenue Refunding Bonds, Series 2002G* — 3.542% per annum on SubSeries 2002G-1 taking into account the interest rate swap and 4.00% per annum on the unhedged portion
- *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 and 4.00% per annum on the unhedged portion
- *Transportation Revenue Bonds, Series 2005G* — 4.00% per annum
- *Transportation Revenue Bonds, Series 2008B* — 4.00% per annum, after the mandatory tender date
- *Transportation Revenue Bonds, Series 2011B* — 3.542% per annum taking into account the interest rate swaps and 4.00% per annum on the unhedged portion
- *Transportation Revenue Bonds, Series 2012A* — 4.00% per annum
- *Transportation Revenue Bonds, Series 2012G* — 3.563% per annum taking into account the interest rate swaps
- *Dedicated Tax Fund Bonds, Series 2002B* — 4.06% per annum until September 1, 2013 based on the interest rate swap and 4.00% per annum thereafter

- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A* — 3.3156% per annum on the hedged portion related to the interest rate swaps, and 4.00% per annum on the unhedged portion
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008B* — 4.06% per annum until September 1, 2013 based on the interest rate swap on the hedged portion related to the interest rate swap and 4.00% per annum thereafter
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000AB* — 6.08% per annum taking into account the interest rate swap
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000CD* — 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2001B and Series 2001C* — 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002F* — 5.404% and 3.076% per annum taking into account the interest rate swaps and 4% per annum on portions not covered by the interest rate swaps
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2003B* — 3.076% and 6.07% per annum taking into account the interest rate swaps and 4.00% per annum on portions not covered by the interest rate swaps
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2005A* — 4.00% per annum except from November 1, 2027 through November 1, 2030, 3.076% per annum taking into account the interest rate swap
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2005B* — 3.076% per annum based on the Initial Interest Rate Swaps thereafter
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2008B* — 4.00% per annum, after the mandatory tender date
- *Certificates of Participation, Series 2004A* — 3.542% per annum taking into account the interest rate swaps

Tax Rebate Liability — Under the Internal Revenue Code of 1986, the MTA accrues a liability for an amount of rebateable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. The arbitrage liability is payable to the federal government every five years. No payments were made during the period ended March 31, 2013 and December 31, 2012.

Liquidity Facility - 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. In addition, MTA executed a Continuing Covenants Agreement with Wells Fargo Bank N.A. for \$200 of Transportation Revenue Refunding Bonds, Subseries 2002D-2 set to expire on May 27, 2014.

| Resolution | Series | Swap | Provider (Insurer) | Type of Type of Facility | Exp. Date |
|---|---------------|-------------|--------------------------------|---------------------------------|------------------|
| Transportation Revenue | 2002G-1 | Y | Bank of Nova Scotia | LOC | 10/7/2013 |
| Transportation Revenue | 2005D-1 | Y | Helaba | LOC | 11/7/2013 |
| Transportation Revenue | 2005D-2 | Y | Helaba | LOC | 11/10/2014 |
| Transportation Revenue | 2005E-1 | Y | BofA Merrill Lynch | LOC | 10/2/2015 |
| Transportation Revenue | 2005E-2 | Y | JP Morgan Chase Bank, N.A. | LOC | 12/31/2014 |
| Transportation Revenue | 2005E-3 | Y | PNC Bank | LOC | 10/2/2015 |
| Transportation Revenue | 2011B | Y | Bank of America, N. A. | LOC | 9/12/2014 |
| Transportation Revenue | CP-2 (A) | N | TD Bank, N.A. | LOC | 9/12/2013 |
| Transportation Revenue | CP-2 (B) | N | Barclays Bank | LOC | 9/12/2013 |
| Transportation Revenue | CP-2 (C) | N | Royal Bank of Canada | LOC | 6/30/2013 |
| Transportation Revenue | CP-2 (D) | N | Citibank, N.A. | LOC | 9/12/2013 |
| Dedicated Tax Fund | 2002B-1 | Y | State Street Bank | SBPA | 3/28/2016 |
| Dedicated Tax Fund | 2008A-1 | Y | Morgan Stanley, N.A. | LOC | 6/20/2014 |
| Dedicated Tax Fund | 2008A-2 | Y | Bank of Tokto-Mitsubishi | LOC | 6/20/2014 |
| Dedicated Tax Fund | 2008B-1 | N | Bank of Nova Scotia | LOC | 8/15/2013 |
| Dedicated Tax Fund | 2008B-4 | N | KBC Bank N.V. | LOC | 8/15/2014 |
| MTA Bridges and Tunnels Subordinate | 2000AB | Y | JPMorgan (Assured) | SBPA | 10/7/2014 |
| MTA Bridges and Tunnels Subordinate | 2000CD | N | Lloyds TSB Bank (NY) (Assured) | SBPA | 10/7/2014 |
| MTA Bridges and Tunnels General Revenue | 2001B | N | State Street | LOC | 9/30/2014 |
| MTA Bridges and Tunnels General Revenue | 2001C | N | JP Morgan Chase Bank, N.A. | SBPA | 9/29/2015 |
| MTA Bridges and Tunnels General Revenue | 2002F | Y | Helaba | SBPA | 11/1/2015 |
| MTA Bridges and Tunnels General Revenue | 2003B-1 | N | CALPERs | LOC | 1/31/2015 |
| MTA Bridges and Tunnels General Revenue | 2003B-2 | N | CALSTRs | LOC | 1/31/2015 |
| MTA Bridges and Tunnels General Revenue | 2003B-3 | N | US Bank | LOC | 1/31/2015 |
| MTA Bridges and Tunnels General Revenue | 2005A-1 | Y | CALPERs | LOC | 1/31/2015 |
| MTA Bridges and Tunnels General Revenue | 2005A-2 | Y | CALSTRs | LOC | 1/31/2015 |
| MTA Bridges and Tunnels General Revenue | 2005A-3 | Y | US Bank | LOC | 1/31/2015 |
| MTA Bridges and Tunnels General Revenue | 2005B-2a | Y | CALPERs | LOC | 1/31/2015 |
| MTA Bridges and Tunnels General Revenue | 2005B-2b | Y | CALSTRs | LOC | 1/31/2015 |
| MTA Bridges and Tunnels General Revenue | 2005B-2c | Y | US Bank | LOC | 1/31/2015 |
| MTA Bridges and Tunnels General Revenue | 2005B-3 | Y | Bank of America | LOC | 7/3/2015 |

Derivative Instruments

GASB Statement No. 53- Accounting and Financial Reporting for Derivative Instruments

Summary Information at March 31, 2013

| (\$ In Millions) | Bond Resolution | Series | Type of Derivative | Cash Flow or Fair Value Hedge | Effective Methodology | Trade/Hedge Association Date | Notional Amount as of 3/31/2013 (Unaudited) (in millions) | Fair Value as of 3/31/2013 (Unaudited) (in millions) |
|------------------|---|----------------------|-----------------------|-------------------------------|------------------------------|------------------------------|---|--|
| Investment Swaps | 2 Broadway Certificate of Participation | 2004A | Pay-Fixed Swap | N/a | N/a | 8/10/2004 | \$100.825 | (\$13.524) |
| Hedging Swaps | MTA Transportation Revenue Bonds | 2002D-2 | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 7/11/2002 | 200.000 | (80.205) |
| | MTA Transportation Revenue Bonds | 2012G | Forward Starting Swap | Cash Flow | Expected Regression Analysis | 12/12/2007 | 359.450 | (97.881) |
| | MTA Dedicated Tax Fund Bonds | 2002B | Pay-Fixed Swap | Cash Flow | Regression Analysis | 7/19/2002 | 311.800 | (6.142) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2002F (Citi 2005B) | Pay-Fixed Swap | Cash Flow | Regression Analysis | 6/2/2005 | 194.800 | (36.310) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2005B | Pay-Fixed Swap | Cash Flow | Regression Analysis | 6/2/2005 | 584.400 | (108.929) |
| | MTA Transportation Revenue Bonds | 2005D & 2005E | Pay-Fixed Swap | Cash Flow | Regression Analysis | 9/10/2004 | 400.000 | (95.821) |
| | MTA Dedicated Tax Fund Bonds | 2008A | Pay-Fixed Swap | Cash Flow | Regression Analysis | 3/8/2005 | 336.755 | (68.053) |
| | MTA Dedicated Tax Fund Bonds | 2008B (part 2002B) | Pay-Fixed Swap | Cash Flow | Regression Analysis | 9/5/2002 | 128.200 | (2.525) |
| | MTA Transportation Revenue Bonds | 2002G-1 (COPS 2004A) | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 1/1/2011 | 194.100 | (39.680) |
| | MTA Transportation Revenue Bonds | 2011B (COPS 2004A) | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 1/1/2011 | 22.370 | (4.573) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2005A (COPS 2004A) | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 1/1/2011 | 24.855 | (6.636) |
| | MTA Bridges & Tunnels Subordinate Revenue Bonds | 2000AB | Swaption | Cash Flow | Consistent Critical Terms | 8/12/1998 | 113.300 | (21.216) |

