Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Auditors' Report

Consolidated Financial Statements
Years Ended December 31, 2008 and 2007

METROPOLITAN TRANSPORTATION AUTHORITY

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-23
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007:	
Consolidated Balance Sheets	24-25
Consolidated Statements of Revenues, Expenses and Changes in Net Assets	26-27
Consolidated Statements of Cash Flows	28-29
Notes to Consolidated Financial Statements	30-94
Required Supplementary Information – Schedule of Pension Funding Progress	95
Required Supplementary Information – Schedule of Funding Progress for the MTA Postemployment Benefit Plan	96
Supplementary Information – Schedule of Financial Plan to Financial Statements Reconciliation	97
Supplementary Information – Consolidated Reconciliation Between Financial Plan and Financial Statements	98
Supplementary Information – Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements	99

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
USA

Tel: +1 212 436 2000
Fax: +1 212 436 5000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

We have audited the accompanying consolidated balance sheets of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of December 31, 2008 and 2007, and the consolidated statements of revenues, expenses and changes in net assets, and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the MTA's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the New York City Transit Authority ("MTA New York City Transit"), Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway"), and the Metropolitan Suburban Bus Authority ("MTA Long Island Bus"), which represent 56 percent and 56 percent, and 40 percent and 42 percent, of the assets and revenues of the MTA, respectively, as of and for the years ended December 31, 2008 and 2007. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for MTA New York City Transit, MTA Staten Island Railway and MTA Long Island Bus, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of the MTA, as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the consolidated financial statements, in 2008, the MTA adopted Governmental Accounting Standards Board Statement ("GASB") No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligation.*

The Management's Discussion and Analysis on pages 3 through 23, the Schedule of Pension Funding Progress on page 95, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 96 are not a required part of the basic consolidated financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the MTA's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the MTA's consolidated basic financial statements. The schedule of financial plan to financial statements reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, and schedule of consolidated subsidy accrual reconciliation between financial plan and financial statements are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. This supplementary information is the responsibility of the MTA's management. The 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 have not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, accordingly, we express no opinion on them.

Deloitte & Touche LLP

April 22, 2009

METROPOLITAN TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2008 AND 2007
($ in Millions)

1. OVERVIEW OF THE FINANCIAL STATEMENTS

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

Consolidated I Financial Statements include:

Consolidated Balance Sheets, which provide information about the nature and amounts of investments in resources (assets) and the obligations to Metropolitan Transportation Authority and its consolidated subsidiaries and affiliates (the "MTA Group") creditors (liabilities), with the difference between the two reported as net assets.

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

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

Notes to the Consolidated Financial Statements 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 provides information concerning the MTA Group's progress in funding its obligation to provide pension benefits and postemployment benefits to its employees.

Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the MTA Group for the years ended December 31, 2008 and 2007. 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.

2. FINANCIAL REPORTING ENTITY

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

MTA Related Groups

- Headquarters ("MTAHQ") provides general oversight, planning and administration, including budget, cash management, finance, legal, real estate, treasury, risk management, and other functions to the related groups listed below.

- The Long Island Rail Road Company ("MTA Long Island Rail Road") provides passenger transportation between New York City and Long Island.

- Metro-North Commuter Railroad Company ("MTA Metro-North Railroad") provides passenger transportation between New York City and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in New York State and New Haven and Fairfield counties in Connecticut.

- Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway") provides passenger rail transportation on Staten Island.

- Metropolitan Suburban Bus Authority ("MTA Long Island Bus") provides public bus service in Nassau and Queens counties.

- First Mutual Transportation Assurance Company ("FMTAC") operates as a captive insurance company to provide insurance coverage for property and primary liability.

- New York City Transit Authority ("MTA New York City Transit") and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") provide subway and public bus service within the five boroughs of New York City.

- Triborough Bridge and Tunnel Authority ("MTA Bridges and Tunnels") operates seven toll bridges, two tunnels, and the Battery Parking Garage.

- MTA Capital Construction Company ("MTA Capital Construction") provides oversight for the planning, design, and construction of current and future major MTA system expansion projects.

- MTA Bus Company ("MTA Bus") operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.

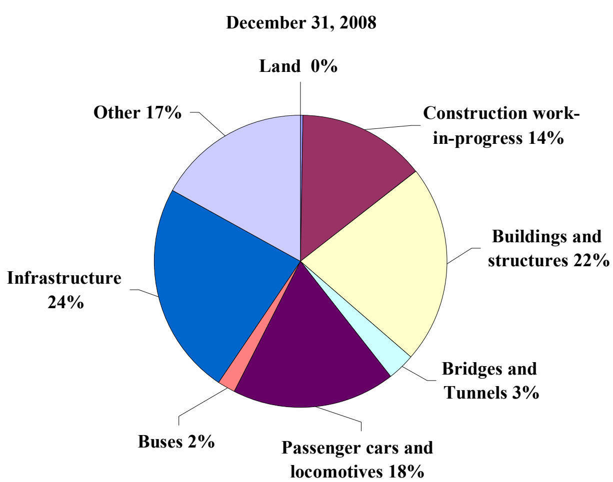
3. CONDENSED FINANCIAL INFORMATION

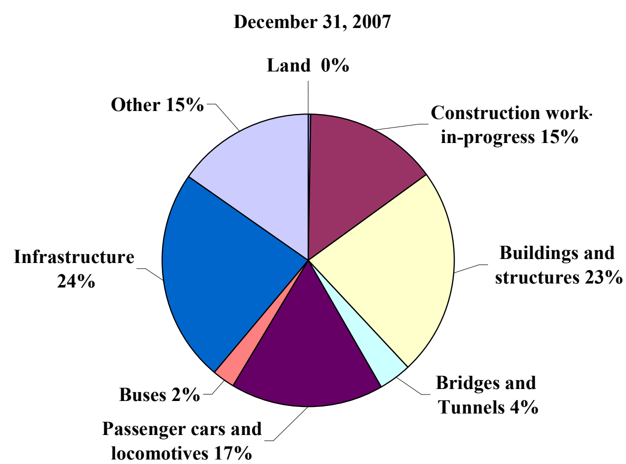
The following sections discuss the significant changes in the MTA Group's financial position for the year ended December 31, 2008. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, the information contained within the summaries of the consolidated financial statements and the various exhibits presented were derived from the MTA Group's consolidated financial statements. All dollar amounts (except where otherwise expressly noted) are in millions.

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

	2008	2007	2006
Capital assets, net (see Note 6)	$ 43,323	$ 40,611	$ 38,307
Other assets	10,134	11,158	11,778
Total assets	$ 53,457	$ 51,769	$ 50,085

Capital Assets, Net





December 31, 2008 versus December 31, 2007

- Net capital assets increased at December 31, 2008 by $2,712. The largest increase, $1,560, occurred in other capital assets (which includes work trains, service vehicles, passenger stations and other equipment, excluding passenger cars and locomotives and buses), cars and locomotives, $1,185; infrastructure, $1,075; passenger buildings and structures, $476; bridges and tunnels, $83; acquisition of buses increased by $67; construction in progress, $35; and the acquisition of land increased by $6. These increases were partially offset by additional accumulated depreciation of $1,775. Some of the more significant projects contributing to the increase included:

MTA Long Island Rail Road

– Rehabilitation of the East River Tunnel, safety and substation improvements, ventilation projects and mainline corridor improvements.

– Improvements to MTA Long Island Rail Road's infrastructure road assets providing replacement of various tracks and branches at a cost of $52.4 and upgrades to Queens interlocking which included the replacement of a relay-based signal system, reconfiguration of crossovers and modification of replacement of signal bridges for an additional cost of $58.9.

- Upgrading of shops and yards such as Babylon, Long Island City and Richmond Hills.
- Continued work on signals and communication assets, with a number of projects nearing completion, such as the fiber optic network and various microprocessor signal projects.
- Rehabilitation of passenger stations, including the Atlantic Terminal Complex, Broadway, Seaford and Valley Stream with a total cost of $28.
- Work on security projects, including hardening of Penn Station, Jamaica, and the 63rd Street Tunnel with an additional cost of $26.3.

MTA New York City Transit

- Design and installation of a pilot Communications Based Train Control system on the Canarsie Line.
- Station rehabilitation at various locations on various lines, and the Fulton Street Transit Center for a total cost of $963.
- Placement into service of 536 R160 subway cars and 113 buses during 2008 for a total cost of $1,070.
- Rehabilitation of line structures and subway tunnels.
- Design and construction of a new depot at the Grand Avenue Facility.

MTA Metro-North Railroad

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

MTA Bridges and Tunnels

- Rehabilitation of abutments, retaining walls and the replacement of the deck of the Throgs Neck Bridge.
- Rehabilitation of the electrical system on suspension spans at the Verrazzano-Narrows Bridge, the lower deck replacement at the Henry Hudson Bridge, the replacement of all fans at the Queens

Midtown Tunnel and rehabilitation of the roadway and drainage system at the Brooklyn Battery Tunnel.

- Replacement of all exhaust fans at the Queens Midtown Tunnel.

- Other assets had a net decrease of $1,024. The items contributing to this change include, but are not limited to:

  - Increase in cash by $76 primarily due to an increase of $36 by MTAHQ related to increases in operating and capital cash funds available. Also affecting the cash position were increases of $35 and $10 by FMTAC and LI Bus respectively. The decline of $5 by MTA Bridges and Tunnels offset the above increases.

  - Decrease in current and noncurrent investments and investments held under capital leases of $778. The net decline of $631 in investment was due to the usage of bond proceeds for capital and operating expenditures and the redemption of bonds (See Note 3 and 7). The net decline in leases of $147 resulted from capital leases debt service payments and the termination of the QTE-1 lease with a termination loss of $14.6 (See Note 8).

  - Increase in Capital Project receivable from Federal and State Government by $100 due to an increase of Federal and State Grants requisitions in the amount of $68, Nassau County of $18 and a CDOT receivable of $14 for M8 cars.

  - MRT Receivable decreased by $23 due to a decline in revenues to be collected. This reflects the decline of the real estate market in New York City and the seven other counties within the MTA Group's service area.

  - Other subsidy receivable decreased by $63. The decrease was due to the collection of receipts by the MTA New York City Transit from NYC for paratransit expenses.

  - Due from NYC declined by $38 due to a more efficient collection method.

  - Increase in material and supplies $33. The increase is to insure availability of parts and supplies for emergency needs.

  - Decrease in advances to defined benefit pension by $100 was due to amortization of prepaid expenses and an unfunded liability.

  - Decrease of prepaid expense and other current assets by $125. This resulted from a decrease at MTA New York City Transit in the amount of $102, MTAHQ in the amount to $32, offset by an increase of $9 at LIRR. The MTA New York City Transit decrease was due to amortization of pension prepayment incurred in 2007, while the MTAHQ decrease was due to the amortization of insurance premiums paid in prior years. The increase at MTA Long Island Rail Road resulted from higher insurance premiums incurred in 2008.

- Decrease in other noncurrent assets of by $6. This was due primarily to a decrease of unrequisitioned funds for MTA New York City Transit and MTA Bus capital expenditures.

December 31, 2007 versus December 31, 2006

- Net capital assets increased at December 31, 2007 by $2,304. The largest increase, $1,035, occurred in other capital assets (which includes work trains, service vehicles, passenger stations, and other equipment, excluding passenger cars and locomotives and buses); infrastructure, $860; construction in progress, $700; passenger cars and locomotives, $658; and buildings and structures, $362. These increases were partially offset by additional accumulated depreciation of $1,637. Some of the more significant projects contributing to the increase included:

  - Rehabilitation of the East River tunnel, including safety improvements and ventilation projects.

  - Projects upgrading shops and yards and a new automated materials handling system in the Hillside Complex of MTA Long Island Rail Road.

  - Milestone costs for construction, testing, and quality assurance of new electric passenger cars.

  - MTA Long Island Rail Road signals and communication assets have continued to grow with a number of projects nearing completion, such as the fiber optic network and various microprocessor signal projects.

  - Passenger station rehabilitations continue, including the Atlantic Terminal Phase II and Broadway station.

  - MTA Long Island Rail Road security projects, including hardening of Penn Station, Jamaica, and the 63rd Street tunnel.

  - MTA Long Island Rail Road placed into service an additional 34 new M-7 electric cars during the year and retired 8 M-1 electric cars.

  - Improvements to MTA Long Island Rail Road's infrastructure road-assets continued under the 2007 Track Program that provided the replacement of various track elements and branches.

  - Design and installation of a pilot Communications Based Train Control system on Canarsie Line.

  - MTA New York City Transit station rehabilitation at various locations on various lines, and the Fulton Street Transit Center.

  - MTA New York City Transit placed the following in service during 2007, R160 subway cars (294) and passenger buses (150).

  - Elevated line structural rehabilitation and subway tunnel rehabilitation.

  - Design and construction of a new depot at the Grand Avenue facility.

  - Installation of chemical, biological, and radiological early detection equipment in Grand Central Terminal.

  - Replacement of the deck at the Robert F. Kennedy and Bronx-Whitestone Bridges, including span replacement on the Bronx-Whitestone Bridge and rehabilitation of the electrical and mechanical systems at the Robert F. Kennedy Bridge. Also, the rehabilitation of the lower level approaches and suspended deck at the Verrazano-Narrows Bridge and the lower deck replacement at the Henry Hudson bridge

- Other assets had a net decrease of $620. The items contributing to this change include but are not limited to:

  – A net decrease in current and non-current investments and investments held under capital leases of $1,232 due to use of funds for capital expenditures, debt service payments on bonds lease obligations, and operating expense.

  – A decrease of $59 in State and regional mass transit taxes receivable for NYS Petroleum Business Tax Funds accrued receivable being uncollected, not yet received due to timing differences between the recording of revenue and the collection of such funds.

  – Cash decreased by a net $25 primarily due to a decrease of $40 by MTAHQ related to reductions in operating and capital cash funds available. Also affecting the cash position is MTA New York City Transit's decrease of $3, FMTAC's increase of $14, MTA Long Island Rail Road's increase of $4, MTA Bridges and Tunnels' increase of $4, and MTA Metro-North Railroad's reduction in cash of $4.

  – Amounts due from NYC increased by $73. This amount is due primarily to MTA Bus's receivable.

  – Station maintenance, operation, and use assessments increased by $3. This is due to the amount accrued in 2007 for the various counties which was based on the prior year's bill.

  – Other subsidies receivable decreased by $27 due to a decrease of $34 at MTA Bus for various advance payments and an increase at MTA New York City Transit of $7 for the urban tax subsidy receivable.

  – Advances to defined benefit pension decreased $259 as a result of $325 transferred to non-current assets, $32 being amortized in the current year, and $2 miscellaneous adjustment. Offsetting these decreases is an $100 prepayment to the defined benefit pension plan.

  – Material and supplies increased by $64. This increase is attributable primarily to increases at MTA New York City Transit of $20, MTA Long Island Rail Road of $19, and MTA Metro-North Railroad of $20. The increase is to insure availability of parts and supplies for emergency needs.

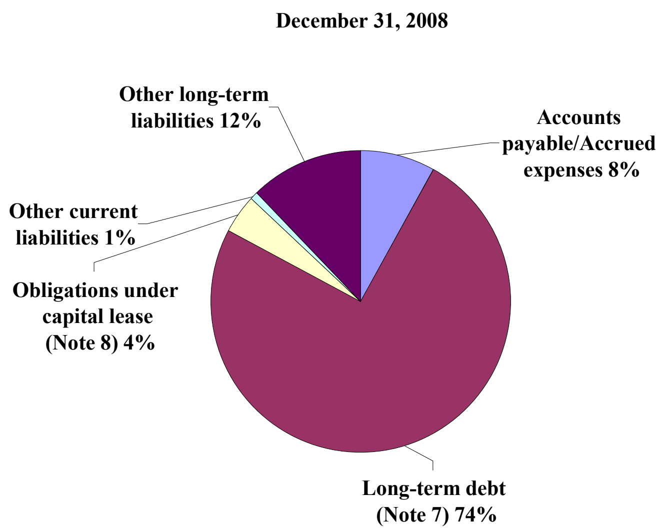
  – Prepaid expense and other current assets increased by $144 due mainly to prepaid rent, NYSLERS (defined below) and insurance premiums

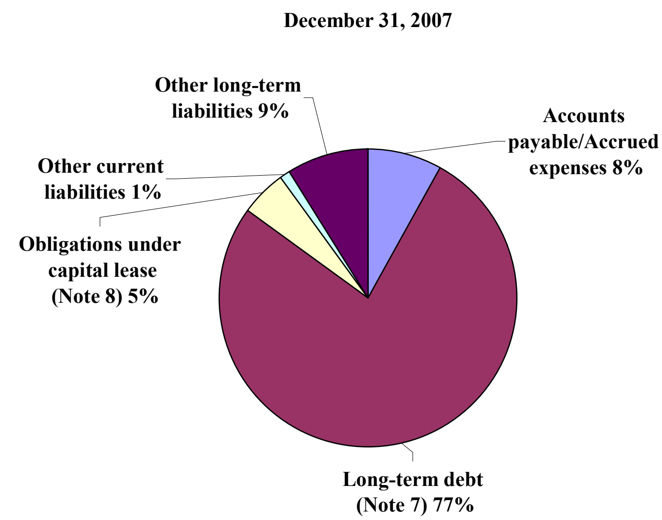
  – Other non-current assets increased by $604. This was due primarily to un-requisitioned funds for NYCT capital expenditures and for defined benefits pension assets that will be amortized over a future period. The increase was offset by miscellaneous decreases by other agencies.

__Total Liabilities, Distinguishing Between Long-Term Liabilities and Other Liabilities__

	December 2008	December 2007	December 2006
Current liabilities	$ 3,613	$ 3,492	$ 3,073
Long-term liabilities	31,510	28,980	27,649
Total liabilities	$ 35,123	$ 32,472	$ 30,722

Total Liabilities





Significant Changes in Liabilities Include:

December 31, 2008 versus December 31, 2007

- Current liabilities increased by $121. This net increase is due to an increase in accounts payable and accrued expenses in the amount of $31, and an increase in other current liabilities by $90.
  - Accounts payable and accrued expenses increase of $31 was derived from:
    - An increase of $50 in accounts payable due to timing differences on invoices submitted for payment.
    - A decrease of accrued expenses by $19. This decrease included:
      - Increase on interest payable by $17 due to issuance of new bonds in 2008 by MTA and MTA Bridges and Tunnels (see Note 7) and due to increases in interest rates on MTA

and MTA Bridges and Tunnels variable rate bonds (see Note 7).

  - A reduction in salaries, wages and payroll taxes accrual by $18. This was the result of the reversal of 2007 accrued liability in anticipation of 2008 payments in the amount of $20 at LIRR; and $7 at Metro North and $11 at MTA Bridges and Tunnels and other agencies. This was offset by an increase of $20 at MTA Bus for retroactive wage accruals done in 2008.

