APPENDIX A

THE RELATED ENTITIES

This Appendix is dated April 27, 2001 and contains information only through that date. The MTA intends to update and supplement specific information contained herein in connection with its periodic issuance of bonds, notes and other obligations, and retains the right to update and supplement specific information contained herein as events warrant. Copies of the audited financial statements of the Related Entities are available from the MTA.

APPENDIX A

THE RELATED ENTITIES

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THE RELATED ENTITIES

Legal Status and Public Purpose

The Metropolitan Transportation Authority (the "MTA"), a public benefit corporation of the State of New York (the "State"), has the responsibility for developing and implementing a unified mass transportation policy for The City of New York (the "City") and Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk and Westchester counties (collectively with the City, the "Transportation District"). The MTA carries out these responsibilities directly and through its subsidiaries and affiliates, including the Triborough Bridge and Tunnel Authority ("TBTA"), the New York City Transit Authority (the "Transit Authority") and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA"), the Staten Island Rapid Transit Operating Authority ("SIRTOA"), The Long Island Rail Road Company ("LIRR"), the Metro-North Commuter Railroad Company ("MNCRC") and the Metropolitan Suburban Bus Authority ("MSBA").

The MTA, TBTA, the Transit Authority, MaBSTOA, SIRTOA, LIRR, MNCRC and MSBA are collectively referred to herein, from time to time, as the "Related Entities".

The commuter railroad operations of the MTA are conducted by the LIRR and MNCRC (the "Commuter System"). The Transit Authority and MaBSTOA provide subway and bus services in the City (the "Transit System"). The MTA is required to prepare and submit to the Metropolitan Transportation Authority Capital Program Review Board (the "Review Board") successive five-year capital programs for the Transit System and SIRTOA and for the Commuter System.

The MTA consists of a Chairman and 16 other voting Members, two non-voting Members and four alternate non-voting Members, all of whom are appointed by the Governor with the advice and consent of the Senate. The four voting Members required to be residents of the counties of Dutchess, Orange, Putnam and Rockland, respectively, cast only one collective vote. The other voting Members, including the Chairman, cast one vote each. Members of the MTA are, *ex officio*, the Members or Directors of the other Related Entities.

Facilities and Operations

The following is a summary of operations presently conducted by the Related Entities.

The Transit System. The Transit Authority and MaBSTOA operate all subway transportation and substantially all of the public bus transportation within the City.

The Commuter System. Through its subsidiaries, LIRR and MNCRC, the MTA operates commuter rail services in the Transportation District. The LIRR operates commuter rail service between the City and Long Island and within Long Island. The MNCRC operates commuter rail service between the City and the northern suburban counties of Westchester, Putnam and Dutchess; from the City through the southern portion of the State of Connecticut; through an arrangement with New Jersey Transit, the Port Jervis and Pascack Valley commuter rail services to Orange and Rockland Counties; and within such counties and the State of Connecticut.

TBTA. TBTA operates all of the intra-State toll bridges and tunnels in the City. TBTA is authorized to issue its own obligations to finance the cost of certain capital costs and projects of the Transit System and the Commuter System. TBTA's annual operating surplus, after payment of debt service on its own obligations, and surplus investment income are used to fund the operating expenses of the Transit System and the Commuter System and/or to finance the cost of certain capital costs and projects of the Transit System and the Commuter System, including payment of debt service on obligations of the MTA issued to finance such costs and projects.

MSBA. The MTA, through its subsidiary MSBA, which is subsidized by the County of Nassau, operates bus service on Long Island, predominantly in Nassau County.

SIRTOA. The MTA's subsidiary, SIRTOA, operates a single rapid transit line extending from the Staten Island ferry terminal at St. George to the southern tip of Staten Island. Since 1999, the MTA has paid the operating expenses of SIRTOA not covered by fares, State and local subsidies and other amounts. Capital needs of SIRTOA are financed under Transit Capital Programs (as hereinafter defined).

Financial Operations

Five-Year Capital Programs. The MTA Act requires the preparation of five-year capital programs for the Transit System and SIRTOA and for the Commuter System. Though not required by law, TBTA prepares its own capital program that covers the same time period as the Transit and Commuter capital programs. The Related Entities also prepare a five-year financial plan that coincides with the capital programs. For information relating to the most recent financial plan and the related capital programs, see "2000-2004 FINANCIAL PLAN AND 2000-2004 CAPITAL PROGRAMS".

Five-Year Financial Plans. Each of the Related Entities is required by law to adopt annual self-sustaining budgets on a cash basis, including self-generated fares, tolls and other revenues, as well as operating subsidies of various types from numerous sources, including the State and local governments. TBTA also transfers its surplus annually to (1) the Transit Authority and (2) the MTA for the benefit of LIRR and MNCRC. See "REVENUES OF THE RELATED ENTITIES".

Interagency Loans. The Related Entities are authorized to transfer their revenues, subsidies and other monies or securities to another Related Entity for use by such other Related Entity, provided at the time of such transfer it is reasonably anticipated that the monies and securities so transferred will be reimbursed, repaid or otherwise provided for by the end of the next succeeding calendar year.

Management

The Chairman of the MTA is its chief executive officer and is responsible for the discharge of the executive and administrative functions and powers of the Related Entities. On recommendation of the Chairman, the MTA is required to appoint an executive director and, pursuant to the by-laws of the MTA, is authorized to appoint additional officers, who are together responsible for the administration and day-to-day operations of the MTA.

The following are brief biographies of the MTA's senior officers.

Peter S. Kalikow, Chairman since March 2001. Mr. Kalikow has been President of H.J. Kalikow & Company, LLC, one of New York City's leading real estate firms, since 1973. Mr. Kalikow previously served on the MTA Board in 1994 and was reappointed to the MTA Board in 1999. He has also served as a Commissioner of the Port Authority of New York and New Jersey since 1995 and as Chairman of the Board of Directors of the Grand Central Partnership, one of the largest Business Improvement Districts in New York City, since May 2000. In the real estate industry, Mr. Kalikow is a Governor of the Real Estate Board of New York. He has previously served as co-chair of the Board of Governors of the Associated Builders and Owners of Greater New York, and as a director of the Rent Stabilization Association, the Real Estate Board of New York and the Realty Foundation of New York. Mr. Kalikow is a trustee of the New York and Presbyterian Hospital and Chairman of its Pediatric Development Committee. He is also a member of the New York Holocaust Memorial Commission and has served on the Board of Directors of the Jewish National Fund. Mr. Kalikow is a member of the Board of Trustees of Hofstra University and was a member of the Board of Trustees at Marymount College from 1985 to 1995. Mr. Kalikow received his Bachelor of Science Degree in Business Administration from Hofstra University in 1965.

Marc V. Shaw, Executive Director, 46. Mr. Shaw has served as Executive Director since January 1996. Prior to joining the MTA, Mr. Shaw served as New York City Budget Director and, before that, as Finance Commissioner of The City of New York. He began his career in New York City government in 1988 as Director of Finance for the New York City Council. Prior to that he served seven years in State government working for the New York Senate Finance Committee. Mr. Shaw received his B.A. from State University College at Buffalo and his M.A. in anthropology from the State University of New York at Buffalo. He is currently an adjunct assistant professor of Public Services at the Robert F. Wagner Graduate School of Public Services at New York University.

Mary Jennings Mahon, Deputy Executive Director/General Counsel and Secretary. Ms. Mahon joined the MTA in 1996 as First Deputy General Counsel. She was appointed General Counsel, Deputy Executive Director and Secretary on February 22, 1999. Prior to joining the MTA, she was General Counsel to the Community Development Agency of The City of New York and began her legal career as a Legal Counsel in the Law Department of Smith Barney. Ms. Mahon received her B.A. from Sarah Lawrence College and her J.D. from Fordham University School of Law.

REVENUES OF THE RELATED ENTITIES

The following is a general description of certain revenues generated by the Related Entities. While it is not a complete list of all revenues available, it does cover substantially all the revenues pledged to pay any one or more of the securities described under "PUBLIC DEBT SECURITIES". Reference is made to the audited financial statements of the various entities for more information relating thereto. The information in the audited financial statements may differ with the information set forth below in certain respects due to the classification of revenues or timing of receipt thereof.

Fares and Tolls

Transit System Fares. Revenues are derived from fares charged to users of the Transit System. Fare revenues (not including school, elderly and paratransit reimbursement described below) for the past five years are as follows:

Year	Fare Revenues (in millions)
1996	$2,041
1997	2,040
1998	1,959
1999	1,997
2000	2,100

The fare schedule in effect since November 1995 includes a basic bus and subway fare of $1.50, as well as a variety of discounted fare arrangements covering a significant and growing portion of passenger trips, which were instituted in stages starting in July 1997. For a description of historical fare levels and certain recently completed and ongoing changes in payment and collection methods and discount programs, see "THE TRANSIT SYSTEM-Ridership-Fares" and "THE TRANSIT SYSTEM-Automated Fare Collection". Special fares are available for senior citizens, handicapped persons and school children and on certain special services. While the 2000-2004 Financial Plan is silent about fare increases during the term of such Plan, a fare increase could be considered by the MTA to help close the combined capital and operating gap identified in the 2000-2004 Financial Plan.

For MetroCard users only, since 1997 the MTA has eliminated two-fare zones, implemented a volume bonus (10% increase in the face value of purchases of MetroCards costing $15 or more), and implemented unlimited-ride 7-day, 30-day and daily passes. While these programs decrease revenues per trip, the MTA currently projects that, over the next few years, revenues derived from fares charged to users of the Transit System will increase slightly due to increased ridership, while expenses of operating the Transit System, due in part to additional service levels required to accommodate ridership, will increase more rapidly. The MTA expects that other revenues, including operating subsidies and TBTA operating surplus, together with operating efficiencies, will allow the

Transit Authority to operate within the parameters set forth in the 2000-2004 Financial Plan. The MetroCard system and the addition of new means for the sale and payment of MetroCards has changed, and in the future will continue to change, the manner and timing of receipt of revenues derived from fares and can be expected to provide the basis for additional future incentive programs. See "THE TRANSIT SYSTEM-Ridership-Automated Fare Collection" and "CHANGES IN METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS".

Transit System Fare Reimbursements from the City. The Transit Authority and MaBSTOA are required by law to permit, upon the request of the Mayor of the City, free or reduced fares for one or more classes of users of their facilities upon the agreement of the City to assume the burden of the resulting differential in fares and the associated administrative costs. Pursuant to an ongoing request of the Mayor, the Transit Authority and MaBSTOA have instituted free fare programs for certain school children and, as a requirement for obtaining grants from the Federal government, have continued a half-fare program for senior citizens and have instituted a half-fare program for handicapped persons.

The City no longer reimburses the Transit Authority and MaBSTOA for costs of the free fare program for students; however, pursuant to an agreement with the State and the City, the MTA, the Transit Authority and MaBSTOA continue the student program with the State and the City each agreeing to pay $45 million of the approximate $135 million cost. $15 million of the City's payment for the 2000-2001 school year was received in December 2000, and none of the State's moneys had been received as of year end. The State's payments for the 2000-2001 and 2001-2002 school years are included in the State's budgets. The 2000-2004 Financial Plan assumes the continuation of the joint funding of the free fare program for students for the remainder of the 2000-2004 period. The City's current financial plan provides for the continuation of the City's $45 million contribution through the 2001-2002 school year.

Commuter System Fares. Revenues are derived from fares charged to users of the Commuter System. Fare revenues for the past five years are as follows:

Year	Fare Revenues (in millions)
1996	$602
1997	623
1998	642
1999	658
2000	688

Fares are set in accordance with complicated formulae and vary in relation to the distance travelled. Discounts are generally available for travel during off-peak hours, for senior citizens and handicapped persons, and for the purchase of weekly or monthly tickets by commuters.

While the 2000-2004 Financial Plan is silent about fare increases for service between points in New York State during the term of such plan, a fare increase could be considered by the MTA to help close the combined capital and operating gap identified in the 2000-2004 Financial Plan. The Authority makes no representations as to the status of fare increases in the State of Connecticut in the future by the Connecticut Department of Transportation ("CDOT").

The MTA may fix and adjust Commuter System fares, except with respect to the New Haven Line, without the approval or consent of any other body or entity. Pursuant to the MTA Act, however, the MTA is required to hold public hearings upon 30 days' notice thereof and to consider the environmental, economic and social impact of any proposed fare increases. In the case of the New Haven Line, the MTA's ability to change fares is subject to the approval of CDOT pursuant to the terms of the joint service agreement among the MTA, MNCRC and CDOT and to the holding of public hearings in the State of Connecticut as required by Federal regulations. At the present time, the MTA is exempt from all Interstate Commerce Commission requirements relating to fares charged on interstate travel on the New Haven Line.

TBTA Toll Revenues. Revenues are derived from tolls at TBTA's tunnels and bridges. Toll revenues for the past five years are as follows:

Year	Toll Revenues (in thousands)
1996*	$809,256
1997	851,993
1998	884,440
1999	912,792
2000	940,607

*Toll rates were increased effective March 24, 1996.

For more information relating to TBTA's tolls, see "THE TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY-Toll Rates" and "CHANGES IN METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS".

State and Local General Operating Subsidies

Section 18-b Program. A statewide mass transportation operating assistance program is funded with appropriations from the State's General Fund and administered by the State Commissioner of Transportation (the "Section 18-b Program"). Payments are made quarterly from the General Fund subject to annual appropriation, based upon a formula, to each State public transportation system that makes application therefor. As provided by legislation, payments to the Authority for the Transit System and the

Commuter System have been made on the basis of specific appropriations by the Legislature each year rather than pursuant to said formula.

The State appropriates a portion of such payments from a separate account (the "Transportation District Account") in a special State fund derived from the special taxes described below, the Metropolitan Mass Transportation Operating Assistance Fund (the "MTOA Fund"). The State's 2000-2001 budget appropriated $146.4 million of the $158.7 million projected to be paid to the Transit Authority and MaBSTOA, and $8.7 million of the $29.3 million projected to be paid to the MTA for the Commuter System, from the Transportation District Account. The remainder of such payments would be appropriated from the State's General Fund. Appropriation from the Transportation District Account reduces the amount that would otherwise be available to be appropriated to (1) the Transit Authority and MaBSTOA, and (2) the MTA for the Commuter System, from such Account, as described below under "State Special Tax Supported Operating Subsidies".

Under the Section 18-b Program, whenever the Transit Authority or MaBSTOA receives a payment from the State, the City is required to make a matching payment in accordance with amounts established by the Legislature. In the event that the City fails to make any required matching payment, the State Comptroller is authorized to withhold an equivalent amount from certain State aid allocated to the City and to pay such amount directly to the Transit Authority or MaBSTOA.

Under the Section 18-b Program, whenever the MTA receives a payment from the State for the Commuter System, the City and counties served by the Commuter System are required to make a matching payment in accordance with amounts established by the Legislature. In the event that the City and counties fail to make any required matching payment, the State Comptroller is authorized to withhold an equivalent amount from certain State aid allocated to such entity and to pay such amount directly to the MTA for the Commuter System.

State Special Tax Supported Operating Subsidies

MTOA Taxes. Starting in 1980, in response to anticipated on-going operating deficits of State mass transportation systems, the Legislature enacted a series of taxes, portions of the proceeds of which have been and are to be deposited in the MTOA Fund to fund the operations of mass transportation systems. The Transportation District Account was established in the MTOA Fund to fund the operating expenses of transportation systems in the Transportation District, including the subway and bus systems operated by the Transit Authority and MaBSTOA and the commuter railroad services operated by the LIRR and MNCRC.

Subject to the provisions described below, payments from this account are made periodically to the extent that: (i) appropriations are made by the Legislature, (ii) the State Budget Director certifies that the account contains sufficient funds to make such payments, and (iii) State officials determine that the funds are necessary to finance operations of the Transit System and/or the Commuter System, as the case may be.

Moneys not so appropriated or disbursed may be transferred from the Transportation District Account by action of the Legislature and applied for other State purposes.

Such taxes that are currently in effect (the "MTOA Taxes") include the following:

1. A legislatively allocated portion of the business privilege tax imposed on petroleum businesses in the State. The petroleum business tax ("PBT") is measured by the quantity of various petroleum products refined or sold in the State or imported for sale or use in the State (the "MTOA Petroleum Business Tax");

2. A one-quarter of one percent (1/4%) sales and compensating use tax imposed on sales and uses of certain tangible personal property and services applicable only within the Transportation District (the "District Sales Tax");

3. A legislatively allocated portion of two taxes imposed on certain transportation and transmission companies, such as trucking, telegraph and telephone companies (the "Franchise Taxes"), consisting of (a) an annual franchise tax based on the amount of the taxpayer's issued capital stock, and (b) an annual franchise tax on the taxpayer's gross earnings from all sources calculated to be in the State pursuant to statutory formulae; and

4. A temporary surcharge on the portion of the franchise tax on certain corporations, banks, insurance, utility and transportation companies attributable (according to various complex formulae) to business activity carried on within the Transportation District (the "Temporary Franchise Surcharge"). This surcharge was originally imposed in 1982, has been extended eight times since then, and is currently scheduled to expire at the end of the last fiscal year of such entities ending prior to December 31, 2005.

Under current Authority projections and proposed allocations, the MTOA Taxes are anticipated to generate approximately $971.8 million in cash collections for the Transportation District Account in calendar year 2001 (excluding approximately $161.1 million of funds to be used to pay Section 18-b Program assistance, but including income earned on the investment thereof) (the "2001 MTOA Taxes Amount").

From the 2001 MTOA Taxes Amount, the share applicable to the Transit Authority and MaBSTOA is estimated to be approximately $583.8 million. The MTA projects that it will receive during calendar year 2001 for the Transit System $613.5 million from the Transportation District Account (including $29.7 million from the receipts collected in the prior year) to be used to provide for the payment of expenses of operations of the Transit Authority and MaBSTOA.

From the 2001 MTOA Taxes Amount, the share applicable to the Commuter System is estimated to be approximately $271.8 million. The MTA projects that it will receive during calendar year 2001 for the Commuter System $271.8 million from the Transportation District Account (including no amounts from the receipts collected in the prior year) to be used to provide for the payment of expenses of operations of the Commuter System.

Due to the various factors that influence the receipt of the MTOA Taxes, there can be no assurance that such taxes will generate tax receipts in the amounts projected or that future tax receipts will match historic levels. If shortfalls are experienced in the collection of MTOA Tax receipts, the Commissioner of Transportation is authorized to reduce each recipient's payment from the MTOA Fund proportionately.

Dedicated Tax Fund PBT Receipts. Subject to annual appropriation, a specified share of the following (the "Dedicated Tax Fund Receipts") are deposited in the State's dedicated mass transportation trust fund and paid to the MTA by deposit into a dedicated tax fund (the "Dedicated Tax Fund"):

1. a portion of the PBT that is in addition to the MTOA Petroleum Business Taxes;

2. a portion of the motor fuel tax on gasoline and diesel fuel; and

3. a portion of certain motor vehicle fees, including both registration and non-registration fees.

The MTA receives 34% of the Dedicated Tax Fund PBT Receipts for the benefit of the commuter railroads and the Transit Authority and its affiliates.

Based upon information provided by the State, the MTA projects that Dedicated Tax Fund Receipts will equal $365.4 million in 2001, with 85% (or $310.6 million) available to the Transit System and the remainder (or $54.8 million) available to the Commuter System.

By statute, the share of MTOA Taxes allocated to the Transit Authority and the MTA (the "MTOA Amounts") are deposited in the Dedicated Tax Fund so long as such Fund exists. MTOA Amounts in such Fund are required first to be used, if and to the extent Dedicated Tax Fund PBT Receipts alone are insufficient, to pay debt service on Dedicated Tax Fund Bonds and then are required to be allocated by the MTA to the Commuter System and the Transit Authority in accordance with the formula provided by statute (85% Transit and 15% Commuter).

Urban Taxes for Transit System. In addition to the aforementioned special tax supported subsidies, a portion of the amounts collected by the City from certain transfer and recording taxes with respect to certain real property located with the City (collectively, the "Urban Taxes") are, as required by State statute, paid by the City's

Commissioner of Finance directly to the Transit Authority on a monthly basis. The Transit Authority's current budget assumes that the Urban Taxes will result in the receipt by the Transit Authority of approximately $137.3 million in revenues during calendar year 2001.

TBTA Surplus

Section 569-c of the Triborough Bridge and Tunnel Authority Act, Title 3 of Article 3 of the Public Authorities Law (the "TBTA Act"), and Section 1219-a of the TA Act (as hereinafter defined) require TBTA to transfer its operating surplus ("TBTA Operating Surplus") to the Transit Authority and to the MTA for the commuter railroads in accordance with a statutorily mandated formula described in the next paragraph. For such purposes, the TBTA Operating Surplus subject to such transfer is the amount remaining from all tolls and other operating revenues derived from TBTA's bridges and tunnels after payment of operating, administration and other expenses of TBTA properly chargeable to such projects, and after payment of principal of and sinking fund installments and interest on its bonds, including bonds issued under the 1991 Resolution and the 1994 Resolution to the extent, if any, paid from such sources, after provision for reserves and for all contract provisions with respect to any such bonds and after provision for obligations, including base rental payment obligations in connection with the Beneficial Interest Certificates and TBTA's own base rent payments in connection with the 2 Broadway Certificates of Participation, incurred in connection with any of its authorized projects. See "PUBLIC DEBT SECURITIES".

The first $24 million of TBTA Operating Surplus must be allocated to the Transit Authority, and any excess is divided equally between the MTA and the Transit Authority; however, in making such calculation, an amount equal to debt service paid from TBTA revenues on TBTA indebtedness, the proceeds of which are used to finance certain projects for the Transit Authority and the MTA is first added to the TBTA Operating Surplus and then the amounts otherwise allocable to the MTA and the Transit Authority are reduced by the proportional amounts of such debt service reasonably attributable to the proceeds used for their respective benefit.