The fair value balances and notional amounts of derivative instruments outstanding at March 31, 2013, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2012 are as follows:

| | Changes In Fair Value | | Fair Value at | | Notional (Unaudited) (in millions) |
|-------------------------------|-------------------------------|--|----------------|--|--|
| | Classification | Amount (Unaudited) (in millions) | Classification | Amount (Unaudited) (in millions) | |
| Government activities | | | | | |
| Cash Flow hedges: | | | | | |
| Pay-fixed interest rate swaps | Deferred outflow of resources | \$48.426 | Debt | (\$448.874) | \$2,397.280 |
| Forward starting swaps | Deferred outflow of resources | 9.976 | Debt | (97.881) | 359.450 |
| Swaption | Deferred outflow of resources | 3.843 | Debt | (21.216) | 113.300 |
| Investment hedges: | | | | | |
| Pay-fixed interest rate swaps | Investment Expense | 1.117 | Debt | (13.524) | 100.825 |

For the three-month period ended March 31, 2013, the MTA recorded \$1.12 as an unrealized gain related to the change in fair market value of certain investment swaps that are not accounted for as hedging derivatives.

For the three-month period ended March 31, 2013, there were no derivative instruments reclassified from a hedging derivative instrument to an investment derivative instrument.

The summary above reflects a total number of seventeen (17) swaps and hedging relationships that were reviewed for GASB Statement No. 53 Hedge Accounting treatment. Of that total, sixteen (16) were deemed effective using the Regression, Synthetic Instrument or Consistent Critical Terms methods and one (1) was deemed ineffective.

For eleven (11) hedging relationships, the Regression Method was utilized to determine effectiveness. For a hedging derivative instrument to be considered effective using the Regression Method, the regression analysis must meet the following criteria:

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

For four (4) hedging relationships, the Synthetic Instrument Method was utilized to determine effectiveness. Under the Synthetic Instrument Method, if the rate determined by dividing the historical Swap and Bond payments (Fixed Swap payments + Floating Bond payments - Floating Swap payments) by the hedge notional amount produces an "Actual Synthetic Rate" that is within 90% to 111% of the corresponding fixed swap rates then the hedging derivative instrument is deemed to be effective.

For one (1) hedging relationship, the Consistent Critical Terms method was utilized to determine effectiveness. Under the Consistent Critical Terms method, if the critical terms of the potential hedging derivative instrument and the terms of the item it is hedging are essentially same, then the hedging derivative

instrument is deemed to be effective. Under such circumstances, any changes in the cash flows or fair value of the item being hedged is offset by changes in the cash flows or fair value of the potential hedging derivative.

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

| Bond Resolution | Series | Premium | Date of the Contract | Premium Payment Date |
|-----------------------------------|-------------------|---------------------|-----------------------------|-----------------------------|
| MTA Bridges & Tunnels-Senior | 2002F (old 2002C) | \$8,400,000 | 2/24/1999 | 3/10/1999 |
| MTA Bridges & Tunnels-Subordinate | 2000AB | \$22,740,000 | 8/12/1998 | 8/25/1998 |
| Total | | \$31,140,000 | | |

Swap Agreements Relating to Synthetic Fixed Rate Debt

Board-adopted Guidelines. The Related Entities adopted guidelines governing the use of swap contracts on March 26, 2002. The guidelines were amended and approved by the Board on March 13, 2013. The guidelines establish limits on the amount of interest rate derivatives that may be outstanding and specific requirements that must be satisfied for a Related Entity to enter into a swap contract, such as suggested swap terms and objectives, retention of a swap advisor, credit ratings of the counterparties, collateralization requirements and reporting requirements.

Objectives of synthetic fixed rate debt. To achieve cash flow 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, and in some case where Federal tax law prohibits an advance refunding to synthetically refund debt on a forward basis.

Fair Value. Relevant market interest rates on the valuation date (December 31, 2012) of the swaps are reflected in the following charts. 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 a swap with a positive fair value 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. See "*Termination Risk*" below.

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

| MTA TRANSPORTATION REVENUE BONDS | | | | | | | |
|---|--|----------------|-----------------|--|---|-----------------------|------------------------------|
| Associated Bond Issue | Notional Amounts as of 3/31/13 (Unaudited) (in millions) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values as of 3/31/13 (Unaudited) (in millions) | Swap Termination Date | Counterparty |
| Series 2002D-2 | \$200.000 | 01/01/07 | 4.450 % | 69% of one-month LIBOR ⁽¹⁾ | \$ (80.205) | 11/01/32 | JPMorgan Chase, NA |
| Series 2002G-1 ⁽²⁾ | 194.100 | 09/22/04 | 3.092 | Lesser of Actual Bond or 67% of one-month LIBOR - 45bp | (39.680) | 01/01/30 | UBS AG |
| Series 2005D-1,2 and Series 2005E-1,2,3 | 300.000 | 11/02/05 | 3.561 | 67% of one-month LIBOR ⁽¹⁾ | (71.865) | 11/01/35 | UBS AG |
| Series 2005E-1,2,3 | 100.000 | 11/02/05 | 3.561 | 67% of one-month LIBOR ⁽¹⁾ | (23.956) | 11/01/35 | AIG Financial Products Corp. |
| Series 2011B ⁽²⁾⁽¹⁶⁾ | 22.370 | 09/22/04 | 3.092 | Lesser of Actual Bond or 67% of one-month LIBOR - 45bp | (4.573) | 01/01/30 | UBS AG |
| Series 2012G ⁽³⁾ | 359.450 | 11/15/12 | 3.563 | 67% of one-month LIBOR ⁽¹⁾ | (97.881) | 11/01/32 | JPMorgan Chase Bank, NA |
| | | | | | | | |
| Total | \$1,175.920 | | | | \$ (318.160) | | |

(1) London Interbank Offered Rate.

(2) On November 28, 2011, MTA Variable Rate Certificates of Participation, Series 2004A associated with the swap in connection with Series 2004A Bonds, were redeemed. Notional amounts from the Series 2004A swap were reassigned to MTA Transportation Revenue Variable Rate Bonds, Series 2002G-1 and Series 2011B; and MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A.