  - Vacation and sick benefit cost increased by $32.

  - Current portion of retirement and death benefits increased by $31.

  - An increase in current portion of estimated liabilities from injuries to persons (Note 8) in the amount of $6.

  - A decrease in other accrued liabilities of $87 mainly due to the fact that no payment was required to the New York State Highway fund. In 2007, $20 was accrued. In addition, the MTAHQ capital and operating accrual decreased by $44 while NYCTA declined by $14 and FMTAC by $30.

- Other current liabilities had a net increase of $90. Major increases were derived from MTA New York City Transit, $25; Bridges and Tunnels, $12, and Metro North, $1. MTA New York City Transit's increase of deferred revenue is mainly due to an increase in unredeemed fare cards and advance payments related to advertising revenue. There was also increase of $233 for obligations under capital leases while deferred revenues increased by $38. The increase in the current portion of pollution remediation by $19 was partly due to the implementation of GASB 49. These increases were offset by a reduction of $200 in the current portion of long-term debt.

- Noncurrent liabilities increased by $2,530. This net increase is primarily related to:

  – Increase of $1,348 for other postemployment benefits other than pension ("OPEB"). The implementation of GASB 45 requires systemic accrual-based measurement and recognition of OPEB costs.

  – Long-term debt increased by $1,421 with an increase of $1,399 and $22 by MTA Bridges and Tunnels and MTAHQ respectively. Refer to Note 7 for additional information on Long-Term Debt.

    The increase in MTA Bridges and Tunnels bonds is due primarily to the issuance of several series: Series 2008A&B in March of 2008 for $1,075, Series 2008C in July of 2008 in the amount of $629.9 and Series 2008D for $491.1 in July of 2008. From those issuances, MTA Bridges and Tunnels redeemed in April and May of 2008 $175 of Series 2004A1-2 Subordinate Bonds. During August and September of 2008 bonds were redeemed for a total of $498.0 related to Series 2002 D1-3, Series 2002 G1-2 and Series 2004 A-3.

    The small increase in long-term debt at MTA was derived from the issuance of new debt offset by the redemption of bonds. The following issuance took place:

    - Transportation Revenue Bonds in February of 2008 Series A & B in the amount of $1,000 and in October of 2008 Series C in the amount of $550.

- Dedicated Tax Fund Bonds in June of 2008 Series A for $352.9 and in August of 2008 Series B for $348.2.

These amounts were offset by the redemption of the following bonds:

- Transportation Revenues Bonds in May of 2008 Series 2004 A 1-4 in the amount of $472.2 and Series 2002G2 in the amount of $200.

- Dedicated Tax Fund Bonds in March of 2008 Series 2007 A 1-4 in the amount of $430, in May of 2008 Series 2004 D 1-2 in the amount of $135, in June of 2008 Series 2005 A in the amount of $345 and in August of 2008 Series 2004 B3 and B5 in the amount of $200 and series 2004 D1 in the amount of $145.

– Obligations under capital lease decreased by $427 due to principal payments done in January and July of 2008. On May 2, 2008, the termination of a QTE-Fleet capital lease transaction, originated in 2002, decreased the capital lease obligation by $200. For the termination of this lease MTA recognized a loss of $14 though the economic benefit was originally $40.5.

– Increase in pollution remediation projects costs, which are being recorded for the first time in 2008, resulting in a noncurrent liability of $86.

– Decrease in other long term liabilities of $25. This decrease is derived from New York City Transit in the amount of $23, MTA Bridges and Tunnels by $16; MTA Long Island Rail Road by $46 and FMTAC for $2. These decreases were partially offset by an increase in long term liability at MTAHQ in the amount of $62.

<u>December 31, 2007 versus 2006</u>

- Current liabilities increased by $419. This net increase is due primarily to:

  – Accounts payable and accrued expenses having a net increase of $365. This increase is primarily due to:

    - o Account payable decreased by $29 due primarily to acceleration of invoices submitted for payments.

    - o $49 reduction to salaries, wages, and payroll taxes due to payment of retroactive wages on labor contract settlements as well as an increase of headcount at MTA Bus and LIRR.

    - o A $44 increase on current portion of retirement and death benefits derived mainly from NYCT.

    - o $343 increase on other current liabilities. This was due to the increase of the MTAHQ capital and operating accrual for work done on station, track and signal rehabilitation and improvement projects. Also contributing to this increase were increases at FMTAC and MTA Bus.

  – The current portion of long-term debt increased $53 related to the impact of debt service payments for State Service Contract Bonds, Certificate of Participation (“COPS”) Bonds, and MTA Bridges and Tunnels General Revenue Bonds.

- Non-current liabilities increased by $1,331. This net increase is primarily related to:

  – Increase of $1,290 for other post-employment benefits other than pension (OPEB). This increase is due to the first-time implementation of GASB 45. This statement requires systematic accrual-based measurement and recognition of OPEB costs.

  – Long-term debt increased by $971 due primarily to the issuance by MTA of Transportation Revenue Bond, Series 2007A in July of 2007 in the amount of $425.6, Series 2007B in December of 2007 in the amount of $415, Dedicated Tax Fund Bonds in November of 2007 in the amount of $430 and MTA Bridges and Tunnels General Revenue Bonds issue in June 2007 in the amount of $223. These increases were offset by a cash defeasance that took place in December 2007 for Transportation Revenue Bonds, DTF Bonds, and MTA Bridges and Tunnels General and Subordinate bonds for a total amount of $296.8. Other variances are due to amortization of premium and discount of prior issuances.

  – Obligations under capital lease decreased by $989 due to principal payments in 2007 for various MTA leases

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

	December 2008	**December 2007**	**December 2006**
Invested in capital assets, net of related debt	$ 15,790	$ 15,903	$ 14,777
Restricted for debt service	972	996	1,011
Restricted for claims	96	92	84
Unrestricted	1,476	2,306	3,491
Total	$ 18,334	$ 19,297	$ 19,363

<u>December 31, 2008 versus December 31, 2007</u>

At December 31, 2008, the total net assets decreased by $963 from December 31, 2007. This decrease includes net non-operating revenues of $2,978 and appropriations, grants, and other receipts externally restricted for capital projects of $2,450 offset by operating losses of $6,391.

The investment in capital assets, net of related debt, decreased by $113. Funds restricted for debt service and claims decreased by $20 and unrestricted net assets decreased by $830.

<u>December 31, 2007 versus 2006</u>

At December 31, 2007, the total net assets decreased by $66 from December 31, 2006. This decrease includes net non-operating revenues of $3,735 and appropriations, grants, and other receipts externally restricted for capital projects of $2,035 offset by operating losses of $5,836.

The investment in capital assets, net of related debt increased by $1,126. Though the MTA increased its fixed assets, it also issued new debt.

Funds restricted for debt service and claims decreased by $7 due to bond cash defeasance, and unrestricted decreased by $1,185.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	December 31, 2008	December 31, 2007	December 31, 2006
Operating Revenues			
Passenger and tolls	$ 5,515	$ 5,246	$ 5,081
Other	417	420	406
Total operating revenues	5,932	5,666	5,487
Nonoperating Revenues			
Grants, appropriations and taxes	3,949	4,504	4,119
Other	249	322	275
Total nonoperating revenues	4,198	4,826	4,394
Total Revenues	10,130	10,492	9,881
Operating Expenses			
Salaries and wages	4,560	4,339	4,123
Retirement and other employee benefits	1,876	1,690	1,623
Postemployment benefits other than pensions	1,656	1,575	-
Depreciation and amortization	1,791	1,689	1,606
Other expenses	2,440	2,209	1,978
Total operating expense	12,323	11,502	9,330
Nonoperating Expense			
Interest on long-term debt	1,209	1,054	1,039
Other nonoperating expense	11	37	40
Total nonoperating expense	1,220	1,091	1,079
Total Expenses	13,543	12,593	10,409
Appropriations, grants and other receipts externally restricted for capital projects	2,450	2,035	1,898
Change in net assets	(963)	(66)	1,370
Net assets, beginning of year	19,297	19,363	17,993
Net assets, end of year	$ 18,334	$ 19,297	$ 19,363

Revenues and Expenses, by Major Source:

December 31, 2008 versus December 31, 2007

- Total operating revenues for the year ended December 31, 2008 were $266 higher than for the year ended December 31, 2007.

  - Fare and toll revenue increased by $246 primarily due to an increase in ridership and a fare increase that took place in March 2008. Toll revenues increased by $23 despite a traffic decrease mainly due to a toll increase that went into effect in March of 2008.

  - Other operating revenues decreased by $3 derived mainly from a reduction of paratransit urban tax revenue and a decrease in City reimbursement of paratransit expenses.

- Total operating expenses for the year ended December 31, 2008 were higher than the year ended December 31, 2007 by $821.

  - Labor costs, including retirement and other employee benefits, were higher by approximately $488.

  - Salaries and wages increases of $221 is primarily due to wage rate increases and headcount increases mostly for customer safety, maintenance programs, and operation of additional bus routes by MTA Bus.

  - Retirement and employee benefits increased by $186 with a major increase in health and welfare by $123, followed by pension expenses in the amount of $47 and other fringe benefits in the amount of $16. The increase in health and welfare arises mainly from increases in rates and headcount. Pension expenses increases are based on current actuarial valuations and are also due to an increase in headcount. Other fringe benefits increases are due primarily to increases in the workers' compensation reserve.

  - Postemployment benefits other than pensions increased by $81. Current cost is based on actuarial calculations which include normal cost of retirees plus amortization and interest costs.

  - Non-labor operating costs were higher by $333. Cost elements contributing to this increase were traction, propulsion power, and fuel for buses and trains of $107 due to higher fuel costs. Depreciation costs increased $102 due to additional capital assets placed into service. Paratransit service contractors increased $66 due to increased trip volume. Maintenance and other operating contracts increased $64 due to increases in heating fuel, facility power and maintenance costs. Pollution remediation projects increased by $43. These costs were reported for the first time in 2008, as required by GASB 49. Other costs, professional services contracts and materials and supplies increased by $30, while insurance and claims decreased by $79.

- Total grants, appropriations, and taxes were lower by $555 for the year ended December 31, 2008 compared with the year ended December 31, 2007. The major components of the decrease are tax-supported subsidies-NYC and local related to the mortgage recording tax and urban tax which declined by $698. Tax supported subsidies-NYS offset the decrease was with an increase of $143.

- Suburban highway fund expenses decreased by $20 since no payment was due for the year 2008.

- Interest Expense on long-term debt increased by $155 due to the issuance of new bonds in 2008.

- Appropriations and grants increased by $415. The increase was derived mainly from Federal funding, NY State Bond funding and FEMA, as well as fixed assets purchased with bond proceeds.

December 31, 2007 versus 2006

- Total operating revenues for the year ended December 31, 2007 were $179 higher than for the year ended December 31, 2006.

  – Fare and toll revenue increased by $165. Passenger revenue increased by $155 due to ridership and toll revenues increased by $10 due to increased traffic and reduced E-Z pass fees.

- Total operating expenses for the year ended December 31, 2007 were higher than the year ended December 31, 2006 by $2,172.

  – Labor costs, including retirement and other employee benefits, were higher by approximately $283. This is primarily due to payroll and overtime increases of $216 for wage rate increases and headcount increases mostly for customer safety, maintenance programs, and the MTA Bus Company's acquisition and operation of additional bus routes. Retirement and other employee benefits increased $67 primarily for MTA New York City Transit pension expenses based on an actuarial valuation. Also, contributing to this increase are other fringe benefits costs for additional headcount.

  – Post-employment benefits other than pensions increased by $1,575 due to the implementation of GASB 45 adopted in 2007.

  – Non-labor operating costs were higher by approximately $314. Cost elements contributing to this increase were depreciation resulting in part from new capital assets being placed into service, $83; traction and propulsion power and fuel expense increases of $31 are due primarily to fuel price increases. Public liability claims expense increased $71 primarily due to actuarial review of current claims data. Materials and supplies costs increased by $70 due mainly to additional subway car body structure parts, bus electrical systems, heating/air conditioning equipment, and subway propulsion motors. Paratransit service contract costs increased $49 primarily due to increased trip volume and a decrease in productivity based on a line assigned to new vendors.

- Total grants, appropriations, and taxes were higher by approximately $385 for the year ended December 31, 2007 compared to the year ended December 31, 2006. The major components of the increase are tax-supported subsidies-NYS, $237, and tax-supported subsidies-NYC and local, $143.

  – The increase in tax-supported subsidies from New York State is due primarily to an increase of $260 in Metropolitan Mass Transportation Operating Assistance, a decrease of $12 from NYS for debt service payments, and a decrease of $11 in Petroleum Business Tax.

  – The increase in tax-supported subsidies NYC and local is primarily due to an increase in the urban tax and other subsidies received by MTA New York City Transit of $189 and MTA Bus of $27; offset by a net decrease in the Mortgage Recording Taxes of $73.

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

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

Through December 2008, MTA system-wide utilization, including MTA Bus, was 3.3 percent higher (87.5 million more trips) than ridership through December 2007. At the same time, vehicle crossing levels at MTA Bridges and Tunnels facilities were 2.9 percent lower (8.9 million fewer crossings), having fallen in each month of the quarter despite falling gasoline prices.

Between the fourth quarter of 2007 and the fourth quarter of 2008, non-agricultural employment survey results indicate that New York City lost twenty six thousand jobs. A regional economic slowdown was further evinced by the Federal Reserve Bank's Coincident Economic Indicator, an index of broad economic activity. According to the CEI, the regional economy continued to contract in the fourth quarter of 2008. Compared with the fourth quarter of 2008, the CEI for New Jersey declined by 2%, New York State's fell by 3 percent, and the CEI for New York City remained virtually unchanged. It should be borne in mind that this comparison of CEIs at two points in time—the fourth quarter of 2008 compared with the same quarter of 2007—does not reveal how the economies fared in the intervening months. Beginning in March 2008, New York State and New Jersey each experienced ten straight months of declining economic activity. New York City's economy saw no significant growth through July, and began to contract thereafter, evidenced by five straight months of falling CEI's.

The stalling of the City's economy in the fourth quarter was accompanied by a greater increase in consumer prices than the increase for the average of all U.S. cities: the consumer price index (CPI-U) in the New York metropolitan area increased by 2.6 percent in the fourth quarter of 2008 relative to the fourth quarter of 2007, while the U.S. city average consumer price index increased by 1.6 percent. As the national economy slid deeper into recession, falling demand for goods and services restrained prices, and this was especially true for energy. After having risen in the second and third quarters of 2008 beyond even the heights reached in the aftermath of Hurricane Katrina, energy prices began to reverse, falling precipitously for five straight months. At the end of the fourth quarter, energy turned out to be 4.7 percent cheaper than in the fourth quarter of 2007. Meanwhile, consumer prices excluding energy were 3.5 percent higher. The New York Harbor spot price for conventional gasoline averaged $1.38 per gallon in the fourth quarter, a pronounced decrease of 40.0 percent compared to the average spot price in the fourth quarter of 2007. Like energy prices overall, the price of gasoline had begun to fall in the third quarter, and gas prices declined in each of the last five months of 2008. High fuel prices, however, continued to influence travel mode choices, as suggested by greater than expected MTA system ridership levels.

The contraction of New York City's economy in the fourth quarter of 2008 mirrored what was happening to the national economy. Real Gross Domestic Product ("GDP") declined at an annual rate of 6.2 percent in the fourth quarter, following a 0.5 percent fall in the previous quarter. Facing the myriad challenges of this particularly pernicious downturn, the intention of the Federal Reserve Bank over the past fifteen months was first to forestall an impending recession and, having failed that, to mitigate its consequences by loosening the tight credit conditions that resulted from the national mortgage crisis. Consequently, the Federal Reserve Bank's expansionary interventions since the third quarter of 2007 contrasted sharply with the measures it took to keep inflation under control as the economy emerged from the recession of 2001-2003. In the third quarter of 2007, the Federal Reserve Board elected to lower the Federal Funds Rate by a half point, from 5.25 to 4.75 percent, the first diminution since the end of June 2003. Confronting a deepening contraction in housing markets and mounting insecurity in financial markets, the bank further subjected the Federal Funds Rate to a series of downward adjustments throughout 2008: it was lowered by three-quarters of a point on January 22 and half a point on January 30; it was lowered again in March 2008 by another three-quarters of a point, in April by one quarter of a point, and twice again in October, each time by a half point. With inflationary concerns numbed by the decline in energy prices, the Federal Open Market Committee announced on December 16, 2008 that it would target a Federal Funds rate of between zero and one quarter per cent. There obviously remains little scope for the Bank to lower the rate through further open market operations.

The influence of Federal Reserve monetary policy on the mortgage market is a matter of interest to the MTA, since variability of mortgage rates can affect the number of real estate transactions and can thereby impact receipts from the Mortgage Recording Tax and Urban Tax, two important sources of MTA revenue. In spite of the aggressiveness of the Federal Reserve Bank, its Beige Books - published in October and December - reported little that augured well for regional real estate markets. The December Beige Book described the ongoing deterioration of New York City's housing market, where there was a notable decline in transaction activity and an accumulation of new property listings; an increase in the availability of rental vacancies, with rents down between one and four percent; and a reported fall of between 15 and 20 percent in the price of co-ops and condos. The city's commercial real estate market also weakened noticeably, with high vacancy rates, slowing lease activity and a decline in both actual and asking rents compared with the previous year.

The tidings of the Beige Books were in fact borne out by the continuation of sharply lower receipts of real estate taxes in the fourth quarter of 2008. Urban tax receipts through the fourth quarter fell by 40.7 percent compared with their 2007 level, while total MRT receipts fell by 40.5 percent. Both MRT-1 and MRT-2 receipts declined in the MTA region as a whole. Through December, revenues from MRT-1 dropped 42 percent and MRT-2 revenues fell by 43 percent. MRT-1 is paid on all mortgages, while MRT-2 is paid only on residential mortgages where the structure contains one to six individual dwelling units. The steady decline in both MRT-1 and MRT-2, which occurred in all four quarters of 2008, clearly indicates that regional real estate markets are suffering the most severe downturn in some time.

Results of Operations –MTA Bridges and Tunnels' paid traffic totaled 295.6 million in 2008, which was 2.9 percent less than 2007's record level. Daily traffic was down 1.2 percent on average from January through April primarily due to high regional gas prices that ranged from $3.16 to $3.48 per gallon. From May through August, gas prices were near or above $4.00 per gallon, and subsequently, traffic was down 4.0 percent on average. Although gas prices dropped significantly from September through the end of the year, recessionary economic conditions kept traffic levels down by 4.1 percent on average. Despite the lower traffic trends, toll revenues in 2008 reached $1.274 billion, which was $23.4 greater than in 2007. The higher revenues were generated from a toll increase implemented on March 16th, 2008, and from an additional day of collections in February 2008 due to the leap year. In addition, gas prices were higher in November and December of 2007, with regional prices exceeding $3.00 per gallon.