TBTA makes advances to the Transit Authority and to the MTA, from available funds, based upon the anticipated TBTA Operating Surplus. TBTA's practice is to transfer, except where there is extraordinary need by a recipient, 90% of such estimated surplus on a monthly basis, with the remainder transferred upon completion of an audit at the end of TBTA's fiscal year. TBTA must determine and certify the amount of TBTA Operating Surplus to the Mayor of the City and to the Chairman of the MTA within 45 days after the end of TBTA's fiscal year.

TBTA Operating Surplus, after payment of debt service on its own obligations, and surplus investment income on certain funds held by TBTA ("TBTA Surplus Investment Income") are used to fund the operating expenses of the Transit System and the Commuter System and/or to finance the cost of certain capital costs and projects of the Transit System and the Commuter System, including payment of debt service on obligations of the MTA issued to finance such costs and projects.

TBTA Operating Surplus and TBTA Surplus Investment Income amounts transferred for each of the last three years on an accrual basis are as follows. The amounts set forth as TBTA Operating Surplus are net of amounts paid for debt service and other obligations described above.

	Transit Authority	Authority	Total
2000			
Operating Surplus	$167,741,914	$189,682,616	$357,424,530
Investment Income	-0-	33,219,362	33,219,362
Total	$167,741,914	$222,901,978	$390,643,892
1999			
Operating Surplus	$169,257,741	$189,511,902	$358,769,643
Investment Income	-0-	23,215,646	23,215,646
Total	$169,257,741	$212,727,548	$381,985,289
1998			
Operating Surplus	$173,063,890	$195,278,250	$368,342,140
Investment Income	-0-	26,989,832	26,989,832
Total	$173,063,890	$222,268,082	$395,331,972

Financial Assistance and Service Reimbursements from Local Municipalities

Commuter System Station Maintenance Payments. The City and each of the seven counties in the Transportation District outside the City are each billed an amount fixed by statute for the operation, maintenance and use of Commuter System passenger stations within the City and each such county as adjusted each year for increases or decreases in the consumer price index for wage earners and clerical workers in the New York, Northeastern-New Jersey Consolidated Metropolitan Statistical Area. The base amounts were increased in 2000, and further modifications may be recommended to the State Legislature every five years (the next such year being 2005) based upon changes made to commuter services.

In 2000, $112.4 million of station maintenance, operation and use assessments was received by the MTA.

The MTA may transfer ownership of Commuter System passenger stations or the responsibility for the performance of particular functions with respect thereto to the county or municipality in which they are located, provided the transferee shall have undertaken the obligation to operate and maintain such stations or to perform the functions so transferred pursuant to a contract satisfactory to the MTA. As a result of any such transfer, the obligation of the transferee county or municipality to pay passenger station maintenance, operation and use assessments would be diminished and the amount of revenues received by the MTA would be reduced thereby.

Transit System Service Reimbursements from the City. Policing of the Transit System is being carried out by the New York City Police Department at the City's expense. The Transit Authority is responsible for certain capital costs and support services related to such police activities, a small portion of which is reimbursed by the City.

Under an agreement with the MTA, the City contributes an operating subsidy to support paratransit, equal to the lesser of (i) one-third of the operating deficit, calculated after taking into account paratransit passenger revenue, certain Urban Tax revenues and Transit Authority administrative expenses, or (ii) an amount that is twenty percent greater than the amount paid by the City for the preceding calendar year. Any remaining operating deficit is funded by the Transit Authority. See "THE TRANSIT SYSTEM – Description of the Transit System – *Paratransit*".

Miscellaneous Revenues

Transit System. The Transit Authority and MaBSTOA receive revenues from concessions granted to vendors and from advertising and other space rented in transit vehicles and facilities. Such revenues aggregated approximately $67.2 million in 2000.

The Transit Authority and MaBSTOA also derive income from the temporary investment of certain other amounts. The amount of such investment income has not been significant in the past and amounts received in any year do not necessarily recur in any subsequent year.

Commuter System. The LIRR and MNCRC receive revenues from concessions granted to vendors, advertising and other space rented in Commuter System vehicles and facilities, the sale of power, the sale of food and beverage and other sundry revenues. Such revenues aggregated approximately $51.7 million in 2000.

Mortgage Recording Taxes

General. Certain moneys paid to the MTA by the City and counties in the Transportation District pursuant to certain mortgage recording taxes are used for the operating and capital costs, including debt service and reserve requirements, of or for the MTA, the Transit Authority and their subsidiaries. The MTA has pledged or contractually obligated itself to make available to the TBTA for the payment of the TBTA 1988 Mortgage Recording Tax Special Obligation Bonds and TBTA 1991 Mortgage Recording Tax Special Obligation Bonds certain of the proceeds received by it from these mortgage recording taxes. See "PUBLIC DEBT SECURITIES".

MRT Receipts. Pursuant to Chapter 60 of the Consolidated Laws of New York (the "State Tax Law"), a tax is imposed (the "MRT-1 Tax") on recorded mortgages of real property situated within the State, subject to certain exclusions. The State Tax Law requires the respective recording officers of the counties comprising the Transportation District to pay to the MTA, on or before the tenth day of each month, the MRT-1 Tax collected by such counties during the preceding month, after deducting certain administrative expenses incident to the maintenance of their respective recording offices (such net MRT-1 Tax collections, together with interest, if any, thereon remitted by such counties to the MTA, are referred to as the "MRT-1 Receipts"). Such amounts must be applied by the MTA, first, to meet MTA Headquarters Expenses (as hereinafter defined) and second, to make deposits into the Transit Account (55% of the remaining amount) and the Commuter Railroad Account (45% of the remaining amount) of the Special Assistance Fund. After payment of the debt service on the TBTA Mortgage Recording Tax Special Obligations Bonds referenced in the preceding paragraph, any excess moneys in the Transit Account are required to be used to pay operating and capital costs of the Transit Authority, its subsidiaries, and SIRTOA, and any excess moneys in the Commuter Railroad Account, after first making the transfers described below under "*Transfers to State Suburban Transportation Fund*", are required to be used to pay operating and capital costs of the commuter railroad operations of the MTA, other than SIRTOA. After the debt restructuring described herein, neither TBTA nor MTA expects to secure any bonds directly with mortgage recording taxes.

The State Tax Law imposes an additional tax (the "MRT-2 Tax") on recorded mortgages of real property situated within the State, subject to certain exclusions. The State Tax Law requires the respective recording officers of the counties comprising the Transportation District to pay, on or before the tenth day of each month, after deducting certain administrative expenses incident to the maintenance of their respective recording offices, the portion of the MRT-2 Tax collected by such counties during the preceding month on certain residential dwelling units to the MTA for deposit into the Corporate Transportation Account of the Special Assistance Fund (such net MRT-2 Tax collections, together with interest, if any, thereon remitted by such counties to the MTA, are referred to as the "MRT-2 Receipts"). Moneys deposited into the Corporate Transportation Account are applied as follows: first, to make deposits into the Dutchess, Orange and Rockland Payment Subaccount described below under "*Transfers to Counties*", second, to make payments in connection with the TBTA Mortgage Recording Tax Special Obligations Bonds referenced above, and third, to make deposits into the Corporate Purposes Subaccount to be used to pay operating and capital costs, including debt service and debt service reserve requirements, of, or incurred for the benefit of, the MTA, the Transit Authority and their respective subsidiaries.

Under existing law, no further action on the part of the State Legislature is necessary for the MTA to continue to receive such moneys. However, the State is not obligated to impose, or to impose at current levels, the MRT-1 Tax or the MRT-2 Tax or to direct the proceeds to the MTA as presently provided.

MRT revenues are subject to significant volatility from year-to-year. This volatility reflects the discretionary nature of the transactions that lead to the collection of the tax. Such transactions are influenced by economic, social and demographic factors.

The following charts show the historical annual MRT Receipts, on an accrual basis, for the years 1996 through 2000.

MRT-1 Receipts

Calendar Year	Revenue (millions)	Annual Percentage Change (1)
1996	$ 64	N/A
1997	74	16%
1998	110	49
1999	123	12
2000	124	0

Source: Metropolitan Transportation Authority
(1) Percentages may not compute due to rounding.

MRT-2 Receipts

Calendar Year	Revenue (millions)	Annual Percentage Change (1)
1996	$ 53	N/A
1997	59	11%
1998	79	34
1999	90	14
2000	90	0

Source: Metropolitan Transportation Authority
(1) Percentages may not compute due to rounding.

Deductions for Headquarters Expenses. The general, administrative and operating expenses of the MTA, net of reimbursements, recoveries and adjustments (the "MTA Headquarters Expenses"), to the extent not paid from other sources, are required to be paid from MRT-1 Receipts prior to making any deposits to the Transit Account or the Commuter Railroad Account. The MTA Headquarters Expenses do not include capital expenditures for headquarters operations.

The following chart shows MTA Headquarters Expenses (on an accrual basis) for each of the three years ended December 31, 2000 and budgeted MTA Headquarters Expenses for the year ending December 31, 2001. Such budget may be revised by the MTA from time to time. MTA Headquarters Expenses in certain of such years have been affected by non-recurring expense items. The MTA has deposited with TBTA as an MTA Headquarters Expense approximately $1.0 million from MRT-1 Receipts for 2001 to effectively eliminate the toll that residents of Broad Channel and the Rockaway Peninsula pay when using E-ZPass on the Cross Bay Veterans Memorial Bridge. The MTA expects to budget and deposit similar amounts each year to maintain this program.

Historical and Budgeted
MTA Headquarters Expenses
(000's omitted)

Year Ended December 31,	MTA Headquarters Expenses Paid from MRT-1 Receipts	MTA Headquarters Expenses Funded From Other Sources(1)
1998	$ 64,954	$23,319
1999	72,145	68,341
2000	114,540(2)	72,554
2001(budgeted)	165,101	32,365

(1) Reflects consolidation and budgeting of certain positions from the Transit Authority, MaBSTOA, TBTA, LIRR and MNCRC into the MTA, including the establishment of the MTA's Police Force on January 1, 1998 and the consequent elimination of the separate police forces of LIRR and MNCRC. Certain consolidated positions and other costs are reimbursed by the agencies for services rendered.
(2) Reflects additional operating support for SIRTOA and Long Island Bus.

The amount of MTA Headquarters Expenses in any year is neither contractually nor statutorily limited. The amount of MTA Headquarters Expenses in future years may be affected by inflation, expansion or contraction of activities the expenses for which are not reimbursable, non-recurring expense items and other circumstances including changes in the MTA's reimbursement practices with respect to the other Related Entities. The amount of MRT-1 Receipts received by the MTA each month that is required to be applied to MTA Headquarters Expenses may vary widely based on the MTA's cash flow requirements and the timing of reimbursements from the other Related Entities.

Transfers to State Suburban Transportation Fund. State law requires the MTA in each year to transfer up to $20 million of MRT-1 Receipts (in equal quarterly installments of $5 million) deposited in the Commuter Railroad Account to the State Suburban Transportation Fund to pay for or finance certain types of highway capital projects in certain areas of the Transportation District.

Transfers to Counties. The MTA is required to transfer, in equal quarterly installments, in each year from the Corporate Transportation Account to the Metropolitan Transportation Authority Dutchess, Orange and Rockland Fund an annual amount of $1,500,000 for each of the counties of Dutchess and Orange, and $2,000,000 for the county of Rockland. Additionally, the MTA must transfer from that Account to such fund for each of these three counties, respectively, an amount equal to the product of (i) the percentage by which such county's mortgage recording tax payment to the MTA in the preceding calendar year increased over such payment in calendar year 1989 and (ii) $1,500,000 each for Dutchess and Orange Counties and $2,000,000 for Rockland County. For 2000, Dutchess County received $2,283,890, Orange County received $2,161,103 and Rockland County received $3,443,148, for a total to all three Counties of $7,888,140.

PUBLIC DEBT SECURITIES

General

General. Some of the Related Entities are authorized to issue bonds, notes and other obligations for the purpose of undertaking and financing capital projects as well as for other purposes. Such obligations are secured by and payable from the revenues and other receipts specified in the bond resolution, indenture or other document authorizing the issuance of such obligations. Bonds, notes and other obligations issued to finance capital projects included in the Transit Capital Programs and Commuter Capital Programs (each as hereinafter described) have in the past been and are currently subject to a statutory limitation on the principal amount of such obligations referred to herein as the statutory ceiling. It is anticipated that obligations issued to finance future Capital Programs will also be subject to a statutory ceiling expected to be imposed by the State Legislature. Obligations issued by TBTA to fund capital projects relating to its Present Facilities and obligations issued by the Related Entities for purposes other than financing projects in Transit and Commuter Capital Programs are not subject to the current statutory ceiling.

Debt Restructuring. The MTA, the Transit Authority and TBTA are proposing to refund and defease substantially all of their outstanding debt and consolidate most of their existing credits. The MTA does not currently intend to refund and defease the MTA Excess Loss Fund Special Obligation Bonds, the 2 Broadway Certificates of Participation or the TBTA Convention Center Project Bonds as part of the debt restructuring, though it reserves the right to do so as part of such restructuring or at a later time. See "2000-2004 FINANCIAL PLAN AND 2000-2004 CAPITAL PROGRAMS".

Current Statutory Ceiling. The MTA Act permits the MTA, the TBTA and the Transit Authority, collectively, to issue on or after January 1, 1993 an aggregate of $16.5 billion of bonds, notes and other obligations (net of certain statutory exclusions) for the Transit Capital Programs and the Commuter Capital Programs for the years 1992-2004. The MTA and TBTA have previously issued a substantial amount of such bonds pursuant to prior statutory ceilings. The MTA, the TBTA and the Transit Authority have issued approximately $4.1 billion of bonds net of such statutory exclusions under the current statutory ceiling, with approximately $12.4 billion in capacity remaining. Any refunding bonds issued in connection with the debt restructuring would be excluded from the statutory ceiling.

Set forth below is a list of obligations issued by the Related Entities to finance the Transit Capital Programs or the Commuter Capital Programs which are governed by past and current statutory ceilings. In the case of the TBTA General Purpose Revenue Bonds, only a portion of such bonds were issued to finance items in such Capital Programs and, consequently, were subject to the statutory ceiling.

Capital Program Bonds

MTA Dedicated Tax Fund Bonds. Bonds are issued pursuant to the Dedicated Tax Fund Bond Resolution of the MTA, adopted on July 31, 1996, and are payable solely from and secured by moneys held in the Pledged Amounts Account of the MTA Dedicated Tax Fund. State law requires that a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, as well as certain special taxes, including a regional sales tax, a temporary regional franchise tax surcharge, a portion of a tax on certain companies and a portion of the business privilege tax imposed on petroleum businesses, be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund. The proceeds from the sale of such bonds are used to finance capital projects of the Transit System and SIRTOA and the Commuter System. There are $1,509,405,000 aggregate principal amount of such Dedicated Tax Fund Bonds outstanding.

MTA Transit Facilities Revenue Bonds. Bonds are issued pursuant to the Transit Facilities Special Obligation Resolution of the MTA, adopted on October 14, 1982, and are payable solely from and secured by a pledge of the items pledged under such bond resolution, which include amounts derived from fares received for the use of the subway and bus systems operated by the Transit Authority and MaBSTOA, payments from concessionaries, and operating subsidies (not including Federal operating subsidies), including expense reimbursement payments, from the State, the City and TBTA. The proceeds from the sale of such bonds are used to finance capital projects of the subway and bus systems operated by the Transit Authority and MaBSTOA. There are $2,369,260,000 aggregate principal amount of such Transit Facilities Revenue Bonds outstanding. In addition, the MTA has issued $500,000,000 aggregate principal amount of commercial paper notes in the form of bond anticipation notes under the Transit Facilities Special Obligation Resolution in anticipation of the issuance of MTA Transit Facilities Revenue Bonds. It is expected that the MTA will issue a like principal amount of commercial paper notes in the form of bond anticipation notes under a new transportation resolution in connection with the debt restructuring.

MTA Commuter Facilities Revenue Bonds. Bonds are issued pursuant to the Commuter Facilities Special Obligation Resolution of the MTA, adopted on July 12, 1984, and are payable solely from and secured by a pledge of the items pledged under such bond resolution, which include the gross operating revenues derived or received from the use and operation of the commuter rail systems operated by the MTA through its subsidiaries, the LIRR and the MNCRC, and certain operating subsidies and expense reimbursements received by the MTA, the LIRR and the MNCRC. The proceeds from the sale of such bonds are used to finance capital projects of the Commuter System operated by the LIRR and the MNCRC. There are $1,828,375,000 aggregate principal amount of such Commuter Facilities Revenue Bonds outstanding. In addition, the MTA has issued $250,000,000 aggregate principal amount of commercial paper notes in the form of bond anticipation notes under the Commuter Facilities Special Obligation Resolution in anticipation of the issuance of MTA Commuter Facilities Revenue Bonds. It is expected that the MTA will issue a like principal amount of commercial paper notes in the form of bond anticipation notes under a new transportation resolution in connection with the debt restructuring.

TBTA General Purpose Revenue Bonds. Bonds are issued pursuant to the 1980 Revenue Bond Resolution of TBTA, adopted on July 23, 1980 (the "1980 TBTA Resolution"), and are payable solely from and secured by the items pledged under such bond resolution, primarily the net revenues of the Present Facilities of the TBTA described herein under "THE TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY – Present Facilities". The proceeds from the sale of such bonds are used to finance the Transportation Project, as described herein under "THE TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY – Authorized Projects of TBTA", and capital projects relating to the Present Facilities. Only that portion of any such bonds issued to finance capital projects of the Transit System and SIRTOA and the Commuter System is subject to the current statutory ceiling. There are $3,617,015,000 aggregate principal amount of General Purpose Revenue Bonds outstanding. In addition, TBTA has issued $1,807,190,000 aggregate principal amount of bond anticipation notes in anticipation of the issuance of TBTA General Purpose Revenue Bonds to finance projects included in the 1995-1999 and 2000-2004 Transit and Commuter Capital Programs. See also *"-Forward Swap Agreements"* below.

TBTA 1991 Mortgage Recording Tax Special Obligation Bonds. Bonds are issued pursuant to the 1991 Special Obligation Bond Resolution of TBTA, adopted on July 26, 1991, and are payable solely from and secured by the items pledged under such bond resolution, which include certain mortgage recording tax receipts available from the Metropolitan Transportation Authority Special Assistance Fund (the "Special Assistance Fund") and, to the extent not paid from moneys from the Special Assistance Fund, from net revenues and other amounts derived from the operations by TBTA of its Present Facilities, after satisfaction of the requirements of the 1980 TBTA Resolution (the "Available TBTA Net Revenues"). The pledge of the moneys in the Special Assistance Fund to the payment of the 1991 Special Obligation Bonds is subordinate to the pledge of such moneys to the payment of the 1988 Mortgage Recording Tax Special Obligation Bonds described in the next paragraph and the pledge on Available TBTA Net Revenues is on a parity with the obligations described below as the TBTA Subordinated Special Obligation Bonds and the Beneficial Interest Certificates. The proceeds from the sale of such bonds are used only to finance the Transportation Project. There are $913,500,000 aggregate principal amount of such 1991 Special Obligation Bonds outstanding. Based on historical mortgage recording tax receipts and the current fixed limit of TBTA net revenues that may be applied to satisfy the additional bonds test under the 1991 Resolution, TBTA does not currently expect to issue additional bonds (other than refunding bonds) under the 1991 Resolution. See also *"-Forward Swap Agreements"* below.

TBTA 1988 Mortgage Recording Tax Special Obligation Bonds. Bonds are issued pursuant to the 1988 Mortgage Recording Tax Special Obligation Bond Resolution of TBTA, adopted on July 27, 1988, and are payable solely from and secured by the items pledged under such bond resolution, which include certain mortgage recording tax receipts available from the Special Assistance Fund. The 1988 Special Obligation Bonds are not additionally secured by Available TBTA Net Revenues. There are no 1988 Special Obligation Bonds outstanding and, due to the volatility of mortgage recording tax revenues, TBTA has no expectation of issuing any bonds under the 1988 Resolution.

MTA Transit Facilities Service Contract Bonds. Bonds are issued pursuant to two separate resolutions adopted by the MTA. Such bonds are not payable from transit revenues, but are payable solely from and secured by certain payments made by the State, subject to annual appropriations, under the service contracts referred to in such bond resolutions. The proceeds from the sale of such bonds were used to finance transit projects and SIRTOA projects. There are $1,283,686,487 aggregate principal amount of such Transit Facilities Service Contract Bonds outstanding. The MTA is not currently authorized to issue any additional service contract bonds in connection with the existing service contracts other than for refunding purposes. Certain 2000 legislation authorizes the State and the MTA to enter into a new or revised service contract that authorizes the issuance of new money and refunding bonds, provided that debt service thereon (less debt service attributable to existing MTA Transit Facilities Service Contract Bonds and MTA Commuter Facilities Service Contract Bonds, all of which are expected to be refunded in connection with the debt restructuring) does not exceed $165 million annually through July 1, 2031.

MTA Commuter Facilities Service Contract Bonds. Bonds are issued pursuant to two separate resolutions adopted by the MTA. Such bonds are not payable from commuter revenues, but are payable solely from and secured by certain payments made by the State, subject to annual appropriations, under the service contracts referred to in such bond resolutions. The proceeds from the sale of such bonds were used to finance transportation facilities for LIRR and MNCRC. There are $616,747,941 aggregate principal amount of such Commuter Facilities Service Contract Bonds outstanding. The MTA is not currently authorized to issue any additional service contract bonds in connection with the existing service contracts other than for refunding purposes. Certain 2000 legislation authorizes the State and the MTA to enter into a new or revised service contract that authorizes the issuance of new money and refunding bonds, provided that debt service thereon (less debt service attributable to existing MTA Transit Facilities Service Contract Bonds and MTA Commuter Facilities Service Contract Bonds, all of which are expected to be refunded in connection with the debt restructuring) does not exceed $165 million annually through July 1, 2031.

