

THE RELATED ENTITIES

This Appendix A is dated April 29, 2005 and contains information only through that date (or the specific earlier dates noted herein, such as year-end December 31, 2004 financial and statistical information). MTA intends to update and supplement specific information contained herein (1) through revised Continuing Disclosure Filings, (2) by additional information posted under the “Investor Information” section of its website (www.mta.info), or (3) in connection with its quarterly financial statement reports and its periodic issuance of bonds, notes and other obligations. MTA retains the right to update and supplement specific information contained herein as events warrant. Copies of the audited financial statements of the Related Entities are available from MTA. MTA has also contracted with Digital Assurance Corporation (“DAC”), a dissemination agent recognized as such by the SEC, to file certain information with the Nationally Recognized Municipal Securities Information Repositories and to post certain information on its website (www.dac-ey.com).

Certain statements included in this Appendix A constitute “forward-looking statements.” Such statements generally are identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget,” “project,” “forecast” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions “STATISTICAL AND FINANCIAL INFORMATION – FINANCIAL PLANS AND CAPITAL PROGRAMS” in Part 3 and “PUBLIC DEBT SECURITIES AND OTHER FINANCIAL INSTRUMENTS” in Part 4. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as set forth in the preceding paragraph, MTA does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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PART 1. BUSINESS

THE RELATED ENTITIES

Legal Status and Public Purpose

The Metropolitan Transportation Authority (“MTA”), a public benefit corporation of the State of New York (the “State”), has the responsibility for developing and implementing a unified mass transportation policy for The City of New York (the “City”) and Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk and Westchester counties (collectively with the City, the “Transportation District”).

MTA carries out these responsibilities directly and through its subsidiaries and affiliates, which are also public benefit corporations. The following are subsidiaries of MTA:

- The Long Island Rail Road Company (“LIRR”),
- Metro-North Commuter Railroad Company (“MNCRC”),
- Staten Island Rapid Transit Operating Authority (“SIRTOA”),
- Metropolitan Suburban Bus Authority (“MSBA”),
- MTA Bus Company (“MTA Bus”), and
- MTA Capital Construction Company (“MTA Capital Construction”).

The following are affiliates of MTA:

- Triborough Bridge and Tunnel Authority (“TBTA”), and
- New York City Transit Authority (the “Transit Authority”), and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”).

MTA and the foregoing subsidiaries and affiliates are collectively referred to herein, from time to time, as the “Related Entities”.

Certain insurance coverage for the Related Entities is provided by a captive insurance public benefit corporation subsidiary of MTA – First Mutual Transportation Assurance Company (“FMTAC”). See “INSURANCE” in Part 5. FMTAC was the first captive insurance company licensed to do business in the State.

Governance

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

Facilities and Operations

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

Transit System. The Transit Authority and its subsidiary MaBSTOA, together with MTA Bus, operate all subway transportation and substantially all of the public bus transportation within the City (the “Transit System”).

MTA Bus. MTA Bus was created in December 2004 to establish and operate certain bus routes in the City formerly served by seven private bus operators pursuant to franchises granted by the City. MTA Bus is currently operating the bus routes formerly operated by two of the seven franchise operators and expects to operate on the remaining routes by the end of August 2005. The City is responsible for paying MTA Bus the difference between the actual cost of operation and all revenues and subsidies received by MTA Bus and allocable to the operation of the routes. Certain portions of the MTA Bus capital program are included in the capital programs approved by the Review Board as described below under “—Capital Programs.”

SIRTOA. SIRTOA operates a single rapid transit line extending from the Staten Island ferry terminal at St. George to the southern tip of Staten Island. MTA pays from mortgage recording taxes the operating expenses of SIRTOA not covered by fares, State and local subsidies and other amounts. Capital needs of SIRTOA are financed under Transit Capital Programs.

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

MSBA. MSBA operates bus service on Long Island, predominantly in Nassau County. MTA pays from mortgage recording taxes the operating expenses of MSBA not covered by fares, State and local subsidies and other amounts. Capital needs of MSBA are funded by Nassau County, which owns the MSBA facilities.

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

MTA Capital Construction. MTA Capital Construction is responsible for the planning, design and construction of current and future major MTA system expansion projects for other Related Entities, 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 the Second Avenue Subway.

Capital Programs. MTA is required to prepare and submit to the Metropolitan Transportation Authority Capital Program Review Board (the “Review Board”) successive five-year capital programs for the Transit System, MTA Bus and SIRTOA and for the Commuter System. TBTA and MSBA do their own capital planning that is not subject to Review Board approval.

Corporate Restructuring

MTA has proposed a plan of corporate restructuring and has introduced legislation since 2003 to effectuate that plan. The proposed restructuring would create five distinct companies under MTA's governance:

- MTA Subways, that would include the Transit Authority's subway operations and SIRTOA,
- MTA Bus, that would include the Transit Authority's and MaBSTOA's bus operations, MTA Bus and MSBA, and could in the future include one or more bus lines currently operated by private companies in Westchester,
- MTA Rail, that would include LIRR and MNCRC,
- MTA Bridges and Tunnels, that will retain the corporate structure of TBTA, and
- MTA Capital Construction Company, that will retain the corporate structure of the existing company in order to be in charge of overseeing the system expansion projects for all of the Related Entities.

Certain aspects of the corporate restructuring can proceed without legislation. For example, MTA created MTA Capital Construction as an MTA subsidiary in 2003 and MTA Bus as an MTA subsidiary in 2004; however, the legislation would confer additional powers on MTA Capital Construction and MTA Bus that cannot be accomplished by operating as an MTA subsidiary under current law.

This corporate restructuring along business lines is designed to streamline administrative functions and provide each entity with a single transportation focus. The initiative, which is expected to be implemented over a two-year time frame following passage of the legislation, will be in compliance with all applicable provisions of the resolutions and laws under which MTA and TBTA issue bonds, notes and other obligations. There is no assurance that the State Legislature will pass the legislation proposed by the MTA for this purpose.

Financial Operations

The MTA Board has adopted financial planning and budgeting practices for the Related Entities that require the preparation of four-year financial plans covering the existing and three future fiscal (or calendar) years.

In addition, MTA is required by statute to prepare and submit to the Review Board successive five-year capital programs for the Transit System, MTA Bus and SIRTOA and for the Commuter System. Certain portions of the MTA Bus capital program are also incorporated into the five-year capital program approved by the Review Board. TBTA and MSBA do their own capital planning that is not subject to Review Board approval. The preparation of the financial plans of the Related Entities includes provision for capital spending authorized by the capital programs.

The implementation of the financial plans, as adopted from time to time, and the capital programs, as submitted and amended from time to time, are interrelated and complex. Any failure to implement an important component of one can adversely affect the implementation of the other. See generally "FINANCIAL PLANS AND CAPITAL PROGRAMS" in Part 3.

Financial Plans and Budgetary Practices.

- The MTA Board's financial planning and budgeting practices for the Related Entities require the following in each year:
 - In July of each year, the Executive Director will submit to the MTA Board a preliminary budget for the next year and an update to the four-year financial plan (which includes the next year and the three years thereafter).

- In September and October, the MTA Board and the operating committees of the MTA Board will include the July preliminary budget and financial plan on their agendas. Public comments will be solicited at the September meeting.
 - In November, a proposed final budget for the next fiscal year, together with a revised four-year financial plan, will be submitted to the MTA Board.
 - A final budget for the next fiscal year, following public comment, will be adopted by the MTA Board by no later than December 31.
 - No later than February, the MTA Budget staff will issue a report containing the supporting schedules for the current year budget as adopted by the MTA Board the preceding December, as well as an update to the four-year financial plan.
- Budget documents are distributed to certain elected officials and posted on MTA’s website for review by the public. In its current form, the legislation relating to the corporate restructuring referenced above under “Corporate Restructuring” would enact these budget practices into law. The budgeting practices are subject to change at any time by the MTA Board. In addition, the Legislature, if it decides to incorporate the MTA budget procedures into legislation, may revise or eliminate these practices in whole or in part.
 - Each of the Related Entities (other than TBTA) is required by law to adopt an annual budget that is self-sustaining on a cash basis, including self-generated fares, tolls and other revenues, as well as operating subsidies of various types from numerous sources, including the State and local governments. TBTA generates surplus funds to finance the Transit and Commuter Systems.
 - MTA is required each year to update and submit to the Governor a five-year strategic operation plan (that extends the period covered by the four-year financial plan referenced above by one year) that includes not only estimated operating and capital cost information, but also long-range goals and objectives, planned service and performance standards, and strategies to improve productivity.
 - The State Comptroller has promulgated regulations that require the Related Entities to follow certain guidelines in reporting certain budget and financial plan information.
 - In an effort to present standardized financial reporting among all of the Related Entities, a common chart of accounts has been adopted and other financial reporting changes have been made. MTA prepares quarterly unaudited consolidated financial statements on behalf of the Related Entities as described below under “—*Quarterly Financial Statement Reports.*”

Five-Year Capital Programs.

- The MTA Act requires the preparation of five-year capital programs for the Transit System and SIRTOA and for the Commuter System. MTA has included certain aspects of funding the MTA Bus capital program in an amendment to the Transit System capital program.
- New Transit and Commuter capital programs covering the periods 2005-2009 were submitted to the Review Board on or before October 1, 2004 as required by statute, but the programs were vetoed by the Review Board in late December 2004 pending further discussions on how to fund the program in the context of other Statewide needs. A revised 2005-2009 capital program was approved for submission to the Review Board by the MTA Board on April 28, 2005 and is described in detail in Part 3 under “FINANCIAL PLANS AND CAPITAL PROGRAMS – Proposed 2005-2009 Capital Program.”

- Though not required by law, TBTA prepares its own capital program that covers the same time period as the Transit and Commuter capital programs.
- MSBA's annual capital program is prepared and funded by Nassau County after consultation with MTA.
- Neither TBTA's nor MSBA's capital programs are required to be approved by the Review Board.
- For information relating to the most recent capital programs, see "FINANCIAL PLANS AND CAPITAL PROGRAMS" in Part 3.

Quarterly Financial Statement Reports. MTA issues quarterly financial statement reports for the Related Entities on a consolidated basis. The reports are posted on MTA's website. The review of the quarterly financial statements is conducted in accordance with the standards established by the American Institute of Certified Public Accountants.

Interagency Loans. The Related Entities are authorized to transfer their revenues, subsidies and other monies or securities to another Related Entity for use by such other Related Entity, provided at the time of such transfer it is reasonably anticipated that the monies and securities so transferred will be reimbursed, repaid or otherwise provided for by the end of the next succeeding calendar year. The use of interagency loans has allowed the Related Entities to meet their periodic financial commitments without the use of public or private cash flow borrowings.

Public Statements and Reports by Others. From time to time, the Governor, the State Comptroller, the Mayor of the City, the City Comptroller, County Executives, State legislators, City Councilmembers and other persons or groups may make public statements, issue reports, institute proceedings or take actions that contain predictions, projections or other information relating to the Related Entities or their financial condition, including potential operating results for the current fiscal year and projected baseline surpluses or gaps for future years, that may vary materially from, question or challenge the information provided herein or in budgets or financial plans. While MTA may not directly respond to each such statement or action, MTA intends to keep its Continuing Disclosure Filings current and to prepare the quarterly financial statement reports described above. Investors and other market participants should, however, refer to MTA's then current Continuing Disclosure Filings and quarterly financial statement reports, as updated from time to time, for information regarding the Related Entities and their financial condition. MTA maintains an investor information section on its website ("www.mta.info") under "MTA Home – Investor Information." MTA also files periodic information with Digital Assurance Certification LLC ("DAC"), and information can be obtained on its website ("www.dac-ey.com"). All of the information (1) set forth in revised Continuing Disclosure Filings, (2) contained in quarterly financial statement reports, (3) posted under the "Investor Information" section of the MTA website, and (4) filed with DAC is included herein by specific reference.

Management

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

- Each of the Related Entities has its own management structure that is responsible for its day-to-day operations.

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

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

Katherine N. Lapp was appointed Executive Director of the MTA in January 2002. MTA's chief executive is responsible for the operations, finances and long-term business strategies of North America's largest regional transportation network. Previously, Ms. Lapp had been New York State's Director of Criminal Justice and Commissioner of the Division of Criminal Justice Services, serving as the Governor's chief advisor and policy maker for all areas of criminal justice and overseeing the State's criminal justice agencies (State Police, Department of Correctional Services, Division of Parole, Crime Victims Board, and the Division of Probation and Correctional Alternatives). From 1994 through 1997, Ms. Lapp served as New York City's Criminal Justice Coordinator. She was the primary advisor to the Mayor on criminal justice matters and was responsible for the oversight of the City's public safety agencies, including the Police, Fire, Correction, Probation and Juvenile Justice Departments, and their coordination with State criminal justice agencies, the court system, and the City's prosecutors. Prior to that position, Ms. Lapp was Chief of Staff and Special Counsel to New York City's Deputy Mayor for Public Safety from 1990 through 1993. She served as Law Secretary to the Presiding Justice of the Appellate Division, Second Judicial Department from 1986 to 1990, following tenure as a law assistant from 1983 through 1985. Ms. Lapp was admitted to the Bar in 1981. She holds a B.A. in History from Fairfield University and received her Juris Doctorate degree from Hofstra University School of Law in 1981.

Stephen L. Kessler, Chief Financial Officer since April, 2004. Previously Mr. Kessler served as CFO at Versaware Inc. and EverAd Inc., two start-up companies that introduced electronic publishing and digital content technologies to the internet. Mr. Kessler raised private equity funds and developed business strategies and financial plans to fuel the firms' rapid growth. Prior to these assignments, Mr. Kessler served as Senior Vice President of Finance and Administration for the McGraw-Hill Companies' Construction Information Group from 1995 through 1999, where his responsibilities included finance, planning, information technology and operations. Before that, Mr. Kessler was Senior Vice President/Chief Financial Officer of Prodigy Services Company, the pioneer online joint venture of IBM and Sears. Prior to that Mr. Kessler served in senior financial, planning and operating positions at Georgia Pacific Corporation (formerly James River Corporation) and PepsiCo Inc. from 1972 through 1993. A resident of Manhattan, Mr. Kessler received an M.B.A. in Finance from the University of Chicago Graduate School of Business and a B.S. in Industrial Management from Carnegie Mellon University.

Gary M. Lanigan, Director of Budgets and Financial Management since March 2004 and Deputy Director of Budgets and Financial Management since June 16, 2003. Prior to his position at the MTA, Mr. Lanigan served as the First Deputy Commissioner of the New York City Department of Correction where he was responsible for the administrative and operational workings of the largest detention system in the country. He also served as the Deputy Commissioner of Administration at the Department of Correction where he was directly responsible for the preparation and administration of the Department's expense and

capital budgets, personnel and payroll functions, management information systems and telecommunications. Before embarking on his 10-year career at the Correction Department, Mr. Lanigan held various positions in the New York City Police Department, including Assistant Commissioner of the Financial Management Division where he researched, prepared and analyzed the NYPD annual expense budget and ten-year capital program, as well as the ancillary revenue and contract budgets, and the four-year financial plan. Mr. Lanigan also held various positions at the New York City Office of Management and Budget. Mr. Lanigan received his MPA and BBA from Bernard M. Baruch College, School of Business & Public Administration. He has also completed executive training at Columbia University, Police Management Institute; Harvard University, John F. Kennedy School of Government; and the National Institute of Justice Executive Development for Deputy Directors.

Catherine A. Rinaldi, Deputy Executive Director/General Counsel and Secretary since April 7, 2003. Prior to joining MTA, Ms. Rinaldi served as senior assistant counsel to Governor George E. Pataki from 1998 until 2003 with responsibility for environmental, energy and transportation-related matters. Ms. Rinaldi served as principal law clerk for the Chief Judge of the New York State Court of Appeals from 1989 through 1992 and later worked as a law clerk for judges of the United States District Court for the Eastern District of New York, Supreme Court, Appellate Division, Third Department, and Supreme Court, Rensselaer County. Ms. Rinaldi received a B.A. in English from Yale College in 1985 and a J.D. from the University of Virginia School of Law in 1988.

PART 2. OPERATIONS

TRANSIT SYSTEM

Legal Status and Public Purpose

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

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

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

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

Because MTA Bus has only recently begun to operate limited bus routes within the City, none of the information set forth under this caption "TRANSIT SYSTEM" includes any statistics or other information relating to the operations of MTA Bus. See "MTA BUS" below in this Part 2.

Management

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

Lawrence Reuter, President, 54, rejoined the Transit Authority as President on March 11, 1996. He had served the Transit Authority for eight years, holding various positions of increasing responsibility including General Manager of SIRTOA and eventually Senior Vice President of Operations where he was responsible for the operation of both buses and subways. Mr. Reuter left the Transit Authority in 1991 to run the transit system in San Jose, California. In March of 1994 he became President of the Washington (DC) Metropolitan Area Transit Authority (WMATA). Mr. Reuter earned his Bachelor of Science degree in Engineering from Florida Technological University in Orlando.

Barbara R. Spencer, Executive Vice President, 55, is responsible for the controller, budget, human resources, procurement and distribution functions. In addition, she recently assumed responsibility for Technology and Information Services. Prior to being appointed to this position, Ms. Spencer served as Assistant to the President and Assistant Vice President, Employee and Organizational Development. Ms. Spencer received her B.A. degree from Herbert H. Lehman College and her M.A. and Doctor of Education from Columbia University.

Michael Lombardi, Senior Vice President, Subways, 61, oversees the maintenance and operation of the system's signals, track, power distribution, rolling stock, station infrastructure and security. In addition, he recently assumed responsibility for MetroCard operations, telecommunications and electronic maintenance. Mr. Lombardi joined the Transit Authority's Car Equipment Division in 1962 and has served in various levels of management since then, successfully managing rolling stock rehabilitation and new car acceptance projects. He is a key player on the Transit crisis team. He received his B.P.S. degree in Labor Studies from Empire State College, S.U.N.Y.

Millard L. Seay, Senior Vice President, Buses, 56, returned to the Transit Authority in 1996 from the WMATA where he was responsible for the monitoring and evaluation of bus and rail service. Mr. Seay previously worked for the Transit Authority from 1985-1993 serving as Senior Director, Operations Planning. He brings to his position more than 25 years of experience in mass transit. He attended George Mason University and earned a B.A. degree in History and graduate credits in business.

Cosema E. Crawford, P.E., Senior Vice President and Chief Engineer, 49, is responsible for Capital Program Management. Prior to joining the Transit Authority in May 2001, Ms. Crawford served as Chief Engineer for the NYC Department of Transportation, and was a senior manager at Parsons Transportation Group. Ms. Crawford holds bachelors and masters degrees in engineering from Princeton University.

Martin B. Schnabel, Vice President and General Counsel, 54, joined the Transit Authority in 1976. Prior to being appointed General Counsel, Mr. Schnabel served as Executive Assistant General Counsel. Mr. Schnabel is responsible for managing the various Law Department divisions. Mr. Schnabel received his Juris Doctor degree from Boston University.

History of the Transit System

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

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

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

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

With the opening of the 63rd Street Connector in December 2001, the Transit Authority introduced the first new subway line in more than two decades. The Connector links the Queens Boulevard subway line to the 63rd Street Tunnel into Manhattan. The new "V" train provided immediate benefits to riders who travel the Queens Boulevard line each day.

The MTA is in the process of developing new expansions and improvements to the Transit System, including the 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 and the Second Avenue Subway. For more information about these projects and the current availability of funding therefor, see "MTA CAPITAL CONSTRUCTION COMPANY" below in this Part 2.

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

Although most bus service within the City is now operated by the Transit Authority and MaBSTOA, until recently, private bus companies continued to operate local service on certain routes within the City and provide certain bus services between the outer boroughs and the Manhattan central business district. MTA created MTA Bus in December 2004 to operate certain private bus company routes. See "MTA BUS" below.

Description of the Transit System

Subway System. The City's rapid transit system is by far the largest in the nation. Only a few cities in the world have a subway system comparable in physical size and ridership. The subway system has over 656 miles of mainline track extending 230 route miles. It operates 24 hours a day, 365 days a year, although certain lines are not in service the entire day and frequency of service varies by route and time of day. In calendar year 2004, over 1.4 billion revenue passengers used the subway. As of December 31, 2004, the Transit Authority employed 27,336 workers in rapid transit. It currently has a fleet of 6,191 subway cars, two major subway car repair shops, 13 maintenance shops, 23 subway car storage yards and 468 passenger stations.

Bus System. The Transit Authority and MaBSTOA presently operate bus service on 243 local and express routes throughout the City. The majority of bus routes are designed to serve passengers traveling within a particular borough or to serve as feeders to the subway system. In calendar year 2004, over 740 million revenue passengers used the bus system. As of December 31, 2004, the bus system employed 14,115 persons and operated 4,413 buses. The bus system operates on a continuous basis, although certain bus routes are not in service the entire day and frequency of service varies by route and time of day.

Paratransit. On July 1, 1993, the Transit Authority assumed responsibility from the City for the Access-a-Ride paratransit service in order to increase the efficiency of providing such services by vesting responsibility in a single entity. Access-a-Ride service is provided by private vendors under contract with the Transit Authority. Paratransit fares are currently equivalent to the regular undiscounted passenger fare rate of \$2.00. Paratransit operations are also supported by six percent of the revenue from the Urban Tax (i.e., real-estate related taxes on commercial property collected in the City). The City contributes an operating subsidy to support paratransit, equal to the lesser of (i) one third of the operating deficit, calculated after deducting paratransit passenger revenue, the above-described Urban Tax revenue, and Transit Authority administrative expenses, or (ii) an amount that is twenty percent greater than the amount paid by the City for the preceding calendar year. Any remaining operating deficit is funded by the Transit Authority. Over the years, the costs of the paratransit program have risen substantially in excess of the City's twenty percent additional funding contribution, so the Transit Authority has assumed, and expects to continue to assume, greater costs with respect to the paratransit service.

Relationships with the State, the City and the Federal Government

State and City. The Transit Authority and MaBSTOA receive substantial amounts of funding for the operating and capital costs of the Transit System from appropriations and subsidies provided by the State and the City. In calendar year 2004, State and City operating assistance, special tax supported subsidies and reimbursements for the Transit System constituted, on a cash basis, approximately 38% of the total pledged revenues of the Transit Authority and MaBSTOA (which is generally lower than normal due to the one-time recovery of WTC insurance settlement proceeds in 2004). To the extent that future operating assistance and the funding of the capital costs of subsequent capital programs projected to be funded by the State and City are subject to their receipt of tax revenues and the making of annual appropriations, the level of such funding may be affected by the general economic conditions in, and the financial condition of, the State and City.

In addition to the operating and capital assistance received by the Transit Authority and MaBSTOA from the City, the Transit Authority and MaBSTOA are dependent upon the City for the maintenance and repair of City-maintained bridges, streets and other infrastructure necessary for the operation of the Transit System. Water main breaks and other infrastructure problems, including problems on bridges, have in the past and may in the future cause service disruptions.

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

Federal. The Transit Authority and MaBSTOA also receive substantial amounts of funding for the capital costs of the Transit System from grants provided by the Federal government. The Federal government also supplied substantial capital funds for prior Transit Capital Programs. Federal operating assistance is no longer available for the Transit System.

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

If a control period is reimposed, the Financial Control Board will be required under the Emergency Act to review and approve or disapprove the financial plans submitted by the City on behalf of the Transit Authority, MaBSTOA and SIRTOA, their long- and short-term borrowings incurred after the reimposition of the control period and certain of their contracts. Any reimposition of the control period would not adversely affect any bonds previously issued under the Transportation Resolution (as discussed in Part 4). With the availability of inter-agency loans, MTA does not currently expect to borrow through any of these covered organizations.

Other. Officials of the State, City and Federal governments and the Inspector General of MTA periodically conduct audits and reviews of the operations of the Transit Authority and MaBSTOA. Officers of the Transit Authority and MaBSTOA respond to these reports and adopt some of the recommendations made therein or take other appropriate remedial actions.

The Transit Authority and MaBSTOA are subject to regulation by Federal and State agencies with responsibilities for safety. In general, they must maintain and equip their tracks and rolling stock in compliance with minimum standards, file reports with respect to certain accidents and incidents and respond to recommendations for improving transit system safety.

COMMUTER SYSTEM

Legal Status and Public Purpose

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

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

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

The New Haven Line is operated by MNCRC pursuant to the terms of an Amended and Restated Service Agreement dated as of June 21, 1985, among the State of Connecticut, by CDOT, MTA and MNCRC (the “ASA”). Under the provisions of the ASA, at the expiration of each term of the ASA, it is automatically extended for five years, subject to the right of CDOT or MTA to terminate the ASA on 18 months’ written notice. The current term of the ASA expires on January 1, 2010.

Management

The following are brief biographies of the chief operating officers of LIRR and MNCRC.

James J. Dermody was appointed President of LIRR on September 25, 2003, after having been named Acting President on March 4, 2003. A LIRR employee for over 45 years, Mr. Dermody previously served as Senior Vice President – Operations, where he was responsible for the oversight of the Maintenance of Equipment, Transportation, Engineering, Operations Analysis and Support, and Passenger Service Departments. As Senior Vice President – Operations, Mr. Dermody directed the operations of the railroad to record on-time performance achievements and has overseen the full implementation of the new diesel fleet and the introduction of the new M-7 electric car fleet into passenger service. Mr. Dermody started his career as a ticket clerk and has held diverse posts in the intervening years. Among the increasingly responsible positions he held in the different sectors of railroad operations were: Ticket Agent, Supervisor – Freight Car Control; Manager – Freight Car Service; Trainmaster; Superintendent – Train Movement; General Superintendent – Transportation; General Manager – Customer Quality and Service Planning; Acting Chief Mechanical Officer; General Manager – New Fleet Procurement; and Chief Transportation Officer.

Peter A. Cannito was appointed President of MNCRC in May 1999. Prior to joining MNCRC, from 1997 to 1999, Mr. Cannito served as Vice President of Rail and Transit Programs with Raytheon Infrastructure Inc., as Executive Vice President of ABB Traction from 1995 to 1997, and in various positions, including Assistant Vice President/General Manager Transportation and Vice President of

Engineering, with Amtrak from 1974 to 1995. Mr. Cannito received his B.S. in Business Administration from Canisius College and attended the Advanced Management Program at Harvard Business School.

Description of the Commuter System

LIRR Commuter Service and Metro-North Commuter Service play a vital role in the transportation network for the region. They are, respectively, the largest and second largest commuter railroad services in the nation. LIRR uses 29 yards and 6 major repair shops. MNCRC uses 15 yards and 5 major repair shops. The commuter services operate every day of the year, although frequency of service varies by route, day of the week and time of day. The following table further details the LIRR Commuter Service and the Metro-North Commuter Services.

	Revenue Passengers (in thousands)(2)	Stations	Actual Route Miles	Main Line Track Miles	Passenger Cars
LIRR	79,254	124	319.1	594.1	1,086
MNCRC	<u>70,757</u>	<u>109</u>	<u>272.9</u>	<u>702.1</u>	<u>971</u>
Totals	150,011	233	592.0	1,296.2	2,057

(1) Certain of the stations, track and passenger cars are not owned by MTA, LIRR or MNCRC.

(2) The number of revenue passengers is determined in part by ascribing an assumed frequency of use to holders of weekly and monthly commutation tickets.

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

State and Local Governments. MTA receives substantial amounts of funding for the operating and capital costs of the Commuter System from appropriations and subsidies provided by the State and certain local governments. In calendar year 2004, State and local operating assistance, special tax supported subsidies and reimbursements for the Commuter System constituted, on a cash basis, approximately 34% of the total pledged revenues of MTA relating to the Commuter System (which is generally lower than normal due to the one-time recovery of WTC insurance settlement proceeds in 2004). To the extent that future operating assistance and the funding of the capital costs of subsequent capital programs projected to be funded by the State are subject to its receipt of tax revenues and the making of annual appropriations, the level of such funding may be affected by the current economic conditions in, and the financial condition of, the State.

Federal. MTA also receives substantial amounts of funding for the capital costs of the Commuter System from grants provided by the Federal government. The Federal government supplied funds for prior Commuter Capital Programs. Federal operating assistance is no longer available for the Commuter System.

Other. Officials of the State, City and Federal governments and the Inspector General of MTA periodically conduct audits and reviews of the operations of LIRR and MNCRC. Officers of LIRR and MNCRC respond to these reports and adopt some of the recommendations made therein or take other appropriate remedial actions.

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

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(d/b/a MTA Bridges and Tunnels)

Legal Status and Public Purpose

TBTA, a public benefit corporation, was placed under the governance of the Board of MTA effective March 1, 1968. TBTA is empowered, among other things, to construct and operate certain vehicle bridges, tunnels and highways and other public facilities in the City. The following are the vehicular toll facilities (the “TBTA Facilities”) operated by TBTA:

TBTA Facilities	
<u>7 Bridges</u>	<u>2 Tunnels</u>
Triborough Bridge	Brooklyn-Battery Tunnel
Verrazano-Narrows Bridge	Queens Midtown Tunnel
Bronx-Whitestone Bridge	
Throgs Neck Bridge	
Henry Hudson Bridge	
Marine Parkway-Gil Hodges Memorial Bridge	
Cross Bay Veterans Memorial Bridge	

A more detailed description of the TBTA Facilities is set forth below.

TBTA also operates, pursuant to a management agreement with a private contractor, the Battery Parking Garage located adjacent to the Manhattan plaza of the Brooklyn-Battery Tunnel. The garage was opened in 1950 and has space for 2,100 vehicles.

Title to the TBTA Facilities and the Battery Parking Garage is vested in the City, but TBTA has the use and occupancy of such facilities so long as its corporate existence continues.

Management

The following are brief biographies of certain senior operating officers of TBTA.

Michael C. Ascher, President, 61. Mr. Ascher has served as President since March 1990. Prior to that time, he served as Executive Vice President and Chief Engineer of TBTA since November 1988. Prior to joining TBTA, Mr. Ascher was Vice President and Chief Engineer of the Transit Authority from December 1984 to December 1987. Previously, he held executive positions at the internationally recognized architectural engineering-construction firms of Burns and Roe, Inc. and URS Consultants. Mr. Ascher earned his Bachelor of Engineering degree (Mechanical) from the City College of New York in 1966 and a Master of Science degree from Long Island University in 1971. He is a licensed professional engineer in the States of New York, New Jersey and Tennessee.

Thomas Bach, Vice President and Chief Engineer. Mr. Bach directs a staff of 170 professionals responsible for the planning, design and construction of TBTA’s capital and major maintenance programs. Prior to coming to TBTA in 1990, Mr. Bach worked for Thomas Crimmins Contracting Company and later Namrod Construction Company. Mr. Bach was involved in numerous high profile projects in the City, including the Second Avenue Subway, 63rd Street Railroad Tunnels, 7 World Trade Center, and 60 Wall Street. Mr. Bach holds a Bachelor of Engineering in Civil Engineering (BECE) from The Cooper Union, 1973, and a Master of Science from Columbia University, 1979. Mr. Bach has been a registered professional engineer in the State of New York since 1978. He was elected to The Moles, a professional organization, in 1988 and is a member of the American Society of Civil Engineers.

Robert M. O’Brien, General Counsel, 59. Mr. O’Brien has been General Counsel to TBTA since May 1990. Prior to his present appointment, Mr. O’Brien served as the Chief of Construction Litigation at the Transit Authority. He has been a law clerk in the United States Court of International Trade, an Assistant Corporation Counsel of the City of New York and a Senior Trial Attorney with the Criminal Division of

the Legal Aid Society. Mr. O'Brien is a graduate of St. John's Law School and Fordham College. He has completed a program for Senior Government Executives at the John F. Kennedy School of Government at Harvard University.

David Moretti, Chief Financial Officer, 50. Mr. Moretti joined TBTA in 1988 and has held the positions of Deputy CFO and Budget Director. Prior to joining TBTA, Mr. Moretti served as Deputy Assistant Director for the New York City Office of Management and Budget and also participated in research on the privatization of municipal services for the Columbia University Graduate School of Business. Mr. Moretti earned his undergraduate degree in economics from Boston University and has attended the Program for Senior Executives in State and Local Government at Harvard University.

TBTA Facilities

The following is a brief description of the TBTA Facilities:

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

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

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

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

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

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

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

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

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

TBTA also operates the Battery Parking Garage. Only the bridges and tunnels constitute TBTA Facilities under the TBTA bond resolutions, though the net revenues derived from the operation of the Battery Parking Garage are included as net revenues that are pledged to the payment of such bonds.

