Financial Section

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

We have audited the accompanying balance sheets of Metropolitan Transportation Authority (the "Authority"), a component unit of the State of New York, as of December 31, 2003 and 2002, and the statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the New York City Transit Authority ("NYCTA"); Staten Island Rapid Transit Operating Authority ("SIRTOA"); and Metropolitan Suburban Bus Authority ("MSBA"), which represent 53 percent and 56 percent, respectively, of the assets and revenues of the Authority. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for NYCTA, SIRTOA and MSBA, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Authority, as of December 31, 2003 and 2002, and the results of its operations, changes in excess of liabilities over assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 13 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The required supplementary information on the pension funding progress has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on such information.

Deloitte & Touche LLP

April 8, 2004

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1. Overview of the Financial Statements

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

The Financial Statements Include:

- The Consolidated Statements of Net Assets provide information about the nature and amounts of investments in resources (assets) and the obligations to Metropolitan Transportation Authority ("Authority") creditors (liabilities), with the difference between the two reported as net assets.
- The Consolidated Statements of Revenues, Expenses, and Changes in Fund Net Assets provide information about the Authority's changes in net assets during each year and accounts for all of the current year's revenues and expenses, measures the success of the Authority's operations during the period, and can be used to determine how the Authority has funded its costs.
- The Consolidated Statements of Cash Flows provide information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities.

The Notes to the Financial Statements Provide:

Information that is essential to understanding the financial statements, such as the Authority's accounting methods and policies; details of cash and investments, employee benefits, long-term debt, lease transactions, and future commitments and contingencies of the Authority; and information about other events or developing situations that could materially affect the Authority's financial position.

Required Supplementary Information provides information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2003 and 2002. This management discussion and analysis is intended to serve as an introduction to the Authority's financial statements. It provides an assessment of how the Authority's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Authority's overall financial position. It may contain opinions, assumptions, or conclusions by the Authority's management that should not be considered a replacement for, and must be read in conjunction with the financial statements.

2. Financial Reporting Entity

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

MTA Related Groups

- Headquarters ("MTAHQ") – provides general oversight, planning, and administration, including budget, cash management, finance, legal, real estate, treasury, risk management, and other functions to the agencies listed below.
- The Long Island Rail Road Company ("LIRR") – provides passenger transportation between New York City and Long Island.
- Metro-North Commuter Railroad Company ("MNCR") – provides passenger transportation between New York City and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in New York State and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority ("SIRTOA") – provides passenger rail transportation on Staten Island.
- Metropolitan Suburban Bus Authority ("MSBA") – provides public bus service in Nassau and Queens counties.
- MTA Excess Loss Trust Fund ("ELF") – provides coverage against losses from catastrophic events and provides budget stability in the event annual aggregate losses impact negatively upon the operating budgets of its participants. ELF was terminated in the fourth quarter of 2003 and the assets were transferred to First Mutual Transportation Assurance Company ("FMTAC") (as defined below). FMTAC will be responsible for ELF's past liabilities and issue a new policy covering similar claims.
- First Mutual Transportation Assurance Company ("FMTAC") – operates as a captive insurance company to provide insurance coverage for property and primary liability.
- New York City Transit Authority ("NYCTA") and the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") – provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority ("TBTA") – operates seven toll bridges, two tunnels, and the Battery Parking Garage.

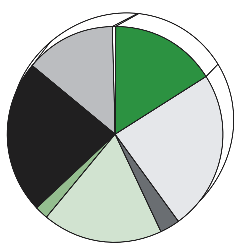
3. Condensed Financial Information

The following sections discuss the significant changes in the Authority’s financial position for the years ended December 31, 2003 and 2002. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are in conformity with the Authority’s financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America. All dollar amounts are in millions.

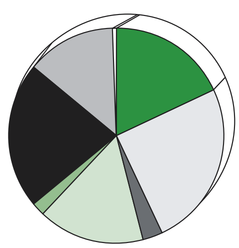
	2003	2002	2001
Capital assets, net	$31,555	$29,079	$26,186
Other assets	10,474	10,689	11,229
Total assets	**$42,029**	**$39,768**	**$37,415**

Capital Assets

2003



2002



	2003	2002
Construction work-in-progress	16%	18%
Building and structures	24%	25%
Bridges and tunnels	3%	3%
Passenger cars and locomotives	18%	16%
Buses	2%	2%
Infrastructure	23%	22%
Other	14%	14%
Land	0.39%	0.43%

December 31, 2003 versus 2002

- Capital assets increased in 2003 by $2,476. The significant additions included rehabilitation of stations and structures for the subways and railroad cars of $469, placing in service of new railroad electric passenger cars and subway cars of $851, track and structure rebuild of $899, and other capital assets of $257. Major projects related to these expenditures included:

  — Installation of new Ticket Vending Machines by LIRR and MNCR.

  — Rehabilitation of Jamaica station and construction of inter-modal transportation center linking LIRR, JFK Air Train, and NYCTA subway and bus lines.

  — Installation of new electrical distribution systems to the stand-by power substations in Penn Station.

  — Reconstruction of the Atlantic Avenue stations, including disabled accessibility, Roosevelt station, Queens Plaza, and Times Square.

  — Work was done on Canarsie and Flushing lines as part of signal modernization.

  — Finalization of construction and reconstruction of the 1 and 9 lines destroyed in the terrorist attack of September 11, 2001.

  — Acquisition of 385 new subway cars.

  — Acquisition of 319 new articulated and CNG buses.

- The additions were partially offset by the disposal of 296 “redbird” subway cars. The disposal of the “redbird” subway cars was completed in 2003 by “reefing” the cars off the coast of some states to enhance sea life.

- Other Assets decreased by $215 from 2002 to 2003. The major components of this decrease were:
  - — A decrease of $797 in investments primarily related to:
    - – The acquisition of capital assets, an increase in operating losses, and payment of debt service.
  - — A decrease of $327 in current receivables and other noncurrent assets is derived primarily from:
    - – The settlement of the World Trade Center ("WTC") disaster, partially offset by the collection of accounts receivable from the City of New York.
  - — An increase in prepaid expenses is primarily due to the prepayment of pension costs and insurance premiums.
  - — An increase of $445 in restricted investments related to new capital lease obligations. During 2003, the Authority engaged in three sale/leaseback transactions with MetLife, Bank of New York, and Bank of America.
  - — An increase of $391 in the NYS Recoverable primarily related to the usage of proceeds available from the State Service Contract Bonds issued in 2002. This recoverable will be reduced in future years through NYS reimbursement of principal on the bonds.

December 31, 2002 versus 2001

- Capital Assets increased approximately $2,893 from 2001 to 2002. The increase is primarily due to the additions and disposal of capital assets of $1,901, and infrastructure construction related primarily to the East Side Access project, the Second Avenue Subway project, and the reconstruction of the 1 and 9 Lines of $992. This increase is partially offset by the disposal of capital assets.
- Other assets decreased by $540 from 2001 to 2002. The decrease is mostly attributable to:

Reduction of other current receivables of $544 of which $232 is related to amounts received as capital contribution from New York City representing the proceeds from the sale of the New York Coliseum. Additionally, New York State paid the full amount of the state's appropriations for the 2002-2003 fiscal year.

Increase in amounts held in escrow for the retirement of capital lease obligations of $1,536.

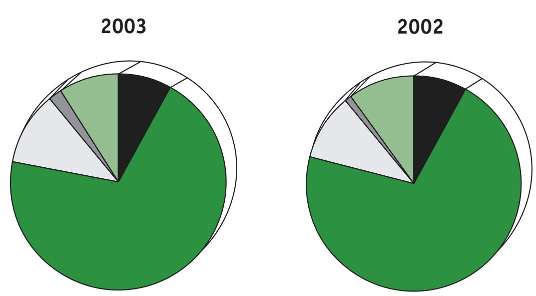
Payment of debt service.

Increase in New York State receivables of $591 related to the issuance of the new State Service Contract Bonds Series 2002A and 2002B.

Total liabilities, distinguishing between long-term liabilities and other liabilities

	2003	2002	2001
Other liabilities	$ 2,384	$ 2,101	$ 2,800
Long-term liabilities	22,132	20,805	18,113
Total liabilities	**$24,516**	**$22,906**	**$20,913**

Total Liabilities



	2003	2002
Accounts payable/accrued expenses	8%	8%
Long-term debt (Note 6)	70%	71%
Obligations under capital lease (Note 7)	11%	10%
Other current liabilities	2%	1%
Other long-term liabilities	9%	10%

Significant changes in liabilities include:

December 31, 2003 versus 2002

- Total liabilities increased by $1,610.
  - — The Other liabilities increased primarily due to:
    - – An increase in current portion of bond principal payable.
    - – An increase of $152 in accrued expenses, partially due to an increase in vacation and sick pay, retirement and death benefits payable, bank and overdraft payable due to timing of payroll, and other expenses not yet funded.
  - — The Long-term liabilities increased primarily due to:
    - – Increase in Long-term debt in the amount of $1,444 resulting from the issuance of the Authority's Transportation Revenue Bonds, Series 2003A and Series 2003B in the amount of $475 and $752 respectively, for the purpose of providing funds for capital projects as well as redeeming the Bond Anticipation Notes in the amount of $750. New Bond Anticipation Notes in the amount of $420 were issued. TBTA also issued Subordinate Revenue Bonds, Series 2003A and TBTA General Revenue Variable Rate Bonds, Series 2003B in the amounts of $500 and $250 respectively to finance transportation projects and certain improvements on bridges and tunnels.
    - – Increase in obligations under capital lease of $437, resulting mainly from the new sale-lease transactions with MetLife, Bank of America, and Bank of New York.
    - – Increase in estimated liabilities arising from injuries to persons increased by $93, due to increases in amounts claimed and settled.
    - – Other long-term liabilities decreased by $645, primarily due to the settlement of the World Trade Center insurance claims.

December 31, 2002 versus 2001

- Total liabilities at December 31, 2002 increased over December 30, 2001 by approximately $1,993, long-term liabilities increased $2,692, and other liabilities decreased $699.
  - — The decrease in the other liabilities is primarily due to:
    - – The payment of a short-term note in the amount of $300;
    - – A decrease in interest payable in the amount of $208;
    - – A decrease in the current portion of long-term debt of $364 is attributed to the extinguishment of the debt due to restructuring.
  - — These decreases are partially offset by increases in accounts payable and accrued expenses related to increases in costs related to the general operations of the Authority.
  - — Long-term liabilities increased by $2,692 primarily due to increases in:
    - – Long-term debt of $976, due in part to the debt restructuring that took place in 2002. The net proceeds from issuances were used to refund existing obligations and the acquisition of capital assets.
    - – Obligations under capital leases of $1,682 related to sale-lease back transactions that took place between September and December 2002 as part of the Authority's cross-border leasing transactions.
    - – The increases are partially offset by a decrease in estimated liability arising from injuries to persons.
    - – The increase in long-term debt is part of the new debt restructuring that took place in 2002. The net proceeds from these issuances were used to refund existing obligations and for the acquisition of capital assets. The increase in obligations under capital leases is derived from the sale/lease back transactions that took place between September 25, 2002 and December 19, 2002 as part of the Authority's cross-border leasing transactions.

Total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts

	2003	2002	2001
Invested in capital assets, net of related debt	$ 13,671	$ 13,891	$ 10,917
Restricted for debt service	2,130	768	1,714
Unrestricted	1,712	2,203	3,871
Total	**$ 17,513**	**$ 16,862**	**$ 16,502**

December 31, 2003 versus 2002

At December 31, 2003, the total net assets increased by $651 over December 31, 2002. This increase is comprised of operating losses of $3,038; non-operating revenue of $2,266; and appropriations, grants, and other receipts externally restricted for capital projects of $1,423.

Capital assets net of related debt decreased by $220 due mainly to the new capital asset acquisitions. Bond proceeds available for capital expenditures were not entirely used and at December 31, a total of $455 of unexpended proceeds was still outstanding.

Funds restricted for debt service increased by $1,362. This increase is derived from the 2002 bond restructuring and the impact of new issuances that took place in 2003.

December 31, 2002 versus 2001

The total net assets increase of $360 during the year December 31, 2002 to December 31, 2001 is comprised of operating losses of $2,943, non-operating revenues of $1,637 and appropriations, grants, and other receipts externally restricted for capital projects of $1,666.

Capital assets net of related debt increased by $2,974. This is primarily due to the acquisition of assets with funds other than bond proceeds. The amount restricted for debt service decreased by $946. This decrease is related to the bond restructuring that took place in 2002. Under the terms of the new Bond Resolution, the Authority is no longer required to maintain debt service reserve funds.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31,		
	2003	2002	2001
Operating revenues	$4,523	$4,053	$4,052
Operating expenses	(7,561)	(6,992)	(6,714)
Operating loss	(3,038)	(2,939)	(2,662)
Nonoperating revenues:			
Grants, appropriations, and taxes	2,395	2,097	2,051
Interest on long-term debt	(780)	(558)	(509)
Other	634	61	(29)
Subsidies	17	33	29
Total nonoperating revenues	2,266	1,633	1,542
Appropriations, grants and other receipts externally restricted for capital projects	1,423	1,666	1,510
Change in net assets	651	360	390
Net assets–beginning of year	16,862	16,502	16,112
Net assets–end of period	**$17,513**	**$16,862**	**$16,502**

Revenues and Expenses, by Major Source:

December 31, 2003 versus 2002

- Revenues from fares and tolls for the twelve months ended December 31, 2003 were $470 higher than in the twelve months ended December 31, 2002. This is primarily due to the commuter rail fare increase that went into effect on May 1, 2003, and the bridge and tunnel toll increase that went into effect on May 18, 2003.
  - — TBTA Bridge and tunnel tolls accounted for over 95 percent of their operating revenue. The 2003 increase of $129 in Operating revenue at TBTA was related primarily to the toll increase that was implemented in May 2003, as there was a decline in year-to-year traffic. The traffic decline was due in part to the unfavorable weather conditions at both the beginning and end of the year.
  - — Commuter Railroads operating revenue increased $85.3 in 2003 over 2002. Passenger revenues accounted for approximately 92 percent or $80 of the increase in operating revenue. The passenger revenue increase is due primarily to fare increases that took place in May 2003 in New York and July 2003 in Connecticut. Ridership of the Commuter Railroads declined in 2003 from 2002 due to the economic slowdown, which continues to linger in the region, the fare increase and the unusually harsh weather, with the August blackout also being a contributing factor.
  - — NYCTA operating revenue from fares increased by $242 in 2003 over 2002 ($170 from subway operations and $72 from bus operations). Ridership decreased by approximately 2.6 percent and 3.5 percent for subway and bus operations, respectively. As is the case with other components of the Authority's transportation system, the increase is due primarily to the fare increase, as the region's economy is having an adverse effect on ridership.
  - — SIRTOA and MSBA had fare revenue increases of $4 and $35 respectively in 2003 over 2002. These fare increases, too, are attributable in large part, to the May 2003 fare increases while the weak regional economy and the August 2003 blackout had a negative impact on revenue.
- Salaries and wages increased by $109 for the twelve months ended December 31, 2003 over 2002. The increase is primarily attributed to contract settlements, unscheduled overtime expenses, the impact of the August 2003 blackout, and general salary increases.
- Retirement and other employee benefits increased by $204. Pension contributions accounted for the majority of the increase. This is attributed to an increase in the salary base, pension contributions required because of the poor investment portfolio performance and an increase in the rates charged by the NYS and NYC pension funds, and an increase in workers compensation liability.
- Depreciation expenses increased by $100 resulting from new capital assets being placed into service.
- The financial statements reflect $398 of revenues related to the settlement of all claims with the insurers for losses incurred due to the events of September 11, 2001.

December 31, 2002 versus 2001

- The operating revenue increase of $1.0 in twelve months ending December 31, 2002 over the same period in 2001 is primarily related to an increase in toll revenues which was partially offset by a decrease in commuter and metro area fare revenue. Ridership overall posted a modest increase in 2002 due primarily to a slowdown of the regional economy post-September 11.
- Salaries and wages increased in the twelve months ending December 31, 2002 over 2001, principally due to contractual and managerial wage increases.
- Retirement and other employee benefits expenses increased commensurate with the higher salaries and wages and were affected by the nationwide increase in health benefit costs and recalculated pension contributions necessitated by stock market losses.
- Depreciation expenses also increased primarily due to increases in the Authority's capital program, and new capital assets being placed in service.
- Capital contributions increased by $156 due to the availability of new funds for capital projects resulting from the debt restructuring.

4. Overall Financial Position and Results of Operations and Important Economic Conditions

Economic Conditions

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

While the National Bureau of Economic Research has declared that the national recession that began in March 2001 ended in November 2001, the region – and New York City in particular – continued to experience the impacts of a longer and deeper economic slowdown through 2002 and into 2003. As discussed more fully below, Authority-wide ridership posted a modest increase in 2002 and a modest decrease in 2003. The adverse ridership trends, together with additional security costs (both capital and operating) and a worsening of the operating balance position, moved the Authority to increase fares and tolls in May 2003.