Non-Capital Program Securities

The Related Entities have also issued other obligations which are not subject to the current statutory ceiling or any prior statutory ceiling and which were issued for projects which are not part of the Transit Capital Programs or the Commuter Capital Programs, as follows:

TBTA Beneficial Interest Certificates. The Beneficial Interest Certificates were executed and delivered pursuant to a Trust Agreement, dated as of April 1, 1993, by and among the Transit Authority, as lessee, United States Trust Company of New York, as Certificate Trustee, TBTA, as obligor with respect to the payment of base rent, and United States Trust Company of New York, as lessor-trustee. The Certificates are not subject to the current statutory ceiling or any prior statutory ceiling applicable to TBTA for transportation projects and are payable primarily from the base rental payments to be made by TBTA pursuant to a Lease Purchase Agreement, dated as of April 1, 1993, by and among the same parties to the Trust Agreement. TBTA's obligation to make such base rental payments is solely from Available TBTA Net Revenues. The Certificates executed pursuant to such Trust Agreement are on a parity with respect to the pledge of Available TBTA Net Revenues with the Mortgage Recording Tax Special Obligation Bonds issued under the 1991 Resolution and the Subordinated Special Obligation Bonds described below. The proceeds from the sale of such Certificates were used to finance buses used by the Transit Authority as part of the Transportation Project. There are $35,375,000 aggregate principal amount of Beneficial Interest Certificates outstanding.

2 Broadway Certificates of Participation. The Certificates of Participation were executed and delivered pursuant to a Certificate Trust Agreement, dated as of June 1, 1999, by and among the Transit Authority, the MTA (solely on behalf of LIRR and MNCRC), and TBTA, as obligors with respect to their base rent proportionate shares (68.7% in the case of the Transit Authority, 21.0% in the case of the MTA (solely on behalf of LIRR and MNCRC), and 10.3% in the case of TBTA), United States Trust Company of New York, as Lessor-Trustee, and United States Trust Company of New York, as Certificate Trustee. The Certificates are not subject to the current statutory ceiling or any prior statutory ceiling and are payable primarily from the respective base rent proportionate shares to be made by the Transit Authority, the MTA and TBTA pursuant to a Leasehold Improvement Sublease Agreement, dated as of June 1, 1999, by and among the same parties to the Certificate Trust Agreement. The obligation of the Transit Authority to pay its base rent proportionate share is treated as an operating and maintenance expense, subordinate to the payment to bonds, notes and other obligations currently outstanding and hereafter issued or incurred as described in the Certificate Trust Agreement. The obligation of the MTA (solely on behalf of LIRR and MNCRC) to pay its base rent proportionate share is treated as an operating and maintenance expense of the commuter railroads, subordinate to the payment of bonds, notes and other obligations currently outstanding and hereafter issued or incurred as described in the Certificate Trust Agreement. The obligation of TBTA to pay its base rent proportionate share is, by agreement, subordinate to TBTA's payment of other operating and maintenance expenses of TBTA, as well as to bonds, notes and other obligations currently outstanding and hereafter issued or incurred as described in the Certificate Trust Agreement. The proceeds from the sale of the Certificates of Participation are being used to finance certain building and leasehold improvements to an office building occupied by the Transit Authority, the MTA or its subsidiaries (LIRR and MNCRC), and/or TBTA at 2 Broadway in lower Manhattan. The office building is not a project within the transit or commuter capital programs. There are $439,455,000 aggregate principal amount of Certificates of Participation outstanding.

TBTA Subordinated Special Obligation Bonds. Bonds are issued pursuant to the 1994 Subordinated Bond Resolution of TBTA, adopted on March 25, 1994, and are payable solely from and secured by the items pledged under such bond resolution primarily consisting of Available TBTA Net Revenues. The bonds issued pursuant to such resolution are on a parity with respect to the pledge of Available TBTA Net Revenues with the TBTA 1991 Mortgage Recording Tax Special Obligation Bonds and the TBTA Beneficial Interest Certificates described above. The proceeds from the sale of such bonds are used to finance capital projects relating to TBTA's Present Facilities and may not currently be used for the Transportation Project. There are $247,375,000 aggregate principal amount of Subordinated Special Obligation Bonds outstanding.

MTA Excess Loss Fund Special Obligation Bonds. Bonds are issued pursuant to the Excess Loss Fund Special Obligation Bond Resolution of the MTA, adopted on October 27, 1989, and are payable solely from and secured by assessments required to be paid by the participants (*i.e.*, the MTA, MNCRC, LIRR, TBTA and the Transit Authority) in the ELF, the excess liability self-insurance program of such participants. The proceeds from the sale of such bonds were deposited into the ELF to be used for such purposes. There are approximately $49,935,000 aggregate principal amount of such Excess Loss Special Obligation Bonds outstanding. The MTA is not currently authorized to issue any additional bonds for the ELF other than for refunding purposes.

MTA Subordinated Commuter Facilities Revenue Bonds (Grand Central Terminal Redevelopment Project). Bonds are issued pursuant to the Commuter Facilities Special Obligation Subordinated Bond Resolution (Grand Central Terminal Redevelopment Project) of the MTA, adopted on September 21, 1995, and are payable solely from and secured by a pledge that is subordinate to the lien on the revenues securing the MTA Commuter Facilities Revenue Bonds described above. The proceeds from the sale of such bonds were used to finance the costs of a portion of the project to restore and renovate Grand Central Terminal in New York City, which costs are not part of either the Transit or Commuter Capital Program. There are $103,465,000 aggregate principal amount of such Subordinated Revenue Bonds outstanding.

Transit Authority Subordinated Transit Facilities Revenue Bonds (Livingston Plaza Project). Bonds are issued pursuant to the Transit Facilities Special Obligation Bond Resolution (Livingston Plaza Project) of the Transit Authority, adopted on August 24, 1990, and are payable solely from and secured by a subordinate pledge of the revenues securing the MTA Transit Facilities Revenue Bonds described above. The proceeds from the sale of such bonds were used to finance the costs of construction and acquisition of a 12-story office building in Brooklyn, New York, to house certain offices of the Transit Authority and MaBSTOA. There are $237,960,000 (reflecting fully accreted values) of such Subordinated Revenue Bonds outstanding. The Transit Authority is not currently authorized to issue any additional bonds for Livingston Plaza other than for refunding purposes.

TBTA Convention Center Project Bonds. Bonds are issued pursuant to the Convention Center Project Revenue Bond Resolution of TBTA, adopted on July 23, 1980, are not payable from any TBTA revenues and are payable solely from and secured by payments to be made by the State to the TBTA pursuant to a sublease agreement. The proceeds from the sale of such bonds were used to refund certain outstanding bonds that were used to construct and develop the Jacob K. Javits Convention Center in Manhattan. There are $340,585,000 aggregate principal amount of such Convention Center Project Bonds outstanding.

Revenue Anticipation Notes. The MTA and the Transit Authority have in the past and may, from time to time, in the future issue revenue anticipation notes for their working capital needs and the needs of their respective affiliates and subsidiaries occasioned by delays in the receipt of subsidies or other irregularities in the timing of receipt of revenues. All such notes previously issued have been paid on their due dates.

Interagency Loans

The Related Entities are authorized to transfer their revenues, subsidies and other monies or securities to another Related Entity for use by such other Related Entity, provided at the time of such transfer it is reasonably anticipated that the monies and securities so transferred will be reimbursed, repaid or otherwise provided for by the end of the next succeeding calendar year.

Leasing

The Related Entities lease real property, facilities, equipment and other personal property in the normal course of business. In addition, the Related Entities have entered into financing leases and other financial transactions, including sale-leaseback and lease-leaseback arrangements, pursuant to which existing assets are sold or leased to other entities and leased or subleased back by the Related Entities. In certain cases, the basic rent payment obligation of the Related Entities under such leases and subleases, together with a purchase option, is legally defeased and in other cases is economically defeased by a pledge of financial obligations and/or securities of other entities, including, in certain cases, United States government obligations. The expected economic result of such transactions is the receipt by the Related Entities of a net up-front payment, while pursuant to the agreement, the relevant operating agency retains full use of the facility. The event of loss, default, indemnification, and guaranty provisions of these transactions could create substantial undefeased financial obligations of the Related Entities in the unlikely event that they were triggered; if such financial obligations were, in turn, not timely met, the relevant operating agency could lose use of the leased facilities. The payment obligations of the Related Entities under such leases and subleases is generally subordinate to the payment of debt service on the bonds of the agency obligated to make the payments, but to the extent such undefeased financial obligations were obligations (including guaranties) of TBTA, a reduction in the amount of operating surplus transferred from the TBTA could result.

The MTA expects that the Related Entities will continue to enter into such leasing and other financial transactions. Reference is made to the footnotes in the financial statements of the Related Entities for a summary of certain of such capital lease obligations. See, in particular, footnote 7 to the combined financial statements of the MTA for the years ended December 31, 2000 and 1999, footnote 5 to the consolidated financial statements of the Transit Authority for the years ended December 31, 2000 and 1999, and footnote 14 to the financial statements of TBTA for the years ended December 31, 2000 and 1999.

Swap Agreements

For a general description of the guidelines that the Board has adopted in connection with the use of swap agreements, see "INVESTMENT POLICY".

TBTA issued its $109,100,000 General Purpose Revenue Bonds, Series 1999C (the "Series 1999C Bonds") on November 23, 1999 to refund other outstanding TBTA General Purpose Revenue Bonds. In connection therewith, TBTA entered into an interest rate swap agreement with an aggregate notional amount of $109,100,000 with a counterparty. The swap was structured with the counterparty paying the floating rate on the Series 1999C Bonds and TBTA paying a fixed rate (cost of funds swap). TBTA's payments to the counterparty are insured by Ambac Assurance Corporation ("Ambac"). The timely payment of principal of and interest on the Series 1999C Bonds is also insured by Ambac.

TBTA issued its $526,000,000 Special Obligation Variable Rate Refunding Bonds (1991 Resolution), Series 2000A through 2000D (the "Series 2000A-D Bonds") on November 2, 2000 to refund other outstanding TBTA 1991 Mortgage Recording Tax Special Obligation Bonds. In connection therewith, TBTA entered into interest rate swap agreements with an aggregate notional amount of $471,500,000 with two counterparties. The swaps were structured with the counterparties paying the floating rate on their respective Series 2000A-D Bonds and TBTA paying a fixed rate (cost of funds swap). TBTA's payments to the counterparties are insured by MBIA Insurance Corporation. The timely payment of principal of and interest on the Series 2000A-D Bonds is insured by Financial Security Assurance Inc.

On February 24, 1999, TBTA sold an option to serve as counterparty for a delayed start interest rate swap agreement with a notional amount of $296,400,000. The swap was structured with the counterparty paying the floating rate on certain TBTA General Purpose Revenue Bonds (the "1980 Resolution Variable Rate Refunding Bonds") and TBTA paying a fixed rate (cost of funds swap). In return for an upfront payment of $19,204,000 (the "February 1999 Upfront Payment"), TBTA agreed to issue $296,400,000 aggregate principal amount of the 1980 Resolution Variable Rate Refunding Bonds on or about January 1, 2002, if the counterparty exercises its option on September 1, 2001. TBTA's payments to the counterparty are insured by Ambac. Ambac also issued a commitment to insure the payment of principal of and interest on the 1980 Resolution Variable Rate Refunding Bonds, when due, if issued. If the 1980 Resolution Variable Rate Refunding Bonds are issued as a result of the swap transaction, the effective interest cost to TBTA on such Refunding Bonds will be slightly less than on the refunded bonds. In the event the 1980 Resolution Variable Rate Refunding Bonds are not issued, other than because the counterparties have not exercised their options, TBTA may be responsible for substantial penalties.

In the event TBTA decides to terminate any of the swap agreements, the cost of termination would depend, in major part, on then current interest rates, and such cost to TBTA could be substantial.

In connection with the debt restructuring described herein, certain of the Related Entities may enter into swap agreements to manage the variable rate exposure of certain of their debt. In addition, it is expected that the TBTA swap agreements described above will be amended in a way such that the swap agreements, as amended, will remain in place and TBTA will issue new, or amend its existing, variable rate bonds to continue to take advantage of the swap agreements.

2000-2004 FINANCIAL PLAN AND 2000-2004 CAPITAL PROGRAMS

Background and Development

The MTA Act requires the MTA to submit to the Review Board for its approval successive five-year capital programs, one for the Transit System and SIRTOA and the other for the Commuter System. The Review Board previously approved capital programs for the Transit System and SIRTOA and the Commuter System for the five-year periods beginning in the years 1982, 1987, 1992 and 1995. The last two years of the 1992-1996 Transit Capital Program and the 1992-1996 Commuter Capital Program were incorporated into the 1995-1999 Transit Capital Program and the 1995-1999 Commuter Capital Program, respectively, as each is hereinafter described. Approximately $33.1 billion of the $33.5 billion of projects included in the 1982-1999 capital programs for the Transit System and SIRTOA and the Commuter System had been committed through December 31, 2000, $28.6 billion was expended by such date and $24.2 billion of projects have been completed.

The 2000-2004 Transit Capital Program and the 2000-2004 Commuter Capital Program, each as hereinafter described, have been approved by the Review Board. See "2000-2004 Capital Programs" below.

Funding for the capital programs comes from a variety of sources, including bonds, State, City and TBTA assistance, and Federal funds. The Federal government supplied approximately 32% of the funds required for the period between 1982-1991 and 34% of the funds required for the 1992-1999 Capital Programs. The MTA estimates that the Federal government will supply approximately 29% of the funds required for the 2000-2004 Transit and Commuter Capital Programs.

TBTA has its own capital programs which cover the same time periods as the Transit Capital Programs and the Commuter Capital Programs. The TBTA capital programs are not subject to approval by the Review Board and bonds issued to finance TBTA facilities are not subject to the statutory ceiling. See "THE TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY–Prior TBTA Capital Programs", "-The 1995-1999 Capital Program" and "–The 2000-2004 Capital Program".

2000-2004 Financial Plan

The MTA has approved a financial plan for the years 2000 through 2004 (as revised to date, the "2000-2004 Financial Plan") for itself and the other Related Entities. The MTA has also approved separate five-year capital programs for (1) the commuter railroad operations of the MTA conducted by LIRR and MNCRC (the "2000-2004 Commuter Capital Program"), (2) the transit system operated by the Transit Authority and its subsidiary, MaBSTOA, and the rail system operated by SIRTOA (the "2000-2004 Transit Capital Program"), and (3) the toll bridges and tunnels operated by TBTA (the "2000-2004 TBTA Capital Program"). All such Capital Programs are effective.

General. The 2000-2004 Financial Plan is designed to maintain fiscal stability for the Related Entities and enable all such entities to maintain their respective operations on a self-sustaining basis through 2004. The 2000-2004 Financial Plan is also designed to continue a program of capital expenditures that will support the ongoing maintenance of the MTA's transportation network and provide needed improvements to enhance services to its customers, as well as expand service through a number of new initiatives described below under "2000-2004 Capital Programs". The principles established to guide the 2000-2004 Financial Plan are as follows:

- improve customer satisfaction by expanding and improving service;
- increase safety; and
- continue cost reductions and increase efficiencies.

When initially adopted for calendar year 2000, a combined capital gap (expressed as debt service on new money bonds needed during the five-year period) and operating gap was identified in the original 2000-2004 Financial Plan which totaled approximately $4.4 billion over the five years covered by such Financial Plan. A revised plan has been adopted by the Board for 2001 that balances the budgets of the Related Entities. In addition, the revised plan narrows the combined capital and operating gap to $1.2 billion by assuming that the amounts set forth relating to financing initiatives from debt restructuring and asset management and new governmental assistance and other resources will be realized.

The revised 2000-2004 Financial Plan's elements include the issuance of approximately $10.3 billion of new money bonds for the Transit System, the Commuter System and TBTA's capital needs, all as described below, significant principal amounts of which may not actually be issued until after the conclusion of the 2000-2004 Financial Plan. Because the revised 2000-2004 Financial Plan was adopted after the defeat of the State Bond Act, as described below under "*—Implementation of the 2000-2004 Financial Plan*", the amount of bonds reflected in the 2000-2004 Financial Plan does not mirror the amount set forth in the 2000-2004 Capital Programs, which need to be modified to reflect the loss of the State Bond Act proceeds and actions taken in response thereto.

Deficit Reduction Measures. The 2000-2004 Financial Plan assumes that the remaining gap will be reduced through either increased revenues or assistance or decreased expenses, but makes no assumptions as to the nature or extent of either. The MTA expects that cost reductions, if any, can be achieved without service reductions or an adverse impact on the state of good repair of the systems; however, the MTA reserves the right, in its discretion, to revise service schedules and routes.

Financing Initiatives from Debt Restructuring. The 2000-2004 Financial Plan assumes financing initiatives from debt restructuring and asset management of approximately $1.2 billion. It is assumed that the MTA and TBTA will (1) structure certain portions of their new money debt so that principal amortization is delayed and (2) delay the issuance of other portions of their new money debt until the latter part of the five-year period and use other available resources, including federal and City capital moneys, in the earlier years. This will not increase debt service above the current maximum annual level.

New Governmental Assistance and Other Resources. The 2000-2004 Financial Plan assumes the identification of approximately $1.2 billion of new governmental assistance and other resources that have not yet been fully determined, but that could include fare and/or toll increases.

Subsidy Levels. The 2000-2004 Financial Plan assumes that the increases in State or City operating subsidies will be the result of both new subsidies and increases in revenue generated by various taxes on which certain of such subsidies are based as a result of a gradual improvement in economic conditions in the State and City and that none of the taxes supporting such subsidies will be eliminated, redirected or materially modified.

Issuance of Bonds. The 2000-2004 Financial Plan assumes the issuance of approximately $10.3 billion of new money bonds to finance a portion of the 2000-2004 capital programs proposed for the Transit System, the Commuter System and TBTA's capital needs, of which $7.262 billion is shown on the table (the "Funding Table") under the heading "-2000-2004 Capital Programs-*Funding*" below as "Bonds" and $2.0 billion is included as part of the $3.011 billion on the Funding Table as "Debt Restructuring". The 2000-2004 Financial Plan also assumes that the MTA and/or TBTA will issue approximately $1.0 billion in additional bonds to partially offset the loss of $1.6 billion shown on the Funding Table as "State of New York", representing the defeat of the State Bond Act as described in the next paragraph. This is in addition to proposed refunding debt to be issued in connection with the proposed debt restructuring described below and the approximately $2.4 billion of bonds remaining to be issued in connection with projects under the 1995-1999 Transit and Commuter Capital Programs and the 1995-1999 TBTA Capital Program. The MTA has also issued $500 million of transit commercial paper and $250 million of commuter commercial paper in the form of bond anticipation notes under the Transit Facilities Special Obligation and Commuter Facilities Special Obligation Resolutions, that are expected to be paid from Transit Facilities Revenue Bonds and Commuter Facilities Revenue Bonds, respectively, or the proposed transportation bond resolution if the debt restructuring occurs. In addition, TBTA has issued approximately $1.8 billion of bond anticipation notes to finance certain transit, commuter and TBTA projects; such notes are expected to be paid from a combination of bonds issued pursuant to the proposed transportation bond resolution and proposed TBTA senior lien resolution if the debt restructuring occurs.

Proposed Debt Restructuring. The MTA, the Transit Authority and TBTA are proposing to refund and defease substantially all of their outstanding debt and consolidate most of their existing credits. The aggregate principal amount of debt, not including $750 million of Transit and Commuter commercial paper and not including $526 million of TBTA 1991 Mortgage Recording Tax Special Obligation Bonds, Series 2000A-D, proposed to be refunded and defeased is currently approximately $13 billion. See "PUBLIC DEBT SECURITIES" herein. The MTA does not currently intend to refund and defease the MTA Excess Loss Fund Special Obligation Bonds, the 2 Broadway Certificates of Participation or the TBTA Convention Center Project Bonds as part of the debt restructuring, though it reserves the right to do so.

Through the debt restructuring, the MTA proposes to modernize its bond resolutions by updating the financial and operating covenants, including provisions relating to the debt service reserve funds, and providing for the use of other financial products. In addition, the MTA expects to structure the aggregate debt service due on the refunding debt and the related new money debt in such a way that the revised aggregate debt service in any future year through and including the currently stated maturity date of the latest maturing refunded bonds will not exceed the current maximum annual level of debt service on all of the refunded bonds. The $3.011 billion shown on the Funding Table below under "Debt Restructuring" includes $2.0 billion of new money bonds, and the remainder results from the benefits from modernizing the bond resolutions, including the release of all debt service reserve funds.

The implementation of the debt restructuring is dependent upon, among other things, administrative approvals (including approval of the new bond resolutions by the Review Board), market conditions and satisfaction of the requirements of third parties, such as bond rating agencies.

Implementation of the 2000-2004 Financial Plan. The 2000-2004 Financial Plan is based on a number of assumptions including implementation of the cost reductions and debt restructuring discussed above, maintenance of assumed ridership levels on the MTA's Transit and Commuter Systems and traffic volumes on TBTA's facilities and receipt of certain operating and capital assistance from other governmental entities. While the MTA believes that its assumptions regarding budget cuts, the debt restructuring, ridership levels, traffic volumes and capital operating assistance are reasonable, there can be no assurance that all cost reductions can be achieved in the amounts and at the times required, that the MTA can achieve legislative and administrative agreement or approvals in connection with the debt restructuring, that general economic or employment conditions or weather-related events will not adversely affect ridership levels, traffic volumes or operating costs or that operating and capital assistance will be received in the amounts and at the times required. To the extent any of the assumptions underlying the implementation of the 2000-2004 Financial Plan do not materialize, the MTA may have to make revisions to the 2000-2004 Financial Plan and the 2000-2004 Capital Programs, which revisions could be significant.