Authorized Projects of TBTA

- TBTA's powers have been broadened by the State Legislature beyond its traditional role as a vehicular toll facility authority within the City. TBTA is also authorized to participate in the financing of the following two public benefit projects:
 - the TBTA Transit and Commuter Project, and
 - the Convention Center Project (Jacob K. Javits Convention Center in Manhattan).
- The TBTA Transit and Commuter Project consists of certain capital projects for the benefit of the Commuter System and the Transit System and SIRTOA. The capital assets constructed or acquired by TBTA as part of the TBTA Transit and Commuter Project are to be transferred or leased for a nominal consideration to MTA or the Transit Authority and neither such conveyance nor any capital grants made as part of the TBTA Transit and Commuter Project will produce revenues for TBTA. Alternatively, such capital assets may be sold to parties other than MTA or the Transit Authority and leased back by TBTA for subleasing for a nominal consideration to MTA or the Transit Authority or leased directly to MTA or the Transit Authority at the expense of TBTA.
- The Convention Center Project is not and cannot become a project for which TBTA can issue its Senior Revenue Bonds. Under recently enacted legislation, it is expected that TBTA's outstanding convention center bonds will be defeased with the proceeds of bonds issued by another State-created entity in connection with the financing of the expansion of the Javits Convention Center.
- Under existing law, TBTA has no obligation with respect to the operation and maintenance of the equipment or facilities financed as the TBTA Transit and Commuter Project or the Convention Center Project.

MTA CAPITAL CONSTRUCTION COMPANY

Legal Status and Public Purpose

MTA Capital Construction Company was created as an MTA subsidiary in 2003. MTA Capital Construction is responsible for administration of the planning, design and construction of current and future major MTA system expansion projects, including East Side Access, 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 the Second Avenue Subway.

- East Side Access will bring LIRR commuters into Grand Central Terminal, creating a terminal on Manhattan's East Side to complement Penn Station on the West Side.
- Second Avenue Subway will relieve pressure on the overcrowded Lexington Avenue line and improve access to downtown Manhattan.
- #7 Subway Line Extension from Times Square to the west side of Manhattan will provide a link to the Javits Convention Center and has the potential to transform the surrounding manufacturing and industrial neighborhood into a mixed-use community.
- Fulton Transit Center will replace the current maze of tunnels and stairways built by the Transit Authority to connect subway lines built years apart by the City and different private companies. The center will improve access to nine subway lines and include an underground concourse that will connect to three subways, the PATH Train that serves New Jersey, and the redeveloped World Trade Center site.
- South Ferry Terminal will replace the existing two-track terminal with a three-track station that will improve service along the entire West Side of Manhattan and into the Bronx by eliminating end-of-the-line bottlenecks.

More detailed general information on each of these projects, which is expected to change from time to time, including recent cost estimates and construction schedules, if available, can be found on the MTA's website (www.mta.info) under "Capital Construction." The information set forth under that caption of the website is not included herein by specific reference.

Management

The following is a brief biography of the chief operating officer of MTA Capital Construction.

Mysore Nagaraja, President, 63. Mr. Nagaraja transferred to MTA Capital Construction from the Transit Authority where he was Senior Vice President/Chief Engineer. He joined the Transit Authority in 1985. He has served in all capacities of Capital Program Management and was responsible for directing the planning, design and construction of transit facilities. Prior to being appointed Senior Vice President, Mr. Nagaraja served as Deputy Vice President/ Chief Engineer. Mr. Nagaraja earned his Bachelor of Science and Masters degrees in Civil Engineering from Mysore University, India, and Brigham Young University, respectively.

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY

Legal Status and Public Purpose

SIRTOA was created as a public benefit corporation subsidiary of MTA in 1970. SIRTOA is responsible for the operation of a rapid transit railroad system on Staten Island pursuant to a lease and operating agreement with the City.

SIRTOA service runs 24 hours daily between the St. George and Tottenville stations. At the St. George station, customers can make connections with Staten Island Ferry service. SIRTOA's capital needs are funded as a part of the Transit Capital Program approved by the Review Board and its operating losses are funded by the City and/or the MTA. In the event the corporate restructuring occurs, SIRTOA would become a part of MTA Subway Company.

Management

Lawrence Reuter, the President of the Transit Authority, is also President of SIRTOA.

METROPOLITAN SUBURBAN BUS AUTHORITY
(d/b/a MTA Long Island Bus)

Legal Status and Public Purpose

Metropolitan Suburban Bus Authority (“MSBA”), which conducts business and is more commonly known as MTA Long Island Bus, was created as a public benefit corporation subsidiary of MTA in 1972. MSBA is responsible for the operation of the public transit bus system and the paratransit system (Able-Ride) predominantly in Nassau County. Nassau County and MSBA entered into a Lease and Operating Agreement, dated as of January 15, 1973 (the “MSBA Lease”), that has since been amended a number of times. The MSBA Lease provides generally for the following:

- Service levels, route structure, maintenance and administration are the responsibility of MSBA, with such financial assistance as may be provided by Nassau County and others, but is not the obligation of MTA. However, MTA provides operating assistance from mortgage recording tax collections.
- Providing of capital assets for MSBA is, in general, the responsibility of Nassau County, with such State and Federal financial assistance as it may be successful in securing. MTA administers the MSBA capital program.
- Changes in the levels of fares and major service changes generally require public hearings, but are not subject to approval by any governmental entity other than the MSBA Board.

Management

The following is a brief biography of the chief operating officer of MSBA.

Neil Yellin was appointed President of MSBA in February 1998. Prior to his appointment, he was MSBA’s Vice President of Policy and Planning from 1993 and served in a number of senior management positions beginning in 1987 when he joined the agency. Before his service at MSBA, he held various management positions within New York City government from 1978 through 1987. Mr. Yellin holds a master’s degree in Administrative Management from State University of New York at Albany. In addition, he has completed a professional degree program in Finance from New York University and the Program for Senior Executives in State and Local Government from the Kennedy School at Harvard University. Mr. Yellin is also a U.S. Navy veteran.

MTA BUS COMPANY

Legal Status and Public Purpose

MTA Bus Company (“MTA Bus”) was created as a public benefit corporation subsidiary of MTA in 2004 specifically to operate certain City bus routes.

At its meeting in December 2004, the MTA Board approved a letter agreement with the City with respect to MTA Bus’ establishment and operation of certain bus routes (the “City Bus Routes”) in areas then served by private bus operators in The Bronx, Queens and Brooklyn pursuant to franchises granted by the City. The letter agreement with the City provides for the following:

- A lease by the City to MTA Bus of the bus assets to operate the City Bus Routes.
- The City agrees to pay MTA Bus the difference between the actual cost of operation of the City Bus Routes (other than certain capital costs) and all revenues and subsidies received by MTA Bus and allocable to the operation of the City Bus Routes. The letter agreement permits the parties after a period of 18 months to negotiate an agreement to establish a formula-based approach for the payment of the City subsidy.
- If the City fails to timely pay any of the subsidy amounts due for a period of 30 days, MTA Bus has the right, after an additional 10 days, to curtail, suspend or eliminate service and may elect to terminate the agreement. The City can terminate the agreement on one year’s notice.

MTA Bus is currently operating the routes formerly operated by the following City franchise operators:

- Liberty Lines Bus Company – operating seven express bus routes effective January 3, 2005,
- Queens Surface Bus Co. – operating 19 express and local bus routes effective February 27, 2005,

The City has reached agreement to acquire the routes formerly operated by New York Bus Service and it is expected that MTA Bus will begin service on those routes during the summer of 2005.

The City has also reached agreement to acquire the routes formerly operated by Transit Alliance, which operates Command Bus Co., Green Bus Lines, Jamaica Buses and Triboro Coach. It is expected that MTA Bus will begin service on those routes during the summer of 2005.

Collectively, the bus lines operated and to be operated by MTA Bus serve approximately 190,000 riders per day.

As discussed below under “FINANCIAL PLANS AND CAPITAL PROGRAMS,” the Review Board has approved an initial \$305.5 million in funding for MTA Bus and the MTA has approved a request for \$149 million in additional capital funding.

It is expected that MTA Bus will pledge its operating revenues to the Trustee under the Transportation Resolution (as hereinafter defined) and become a signatory to the Interagency Agreement securing the Transportation Revenue Bonds and that, thereafter, all or a portion of MTA Bus’ capital needs may be financed from the proceeds of the Transportation Revenue Bonds.

There are no meaningful operating or revenue statistics available with respect to MTA Bus.

Management

The following is a brief biography of the chief operating officer of MTA Bus.

Thomas J. Savage, President since December 2004. Prior to being appointed President, Mr. Savage was MTA Chief Operating Officer since October 20, 2003. Prior to that, Mr. Savage was Senior Vice President for MetroCard Operations at the Transit Authority, where he was responsible for MetroCard-related activities including the Automated Fare Collection Program on the Transit Authority's subways and buses, as well as customer services, marketing, AFC equipment maintenance and revenue collection. Mr. Savage joined the Transit Authority in 1971 and has held various positions in the Office of Management & Budget, Human Resources and the Transit Police Department. Prior to being Senior Vice President for MetroCard Operations, he served as Chief of Police for MTA. Mr. Savage received his Bachelor of Science degree in Finance from Long Island University and has earned credit from New York University's Graduate School and the New York City Police Academy.

**PART 3. STATISTICAL AND FINANCIAL
INFORMATION**

RIDERSHIP AND FACILITIES USE

Transit System Ridership

General. Subway revenue passengers in 2004 increased by 3.0% from 2003 to over 1.4 billion. Bus ridership in 2004 was 741 million, 1.8% higher than in 2003. Passengers increased generally due to the improving New York City economy and the adverse effects of the August 2003 blackout.

To meet the overall growth in demand in recent years, the Transit Authority has been expanding service since 1996, adding new capacity on 86% of its subway lines and 97% of its bus routes. In 2004, subway service increased by 1.4% over 2003 due to restoration of Manhattan Bridge 4-track service (2-track operation had been in effect since 1986) and bus service was increased by 0.8%.

While some of the Transit System changes in use in the past few years have been attributable to the changes in the economy, overall ridership changes are also attributable to other factors including successful efforts to reduce fare evasion and improve security. Significant factors which impact ridership, discussed more fully below, include fares and fare incentives, Transit System performance and levels of services, Transit System security and employment in the City generally as well as the relative level and cost of service provided by competing transportation modes such as taxis, licensed and unlicensed vanpools, private car and bus services and charter operators. Interruptions to service or temporary closures of lines resulting from major capital improvement projects to the Transit System by the Transit Authority or service disruptions caused by City infrastructure problems which are not under the control of the Transit Authority and MABSTOA or from repairs to or rehabilitation of City infrastructure by the City or its agencies could adversely impact ridership and revenues. The effect would depend on the nature, severity and duration of the service interruptions.

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

Years	Revenue Passengers(1) (in thousands)							
	Subway	Subway Increase/ (Decrease)	Bus(2)	Bus Increase/ (Decrease)	Para- transit(3)	Paratransit Increase/ (Decrease)	Total Revenue Passengers(4)	Total Increase/ (Decrease)
1995	1,093,029	1.1%	511,043	(0.9)%	678	20.2	1,604,750	0.5%
1996	1,110,026	1.6	480,049	(6.1)	740	9.1	1,590,815	(0.9)
1997	1,129,514	1.8	529,856	10.4	967	30.7	1,660,337	4.4
1998	1,199,419	6.2	607,593	14.7	1,240	28.2	1,808,252	8.9
1999	1,283,082	7.0	659,344	8.5	1,557	25.6	1,943,983	7.5
2000	1,381,079	7.6	691,822	4.9	2,295	47.4	2,075,196	6.7
2001	1,405,300	1.8	732,445	5.9	2,710	18.1	2,140,455	3.1
2002	1,413,178	0.6	754,718	3.0	3,030	11.8	2,170,926	1.4
2003	1,384,069	(2.1)	727,607	(3.6)	3,564	17.6	2,115,240	(2.6)
2004	1,426,040	3.0	740,586	1.8	4,164	16.8	2,170,790	2.6

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

(2) Bus ridership is measured as unlinked trips, i.e., each bus boarding is counted as a trip, including bus-to-bus transfers. Bus ridership prior to July 1997 includes estimates for student ridership and bus-to-bus transfers. Bus ridership prior to 2004 has changed from previous versions of this document due to correction in student transfer ridership.

(3) Paratransit ridership includes trips made by Personal Care Attendants and guests. In previous versions of this document, paratransit ridership was measured as completed trips only.

(4) Includes subway, bus and paratransit.

Fares. Since September 1975 when the base fare was 50 cents, the base fare charged for use of the Transit System has been raised eight times.

<u>Date of Increase</u>	<u>New Base Fare</u>	<u>Amount of Increase</u>	<u>Percent of Increase</u>
1980 – June	\$0.60	\$0.10	20.0%
1981 – July	0.75	0.15	25.0
1984 – January	0.90	0.15	20.0
1986 – January	1.00	0.10	11.1
1990 – January	1.15	0.15	15.0
1992 – January	1.25	0.10	8.7
1995 – November	1.50	0.25	20.0
2003 – May	2.00	0.50	33.3

The period between the fare increases in 1995 and 2003 represented one of the longest periods of time without an increase in the history of the Transit Authority. Each fare increase, except the 1986 increase, has been followed by an immediate decrease in ridership.

On February 27, 2005, the Transit Authority increased the cost of a 30-day unlimited ride MetroCard from \$70 to \$76, the cost of a 7-day unlimited ride MetroCard from \$21 to \$24, and express bus fares from \$4 to \$5 without increasing the base fare.

Historical Fare Information

<u>Year</u>	<u>CPI-U(1)</u>	<u>Base Fare</u>	<u>Base Fare Real \$(2)</u>	<u>Average Fares(3)</u>	<u>Non-Student Average Fares(4)</u>
1995(5)	162.2	1.50	0.533	1.092	1.175
1996	166.9	1.50	0.518	1.284	1.378
1997	170.8	1.50	0.506	1.229	1.323
1998	173.6	1.50	0.498	1.084	1.160
1999(6)	177.0	1.50	0.488	1.028	1.093
2000	182.5	1.50	0.473	1.013	1.075
2001	187.1	1.50	0.462	1.001	1.058
2002	191.9	1.50	0.450	0.986	1.044
2003(7)	197.8	2.00	0.582	1.120	1.189
2004	204.8	2.00	0.563	1.174	1.244
2005Est(8)	208.7	2.00	0.552	1.226	1.300

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- (1) CPI All Urban Consumers, New York, N.Y. – Northeastern N.J.; 1982-84=100.0. The CPI levels listed are the annual average for each year. 2005 estimate based on Global Insight forecast of 1.93% increase in NY/NJ CPI-U.
 - (2) Base fare after adjusting for inflation since 1975. Average fares in the table are for the full year.
 - (3) Total farebox revenue divided by revenue passenger trips (including students). Average fares in the table are for the full year.
 - (4) Non-student revenue divided by revenue passenger trips (excluding students). Average fares in the table are for the full year.
 - (5) Base fare increased from \$1.25 to \$1.50 in November 1995.
 - (6) 1999 is the first complete calendar year in which unlimited ride passes were available.
 - (7) Base fare increased from \$1.50 to \$2.00 in May 2003. Average fares in the table are for the full year.
 - (8) 30-day unlimited ride, 7-day unlimited ride and express bus fares increased effective February 27, 2005. Average fares in the table are for the full year.

The Transit Authority offers the following MetroCard discount and bonus programs:

- free intermodal (subway-to-bus and bus-to-subway) transfers,
- MetroCard Bonus Program, offering customers a 20% bonus on purchases of, or additions to, a single MetroCard of \$10 or more,
- unlimited-ride 1-day, 7-day, and 30-day passes,
- unlimited-ride 7-day combined express bus and regular bus pass,
- free and half-fare student programs,
- half-fare programs for senior citizens and persons with disabilities, and
- free replacement of lost or stolen unlimited-ride 30-day passes (limit of 2 per calendar year per holder) if the holder paid by credit or debit card.

Subway System Performance and Level of Service. Since implementation of the capital programs began in early 1982, Transit System performance, on the whole, has improved. The Transit Authority has replaced or overhauled its entire fleet. The entire fleet is now substantially free of painted graffiti, and subway cars now run an average of 156,815 miles between breakdowns, up from an average of 7,145 in 1982. Since the end of 1992, all of the Transit System’s 656 miles of mainline track has been maintained in a state of good repair, which has reduced track related mainline derailments and delays. Weekday on-time performance based upon terminal departures and arrivals was 96.6% in 2004. The Transit Authority has also rehabilitated shops, depots, warehouses and stations that has helped make operations more efficient.

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

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

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

The following table shows the VMT for subways during the last ten years.

Vehicle Miles Traveled by Subways		
<u>Year</u>	<u>Subway VMT (in millions)</u>	<u>Increase/ (Decrease)</u>
1995	312	N/A
1996	309	(1.0)%
1997	314	1.6
1998	315	0.3
1999	323	2.5
2000	333	3.1
2001	336	0.9
2002	344	2.4
2003	345	0.3
2004	350	1.4

An important factor affecting the quality of subway service is the frequency of train abandonments, either in the form of terminal abandonments or en route abandonments. Terminal abandonments occur when trains scheduled for operation cannot be put into service. En route abandonments occur whenever a train misses one or more of its regularly scheduled station stops after the train has left its originating

terminal. Of the two, en route abandonments have a potentially greater impact on service due to the compounding effect they may have on a portion of the Transit System. For example, if a train is abandoned en route, it may be immobilized in place for an extended period delaying other trains behind it or causing trains to be switched to another track.

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

Subway MDBF represents total revenue car miles divided by the number of car failures. A car failure is any incident, including delays, relating to equipment in revenue service that is attributable to that equipment and/or its maintenance. Since 1995, subway MDBF has increased by 167.5%.

The following table shows subway MDBF during the last ten years.

Subway MDBF		
<u>Year</u>	<u>Subway MDBF</u>	<u>Increase/ (Decrease)</u>
1995	58,622	N/A
1996	68,238	16.4%
1997	77,161	13.1
1998	80,990	5.0
1999	86,884	7.3
2000	110,180	26.8
2001	109,914	(0.2)
2002	114,619	4.3
2003	139,960	22.1
2004	156,815	12.0

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

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

There has been an increase in bus MDBF since the beginning of the capital program process. Since 1995, the bus MDBF has increased by 117.4%. However, normal replacement of buses as they approach the end of their useful life has been problematic over the last few years due to financial weakness among bus manufacturing vendors. This resulted in delivery delays and in some instances quality problems. In response, the Department of Buses developed and implemented programs to extend the useful life of some buses, including general overhauls, three-year upgrades and 12-year upgrades. The Department of Buses continues its programmatic fleet maintenance program that includes scheduled preventive maintenance at 3-year intervals.

The following table shows bus MDBF during the last ten years.

Bus MDBF		
<u>Year</u>	<u>Bus MDBF</u>	<u>Increase/ (Decrease)</u>
1995	1,639	N/A
1996	1,745	6.5%
1997	2,033	16.5
1998	2,084	2.5
1999	2,149	3.1
2000	2,608	21.4
2001	3,242	24.3
2002	3,478	7.3
2003	3,554	2.2
2004	3,564	0.3

Since 1995, bus VMT has increased by 23.29%. Numerous schedule and route adjustments have been and continue to be made to better match bus availability to passenger demand. The following table shows the VMT for buses during the last ten years.

Vehicle Miles Traveled by Buses		
<u>Year</u>	<u>Bus VMT (in millions)</u>	<u>Increase/ (Decrease)</u>
1995	99	N/A
1996	95	(4.0)%
1997	98	3.2
1998	104	6.1
1999	109	4.8
2000	115	5.5
2001	118	2.6
2002	119	0.8
2003	121	1.7
2004	122	0.8

Transit System Security. Ridership is also affected by the public's perception of security and order in the Transit System. Security around the Transit System has been increased since the terrorist attacks on WTC.

The public's perception of security and order is also affected by the presence of homeless people, beggars, illegal vendors and fare evaders in the Transit System. The Transit Authority has taken significant steps to address these problems. These include instituting an outreach program to transport the homeless from the Transit System, increasing the uniformed police presence throughout the Transit System and reducing fare evasion and serious crimes. In 2004, major felonies dropped, continuing a trend that has seen serious crime drop dramatically since 1990. Since 1990, major felonies were down 81.2%. Aggressive enforcement and fare control area modifications contributed to a drop in the fare evasion ratio to 0.38% in 2004 from 1.08% in 1997 and from 5.91% in the peak year of fare evasion in 1991. Police presence has been important to reductions in subway crime and fare evasion.

Employment. City employment levels generally have a significant impact on the level of subway ridership. In the 1992 to 2000 period, employment grew by approximately 13.4%, and then declined 5.14% from 2000 to 2003. From 2003 to 2004, employment grew by 0.3%. Subway ridership gains, however, outpaced the upswing in the local economy between 1992 and 2000, and ridership declined at a lower rate than employment between 2000 and 2003. Subway ridership increased 3.0% from 2003 to 2004. The terrorist attack on the World Trade Center and general economic conditions have had an adverse impact on City employment, including the number of jobs lost and relocated, either temporarily or permanently.

Average weekday subway passengers increased 26.1% from 1995 to 2004, including a 2.2% increase in 2004, and average weekend subway passengers increased by 50.7% since 1995, including a 4.9% increase in 2004.

Automated Fare Collection. The Transit Authority no longer sells or accepts tokens, so the only way to enter the system is through the automated fare collection (“AFC”) system. The AFC system is fully operational in all subway stations and on all Transit Authority, MaBSTOA, MSBA and MTA Bus buses. AFC includes, among other elements, subway turnstiles and bus fare boxes that accept a magnetic farecard (“MetroCard”) in payment. AFC provided the technical capability to eliminate two-fare zones as well as flexible intermodal and interagency fare structures. MetroCard enables passengers to purchase multiple rides and use the MetroCard to enter the Transit System through AFC turnstiles that automatically deduct the cost of each use. The subway turnstiles are designed to be tamper-resistant and to inhibit fare evasion by being more difficult to pass without payment. The bus fareboxes issue magnetically encoded transfers that are designed to reduce fare evasion resulting from the use of invalid transfers.

In 2004, a record high 93.0% of non-student trips were made with MetroCard, up from 90.2% in 2003 and 23% in June 1997, the month before the introduction of free intermodal transfers. 41.2% of 2004 non-student trips were made with pay-per-ride MetroCards, and 51.8% were made on unlimited-ride MetroCards (23.6% with 30-day cards, 26.9% with 7-day cards and 1.3% with one-day cards). The market share of all non-MetroCard fare media (cash and single-ride tickets) was 7.0% in 2004.

Out-of-system sales outlets, including approximately 4,000 active retail locations, generated approximately \$417.2 million in MetroCard sales in 2004, a 14% increase over 2003. Market share for MetroCard out-of-system sales is approximately 17%. During 2004, employers ordered 1.2 million TransitChek MetroCards valued at \$59 million, with unlimited ride products accounting for approximately 75% of non-premium TransitChek MetroCard sales. In addition, total premium TransitChek MetroCard sales for the year were \$45 million, with more than 58,000 employees enrolled in the program at year’s end. TransitChek MetroCard sales are expected to continue to grow due to Federal legislation that liberalized the tax benefits of employer-based transportation programs.

MetroCard Vending Machines (“MVMs”) allow riders to purchase MetroCards using cash, credit or debit cards. The MetroCard Express Machine (“MEM”) is a compact vending unit that accepts only credit or debit cards for payment. By the end of 2004, vending implementation was completed. A total of 1,627 MVMs were in service in 467 stations throughout the Transit Authority’s subway system, as well as the New York City Convention and Visitors Bureau, the Staten Island Ferry’s St. George terminal, Orchard Beach in the Bronx, the Long Island Bus Hempstead Terminal, and Grand Central Station. In addition, 583 MEMs were in service in 137 stations by the end of the year. Vending machine sales totaled \$1.224 billion in 2004, accounting for 59% of sales at stations equipped with vending machines.

Purchasers of a 30-day pass with a credit or debit card through the MVMs and MEMs are the beneficiaries of a free replacement if their MetroCards are lost or stolen, subject to a limit of 2 per holder per calendar year.

See generally “CHANGES IN METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS” below in this Part 3.

Commuter System Ridership

From 1995 to 2004, ridership on MNCRC increased by 16% and ridership on LIRR increased by 3.5%. In 2004, mainly due to economic conditions and the fare increases, LIRR ridership fell to 79.3 million, and MNCRC ridership increased to 70.8 million.

The following table details annual commuter services ridership since 1995 and the percentage increase/(decrease) each year.

Year	Revenue Passengers(1) (in thousands)		MNCRC Increase/ (Decrease)
	LIRR(2)	LIRR Increase/ (Decrease)	
1995	76,551	(0.1)%	60,925
1996	77,243	0.9	61,636
1997	78,643	1.8	62,564
1998	80,272	2.1	65,022
1999	82,113	2.3	67,071
2000	85,340	3.9	70,246
2001	85,603	0.3	71,426
2002	83,918	(2.0)	71,637
2003	80,924	(3.6)	70,502
2004	79,254	(2.1)	70,757

- (1) A single rider traveling to and from the same destination is counted as two revenue passengers. The number of revenue passengers is determined in part by ascribing an assumed frequency of use to holders of weekly and monthly commutation tickets.
- (2) Beginning January 1, 1999, LIRR adopted a new methodology for converting ticket sales data into ridership estimates that is consistent with the methodology employed by MNCRC. LIRR revenue passengers for 1995 through 1998 have been revised using this new methodology.

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

Fares. Since 1982, the base fares charged for the use of the Commuter System within New York State have been raised six times.

Date of Increase	Approximate Increase in NYS Average Fares
1984 – January	20%
1986 – January	11
1990 – January	15
1995 – November	9
2003 – May	25
2005 – March	7.6/6.2*

*Effective March 1, 2005, the average fare increased by 7.6% on LIRR and by 6.2 % on MNCRC for service between points in New York State, which resulted in an approximately 5% increase in revenues.

In addition, CDOT approved the implementation of changes in fare levels for travel to and from Connecticut stations effective July 1, 1991 and January 1, 1992. CDOT also increased fares by approximately 5% to and from Connecticut on January 1 in the years 1993, 1994, 1996 and 1997, and by approximately 4.5% on January 1, 1998. Most recently, CDOT implemented a 15% average fare increase on July 1, 2003 and an additional 5.5% average fare increase on January 1, 2005.

Fares on LIRR and MNCRC increased effective March 1, 2005 for service between points in New York State. A discount is offered to mail-and-ride customers who purchase a combined monthly commuter ticket and MetroCard. LIRR and MNCRC sell reduced-fare \$3.00 weekend rides between points within the City.

Nevertheless, current fares, without giving effect to any changes in average length of trip or other ridership patterns, remain, on average, low in real terms as compared to 1982 after adjusting for inflation based on increases in the Consumer Price Index ("CPI").

Year	CPI(1)	LIRR		MNCRC					
		Average Nominal Fare(2)	Real Fare 1982\$	Harlem		Hudson		New Haven	
				Average Nominal Fare	Real Fare 1982\$	Average Nominal Fare	Real Fare 1982\$	Average Nominal Fare	Real Fare 1982\$
1995	162.2	3.89	2.29	3.71	2.18	4.35	2.56	4.73	2.78
1996	166.9	4.16	2.37	3.97	2.27	4.69	2.68	4.93	2.82
1997	170.8	4.18	2.33	4.03	2.25	4.78	2.67	5.16	2.88
1998	173.6	4.16	2.28	3.99	2.19	4.76	2.61	5.27	2.90
1999	177.0	4.17	2.24	3.96	2.14	4.77	2.57	5.24	2.82
2000	182.5	4.16	2.17	4.00	2.09	4.83	2.52	5.26	2.75
2001	187.1	4.20	2.14	4.00	2.04	4.86	2.48	5.24	2.67
2002	191.9	4.19	2.08	3.99	1.98	4.85	2.41	5.23	2.60
2003	197.8	4.86	2.34	4.64	2.24	5.66	2.73	5.76	2.77
2004	204.8	5.18	2.41	4.91	2.29	6.00	2.80	6.12	2.85
2005Est	210.5	5.55	2.51	5.12	2.32	6.33	2.87	6.56	2.97

(1) CPI All Urban Consumers, New York, N.Y. – Northeastern N.J.; 1982-84=100.0. The CPI levels listed are the annual average for each year.

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

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

Both LIRR and MNCRC have recently experienced problems with some of the concrete ties that were installed a few years ago. MNCRC is in the process of replacing concrete ties on a major stretch of track north of Tarrytown. The railroads are uncertain if the problems are limited to a batch of concrete ties manufactured in a certain time period. The railroads are reviewing their rights under the accompanying warranty agreements to determine if they are covered for just replacement of the concrete ties, or also for the more expensive labor expense. If not covered by warranty, the cost of replacing substantial portions of

the concrete ties could be material and the capital programs would need to be amended to cover the cost of replacement.

The following table shows on-time performance for LIRR and MNCRC for the period 1995 through 2004.

LIRR and MNCRC On-Time Performance (%)		
<u>Year</u>	<u>LIRR</u>	<u>MNCRC</u>
1995	90.9	95.4
1996	90.0	94.7
1997	92.2	96.5
1998	90.5	96.6
1999	91.0	96.3
2000	92.7	96.7
2001	93.1	96.6
2002	94.0	97.3
2003	93.1	96.4
2004	92.7	96.1

The following table shows the fleet's MDBF for LIRR and MNCRC for the period 1995 through 2004.

<u>Year</u>	<u>LIRR</u>		<u>MNCRC</u>	
	<u>MDBF (in miles)</u>	<u>Increase/ (Decrease)</u>	<u>MDBF (in miles)</u>	<u>Increase/ (Decrease)</u>
1995	24,972	N/A	48,977	N/A
1996	24,366	(2.4)%	40,007	(18.3)%
1997	28,945	18.8	62,785	56.9
1998	27,758	(4.1)	59,672	(5.0)
1999	28,159	1.4	70,328	17.9
2000	28,405	0.9	54,355	(22.7)
2001	30,660	7.9	50,390	(7.3)
2002	37,139	21.1	70,288	39.5
2003	39,579	6.6	56,578	(19.5)
2004	44,760	13.1	52,324	(7.5)

Regional Employment. Regional employment levels, primarily in the City, have a significant impact on commuter railroad ridership. See "RIDERSHIP AND FACILITIES USE – Transit System Ridership – Employment" above in this Part 3.

TBTA Bridge and Tunnel Use – Total Revenue Vehicles

The following table shows the total number of revenue vehicles at the TBTA Facilities for the past six years.

<u>Year</u>	TBTA Facilities Total Revenue Vehicles	
	Revenue Vehicles 000's	Increase/ <u>(Decrease)</u>
2000	296,490	N/A
2001(1)	293,220	(1.1)%
2002(1)	299,995	2.3
2003(2)	297,465	(0.8)
2004	302,944	1.8

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- (1) The TBTA Facilities and the Battery Parking Garage were not damaged in the terrorist attack at WTC on September 11, 2001. However, the Battery Parking Garage was closed temporarily following the attack and subject to clean-up thereafter. In addition, some of the bridges and tunnels were subject to closure and/or traffic restrictions for significant periods of time. There was no interruption in the use of the E-ZPass system.
- (2) Toll increase became effective May 18, 2003.

TBTA's independent engineers, URS Corporation – New York, have conducted a study (the "URS Study") to develop projections of traffic, revenues and expenses for the TBTA Facilities entitled "History and Projection of Traffic, Toll Revenues and Expenses and Review of Physical Conditions of the Facilities of Triborough Bridge and Tunnel Authority," dated April 29, 2005. The report also contains certain historical revenue and traffic information not included herein. A copy of the URS Study is attached to the Continuing Disclosure Filings and has also been posted on the MTA website under "MTA Home – Investor Information." The URS Study is included by specific cross-reference herein.

Toll Rates

General Power to Establish Tolls.

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

Resident Token, Discount and Rebate Programs.

- The TBTA Act was amended in 1981 to require that residents of Broad Channel and the Rockaway Peninsula be afforded the right to purchase tokens for the Cross Bay Veterans Memorial Bridge at a cost of 66-2/3% of the regular crossing fare.
- The TBTA Act was further amended in 1983 to
 - o eliminate the residency requirement for the purchase of reduced rate tokens for the Cross Bay Veterans Memorial Bridge,
 - o require the offering of tokens for the Marine Parkway-Gil Hodges Memorial Bridge at a cost of 66-2/3% of the regular crossing fare, and
 - o require the offering of tokens to residents of Richmond County for the Verrazano-Narrows Bridge at a cost of 80% of the regular crossing fare.
- The TBTA Act was amended in 1993 to provide that surcharges, in addition to the regular toll, imposed by TBTA on the Verrazano-Narrows, Marine Parkway-Gil Hodges Memorial and Cross Bay Veterans Memorial Bridges shall not be treated as part of the regular crossing fare for the purpose of computing the reduced token cost discussed in this paragraph. The 1993 amendment also provided that residents of Staten Island, Broad Channel and the Rockaway Peninsula are entitled to a permanent exemption from any applicable surcharge imposed in 1993 on such bridges.
- MTA has a program to rebate the tolls of E-ZPass customers who are residents of Broad Channel and the Rockaway Peninsula using the Cross Bay Veterans Memorial Bridge, effectively eliminating the only intra-borough toll for residents traveling to the principal part of their borough and returning. The rebate program costs approximately \$2.9 million annually and is funded from MTA's unencumbered funds. MTA deposits with TBTA or its designee each year an amount estimated to be sufficient to cover the rebate program. Such deposit has been made for 2005. In the event such amount is not sufficient, TBTA will collect the tolls from the user's E-ZPass account, unless additional monies are deposited with TBTA for such purpose from another source.