The Authority expects the City and regional economies to eventually follow the national economy; by the end of 2003, there were indications that the regional recession has bottomed out. The regional recovery is expected to continue gaining strength and gradually show growth during 2004 as the regional economy is expected to benefit from the rebuilding of the downtown infrastructure. Moreover, the regional economy will also benefit from the economic stimulus provided through the Authority's multi-billion-dollar capital programs, which create an annual average of 21,000 private sector jobs, $1,100 in wages, $100 in state and local tax revenues, and $2,500 in economic activity.

Results of Operations

Until September 11, 2001, growth in fare- and toll-paying customers was moderating due to slowing economic trends. The events of September 11 caused dramatic temporary, and wide-ranging long-term changes, throughout the New York metropolitan area.

During 2002, total ridership on the MTA network of mass transit, including subway, bus, and commuter rails, was 2.37 billion, up from 2.33 billion in 2001. Average weekday ridership was 7.71 million. NYCTA ridership totaled 2.18 billion in 2002, the highest level since 1970. Subways carried 1.41 billion passengers and buses carried 762.1 million. LIRR ridership declined by 2.0 percent to 83.9 million due to the weak national economy and losses in the New York City job market. MNCR ridership increased slightly to 73.1 million. And despite the economic downturn and post-September 11 traffic restrictions, a record 300 million vehicles used TBTA bridges and tunnels, a 2.2 percent increase over 2001.

The following factors made for adverse customer usage during 2003: sluggish local economy; adverse weather conditions (above-average snowfalls during winter and record-breaking rainfalls particularly in the spring); the May 2003 fare and toll increases; and the August 2003 blackout. During 2003, total ridership on the MTA network of mass transit, including subway, bus and commuter rails, was 2.31 billion, down from 2.37 billion in 2002. Average weekday ridership was 7.53 million, down from 7.71 million. NYCTA ridership totaled 2.12 billion in 2003, down from its 30-year record high of 2.18 billion in 2002. Subways carried 1.38 billion passengers and buses carried 735 million, both down slightly from 2002. LIRR ridership declined by 3.6 percent to 80.9 million and MNCR ridership decreased slightly from 73.1 million in 2002 to 72.5 million. TBTA bridges and tunnels were used by 297 million vehicles, down approximately 1.0 percent.

The operating subsidies provided to the Authority in the form of dedicated taxes were relatively stable throughout the period. In order to assist the Authority in balancing its budget for calendar year 2002, the State advanced the payment of a fifth quarter of Metropolitan Mass Transportation Operating Assistance Fund ("MMTOA") Receipts scheduled for the first quarter of calendar year 2003 into the fourth quarter of calendar year 2002 (approximately $231.6 million). Currently, the Authority receives the equivalent of four quarters of MMTOA Receipts each year, with the first quarter of each succeeding calendar year's receipts similarly advanced. This results in little or no MMTOA Receipts being received during the first quarter of each calendar year; the MTA has made other provisions to provide for cash liquidity during this period. There has been no change in the timing of the State's payment of, or MTA's receipt of, Dedicated Mass Transportation Trust Fund ("MTTF") Receipts, which MTA anticipates will be sufficient to make monthly principal and interest deposits into the Debt Service Fund.

Over the last few years, the mortgage recording taxes payable to the Authority have generally exceeded expectations due primarily to the high level of home buying and refinancings caused by historically low interest rates. The Authority does not expect that its collection of mortgage recording taxes will continue at current high levels.

Capital Programs

Capital programs covering the years 2000-2004 have been approved by the MTA Board for (1) the commuter railroad operations of the Authority conducted by LIRR and MNCR (as amended to December 31, 2003, the "2000-2004 Commuter Capital Program"), (2) the transit system operated by the NYCTA and its subsidiary, MaBSTOA, and the rail system operated by SIRTOA (as amended to December 31, 2003, the "2000-2004 Transit Capital Program") and (3) the toll bridges and tunnels operated by TBTA (as amended to December 31, 2003, the "2000-2004 TBTA Capital Program"). The 2000-2004 TBTA Capital Program was effective upon adoption by the TBTA Board. The 2000-2004 Commuter Capital Program and the 2000-2004 Transit Capital Program (collectively, the "2000-2004 MTA Capital Programs") have been submitted to the Metropolitan Transportation Authority Capital Program Review Board (the "CPRB").

The CPRB-approved 2000-2004 MTA Capital Programs and the TBTA 2000-2004 Capital Program provide for $18,936 in capital expenditures, of which $10,161 relates to ongoing repairs of, and replacements to, the Transit System operated by NYCTA and MaBSTOA and the rail system operated by SIRTOA, $3,594 relates to ongoing repairs of, and replacements to, the commuter system operated by LIRR and MNCR, $3,182 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by the MTA Capital Construction Company, $802 relates to planning and design and customer service projects, $162 relates to World Trade Center repair projects, and $1,035 relates to the ongoing repairs of, and replacements to, TBTA bridge and tunnel facilities.

The combined funding sources for the approved 2000-2004 MTA Capital Programs and the TBTA 2000-2004 Capital Program include $7,853 in bonds, $4,882 in federal funds, $4,505 from the proceeds of the MTA/TBTA debt restructuring in 2002 and $1,696 from other sources.

The 2000-2004 MTA Board-approved amended Capital Programs (amended in December 2003), provide for $20,133 in capital expenditures, including $19,104 for MTA Capital Programs, which include $1,325 for new Capital Company projects mostly to be funded by the federal government and $1,029 for TBTA Capital program. (Please see Note 1 for further discussion).

5. Currently Known Facts, Decisions, or Conditions

Corporate Reorganization

The Authority has proposed a plan of corporate restructuring and introduced legislation to effectuate that plan. Under the plan, the Authority would create the following five distinct companies under MTA's governance:

- MTA Subways, would include NYCTA's subway operations and SIRTOA,
- MTA Bus, would include NYCTA's and MaBSTOA's bus operations and MSBA, and could in the future include one or more bus lines currently operated by private companies in the City and Westchester County,
- MTA Rail, would include LIRR and MNCR,
- MTA Bridges and Tunnels, will retain the corporate structure of TBTA, and
- MTA Capital Construction, a new company that would be in charge of overseeing the system expansion projects for all MTA companies.

This corporate restructuring along business lines is designed to streamline administrative functions and provide each entity with a single transportation focus.

Certain aspects of the corporate restructuring can proceed without legislation. For example, a new MTA subsidiary, MTA Capital Construction Company ("MTA Capital Construction"), was created in July 2003. MTA Capital Construction is responsible for the planning, design, and construction of current and future major MTA system expansion projects, including East Side Access (bringing LIRR into Grand Central Terminal), extension of the 7 subway line from Times Square to the west side of Manhattan, the Lower Manhattan Fulton Street Transit Center, the new South Ferry station complex in lower Manhattan, system-wide capital security projects, and Second Avenue Subway. Initial funding for MTA Capital Construction in the amount of $2.5 was advanced from the MTAHQ operating budget and is expected to be recovered from charge-backs to the capital programs.

Consolidated Balance Sheets

December 31, 2003 and 2002
($ Millions)

	2003	2002
Assets		
Current Assets:		
Cash (Note 3)	$ 88	$ 84
Investments (Note 3)	1,613	1,802
Receivables:		
Station maintenance, operation, and use assessments	91	88
State and regional mass transit taxes	51	31
Interest	3	7
Due from New York City	42	108
WTC insurance settlement (Note 11)	200	-
Other	353	383
Less allowance for doubtful accounts	(32)	(27)
Total receivables–net	708	590
Materials and supplies	263	263
Prepaid expenses and other current assets (Notes 2 and 4)	202	133
Total current assets	2,874	2,872
Noncurrent Assets:		
Capital assets–net (Note 5)	31,555	29,079
Restricted investments held for lease obligations (Notes 3 and 7)	2,555	2,110
Investments (Note 3)	1,405	2,013
Receivable from New York State	2,375	1,984
Other noncurrent assets	1,265	1,710
Total noncurrent assets	39,155	36,896
Total assets	**$42,029**	**$39,768**

See notes to financial statements.

(continued)

Consolidated Balance Sheets

December 31, 2003 and 2002
($ Millions)

	2003	2002
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 675	$ 650
Accrued expenses:		
Interest	204	201
Salaries, wages, and payroll taxes	138	185
Vacation and sick pay benefits	558	506
Current portion–retirement and death benefits	44	15
Current portion–estimated liability from injuries to persons (Note 8)	160	153
Other	177	69
Total accrued expenses	1,281	1,129
Current portion–long-term debt (Note 6)	214	45
Current portion–obligations under capital lease (Note 7)	7	7
Deferred revenue	207	270
Total current liabilities	2,384	2,101
Noncurrent Liabilities:		
Retirement and death benefits (Note 4)	59	61
Estimated liability arising from injuries to persons (Note 8)	889	796
Long-term debt (Note 6)	17,713	16,269
Obligations under capital lease (Note 7)	2,724	2,287
Other long-term liabilities	747	1,392
Total noncurrent liabilities	22,132	20,805
Total liabilities	24,516	22,906
Net Assets:		
Invested in capital assets, net of related debt	13,671	13,891
Restricted for debt service	2,130	768
Unrestricted	1,712	2,203
Total net assets	17,513	16,862
Total liabilities and net assets	**$42,029**	**$39,768**

See notes to financial statements *(concluded)*

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended December 31, 2003 and 2002
($ Millions)

	2003	2002
Operating Revenues		
Passenger and tolls	$ 4,333	$ 3,912
Rents, freight, and sundry	190	141
Total operating revenues	4,523	4,053
Operating Expenses		
Salaries and wages	3,544	3,435
Retirement and other employee benefits	1,375	1,171
Materials and supplies	416	410
Fuel and power	298	277
Computer, engineering and other consulting services	454	430
Public liability and claims	207	140
Depreciation and amortization	1,235	1,135
Other expenses	32	(6)
Total operating expenses	7,561	6,992
Operating loss	$ (3,038)	$ (2,939)

See notes to financial statements.

(continued)

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended December 31, 2003 and 2002
($ Millions)

	2003	2002
Nonoperating Revenues		
Grants, appropriations, and taxes:		
Tax supported subsidies–NYS	$ 1,592	$ 1,215
Tax supported subsidies–NYC and local	424	453
Operating subsidies–NYS	191	230
Operating subsidies–NYC and local	188	199
Total grants, appropriations and taxes	2,395	2,097
Operating subsidies recoverable from Connecticut Department of Transportation related to New Haven Line	56	47
Subsidies paid to Dutchess, Orange and Rockland counties	(20)	(14)
Suburban Highway Transportation Fund subsidy	(19)	-
Interest on long-term debt	(780)	(558)
Station maintenance, operation and use assessments	125	117
Loss on disposal of subway cars	(31)	(58)
Unrealized loss on investment	(18)	(9)
WTC insurance settlement	398	-
Other nonoperating revenue	160	11
Net nonoperating revenues and expense	2,266	1,633
Loss before appropriations	(772)	(1,306)
Appropriations, grants, and other receipts externally restricted for capital projects	1,423	1,666
Change in net assets	651	360
Net assets, beginning of year	16,862	16,502
Net assets, end of period	**$17,513**	**$16,862**

See notes to financial statements. *(concluded)*

Consolidated Statements of Cash Flows

Years Ended December 31, 2003 and 2002
($ Millions)

	2003	2002
Cash Flows from Operating Activities		
Passenger receipt/tolls	$ 4,356	$ 3,937
Rents and other receipts	(5)	212
Payroll and related fringe benefits	(4,912)	(4,546)
Other operating expenses	(1,410)	(1,276)
Net cash used in operating activities	(1,971)	(1,673)
Cash Flows from Noncapital Financial Activities		
Grants, appropriations, and taxes	2,564	2,587
Operating subsidies from CDOT	56	49
Subsidies paid to Dutchess, Orange, and Rockland counties	(14)	(10)
MTA ELF special obligation bonds cash refunded		(41)
Net cash provided by noncapital financing activities	2,606	2,585
Cash Flows from Capital and Related Financing Activities		
MTA bond proceeds	1,277	9,138
MTA bonds refunded	-	(7,635)
MTA anticipation notes proceed	420	-
MTA anticipation note repayment	(750)	-
TBTA bond proceeds	761	4,116
TBTA bonds refunded	-	(4,613)
Proceeds from capital lease transactions	157	476
Capital lease payments	(8)	(5)
Loan repayment	-	(300)
Grants and appropriations	1,461	1,327
CDOT capital contributions	2	4
Capital expenditures	(3,835)	(4,488)
Debt service payments	(928)	(955)
Subsidies designated for debt service payments	-	7
Net cash used in capital and related financing activities	$ (1,443)	$ (2,928)

See notes to financial statements.

(continued)

Years Ended December 31, 2003 and 2002
($ Millions)

	2003	2002
Cash Flows from Investing Activities		
Purchase of securities–long-term	$ (4,146)	$ (7,343)
Sales of maturities of securities–long-term	3,794	5,229
Sales of short-term securities	1,118	3,994
Earnings on investments	46	142
Net cash provided by investing activities	812	2,022
Net increase in cash	4	6
Cash, beginning of year	84	78
Cash, end of period	**$ 88**	**$ 84**

	2003	2002
Reconciliation of Operating Deficit from Operations to Net Cash Used in Operating Activities		
Operating loss	$ (3,038)	$ (2,939)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,235	1,135
Net increase (decrease) in payables, accrued expenses and other liabilities	(248)	(82)
Net (increase) decrease in receivables	128	181
Net (increase) decrease in materials and supplies and prepaid expenses	(48)	32
Net cash used in operating activities	**$(1,971)**	**$(1,673)**

See notes to financial statements. *(concluded)*

1—Basis of Presentation

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

These consolidated financial statements are of the Metropolitan Transportation Authority, including its subsidiary units and its legally separate related groups (collectively, the "Authority") as follows:

Metropolitan Transportation Authority and Related Groups

- Metropolitan Transportation Authority Headquarters ("MTAHQ") provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the subsidiary and related groups listed below.
- The Long Island Rail Road Company ("LIRR") provides passenger transportation between New York City ("NYC") and Long Island.
- Metro-North Commuter Railroad Company ("MNCR") provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority ("SIRTOA") provides passenger transportation on Staten Island.
- Metropolitan Suburban Bus Authority ("MSBA") provides public bus service in NYC and Nassau County.
- MTA Excess Loss Trust Fund ("ELF") provides coverage against losses from catastrophic events and provides budget stability in the event annual aggregate losses impact negatively upon the operating budgets of its participants. ELF was terminated effective October 31, 2003, when its assets were transferred to FMTAC, and FMTAC assumed responsibility for ELF's past liabilities and issued a new policy covering similar claims.
- First Mutual Transportation Assurance Company ("FMTAC") provides primary insurance coverage for property losses, which are reinsured, and assumes reinsurance coverage for station liability and force account liability.

MTAHQ, LIRR, MNCR, SIRTOA, MSBA, ELF, and FMTAC collectively are referred to herein as MTA. LIRR and MNCR are referred to collectively as the Commuter Railroads.

- New York City Transit Authority ("NYCTA") and Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority ("TBTA") operates seven toll bridges, two tunnels and the Battery Parking Garage, all within the five boroughs of New York City.

The NYCTA and TBTA are operationally and legally independent of the Authority. These related groups enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, they are included in the Authority's financial statements because of the Authority's financial accountability for these entities and they are under the direction of the MTA board. Under accounting principles generally accepted in the United States of America ("GAAP"), the Authority is required to include these related groups in its financial statements.

Capital Program

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

1995-1999 Capital Program

In November 1995, the Authority's Board approved a proposed 1995-1999 Capital Program exclusive of TBTA totaling $11,929, which was increased in July 1997 to $12,169, when it was first approved by the CPRB. In September 1996, the Governor signed legislation to increase the current bonding authority for capital projects and approved additional changes to the provisions governing capital programs. In February 1999, the Authority's Board approved certain changes to the 1995-1999 Capital Program, raising the amount to $12,553. The March 1999 amendments have been approved by the CPRB. Since March 1999, the 1995-1999 program is tracked along with the 1992-1994 program and is updated whenever there is an amendment to the current program. The current approved 1992-1999 Capital Program, including TBTA, equals $18,088.

In November 1995, the Authority's Board approved a proposed 1995-1999 Capital Program for TBTA totaling $665, which was increased in December 1997 to $669. In February 1999, this amount was increased to $670. The plan does not require the approval of the CPRB.

At December 31, 2003, $17,923 had been committed and $17,101 has been expended for the 1992-1999 Capital Program for the Authority, including TBTA.