The implementation of the 2000-2004 Financial Plan and the capital programs described below for the Transit System and SIRTOA, the Commuter System and TBTA's

Present Facilities are interrelated and complex. Any failure to fully achieve each of the various proposals could have an adverse impact on one or more of the other proposals contained in the 2000-2004 Financial Plan, including such capital programs. As more fully described under "2000-2004 Financial Plan – *Implementation of the 2000-2004 Financial Plan"* and "2000-2004 Capital Programs – *General*", implementation will require, among other things, administrative approvals (including various additional approvals of the Review Board), stable or favorable economic, employment and market conditions, and cooperation of third parties. There is no assurance that each of such actions will occur or that all of the assumptions underlying the 2000-2004 Financial Plan, the 2000-2004 Transit Capital Program, the 2000-2004 Commuter Capital Program or the 2000-2004 TBTA Capital Program will be realized. The 2000-2004 Financial Plan may be amended by the MTA from time to time in response to changing economic and operational factors as well as changes in the adopted 2000-2004 Transit Capital Program, 2000-2004 Commuter Capital Program and 2000-2004 TBTA Capital Program.

The 2000-2004 Transit Capital Program and the 2000-2004 Commuter Capital Program assumed the issuance of $1.6 billion of bonds by the State, shown on the Funding Table as "State of New York", the proceeds of which would have been used to finance projects for the benefit of the Transit System and the Commuter System; however, the bond referendum authorizing the issuance of such bonds was not approved by the voters at the election held in November, 2000. Consequently, the MTA may (1) issue additional bonds of one of the Related Entities to finance such projects to the extent resources permit, (2) seek additional resources to finance or pay for such projects, or (3) modify, postpone or eliminate projects in the approved Capital Programs.

2000-2004 Capital Programs

General. The 2000-2004 Transit Capital Program and the 2000-2004 Commuter Capital Program, including the 2000-2004 Network Expansion Program, are collectively referred to herein as the "2000-2004 Capital Programs". The 2000-2004 Capital Programs have been approved by the Review Board and are effective. The 2000-2004 TBTA Capital Program does not need Review Board approval and was effective upon adoption. See "The 2000-2004 TBTA Capital Program" below. The details of the 2000-2004 Capital Programs described below may not correspond to the information set forth above relating to the 2000-2004 Financial Plan because the revised 2000-2004 Financial Plan was adopted after the defeat of the State Bond Act described above and actions taken in response thereto.

There can be no assurance that all the necessary governmental actions to implement the 2000-2004 Capital Programs will be taken, that funding sources currently proposed or assumed will be available in the amounts or at the times projected, or that the projects included in the 2000-2004 Capital Programs, or parts thereof, will not be delayed or reduced. If the implementation of the 2000-2004 Capital Programs or any modification thereof is significantly delayed, the MTA's efforts to bring the entire Transit System and Commuter System to a state of good repair and to prevent deterioration of portions of the Transit System and Commuter System that have already reached a state of good repair may be impeded with potential negative effects on ridership and fare revenues.

Funding. The following table sets forth the expected sources for funding the 2000-2004 Capital Programs and the 2000-2004 TBTA Capital Program.

Funding Source	Program Amount (in Millions)
Federal	$ 4,984
City	530
New York Coliseum sale	145
State of New York*	1,600
Program Income	150
TBTA Investment Income	95
TBTA Pay-As-You-Go	60
Carryover from Previous Capital Programs	225
Debt Restructuring	3,011
Bonds	7,262
Total	$18,062
TBTA	($1,000)
Total Transit and Commuter	$17,062

*The 2000-2004 Capital Programs assume the issuance of $1.6 billion of bonds by the State; however, the bond referendum authorizing the issuance of such bonds was not approved by the voters at the election held in November, 2000.

2000-2004 Transit Capital Program. The following table represents the capital program by category of work for the Transit System and SIRTOA under the 2000-2004 Transit Capital Program (other than MTA Network Expansion Projects related to the Transit System).

	2000-2004 Transit Capital Program (In Millions)
Transit Authority	
Subway Cars	$ 1,993
Buses	491
Stations	1,971
Track	809
Line Equipment	649
Line Structures	654
Signals & Communications	1,350
Power	314
Shops	455
Yards	441
Depots	413
Service Vehicles	72
Security	65
Miscellaneous	472
SIRTOA	33
Total*	$ 10,181

*Total may not add due to rounding.

Among the projects included in the 2000-2004 Transit Capital Program are the following: acquisition of 1,130 new subway cars, replacing 927 existing cars and expanding the fleet by 203; acquisition of 1,257 new buses, including 550 clean fuel buses; rehabilitation of 64 stations; provision of full ADA accessibility at 26 stations; replacement of 33 escalators at various stations; replacement of approximately 40 miles of mainline track; signal modernization; communications improvements; and improvements to shops, yards and depots.

2000-2004 Commuter Capital Program. The following table represents the capital program by agency and by category of work for the Commuter System under the 2000-2004 Commuter Capital Program (other than MTA Network Expansion Projects related to the Commuter System).

	2000-2004 Commuter Capital Program (In Millions)
Long Island Rail Road	
Rolling Stock	$1,013
Passenger Stations	314
Track	303
Line Structures	163
Communications & Signals	182
Shops & Yards	52
Power	43
Miscellaneous	77
Total*	$2,147
Metro-North Railroad	
Rolling Stock	$ 521
Passenger Stations	295
Track & Structures	211
Communications & Signals	62
Power	35
Shops & Yards	137
Miscellaneous	61
Total*	$1,322

*Total may not add due to rounding.

Among the projects included in the approved 2000-2004 Commuter Capital Program are the following: acquisition of 472 electric cars for LIRR and 180 electric cars for MNCRC; acquisition of ten dual mode locomotives; rehabilitation of passenger stations; rehabilitation of track; signal modernization; communications improvements; and improvements to shops and yards.

MTA Network Expansion Projects. A total of $3.4 billion not included in the foregoing tables is proposed for significant funding for three new routes and to evaluate the alternatives and benefits for, and advance design of, other new transit and commuter projects. The three new routes and the amounts therefor in the 2000-2004 Capital Programs are (1) East Side Access ($1.5 billion - to enable LIRR trains to come into Grand Central Terminal); (2) Second Avenue Subway ($1.05 billion – first phase funding to build a new subway line along Second Avenue in Manhattan); and (3) LaGuardia Airport Access ($645 million - to extend existing subway service to LaGuardia Airport). $68 million would be provided to evaluate the alternatives and benefits for, and advance design of (1) extending MNCRC service to Penn Station; (2) new rail links for suburban riders to work sites in Lower Manhattan; and (3) extending existing subway service to the Javits Convention Center area on the west side of Manhattan. Also included is $150 million to support a broad range of smaller initiatives to enhance customer amenities and services throughout the Transportation District.

The moneys provided are expected to permit complete design and commencement of construction on East Side Access; completion of environmental work and design and commencement of tunnel work on the Second Avenue Subway; and the MTA's estimated share of on-airport alignment, and completion of preliminary engineering, final design and construction of the off-airport alignment, for LaGuardia Airport Access. Full implementation of the network expansion projects will require significant additional resources in future capital programs.

Oversight and Review of Administration of Capital Programs

A committee on capital program oversight was established within the MTA that consists of at least three Members of the MTA. The committee monitors various capital program actions and activities, including current and future funding availability, contract awards, program expenditures and timely progress of projects within the programs. The legislation establishing the committee also requires the MTA to submit a five-year strategic operations plan to the Governor and to amend such plan at least annually. Such plan must include, among other things, planned service and performance standards and the projected fare levels for each year covered by the plan and an analysis of the relationship between planned capital elements and the achievement of planned service and performance standards.

Non-Capital Program Project – Lease of 2 Broadway

The MTA (on behalf of LIRR and MNCRC), the Transit Authority and TBTA each authorized and subsequently entered into lease and related agreements whereby as sublessees they will rent, for at least an initial stated term of approximately 49 years, an aggregate of approximately 1.6 million rentable square feet of space at 2 Broadway in lower Manhattan. A portion of the building houses the employees of the Transit Authority and TBTA that formerly occupied space at the New York Coliseum that was sold in 2000. The Transit Authority, TBTA and/or the MTA expect to occupy substantially all of the remainder of 2 Broadway as existing leases expire or as existing space becomes unsuitable. See "Public Debt Securities – *2 Broadway Certificates of Participation*" for a description of the source of funding certain improvements to 2 Broadway.

FUTURE CAPITAL NEEDS

Getting all asset groups to a state of good repair, normal replacements and system improvement investments will require future capital programs. Funding sources to pay for (1) the amount of proceeds not available for the 2000-2004 Capital Programs from the State Bond Act that was defeated in November, 2000, as well as (2) future capital needs of the Transit System and SIRTOA and the Commuter System and of TBTA will need to be identified for the current 2000-2004 Capital Programs and during the development of future five-year capital programs. No assurances can be given that the MTA will be able to identify sufficient sources to fully pay for current and such future capital needs or that, if identified, such funding sources will be received. Some of the prospective funding sources, such as Federal, City and State funds, are not within the control of the MTA and the receipt of such moneys is contingent, among other things, upon the ability and willingness of such entities to provide such moneys. If the MTA does not receive sufficient moneys to fund current and future capital needs, the improvements to the Transit System's and SIRTOA's, the Commuter System's and TBTA's state of good repair achieved through implementation of previous Capital Programs could erode.

THE TRANSIT SYSTEM

Legal Status and Public Purpose

The Transit Authority, a public benefit corporation, was created in 1953 pursuant to Title 9 of Article 5 of the Public Authorities Law, as amended (the "TA Act"), for the purposes of acquiring the transit facilities then operated by the City and operating them for the convenience and safety of the public.

MaBSTOA was created as a public benefit corporation in 1962 as a statutory subsidiary of the Transit Authority to operate the bus routes that had been operated by Surface Transit, Inc. and Fifth Avenue Coach Lines, Inc. prior to their acquisition by the City, as well as any other bus lines thereafter acquired by the City.

Pursuant to the TA Act, the Transit Authority and the City entered into an agreement of lease dated June 1, 1953 providing for the lease to the Transit Authority of the transit facilities then owned or thereafter to be acquired or constructed by the City for use in the fulfillment of the Transit Authority's corporate purposes (the "Transit Authority Lease"). In connection with the creation of MaBSTOA, the Transit Authority agreed that bus lines acquired by the City would be leased to MaBSTOA by the City for operation and maintenance by MaBSTOA. Such lease with MaBSTOA was entered into on March 20, 1962 (the "MaBSTOA Lease").

Management

The Transit Authority was placed under the control of the MTA in 1968. Although the Chairman and Members of the MTA, by statute, are also the Chairman and Members of the Transit Authority and Directors of MaBSTOA, and the Executive Director of the MTA is, *ex officio*, Executive Director of the Transit Authority, the Transit Authority has its own management structure which is responsible for its day-to-day operations. The executive personnel of the Transit Authority and MaBSTOA report to the President of the Transit Authority.

The following are brief biographies of the Transit Authority's senior officers.

Lawrence Reuter, President, 50, rejoined the Transit Authority as President on March 11, 1996. He had served the MTA for eight years, holding various positions of increasing responsibility including General Manager of SIRTOA and eventually Senior Vice President of Operations where he was responsible for the operation of both buses and subways. Mr. Reuter left the MTA in 1991 to run the transit system in San Jose, California. In March of 1994 he became President of the Washington (DC) Metropolitan Area Transit Authority (WMATA). Mr. Reuter earned his Bachelor of Science degree in Engineering from Florida Technological University in Orlando.

Barbara R. Spencer, Executive Vice President, 51, is responsible for the controller, budget, human resources, procurement and distribution functions. Prior to being appointed to this position, Ms. Spencer served as Assistant to the President and Assistant Vice President, Employee and Organizational Development. Ms. Spencer received her B.A. degree from Herbert H. Lehman College and her M.A. and Doctor of Education from Columbia University.

Joseph Hofmann, Senior Vice President for Rapid Transit, 54, joined the Transit Authority in 1970 and has held a diversity of transportation operations positions, including General Superintendent, Chief Transportation Officer (Rapid Transit) and Chief Mechanical Officer (Car Equipment). Mr. Hofmann has attended the Program for Senior Executives in State and Local Government at Harvard University and the National Urban Mass Transportation Seminar at Northeastern University.

Mysore Nagaraja, Senior Vice President/Chief Engineer, 59, joined the Transit Authority in 1985. He has served in all capacities of Capital Program Management and is responsible for directing the planning, design and construction of transit facilities. Prior to being appointed Senior Vice President, Mr. Nagaraja served as Deputy Vice President/ Chief Engineer. Mr. Nagaraja earned his Bachelor of Science and Masters degrees in Civil Engineering from Mysore University, India, and Brigham Young University, respectively.

Gerald M. Provenzano, Senior Vice President, Telecommunications and Information Services, 53, joined the Transit Authority in 1966 and served in various levels of management, including Deputy Chief, Power Operations, Chief Electrical Officer, and Chief Officer, New Technology Implementation. Mr. Provenzano is responsible for Telecommunications, Information Systems, New Technology Implementation, Software Development, and Electronic Repairs for the Transit Authority. Mr. Provenzano received his Bachelor of Science Degree in Business Administration from New York Institute of Technology.

Thomas J. Savage, Senior Vice President for MetroCard Operations, 52, joined the Transit Authority in 1971 and is responsible for MetroCard-related activities including the Automated Fare Collection Program on the Transit Authority's subways and buses, as well as customer services, marketing, AFC equipment maintenance and revenue collection. He has held various positions in the Office of Management & Budget, Human Resources and the Transit Police Department. Prior to his current position, he served as Chief of Police for the MTA. Mr. Savage received his Bachelor of Science degree in Finance from Long Island University and has earned credit from New York University's Graduate School and the New York City Police Academy.

Millard L. Seay, Senior Vice President, Buses, 52, returned to the Transit Authority in 1996 from the WMATA where he was responsible for the monitoring and evaluation of bus and rail service. Mr. Seay previously worked for the Transit Authority from 1985-1996 serving as Senior Director, Operations Planning. He brings to his position more than 25 years of experience in mass transit. He attended George Mason University and earned a B.A. degree in History and graduate credits in business.

Martin B. Schnabel, Vice President and General Counsel, 50, joined the Transit Authority in 1976. Prior to being appointed General Counsel, Mr. Schnabel served as Executive Assistant General Counsel. Mr. Schnabel is responsible for managing the various Law Department divisions. Mr. Schnabel received his Juris Doctor degree from Boston University.

Relationship with the State, the City and the Federal Government

State and City. The Transit Authority and MaBSTOA receive substantial amounts of funding for the operating and capital costs of the Transit System from appropriations and subsidies provided by the State and the City. In calendar year 2000, State and City operating assistance, special tax supported subsidies and reimbursements for the Transit System constituted, on a cash basis, approximately 37% of the total revenues of the Transit Authority and MaBSTOA (in each case, not including reimbursements for capital expenses or amounts used for debt service). To the extent that future operating assistance and the funding of the capital costs of subsequent capital programs projected to be funded by the State and City are subject to their receipt of tax revenues and the making of annual appropriations, the level of such funding may be affected by the general economic conditions in, and the financial condition of, the State and City.

In addition to the operating and capital assistance received by the Transit Authority and MaBSTOA from the City, the Transit Authority and MaBSTOA are dependent upon the City for the maintenance and repair of City-maintained bridges, streets and other infrastructure necessary for the operation of the Transit System. Many of these facilities seriously deteriorated during the period of the City's financial difficulties as a result of the postponement of routine maintenance and capital rehabilitation and are aged and in need of major repairs or reconstruction. Water main breaks and other infrastructure problems, including problems on bridges, have in the past and may in the future cause service disruptions.

Rail service has been curtailed on the Manhattan Bridge since April 1986 to facilitate bridge rehabilitation programs being conducted by the New York State Department of Transportation. Based on current information from the New York City Department of Transportation ("NYCDOT"), at least two of the four tracks will normally be available to the Transit Authority throughout the entire duration of the bridge rehabilitation program, which is expected to last through 2004.

In 1988, Transit Authority rail service operations over the Williamsburg Bridge were temporarily halted due to corrosion-induced deterioration of floor beams supporting the tracks on the Manhattan approach. After repairs were completed by NYCDOT and inspected by NYCDOT consultants and TBTA consultants on behalf of the Transit Authority, rapid transit services over this bridge resumed. An ongoing inspection and repair program has been put in place to assure the continued availability of this bridge. NYCDOT began a thorough rehabilitation of the bridge in 1991. As part of that work, which will take until 2001 to complete, the portions of the bridge that carry the subways will be rehabilitated. As a result, there will be disruptions of service over the bridge that is expected to cause ridership on affected subway lines to decline. Service is expected to be fully restored upon completion of the rehabilitation.

City infrastructure problems, such as those described above, which restrict or preclude service on the Transit System could decrease ridership and revenue levels of the Transit System. The materiality of any such decrease would depend on the nature, severity and duration of the service interruptions.

Federal. The Transit Authority and MaBSTOA also receive substantial amounts of funding for the capital costs of the Transit System from subsidies provided by the Federal government. The Federal government supplied funds (through direct Federal capital grants, direct Westway interstate transfer funds, and indirect Federal Westway interstate funds paid to the City which generated comparable releases of City funds to the MTA) for prior Transit Capital Programs. Federal operating assistance is no longer available for metropolitan areas with over 200,000 population. Federal capital assistance for the Transit Authority and MaBSTOA is expected to increase for the 2000-2004 Transit Capital Program; however, no assurances can be given as to the level of assistance that will be received.

Financial Control Board. Pursuant to the New York State Financial Emergency Act for The City of New York (the “Emergency Act”), the Transit Authority, MaBSTOA and SIRTOA are “covered organizations” and certain of their activities are subject to the jurisdiction of the Financial Control Board which is comprised of the Governor, the Mayor of the City, the State Comptroller, the City Comptroller and three persons appointed by the Governor with the advice and consent of the Senate who serve at the pleasure of the Governor. The statutory conditions for termination of the “control period”, as defined in the Emergency Act, were satisfied on June 30, 1986, and the Financial Control Board’s powers of prior approval of the Transit Authority’s, MaBSTOA’s and SIRTOA’s financial plans, their proposed long-term and short-term borrowings and certain contracts have been suspended.

If a control period is reimposed, the Financial Control Board will be required under the Emergency Act to review and approve or disapprove the financial plans submitted by the City on behalf of the Transit Authority, MaBSTOA and SIRTOA, their long- and short-term borrowings incurred after the reimposition of the control period and certain of their contracts.

Other. Officials of the State, City and Federal governments and the Inspector General of the MTA periodically conduct audits and reviews of the operations of the MTA, the Transit Authority and MaBSTOA in order to identify areas in which performance might be improved and available funds more effectively used, and to recommend remedial actions to overcome deficiencies determined to exist. A number of these audits and reviews have criticized various phases of the Transit Authority's and MaBSTOA's performance, including implementation of certain capital projects, procurement procedures, maintenance, inspection, maintenance and repair of elevated structures, safety, including emergency response capability and storage and disposal of hazardous materials, employee productivity, drug testing, and other aspects of operations.

In some instances, the Transit Authority has challenged conclusions in these reports and identified certain external factors, such as the City's fiscal crises during the 1970s, which interfered with the implementation and completion of past capital improvement programs. In response to many of the criticisms, however, the Transit Authority has acknowledged the problems identified in the reports and has adopted the recommendations made therein or is taking other appropriate remedial actions.

Accomplishments of the 1982-1991 Transit Capital Programs

The MTA achieved many of its objectives of the 1982-1991 Transit Capital Programs including significant progress towards bringing the Transit System and SIRTOA to a state of good repair. During such period, the Transit Authority's fleet of subway cars was replaced or overhauled and the average miles between break-downs increased approximately 400% since 1982; main-line track and switches reached a state of good repair; 53 stations received improvements and enhancements, including, in certain cases, full reconstruction, platform, entrance and stair improvements, elevator and escalator replacements, and accessibility for the handicapped and disabled. New subway service and six new stations were provided in Queens, Roosevelt Island and Manhattan; the entire bus fleet was replaced or rebuilt, 100% of the buses were wheelchair lift-equipped and all subway cars and buses were made graffiti-free; numerous maintenance shops, storage yards, and depots were built or rehabilitated; and SIRTOA's entire fleet was overhauled and platforms at 16 stations were extended. Approximately $11.6 billion of the $11.67 billion of projects included in the 1982–1991 Transit Capital Programs had been committed through December 31, 2000, $11.6 billion was expended by such date and $11.56 billion of projects have been completed.

1992-1999 Transit Capital Program Objectives

Highlights of key investments funded under the 1992-1999 Transit Capital Program include the purchase or remanufacture of over 3,637 buses, rehabilitation of 87 subway stations and three major subway station complexes including the addition of elevators and escalators at some of these stations, making them accessible for the elderly and disabled, construction of a Rail Control Center, modernization of signal systems on four subway lines and the Williamsburg Bridge, inauguration of communications based train control, construction of two bus maintenance facilities, and the completion of the 63rd Street connector project, which is expected to significantly relieve overcrowding on the Queens Boulevard line. The 1992-1999 Transit Capital Program also anticipates investments necessary to eliminate 25 cycle power and complete reconstruction of the

Franklin Avenue Line and a section of the Lenox Avenue Line and replacement of signals on the Staten Island Railway. As of December 31, 2000, $12.4 billion of the $12.6 billion for Transit System and SIRTOA projects included in the 1992-1999 Transit Capital Program have been committed, $9.0 billion have been expended and $5.8 billion of projects have been completed.

History of the Transit System

Mass transit has played a vital role in the development of the City from its earliest days. It continues to be essential to the economic life of the metropolitan area and for a substantial portion of the population of the metropolitan area it represents the principal means of transportation within the City and to and from places of employment. The intense concentration of commercial, financial, cultural, industrial and residential development which exists in the 22 square miles comprising the Borough of Manhattan, particularly its central business district, would not be feasible without an extensive system of mass transit.

Subway System. Construction of the first subway in the City (the IRT) began in 1900 and was completed in 1904. Although built with City funds, it was leased to and operated by a private company. A major expansion of the subway system was completed in various stages between 1918 and 1922. A portion of the expanded system was incorporated into the IRT and the remainder, the BMT, was leased to another private company. In 1924, the City Board of Transportation was created to plan, construct and operate a third subway system (the IND). That system was completed in various stages between 1932 and 1940.