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

Current Toll Rates. Tolls last increased effective March 13, 2005. For the Verrazano-Narrows Bridge, the two-axle passenger vehicle crossing charge (one-way collection) increased from \$8 to \$9, with a \$1 discount for E-ZPass users. For the Bronx-Whitestone Bridge, Brooklyn-Battery Tunnel, Queens Midtown Tunnel, Triborough Bridge and Throgs Neck Bridge, the two-axle passenger vehicle crossing charge increased from \$4.00 to \$4.50, with a \$.50 discount for E-ZPass users. For the Henry Hudson Bridge, the two-axle passenger vehicle crossing charge increased from \$2.00 to \$2.25, with a \$.50 discount for E-ZPass users. And for the Marine Parkway-Gil Hodges Memorial Bridge and the Cross Bay Veterans Memorial Bridge, the two-axle passenger vehicle crossing charge increased from \$2.00 to \$2.25, with a \$.75 discount for E-ZPass users. Additional charges apply for additional axles and/or weight. Certain resident discounts apply to the Verrazano-Narrows Bridge, the Marine Parkway-Gil Hodges Memorial Bridge and the Cross Bay Veterans Memorial Bridge. See "CHANGES IN METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS" below for a discussion of changes that have been implemented, and others that are possible, to the traditional pay-as-you-go cash, and pay-before-you-go, basis of payment. See also "E-ZPass" below.

Minimum Toll Covenants in TBTA Bond Resolutions. The TBTA Senior Resolution and TBTA Subordinate Resolution provide that:

- discounts to automobiles carrying not more than two persons may not exceed 20% of the regular crossing fare on any facilities other than the Henry Hudson Bridge, the Marine Parkway-Gil Hodges Memorial Bridge and the Cross Bay Veterans Memorial Bridge, on which latter facilities such discount may not exceed 33 1/3%,
- the minimum undiscounted toll rate for automobiles carrying not more than two persons be at least \$3.00 for each crossing over or through the Triborough Bridge, the Bronx-Whitestone Bridge, the Throgs Neck Bridge, the Brooklyn-Battery Tunnel or the Queens Midtown Tunnel, \$2.50 for each crossing over the Verrazano-Narrows Bridge, at least \$1.50 for each crossing over the Henry Hudson Bridge, and at least \$1.25 for each crossing over the Marine Parkway-Gil Hodges Memorial Bridge or the Cross Bay Veterans Memorial Bridge,
- in the event TBTA shall impose a surcharge in addition to the regular toll rate, such surcharge shall not constitute part of the toll rate for purposes of computing the maximum discount described in the first bullet point above and that TBTA may provide exemptions from such surcharges without regard to the limits on maximum discounts,
- in the event TBTA imposes different undiscounted toll rates for vehicles utilizing an electronic toll collection system and based upon time of day, day of week or period of the year mode of pricing, the limits on the maximum discounts shall be measured against the undiscounted toll rate applicable to the particular crossing, and
- the minimum crossing charge, however denominated, and after giving effect to any exemption, exclusion or discount, for automobiles carrying not more than two persons be at least \$3.20 for each westbound crossing over the Verrazano-Narrows Bridge, at least \$1.60 for each crossing over the Triborough Bridge, the Bronx-Whitestone Bridge or the Throgs Neck Bridge or through the Brooklyn-Battery Tunnel or the Queens Midtown Tunnel and at least 66.7 cents for each crossing over the Henry Hudson Bridge, the Marine Parkway-Gil Hodges Memorial Bridge or the Cross Bay Veterans Memorial Bridge.

In addition, the TBTA Senior Resolution and TBTA Subordinate Resolution limit toll free crossings with respect to the TBTA Facilities to (i) the vehicles of present and former TBTA members, officers and employees, (ii) military, police, fire, ambulance and other emergency, service and maintenance vehicles, (iii) vehicles of persons employed on Ward's Island or Randall's Island traveling to and from such Islands over the Triborough Bridge and (iv) other vehicles by passes or permits, provided that there shall not be more than 500 passes or permits outstanding at any one time.

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

Competing Facilities and Other Matters

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

In addition to the Triborough and Henry Hudson Bridges, there are nine vehicular bridges crossing the Harlem River, which are toll-free at the present time. The City has explored, from time to time, the possibility of tolling some or all of these bridges to raise revenue for the City; however, TBTA cannot predict the effect that the tolling of such bridges will have on its revenues if it occurs.

The State agrees in the TBTA Act that while any bonds of TBTA are outstanding, there will not be constructed any vehicular connection competitive with the TBTA Facilities and crossing (a) the East River north of 73rd Street or south of 59th Street in Manhattan, (b) New York Bay, or (c) Jamaica Bay or Rockaway Inlet to Rockaway Peninsula within a specified distance (approximately 2½ miles) east of the Cross Bay Veterans Memorial Bridge. There is no provision in the TBTA Act regarding competitive vehicular crossings of the Harlem River.

Under the TBTA Senior Resolution and TBTA Subordinate Resolution, the owners of the TBTA bonds waive the foregoing agreement of the State with respect to the construction of any East River vehicular toll crossing to be operated by TBTA.

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

Revenues derived from the TBTA Facilities could also be adversely affected by the condition of arteries feeding and approach and access roads leading to and from such facilities over which TBTA has no control. A number of those arteries and approach and access roads are in need of significant repairs. Major repairs to the Gowanus Expressway, the main arterial link between the Verrazano-Narrows Bridge and the Brooklyn-Battery Tunnel, will result in off-peak lane closures during the years over which these repairs are to be made and may impact traffic at these facilities. Revenues have been and may hereafter be affected by access to, and conditions and restrictions on use of, the toll-free facilities over which TBTA has no control and which compete with TBTA’s bridges and tunnels. In addition, construction in the future relating to the Second Avenue Subway could materially affect the approach to the Queens Midtown Tunnel. The URS Study referenced under “TBTA Bridge and Tunnel Use – Total Revenue Vehicles” also lists current and proposed construction projects that could adversely affect bridge and tunnel use.

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

E-ZPass

TBTA’s electronic toll collection system (“E-ZPass”) can be used by motorists to pay tolls charged by various authorities in eleven states.

- Overall market share on TBTA Facilities increased from 70% in 2003 to 70.6% in 2004, with market share increasing for both passenger cars and trucks.

- Average weekday market share of E-ZPass increased from 72% in 2003 to 72.9% in 2004.
- Average weekend market share increased from 64% in 2003 to 65.8% in 2004.
- Because E-ZPass tolls are discounted, increases in E-ZPass market share reduce the average toll paid. The average toll increased from \$3.44 per vehicle in 2003 to \$3.62 in 2004.
- Substantially all of the E-ZPass accounts prepay by credit card.

See “CHANGES IN METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS” below in this Part 3.

REVENUES OF THE RELATED ENTITIES

The following is a general description of certain revenues generated by the Related Entities. While it is not a complete list of all revenues available, it does cover substantially all the revenues pledged to pay any one or more of the securities described under “PUBLIC DEBT SECURITIES AND OTHER FINANCIAL INSTRUMENTS” in Part 4. Each different MTA or TBTA credit is supported by different revenue streams. Reference is made to the audited financial statements of the various entities for more information relating thereto. The information in the audited financial statements may differ with the information set forth below in certain respects due to the classification of revenues or timing of receipt thereof. For example, while the Related Entities use a calendar year as their fiscal year, the State has a fiscal year that begins on April 1. Some of the information set forth below and under the caption “DEDICATED TAX FUND BONDS” in Part 4 relating to the State subsidies reflects revenues received during the State’s fiscal year.

Fares and Tolls

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

<u>Year</u>	<u>Fare Revenues (in millions)</u>
2000	\$2,100
2001	2,137
2002	2,135
2003	2,396
2004	2,570

The MTA Board adopted fare increases and fare policy changes that became effective on February 27, 2005. The current fare schedule includes a basic bus and subway fare of \$2.00, as well as a variety of discounted fare arrangements (as described in the next paragraph) covering a significant and growing portion of passenger trips. Special fares are available for senior citizens, handicapped persons and school children and on certain special services. For a description of historical fare levels and certain recently completed and ongoing changes in payment and collection methods and discount programs, see “RIDERSHIP AND FACILITIES USE – Transit System Ridership – *Fares*” and “RIDERSHIP AND FACILITIES USE – Transit System Ridership – *Automated Fare Collection*” above in this Part 3.

For MetroCard users only, MTA has continued the elimination of two-fare zones, as well as the provision of volume bonuses (a 20% increase in the face value of purchases of MetroCards costing \$10 or more), unlimited-ride 7-day, 30-day and daily subway and bus passes and unlimited-ride 7-day combined express bus and regular bus passes. MTA also offers a program for unlimited-ride 30-day pass holders that enables the holder to replace his or her lost pass at no cost (limit of 2 per calendar year per holder) if the pass was paid for by credit or debit card. Although these programs decrease revenues per trip, MTA

currently projects that, over the next few years, revenues derived from fares charged to users of the Transit System will increase based upon the new fare structure. Expenses of operating the Transit System, due in part to service levels required to accommodate ridership, are also expected to increase. The MetroCard system and the addition of new means for the sale and payment of MetroCards has changed, and in the future will continue to change, the manner and timing of receipt of revenues derived from fares and can be expected to provide the basis for additional future incentive/discount programs. See “RIDERSHIP AND FACILITIES USE – Transit System Ridership – *Automated Fare Collection*” above in this Part 3 and “CHANGES IN METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS” below in this Part 3.

The Transit Authority may fix and adjust Transit System fares without the approval or consent of any other body or entity. However, as a recipient of federal funding, the Transit Authority is obligated to receive public comment prior to raising fares.

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

The City no longer reimburses the Transit Authority and MaBSTOA for costs of the free fare program for students; however, pursuant to an agreement with the State and the City, MTA, the Transit Authority and MaBSTOA continue the student program with the State and the City each agreeing to pay \$45 million towards the program’s cost. The MTA’s 2005-2008 Financial Plan assumes the continuation of the joint funding of the free fare program for students through 2008.

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

<u>Year</u>	<u>Fare Revenues (in millions)</u>
2000	\$688
2001	698
2002	691
2003	771
2004	814

Fares are set in accordance with complicated formulae and vary in relation to the distance travelled. Discounts are generally available for travel during off-peak hours, for senior citizens, children and handicapped persons, and for the purchase of weekly or monthly tickets by commuters. Monthly ticket purchasers can also receive an additional discount for purchasing a 30-day unlimited ride MetroCard with their commuter ticket.

Effective March 1, 2005, the average fare increased by 7.6% on LIRR and by 6.2% on MNCRC for service between points in New York State, which resulted in an approximately 5% increase in revenues. A discount is offered to mail-n-ride customers who purchase a combined monthly commuter ticket and MetroCard and a 2% discount is offered to mail-n-ride customers who purchase non-combined tickets or combined tickets with a \$40 (bonus value, \$48) MetroCard. LIRR and MNCRC offer reduced-fare rides between points within the City on weekends. As described in the next paragraph, MTA cannot increase fares in the State of Connecticut without the approval of the Connecticut Department of Transportation (“CDOT”).

MTA may fix and adjust Commuter System fares, except with respect to the New Haven Line, without the approval or consent of any other body or entity. However, MTA is required to hold public hearings prior to the change in any fare. In the case of the New Haven Line, MTA’s ability to change fares is subject to the approval of CDOT pursuant to the terms of the joint service agreement among MTA, MNCRC and CDOT. At the present time, MTA is exempt from all federal requirements relating to fares charged on interstate travel on the New Haven Line.

TBTA Toll Revenues. Revenues are derived from tolls at TBTA’s tunnels and bridges. Toll revenues on an accrual basis for the past five years are as follows:

<u>Year</u>	<u>Toll Revenues (in thousands)</u>
2000	\$ 940,607
2001	914,856
2002	933,134
2003	1,021,937
2004	1,096,988

Tolls increased effective March 13, 2005. For more information relating to TBTA’s tolls, see “RIDERSHIP AND FACILITIES USE – Toll Rates” above in this Part 3 and “CHANGES IN METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS” below in this Part 3.

State and Local General Operating Subsidies

Section 18-b Program. A statewide mass transportation operating assistance program (“Section 18-b Program”) is administered by the State Commissioner of Transportation. Section 18-b Program payments to MTA for the Transit System and Commuter System are made quarterly on the basis of specific annual appropriations by the Legislature rather than pursuant to the formula set forth in the statute that is applicable to other transportation systems throughout the State.

The State appropriates substantially all of such Section 18-b Program payments from a separate account (the “Transportation District Account”) in a special State fund derived from the special taxes described below, the Metropolitan Mass Transportation Operating Assistance Fund (the “MTOA Fund”). The remainder of such payments is appropriated from the State’s General Fund. Appropriation from the Transportation District Account reduces the amount that would otherwise be available to be appropriated to (1) the Transit Authority and MaBSTOA, and (2) MTA for the Commuter System, from such Account, as described below under “State Special Tax Supported Operating Subsidies – MTOA Receipts”.

Under the Section 18-b Program:

- Whenever the Transit Authority or MaBSTOA receives a payment from the State, the City is required to make a matching payment in accordance with amounts established by the Legislature. In the event the City fails to make any required payment, the State Comptroller is authorized to withhold an equivalent amount from certain State aid and to pay such amount directly to the Transit Authority or MaBSTOA.
- Whenever MTA receives a payment from the State for the Commuter System, the City and counties served by the Commuter System are required to make a matching payment in accordance with amounts established by the Legislature. In the event the City and counties fail to make any required payment, the State Comptroller is authorized to withhold an equivalent amount from certain State aid and to pay such amount directly to MTA for the Commuter System.

State Special Tax Supported Operating Subsidies

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

- a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses (see “DEDICATED TAX FUND BONDS – MTTF Receipts – Dedicated Petroleum Business Tax” and “– MTTF Receipts – Petroleum Business Carrier Tax” in Part 4),
- a portion of the motor fuel tax on gasoline and diesel fuel (see “DEDICATED TAX FUND BONDS – MTTF Receipts – Motor Fuel Tax” in Part 4), and
- a portion of certain motor vehicle fees, including both registration and non-registration fees (see “DEDICATED TAX FUND BONDS – MTTF Receipts – Motor Vehicle Fees” in Part 4). Recent legislation increased certain of these fees effective January 1, 2006, which MTA expects to generate approximately \$61 million in additional amounts annually beginning in 2006.

MMTOA Receipts. Subject to annual appropriation, a specified share of the following (the “MMTOA Receipts”) are deposited in the MMTOA Account and paid to MTA by deposit into the Dedicated Tax Fund:

- a 1/4 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.

The State, as part of its 2005-06 Budget, recently enacted legislation that imposed, effective June 1, 2005, an additional 1/8th percent sales tax in the Transportation District (the “Additional Regional Sales Tax”), approximately 93% of which will be deposited into the MMTOA Account for the benefit of the Transit and Commuter Systems. MTA expects that such Additional Regional Sales Tax will generate approximately \$110 million in 2005, approximately \$202 million in 2006 and approximately \$230 million annually beginning in 2007.

See “DEDICATED TAX FUND BONDS – MMTOA Account – Special Tax Supported Operating Subsidies” in Part 4 for a more detailed description of the MMTOA Receipts.

Use of MTTF Receipts and MMTOA Receipts. MTTF Receipts are used first to pay debt service on the Dedicated Tax Fund Bonds described under “PUBLIC DEBT SECURITIES AND OTHER FINANCIAL INSTRUMENTS” in Part 4. To the extent that MTTF Receipts are insufficient, MMTOA Receipts are used to pay the remainder of the debt service on the Dedicated Tax Fund Bonds. All remaining MTTF Receipts and MMTOA Receipts are then allocated to the Transit Authority and the Commuter System in accordance with the formula provided by statute (85% to the Transit System and 15% to the Commuter System in the case of MTTF Receipts; the relative percentage of that year’s State appropriation to the Transit System and the Commuter System, respectively, in the case of MMTOA Receipts; in each case reducing from their final payments the respective amounts used for debt service).

A table showing five-year historical MTTF Receipts and MMTOA Receipts is set forth under “DEDICATED TAX FUND BONDS – Sources of Payment – Revenues from Dedicated Taxes” in Part 4.

Urban Taxes for Transit System. In addition to the aforementioned special tax supported subsidies, a portion of the amounts collected by the City from certain transfer and recording taxes with respect to certain real property located within the City (collectively, the “Urban Taxes”) are, as required by State statute, paid by the City’s Commissioner of Finance directly to the Transit Authority on a monthly basis.

The following table sets forth the amount of Urban Taxes received by the Transit Authority on an accrual basis in each of the last five years.

<u>Year</u>	<u>Urban Taxes (in millions)</u>
2000	\$174.6
2001	210.5
2002	178.7
2003	173.1
2004	360.2

TBTA Surplus

Section 569-c of the Triborough Bridge and Tunnel Authority Act, Title 3 of Article 3 of the Public Authorities Law (the “TBTA Act”), and Section 1219-a of the TA Act require TBTA to transfer its operating surplus (“TBTA Operating Surplus”) to the Transit Authority and to MTA for the commuter railroads in accordance with a statutorily mandated formula described in the next paragraph. For such purposes, the TBTA Operating Surplus subject to such transfer is the amount remaining from all tolls and other operating revenues derived from TBTA’s bridges and tunnels after payment of operating, administration and other expenses of TBTA properly chargeable to such projects, and after payment of principal of and sinking fund installments and interest on its bonds, including bonds issued under the TBTA Senior Resolution and the TBTA Subordinate Resolution (as defined under “PUBLIC DEBT SECURITIES AND OTHER FINANCIAL INSTRUMENTS” in Part 4) to the extent, if any, paid from such sources, after provision for reserves and for all contract provisions with respect to any such bonds and after provision for obligations, including TBTA’s own base rent payments in connection with the 2 Broadway Certificates of Participation, incurred in connection with any of its authorized projects. See “PUBLIC DEBT SECURITIES AND OTHER FINANCIAL INSTRUMENTS” in Part 4. In 2004, TBTA’s support to the capital and operating budgets of the Transit and Commuter Systems totaled approximately \$690 million.

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

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

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

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

Both TBTA Operating Surplus and TBTA Surplus Investment Income declined in 2002 due to the debt restructuring. TBTA Operating Surplus declined due primarily to the fact that certain TBTA bonds that were secured in the first instance by mortgage recording taxes and, thereafter, by TBTA revenues, were eliminated and replaced by bonds paid solely from TBTA revenues. Consequently, more TBTA debt service was paid from TBTA revenues without the set-off from the mortgage recording taxes. In addition, TBTA Surplus Investment Income declined due primarily to the elimination of the debt service reserve funds. TBTA Operating Surplus increased in 2003 due primarily to the toll increases effective during May 2003.

	Transit Authority Share	MTA Share	Total TBTA Surplus
2004			
Operating Surplus	\$153,579,633	\$241,938,839	\$395,518,472
Investment Income	<u>-0-</u>	<u>1,368,407</u>	<u>1,368,407</u>
Total	\$153,579,633	\$243,307,246	\$396,886,879
2003(1)			
Operating Surplus	\$178,276,053	\$251,871,472	\$430,147,525
Investment Income	<u>-0-</u>	<u>2,333,684</u>	<u>2,333,684</u>
Total	\$178,276,053	\$253,205,156	\$432,481,209
2002			
Operating Surplus	\$103,961,853	\$144,239,990	\$248,201,843
Investment Income	<u>-0-</u>	<u>14,727,029</u>	<u>14,727,029</u>
Total	\$103,961,853	\$158,967,019	\$262,928,872
2001			
Operating Surplus	\$137,948,870	\$173,255,462	\$311,204,332
Investment Income	<u>-0-</u>	<u>23,777,588</u>	<u>23,777,588</u>
Total	\$137,948,870	\$197,033,050	\$334,981,920
2000			
Operating Surplus	\$167,741,914	\$189,682,616	\$357,424,530
Investment Income	<u>-0-</u>	<u>33,219,362</u>	<u>33,219,362</u>
Total	\$167,741,914	\$222,901,978	\$390,643,892

(1) Operating Surplus includes approximately \$25 million from the settlement of insurance claims resulting from the terrorist attacks on the WTC in 2001, the proceeds of which were received in 2004 but attributed, for accounting purposes, to 2003.

Financial Assistance and Service Reimbursements from Local Municipalities

Commuter System Station Maintenance Payments. The City and each of the seven counties in the Transportation District outside the City are each billed an amount fixed by statute for the operation, maintenance and use of Commuter System passenger stations within the City and each such county as adjusted each year for increases or decreases in the consumer price index for wage earners and clerical workers in the New York, Northeastern-New Jersey Consolidated Metropolitan Statistical Area. The State Legislature has not made any changes in the base amounts since 2000. Further modifications may be recommended to the State Legislature every five years (the next such year being 2010) based upon changes made to commuter services.

The following table sets forth the station maintenance, operation and use assessments received by MTA on an accrual basis in each of the last five years:

<u>Year</u>	<u>Payments (in millions)</u>
2000	\$110
2001	120
2002	117
2003	125
2004	129

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

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

Under an agreement with MTA, the City contributes an operating subsidy to support paratransit, equal to the lesser of (i) 33% of the operating deficit, calculated after taking into account paratransit passenger revenue, certain Urban Tax revenues and Transit Authority administrative expenses, or (ii) an amount that is twenty percent greater than the amount paid by the City for the preceding calendar year. Any remaining operating deficit is funded by the Transit Authority. See “TRANSIT SYSTEM – Description of the Transit System – *Paratransit*” in Part 2.

Miscellaneous Revenues

Transit System. The Transit Authority and MaBSTOA receive revenues from concessions granted to vendors, revenues from advertising and other space rented in transit vehicles and facilities, and fines collected by the Transit Adjudication Bureau. Such revenues on an accrual basis aggregated \$72.3 million in 2002, \$77.9 million in 2003 and \$85.5 million in 2004.

Commuter System. LIRR and MNCRC receive revenues from concessions granted to vendors, advertising and other space rented in Commuter System vehicles and facilities, the sale of power, the sale of food and beverage and other sundry revenues. Such revenues on an accrual basis (excluding concessions at Pennsylvania Station and Grand Central Terminal that are not pledged to the Transportation Revenue Bonds described under “PUBLIC DEBT SECURITIES AND OTHER FINANCIAL INSTRUMENTS” and “TRANSPORTATION REVENUE BONDS” in Part 4) aggregated \$31.4 million in 2002, \$32.3 million in 2003 and \$35.8 million in 2004.

Mortgage Recording Taxes

General. Certain monies paid to MTA by the City and counties in the Transportation District pursuant to certain mortgage recording taxes may be used for the operating and capital costs, including debt service and reserve requirements, of or for MTA, the Transit Authority and their subsidiaries. During 2002, TBTA defeased all outstanding bonds that were secured by the mortgage recording taxes, and such taxes no longer secure any MTA or TBTA bonds. Neither TBTA nor MTA expects to secure future bonds with mortgage recording taxes.

MRT-1 Receipts. Pursuant to Section 253(2)(a) of the New York State Tax Law (the "Tax Law"), a tax is imposed (the "MRT-1 Tax") on recorded mortgages of real property situated within the State, subject to certain exclusions (such net MRT-1 Tax collections remitted to MTA are referred to as the "MRT-1 Receipts"). The tax was recently increased effective June 1, 2005 from 25 cents per \$100 of mortgage recorded to 30 cents, which is expected to generate additional receipts of approximately \$29 million in 2005 and approximately \$50 million annually thereafter to MTA. The MRT-1 Tax is paid by the property owner(s) taking out the mortgage loan.

MRT-1 Receipts must be applied by MTA,

- first, to meet MTA Headquarters Expenses (as hereinafter defined), and
- second, to make deposits into the Transit Account (55% of the remaining amount) and the Commuter Railroad Account (45% of the remaining amount) of the Special Assistance Fund.

Monies in the Transit Account are required to be used to pay operating and capital costs of the Transit Authority, its subsidiaries, and SIRTOA, and monies in the Commuter Railroad Account, after first making the transfers described below under "Transfers to State Suburban Transportation Fund", are required to be used to pay operating and capital costs of the commuter railroad operations of MTA, other than SIRTOA.

MRT-2 Receipts. Pursuant to Section 253(1-a) of the Tax Law, an additional tax is imposed (the "MRT-2 Tax") on recorded mortgages of real property situated within the State, subject to certain exclusions. The MRT-2 Tax is paid by the institution (or other persons) making the mortgage loan to the property owner(s). The State Tax Law requires that the portion of the MRT-2 Tax collected on certain residential dwelling units be remitted to MTA for deposit into the Corporate Transportation Account of the Special Assistance Fund (such net MRT-2 Tax collections remitted to MTA are referred to as the "MRT-2 Receipts").

Monies deposited into the Corporate Transportation Account are applied as follows:

- first, to make deposits into the Dutchess, Orange and Rockland Payment Subaccount described below under "Transfers to Counties", and
- second, to make deposits into the Corporate Purposes Subaccount to be used to pay operating and capital costs, including debt service and debt service reserve requirements, if any, of, or incurred for the benefit of, MTA, the Transit Authority and their respective subsidiaries.

MRT-1 and MRT-2 Receipts. Under existing law, no further action on the part of the State Legislature is necessary for MTA to continue to receive such monies (i.e., the State is not required to appropriate the moneys to MTA, so the monies continue to be paid to MTA whether or not the State budget has been adopted). However, the State is not obligated to impose, or to impose at current levels, the MRT-1 Tax or the MRT-2 Tax or to direct the proceeds to MTA as presently provided.

MRT-1 Receipts and MRT-2 Receipts (collectively, “MRT Receipts”) are subject to significant volatility from year-to-year. This volatility reflects the discretionary nature of the transactions that lead to the collection of the tax. Such transactions are influenced by economic, social and demographic factors.

The following charts show the historical annual MRT Receipts, on an accrual basis, available for operations and capital costs for the last five calendar years.

<u>Year</u>	<u>MRT-1 Receipts (in millions)</u>	<u>Increase/ (Decrease)</u>
2000	\$124	N/A
2001	155	25%
2002	204	32
2003	248	22
2004	353	42

Source: Metropolitan Transportation Authority

<u>Year</u>	<u>MRT-2 Receipts (in millions)</u>	<u>Increase/ (Decrease)</u>
2000	\$ 90	N/A
2001	116	29%
2002	173	49
2003	209	21
2004	291	39

Source: Metropolitan Transportation Authority

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

Among other uses, MTA pays the following annual amounts as MTA Headquarters Expenses:

- an amount paid to TBTA to effectively eliminate the toll that residents of Broad Channel and the Rockaway Peninsula pay when using E-ZPass on the Cross Bay Veterans Memorial Bridge, and
- the operating expenses of SIRTOA and MSBA not covered by fares, State and local subsidies and other amounts.

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

Transfers to State Suburban Transportation Fund. State law requires MTA in each year to transfer up to \$20 million of MRT-1 Receipts (in equal quarterly installments of \$5 million) deposited in the Commuter Railroad Account to the State Suburban Transportation Fund to pay for or finance certain types of highway capital projects in certain areas of the Transportation District. In the event the transfer would result in an operating deficit, the amount of the deficit is appropriated to MTA for commuter railroad

operating purposes. Due to such a deficit, no transfers were made in 2001 and 2002; however, such transfers were made in 2003 and 2004.

Transfers to Counties. MTA is required to transfer, in equal quarterly installments, in each year from the Corporate Transportation Account to the Metropolitan Transportation Authority Dutchess, Orange and Rockland Fund an annual amount of \$1.5 million for each of the counties of Dutchess and Orange, and \$2.0 million for the county of Rockland. Additionally, MTA must transfer from that Account to such fund for each of these three counties, respectively, an amount equal to the product of (i) the percentage by which such county's mortgage recording tax payment to MTA in the preceding calendar year (calculated as if the increase in the MRT-1 Tax from 25 cents per \$1,000 to 30 cents did not occur) increased over such payment in calendar year 1989 and (ii) \$1.5 million each for Dutchess and Orange Counties and \$2.0 million for Rockland County. The following chart shows the amounts (in excess of the base amount of \$5 million) transferred to the counties for 2004:

<u>County</u>	<u>Additional Amounts</u>
Dutchess	\$ 5,963,871
Orange	5,416,891
Rockland	<u>5,881,240</u>
Total	\$17,262,002

CHANGES IN METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS

Prior to the implementation and development of electronic fare and toll payment media, payment for fares on the subway, bus and commuter railroad systems, and tolls on the TBTA Facilities, had been predominantly on a cash pay-as-you-go and pay-before-you-go basis, with limited exceptions. The Related Entities are increasingly providing for non-cash payment methods, including payment by check and credit and debit cards.

The Related Entities have integrated, and continue to integrate, their electronic fare and toll payment media systems with those of other governmental entities, whereby the integrated electronic fare and toll payment media can be used on any entity's facilities, including certain parking facilities operated by the Port Authority of New York and New Jersey and the New York State Thruway Authority. Payments are settled among all such entities after use of the facilities. The Related Entities have negotiated agreements with commercial entities (parking facility operators, restaurants and other vendors) whereby the Related Entities' electronic media can be used to purchase goods and services. The Related Entities may expand the use of agreements with commercial entities. The net result of these changes is to create a risk of actual collection of payments for goods and services. There is also a potential for significant changes in the timing of the actual receipt of cash payments by the goods and services providers.

The Transit Authority has installed its automated fare collection ("AFC") system that utilizes MetroCard, as more fully described under "RIDERSHIP AND FACILITIES USE – Transit System Ridership – *Automated Fare Collection*" above in this Part 3. In addition to in-system sales at station booths and through vending machines, MetroCards are presently sold through out-of-system vendors, by LIRR, MNCRC, MSBA and MTA Bus, and directly to businesses. In connection with certain of these sales, a sales commission is netted out of the amounts paid to the Transit Authority.

The Transit Authority has integrated its MetroCard system with MTA Bus and MSBA and has future plans to integrate with PATH and New Jersey Transit, to allow payment of fares on all of the systems with the same card. LIRR and MNCRC mail-and-ride customers can purchase a combined MetroCard-monthly commuter ticket. The Transit Authority offers a mail and ride pre-payment program wherein senior citizens and disabled customers pay for reduced fare MetroCards by check, and credit and debit card, and such MetroCards are mailed to the customer. The Transit Authority has installed automated vending machines in almost all of its stations in order to sell, or add value to, MetroCards through cash, and credit and debit card transactions. The Transit Authority also has a program with senior citizens wherein their MetroCard usage is determined after the month and they are retroactively charged at the least cost based upon their usage. See "RIDERSHIP AND FACILITIES USE – Transit System Ridership – *Automated Fare Collection*" above in this Part 3.

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

TBTA has installed an electronic toll collection system ("E-ZPass") at all of its bridges and tunnels, as more fully described under "RIDERSHIP AND FACILITIES USE – E-ZPass" above in this Part 3. Substantially all of the E-ZPass users prepay with credit cards or checks. TBTA has integrated its E-ZPass system technology with other transportation agencies throughout the east coast and expects to expand the use of the E-ZPass system technology when convenient and advisable to allow a customer to travel through the participating toll facilities of all such entities with one E-ZPass transponder.

The Related Entities have implemented the new methods of payment and collection with the aim of protecting the integrity of the revenue collection process and with due regard for applicable bond covenants. However, these methods of sale of and payment for MetroCards and commuter railroad tickets will, in certain cases, result in a delay in the receipt of revenues due to the time required to process such

transactions or allocate the receipts therefrom as compared to pay-as-you-go and pay-before-you-go cash payment for fares and tolls.

In addition, following the standard industry practice for credit, debit and smart cards, fare and toll payments made by those means will produce cash receipts to the applicable authority and trustee which are net of standard discounts and transaction fees to the merchant processors, card associations and card issuers. Further, (1) the collection of fares and tolls by other governmental entities using an integrated payment system, such as MetroCard or E-ZPass, whereby a customer can purchase a card or pass from any of the entities for use on all of the systems, and (2) the use of the Related Entities' electronic media at commercial establishments, may subject the amounts due to the Transit Authority and TBTA to multiple liens and claims prior to the time that the fares or tolls are actually earned through use of the applicable facilities. In addition, the payment of fares and tolls by non-cash methods, including checks and credit, debit and smart cards, is subject to, among other things, collection risk, including, without limitation, bankruptcy, insolvency and other creditor and debtor rights involving both the user of the facilities and the collection and processing entities.

The introduction and expansion of the use of MetroCards facilitated:

- the ability of the Transit Authority and MaBSTOA to eliminate “two-fare zones” for MetroCard users,
- certain discount bonuses, and
- the introduction of unlimited ride 30-day, seven-day and daily passes.

Continued implementation of the MetroCard and E-ZPass systems may permit the implementation of additional “discount or reduced fare or toll” proposals, such as time of day toll rates.

MTA has also implemented a program offering reduced intra-City weekend commuter tickets and a free replacement program for lost or stolen unlimited-ride 30-day passes (limit of 2 per calendar year per holder) for holders that purchased with credit or debit cards. MTA currently has no plans to implement any additional discount or reduction proposals.