2000-2004 Capital Program

The 2000-2004 Capital Program exclusive of TBTA, initially totaling $16,462, was approved by the Authority's Board in September 1999. This plan was submitted to the CPRB for approval in October 1999, but was returned for revision in December 1999. In April 2000, the Authority's Board approved subsequent revisions to the proposed 2000-2004 Capital Program, with total capital expenditures of $17,062. In May 2000, CPRB approved the $17,062 Capital Program. In February 2002 the CPRB approved the bonding resolution for restructuring debt that funds the 2000-2004 Capital Program. In February 2002, the Authority's Board increased the 2000-2004 Capital Program to $17,224. The CPRB approved the increase in April 2002. In May 2002, the MTA Board increased the 2000-2004 Capital Program to $17,301. In December 2002, the Authority's Board approved changes within and an increase to the Transit, Commuter and TBTA 2000-2004 programs totaling $591.2 for infrastructure and facilities security program. In February 2003, the MTA Board approved an amended 2000-2004 Capital Program of $17,901, exclusive of TBTA. In May 2003 the $17,901 amended Capital Program was submitted to the CPRB and subsequently returned due to security funding concerns. The plan was resubmitted to the CPRB in June 2003 and approved on July 5, 2003. In December 2003 the MTA Board approved an amended 2000-2004 program of $19,104. This increase included $1,325 for new Capital Company projects mostly funded by the federal government. This amended program has been submitted to the CPRB in January 2004.

In September 1999, the MTA Board approved a proposed 2000-2004 Capital Program for the TBTA that provides for approximately $1,000 in capital expenditures. This plan does not require approval of the CPRB. In March 2000, the MTA Board increased the 2000-2004 Capital Program for TBTA to $1,025. In May 2002 the MTA Board increased the TBTA program again to $1,030 and in December 2002 to $1,036. In December 2003 the MTA board amended the TBTA capital program to $1,029.

At December 31, 2003, $13,856 had been committed and $6,797 has been expended for the 2000-2004 Capital Program for the Authority, including TBTA.

The federal government has a contingent equity interest in assets acquired by the Authority with federal funds, and upon disposal of such assets, the federal government may have a right to its share of the proceeds from the sale.

2—Significant Accounting Policies

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

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

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

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

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

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

All investments are recorded on the balance sheet at fair value and all investment income, including changes in the fair value of investments, is reported as revenue on the statement of operations. Fair values have been determined using quoted market values at September 30, 2003 and December 31, 2002.

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

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

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

Self-Insurance and Risk Retention
LIRR and MNCR are self-insured for liabilities arising from injuries to passengers, employees and others with the exception of injuries to non-employees and off-duty employees arising from occurrences at NYS stations ("Station Liability"), and employees and non-employees, arising from reimbursable project work ("Force Account"). LIRR and MNCR accrue the estimated total cost for the self-insured liability arising out of these claims. Claims arising from Station Liability and Force Account occurring after December 15, 2002 are fully insured up to $7 per occurrence, claims arising December 15, 1997 to December 15, 2002 are insured up to $6, and claims arising prior to December 15, 1997 are insured up to $5. NYCTA and TBTA are self-insured up to certain per-occurrence limits for liability claims arising from injuries to persons, excluding employees. For claims arising after November 1, 2001, the limits are $7 and $1.4 respectively; for claims arising between November 1, 1996 and October 31, 2001, the limits are $6 and $1.2 respectively, and for claims arising between December 15, 1986 and October 31, 1996, the limits are $5, and $1 respectively.

ELF insured certain claims in excess of the self-insured retention limits for LIRR, MNCR, NYCTA, and TBTA noted above, and in excess of $1.4 for MTAHQ ($1.2 for claims arising between November 1, 1996 and October 31, 2001 and $1 for claims arising between December 15, 1986 and October 31, 1996). It received payments, as required by the ELF self-insurance agreement, from the participating agencies to cover the actuarially computed amount required to pay claims, and fund operations.

On October 31, 2003, First Mutual Transportation Assurance Company (“FMTAC”), a subsidiary of MTA, assumed the existing ELF program on both a retrospective and prospective basis. The retrospective portion contains the same insurance agreements, participant retentions and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. The coverage limit will remain $50 per occurrence or the proceeds of the program whichever is less. On a prospective basis, FMTAC will issue insurance policies indemnifying the MTA, its subsidiaries and affiliates above their specifically assigned Self-Insured Retention with a limit of $50 per occurrence with $50 annual aggregate. On December 12, 2003, the ELF transferred all assets and liabilities at historical cost to FMTAC. FMTAC will charge appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. The operations of ELF for the period ended December 12, 2003 are consolidated in the Statements of Revenues, Expenses and Changes in Net Assets.

Effective October 31, 2003, an All-Agency Excess Liability Insurance Policy was renewed. This coverage affords the MTA and its subsidiaries and affiliates an additional limit of $150, for a total limit of $200 ($150 excess of $50). In certain circumstances, when the ELF’s assets are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the ELF’s coverage position of $50.

Property and Casualty Insurance

FMTAC insured property damages or loss exposures in excess of $15 per occurrence, $30 annual aggregate, for claims brought by the MTA and its subsidiaries and affiliates until October 30, 2001. From October 31, 2001 to January 31, 2002 coverage units were $500 per occurrence. By February 1, 2002, coverage limits were increased to $900. This policy excludes coverage for acts of terrorism. Effective November 1, 2001, a stand-alone policy was purchased to cover sabotage and terrorism up to $70 in excess of a $30 self-insured retention.

Effective October 31, 2003, FMTAC insures property damages or loss exposures in excess of $25 per occurrence, $75 annual aggregate, up to a limit of $1 billion for claims brought by the MTA and its subsidiaries and affiliates. This policy excludes acts of terrorism. Effective November 1, 2003, a stand-alone policy was purchased to cover sabotage and terrorism up to $100 in excess of a $25 self-insured retention. On November 26, 2002, with the enactment of the Terrorism Risk Insurance Act (“TRIA”) of 2002, any endorsements excluding certified acts of terrorism were void if the act of terrorism is covered by TRIA. The stand-alone terrorism policy is structured to provide $100 of coverage in excess of the $25 self-insured retention for all acts of terrorism or 10 percent of $1 billion for those acts covered by TRIA. FMTAC reinsures the majority of its property risks above the $25 retention.

Effective December 15, 2001, FMTAC reinsures the primary $7 in losses for Station Liability and Force Account Liability for MNCR and LIRR with a third-party insurer. FMTAC established an aggregate blanket stop loss protection agreement with the third party whereby if losses and allocated expenses retained by FMTAC exceed $45 for the insurance policy period ending December 15, 2002, a cover limit of $10 (inclusive of allocated expenses) is available. The third-party insurer will be responsible for paying all losses and allocated expenses within the cover limit. If the cover limit is exhausted, any additional losses and allocated expenses are payable by FMTAC. Effective December 15, 2002, FMTAC directly insures the primary $7 in losses for Station Liability and Force Account Liability for MNCR and LIRR.

Operating Revenues

Passenger Revenue and Tolls

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

Nonoperating Revenues

Operating Assistance

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

NYS and Regional Mass Transit Taxes

MTA, NYCTA, and SIRTOA receive, subject to annual appropriation, revenues from taxes enacted by the NYS Legislature. These taxes are recognized as revenue when all applicable eligibility requirements are met. Tax proceeds are distributed to the Authority as they are needed.

Mortgage Recording Taxes ("MRT")

Under NYS law, the Authority receives capital and operating assistance through a Mortgage Recording Tax (MRT-1), which is collected by NYC and the seven other counties within the Authority's service area, at the rate of one-quarter of one percent of the debt secured by certain real estate mortgages. The Authority also receives an additional Mortgage Recording Tax (MRT-2) of one-quarter of one percent of certain mortgages secured by real estate improved or to be improved by structures containing one to six dwelling units in the Authority's service area. MRT-1 and MRT-2 taxes are recognized as revenue based upon reported amounts of taxes collected.

MRT-1 proceeds are initially used to pay MTAHQ's operating expenses. Remaining funds, if any, are allocated 55 percent to the NYCTA and SIRTOA and 45 percent to the Commuter Railroads. The Commuter Railroad portion is first used to fund the NYS Suburban Highway Transportation Fund in an amount not to exceed $20 annually. In 2003 the amount allocated to the NYS Suburban Highway fund was $18.9. Until defeasance of MRT Bonds in November 2002, any funds remaining after this payment were used to pay the commuter portion of debt service on the Mortgage Recording Tax Bonds (the "MRT Bonds"). Any funds remaining after meeting debt service requirements were to be used for operating and capital needs of the Commuter Railroads at the discretion of the Authority's Board. Similarly, the NYCTA portion was used to pay the transit portion of debt service on the MRT Bonds. Any excess funds subsequent to meeting debt service requirements were to be used for operating and capital needs of NYCTA at the discretion of the Authority's Board. The MRT bonds were defeased in 2002, so there are currently no MRT bonds outstanding or contemplated. In 2003 the Authority provided NYCTA with $17.8 of MRT-1 funds.

The first $5 of the MRT-2 proceeds is transferred, to the MTA Dutchess, Orange, and Rockland Fund ($1.5 each for Dutchess and Orange counties and $2 for Rockland County). Additionally, the Authority must transfer to each County's fund an amount equal to the product of (i) the percentage by which each respective County's mortgage recording tax payments to the Authority increased over such payments in 1989 and (ii) the base amount received by each county as described above. Excess amounts transferable to the counties were $15.2 and $9.0 for 2003 and 2002, respectively. Until MRT Bonds were defeased in November 2002, remaining funds, if any, were used to pay debt service on the MRT Bonds. Unexpended funds from MRT-2 of $122.5 and $133.0 at December 31, 2003 and December 31, 2002, respectively, are available to meet capital and operating needs, including debt service, of the Commuter Railroads and NYCTA, as determined by the Authority's Board. During 2003 and 2002, the Commuter Railroads used $0, and $12.4, and NYCTA used $0 and $71.3, respectively, of MRT-2 funds to satisfy debt service requirements on the MRT bonds. Also, in 2003 the Authority distributed from the MRT-2 funds $81.5 to the Commuter Railroads and $178.6 to NYCTA for their current operations. In 2002 the Authority provided $50.0 of MRT-2 funds to TBTA. Of this amount, $17.3 was used for bond defeasance and $32.7 was used to satisfy debt service funds.

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

Dedicated Taxes
Under NYS law, subject to annual appropriation, the Authority receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund ("MTTF") and Metropolitan Mass Transportation Operating Assistance Fund ("MMTOA"). The MTTF receipts are comprised of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and nonregistration fees. MTTF receipts are applied first to meet certain debt service requirements of obligations and in the second instance are used to pay operating and capital costs. The MMTOA receipts comprise a quarter of one percent regional sales tax, a temporary regional franchise tax surcharge, a portion of taxes on certain transportation and transmission companies, and an additional portion of the business privilege tax imposed on petroleum businesses. MMTOA receipts, to the extent that MTTF receipts are not sufficient to meet debt service requirements, will also be applied to certain debt service obligations, and secondly to operating and capital costs of the NYCTA, SIRTOA, and the Commuter System.

The State Legislature enacts in an annual budget bill for each state fiscal year an appropriation to the MTA Dedicated Tax Fund for the then current state fiscal year and an appropriation of the amounts projected by the Director of the Budget of the State to be deposited in the MTA Dedicated Tax Fund for the next succeeding state fiscal year. The assistance deposited into the MTTF is required by law to be allocated, after provision for debt service on Dedicated Tax Fund Bonds (see Note 6), 85 percent to NYCTA and SIRTOA and 15 percent to the Commuter Railroads. Revenues from this funding source are recognized based upon amounts of tax reported collected by NYS, to the extent of the appropriation.

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

Interagency Subsidy–Triborough Bridge and Tunnel Authority
NYS Law requires TBTA to transfer its annual operating surplus, as defined, to NYCTA and MTA. The initial $24 of the operating surplus is provided to NYCTA and the balance, as adjusted to reflect debt service requirements of TBTA bonds issued for their respective benefit, was divided between NYCTA and MTA in their respective amounts of $178.3 and $251.8 recognized in 2003. In 2002, the amounts related to NYCTA and MTA were $103.9 and $144.2, respectively.

Certain TBTA investment income is transferred to MTA and is Board designated for use in acquiring or constructing capital assets for the Commuter Railroads and NYCTA. MTA recognized $2.3 and $14.7 in 2003 and 2002, respectively, related to the TBTA investment income transfer.

Sale of New York Coliseum
On July 31, 2000, the Authority closed on the sale of the New York Coliseum. The sale contract price was approximately $345, resulting in a gain on the sale of approximately $340. Proceeds from the sale were remitted to NYC

and are to be returned as contributions to the capital program, which NYC funds through issuance of its bonds. MTA has recorded accounts receivable due from NYC of $42 and $108 at December 31, 2003 and December 31, 2002, respectively. MTA expects to receive the remainder of these funds in 2004.

Reimbursement of Expenses

The cost of operating and maintaining the passenger stations of the Commuter Railroads in NYS is assessable by the Authority to NYC and the other counties in which such stations are located for each NYS fiscal year ending March 31, under provisions of the NYS Public Authorities Law. This funding is recognized as revenue based upon an amount, fixed by statute, for the costs to operate and maintain passenger stations and is revised annually by the increase or decrease of the regional Consumer Price Index.

NYC no longer fully reimburses NYCTA for costs of the free fare program for students. However, pursuant to an agreement with NYS and NYC, NYCTA continued the student program beginning with the 1995-1996 school year with NYS and NYC each agreeing to pay $45. It is believed NYC will continue to provide for the continuation of the City's $45 contribution for the 2003-2004 school year, of which $15 was received in December 2003. NYCTA's Adopted Budget assumes that the remaining $30 from NYC will be received in 2004. It is also assumed that the State's full $45 for the 2003-2004 school year will be received in 2004. NYCTA's 2004-2007 Financial Plan assumes the continuation of the joint funding of the free fare program for students.

Prior to April 1995, NYC was obligated to reimburse the NYCTA for the transit police force. As a result of the April 1995 merger of the transit police force into the NYC Police Department, NYC no longer reimburses NYCTA for the costs of policing the transit system on an ongoing basis since policing of the transit system is being carried out by the NYC Police Department at NYC's expense. NYCTA continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by NYC. NYCTA received approximately $4.2 in 2003 and in 2002 from NYC for the reimbursement of transit police costs.

Federal law and regulations require a paratransit system for passengers who are not able to ride the buses and trains because of their disabilities. Pursuant to an agreement between NYC and the MTA, NYCTA, effective July 1, 1993, assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. NYC reimburses NYCTA for the lesser of 33 percent of net paratransit operating expenses defined as labor, transportation and administrative costs less fare revenues and 6 percent of gross Urban Tax Subsidies or, an amount that is 20 percent greater than the amount paid by the City for the preceding calendar year. Fare revenue and NYC reimbursement aggregated approximately $36.5 in 2003 and $32.0 in 2002.

Grants and Appropriations

Grants and appropriations for capital projects are recorded when requests are submitted to the funding agencies for reimbursement of capital expenditures and beginning in 2001 were recorded as nonoperating revenues in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Recent Accounting Pronouncements

The Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosure* during the year ended December 31, 2003. The implementation of the standard resulted in new disclosure related to investment and credit risk.

The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The Authority is therefore unable to disclose the impact that adopting this statement will have on its financial position and results of operations when such statement is adopted. GASB Statement No. 42 is effective for financial statements for periods beginning after June 15, 2004 and December 15, 2004, respectively.

($ Millions)

3—Cash and Investments

Cash, including deposits in transit, consists of the following at December 31, 2003 and 2002:

	2003		2002	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	$21	$16	$54	$ 13
Uninsured and not collateralized	67	22	30	195
Total	**$88**	**$38**	**$84**	**$208**

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

The MTA, on behalf of the NYCTA, TBTA and MSBA, invests funds which are not immediately required for the Authority's operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds.

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

Investments, at fair value, consist of the following at December 31, 2003 and 2002:

	2003	2002
Repurchase agreements	$ 983	$1,086
U.S. Treasuries due 2003-2020	1,040	2,487
Government National Mortgage Association due 2004-2021	–	21
Investments restricted for capital lease obligations	2,555	2,229
Other Agencies due 2005-2011	995	221
Total	**$5,573**	**$6,044**

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

In connection with certain lease transactions described in Note 7, MTA and TBTA have purchased securities or entered into payment undertaking, letter of credit or similar type agreements or instruments (Guaranteed Investment Contracts) with financial institutions that have a credit rating of AAA by Standard and Poors, which generate sufficient proceeds to make payments under the terms of the leases. If the obligors do not perform, MTA or TBTA may have an obligation to make the related rent payments.

All investments are either insured or registered and held by the Authority or its agent in the Authority's name. Investments had weighted average yields of 1.5 percent and 2.1 percent for the years ended December 31, 2003 and December 31, 2002, respectively.

($ Millions)

Of the above cash and investments, amounts held for restricted purposes were as follows at December 31, 2003 and 2002:

	2003	2002
Construction or acquisition of capital assets	$ 1,667	$ 1,983
Funds received from affiliated agencies for investment	317	448
Debt service	444	768
Payment of claims	290	286
Restricted for capital leases	2,555	2,110
Other	130	130
Total	**$5,403**	**$5,725**

4—Employee Benefits

Substantially all of the Authority's related groups and pension plans have separately issued financial statements that are publicly available and contain descriptions and supplemental information regarding employee benefit plans. These statements may be obtained by calling the administrative office of the respective related group.

Pension Plans

The Authority sponsors and participates in a number of pension plans for its employees. These plans are not component units of the Authority and are not included in the combined financial statements.