In 1940, the City acquired the franchise rights and properties of the IRT and BMT from the private companies that had operated those lines and that were then in reorganization and the entire subway system was placed under the control of the City Board of Transportation. In 1953, the subway system was leased to the then newly formed Transit Authority.

Although a number of changes have been made to the fixed physical plant of the subway system since 1940, such as the closing of the oldest elevated lines and the integration of the several systems, there were no significant alterations of the basic physical configuration of the subway network since that time until the Transit Authority opened the Archer Avenue Line extension and the 63rd Street Tunnel in 1988 and 1989, respectively, along with three new subway stations along each of these routes.

Bus System. During the 1940's and 1950's, the City acquired the properties and franchises of a number of private bus companies operating within the City, all of which were leased to the Transit Authority at the time of its creation. MaBSTOA was created in 1962 to operate the bus lines formerly operated by the Fifth Avenue Coach Lines, Inc. and Surface Transit, Inc. Both the Transit Authority and MaBSTOA have since assumed the operation of additional franchises and routes. Although most bus service within the

City is now operated by the Transit Authority and MaBSTOA, private bus companies continue to operate local service on certain routes within the City and provide certain bus services between the outer boroughs and the Manhattan central business district.

Description of the Transit System

Subway System. The City's rapid transit system is by far the largest in the nation. Only a few cities in the world have a subway system comparable in physical size and ridership. The subway system has over 656 miles of mainline track extending 230 route miles. It operates 24 hours a day, 365 days a year, although certain lines are not in service the entire day and frequency of service varies by route and time of day. In calendar year 2000, almost 1.4 billion revenue passengers used the subway. The Transit Authority employs approximately 26,900 workers in rapid transit. It currently has a fleet of 5,957 subway cars, two major subway car repair shops, 14 maintenance shops, 23 subway car storage yards and 468 passenger stations.

Bus System. The Transit Authority and MaBSTOA presently operate bus service on 237 local and express routes throughout the City. The majority of bus routes are designed to serve passengers traveling within a particular borough or to serve as feeders to the subway system. In calendar year 2000, approximately 699 million revenue passengers used the bus system. Together, this bus system employs approximately 13,849 persons and operates 4,414 buses. The bus system operates on a continual basis, although certain bus routes are not in service the entire day and frequency of service varies by route and time of day.

Paratransit. On July 1, 1993, the Transit Authority assumed responsibility from the City for the Access-a-Ride paratransit service in order to increase the efficiency of providing such services by vesting responsibility in a single entity. Access-a-Ride service is provided by private vendors under contract with the Transit Authority. Paratransit fares are currently equivalent to the regular passenger fare rate of $1.50 per trip. Paratransit operations are also supported by six percent of the revenue from the urban tax (real-estate related taxes on commercial property collected in the City) ("Urban Tax"). The City contributes an operating subsidy to support paratransit, equal to the lesser of (i) one third of the operating deficit, calculated after deducting paratransit passenger revenue, the above-described Urban Tax revenue, and Transit Authority administrative expenses, or (ii) an amount that is twenty percent greater than the amount paid by the City for the preceding calendar year. Any remaining operating deficit is funded by the Transit Authority.

Ridership

General. Subway revenue passengers in 2000 increased approximately 7.6% from 1999. Total 2000 subway passenger ridership was approximately 1.4 billion, the highest annual ridership (assuming the 2000 method of calculating ridership) since 1964. Bus ridership in 2000 was 4.9% higher than 1999, the highest annual ridership since 1977.

To meet the growing demand, the Transit Authority has been expanding service since 1997, adding new capacity on 90% of its subway lines and 98% of its bus routes. In 2000, subway service was increased by 3% and bus service by 6%.

While some of the Transit System growth is attributable to the gradual improvement in the economy, overall ridership increases are outpacing the economy and are attributable to other factors including successful efforts to reduce fare evasion and improve security. Significant factors which impact ridership, discussed more fully below, include fares and fare incentives, Transit System performance and levels of services, Transit System security and employment in the City generally as well as the relative level and cost of service provided by competing transportation modes such as taxis, licensed and unlicensed vanpools, private car and bus services and charter operators. Interruptions to service or temporary closures of lines resulting from major capital improvement projects to the Transit System by the Transit Authority or service disruptions caused by City infrastructure problems which are not under the control of the Transit Authority and MaBSTOA or from repairs to or rehabilitation of City infrastructure by the City or its agencies could adversely impact ridership and revenues. The effect would depend on the nature, severity and duration of the service interruptions. See "2000-2004 FINANCIAL PLAN AND 2000-2004 CAPITAL PROGRAMS" and "THE TRANSIT SYSTEM - Relationship with the State, the City and the Federal Government".

Historical Ridership. The following table sets forth annual ridership on the Transit System for the past ten years and the percentage increase /(decrease) each year.

Revenue Passengers*
(In Thousands)

Years	Subway	Subway Increase/ Decrease	Bus***	Bus Increase/ (Decrease)	Paratransit**	Paratransit Increase/ (Decrease)	Total Subway Bus/Paratrans.	Total Increase/ (Decrease)
1991	995,228	N/A	535,819	N/A	N/A	N/A	1,531,046	N/A
1992	996,702	0.1	519,126	(3.1%)	N/A	N/A	1,515,828	(1.0%)
1993	1,029,765	3.3	517,303	(0.4)	308	N/A	1,547,376	2.1
1994	1,080,757	5.0	523,451	1.2	424	37.7%	1,604,632	3.7
1995	1,093,029	1.1	518,985	(0.9)	523	23.3	1,612,537	0.5
1996	1,110,026	1.6	491.591	(5.3)	575	10.1	1,602,192	(0.6)
1997	1,129,514	2.0	537,430	9.4	735	27.8	1,667,679	4.1
1998	1,199,419	6.3	614,947	14.4	963	31.0	1,815,329	8.9
1999	1,283,082	6.9	666,442	8.3	1,198	24.4	1,950,722	7.5
2000	1,381,079	7.6	698,899	4.9	1,696	41.6	2,081,674	6.7

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*"Revenue Passengers" are defined as all passengers for whom revenue is received, either through direct fare payment (cash, tokens, MetroCards) or fare reimbursements (senior citizens, school children, the physically disabled). Commencing July 1997, "Revenue Passengers" statistics count passengers that use a free intermodal or bus-to-bus transfer as an additional passenger though they are not paying an additional fare.

**Beginning in 1993, Paratransit Passengers reflects total riders carried by Access-a-Ride during the 12 months of the year; the City operated Access-a-Ride during January through June 1993 and the Transit Authority operated Access-a-Ride beginning July 1, 1993.

*** Bus ridership figures reflect unlinked trips, i.e., each bus boarding is counted as a trip, including bus-to-bus transfers. Bus ridership prior to 1997 includes estimates for student ridership and bus-to-bus transfers.

Fares. Since September 1975, the basic fare charged for use of the Transit System has been raised seven times. In June 1980, the fare was increased from $.50 to $.60; in July 1981, the fare was increased to $.75; in January 1984, the fare was increased to $.90; in January 1986, the fare was increased to $1.00; in January 1990, the fare was increased to $1.15, in January 1992, the fare was increased to $1.25 and in November 1995 the fare was increased to $1.50. Each fare increase, except the 1986 increase, has been followed by an immediate decrease in ridership. After adjusting for inflation, the current base fare is lower than the fare charged in 1975 and substantially the same as the fare charged in 1982.

HISTORICAL FARE INFORMATION

Year	CPU-U(1)	Base Fare	Base Fare Real $(2)	Average Fare(s)(3)	Non-Student Average Fare(s)(4)
1991	144.8	$1.15	$0.757	$0.967	$1.04
1992	150.0	1.25	0.794	1.052	1.14
1993	154.5	1.25	0.771	1.057	1.14
1994	158.2	1.25	0.753	1.061	1.15
1995(5)	162.2	1.50	0.882	1.087	1.17
1996	166.9	1.50	0.857	1.274	1.38
1997	170.8	1.50	0.837	1.224	1.32(6)
1998	173.6	1.50	0.824	1.080	1.16
1999(7)	177.0	1.50	0.808	1.024	1.09
2000	182.5	1.50	0.784	1.010	1.07
2001Est	187.6	1.50	0.762	0.995	1.06

(1) CPI All Urban Consumers, New York, N.Y. – Northeastern N.J.; 1982-84 = 100.0. The CPI levels listed are the annual average for each year.
(2) Base fare after adjusting for inflation since 1982.
(3) Total farebox revenue divided by revenue passenger trips (including students).
(4) Non-student revenue divided by revenue passenger trips (excluding students).
(5) Fare increased from $1.25 to $1.50 in November 1995.
(6) Second half of 1997 only.
(7) 1999 is the first complete calendar year in which unlimited ride passes were available.

The Transit Authority offered additional MetroCard discounts in 1998 and 1999. The MetroCard Bonus Program, offering customers a ten percent bonus on purchases of, or additions to, a single MetroCard or $15 or more, began January 1, 1998. On March 1, 1998, the one-way express bus fare was reduced from $4 to $3. In addition, the Transit Authority implemented a series of unlimited-ride passes in 1998 and 1999, including a $63 30-day pass, a $17 seven-day pass, a $4 daily pass and a $120 monthly premium pass providing unlimited rides on express buses, as well as subway and local bus services. Senior citizens and persons with disabilities are able to purchase monthly and weekly passes at half price.

Subway System Performance and Level of Service. Since implementation of the capital programs began in early 1982, Transit System performance, on the whole, has improved. The Transit Authority has replaced or overhauled its entire fleet. The entire fleet is now substantially free of painted graffiti, and subway cars now run an average of

110,180 miles between breakdowns, up from an average of 7,145 in 1982. By the end of 1992, all of the Transit System's 656 miles of mainline track had reached a state of good repair, which has reduced track related mainline derailments and delays. Weekday on-time performance based upon terminal departures and arrivals rose from 87.9% in 1990 to 95.1% in 2000. The Transit Authority has also rehabilitated shops, depots, warehouses and stations which has helped make operations more efficient.

Other aspects of the passenger environment have also experienced significant improvement. Almost all cars have adequate climate control and are displaying the correct signage.

The Transit Authority believes that these improvements are attributable to better management and maintenance of the Transit System, and implementation of capital projects pursuant to the capital programs. Further improvements, as well as the maintenance of these significant improvements since the inception of the capital programs and the improvements in Transit System performance produced as a result thereof, are dependent upon the completion of the 1995-1999 Transit Capital Program, the 2000-2004 Transit Capital Program and subsequent capital programs.

A number of measures are used to quantify Transit System performance and the level of Transit System service, including vehicle miles traveled ("VMT"), train abandonments and mean distance between failures ("MDBF").

VMT is the total number of miles traveled by trains and buses. Since 1991, train VMT has increased to 333 million miles (2000).

Year	Subway VMT (in millions)	Increase/ (Decrease)
1991	303	N/A
1992	305	0.7%
1993	304	(0.3)
1994	310	2.0
1995	312	0.6
1996	309	(1.0)
1997	314	1.6
1998	315	0.3
1999	323	2.5
2000	333	3.1

An important factor affecting the quality of subway service is the frequency of train abandonments, either in the form of terminal abandonments or en route abandonments. Terminal abandonments occur when trains scheduled for operation cannot be put into service. En route abandonments occur whenever a train misses one or more of its regularly scheduled station stops after the train has left its originating terminal. Of the two, en route abandonments have a potentially greater impact on service due to the compounding effect they may have on a portion of the Transit System. For example, if a train is abandoned en route, it may be immobilized in place for an extended period delaying other trains behind it or causing trains to be switched to another track.

The Transit Capital Program has necessitated and will continue to necessitate temporary service disruptions that adversely affect certain aspects of Transit System performance such as on-time performance and, because the skipping of a regularly scheduled station stop is counted as an en route train abandonment, train abandonments. These disruptions are required to facilitate work on certain capital projects. Such disruptions include the rerouting of subway trains, the closing of either part or all of certain passenger stations, cessation of either local or express service, train delays and reduction of train speeds. The increase in the level of terminal and en route abandonments that was occasioned by the major capital rebuilding program in progress throughout the Transit System has been reduced. Total delays during the Monday through Friday workweek period from Transit System rebuilding have declined from 16,428 in 1991 to 7,385 in 2000.

Subway MDBF represents total revenue car miles divided by the number of car failures. A car failure is any incident, including delays, relating to equipment in revenue service that is attributable to that equipment and/or its maintenance. Since 1991, subway MDBF has increased by approximately 202.6%.

Year	Subway MDBF	Increase/ (Decrease)
1991	36,413	N/A
1992	45,253	24.3%
1993	52,903	15.8
1994	56,263	7.4
1995	58,622	4.2
1996	68,238	16.9
1997	77,161	13.1
1998	80,990	5.0
1999	86,884	7.3
2000	110,180	26.8

There has been steady improvement in fleetwide MDBF since the beginning of the capital program. These improvements are attributable to a number of factors, including: increased supervision and management control of the Transit Authority work force, improved maintenance and inspection procedures, better training of employees, and the influx of replacement and overhauled subway cars funded through the capital program. With the increase in number of new or overhauled cars, including the replacement of 1,080 cars and the addition of 212 cars in the 1995-1999 Transit Capital Program, the Transit Authority expects to sustain MDBF levels through continuation of current maintenance levels and regularly scheduled replacement of rail cars.

Bus System Performance and Level of Service. Bus MDBF measures the average rate of bus failure in terms of miles of operation. While declining bus MDBF affects the quality of bus service, it generally is not expected to have as significant an impact on bus ridership as MDBF has on subway ridership, since the breakdown of one bus generally does not affect the operations of other buses on the same route.

There has been an increase in bus MDBF since the beginning of the capital program. Since 1995, the bus MDBF has increased by approximately 59.1%. However, normal replacement of buses as they approach the end of their useful life has been problematic over the last few years due to financial weakness among bus manufacturing vendors. This resulted in delivery delays and in some instances quality problems. In response, the Department of Buses developed and implemented programs to extend the useful life of some buses. In 2000, the Department of Buses shop operations completed 162 general overhauls, 427 three-year upgrades and 325 12-year upgrades. In addition, the Department completed various unscheduled sundry work. The Department of Buses continues its programmatic fleet maintenance program which includes scheduled preventive maintenance at 3-year intervals.

Year	Bus MDBF	Increase/ (Decrease)
1991	2,754	N/A
1992	2,466	(10.5)%
1993	2,287	(7.3)
1994	2,018	(11.8)
1995	1,639	(18.8)
1996	1,745	6.5
1997	2,033	16.5
1998	2,084	2.5
1999	2,149	3.1
2000	2,608	21.4

Since 1991, bus VMT has increased by approximately 13.9%. Numerous schedule and route adjustments have been and continue to be made to better match bus availability to passenger demand.

Year	Bus VMT (in millions)	Increase/ (Decrease)
1991	101	N/A
1992	100	(1.0)%
1993	99	(1.0)
1994	100	1.0
1995	99	(1.0)
1996	95	(4.0)
1997	98	(3.2)
1998	104	6.1
1999	109	4.8
2000	115	5.5

Transit System Security. Ridership is also affected by the public's perception of security and order in the Transit System, which has been affected by the presence of homeless people, beggars, illegal vendors and fare evaders in the Transit System. The Transit Authority has taken significant steps to address these problems. These include instituting an outreach program to transport the homeless from the Transit System, increasing the uniformed police presence throughout the Transit System and reducing fare evasion and serious crimes. In 2000, reported felonies dropped, continuing a trend that has seen serious crime drop dramatically since 1990. Over a 10-year period, major felonies were down 75%, robberies 85% and assaults 73.5%. Aggressive enforcement and fare control area modifications contributed to a drop in the fare evasion ratio to 0.40% in 2000 from 1.08% in 1997 and from 5.91% in the peek year of fare evasion in 1991. Police presence has been important to reductions in subway crime and fare evasion.

Employment. City employment levels generally have a significant impact on the level of subway ridership. Both City employment levels and subway ridership declined between 1989 and 1992. In the 1992 to 2000 period, employment grew by approximately 13.4%, including 2.8% in 2000. Subway ridership gains, however, outpaced this turnaround in the local economy. Average weekday subway passengers increased by 34.6% from 1992 levels, including 7.0% in 2000, and average weekend subway passengers increased by 65.4% since 1992, including a 9.2% increase in 2000.

Automated Fare Collection. The AFC system is fully operational in all subway stations and on all Transit Authority and MaBSTOA buses. AFC includes, among other elements, subway turnstiles and bus fare boxes that accept a magnetic farecard ("MetroCard") in payment. AFC provided the technical capability to eliminate two-fare zones as well as flexible intermodal and interagency fare structures. MetroCard enables passengers to purchase multiple rides and use the MetroCard to enter the Transit System through AFC turnstiles which automatically deduct the cost of each use. The subway turnstiles are designed to be tamper-resistant and to inhibit fare evasion by being more difficult to pass without payment. The bus fareboxes issue magnetically encoded transfers which are designed to reduce fare evasion resulting from the use of invalid transfers.

Weekday MetroCard market share was 81.0% in December 2000, up from 24% in June 1997, the month before the introduction of the free intermodal transfers. In December 2000, approximately (1) 85.3% of weekday subway, (2) 80.0% of weekend subway, (3) 76.1% of weekday bus, and (4) 73.5% of weekend bus registrations were made using a MetroCard.

Out-of-system sales outlets, including approximately 3,150 active retail locations, generated approximately $289.2 million in MetroCard sales in 2000, a 19.0% increase over 1999. Market penetration for out-of-system sales is approximately 15.0%. During 2000, employers ordered 855,000 TransitChek MetroCards valued at $30.0 million, with unlimited ride products accounting for approximately 56.0% of total TransitChek MetroCard sales. TransitChek MetroCard sales are expected to continue to grow due to Federal TEA-21 legislation that liberalized the tax benefits of employer-based transportation programs.

MetroCard Vending Machines ("MVMs") allow riders to purchase MetroCards using cash, credit, debit or ATM Cards. By December 2000, 1,239 MVMs were installed in 383 of the Transit Authority's 468 stations, as well as the New York City Convention and Visitors Bureau Visitors Center and the Staten Island Ferry's Whitehall Street and St. George terminals. MVM sales totaled more than $400 million in 2000, accounting for 23% of all MetroCard sales and, as of December 2000, 47% of sales at stations equipped with MVMs. Ultimately, 1,645 MVMs will be installed throughout the Transit System.

See generally "CHANGES IN METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS" herein.

Certain State and Federal Laws

Applicable State and Federal law concerning protection of the environment, and Federal legislation concerning, among other matters, access to transportation and non-transportation facilities by the physically disabled will require future operating and capital expenditures by the Transit Authority and MaBSTOA. Such expenditures may be material. The Transit Authority is currently the subject of a cleanup consent decree with a State governmental entity. Approved Transit Capital Programs include capital expenditures to replace underground storage tanks in accordance with the decree. See "LITIGATION – Transit System-Environmental Proceedings". The Transit Authority requested an extension, permitted by the ADA, and has received approval from the FTA, to stage accomplishment of the requirement to provide certain alterations for access by persons with disabilities over a twenty-year period. The Transit Authority is also subject to certain provisions of the State Public Buildings Law (the "Public Buildings Law") relating to facilities for the physically disabled, under which its key station accessibility requirements under ADA and the Public Buildings Law are extended for 30 years (to

2020). The current operating budget and approved Transit Capital Programs provide for a portion of the costs of compliance with Federal law. Future environmental requirements could subject the Transit Authority and MaBSTOA to additional operating and capital costs, which costs may be significant.

Employees, Labor Relations and Pension Obligations

The transportation services provided by the Transit System, as well as related maintenance and support services, are labor intensive. Consequently, the major portion of Transit System expenses consists of the costs of salaries, wages and fringe benefits for employees. As of December 31, 2000, not including capital personnel, the Transit Authority employed 38,070 persons and MaBSTOA employed 7,206 persons.

The Transit Authority has a contract with the TWU through December 14, 2002. Until December 14, 2002, the Transit Authority has agreed not to lay off any employee represented by TWU except in case of financial emergency.

As public employees, the employees of the Transit Authority and MaBSTOA are prohibited by State law from striking and there have been no labor stoppages since 1980.

The 1986 Act requires the TWU (and permits other unions) and the Transit Authority and MaBSTOA to submit a dispute preventing the voluntary resolution of contract negotiations to binding arbitration before a three member public arbitration panel upon the occurrence of certain events. The three member panel would be chosen as follows: one member appointed by the MTA, one member by the affected union, and one member appointed jointly by the parties. Almost all of the unions have elected to be bound by the 1986 Act's binding arbitration provisions.

Members of the Transit Authority pension plan are members of the New York City Employees Retirement System and members of MaBSTOA's pension system have a separately funded plan. MaBSTOA has substantial liabilities and obligations in respect of a number of pension and other employee benefit arrangements. In the case of the various pension plans, both the Transit Authority and MaBSTOA are required to make significant annual contributions on a current basis. A significant portion of the estimated obligations under the MaBSTOA pension plan to make payments in future years are currently unfunded. See generally the footnotes to the audited financial statements. See Note 6 to the Consolidated Financial Statements of the Transit Authority.

Budget

Pursuant to Article 9 of the Public Authorities Law, the Transit Authority and MaBSTOA are required to submit to the Governor and the chairman and ranking minority members of each of the Senate Finance Committee and Assembly Ways and Means Committee, not less than 60 days before the commencement of each fiscal year, budget information on operations and capital construction setting forth the estimated receipts and expenditures for the current and next succeeding fiscal year, together with actual receipts and expenditures for the last completed fiscal year. Forecasts and budget are prepared on an accrual basis by the Transit Authority and are basically consistent with generally accepted accounting principles except that no depreciation is provided and principal payments as well as interest are shown as expenditures.