(3) November 15, 2012, the Series 2012G swap became effective and the Related Bonds associated with the swap were issued on November 13, 2012. Under the terms of the swap JPMorgan Chase Bank, NA had an option to terminate the swap prior to the Effective Date. As of June 15, 2012, such option expired unexercised. There are no remaining options associated with the swap.

| MTA DEDICATED TAX FUND BONDS | | | | | | | |
|---|--|----------------|-----------------|---------------------------------------|---|-----------------------|--|
| Associated Bond Issue | Notional Amounts as of 3/31/13 (Unaudited) (in millions) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values as of 3/31/13 (Unaudited) (in millions) | Swap Termination Date | Counterparty |
| Series 2002B-1, 2002B-3a-d and Series 2008B-3a-c ⁽⁷⁾ | \$440.000 | 09/05/02 | 4.060 % | SIFMA ⁽⁴⁾ | \$ (8.667) | 09/01/13 | Morgan Stanley Capital Services Inc. |
| Series 2008A ⁽⁵⁾ | 336.755 | 03/24/05 | 3.316 | 67% of one-month LIBOR ⁽¹⁾ | (68.053) | 11/01/31 | Bank of New York Mellon ⁽⁶⁾ |
| Total | \$776.755 | | | | \$ (76.720) | | |

⁽⁴⁾ Securities Industry and Financial Markets Association Municipal Swap Index

⁽⁵⁾ On June 25, 2008, the Confirmation dated as of March 8, 2005, between the Counterparty and MTA was amended to define Related Bonds as MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A. On June 26, 2008, MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A associated with the swap prior to the amendment described above, were refunded.

⁽⁶⁾ On October 27, 2011, the outstanding swap associated with DTF 2008A bonds was novated from counterparty Citigroup Financial Products, Inc. to The Bank of New York Mellon. All other terms of the swap remain unchanged.

⁽⁷⁾ On March 26, 2012, \$427.85 of Dedicated Tax Fund variable Bonds, Series 2002B were remarketed. A portion of the swap associated with the aforementioned bonds has been reassigned to MTA Dedicated Tax Fund Variable Rate refunding Bonds, Series 2008B-3.

| MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS | | | | | | | |
|--|--|----------------|-----------------|---|---|-----------------------|---|
| Associated Bond Issue | Notional Amounts as of 3/31/13 (Unaudited) (in millions) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values as of 3/31/13 (Unaudited) (in millions) | Swap Termination Date | Counterparty |
| Series 2002F ⁽⁸⁾ | \$ - | 01/01/00 | 5.404 | SIFMA ⁽⁴⁾ | Matured | 01/01/13 | Ambac Financial Services, L.P. |
| Series 2002F ⁽⁹⁾ | 194.800 | 07/07/05 | 3.076 | 67% of one-month LIBOR ⁽¹⁾ | (36.310) | 01/01/32 | Citibank, N.A. |
| Series 2003B-1,2,3 and 2005A-2,3 ⁽⁹⁾ | \$ - | 07/07/05 | 3.076 | 67% of one-month LIBOR ⁽¹⁾ | \$ - | 01/01/32 | Citibank, N.A. |
| Series 2005A ⁽²⁾⁽¹¹⁾ | 24.855 | 09/24/04 | 3.092 | Lesser of Actual Bond or 67% of one-month LIBOR - 45 basis points | (6.636) | 01/01/30 | UBS AG |
| Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e ⁽⁹⁾ | 584.400 | 07/07/05 | 3.076 | 67% of one-month LIBOR ⁽¹⁾ | (108.929) | 01/01/32 | 33% each -, JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG |
| Total | \$804.055 | | | | \$ (151.875) | | |

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

(9) On February 19, 2009, MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B-1 were refunded. Notional amounts from the Series 2005B1 swap were reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F, MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B-1,2,3 and from November 1, 2027 through November 1, 2030, to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A-2,3.

| MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS | | | | | | | |
|--|---|-----------------------|------------------------|-------------------------------|--|------------------------------|-------------------------|
| Associated Bond Issue | Notional Amounts as of 3/31/2013 (Unaudited) (in millions) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values as of 3/31/2013 (Unaudited) (in millions) | Swap Termination Date | Counterparty |
| Series 2000AB ⁽¹⁰⁾ | \$113.300 | 01/01/01 | 6.080 % | Actual bond rate | \$ (21.216) | 01/01/19 | JPMorgan Chase Bank, NA |
| Total | \$113.300 | | | | \$ (21.216) | | |

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

(11) On December 18, 2012, MTA Variable Rate Certificates of Participation, Series 2004A associated with the swap in connection with Series 2004A Bonds, were redeemed. Notional amounts from the Series 2004A swap were reassigned to MTA Transportation Revenue Variable Rate Bonds, Series 2011B; and MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A-1

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.

On November 28, 2011, certain portions of these swaps were re-associated with other floating rate bonds, including the MTA Bridges and Tunnels General Revenue Bonds, Series 2005A and the Transportation Revenue Bonds Series 2002G-1 and Series 2011B.

On December 18, 2012, certain portions of these swaps were re-associated with other floating rate bonds, including the MTA Bridges and Tunnels General Revenue Bonds, Series 2005A and the Transportation Revenue Bonds Series 2011B.

The portion remaining that is still associated with the 2004A Certificates of Participation is \$100.825 in notional amount as of March 31, 2013, of which MTA New York City Transit is responsible for \$69.260, MTA for \$21.170, and MTA Bridges and Tunnels for \$10.395. As of March 31, 2013, the unaudited aggregate fair value of the remaining portion associated with the 2004A COPs was (\$13.524).

Counterparty Ratings

The current ratings of the counterparties are as follows as of March 31, 2013:

| Counterparty | Ratings of the Counterparty or its Credit Support Provider | | |
|--------------------------------------|---|---------|-------|
| | S&P | Moody's | Fitch |
| AIG Financial Products Corp. | A- | Baa1 | BBB+ |
| Bank of New York Mellon | AA- | Aa1 | AA- |
| BNP Paribas North America, Inc. | AA- | Aa3 | A+ |
| Citibank, N.A. | A | A1 | A |
| JPMorgan Chase Bank, NA | A+ | Aa3 | A+ |
| Morgan Stanley Capital Services Inc. | A- | Baa1 | A |
| UBS AG | A | A2 | A |

Swap Notional Summary

The following table sets forth the notional amount of Synthetic Fixed Rate debt and the outstanding principal amount of the underlying floating rate series as of March 31, 2013.

| <u>Series</u> | <u>Outstanding Principal</u> | <u>Notional Amount</u> |
|--------------------------|------------------------------|------------------------|
| TRB 2012G-4 | \$75,000,000 | \$75,000,000 |
| TRB 2012G-3 | 75,000,000 | 75,000,000 |
| TRB 2012G-2 | 125,000,000 | 125,000,000 |
| TRB 2012G-1 | 84,450,000 | 84,450,000 |
| TRB 2011B | 99,560,000 | 22,370,000 |
| TRB 2005E-3 | 75,000,000 | 45,000,000 |
| TRB 2005E-2 | 75,000,000 | 45,000,000 |
| TRB 2005E-1 | 100,000,000 | 60,000,000 |
| TRB 2005D-2 | 100,000,000 | 100,000,000 |
| TRB 2005D-1 | 150,000,000 | 150,000,000 |
| TRB 2002G-1 | 200,000,000 | 194,100,000 |
| TRB 2002D-2 | 200,000,000 | 200,000,000 |
| TBTA SUB 2000AB | 113,300,000 | 113,300,000 |
| TBTA 2005B-4 (a,b,c,d,e) | 194,800,000 | 194,800,000 |
| TBTA 2005B-3 | 194,800,000 | 194,800,000 |
| TBTA 2005B-2 (a,b,c) | 194,800,000 | 194,800,000 |
| TBTA 2005A -1 | 59,390,000 | 24,855,000 |
| TBTA 2005A (2,3) | 70,100,000 | (a) |
| TBTA 2003B (1,2,3) | 199,685,000 | (a) |
| TBTA 2002F | 209,640,000 | 194,800,000 |
| DTF 2008B-3c | 44,740,000 | 38,730,000 |
| DTF 2008B-3b | 54,470,000 | 54,470,000 |
| DTF 2008B-3a | 35,000,000 | 35,000,000 |
| DTF 2008A-2 | 171,845,000 | 168,377,500 |
| DTF 2008A-1 | 171,855,000 | 168,377,500 |
| DTF 2002B-3d | 15,900,000 | 15,900,000 |
| DTF 2002B-3c | 50,700,000 | 50,700,000 |
| DTF 2002B-3b | 48,600,000 | 48,600,000 |
| DTF 2002B-3a | 46,600,000 | 46,600,000 |
| DTF 2002B-1 | 150,000,000 | 150,000,000 |
| COPs 2004A | <u>100,825,000</u> | <u>100,825,000</u> |
| Total | \$3,486,060,000 | \$2,970,855,000 |

^(a) Swaps assigned to future maturities of Bonds on a forward basis.