The E-ZPass electronic toll collection system continued to facilitate the management of heavy traffic volumes. Total average market share during the year 2008 was 74.0 percent compared to 73.5 percent in 2007. The average weekday market shares were 76.2 percent and 75.5 percent for the twelve months of 2008 and 2007, respectively. Average weekend market shares for the same periods were 68.8 percent and 68.1 percent, respectively.

MTA New York City Transit's fare revenues for the year ended December 31, 2008 were higher than in 2007 by $174.0 or 6.1 percent due to increased subway ridership, the March 2008 fare increase and the effect of one additional day for the leap year.

MTA Long Island Rail Road's ridership for the year ended December 31, 2008 was at 87.4 million on passenger revenues of $506.8, or 93 percent of total revenue. Revenues increased by approximately $22 or 5 percent for the year ended December 31, 2008 over the prior year ended December 31, 2007. The average fare increase of 4 percent effective March 1, 2008 contributed to the revenue increase. Additionally, ridership continues to increase in all ticket types attributed to the rising gasoline prices, changes in travel patterns for commuters and increases in noncommutation travel on MTA Long Island Rail Road.

MTA Metro-North Railroad's operating revenue increased by $27.5 or approximately 5.4 percent for the year ended December 31, 2008 over the prior year ended December 31, 2007. Year to date 2008 fare revenue and ridership increased by 5.5 percent and 3.8 percent respectively, over the same period in 2007. The increases occurred on the Hudson, Harlem and New Haven lines for monthly and weekly commutation as well as noncommutation ridership.

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

Over the last few years, the mortgage recording taxes payable to the MTA generally exceeded expectations, due primarily to the high level of home buying and refinancing encouraged by historically low interest rates. In the last quarter of 2007, however, the national downturn in housing markets began to impact the frequency of local real estate transactions, and the collection of mortgage recording taxes fell. In spite of the Federal Reserve Bank's determination to forestall a recession by successively lowering interest rates. The total amount collected in 2008 was reduced by 42.4 percent from $686.9 to $395.5. In 2009 Mortgage recording taxes continues to decline at an even higher rate.

Capital Programs – At December 31, 2008, $14,512 had been committed and $6,576 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and $20,443 had been committed and $18,474 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

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

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Throughout 2008, ratings of municipal bond insurers were lowered by the three rating agencies, thereby lowering the ratings of certain MTA and MTA Bridges and Tunnels bonds insured by such insurers. The bond insurer downgrades have affected municipal issuers nationwide, including all major New

York State issuers, in terms of market volatility and increased interest costs on variable rate bonds. These downgrades have not affected the underlying MTA and MTA Bridges and Tunnels bond ratings.

Additionally many regularly scheduled auctions of variable rate bonds currently in the auction mode have been failing since there are not enough buy orders to cover sell orders. In the event of a "failed" auction, certain auctions provide for the periodic rate for such bonds to be set at a stated percentage of one month LIBOR (London Interbank Offered Rate) index, while others have a high maximum rate, ranging from 12% to 15%. Beginning in February 2008, MTA and MTA Bridges and Tunnels auctions began to fail periodically at their respective defined maximum rates. As a result, throughout 2008, MTA has refunded $1,303 of auction rate bonds, and converted $250 to variable rate demand bonds using bank letters of credit. MTA continues to have $863.5 of auction rate bonds outstanding.

On April 10, 2009, Moodys Investors Service Inc. placed the MTAs Transportation Revenue Bonds rating on Watchlist for possible downgrade from their current A2 rating. Moodys explained that this action was prompted by the MTAs projected budget shortfalls and the absence of a long term funding solution to finance future debt service costs on the Transportation Revenue Bonds. The review is expected to be completed within 90 days. The Triborough and Tunnel Authority (TBTA) bonds and MTAs Dedicated Tax Fund bonds are supported by different revenue streams from MTAs Transportation Revenue Bonds and are not affected by the Watchlist action.

Developments Affecting MTA's Financial Condition

The MTA's February Financial Plan (current plan) includes a number of significant deficit reduction measures, in order to achieve a balanced 2009 budget and reduced budget gaps thereafter. These include reductions to service, large fare and toll increases and other deficit reducing actions. Discussions are on-going with the State (described below) in an attempt to secure additional funding that would eliminate the need for service reductions and to reduce the level of fare and toll increase that would be required. As of this date, these efforts have not proven successful; therefore, MTA will proceed with the planned service reductions and fare/toll increases. Should this funding materialize, the MTA and its Board would make the necessary adjustments to the plan. The following describes those deficit-reduction measures that are included in the current plan:

- *Internal Actions*

The gap-closing internal actions proposed in previous plans remain in place. These include 6 percent cost reductions over the plan period and continuing the 1.5 percent annual reduction begun last year. In addition to these measures, the MTA implemented a series of administrative reductions in hiring, travel and food, and telecommunications in 2008, which continue in 2009 at all of the Related Entities.

The February Financial Plan continues to contain assumptions that MTA employees will make a modest contribution to the deficit reduction plan when final collective bargaining agreements are executed.

In addition, MTA expects efficiency measures to save money, especially the efficiencies that will be achieved by the new Business Service Center ("BSC"). BSC will consolidate back-office operations for all MTA affiliates and subsidiaries. This will result in a downsizing of the workforce and this plan, like previous plans, provides funds to cover the expected cost of downsizing. The MTA is expected to begin realizing the savings from these BSC initiatives in 2012. Savings are also assumed from other reorganization initiatives.

In addition, the MTA will utilize an inter-agency loan of $135 to reduce the budget gaps forecasted in both 2009 and 2010, which will be paid back in 2011 and 2012. MTA will also use $120, which had been allocated from the 2006 surplus but not yet committed or spent to date, for capital security and other short-term projects that were transferred back to the operating budget in 2008. In 2009, $80 of such money will be used for budget balancing, and $40 will be redirected to priority unfunded capital security projects. Less critical projects that would have used these funds may be included in the next capital program. MTA will also reduce its subsidy to MTA Long Island Bus by $4 to $10 annually. In addition, in the absence of increased subsidy from Nassau County, it may be necessary for MTA Long Island Bus to reduce expenses or raise revenue by $5 in 2009 in order to balance its budget. Finally, with the approval of the Board, MTA eliminated E-Z Pass forgiveness of official City, State and county vehicles, which is anticipated to generate $10 annually.

These internal actions generated an estimated $137 in savings in 2008, and are projected to result in savings of up to $242 in 2009, $404 in 2010, $217 in 2011 and $354 in 2012.

- *Additional Actions for Budget Balance*

Significant additional agency reductions are required to further reduce the deficit and balance the budget as required by law. The February Plan includes proposals for each of the Related Entities to reduce its budget by an additional 4.7 percent, for an MTA-wide savings of $1,453 over the plan period (this excludes MTA Bus actions of $82 that are targeted to enable the City to reduce its subsidy to MTA Bus).

- *Changes in Service*

Included in agency actions for budget balance are **s**ervice changes that would have the least possible impact on riders. The Related Entities, including MTA Bus, identified savings from service changes of $82 in 2009, $156 in 2010, $154 in 2011 and $155 in 2012 that will be implemented if the MTA does not receive financial assistance from the Ravitch Plan (see below - Commission on MTA Financing) or alternative funding. MTA New York City Transit accounted for most of these proposals with projected savings of $56 in 2009, and $114 in each year from 2010-2012. Implementation of these measures is expected to result in employment reductions that total 1.169 thousand in 2009, 1.245 thousand in 2010 and 1.225 thousand in each year from 2011-2012.

- *Fare/Toll Yield Changes*

The changes, to become effective June 1, 2009, assume that transit and commuter riders and Bridge and Tunnel drivers will contribute to closing the deficit by paying increased fares and tolls which would increase the revenue yields by an annualized 23 percent beginning in 2009. If the MTA does receives financial assistance from the Ravitch Plan (see below) or alternative funding, the amount of these increases could be decreased. The proposal including MTA Bus is projected to result in increased revenues of $685 in 2009, $1,171 in 2010, $1,197 in 2011 and $1,213 in 2012. The February Financial Plan assumes that MTA will resume biennial fare/toll increases as of January 1, 2011 to increase revenue yields by 5 percent, commensurate with inflationary increases; additional revenues of $316 in 2011 and $328 in 2012 are estimated to be generated from such increase.

- *Proposed External Actions from Governmental Partners*

The February Financial Plan proposes legislative changes to federal mandates for commuter railroad employees that, beginning in late 2009, are projected to save $15 and, in subsequent years, roughly $62 annually without affecting employee benefits. The plan also continues to propose State elimination of tax loopholes affecting real estate transactions, which is expected to generate $50 annually beginning in 2009.

- *Commission on MTA Financing*

A Commission on MTA Financing (the Ravitch Commission) was formed, and its members appointed by the Governor in June 2008, to develop strategies to fund MTA essential projects and operating needs. The Ravitch Commission issued its report on December 4, 2008 ("the Report"). The Report makes several recommendations designed to more securely fund the MTA capital plan and agency operations, enhance governance and transparency, and promote mass transportation in the MTA service area.

The recommendations include a new regional mobility tax, which, if enacted as and when proposed in the Report, is expected to generate $1.5 billion on an annual basis, with revenues from such tax to pay for new borrowings and direct expenses associated with funding MTA capital improvements and debt service associated with the MTA's current portfolio of system expansion projects; creation of a new MTA subsidiary, the MTA Capital Finance Authority, to manage the budgetary impact of expenditures paid for and revenues generated by the new regional mobility tax; and cashless tolling on the Harlem and East River Bridges, estimated in the Report to generate $600 in net revenue on an annual basis, after payment of costs relating to the upkeep of the bridges, to be used to pay for the costs of installing the electronic toll system as well as to support additional mass transit improvements.

Other recommendations in the Report include establishing a Board fare-approval process permitting regular, predictable, inflation-indexed fare and toll increases without extensive public hearings; amending the MTA governance statute to vest full executive authority in the office of the Chairman of the MTA Board, with authority to delegate powers to a Board-appointed Executive Director, changing MTA project management practices to streamline project execution and developing a reporting methodology consistent with those set forth in the Guidelines of the Government Finance Officers Association; improving bus service system-wide through the implementation of the Bus Rapid Transit strategy; and creating a new MTA subsidiary, the Regional Bus Authority, to be the single entity responsible for bus service in the MTA Commuter Transportation District.

On March 25, with the State legislature and Governor unable to reach agreement on the Ravitch Commission proposals or alternative funding plans, the MTA Board approved a series of fare and toll increases to be implemented by mid-year 2009 that are designed to yield the 23 percent increase in fare and toll revenues, as well as approving service reductions outlined in the February Financial Plan. However, discussions are on-going and it is hoped that a funding solution can be reached.

- *Preliminary Financial Results and Other Factors*

The ability of MTA to achieve the 2009 balanced budget and reduced projected budget gaps in 2010 through 2012 reflected in the February Financial Plan for 2009-2012 is dependent upon a number of factors including general economic, market and employment conditions in the State, the City and the MTA Commuter Transportation District and future actions by third parties, including MTA's governmental partners. Fuel and energy costs and other expenses beyond MTA's control are likely to remain volatile. Worsening economic conditions could also adversely affect projected fare receipts from the Transit and Commuter Systems and toll revenues from MTA Bridges and Tunnels, in particular, if unemployment in the core business district erodes further.

Information on certain real estate-related subsidy cash receipts is available through March 2009 and shows such receipts to be significantly below budgeted levels for the first three months of the year.

Through March 2009, real estate-related taxes and subsidies were $123 or 56 percent below budget. Regional mortgage recording tax ("MRT") receipts were $40 or 42 percent below budget, while New York City Urban Tax receipts were $84 or 67 percent below budget.

The State has advised MTA that projections of dedicated tax collections for MTA's current fiscal year are now estimated to be up to $200 lower than amounts appropriated in the State's enacted Budget and as assumed in the February Financial Plan. The State has also advised MTA that portions of the monthly cash receipts from the dedicated tax collections may be paid to MTA at times later than those assumed by MTA in its February Financial Plan. Notwithstanding the forgoing, MTA expects to receive its portion of the dedicated tax collections in 2009 by calendar year-end.

MTA will continue to closely monitor its finances, including the subsidies referenced above. The July Financial Plan will include re-estimates of all MTA receipts and expenditures and will also include proposals for actions that are necessary to maintain budgetary balance.

* * * * * *

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
($ in Millions)

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	$ 206	$ 130
Restricted investment (Notes 3)	1,083	1,682
Unrestricted investments (Note 3)	246	21
Investments held under captial leases current	245	8
Receivables:		
Station maintenance, operation, and use assessments	108	104
State and regional mass transit taxes	50	47
Mortgage Recording Tax receivable	20	43
State and local operating assistance	7	8
Other subsidies	18	81
Connecticut Department of Transportation	14	20
New York City	63	101
Due from Hudson Yards Infrastructure Corporation	33	67
Capital project receivable from federal and state government	309	209
Other	208	222
Less allowance for doubtful accounts	(23)	(23)
Total receivables - net	807	879
Materials and supplies	414	381
Advance to defined benefit pension trust	66	166
Prepaid expenses and other current assets (Note 2)	133	258
Total current assets	3,200	3,525
NONCURRENT ASSETS:		
Capital assets - net (Note 6)	43,323	40,611
Restricted investment held under capital lease obligations (Notes 3 and 8)	1,099	1,483
Restricted investments (Notes 3)	1,890	1,911
Unrestricted investments (Note 3)	77	313
Receivable from New York State	2,145	2,197
Other noncurrent assets	1,723	1,729
Total noncurrent assets	50,257	48,244
TOTAL ASSETS	$ 53,457	$ 51,769

(Continued)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
($ in millions)

	2008	2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 497	$ 447
Accrued expenses:		
Interest	218	201
Salaries, wages and payroll taxes	213	231
Vacation and sick pay benefits	716	684
Current portion — retirement and death benefits	259	228
Current portion — estimated liability from injuries to persons (Note 9)	205	199
Other	664	751
Total accrued expenses	2,275	2,294
Current portion — long-term debt (Note 7)	191	391
Current portion — obligations under capital lease (Note 8)	240	7
Current portion of pollution remediation projects (Note 11)	19	-
Deferred revenue	391	353
Total current liabilities	3,613	3,492
NONCURRENT LIABILITIES:		
Retirement and death benefits	40	42
Estimated liability arising from injuries to persons (Note 9)	1,125	1,033
Post employment benefits other than pensions (Note 5)	2,638	1,290
Long-term debt (Note 7)	25,936	24,515
Obligations under capital leases (Note 8)	1,192	1,619
Pollution remediation projects (Note 11)	86	-
Contract retainage payable	214	177
Other long-term liabilities	279	304
Total noncurrent liabilities	31,510	28,980
Total liabilities	35,123	32,472
NET ASSETS:		
Invested in capital assets — net of related debt	15,790	15,903
Restricted for debt service	972	996
Restricted for claims	96	92
Unrestricted	1,476	2,306
Total net assets	18,334	19,297
TOTAL LIABILITIES AND NET ASSETS	$ 53,457	$ 51,769

(Concluded)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007
($ in millions)

	2008	2007
OPERATING REVENUES:		
Fare revenue	$ 4,241	$ 3,995
Vehicle toll revenue	1,274	1,251
Rents, freight, and other revenue	417	420
Total operating revenues	5,932	5,666
OPERATING EXPENSES:		
Salaries and wages	4,560	4,339
Retirement and other employee benefits	1,876	1,690
Postemployment benefits other than pensions	1,656	1,575
Traction and propulsion power	307	294
Fuel for buses and trains	287	193
Insurance	(1)	66
Claims	152	164
Paratransit service contracts	299	233
Maintenance and other operating contracts	584	520
Professional service contracts	204	181
Pollution remediation projects (Note 11)	43	-
Materials and supplies	532	518
Depreciation	1,791	1,689
Other	33	40
Total operating expenses	12,323	11,502
OPERATING LOSS	(6,391)	(5,836)
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations, and taxes:		
Tax-supported subsidies — NYS	2,434	2,291
Tax-supported subsidies — NYC and local	1,116	1,814
Operating subsidies — NYS	208	211
Operating subsidies — NYC and local	191	188
Total grants, appropriations, and taxes	$ 3,949	$ 4,504

(Continued)

See notes to consilidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007
($ in millions)

	2008	2007
Operating subsidies recoverable from Connecticut Department on NYC	$ 64	$ 64
Subsidies paid to Dutchess, Orange, and Rockland Counties	(11)	(17)
Suburban Highway Transporation Fund Subsidy	-	(20)
Interest on long-term debt	(1,209)	(1,054)
Station maintenance, operation and use assessments	148	142
Other non-operating revenue	37	116
Net non operating revenues	2,978	3,735
LOSS BEFORE APPROPRIATIONS	(3,413)	(2,101)
APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	2,450	2,035
CHANGE IN NET ASSETS	(963)	(66)
NET ASSETS — Beginning of period	19,297	19,363
NET ASSETS — End of period	$ 18,334	$ 19,297

(Concluded)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
($ in millions)

	2008	2007
CASH FLOWS PROVIDED BY (USED) IN OPERATING ACTIVITIES:		
Passenger receipts/tolls	$ 5,750	$ 5,472
Rents and other receipts	283	326
Payroll and related fringe benefits	(6,472)	(6,376)
Other operating expenses	(2,444)	(2,406)
Net cash used in operating activities	(2,883)	(2,984)
CASH FLOWS PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	4,117	4,512
Operating subsidies from CDOT	66	60
Suburban Transportation Fund Subsidy	(20)	(20)
Subsidies paid to Dutchess, Orange, and Rockland counties	(17)	(20)
Net cash provided by noncapital financing activities	4,146	4,532
CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	2,703	1,290
MTA Bridges and Tunnels bond proceeds	2,271	228
MTA bonds refunded	(2,630)	(211)
MTA Bridges and Tunnels bonds refunded	(673)	(91)
MTA anticipation notes proceeds	630	750
MTA anticipation notes redeemed	(711)	(439)
Capital lease payments	(17)	(158)
Grants and appropriations	2,478	2,017
CDOT capital contributions	1	1
Capital expenditures	(4,528)	(4,197)
Debt service payments	(1,534)	(1,608)
Net cash used in capital and related financing activities	(2,010)	(2,418)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchase of long-term securities	(7,179)	(5,015)
Sales or maturities of securities — long-term	8,863	4,938
(Purchase)/sale of short-term securities	(1,005)	682
Earnings on investments	144	240
Net cash provided by in investing activities	823	845
NET INCREASE (DECREASE) IN CASH	76	(25)
CASH — Beginning of period	130	155
CASH — End of period	$ 206	$ 130

(Continued)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
($ in millions)

	2008	2007
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (6,391)	$ (5,836)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,791	1,689
Net increase in payables, accrued expenses, and other liabilities	1,544	1,390
Net decrease (increase) in receivables	18	(32)
Net decrease (increase) in materials and supplies and prepaid expenses	155	(195)
NET CASH USED IN OPERATING ACTIVITIES	$ (2,883)	$ (2,984)

See notes to consolidated financial statements.