THE COMMUTER SYSTEM

Legal Status and Public Purpose

Through the LIRR, the MTA directly operates commuter rail service between the City and Long Island and within Long Island (the "LIRR Commuter Service"). Through the MNCRC, the MTA directly operates the New Haven Line (pursuant to a joint service agreement with the Connecticut Department of Transportation ("CDOT")) and the Harlem and Hudson commuter rail services and subsidizes and performs certain other services relating to the State portion of the Port Jervis and Pascack Valley Lines operated, pursuant to a joint service agreement, by NJ Transit (collectively, the "Metro-North Commuter Services"). The Metro-North Commuter Services provide service between the City and the northern suburban counties of Westchester, Putnam and Dutchess and from the City through the southern portion of the State of Connecticut to New Haven, Connecticut and within such Counties and such state. The Port Jervis and Pascack Valley Lines provide service to the northern suburban counties of Orange and Rockland.

The LIRR was incorporated as a privately-held railroad company in 1834. In 1966, the MTA acquired all of the capital stock of the LIRR from its parent, the Pennsylvania Railroad Company. In February 1980, the LIRR's Certificate of Incorporation was amended to convert it into a subsidiary public benefit corporation of the MTA organized pursuant to the MTA Act. The LIRR owns, leases or has easements or other rights to the rolling stock, physical plant and equipment material to its operations.

The MNCRC was incorporated by the MTA on September 22, 1982 as a subsidiary public benefit corporation. The MTA or the MNCRC owns, leases or has easements or other rights to the rolling stock, physical plant and equipment material to the operation of the Harlem and Hudson Lines, and to the physical plant and equipment material to the operation of the State portion of the New Haven Line. The MTA or the MNCRC owns approximately 48% of the rolling stock used on the New Haven Line and CDOT owns the remaining rolling stock used on the New Haven Line.

The New Haven Line is operated by MNCRC pursuant to the terms of an Amended and Restated Service Agreement dated as of June 21, 1985, among the State of Connecticut, by CDOT, the MTA and MNCRC (the "ASA"). Under the provisions of the ASA, at the expiration of each term of the ASA, it is automatically extended for five years, subject to the right of CDOT or the MTA to terminate the ASA on 18 months' written notice. The current term of the ASA expires on January 1, 2005. Neither the MTA nor CDOT has given notice of termination of the ASA.

Management

Although the Chairman and Members of the MTA, by statute, are also the Chairman and Members of LIRR and MNCRC, and the Executive Director of the MTA is, *ex officio*, Executive Director of LIRR and MNCRC, both LIRR and MNCRC have their own management structure that is responsible for their day-to-day operations. The day-to-day operations of each of the LIRR and the MNCRC are overseen by its President, who serves as its chief operating officer. The following are brief biographies of the chief operating officers of the LIRR and MNCRC.

Kenneth J. Bauer was named LIRR President in December 2000 after serving as Acting President since May 5, 2000. As Vice President and Chief Financial Officer of LIRR since 1997, Mr. Bauer had oversight of the Budget, Treasury and Controller functions, responsible for establishing policies governing budget, accounting and cash management. He also directed the MTA All-Agency Deferred Compensation Program and the MTA Risk Management function. Prior to joining LIRR, Mr. Bauer worked at the MTA for 24 years, starting as an auditor and holding increasingly more responsible positions, including his last position as Deputy Chief Financial Officer. Before joining the MTA, he held accounting and audit positions at Lever Brothers and Chemical Bank. Mr. Bauer is a lifelong resident of Long Island and has been a daily LIRR customer for more than 30 years. Mr. Bauer has a Bachelor’s degree in Finance from Bradley University.

Peter A. Cannito was appointed President of MNCRC in May 1999. Prior to joining MNCRC, Mr. Cannito served as Vice President of Rail and Transit Programs with Raytheon Infrastructure Inc. since 1997, as Executive Vice President of ABB Traction from 1995 to 1997, and in various positions, including Assistant Vice President/General Manager Transportation and Vice President of Engineering, with Amtrak from 1974 to 1995. Mr. Cannito received his B.S. in Business Administration from Canisius College and attended the Advanced Management Program at Harvard Business School.

Relationship with the State, Certain Local Governments and the Federal Government

State and Local Governments. The MTA receives substantial amounts of funding for the operating and capital costs of the Commuter System from appropriations and subsidies provided by the State and certain local governments. In calendar year 2000, State and local operating assistance and reimbursements for the Commuter System constituted, on a cash basis, approximately 37.5% of the total revenues of the MTA (in each case not including reimbursements for capital expenses). To the extent that future operating assistance and the funding of the capital costs of subsequent capital programs projected to be funded by the State are subject to its receipt of tax revenues and the making of annual appropriations, the level of such funding may be affected by the current economic conditions in, and the financial condition of, the State.

Federal. The MTA also receives substantial amounts of funding for the capital costs of the Commuter System from subsidies provided by the Federal government. The Federal government supplied funds for prior Commuter Capital Programs. Federal operating assistance is no longer available for metropolitan areas with over 200,000 population. Federal capital assistance for the commuter railroads is expected to increase for the 2000-2004 Commuter Capital Program; however, no assurances can be given as to the level of assistance that will be received.

Other. Officials of the State, City and Federal governments and the Inspector General of the MTA periodically conduct audits and reviews of the operations of the LIRR and MNCRC. A number of these audits and reviews have criticized various phases of the LIRR's and MNCRC's performance. Officers of LIRR and MNCRC have responded to most of these reports. In response to many of the criticisms, the LIRR and MNCRC have acknowledged the problems identified in the reports and have adopted the recommendations made therein or are taking other appropriate remedial actions.

The LIRR and MNCRC are subject to regulation by Federal, State and the State of Connecticut agencies with responsibilities for railroad safety. In general, they must maintain and equip their roadbed and rolling stock in compliance with minimum standards, file reports with respect to certain accidents and incidents and respond to recommendations for improving Commuter System safety.

Accomplishments of the 1982-1991 Commuter Capital Programs

The MTA achieved many of its objectives of the 1982–1991 Commuter Capital Programs including significant progress towards bringing the Commuter System to a state of good repair. During such period, all of LIRR's and MNCRC's rolling stock was brought to a state of good repair. LIRR's track, signals and communications and shops and yards were all brought to a state of good repair, and it opened its West Side Storage Yard, Richmond Hill Shop and its state-of-the-art Hillside Maintenance Complex. During the 10-year period, MNCRC made substantial progress towards bringing all its infrastructure, including its track and lines, passenger stations and communications and signals to a state of good repair and, among other projects, opened its new car maintenance shop at North White Plains and constructed its Brewster Shop. The achievements of the investments made during these Capital Programs yielded dramatic improvements in trip time, reliability, on time performance, passenger comfort, safety and convenience. Approximately $3.8 billion of the $4.9 billion of projects included in the 1982-1991 Commuter Capital Programs were committed through December 31, 2000, $3.8 billion was expended by such date and $3.7 billion of projects were completed.

1992-1999 Commuter Capital Program Objectives

Highlights of key investments funded under the 1992-1999 Commuter Capital Program for LIRR include replacement of the LIRR's diesel fleet of coaches and locomotives, the purchase of electric cars to replace a portion of its electric fleet, conversion of diesel territory station platforms to high level platforms, extension of platform 11 at Penn Station, and rehabilitation of stations systemwide. MNCRC's key investments include the purchase of diesel coaches and dual-mode locomotives for replacement of a portion of its electric fleet, extensive infrastructure renovations at Grand Central Terminal, station and platform improvements, installation of concrete ties, construction of a third track on the Mid-Harlem line, and the extension of service from Dover Plains to Wassaic. As of December 31, 2000, $4.0 billion for Commuter System projects of the $4.4 billion of projects included in the 1992-1999 Commuter Capital Program have been committed, $3.2 billion has been expended and $2.5 billion of projects have been completed.

Description of the Commuter System

The LIRR Commuter Service and the Metro-North Commuter Service play a vital role in the transportation network for the region. They are, respectively, the largest and second largest commuter rail services in the nation. The LIRR and the MNCRC use 44 yards and 11 major repair shops. The commuter services operate every day of the year, although frequency of service varies by route, day of the week and time of day. The following table further details the LIRR Commuter Service and the Metro-North Commuter Services.

LIRR and Metro-North Commuter Services*

	Revenue Passengers (in thousands) Year Ended December 31, 2000**	Stations	Actual Route Miles	Main Line Track Miles	Passenger Cars
LIRR Commuter Service	85,340	124	319.1	594.1	1,050
Metro-North Commuter Services	70,246	108	272.9	698.9	903
Totals	155,586	232	592.0	1,293.0	1,953

*Certain of the stations, track and passenger cars are not owned by the MTA, the LIRR or the MNCRC.
** The number of revenue passengers is determined in part by ascribing an assumed frequency of use to holders of weekly and monthly commutation tickets.

Ridership

Since 1991, ridership on MNCRC has increased by approximately 25.5% and ridership on LIRR has increased by approximately 16.4%.

The following table details and annual commuter services ridership since 1991 and the percentage increase/(decrease) each year.

Revenue Passengers*
(In Thousands)

Year	LIRR**	LIRR Increase/(Decrease)	MNCRC	MNCRC Increase/(Decrease)
1991	73,314	N/A	55,981	N/A
1992	72,966	(0.5)%	56,428	0.8%
1993	73,757	1.1	57,782	2.3
1994	76,650	3.9	60,656	4.7
1995	76,551	(0.1)	60,925	0.4
1996	77,243	0.9	61,636	1.2
1997	78,643	1.8	62,564	1.5
1998	80,272	2.1	65,022	3.9
1999	82,113	2.3	67,071	3.2
2000	85,340	3.9	70,246	4.7

* A single rider traveling to and from the same destination is counted as two revenue passengers. The number of revenue passengers is determined in part by ascribing an assumed frequency of use to holders of weekly and monthly commutation tickets.

** Beginning January 1, 1999, LIRR adopted a new methodology for converting ticket sales data into ridership estimates that is consistent with the methodology employed by MNCRC. LIRR revenue passengers for 1991 through 1998 have been revised using this new methodology.

A variety of factors affect ridership on the Commuter System. Among the most important are level of fares and Commuter System performance, and regional employment discussed below. Other factors which may be important to Commuter System ridership include the amount and level of service provided.

Fares. Since 1982, fares have been raised four times on the commuter lines, most recently, on November 12, 1995. Average fares were increased by approximately 20% in 1984, 11% in 1986 and, except as noted below with respect to travel to and from Connecticut stations, 15% in 1990 on the lines comprising the Commuter System and 9% on November 12, 1995. Nevertheless, current fares (after giving effect to the November 12, 1995 fare increases) without giving effect to any changes in average length of trip or other ridership patterns, are, on average, lower in real terms than they were in 1982, that is, after adjusting for inflation based on increases in the Consumer Price Index ("CPI").

		LIRR		MNCRC					
				Harlem		Hudson		New Haven	
Years	CPI*	Average Nominal Fare**	Real Fare 1982$	Average Nominal Fare**	Real Fare 1982$	Average Nominal Fare**	Real Fare 1982$	Average Nominal Fare**	Real Fare 1982$
1991	144.8	$3.89***	$2.56	$3.63	$2.39	$ 4.22	$2.78	$4.13	$2.72
1992	150.0	3.88***	2.47	3.62	2.30	4.20	2.67	4.41	2.80
1993	154.5	3.89***	2.40	3.64	2.25	4.21	2.60	4.56	2.81
1994	158.2	3.88***	2.34	3.65	2.20	4.26	2.57	4.72	2.84
1995	162.2	3.91***	2.30	3.71	2.18	4.35	2.56	4.73	2.78
1996	166.9	4.14***	2.36	3.96	2.26	4.65	2.66	4.89	2.79
1997	170.8	4.18***	2.33	4.03	2.25	4.78	2.67	5.16	2.88
1998	173.6	4.16***	2.28	3.99	2.18	4.76	2.60	5.27	2.88
1999	177.0	4.17	2.25	3.96	2.13	4.77	2.57	5.24	2.82
2000	182.5	4.16	2.21	4.00	2.08	4.83	2.51	5.26	2.74
2001Est	187.6	4.16	2.11	4.00	2.02	4.81	2.44	5.22	2.64

* CPI All Urban Consumers, New York, NY- Northeastern N.J.; 1982-84=100.0. The CPI levels listed are the annual average for each year.

** Average Nominal Fare means the fare paid per ride, determined by dividing total passenger revenues by total revenue passengers.

*** Beginning January 1, 1999, LIRR adopted a new methodology for converting ticket sales data into ridership estimates that is consistent with the methodology employed by MNCRC. LIRR average nominal fares prior to 1999 have been revised using this new methodology.

**** CDOT approved the implementation of changes in fare levels for travel to/from Connecticut stations effective July 1, 1991 and January 1, 1992. Additionally, CDOT increased fares by approximately 5% to/from Connecticut on January 1, 1993, January 1, 1994, January 1, 1996 and January 1, 1997, and increased fares by approximately 4.5% on January 1, 1998.

Characteristics of Commuter System Performance. Characteristics of performance potentially affecting ridership include on-time performance, the fleet's average distance between failures, the number of standees and platform waiting time. Since implementation of the capital program began in early 1982, Commuter System performance as measured by those indicia has, on the whole, improved, although some of those indicia have shown declines during certain periods since 1981. Progress in the implementation of certain capital projects that are part of the 1982-1999 Commuter Capital Programs has involved, and implementation of certain capital projects included in these Commuter Capital Programs, the 2000-2004 Commuter Capital Program and future Commuter Capital Programs may involve, temporary disruptions of service as various portions of the Commuter System are refurbished or replaced. The LIRR and MNCRC schedule capital project work so as to minimize disruption of operations. In addition, as the Commuter Capital Program for rolling stock replacement progresses from achieving a state of good repair to normal system replacement and the rolling stock is retired at the end of its useful life, further fluctuations may appear in various measures of Commuter System performance.

The following table shows on-time performance and the fleet's mean distance between failures ("MDBF") for the LIRR and the MNCRC for the period 1991 through 2000.

	On-Time Performance (%)		MDBF(miles)			
Years	LIRR	MNCRC	LIRR*	LIRR Increase/ (Decrease)	MNCRC	MNCRC Increase/ (Decrease)
1991	89.6	94.8	22,799	N/A	36,571	N/A
1992	93.7	96.4	33,287	46.0%	44,636	22.1%
1993	92.9	96.1	32,082	(3.6)	49,782	11.5
1994	89.7	95.7	28,480	(11.2)	37,763	(24.1)
1995	90.9	95.4	24,972	(12.3)	48,977	29.7
1996	90.0	94.7	24,366	(2.4)	40,007	(18.3)
1997	92.2	96.5	28,945	18.8	62,785	56.9
1998	90.5	96.6	27,758	(4.1)	59,672	(5.0)
1999	91.0	96.3	28,159	1.4	70,328	17.9
2000	92.7	96.7	28,405	0.9	54,355	(22.7)

*1991–1994 LIRR MDBF has changed from prior year disclosure because of a change in methodology to mirror MNCRC methodology for calculation of MDBF.

Regional Employment. Regional employment levels, primarily in the City, have a significant impact on commuter railroad ridership. New York City employment decreased in 1991 through 1993. In the 1992 to 2000 period, employment grew by approximately 13.4%, including 2.8% in 2000.

Certain State and Federal Laws

Applicable State and Federal law concerning protection of the environment, and Federal legislation concerning, among other matters, access to transportation and non-transportation facilities by the physically disabled will require future operating and capital expenditures by the LIRR and MNCRC. Such expenditures will be material. Both LIRR and MNCRC are required to file annual reports with the State Department of Environmental Conservation identifying areas of environmental concern. LIRR and MNCRC have each incurred and will continue to incur costs of asbestos abatement and lead paint removal on their respective properties. The Commuter Capital Programs allocate funds for, among other matters, asbestos abatement, costs of fuel handling and storage, and wastewater treatment and other environmental remediation. The LIRR and MNCRC each are required to cleanup various conditions on properties they own, and each has established reserves for the clean up costs. State and Federal environmental agencies are currently investigating the presence of pollutants at certain LIRR and MNCRC facilities. The extent of pollution, the cost of clean-up and the LIRR's and MNCRC's liability, if any, which may be material, cannot be determined at this time.

Future environmental and/or ADA requirements could subject the LIRR and MNCRC to additional operating and capital costs, which costs may be material. All key LIRR stations are in compliance with ADA requirements. MNCRC is in substantial compliance with ADA requirements.

Employees, Labor Relations and Pension Obligations

The transportation services provided by the Commuter System, as well as related maintenance and support services, are labor intensive. Consequently, the major portion of Commuter System expenses consists of the cost of salaries, wages and fringe benefits for employees. On January 1, 1998, the separate police forces of LIRR and MNCRC were merged into an MTA police force having jurisdiction throughout the Transportation District.

The LIRR employs approximately 6,500 employees, approximately 5,800 of whom are represented by 11 different unions. For the period 1999-2002, a ratified contract has been reached with all 11 unions representing 100% of the represented work force.

MNCRC employs approximately 5,731 people, including managerial staff. Of these employees, approximately 4,803 are represented by 16 different unions with a total of 20 different bargaining units. For the period of 1999-2002, MNCRC and 14 unions representing approximately 92% of the represented work force have reached agreement.

Both the LIRR and the MNCRC supplement the Federal Railroad Retirement Act benefits through other pension plans and also maintain pension plans for other employees. The LIRR and the MNCRC have substantial liabilities and obligations under such plans and are required to make significant annual contributions on a current basis. In addition, significant portions of the estimated obligations under certain LIRR pension plans to make payments in future years are currently unfunded. See Note 4 to the Combined Financial Statements of the MTA.

Budget

Pursuant to Article 9 of the Public Authorities Law, the MTA is required to submit to the Governor and the chairman and ranking minority members of each of the Senate Finance Committee and Assembly Ways and Means Committee, not less than 60 days before the commencement of each fiscal year, budget information on each of the LIRR and the MNCRC with respect to operations and capital construction, setting forth the estimated receipts and expenditures of each for the current and next succeeding fiscal year together with actual receipts and expenditures of each for the last completed fiscal year. The budget is required to be self-sustaining.

THE TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

Legal Status and Public Purpose

TBTA, a public benefit corporation, was placed under the governance of the Board of the MTA effective March 1, 1968. TBTA is empowered, among other things, to construct and operate certain vehicle bridges, tunnels and highways and other public facilities in the City. Vehicular toll facilities of TBTA now consist of the Triborough Bridge, Verrazano-Narrows Bridge, Bronx-Whitestone Bridge, Throgs Neck Bridge, Henry Hudson Bridge, Marine Parkway-Gil Hodges Memorial Bridge, Cross Bay Veterans Memorial Bridge, Brooklyn-Battery Tunnel and Queens Midtown Tunnel. Another facility of TBTA is the Battery Parking Garage. The foregoing facilities constitute all of TBTA's present facilities (the "Present Facilities"). See "PRESENT FACILITIES".

Attached as APPENDIX M to the Combined Continuing Disclosure Filings is a copy of the Projection of Traffic, Toll Revenues and Expenses and Review of Physical Condition of the Facilities of Triborough Bridge and Tunnel Authority, dated April 27, 2001 (the "URS Report"), prepared by URS Corporation Group Consultants, TBTA's Independent Engineer. A copy of the URS Report may be obtained free of charge from the Director of Finance of the MTA, 347 Madison Avenue, New York, New York 10017, (212) 878-7278.

Title to the Present Facilities is vested in the City, but TBTA has the use and occupancy of such facilities so long as its corporate existence shall continue.

Management

Although the Chairman and Members of the MTA, by statute, are also the Chairman and Members of TBTA, and the Executive Director of the MTA is, *ex officio,* Executive Director of TBTA, TBTA has its own management structure which is responsible for its day-to-day operations. The day-to-day operations of TBTA are overseen by its President, who serves as its chief operating officer. The following are brief biographies of certain senior operating officers of TBTA.

Michael C. Ascher, President, 57. Mr. Ascher has served as President since March 1990. Prior to that time, he served as Executive Vice President and Chief Engineer of TBTA since November 1988. Prior to joining TBTA, Mr. Ascher was Vice President and Chief Engineer of the Transit Authority from December 1984 to December 1987. Previously, he held executive positions at the internationally recognized architectural engineering-construction firms of Burns and Roe, Inc. and URS Consultants. Mr. Ascher earned his Bachelor of Engineering degree (Mechanical) from the City College of New York in 1966 and a Master of Science degree from Long Island University in 1971. He is a licensed professional engineer in the States of New York, New Jersey and Tennessee.

Stanley C. Vonasek, Vice President and Chief Engineer, 54. Mr. Vonasek has been Vice President and Chief Engineer since December 1999. Prior to that time he served as Director, Projects South and Deputy Chief Engineer at TBTA since September 1989. Prior to joining TBTA he served for more than 20 years in the U.S. Army Corps of Engineers, retiring in 1989 with the rank of Lieutenant Colonel. He managed overall military and civil works designs and construction for the Army in Philadelphia, Pennsylvania and West Point, New York, as well as for the Air Force in Greenland. He holds an M.S. degree in Environmental Engineering from Washington State University and a B.S. degree in Agricultural Engineering from North Dakota State University. Mr. Vonasek is a Licensed Professional Engineer in the States of New York and Virginia.

Robert M. O'Brien, General Counsel, 55. Mr. O'Brien has been General Counsel to TBTA since May 1990. Prior to his present appointment, Mr. O'Brien served as the Chief of Construction Litigation at the Transit Authority. He has been a law clerk in the United States Court of International Trade, an Assistant Corporation Counsel of the City of New York and a Senior Trial Attorney with the Criminal Division of the Legal Aid Society. Mr. O'Brien is a graduate of St. John's Law School and Fordham College. He has completed a program for Senior Government Executives at the John F. Kennedy School of Government at Harvard University.