FINANCIAL PLANS AND CAPITAL PROGRAMS

2005-2008 Financial Plan

General. The MTA Board has approved a financial plan for the years 2005 through 2008 for itself and the other Related Entities (the “2005-2008 Financial Plan”). The 2005-2008 Financial Plan was approved prior to the adoption of the State’s budget for the year beginning April 1, 2005 which contains additional financial assistance for the Related Entities as described below under “—*Additional State Assistance*.” The 2005-2008 Financial Plan is designed to maintain fiscal stability for the Related Entities and enable all those entities to maintain their respective operations on a self-sustaining basis. The 2005-2008 Financial Plan is also designed to continue a program of capital expenditures that would support the ongoing maintenance of MTA’s transportation network and provide needed improvements to enhance services to its customers, as well as expand service through a number of new initiatives described below under “2000-2004 Capital Program” and “Proposed 2005-2009 Capital Program.”

The 2005-2008 Financial Plan includes a final budget for 2005 (the “2005 Budget”) and a financial plan for the years 2006–2008. Copies of the 2005-2008 Financial Plan, which includes the 2005 Budget, are posted on MTA’s website.

In accordance with the 2005-2008 Financial Plan, the MTA Board implemented the following fare and toll increases:

- Transit – effective February 27, 2005, the cost of a 30-day unlimited ride MetroCard increased from \$70 to \$76, the cost of a 7-day unlimited ride MetroCard increased from \$21 to \$24, and express bus fares increased from \$4 to \$5.
- Commuter – for New York State travel, effective March 1, 2005, the average fare increased by 7.6% on LIRR and by 6.2% on MNCRC for service between points in New York State, which resulted in an approximately 5% increase in revenues.
- Bridges and tunnels – effective March 13, 2005, for passenger vehicles, tolls on the major facilities (Triborough, Bronx-Whitestone and Throgs Neck Bridges and the two tunnels) increased by 50 cents (\$1 in the case of the Verrazano-Narrows since tolls are collected in only one direction) and tolls on the minor facilities (Henry Hudson, Marine Parkway-Gil Hodges Memorial and Cross Bay Veterans Memorial Bridges) increased by 25 cents. Commercial vehicle tolls also increased.

In addition, in order to address the baseline deficits projected for 2005 through 2008, the MTA Board approved the following:

- Creation of a \$200 million stabilization account to offset a potential decrease in real estate related tax receipts. Assuming the stabilization account is not needed in 2005, those moneys could be applied to offset the proposed service reductions totaling \$180 million identified for 2006 in earlier preliminary financial plans.
- MTA maintained fundamental transit and commuter service levels and avoided layoffs of represented (union) employees. 2005 forecasted expenses reflect reductions totaling \$120 million, with a concomitant reduction in headcount of 1,273 administrative positions.

In the 2005-2008 Financial Plan (which was approved prior to the enactment of the State’s 2005-2006 budget described below under “—*Additional State Assistance*”), MTA projects that, after taking into consideration the application of the 2004 cash balances, the application of TBTA’s operating surplus to mass transit, the fare and toll increases and the other administrative actions to help reduce the deficits, the Related Entities will have:

- a cash surplus of \$56 million in 2005, and
- annual cash deficits in 2006, 2007 and 2008 of \$607 million, \$689 million and \$991 million, respectively.

MTA projections for 2007 and 2008 assume a 5% additional yield in fares and/or tolls in 2007 due to increased ridership or adjustments in discount programs, but not necessarily an increase in the base fare and/or toll.

MTA expects to update the 2005 Budget and submit for review a preliminary 2006-2009 financial plan to include, among other things, the effects of the additional State assistance provided in recent legislation at its July Board meeting. MTA will assess instituting additional cost reductions or other actions to close projected budget gaps during the plan period, which could include seeking additional subsidies and/or raising fares and tolls.

Additional State Assistance. In addition to certain other actions, the State recently enacted legislation that provides the Related Entities with the following three major additional revenue sources:

- Additional 1/8th of one percent regional sales tax throughout the Transportation District effective June 1, 2005 that is expected to generate approximately \$110 million in 2005, approximately \$202 million in 2006 and approximately \$230 annually beginning in 2007.
- Increase in the MRT-1 Tax effective June 1, 2005 from 25 cents per \$100 of recorded mortgage to 30 cents that is expected to generate approximately \$29 million in 2005 and approximately \$50 million annually thereafter.
- 34% of an increase in certain motor vehicle fees effective January 1, 2006 that is expected to generate approximately \$61 million annually each year.

Implementation of the 2005-2008 Financial Plan. The 2005-2008 Financial Plan assumes that MTA and TBTA will continue to issue bonds to finance projects set forth in the 2000-2004 Capital Program and further assumes a certain level of capital spending beginning in 2005 relating to a new five-year Capital Program that has not yet been approved by the Review Board. New Transit and Commuter capital programs covering the periods 2005-2009 were submitted to the Review Board on or before October 1, 2004 as required by statute, but the programs were vetoed by the Review Board in late December 2004 pending further discussions on how to fund the program in the context of other Statewide needs. MTA has been operating under interim first and second quarter capital programs in the absence of an approved 2005-2009 capital program. See “Interim 2005 Capital Programs” below. Now that the State budget has been enacted for 2005-2006, MTA has discussed the submission of a revised capital program with representatives of the Governor’s office, the State Legislature and the City. A revised 2005-2009 capital program was approved for submission to the Review Board by the MTA Board on April 28, 2005. See “Proposed 2005-2009 Capital Program” below for a description of the proposed 2005-2009 Capital Program. The final approved Program may be substantially different from that described under “Proposed 2005-2009 Capital Program.”

The 2005-2008 Financial Plan is based on a number of assumptions including implementation of certain cost reductions, maintenance of assumed ridership levels on MTA’s Transit and Commuter Systems and traffic volumes on TBTA’s Facilities and receipt of certain operating and capital assistance from other governmental entities. While MTA believes that its assumptions regarding fare and toll increases, budget cuts, ridership levels, traffic volumes and capital operating assistance are reasonable, there can be no assurance that all cost reductions can be achieved in the amounts and at the times required, that general economic or employment conditions or weather-related events will not adversely affect ridership levels, traffic volumes or operating costs or that operating and capital assistance will be received in the amounts and at the times required. To the extent any of the assumptions underlying the implementation of the 2005-2008 Financial Plan do not materialize, MTA may have to make revisions to the 2005-2008 Financial Plan,

the 2000-2004 Capital Program, the Proposed 2005-2009 Capital Program and future capital programs, which revisions could be significant.

The implementation of the 2005-2008 Financial Plan and the capital programs described below are interrelated and complex. Any failure to fully achieve each of the various proposals could have an adverse impact on one or more of the other proposals contained in the 2005-2008 Financial Plan, including those capital programs. As more fully described under “2005-2008 Financial Plan – Implementation of the 2005-2008 Financial Plan” and “2000-2004 Capital Program – General”, implementation will require, among other things, administrative approvals, stable or favorable economic, employment and market conditions, and cooperation of third parties. There is no assurance that each of those actions will occur or that all of the assumptions underlying the 2005-2008 Financial Plan, the 2000-2004 Transit Capital Program, the 2000-2004 Commuter Capital Program or the 2000-2004 TBTA Capital Program will be realized. The 2005-2008 Financial Plan may be amended by MTA from time to time in response to changing economic and operational factors as well as changes in the adopted 2000-2004 Transit Capital Program, 2000-2004 Commuter Capital Program and 2000-2004 TBTA Capital Program, or in the Proposed 2005-2009 Capital Program.

Issuance of Bonds. The 2000-2004 Capital Program assumes the issuance of approximately \$12.062 billion of new money bonds to finance a portion of the capital programs proposed for the Transit System, the Commuter System and TBTA’s capital needs, of which \$7.919 billion is shown on the table (the “Funding Table”) under the heading “2000-2004 Capital Program-Funding” below as “Bonds” and \$4.143 billion is shown on the Funding Table as a portion of the “Debt Restructuring” amount (the remaining portion being equal to the released reserve funds). Prior to issuance of all of the bonds listed on the table, the current statutory ceiling must be increased by the Legislature by approximately \$2 billion.

The Proposed 2005-2009 Capital Program assumes the issuance by MTA and TBTA of approximately \$4.3 billion of new money bonds, together with an issuance of \$5.1 billion in bonds backed by increased State taxes and fees as approved in the 2005-06 State budget. In addition, the State, subject to voter approval in November 2005, expects to issue \$1.45 billion of State general obligation bonds. Prior to the issuance of all of the MTA and TBTA bonds, the current statutory ceiling must be increased by the Legislature by an additional \$9.4 billion, in addition to the \$2 billion needed to complete the 2000-2004 program.

Capital Programs – Background and Development

Transit and Commuter Systems. The MTA Act requires MTA to submit to the Review Board for its approval successive five-year capital programs, one for the Transit System and SIRTOA and another for the Commuter System. The Review Board previously approved capital programs for the Transit System and SIRTOA and the Commuter System for the five-year periods beginning in the years 1982, 1987, 1992 and 1995. The last two years of the 1992-1996 Transit Capital Program and the 1992-1996 Commuter Capital Program were incorporated into the 1995-1999 Transit Capital Program and the 1995-1999 Commuter Capital Program, respectively. Substantially all of the projects included in the 1982-1999 capital programs for the Transit System and SIRTOA and the Commuter System have been completed.

MTA and the Review Board have also approved separate five-year capital programs covering the period 2000-2004 for (1) the commuter railroad operations conducted by LIRR and MNCRC (the “2000-2004 Commuter Capital Program”), and (2) the transit system operated by the Transit Authority and its subsidiary, MaBSTOA, and the rail system operated by SIRTOA (the “2000-2004 Transit Capital Program”). All such Capital Programs, as amended to date, are effective and are described in detail below under “2000-2004 Capital Program.” In addition, as more fully described below, with the creation of MTA Bus, certain portions of its capital program have been incorporated into the 2000-2004 Capital Program.

Funding for the Transit and Commuter Systems capital programs comes from a variety of sources, including bonds, State, City and TBTA assistance, and Federal funds. The Federal government supplied approximately 33% of the funds required for the period between 1982-1991 and 30% of the funds required

for the 1992-1999 Capital Programs. MTA estimates that the Federal government will supply approximately 26% of the funds required for the 2000-2004 Transit and Commuter Capital Programs, not including the lower Manhattan projects (Fulton Street and South Ferry) that are 100% Federally funded.

TBTA Facilities. TBTA has its own capital programs that cover the same time periods as the Transit and Commuter Capital Programs. The TBTA capital programs are not subject to approval by the Review Board and bonds issued to finance TBTA Facilities are not subject to the statutory ceiling. See “Prior TBTA Capital Programs”, “1992-1999 TBTA Capital Programs” and “2000-2004 TBTA Capital Programs” below.

2000-2004 Capital Programs

General. The “2000-2004 Capital Program” consists of the following components:

- Transit,
- Commuter,
- MTA Capital Construction (the Network Expansion Program),
- Planning and Customer Service Projects,
- WTC Repair Projects, and
- MTA Bus Company.

The summary of the 2000-2004 Capital Program set forth below includes all of the amendments approved by the Review Board to date.

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

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

<u>Funding Source</u>	<u>Program Amount (in millions)</u>
Federal Formula	\$ 3,983.0
Federal Other	1,471.0
Federal New Start	600.0
Federal Flexible	289.0
City	459.0
New York Coliseum sale	140.0
Program Income	311.0
TBTA Investment Income	87.0
TBTA Pay-as-you-go	89.0
CDOT Administrative Assets	12.0
MNCRC Operating Savings	10.0
Carryover from previous capital programs	299.0
Asset Leasing	173.0
Other	115.0
Debt Restructuring	4,544.0
Insurance Proceeds from Damaged WTC	244.0
Bonds	<u>7,919.0</u>
Total(1)	\$20,747.0
Carryover to 2005-2009 Capital Program	\$128.0
TBTA Projects	<u>(\$1,031.0)</u>
Total Transit and Commuter(1)	<u>\$19,588.0</u>

(1) Totals may not add due to rounding.

2000-2004 Transit Capital Program. The following table represents the capital program by category of work for the Transit System and SIRTOA under the 2000-2004 Transit Capital Program (does not include MTA Network Expansion Projects related to the Transit System).

	2000-2004 Transit Capital Program (in millions)
Transit Authority	
Subway Cars	\$ 1,994
Buses	577
Passenger Stations	1,867
Track	876
Line Equipment	593
Line Structures	807
Signals & Communications	1,337
Power	201
Shops	275
Yards	178
Depots	580
Service Vehicles	114
Security	59
Miscellaneous and Contingency	631
SIRTOA	<u>21</u>
Total*	<u>\$10,110</u>

*Total may not add due to rounding.

Among the projects included in the 2000-2004 Transit Capital Program are the following: acquisition of 1,210 new subway cars, replacing 927 existing cars and expanding the fleet by 283; acquisition of 1,060 new buses; rehabilitation of 70 stations; provision of full ADA accessibility at 23 stations; replacement of 20 escalators at various stations; replacement of approximately 41 miles of mainline track; signal modernization; communications improvements; and improvements to shops, yards and depots.

2000-2004 Commuter Capital Program. The following table represents the capital program by agency and by category of work for the Commuter System under the 2000-2004 Commuter Capital Program (does not include MTA Network Expansion Projects related to the Commuter System).

	2000-2004 Commuter Capital Program (in millions)
Long Island Rail Road	
Rolling Stock	\$ 975
Passenger Stations	368
Track	289
Line Structures	151
Communications & Signals	194
Shops & Yards	81
Power	78
Miscellaneous	<u>91</u>
Total*	<u>\$ 2,226</u>
 Metro-North Railroad	
Rolling Stock	\$ 777
Passenger Stations	341
Track & Structures	208
Communications & Signals	72
Power	25
Shops & Yards	151
Miscellaneous	<u>72</u>
Total*	<u>\$ 1,647</u>

*Totals may not add due to rounding.

Among the projects included in the approved 2000-2004 Commuter Capital Program are the following: acquisition of 452 electric cars for LIRR and 300 electric cars for MNCRC; acquisition of nine dual mode locomotives; 1,441 new parking spaces added for LIRR and 2,038 for MNCRC; rehabilitation of passenger stations; rehabilitation of track; signal modernization; communications improvements; and improvements to shops and yards.

MTA Network Expansion Projects. MTA Capital Construction was created in July 2003 to plan, design and construct current and future MTA Network Expansion Projects and other major initiatives. Currently, these projects consist of design and construction activities associated with East Side Access, the Second Avenue Subway, the #7 Line Extension, the Fulton Street Transit Center, the new South Ferry Terminal station and the system-wide Capital Security Projects.

The following table sets forth the proposed funding for the MTA Network Expansion Projects under the 2000-2004 Capital Program.

<u>Network Expansion Project</u>	2000-2004 Capital Program (in millions)
East Side Access	\$1,500
Full-Length Second Avenue Subway	1,050
#7 Line Extension	57
Security Program	633
Fulton Street Transit Center	750
South Ferry Station	<u>402</u>
Network Expansion Total	<u>\$4,392</u>

A more complete description of the network expansion projects is set forth above under “MTA CAPITAL CONSTRUCTION COMPANY” in Part 2 and on MTA’s website (www.mta.info) under “Capital Construction Company.”

Full implementation of the Network Expansion Projects will require significant additional resources in future capital programs.

Planning and Customer Service Projects. This category (currently funded for \$509 million) contains miscellaneous projects, such as improvements for the MTA Police Department, studies and design for a rail link between lower Manhattan and JFK Airport, and participation in the Tappan Zee Bridge study (which could include a replacement bridge over the Hudson River near Tarrytown, New York that might carry rail traffic). In September 2004, the MTA Board requested an amendment that designated one-half of the \$645 million that had been earmarked for the LaGuardia Airport Access project for MTA Bus, of which \$80 million was approved by the Review Board in November 2004 and \$222.5 million more of which was approved by the Review Board in March 2005, and the remainder of which is pending. The remaining \$322.5 million allocated to the LaGuardia project (which is not being advanced at this time) is uncommitted.

WTC Repair Projects. The final funding amount of \$249 million reflects the final insurance proceeds settlement and related Federal funding. These moneys were spent on capital assets in the vicinity of the World Trade Center.

MTA Bus Company. MTA requested \$455 million in funding for MTA Bus, which includes \$322.5 million transferred from the LaGuardia Airport Access project and \$132 million from reprogrammed Federal funds allocated to the City for bus purposes. On November 10, 2004, the Review Board authorized an initial amount of \$80 million for near-term bus purchases while more detailed investment plans for the remaining MTA Board-approved funds are developed. In March 2005, the Review Board approved an additional \$222.5 million in funds for bus purchases.

Interim 2005 Capital Programs

In the absence of an approved capital program for 2005-2009, MTA approved first and second quarter interim capital programs that were funded by Federal funds, City funds, available cash and TBTA bond proceeds for transit, commuter and bridge and tunnel projects. The bulk of these projects began the large annual in-house programs that provide for the basic maintenance of the Transit and Commuter Systems’ infrastructure – track, signals and power. The breakdown of the first and second quarter interim programs by agency in the total amount of \$840.7 million is as follows:

- Transit Authority – \$290.2 million in expenditures, funded by \$166.5 million in Federal funds, \$40 million in City funds and \$83.7 million in cash.

- LIRR – \$111.8 million in expenditures, funded by \$84.2 million in Federal funds and \$27.6 million in cash.
- MNCRC – \$98.1 million in expenditures, funded by \$61.4 million in Federal funds and \$36.7 million in cash.
- TBTA – \$287.3 million in expenditures fully funded by TBTA bond proceeds.
- MTA Capital Construction – \$52.0 million in expenditures, funded by \$45 million in City funds and \$7.0 million in cash.
- MTA Police – \$1.3 million in expenditures funded by cash.

Proposed 2005-2009 Capital Program

General. The following is a general description of the proposed 2005-2009 Transit and Commuter Capital Program (the “2005-2009 Capital Program”) adopted by the MTA Board on April 28, 2005. MTA expects to submit the 2005-2009 Capital Program to the Review Board for approval. The 2005-2009 Capital Program consists of the following components:

- Transit Core Program,
- Commuter Core Program,
- MTA Capital Construction Program (Network Expansion),
- Security Program, and
- Interagency Program.

There can be no assurance that the Review Board will approve the 2005-2009 Capital Program in the form submitted by MTA. In addition, there can be no assurance that all the necessary governmental actions to implement the 2005-2009 Capital Program will be taken, that funding sources currently proposed or assumed will be available in the amounts or at the times projected, or that the projects included in the 2005-2009 Capital Program, or parts thereof, will not be delayed or reduced. MTA regularly evaluates the status of all funding sources and projects and may, from time to time, submit amendments to the 2005-2009 Capital Program needed to bring funding sources and expected project costs into balance. If the implementation of the 2005-2009 Capital Program or any modification thereof is significantly delayed, MTA’s efforts to bring the entire Transit System and Commuter System to a state of good repair and to prevent deterioration of portions of the Transit System and Commuter System that have already reached a state of good repair may be impeded with potential negative effects on ridership and fare revenues.

Funding. The following table sets forth the expected sources for funding the 2005-2009 Capital Program.

<u>Funding Source</u>	<u>Program Amount (in millions)</u>
Federal Formula and Flexible	\$5,093
Federal Security	495
Federal New Start	1,000
City	400
City #7 Line Funds	1,990
New York State Bond Act Proceeds	1,450
Asset Sales, Carryover and Program Income	1,400
MTA Bonds	4,217
MTA Bonds – New Source	<u>5,100</u>
Total*	<u>\$21,145</u>

*Total may not add due to rounding.

2005-2009 Transit Core Program. The following table represents the capital program by category of work for the Transit System and SIRTOA under the 2005-2009 Transit Capital Program (does not include MTA Network Expansion Projects related to the Transit System).

	<u>2005-2009 Transit Core Program (in millions)</u>
Transit Authority	
Subway Cars	\$1,805
Buses	824
Passenger Stations	1,686
Track	1,138
Line Equipment	977
Line Structures	616
Signals & Communications	1,844
Power	553
Shops	271
Yards	350
Depots	636
Service Vehicles	99
Miscellaneous	416
SIRTOA	<u>86</u>
Total*	<u>\$11,300</u>

*Total may not add due to rounding.

Among the projects included in the 2005-2009 Transit Core Program are the following:

For rolling stock, the plan includes the normal replacement of 912 B Division cars, as well as fleet growth for the A Division with the purchase of 47 cars. A total of 1,360 new buses will be ordered, including 1,010 standard (all using clean fuel technology), 112 articulated and 238 express buses. The new bus purchases represent a fleet growth of approximately four percent in "standard bus equivalents" (SBEs) over the current fleet. In addition, 948 new paratransit vehicles will be purchased to replace older units and to expand the total fleet by approximately 33 percent.

The plan funds the rehabilitation of 44 stations, normal replacement of approximately 49 miles of mainline track and 180 mainline switches, as well as installation of 50 track miles of welded rail, which has significantly lower occurrences of rail breaks and cracks.

For signals and communications, the Transit Authority's major improvements feature expansion of new signal technology with the installation of communication based train control (CBTC) on the Flushing line, rehabilitation of interlocking on three other lines, completion of signal modernization on the White Plains Road line and installation of automatic train supervision (ATS) on the B Division. Communications system improvements feature the continued extension of the existing fiber optic network to all passenger stations.

The Transit Authority's line equipment investments include replacing approximately 53 track miles of tunnel lighting, replacing 13 and adding four new fan plants, and state of good repair work at 16 pump rooms. Various line structure repairs and related work are addressed, including 9 route miles of subway structure, 8 route miles of elevated structure, 3.8 route miles of retaining walls and overpasses, painting, and rehabilitation of 125 emergency exits throughout the subway system. The power category includes modernizing nine substations, rehabilitating three IRT and three IND substation enclosures, and replacing substation equipment at various locations. For shops, major work includes rehabilitation of the 207th Street Overhaul Shop and rehabilitation of the two support shops (38th Street Yard Shop and Phase 1 of Atlantic Avenue Cable Shop). In yards, major projects are the Jamaica Yard Expansion and Corona Yard Phase 3. In addition, the program will replace approximately seven miles of yard and non-revenue track, replace 100 year switches and address other year equipment and security needs. Also planned are various safety and security improvements.

For depots, major projects include a new depot to replace the existing Jamaica Depot, expansion of the East New York Depot and reconstruction of the Clara Hale Depot. Initial funding for a new Charleston Depot on Staten Island is also included. Rehabilitation work also is planned at four other depots. In addition, projects are planned to replace bus lifts, roofs, washers and heavy depot equipment, and secure property for parking needs.

For service vehicles, the plan replaces 212 rubber-tire vehicles, such as heavy-duty trucks and specialty vehicles, and 22 work trains, such as ballast regulators, diesel-electric locomotives and a track geometry/rail inspection car.

In miscellaneous, the plan provides funds to support the program's technical needs, including insurance, engineering, services, scope-development and the MTA independent engineer. In addition, improvements to employee facilities across the system are funded. Certain management information systems, such as PBX node sites and servers, will be addressed. Also, the Transit Authority will address various environmental and safety needs, such as asbestos monitoring and removal, installation of fire alarms at various facilities and environmental remediation.

For SIRTOA, the Atlantic and Nassau stations, which are dilapidated and located very close to each other, will be replaced with a single, new ADA-accessible "Arthur Kill" passenger station. Also planned are the modernization of track and switches at the St. George Terminal, repair of six bridges/thru-spans and rehabilitation of 11 station houses.

2005-2009 Commuter Core Program. The following table represents the capital program by agency and by category of work for the Commuter System under the 2005-2009 Commuter Core Program (does not include MTA Network Expansion Projects related to the Commuter System).

	2005-2009 Commuter Core Program <u>(in millions)</u>
Long Island Rail Road	
Rolling Stock	\$359
Passenger Stations	135
Track	726
Line Structures	156
Communications & Signals	347
Shops & Yards	111
Power	159
Miscellaneous	<u>185</u>
Total*	<u>\$2,176</u>
Metro-North Railroad	
Rolling Stock	\$364
Passenger Stations	238
Track & Structures	256
Communications & Signals	73
Power	103
Shops & Yards	260
Miscellaneous	<u>88</u>
Total*	<u>\$1,382</u>

*Totals may not add due to rounding.

Among the projects included in the approved 2005-2009 Commuter Core Program are the following:

The rolling stock investment for the LIRR electric fleet includes the purchase of 158 new M-7 electric cars, continuing the normal life cycle replacement of M-1 electric multiple units nearing the end of their useful lives. The MNCRC investments in this area continue the modernization of the fleet with the completion of the M-2 overhaul and the remanufacture of the East of Hudson coach and M-3 electric fleets. Also included are the purchase of 100 M-8 electric cars to begin the replacement of the New Haven Line's M-2 fleet (with CDOT) and 36 M-7 electric cars to complete the replacement and expansion of the M-1 fleet.

Station investments include platform rehabilitations, replacement of stairs, escalators, elevators and overpasses at locations system-wide and the construction of new, and rehabilitation of existing, parking spaces. MNCRC will continue the structural rehabilitation of Grand Central Terminal. Also included is LIRR's purchase and installation of up to 87 ticket vending machines for stations throughout the system, expanding the number already in service.

The ongoing track program consists of the normal replacement of track components and installation of concrete ties in selected segments of the right-of-way. For LIRR, also included is Phase 1 of design and construction of grade crossing eliminations and track capacity improvements on the Main Line from Queens Village to Hicksville, and the reconfiguration of interlockings just east and west of the Jamaica Station. For MNCRC, the plan includes interlocking/switch replacement throughout the entire MNCRC territory in New York State. Investments in line structures consist of the rehabilitation of bridges and viaducts. For LIRR, the plan includes the Atlantic Avenue viaduct and fire/life/safety/ improvements in the East River Tunnels' ventilation systems, bench walls, tunnel lining and floodgates. For MNCRC, the plan includes work on welfare, storage and other facilities and West of Hudson track improvements.

LIRR's communications investments include the continued expansion of the fiber optic network and the redesign of the Communications Network Operations Center. LIRR's VHF radio system will be modernized and audio/visual paging systems will be deployed at 80 additional stations, providing improved customer communications at stations. LIRR will also continue its normal replacement of deteriorated communications poles system-wide. The proposed signal projects rehabilitate several of LIRR's busiest interlockings, invest in signals as far east as Speonk, begin work on the centralized train control system and continue cyclical normal replacement in an effort to maintain this infrastructure in a state of good repair. In addition, construction on the Jamaica Central Control Theater will begin. MNCRC's investments in communications and signals replace the aging signal system (wayside and operations control center) with the latest technology and provide for the optimization of train capacity at locations system-wide.

LIRR's investments in shops and yards include the replacement of rolling stock support equipment, infrastructure improvements to accommodate maintenance and repair of the new electric and diesel fleets, soil remediation at Long Island City yard, and reconfiguration of Babylon yard to increase lay-up storage capacity. The shops and yards investments for MNCRC include upgrades to three facilities to accommodate additions to the rolling stock fleet and support for the reliability centered maintenance philosophy.

The power category includes the replacement and upgrade of the systems necessary to support the movement of electric trains. Power investments maintain the condition of existing assets and increase traction power capacity system-wide.

For miscellaneous, the plan includes various program administrative costs, including program contingency. Also included for LIRR is environmental remediation at 23 electric substations, Yaphank landfill, Long Island City car wash, Richmond Hill, Holban Yard, Morris Park and various other locations system-wide.

MTA Network Expansion Projects. MTA Capital Construction is in the process of designing and constructing the following major projects: East Side Access, the Second Avenue Subway, the #7 Line Extension, and Lower Manhattan rail link to JFK.

The East Side Access, Second Avenue Subway and JFK Rail Link projects are provided \$2.5 billion of funding in the 2005-06 State budget. Specific proposals for a revised program must await resolution of the State's November 2005 Transportation Bond Act, as well as additional planning with MTA's Federal funding partners to craft an expansion program that can be effectively implemented at a slower pace. The #7 Subway Line Extension project remains at its full \$1.99 billion value since it is 100% funded by the City.

Full implementation of the Second Avenue Subway, East Side Access and JFK Rail Link projects will require significant additional resources in future capital programs.

Security Program.

In the wake of the September 11, 2001 terrorist attacks on the World Trade Center, MTA initiated an intense planning effort to determine how to best protect its customers and key assets from a terrorist incident. In late 2001, experts in this field defined critical vulnerabilities and determined appropriate protective or response strategies. The result of these efforts was the implementation of a multi-faceted plan. This plan included developing immediate near-term operating initiatives to protect vulnerable locations, developing a set of mid-term protective measures that included both operating and smaller-scale capital initiatives to protect vulnerable assets and enhance response capabilities; and finally, identifying 57 longer-term large-scale capital investments to harden vulnerable assets and implement the networks and equipment necessary to conduct targeted surveillance, control access, stop intrusion and provide the command and control systems to support incident response.

The 2000-2004 Capital Program was amended to allocate \$591 million to fund the first 24 of the large-scale projects, plus some additional supporting investments. In the spring of 2003, the top six priority projects of this group received \$143 million from the Federal Department of Homeland Security.

MTA's proposed 2005-2009 Capital Program includes an allocation of \$495 million to fund the remaining 33 large-scale projects previously identified. MTA expects to secure funding from the Federal Department of Homeland Security and other Federal sources for these critical projects.

Interagency Program. The MTA Interagency Program is made up of two initiatives: MTA Police Department capital investments for \$64.1 million and an MTA-wide integrated computer systems initiative for \$70 million.

Oversight and Review of Administration of Capital Programs

A committee on capital program oversight was established within MTA that consists of at least three Members of MTA. The committee monitors various capital program actions and activities, including

- current and future funding availability,
- contract awards,
- program expenditures, and
- timely progress of projects within the programs.

The legislation establishing the committee also requires MTA to submit a five-year strategic operations plan to the Governor and to amend such plan at least annually. Such plan must include, among other things, planned service and performance standards and the projected fare levels for each year covered by the plan and an analysis of the relationship between planned capital elements and the achievement of planned service and performance standards. MTA communicates with the State officials responsible for monitoring the strategic operations plan in order to keep them informed of such matters.

1992-1999 Transit Capital Program Objectives

Highlights of the investments funded in the 1992-1999 Transit Capital Program include the purchase or remanufacture of 3,637 buses, rehabilitation and upgrade of 87 subway stations and three subway station complexes, including the addition of elevators and escalators at several of these stations, to make them accessible for the elderly and disabled; construction of a Rail Control Center; modernization of signal systems on four subway lines and the Williamsburg Bridge; development of communications-based train control; construction of two bus maintenance facilities; and the completion of the 63rd Street connector project, which is expected to significantly relieve overcrowding on the Queens Boulevard line. The 1992-1999 Transit Capital Program also includes investments to modernize Transit's electrical power system, reconstruct the Franklin Avenue shuttle, reconstruct a section of the Lenox Avenue Line, and replace signals on the Staten Island Railway. As of December 31, 2004, \$12.586 billion of the \$12.658 billion for NYC Transit and Staten Island Railway projects included in the 1992-1999 Transit Capital Program have been committed, \$12.254 billion have been expended and \$11.517 billion of projects have been completed.

1992-1999 Commuter Capital Program Objectives

Highlights of key investments funded under the 1992-1999 Commuter Capital Program for LIRR include replacement of LIRR's diesel fleet of coaches and locomotives, the purchase of electric cars to replace a portion of its electric fleet, conversion of diesel territory station platforms to high level platforms, extension of platform 11 at Penn Station, start of preliminary engineering for the Network Expansion project East Side Access, and rehabilitation of stations systemwide. MNCRC's key investments include the purchase of diesel coaches and dual-mode locomotives for replacement of a portion of its electric fleet, extensive infrastructure renovations at Grand Central Terminal, station and platform improvements, installation of concrete ties, construction of a third track on the Mid-Harlem line, and the extension of service from Dover Plains to Wassaic. As of December 31, 2004, \$4.222 billion for Commuter System

projects of the \$4.298 billion of projects included in the 1992-1999 Commuter Capital Program have been committed, \$4.114 billion has been expended and \$3.820 billion of projects have been completed.

Prior TBTA Capital Programs

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

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

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

1992-1999 TBTA Capital Programs

TBTA's 1992-1999 capital programs provided for approximately \$1.147 billion in planned capital commitments, a major portion of which was financed with the proceeds of TBTA's own bonds. Of such \$1.147 billion in planned capital commitments, approximately \$459.0 million is scheduled to be spent on roadways and decks, including rehabilitation of approaches, roadways and decks at the Bronx-Whitestone Bridge, the Triborough Bridge, the Throgs Neck Bridge, the Verrazano-Narrows Bridge and the Marine Parkway-Gil Hodges Memorial Bridge and rehabilitation of roadways and drainage systems at the Henry Hudson Bridge; \$337.2 million on structures, including rehabilitation of the Randall's Island Junction Structure, the Harlem River lift span, anchorages and suspension cables at the Triborough Bridge and walls and ceilings at the Queens Midtown Tunnel; \$134.7 million on utilities, including rehabilitation and upgrading of air conditioning at toll booths at all facilities, rehabilitation of fan housing at the Brooklyn-Battery Tunnel and rehabilitation of bridge electrical substations and power feeders at the Throgs Neck Bridge; \$131.5 million on buildings and sites, including expansion of the service building at the Bronx-Whitestone Bridge, structural rehabilitation and repairs at the ventilation building and overpasses of the Queens Midtown Tunnel; \$69.9 million on toll plazas, including electronic toll collection systems; and \$14.7 million on miscellaneous projects. As of December 31, 2004, \$1.144 billion for TBTA projects of the \$1.147 billion of planned projects included in the 1992-1999 TBTA Capital Program have been committed, \$1.135 billion have been expended and \$1.133 billion have been completed.