(Concluded)

1. BASIS OF PRESENTATION

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

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

Metropolitan Transportation Authority and Related Groups —

- Metropolitan Transportation Authority Headquarters ("MTAHQ") provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the related groups listed below.

- The Long Island Rail Road Company ("MTA Long Island Rail Road") provides passenger transportation between New York City ("NYC") and Long Island.

- Metro-North Commuter Railroad Company ("MTA Metro-North Railroad") provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.

- Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway") provides passenger transportation on Staten Island.

- Metropolitan Suburban Bus Authority ("MTA Long Island Bus") provides public bus service in NYC and Nassau County, New York.

- First Mutual Transportation Assurance Company ("FMTAC") provides primary insurance coverage for certain losses, some of which are reinsured, and assumes reinsurance coverage for certain other losses.

- MTA Capital Construction Company ("MTA Capital Construction") provides oversight for the planning, design and construction of current and future major MTA system-wide expansion projects.

- MTA Bus Company ("MTA Bus") operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.

- MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, MTA Long Island Bus, FMTAC, MTA Capital Construction, and MTA Bus, collectively are referred to herein as MTA. MTA Long Island Rail Road and MTA Metro-North Railroad are referred to collectively as the Commuter Railroads.

- New York City Transit Authority ("MTA New York City Transit") and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA"), provide subway and public bus service within the five boroughs of New York City.

- Triborough Bridge and Tunnel Authority ("MTA Bridges and Tunnels") operates seven toll bridges, two tunnels, and the Battery Parking Garage, all within the five boroughs of New York City.

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

Although the MTA Group collect fares for the transit and commuter service they provide and receive revenues from other sources such as the leasing out of real property assets and the licensing of advertising, such revenues, including forecast increased revenues from fare increases, are not sufficient to cover all operating expenses associated with such service. Therefore, to maintain a balanced budget, the members of the MTA Group providing transit and commuter service rely on operating surpluses transferred from MTA Bridges and Tunnels, operating subsidies provided by NYS and certain local governmental entities in the MTA commuter district, and service reimbursements from certain local governmental entities in the MTA commuter district and from the State of Connecticut. Operating subsidies to the MTA Group for transit and commuter service in the current year total $ 3.9 billion.

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

2005-2009 Capital Program **–** Capital programs covering the years 2005-2009 were originally approved by the MTA Board in April 2005 and subsequently by the CPRB in July 2005 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the "2005–2009 Commuter Capital Program"), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, and the rail system operated by MTA Staten Island Railway (the "2005–2009 Transit Capital Program"), and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the "2005–2009 MTA Bridges and Tunnels Capital Program"). The 2005–2009 MTA Bridges and Tunnels Capital

Program was effective upon adoption by the MTA Board in April 2005. The 2005–2009 amended Commuter Capital Program and the 2005–2009 Transit Capital program (collectively, the “2005–2009 MTA Capital Programs”) were last amended by the MTA Board in July 2008. This latest 2005-2009 MTA Capital Program amendment was submitted to the CPRB for approval in July 2008, but was subsequently withdrawn.

As last amended by the MTA Board, the 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program, provide for $23,717 in capital expenditures, of which $11,154 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; $3,617 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; $6,899 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; $495 relates to a multi-faceted security program; $198 relates to MTA interagency initiatives including MTA Police Department plus an MTA-wide integrated computer systems initiative, $145 relates to MTA Bus company initiatives; and $1,209 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities.

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

At December 31, 2008, $14,512 had been committed and $6,576 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program.

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

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

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

At December 31, 2008, $20,443 had been committed and $18,474 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

Liability Insurance — FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program ("ELF") that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2001, but before November 1, 2006, the self-insured retention limits are: $7 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road, and MTA Metro-North Railroad; $2 million for MTA Long Island Bus; and $1.4 million for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2006, the self-insured retention limits for ELF were increased to the following amounts: $8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road and MTA Metro-North Railroad; $2.3 million for MTA Long Island Bus; and $1.6 million for MTAHQ and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than $50 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of $50 million per occurrence with a $50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2008, the balance of the assets in this program was $62.1 million.

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

On March 1, 2008, the "nonrevenue fleet" automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA Group with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides $8 million per occurrence limit with a $0.5 million per occurrence deductible. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

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

On December 15, 2008, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies $8 million per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance – Effective October 31, 2007, FMTAC renewed the all-agency property insurance program. For the period October 31, 2007 through May 1, 2009, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a $25 million per occurrence self-insured retention ("SIR"), subject to an annual $75 million aggregate. Losses occurring after the retention aggregate is exceeded are subject to a deductible of $7.5 million per occurrence. The total program limit has been maintained at $1.25 billion per occurrence covering property of the related entities collectively. With the exception of acts of terrorism (both domestic and foreign), FMTAC is reinsured in the domestic, London, European, and Bermuda marketplaces for this coverage. Given the absence of major catastrophes in 2006 and 2007, available capacity has emerged, along with pricing reductions. As a result, FMTAC was able to obtain additional reinsurance capacity over last year and has fully reinsured the all-risk component for the full $1.25 billion, subject to certain program sublimits.

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

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

To supplement the reinsurance to FMTAC through TRIA of 2007, the MTA obtained an additional commercial reinsurance policy with Lexington Insurance Co. Lexington Insurance Company is part of the AIG Property and Casualty Group (the Insurance Group). The 16 companies comprising the Insurance Group were all profitable in 2008. The various companies comprising the Insurance Group, which are incorporated in four states, New York, Pennsylvania, Delaware and Illinois, are protected from weaknesses in the financial position of American International Group, Inc. by insurance regulations in each of the above-referenced states. These statutory protections are designed to protect policyholders from the financial weaknesses at American International Group, Inc. That policy provides coverage for (1) 15 percent of any "certified" act of terrorism - up to a maximum recovery of $183.75 million for any one occurrence, or (2) 100 percent of any "certified" terrorism loss which does not reach the $100 million trigger – up to a maximum recovery of $100 million for any occurrence. This coverage expires on April 30, 2009. Recovery under this policy is subject to a retention of $25 million per occurrence and $75 million in the annual aggregate – in the event of multiple losses during the policy year. Should the MTA Group's retention in any one year exceed $75 million, future losses in that policy year are subject to a retention of just $7.5 million.

Operating Revenues

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

Nonoperating Revenues

Operating Assistance — The MTA Group receives, subject to annual appropriation, NYS operating assistance funds that are generally recognized as revenue when all applicable eligibility requirements are met. Generally, funds received under the NYS operating assistance program are fully matched by contributions from NYC and the seven other counties within the MTA's service area.

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

- MRT-1 proceeds are initially used to pay MTAHQ's operating expenses. Remaining funds, if any, are allocated 55 percent to certain transit operations and 45 percent to the commuter railroads operations. The commuter railroad portion is first used to fund the NYS Suburban Highway Transportation Fund in an amount not to exceed $20 annually (subject to the moneys being returned under the conditions set forth in the governing statute if the Commuter Railroads are operating at a deficit). As of December 31, 2008 and December 31, 2007, the amount allocated to NYS Suburban Highway Transportation Fund was $0 and $20 respectively. Of the New York City Transit portion, the MTA distributed $115.3 and $0 as of December 31, 2008 and December 31, 2007, respectively.

- The first $5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange, and Rockland Fund ($1.5 each for Dutchess and Orange Counties and $2 for Rockland County). Additionally, the MTA must transfer to each County's fund an amount equal to the product of (i) the percentage by which each respective County's mortgage recording tax payments (both MRT-1 and MRT-2) to the MTA increased over such payments in 1989 and (ii) the base amount received by each county as described above. The counties do not receive any portion of the June 1, 2005 increase in MRT-1 from 25 cents per $100 of recorded mortgage to 30 cents. Excess amounts transferable to the counties as of December 31, 2008 and 2007, were $5.7 and $11.7, respectively. In 2008, the MTA distributed $24.6 to MTA Bus and paid to Dutchess, Orange and Rockland Counties the 2007 excess amounts of MRT1 and MRT-2 totaling $11.7. The amount due to the counties for the period ended December 31, 2008 was paid in February of 2009.

- In addition, MTA New York City Transit receives operating assistance directly from NYC through a mortgage recording tax at the rate of .625 of one percent of the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of the assessed value (collectively referred to as "Urban Tax Subsidies") of certain properties.

Dedicated Taxes — Under NYS law, subject to annual appropriation, the MTA receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund ("MTTF") and Metropolitan Mass Transportation Operating Assistance Fund ("MMTOA"). The MTTF receipts consist of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and nonregistration fees. Effective October 1, 2005, the State increased the amount of motor vehicle fees deposited into the MTTF for the benefit of the MTA. MTTF receipts are applied first to meet certain debt service requirements or obligations and second to pay operating and capital costs. The MMTOA receipts are comprised of .375 of one percent regional sales tax (which was increased effective June 1, 2005 from .25 of one percent), a temporary regional franchise tax surcharge, a portion of taxes on certain transportation and transmission companies, and an additional portion of the business privilege tax imposed on petroleum businesses. MMTOA receipts, to the extent that MTTF receipts are not sufficient to meet debt service requirements, will also be applied to certain debt service obligations, and secondly to operating and capital costs of the Transit System, and the Commuter Railroads.

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

Operating Subsidies Recoverable from Connecticut Department of Transportation ("CDOT") — The portion of the deficit from operations relating to MTA Metro-North Railroad's New Haven line is recoverable from CDOT. Under the terms of a renewed Service Agreement, which began on January 1, 2000, and the 1998 resolution of an arbitration proceeding initiated by the State of Connecticut, CDOT pays 100 percent of the net operating deficit of MTA Metro-North Railroad's branch lines in Connecticut (New Canaan, Danbury, and Waterbury), 65 percent of the New Haven mainline operating deficit, and a fixed fee for the New Haven line's share of the net operating deficit of Grand Central Terminal ("GCT") calculated using several years as a base, with annual increases for inflation and a one-time increase for the cost of operating GCT's North End Access beginning in 1999. The Service Agreement also provides that CDOT pay 100 percent of the cost of nonmovable capital assets located in Connecticut, 100 percent of movable capital assets to be used primarily on the branch lines and 65 percent of the cost of other movable capital assets allocated to the New Haven line. Remaining funding for New Haven line capital assets is provided by the MTA. The Service Agreement provides for automatic five-year renewals unless a notice of termination has been provided. The Service Agreement has been automatically renewed for an additional five years beginning January 1, 2005. Capital assets completely funded by CDOT are not reflected in these financial statements, as ownership is retained by CDOT. The Service Agreement provides that final billings for each year are subject to audit by CDOT. Years subsequent to 2000 remain subject to final audit.

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

- Pursuant to an agreement NYS and NYC each pays to MTA $44.2 and $45 respectively annually to cover a portion of the cost of the free-fare student program. The State, however, reduced its $45 contribution for the 2007 – 2008 school year by approximately $2.0 to $43, which was received in 2008. The estimated cost of this program is approximately $179 for the 2008-2009 school year. It is believed the City will continue to provide for the continuation of the City's $45 contribution for the 2008-2009 school year, of which $15 was received in December 2008. The Authority's approved 2009 Adopted Budget assumes that the remaining $30 from the City will be received in 2009. It also assumes that the State's full $45 for the 2008-2009 school year will be received in 2009. The Authority's 2010-2012 Financial Plan assumes the continuation of the joint funding of the free fare program for students.

- Policing of the transit system is carried out by the NYC Police Department at NYC's expense. The MTA, however, continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by NYC. The MTA received approximately $3.8 in the twelve months ended December 31, 2008, and $4.2 in the twelve months ended December 31, 2007 for the reimbursement of Transit police costs. In addition, $0.9 was received in January of 2009 for the period ending December 31, 2008.

- Federal law and regulations require a paratransit system for passengers who are not able to ride the buses and trains because of their disabilities. Pursuant to an agreement between NYC and the MTA, MTA New York City Transit had assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. The services are provided by private vendors under contract with MTA New York City Transit. NYC reimburses the MTA for the lesser of 33 percent of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6.0 percent of gross Urban Tax Subsidies, or an amount that is 20.0 percent greater than the amount paid by the NYC for the preceding calendar year. Fare revenue and reimbursements aggregated approximately $93.5 for the twelve months ended December 31, 2008 and $111.8 in the twelve months ended December 31, 2007. Total paratransit expenses including paratransit service contract were $366.2 and $282.3 in 2008 and 2007 respectively.

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

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

Recent Accounting Pronouncements — The MTA has completed the process of evaluating the impact that will result from adopting GASB Statement No. 45, *Accounting and Financial*

Reporting by Employers for Postemployment Benefits Other Than Pensions and has disclosed the required information as per this statement in Note 5. The Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The Statement was effective for financial statement periods beginning after December 15, 2006.

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

The MTA has implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. The Statement is effective for fiscal periods beginning after December 15, 2007. For the year ended December 31, 2008 the MTA recorded expenses of $43.1 as a result of adopting GASB Statement No. 49. (See Note 11)

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

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

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. This statement is effective for financial statements for periods beginning after June 15, 2010.

3. CASH AND INVESTMENTS

Cash, including deposits in transit, consists of the following at December 31, 2008 and 2007:

	December 2008		December 2007	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	$ 130	$ 127	$ 69	$ 69
Uninsured and not collateralized	76	37	61	79
	$ 206	$ 164	$ 130	$ 148

All collateralized deposits are held by the MTA or its agent in the MTA's name.

The MTA, on behalf of the Transit operations, MTA Bridges and Tunnels, MTA Long Island Bus, and MTA Bus operations, invests funds which are not immediately required for the MTA's operations in securities permitted by the New York State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds.

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

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

Investments, at fair value, consist of the following at December 31, 2008 and 2007:

	December 2008		December 2007	
Repurchase agreements		$ 780		$ 585
U.S. Treasuries due 2008 - 2022		1,071		1,967
Investments restricted for capital lease obligations:				
US Treasury Notes	-		8	
Treasury Strips	153		112	
Other Agencies	1,191		1,371	
Sub-total		1,344		1,491
Other Agencies due 2008 - 2021		1,264		1,055
Commercial Paper due 2008		-		99
* Asset & Mortgage Back Securities		16		57
* Commercial Mortgage Backed Securities		35		26
* Corporate Bonds		88		120
* Foreign Bonds		31		
* Equities		11		18
Total	$ 1,344	$ 4,640	$ 1,491	$ 5,418

*FMTAC Investment

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

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

All investments, other than the investments restricted for capital lease obligations, are either insured or registered and held by the MTA or its agent in the MTA's name. Investments restricted for capital lease obligations are either held by MTA or its agent in the MTA's name or held by a custodian as collateral for MTA's obligation to make rent payments under capital lease obligation. Investments had weighted average yields of 2.8 percent and 4.1 percent at year end for the years, 2008 and 2007, respectively.

Of the above cash and investments, amounts designated for internal purposes by management were as follows at December 31, 2008 and 2007:

	December 2008	December 2007
Construction or acquisition of capital assets	$ 956	$ 1,975
Funds received from affiliated agencies for investment	688	830
Debt service	353	230
Payment of claims	363	296
Restricted for capital leases	1,387	1,491
Other	693	306
Total	$ 4,440	$ 5,128

Credit Risk — At December 31, 2008 and 2007, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization:

Quality Rating Moody's	2008 Total	Percent of Portfolio	2007 Total	Percent of Portfolio
A-1+	$ 890	24.43 %	$ 181	3.94 %
A-1	-	-	63	1.36
AAA	570	15.66	1,122	24.43
AA	17	0.49	23	0.50
A	66	1.84	64	1.39
BBB	33	0.90	30	0.65
Not Rated	828	22.70	505	11.01
Government	1,239	33.98	2,604	56.72
Total	3,643	100.00 %	4,592	100.00%
Investments not rated	997		826	
Total Investment	$ 4,640		$ 5,418	

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.

	2008		2007	
Securities	**Fair Value**	**Duration**	**Fair Value**	**Duration**
U.S. Treasuries	$ 1,071	0.32	$ 2,293	0.13
U.S. Agencies	1,252	0.72	1,070	0.25
Tax Benefits Lease Investments	347	16.50	311	15.91
Repurchase Agreement	780	0.00	620	0.00
Certificate of Deposits	11	0.00	11	0.16
Asset-Backed Securities (1)	16	1.94	99	0.07
Commercial Mortgage-Backed Securities (1)	35	4.10	27	1.15
Foreign Bonds (1)	31	4.06	22	5.47
Corporates (1)	89	2.44	121	5.03
Total fair value	3,632		4,574	
Modified duration		2.07		1.37
Equities (1)	11		18	
Total	3,643		4,592	
Investments with no duration reported	997		826	
Total Investments	$ 4,640		$ 5,418	

(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.

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's or banks 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;

- certain mortgage backed securities in amounts no greater than five percent of FMTAC's admitted assets.

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

- certain equities; and
- certain mutual funds.

FMTAC is prohibited from making the following investments:

- Investment in an insolvent entity;
- Any investment as a general partner; and

- Any investment found to be against public policy.

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

4. EMPLOYEE BENEFITS

Substantially all of the MTA Group entities related groups and pension plans have separately issued financial statements that are publicly available and contain descriptions and supplemental information regarding employee benefit plans. These statements may be obtained by calling 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 pension defined benefit plan that provides retirement, disability and death benefits to plan members and beneficiaries. The LIRR Plan is administered by the MTA Defined Benefit Pension Board 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 Metropolitan Transportation Authority, comptroller, 345 Madison Avenue, New York, New York 10017-3739.

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 percent of their wages. The MTA Long Island Rail Road contributes additional amounts based on actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. The current rate is 123.98 percent of annual covered annual payroll.