David Moretti, Chief Financial Officer, 46. Mr. Moretti joined TBTA in 1988 and has held the positions of Deputy CFO and Budget Director. Prior to joining TBTA, Mr. Moretti served as Deputy Assistant Director for the New York City Office of Management and Budget and also participated in research on the privatization of municipal services for the Columbia University Graduate School of Business. Mr. Moretti earned his Bachelors degree in Economics from Boston University and has attended the Program for Senior Executives in State and Local Government at Harvard University.

Authorized Projects of TBTA

Certain laws enacted in 1979 and thereafter by the State broadened TBTA's powers beyond its traditional role as a vehicular toll facility authority. This legislation authorizes TBTA to participate in the financing of two public benefit projects (the Transportation Project and the Convention Center Project) determined by the legislature to be in the public interest and considered important to the economic well-being of the City and the State. Under existing law, TBTA has no obligation with respect to the operation and maintenance of the equipment or facilities financed as the Transportation Project or the Convention Center Project.

The Transportation Project consists of certain capital projects for the benefit of the Commuter System and the Transit System and SIRTOA. The Convention Center Project is not and cannot become a project for which TBTA can issue its senior lien general purpose revenue bonds.

The capital assets constructed or acquired by TBTA as part of the Transportation Project are to be transferred or leased for a nominal consideration to the MTA or the Transit Authority and neither such conveyance nor any capital grants made as part of the Transportation Project will produce revenues for TBTA. Alternatively, such capital assets may be sold to parties other than the MTA or the Transit Authority and leased back by TBTA for subleasing for a nominal consideration to the MTA or the Transit Authority or leased directly to the MTA or the Transit Authority at the expense of TBTA. Following the transfer to the MTA or the Transit Authority of any project which TBTA has acquired or constructed for either of them as part of the Transportation Project, TBTA has no liability or responsibility, either of the transferee or to third parties, with respect to the use, condition or state of any such project.

Present Facilities

The following is a brief description of TBTA's Present Facilities.

Triborough Bridge-Crosses the East River and the Harlem River and connects the Boroughs of Queens, The Bronx and Manhattan. Opened to traffic in 1936, it carries eight traffic lanes between Queens and The Bronx via Ward's Island and Randall's Island, and six traffic lanes between Randall's Island and Manhattan. These three major crossings are interconnected by viaducts.

Verrazano-Narrows Bridge-Connects the Boroughs of Brooklyn and Staten Island. It is a double deck structure with each deck carrying six traffic lanes. The upper deck was opened to traffic in 1964 and the lower deck in 1969.

Bronx-Whitestone Bridge-Crosses the East River and connects the Boroughs of Queens and The Bronx. The roadways of the bridge, which was opened to traffic with four lanes in 1939, were widened so as to carry six traffic lanes commencing in 1946.

Throgs Neck Bridge-Crosses the upper East River between the Boroughs of Queens and The Bronx approximately two miles east of the Bronx-Whitestone Bridge. Opened in 1961, it has two roadways, each carrying three traffic lanes.

Henry Hudson Bridge-Crosses the Harlem River between the Spuyten Duyvil section of The Bronx and the northern end of Manhattan. It has two roadway levels, carrying an aggregate of seven traffic lanes, the lower level having been opened to traffic in 1936 and the upper level in 1938. The operation of this bridge includes the maintenance of a small part of the Henry Hudson Parkway.

Marine Parkway-Gil Hodges Memorial Bridge–Crosses Rockaway Inlet and connects Rockaway Peninsula, in Queens, with Brooklyn. Opened in 1937, it carries four traffic lanes. The operation of this bridge includes the maintenance of the Marine Parkway from the toll plaza to Jacob Riis Park.

Cross Bay Veterans Memorial Bridge–Crosses Beach Channel in Jamaica Bay to Rockaway Peninsula, and is located in Queens. Reconstructed and opened to traffic in May 1970, this bridge carries six traffic lanes. Its operation includes the maintenance of a small part of the Cross Bay Parkway.

Brooklyn-Battery Tunnel-Crosses under the East River at its mouth and connects the Boroughs of Brooklyn and Manhattan. Opened to traffic in 1950, it consists of twin tubes, carrying an aggregate of four traffic lanes.

Queens Midtown Tunnel-Crosses under the East River and connects the Boroughs of Queens and Manhattan. Opened to traffic in 1940, it consists of twin tubes, carrying an aggregate of four traffic lanes.

Battery Parking Garage-Located adjacent to the Manhattan plaza of the Brooklyn-Battery Tunnel, the Garage was opened in 1950 and has space for 2,100 vehicles. A Parking Management Agreement, entered into as of August 1, 1997, pursuant to which TBTA pays an annual management fee, expires on July 31, 2002 and has a 5-year renewal option. The MTA has an agreement with the City to pay $73,600 annually in lieu of property taxes on the Garage.

Toll Rates

TBTA's power to establish toll rates is not subject to the approval of any governmental entity. The Public Authorities Law provides that certain financial disclosure, reporting and hearing requirements with respect to proposed increases in toll rates be observed prior to the implementation of any such increases, which requirements, in the opinion of General Counsel to TBTA, are not applicable to TBTA. Prior to implementing proposed changes in its toll rates, TBTA is required to comply with the State Environmental Quality Review Act, which generally requires an assessment of environmental impacts of the proposed action, if any. Tolls on the Verrazano-Narrows Bridge and the Throgs Neck Bridge, which were constructed pursuant to the General Bridge Act of 1946, 33 U.S.C. 525 *et seq.*, may be subject to the standard imposed by Section 135 of the Federal-Aid Highway Act of 1987, Pub.L. 100-17, that tolls on bridges constructed under the authority of certain Federal legislation, including the General Bridge Act of 1946, be "just and reasonable". TBTA believes that the tolls on all of its vehicular toll facilities are just and reasonable.

The TBTA Act was amended in 1981 to require, subject to the provisions of any bond resolutions of TBTA, that residents of Broad Channel and the Rockaway Peninsula be afforded the right to purchase tokens for the Cross Bay Veterans Memorial Bridge at a cost of sixty-six and two-thirds per centum of the regular crossing fare. The TBTA Act was further amended in 1983 (a) to eliminate the residency requirement for the purchase of reduced rate tokens for the Cross Bay Veterans Memorial Bridge, (b) to require, subject to the provisions of any bond resolutions of TBTA, the offering of tokens for the Marine Parkway-Gil Hodges Memorial Bridge at a cost of sixty-six and two-thirds per centum of the regular crossing fare and (c) to require, subject to any bond resolutions of TBTA, the offering of tokens to residents of Richmond County for the Verrazano-Narrows Bridge at a cost of eighty per centum of the regular crossing fare. The TBTA Act was amended in 1993 to provide that surcharges, in addition to the regular toll, imposed by TBTA on the Verrazano-Narrows, Marine Parkway-Gil Hodges Memorial and Cross Bay Veterans Memorial Bridges shall not be treated as part of the regular crossing fare for the purpose of computing the reduced token cost discussed in this paragraph. The 1993 amendment also provided that residents of Staten Island, Broad Channel and the Rockaway Peninsula shall be entitled to a permanent exemption from any applicable surcharge imposed in 1993 on such bridges.

The MTA has a program to rebate the tolls of E-ZPass customers who are residents of Broad Channel and the Rockaway Peninsula using the Cross Bay Veterans Memorial Bridge, effectively eliminating the only intra-borough toll for residents traveling to the principal part of their borough and returning. The rebate program is projected to cost approximately $2 million annually and is expected to be funded from the MTA's unencumbered funds. It is expected that the MTA will deposit with TBTA or its designee each year an amount estimated to be sufficient to cover the rebate program. Such deposit has been made for 2001. In the event such amount is not sufficient, TBTA will collect the tolls from the user's E-ZPass account, unless additional moneys are deposited with TBTA for such purpose from another source.

On March 20, 1986, in accordance with Federal law, TBTA instituted one-way toll collection on the Verrazano-Narrows Bridge for all vehicles. Federal law now prohibits TBTA from discontinuing one-way toll collection on vehicles exiting such bridge in Staten Island.

TBTA implemented the current facility crossing payment structure consisting of tolls, discounts, surcharges and exemptions therefrom on TBTA's vehicular toll facilities on March 24, 1996. See "CHANGES IN METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS" for a discussion of changes which have been implemented, and others which are possible, to the traditional pay-as-you-go cash, and pay-before-you-go, basis of payment. See also –"E-ZPass" below.

A summary of the toll rates currently in effect is set forth in the URS Report.

The 1980 Resolution contains covenants which provide (i) that discounts to automobiles carrying not more than two persons may not exceed twenty per centum of the regular crossing fare on any facilities other than the Henry Hudson Bridge, the Marine Parkway-Gil Hodges Memorial Bridge and the Cross Bay Veterans Memorial Bridge, on which latter facilities such discount may not exceed thirty-three and one-third per centum, (ii) that the minimum undiscounted toll rate for automobiles carrying not more than two persons be at least $3.00 for each crossing over or through the Triborough Bridge, the Bronx-Whitestone Bridge, the Throgs Neck Bridge, the Brooklyn-Battery Tunnel or the Queens Midtown Tunnel, $2.50 for each crossing over the Verrazano-Narrows Bridge, at least $1.50 for each crossing over the Henry Hudson Bridge, and at least $1.25 for each crossing over the Marine Parkway-Gil Hodges Memorial Bridge or the Cross Bay Veterans Memorial Bridge, (iii) in the event TBTA shall impose a surcharge in addition to the regular toll rate, such surcharge shall not constitute part of the toll rate for purposes of computing the maximum discount described in (i) and that TBTA may provide exemptions from such surcharges without regard to the limits on maximum discounts, (iv) in the event TBTA imposes different undiscounted toll rates for vehicles utilizing an electronic toll collection system and based upon time of day, day of week or period of the year mode of pricing, the limits on the maximum discounts shall be measured against the undiscounted toll rate applicable to the particular crossing and (v) that the minimum crossing charge, however denominated, and after giving effect to any exemption, exclusion or discount, for automobiles carrying not more than two persons be at least $3.20 for each westbound crossing over the Verrazano-Narrows Bridge, at least $1.60 for each crossing over the Triborough Bridge, the Bronx-Whitestone Bridge or the Throgs Neck Bridge or through the Brooklyn-Battery Tunnel or the Queens Midtown Tunnel and at least 66.7 cents for each crossing over the Henry Hudson Bridge, the Marine Parkway-Gil Hodges Memorial Bridge or the Cross Bay Veterans Memorial Bridge. It is expected that any substitute TBTA resolution adopted in connection with the debt restructuring herein described would contain the same or similar covenants.

From time to time bills have been introduced by various State legislators seeking, among other things, to restrict the level of tolls on certain of TBTA's facilities, to require approval of future toll increases by the Governor, to eliminate minimum tolls or to require discounts or free passage to be accorded to certain users of TBTA facilities. Under the TBTA Act, however, the State has covenanted to holders of TBTA's bonds that it will not limit or alter the rights vested in TBTA to establish and collect such charges and tolls as may be convenient or necessary to produce sufficient revenue to fulfill the terms of any agreements made with the holders of such bonds or in any way to impair their rights and remedies.

Competing Facilities and Other Matters

In addition to the Triborough, Bronx-Whitestone and Throgs Neck Bridges and Brooklyn-Battery and Queens Midtown Tunnels, there are four vehicular bridges operated by The City of New York crossing the East River which are toll-free at the present time, namely: the Queensborough, Williamsburg, Manhattan and Brooklyn Bridges.

In addition to the Triborough and Henry Hudson Bridges, there are nine vehicular bridges crossing the Harlem River, which are toll-free at the present time.

The State agrees in the TBTA Act that while any bonds of TBTA are outstanding, there will not be constructed any vehicular connection competitive with TBTA's facilities and crossing (a) the East River north of 73rd Street or south of 59th Street in Manhattan, (b) New York Bay, or (c) Jamaica Bay or Rockaway Inlet to Rockaway Peninsula within a specified distance (about 2 1/2 miles) east of the Cross Bay Veterans Memorial Bridge.

There is no provision in the TBTA Act regarding competitive vehicular crossings of the Harlem River.

Under the 1980 Resolution, the holders of the TBTA bonds waive the foregoing agreement of the State with respect to the construction of any East River vehicular toll crossing to be operated by TBTA. It is expected that any substitute TBTA resolution adopted in connection with the debt restructuring herein described would contain the same or similar covenants.

A significant reduction in the availability of fuel to motorists would, or significant increases in the cost thereof could, have an adverse effect on the revenues derived from the Present Facilities. The use of automobiles in the New York City metropolitan area is subject to increased governmental concern and promulgation of governmental regulations relating to environmental and other concerns restricting the use of vehicles, which could also adversely affect revenues from the Present Facilities. The Clean Air Act Amendments of 1990 ("Clean Air Amendments") require the State to adopt transportation control strategies and measures to control emissions and establish among other matters, specific measures the State may adopt to reduce air pollution. The impact on TBTA and revenues from its Present Facilities of the Clean Air Amendments and the State implementation plan which must be developed thereunder cannot be assessed at this time.

Revenues derived from the Present Facilities could also be adversely affected by the condition of arteries feeding and approach and access roads leading to and from such facilities over which TBTA has no control. A number of such arteries and approach and access roads are in need of significant repairs. Major repairs to the Gowanus Expressway, the main arterial link between the Verrazano-Narrows Bridge and the Brooklyn-Battery Tunnel, will result in off-peak lane closures during the years over which these repairs are to be made and may impact traffic at these facilities. Revenues have been and may hereafter be affected by access to, and conditions and restrictions on use of, the toll-free facilities over which TBTA has no control and which compete with TBTA's bridges and tunnels.

The construction of TBTA's existing bridges and tunnels was approved under various sections of Federal legislation relating generally to bridges over and obstructions to navigable waters, providing, among other things, that the Secretary of Transportation has the duty to require bridges to be altered if they shall at any time unreasonably obstruct free navigation and that he/she may also regulate the operation of drawbridges. In the case of each tunnel, the permit provides that if future operations by the United States should require an alteration in the position of the structure, or if it should unreasonably obstruct free navigation, it must be altered or removed.

Bridge Inspections

The New York State Department of Transportation ("NYSDOT") maintains a program of comprehensive bridge management, maintenance and inspection applicable to TBTA's bridge facilities. Such program includes uniform code of bridge inspection, which meets or exceeds applicable Federal law, requires that bridges be inspected at least every two years in accordance with the provisions of such code, prescribes qualifications for licensed professional engineers who inspect bridges, and requires that all bridge inspections be performed or supervised by such persons. Bridge inspection and maintenance reports must be filed with NYSDOT and NYSDOT may close bridges found unsafe for public use. TBTA is in compliance with the State legislation.

TBTA regularly reviews its facility maintenance programs, both remedial and preventive, and believes the same to be of high quality. TBTA intends to continue its comprehensive inspection and maintenance programs for its Present Facilities and to continue to engage independent engineering firms to provide biennial inspections of its bridge facilities and periodic inspections of its tunnel facilities.

Environmental Issues

Applicable Federal, State and local laws, codes and regulations concerning protection of the environment and TBTA's own programs for, among other matters, removal and cleanup of lead paint on the Present Facilities will require future operating and capital expenditures. Such expenditures may be significant. Future environmental requirements could subject TBTA to additional operating costs, which costs may be significant.

Prior TBTA Capital Programs

TBTA undertook, beginning in 1989, its first multi-year capital program totaling $160 million for the 3-year period 1989-1991. The funds for such program were raised from revenues deposited in its own capital reserve fund and the proceeds of bonds issued under the 1980 Resolution.

While not required to do so by statute, TBTA has, since 1992, developed its own five-year capital programs covering the same five-year periods as the MTA's Capital Programs in order to enable TBTA to keep its own Present Facilities in good operating condition while also maintaining its role in the MTA's unified transportation policy. TBTA's capital programs are not subject to approval by the Review Board. The last two years of the 1992-1996 TBTA Capital Program were incorporated into the 1995-1999 TBTA Capital Program.

Although substantial annual investments in major maintenance and bridge painting have regularly been made and additional expenditures are planned, TBTA expects that capital investments in the rehabilitation or reconstruction of its facilities will become increasingly necessary as components approach the end of their current useful life and require normal replacement.

1992-1999 TBTA Capital Program

TBTA's 1992-1999 capital program provided for approximately $1,148 million in planned capital commitments, a major portion of which was financed with the proceeds of TBTA's own bonds. Of such $1,148 million in planned capital commitments, approximately $464.1 million is scheduled to be spent on roadways and decks, including rehabilitation of approaches, roadways and decks at the Bronx-Whitestone Bridge, the Triborough Bridge, the Throgs Neck Bridge, the Verrazano-Narrows Bridge and the Marine Parkway-Gil Hodges Memorial Bridge and rehabilitation of roadways and drainage systems at the Henry Hudson Bridge; $341.2 million on structures, including rehabilitation of the Randall's Island Junction Structure, the Harlem River lift span, anchorages and suspension cables at the Triborough Bridge and walls and ceilings at the Queens Midtown Tunnel; $123.2 million on utilities, including rehabilitation and upgrading of air conditioning at toll booths at all facilities, rehabilitation of fan housing at the Brooklyn-Battery Tunnel and rehabilitation of bridge electrical substations and power feeders at the Throgs Neck Bridge; $134.9 million on buildings and sites, including expansion of the service building at the Bronx-Whitestone Bridge, structural rehabilitation and repairs at the ventilation building and overpasses of the Queens Midtown Tunnel; $71.1 million on toll plazas, including electronic toll collection systems; and $13.6 million on miscellaneous projects. As of December 31, 2000, $1,134 million for TBTA projects of the $1,148 million of planned projects included in the 1992-1999 TBTA Capital Program have been committed, $933 million have been expended and $618 million have been completed.

2000-2004 TBTA Capital Program

The 2000-2004 TBTA Capital Program provides for approximately $1 billion in capital commitments, which is expected to be financed with TBTA pay-as-you-go capital of approximately $60 million, resources available from the proposed debt restructuring and TBTA bonds.

Under the 2000-2004 TBTA Capital Program, $676 million is allocated to roadways and decks, including complete replacement of the roadway deck and associated structural elements, bridge lighting and electrical feeders, and to improve the drainage system for, the suspended spans of the Bronx-Whitestone Bridge, and the continued 12-year overhaul of the Triborough Bridge begun in 1997; $78 million is allocated to structures; $68 million for toll plazas, including implementation of the intelligent transportation system providing for variable message signs, closed circuit television, weather sensors and a traffic management system that utilizes E-ZPass technology to improve incident detection and reporting; $106 million for utilities; $79 million for buildings and sites; and $13 million for miscellaneous projects.

The various capital program actions and activities of TBTA, including current and future funding availability, contract awards, program expenditures and timely progress of projects within the programs, are monitored.

Employees, Labor Relations and Pension Obligations

The toll and revenue generating services provided by TBTA, as well as related maintenance and support services, are labor intensive. Consequently, the major portion of TBTA expenses consists of the cost of salaries, wages and fringe benefits for employees. TBTA employs 1,537 people, including managerial staff. Of these employees, approximately 1,100 are represented by four different unions. For the period through December 2002, TBTA and one union representing approximately 100 employees have reached agreement. For the period through February 2003, TBTA and one union representing approximately 600 employees have reached agreement.

As public employees, the employees of TBTA are prohibited by State law from striking and there have been no labor stoppages since 1976.

Substantially all of TBTA’s employees are eligible to be members of the New York City Employees Retirement System and TBTA is required to make significant annual contributions on a current basis. See generally Footnote 7 to TBTA’s audited financial statements.

Budget

Pursuant to Article 9 of the Public Authorities Law, TBTA is required to submit to the Governor and the chairman and ranking minority members of each of the Senate Finance Committee and Assembly Ways and Means Committee, not less than 60 days before the commencement of each fiscal year, budget information on operations and capital construction setting forth the estimated receipts and expenditures for the current and next succeeding fiscal year, together with actual receipts and expenditures for the last completed fiscal year. Forecasts and budgets are prepared on an accrual basis by TBTA and are basically consistent with generally accepted accounting principles except that no depreciation is provided and principal payments as well as interest are shown as expenditures.

E-ZPass

TBTA has installed an electronic toll collection system ("E-Zpass") at all of its bridges and tunnels. As of December 31, 2000, TBTA had 1.3 million active accounts and 2.1 million active tags. As of December 31, 2000, 83% of the amounts prepaid with credit cards and 17% of the amounts prepaid by check and cash. Overall E-ZPass market share was 66.1% in December, 2000. E-ZPass customers are offered various discounts. See "CHANGES IN METHODS OF PAYMEMT AND COLLECTION OF FARES AND TOLLS".

CHANGES IN METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS

Prior to the implementation and development of electronic fare and toll payment media, payment for fares on the subway, bus and commuter rail systems, and tolls on the Present Facilities of TBTA, had been predominantly on a cash pay-as-you-go and pay-before-you-go basis, with limited exceptions. The Related Entities are increasingly providing for non-cash payment methods, including payment by check and credit and debit cards. The Related Entities expect to expand the availability of non-cash payment methods. The Related Entities have integrated, and continue to integrate, their electronic fare and toll payment media systems with those of other governmental entities, whereby the integrated electronic fare and toll payment media can be used on any entity's facilities and the payments will be settled among all such entities after use of the facilities. The Related Entities are in the process of negotiating agreements with commercial entities, such as parking facility operators, restaurants and other vendors whereby the Related Entities' electronic media can be used to purchase goods and services. The net result of these changes is to create a risk of actual collection of payments for service, which risk does not exist with a cash pay-before-you-go system, as well as a potential for significant changes in the timing of the actual receipt of cash payments by the service provider.