2000-2004 TBTA Capital Program

The 2000-2004 TBTA Capital Program provides for approximately \$1.031 billion in capital commitments, which is expected to be financed with TBTA pay-as-you-go capital, resources available from the debt restructuring and TBTA bonds.

Under the 2000-2004 TBTA Capital Program, \$642 million is allocated to roadways and decks, including complete replacement of the roadway deck and associated structural elements, bridge lighting and electrical feeders, and to improve the drainage system for, the suspended spans of the Bronx-Whitestone Bridge, and the continued 12-year overhaul of the Triborough Bridge begun in 1997; \$90 million is allocated to structures; \$58 million for toll plazas, including implementation of the intelligent transportation system providing for variable message signs, closed circuit television, weather sensors and a traffic management system that utilizes E-ZPass technology to improve incident detection and reporting; \$115 million for utilities; \$108 million for buildings and sites; and \$18 million for miscellaneous projects.

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

2005-2009 TBTA Capital Program

The 2005-2009 TBTA Capital Program that is effective because it does not need Review Board approval provides for \$1.168 billion in capital commitments, which is expected to be financed with TBTA pay-as-you-go capital and TBTA bonds.

<u>Category of Project</u>	<u>2005-2009 Capital Program (in millions)</u>
Structures	\$221
+Roadways & Decks	695
Toll Plazas	73
Utilities	17
Buildings & Sites	144
Miscellaneous	17
Total*	\$1,168

* Total may not add due to rounding.

Among the major projects included are the following:

- Bronx-Whitestone Bridge replacement of the elevated and on-grade approaches in the Bronx,
- Cross Bay Bridge deck resurfacing and drainage rehabilitation,
- Henry Hudson Bridge replacement of lower level deck,
- structural steel repairs at Marine Parkway Bridge,
- Triborough Bridge rehabilitation program – deck replacement at Randall’s Island and Wards Island viaducts and construction of new ramps,
- Throgs Neck Bridge rehabilitation of the orthotropic deck,
- continuation of the rehabilitation of the elevated approaches at the Verrazano-Narrows Bridge,
- rehabilitation of Brooklyn-Battery Tunnel ventilation buildings, and
- Queens-Midtown Tunnel rehabilitation of the Queens service building and the facility engineer office building.

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

Non-Capital Program Projects

2 Broadway. MTA (on behalf of LIRR and MNCRC), the Transit Authority and TBTA each authorized and subsequently entered into lease and related agreements whereby as sublessees they will rent, for at least an initial stated term until June 30, 2048, an aggregate of approximately 1.6 million rentable square feet of space at 2 Broadway in lower Manhattan. A portion of the building houses the employees of the Transit Authority and TBTA that formerly occupied space at the New York Coliseum that was sold in 2000. The Transit Authority, TBTA and/or MTA expect to occupy substantially all of the remainder of 2 Broadway as existing leases expire or as existing space becomes unsuitable. See “PUBLIC DEBT SECURITIES AND OTHER FINANCIAL INSTRUMENTS – Non-Capital Program Securities – 2

Broadway Certificates of Participation” in Part 4 for a description of the source of funding certain improvements to 2 Broadway.

West Side Development. The City and the State are in the process of developing the far west side of Manhattan. The currently proposed major projects include the extension of the #7 subway line from Times Square to the Javits Convention Center, the expansion of the existing Javits Convention Center and the construction of a hotel nearby, and the construction of an additional development to the south of the Javits Convention Center that could be an enclosed multi-use sports and exhibition facility that could be converted into an Olympic Stadium if the City is awarded the Olympic games in 2012. In addition, the City has rezoned the adjacent Westside area to permit substantially increased mixed-use residential and commercial development.

TBTA currently owns the land generally bounded by 30th Street on the south, 33rd Street on the north, 10th Avenue on the east and 12th Avenue on the west, on which LIRR operates its layup yards (the “Hudson Yards”) for trains not in service pending travel from Penn Station, its Manhattan hub. The western portion of the Hudson Yards between 11th and 12th Avenues was not rezoned by the City and is the parcel currently being contemplated for the NYSCC described below. The eastern portion between 10th and 11th Avenues was rezoned by the City and it is expected that MTA will work with the City in developing the eastern portion consistent with the other areas rezoned by the City in the Hudson Yards vicinity. It is expected that, in connection with any development of the Hudson Yards, TBTA will transfer title to MTA.

While agreement has been reached by certain parties on certain portions of the Westside development, the City, the State, the Convention Center and MTA are not necessarily in agreement on some of the key scope or financial aspects of the development, with many economic issues yet to be resolved. Substantial work, including negotiation of documentation, and key governmental approvals need to be completed before much of the development can be commenced.

The following generally describes four of the major elements of the Westside development.

- Rezoning of substantial portions of the far west side of mid-town Manhattan. The City rezoned substantial portions of the neighborhood surrounding the Hudson Yards in order to permit the development of a major mixed-use commercial and residential community.
- Extension of #7 Subway Line. The City’s proposal would extend the #7 Subway Line west from its 42nd Street Times Square terminus to 11th Avenue, then south to 34th Street, exiting at the entrances to the Javits Convention Center and proposed NYSCC described below. The City is proposing to pay up to approximately \$2 billion for the costs of the extension, which will be constructed by MTA Capital Construction and operated by the Transit Authority.
- Expansion of Javits Convention Center. The City and the State have entered into a memorandum of understanding that generally provides for the expansion of the existing Javits Convention Center and the construction of a hotel. Legislation was enacted to implement the expansion. The State is proposing to use a local development corporation to refund and extend the maturity of the existing TBTA Convention Center Bonds and issue additional bonds to fund a portion of the costs of the Javits expansion. The payment of such bonds would not be secured by the revenues of TBTA, MTA or any of the other Related Entities.
- New York Sports and Convention Center (“NYSCC”). On March 31, 2005, the MTA Board authorized negotiations with Jets Development, LLC (the “Jets”), an affiliate of the New York Jets football team, for the construction of the 75,000-seat NYSCC on a platform over the western portion of the Hudson Yards (the “NYSCC Site”). It is expected that the City and the State will fund \$600 million of the estimated cost of the platform and the NYSCC. Construction of the platform is expected to be staged to minimize disruptions to LIRR operations. In the beginning of April 2005, the Jets and MTA executed a summary of certain essential terms setting forth the following general understanding:

- MTA will convey a fee interest in the air space (approximately 2.2 million square feet) (the “Airspace Parcel”) over the NYSCC Site to the Jets for the purposes of constructing the NYSCC. MTA will retain all other development rights.
- The Jets will pay MTA \$250 million for the Airspace Parcel – non-refundable \$50 million payable at the time of the contract signing and \$200 million at closing.
- For 50 years following construction, the Airspace Parcel may be used only for the NYSCC and related uses, and no other primary use or development may be made of the Airspace Parcel. At the end of the 50-year period, providing no event of default has occurred, the Airspace Parcel may be used for any lawful use, provided that any change in use must be approved by MTA.
- The Jets will pay certain LIRR operating expenses under the platform and fund a platform maintenance and reserve.

There are many issues that need to be resolved concerning the development, including the staging of construction activity. The following cases have been commenced in New York State Supreme Court, New York County challenging certain aspects of the Hudson Yards development. All of the cases have been assigned to the same Justice.

Hell's Kitchen Neighborhood Assoc. et al. v. NYC Dep't of City Planning, NYC Planning Commission, The City of New York, and MTA. This proceeding was filed on or about January 7, 2005 and consolidated with the Tri-State proceeding discussed below. The suit challenges the Environmental Impact Statement for the No. 7 Subway Line/Hudson Yards Project and also includes nuisance claims associated with the proposed Hudson Yards development. The petitioners have not requested any monetary relief or damages. MTA and the City have filed papers in opposition, and the Court has heard oral argument from both sides. Per the Court’s suggestion, the parties will engage in mediation in an effort to resolve the litigation.

Tri-State Transportation Campaign, Inc. et al. v. NYC Dep't of City Planning, NYC Planning Commission, The City of New York, and MTA. This proceeding was filed on or about January 4, 2005 and consolidated with the Hells Kitchen proceeding discussed above. The suit challenges the Environmental Impact Statement for the No. 7 Subway Line/Hudson Yards Project. The petitioners have not requested any monetary relief or damages. MTA and the City have filed papers in opposition, and the Court has heard oral argument from both sides. Per the Court’s suggestion, the parties will engage in mediation in an effort to resolve the litigation.

Madison Square Garden, L.P. v. MTA and Jets Development, LLC. This proceeding was filed on or about April 5, 2005 by a competing proposer for the Airspace Parcel. The suit seeks to prevent MTA and the Jets from consummating the negotiations for the real property interests needed to construct the NYSCC. Petitioner requests that the Court annul MTA’s selection of the Jets as the developer for the Airspace Parcel and compel MTA to award the development rights to petitioner or, alternatively, to offer the development rights in a “fair and proper bidding process.”

New York Public Interest Research Group/Straphangers Campaign, Inc. et al v. MTA and Peter S. Kalikow, Supreme Court, NY County. This proceeding was filed on or about April 18, 2005. The suit seeks to enjoin the MTA from transferring the Airspace Parcel to the Jets and require MTA to issue a new request for proposals in order to enable all potentially interested parties to submit bids.

Betsy F. Gotbaum v. MTA. This proceeding was filed on or about April 18, 2005 by the Public Advocate for the City and seeks the same type of relief as that requested by the New York Public Interest Research Group (“NYPIRG”) in its similar proceeding filed on or about April 18, 2005.

Matter of Mankoff, et al. v. MTA. This proceeding was filed on or about April 25, 2005 and seeks the same type of relief as that requested by NYPIRG and Betsy F. Gotbaum in separate proceedings filed on or about April 18, 2005.

It is expected that the Madison Square Garden, NYPIRG, Gotbaum and Mankoff proceedings will be argued at the same time, currently scheduled for May 3, 2005. MTA intends to vigorously defend each of the above-referenced actions.

FUTURE CAPITAL NEEDS

Every five years, prior to the submission of the five-year capital plans, MTA updates its 20-year capital needs assessment which revisits its asset inventory, assesses the conditions of those assets and identifies the long-term investment schedules required to maintain a state of good repair. Long-term investments that improve and expand the system to meet operating goals and strategies are also identified. This long-term plan provides the basis for sizing and configuring the successive five-year capital plans and establishes the rationale for the funding levels that are requested to support the program.

No assurances can be given that MTA will be able to identify sufficient sources to fully pay for current and those future capital needs or that, if identified, those funding sources will be received. Some of the prospective funding sources, such as Federal, City and State funds, are not within the control of MTA and the receipt of such funding is contingent, among other things, upon the ability and willingness of such entities to provide such funding. If MTA does not receive sufficient monies to fund current and future capital needs, the improvements to the Transit System's and SIRTOA's, the Commuter System's and TBTA's state of good repair achieved through implementation of previous capital programs could erode.

INVESTMENT POLICY

MTA's Treasury Division is responsible for the investment management of the funds of the Related Entities. The investment activity covers all operating and capital funds, including bond proceeds, and the activity is governed by State statutes, bond resolutions and the Board-adopted investment guidelines (the "Investment Guidelines"). The MTA Act currently permits the Related Entities to invest in the following general types of obligations:

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

Investment obligations and collateral are held by one of MTA's custodians or trustees.

As of December 31, 2004, \$1,119 million market value non-bond capital funds consisted of approximately 7% cash and repurchase agreements, 19% United States Treasury obligations, 39% agency obligations, 34% commercial paper, and less than 1% in certificates of deposit. The maturity of non-bond capital funds was less than 5 months.

As of December 31, 2004, the operating and working capital of the Related Entities amounted to \$747 million, and was invested with an average weighted days to maturity of 68 days.

**PART 4. PUBLIC DEBT SECURITIES AND OTHER
FINANCIAL INSTRUMENTS**

GENERAL

Financing of Capital Projects and Statutory Ceiling

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

Current Statutory Ceiling. The MTA Act permits MTA, TBTA and the Transit Authority, collectively, to issue on or after January 1, 1993 an aggregate of \$16.5 billion of bonds, notes and other obligations (net of certain statutory exclusions, including refunding bonds) for the Transit Capital Programs and the Commuter Capital Programs for the years 1992-2004. MTA and TBTA have previously issued a substantial amount of such bonds pursuant to prior statutory ceilings. MTA, TBTA and the Transit Authority have issued approximately \$11.159 billion of bonds (not including \$720 million of commercial paper) net of such statutory exclusions under the current statutory ceiling. There is currently not enough capacity in the statutory ceiling to fulfill the bonding requirements of the 2000-2004 Capital Programs, but MTA expects to correct this in connection with the increase in the statutory ceiling necessary in connection with the approval of the 2005-2009 Capital Programs. MTA does not expect that the current lack of capacity in the statutory ceiling will adversely affect its ability to progress capital projects.

Set forth below under “Capital Program Bonds” is a brief summary of the types of obligations issued by the Related Entities to finance or refinance the Transit Capital Programs or the Commuter Capital Programs that are governed by past and current statutory ceilings. Only a portion of the TBTA Senior Revenue Bonds and TBTA Subordinate Revenue Bonds (as each is defined below) were issued to finance or refinance items in such Capital Programs and, consequently, were subject to the statutory ceiling; the remainder were issued to finance capital costs of TBTA’s Facilities that are not subject to the statutory ceiling.

Capital Program Bonds

MTA Transportation Revenue Bonds. Bonds are issued pursuant to the General Resolution Authorizing Transportation Revenue Obligations of MTA, adopted on March 26, 2002 (the “Transportation Resolution”), and are payable solely from and secured by a pledge of the items pledged under such bond resolution, which include amounts derived from fares received for the use of the subway and bus systems operated by the Transit Authority and MaBSTOA and the commuter railroads operated by LIRR and MNCRC, concession revenues, and operating subsidies (not including Federal operating subsidies), including expense reimbursement payments, from the State, the City and TBTA. The proceeds from the sale of such bonds are used solely to finance capital projects of the Transit System and Commuter System.

For more information on the Transportation Revenue Bonds, see “TRANSPORTATION REVENUE BONDS” below in this Part 4.

TBTA Senior Revenue Bonds. Bonds are issued pursuant to the General Resolution Authorizing General Revenue Obligations of TBTA, adopted on March 26, 2002 (the “TBTA Senior Resolution”), and are payable from the net revenues collected on the TBTA Facilities described under “TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY – TBTA Facilities”. The proceeds from the sale of such bonds are used to finance capital projects relating to the TBTA Facilities and the TBTA Transit and Commuter Project (i.e., the Transit System and SIRTOA and the Commuter System), as described herein under “TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY – Authorized Projects of TBTA” in Part 2. Only that portion of any such bonds issued to finance capital projects of the

TBTA Transit and Commuter Project is subject to the current statutory ceiling. For more information on the TBTA Senior Revenue Bonds, see “TBTA SENIOR REVENUE BONDS” below in this Part 4.

TBTA Subordinate Revenue Bonds. Bonds are issued pursuant to the 2001 Subordinate Revenue Resolution Authorizing Subordinate Revenue Obligations of TBTA, adopted on March 26, 2002 (the “TBTA Subordinate Resolution”), and are payable from the net revenues collected on the TBTA Facilities after the payment of operating expenses and debt service as required by the TBTA Senior Resolution. The proceeds from the sale of such bonds are used to finance capital projects relating to the TBTA Facilities and the TBTA Transit and Commuter Project. Only that portion of any such bonds issued to finance capital projects of the TBTA Transit and Commuter Project is subject to the current statutory ceiling. For more information on the TBTA Subordinate Revenue Bonds, see “TBTA SUBORDINATE REVENUE BONDS” below in this Part 2.

MTA Dedicated Tax Fund Bonds. Bonds are issued pursuant to the Dedicated Tax Fund Obligation Resolution of MTA, adopted on March 26, 2002 (the “DTF Resolution”), and are payable solely from and secured by the MTF Receipts and the MMTOA Receipts described under “DEDICATED TAX FUND BONDS – Sources of Payment – Revenues from Dedicated Taxes”, subject to appropriation by the State Legislature. The proceeds from the sale of such bonds are used solely to finance capital projects of the Transit System and SIRTOA and the Commuter System. For more information on the Dedicated Tax Fund Bonds, see “DEDICATED TAX FUND BONDS” below in this Part 4.

MTA Service Contract Bonds. Bonds are issued pursuant to the State Service Contract Obligation Resolution of MTA adopted on March 26, 2002 (the “State Service Contract Resolution”). These bonds are not payable from transit or commuter revenues, but are payable solely from and secured by certain payments made by the State, subject to annual appropriations, under the service contract referred to in such bond resolution. The proceeds from the sale of such bonds are used solely to finance capital projects of the Transit System and SIRTOA and the Commuter System. Other than refunding bonds, MTA does not expect to issue additional bonds under the State Service Contract Resolution, unless the State service contract is amended to permit the issuance of additional new money bonds. For more information on the State Service Contract Bonds, see “STATE SERVICE CONTRACT BONDS” below in this Part 4.

Non-Capital Program Securities

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

2 Broadway Certificates of Participation. The Certificates of Participation were executed and delivered pursuant to a Certificate Trust Agreement, dated as of June 1, 1999, as amended and restated as of September 1, 2004, by and among the Transit Authority, MTA (solely on behalf of LIRR and MNCRC), and TBTA, as obligors with respect to their base rent proportionate shares (68.7% in the case of the Transit Authority, 21.0% in the case of MTA (solely on behalf of LIRR and MNCRC), and 10.3% in the case of TBTA), The Bank of New York, as Lessor-Trustee, and The Bank of New York, as Certificate Trustee. The Certificates are payable primarily from the respective base rent proportionate shares to be made by the Transit Authority, MTA and TBTA pursuant to a Leasehold Improvement Sublease Agreement, dated as of June 1, 1999, as amended and restated as of September 1, 2004, by and among the same parties to the Certificate Trust Agreement. The obligation of the Transit Authority to pay its base rent proportionate share is treated as an operating and maintenance expense, subordinate to the payment of bonds, notes and other obligations currently outstanding and hereafter issued or incurred as described in the Certificate Trust Agreement. The obligation of MTA (solely on behalf of LIRR and MNCRC) to pay its base rent proportionate share is treated as an operating and maintenance expense of the commuter railroads, subordinate to the payment of bonds, notes and other obligations currently outstanding and hereafter issued or incurred as described in the Certificate Trust Agreement. The obligation of TBTA to pay its base rent proportionate share is, by agreement, subordinate to TBTA’s payment of other operating and maintenance expenses of TBTA, as well as bonds, notes and other obligations currently outstanding and hereafter issued or incurred as described in the Certificate Trust Agreement. The proceeds from the sale of the Certificates of Participation are being used to finance certain building and leasehold improvements to an office building occupied by the Transit Authority, MTA or its subsidiaries (LIRR and MNCRC), and/or TBTA at 2 Broadway in lower Manhattan. The office building is not a project within the

Transit or Commuter Capital Programs. There are \$443,470,000 aggregate principal amount of Certificates of Participation outstanding.

TBTA Convention Center Project Bonds. Bonds issued pursuant to the Convention Center Project Revenue Bond Resolution of TBTA, adopted on July 23, 1980, are not payable from any TBTA revenues, but are payable solely from and secured by payments to be made by the State to TBTA pursuant to a sublease agreement. The proceeds from the sale of such bonds were used to refund certain outstanding bonds that were used to construct and develop the Jacob K. Javits Convention Center in Manhattan. There are \$242,100,000 aggregate principal amount of such Convention Center Project Bonds outstanding.

Revenue Anticipation Notes. MTA and the Transit Authority have in the past and may, from time to time, in the future issue revenue anticipation notes for their working capital needs and the needs of their respective affiliates and subsidiaries occasioned by delays in the receipt of subsidies or other irregularities in the timing of receipt of revenues. Neither MTA nor the Transit Authority has issued revenue anticipation notes since 1996. All those notes previously issued were paid on their due dates.

Interagency Loans

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

Leasing

The Related Entities lease real property, facilities, equipment and other personal property in the normal course of business. In addition, the Related Entities have entered into financing leases and other financial transactions, including sale-leaseback and lease-leaseback arrangements, pursuant to which existing assets are sold or leased to other parties and leased or subleased back by the Related Entities. In certain cases, the basic rent payment obligation of the Related Entities under such leases and subleases, together with a purchase option, is legally defeased and in other cases is economically defeased by a pledge of financial obligations and/or securities of other entities, including, in certain cases, United States government obligations. The expected economic result of such transactions is the receipt by the Related Entities of a net up-front payment, while pursuant to the agreement, the relevant operating agency retains full use of the facility or equipment. In those lease transactions where the applicable Related Entity's obligations are economically, but not legally defeased, if a defeasance obligor were to default on its financial obligations under its respective defeasance instrument, it is possible that the applicable Related Entity would be required to pay the related rent obligations or purchase option amounts from other sources. In addition, the event of loss, default, indemnification, and guaranty provisions of these transactions could create substantial undefeased financial obligations of the Related Entities in the unlikely event that they were triggered; if those financial obligations were, in turn, not timely met, the relevant operating agency could lose use of the leased facilities or equipment. For all of the lease transactions entered into after 1996, MTA has covenanted that all rent and supplemental rent obligations under such lease transactions which are not paid by defeasance obligors shall be paid from those "Revenues" (as defined in Section 102 of the Transportation Resolution) available for release from the lien of the Transportation Resolution in accordance with Section 504(d) of the Transportation Resolution, immediately following all transfers pursuant to Section 504(a), (b) and (c) of the Transportation Resolution, on a *pari passu* basis among all such lease transactions and prior to the transfer or use of any such amounts for any other purpose, including the payment of operating and maintenance expenses. The payment obligations of the Related Entities under such leases and subleases is generally subordinate to the payment of debt service on the bonds of the agency obligated to make the payments, but to the extent the undefeased financial obligations were obligations (including guaranties) of TBTA, a reduction in the amount of operating surplus transferred from TBTA could result.

MTA expects that the Related Entities will continue to enter into leasing and other financial transactions. Reference is made to the footnotes in the financial statements of the Related Entities for a summary of certain capital lease obligations. See, in particular, Footnote 7 to the combined financial statements of MTA for the years ended December 31, 2004 and 2003, Footnote 5 to the consolidated financial statements of the Transit Authority for the

years ended December 31, 2004 and 2003, and Footnotes 13 and 16 to the financial statements of TBTA for the years ended December 31, 2004 and 2003.

Swap Agreements

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

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, TBTA and the Transit Authority entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA, TBTA and the Transit Authority would have paid to issue fixed-rate debt.

Activity Since January 1, 2005.

- On February 8, 2005, MTA terminated a forward hedge in the notional amount of \$500 million with Merrill Lynch Capital Services Inc. with MTA making a termination payment of \$16.970 million to the counterparty in connection with the issuance of \$650 million Transportation Revenue Bonds, Series 2005A.
- Effective March 24, 2005, MTA entered into a \$350 million notional amount fixed payer swap with Citigroup Financial Products Inc. in connection with the issuance on that day of \$350 million aggregate principal amount of Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A. MTA is paying the counterparty the fixed rate of 3.3156% and the counterparty is paying the MTA 67% of one month LIBOR.

Fair Value. Relevant market interest rates on the valuation date of the swaps reflected in the following charts (March 31, 2005) in one case was higher than, and in all other cases were lower than, market interest rates on the effective date of the swaps. Consequently, as of the valuation date, substantially all of the swaps had negative fair values and one had a positive fair value. In the event there is a positive fair value, MTA, TBTA and the Transit Authority would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the swap be terminated.

The fair values listed in the following tables represent the theoretical cost to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bond due on the date of each future net settlement on the swap. 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. MTA, TBTA and the Transit Authority are not aware of any event that would lead to a termination event with respect to any of their existing swaps. See "*Termination Risk*" below.

Terms and Fair Values. The terms, fair values and counterparties of the outstanding swaps of MTA and TBTA, as well as the swaps entered into in connection with the 2 Broadway Certificates of Participation refunding, are as follows:

MTA							
<u>Associated Bond Issue</u>	Notional Amounts as of 3/31/05 (Unaudited) (in millions)	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	Fair Values as of 3/31/05 (Unaudited) (in millions)	<u>Swap Termination Date</u>	<u>Counterparty</u>
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⁾	\$(11.721)	09/01/13	Morgan Stanley Capital Services Inc.
Dedicated Tax Fund Variable Rate Bonds, Series 2005A	350.000	03/24/05	3.3156	67% of one-month LIBOR ⁽²⁾	3.651	11/01/31	Citigroup Financial Products Inc.
Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1	200.000	05/30/02	3.385	BMA	(1.423)	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	(2.547)	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	(20.970)	11/01/32	Bear Stearns Capital Markets Inc.
Proposed Issuance of Transportation Revenue Bonds	500.000	09/01/05	3.584	67% of one-month LIBOR	(6.325)	11/01/35	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.
Proposed Issuance of Transportation Revenue Bonds	500.000	07/01/05	3.5016	67% of one-month LIBOR	(2.338)	11/01/35	60% – Lehman Brothers Special Financing Inc. 40% – AIG Financial Products Corp.
Total	\$2,390.000				\$(41.673)		

⁽¹⁾ The Bond Market Association Municipal Swap Index™.

⁽²⁾ London Interbank Offered Rate.

<u>TBTA</u>							
<u>Associated Bond Issue</u>	Notional Amounts as of 3/31/05 (Unaudited) (in millions)	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	Fair Values as of 3/31/05 (Unaudited) (in millions)	<u>Swap Termination Date</u>	<u>Counterparty</u>
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B ⁽³⁾	\$223.900	01/01/01	6.08 %	Actual bond rate	\$(37.572)	01/01/19	Bear Stearns Capital Markets Inc.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D ⁽³⁾	223.900	01/01/01	6.07	Actual bond rate	(36.019)	01/01/19	Citigroup Financial Products Inc.
General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C ⁽⁴⁾	255.100	01/01/02	5.777	Actual bond rate	(33.806)	01/01/19	Citigroup Financial Products Inc.
General Revenue Variable Rate Refunding Bonds, Series 2002C ⁽⁵⁾	77.200	01/01/00	5.634	Actual bond rate	(9.555)	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	(0.479)	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	(0.635)	01/01/18	JPMorgan Chase Bank
Total	\$961.125				\$(118.066)		

⁽³⁾ In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying a premium of \$22,740,000.

⁽⁴⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying a premium of \$19,204,000.

⁽⁵⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying a premium of \$8,400,000.

In addition to the foregoing, MTA, the Transit Authority and TBTA entered into separate ISDA Master Agreements with UBS AG relating to the \$357,925,000 Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities) in connection with the refunding of certain certificates of participation originally executed to fund certain improvements to the office building located at 2 Broadway in Manhattan. The 2 Broadway swaps have (1) an effective date of September 22, 2004, (2) a fixed rate paid of 3.092%, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67% of one-month LIBOR minus 45 basis points, and (4) a termination date of January 1, 2030. The Transit Authority is responsible for \$245,900,000 notional amount of the swaps, MTA for \$75,150,000 aggregate notional amount, and TBTA for \$36,875,000 aggregate notional amount. As of March 31, 2005, the aggregate unaudited fair value of the swaps was \$(6.178 million).

Counterparty Ratings

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

<u>Counterparty</u>	<u>Ratings of the Counterparty or its Credit Support Provider</u>		
	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>
AIG Financial Products Corp.	AA+	Aa2	AA+
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-	Aa2	A+
Lehman Brothers Special Financing Inc.	A	A1	A+
Morgan Stanley Capital Services Inc.	A+	Aa3	AA-
UBS AG	AA+	Aa2	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, 2004 for those swaps where the notional amounts do not match the outstanding principal amounts of the associated bonds.

<u>Associated Bond Issue</u>	<u>Principal Amount of Bonds (in millions)</u>	<u>Notional Amount (in millions)</u>
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	\$296.400	\$255.100
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	103.305	77.200

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

Risks Associated with the Swap Agreements

From MTA's, TBTA's and the Transit Authority'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/Transit Authority, the swap agreement may require that collateral be posted to secure the party's obligations under the swap agreement. See "*Collateralization*" below. Further, ratings deterioration by either party below levels agreed to in each transaction could result in a termination event requiring a cash settlement of the future value of the transaction. See "Termination Risk" below.
- **Basis Risk** – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA, TBTA or the Transit Authority on the associated bonds may not be the same. If the counterparty's rate under the swap is lower than the bond interest rate, then the counterparty's payment under the swap agreement does not fully reimburse MTA, TBTA or the Transit Authority 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, TBTA or the Transit Authority.
- **Termination Risk** – The swap agreement will be terminated and MTA, TBTA or the Transit Authority 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 on a variable rate bond issuance, and MTA, TBTA or the Transit Authority 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, or in connection with the 2 Broadway Certificates of Participation refunding. 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 date that the other swap becomes effective). The counterparties have the ratings set forth above.

<u>Counterparty</u>	<u>Notional Amount (in millions)</u>	<u>% of Total Notional Amount</u>
Citigroup Financial Products Inc.	\$ 829.000	22%
Bear Stearns Capital Markets Inc.	823.900	22
UBS AG	657.925	18
Morgan Stanley Capital Services Inc.	440.000	12
Lehman Brothers Special Financing Inc.	400.000	11
AIG Financial Products Corp.	300.000	8
JPMorgan Chase Bank	181.025	5
Ambac Financial Services, L.P.	<u>77.200</u>	2
Total	\$3,709,050	

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 outstanding ratings of MTA, TBTA or the Transit Authority, as the case may be, or the counterparty falls to a certain level, the party whose rating falls is required to post collateral with a third-party custodian to secure its termination payments above certain threshold amounts. Collateral must be cash or U.S. government or certain Federal agency securities.

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

MTA			
<u>Associated Bond Issue</u>	<u>Counterparty</u>	If the highest rating of the related MTA bonds or the counterparty's long-term <u>unsecured debt falls to</u>	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.	<u>Fitch</u> – BBB+, or <u>S&P</u> – BBB+	\$10,000,000
		<u>Fitch</u> – BBB and below or unrated, or <u>S&P</u> – BBB and below or unrated	\$0
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2005A [Note: for this swap, MTA is not required to post collateral under any circumstances.]	Citigroup Financial Products Inc.	<u>Fitch</u> – A-, or <u>Moody's</u> – A3, or <u>S&P</u> – A-	\$10,000,000
		<u>Fitch</u> – BBB+ and below or unrated, or <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+ and below or unrated	\$0
MTA Transportation Revenue Variable Rate Refunding Bonds – Series 2002D-1 and Series 2002D-2	Bear Stearns Capital Markets Inc.	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
		<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0
MTA July 1, 2005 Hedge – Transportation Revenue Bonds	60% – Lehman Brothers Special Financing Inc. 40% – AIG Financial Products Corp.	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
		<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0
MTA September 1, 2005 Hedge – Transportation Revenue Bonds	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
		<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0

2 BROADWAY CERTIFICATES OF PARTICIPATION, SERIES 2004A			
<u>Associated Agencies</u>	<u>Counterparty</u>	If the highest rating of the MTA Transportation Revenue Bonds falls to	Then MTA, TBTA and the Transit Authority must post collateral if its estimated termination payments are in excess of
MTA TBTA Transit Authority	UBS AG	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$25,000,000
		<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0
		If the highest rating of the Counterparty's long-term <u>unsecured debt</u> falls to	Then the Counterparty must post collateral if its estimated termination payments are in excess of
		<u>Moody's</u> – Baa1 or lower, or <u>S&P</u> – BBB+ or lower	\$0

TBTA			
<u>Associated Bond Issue</u>	<u>Counterparty</u>	<u>If the highest rating of the related TBTA bonds or the counterparty's long-term unsecured debt falls to</u>	<u>Then the downgraded party must post collateral if its estimated termination payments are in excess of</u>
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-2	JPMorgan Chase Bank	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
		<u>Fitch</u> – Below BBB+, <u>Moody's</u> – Below Baa1, or <u>S&P</u> – 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.

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 (other than the 2 Broadway swaps) in a manner that will permit MTA or TBTA to bond the termination payments under any available bond resolution.