Defined Benefit Pension Plans

Single-Employer Public Employee Retirement Systems

The Long Island Rail Road Company Pension Plan and the Long Island Rail Road Company Plan for Additional Pensions ("Additional Plan") are contributory, defined benefit pension plans that cover employees who began service with LIRR prior to January 1, 1988. Benefit provisions are established by LIRR and are based on length of qualifying service and final average compensation.

The TWU-MSBA Employees' Pension Plan ("MSBA Plan") is a contributory, defined benefit plan covering substantially all its employees who began service prior to January 23, 1983. Persons employed after that date are covered by NYS Employees' Retirement System ("NYSERS"). In 1999, the "MSBA Plan," which was administered under terms of the TWU-MSBA Employees' Pension Trust, was merged with the MTA Defined Benefit Plan and administered by the MTA.

The MaBSTOA Pension Plan is a defined benefit plan covering substantially all of its employees. This plan assigns authority to amend the plan and determine contributions to the MaBSTOA Board.

During 2003 and 2002, NYCTA made additional contributions to the MaBSTOA Plan of $114.4 and $72.0, respectively, resulting in the recognition of a pension asset in the combined balance sheets.

SIRTOA has a contributory defined benefit plan that is a single-employer public employee retirement system covering certain employees. Authority to amend the plan and to determine contributions rests with the MTA Board.

The Metropolitan Transportation Authority Defined Benefit Pension Plan ("MTA Plan"), a defined benefit pension plan for certain LIRR and MNCR management employees hired after December 31, 1987, certain MSBA employees hired prior to January 23, 1983, and MTA Police, is a cost-sharing multiple-employer retirement plan. LIRR, MNCR and MTA contribute to the MTA Plan, which offers distinct retirement, disability and death benefits for MNCR and LIRR management employees, MTA 20-year Police Retirement Plan and MSBA Employees' Pension Plan. MTA Police contribute to the MTA Plan at various rates. Annual pension costs and related information about this plan are presented in the following table for all years presented as if the plan was a single-employer plan at the MTA level. A stand-alone financial report may be obtained by writing to the MTA Comptroller, 347 Madison Avenue, New York, New York, 10017.

($ Millions)

LIRR, MNCR, MTA and MSBA recognized 2003 and 2002 pension expense based upon an assessment, which on average was 18.27 percent and 14.72 percent, respectively, of annual compensation. Also during 2003, LIRR and MNCR made additional contributions of $30 and $20 respectively, to decrease the unfunded pension liability. The MTA Plan may be amended by the action of the MTA Board.

Annual pension costs and related information about each plan follows:

	Single-Employer Plans			
	LIRR	SIRTOA	MaBSTOA	MTA Plan
Required contribution rates:				
Plan members	variable	3.00%	variable	variable
Employer:	actuarially determined	actuarially determined	actuarially determined	actuarially determined
Employer contributions made in 2003	$63.8	$ 1.6	$137.0	$27.1
Three-year trend information:				
Annual Pension Cost (APC):				
2003	$63.8	$ 1.6	$135.2	$28.2
2002	41.6	1.4	121.7	21.3
2001	34.6	1.4	114.2	16.5
Net Pension Obligation (NPO) (assets) at end of year:				
2003	(4.7)	None	58.9	(2.0)
2002	(4.7)	None	60.8	(3.1)
2001	(2.2)	None	62.6	(0.5)
Percentage of APC contributed:				
2003	100%	100%	101%	96%
2002	106%	100%	102%	103%
2001	93%	100%	102%	87%
Components of APC				
Annual required contrib. (ARC)	$63.9	$ 1.6	$137.0	$28.1
Interest on NPO	(0.4)	–	5.0	(0.2)
Adjustment of ARC	(0.3)	–	6.9	(0.3)
APC	63.8	1.6	135.1	28.2
Contributions made	63.8	1.6	137.0	27.1
Change in NPO (assets)	–	–	(1.9)	1.1
NPO (assets) beginning of year	(4.7)	–	60.8	(3.1)
NPO (assets) end of year	$ (4.7)	$ –	$ 58.9	$ (2.0)
Date of valuation	1/1/2003	1/1/2003	1/1/2003	1/1/2003
Actuarial cost method	Entry age normal	Entry age normal frozen initial liability	Entry age normal frozen initial liability	Entry age normal frozen initial liability
Method to determine actuarial value of plan assets	5-year smoothing	5-year smoothing	5-year smoothing	5-year smoothing
Investment return	8.50%	8.00%	8.25%	8.25%
Projected salary increases	4.0%	4.0% – 11.0%	3.5% – 18.0%	3.0% – 36.2%
Consumer price inflation	3.75%	2.50%	2.50%	2.50%
Amortization method and period	level dollar / 30 years	level dollar / 23 years	level dollar / 30 years	level dollar / 25 years
Period closed or open	closed	closed	closed	closed

Cost-Sharing Multiple-Employer Plans

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

Plan Description

NYCTA and TBTA contribute to the New York City Employees' Retirement System (NYCERS), a cost-sharing multiple-employer retirement system for employees of NYC and certain other governmental units. NYCERS combines features of a defined benefit pension plan with those of a defined contribution pension plan. NYCERS provides pension benefits to retired employees based on salary and length of service. In addition, NYCERS provides disability benefits, accident benefits, cost-of-living adjustments, and death benefits subject to satisfaction of certain service requirements and other provisions. The NYCERS Plan functions in accordance with existing NYS statutes and NYC laws and may be amended by action of the State Legislature. NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York City Employees' Retirement System, 335 Adams Street, Suite 2300, Brooklyn, New York 11201.

Funding Policy

NYCERS is a noncontributory plan, except for employees who entered qualifying service after July 1976, who contribute 3 percent of their salary. The State legislature passed legislation in 2000 that suspends the 3 percent contribution for employees who have 10 years or more of credited service. The NYCTA and TBTA are required to contribute at an actuarially determined rate. The contribution requirements of plan members and NYCTA and TBTA are established and amended by law. NYCTA's contributions to NYCERS for the years ended December 31, 2003, and 2002 were $68.8 and $30.7, respectively. These amounts cover NYCTA's annual required contribution for the NYCERS 2003 and 2002 fiscal years as well as a portion of the annual required contribution for the 2004 NYCERS fiscal year. These payments cover NYCTA's annual required contributions for the NYCERS 2003 and 2002 fiscal years ended June 30, as well as a portion of the annual required contribution for the 2003 NYCERS fiscal year. The remainder of the 2004 annual required contribution is expected to be paid subsequent to year-end within the NYCERS fiscal year. TBTA's contributions to NYCERS for the years ended December 31, 2003, and 2002 were $1.0, and $1.0, respectively, which were equal to or in excess of the actuary's recommendation, plus interest.

Prior to 1981, NYCTA and TBTA were required to pay NYCERS its share of the pension liability on a two-year lag basis. Due to a change in New York State law, the NYCTA and TBTA in 1981 were required to make pension liability payments on a current year basis. The amount representing the "catch-up" liability remaining was included in the consolidated balance sheets in accrued retirement and death benefits. However, in accordance with Chapter 85 of the New York State laws of 2000 (the "Laws of 2000"), enacted as part of a number of changes to actuarial assumptions and methods, this liability is no longer being funded separately as part of actuarially determined pension contributions and a liability on the part of the NYCTA and TBTA separate from its actuarially determined pension contributions no longer exists. Accordingly, the amount of the recorded catch-up liability and related receivable from the NYCTA for the portion of the catch-up liability applicable to capital project engineers was reduced to zero as of December 31, 2000, with the net effect of such elimination of $236.8 recorded as a nonoperating transaction in the consolidated statements of operations and surplus.

New York State Employees' Retirement System ("NYSERS")

Plan Description and Funding Policy

MTAHQ and MSBA employees who were hired after January 23, 1983, are members of NYSERS. NYSERS is a cost-sharing multiple-employer plan and offers a broad spectrum of benefits including retirement and disability benefits. Generally, employees contribute 3 percent of salary. In 2000, the State legislature passed legislation that suspends the 3 percent contribution of members who have 10 or more years of credited service. MTAHQ and MSBA recognize pension expense based upon annual assessments made by NYSERS. NYSERS pension expense was approximately $4.9, $1.5, and $1.2, for the years ended December 31, 2003, 2002, and 2001, respectively, and was equal to the annual required contributions for each year. Further information about the plan is more fully described in the publicly available statement of NYSERS and may be obtained by writing to New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York, 12244-0001.

($ Millions)

Defined Contribution Plans

The MTA also provides retirement benefits to certain of its employees under the following defined-contribution plans:

Single-Employer Public Employee Retirement Systems

The Long Island Rail Road Company Money Purchase Plan ("Money Purchase Plan") is a defined contribution plan that covers all employees who began service with LIRR after December 31, 1987. Employees participating in the plan contribute 3 percent of their compensation and LIRR contributes 4 percent of their compensation. The Plan is administered by the LIRR Board of Managers of Pension. The MTA Board of Directors is responsible for establishing or amending the Plan's provision and contribution requirements.

The Metro-North Commuter Railroad Company Defined Contribution Pension Plan for Agreement Employees ("Agreement Plan"), established January 1, 1988, covers union-represented employees in accordance with applicable collective bargaining agreements. Under this plan, MNCR will contribute an amount equal to 4 percent of each eligible employee's gross compensation to the plan on that employee's behalf. For employees who have 19 or more years of service, MNCR contributes 7 percent. In addition, employees may voluntarily match MNCR's contribution to the plan, on an after-tax basis. The Plan is administered by an employee of Metro-North Commuter Railroad and the Metro-North Board of Managers of Pension. The MTA Board of Directors is responsible for establishing or amending the Plan's provision and contribution requirements.

	2003		2002	
	LIRR Money Purchase Plan	**MNCR Agreement Plan**	**LIRR Money Purchase Plan**	**MNCR Agreement Plan**
Employer contributions	$10.9	$16.2	$9.6	$17.4
Employee contributions	6.7	1.2	5.9	1.2

Deferred Compensation Plans

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

Certain Authority employees are participants in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). Participation in the plan is available to all nonunion and certain other employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are solely the property of the participants; accordingly, this plan is not reflected in the accompanying combined balance sheets.

Other Post-Employment Benefits

In addition to providing pension benefits, the Authority provides healthcare, life insurance, and survivor benefits for certain retired employees and their families. These benefits are recorded on a pay-as-you-go basis. The Authority is statutorily required to provide such benefits. The cost of the benefits is shared in varying proportions by the employer and employee. The number of retirees and costs of providing the benefits by the Authority follows:

	2003		2002	
	Number of Participants (Actual)	**Cost of Benefits** (in millions)	**Number of Participants** (Actual)	**Cost of Benefits** (in millions)
MTAHQ	253	$ 1.9	204	$ 1.4
MNCR	1,506	2.7	1,421	2.3
LIRR:				
Management	730	6.5	725	5.4
Represented	4,107	19.3	3,982	13.9
NYCTA	30,846	162.6	31,350	127.9
TBTA	1,366	8.6	1,314	6.7
SIRTOA	51	0.2	40	0.2
MSBA	86	0.8	91	0.7

5—Capital Assets

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

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

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

($ Millions)

Capital assets consist of the following at December 31, 2003 and 2002:

	Balance December 31, 2001	Additions	Deletions	Balance December 31, 2002	Additions	Deletions	Balance December 31, 2003
Capital assets, not being depreciated							
Land	$ 122	$ 2	$ –	$ 124	$ –	$ –	$ 124
Construction work-in-progress	4,386	1,716	726	5,376	1,315	1,671	5,020
Total capital assets, not being depreciated	4,508	1,718	726	5,500	1,315	1,671	5,144
Capital assets, being depreciated							
Buildings and structures	8,584	693	10	9,267	815	34	10,048
Bridges and tunnels	1,169	14	–	1,183	167	–	1,350
Equipment							
Passenger cars and locomotives	5,914	1,123	111	6,926	1,127	100	7,953
Buses	1,531	42	1	1,572	166	–	1,738
Infrastructure	7,953	635	28	8,560	1,196	13	9,743
Other	5,403	621	7	6,017	755	68	6,704
Total capital assets, being depreciated	30,554	3,128	157	33,525	4,226	215	37,536
Less accumulated depreciation							
Buildings and structures	1,943	280	2	2,221	313	1	2,533
Bridges and tunnels	305	10	–	315	11	–	326
Equipment							
Passenger cars and locomotives	2,076	220	59	2,237	248	72	2,413
Buses	839	93	–	932	97	–	1,029
Infrastructure	1,939	290	13	2,216	291	7	2,500
Other	1,774	256	5	2,025	301	2	2,324
Total accumulated depreciation	8,876	1,149	79	9,946	1,261	82	11,125
Total capital assets, being depreciated, net	21,678	1,979	78	23,579	2,965	133	26,411
Capital assets, net	**$26,186**	**$3,697**	**$804**	**$29,079**	**$4,280**	**$1,804**	**$31,555**

Interest capitalized in conjunction with the construction of capital assets at December 31, 2003 and 2002 is $27 and $81, respectively.

Capital assets acquired prior to April 1982 for NYCTA were funded primarily by NYC with capital grants made available to NYCTA. NYC has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of NYCTA. Subsequent acquisitions, which are part of the MTA Capital Program, are recorded at cost by NYCTA. In certain instances, title to TBTA's real property may revert to NYC in the event TBTA determines such property is unnecessary for its corporate purpose. NYCTA scrapped 296 "redbird" subway cars and 405 cars in the year ending December 31, 2003 and the year ending December 31, 2002, respectively. Loss on disposal of capital assets of $30.7 and $58.3 were recorded for the year ended December 31, 2003 and the year ended December 31, 2002, respectively. The NYCTA concluded the fleet disposal program in 2003.

For certain construction projects, the Authority holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At December 31, 2003 and December 31, 2002 these securities totaled $56.5 and $67.3, respectively, and had a market value of $58.8 and $68.5 respectively, and are not included in these financial statements.

6—Long-Term Debt

Substantially all of the outstanding debt of MTA, TBTA and the Transit Authority was restructured during 2002 by consolidating most existing credits into four principal new credits:

- MTA Transportation Revenue Bonds,
- MTA State Service Contract Bonds,
- MTA Dedicated Tax Fund Bonds, and
- TBTA General Revenue Bonds and TBTA Subordinate Revenue Bonds.

MTA, TBTA and the NYCTA used the proceeds of bonds issued under the new resolutions, together with other available monies, to fully defease the resolutions and/or trust agreements relating to the following bonds and notes:

- MTA Transit Facilities Revenue Bonds and Bond Anticipation Notes,
- MTA Commuter Facilities Revenue Bonds and Bond Anticipation Notes,
- MTA Subordinated Commuter Facilities Revenue Bonds (Grand Central Terminal Redevelopment Project),
- New York City Transit Authority Subordinated Transit Facilities Revenue Bonds (Livingston Plaza Project),
- MTA Transit Facilities Service Contract Bonds (1982 and 1987 Resolutions),
- MTA Commuter Facilities Service Contract Bonds (1982 and 1987 Resolutions),
- MTA Dedicated Tax Fund Bonds,
- TBTA Special Obligation Bonds (1991 Resolution), and
- TBTA Beneficial Interest Certificates.

Following the defeasance of the old bonds, notes and lease obligations, approximately $1,100 in debt service reserves were released to MTA, TBTA and the NYCTA to be used primarily to finance transit and commuter rail capital projects.

In a separate transaction, on December 19, 2002, MTA defeased the MTA Excess Loss Fund Special Obligation Bonds, Series 1998.

($ Millions)

All of the net proceeds of long-term debt were used for the acquisition or construction of capital assets or to refund outstanding debt.

	December 31, 2002	Issued	Retired	Refunded	December 31, 2003
MTA:					
Transportation Revenue Bonds 2.25%-5.752% due through 2035	$ 4,968	$1,227	$ 16	$ –	$ 6,179
Transportation Revenue Bond Anticipation Notes Commercial Paper	750	420	750	–	420
State Service Contract Bonds 3.00%-5.50% due through 2031	2,395	–	–	–	2,395
Dedicated Tax Fund Bonds 3.00%-6.25% due through 2031	2,231	–	38	–	2,193
Certificates of Participation 4.40%-5.625% due through 2029	431	–	9	–	422
	10,775	1,647	813	–	11,609
Less net unamortized bond discount and premium	(537)	50	(7)	–	(480)
Total MTA	$10,238	$1,697	$806	$ –	$ 11,129
TBTA:					
General Revenue Bonds 4.00%-5.77% due through 2033	$ 4,221	$ 250	$ 1	$ –	$ 4,470
Subordinate Revenue Bonds 4.00%-5.77% due through 2032	1,706	500	19	–	2,187
	5,927	750	20	–	6,657
Less net unamortized bond discount and premium	149	10	18	–	141
Total TBTA	$ 6,076	$ 760	$ 38	$ –	$ 6,798
Combined total	$16,314	$2,457	$844	$ –	$17,927
Current portion	(45)				(214)
Long-term portion	**$16,269**				**$17,713**

MTA Transportation Revenue Refunding Bonds

As part of the Authority debt restructuring, the Authority issued in May of 2002 Transportation Revenue Refunding Bonds, Series 2002A, 2002B, 2002C, 2002D for a total amount of $3,724. In September of 2002, the Authority issued Transportation Revenue Refunding Bonds Series 2002E, in the amount of $397. These bonds were issued to refund Transit and Commuter Facilities Revenue Bonds as well as New York City Transit Authority Revenue Bonds. In November of 2002, the Authority issued Transportation Revenue Refunding Bonds, Series 2002F and Series 2002G in the amount of $446 and $400, respectively. The purpose of these bonds was to provide for the payment of a portion of certain TBTA bond anticipation notes that were issued to finance transit and commuter projects. Transportation Revenue Refunding Bonds are MTA's special obligations, payable solely from certain transit and commuter systems revenues and certain state and local operating subsidies.