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

Risks Associated with the Swap Agreements

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

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

Credit Risk. The following table shows, as of March 31, 2013, the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA and/or MTA Bridges and Tunnels, or in connection with the 2 Broadway Certificates of Participation refunding. The notional amount totals below include all five swaps (including the UBS basis risk swap) in connection with the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B. The counterparties have the ratings set forth above.

| Counterparty | Notional Amount (Unaudited) (in thousands) | % of Total Notional Amount |
|--------------------------------------|--|-------------------------------|
| JPMorgan Chase Bank, NA | \$867,550 | 29.20% |
| UBS AG | 836,950 | 28.17 |
| Morgan Stanley Capital Services Inc. | 440,000 | 14.81 |
| The Bank of New York Mellon | 336,755 | 11.33 |
| Citibank, N.A. | 194,800 | 6.56 |
| BNP Paribas North America, Inc. | 194,800 | 6.56 |
| AIG Financial Products Corp. | 100,000 | 3.37 |
| Total | \$2,970,855 | 100.00% |

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

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

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

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

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

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

| MTA Transportation Revenue Bonds | | |
|--|---|--|
| Associated Bond Issue | If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to | Then the downgraded party must post collateral if its estimated termination payments are in excess of |
| Series 2002D-2 | Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated | \$10,000,000 |
| Series 2002G-1 | See 2 Broadway Certificates of Participation | |
| Series 2005D-1,2 and Series 2005E-1,2,3 | Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – below BBB+, Moody's – below Baa1, or S&P – below BBB+ | \$10,000,000 |
| Series 2011B | See 2 Broadway Certificates of Participation, | |
| Series 2012G | Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated | \$10,000,000 |

| MTA Dedicated Tax Fund Bonds | | |
|---|--|--|
| Associated Bond Issue | If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to | Then the downgraded party must post collateral if its estimated termination payments are in excess of |
| Series 2002B-1,3a,b,c,d and 2008B-3a,b,c | Fitch – BBB+, or S&P – BBB+ Fitch – BBB and below or unrated, or S&P – BBB and below or unrated | \$10,000,000 |
| Series 2008A [Note: for this swap, MTA is not required to post collateral under any circumstances.] | Fitch – A-, or Moody's – A3, or S&P – A- Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below | \$10,000,000 |

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

| MTA Bridges and Tunnels Senior Lien Revenue Bonds | | |
|--|---|--|
| Associated Bond Issue | If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty’s long-term unsecured debt falls to | Then the downgraded party must post collateral if its estimated termination payments are in excess of |
| Series 2005-A1 | See 2 Broadway Certificates of Participation | |
| Series 2002F, 2003B-1,2,3 and Series 2005A-2,3, (swap with Citibank, N.A.) Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e (swap with JPM, BNP, UBS) | For counterparty, Fitch – A-, or Moody’s – A3, or S&P – A- | \$10,000,000 |
| | For MTA, Fitch – BBB+, or Moody’s – Baa1, or S&P – BBB+ | \$30,000,000 |
| | For MTA, Fitch – BBB, or Moody’s – Baa2, or S&P – BBB | \$15,000,000 |
| | For counterparty, Fitch – BBB+ and below, or Moody’s – Baa1 and below, or S&P – BBB+ and below | \$ - |
| | For MTA, Fitch – BBB- and below, or Moody’s – Baa3 and below, or S&P – BBB- and below | \$ - |

| MTA Bridges and Tunnels Subordinate Revenue Bonds | | |
|--|---|--|
| Associated Bond Issue | If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to | Then the downgraded party must post collateral if its estimated termination payments are in excess of |
| Series 2000AB | N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but JP Morgan Chase Bank 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.

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

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

| MTA Transportation Revenue | |
|---|---|
| Associated Bond Issue | Additional Termination Event(s) |
| Series 2002D-2, Series 2005D-1,2 and Series 2005E-1,2,3 | 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 2002G-1 | See 2 Broadway Certificates of Participation |
| Series 2012G-1,2,3,4 | 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 2011B | See 2 Broadway Certificates of Participation |

| MTA Dedicated Tax Fund | |
|--|--|
| Associated Bond Issue | Additional Termination Event(s) |
| Series 2002B-1,3a,b,c,d and 2008B-3a,b,c | The ratings by S&P and Fitch of the Counterparty or the MTA Dedicated Tax Fund Bonds fall below “BBB-” or are withdrawn. |
| Series 2008A -1,2 | The ratings by S&P or Moody’s of the Counterparty fall below “BBB+” or “Baa1,” respectively, or the ratings of S&P or Fitch with respect to the MTA Dedicated Tax Fund Bonds falls below “BBB” or, in either case the ratings are withdrawn. |

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

| MTA Bridges and Tunnels Senior and Subordinate Revenue | |
|--|---|
| Associated Bond Issue | Additional Termination Events |
| Senior Lien Revenue Bonds | |
| Series 2005A | See 2 Broadway Certificates of Participation |
| Series 2002F, 2003B-1,2,3 and Series 2005A-2,3, (swap with Citibank, N.A.) Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e (swap with JPM,BNP,UBS) | The ratings by S&P or Moody’s of the Counterparty fall below “BBB+” or “Baa1,” respectively, or the ratings of S&P or Moody’s with respect to the MTA Bridges and Tunnels Senior Lien Revenue Bonds falls below “BBB” or “Baa2,” respectively, or , in either case the ratings are withdrawn. |
| Subordinate Revenue Bonds | |
| Series 2000AB | 1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days’ notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments. 2. Negative financial events relating to the related swap insurer, MBIA. |

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

| Associated Bond Issue | Bond Maturity Date | Swap Termination Date |
|--|---------------------------|------------------------------|
| MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B-1,3a,b,c,d | November 1, 2022 | September 1, 2013 |
| MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F (swap with Citibank, N.A.) | November 1, 2032 | January 1, 2032 |
| MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B (swap with Citibank, N.A.) | January 1, 2033 | January 1, 2032 |

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

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

| MTA (in millions) (Unaudited) | | | | |
|--|---------------------|----------|----------------------|---------|
| Period Ended March 31 | Variable-Rate Bonds | | Net Swap Payments | Total |
| | Principal | Interest | | |
| 2013 | \$ 9.7 | \$ 85.5 | \$ (7.3) | \$ 87.9 |
| 2014 | 56.4 | 84.2 | (7.4) | 133.2 |
| 2015-2019 | 408.0 | 381.8 | (34.5) | 755.3 |
| 2020-2024 | 557.2 | 279.4 | (27.5) | 809.1 |
| 2025-2029 | 447.4 | 209.9 | (17.8) | 639.5 |
| 2030-2034 | 856.0 | 402.2 | (8.5) | 1,249.7 |
| 2035 | 40.8 | 5.3 | (1.0) | 45.1 |

| MTA Bridges and Tunnels (in millions) (Unaudited) | | | | |
|--|---------------------|----------|----------------------|----------|
| Period Ended March 31 | Variable-Rate Bonds | | Net Swap Payments | Total |
| | Principal | Interest | | |
| 2013 | \$ 54.5 | \$ 61.4 | \$ (4.1) | \$ 111.8 |
| 2014 | 58.1 | 59.1 | (4.6) | 112.6 |
| 2015-2019 | 325.9 | 256.3 | (30.5) | 551.7 |
| 2020-2024 | 231.5 | 206.0 | (34.1) | 403.4 |
| 2025-2029 | 369.7 | 151.0 | (36.4) | 484.3 |
| 2030-2034 | 541.3 | 25.4 | (5.1) | 561.6 |

9. LEASE TRANSACTIONS

Leveraged Lease Transactions: Subway Cars — During 1995, MTA Bridges and Tunnels entered into a sale/leaseback transaction with a third party whereby MTA Bridges and Tunnels sold certain subway cars, which were contributed by MTA New York City Transit, for net proceeds of \$84.2. These cars were subsequently leased back by MTA Bridges and Tunnels under a capital lease. The advanced 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 was 22 years, and the third party had 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. This lease was terminated early on January 23, 2013 at no cost to MTA except for the transfer of the proceeds of the sale of the aforementioned pledged Treasury securities to the lessor.