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

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

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

MTA		
<u>Associated Bond Issue</u>	<u>Counterparty</u>	<u>Additional Termination Event(s)</u>
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	Morgan Stanley Capital Services Inc.	The ratings by S&P and Fitch of the Counterparty or the MTA Dedicated Tax Fund Bonds falls below “BBB-” or are withdrawn.
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2005A	Citigroup Financial Products Inc.	The ratings by S&P or Moody’s of the Counterparty fall below BBB+ or Baa1, respectively, or the ratings of S&P or Fitch with respect to the MTA Dedicated Tax Fund Bonds falls below “BBB” or, in either case the ratings are withdrawn.
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1 and Series 2002D-2 (both swaps)	Bear Stearns Capital Markets Inc.	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 July 1, 2005 Hedge – Transportation Revenue Bonds	Lehman Brothers/ AIG Financial	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 September 1, 2005 Hedge – Transportation Revenue Bonds	UBS AG/Lehman Brothers/AIG Financial	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.

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

TBTA		
Associated Bond Issue	Counterparty	Additional Termination Events
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	Bear Stearns Capital Markets Inc.	<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, <u>or</u> TBTA redeems a portion of the Series 2000A or 2000B Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the swap insurer, Financial Security Assurance Inc.</p>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	Citigroup Financial Products Inc.	<p>1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2000C and 2000D 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, <u>or</u> TBTA redeems a portion of the Series 2000C or 2000D Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the swap insurer, Financial Security Assurance Inc.</p>
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	Citigroup Financial Products Inc.	<p>1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2001B and 2001C 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, <u>or</u> TBTA redeems a portion of the Series 2001B or 2001C Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the swap insurer, Financial Security Assurance Inc.</p>
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	Ambac Financial Services, L.P.	<p>1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2002C 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, <u>or</u> TBTA redeems a portion of the Series 2002C Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the swap insurer, Ambac Assurance Corporation.</p>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-1	JPMorgan Chase Bank	<p>1. The ratings by S&P and Moody's of the Counterparty or the TBTA Subordinate Revenue Bonds falls below "BBB-" and "Baa3", respectively, or are withdrawn.</p> <p>2. TBTA may terminate the swap at no cost on or after December 29, 2010.</p>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-2	JPMorgan Chase Bank	<p>1. The ratings by S&P and Moody's of the Counterparty or the TBTA Subordinate Revenue Bonds falls below "BBB-" and "Baa3", respectively, or are withdrawn.</p> <p>2. TBTA may terminate the swap at no cost on or after January 5, 2011.</p>

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:

<u>Associated Bond Issue</u>	<u>Bond Maturity Date</u>	<u>Swap Termination Date</u>
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001 B 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 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

(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.

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.

TRANSPORTATION REVENUE BONDS

General

There are \$7,218,780,000 aggregate principal amount of outstanding Transportation Revenue Bonds. In addition, MTA issued \$720 million aggregate principal amount of commercial paper notes in the form of bond anticipation notes under the Transportation Resolution in anticipation of the issuance of MTA Transportation Revenue Bonds. The following **TRB Table 1** sets forth, on a cash basis, the debt service on outstanding MTA Transportation Revenue Bonds.

TRB Table 1
Aggregate Debt Service
(in thousands)

Year Ending November 15	Aggregate Debt Service*
2005	\$455,665
2006	472,236
2007	472,229
2008	472,235
2009	472,233
2010	472,224
2011	472,235
2012	472,233
2013	472,234
2014	472,233
2015	472,238
2016	472,236
2017	472,224
2018	472,227
2019	472,232
2020	472,233
2021	472,234
2022	472,236
2023	480,830
2024	480,835
2025	480,832
2026	480,824
2027	480,829
2028	480,832
2029	480,839
2030	480,833
2031	480,823
2032	430,224
2033	76,072
2034	76,071
2034	47,161
Total	<u>\$13,440,622</u>

* Includes the following variable rate assumptions for debt service: Series 2002B and Series 2002D at an assumed variable interest rate of 4% per annum and including net payments made by MTA under the swap agreement relating thereto; Series 2002C at an assumed taxable variable interest rate of 4.5% per annum; and Series 2002G and Series 2004A at an assumed variable interest rate of 4% per annum.

Under New York law, the Transportation Revenue Bonds are MTA’s special obligations, which means that they are payable solely from the money pledged for payment under the Transportation Resolution. They are not MTA’s general obligations.

MTA has filed summaries of certain provisions of the Transportation Resolution, including certain defined terms used therein, and the form of the Interagency Agreement relating thereto with the following Nationally Recognized Municipal Securities Information Repositories (“NRMSIRS”):

Bloomberg Municipal Repository	DPC Data Inc.
FT Interactive Data	Standard & Poor’s Securities Evaluations, Inc.

In addition, copies of the summaries and the Interagency Agreement can be obtained on MTA’s website (www.mta.info) under “Inside the MTA – Investor Information” or from the MTA Finance Department at 347 Madison Avenue, New York, New York 10017.

Capitalized terms used under this caption “TRANSPORTATION REVENUE BONDS’ not otherwise defined herein have the meanings set forth in the Transportation Resolution.

Pledged Transportation Revenues

MTA receives “transportation revenues,” directly and through certain subsidiaries (currently, LIRR and MNCRC) and affiliates (currently, the Transit Authority and MaBSTOA), and its receipts from many of these sources are pledged for the payment of Transportation Revenue Bonds. The Transportation Resolution provides that bondholders are to be paid from pledged revenues prior to the payment of operating or other expenses, as described in more detail below. MTA has covenanted to impose fares and other charges so that pledged revenues, together with other available monies, will be sufficient to cover all debt service and operating and capital costs of the systems. See “Factors Affecting Revenues—*Ability to Comply with Rate Covenant and Pay Operating and Maintenance Expenses*” below.

Fares on the Transit and Commuter Systems and on TBTA bridges and tunnels were recently increased. See “REVENUES OF THE RELATED ENTITIES – Fares and Tolls” in Part 3.

TRB Table 2 sets forth the following for each of the last 5 years on a cash basis:

- by general category, the amount of pledged revenues (calculated in accordance with the Transportation Resolution). A general description of the pledged revenues in the general categories referenced in **TRB Table 2** follows the table, and a more detailed description is set forth in this Appendix A in Part 3 under the heading “REVENUES OF THE RELATED ENTITIES”,
- the amount of debt service on the farebox bonds that were refunded by the Transportation Revenue Bonds during MTA’s debt restructuring in 2002 and the amount of debt service on the Transportation Revenue Bonds beginning in 2002, and
- the amount of transit and commuter operating expenses.

The following pro forma table gives effect to the combined revenues of the Transit System and Commuter System as if the Transportation Revenue Bond credit had been in place before the debt restructuring (during 2002) and is based on the historical audited financial statements of MTA and its subsidiaries, LIRR and MNCRC, and the Transit Authority and its subsidiary MaBSTOA. The pro forma information contained in the table has been prepared by MTA management based upon historical financial statements and notes which should be read in connection with this pro forma information. This pro forma information may not be indicative of future results of operations and financial condition.

TRB Table 2
Pro Forma Summary of Pledged Revenues (Calculated in Accordance with the Transportation Resolution) and Expenses
Historical Cash Basis (in millions)

	Years Ended December 31,				
	2000	2001	2002	2003	2004
Revenues from Systems Operations					
Fares from Transit System	\$2,116	\$2,141	\$2,156	\$2,420	\$2,567
Fares from Commuter System	688	698	689	772	819
Other Income(1)	121	138	157	109	245
Subtotal – Operating Revenues	2,925	2,977	3,002	3,301	3,631
Revenues from TBTA Surplus	360	311	251	395	377
TBTA – Refund of Excess Debt Service Payments	0	0	0	164	0
Revenues from Governmental Sources					
State and Local General Operating Subsidies	404	424	423	380	377
Special Tax-Supported Operating Subsidies					
DTF Excess(2)	205	256	333	322	411
MMTOA Receipts	785	778	1,107	731	736
Urban Tax	180	216	171	177	344
Excess Mortgage Recording Taxes to Transit and Commuter Systems	0	0	0	228	163
Subtotal Special Tax-Supported Operating Subsidies	1,170	1,250	1,612	1,458	1,654
Station Maintenance and Service Reimbursements	270	278	291	307	311
Revenues from Investment of Capital Program Funds(3)	155	137	27	14	26
Subtotal – Non-Operating Revenues(4)	2,359	2,400	2,604	2,718	2,745
Total Pro Forma Transportation Resolution Pledged Revenues	\$5,284	\$5,377	\$5,606	\$6,019	\$6,376
Debt Service(5)	\$380	\$378	\$106	\$257	\$389
Transit Operating Expenses	\$3,521	\$3,589	\$3,843	\$4,161	\$4,198
Commuter Operating Expenses	1,346	1,347	1,426	1,512	1,609
Total Operating Expenses	\$4,867	\$4,936	\$5,269	\$5,673	\$5,807
Total Operating Expenses and Debt Service	\$5,247	\$5,314	\$5,375	\$5,930	\$6,196

- (1) Other income in the case of the Transit System includes advertising revenue, interest income on certain operating funds, station concessions, Transit Adjudication Bureau collections, rental income and miscellaneous. Other income in the case of the Commuter System includes advertising revenues, interest income on certain operating funds, concession revenues (excluding Grand Central Terminal and Pennsylvania Station concessions), rental income and miscellaneous. 2004 Other Income includes WTC and other insurance settlement monies.
- (2) Calculated by subtracting the debt service payments on the Dedicated Tax Fund Bonds from the MTTF Receipts described in this APPENDIX A under the caption "DEDICATED TAX FUND BONDS".
- (3) Represents investment income on capital program funds held for the benefit of the Transit and Commuter Systems on an accrual basis.
- (4) Sum of Revenues from TBTA Surplus, Governmental Sources (including State and Local General Operating Subsidies and Special Tax-Supported Operating Subsidies), Station Maintenance and Service Reimbursements, and Revenues from Investment of Capital Program Funds.
- (5) Actuals for the years 2000-2002 based upon payments to bondholders on the bonds defeased in connection with the debt restructuring before, and debt service on the Transportation Revenue Bonds after, the completion of the debt restructuring.

The following should be noted in **TRB Table 2**:

- The level of fares increased on May 4, 2003 for the Transit System and May 1, 2003 for the Commuter System.
- The level of TBTA Surplus available to the Transit and Commuter Systems declined in 2002 due primarily to the fact that certain TBTA bonds outstanding prior to the debt restructuring were secured in the first instance by certain mortgage recording tax revenues and then, to the extent of any deficiency, by TBTA net revenues. The bonds secured by the mortgage recording taxes were defeased in full and replaced by bonds secured by TBTA net revenues. The mortgage recording taxes that are no longer pledged under the TBTA bond resolutions are paid to MTA for headquarters purposes, including transit and commuter purposes. TBTA Surplus increased in 2003 based upon the toll increases that became effective on May 18, 2003.
- For 2003, approximately \$164 million in non-recurring excess debt service payments resulting from the debt restructuring that were on deposit with the TBTA bond trustees were applied for the benefit of the Transit and Commuter Systems.
- The increased amount of MMTOA Receipts in 2002 reflects the advance of the payment of MMTOA Receipts from the first quarter of 2003 into the fourth quarter of 2002 (approximately \$230 million). Beginning in 2003, MTA receives annually four quarters of MMTOA Receipts, with the first quarter of each succeeding year's receipts similarly advanced. MTA will monitor the effect of not having MMTOA Receipts available during the first quarter of the calendar year on its cash flow needs to determine if future working capital borrowings may be necessary.
- As noted in the second bullet point above, in 2003, mortgage recording taxes (\$228 million), including those no longer needed to pay debt service on the defeased TBTA mortgage recording tax bonds, were available for Transit and Commuter Systems purposes. An additional \$163 million in excess mortgage recording taxes was made available for Transit and Commuter Systems purposes in 2004.
- Substantially all of the Investment Income is generated from bond proceeds, such as reserve funds and funds held in anticipation of expenditure on project costs. Since substantially all of the debt service reserve funds were eliminated in the debt restructuring, "Revenues from Investment of Capital Program Funds" declined sharply in 2002 (reflecting a partial year when the reserve funds remained in place) and declined further in 2003.

Description of Pledged Revenues

Each of the following revenues is described in more detail in this Appendix A in Part 3 under the caption “REVENUES OF THE RELATED ENTITIES”:

- Fares and Tolls – Transit System Fares,
- Fares and Tolls – Transit System Fare Reimbursements from the City,
- Fares and Tolls – Commuter System Fares,
- State and Local General Operating Subsidies,
- State Special Tax Supported Operating Subsidies,
- TBTA Surplus,
- Financial Assistance and Service Reimbursements from Local Municipalities, and
- Miscellaneous Revenues.

Factors Affecting Revenues

Ridership. The level of fare revenues depends to a large extent on MTA’s ability to maintain and/or increase ridership levels on the Transit and Commuter Systems. Those ridership levels are affected by safety and the quality and efficiency of systems operations, as well as by financial and economic conditions in the New York metropolitan area.

Fare Policy. MTA determines the rate or rates of fares charged to users of the Commuter System, and the Transit Authority and MaBSTOA, together with MTA, do the same for the Transit System. After adopting operating expense budgets and assessing the availability of governmental subsidies, each makes a determination of fares necessary to operate on a self-sustaining cash basis in compliance with State law and covenants in the Transportation Resolution. Considering the impact of increased fares on riders and on the regional economy, MTA’s policy is to attempt to reduce costs or obtain additional revenues from other sources, mainly governmental sources, before increasing fares. As a result, even though MTA does not generally need other governmental approvals before setting fares, the amount and timing of fare increases may be affected by the Federal, State and local government financial conditions, as well as by budgetary and legislative processes. MTA’s obligation to obtain approval of fare increases on the New Haven line from CDOT can also affect the amount and timing of fare increases.

Ability to Comply with Rate Covenant and Pay Operating and Maintenance Expenses. The Transit and Commuter Systems have depended, and are expected to continue to depend, upon government subsidies to meet capital and operating needs. Thus, even though MTA is legally obligated by the rate covenant to raise fares sufficiently to cover all capital and operating costs, there can be no assurance that there is any level at which Transit and Commuter Systems fares would produce revenues sufficient to comply with the rate covenant, particularly if the current level (or the assumed level in the budgets prepared in connection with 2005 and the forecasts prepared in connection with 2006, 2007 and 2008) of collection of dedicated taxes, operating subsidies, and expense reimbursements were to be discontinued or substantially reduced.

Operating Results and Projections. Based upon the adoption of the 2005-2008 Financial Plan, MTA projects that the budgets for the Transit System and the Commuter System will be balanced on a cash basis for calendar year 2005, but that there will be substantial gaps thereafter. Either or both systems may be forced to institute additional cost reductions (which, in certain circumstances, could affect service which, in turn, could adversely affect revenues) or take other actions to close projected budget gaps, which could include raising fares.

2005-2008 Financial Plan. The 2005-2008 Financial Plan, the 2000-2004 Capital Programs and future capital programs are interrelated, and any failure fully to achieve the various components of these plans could have an adverse impact on one or more of the other proposals contained in the 2005-2008 Financial Plan, the 2000-2004 Capital Programs and future capital programs, as well as on pledged revenues. See “FINANCIAL PLANS AND CAPITAL PROGRAMS” in Part 3.

TBTA Operating Surplus. The amount of TBTA operating surplus to be used for the Transit and Commuter Systems is affected by a number of factors, including traffic volume, the timing and amount of toll increases, the operating and capital costs of TBTA Facilities, and the amount of debt service payable from its operating revenues, including debt service on obligations issued for the benefit of MTA's affiliates and subsidiaries and for TBTA's own capital needs. Since September 11, 2001, TBTA operating expenses have risen substantially to fund increased security measures.

Government Assistance. The level of government assistance to MTA may be affected by several different factors:

- Subsidy payments by the State may be made only if and to the extent that appropriations have been made by the Legislature, and money is available to fund those appropriations.
- The Legislature may not bind or obligate itself to appropriate revenues during a future legislative session, and appropriations approved during a particular legislative session generally have no force or effect after the close of the State fiscal year for which the appropriations are made.
- The State is not bound or obligated to continue to pay operating subsidies to the Transit or Commuter Systems or to continue to impose any of the taxes currently funding those subsidies.
- The financial condition of the States of New York and Connecticut, and the City and counties in the Transportation District, could affect the ability or willingness of the States and local governments to continue to provide general operating subsidies, the City and local governments to continue to provide reimbursements and station maintenance payments, and the State to continue to make special appropriations.
- Successful court challenges to the State taxes that are the sources of various State and City operating subsidies to MTA could adversely affect the amount of pledged revenues generated by such State taxes.

Security – General

Transportation Revenue Bonds are MTA's special obligations payable as to principal (including sinking fund installments), redemption premium, if any, and interest from the security, sources of payment, and funds specified in the Transportation Resolution.

The payment of principal (including sinking fund installments, if any), redemption premium, if any, and interest on the Transportation Revenue Bonds is secured by, among other sources described below, the transportation revenues discussed in the preceding section which are, together with certain other revenues, referred to as "pledged revenues."

Holders of Transportation Revenue Bonds are to be paid prior to the payment, from pledged revenues, of operating or other expenses of MTA, the Transit Authority, MaBSTOA, LIRR and MNCRC. However, MTA's ability to generate major portions of the pledged revenues depends upon its payment of operating and other expenses.

MTA Transportation Revenue Bonds are not a debt of the State or the City, or any other local governmental unit. MTA has no taxing power.

Pledge Effected by the Resolution

The Transportation Resolution provides that there are pledged to the payment of principal and redemption premium of, interest on, and sinking fund installments for, the Transportation Revenue Bonds and Parity Debt, in accordance with their terms and the provisions of the Transportation Resolution the following, referred to as the "trust estate":

- all pledged revenues as described above;
- the net proceeds of certain agreements pledged by MTA to the payment of transit and commuter capital projects;
- the proceeds from the sale of Transportation Revenue Bonds, until those proceeds are paid out for an authorized purpose;

- all funds, accounts and subaccounts established by the Transportation Resolution (except those established by a supplemental obligation resolution for variable interest rate obligations, put obligations, parity debt, subordinated contract obligations or subordinated debt); and
- the Interagency Agreement dated as of April 9, 2002, among MTA, LIRR, MNCRC, the Transit Authority and MaBSTOA.

The Trustee may directly enforce an undertaking to operate the Transit System and the Commuter System to ensure compliance with the Transportation Resolution.

Under the Transportation Resolution, the operators of the Transit and Commuter Systems are obligated to transfer to the trustee for deposit into the Revenue Fund virtually all pledged revenues as soon as practicable following receipt, or with respect to revenues in the form of cash and coin, immediately after being counted and verified. The pledge of money located in the State of Connecticut may not be effective until that money is deposited under the Transportation Resolution.

Flow of Revenues

The Transportation Resolution creates the following funds and accounts:

- Revenue Fund (held by the trustee),
- Debt Service Fund (held by the trustee), and
- Proceeds Fund (held by MTA).

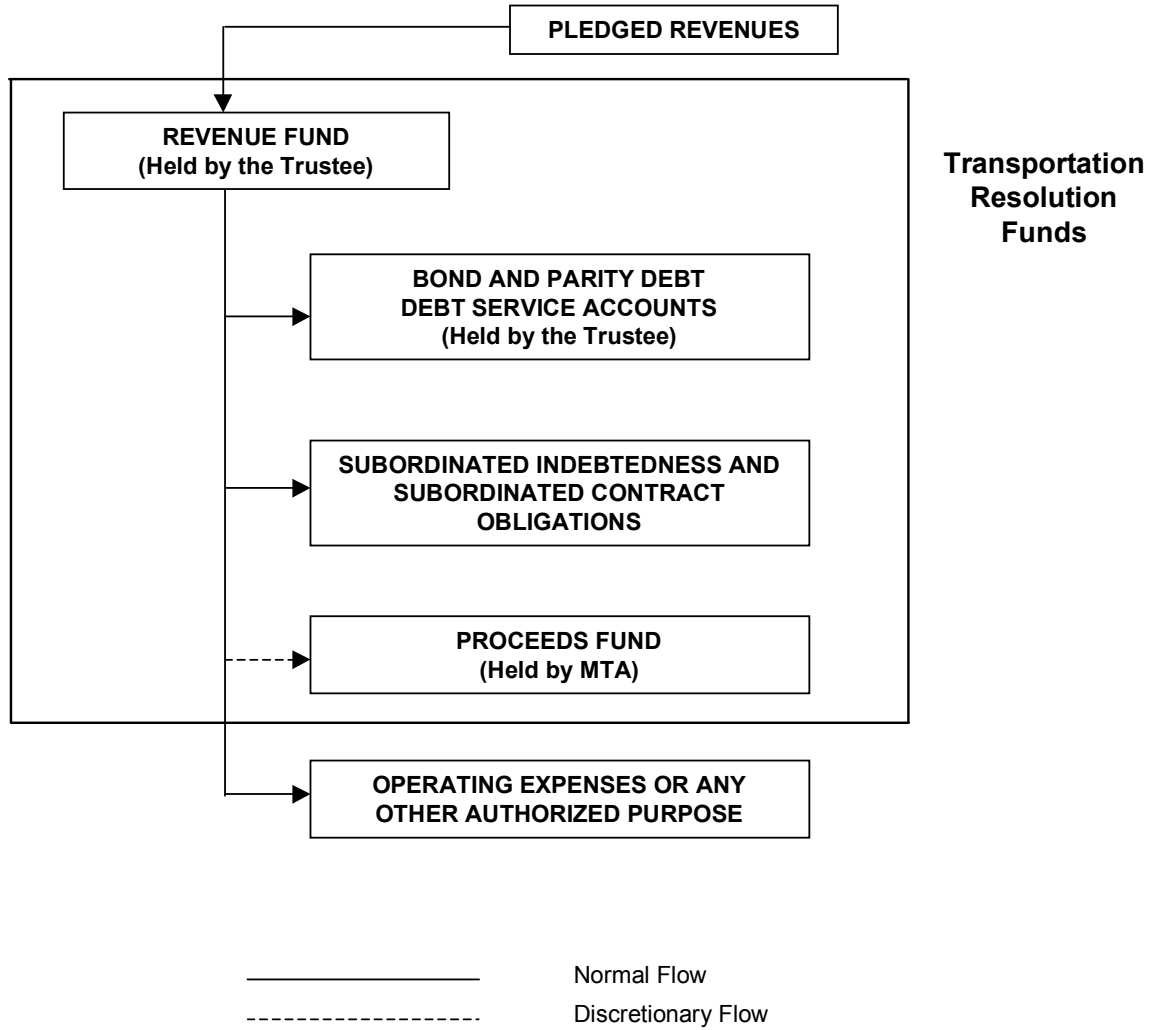
The Transportation Resolution requires the trustee promptly upon receipt of the pledged revenues in the Revenue Fund, to deposit the revenues into the following funds and accounts, in the amounts and in the order of priority, as follows:

- to the Debt Service Fund, the net amount, if any, required to make the amount in the Debt Service Fund equal to the accrued debt service for Transportation Revenue Bonds and Parity Debt to the last day of the current calendar month;
- to pay, or accrue to pay, principal of and interest on any Subordinated Indebtedness or for payment of amounts due under any Subordinated Contract Obligation;
- to MTA for deposit in the Proceeds Fund, as directed by one of MTA's authorized officers, to fund Capital Costs of the transit and commuter systems; and
- to accounts held by MTA or any of the Related Transportation Entities for payment of operating expenses or any other authorized purpose.

All amounts paid out by MTA or the trustee either for an authorized purpose (excluding transfers to any other pledged fund or account) or under the last bullet point above are free and clear of the lien and pledge created by the Transportation Resolution.

The following chart illustrates the basic elements of the flow of revenues described above:

TRANSPORTATION REVENUE OBLIGATIONS - FLOW OF PLEDGED REVENUES



Covenants

Rate Covenants. MTA must fix the transit and commuter fares and other charges and fees to be sufficient, together with other money legally available or expected to be available, including from government subsidies –

- to pay the debt service on all the Transportation Revenue Bonds;
- to pay any Parity Debt;
- to pay any Subordinated Indebtedness and amounts due on any Subordinated Contract Obligations; and
- to pay, when due, all operating and maintenance expenses and other obligations of its transit and commuter affiliates and subsidiaries.

Operating and Maintenance Covenants.

- MTA, MaBSTOA, Transit Authority, MNCRC and LIRR are required at all times to operate, or cause to be operated, the systems properly and in a sound and economical manner and maintain, preserve, reconstruct and keep the same or cause the same to be maintained, preserved, reconstructed and kept in good repair, working order and condition.
- Nothing in the Transportation Resolution prevents MTA from ceasing to operate or maintain, or from leasing or disposing of, all or any portion of the systems if, in MTA’s judgment it is advisable to do so—if the operation is not essential to the maintenance and continued operation of the rest of the systems and this arrangement does not materially interfere with MTA’s ability to comply with MTA’s rate covenants.

Additional Bonds. The Transportation Resolution permits MTA to issue additional Transportation Revenue Bonds and to issue or enter into Parity Debt, from time to time to pay or provide for the payment of qualifying costs, without meeting any specific debt-service-coverage level, as long as MTA certifies to meeting the rate covenant described above for the year in which the additional debt is being issued. Under the Transportation Resolution, MTA may only issue additional Transportation Revenue Bonds if those bonds are issued to fund projects pursuant to an approved capital program.

There is no covenant with bondholders limiting the aggregate principal amount of additional Transportation Revenue Bonds or Parity Debt that MTA may issue. There is a limit under current New York law that covers the Transportation Revenue Bonds and certain other securities. See “PUBLIC DEBT SECURITIES AND OTHER FINANCIAL INSTRUMENTS—General—*Current Statutory Ceiling*” above in this Part 4 for a description of the current statutory cap.

Refunding Bonds. MTA may issue Transportation Revenue Bonds to refund all or any portion of the Transportation Revenue Bonds or Parity Debt.

Non-Impairment. Under New York law, the State has pledged to MTA that it will not limit or change MTA’s powers or rights in such a way that would impair the fulfillment of MTA’s promises to holders of the Transportation Revenue Bonds.

No Bankruptcy. New York law specifically prohibits MTA or the other Related Entities from filing a bankruptcy petition under Chapter 9 of the U.S. Federal Bankruptcy Code. As long as any Transportation Revenue Bonds are outstanding, the State has covenanted not to change the law to permit MTA or its affiliates or subsidiaries to file such a petition.

TBTA SENIOR REVENUE BONDS

There are \$4,424,840,000 aggregate principal amount of outstanding TBTA Senior Revenue Bonds. The following **TBTA Senior Table 1** sets forth, on a cash basis, the debt service thereon.

TBTA Senior Table 1
Aggregate Senior Lien Debt Service
(in thousands)

<u>Year Ending December 31</u>	<u>Aggregate Debt Service*</u>
2005	\$294,584
2006	294,591
2007	294,645
2008	294,589
2009	294,581
2010	294,583
2011	294,583
2012	294,584
2013	294,580
2014	293,079
2015	293,083
2016	293,084
2017	293,083
2018	293,078
2019	293,075
2020	293,080
2021	293,072
2022	293,077
2023	294,575
2024	293,071
2025	293,073
2026	293,065
2027	293,062
2028	293,063
2029	293,064
2030	293,057
2031	293,064
2032	256,441
Total	<u>\$8,184,566</u>

* Includes the following variable rate assumptions for debt service: Series 2001B and C and Series 2002C – assumed variable interest rate of 4% per annum and including net payments made by TBTA under the respective swap agreements relating thereto; and Series 2002F and Series 2003B – assumed variable interest rate of 4% per annum.

Sources of Payment

TBTA receives its revenues from all tolls, rates, fees, charges, rents, proceeds of use and occupancy insurance on any portion of its tunnels, bridges and other facilities, including the net revenues of the Battery Parking Garage, and TBTA's receipts from those sources, after payment of TBTA's operating expenses, are pledged to the holders of the TBTA Senior Revenue Bonds for payment, as described below.

TBTA is required to set and collect tolls for the TBTA Facilities, and TBTA's power to establish toll rates is not subject to the approval of any governmental entity. For more information relating to TBTA's power to establish tolls, see "RIDERSHIP AND FACILITIES USE – Toll Rates" in Part 3.

TBTA Senior Table 2 sets forth, by TBTA Facility, the amount of revenues for each of the last 5 years, as well as operating expenses.

TBTA Senior Table 2

**Triborough Bridge and Tunnel Authority
Historical Revenues, Operating Expenses and Senior Lien Debt Service
(in thousands)**

	Years Ended December 31,				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Bridge and Tunnel Revenues:					
Triborough Bridge	\$222,612	\$215,241	\$208,905	\$ 222,224	\$247,937
Verrazano-Narrows Bridge	203,172	208,164	216,312	233,482	246,322
Bronx Whitestone Bridge	155,938	152,881	160,730	175,393	187,231
Throgs Neck Bridge	152,453	150,764	157,988	172,603	184,338
Henry Hudson Bridge	31,938	32,242	34,045	37,744	40,149
Marine Parkway Gil Hodges Memorial Bridge	8,374	8,344	8,938	9,694	10,102
Cross Bay Veterans' Memorial Bridge	7,651	7,965	8,471	8,993	9,477
Queens Midtown Tunnel	89,451	87,067	88,865	99,994	107,067
Brooklyn-Battery Tunnel	<u>69,018</u>	<u>52,188</u>	<u>48,880</u>	<u>61,810</u>	<u>64,365</u>
Total Bridge and Tunnel Revenues:	<u>\$940,607</u>	<u>\$914,856</u>	<u>\$933,134</u>	<u>\$1,021,937</u>	<u>\$1,096,988</u>
Investment Income and Other(1)	<u>58,205</u>	<u>56,681</u>	<u>27,757</u>	<u>85,598</u>	<u>38,191</u>
Total Revenues	<u>\$998,812</u>	<u>\$971,537</u>	<u>\$960,891</u>	<u>\$1,107,535</u>	<u>\$1,135,179</u>
Operating Expenses(2)					
Personnel Costs	\$112,256	\$123,316	\$140,967	\$159,976	\$158,403
Maintenance and Other Operating Expenses	<u>129,807</u>	<u>133,198</u>	<u>159,229</u>	<u>169,041</u>	<u>160,812</u>
Total Operating Expenses	<u>\$242,063</u>	<u>\$256,514</u>	<u>\$300,196</u>	<u>\$329,017</u>	<u>\$319,215</u>
Net Revenues Available for Debt Service	<u>\$756,749</u>	<u>\$715,023</u>	<u>\$660,695</u>	<u>\$778,518</u>	<u>\$815,964</u>
TBTA Senior Lien Debt Service(3)	<u>\$311,610</u>	<u>\$320,451</u>	<u>\$349,478</u>	<u>\$206,946</u>	<u>\$251,139</u>
Senior Lien Coverage	2.43x	2.23x	1.89x	3.76x	3.25x

(1) Includes the net revenues from the Battery Parking Garage, as well as E-ZPass administrative fees and miscellaneous other revenues. Investment earnings include interest earned on bond funds, including debt service and debt service reserve funds, that were applied to the payment of debt service as follows for the years 2000 through 2004, respectively: \$14,659; \$25,696; \$6,403; \$11,863; and \$4,048. Readers should note that there is no debt service reserve fund in the TBTA Senior Resolution, so investment earnings are expected to be minimal. Figures are net of Other Income as included on the TBTA audited financial statements (rail car leases), as follows for the years 2000 through 2004, respectively: \$805; \$620; \$0; \$0; and \$0. The amounts set forth in this footnote, as well as all of **TBTA Senior Table 2**, are derived from TBTA's audited financial statements for the years 2000 through 2004.

(2) Excludes depreciation.

(3) Represents debt service on the senior bonds refunded under the debt restructuring until the date of defeasance thereof, as well as, beginning in 2002, TBTA Senior Revenue Bonds.

The following should be noted in **TBTA Senior Table 2**:

- Investment Income and Other – Investment income on debt service and debt service reserve funds declined substantially beginning in 2002 due primarily to the lower market interest rates available in authorized investments. Since debt service reserve funds on all TBTA credits were eliminated at the end of 2002 due to the debt restructuring, investment income began to decline substantially again beginning in 2003. For 2003, other income includes non-recurring revenues of \$37 million in security reimbursements and \$24.6 million in World Trade Center insurance settlement proceeds allocable to TBTA.
- Operating Expenses—Personnel Costs – The 2002 results reflect certain additional expenses incurred after the terrorist attack to provide additional security at all facilities. The 2003 increase in personnel costs was caused by additional expenditures for security staff, worker’s compensation adjustments and health and welfare benefits rate increases. 2004 personnel costs were marginally lower.
- Operating Expenses—Maintenance and Other Operating Expenses – Maintenance and other operating expenses were approximately \$26 million higher in 2002 than in 2001 primarily due to the beginning of a program to replace existing E-ZPass tags (approximately \$15.8 million) and an increase in insurance costs attributable to TBTA (approximately \$7.6 million). In 2003, the following major costs were more than in 2002: major maintenance (consisting of additional roadway and standpipe repair on the Verrazano) – \$9.1 million; and bridge painting – \$6.3 million. In 2004, non-labor expenses were 4.5% lower than in 2003 due to a decrease in the required number of E-ZPass tag purchases.
- Total Debt Service (Senior) – The significant decline in senior debt service after 2002 reflects the effects of the debt restructuring.