The funded status of the LIRR Plan as of January 1, 2008 the most recent actuarial valuation date, is as follows:

	2008
Annual required contribution ("ARC")	$ 100.3
Interest on net pension obligation	3.2
Adjustment to ARC	(3.8)
Annual pension cost	99.7
Actual contributions made	(100.0)
Decrease in net pension obilgation	(0.3)
Net pension obligation beginning of year	40.4
Net pension obligation end of year	$ 40.1

Three-Year Trend Information

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

Funded Status and Funding Progress - As January 1, 2008, the most recent actuarial valuation date, the LIRR Plan was 34.5 percent funded. The actuarial accrued liability for benefits was $1,560.1, and the actuarial value of assets $537.6, resulting in an unfunded actuarial accrued liability ("UAAL") of $1,022.5. The covered payroll (annual payroll of active employees covered by the LIRR plan) was $80.9, and the ratio of the UUAL to the covered payroll was 1,263.5 percent.

Year Ended	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
12/31/2008	$ 99.7	100.23 %	$ 40.1
12/31/2007	100.4	100.50	40.4
12/31/2006	106.5	101.91	175.6

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, 2008 were not changed from those used for the LIRR Plan at January 1, 2006 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, 2006 were as follows: the actuarial cost method and amortization method used was the entry age normal cost for all periods. For January 1, 2006 the amortization period for unfunded accrued liability was 27 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 was 8.0 percent for all periods. Investments and administrative expenses are paid from plan assets of the LIRR Plan. The remaining amortization period at December 31, 2008 was 25 years.

Metro North Cash Balance Plan

Plan Description - The Metro-North Commuter Railroad Company Cash Balance Plan (the "MNR 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 June 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 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 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 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 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 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 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 Plan have been made by the Trustee. MTA Metro-North Railroad anticipated that no further payments would be made to the MNR Plan. However, the January 1, 2005 actuarial valuation resulted in an unfunded accrued liability of \$110 and the \$0.7 annual required contribution was paid to the MNR Plan in 2005. The January 1, 2007 actuarial valuation resulted in an unfunded accrued liability of \$.075 and the \$.01 annual required contribution was paid to the MNR Plan in 2007. The January 1, 2008 actuarial valuation resulted in an unfunded accrued liability of \$.065 and the \$.014 annual required contribution was paid to the MNR Plan in 2008. The market value of net assets available for benefits in the trust fund at December 31, 2008 was \$1.2, which is less than the current PBO of \$1.3. The MTA Metro-North Railroad has accrued this unfunded liability.

The funded status of the MNR Plan as of January 1, 2008 the most recent actuarial valuation date is as follows:

Amounts in thousands	2008
Annual required contribution	$ 14.0
Interest on net pension obligation	(4.0)
Adjust to annual required contribution	10.0
Annual pension cost	20.0
Actual contributions	(14.0)
Increase in net obilgation	6.0
Net pension obligation beginning of year	(78.0)
Net pension obligation end of year	$ (72.0)

Three-Year Trend Information

Year Ended	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
Amounts in thousands			
12/31/2008	$ 20.0	68.73 %	$ (72.0)
12/31/2007	16.0	58.83	(78.0)
12/31/2006	20.0	63.91	(85.0)

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

Funded Status and Funding Progress - As of January 1, 2008, the most recent actuarial valuation date, the MNR Plan was 95.4 percent funded. The actuarial accrued liability for benefits was $1.4, and the actuarial value of assets was $1.3, resulting in an unfunded actuarial accrued liability (UAAL) of $0.065. The covered payroll (annual payroll of active employees covered by the plan) was $6.8, and the ratio of the UAAL to the covered payroll was 1.0 percent.

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 Assumption- 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.

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. MaBSTOA provides retirement, disability, and death benefits to plan members and beneficiaries which are similar to those benefits provided by NYCERS to similarly situated MTA New York City Transit employees. Article 12.08 of the MaBSTOA 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 – The contribution requirements of plan members are established and may be amended only by the MaBSTOA Board in accordance with Article 10.01 of the MaBSTOA's Plan. MaBSTOA's funding policy for periodic employer contributions is to provide for 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 employee entering qualifying service on or after July 27, 1976 are required to contribute 3% of their salary (See 2000 Plan Amendments). MaBSTOA's contribution rate is 35.9 percent of annual covered payroll.

MTA New York City Transit's contributions to the MaBSTOA Plan for the years ended December 31, 2008, 2007 and 2006 were $201.9, $179.2 and 159.6, respectively, equal to the annual required contributions for each year.

The funded status of the MaBSTOA Plan as of January 1, 2008 the most recent actuarial valuation date is as follows:

Amounts in thousands	**2008**
Annual required contribution	$ 201.9
Interest on net pension obligation	(3.7)
Adjust to annual required contribution	5.1
Annual pension cost	203.3
Actual contributions	(201.9)
Increase in net obilgation	1.4
Net pension obligation beginning of year	(46.0)
Net pension obligation end of year	$ (44.6)

Three-Year Trend Information

Year Ending	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
12/31/2008	$ 203.3	99.3 %	$ (44.6)
12/31/2007	180.7	99.2	(46.0)
12/31/2006	157.6	165.0	(47.5)

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

Funded Status and Funding Progress – As of January 1, 2008, the most recent actuarial valuation date, the MaBSTOA Plan was 58.2 percent funded. The actuarial accrued liability for benefits was $2,045.0, and the actuarial value of assets $1,190.8, resulting in an unfunded actuarial accrued liability (UAAL) of $854.1. The covered payroll (annual payroll of active employees covered by the MaBSTOA Plan) was $562.2, and the ratio of the UUAL to the covered payroll was 151.9 percent.

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, 2008 valuation reflects the actuarial assumptions adopted by the MTA New York City Transit based on the 2001 – 2005 Experience Study effective with the valuation. These changes increased the life expectancy for members included in the valuation, incorporated future anticipated mortality improvements, decreased rates of turnover and modified rates of retirement, so fewer retirements are expected for members with less than 20 years of service and more retirements are expected for members with at least 20 years of service. These changes increased the unfunded accrued liability by $135.5, which is being amortized over 10 years, and increased the total employer contribution by $24.4.

The assumptions included an 8.0 percent investment rate of return and assumed general wage increases 3.5 percent to 18.0 percent for operating employees and 4.5 percent and 7.0 percent for non-operating employees per year, depending on years of service. This also includes an inflation component of 2.5 percent per year.

Annual pension costs and related information about each plan follows:

	Single-Employer Plans		
	LIRR	MaBSTOA	MNR Cash Balance Plan
Date of valuation	1/1/2008	1/1/2008	1/1/2008
Required contribution rates:			($ in Thousands)
Plan members			
Employer:	variable actuarially determined	variable actuarially determined	variable actuarially determined
Employer contributions made in 2008	$ 100.0	$ 201.9	$ 14.0
Three-year trend information:			
Annual Required Contribution			
2008	$ 100.3	$ 201.9	$ 14.0
2007	100.9	179.2	10.0
2006	108.5	159.6	13.0
Percentage of ARC contributed:			
2008	100%	100%	100%
2007	100%	100%	100%
2006	100%	163%	100%
Annual Pension Cost (APC):			
2008	$ 99.7	$ 203.3	$ 20.0
2007	100.4	180.7	16.0
2006	106.5	157.6	20.0
Net Pension Obligation (NPO) (assets) at end of year:			
2008	$ 40.1	$ (44.6)	$ (72.0)
2007	40.4	(46.0)	(78.0)
2006	175.6	(47.5)	(85.0)
Percentage of APC contributed:			
2008	100%	99%	69%
2007	101%	99%	59%
2006	102%	165%	64%
Components of APC			
Annual required contribution (ARC)	$ 100.3	$ 201.9	$ 14.0
Interest on NPO	3.2	(3.7)	(4.0)
Adjustment of ARC	(3.8)	5.1	10.0
APC	99.7	203.3	20.0
Contributions made	(100.0)	(201.9)	(14.0)
Change in NPO (assets)	(0.3)	1.4	6.0
NPO (assets) beginning of year	40.4	(46.0)	(78.0)
NPO (assets) end of year	$ 40.1	$ (44.6)	$ (72.0)

	Single-Employer Plans		
	LIRR	MaBSTOA	MNR Cash Balance Plan
Actuarial cost method	Entry age normal	Entry age normal frozen initial liability	Entry age normal frozen initial liability
Method to determine actuarial value of plan assets	5-year smoothing	5-year smoothing	5-year smoothing
Investment return	8.00%	8.00%	6.49%
Projected salary increases	3.5%	3.5% - 18.0%	3.5% - 36.2%
Consumer price inflation	2.50%	2.50%	2.50%
Amortization method and period	level dollar / 25 years	level dollar / 16 years	level dollar / 10 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 nonrepresented employees hired after December 31, 1987, and MTA Metro-North Railroad nonrepresented employees, certain MTA Long Island Bus employees hired prior to January 23, 1983, MTA Police, certain MTA Long Island Rail Road represented employees hired after December 31, 1987, certain MTA Metro-North Railroad represented employees, employees of MTA Staten Island Railway and certain employees of the MTA Bus Company ("MTA Bus"). MTA Long Island Rail Road, MTA Metro-North Railroad, MTA, MTA Staten Island Railway and MTA Bus contribute to the MTA Plan, which offers distinct retirement, disability, and death benefits for covered MTA Metro-North Railroad and MTA Long Island Rail Road employees, covered MTA Bus employees, and participants of the MTA 20-Year Police Retirement Program, MTA Long Island Bus Employees' Pension Plan, and the Staten Island Railway Pension Program. Participants of the MTA Police Program contribute to that program at various rates. Annual pension costs and related information about this plan are presented in the following table for all years presented as if the plan was a single-employer plan at the MTA level The MTA Plan may be amended by action of the MTA Board.

A stand-alone financial report may be obtained by writing to the MTA Comptroller, 347 Madison Avenue, New York, New York, 10017. The current rate is 89.1 percent of annual covered payroll. The contribution requirements of the plan members and the MTA are established and may be amended by the MTA Board.

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 under the MSBA

Employee's Pension Plan. The current rate is 89.1 percent of annual covered payroll. The contribution requirements of the plan members and the MTA are established and may be amended by the MTA Board. The MTA's contributions to the Plan for the years ending December 31, 2008, 2007 and 2006 were $107.8, $106.6 and $72.6, respectively, equal to the required contributions for each year.

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

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

Covered MTA Metro-North Railroad and MTA Long Island Rail Road represented employees who first became eligible to be Plan participants on or after January 1, 2004 and MTA Staten Island Railway employees contribute 3 percent of salary. For these MTA Long Island Rail Road and MTA Staten Island Railway employees, contributions are not required after the completion of ten years of credited service**.** For certain Metro-North represented employees, the 3 percent contributions are required until January 1, 2017 and for others, June 30, 2017.

Covered MTA Bus employees contribute a fixed dollar amount which varies by depot. Currently, at Yonkers Depot, the employees contribute $21.50 per week, at College Point, Baisley Park and LaGuardia Depots, represented employees contribute $29.06 per week, at Eastchester, $25.00 per week at Spring Creek, cleaners contribute $23.15 per week and bus drivers and other titles $32.00 per week. The plans covering the non-represented employees at Yonkers, Spring Creek, Baisley Park and LaGuardia and all employees at JFK and Far Rockaway are non-contributory. (Note: the dollar figures in this paragraph are in dollars, not millions of dollars).

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

Plan Description - MTA New York City Transit and MTA Bridges and Tunnels contribute to the New York City Employees' Retirement System, a cost-sharing multiple-employer retirement system for employees of NYC and certain other governmental units. NYCERS combines features of a defined-benefit pension plan with those of a defined-contribution pension plan. NYCERS provides pension benefits to retired employees based on salary and length of service. In addition, NYCERS provides disability benefits, cost-of-living adjustments, and death benefits subject to satisfaction of certain service requirements and other provisions. The NYCERS plan functions in accordance with existing NYS statutes and NYC laws and may be amended by action of the State Legislature. NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York City Employees' Retirement System, 340 Jay Street,, Brooklyn, New York 11201.

Funding Policy - NYCERS is a contributory plan, except for certain employees who entered prior to July 27, 1976 who make no contribution. Employees who entered qualifying service after July 1976, contribute 3 percent of their salary. The State legislature passed legislation in 2000 that suspended the 3 percent contribution for most employees who have 10 years or more membership. MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. The rates are 18.0 percent and 14.3 percent, 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 December 31, 2008, 2007 and 2006 were $480.9, $443.3 and $333.2 respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2008, 2007 and 2006 were $20.4, $18.5. and $12.9 respectively. All contributions were equal to or in excess of the actuary's recommendation, plus interest.

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

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

Funding Policy - Employees who became members prior to July 27, 1976 make no contributions. Employees who became members after that date contribute 3 percent of salary. In 2000, the State Legislature passed legislation that suspends the 3 percent contribution for employees who have 10 years or more of credited service. MTAHQ and MTA Long Island Bus are required to contribute at an actuarially determined rate. The current rate of annual covered payroll for MTAHQ and MTA Long Island Bus respectively is 8.3 percent and 8.0 percent. The MTAHQ NYSLERS contributions for the years ended December 31, 2008, 2007 and 2006 was approximately 5.7 percent, 5.5 percent, and 5.7 percent respectively. The MTA Long Island Bus NYSLERS contributions for the years ended December 31, 2008, 2007 and 2006 was approximately $5.2, $5.1, and 5.4 respectively.

Defined Contribution Plans

Single-Employer

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

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 percent 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 percent. 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 nonrepresented employees of MTA Metro-North Railroad in the MTA Plan. In 2007, the remaining represented employees also became participants in the New Program, unless they opted-out of the New Program. The "opt-out" employees became participants of the MTA 401(k) plan with the same employer contributions as the Agreement Plan. The MTA Board has voted to terminate this Agreement Plan and the Agreement Plan was terminated effective December 16, 2008. The Agreement Plan is currently making distributions of all participant accounts.

	December 31, 2008		**December 31, 2007**	
	MNR Agreement Plan	LIRR Money Purchase Plan	MNR Agreement Plan	LIRR Money Purchase Plan
Employer contributions	-	-	$ 5.1	$ -
Employee contributions	-	-	$ 0.3	$ -

Deferred Compensation Plans

As permitted by Internal Revenue Code Section 457, the MTA has established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Plan assets and liabilities are not reflected on the MTA's combined balance sheets.

Certain MTA 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 nonrepresented employees. MTA Bus on behalf of certain MTA Bus employees and MTA Metro-North Railroad on behalf of those employees who opted-out of participation in the MTA Plan make contributions to the 401(k) Plan. The rate for the employer contribution varies. All amounts of compensation deferred under the 401(k) Plan, and all income attributable to such compensation, are in trust for the exclusive use of the participants and their beneficiaries. Accordingly, 401(k) Plan is not reflected in the accompanying combined balance sheets.

5. OTHER POSTEMPLOYMENT BENEFITS

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

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

The MTA elected not to record the entire amount of the Unfunded Accrued Liability ("UAAL") in the year ended December 31, 2007, and record the net annual OPEB cost. The MTA also elected not to fund the UAAL more rapidly than on a pay as go basis. The UAAL relating to post-employment benefits decreased from $13.6 billion as of December 31, 2007 to $13.2 billion as of December 31, 2008. The end of the year liability equals the amount as of the beginning of the year plus interest at 4.2% less amortization amount included in the Annual Required Contribution for the prior year less or plus assumption changes and plan changes.

Plan Description — The benefits provided by the MTA Group include medical, pharmacy, dental, vision, and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursements and welfare fund contributions. The different types of benefits provided vary by agency and employee type (represented employees versus management). All benefits are provided upon retirement as stated in the applicable pension plan, although some agencies provide benefits to some members if terminate 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 either provided through a self-insured health plan, a fully insured or an HMO.

GASB Statement No. 45 requires the valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2007 and was performed with a valuation date of January 1, 2006. The total number of plan participants as of December 31, 2008 and December 31, 2007 receiving retirement benefits is 45 thousand and 38 thousand respectively.

Since the MTA is a participating employer in NYSHIP, it does not issue a stand-alone financial report regarding post-employment benefits. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Service, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

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

For determining the ARC, the MTA has chosen to use Frozen Initial Liability (the "FIL Cost Method") cost method, one of the cost methods in accordance with the parameters of GASB Statement No. 45. The initial liability is amortized over a 22 year period.

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

The OPEB-specific actuarial assumptions used in the twelve months ended December 31, 2008, OPEB actuarial valuations are as follows:

Valuation date	January 1, 2006
Actuarial cost method	Frozen Initial Liability
Discount rate	4.2%
Per-Capita retiree contributions	*

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

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

Valuation Date — January 1, 2006 (January 1, 2007 for MTA)

Discount Rate — 4.2%

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

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

Age	TWU Local 100 GHI Medical	TWU Local 100 Pharmacy	Pre-NYSHIP Group 1 Hospital	Pre-NYSHIP Retirees Pharmacy	Pre-NYSHIP Group 2 Hospital
Male Employees					
30–34	132.40	41.43	79.28	46.79	69.79
35–39	157.83	59.00	98.72	66.64	86.91
40–44	199.16	75.24	131.16	84.97	115.47
45–49	256.98	100.57	178.35	113.59	157.01
50–54	320.34	121.05	234.54	136.72	206.48
55–59	364.78	126.36	277.66	142.71	244.44
60–64	473.09	149.15	372.58	168.45	328.00

Age	TWU Local 100 GHI Medical	TWU Local 100 Pharmacy	Pre-NYSHIP Group 1 Hospital	Pre-NYSHIP Retirees Pharmacy	Pre-NYSHIP Group 2 Hospital
Female Employees					
30–34	259.97	69.63	173.83	78.64	153.03
35–39	257.28	82.61	167.05	93.30	147.07
40–44	261.23	101.58	162.14	114.73	142.74
45–49	294.56	127.90	181.72	144.45	159.97
50–54	330.81	150.66	210.21	170.16	185.06
55–59	352.73	164.37	233.16	185.64	205.27
60–64	432.35	181.08	304.58	204.52	268.14

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

Health Care Cost Trend Rates —

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

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

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

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

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

Demographic Assumptions:

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

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

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

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

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

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

Vestee Coverage — For members that participate in NYSHIP, certain vestees (members who have terminated employment with 10 or more years of retirement service credit, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the applicable agency upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vestees 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 vestees, which were only provided by Headquarters.

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

The following table shows the elements of the MTA's annual OPEB cost for the year, the amount actually paid, and changes in the MTA's net OPEB obligation to the plan for the year ended December 31, 2008 and 2007. 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.