Leveraged Lease Transactions: Subway and Rail Cars — On December 12, 1997, the MTA entered into two lease/leaseback transactions whereby the MTA leased certain of MTA Metro-North Railroad's rail cars to a third party and MTA New York City Transit leased certain subway maintenance cars to the same third party. MTA exercised the purchase option on the first tranche of the lease related to MTA Metro-North Railroad assets. The final installment of the purchase price was paid in December 2009. The purchase options for the second and third tranches were closed in January 2013 and the final installment of the purchase prices will be paid in December 2013. The remaining two lease tranches related to MTA Metro-North Railroad assets expire in 2014 and the notice of MTA's exercise of the purchase option has been delivered. The final installment of the purchase prices for the two remaining tranches will be paid in December 2014.

Under the terms of these lease/leaseback agreements, the MTA initially received \$76.6, which was utilized as follows: The MTA paid \$59.8 to an affiliate of the third party's lender, which has the obligation to pay to the MTA an amount equal to the rent obligations under the sublease attributable to the debt service on the loan from the third party's lender. The obligations of the affiliate of the third party's lender are guaranteed by American International Group, Inc. The MTA used \$12.5 to purchase a Letter of Credit from an affiliate of the third party's lender, guaranteed by American International Group, Inc. The payments to the MTA under the Letter of Credit, together with the aforementioned payments from the affiliate of the third party's lender, are sufficient to pay all of the regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the related purchase options are exercised. At March 31, 2013, the MTA has recorded a long-term capital obligation and capital asset of \$24 arising from the transaction.

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

Letter of Credit and American International Group, Inc., as guarantor of such obligations, to perform, the transaction documents are structured to provide recourse to the securities that have been pledged as collateral for such obligations.

MTA has pledged additional collateral in the amount of \$1.9 to cover the difference between the market value of the collateral provided by American International Group, Inc. and the nominal amount of the sum of MTA's rent payments plus the optional purchase option payments. As American International Group, Inc. increases the value of its collateral during the period through the remaining purchase option date in 2014, the MTA collateral can be released to MTA in an equivalent amount until MTA has no further collateralization obligation.

Leveraged Lease Transactions: Subway Cars — On September 25, 2002 and December 17, 2002 the MTA entered into four sale/leaseback transactions whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit subway cars to the MTA, the MTA sold those cars to third parties, and the MTA leased those cars back from such third parties. The MTA subleased the cars to MTA New York City Transit. Three of the four leases were terminated early in December 2012 at a total cost to MTA in the amount of \$2.459 including transaction fees totaling \$.3. The fourth lease was terminated early on February 28, 2013 and resulted in MTA receiving a payment of \$4.2.

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. Three of those four leases were terminated early and are no longer outstanding. The fourth lease expires in 2022, at which point 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 outstanding sale/leaseback agreement the MTA initially received \$74.9, which was utilized as follows: The MTA paid \$52.1 to an affiliate of the lender to the third party, which affiliate has the obligation to pay to MTA an amount equal to the rent obligations under the lease attributable to the debt service on the loan from the third party's lender. 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 the lease and the purchase price due upon exercise by the MTA of the related purchase options if exercised.

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

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

exercise by the MTA of the fixed price purchase option if exercised. The amount remaining after payment of transaction expenses, \$7.4, was the MTA's benefit from the transaction.

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

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

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

On December 17, 2008, MTA terminated the Ambac Assurance Corp. surety bond for the lease transaction that closed on September 25, 2003 and provided a short-term U.S. Treasury debt obligation as replacement collateral. The cost of the replacement collateral was \$32. As a result of a mark-to-market of the securities provided as collateral as of January 31, 2009, \$8 of such \$32 in collateral value was released back to MTA in February 2009. As a result of a mark-to-market of the securities provided as collateral as of January 2012, \$10 of such \$34 in collateral value was released back to MTA in February 2012. As of March 31, 2013, the market value of total collateral funds was \$24.2.

On January 12, 2009, MTA provided a short-term U.S. Treasury debt obligation as additional collateral in addition to the Ambac Assurance Corp. surety bond for the lease transaction that closed on

September 29, 2003. From time to time, additional collateral has been required to be added such that the total market value of the securities being held as additional collateral. As of March 31, 2013, the market value of total collateral funds was \$44.6.

Other Lease Transactions — On July 29, 1998, the MTA, (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad, MTA New York City Transit, and MTA Bridges and Tunnels) entered into a lease and related agreements whereby each agency, as subleasee, will rent, for an initial stated term of approximately 50 years, an office building at Two Broadway in lower Manhattan. The lease term expires on July 30, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. The lease comprises both operating (for the lease of land) and capital (for the lease of the building) elements. The total annual rental payments over the initial lease term are \$1,602 with rent being abated from the commencement date through June 30, 1999. During 2012, the MTA made rent payments of \$23. In connection with the renovation of the building and for tenant improvements, the MTA issued \$121 and \$328 in 2000 and 1999, respectively, of certificates of participation. In 2004, it issued approximately \$358 of certificates of participation that partially refunded the two previously issued certificates. As of March 31, 2013, there was \$101 in certificates of participation outstanding. (See Note 7). The office building is principally occupied by MTA New York City Transit and MTA Bridges & Tunnels.

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

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

Total rent expense under operating leases approximated \$13.1 and \$11.5 for the periods ended March 31, 2013 and 2012 respectively.

At March 31, 2013, the future minimum lease payments under non-cancelable leases are as follows (in millions):

| | Operating | Capital |
|---|--------------------|----------------|
| | (Unaudited) | |
| 2013 | \$ 39 | \$ 33 |
| 2014 | 54 | 51 |
| 2015 | 51 | 31 |
| 2016 | 47 | 36 |
| 2017 | 46 | 124 |
| 2018–2022 | 157 | 193 |
| 2023–2027 | 222 | 117 |
| 2028–2032 | 231 | 137 |
| 2033–2037 | 254 | 577 |
| 2038–2042 | 254 | 169 |
| Thereafter | <u>557</u> | <u>378</u> |
| Future minimum lease payments | <u>\$ 1,912</u> | 1,846 |
| Amount representing interest | | <u>(1,323)</u> |
| Total present value of capital lease obligations | | <u>523</u> |
| Less current present value of capital lease obligations | | <u>20</u> |
| Noncurrent present value of capital lease obligations | | <u>\$ 503</u> |

Capital Leases Debt Schedule
For the Year Ended December 31, 2012 and Period Ended March 31, 2013

| (in millions) | December 31, | | | March 31, |
|--|---------------|-------------|---------------|---------------------|
| Description | 2012 | Increase | Decrease | 2013 (Unaudited) |
| Hillside Facility | \$ 261 | \$ - | \$ 261 | \$ - |
| Hawaiï | 28 | - | 4 | 24 |
| Wachovia/T | 44 | - | 44 | - |
| Sumitomo | 15 | - | - | 15 |
| Met Life | 4 | - | - | 4 |
| Met Life Equity | 19 | - | - | 19 |
| Bank of New York | 4 | - | 1 | 3 |
| Bank of New York | 22 | - | - | 22 |
| Bank of America | 26 | - | - | 26 |
| Bank of America Equity | 16 | - | - | 16 |
| Sumitomo | 43 | - | - | 43 |
| Met Life Equity | 41 | - | - | 41 |
| Grand Central Terminal & Harlem Hudson Railroad Lines | 15 | - | - | 15 |
| 2 Broadway Lease Improvement | 157 | - | - | 157 |
| 2 Broadway | 38 | - | - | 38 |
| Subway Cars | 102 | - | 2 | 100 |
| Total MTA Capital Lease Debt | \$ 835 | \$ - | \$ 312 | \$ 523 |
| Obligations under Capital Lease, Current Portion | <u>\$ 27</u> | | | <u>\$ 20</u> |
| Obligations under Capital Lease, Long Term Portion | <u>\$ 808</u> | | | <u>\$ 503</u> |

10. FUTURE OPTION

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

After AADC and its affiliates have completed the new yard and transit improvements to be constructed by them at and in the vicinity of the site, AADC has the right from time to time until June 1, 2031, to close on the purchase of any or all of the six air rights parcels. The purchase price for the six parcels is

an amount, when discounted at 6.5% per annum from the date of payment that equals a present value of \$80 as of January 1, 2010. The purchase price of any particular air space parcel is equal to a net present value as of January 1, 2010 of the product of that parcel's percentage of the total gross square footage of permissible development on all six air space parcels multiplied by \$80.

