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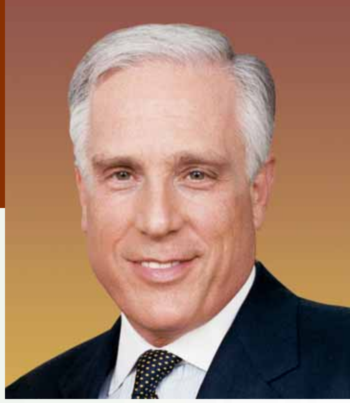
Message from the Chairman and the Executive Director



Peter S. Kalikow, Chairman

Katherine N. Lapp, Executive Director

May 1, 2005

In 2004, we completed the MTA's fifth five-year Capital Program. That nearly $20 billion effort delivered thousands of high-tech rail cars and new buses for our eight million daily customers, renovated and made ADA-accessible dozens of stations and parking facilities, and invested in a host of "invisible" infrastructure improvements that provide greater safety and reliability. But the impacts of the Capital Program reach far beyond the MTA's network and the customers it serves.

From Bay Shore to Buffalo, from Poughkeepsie to Plattsburgh, economic benefits of the Capital Program are felt as the myriad components of the MTA's subways, commuter trains, and buses are manufactured and assembled by businesses located all across the state. The "ripple effect" of dollars invested in the MTA's 2000-2004 Capital Program has generated impressive economic benefits for the overall New York State economy:

- 301,552 total worker-years of employment, or between 16,000 and 35,000 jobs annually for nine years
- $10.2 billion in salaries and wages
- $941 million in state and local personal income and sales taxes
- $25.3 billion in economic activity/sales

Mass transit — subways, buses, commuter rail, bridges and tunnels — and our region's economic and social life have long been intertwined. Three milestones in 2004 — the 100th anniversary of the subways, the 170th anniversary of MTA Long Island Rail Road, and the 40th anniversary of the Verrazano-Narrows Bridge — demonstrate the dimensions of these interrelationships.

The Subway Centennial celebrated the enormous impetus the subways gave to New York City's evolution, transforming it in an incredibly short time from a densely populated, traffic-choked Lower Manhattan into five thriving boroughs united as a prosperous economic and social entity. Productivity and prosperity grew explosively. A huge building boom raised new buildings and blocks of spacious apartments around announced routes. Between 1910 and 1940, the population of New York increased by 56 percent, but the population of Manhattan fell 19 percent. People were moving to more affordable and comfortable homes in upper Manhattan and the former fields and farms of the Bronx, Brooklyn, Queens, and Staten Island.

Our commuter railroads performed a similar service for Long Island and the northern suburbs, with prosperous bedroom communities growing up around new train stations. Today, Long Island Rail Road's Atlantic Terminal is an important part of the economic revitalization of that neighborhood. MTA Metro-North Railroad's electrification of the Harlem Line beyond Brewster (1982-1984) resulted in a 370 percent increase in ridership on the Dover Plains line since 1980. After the Verrazano-Narrows Bridge opened in 1964, the population of Staten Island grew by 20 percent between 1970 and 1990.

But these kinds of economic benefits depend on continuing investment and maintenance — disinvestment and deferred maintenance brought the subways to near ruin in the 70s and 80s, when a third of the fleet was typically out of service during the morning rush hours and the commuter railroads suffered similar, albeit less severe, damage. The resulting delays and lost time wreaked havoc on worker productivity and diminished the desirability of the metropolitan area as a business center.

The MTA has worked diligently over the last 22 years to prevent the recurrence of this scenario, and we are pleased that our 2005-2009 Capital Program proposals represent a balance between our commitment to maintaining and upgrading the system and a realistic vision of expansion that will alleviate strains on the current system, provide new facilities to meet the projected needs of population growth and future customers, and build transportation infrastructure that will spur and support further economic development.