	2008	2007
Annual required contribution ("ARC")	$ 1,727.6	$ 1,575.5
Interest on net OPEB obligation	54.1	0.0
Adjustment to ("ARC")	(113.0)	0.0
Annual OPEB cost	1,668.7	1,575.5
Payments made	(320.5)	(285.5)
Increase in net OPEB obligation	1,348.2	1,290.0
Net OPEB obligation — beginning of year	1,290.0	0.0
Net OPEB obligation — end of year	$ 2,638.2	$ 1,290.0

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
December 31, 2008	$ 1,668.7	19.2 %	$ 2,638.2
December 31, 2007	1,575.5	18.1	1,290.0

The Authorities funded status of the Plan is as follows:

Year Ended	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, 2008	January 1, 2006	-	$ 13,241	$ 13,241	-	$ 4,557.1	290.6 %
December 31, 2007	January 1, 2006	-	13,623	13,623	-	4,381.9	310.9 %

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

6. CAPITAL ASSETS

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

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

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

	Balance December 31, 2006	Additions	Deletions	Balance December 31, 2007	Additions	Deletions	Balance December 31, 2008
Capital assets — not being depreciated:							
Land	$ 137	$ 9	$ -	$ 146	$ 6	$ -	$ 152
Construction work-in-progress	5,255	1,655	955	5,955	1,521	1,486	5,990
Total capital assets — not being depreciated	5,392	1,664	955	6,101	1,527	1,486	6,142
Capital assets, being depreciated:							
Buildings and structures	12,867	424	62	13,229	502	26	13,705
Bridges and tunnels	1,712	102	-	1,814	83	-	1,897
Equipment:	-	-	-	-	-	-	-
Passenger cars and locomotives	9,634	661	3	10,292	1,191	6	11,477
Buses	2,238	215	-	2,453	67	-	2,520
Infrastructure	12,764	890	30	13,624	1,097	22	14,699
Other	8,841	1,044	9	9,876	1,565	5	11,436
Total capital assets — being depreciated	48,056	3,336	104	51,288	4,505	59	55,734
Less accumulated depreciation:							
Buildings and structures	3,530	376	17	3,889	374	-	4,263
Bridges and tunnels	368	16	-	384	17	-	401
Equipment:	-	-	-	-	-	-	-
Passenger cars and locomotives	3,001	336	3	3,334	376	2	3,708
Buses	1,368	145	-	1,513	147	-	1,660
Infrastructure	3,615	430	16	4,029	459	11	4,477
Other	3,259	386	16	3,629	418	3	4,044
Total accumulated depreciation	15,141	1,689	52	16,778	1,791	16	18,553
Total capital assets — being depreciated — net	32,915	1,647	52	34,510	2,714	43	37,181
Capital assets — net	$38,307	$3,311	$1,007	$40,611	$4,241	$1,529	$43,323

Interest capitalized in conjunction with the construction of capital assets at December 31, 2008 and 2007 was $79.3 and $62.8, respectively.

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

For certain construction projects, the MTA holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At December 31, 2008 and 2007 these securities totaled $112.3 and $82.4, respectively, and had a market value of $120.9 and $89.7, respectively, and are not included in these financial statements.

7. LONG -TERM DEBT

	Original Issuance	December 31, 2007	Issued	Retired	Refunded	December 31, 2008
MTA:						
Transportation Revenue Bonds						
2.25%–5.752% due through 2036	$12,501	$10,434	$1,550	$ 872	$ -	$11,112
Transportation Revenue Bond Anticipation Notes						
Commercial Paper	750	750	655	737	-	668
State Service Contract Bonds						
3.00%–5.50% due through 2031	2,395	2,243	-	49	-	2,194
Dedicated Tax Fund Bonds						
3.00%–6.25% due through 2037	4,572	4,272	701	1,337	-	3,636
Certificates of Participation						
4.40%–5.625% due through 2030	807	422	-	11	-	411
	$21,025	18,121	2,906	3,006	-	18,021
Less net unamortized bond discount and premium		(328)	31	50	-	(347)
		17,793	2,937	3,056	-	17,674
TBTA:						
General Revenue Bonds						
4.00%–5.77% due through 2033	$ 6,920	4,757	1,705	203	-	6,259
Subordinate Revenue Bonds						
4.00%–5.77% due through 2032	2,858	2,272	491	715	-	2,048
	$ 9,778	7,029	2,196	918	-	8,307
Less net unamortized bond discount and premium		84	62		-	146
		7,113	2,258	918	-	8,453
Total		24,906	$5,195	$3,974	-	26,127
Current portion		(391)				(191)
Long-term portion		$24,515				$25,936

MTA Transportation Revenue Bonds – Prior to 2008, MTAHQ issued twenty two 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 $11,670.3. The Transportation Revenue Bonds are MTAHQ's special obligations payable solely from transit and commuter systems revenues and certain state and local operating subsidies.

During 2008, MTA issued three series of Transportation Revenue Bonds. On February 21, 2008, MTA issued the Transportation Revenue Bonds Series 2008A in the amount of $512.5 and the Series 2008B Bonds in the amount of $487.5. The combined proceeds of the Transportation Revenue 2008A and B Bonds were used to refund the following series of bonds: Dedicated Tax Fund Variable Rate Bonds Series 2007A1-5 with a combined par outstanding of $430, the Transportation Revenue Variable Rate Refunding Bonds Series 2002G-2 with a par of $127.8, and the Transportation Revenue Bonds Series 2004A1-4 with a combined par outstanding of $472.2. The Dedicated Tax Fund Bonds Series 2007A1-5 were issued as insured auction rate securities and the market for such bonds had ceased to operate efficiently. The Transportation Revenue Variable Rate Refunding Bonds Series 2002G-2 were refunded due to rating downgrades of the insurer, Ambac Assurance Corporation. The Transportation Revenue Bonds Series 2004A1-4 were refunded due to rating downgrades of the insurers, CDC IXIS Financial Guaranty North America Inc. (CIFG NA) and XL Capital Assurance Inc.

On October 9, 2008, MTA completed a conversion and remarketing of the Transportation Revenue Variable Rate Refunding Bonds, Series 2002G-1. The 2002G-1 Bonds totaling $200 are supported by an irrevocable direct-pay letter of credit from the Bank of Nova Scotia. Bond insurance and standby bond purchase agreement previously provided by Ambac Assurance Corporation and the Bank of Nova Scotia, respectively, for the 2002G-1 Bonds were terminated.

On October 17, 2008, MTA issued the Transportation Revenue Bonds Series 2008C in the amount of $550. $428.8 of Series 2008C proceeds was used to finance existing approved capital projects of the subway, bus and commuter rail systems of the MTA Group. On December 12, 2008, $101.9 of Series 2008C proceeds was applied to redeem in full outstanding MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002C, which was originally issued to finance transit and commuter projects, due to rating downgrades of the insurer, Ambac Assurance Corporation.

MTA completed a conversion and remarketing of the Transportation Revenue Variable Rate Bonds Series 2005D1-4. The 2005D-1 Bonds totaling $90, and the 2005D-2 Bonds totaling $60 were combined to create the 2005D-1 Bonds in the amount of $150; this conversion was effected on November 7, 2008 with credit and liquidity support in the form of an irrevocable direct-pay letter of credit from Helaba Bank. The 2005D-3 Bonds totaling $60 and the 2005D-4 Bonds totaling $40 were combined to create the 2005D-2 Bonds in the amount of $100; this conversion was effected on November 11, 2008 with liquidity support in the form of an irrevocable direct-pay letter of credit from Helaba Bank. Bond insurance previously provided by CIFG NA for the 2005D-1 and 2 Bonds was terminated. Bond insurance previously provided by FSA, Inc. for the 2005D-3 and 4 Bonds was terminated.

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

MTA State Service Contract Bonds – Prior to 2008, MTA issued two series of State Service Contract Bonds secured under its State Service Contract Obligation Resolution adopted on March 26, 2002, in the aggregate principal amount of $2,395. The State Service Contract Bonds are MTAHQ's special obligations payable solely from certain payments from the State of New York under a service contract.

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

During 2008, the MTAHQ issued two series of Dedicated Tax Fund Bonds. On June 25, MTAHQ issued the Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A in the amount of $352.9 to refund the Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A. The refunding was precipitated by rating downgrades of the insurer on the 2005A bonds, XL Capital Assurance, Inc. The 2008A Bonds are insured by Financial Security Assurance, Inc.

On August 7, MTA issued the Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008B in the amount of $348.2. The refunded bonds included the $100 Dedicated Tax Fund Bonds Series 2004B-3, the $100 Dedicated Tax Fund Bonds Series 2004B-5, and the $145 Dedicated Tax Fund Bonds Series 2004D-1. The refunding was precipitated by rating downgrades of the following insurers: Financial Guaranty Insurance Company ("FGIC"), CDC IXIS Financial Guaranty North America, Inc. (CIFG NA), and Ambac Assurance Corporation, which insured Series 2004B-3, 2004B-5 and 2004D-1, respectively.

MTA Certificates of Participation – Prior to 2008, MTA (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad), MTA New York City Transit and MTA Bridges and Tunnels executed and delivered three series of Certificates of Participation in the aggregate principal amount of $807.3 to finance certain building and leasehold improvements to an office building at Two Broadway in Manhattan occupied principally by MTA New York City Transit, MTA Bridges and Tunnels, MTA Capital Construction, and MTAHQ. The aggregate principal amount of $807.3 includes approximately $357.9 of refunding bonds. The Certificates of Participation represent proportionate interests in the principal and interest components of Base Rent paid severally, but not jointly, in their respective proportionate shares by MTA New York City Transit, MTA, and MTA Bridges and Tunnels, pursuant to a Leasehold Improvement Sublease Agreement.

MTA Bridges and Tunnels General Revenue Bonds – Prior to 2008, MTA Bridges and Tunnels issued twelve series of General Revenue Bonds secured under its General Resolution Authorizing General Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of $5,820.4. The General Revenue Bonds are MTA Bridges and Tunnels' general obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels.

During 2008, MTA Bridges and Tunnels issued three series of General Revenue Bonds to finance bridge and tunnel projects and to refund outstanding indebtedness. Series 2008A in the amount of $822.8 and Series 2008B in the amount of $252.2 were issued on March 27, 2008. Proceeds of these two series of bonds were used to finance existing approved MTA Bridges and Tunnels, transit, and commuter railroad projects as well as to refinance $72.1 of the Transportation Revenue Variable Rate Bonds, Series 2002G-2, $23 and $112 of the Dedicated Tax Fund Bonds Series 2004D-1 and 2004D-2, respectively, and $100 and $75 of the MTA Bridges and Tunnels Subordinate Revenue Variable Rate, Subseries 2004A-1 and 2004A-2, respectively. MTA Bridges and Tunnels General Revenue Bonds Series 2008C in the amount of $629.9 was issued on July 30, 2008. The proceeds of this issue were used to finance transit and commuter railroad projects.

On October 1, 2008, MTA Bridges & Tunnels completed a conversion and remarketing of the Series 2001B and C Bonds. The 2001B bonds totaling $145.8 are supported by an irrevocable, direct-pay letter of credit from State Street Bank and Trust Company. The 2001C bonds totaling $145.8 are supported by an irrevocable, direct pay letter of credit from Bayerische Landesbank (NY Branch). Bond insurance previously provided by Ambac Assurance Corporation for the 2001B and C Bonds was terminated. MTA also terminated the State Street Bank and Trust Company Standby Bond Purchase Agreement related to Series 2001B and the Bayerische Landesbank Standby Bond Purchase Agreement related to Series 2001C.

MTA Bridges and Tunnels Subordinate Revenue Bonds – Prior to 2008, MTA Bridges and Tunnels issued nine series of Subordinate Revenue Bonds secured under its 2001 Subordinate Revenue Resolution Authorizing Subordinate Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of $2,412. The Subordinate Revenue Bonds are MTA Bridges and Tunnels' special obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels after the payment of debt service on the MTA Bridges and Tunnels General Revenue Bonds described in the preceding paragraph.

On July 30, 2008, MTA Bridges and Tunnels issued $491.1 of Subordinate Revenue Bonds, Series D. Its proceeds were used to refinance $255.8 of MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2002D, $181 of Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G and $61.3 of Subordinate Revenue Variable Rate Refunding Bonds, Subseries 2004A-3.

Debt Limitation - The New York State Legislature has imposed limitations on the aggregate amount of debt that the MTA and MTA Bridges and Tunnels can issue to fund the approved transit and commuter capital programs. The current aggregate ceiling, subject to certain exclusions, is $28,877 compared with issuances totaling approximately $19,463 at December 31, 2008. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the 2000-2004 MTA Capital Program and the 2005-2009 MTA Capital program.

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

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

During 2008, MTA issued its Transportation Revenue Bonds, Series 2008A and Series 2008B in the aggregate principal amount of $1,000 to refund certain outstanding Transportation Revenue and Dedicated Tax Fund bonds; MTA issued its Transportation Revenue Bonds, Series 2008C in the aggregate principal amount of $550 to refund certain MTA Bridges and Tunnels General Revenue bonds; MTA issued its Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A in the aggregate principal amount of $353 to refund certain outstanding Dedicated Tax Fund bonds; and MTA issued its Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008B in the aggregate principal amount of $348 to refund certain outstanding Dedicated Tax Fund bonds.

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

Bond Anticipation Notes.

During 2008, the MTA issued $2,679.85 of bonds to refund $2,702.17 of outstanding bonds. While the MTA in effect changed its aggregate debt service, the purpose of these refundings were to mitigate the credit and liquidity risks of bonds associated with the lowered ratings of municipal bond insurers on variable rate bonds, and thus economic gain or loss on these transactions were not a primary consideration.

At December 31, 2008 and December 31, 2007, the following amounts of MTA bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

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

Debt Service Payments — Principal and interest debt service payments at December 31, 2008 are as follows:

	MTA		MTA BRIDGES AND TUNNELS Senior Revenue		MTA BRIDGES AND TUNNELS Subordinate Revenue		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	218	817	48	295	38	105	304	1,217
2010	393	805	133	285	49	102	575	1,192
2011	394	787	140	278	51	100	585	1,165
2012	432	769	137	281	55	97	624	1,147
2013	717	1,086	144	274	57	94	918	1,454
2014–2018	2,490	3,327	895	1,187	357	418	3,742	4,932
2019–2023	3,585	2,624	1,122	952	433	318	5,140	3,894
2024–2028	4,491	1,714	1,350	693	435	202	6,276	2,609
2029–2033	3,700	654	1,663	14	573	58	5,936	726
2034–2038	933	90	627	94	-	-	1,560	184
Thereafter	-	-	-	-	-	-	-	-
	$ 17,353	$ 12,673	$ 6,259	$ 4,353	$ 2,048	$ 1,494	$ 25,660	$ 18,520

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

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

- *MTA Bridges and Tunnels General Revenue Bonds, Series 2005A* – 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2005B* – 3.513% per annum based on the Basis Risk Interest Rate Swap through January 1, 2012 and 3.076% per annum based on the Initial Interest Rate Swaps thereafter.
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2008B* – 4.00% per annum, after the mandatory tender date
- *Certificates of Participation, Series 2004A* – 3.542% per annum taking into account the interest rate swaps
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008B - 4% per annum.*

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

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

Resolution	Series	Swap	Provider (Insurer)	Type of Facility	Exp. Date
Transportation Revenue	2002D-1	N	West LB (FSA)	SBPA	5/9/2012
Transportation Revenue	2002D-2	Y	Dexia (FSA)	SBPA	5/27/2011
Transportation Revenue	2002G-1	N	Bank of Nova Scotia (Ambac)	LOC	10/7/2011
Transportation Revenue	2005D-1	Y	Helaba	LOC	11/7/2011
Transportation Revenue	2005D-2	Y	Helaba	LOC	11/10/2010
Transportation Revenue	2005E	Y	Fortis	LOC	10/9/2012
Transportation Revenue	2005G	N	BNP Paribas	LOC	12/8/2010
Transportation Revenue	Commercial Paper	N	ABN AMRO	LOC	12/8/2010
Dedicated Tax Fund	2002B	Y	Dexia (FSA)	SBPA	5/7/2014
Dedicated Tax Fund	2008A	Y	Dexia (FSA)	SBPA	6/25/2011
Dedicated Tax Fund	2008B-1	N	Bank of Nova Scotia	LOC	8/5/2011
Dedicated Tax Fund	2008B-2	N	BNP Paribas (NY Branch)	LOC	8/5/2011
Dedicated Tax Fund	2008B-3	N	Lloyds TSB Bank plc (NY Branch)	LOC	8/5/2011
Dedicated Tax Fund	2008B-4	N	KBC Bank N.V.	LOC	8/5/2011
MTA Bridges and Tunnels Subordinate	2000AB	Y	JPMorgan (FSA)	SBPA	10/7/2014
MTA Bridges and Tunnels Subordinate	2000CD	Y	Lloyds TSB Bank (NY) (FSA)	SBPA	10/7/2014
MTA Bridges and Tunnels General Revenue	2001B	Y	State Street (Ambac)	LOC	9/30/2011
MTA Bridges and Tunnels General Revenue	2001C	Y	Bayerische LB (Ambac)	LOC	9/30/2010
MTA Bridges and Tunnels General Revenue	2002F	Y	ABN AMRO	SBPA	11/8/2012
MTA Bridges and Tunnels General Revenue	2003B	N	Dexia	SBPA	7/7/2012
MTA Bridges and Tunnels General Revenue	2005A	N	Dexia	SBPA	5/9/2012
MTA Bridges and Tunnels General Revenue	2005B-1	Y	Depfa Bank	SBPA	7/7/2015
MTA Bridges and Tunnels General Revenue	2005B-2	Y	Dexia	SBPA	7/6/2012
MTA Bridges and Tunnels General Revenue	2005B-3	Y	Bank of America	SBPA	7/6/2012
MTA Bridges and Tunnels General Revenue	2005B-4	Y	Landesbank Baden-Wurttemberg (NY)	SBPA	12/29/2015

Swap Agreements Relating to Synthetic Fixed Rate Debt

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

Objectives of the Swaps. In order to protect against the potential of rising interest rates, to achieve a lower net cost of borrowing, to reduce exposure to changing interest rates on a related bond issue, or, in some cases where Federal tax law prohibits an advance refunding, to achieve debt service savings through a synthetic fixed rate, MTA, MTA Bridges and Tunnels and MTA New York City Transit have entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA, MTA Bridges and Tunnels and MTA New York City Transit would have paid to issue fixed-rate debt.

Fair Value. Relevant market interest rates on the valuation date (December 31, 2008) of the swaps reflected in the following charts in all cases were higher than market interest rates on the effective date of the swaps. Consequently, as of the valuation date, all of the swaps had negative fair values. A negative fair value means that MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would have to pay the counterparty that approximate amount to terminate the swap. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be entitled to receive a payment from the counterparty to terminate the swap; consequently, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the swap be terminated.

The fair values listed in the following tables represent the theoretical cost to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bond due on the date of each future net settlement on the swap. See "*Termination Risk*" below.