11. 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 period ended March 31, 2013 and year ended December 31, 2012 is presented below (in millions):

| | March 2013 (Unaudited) | December 31, 2012 |
|--|---------------------------------------|------------------------------|
| Balance — beginning of year | \$ 2,059 | \$ 1,968 |
| Activity during the year: | | |
| Current year claims and changes in estimates | 179 | 429 |
| Claims paid | <u>(152)</u> | <u>(338)</u> |
| Balance — end of period/year | 2,086 | 2,059 |
| Less current portion | <u>(313)</u> | <u>(295)</u> |
| Long-term liability | <u>\$ 1,773</u> | <u>\$ 1,764</u> |

12. COMMITMENTS AND CONTINGENCIES

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

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

13. POLLUTION REMEDIATION COST

Effective 2008, pollution remediation costs are being charged in accordance with the provision of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes standards for determining when expected pollution remediation outlays should be accrued as a liability or, if appropriate, capitalized. An operating expense and corresponding liability, measured at its current value using the expected cash flow method, have been recognized for certain pollution remediation obligations that are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations, which are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations, occur when any one of the following obligating events takes place:

- An imminent threat to public health due to pollution exists;

- MTA is in violation of a pollution prevention-related permit or license; and
- MTA is named by a regulator as a responsible or potentially responsible party to participate in remediation.
- MTA is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities, or
- MTA voluntarily commences or legally obligates itself to commence remediation efforts

Operating expense provision and corresponding liability measured at its current value using the expected cash flow method have been recognized for certain pollution remediation obligation that previously may not have been required to be recognized, or are no longer able to be capitalized as a component of a capital project. As of March 31, 2013, the MTA has recognized a total cost of \$1 and a pollution remediation liability of \$121.

14. FUEL HEDGE

MTA partially hedges its fuel cost exposure using financial hedges. All MTA fuel hedges provide for up to 24 monthly settlements. The table below summarizes fifteen (15) active ultra-low sulfur diesel (“ULSD”) hedges:

| | | | | | | | | | | |
|---------------------|-------------------------------|-------------------|------------------|-------------------------------|-------------------------------|-------------------------------|-------------------|-------------------|-------------------|-------------------|
| Counterparty | Bank of America Merrill Lynch | J. Aron & Company | Deutsche Bank AG | Bank of America Merrill Lynch | Bank of America Merrill Lynch | Bank of America Merrill Lynch | J. Aron & Company |
| Trade Date | 12/22/2011 | 2/7/2012 | 3/1/2012 | 4/5/2012 | 5/4/2012 | 5/31/2012 | 7/2/2012 | 8/3/2012 | 9/7/2012 | 10/26/2012 |
| Effective Date | 1/1/2012 | 3/1/2012 | 4/1/2012 | 5/1/2012 | 6/1/2012 | 6/1/2012 | 8/1/2012 | 9/1/2012 | 10/1/2012 | 12/1/2012 |
| Termination Date | 6/30/2013 | 8/31/2013 | 9/30/2012 | 10/31/2013 | 11/30/2013 | 11/30/2013 | 1/31/2014 | 2/28/2014 | 3/31/2014 | 10/31/2014 |
| Price/Gal | \$2.89 | \$3.12 | \$3.21 | \$3.16 | \$3.00 | \$2.77 | \$2.70 | \$2.92 | \$3.06 | \$2.89 |
| Notional Qnty (Gal) | 7,807,394 | 3,204,099 | 2,075,230 | 2,126,613 | 2,114,628 | 2,409,348 | 2,163,700 | 1,915,380 | 2,064,478 | 8,458,436 |

| | | | | | |
|---------------------|-----------------------------|-----------------------------|---------------|----------------------------|---------------|
| Counterparty | JPM - Ventures Energy Group | JPM - Ventures Energy Group | Deutsche Bank | JPM - Ventures Energy Corp | Deutsche Bank |
| Trade Date | 11/19/2012 | 12/19/2012 | 1/23/2013 | 2/21/2013 | 3/26/2013 |
| Effective Date | 6/1/2013 | 12/1/2013 | 6/1/2014 | 1/1/2014 | 3/1/2014 |
| Termination Date | 11/30/2014 | 12/31/2014 | 1/31/2015 | 1/31/2015 | 2/28/2015 |
| Price/Gal | \$2.94 | \$2.87 | \$2.89 | \$2.94 | \$2.88 |
| Notional Qnty (Gal) | 9,790,809 | 5,567,545 | 4,955,061 | 3,747,645 | 3,112,837 |

The monthly settlements are based on the daily prices of the respective commodities whereby MTA will either receive a payment, or make a payment to the various counterparties depending on the average monthly price of the commodities in relation to the contract prices. As at March 31, 2013, the total notional value of the ULSD contracts was 53,308,741 gallons with a positive fair market value of \$1.81.

15. OPERATING ACTIVITY INFORMATION

| (In millions) | MTA | Commuters | Transit | Bridges and Tunnels | Eliminations | Consolidated Total |
|---|----------|-----------|----------|---------------------------|--------------|-----------------------|
| March 31, 2013 (Unaudited) | | | | | | |
| Operating revenue | \$ 66 | \$ 309 | \$ 1,016 | \$ 364 | \$ (9) | \$ 1,746 |
| Depreciation and amortization | 28 | 132 | 349 | 23 | - | 532 |
| Subsidies and grants | 2,171 | - | 323 | 2 | (323) | 2,173 |
| Tax revenue | 220 | - | 174 | - | (12) | 382 |
| Interagency subsidy | 118 | - | 20 | (118) | - | - |
| Operating (deficit) surplus | (275) | (425) | (1,189) | 230 | - | (1,659) |
| Net surplus (deficit) | 1,855 | (403) | (215) | 25 | 22 | 1,284 |
| Payment for capital assets | 1,015 | 36 | 183 | 59 | (297) | 996 |
| March 31, 2013 (Unaudited) | | | | | | |
| Total assets and deferred | | | | | | |
| outflows of resources | 14,221 | 10,238 | 37,432 | 5,423 | (2,768) | 64,546 |
| Net working capital | 4,563 | 46 | (1,570) | (131) | 529 | 3,437 |
| Long-term debt — (including current portion) | 23,992 | - | - | 8,808 | (10) | 32,790 |
| Net position | (13,360) | 8,769 | 25,894 | (4,640) | (260) | 16,403 |
| March 31, 2013 (Unaudited) | | | | | | |
| Net cash (used in)/provided by operating activities | (113) | (254) | (740) | 247 | (6) | (866) |
| Net cash provided by/(used in) noncapital financing activities | 738 | 252 | 554 | (119) | (608) | 817 |
| Net cash (used in)/provided by capital and related financing activities | (253) | 4 | (231) | (136) | 631 | 15 |
| Net cash provided by/(used in) investing activities | (311) | 8 | 425 | 22 | (17) | 127 |
| Cash at beginning of year | 161 | 19 | 41 | 12 | - | 233 |
| Cash at end of year | 222 | 29 | 49 | 26 | - | 326 |