MTA Transportation Revenue Bonds

In May of 2003 the Authority issued Transportation Revenue Bonds, Series 2003A in the amount of $475. The purpose of these bonds is to finance transit and commuter projects. In August of 2003, MTA issued $752 Transportation Revenue Bonds Series 2003B as long-term financing for the outstanding commercial paper program. The Transportation Revenue Bonds are MTA's special obligations, payable solely from transit and commuter systems revenues and certain state and local operating subsidies.

MTA Bond Anticipation Notes

In 2002, MTA Transit and Commuter Facilities Special Obligation Bond Anticipation Notes were reissued under the new MTA Transportation Bond Resolution. The interest rate payable on the notes depends on the maturity and market conditions at the time of issuance. At December 31, 2002, the average rate on the outstanding notes was 1.3 percent. Payment of principal and interest on the notes were additionally secured by a letter of credit issued by a bank. In August 2003, MTA issued $752 of Transportation Revenue Bonds, Series 2003B to pay at the respective maturity date all of MTA's Bond Anticipation Notes. The MTA Act requires MTA to periodically refund its commercial paper notes with bonds. As of December 31, 2003 the Bond Anticipation Notes reissued in 2002 in the amount of $750 were all paid. In October 2003, MTA issued new Bond Anticipation Notes in the amount of $420, in accordance with the terms and provisions of the General Resolution authorizing Transportation Revenue Obligations adopted on March 26, 2002. Payment of principal and interest is also secured by an irrevocable Letter of Credit issued by ABN AMRO bank.

MTA State Service Contract Bonds

In June of 2002, the Authority issued State Service Contract Refunding Bonds, Series 2002A, in the amount of $1,716 to refund outstanding service contract bonds issued by MTA. Also in June of 2002, the Authority issued State Service Contract Bonds, Series 2002B, in the amount of $679 to finance certain transit and commuter projects. The Series 2002A and 2002B are MTA's special obligations, payable solely from certain payments from the State of New York under a service contract.

MTA Dedicated Tax Fund Bonds

These bonds are payable solely from and secured by monies 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 by the State on petroleum businesses, be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund.

In 2002, the Authority as part of its debt restructuring defeased all series from 1996A to 2000A by issuing Dedicated Tax Bond Series 2002A in the amount of $1,247 and Dedicated Tax Bond Series 2002B in the amount of $440.

On March 10, 2004, the Authority issued Dedicated Tax Fund Bonds Series 2004A in the amount of $250 and Series 2004B in the amount of $500 to finance certain transit and commuter projects operated by MTA's affiliates and subsidiaries. The 2004B bonds are issued as auction rate securities.

MTA Certificates of Participation

In June 1999, the Authority issued fixed-rate Serial and Term Certificates, Series 1999A, in the amount of $328, which represent proportionate interests in the principal and interest components of Base Rent paid severally, but not jointly, in their respective proportionate shares by NYCTA, MTA, and TBTA, pursuant to a Leasehold Improvement Sublease Agreement, dated June 1, 1999. These certificates were issued to finance certain building and leasehold improvements to an office building in Manhattan, occupied by NYCTA and TBTA.

In June 2000, additional Certificates of Participation, Series 2000A, in the amount of $121 were executed and delivered to finance additional improvements at 2 Broadway (See Note 7).

TBTA General Revenue Bonds

In March 2002, TBTA issued General Purpose Revenue Bonds, Series 2002A in the amount of $268. These bonds were issued to finance certain improvements to TBTA's bridges and tunnels. In October 2002, TBTA issued General Revenue Refunding Bonds, Series 2002B in the amount of $2,157, and General Revenue Variable Rate Refunding Bonds, Series 2002C in the amount of $103. These bonds were issued to refund TBTA bonds issued under the old resolutions. In October 2002, TBTA substituted the TBTA General Revenue Bond Resolution (the Senior Resolution) for TBTA General

Purpose Revenue Bond Resolution adopted in 1980 as the resolution securing $24 General Purpose Revenue Bonds, Series EFC1996A; $1,126 General Purpose Revenue Bonds, Series 2001A; $296 General Purpose Revenue Bonds, Series 2001B and 2001C; and $268 General Purpose Revenue Bonds, Series 2002A. In November 2002, TBTA issued $246 General Revenue Refunding Bonds, Series F. These bonds were issued to refund TBTA bonds issued under the old resolutions. These series are general obligations of TBTA, payable generally from the net revenues collected on the bridges and tunnels operated by TBTA. In 2003 TBTA issued $250 General Revenue Variable Rate Bonds, Series 2003B, to finance certain improvements on bridges and tunnels.

TBTA Subordinate Revenue Bonds

In October 2002, TBTA issued $262 Subordinate Revenue Variable Rate Refunding Bonds, Series 2002D. In November 2002, TBTA issued $756 Subordinate Revenue Refunding Bonds, Series 2002E and $181 Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G. These bonds were issued to refund TBTA bonds issued under the old resolutions. In October 2002, TBTA substituted the Subordinate Revenue Resolution for the TBTA 1991 Special Obligation Bond Resolution as the resolution securing $508 Special Obligation Variable Rate Refunding Bonds (1991 Resolution) Series 2002A-D. These series are special obligations of TBTA, payable generally from the net revenues collected on the bridges and tunnels operated by TBTA after the payment of operating expenses and debt services as required by TBTA's Senior Resolution. In March 2003, TBTA issued $500 Subordinate Revenue Bonds, Series 2003A. These bonds were issued to finance transit and commuter projects, and are special obligations of TBTA, payable generally from the net revenues collected on the bridges and tunnels operated by TBTA after the payment of operating expenses and debt services as required by TBTA's Senior Resolution.

Debt Limitation

The NYS Legislature has imposed limitations on the aggregate amount of debt that the Authority and TBTA can issue to fund the approved transit and commuter capital programs. For the 1992 through 2004 Capital Programs, the imposed limitation, subject to certain exclusions, is $16,500 compared with issuances totaling approximately $8,728 at December 31, 2003.

Bond Refundings

During 2002 and as part of the Debt Restructuring, the Authority retired most of the outstanding debt of MTA, TBTA, and NYCTA with either funds available or by issuing new bonds, the proceeds of which were used to purchase U.S. Treasury obligations that were placed in irrevocable trusts. The principal and interest within the trusts will be used to repay the refunded debt. The trust account assets and the refunded debt are excluded from the consolidated balance sheets.

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

The debt refundings resulted in an economic loss of approximately $57 and an increase in future debt service cash flow of $4,283. The economic loss is defined as the present value of the increase in future debt service cash flows.

During 2003 the Authority completed escrow restructurings of the TBTA Subordinate Revenue Bonds Series 2002E, TBTA General Revenue Bonds Series 2002B, TBTA Subordinate Revenue Bonds Series 2002G, MTA Dedicated Tax Fund Bonds Series 2002A, MTA Transportation Revenue Bonds Series 2002E, and MTA Transportation Revenue Series 2002A. These restructurings resulted in a gross benefit of approximately $56.

($ Millions)

At December 31, 2003, the following amounts of Authority bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

MTA Transit and Commuter Facilities:	
Transit Facilities Revenue Bonds	$ 2,057
Commuter Facilities Revenue Bonds	1,846
Commuter Facilities Subordinate Revenue Bonds	81
Transit and Commuter Facilities Service Contract Bonds	1,057
Dedicated Tax Fund Bonds	1,455
Excess Loss Trust Fund	35
NYCTA:	
Transit Facilities Revenue Bonds (Livingston Plaza Project)	137
TBTA:	
Beneficial Interest Certificates	19
General Purpose Revenue Bonds	2,600
Special Obligation Subordinate Bonds	235
Mortgage Recording Tax Bonds	283
Total	**$9,805**

Debt Service Payments

Principal and interest debt service payments (excluding refunded bonds) at December 31, 2003, are as follows:

	MTA		TBTA				Aggregate Debt Service	
			Senior Revenue		Subordinate Revenue			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 179	$ 546	$ 39	$ 219	$ 33	$ 108	$ 251	$ 873
2005	205	538	77	217	35	106	317	861
2006	212	529	81	213	36	105	329	847
2007	218	520	78	210	38	103	334	833
2008	226	511	88	206	39	102	353	819
2009-2013	1,297	2,388	491	959	234	470	2,022	3,817
2014-2018	1,654	2,027	650	806	330	398	2,634	3,231
2019-2023	2,118	1,562	810	624	430	305	3,358	2,491
2024-2028	2,696	979	962	402	518	195	4,176	1,576
2029-2033	2,385	260	1,194	122	494	59	4,073	441
2034-2038	–	–	–	–	–	–	–	–
	$11,190	**$ 9,860**	**$ 4,470**	**$ 3,978**	**$ 2,187**	**$ 1,951**	**$17,847**	**$15,789**

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

Dedicated Tax Fund, Series 2002B – 4.06% per annum until 09/01/2013 based on the interest rate swap and 4.00% per annum thereafter

Transportation Revenue Refunding Bonds, Series 2002B – 4.00% per annum

Transportation Revenue Refunding Bonds, Series 2002C – 4.50% per annum

Transportation Revenue Refunding Bonds, Series 2002D – 4.00% per annum and including net payments made by MTA under the swap agreements

Transportation Revenue Refunding Bonds, Series 2002G – 4.00% per annum

TBTA Subordinate Refunding Bonds, Series 2000A and 2000B – 4.00% per annum and including net payments made by TBTA under the swap agreements

TBTA General Revenue Refunding Bonds, Series 2002C – 4.00% per annum and including net payments made by TBTA under the swap agreements

TBTA General Revenue Refunding Bonds, Series 2002D – 4.00% per annum

TBTA General Revenue Refunding Bonds, Series 2002F – 4.00% per annum

TBTA General Revenue Refunding Bonds, Series 2002G – 4.00% per annum

Tax Rebate Liability

Under the Internal Revenue Code of 1986, the Authority accrues a liability for an amount of rebatable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. The arbitrage liability is payable to the federal government every five years and is reported as part of other long-term liabilities. At December 31, 2003, the Authority recorded a rebate liability amounting to $4.1.

Swap Agreements

Board-Adopted Guidelines

The Related Group adopted guidelines with respect to the use of swap contracts to manage the interest rate exposure of their debt. The Guidelines establish specific requirements that must be satisfied for a Related Entity to enter into a swap contract.

Objectives of the Swaps

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

Activity During the Period

- In an effort to hedge against rising interest rates, on April 17, 2003, MTA entered into the following two forward hedges with an effective date of October 7, 2003 in connection with the expected issuance of approximately $750 in Transportation Revenue Bonds to provide long-term financing for MTA's commercial paper program:
  - — $336.3 notional amount with Lehman Brothers Special Financing Inc., and
  - — $224.2 notional amount with Bear Stearns Capital Markets Inc.

On July 23, 2003, MTA terminated the Lehman hedge and the Bear Stearns hedge in return for payments to MTA of $1.1 and $0.7, respectively. At the same time, MTA entered into new hedges with Lehman and Bear Stearns in the same notional amounts with an effective date of May 15, 2004 in order to hedge against rising interest rates in connection with the expected issuance in 2004 of approximately $750 of Transportation Revenue Bonds to finance transit and commuter projects. The terms of the new hedges are reflected in the tables below.

- In an effort to hedge against rising interest rates, on May 29, 2003, TBTA entered into a forward hedge in the notional amount of $370.7 with Lehman Brothers Special Financing Inc. with an effective date of January 1, 2004 in connection with the expected issuance of approximately $500 in General Revenue Bonds to finance TBTA's Facilities.

Due to favorable market conditions, on July 23, 2003, TBTA terminated the Lehman hedge in return for a payment to TBTA of $16.4.

Fair Value

Relevant interest rates were lower on December 31, 2003 (the valuation date) than they were on the effective date of the swaps. Consequently, as of the valuation date, all of the swaps had negative fair values and MTA and TBTA were not exposed to the credit risk of the counterparties. However, should interest rates change and the fair values of the swaps become positive, MTA and TBTA would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value.

The fair values listed in the following tables represent the theoretical cost to the defaulting party to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bond due on the date of each future net settlement on the swap. In the event both parties continue to perform their obligations under the swap, there is not a risk of termination and neither party is required to make a termination payment to the other. Neither MTA nor TBTA is aware of any event that would lead to a termination event with respect to any of their swaps. See *"Termination Risk"* below.

Terms and Fair Values

The terms, fair values and counterparties of the outstanding swaps of MTA and TBTA are as follows:

	MTA						
Associated Bond Issue	**Notional Amounts as of 12/31/03 (in millions)**	**Effective Date**	**Fixed Rate Paid**	**Variable Rate Received**	**Fair Values as of 12/31/03 (in millions)**	**Swap Termination Date**	**Counterparty**
Dedicated Tax Fund Variable Rate Bonds, Series 2002B	$ 440.000	09/05/02	4.06%	Actual bond rate until 04/30/10, and thereafter, BMA(1)	$(18.6)	09/01/13	Morgan Stanley Capital Services Inc.
Transportation Revenue Variable Rate Refunding Bonds, Series 2002B	210.500	05/30/02	2.565	BMA	(.3)	01/01/04	Bear Stearns Capital Markets Inc.
Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1	200.000	05/30/02	3.385	BMA	(6.5)	01/01/06	Bear Stearns Capital Markets Inc.
Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2	200.000	05/30/02	3.627	BMA	(8.3)	01/01/07	Bear Stearns Capital Markets Inc.
Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2	200.000	01/01/07	4.45	69% of one-month LIBOR(2)	(9.7)	11/01/32	Bear Stearns Capital Markets Inc.
Proposed Issuance of Transportation Revenue Bonds	336.280	05/15/04	3.605	67% of one-month LIBOR	(1.8)	11/15/32	Lehman Brothers Special Financing Inc.
Proposed Issuance of Transportation Revenue Bonds	224.190	05/15/04	3.605	67% of one-month LIBOR	(1.3)	11/15/32	Bear Stearns Capital Markets Inc.
Total	$1,810.970				$(46.5)		

(1) The Bond Market Association Municipal Swap Index™.
(2) London Interbank Offered Rate.

	TBTA						
Associated Bond Issue	**Notional Amounts as of 12/31/03 (in millions)**	**Effective Date**	**Fixed Rate Paid**	**Variable Rate Received**	**Fair Values as of 12/31/03 (in millions)**	**Swap Termination Date**	**Counterparty**
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B[(3)]	$234.800	01/01/01	6.08%	Actual bond rate	$ (50.8)	01/01/19	Bear Stearns Capital Markets Inc.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D[(3)]	234.800	01/01/01	6.07	Actual bond rate	(48.8)	01/01/19	Citigroup Financial Products Inc.
General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C[(4)]	296.200	01/01/02	5.777	Actual bond rate	(49.1)	01/01/19	Citigroup Financial Products Inc.
General Revenue Variable Rate Refunding Bonds, Series 2002C[(5)]	93.900	01/01/00	5.634	Actual bond rate	(15.2)	01/01/13	Ambac Financial Services, L.P.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-1	90.500	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(1.4)	01/01/18	JPMorgan Chase Bank
Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-2	90.525	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(1.6)	01/01/18	JPMorgan Chase Bank
Total	$1,040.725				$(166.8)		

(3) In accordance with a swaption entered into August 12, 1998 with each Counterparty paying a premium of $22,740,000.
(4) In accordance with a swaption entered into February 24, 1999 with each Counterparty paying a premium of $19,204,000.
(5) In accordance with a swaption entered into February 24, 1999 with each Counterparty paying a premium of $8,400,000.

The current ratings of the counterparties, or their credit support providers, are as follows:

	Ratings of the Counterparty or its Credit Support Provider		
Counterparty	**S&P**	**Moody's**	**Fitch**
Ambac Financial Services, L.P.	AAA	Aaa	AAA
Bear Stearns Capital Markets Inc.	A	A1	A+
Citigroup Financial Products Inc.	AA-	Aa1	AA+
JPMorgan Chase Bank	AA-	Aa3	
Lehman Brothers Special Financing Inc.	A	A1	A+
Morgan Stanley Capital Services Inc.	A+	Aa3	AA-

Except as set forth below, the notional amounts of the swaps match the principal amounts of the associated bonds. The following table sets forth the notional amounts and the outstanding principal amounts as of December 31, 2003, for those swaps where the notional amounts do not match the outstanding principal amounts of the associated bonds.