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

MTA TRANSPORTATION REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/08 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/08 (in millions)	Swap Termination Date	Counterparty
Series 2002D-2	200.000	01/01/07	4.45	69% of one-month LIBOR[1]	$ (90.086)	11/01/32	Bear Stearns Capital Markets Inc.
Series 2005D and Series 2005E	500.000	11/02/05	3.561	67% of one-month LIBOR	(132.189)	11/01/35	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.
Series 2012[2]	359.450	11/15/12	3.563	67% of one-month LIBOR	(78.492)	11/01/32	Bear Stearns Capital Markets Inc.
Series 2012[2]	153.700	11/15/12	3.563	67% of one-month LIBOR	(35.371)	11/01/32	Lehman Brothers Special Financing Inc.
Total	$1,213.15				$ (336.137)		

(1) London Interbank Offered Rate.

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

MTA DEDICATED TAX FUND BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/08 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/08 (in millions)	Swap Termination Date	Counterparty
Series 2002B	$440.000	09/05/02	4.06 %	Actual bond rate until 04/30/10, and thereafter, SIFMA	$ (42.106)	09/01/13	Morgan Stanley Capital Services Inc.
Series 2008A[3]	343.520	03/24/05	3.3156	67% of one-month LIBOR	(72.652)	11/01/31	Citigroup Financial Products Inc.
Total	$783.520				$ (114.758)		

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

MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/08 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/08 (in millions)	Swap Termination Date	Counterparty
Series 2001B and 2001C(4)	$177.900	01/01/02	5.777%	Actual bond rate	$ (38.072)	01/01/19	Citigroup Financial Products Inc.
Series 2002F(5) (6)	77.100	01/01/00	5.634	Actual bond rate	(9.034)	01/01/13	Ambac Financial Services, L.P.
Series 2005B	794.400	07/07/05	3.076	67% of one-month LIBOR	(160.405)	01/01/32	25% each – Citibank, N.A., JPMorgan Chase Bank, BNP Paribas North America, Inc. and UBS AG
Series 2005B	794.400	07/07/05	67% of one-month LIBOR plus 43.7 basis points(7)	SIFMA minus 10 basis points	(1.732)	01/01/12	UBS AG
Total	$1,843.800				$ (209.243)		

(4) In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of $19.2.

(5) In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of $8.4.

(6) On December 3, 2008, the Confirmation, dated as of February 24, 1999, and as amended on October 8, 2002, between the Counterparty and MTA Bridges and Tunnels was amended to define Bonds, after December 4, 2008, as MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds Series 2002F. On December 12, 2008, MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds Series 2002C associated with the swap prior to the amendment described above, were refunded.

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

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/2008 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/2008 (in millions)	Swap Termination Date	Counterparty
Series 2000AB[8]	$188.600	01/01/01	6.08 %	Actual bond rate	$ (39.595)	01/01/19	Bear Stearns Capital Markets Inc.
Series 2000CD[8]	188.600	01/01/01	6.07	SIFMA minus 15 basis points [9]	(41.026)	01/01/19	Citigroup Financial Products Inc.
Total	$377.200				$ (80.621)		

(8) In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying to MTA Bridges and Tunnels a premium of $22.74.

(9) In accordance with the swaption entered into on August 12, 1998, Citigroup Financial declared that an Alternative Floating Rate Event occurred on November 5, 2008 and as a result, the calculation for the Variable Rate MTA Bridges and Tunnels is to receive was changed from the Actual Bond Rate to SIFMA Municipal Swap Index minus 15 basis points. The Alternate Floating Rate Event was triggered due to the purchase without resale of Series 2000CD bonds by the liquidity provider, Lloyds TSB.

<u>**2 Broadway Certificates of Participation Swaps**</u>

In addition to the foregoing, MTA, MTA New York City Transit and MTA Bridges and Tunnels entered into separate ISDA Master Agreements with UBS AG relating to the $357.925 Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities) in connection with the refunding of certain certificates of participation originally executed to fund certain improvements to the office building located at 2 Broadway in Manhattan. The 2 Broadway swaps have (1) an effective date of September 22, 2004, (2) a fixed rate paid of 3.092%, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67% of one-month LIBOR minus 45 basis points, and (4) a termination date of January 1, 2030. Based on the aggregate notional amount of $355.525 outstanding as of December 31, 2008, MTA New York City Transit is responsible for $244.250 aggregate notional amount of the swaps, MTAHQ for $74.650 aggregate notional amount, and MTA Bridges and Tunnels for $36.625 aggregate notional amount. As of December 31, 2008, the aggregate fair value of the swaps was ($70.100).

Counterparty Ratings

The ratings of the counterparties are as follows as of December 31, 2008:

Counterparty	Ratings of the Counterparty or its Credit Support Provider		
	S&P	Moody's	Fitch
AIG Financial Products Corp.	A-	A3	A
Ambac Financial Services, L.P.	A	Baa1	NR
Bear Stearns Capital Markets Inc.	A+	Aa2	AA-
BNP Paribas North America, Inc.	AA+	Aa1	AA
Citibank, N.A.	A+	Aa3	A+
Citigroup Financial Products Inc.	A	A2	A+
JPMorgan Chase Bank	A+	Aa2	AA-
Lehman Brothers Special Financing Inc.	NR	Ca	NR
Morgan Stanley Capital Services Inc.	A	A2	A
UBS AG	A+	Aa2	A+

Except as set forth below, the notional amounts of the swaps match the principal amounts of the associated bonds. The following table sets forth the notional amount and the outstanding principal amount as of December 31, 2008 for the swap where the notional amount does not match the outstanding principal amount of the associated bonds.

Associated Bond Issue	Principal Amount of Bonds (in millions)	Notional Amount (in millions)
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	$291.520	$177.900
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F	$235.155	$77.100
MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A	$351.357	$343.520

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 unable to perform its financial obligations. In the event of a deterioration in the credit ratings of the counterparty or MTAHQ/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 MTAHQ, 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 MTAHQ, 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 MTAHQ, MTA Bridges and Tunnels or MTA New York City Transit.

- Termination Risk – The swap agreement could be terminated and MTAHQ, MTA Bridges and Tunnels or MTA New York City Transit could 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 MTAHQ, MTA Bridges and Tunnels or MTA New York City Transit may be exposed to then market rates and cease to receive the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk. The following table shows, as of December 31, 2008, the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTAHQ and/or MTA Bridges and Tunnels, or in connection with the 2 Broadway Certificates of Participation refunding. The counterparties have the ratings set forth above.

Counterparty	Notional Amount (in thousands)	% of Total Notional Amount
UBS AG	$1,648,525	36.05%
Bear Stearns Capital Markets Inc.	748,050	16.36
Citigroup Financial Products Inc.	710,020	15.53
Morgan Stanley Capital Services Inc.	440,000	9.62
Lehman Brothers Special Financing Inc.	253,700	5.55
JPMorgan Chase Bank	198,600	4.34
BNP Paribas North America, Inc.	198,600	4.34
Citibank, N.A.	198,600	4.34
AIG Financial Products Corp.	100,000	2.19
Ambac Financial Services, L.P.	77,100	1.69
Total	$4,573,195	100.00%

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

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

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

On September 15, 2008, Lehman Brothers Holdings, Inc. ("LBHI") filed a petition under Chapter 11 of the U.S. Bankruptcy Code. As a consequence LBHI was downgraded in September 2008 to B3/D/D by Moody's, Standard & Poor's and Fitch respectively. Standard & Poor's and Fitch subsequently withdrew their ratings on September 25th and October 27, 2008, respectively. A subsidiary, Lehman Brothers Special Financing Inc ("LBSFI") which operated with a credit guarantee from LBHI consequently was similarly downgraded and filed for bankruptcy on October 3, 2008.

As an active participant in the capital markets, MTA, has business relationships with LBHI and its subsidiaries. Among those relationships, LBSFI, is the counterparty (with an LBHI guarantee) on two interest rate swaps associated with MTA Transportation Revenue Bonds Series 2005E and Series 2012 (forward starting swap). The combined notional amount of the interest rate swaps is $253.7. In addition, MTA New York City Transit, MTA (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad), and MTA Bridges and Tunnels, are party to a forward purchase agreement for a debt service reserve fund investment related to the 2 Broadway Certificates of Participation transaction. MTA retains ownership of the security for this investment and is evaluating its options with respect to the bankruptcy filing by LBHI.

At December 31, 2008, the two interest rate swaps to which LBSFI was a counterparty had a combined recorded fair market value of negative $61.808, which represented a theoretical payment that would be owed by MTA to LBSFI if the agreements were terminated on that date. As a result of the bankruptcy filing of LBHI, on September 19, 2008, MTA advised LBSFI that an event of default now exists in respect to the two interest rate swaps. As a result of the event of default, all cashflows arising out of these transactions have ceased and MTA is proceeding with a formal market quotation process as provided for in the ISDA Master Agreement with LBSFI to replace LBSFI. The market quotation process involves soliciting bids from interested parties to assume the obligations of LBSFI in the transactions. MTA has not recorded any change in its accounting treatment of the transactions and pending a successful resolution of the market quotation process, does not expect to be required to make any such change in the future.

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

In addition to the interest rate swaps described above, MTA, through its Transportation Revenue Bond Resolution, has an existing interest rate swap with AIG Financial Products Corp. ("AIG FPC"). The notional amount of the transaction is $100 with an approximate fair market value on December 31, 2008 of negative $26.438. This value represents the amount owed by MTA if the transaction were to be terminated.

The ratings of AIG FPC, which is guaranteed by corporate parent American International Group, Inc. ("AIG") were changed on September 15, 2008 as follows: downgraded by Moody's from Aa3 to A2; downgraded by Standard & Poor's from AA- to A-; downgraded from Fitch from AA- to A. Subsequently, on October 3, 2008 Moody's further downgraded AIG FPC to A3. Although AIG FPC was recently downgraded, no event of default currently exists with respect to this transaction.

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

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

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

MTA Dedicated Tax Fund Bonds		
Associated Bond Issue	If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
Series 2002B	Fitch – BBB+, or S&P – BBB+	$10,000,000
	Fitch – BBB and below or unrated, or S&P – BBB and below or unrated	$0
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-	$10,000,000
	Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below	$0

2 Broadway Certificates of Participation		
Associated Agencies	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
MTA MTA Bridges and Tunnels MTA New York City Transit	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$25,000,000
	Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	$0
	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
	Moody's – Baa1 or lower, or S&P – BBB+ or lower	$0

MTA Bridges and Tunnels Senior Lien Revenue Bonds		
Associated Bond Issue	If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
Series 2001B and 2001C	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of $1,000,000.	
Series 2002F	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Ambac is required to post collateral if its estimated termination payments are in excess of $1,000,000.	
Series 2005B interest rate swap and Series 2005B basis risk swap	For counterparty, Fitch – A-, or Moody's – A3, or S&P – A- For MTA, Fitch – BBB+, or Moody's – Baa1, or S&P – BBB+ For MTA, Fitch – BBB, or Moody's – Baa2, or S&P – BBB	$10,000,000 $30,000,000 $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	$0 $0

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

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

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

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

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

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

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

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

MTA Bridges and Tunnels Senior and Subordinate Revenue Bonds	
Associated Bond Issue	Additional Termination Events
Senior Lien Revenue Bonds	
Series 2001B and 2001C and Series	1. MTA Bridges and Tunnels can elect to terminate the swap relating to

2002F	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, Ambac Assurance Corporation.
Series 2005B interest rate swap and basis risk swap	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Moody's with respect to the MTA Bridges and Tunnels Senior Lien Revenue Bonds falls below "BBB" or "Baa2," respectively, or , in either case the ratings are withdrawn.
<u>Subordinate Revenue Bonds</u>	
Series 2000AB and 2000CD	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, Financial Security Assurance Inc.

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	11/01/22	09/01/13
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	01/01/32	01/01/19
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F	11/01/32	01/01/13

Swap payments and Associated Debt. The following tables contain the aggregate amount of estimated variable-rate bond debt service and net swap payments during certain years that such swaps were entered into in order to: protect against the potential of rising interest rates; achieve a lower net cost of borrowing; reduce exposure to changing interest rates on a related bond issue; or, in some cases where Federal tax law prohibits an advance refunding, achieve debt service savings through a synthetic fixed rate. As rates vary, variable-rate bond interest payments and net swap payments will also 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)				
	Variable-Rate Bonds			
Year Ending December 31	Principal	Interest	Net Swap Payments	Total
2008	$ 1.5	$ 59.7	$ (3.4)	$ 57.9
2009	1.8	59.6	(3.4)	58.1
2010	1.9	59.6	(3.4)	58.1
2011	2.0	59.5	(3.4)	58.1
2012	2.0	59.4	(3.3)	58.1
2013-2017	210.2	284.1	(17.6)	476.7
2018-2022	436.7	219.8	(15.5)	641.1
2023-2027	257.4	145.8	(9.5)	393.7
2028-2032	475.1	82.4	(2.6)	554.9
2033-2036	104.3	7.8	-	112.1

MTA Bridges and Tunnels (in millions)				
	Variable-Rate Bonds			
Year Ending December 31	Principal	Interest	Net Swap Payments	Total
2008	$ 38.5	$ 68.1	$ 4.9	111.5
2009	40.9	66.5	4.4	111.8
2010	43.0	64.8	3.5	111.3
2011	45.8	63.0	2.6	111.3
2012	48.0	61.1	1.7	110.7
2013-2017	290.2	272.1	(14.5)	547.7
2018-2022	196.0	220.0	(34.2)	381.8
2023-2027	188.8	185.0	(32.4)	341.4
2028-2032	845.6	83.9	(15.8)	913.7

8. LEASE TRANSACTIONS

Leveraged Lease Transactions: Subway Cars — During 1995, MTA Bridges and Tunnels entered into a sale/leaseback transaction with a third party whereby MTA Bridges and Tunnels sold certain subway cars, which were contributed by MTA New York City Transit, for net proceeds of $84.2. These cars were subsequently leased back by MTA Bridges and Tunnels under a capital lease. The deferred credit of $34.2 was netted against the carrying value of the leased assets, and the assets were recontributed to the MTA New York City Transit. MTA Bridges and Tunnels transferred $5.5 to the MTA, representing the net economic benefit of the transaction. The remaining proceeds, equal to the net present value of the lease obligation, of which $71.3 was placed in an irrevocable deposit account at ABN AMRO Bank N.V. and $7.5 was invested in U.S. Treasury Strips. The estimated yields and maturities of the deposit account and the Treasury Strips are expected to be sufficient to meet all of the regularly scheduled obligations under the lease as they become due, including the purchase option, if exercised. The capital lease obligation is included in other long-term liabilities. At the end of the lease term MTA Bridges and Tunnels has the option to purchase the subway cars for approximately $106, which amount has been reflected in the net present value of the lease obligation, or to make a lease termination payment of approximately $89.

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

Under the terms of the lease/leaseback agreement, the MTA initially received $314, which was utilized as follows. The MTA paid $266 to Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), an affiliate of the third party's lender, which has the obligation to pay to the MTA an amount equal to the rent obligations under the sublease attributable to the debt service on the loan from the third party's lender. The MTA used $21 to purchase Treasury securities, which are pledged as collateral to the third party. The value at maturity of these Treasury securities, together with the proceeds from the aforementioned obligation of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., is sufficient to pay all of the regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the 22 year sublease period, if the related purchase option is exercised. A further $0.6 was used to pay for legal and other costs of the transaction, and $3 was used to pay the first rental payment under the sublease. A further $23 is the MTA's net benefit from the transaction, representing consideration for the tax benefits. MTA Bridges and Tunnels has entered into a guarantee with the third party that the sublease payments will be made. At December 31, 2008, the MTA has recorded a long-term capital obligation and capital asset of $272 arising from the transaction.

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

Under the terms of these lease/leaseback agreements, the MTA initially received $76.6, which was utilized as follows: The MTA paid $59.8 to an affiliate of the third party's lender, which has the obligation to pay to the MTA an amount equal to the rent obligations under the sublease attributable to the debt service on the loan from the third party's lender. The obligations of the affiliate of the third party's lender are guaranteed by American International Group, Inc. In connection with all of the obligations of American International Group, Inc. and its affiliates described in this Footnote 8, MTA continues to monitor the support being provided to American International Group, Inc. by the Federal Reserve and the publicly available information on the financial condition of American International Group, Inc. The MTA used $12.5 to purchase a Letter of Credit from an affiliate of the third-party's lender, guaranteed by American International Group, Inc. The payments to the MTA under the Letter of Credit, together with the aforementioned payments from the affiliate of the third-party's lender, are sufficient to pay all of the regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the related purchase options are exercised. At December 31, 2008, the MTA has recorded a long-term capital obligation and capital asset of $41 arising from the transaction.

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

MTA has pledged additional collateral to cover the difference between the market value of the collateral provided by American International Group, Inc. and the nominal amount of the sum of MTA's rent payments plus the optional purchase option payments. The market value of the securities pledged as collateral by MTA was approximately $8 as of February 10, 2009. As American International Group, Inc. increases the value of its collateral during the period through the remaining purchase option dates in 2013 and 2014, the MTA collateral will be released to MTA in an equivalent amount until MTA has no further collateralization obligation.

MTA exercised the purchase option on the first tranche of the lease related to MTA Metro-North Railroad assets and paid the first installment thereof on January 5, 2009. The final installment is due in December, 2009.

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

Under the terms of the sale/leaseback agreements, the MTA initially received $1,514.9, which was utilized as follows: The MTA paid $1,058.6 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to pay to the MTA an amount equal to the rent obligations under the leases attributable to the debt service on the related loans.. The obligations of the affiliate of the third parties' lenders are guaranteed by Financial Security Assurance, Inc. The MTA also purchased Freddie Mac, FNMA, and U.S. Treasury debt securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lenders to the third parties. In the case of one of the four leases, MTAHQ also purchased Freddie Mac debt securities, the value of which at maturity, together with the aforementioned payment from the affiliate of the third party lender and the value at maturity of the Freddie Mac securities that were purchased to provide sufficient funds to make the lease rent payments equal to the debt service on the loan from the other lender to the third party, are sufficient to pay all regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the related purchase options are exercised. In the case of the other three leases, the MTA entered into Equity Payment Agreements with Premier International Funding Co. (which are guaranteed by Financial Security Assurance, Inc.) whereby that entity has the obligation to provide to the MTA the amounts necessary, together with the aforementioned payments from the affiliate of the third parties' lender and the value at maturity of the Freddie Mac, FNMA, and U.S. Treasury debt securities that were purchased to provide sufficient funds to make the lease rent payments equal to the debt service on the loan from the other lenders to the third parties, are sufficient to pay all regularly scheduled rent obligations, including the cost of exercising the respective fixed price purchase options, if such purchase options are exercised. In two of the three leases in which Premier International Funding Co. is the obligor under the Equity Payment Agreements, Premier International Funding Co. is required to pledge, and has pledged, collateral in the form of securities issued or guaranteed by the United States Government, including United States Treasury obligations, publicly traded U.S. Treasury Strips, Government National Mortgage Association obligations and any other obligations the timely payment of principal and interest of which are guaranteed by the United States Government, and bonds, notes, debentures, obligations or other evidence of indebtedness issued and/or guaranteed by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or any agency or instrumentality of the United States of America, which collateral has a market value in excess of the accreted value of its obligations.