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

(Continued)

| (In Millions) | MTA | Commuters | Transit | Bridges and Tunnels | Eliminations | Consolidated Total |
|---------------------------------------|----------|-----------|---------|---------------------------|--------------|-----------------------|
| March 31, 2012 (Unaudited) | | | | | | |
| Operating revenue | \$ 64 | \$ 302 | \$ 987 | \$ 356 | \$ (10) | \$ 1,699 |
| Depreciation and amortization | 25 | 130 | 339 | 22 | - | 516 |
| Subsidies and grants | 2,044 | - | 263 | 2 | (264) | 2,045 |
| Tax revenue | 203 | - | 115 | - | (17) | 301 |
| Interagency subsidy | 115 | - | 24 | (115) | (24) | - |
| Operating (deficit) surplus | (227) | (406) | (1,166) | 226 | - | (1,573) |
| Net (deficit) surplus | 1,470 | (389) | (180) | 27 | 17 | 945 |
| Capital expenditures | 1,062 | 77 | 192 | 32 | (309) | 1,054 |
| March 31, 2012 (Unaudited) | | | | | | |
| Total assets and deferred | | | | | | |
| outflows of resources | 15,065 | 10,593 | 34,800 | 5,225 | (1,287) | 64,396 |
| Net working capital | 3,172 | 56 | (1,159) | (406) | (472) | 1,191 |
| Long-term debt — (including | | | | | | |
| current portion) | 23,527 | - | - | 8,714 | (12) | 32,229 |
| Net position | (13,560) | 8,993 | 26,191 | (4,656) | (7) | 16,961 |
| March 31, 2012 (Unaudited) | | | | | | |
| Net cash (used in)/provided by | | | | | | |
| operating activities | (141) | (203) | (528) | 256 | (19) | (635) |
| Net cash provided by/(used in) | | | | | | |
| noncapital financing activities | 848 | 227 | 432 | (138) | (478) | 891 |
| Net cash (used in)/provided by | | | | | | |
| capital and related financing | | | | | | |
| activities | (449) | 15 | (239) | (105) | 324 | (454) |
| Net cash provided by/(used in) | | | | | | |
| investing activities | (270) | (30) | 337 | (13) | 173 | 197 |
| Cash at beginning of year | 131 | 17 | 39 | 16 | - | 203 |
| Cash at end of year | 119 | 26 | 41 | 16 | - | 202 |

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

(Concluded)

16. SUBSEQUENT EVENTS

On April 2, 2013, the MTA issued Transportation Revenue Bonds, Series 2013B in the amount of \$500. Proceeds from the sale will be used to finance transit and commuter projects set forth in the approved MTA Capital Program.

On April 6, 2013, MTA Metro North Railroad received 2013 Diamond Award in the transportation category from the American Council of Engineering Companies (“ACEC”) of New York as part of the 2013 Engineering Excellence Awards Competition. The Port Jervis Reconstruction Project, which involved the complex restoration of service after hurricane Irene on August 28, 2011, was completed ahead of schedule. As a result, the work received national recognition and thus account for the recent award.

On April 18, 2013, the MTA issued \$200 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2013C. The bonds were issued to finance approved bridge and tunnel capital projects.

Mr. Fernando Ferrer continues to serve as Acting Chairman pending confirmation by the State Senate of Mr. Thomas F. Prendergast, who was nominated on April 12, 2013 by the Governor of the State of New York to serve as Chairman and Chief Executive Officer, as the successor to Joseph J. Lhota who resigned as Chairman effective December 31, 2012.

On April 19, 2013, MTA entered into a 2 year Drawn Credit Agreement in the amount of \$350 million with Bank of America Merrill Lynch, available to be drawn to finance transit and commuter projects set forth in the approved MTA Capital Program. MTA has not yet drawn on this facility.

On April 23, 2013, MTA entered into a \$8.99 Ultra Low Sulfur fuel hedge contract with a May 1, 2013, start date and a March 31, 2015, final maturity. J.P. Morgan Ventures Energy Corporation and Goldman, Sachs & Co./J Aron submitted the winning bid at an all-in price of \$2.770/gallon.

On May 8, 2013, MTA remarketed through competitive bidding \$50 of MTA Transportation Revenue Bonds, Series 2012A-1. MTA converted the Series 2012A-1 bonds from a term-rate mode to a fixed-rate mode.

MTA Metro-North Railroad Train Derailment. On Friday evening, May 17, 2013, several cars of an eastbound MTA Metro-North Railroad train derailed in the vicinity of the I-95 overpass in Bridgeport, Connecticut. A MTA Metro-North Railroad passenger train traveling in the opposite direction on the adjacent track then sideswiped several of the derailed rail cars. MTA Metro-North Railroad and the Connecticut Department of Transportation (CDOT) are coordinating the states of New York and Connecticut's responses. The National Transportation Safety Board is leading the investigation, supported by other federal, state and local entities.

Certain train service east of Stamford was suspended after the accident as Metro-North and CDOT mounted an extensive reconstruction effort in order to restore normal train service as quickly as possible. MTA Metro-North Railroad and CDOT implemented an interim alternate transportation plan for the east end of the New Haven Line pending restoration of normal service. Beginning the morning of May 20, a shuttle train began operating between New Haven and Bridgeport with an express bus to Stamford, where more trains are available for New York City-bound customers. For intermediate customers, there was local bus service to/from Bridgeport, Fairfield Metro, Fairfield, and Westport. Limited MTA Metro-North Railroad service resumed in the afternoon of May 21 between New York and New Haven. Full regular service was restored on Wednesday, May 22.

As per the service agreement between MTA and the State of Connecticut, liability for personal injury and property damage claims arising on the New Haven "Main Line" is generally allocated 35% for MTA and 65% for the State of Connecticut, as is the cost of repairing and/or replacing damaged railcars. The cost of repairing or replacing damaged rail cars as well as the costs of restoring the damaged right-of-way and the cost of substitute service and loss of revenue during the event are subject to a \$25 million per occurrence deductible under the MTA's all agency property insurance program. As the owner of the right-of-way, the State of Connecticut would bear the capital expense costs of restoring the damaged right of way that are not covered by MTA insurance coverage for the New Haven Main line. No firm estimate of the costs to MTA Metro-North Railroad and the State of Connecticut to repair the damage to the commuter rail system or for operations or lost revenues are available at this time.

On May 29, 2013, MTA entered into the Revolving Credit Agreement in the amount of \$100 with KeyBank, NA, available to be drawn to finance transit and commuter projects set forth in the approved MTA Capital Program on or prior to March 29, 2015. The MTA has not yet drawn on this facility.

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

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULES OF PENSION FUNDING PROGRESS

(\$ in millions)

| | January 1, 2012 | January 1, 2011 | January 1, 2010 |
|--|--------------------|--------------------|--------------------|
| LIRR [1]: | | | |
| a. Actuarial value of plan assets | \$ 437.4 | \$ 476.0 | \$ 503.4 |
| b. Actuarial accrued liability (AAL) | 1,633.3 | 1,572.3 | 1,583.6 |
| c. Total unfunded AAL (UAAL) [b-a] | 1,195.8 | 1,096.3 | 1,080.2 |
| d. Funded ratio [a/b] | 26.8 % | 30.3 % | 31.8 % |
| e. Covered payroll | \$ 40.0 | \$ 51.2 | \$ 65.2 |
| f. UAAL as a percentage of covered payroll [c/e] | 2987.1 % | 2142.9 % | 1656.8 % |
| MaBSTOA [2]: | | | |
| a. Actuarial value of plan assets | \$ 1,624.3 | \$ 1,527.1 | \$ 1,396.9 |
| b. Actuarial accrued liability (AAL) | 2,482.8 | 2,213.3 | 2,133.9 |
| c. Total unfunded AAL (UAAL) [b-a] | 858.5 | 686.2 | 737.0 |
| d. Funded ratio [a/b] | 65.4 % | 69.0 % | 65.5 % |
| e. Covered payroll | \$ 576.0 | \$ 579.7 | \$ 591.1 |
| f. UAAL as a percentage of covered payroll [c/e] | 149.1 % | 118.4 % | 124.7 % |
| MNR Cash Balance Plan [3]: | | | |
| a. Actuarial value of plan assets | \$ 1.006 | \$ 1.008 | \$ 1.075 |
| b. Actuarial accrued liability (AAL) | 0.992 | 0.971 | 1.087 |
| c. Total unfunded AAL (UAAL) [b-a] | (0.015) | (0.038) | 0.012 |
| d. Funded ratio [a/b] | 101.5 % | 103.9 % | 98.9 % |
| e. Covered payroll | \$ 0.0 | \$ 0.0 | \$ 4.5 |
| f. UAAL as a percentage of covered payroll [c/e] | 0.00 % | 0.00 % | 0.26 % |