Security – General

TBTA Senior Revenue Bonds are general obligations of TBTA payable solely from the trust estate (described below) pledged for the payment of the Bonds and Parity Debt pursuant to the terms of the TBTA Senior Resolution, after the payment of Operating Expenses.

TBTA has filed summaries of certain provisions of the TBTA Senior Resolution, including certain defined terms used therein, with the NRMSIRS identified under “TRANSPORTATION REVENUE BONDS – General”.

In addition, copies of the summaries can be obtained on MTA’s website (www.mta.info) under “MTA Home – Investor Information” or from the MTA Finance Department at 347 Madison Avenue, New York, New York 10017.

Capitalized terms used under this caption “TBTA SENIOR REVENUE BONDS” not otherwise defined herein have the meanings set forth in the TBTA Senior Resolution.

TBTA Senior Revenue Bonds are not a debt of the State or The City of New York, or any local governmental unit. TBTA has no taxing power.

Pledge Effected by the TBTA Senior Resolution

The Bonds and Parity Debt issued in accordance with the TBTA Senior Resolution are secured by a net pledge of Revenues after the payment of Operating Expenses.

Pursuant to, and in accordance with, the TBTA Senior Resolution, TBTA has pledged to the holders of the TBTA Senior Revenue Bonds a “trust estate,” which consists of

- Revenues,
- the proceeds from the sale of the TBTA Senior Revenue Bonds, and
- all funds, accounts and subaccounts established by the TBTA Senior Resolution (except those established by a supplemental obligation resolution for variable interest rate obligations, put obligations, parity debt, subordinated contract obligations or subordinated debt).

Revenues and Additional TBTA Projects

Revenues from TBTA Facilities. TBTA does not currently derive any significant recurring Revenues from any sources other than the TBTA Facilities, E-ZPass administrative fees and investment income. Beginning in July 2005, TBTA will charge E-ZPass accounts a \$1 monthly fee. Income from the TBTA Transit and Commuter Project (the Transit and Commuter Systems) is not derived by or for the account of TBTA; consequently, no revenues from any portion of the TBTA Transit and Commuter Project are pledged to the payment of debt service on the TBTA Senior Revenue Bonds.

Additional TBTA Projects that can become TBTA Facilities. If TBTA is authorized to undertake another project, whether or not a bridge or tunnel, that project can become a TBTA Facility for purposes of the TBTA Senior Resolution if it is designated as such by TBTA and it satisfies, among others, the following conditions:

- an Authorized Officer certifies that either:
 - the Additional TBTA Project has been in operation (whether or not by TBTA) for a period of at least 12 months prior to the date of such designation, and that for a period of any 12 consecutive calendar months out of the 18 calendar months preceding the date of designation, the Additional TBTA Project Revenues derived from the operation of such Additional TBTA Project exceeded the Operating Expenses, or
 - the Additional TBTA Project is in operation and, in such Authorized Officer’s opinion, the Additional TBTA Project Revenues to be derived from the operation of such Project will exceed the Operating Expenses for such Additional TBTA Project during the first 12 months of operation, and
- an Authorized Officer certifies
 - as to the actual or anticipated Revenues and Operating Expenses of TBTA for the applicable 12-month period; provided that,
 - the Revenues (adjusted up or down to reflect any new toll rate changes) and Operating Expenses shall be increased by the actual or anticipated Additional TBTA Project Revenues and Operating Expenses of the Additional TBTA Project for such 12-month period, and
 - the actual or anticipated Additional TBTA Project Revenues (adjusted up or down to reflect any new toll rate changes) and Operating Expenses of any Additional TBTA Project operated by or under lease from TBTA otherwise than as an Additional TBTA Project during any part of the period shall be calculated as if the definitions of Revenues and Operating Expenses had been applicable thereto, and
 - that for such 12-month period, the Revenues less Operating Expenses, as calculated in accordance with the preceding bullet points, are at least equal to 1.40 times Maximum Annual Calculated Debt Service during such period; and

- an Independent Engineer certifies that, to the best of his knowledge and belief, for each of 5 successive 12-month periods, the earliest of which begins on a calendar quarterly date not more than 60 days immediately following the date of designation as an Additional TBTA Project, the Net Revenues in each 12-month period (after giving effect to such designation) will be at least equal to 1.40 times the Maximum Calculated Debt Service for each of such successive 12-month periods.

For a more complete description of the requirements that must be satisfied before designation as an Additional TBTA Facility, see “SUMMARY OF CERTAIN PROVISIONS OF THE TBTA RESOLUTION – Additional TBTA Facilities” in the summaries of documents.

The Convention Center Project is not and cannot become an Additional TBTA Project, and no TBTA Senior Revenue Bonds may be issued under the TBTA Senior Resolution to finance the Convention Center Project. The revenues and expenses of the Convention Center Project are also not included in TBTA’s financial statements or projections.

Flow of Revenues

The TBTA Senior Resolution establishes the following funds and accounts, each held by TBTA:

- Revenue Fund,
- Proceeds Fund,
- Debt Service Fund, and
- General Fund.

Under the TBTA Senior Resolution, TBTA is required to pay into the Revenue Fund all Revenues as and when received and available for deposit.

TBTA is required to pay out from the Revenue Fund, on or before the 25th day of each calendar month, the following amounts in the following order of priority:

- payment of reasonable and necessary Operating Expenses or accumulation in the Revenue Fund as a reserve (i) for working capital, (ii) for such Operating Expenses the payment of which is not immediately required, including amounts determined by TBTA to be required as an operating reserve, or (iii) deemed necessary or desirable by TBTA to comply with orders or rulings of an agency or regulatory body having lawful jurisdiction;
- transfer to the Debt Service Fund, the amount, if any, required so that the balance in the fund is equal to Accrued Debt Service to the last day of the current calendar month; provided, however, that in no event shall the amount to be so transferred be less than the amount required for all payment dates occurring prior to the 25th day of the next succeeding calendar month;
- transfer to another person for payment of, or accrual for payment of, principal of and interest on any Subordinated Indebtedness or for payment of amounts due under any Subordinated Contract Obligations; and
- transfer to the General Fund any remaining amount.

All amounts paid out by TBTA for an authorized purpose (excluding transfers to any other pledged Fund or Account), or withdrawn from the General Fund in accordance with the TBTA Senior Resolution, are free and clear of the lien and pledge created by the TBTA Senior Resolution.

Under the TBTA Senior Resolution, TBTA is required to use amounts in the General Fund to make up deficiencies in the Debt Service Fund and the Revenue Fund, in that order. Subject to the preceding sentence and any lien or pledge securing Subordinated Indebtedness, the TBTA Senior Resolution authorizes TBTA to release

amounts in the General Fund to be paid to TBTA free and clear of the lien and pledge created by the TBTA Senior Resolution.

TBTA is required by law to transfer amounts released from the General Fund to MTA, and a statutory formula determines how MTA allocates that money between the Transit and Commuter Systems.

Rate Covenant

Under the TBTA Senior Resolution, TBTA is required at all times to establish, levy, maintain and collect, or cause to be established, levied, maintained and collected, such tolls, rentals and other charges in connection with the TBTA Facilities as shall always be sufficient, together with other money available therefor (including the anticipated receipt of proceeds of sale of Obligations or other bonds, notes or other obligations or evidences of indebtedness of TBTA that will be used to pay the principal of Obligations issued in anticipation of such receipt, but not including any anticipated or actual proceeds from the sale of TBTA Facilities), to equal or exceed in each calendar year the greater of

- an amount equal to the sum of amounts necessary in such calendar year
 - to pay all Operating Expenses of TBTA, plus
 - to pay Calculated Debt Service, as well as the debt service on all Subordinated Indebtedness and all Subordinated Contract Obligations, plus
 - to maintain any reserve established by TBTA pursuant to the TBTA Senior Resolution, in such amount as may be determined from time to time by TBTA in its judgment, or
- an amount such that Revenues less Operating Expenses shall equal at least 1.25 times Calculated Debt Service on all senior lien Bonds for such calendar year.

For a more complete description of the rate covenant and a description of the minimum tolls that can be charged at the TBTA Facilities, see “SUMMARY OF CERTAIN PROVISIONS OF THE TBTA RESOLUTION – Rates and Fees” in the summaries of documents.

Additional Bonds

Under the provisions of the TBTA Senior Resolution, TBTA may issue one or more series of Additional Bonds on a parity with the outstanding TBTA Senior Revenue Bonds to provide for Capital Costs.

Certain Additional Bonds for TBTA Facilities. TBTA may issue Additional Bonds without satisfying any earnings or coverage test for the purpose of providing for Capital Costs relating to TBTA Facilities for the purpose of keeping such TBTA Facilities in good operating condition or preventing a loss of Revenues or Revenues after payment of Operating Expenses derived from such TBTA Facilities.

Additional Bonds for Other Purposes. TBTA may issue Additional Bonds to pay or provide for the payment of all or part of Capital Costs relating to any of the following purposes:

- TBTA Transit and Commuter Project,
- any Additional TBTA Project (that does not become a TBTA Facility), or
- any TBTA Facilities other than for the purposes set forth in the preceding paragraph.

In the case of Additional Bonds issued other than for the improvement, reconstruction or rehabilitation of TBTA Facilities as described under the preceding heading, in addition to meeting certain other conditions, all as more fully described in “SUMMARY OF CERTAIN PROVISIONS OF THE TBTA RESOLUTION – Special Provisions for Capital Cost Obligations” in the summaries of documents, an Authorized Officer must certify that the historical Twelve Month Period Net Revenues are at least equal to 1.40 times the Maximum Annual Calculated Debt Service on all senior lien Bonds, including debt service on the TBTA Senior Revenue Bonds to be issued.

Refunding Bonds

TBTA Senior Revenue Bonds may be issued for the purpose of refunding TBTA Senior Revenue Bonds if (a) the Maximum Annual Calculated Debt Service (including the refunding TBTA Senior Revenue Bonds then proposed to be issued but not including the TBTA Senior Revenue Bonds to be refunded) is equal to or less than the Maximum Annual Calculated Debt Service on the TBTA Senior Revenue Bonds as calculated immediately prior to the refunding (including the refunded TBTA Senior Revenue Bonds but not including the refunding TBTA Senior Revenue Bonds) or (b) the conditions referred to above under Additional Bonds for the category of TBTA Senior Revenue Bonds being refunded are satisfied.

For a more complete description of the conditions that must be satisfied before issuing refunding Bonds, see “SUMMARY OF CERTAIN PROVISIONS OF THE TBTA RESOLUTION – Refunding Obligations” in the summaries of documents.

Subordinate Obligations

The TBTA Senior Resolution authorizes the issuance or incurrence of subordinate obligations. See “TBTA SUBORDINATE REVENUE BONDS” below.

TBTA SUBORDINATE REVENUE BONDS

There are \$2,383,620,000 aggregate principal amount of outstanding TBTA Subordinate Revenue Bonds. The following **TBTA Subordinate Table 1** sets forth, on a cash basis, the debt service thereon and on the TBTA Senior Revenue Bonds.

TBTA Subordinate Table 1
Aggregate Senior and Subordinate Debt Service
(in thousands)

Year Ending December 31	TBTA Senior Lien Bonds Debt Service*	Aggregate Senior and Subordinate Debt Service**
2005	\$294,584	\$451,724
2006	294,591	451,728
2007	294,645	451,796
2008	294,589	451,720
2009	294,581	451,732
2010	294,583	451,725
2011	294,583	451,732
2012	294,584	451,724
2013	294,580	451,713
2014	293,079	450,213
2015	293,083	450,235
2016	293,084	450,213
2017	293,083	450,214
2018	293,078	450,220
2019	293,075	450,214
2020	293,080	450,222
2021	293,072	450,220
2022	293,077	450,207
2023	294,575	451,727
2024	293,071	450,217
2025	293,073	450,222
2026	293,065	450,214
2027	293,062	450,195
2028	293,063	450,196
2029	293,064	450,216
2030	293,057	450,184
2031	293,064	450,248
2032	256,441	395,780
2033	0	14,499
2034	0	14,499
2035	0	0
Total	<u>\$8,184,566</u>	<u>\$12,595,749</u>

* Includes the following variable rate assumptions for debt service on the TBTA Senior Revenue Bonds: Series 2001B and C and Series 2002C – assumed variable interest rate of 4% per annum and including net payments made by TBTA under the respective swap agreements relating thereto; and Series 2002F and Series 2003B – assumed variable interest rate of 4% per annum.

** Includes the variable rate assumptions set forth in connection with the TBTA Senior Revenue Bonds, as well as the following variable rate assumptions for debt service on the TBTA Subordinate Revenue Bonds: Series 2000A – D and Series 2002G – assumed variable interest rate of 4% per annum and including net payments made by TBTA under the swap agreement relating thereto; Series 2002D and Series 2004A – assumed variable interest rate of 4% per annum.

Sources of Payment

The revenues that are pledged to pay the TBTA Subordinate Revenue Bonds are the same as the revenues that are pledged to pay the TBTA Senior Revenue Bonds. See “TBTA SENIOR REVENUE BONDS – Sources of Payment” above.

TBTA Subordinate Table 2 sets forth, by TBTA Facility, the amount of revenues for each of the last 5 years, as well as operating expenses.

TBTA Subordinate Table 2
Triborough Bridge and Tunnel Authority
Historical Revenues, Operating Expenses and Senior and Subordinate Debt Service
(in thousands)

	Years Ended December 31,				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Bridge and Tunnel Revenues:					
Triborough Bridge	\$222,612	\$215,241	\$208,905	\$ 222,224	\$ 247,937
Verrazano-Narrows Bridge	203,172	208,164	216,312	233,482	246,322
Bronx-Whitestone Bridge	155,938	152,881	160,730	175,393	187,231
Throgs Neck Bridge	152,453	150,764	157,988	172,603	184,338
Henry Hudson Bridge	31,938	32,242	34,045	37,744	40,149
Marine Parkway Gil Hodges Memorial Bridge	8,374	8,344	8,938	9,694	10,102
Cross Bay Veterans' Memorial Bridge	7,651	7,965	8,471	8,993	9,477
Queens Midtown Tunnel	89,451	87,067	88,865	99,994	107,067
Brooklyn-Battery Tunnel	<u>69,018</u>	<u>52,188</u>	<u>48,880</u>	<u>61,810</u>	<u>64,365</u>
Total Bridge and Tunnel Revenues:	\$940,607	\$914,856	\$933,134	\$1,021,937	\$1,096,988
Investment Income and Other(1)	58,205	56,681	<u>27,757</u>	<u>85,598</u>	<u>38,191</u>
Total Revenues	<u>\$998,812</u>	<u>\$971,537</u>	<u>\$960,891</u>	<u>\$1,107,535</u>	<u>\$1,135,179</u>
Operating Expenses(2)					
Personnel Costs	\$112,256	\$123,316	\$140,967	\$159,976	\$158,403
Maintenance and Other Operating Expenses	129,807	133,198	<u>159,229</u>	<u>169,041</u>	<u>160,812</u>
Total Operating Expenses	<u>\$242,063</u>	<u>\$256,514</u>	<u>\$300,196</u>	<u>\$329,017</u>	<u>\$319,215</u>
Net Revenues Available for Debt Service	\$756,749	\$715,023	\$660,695	\$778,518	\$815,964
TBTA Senior Lien Debt Service(3)	\$311,610	\$320,451	\$349,478	\$206,946	\$251,139
Subordinate Bond Fund Investment Earnings(4)	\$ 4,110	\$ 1,716	\$ 1,177	\$1,720	\$1,201
Net Revenues Available for Subordinate Debt Service(5)	\$449,249	\$396,288	\$312,394	\$573,292	\$566,026
Debt Service on Subordinate Revenue Bonds(6)	\$114,887	\$87,340	\$108,949	\$118,766	\$138,257
Total Debt Service (Senior and Subordinate)	\$426,497	\$407,791	\$458,427	\$325,712	\$389,396
Combined Debt Service Coverage Ratio	1.77x	1.75x	1.44x	2.40x	2.10x

(1) Includes the net revenues from the Battery Parking Garage, as well as E-ZPass administrative fees and miscellaneous other revenues. Investment earnings include interest earned on bond funds, including debt service and debt service reserve funds, that were applied to the payment of debt service as follows for the years 2000 through 2004, respectively: \$14,659; \$25,696; \$6,403; \$11,863; and \$4,048. Readers should note that, since there is no longer a debt service reserve fund in the TBTA Senior Resolution, investment earnings are expected to be substantially lower in future years. Figures are net of Other Income as included on the TBTA audited financial statements (rail car leases), as follows for the years 2000 through 2004, respectively: \$805; \$620; \$0; \$0; and \$0. The amounts set forth in this footnote, as well as all of TBTA Subordinate Table 2, are derived from TBTA's audited financial statements for the years 2000 through 2004.

(2) Excludes depreciation.

(3) Represents debt service on the senior lien bonds refunded under the debt restructuring until the date of defeasance thereof, as well as, beginning in 2002, TBTA Senior Revenue Bonds.

(4) Includes investment earnings on the TBTA Beneficial Interest Certificates (BICs) debt service fund and on the following debt service reserve funds: 1991 Resolution (MRT); 1994 Resolution; and BICs. Readers should note that, each of these prior issues has been refunded and defeased and, since there is no longer a debt service reserve fund in the TBTA Subordinate Resolution, investment earnings are expected to be substantially lower in future years.

(5) Does not include certain mortgage recording tax revenues that were pledged to the payment of TBTA 1991 Mortgage Recording Tax Special Obligation Bonds that were refunded and defeased.

(6) Through 2002, includes debt service on the 1991 MRT Resolution Bonds (presented as if TBTA paid gross debt service from its own revenues without deducting available mortgage recording tax revenues), 1994 Resolution Bonds and BICS, all of which were refunded and defeased during 2002.

The following should be noted in **TBTA Subordinate Table 2**:

- Investment Income and Other – Investment income on debt service and debt service reserve funds declined substantially beginning in 2002 due primarily to the lower market interest rates available in authorized investments. Since debt service reserve funds on all TBTA credits were eliminated at the end of 2002 due to the debt restructuring, investment income began to decline substantially again beginning in 2003. For 2003, other income includes non-recurring revenues of \$37 million in security reimbursements and \$24.6 million in World Trade Center insurance settlement proceeds allocable to TBTA.
- Operating Expenses—Personnel Costs – The 2002 results reflect certain additional expenses incurred after the terrorist attack to provide additional security at all facilities. The 2003 increase in personnel costs was caused by additional expenditures for security staff, worker’s compensation adjustments and health and welfare benefits rate increases. 2004 personnel costs were marginally lower.
- Operating Expenses—Maintenance and Other Operating Expenses – Maintenance and other operating expenses were approximately \$26 million higher in 2002 than in 2001 primarily due to the beginning of a program to replace existing E-ZPass tags (approximately \$15.8 million) and an increase in insurance costs attributable to TBTA (approximately \$7.6 million). In 2003, the following major costs were more than in 2002: major maintenance (consisting of additional roadway and standpipe repair on the Verrazano) – \$9.1 million; and bridge painting – \$6.3 million. In 2004, non-labor expenses were 4.5% lower than in 2003 due to a decrease in the required number of E-ZPass tag purchases.
- Total Debt Service (Senior and Subordinate) – The significant decline in senior debt service after 2002 reflects the effects of the debt restructuring.

Security – General

TBTA Subordinate Revenue Bonds are special obligations of TBTA payable solely from the trust estate (described below) pledged for the payment of the TBTA Subordinate Revenue Bonds and Parity Debt pursuant to the terms of the TBTA Subordinate Resolution, after the payment of Operating Expenses and after payment of debt service as required by the TBTA Senior Resolution.

TBTA has filed summaries of certain provisions of the TBTA Subordinate Resolution, including certain defined terms used therein, with the NRMSIRS identified under “TRANSPORTATION REVENUE BONDS – Pledged Transportation Revenues”.

In addition, copies of the summaries can be obtained on MTA’s website (www.mta.info) under “MTA Home – Investor Information” or from the MTA Finance Department at 347 Madison Avenue, New York, New York 10017.

Capitalized terms used under this caption “TBTA SUBORDINATE REVENUE BONDS” not otherwise defined herein have the meanings set forth in the TBTA Subordinate Resolution.

TBTA Subordinate Revenue Bonds are not a debt of the State or The City of New York, or any local governmental unit. TBTA has no taxing power.

Pledge Effected by the TBTA Subordinate Resolution

The lien on the trust estate described below created by the TBTA Subordinate Resolution is junior and subordinate to the lien created by the TBTA Senior Resolution.

Pursuant to, and in accordance with, the TBTA Subordinate Resolution, TBTA has pledged to the holders of the TBTA Subordinate Revenue Bonds a “trust estate,” which consists of

- Revenues (after the application of those Revenues as required by the TBTA Senior Resolution, including to the payment of Operating Expenses and TBTA Senior Resolution debt service),
- the proceeds from the sale of the TBTA Subordinate Revenue Bonds, and
- all funds, accounts and subaccounts established by the TBTA Subordinate Resolution (except those established by a supplemental obligation resolution for variable interest rate obligations, put obligations, parity debt, subordinated contract obligations or subordinated debt).

Revenues and Additional Subordinate TBTA Projects

Revenues from TBTA Facilities. TBTA does not currently derive any significant recurring Revenues from any sources other than the TBTA Facilities and investment income. Income from the TBTA Transit and Commuter Project (the Transit and Commuter Systems) is not derived by or for the account of TBTA; consequently, no revenues from any portion of the TBTA Transit and Commuter Project are pledged to the payment of debt service on the TBTA Subordinate Revenue Bonds.

For a discussion of other projects that TBTA is authorized to undertake, see “TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY – Authorized Projects of TBTA” in Part 2.

Additional Subordinate TBTA Projects. One or more projects owned or to be owned by TBTA or another Related Entity may become an Additional Subordinate TBTA Project without satisfying any earnings or coverage test if:

- TBTA is authorized to undertake that project, and
- the project is designated by TBTA to be an Additional Subordinate TBTA Project.

Upon satisfaction of certain conditions, TBTA is authorized to issue Subordinate Revenue Bonds to fund the Capital Costs of Additional Subordinate TBTA Projects. See “—Additional Subordinate Revenue Bonds” below.

Flow of Revenues

The TBTA Subordinate Resolution establishes the following funds and accounts, each held by TBTA:

- Proceeds Fund, and
- Debt Service Fund.

TBTA is required to transfer to the Debt Service Fund under the TBTA Subordinate Resolution, from time to time, but no less frequently than on or before the 25th day of each calendar month, from amounts as shall from time to time be available for transfer from the Revenue Fund under the TBTA Senior Resolution, free and clear of the lien of the TBTA Senior Resolution, the amount, if any, required so that the balance in the fund is equal to Accrued Debt Service to the last day of the current calendar month; provided, however, that in no event shall the amount to be so transferred be less than the amount required for all payment dates occurring prior to the 25th day of the next succeeding calendar month.

Rate Covenant

TBTA is required at all times to establish, levy, maintain and collect, or cause to be established, levied, maintained and collected, such tolls, rentals and other charges in connection with the TBTA Facilities as shall always be sufficient, together with other money available therefor (including the anticipated receipt of proceeds of sale of Obligations or other bonds, notes or other obligations or evidences of indebtedness of TBTA that will be used to pay the principal of Obligations issued in anticipation of such receipt, but not including any anticipated or actual proceeds from the sale of TBTA Facilities), to equal or exceed in each calendar year the greater of

- an amount equal to the sum of amounts necessary in that calendar year
 - to pay all Operating Expenses of TBTA, plus
 - to pay Calculated Debt Service on all senior lien and subordinate lien bonds and parity debt, plus
 - to maintain any reserve established by TBTA pursuant to the TBTA Senior Resolution, in such amount as may be determined from time to time by TBTA in its judgment, or
- an amount such that Revenues less Operating Expenses shall equal at least 1.10 times Calculated Debt Service on all senior lien and subordinate lien bonds and parity debt for such calendar year.

For a more complete description of the rate covenant and a description of the minimum tolls that can be charged at the TBTA Facilities, see “SUMMARY OF CERTAIN PROVISIONS OF THE TBTA RESOLUTION – Rates and Fees” and “SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE REVENUE RESOLUTION —Additional Provisions Relating to the Series 2002D Bonds—*Rate Covenant*” in the summaries of documents.

Additional Subordinate Revenue Bonds

Under the provisions of the TBTA Subordinate Resolution, TBTA may issue one or more series of Additional Subordinate Revenue Bonds to pay or provide for the payment of all or part of Capital Costs relating to any of the following purposes:

- TBTA Facilities,
- TBTA Transit and Commuter Project, or
- any Additional Subordinate TBTA Project.

In addition to meeting certain other conditions, all as more fully described in “SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE REVENUE RESOLUTION – Special Provisions for Capital Cost Obligations” in the summaries of documents, an Authorized Officer must certify that the historical Twelve Month Period Net Revenues are at least equal to 1.10 times the Combined Maximum Annual Calculated Debt Service for all TBTA Subordinate Revenue Obligations, subordinate parity debt, TBTA Senior Obligations and senior parity debt.

In addition, TBTA covenants that, prior to the issuance of TBTA Senior Revenue Bonds, an Authorized Officer must certify that the historical Twelve Month Period Net Revenues are at least equal to 1.10 times the Combined Maximum Annual Calculated Debt Service for all TBTA Subordinate Revenue Obligations, subordinate parity debt, TBTA Senior Obligations and senior parity debt. See “SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE REVENUE RESOLUTION —Additional Provisions Relating to the Series 2002D Bonds—*Covenant Regarding Senior Resolution*” in the summaries of documents.

Refunding Subordinate Revenue Bonds

TBTA Subordinate Revenue Bonds may be issued for the purpose of refunding TBTA Subordinate Revenue Bonds, subordinate parity debt, TBTA Senior Revenue Bonds or senior parity debt if

- the Combined Maximum Annual Calculated Debt Service (including the refunding TBTA Subordinate Revenue Bonds then proposed to be issued, but not including the TBTA Subordinate Revenue Bonds, subordinate parity debt, TBTA Senior Revenue Bonds or senior parity debt to be refunded) is equal to or less than the Combined Maximum Annual Calculated Debt Service as calculated immediately prior to the refunding (including the refunded TBTA Subordinate Revenue Bonds, subordinate parity debt, TBTA Senior Revenue Bonds or senior parity debt, but not including the refunding TBTA Subordinate Revenue Bonds), or
- the conditions referred to above under “—Additional Subordinate Revenue Bonds” are satisfied.

For a more complete description of the conditions that must be satisfied before issuing refunding TBTA Subordinate Revenue Bonds, see “SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTION – Refunding Subordinate Revenue Obligations” in the summaries of documents.

DEDICATED TAX FUND BONDS

There are \$3,341,265,000 aggregate principal amount of outstanding Dedicated Tax Fund Bonds. The following **DTF Table 1** sets forth, on a cash basis, the debt service thereon.

DTF Table 1
Aggregate Debt Service
(in thousands)

Year Ending <u>March 31(1)</u>	Aggregate DTF Debt Service(2)
2006	\$206,733
2007	206,846
2008	206,978
2009	206,862
2010	207,188
2011	206,941
2012	206,913
2013	206,808
2014	206,877
2015	206,417
2016	206,583
2017	206,875
2018	206,769
2019	206,907
2020	206,569
2021	206,799
2022	206,873
2023	207,129
2024	208,076
2025	208,134
2026	208,238
2027	208,233
2028	208,276
2029	208,394
2030	208,393
2031	208,409
2032	208,476
2033	211,040
2034	68,042
2035	<u>23,412</u>
Total	<u>\$5,900,190</u>

(1) Based on the State's fiscal year ending March 31.

(2) Assumes interest at a rate of 4.06% per annum on the Series 2002B Bonds until September 1, 2013 based on a swap agreement, and 4.00% thereafter. Assumes interest at a rate of 4.00% per annum on the Series 2004B Bonds and the Series 2004D Bonds. Assumes interest at a rate of 3.3156% per annum on the Series 2005A Bonds based on a swap agreement.

Sources of Payment – Revenues from Dedicated Taxes

MTA receives money from certain dedicated taxes and fees described in this section. This money is deposited into MTA's Dedicated Tax Fund and is pledged by MTA for the payment of its Dedicated Tax Fund Bonds.

MTA Revenues from PBT, Motor Fuel Tax and Motor Vehicle Fees (MTTF Receipts). In 1991, as part of a program to address the need for continued capital investment in the State's transportation infrastructure, the State Legislature established a State fund, called the PBT Dedicated Tax Funds Pool, from which money is apportioned by statutory allocation under current State Tax Law to a State fund, called the Dedicated Mass Transportation Trust Fund (MTTF). Currently, portions of the following taxes and fees are deposited into the PBT Dedicated Tax Funds Pool, of which 34% is allocated to the MTTF for the benefit of the MTA:

- A group of business privilege taxes imposed on petroleum businesses operating in the State (the "PBT Taxes"), generally consisting of
 - o a basic tax that varies based on product type,
 - o a supplemental tax which, in general, is applied at a uniform rate, and
 - o a petroleum business carrier tax.

A significant portion (currently, 80.3%) of net PBT receipts from the basic tax and all of the supplemental tax and the carrier tax are required by current law to be deposited in the PBT Dedicated Funds Pool.

- Motor fuel taxes on gasoline and diesel fuel.
- Certain motor vehicle fees administered by the State Department of Motor Vehicles, including both registration and non-registration fees.

Thirty-four percent (34%) of the PBT Dedicated Funds Pool is currently deposited in the MTTF for MTA's benefit. Subject to appropriation by the State Legislature, money in that account is required by law to be transferred to the MTA Dedicated Tax Fund, held by MTA. Amounts transferred from the MTTF Account to the MTA's Dedicated Tax Fund constitute "MTTF Receipts."

A more detailed description of the MTTF Receipts is set forth herein under the following headings herein:

- MTTF Receipts – Dedicated Petroleum Business Tax,
- MTTF Receipts – Petroleum Business Carrier Tax,
- MTTF Receipts – Motor Fuel Tax, and
- MTTF Receipts – Motor Vehicle Fees.

MTA Revenues from Special Tax-Supported Operating Subsidies (MMTOA Receipts). Like other mass transit systems in the nation, the Transit System and Commuter System have historically operated at a deficit and have been dependent upon substantial amounts of general operating subsidies from the State, as well as the City and Federal governments. Over time, the ongoing needs of State mass transportation systems led the State to supplement the general operating subsidies with additional operating subsidies supported by special State taxes.

Starting in 1980, in response to anticipated operating deficits of State mass transit systems, the State Legislature enacted a series of taxes, portions of the proceeds of which have been and are to be deposited in a special State Fund – the Mass Transportation Operating Assistance Fund - to fund the operations of mass transportation systems. The Metropolitan Mass Transportation Operating Assistance Account, or MMTOA Account, was established in that State Fund to support operating expenses of transportation systems in the Transportation District, including the Transit Authority, MaBSTOA and the commuter railroads operated by MTA's subsidiaries, LIRR and MNCRC. After payment of Section 18-b general operating assistance to the various transportation systems, MTA gets approximately 90% of the moneys deposited into the MMTOA Account, with the remaining 10% available to other transportation properties within the Transportation District, such as MSBA and MTA Bus.

Since the creation of the MMTOA Account, MTA has requested and received in each year significant payments from that Account in order to meet operating expenses of the Transit and Commuter Systems. It is expected that payments from the MMTOA Account will continue to be essential to the operations of the Transit and Commuter Systems. Although a variety of taxes have been used to fund the special tax-supported operating subsidies, the taxes levied for this purpose, which MTA refers to collectively as the “MMTOA Taxes,” currently include:

- MMTOA PBT. The products that are subject to the tax, the tax rates, and the transactions excluded from the tax are identical to those of the basic PBT tax dedicated to the PBT Dedicated Funds Pool and the MTF Account in that Pool. Pursuant to State law, of the remaining 19.7% of the PBT Basic Tax that is not deposited into the PBT Dedicated Funds Pool, 55% (or 10.835% of the PBT Basic Tax collections) is deposited in the MMTOA Account.
- District Sales Tax. The District Sales Tax consists of a one-quarter of one percent (1/4%) sales and compensating use tax imposed on sales and uses of certain tangible personal property and services applicable only within the Transportation District.
- Franchise Taxes. Also deposited in the MMTOA Account is a legislatively-allocated portion of two taxes imposed on certain transportation and transmission companies (such as trucking, telegraph and local telephone companies) —
 - an annual franchise tax based on the amount of the taxpayer’s issued capital stock, and
 - an annual franchise tax on the taxpayer’s gross earnings from all sources calculated to be in the State pursuant to statutory formulae.
- Temporary Franchise Surcharge. The Temporary Franchise Surcharge is imposed on the portion of the franchise and other taxes of certain corporations, banks and insurance, utility, transportation and transmission companies attributable (according to various complex formulae) to business activity carried on within the Transportation District. In accordance with State Tax Law, the tax revenue generated under these provisions, after the deduction of administrative costs, is to be deposited to the MMTOA Account, as taxes are received.