In the event of a failure to perform by Premier International Funding Co., as obligor under the Equity Payment Agreements in the three leases, and Financial Security Assurance, Inc., as guarantor of such obligations, the transaction documents for the two leases in which such obligations are collateralized are structured to provide recourse to the securities that have been pledged as collateral for such obligations. The accreted value of the Equity Payment Agreement in the transaction in which the obligation of Premier International Funding Co., as obligor, and Financial Security Assurance, Inc., as guarantor, is uncollateralized was $10.4 at December 31, 2008.

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

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

Under the terms of the sale/leaseback agreements the MTA initially received $507.4, which was utilized as follows: The MTA paid $316.2 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to pay to MTA an amount equal to the rent obligations under the leases attributable to the debt service on the loan from certain of the third parties' lenders. The MTA also purchased FNMA and U.S. Treasury debt securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lenders to the third parties. In the case of three of the four leases the MTA also purchased U.S. Treasury debt securities in amounts and with maturities which are expected to be sufficient to pay the remainder of the regularly scheduled lease rent payments under those leases and the purchase price due upon exercise by the MTA of the related purchase options if exercised. In the case of the other lease, the MTA entered into an Equity Payment Undertaking Agreement with XL Insurance (Bermuda) Ltd. (which was guaranteed by XL Financial Assurance Ltd.) whereby that entity had the obligation to provide to the MTA the amounts necessary to make the remainder of the equity portion of the basic lease rent payments under that lease and to pay the equity portion of the purchase price due upon exercise by the MTA of the purchase option if exercised. The amount remaining after payment of transaction expenses, $57.6, was the MTA's net benefit from these four transactions. As consideration for the cooperation of the City of New York in these transactions, including the transfer of any property interests held by the City on such equipment to MTA New York City Transit and the MTA, the MTA is obligated to pay to the City 24.11 percent of the net benefit received from these four QTE transactions. At December 31, 2008, the MTA had paid the City of New York $13.7.

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

On September 16, 2008, the MTA learned that American International Group, Inc. was downgraded to a level that under the transaction documents for two of the remaining three QTE leases required the MTA to replace the applicable Equity Credit Default Option Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. MTA terminated those two leases in January, 2009 pursuant to early termination agreements with the equity investor. The MTA achieved a net gain of approximately $3 as a result of such terminations.

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

Under the terms of the sale/leaseback agreement, the MTA initially received $168.1, which was utilized as follows: The MTA paid $126.3 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to pay to the MTA an amount equal to the rent obligations under the lease attributable to the debt service on such loan from such third party's lender. The obligations of the affiliate of the third party's lender are guaranteed by American International Group, Inc. The MTA also purchased FNMA and U.S. Treasury securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lender to the third party and to pay the remainder of the regularly scheduled rent due under that lease and the purchase price due upon exercise by the MTA of the fixed price purchase option if exercised. The amount remaining after payment of transaction expenses, $7.4, was the MTA's benefit from the transaction.

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

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

On September 16, 2008, the MTA learned that American International Group, Inc. was downgraded to a level that under the terms of the transaction documents for the sale/leaseback transaction that closed on September 29, 2003, the MTA is required to replace or restructure the applicable Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. On December 17, 2008, MTA terminated the Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. and provided replacement collateral in the form of U.S. Treasury strips. The Resolution Funding Corporation (REFCO) debt security that was being held in pledge was released to MTA. On November 6, 2008, the MTA learned that Ambac Assurance Corp., the provider of the credit enhancement that insures the MTA's contingent obligation to pay a portion of the termination values upon an early termination in both the September 25, 2003 and September 29, 2003 transactions, was downgraded to a level that requires the provision of new credit enhancement facilities for each lease by December 21, 2008. On December 17, 2008, MTA terminated the Ambac Assurance Corp. surety bond for the lease transaction that closed on December 29, 2003 and provided a short term U.S. Treasury debt obligation as replacement collateral. The cost of the replacement collateral was \$32. 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. It is anticipated that during 2009, MTA will acquire a letter of credit or financial insurance to replace the U.S. Treasury security as collateral in that transaction at which point such U.S. Treasury security will be released back to MTA.

On January 12, 2009, following an extension of the due date for such action, 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 December 29, 2003. The cost of the additional collateral was \$37. It is anticipated that during 2009, MTA will acquire a letter of credit or financial insurance to replace the U.S. Treasury security as collateral in that transaction at which point such U.S. treasury security will be released back to MTA.

Other Lease Transactions - On July 29, 1998, the MTA, (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad, MTA New York City Transit, and MTA Bridges & Tunnels entered into a lease and related agreements whereby each agency, as subleesees, will rent, for an initial stated term of approximately 50 years, an office building at Two Broadway in lower Manhattan. The lease term expires on July 30, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. The lease comprises both operating (for the lease of land) and capital (for the lease of the building) elements. The total annual rental payments over the initial lease term are \$1,602 with rent being abated from the commencement date through June 30, 1999. During 2002 and 2001 the MTA made rent payments of \$21. In connection with the renovation of the building and for tenant improvements, the MTA issued \$121 and \$328 in 2000 and 1999, respectively, of long-term obligations (see Note 7). The office building is principally occupied by MTA New York City Transit and MTA Bridges & Tunnels.

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

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

Total rent expense under operating leases approximated $41.9 and $25.8 for the years ended December 31, 2008 and 2007 respectively.

At December 31, 2008, the future minimum lease payments under noncancelable leases are as follows:

Years	**Operating**	**Capital**
2009	53	305
2010	50	174
2011	47	70
2012	45	170
2013	45	76
2014–2018	213	400
2019–2023	207	705
2024–2028	213	274
2029–2033	227	1,075
2034–2038	251	701
Thereafter	854	521
	$ 2,205	4,471
Amount representing interest		(3,039)
Present value of capital lease obligations		$ 1,432

9. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

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

	December 31, 2008	December 31, 2007
Balance - beginning of year	$ 1,232	$ 1,160
Activity during the year:		
Current year claims and changes in estimates	284	260
Claims paid	(186)	(188)
Balance - end of year	1,330	1,232
Less current portion	(205)	(199)
Long-term liability	$ 1,125	$ 1,033

10. COMMITMENTS AND CONTINGENCIES

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

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

11. POLLUTION REMEDIATION COST

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

- An imminent threat to public health due to pollution exists
- MTA is in violation of a pollution prevention-related permit or license
- MTA is named by a regulator as a responsible or potentially responsible party to participate in remediation
- MTA is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities, or

- MTA voluntarily commences or legally obligates itself to commence remediation efforts

Operating expense provision and corresponding liability measured at its current value using the expected cash flow method have been recognized for certain pollution remediation obligation that previously may not have been required to be recognized, or are not longer able to be capitalized as a component of a capital project. As of December 31, 2008, the MTA has recognized a total cost of $ 43 and a pollution remediation liability of $ 105.

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

12. OPERATING ACTIVITY INFORMATION

	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
December 31, 2008						
Operating revenue	$ 283	$ 1,083	$ 3,321	$ 1,287	$ (42)	$ 5,932
Depreciation and amortization	75	517	1,122	77	-	1,791
Subsidies and grants	2,076	-	1,415	-	(1,260)	2,231
Tax revenue	1,263	-	793	-	(338)	1,718
Interagency subsidy	347	-	120	(347)	(120)	-
Operating (deficit) surplus	(851)	(1,584)	(4,725)	736	33	(6,391)
Net (deficit) surplus	1,808	(1,520)	(38)	(1,228)	15	(963)
Capital expenditures	4,503	312	782	771	(1,840)	4,528
December 31, 2008						
Total assets	10,882	10,306	29,885	4,263	(1,879)	53,457
Net working capital	988	37	(393)	(359)	(686)	(413)
Long-term debt — (including	-	-	-	-	-	-
current portion)	17,673	-	-	8,496	(42)	26,127
Net assets	(10,852)	9,125	25,081	(5,020)	-	18,334
December 31, 2008						
Net cash (used in)/provided by operating activities	(506)	(903)	(2,365)	873	18	(2,883)
Net cash provided by/(used in) noncapital financing activities	3,565	948	2,536	(365)	(2,538)	4,146
Net cash (used in)/provided by capital and related financing activities	(3,468)	(42)	(478)	(581)	2,559	(2,010)
Net cash provided by/(used in) investing activities	516	(3)	306	68	(64)	823
Cash at beginning of year	53	25	35	17	-	130
Cash at end of period	160	25	34	12	(25)	206

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

	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
December 31, 2007						
Operating revenue	$ 254	$ 1,024	$ 3,159	$ 1,263	$ (34)	$ 5,666
Depreciation and amortization	68	490	1,061	70	-	1,689
Subsidies and grants	1,939	-	1,330	-	(1,170)	2,099
Tax revenue	1,459	-	1,247	-	(301)	2,405
Interagency subsidy	406	-	156	(401)	(161)	-
Operating (deficit) surplus	(833)	(1,475)	(4,291)	763	-	(5,836)
Net (deficit) surplus	828	(1,411)	452	80	(15)	(66)
Capital expenditures	4,042	285	898	297	(1,325)	4,197
December 31, 2007						
Total assets	11,435	9,884	28,747	4,062	(2,359)	51,769
Net working capital	1,274	(31)	261	(363)	(1,108)	33
Long-term debt - (including current portion)	17,793	-	-	7,156	(43)	24,906
Net assets	(10,835)	8,820	25,119	(3,792)	(15)	19,297
December 31, 2007						
Net cash (used in)/provided by operating activities	(690)	(931)	(2,297)	893	41	(2,984)
Net cash provided by/(used in) noncapital financing activities	4,121	939	2,718	(414)	(2,832)	4,532
Net cash provided by/(used in)capital and related financing activities	(3,992)	(22)	(638)	(557)	2,791	(2,418)
Net cash provided by/(used in) Investing activities	536	13	214	82	-	845
Cash at beginning of year	78	26	38	13	-	155
Cash at end of period	53	25	35	17	-	130

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

13. SETTLEMENT OF CLAIMS

The claim of Madiana Sanoh was settled in January 2009 for $5. FMTAC's Excess Loss Fund Program was responsible for $2.7, the amount in excess of the MTA LI Bus's retention of $2.3 at the time of the event.

14. SUBSEQUENT EVENTS

On February 19, 2009, MTA Bridges and Tunnels issued $150 Triborough Bridge and Tunnel General Revenue Mandatory Tender Bonds, Series 2009A-1 and $325 General Revenue Bonds, Series 2009A-2. In addition to financing projects for MTA Bridges and Tunnels, Series 2009A-1 proceeds could be used to refinance certain MTA Bridges and Tunnels Senior or Subordinate Revenue bonds. Series 2009A-2 proceeds were used for new money purposes as well as to refund $197.9 of Triborough Bridge and Tunnel General Revenue Variable Rate Refunding Bonds, Series 2005B-1. A portion of the swap associated with Series 2005B-1, has been reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F, MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B and MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A.

MTA sold $261.7 of Dedicated Tax Fund (DTF) Bonds on March 12, 2009. Proceeds of the issue will be used to finance capital projects of the subway, bus and commuter rail systems of the MTA and its affiliates and subsidiaries.

On April 9, 2009, $50 of MTA Bridges and Tunnels Subordinate Revenue Bonds, Series 2000CD has been refunded from the proceeds of MTA Bridges and Tunnels General Revenue Mandatory Tender Bonds, Series 2009A-1. A portion of the swap associated the aforementioned bonds has been reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B.

On April 10, 2009, Moodys Investors Service Inc. placed the MTAs Transportation Revenue Bonds rating on Watchlist for possible downgrade from their current A2 rating. Moodys explained that this action was prompted by the MTAs projected budget shortfalls and the absence of a long term funding solution to finance future debt service costs on the Transportation Revenue Bonds. The review is expected to be completed within 90 days. The Triborough and Tunnel Authority (TBTA) bonds and MTAs Dedicated Tax Fund bonds are supported by different revenue streams from MTAs Transportation Revenue Bonds and are not affected by the Watchlist action.

* * * * * *

METROPOLITAN TRANSPORTATION AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF PENSION FUNDING PROGRESS
($ in millions)

		January 1, 2008	January 1, 2007	January 1, 2006
	LIRR [1]:			
a.	Actuarial value of plan assets	$ 537.6	$ 509.1	$ 625.0
b.	Actuarial accrued liability (AAL)	1,560.1	1,543.5	1,898.6
c.	Total unfunded AAL (UAAL) [b-a]	1,022.5	1,034.4	1,273.6
d.	Funded ratio [a/b]	34.5 %	33.0 %	32.9 %
e.	Covered payroll	$ 80.9	$ 94.0	$ 117.3
f.	UAAL as a percentage of covered payroll [c/e]	1263.5 %	1100.4 %	1085.8 %
	MaBSTOA [2]:			
a.	Actuarial value of plan assets	$ 1,190.8	$ 1,057.9	$ 841.0
b.	Actuarial accrued liability (AAL)	2,045.0	1,938.3	1,725.2
c.	Total unfunded AAL (UAAL) [b-a]	854.1	880.5	884.2
d.	Funded ratio [a/b]	58.2 %	54.6 %	48.7 %
e.	Covered payroll	$ 562.2	$ 519.7	$ 498.0
f.	UAAL as a percentage of covered payroll [c/e]	151.9 %	169.4 %	177.5 %
	MNR Cash Balance Plan [3]:			
a.	Actuarial value of plan assets	$ 1.3	$ 1.4	$ 1.5
b.	Actuarial accrued liability (AAL)	1.4	1.4	1.6
c.	Total unfunded AAL (UAAL) [b-a]	0.065	0.074	0.100
d.	Funded ratio [a/b]	95.4 %	94.8 %	94.0 %
e.	Covered payroll	$ 6.8	$ 6.8	$ 7.9
f.	UAAL as a percentage of covered payroll [c/e]	1.0 %	1.1 %	1.3 %

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

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

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

METROPOLITAN TRANSPORTATION AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS FOR THE MTA POSTEMPLOYMENT BENEFIT PLAN
YEAR ENDED DECEMBER 31, 2008 AND 2007
($ in millions)

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}
January 1, 2006	$ -	$ 13,241	$ 13,241	$ -	$ 4,557.1	290.6 %
January 1, 2006	-	13,623	13,623	-	4,381.9	310.9 %

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FINANCIAL PLAN TO UNAUDITED FINANCIAL STATEMENTS RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2008
($ in millions)

FINANCIAL PLAN ACTUAL — OPERATING LOSS	**$ (6,426.7)**
Reconciling items:	
FMTAC revenues are recorded as operating on the Financial Plan and recorded as non-operating on the Financial Statements	(4.6)
Various agencies recorded adjustments to the Financial Statements after the Financial Plan was completed	41.7
The Financial Plan excluded Capital Construction and East Side Access	(0.7)
FINANCIAL STATEMENT — OPERATING LOSS	**$ (6,390.3)**

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION (UNAUDITED)
CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
($ in millions)

Category	Financial Plan Actual	Financial Statement GAAP Actual	Variance
REVENUE:			
Farebox revenue	$ 4,240.9	$ 4,240.9	$ -
Vehicle toll revenue	1,270.0	1,274.0	4
Other operating revenue	448.6	417.3	(31.3)
Total revenue	5,959.5	5,932.2	(27.3)
EXPENSES:			
Labor:			
Payroll	4,087.4	4,126.0	(38.6)
Overtime	471.7	434.0	37.7
Health and welfare	684.9	715.7	(30.8)
Pensions	318.5	898.8	(580.3)
Other fringe benefits	502.7	524.9	(22.2)
Postemployment benefits	2,245.3	1,656.4	588.9
Reimbursable overhead	(310.6)	(264.2)	(46.4)
Total labor expenses	7,999.9	8,091.6	(91.7)
Non-labor:			
Traction and propulsion power	306.5	306.5	-
Fuel for buses and trains	287.0	287.0	-
Insurance	28.9	(1.2)	30.1
Claims	152.1	152.1	-
Paratransit service contracts	299.0	299.0	-
Maintenance and other	594.2	583.5	10.7
Professional service contract	196.9	204.4	(7.5)
Pollution remediation project costs	42.2	43.1	(0.9)
Materials and supplies	532.5	532.4	0.1
Other business expenses	156.0	32.8	123.2
	2,595.3	2,439.6	155.7
Other expenses adjustments:	-	-	-
TBTA transfer	-	-	-
GASB general reserve	-	-	-
Interagency subsidy	-	-	-
Total other expense adjustments	0.0	-	-
Total expenses before depreciation	10,595.2	10,531.2	64.0
Depreciation	1,791.0	1,791.3	(0.3)
Total expenses	12,386.2	12,322.5	63.7
			0.0
NET OPERATING SURPLUS/(DEFICIT) EXCLUDING SUBSIDIES AND DEBT SERVICES	$ (6,426.7)	$ (6,390.3)	$ (36.4)

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION (UNAUDITED)
CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
($ in millions)

Accrued Subsidies	Financial Plan Actual	Financial Statement GAAP Actual	Variance	
Mass transportation operating assistance	$ 1,706.2	$ 1,706.2	$ -	
Petroleum business tax	612.7	612.7	-	
Mortgage recording tax 1 and 2	395.5	395.5	-	
MRT transfer	(10.7)	(10.7)	-	
Urban tax	459.8	459.8	-	
State and local operating assistance	378.8	378.8	-	
Additional mass transportation assistance program	19.6	19.6	-	
Nassau county subsidy to long island bus	10.5	10.5	-	
Station maintenance	147.8	147.8	-	
Connecticut department of transportation (CDOT)	309.6	312.8	3.2	{1}
NYS Grant for debt service	-	115.4	115.4	{2}
Investment income	14.9	22.9	8.0	{3}
Total accrued subsidies	4,044.7	4,171.3	126.6	
Net operating surplus/(deficit) excluding accrued subsidies and debt service	(6,426.7)	(6,390.3)	36.4	
Total net operating surplus/(deficit)	$ (2,382.0)	$ (2,219.0)	$ 163.0	
Interest on long-term debt	$ -	$ 1,209.0	$ -	
Debt service	$ 1,515.7	$ -	$ -	

{1} Timing difference.
{2} In the Financial Statement, funds received from NYS to cover debt service payments for Service Contract Bonds are included in the subsidies. The Financial Plan does not include either the funds received or disbursed.
{3} The Financial Plan excludes certain pool and capital income.