Associated Bond Issue	Principal Amount of Bonds (in millions)	Notional Amount (in millions)
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	$244.3	$234.8
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	244.2	234.8
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	296.4	296.2
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	103.3	93.9

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

Risks Associated with the Swap Agreements

From MTA's and TBTA's perspective, the following risks are generally associated with swap agreements:

- ***Credit Risk*** – The counterparty becomes insolvent or is otherwise not be able to perform its financial obligations. In the event of a deterioration in the credit ratings of the counterparty or MTA/TBTA, the swap agreement may require that collateral be posted to secure the party's obligations under the swap agreement. See *"Collateralization"* below.
- ***Basis Risk*** – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA or TBTA on the associated bonds are not the same. If the counterparty's rate under the swap is lower than the bond interest rate, then the counterparty's payment under the swap agreement does not fully reimburse MTA or TBTA for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty's rate on the swap, there is a net benefit to MTA or TBTA.
- ***Termination Risk*** – The swap agreement will be terminated and MTA or TBTA will be required to make a large termination payment to the counterparty.
- ***Rollover Risk*** – The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds, and MTA or TBTA may be exposed to then market rates and cease to get the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk

The following table shows the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA and/or TBTA. The notional amount totals below include both Bear Stearns swaps relating to the Transportation Revenue Bonds, Series 2002D-2 (one of which swaps terminates on January 1, 2007, which is the effective date of the other swap) and both the Lehman and Bear Stearns hedges that become effective on May 15, 2004. The counterparties have the ratings set forth above.

Counterparty	Notional Amount (in millions)	% of Total Notional Amount
Bear Stearns Capital Markets Inc.	$1,269.5	44.5%
Citigroup Financial Products Inc.	531.0	18.6
Morgan Stanley Capital Services Inc.	440.0	15.4
Lehman Brothers Special Financing Inc.	336.3	11.8
JPMorgan Chase Bank	181.0	6.3
Ambac Financial Services, L.P.	93.9	3.3
Total	**$2,851.7**	

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

- Bear Stearns Capital Markets Inc. with respect to the TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B,
- Citigroup Financial Products Inc. with respect to the TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D,
- Citigroup Financial Products Inc. with respect to the TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C, and
- Ambac Financial Services, L.P. (though there is only one transaction outstanding under that Master Agreement).

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

Collateralization

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

($ Millions)

The following table sets forth the ratings criteria and threshold amounts relating to the posting of collateral set forth for MTA or TBTA, as the case may be, and the counterparty for each swap agreement.

MTA

Associated Bond Issue	Counterparty	If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	Morgan Stanley Capital Services Inc.	Fitch – BBB+, or S&P – BBB+	$10,000,000
		Fitch – BBB and below or unrated, or S&P – BBB and below or unrated	$0
MTA Transportation Revenue Variable Rate Refunding Bonds – Series 2002B and Series 2002D-2	Bear Stearns Capital Markets Inc.	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10,000,000
		Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	$0
MTA May 15, 2004 Hedge – Transportation Revenue Bonds	Lehman Brothers Special Financing Inc.	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10,000,000
		Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	$0
MTA May 15, 2004 Hedge – Transportation Revenue Bonds	Bear Stearns Capital Markets Inc.	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10,000,000
		Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	$0

($ Millions)

TBTA

Associated Bond Issue	Counterparty	If the highest rating of the related TBTA bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	Bear Stearns Capital Markets Inc.	N/A – Because TBTA's swap payments are insured, TBTA is not required to post collateral, but Bear Stearns is required to post collateral if its estimated termination payments are in excess of $1,000,000.	
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	Citigroup Financial Products Inc.	N/A – Because TBTA's swap payments are insured, TBTA is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of $1,000,000.	
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	Citigroup Financial Products Inc.	N/A – Because TBTA's swap payments are insured, TBTA is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of $1,000,000.	
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	Ambac Financial Services, L.P.	N/A – Because TBTA's swap payments are insured, TBTA is not required to post collateral, but Ambac is required to post collateral if its estimated termination payments are in excess of $1,000,000.	
TBTA Subordinate Revenue Variable Rate Refunding Bonds – Series 2002G-1 and Series 2002G	JPMorgan Chase Bank	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10,000,000
		Fitch – Below BBB+, Moody's – Below Baa1, or S&P – Below BBB+	$0

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

Basis Risk

For those swaps for which MTA and TBTA receive a variable-rate payment other than the actual bond rate, such as if the interest rate is based on BMA or LIBOR, MTA and TBTA are exposed to basis risk to the extent that the rate based on BMA or LIBOR is less than the actual bond rate for any given period. To the extent that the rate based on BMA or LIBOR is greater than the actual bond rate for any given period, there is a benefit to MTA and/or TBTA.

Termination Risk

Any party to the swap may terminate the swap if the other party fails to perform under the terms of the contract. If any swap is terminated, the associated variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, MTA or TBTA could be liable to the counterparty for a payment equal to the swap's fair value. Neither MTA nor TBTA is aware of any event that would lead to a termination event with respect to any of their swaps.

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

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

The following table sets forth, for each swap, the additional termination events for the following associated bond issues.

MTA

Associated Bond Issue	Counterparty	Additional Termination Events
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	Morgan Stanley Capital Services Inc.	1. The ratings by S&P and Fitch of the Counterparty or the MTA Dedicated Tax Fund Bonds falls below "BBB-" or are withdrawn.
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002B	Bear Stearns Capital Markets Inc.	1. The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3", respectively, or are withdrawn.
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1	Bear Stearns Capital Markets Inc.	1. The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3", respectively, or are withdrawn.
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2	Bear Stearns Capital Markets Inc.	1. The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3", respectively, or are withdrawn.
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2	Bear Stearns Capital Markets Inc.	1. The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3", respectively, or are withdrawn.
MTA May 15, 2004 Hedge – Transportation Revenue Bonds	Lehman Brothers Special Financing Inc.	1. The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3", respectively, or are withdrawn.
MTA May 15, 2004 Hedge – Transportation Revenue Bonds	Bear Stearns Capital Markets Inc.	1. The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3", respectively, or are withdrawn.

($ Millions)

TBTA

Associated Bond Issue	Counterparty	Additional Termination Events
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	Bear Stearns Capital Markets Inc.	1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2000A and 2000B Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, *or* TBTA redeems a portion of the Series 2000A or 2000B Bonds and demonstrates its ability to make the termination payments. Note: The TBTA swap payments are insured by Financial Security Assurance Inc., so there is no ratings downgrade or withdrawal termination.
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	Citigroup Financial Products Inc.	1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2000A and 2000B Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, *or* TBTA redeems a portion of the Series 2000A or 2000B Bonds and demonstrates its ability to make the termination payments. Note: The TBTA swap payments are insured by Financial Security Assurance Inc., so there is no ratings downgrade or withdrawal termination.
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	Citigroup Financial Products Inc.	1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2000A and 2000B Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, *or* TBTA redeems a portion of the Series 2000A or 2000B Bonds and demonstrates its ability to make the termination payments. Note: The TBTA swap payments are insured by Ambac Assurance Corporation, so there is no ratings downgrade or withdrawal termination.
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	Ambac Financial Services, L.P.	1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2000A and 2000B Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, *or* TBTA redeems a portion of the Series 2000A or 2000B Bonds and demonstrates its ability to make the termination payments. Note: The TBTA swap payments are insured by Ambac Assurance Corporation, so there is no ratings downgrade or withdrawal termination.
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-1	JPMorgan Chase Bank	1. TBTA may terminate the swap at no cost on or after December 29, 2010.
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G	JPMorgan Chase Bank	1. TBTA may terminate the swap at no cost on or after January 5, 2011.

($ Millions)

Rollover Risk

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

Associated Bond Issue	Bond Maturity Date	Swap Termination Date
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	01/01/32	01/01/19
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	11/01/22	09/01/13
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002B	11/01/22	01/01/04
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1	11/01/29	01/01/06
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	01/01/33	01/01/13
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G[(1)]	11/01/32	01/01/18

It should also be noted that, in connection with the TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A, 2000B, 2000C and 2000D, currently, all of the principal of the bonds is scheduled to be amortized through sinking fund redemption payments by the time of the swap's termination; however, TBTA has retained the right to readjust the sinking fund payments to decrease the amounts of the sinking fund payments currently scheduled and to extend the amortization period of the Series 2000A-D Bonds to January 1, 2031. A readjustment of the sinking fund payments would not change the scheduled decreases in notional amounts of the associated swap. As a result, the principal amount of the bonds outstanding would exceed the notional amount of the associated swap. However, if TBTA decided to readjust the sinking fund schedules, TBTA would be exposed to rollover risk at the swap termination date. TBTA could readjust such sinking fund redemption schedules only upon delivery of an opinion of nationally recognized bond counsel meeting the conditions of the bond resolutions. TBTA has no current intention of exercising these rights.

Swap Payments and Associated Debt

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

- Beginning in 2004, it was assumed that the variable-rate bonds would bear interest at a rate of 4.0% per annum.
- The net swap payments were calculated using the actual fixed interest rate on the swap agreements.

(1) The swap relating to the Subseries 2002G-1 Bonds in the notional amount of $90,500,000 may be terminated at the option of TBTA on or after December 29, 2010, and the swap relating to the Subseries 2002G-2 Bonds in the notional amount of $90,525,000 may be terminated at the option of TBTA on or after January 5, 2011.

	MTA (in millions)			
	Variable-Rate Bonds			
Fiscal Year Ending December 31	Principal	Interest	Net Swap Payments	Total
2004	$ –	$ 34.0	$ 4.6	$ 38.6
2005	–	42.2	(1.7)	40.5
2006	–	42.3	(0.5)	41.9
2007	–	42.1	1.2	43.3
2008	–	42.1	1.2	43.3
2009-2013	9.0	210.6	5.7	225.3
2014-2018	274.0	185.9	4.5	464.4
2019-2023	435.8	113.0	4.5	553.3
2024-2028	125.3	56.0	4.5	185.8
2029-2033	206.4	24.4	2.7	233.5

	TBTA (in millions)			
	Variable-Rate Bonds			
Fiscal Year Ending December 31	Principal	Interest	Net Swap Payments	Total
2004	$ 19.9	$ 35.2	$21.9	$ 77.0
2005	20.8	41.3	14.4	76.5
2006	22.1	40.3	13.5	75.9
2007	23.5	39.1	12.6	75.2
2008	31.3	38.6	11.5	81.3
2009-2013	194.3	168.8	44.8	407.9
2014-2018	295.6	118.3	12.3	426.2
2019-2023	143.3	76.6	–	219.9
2024-2028	164.4	46.9	–	211.3
2029-2033	154.0	11.7	–	165.7

7—Lease Transactions

Hillside Facility

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

Under the terms of the lease/leaseback agreement, the Authority initially received $314, which was utilized as follows. The Authority paid $266 to an affiliate of the third party's lender, which has the obligation to make a portion of sublease rent payments equal to this amount, thereby eliminating the need for the Authority to make these payments to the third party. The Authority used $21 to purchase Treasury securities, which it deposited under pledge to the third party. This deposit, together with the aforementioned obligation of the third party's lender, resulted in a financial defeasance of all sublease obligations, including the cost of purchasing the third party's remaining rights at the end of the 22-year sublease period, if the purchase option is exercised. A further $.6 was used to pay for legal and other costs of the transaction, and $3 was used to pay the first rental payment under the sublease. A further $23 is the Authority's net benefit from the transaction, representing consideration for the tax benefits. TBTA has entered into a guarantee with the third party that the sublease payments will be made. At December 31, 2003, the Authority has recorded a long-term capital obligation and capital asset of $282 arising from the transaction.

Subway and Rail Cars

On December 12, 1997, the Authority entered into lease/leaseback transactions whereby the Authority leased certain of MNCR's rail cars to a third party and NYCTA leased certain subway maintenance cars to the same third party. The lease periods for MNCR's rail cars expire between 2009 and 2014, depending on the asset, and the lease period for NYCTA's subway maintenance cars expires in 2013. The third party has the right to renew the lease for an additional period of 12 years for MNCR cars, depending on the asset, and a further 12 years for NYCTA's subway maintenance cars. The cars were subsequently subleased back to the Authority as a capital lease, and sub-subleased by the Authority to MNCR and NYCTA, respectively.

Under the terms of the lease/leaseback agreement, the Authority initially received $76.6, which was utilized as follows: the Authority paid $59.8 to an affiliate of the third party's lender, which has the obligation to make a portion of sublease rent payments equal to this amount, thereby eliminating the need for the Authority to make these payments to the third party. The Authority used $12.5 to purchase a Letter of Credit from an affiliate of the third party's lender, guaranteed by the third party lender's parent. This payment, together with the aforementioned obligation of the third party's lender, is sufficient to settle all obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the purchase options are exercised. At December 31, 2003, the Authority has recorded a long-term capital obligation and capital asset of $51 arising from the transaction. The net proceeds are deferred and amortized to operations over the period of the lease.

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

Under the terms of the sale/leaseback agreements, the Authority initially received $1,514.9, which was utilized as follows: the Authority paid $1,058.6 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to make a portion of the lease rent payment equal to the debt service on the related loans, thereby eliminating the need for MTAHQ to make these payments to the third parties. The Authority also purchased Freddie Mac, FNMA and U.S. Treasury debt securities in amounts and with maturities, which are sufficient, to make the lease rent payments equal to the debt service on the loans from the other lenders to the third parties. In the case of one of the four leases, MTAHQ also purchased Freddie Mac debt securities in amounts and with maturities which are expected to be sufficient to pay the remainder of the lease rent payments under that lease and the purchase price due upon exercise by the Authority of the purchase option if exercised. In the case of the other three leases, the Authority entered into Equity Payment Agreements with Premier International Funding Co. (which are guaranteed by Financial Security Assurance, Inc.) whereby that entity has the obligation to provide to the Authority the amounts necessary to make the remainder of the basic lease rent payments under the leases and to pay the purchase price due upon exercise by the Authority of the purchase options if exercised. The amount remaining after payment of transaction expenses, $96.2, was the Authority's net benefit from these four transactions. These amounts are deferred and amortized to operations over the period of the lease.

During 1995, TBTA entered into a sale/leaseback transaction with a third party whereby the TBTA sold certain subway cars, which were contributed by the NYCTA, for net proceeds of $84.2. These cars were subsequently leased back by the TBTA under a capital lease. The deferred credit of $34.2 was netted against the carrying value of the leased assets, and the assets were recontributed to the NYCTA. TBTA transferred $5.5 to the Authority, representing the net economic benefit of the transaction. The remaining proceeds, equal to the net present value of the lease obligation, of which $71.3 was placed in an irrevocable deposit account and $7.5 was invested in U.S. Treasury Strips. The estimated yields and maturities of the deposit account and the Treasury Strips are expected to be sufficient to meet all obligations under the lease as they become due. The capital lease obligation is included in other long-term liabilities. At the end of the lease term, TBTA has the option to purchase the subway cars for approximately $106 which amount has been reflected in the net present value of the lease obligation, or to make a lease termination payment of approximately $89.

QTE Lease Transactions

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

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

On June 3, 2003, the Authority entered into a sale/leaseback transaction whereby NYCTA transferred ownership of certain NYCTA subway cars to the Authority, the Authority sold those cars to a third party, and the Authority leased those cars back from such third party. The Authority subleased the cars to NYCTA. The lease expires in 2033. At the lease expiration, the Authority has the option of either exercising a fixed price purchase option for the cars or returning the cars to the third-party owner.

Under the terms of the sale/leaseback agreement, the Authority initially received $168.1 million, which was utilized as follows: the Authority paid $126.3 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to make a portion of the lease rent payment equal to the debt service on the related loan, thereby eliminating the need for MTAHQ to make these payments to third parties. The Authority also purchased FNMA and U.S. Treasury securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lender to the third party and to pay the remainder of the rent under that lease and the purchase price due upon exercise by the Authority of the purchase option if exercised. The amount remaining after payment of transaction expenses, $7.4, was the Authority's benefit from the transaction.

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

Under the terms of the sale/leaseback agreements, MTA initially received $294, which was utilized as follows. In the case of one of the leases, MTA paid $97 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to make a portion of the lease rent payment equal to the debt service on the related loan, thereby eliminating the need for MTA to make these payments to the third party. In the case of the other lease, MTA purchased U.S. Treasury debt securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loan from the other lender to the third party. In the case of both of the leases, MTA also purchased REFCO debt securities that mature in 2030 under an agreement with AIG Matched

($ Millions)

Funding Corp. (guaranteed by American International Group, Inc.) whereby AIG Matched Funding Corp. receives the proceeds from the REFCO debt securities at maturity and is obligated to pay the remainder of the lease rent payments under those leases and the purchase price due upon exercise by MTA of the purchase options if exercised. The amount remaining after payment of transaction expenses, $24, was MTA's net benefit from these two transactions. These amounts are deferred and amortized to operations over the period of the respective leases.

Other Lease Transactions

On July 29, 1998, the MTAHQ, NYCTA and TBTA entered into a lease and related agreements whereby each agency, as sublessees, will rent, for an initial stated term of approximately 50 years, an office building at 2 Broadway in lower Manhattan. The lease term expires on July 30, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. The lease comprises both operating (for the lease of land) and capital (for the lease of the building) elements. The total annual rental payments over the initial lease term are $1,602 with rent being abated from the commencement date through June 30, 1999. During 2002 and 2001 the Authority made rent payments of $21. In connection with the renovation of the building and for tenant improvements, the Authority issued $121 and $328 in 2000 and 1999, respectively, of long-term obligations (see Note 6). The office building is principally occupied by NYCTA and TBTA.