[1] The LIRR pension plan has a separately issued financial statement that is publicly available and contains required descriptions and supplemental information regarding the employee benefit plan. The statements may be obtained by writing to Metropolitan Transportation Authority, Comptroller, 345 Madison Avenue, New York, New York 10017-3739.

[2] MaBSTOA issues a publicly available financial report that includes financial statements and required supplementary information for the MaBSTOA Plan. That report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, Operations Accounting, 2 Broadway, 15th Floor, New York, New York 10004.

[3] Further information about the MNR Plan is more fully described in the separately issued financial statements which can be obtained by writing to the MTA Metro-North Railroad, Chief Financial Officer, 347 Madison Avenue, New York, New York 10017-3739.

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

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

(\$ in millions)

| Year Ended | Actuarial Valuation Date | Actuarial Value of Assets {a} | Actuarial Accrual Liability (AAL) {b} | Unfunded Actuarial Accrual Liability (UAAL) {c} = {b} - {a} | Funded Ratio {a} / {c} | Covered Payroll {d} | Ratio of UAAL to Covered Payroll {c} / {d} |
|-------------------|--------------------------|-------------------------------|---------------------------------------|---|------------------------|---------------------|--|
| December 31, 2012 | January 1, 2010 | \$ - | \$ 17,764 | \$ 17,764 | \$ - | \$ 4,600.0 | 386.1 % |
| December 31, 2011 | January 1, 2010 | - | 17,764 | 17,764 | - | 4,600.0 | 386.1 |
| December 31, 2010 | January 1, 2008 | - | 13,165 | 13,165 | - | 4,212.0 | 312.6 |

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

SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION
FOR THE PERIOD ENDED MARCH 31, 2013

(\$ in millions)

| | |
|---|---------------------|
| FINANCIAL PLAN ACTUAL — Operating loss | \$ (1,645.8) |
| Reconciling items: | |
| The Financial Statement was adjusted after Financial Plan closed | (14.4) |
| The Financial Plan excluded Capital Construction and East Side Access | <u>1.1</u> |
| FINANCIAL STATEMENT — Operating loss | <u>\$ (1,659.1)</u> |

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

SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN
AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2013

(\$ in millions)

| Category | Financial Plan Actual | Statement GAAP Actual | Variance |
|--|--------------------------|--------------------------|------------------|
| REVENUE: | | | |
| Farebox revenue | \$ 1,250.7 | \$ 1,250.5 | \$ (0.2) |
| Vehicle toll revenue | 357.3 | 357.3 | - |
| Other operating revenue | <u>139.0</u> | <u>138.0</u> | <u>(1.0)</u> |
| Total revenue | <u>1,747.0</u> | <u>1,745.8</u> | <u>(1.2)</u> |
| EXPENSES: | | | |
| Labor: | | | |
| Payroll | 1,041.4 | 1,047.7 | 6.3 |
| Overtime | 154.2 | 154.4 | 0.2 |
| Health and welfare | 219.6 | 224.3 | 4.7 |
| Pensions | 158.3 | 164.7 | 6.4 |
| Other fringe benefits | 144.8 | 145.2 | 0.4 |
| Postemployment benefits | 544.2 | 554.0 | 9.8 |
| Reimbursable overhead | <u>(65.7)</u> | <u>(59.7)</u> | <u>6.0</u> |
| Total labor expenses | <u>2,196.8</u> | <u>2,230.6</u> | <u>33.8</u> |
| Non-labor: | | | |
| Electricity, fuel and power | 199.0 | 199.7 | 0.7 |
| Insurance | 4.7 | 8.0 | 3.3 |
| Claims | 62.5 | 62.5 | - |
| Paratransit service contracts | 89.5 | 89.5 | - |
| Maintenance and other | 100.4 | 97.9 | (2.5) |
| Professional service contract | 51.6 | 43.3 | (8.3) |
| Pollution remediation project costs | 0.9 | 0.9 | - |
| Materials and supplies | 115.5 | 115.5 | - |
| Other business expenses | <u>34.8</u> | <u>24.1</u> | <u>(10.7)</u> |
| | <u>658.9</u> | <u>641.4</u> | <u>(17.5)</u> |
| Total expenses before depreciation | 2,855.7 | 2,872.0 | 16.3 |
| Depreciation | 532.2 | 532.2 | - |
| Net impairment loss and related expenses | - | 0.7 | 0.7 |
| Amortization of pension contribution | <u>4.9</u> | <u>-</u> | <u>(4.9)</u> |
| Total expenses | <u>3,392.8</u> | <u>3,404.9</u> | <u>12.1</u> |
| NET OPERATING DEFICIT | <u>\$ (1,645.8)</u> | <u>\$ (1,659.1)</u> | <u>\$ (13.3)</u> |

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

SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN
FINANCIAL PLAN AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2013

(\$ in millions)

| Accrued Subsidies | Financial Plan Actual | Financial Statement GAAP Actual | Variance | |
|---|--------------------------------------|--|-------------------|-----|
| Mass transportation operating assistance | \$ 1,514.3 | \$ 1,514.3 | \$ - | |
| Petroleum business tax | 136.9 | 136.9 | - | |
| Mortgage recording tax 1 and 2 | 83.4 | 83.5 | 0.1 | {1} |
| MRT transfer | - | (1.3) | (1.3) | {1} |
| Urban tax | 162.1 | 162.1 | - | |
| State and local operating assistance | 217.2 | 217.2 | - | |
| Station maintenance | 39.3 | 39.3 | - | |
| Connecticut Department of Transportation (CDOT) | 21.3 | 21.7 | 0.4 | {1} |
| Subsidy from New York City for MTA Bus | 53.9 | 98.7 | 44.8 | {1} |
| Build American Bonds Subsidy | 2.3 | 2.3 | - | |
| Change in fair value of derivative financial instruments | - | 1.1 | 1.1 | {2} |
| Mobility tax | 439.3 | 439.3 | - | |
| Other nonoperating income | <u>-</u> | <u>(56.3)</u> | <u>(56.3)</u> | {3} |
| Total accrued subsidies | 2,670.0 | 2,658.8 | (11.2) | |
| Net operating deficit excluding accrued subsidies and debt service | <u>(1,645.8)</u> | <u>(1,659.1)</u> | <u>(13.3)</u> | |
| Total net operating surplus/ (deficit) | <u>\$ 1,024.2</u> | <u>\$ 999.7</u> | <u>\$ (24.5)</u> | |
| Interest on long-term debt | | <u>\$ (333.2)</u> | <u>\$ (333.2)</u> | |
| LOSS BEFORE APPROPRIATIONS | | <u>\$ 666.5</u> | | |
| Debt service | <u>\$ (559.6)</u> | <u>\$ -</u> | <u>\$ 559.6</u> | |

{1} The Financial Plan records on a cash basis while the Financial Statement records on an accrual basis.

{2} The Financial Plan records does not include changes in derivative market value.

{3} The Financial Plan records does not include other nonoperating income.