Our core concern is the system's repair, maintenance, and upgrading — most of the infrastructure is fifty to a hundred years old, and so we've allocated substantial resources to these ongoing activities. But we're also planning for a system that will support regional economic development and prosperity.

One step in this direction was the creation of the MTA Bus Company in September to take over the operations of seven bus companies operating under franchises granted by the New York City Department of Transportation. Beginning in January 2005, these lines are being taken over on a staggered basis, and MTA Bus will consolidate and be responsible for their local and express operations.

We continue to look to the future as we plan for East Side Access and the Second Avenue Subway, two visionary projects that are poised to get underway.

On the operating side of the ledger, the MTA's budget showed a significant surplus in 2004 and we have taken great measures to lower deficits previously projected for 2005 and beyond. The first quarter of 2005 showed progress toward a balanced budget with real estate taxes ahead of plan, fares and tolls increased as planned, and cost-reduction programs implemented.

Our 2006 budget will benefit from the recently adopted state budget which provided new revenues to the MTA (increased sales tax and mortgage recording tax revenues, Department of Motor Vehicles fees) as well as the stabilization reserves set aside from the 2004 budget (assuming 2005 continues on plan) and continuing cost-efficiency programs. As a result, our budget planning for 2006 is progressing well.

In addition, our 2007 budget is looking manageable because of new cost-efficiency programs in shared services and reorganization, new revenue sources including sponsorship revenues, and previously planned fare and toll increases. By planning such increases well in advance we can keep pace with inflationary pressures, while the increases are predictable and more moderate, causing less hardship for riders.

Increased efficiency and budgetary discipline are both necessary, and we are exploring more innovative revenue-generating initiatives. But we must also obtain increased support from our federal, state, and local partners, and we are taking every opportunity to make our case aggressively in these forums as well as with the business community. Our strongest argument is that first-rate public transportation is necessary, not only for mobility and prosperity in the metropolitan region, but also to generate significant benefits to the New York State economy from continued investment in the 2005-2009 Capital Program.

The past year was full of challenges and even some frustration, but the accomplishments cited in this report clearly testify that the people of the MTA continue to pursue the goal of safe, reliable, and efficient public transportation despite these difficulties. We remain committed to providing that essential service in a form the future of the region and its citizens desire.

Peter S. Kalikow
Chairman

Katherine N. Lapp
Executive Director

MTA Leadership

MTA Board

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James S. Simpson

Edward A. Vrooman

Ed Watt

Alfred E. Werner

MTA Management

Katherine N. Lapp, Executive Director

(left to right) Stephen L. Kessler, Chief Financial Officer; Christopher P. Boylan, Deputy Executive Director, Corporate and Community Affairs; Linda G. Kleinbaum, Deputy Executive Director, Administration; Gary M. Lanigan, Director, Budgets and Financial Management

William A. Morange, Deputy Executive Director, Director of Security; Timothy A. O'Brien, Corporate Secretary, Chief of Staff; Catherine A. Rinaldi, Deputy Executive Director, General Counsel; Paul Spinelli, Auditor General

Agency Presidents

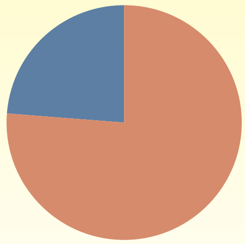
(left to right) Michael C. Ascher, MTA Bridges and Tunnels; Peter A. Cannito, MTA Metro-North Railroad; James J. Dermody, MTA Long Island Rail Road

Mysore L. Nagaraja, MTA Capital Construction; Lawrence G. Reuter, MTA New York City Transit; Thomas J. Savage, MTA Bus Company; Neil S. Yellin, MTA Long Island Bus

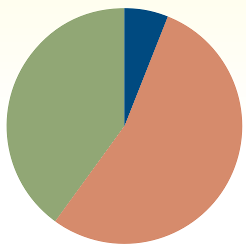
2004 Consolidated Financial Highlights

Assets and Liabilities

($ millions)