The Transit Authority has installed its automated fare collection ("AFC") system which utilizes MetroCard, as more fully described under "THE TRANSIT SYSTEM - Ridership – *Automated Fare Collection*". In addition to in-system sales at station booths and through vending machines, MetroCards are presently sold through out-of-system vendors, by the LIRR, MNCRC, MSBA, and the City of New York subsidized private bus lines, and directly to businesses. In connection with certain of these sales, a sales commission is netted out of the amounts paid to the Transit Authority. The Transit Authority has integrated its MetroCard system with the City of New York subsidized private buses and MSBA and has future plans to integrate with PATH and New Jersey Transit, to allow payment of fares on all of the systems with the same card. The Transit Authority has instituted a mail and ride pre-payment program wherein senior citizens and disabled customers will pay for reduced fare MetroCards by check, and credit and debit card, and such MetroCards will be mailed to the customer. The Transit Authority has installed automated vending machines in almost all of its stations in order to sell, or add value to, MetroCards through cash, and credit and debit card transactions. See "THE TRANSIT SYSTEM – Ridership – *Automated Fare Collection*".

Both the LIRR and MNCRC permit payment of certain fares by check and by credit and debit card. The LIRR and MNCRC are installing additional ticket office machines and ticket vending machines and considering the use of portable on-board ticket issuing machines to permit additional sales by credit, debit or smart cards.

TBTA has installed an electronic toll collection system ("E-ZPass") at all of its bridges and tunnels, as more fully described under "THE TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY – E-ZPass" herein. Substantially all of the E-ZPass users prepay with credit cards or checks. TBTA has integrated its E-ZPass system technology with the following: New York State Thruway Authority, New York State Bridge Authority, Port Authority of New York and New Jersey, New Jersey Highway Authority, New Jersey Turnpike, South Jersey Transportation Authority (for use on the Atlantic City Expressway), Pennsylvania Turnpike Commission, Massachusetts Turnpike Authority, Massachusetts Port Authority, New Hampshire Department of Transportation, the Peace Bridge between New York and Canada, Delaware Department of Transportation, Delaware River Port Authority and West Virginia Turnpike Authority. TBTA expects to expand the use of the E-ZPass system technology through at least the Delaware River and Bay Authority and Maryland allowing a customer to travel through the participating toll facilities of all such entities with one E-ZPass transponder.

The Related Entities have and will continue to approach the implementation of new methods of payment and collection of fares and tolls with the aim of protecting the integrity of the revenue collection process and with due regard for applicable bond covenants. Such recently instituted, proposed and possible methods of sale of and payment for MetroCards, commuter railroad tickets and E-ZPass will, in certain cases, result in a delay in the receipt of revenues due to the time required to process such transactions or allocate the receipts therefrom as compared to the timing at which the Transit Authority, LIRR, MNCRC and TBTA, as appropriate, and therefore the trustee, under the applicable bond resolution, receives pay-as-you-go and pay-before-you-go cash payment for fares and tolls. In addition, following the standard industry practice for credit, debit and smart cards, fare and toll payments made by means of such cards will produce cash receipts to the applicable authority and trustee which are net of standard discounts and transaction fees to the merchant processors, card associations and card issuers. Further, (1) the collection of fares and tolls by other governmental entities using an integrated payment system, such as MetroCard or E-ZPass, whereby a customer can purchase a card or pass from any of the entities for use on all of the systems, and (2) the use of the Related Entities' electronic media at commercial establishments, may subject the amounts due to the Transit Authority and TBTA to multiple liens and claims prior to the time that the fares or tolls are actually earned through use of the applicable facilities. In addition, the payment of fares and tolls by non-cash methods, including checks and credit, debit and smart cards, is subject to, among other things, collection risk, including, without limitation, bankruptcy, insolvency and other creditor and debtor rights involving both the user of the facilities and the collection and processing entities.

In addition, the introduction and expansion of the use of MetroCards facilitated the ability of the Transit Authority and MaBSTOA to eliminate "two-fare zones" for MetroCard users, facilitated certain discount bonuses on the Transit System and facilitated the introduction of unlimited ride 30-day, seven day and daily passes. The MTA acknowledges that continued implementation of the MetroCard and E-ZPass systems may permit the implementation of additional "discount or reduced fare or toll" proposals, such as time of day toll rates. The MTA currently has no plans to implement any additional discount or reduction proposals.

LITIGATION

MTA

West Harlem Environmental Action, Inc. et al. v. MTA and NYCTA. In November 2000, an organization identifying itself as West Harlem Environmental Action, Inc. and a number of individual complainants filed a complaint against MTA and the Transit Authority with the United States Department of Transportation ("USDOT") pursuant to Title VI of the Civil Rights Act (42 U.S.C. §2000(d)) and USDOT's Title VI Regulations (49 CFR Part 21). The complaint alleges that MTA and the Transit Authority have violated Title VI and its regulations by developing and operating a disproportionately high number of bus depots in predominantly non-white neighborhoods in northern Manhattan. Alleging that the effects of these actions on the part of MTA and the Transit Authority are to expose African American and Latino residents of northern Manhattan to disproportionately high health risks from diesel exhaust, the complaint requests that USDOT and the Federal Transit Administration order the MTA and the Transit Authority to undertake various corrective measures to address the alleged disproportionate impact, including a moratorium on the construction of new bus depots or parking lots in northern Manhattan. In March 2001, the MTA and the Transit Authority submitted an answer to the complaint, raising various factual and legal defenses to the allegations. Given the preliminary stage of this proceeding, the MTA is unable to meaningfully project its outcome.

Jonathan Marsh v. MTA; SIAMI v. MTA. In March 1992, Jonathan Marsh filed a complaint with the New York State Division of Human Rights ("SDHR"), alleging that the MTA's half-fare program unlawfully discriminated against mentally disabled individuals. Pursuant to federal regulations, physically disabled individuals and individuals with Medicare cards are entitled to half-fare benefits. On September 30, 1992, the SDHR issued a finding of probable cause. The matter was subsequently placed on SDHR's trial calendar. On March 14, 1996, the SDHR also issued a finding of probable cause on a complaint filed in 1993 by the Staten Island Alliance for the Mentally Ill ("SIAMI") and ordered that the Marsh and SIAMI matters be consolidated. Mr. Marsh previously pursued a federal court challenge to the MTA's half-fare program. His argument that the MTA's program violated federal law was rejected by the United States Court of Appeals for the Second Circuit. The complaint before the SDHR was based on State law and the SDHR was not bound by the federal court ruling on Mr. Marsh's federal claims. In January 1997, the New York State Legislature enacted legislation which requires MTA, in consultation with the New York State Office of Mental Health, to study the feasibility of implementing a program providing half-fare rates for persons with serious mental illness and issue a final report by September 20, 1999. At the request of the SDHR's General Counsel at a March 4, 1997 conference, MTA filed a memorandum of its position in April 1997, denying the material allegations of the complaints. Thereafter, by letter dated July 9, 1997, the SDHR's General Counsel notified the parties of his intention to recommend that, in light of the aforesaid legislation, the Marsh and SIAMI complaints should be dismissed for administrative convenience. Counsel, however, afforded complainants an opportunity to address the significance of the legislation. Following briefing by the parties, the SDHR dismissed the complaints of Marsh and SIAMI by order dated September 30, 1998. On October 9, 1998, SIAMI brought a proceeding in Supreme Court, New York County, to annul the SDHR's order dismissing their complaint. On January 28, 1999, MTA moved to dismiss the proceeding, claiming, *inter alia,* that the SDHR's decision was proper. SIAMI opposed the motion. By order entered June 24, 1999, the Court denied the MTA's motion to dismiss the petition, annulled the SDHR's order dismissing the complaint, reinstated the complaint and returned the matter to the SDHR. MTA and the SDHR filed notices of appeal. By Decision and Order dated June 6, 2000, the Appellate Division, First Department affirmed the order of the Supreme Court. The Appellate Division noted that the issue raised in the case may be moot in light of the subsequent legislation passed by the New York State Legislature directing that seriously mentally ill persons eligible for social security disability benefits be included in the MTA's half-fare program. A hearing before an Administrative Law Judge was held in March 2001 regarding whether the MTA's Reduced Fare Program discriminates against the mentally ill. We cannot determine the probable outcome of the hearing at this time.

American Pen Corp. v. MTA. In this action commenced in July 1997 in New York State Supreme Court, Bronx County, plaintiffs seek $25 million in damages, trebled by statute, and injunctive relief for an alleged nuisance and trespass to property. On August 12, 1997, MTA served an answer, which denied the material allegations of the complaint and asserted various defenses, and a Demand for a Verified Bill of Particulars. Discovery is on-going. The MTA cannot determine the probable outcome of the lawsuit at this time.

Transit System

Actions for Personal Injuries. The Transit Authority and MaBSTOA are involved in approximately 10,500 lawsuits, claims and administrative proceedings, arising out of the operation and administration of the Transit System. Most of these actions involve personal injury claims. The Transit Authority and MaBST'OA establish reserves for judgments and claims on the basis of independent actuarial estimates of future liability.

Actions Relating to the Transit Capital Program. The Transit Authority has received claims from several contractors engaged in work on various capital program projects. The aggregate amount demanded by all such claimants, if recovered in full, could result in an increase in the cost of the capital projects which are the subject of such disputes. However, any such recoveries would be partially offset by reserves established in individual project budgets and by general contingency reserves budgeted in the capital program.

Environmental Proceedings. The Transit Authority is working with the New York State Department of Environmental Conservation ("DEC") regarding allegations of non-compliance with various provisions of the New York State Environmental Conservation Law and regulations concerning petroleum and chemical bulk handling and storage, underground storage tanks, tidal wetlands and air emission requirements. In 1992, the Transit Authority executed a Consent Order to satisfy a series of significant Underground Storage Tank ("UST") related violations. This Consent Order required the Transit Authority to undertake a UST Program in order to comply with various regulatory requirements, remediate petroleum products spills, pursue an Environmental Benefits Program, and fund a full time dedicated Environmental Monitor to work on UST matters. In connection with the UST program, the Transit Authority was among the first public agencies in the State to meet the Environmental Protection Agency's December 1998 compliance deadline for tank system requirements.

Currently, the Transit Authority and DEC are negotiating a new, broader consent order intended to address remaining requirements of the 1992 order and other outstanding environmental issues. While the terms of this consent order have not yet been finalized, it is anticipated that additional costs associated with implementing its requirements will be between $2 million and $3 million.

At the Transit Authority's Flatbush Bus and the Jamaica Bus Depots, additional remediation is underway to address a plume of contaminated groundwater that has migrated under private property. The Transit Authority is working with regulatory agencies and possibly affected members of the communities to assess the extent of the migration and has implemented aggressive remedial measures. In connection with the plume at the Flatbush facility, a civil action against the Transit Authority has been commenced in which owners of adjacent homes have alleged a diminution in property values and other related matters. Owners of property adjacent to the Jamaica facility have filed notices of claim indicating the intention to commence similar litigation. Both matters are in their early stages and given their preliminary nature, it is not possible to forecast the outcome of litigation. However, appropriate reserves have been established.

Commuter System

County of Nassau v. MTA, LIRR and MSBA. By summons and complaint served on March 13, 2001, plaintiff, Nassau County, commenced this declaratory judgment action in the Supreme Court, Nassau County, seeking to declare illegal, void and unenforceable (1) a 1996 agreement between plaintiff and MTA, LIRR and MSBA, and (2) a 1999 agreement between plaintiff and MTA and LIRR. The complaint further alleges that (1) the 1996 Agreement required the MTA to pay to the plaintiff the sum of $51 million in exchange for which the plaintiff agreed to expend the sum of $102 million for capital costs to be incurred by MTA, LIRR and MSBA on account of one or more mass transportation projects in Nassau County, and (2) that the 1999 Agreement required the MTA to pay to the plaintiff the sum of $70 million in exchange for which the plaintiff agreed to expend the sum of $140 million for capital costs to be incurred by the MTA or LIRR. The complaint further alleges that the MTA acted unlawfully and in excess of its grant of statutory power and/or authority in entering into and performing these agreements. The time within which to answer the summons and complaint has not yet expired. While the MTA believes that it has substantial legal defenses to the County's claim, no assurance can be given as to the probable outcome of the litigation.

Actions for Personal Injuries. The LIRR and MNCRC are involved in approximately 2,000 claims, lawsuits and administrative proceedings arising out of the operation and administration of the Commuter System. Most of these LIRR and MNCRC lawsuits are personal injury claims. Until 1991 estimates of liability were established solely by in-house counsel and claims personnel of the railroads on a case by case basis. Beginning in 1991, the railroads established additional reserves for judgments and claims on the basis of actuarial estimates of future liability based on historical information.

Actions Relating to the Commuter Capital Program. From time to time, the LIRR and MNCRC receive claims relating to various Capital Program projects. In general, the aggregate amount demanded by all such claimants, if recovered in full, could result in a material increase in the cost of the capital projects which are the subject of such disputes. However, any such recoveries would be partially offset by reserves in individual project budgets and by general contingency reserves budgeted in the capital program.

Connecticut Department of Transportation Arrearage. CDOT is in arrears on payment of its share of the deficits of operation of MNCRC's New Haven Line due for calendar year 2000 and for the first three months of 2001. The amount of the arrearage exceeds $2 million. CDOT claims that the amounts shown as due and payable by CDOT exceed the maximum amount it is obligated to pay under the terms of the service agreement among MTA, MNCRC and CDOT for the operation of the New Haven Line. A similar claim was made by CDOT with respect to billings rendered by MNCRC on account of the New Haven Line operating deficit for calendar year 1999, but the matter was resolved with payment of the full amount of the arrearage shown by MNCRC for that year. The parties are engaged in negotiations to attempt to resolve the matter on the same basis as for the 1999 billings.

TBTA

Labor. *Peter Lukas v. Michael C. Ascher, et al*. This Article 78 proceeding, commenced in April 1996, challenges TBTA's use of temporary Bridge and Tunnel Officers appointed to fill scheduling vacancies pursuant to the Rules and Regulations of the New York City Department of Personnel. Petitioners, the President of the Bridge and Tunnel Officers Benevolent Association and the union itself, allege that such use of temporary employees violates the New York State Civil Service Law and the New York State Constitution. Petitioners seek to have the use of temporary officers enjoined and the duties performed by permanent appointees.

In July 1996, the TBTA moved to dismiss the petition on the ground that Petitioners' claims are barred by the statute of limitations, the equitable doctrine of laches and principles of *res judicata* and collateral estoppel. The New York State Supreme Court, by decision dated May 31, 1989, dismissed a similar petition brought by the same union. In a Memorandum Decision and Order, dated December 5, 1996, the New York State Supreme Court denied the TBTA's motion to dismiss the petition. On February 24, 1997, TBTA moved to obtain leave to appeal the denial of its motion to the Appellate Division, First Department. The motion was denied on July 8, 1997. The Appellate Division affirmed the denial of the motion for leave to seek an interim appeal. TBTA's answer was filed on March 18, 1998 setting forth both legal and factual defenses to the allegations in the Petition. The case has been submitted to the Court for decision.

Should Petitioners be successful and the use of temporary Bridge and Tunnel Officers be enjoined, TBTA may experience an increase in its operating costs. In the opinion of General Counsel to TBTA, there are viable defenses available to TBTA.

Actions for Personal Injuries. TBTA is involved in numerous claims, lawsuits and administrative proceedings arising out of the operation and administration of the Present Facilities. Most of these are personal injuries claims. TBTA has established reserves for judgments and claims.

Actions Relating to TBTA Capital Program. From time to time, TBTA receives claims relating to various Capital Program projects. In general, the aggregate amount demanded by all such claimants, if recovered in full, could result in a material increase in the cost of the capital projects which are the subject of such disputes. However, any such recoveries would be partially offset by reserves in individual project budgets and by general contingency reserves budgeted in the capital program.

INVESTMENT POLICY

The MTA's Treasury Division is responsible for the investment management of the funds of the Related Entities. The investment activity covers all operating and capital funds, including bond proceeds, and the activity is governed by State statutes, bond resolutions and the Board-adopted investment guidelines (the "Investment Guidelines"). The MTA Act currently permits the Related Entities to invest in the following general types of obligations: obligations of the State or the United States Government; obligations the principal and interest of which are guaranteed by the State or the United States government; obligations issued or guaranteed by certain Federal agencies; repurchase agreements fully collateralized by the obligations of the foregoing United States Government and Federal agencies; certain certificates of deposit of banks or trust companies in the State; certain banker's acceptances with a maturity of 90 days or less; certain commercial paper; certain municipal obligations; and certain mutual funds up to $10 million in the aggregate. Investment obligations and collateral are held by one of the MTA's custodians or trustees. The MTA employs five outside asset managers for the investment of a portion of the MTA's non-bond capital program funds, which funds are subject to the investment restrictions of either the Transit Facilities or the Commuter Facilities Special Obligation Resolution. In the event the debt restructuring occurs as herein described, the non-bond capital program funds could become subject, instead, to the investment restrictions of a new bond resolution. The investment obligations are held in separate accounts by the MTA's custodian under such resolutions.

As of December 31, 2000, the $2,333 million market value non-bond capital funds consisted of approximately 10.19% cash and repurchase agreements, 55.73% United States Treasury obligations, 32.82% Government National Mortgage Association obligations, and the balance of 1.26% in other guaranteed agency obligations or obligations of State issuers. The duration of non-bond capital funds was 1.18 years.

As of December 31, 2000, the operating and working capital of the MTA, its affiliates and subsidiaries amounted to $360.4 million, and was invested with an average weighted days to maturity of 906 days, and a duration of less than six months.

The Related Entities have adopted guidelines with respect to the limited use of swap contracts to manage the interest rate exposure of their debt. The guidelines provide that the counterparty or its guarantor must be rated in an investment-grade category by at least one nationally recognized statistical rating organization, and, in certain cases, that the counterparty's payment obligations be collateralized by direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States of America. In the event that rating of the counterparty falls below certain categories, it must collateralize its obligations. TBTA has entered into certain swap contracts as described under "PUBLIC DEBT SECURITIES – Swap Agreements". In connection with the debt restructuring described herein, certain of the Related Entities may enter into swap contracts to manage the variable rate exposure of certain of their debt.

INSURANCE

Financial Statement Accruals for Estimated Liabilities. The Related Entities provide accruals in their financial statements for their estimated liability for claims by third parties for personal injury arising from, among other things, bodily injury (including death), false arrest, malicious prosecution, libel and slander, for property damage for which it may be liable as a result of its operations and advertising offense, including defamation, invasion of right of privacy, piracy, unfair competition and idea misappropriation. However, cash reserves are not established to pay for such estimated liabilities.

Excess Loss Fund. In 1989, the MTA established the MTA Excess Loss Fund ("ELF") from the proceeds of the bonds described herein under "PUBLIC DEBT SECURITIES-MTA Excess Loss Fund Special Obligation Bonds". Certain of the Related Entities are required to contribute to the payment of operating expenses, debt service and the maintenance of required reserves on an ongoing basis principally through the payment of insurance premiums. The MTA, MNCRC, LIRR, TBTA and the Transit Authority (the "ELF Participants") currently contribute. The Transit Authority, on behalf of itself and MaBSTOA, and the other ELF Participants are entitled to receive indemnification therefrom to the extent they incur a loss as described below from a single occurrence in excess of $6 million, or $1.2 million in the case of the MTA and TBTA, provided that such indemnification may not exceed the lesser of $50 million or the assets of the ELF. As of December 2000, the ELF had assets, at market value, of approximately $117.8 million available to meet claims. Each of the ELF Participants is also entitled to a reimbursable disbursement, subject to the same limit of the lesser of $50 million or the assets of the ELF, to the extent the amount of the annual paid claims of the ELF Participants exceed 110% of its budgeted amount on payouts respecting judgments and claims (the "Annual Aggregate Retentions"), but such reimbursable disbursement is required to be repaid to the ELF with interest over a five-year period. Currently, the Annual Aggregate Retentions are as follows: Transit Authority (including MaBSTOA) - $64.1 million; LIRR - $14.4 million; MNCRC - $21.1 million; TBTA - $1.0 million; and Authority - $1.0 million. See "LITIGATION" below for a discussion of potential claims on the ELF.

Excess Liability Insurance. An Excess Liability Insurance Policy has been purchased from independent insurance companies to cover the Related Entities. This coverage affords $150 million in additional limits above the ELF to give a total limit of $200 million ($150 million excess of $50 million). Additionally, in the event ELF assets are exhausted due to payment of claims, the Excess Liability Insurance will assume ELF's coverage obligations.

Captive Insurance Company. The First Mutual Transportation Assurance Company ("First MTA Company"), a public benefit corporation subsidiary of the MTA, is the first captive insurance company licensed to do business in the State. First MTA Company currently provides the following insurance programs:

Reinsurance of Station Liability and Force Account Insurance coverage provided for LIRR and MNCRC. The MTA insures the first $6 million per occurrence for station liability and force account liability (covering employees of the commuter railroads in the course of doing work for the benefit of the Related Entities) with a New York licensed property and casualty insurer, and the insurer reinsures those coverages in First MTA Company.

(1) Direct Property Insurance Coverage for the Related Entities. First MTA Company directly insures property exposures in excess of $15 million per occurrence for physical damage claims sustained by the Related Entities. First MTA Company is reinsured in the London and European marketplace for this coverage.

(2) Direct All-Agency Protective Liability Insurance Coverage. The First MTA Company maintains the All-Agency Protective Liability Program which provides blanket protection from losses in connection with construction work related to capital projects on a centralized basis for the Related Entities. The program provides coverage subject to a $6 million limit of liability. Any excess is covered by ELF.

(3) Owner Controlled Insurance Programs ("OCIPs"). First MTA Company holds loss funds and/or collateral required in connection with the following six OCIPs:

   a. Transit Authority Station, Escalators and Elevators (1998 Program)
   b. Transit Authority Station, Escalators and Elevators (2000 Program)
   c. Transit Authority Line Structures, Shops, Yards and Depots (1999 Program)
   d. Transit Authority Line Structures, Shops, Yards and Depots (2000 Program)
   e. LIRR East Side Access
   f. LIRR and MNCRC 2000-2004 Capital Program

In the OCIPs, the Related Entities provide for certain insurance coverage applicable to contractors and sub-contractors on their capital programs, which is expected to be more economical to the Related Entities than reimbursing the individual contractors and sub-contractors for obtaining their own insurance.