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

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

Total rent expense under operating leases approximated $42 in 2003 and $14 in 2002.

At December 31, 2003, the future minimum lease payments under noncancellable leases are as follows:

Year	Operating	Capital
2004	$ 24	$ 255
2005	23	149
2006	23	187
2007	22	1,150
2008	21	101
2009-2013	85	798
2014-2018	69	396
2019-2023	60	703
2024-2028	57	269
2029-2033	46	1,099
Thereafter	471	1,200
	$901	6,307
Amount representing interest		(3,576)
Present value of capital lease obligations		**$2,731**

($ Millions)

8—Estimated Liability Arising from Injuries to Persons

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2003 and 2002 is presented below:

	2003	2002
Balance, beginning of year	$ 949	$ 890
Activity during the year:		
Current year claims and		
changes in estimates	253	192
Claims paid	(153)	(133)
Balance, end of period	1,049	949
Less current portion	(160)	(153)
Long-term liability	**$ 889**	**$ 796**

9—Commitments and Contingencies

The Authority actively monitors its properties for the presence of pollutants and/or hazardous wastes and evaluates its exposure with respect to such matters. When the expense, if any, to clean up pollutants and/or hazardous wastes is estimable, it is accrued by the Authority. Management has reviewed with counsel all actions and proceedings pending against or involving the Authority, including personal injury claims. Although the ultimate outcome of such actions and proceedings cannot be predicted with certainty at this time, management believes that losses, if any, in excess of amounts accrued resulting from those actions will not be material to the financial position, results of operations or cash flows of the Authority.

A Federal appellate court has upheld a District Court opinion that the Authority is a common carrier under the Federal Employers' Liability Act ("FELA") and therefore, an Authority police officer involved in a car accident while on duty may seek recovery for damages based upon his alleged personal injuries pursuant to FELA. The court limited its holding to the Authority's employees and expressly excluded employees who provide local transportation services and those who operate bridges and tunnels. The Authority has filed a petition for a Rehearing In Banc, which was denied. The Authority has filed a petition for certiorari to the Supreme Court of the United States. The Authority cannot determine the probable outcome of the litigation, but if the police officer's position prevails, and the holding is extended to those similarly situated, the Authority's liability could be significant.

On December 30, 1996, MTAHQ, LIRR and MSBA entered into a Funding Agreement ("First Nassau County Agreement") with the County of Nassau (the "County"). Pursuant to the First Nassau County Agreement, MTAHQ agreed to make a grant transfer of $51 to the County, after certain conditions were met by the County. In exchange, the County would make project contributions to MTAHQ equal to two times the amount of the grant transfer, provided that the aggregate amount of project contributions does not exceed $102. At December 31, 1997, $51 had been paid to the County as a grant and was recorded by MTAHQ as a receivable against future project contributions. At December 31, 2002, MTAHQ had requisitioned $90 and had received $81 from the County for reimbursement of project costs incurred. A second Funding Agreement ("Second Nassau County Agreement") with the County containing substantially the same terms was entered into by MTAHQ and LIRR on May 1, 1999. Pursuant to the Second Nassau County Agreement, MTAHQ made a grant transfer of $70 to the County and, in exchange, the County made project contributions in 1991 of $140 to MTAHQ.

Pursuant to a Memorandum of Understanding ("MOU") dated May 20, 1996, by and among MTAHQ, NYCTA and NYC, NYCTA was authorized, and made grant transfers to NYC, totaling $250 through 1997. In exchange, NYC agreed to pay $500 from its capital budget to fund NYCTA's capital program. The intent of the MOU was to provide additional capital funding to the NYCTA, which did not require the issuance of bonds supported by NYCTA revenues, including fare receipts. MTAHQ treats the first $250 as a receivable due from NYC and the second $250 as contributed capital. As of December 31, 2002, NYC had made capital payments totaling $445, thereby reducing the receivable due from NYC in the consolidated balance sheets to $0 and recognizing the additional $195 as contributed capital.

On March 31, 1995, the MTA Board agreed to a merger of the transit police with the New York City Police Department, in accordance with a memorandum of understanding between NYCTA and NYC. Pursuant to the terms of the merger, NYCTA's operation of the transit police and NYC's obligation to reimburse the cost of operating the transit police terminated effective April 2, 1995. NYC has assumed the liability for substantially all past and future costs associated with operating the transit police, including all future pension costs. NYCTA has asserted a claim of approximately $92 against NYC relating to reimbursement of costs incurred in the operation of the transit police. NYCTA claims that NYC underpaid these amounts in the period from 1988 through December 1994. In January 1995, NYCTA filed a demand for arbitration pursuant to the lease governing the overall relationship between NYCTA and NYC to pursue, among other matters, payment of these arrearages. The arbitration matter has been held in abeyance while NYC, NYCTA, and the Authority explore the possibility of an amicable resolution.

In 1990, a fire occurred in a subway tunnel operated by NYCTA resulting in passenger injuries on a subway train passing through that tunnel. In 1991, a subway train operated by NYCTA derailed at Union Square resulting in injuries to passengers who were aboard the train. While the ultimate loss from each of these events has exceeded NYCTA's retention limit, thereby resulting in a liability to the ELF, there are few remaining cases. A verdict has been reached in a 1993 subway accident case. The verdict will require a payment from ELF in the amount of $4. The amount was paid in November 2003 by ELF before its termination and transferring of the assets to FMTAC.

The Authority previously reported that its lease of new office space at 2 Broadway has resulted in civil litigation between the Authority and the owner/landlord of 2 Broadway in the Supreme Court of New York, New York County (the "Supreme Court action"), asking for declaratory, injunctive and monetary relief as a result of the landlord's defective performance and interference with the reconstruction and refurbishment of the base, core and shell of the building (the "Base Building Work"). In turn, the landlord commenced a nonpayment of rent proceeding in the Civil Court of New York City, New York County (the "Civil Court action"), seeking to collect rent withheld by the Authority to cover the costs of the Base Building Work, which was being financed by the Authority. The Civil Court action has been stayed pending adjudication of the Supreme Court action, on the condition that the Authority pay use and occupancy rent. On May 22, 2000, the Supreme Court granted the Authority's request for a preliminary injunction enjoining the defendants from taking any action to interfere with the Base Building Work, evict the Authority, or terminate the Authority's tenancy, pending the outcome of the case. On January 16, 2001, the Appellate Division modified the May 22, 2000 order to condition the injunction on the Authority's payment of use and occupancy rent, from that day forward. On November 22, 2002, the Court granted in part the Authority's motion for summary judgment and referred the determination of the full amount of the Base Building Work budget to a judicial referee. On November 4, 2003, the parties to this dispute entered into a Settlement Agreement that resolves all the issues in both lawsuits on terms that are acceptable to the Authority and which will not have a negative impact on its budget for the development of the property. The lawsuits have both been dismissed.

($ Millions)

10—Segment Information

	MTA	*Commuters	Transit	Bridges and Tunnels	Eliminations	Total
2003						
Operating revenue	$ 85	$ 825	$ 2,581	$ 1,069	$ (37)	$ 4,523
Depreciation and amortization	26	339	829	41	–	1,235
Subsidies and grants	220	–	318	–	(159)	379
Tax revenue	1,627	–	1,146	–	(757)	2,016
Interagency subsidy	432	–	243	(1,267)	592	–
Operating (deficit) surplus	(356)	(996)	(2,385)	699	–	(3,038)
Net (deficit) surplus	(590)	579	1,451	(789)	–	651
Capital expenditures	3,663	237	746	1,094	(1,905)	3,835
Total assets	9,735	8,408	22,661	3,304	(1,574)	42,534
Net working capital	801	(39)	26	(105)	(193)	490
Long-term debt	10,987	–	–	6,768	(42)	17,713
Net assets	(6,187)	7,257	20,488	(4,045)	–	17,513
2002						
Operating revenue	$ 81	$ 740	$ 2,330	$ 939	$ (37)	$ 4,053
Depreciation and amortization	26	312	761	36	–	1,135
Subsidies and grants	111	–	318	–	–	429
Tax revenue	634	–	1,034	–	–	1,668
Interagency subsidy	163	–	100	(263)	–	–
Operating (deficit) surplus	(252)	(980)	(2,310)	603	–	(2,939)
Net (deficit) surplus	(6,265)	502	6,066	57	–	360
Capital expenditures	4,313	251	734	263	(1,073)	4,488
Total assets	9,622	7,751	21,093	3,536	(2,234)	39,768
Net working capital	1,166	(70)	(120)	119	(324)	771
Long-term debt	10,214	–	6,097	–	(42)	16,269
Net assets	(5,598)	6,678	19,037	(3,255)	–	16,862

**Includes the amounts for MTAHQ, MSBA, SIRTOA, FMTAC and ELF.*
NOTE: Only MTA and Bridges and Tunnels agencies are issuing debt.

11—Settlement of Claims

The September 11, 2001 terrorist attack on the World Trade Center in New York resulted in the following significant items: (1) significant physical and structural damage to NYCTA's N, R, 1 and 9 lines and related facilities and stations; (2) temporary closure of TBTA's bridges and tunnels, not all facilities, and certain restrictions imposed on the number of vehicle occupants when the facilities were reopened; (3) safety and security expenditures in and around the World Trade Center; and (4) temporary closure of MNCR's Grand Central Terminal and LIRR's Pennsylvania Station.

In April 2004, the Authority settled its claims with its property insurance carriers for damage caused as a result of the September 11, 2001 terrorist attack. The global settlement in the amount of $398 represents the settlement of claims for losses related to physical damage of property, loss of revenues, increased operating expenses, and other expenses related to the clean-up of its facilities caused by the attack.

On November 4, 2003, MTA entered into agreement to end the litigation between the Authority and the owners of the 2 Broadway facilities. The settlement provides a $45 rent credit to the Authority over a 30-year period commencing January 1, 2004.

12—Subsequent Events

On March 10, 2004, MTA issued its MTA Dedicated Tax Fund Bonds, Series 2004A in the aggregate principal amount of $250 and MTA Dedicated Tax Fund Variable Rate Bonds, Series 2004B (Auction Rate Securities) in the aggregate principal amount of $500 to provide long-term financing for transit and commuter capital projects.

Required Supplementary Information: Schedule of Pension Funding Progress

Unaudited
($ Millions)

	January 1, 2003	January 1, 2002	January 1, 2001
LIRR			
a. Actuarial value of plan assets	$ 701.9	$ 820.8	$ 813.8
b. Actuarial accrued liability (AAL)	1,567.2	1,451.4	1,361.1
c. Total unfunded AAL (UAAL) [b-a]	865.3	630.6	547.3
d. Funded ratio [a/b]	44.8%	56.6%	59.8%
e. Covered payroll	$ 174.9	$ 180.3	$ 192.5
f. UAAL as a percentage of covered payroll [c/e]	494.7%	349.8%	284.3%
SIRTOA			
a. Actuarial value of plan assets	$ 34.4	$ 33.8	$ 31.0
b. Actuarial accrued liability (AAL)	42.4	42.0	39.2
c. Total unfunded AAL (UAAL) [b-a]	8.1	8.2	8.2
d. Funded ratio [a/b]	81.0%	80.5%	79.1%
e. Covered payroll	$ 15.7	$ 15.3	$ 13.7
f. UAAL as a percentage of covered payroll [c/e]	51.6%	53.6%	59.9%
MaBSTOA			
a. Actuarial value of plan assets	$ 629.8	$ 656.4	$ 611.5
b. Actuarial accrued liability (AAL)	1,564.6	1,614.9	1,592.5
c. Total unfunded AAL (UAAL) [b-a]	934.8	958.5	981.0
d. Funded ratio [a/b]	40.3%	40.6%	38.4%
e. Covered payroll	$ 450.6	$ 432.7	$ 400.5
f. UAAL as a percentage of covered payroll [c/e]	207.5%	221.5%	244.9%
MTA			
a. Actuarial value of plan assets	$ 243.2	$ 255.5	$ 240.4
b. Actuarial accrued liability (AAL)	268.0	284.3	270.2
c. Total unfunded AAL (UAAL) [b-a]	24.8	28.8	29.8
d. Funded ratio [a/b]	90.7%	89.9%	89.0%
e. Covered payroll	$ 154.0	$ 144.7	$ 135.1
f. UAAL as a percentage of covered payroll [c/e]	16.1%	19.9%	22.1%

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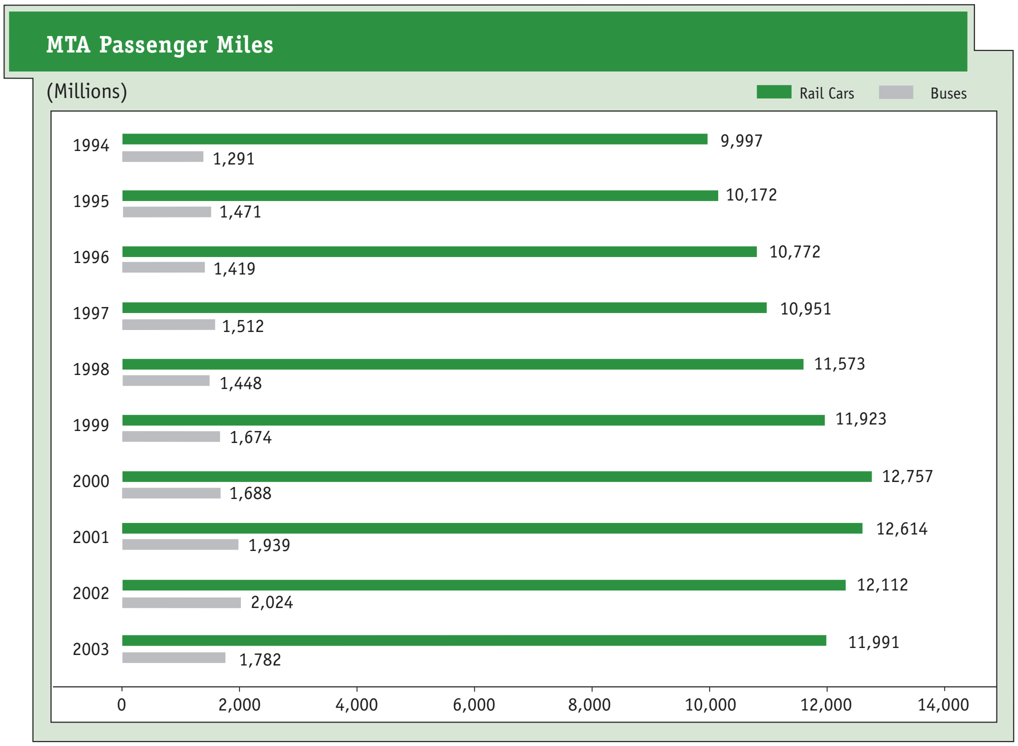
Statistical Section