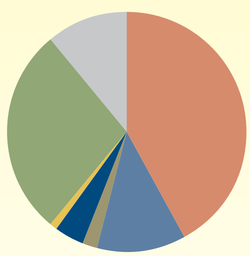
Assets	$43,837	100.00%
Capital assets, net	$33,654	76.77%
Other assets	10,183	23.23



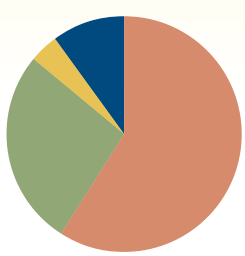
Liabilities and Net Assets	$43,837	100.00%
Current liabilities	$2,487	5.67%
Long-term liabilities	23,754	54.19
Net assets	17,596	40.14

Income and Expenses

($ millions)



Income		
Fares and operating revenues, except tolls	$3,740	42.14%
Tolls	1,097	12.36
State subsidies	206	2.32
Local subsidies	317	3.57
Other subsidies	52	0.59
State/regional taxes	2,453	27.64
Other	1,010	11.38
Federal subsidies	0	0.00
Total	$8,875	100.00%



Expenses		
NYC buses and subways	$5,240	59.05%
Commuter rail, suburban buses, Staten Island Railway, and MTA headquarters	2,417	27.23
Bridges and tunnels	356	4.01
Debt service and other	862	9.71
Total	$8,875	100.00%

MTA federal grants	$15,581	$284
State service contracts**	1,867	-3
State appropriations	622	1
City appropriations	3,549	90
MTA bonds	12,477	983
MTA debt restructuring	4,480	1,345
MAC surplus	925	–
Lessor equity/Asset sales†	830	53
Investment income	2,031	97
Capital-operating transfer/Pay-as-you-go	1,214	62
Other§	2,454	965
Total	**$46,029**	**$3,878**

* Funding for MTA Bridges and Tunnels Capital Programs not included.
** As part of reconciliation by the MTA Office of the Comptroller, state service contract receipts have been recalculated. Negative figure for 2004 represents the effect of the recalculation.
† Asset sales figures have been consolidated with Lessor equity. Asset sales represent one-time gains from the sales of the East Side Airlines Terminal and the New York Coliseum.
§ Includes consolidation of funds from Beneficial Interest Certificates ($80 million total; no additional funds in 2004), Port Authority of New York and New Jersey ($413 million total; no additional funds in 2004), and Nassau County ($3 million total; $3 million in 2004).
Note: Because of rounding, totals may not add exactly.

	Commitments	Expenditures	Completions
MTA Total*†	$49,039	$42,541	$36,024
MTA New York City Transit	33,836	29,675	26,282
MTA Long Island Rail Road	6,580	5,748	4,675
MTA Metro-North Railroad	4,815	4,207	3,309
MTA Bridges and Tunnels	2,067	1,685	1,478
MTA Capital Construction	1,407	977	98

	Commitments	Expenditures	Completions
MTA Total*	$1,759	$3,355	$2,850
MTA New York City Transit	876	1,923	1,540
MTA Long Island Rail Road	137	469	471
MTA Metro-North Railroad	361	393	447
MTA Bridges and Tunnels	79	198	328
MTA Capital Construction	245	295	64

* MTA totals include the following amounts:
World Trade Center recovery: Total commitments, $206 million; total expenditures, $200 million; total completions, $148 million; 2004 expenditures, $62 million.
Planning and Customer Service Projects: Total commitments, $67 million; total expenditures, $49 million; total completions, $34 million; 2004 expenditures, $15 million.
MTA Bus Company: 2004 commitments, $61 million.
† Does not include $92 million of commuter rail project commitments made in the 1982-1991 Capital Program for projects that could not be assigned to either railroad since they benefited both.
Note: Because of rounding, totals may not add exactly. Commitments may be more than receipts since bonds are sold as cash is needed.