MTA Passenger Miles
(Millions)
Rail Cars
Buses
1994
9,997
1,291
1995
10,172
1,471
1996
10,772
1,419
1997
10,951
1,512
1998
11,573
1,448
1999
11,923
1,674
2000
12,757
1,688
2001
12,614
1,939
2002
12,112
2,024
2003
11,991
1,782
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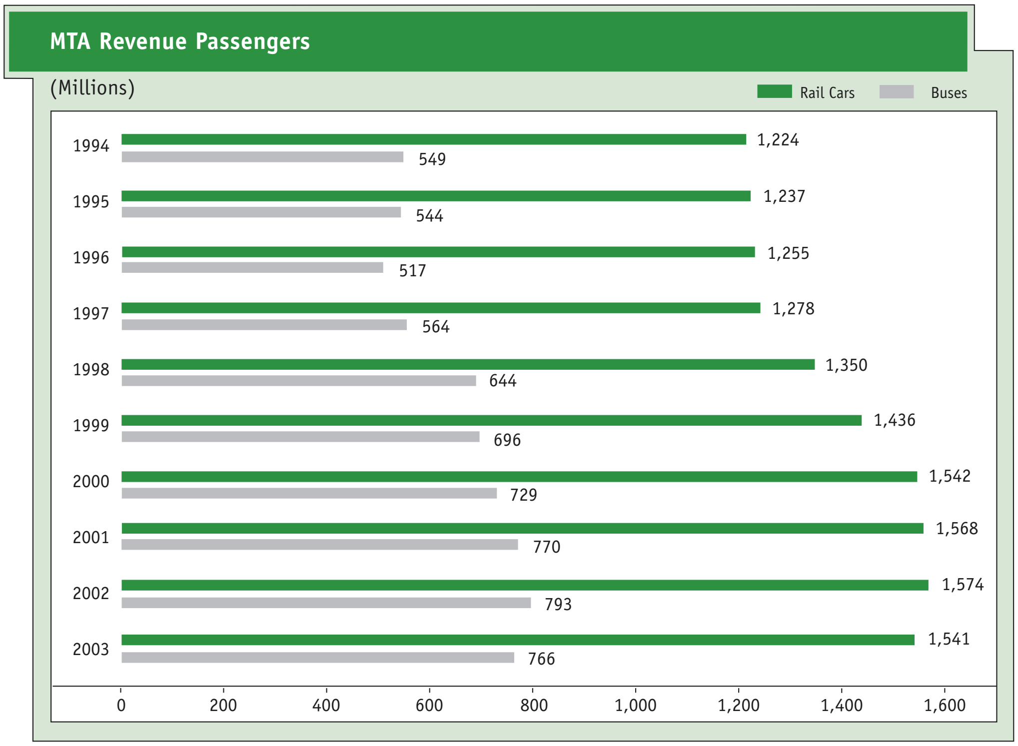
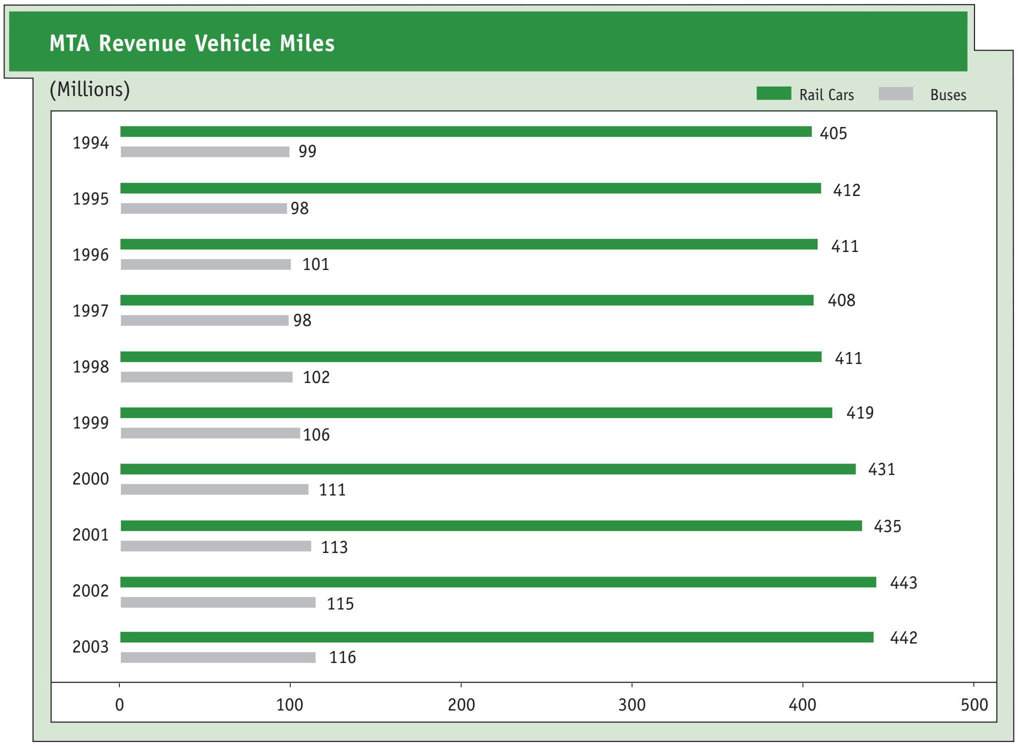
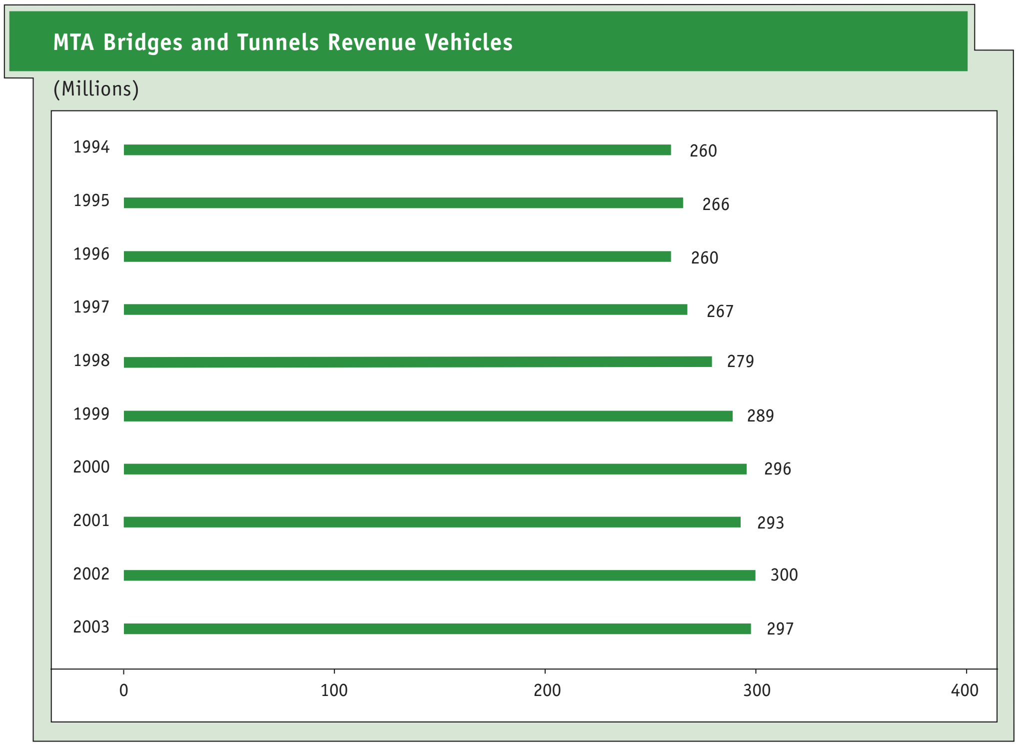
8,000
10,000
12,000
14,000

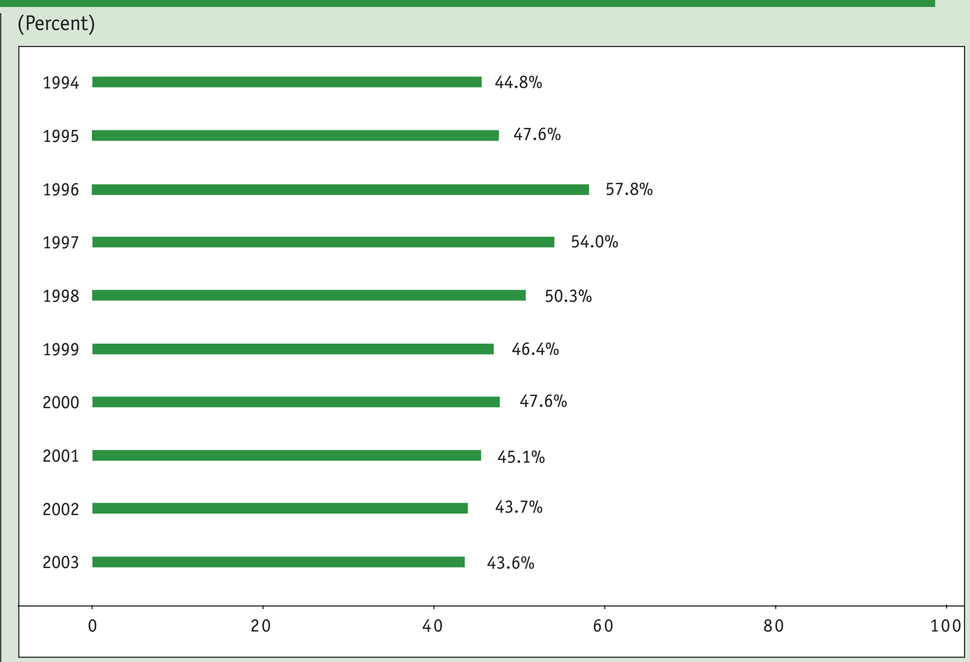

MTA Revenue Passengers
(Millions)
Rail Cars
Buses
1994
1,224
549
1995
1,237
544
1996
1,255
517
1997
1,278
564
1998
1,350
644
1999
1,436
696
2000
1,542
729
2001
1,568
770
2002
1,574
793
2003
1,541
766
0
200
400
600
800
1,000
1,200
1,400
1,600


MTA Revenue Vehicle Miles
(Millions)
Rail Cars
Buses
1994
405
99
1995
412
98
1996
411
101
1997
408
98
1998
411
102
1999
419
106
2000
431
111
2001
435
113
2002
443
115
2003
442
116
0
100
200
300
400
500

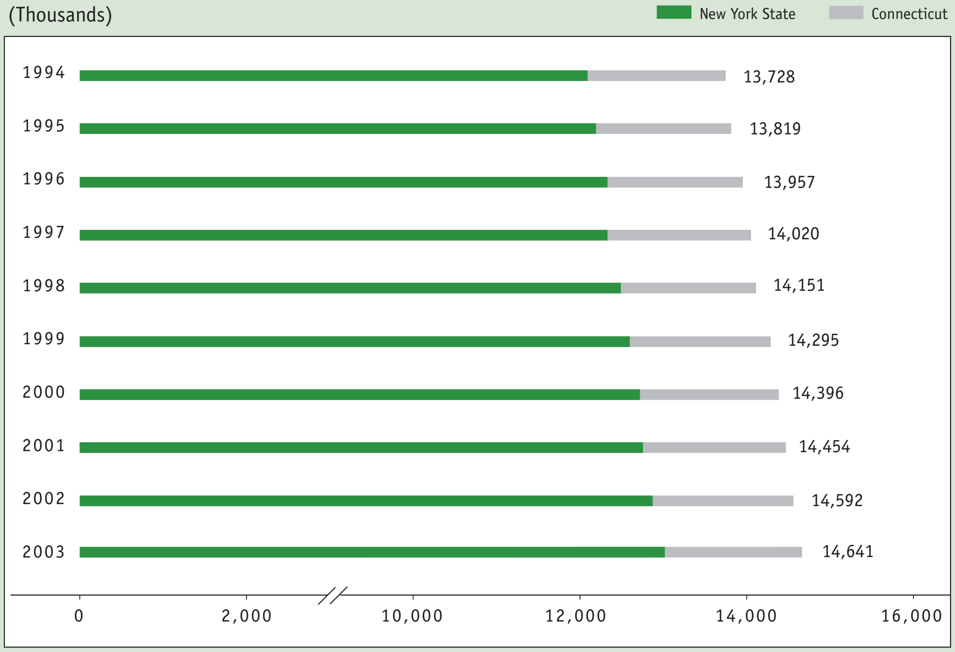

MTA Bridges and Tunnels Revenue Vehicles
(Millions)
1994
260
1995
266
1996
260
1997
267
1998
279
1999
289
2000
296
2001
293
2002
300
2003
297
0
100
200
300
400

MTA Buses and Rail Cars

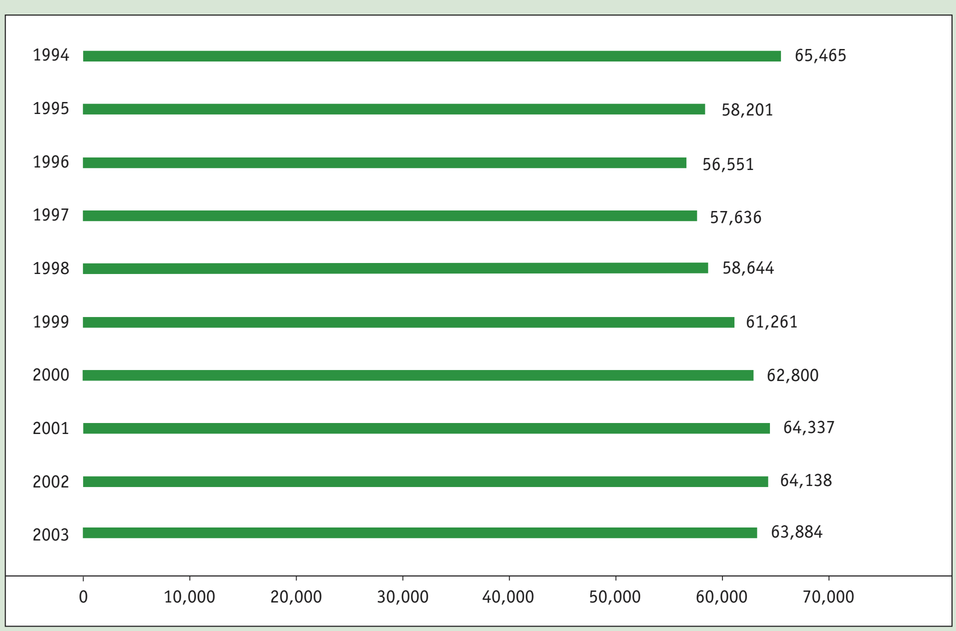
MTA Farebox Recovery Ratio



Population within MTA Service Area



MTA Employees



2003 Operating Statistics

	MTA New York City Subway	MTA New York City Bus[1]	MTA Staten Island Railway	MTA Long Island Rail Road
Paid rides (annual)				
2003	**1,384,068,220**	**735,272,542**	**3,398,232**	**80,924,069**
2002	1,413,177,943	762,096,318	3,594,677	83,918,140
Gain (Loss)	(29,109,723)	(26,823,776)	(196,445)	(2,994,071)
Percent change	-2.1%	-3.5%	-5.5%	-3.6%
Paid rides (average weekday)				
2003	**4,512,503**	**2,368,686**	**12,359**	**287,930**
2002	4,590,571	2,452,669	13,011	299,254
Gain (Loss)	(78,068)	(83,983)	(652)	(11,324)
Percent change	-1.7%	-3.4%	-5.0%	-3.8%
Annual revenue vehicle miles				
2003	**334,505,342**	**103,225,945**	**2,145,732**	**57,512,396**
2002	333,565,884	102,134,686	2,148,000	57,736,700*
Gain (Loss)	939,458	1,091,259	(2,268)	(224,304)
Percent change	0.3%	1.1%	-0.1%	-0.4%
Average number weekday train/bus trips	8,510	47,731	130	726
Stations	468	—	22	124
Train lines/bus routes	27	244	1	11
Route miles				
Rail route miles[7]	233	—	14	319
Bus route miles	—	2,017	—	—
Track miles[8]	660	—	29	594
Rolling stock				
Rail cars	6,146	—	64	1,118
Buses	—	4,483	—	—
Bridges	—	—	—	—
Tunnels	—	—	—	—
Employees	26,594	14,244	305	6,309

1. Includes Manhattan and Bronx Surface Transit Operating Authority, an MTA New York City Transit subsidiary.
2. Ridership and employee statistics include both fixed-route and paratransit operations.
3. Includes operations on the Harlem, Hudson, and New Haven lines in New York State and Connecticut as well as the New York State portions of the Port Jervis and Pascack Valley lines.
4. MTA New York City Subway plus MTA New York City Bus.
5. MTA Long Island Rail Road plus MTA Metro-North Railroad.

MTA Long Island Bus[2]	MTA Metro-North Railroad[3]	MTA Bridges and Tunnels	MTA New York City Transit Total[4]	Combined MTA Railroads Total[5]	MTA Network Total[6]
30,433,281	**72,548,000**	**297,178,497**	**2,119,340,762**	**153,472,069**	**2,306,644,344**
31,323,743	73,140,809*	299,994,683*	2,175,274,261	157,058,949*	**2,367,251,630***
(890,462)	(592,809)	(2,816,186)	(55,933,499)	(3,586,880)	**(60,607,286)**
-2.8%	-0.8%	-0.9%	-2.6%	-2.3%	**-2.6%**
102,401	**249,700**	**839,536**	**6,881,189**	**537,630**	**7,533,579**
104,604	251,836*	842,532*	7,043,240	551,090*	**7,711,945***
(2,203)	(2,136)	(2,996)	(162,051)	(13,460)	**(178,366)**
-2.1%	-0.9%	-0.4%	-2.3%	-2.4%	**-2.3%**
12,670,397	**48,745,706**	**—**	**437,731,287**	**106,258,102**	**558,805,518**
12,604,130	49,463,127	—	435,700,570	107,199,827*	**557,652,527***
66,267	(717,421)	—	2,030,717	(941,725)	**1,152,991**
0.5%	-1.5%	—	0.5%	-0.9%	**0.2%**
4,013	644	—	56,241	1,370	**61,754**
—	120	—	468	244	**734**
54	6	—	271	17	**343**
—	384	—	233	703	**950**
950	—	—	2,017	—	**2,967**
—	775	—	660	1,369	**2,058**
—	931	—	6,146	2,049	**8,259**
412	—	—	4,483	—	**4,895**
—	—	7	—	—	**7**
—	—	2	—	—	**2**
1,126	5,705	1,733	47,480[9]	12,014	**63,884[10]**

6. MTA ridership totals do not include MTA Bridges and Tunnels vehicle counts.
7. Nondirectional route miles; i.e., the distance from terminal to terminal. Several rail or bus lines may share the same route.
8. Does not include track in yards.
9. Includes 1,505 employees at CPM, 1,439 employees at Telecommunications and Information Services, 1,305 at MetroCard Operations, 1,811 employees at Executive Vice President, 103 at Paratransit, 1 at MTA Capital Construction, and 478 employees at other General and Administrative.
10. Includes 553 employees at MTA Headquarters and 673 employees at MTA Public Safety.

* Revised from 2002 Annual Report

Metropolitan Transportation Authority
347 Madison Avenue
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The 2003 MTA annual report and financial statements are also available on our website at www.mta.info.

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