In order to assist MTA in balancing its budgets for calendar year 2002, the State advanced the payment of a fifth quarter of MMTOA Receipts scheduled for the first quarter of calendar year 2003 into the fourth quarter of calendar year 2002 (approximately \$231.6 million). Currently, MTA 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, MTF Receipts, which MTA anticipates will be sufficient to make monthly principal and interest deposits into the Debt Service Fund.

A more detailed description of the MMTOA Taxes is set forth herein under the heading “– MMTOA Account – Special Tax Supported Operating Subsidies”.

Five-Year Summary of MTF Receipts and MMTOA Receipts. **DTF Table 2** sets forth a five-year summary (based on the State’s fiscal year ending March 31) of the following:

- actual collections by the State of receipts for each of the sources of revenues that, subject to appropriation and allocation among MTA and other non-MTA transit agencies, could become receipts of the MTA Dedicated Tax Fund,
- amount of MTF Receipts and MMTOA Receipts, and
- debt service coverage ratio based upon MTF Receipts, and MTF Receipts plus MMTOA Receipts.

DTF Table 2

<u>Dedicated Taxes (in millions)</u>	State Fiscal Year ending March 31,				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
MTTF					
PBT	\$ 264.1	\$ 298.8	\$ 306.6	\$ 313.2	\$ 323.1
Motor Fuel Tax	53.4	56.7	63.0	96.6	101.4
Motor Vehicle Fees	<u>-0-</u>	<u>25.5</u>	<u>69.6</u>	<u>96.1</u>	<u>126.6</u>
Total Available MTTF Taxes(1)	\$ 317.5	\$ 381.0	\$ 439.2	\$ 505.9	\$ 551.1
MTTF Receipts(2)	\$ 314.9	\$ 373.4	\$ 450.2	\$ 495.2	\$ 559.7
MMTOA					
PBT	\$ 59.5	\$ 68.1	\$ 66.3	\$ 72.2	\$ 74.2
District Sales Tax	368.2	364.7	361.9	399.3	428.9
Franchise Taxes	70.1	82.9	71.1	57.4	64.5
Temporary Franchise Surcharges	<u>563.2</u>	<u>483.4</u>	<u>509.5</u>	<u>484.2</u>	<u>571.4</u>
Total Available MMTOA Taxes (3)	<u>\$1,061.0</u>	<u>\$ 999.1</u>	<u>\$1,008.8</u>	<u>\$1,013.1</u>	<u>\$1,139.0</u>
MMTOA Receipts(4)	\$ 755.2	\$ 755.2	\$ 861.5	\$ 730.9	\$ 736.4
Total Pledged Revenues (MTTF Receipts plus MMTOA Receipts)	<u>\$1,070.1</u>	<u>\$1,128.6</u>	<u>\$1,311.7</u>	<u>\$1,226.1</u>	<u>\$1,296.1</u>
Debt Service(5)	\$ 106.9	\$ 106.8	\$ 59.7	\$ 141.9	\$ 156.8
Debt Service Coverage Ratio – MTTF Receipts Only	2.95x	3.50x	7.54x	3.49x	3.57x
Debt Service Coverage Ratio – MTTF Receipts plus MMTOA Receipts	10.01x	10.57x	21.97x	8.64x	8.27x

-
- (1) Represents the amount of MTTF taxes collected by the State that was deposited into the Dedicated Mass Transportation Trust Fund, or MTTF.
 - (2) Represents the amount in the MTTF that was, subject to appropriation, paid to MTA by deposit into the MTA Dedicated Tax Fund, thereby becoming MTTF Receipts. The amount of MTTF Receipts in any State fiscal year could be greater than the amount collected for deposit into the MTTF due to, among other things, investment earnings or surplus amounts retained in the MTTF that were not paid out in prior years.
 - (3) Represents the amount of MMTOA taxes collected by the State that was deposited into the MMTOA Account. Amounts in the MMTOA Account are available, subject to appropriation, to pay operating expenses of the various public transportation systems throughout the Transportation District, including MTA.
 - (4) Represents the amount in the MMTOA Account that was, subject to appropriation, requested by, and paid to, MTA for deposit into the MTA Dedicated Tax Fund, thereby becoming MMTOA Receipts. The difference between Total Available MMTOA Taxes and MMTOA Receipts generally represents the amount appropriated for operating expenses of the various non-MTA systems in the Transportation District, as well as \$161.1 million per year appropriated to MTA and other transportation agencies, primarily in accordance with the Section 18-b Program as described herein in Part 3 under the caption "REVENUES OF THE RELATED ENTITIES – State and Local General Operating Subsidies".
 - (5) Represents debt service on bonds outstanding under the old DTF Resolution that was defeased in 2002 and, thereafter, bonds outstanding under the DTF Resolution. The lower debt service in 2003 reflects the effects of the debt restructuring.

Factors Affecting Revenues from Dedicated Taxes

Legislative Changes. The requirement that the State pay MTA Dedicated Tax Fund Revenues to the MTA Dedicated Tax Fund is subject to and dependent upon annual appropriations being made by the State Legislature for such purpose and the availability of monies to fund such appropriations. The State Legislature is not obligated to make appropriations to fund the MTA Dedicated Tax Fund, and there can be no assurance that the State Legislature will make any such appropriation. The State is not restricted in its right to amend, repeal, modify or otherwise alter statutes imposing or relating to the MTA Dedicated Tax Fund Revenues or the taxes or appropriations that are the source of such Revenues.

Litigation. Aspects relating to the imposition and collection of the Dedicated Taxes have from time to time been and may continue to be the subject of administrative claims and litigation by taxpayers.

Economic Conditions. Many of the Dedicated Taxes are dependent upon economic and demographic conditions in the State and in Transportation District, and therefore there can be no assurance that historical data with respect to collections of the Dedicated Taxes will be indicative of future receipts.

Government Assistance. The level of government assistance to MTA through Dedicated Taxes may be affected by different factors, two of which are as follows:

- The Legislature may not bind or obligate itself to appropriate revenues during a future legislative session, and appropriations approved during a particular legislative session generally have no force or effect after the close of the State fiscal year for which the appropriations are made. However, in the case of the PBT that is deposited as a portion of the MTF Receipts, the Legislature has expressed its intent in the State Finance Law to enact for each State fiscal year an appropriation for the current and the next year. See the heading “—Appropriation by the Legislature” below.
- The State is not bound or obligated to continue to pay operating subsidies to the Transit System or the Commuter System or to continue to impose any of the taxes currently funding those subsidies.

Security – General

The Dedicated Tax Fund Bonds are MTA’s special obligations payable as to principal, redemption premium, if any, and interest solely from the security, sources of payment and funds specified in the DTF Resolution. Payment of principal of or interest on the Dedicated Tax Fund Bonds may not be accelerated in the event of a default.

Dedicated Tax Fund Bonds are secured primarily by the SOURCES OF PAYMENT described above, and are not secured by

- the general fund or other funds and revenues of the State, or
- the other funds and revenues of MTA or any of its affiliates or subsidiaries.

The Bonds are not a debt of the State or The City of New York, or any other local governmental unit. MTA has no taxing power.

MTA has filed summaries of certain provisions of the DTF Resolution, including certain defined terms used therein, with the NRMSIRS identified under “TRANSPORTATION REVENUE BONDS – General”.

In addition, copies of the summaries can be obtained on MTA’s website (www.mta.info) under “MTA Home – Investor Information” or from the MTA Finance Department at 347 Madison Avenue, New York, New York 10017.

Capitalized terms used under this caption “DEDICATED TAX FUND BONDS” not otherwise defined herein have the meanings set forth in the DTF Resolution.

Pledge Effected by the DTF Resolution

Trust Estate. The DTF Resolution provides that there are pledged to the payment of principal and redemption premium of, interest on, and sinking fund installments for, the Dedicated Tax Fund Bonds and Parity Debt, in accordance with their terms and the provisions of the DTF Resolution, subject only to the provisions permitting the application of that money for the purposes and on the terms and conditions permitted in the DTF Resolution, the following, referred to as the “trust estate”:

- the proceeds of the sale of the Dedicated Tax Fund Bonds, until those proceeds are paid out for an authorized purpose,
- the Pledged Amounts Account in the MTA Dedicated Tax Fund (which includes MTF Receipts and MMTOA Receipts), any money on deposit in that Account and any money received and held by MTA and required to be deposited in that Account, and
- all funds, accounts and subaccounts established by the DTF Resolution (except funds, accounts and subaccounts established pursuant to Supplemental Resolution, and excluded by such Supplemental Resolution from the Trust Estate as security for all Dedicated Tax Fund Bonds, in connection with Variable Interest Rate Obligations, Put Obligations, Parity Debt, Subordinated Indebtedness or Subordinated Contract Obligations), including the investments, if any, thereof.

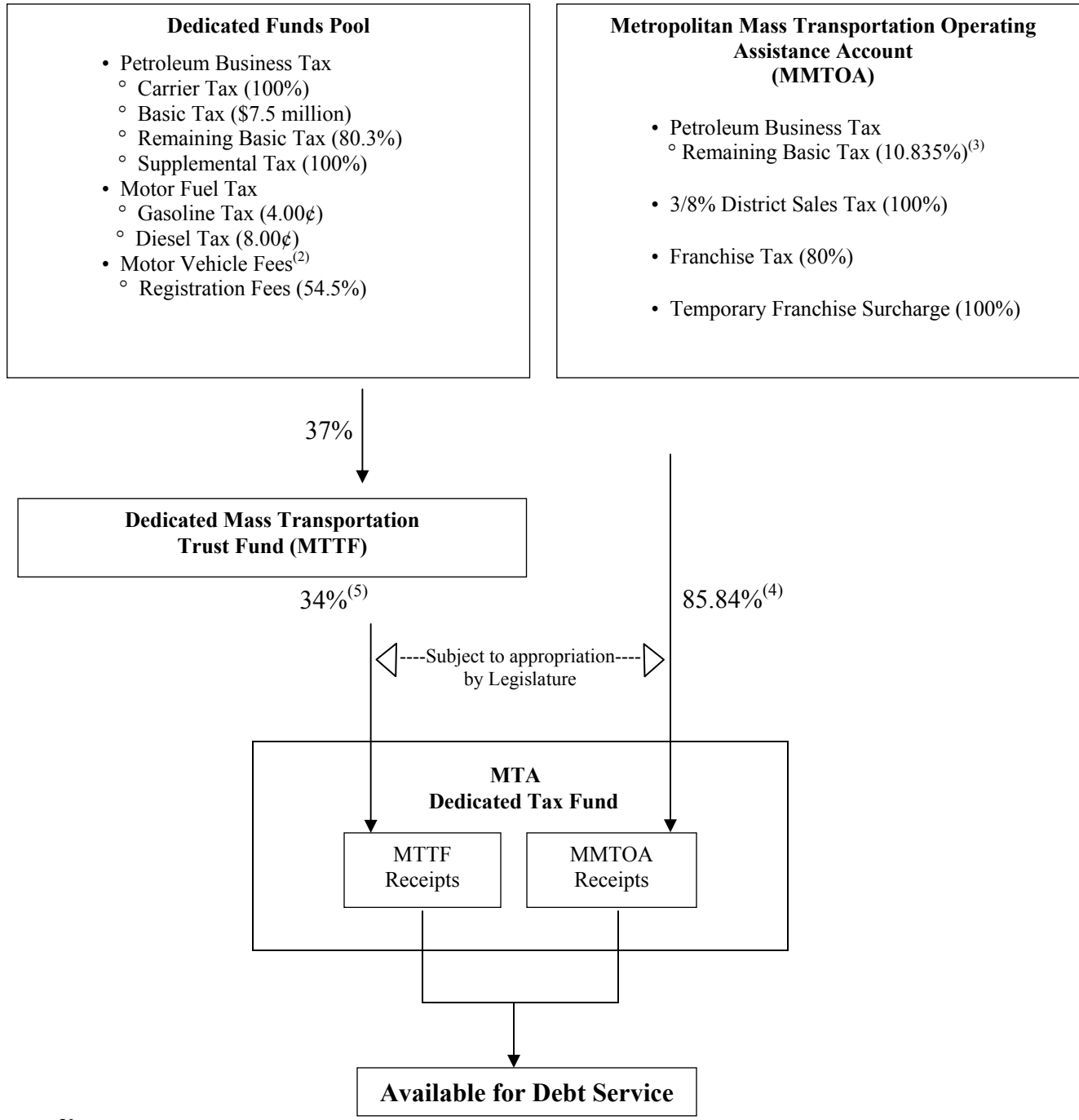
The DTF Resolution provides that the trust estate is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the DTF Resolution, and all corporate action on the part of MTA to that end has been duly and validly taken.

Flow of Funds

The DTF Resolution establishes a Proceeds Fund held by MTA, and a Debt Service Fund held by the Trustee. See the summaries of documents for a description of the provisions of the DTF Resolution governing the deposits to and withdrawals from the Funds and Accounts. Amounts held by MTA or the Trustee in any of such Funds shall be held in trust separate and apart from all other funds and applied solely for the purposes specified in the DTF Resolution or any Supplemental Resolution thereto.

The following two charts summarize (i) the flow of taxes into the MTA Dedicated Tax Fund, and (ii) the flow of MTA Dedicated Tax Fund Revenues through the MTA Dedicated Tax Fund and the Funds and Accounts established under the DTF Resolution.

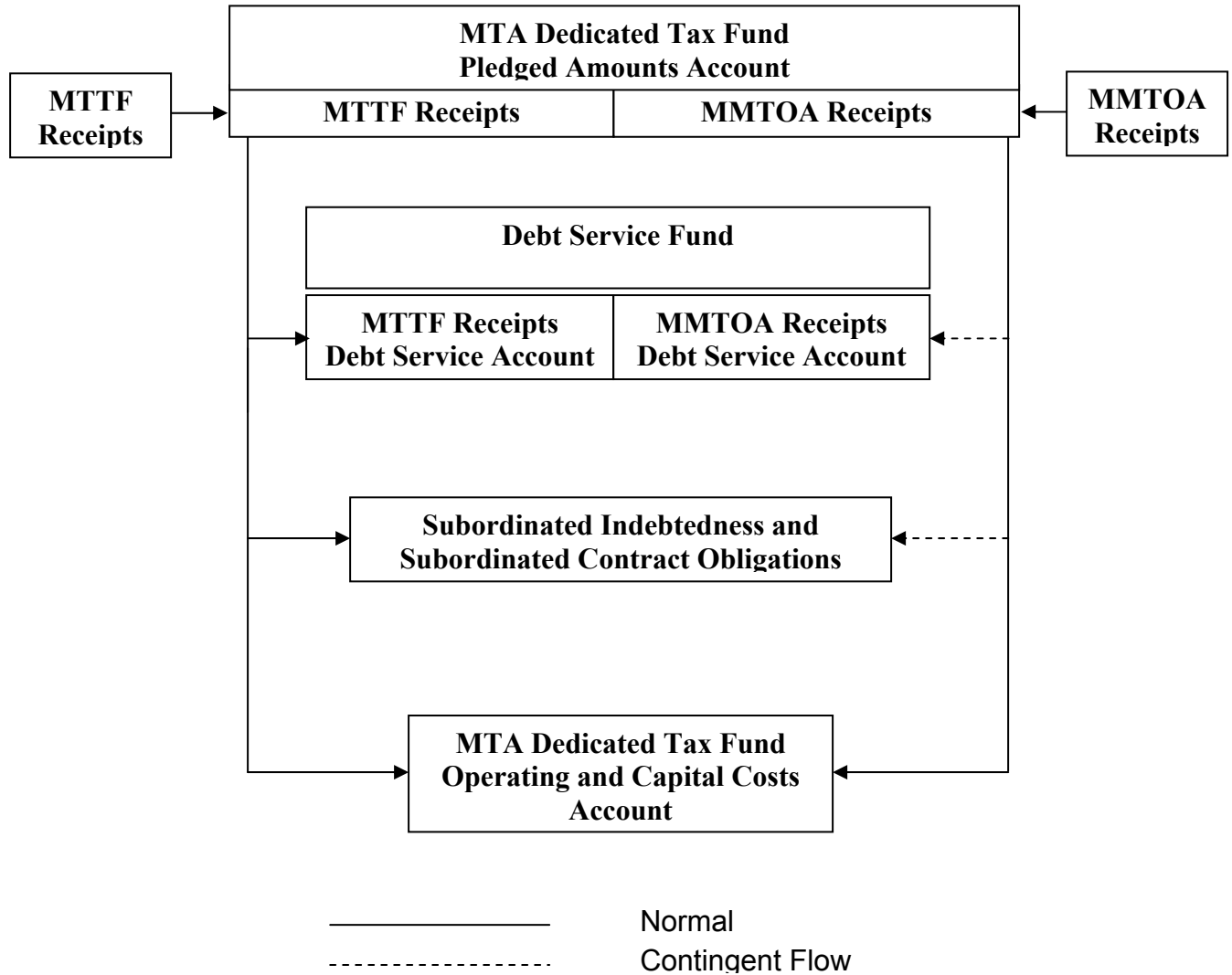
MTA DEDICATED TAX FUND BONDS – SOURCES OF REVENUE
(As of March 31, 2006⁽¹⁾)



Notes

- (1) Parenthetical amounts and percentages, as well as flow of fund percentages, indicate the amount or percent of that tax or fund deposited for the year ending March 31, 2006 in the respective fund or account. The allocations shown may be changed at any time by the State Legislature.
- (2) In accordance with legislation enacted with the 2000-01 Enacted Budget, additional non-registration Motor Vehicle Fees are to be deposited into Dedicated Funds Pool beginning in State Fiscal Year 2004-05. In accordance with legislation enacted with the 2005-06 Enacted Budget, additional Motor Vehicle Fees are to be deposited into Dedicated Funds Pool beginning on January 1, 2006, which is expected to result in an additional approximately \$60 million for MTA.
- (3) The foregoing percentage does not include the 8.865% share of the Basic Tax that is deposited in an account for certain upstate transportation entities.
- (4) Percentage based on payments included in the enacted budget for State Fiscal Year 2005-06.
- (5) Percentage of Dedicated Funds Pool.

MTA DEDICATED TAX FUND BONDS – RESOLUTION FLOW OF FUNDS



All amounts on deposit in the Pledged Amounts Account – MTF Receipts Subaccount are paid out before any amounts on deposit in the Pledged Amounts Account – MMTOA Receipts Subaccount are paid out.

Amounts paid out from any fund or account for an authorized purpose (excluding transfers to any other pledged fund or account) are free and clear of the lien and pledge created by the DTF Resolution.

Debt Service Fund

Pursuant to the DTF Resolution, the Trustee holds the Debt Service Fund, consisting of the MTTF Receipts DS Account and the MMTOA Receipts DS Account. Monies in the Debt Service Fund are applied by the Trustee to the payment of Debt Service on the Dedicated Tax Fund Bonds in the manner, and from the accounts and subaccounts, more fully described under “SUMMARY OF CERTAIN PROVISIONS OF THE DTF RESOLUTION – Debt Service Fund” in the summaries of documents.

MTA is required to make monthly deposits to the appropriate account of the Debt Service Fund of interest (1/5th of the next semiannual payment) and principal (1/10th of the next annual payment), first from MTTF Receipts and then, to the extent of any deficiency, from MMTOA Receipts.

Covenants

Additional Bonds. The DTF Resolution permits MTA to issue additional Dedicated Tax Fund Bonds from time to time to pay or provide for the payment of Capital Costs and to refund outstanding Dedicated Tax Fund Bonds.

Under the DTF Resolution, MTA may issue one or more Series of Dedicated Tax Fund Bonds for the payment of Capital Costs, provided, in addition to satisfying certain other requirements, MTA delivers a certificate that evidences MTA’s compliance with the additional bonds test set forth in the DTF Resolution.

Such certificate must set forth:

- (A) for any 12 consecutive calendar months ended not more than six months prior to the date of such certificate: (i) MTTF Receipts, (ii) MMTOA Receipts, and (iii) investment income received during such period on amounts on deposit in the Pledged Amounts Account, the MTTF Receipts Subaccount, the MMTOA Receipts Subaccount and the Debt Service Fund; and
- (B) the greatest amount for the then current or any future Debt Service Year of the sum of (a) Calculated Debt Service on all Outstanding Dedicated Tax Fund Obligations, including the proposed Capital Cost Obligations and any proposed Refunding Obligations being treated as Capital Cost Obligations, but excluding any Obligations or Parity Debt to be refunded with the proceeds of such Refunding Obligations, plus (b) additional amounts, if any, payable with respect to Parity Debt; and then state:
 - (x) that the sum of the MTTF Receipts and investment income (other than investment income on the MMTOA Receipts Subaccount) set forth in clause (A) above is not less than 1.35 times the amount set forth in accordance with clause (B) above and
 - (y) that the sum of the MTTF Receipts, MMTOA Receipts and investment income set forth in clause (A) above is not less than 2.5 times the amount set forth in clause (B) above.

See “SUMMARY OF CERTAIN PROVISIONS OF THE DTF RESOLUTION—Special Provisions for Capital Cost Obligations” in the summaries of documents for a description of further provisions which apply to the additional bonds test if the percentage of available existing taxes deposited into the MTA Dedicated Tax Fund is increased or additional taxes are added to the amounts so deposited.

For a discussion of the requirements relating to the issuance of Refunding Dedicated Tax Fund Bonds, see “SUMMARY OF CERTAIN PROVISIONS OF THE DTF RESOLUTION—Special Provisions for Refunding Obligations” in the summaries of documents.

Parity Debt

MTA may incur Parity Debt pursuant to the terms of the DTF Resolution that, subject to certain exceptions, would be secured by a pledge of, and a lien on, the Trust Estate on a parity with the lien created by the DTF Resolution with respect to Dedicated Tax Fund Bonds. Parity Debt may be incurred in the form of a Parity Reimbursement Obligation, a Parity Swap Obligation or any other contract, agreement or other obligation of MTA designated as constituting "Parity Debt" in a certificate of an Authorized Officer delivered to the Trustee.

Appropriation by the Legislature

The State Constitution provides that the State may not expend money without an appropriation, except for the payment of debt service on general obligation bonds or notes issued by the State. An appropriation is an authorization approved by the State Legislature to expend money. The State Constitution requires all appropriations of State funds, including funds in the MTTF and MMTOA Account, to be approved by the State Legislature at least every two years. In addition, the State Finance Law provides, except as described below, that appropriations shall cease to have force and effect, except as to liabilities incurred thereunder, at the close of the State Fiscal Year for which they were enacted and that to the extent of liabilities incurred thereunder, such appropriations shall lapse on the succeeding June 30th or September 15th, depending upon the nature of the appropriation. The State Legislature may not be bound in advance to make any appropriation, and there can be no assurances that the State Legislature will appropriate the necessary funds as anticipated. MTA expects that the State Legislature will make appropriations from amounts on deposit in the MTTF and MMTOA Account in order to make payments when due.

In order to reduce the risk that the State Legislature may fail to make an annual appropriation or that such appropriation may be delayed to the MTA Dedicated Tax Fund, the State Legislature has expressed its intent in the State Finance Law to enact for each State Fiscal Year in the future in an annual budget bill an appropriation from the MTTF (with respect to the PBT portion only) 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 to be deposited in the MTA Dedicated Tax Fund from the MTTF (with respect to the PBT portion only) for the next succeeding State Fiscal Year. In any State Fiscal Year, if the Governor fails to submit or if the State Legislature fails to enact a current year appropriation from the MTTF (with respect to the PBT portion) to the MTA Dedicated Tax Fund, MTA is required to notify the State of amounts required to be disbursed from the appropriation made during the preceding State Fiscal Year for payment in the current State Fiscal Year. The State Comptroller may not make any payments from the MTTF to the MTA Dedicated Tax Fund from such prior year appropriation prior to May 1st of the current State Fiscal Year. Until such time as payments pursuant to such appropriation are made in full, revenues in the MTTF shall not be paid over to any entity other than MTA.

In order to implement the foregoing procedures, the adopted State budget for 2005-06 includes two appropriations from the MTTF to the MTA Dedicated Tax Fund. One such appropriation is for the State Fiscal Year that ends March 31, 2006 and the other such appropriation is for the succeeding State Fiscal Year that ends March 31, 2007. The appropriation for the 2005-06 State Fiscal Year took effect on April 1, 2005. MTA has periodically availed itself of such prior year's appropriation to meet operating costs in response to delays in the adoption of the State budget in such years.

A budgetary imbalance in the present or any future State Fiscal Year could affect the ability and willingness of the State Legislature to appropriate and the availability of monies to make the payments from the MTTF and the MMTOA Account. However, MTA believes that any failure by the State Legislature to make appropriations as contemplated would have a serious impact on the ability of the State and its public benefit corporations to raise funds in the public credit markets.

Agreement of the State

The MTA Act prohibits MTA from filing a petition in bankruptcy under Chapter 9 of the Federal Bankruptcy Code or such successor chapters or sections as may from time to time be in effect and the State has pledged that so long as any notes, bonds or lease obligations of the MTA are outstanding, it will not limit or alter the denial of authority to MTA to so file.

Under the MTA Act, the State pledges to and agrees with the holders of any notes, bonds or lease obligations issued or incurred by the MTA, including the Dedicated Tax Fund Bonds, that the State will not limit or alter the rights vested in the MTA to fulfill the terms of any agreements made by the MTA with the holders of its notes, bonds and lease obligations, including the Dedicated Tax Fund Bonds, or in any way impair the rights and remedies of such holders. Notwithstanding the foregoing, in accordance with State law, nothing in the DTF Resolution shall be deemed to restrict the right of the State to amend, repeal, modify or otherwise alter statutes imposing or relating to the MTA Dedicated Tax Fund Revenues or the taxes or appropriations which are the source of such Revenues. No default under the DTF Resolution would occur solely as a result of the State exercising its right to amend, repeal, modify or otherwise alter such taxes or appropriations.

MTTF Receipts – Dedicated Petroleum Business Tax

General. The PBT is the business privilege tax, which includes both a base tax and a supplemental tax, imposed on petroleum businesses operating in the State. The base of the PBT is the quantity of various petroleum products refined or sold in the State or imported into the State for sale or use therein.

Tax Rates. Since 1990, the basic and supplemental PBT tax rates have been subject to separately computed annual adjustments on January 1 of each year, to reflect the change in the Producer Price Index (“PPI”) for refined petroleum products for the 12 months ended August 31 of the immediately preceding year. The tax rates, therefore, increase as prices rise and decrease as prices fall. Legislation adopted in 1994 maintained the 1992 rates through 1995 and provided that, beginning January 1, 1996, the PBT rates would be adjusted annually subject to a maximum change of five percent of the current rate in any year. In addition to the five percent cap on rate changes, the statute also requires basic and supplemental rates to be rounded to the nearest tenth of one cent. Subsequent legislation provided that diesel rates be rounded to the nearest hundredth of one cent. As a result, the tax rates usually do not change by the full five percent allowed under the statutory formula.

The table below shows the changes in the PPI for refined petroleum products and the capped PBT index change since 1995-96.

Petroleum Business Tax Index Change (percent)			
Year for PII Change (September 1 to August 31)	PPI for Refined Petroleum Products Change	Year for PBT Index	PBT Index Change (January 1)
1995-96	6.57	1997	5.00
1996-97	7.96	1998	5.00
1997-98	-18.60	1999	-5.00
1998-99	-7.85	2000	-5.00
1999-2000	55.84	2001	5.00
2000-01	13.08	2002	5.00
2001-02	-19.51	2003	-5.00
2002-03	27.01	2004	5.00
2003-04	12.93	2005	5.00
2004-05(a)	20.39	2006(a)	5.00

(a) Estimated.

Source: New York State Division of the Budget.

The table below shows the rates per gallon for the PBT in effect for 2004 and 2005 and estimated rates for 2006, respectively.

PETROLEUM BUSINESS TAX RATES FOR 2004 AND 2005 AND ESTIMATED FOR 2006
(cents per gallon)

<u>Petroleum Products</u>	<u>Actual 2004</u>			<u>Actual 2005</u>			<u>Estimated 2006*</u>		
	<u>Base</u>	<u>Supp</u>	<u>Total</u>	<u>Base</u>	<u>Supp</u>	<u>Total</u>	<u>Base</u>	<u>Supp</u>	<u>Total</u>
Automotive Fuel									
Gasoline and other Non-diesel fuels	8.80	5.80	14.60	9.20	6.00	15.20	9.60	6.30	15.90
Diesel	8.80	4.05	12.85	9.20	4.25	13.45	9.60	4.55	14.15
Aviation gasoline	8.80	5.80	14.60	9.20	6.00	15.20	9.60	6.30	15.90
Net rate after credit	5.80	0.00	5.80	6.00	0.00	6.00	6.30	0.00	6.30
Kero-jet fuel	5.80	0.00	5.80	6.00	0.00	6.00	6.30	0.00	6.30
Non-automotive diesel fuels	7.90	5.80	13.70	8.20	6.00	14.20	8.60	6.30	14.90
Commercial gallonage after credit	7.90	0.00	7.90	8.20	0.00	8.20	8.60	0.00	8.60
Nonresidential heating after credit	4.30	0.00	4.30	4.40	0.00	4.40	4.60	0.00	4.60
Residual petroleum products	6.00	5.80	11.80	6.30	6.00	12.30	6.60	6.30	12.90
Commercial gallonage after credit	6.00	0.00	6.00	6.30	0.00	6.30	6.60	0.00	6.60
Nonresidential heating after credit	3.20	0.00	3.20	3.40	0.00	3.40	3.60	0.00	3.60
Railroad diesel fuel	8.80	4.05	12.85	9.20	4.25	13.45	9.60	4.55	14.15
Net rate after exemption/refund	7.50	0.00	7.50	7.90	0.00	7.90	8.30	0.00	8.30

*Estimated – An estimated fuel price increase of 20.4% through August 2005 will result in an increase of 5% in the PBT index on January 1, 2006.

Source: New York State Division of the Budget.

Tax Base. Generally, transactions that are excluded from the basic PBT base are also excluded from the supplemental tax base. Exemptions include sales for export from the State, sales of fuel oil for residential heating purposes and manufacturing use, and sales to government entities when such entities buy petroleum for their own use. Sales of kerosene (other than kero-jet fuel) and liquefied petroleum gas and sales of residual fuel oil used as bunker fuel also are exempted. Regulated electric utilities that use petroleum to generate electricity obtain credits or reimbursements to offset a portion of the basic tax. These utilities receive no credit or reimbursement with respect to the supplemental tax.

The State also imposes a petroleum business carrier tax under the PBT on fuel purchased by motor carriers outside the State but consumed within the State. The carrier tax rates are the same as the PBT automotive gasoline and diesel rates listed above.

Legislative Changes. The Legislature has, from time to time, changed the percentage of the PBT basic tax which is available for distribution to the Dedicated Funds Pool. The percentage of the Dedicated Funds Pool which is, subject to appropriation, deposited in the MTA Dedicated Tax Fund has remained constant at 34 percent. The changes in the percentage of the PBT basic tax which is available for distribution to the Dedicated Funds Pool have been designed to be, and were, revenue neutral to the Dedicated Funds Pool.

Legislation enacted in 1995, effective September 1, 1995, effectively eliminated the supplemental tax imposed on aviation gasoline and kero-jet fuel and reduced the basic tax rate for those products to a rate that is equivalent to the supplemental rate. To maintain the first import system, which imposes the PBT tax on aviation gasoline upon importation, and to allow retail sellers of aviation gasoline to sell such product at the reduced rate, distributors of aviation gasoline must remit the full tax imposed on that product and may subsequently take a credit for the difference between the full rate and the reduced rate. In addition, effective January 1, 1996, the partial exemption provided for heating fuel oils that are for the exclusive use and consumption of certain not-for-profit organizations was expanded to a full exemption. To preserve dedicated funds revenue flows, the new law increased the share of the basic tax going to the Dedicated Funds Pools from 59 percent to 62.8 percent, effective September 1, 1995, and from 62.8 percent to 63.3 percent effective April 1, 1996. Like the aforementioned changes made in 1994, these changes were designed to be revenue-neutral to the Dedicated Funds Pool.

Legislation enacted in 1996, effective January 1, 1998, expanded the partial exemption provided for residual and distillate fuels used in manufacturing to a full exemption. In addition, such legislation provided: (i) rate reductions for diesel motor fuel used by motor vehicles, phased in on January 1, 1998 and April 1, 1999; (ii) a full exemption from the supplemental tax imposed on residual and distillate fuels used by the commercial sector for heating, effective March 1, 1997; (iii) a partial reduction in the basic tax and a full exemption from the supplemental tax imposed on diesel motor fuel used by railroads, effective January 1, 1997; and (iv) an increase in the credit against the basic tax for residual and distillate fuels used by utilities, effective April 1, 1999. Where applicable, the new rate structure maintains indexing by allowing the rates to be adjusted by the index and then subsequently reducing such rate, or increasing such credit, by a fixed cents per gallon rate. To preserve dedicated funds revenue flows, the 1996 legislation also increased the share of the basic tax going to the Dedicated Funds Pool from 63.3 percent to 66.2 percent, effective January 1, 1997; from 66.2 percent to 68.1 percent, effective January 1, 1998; and from 68.1 percent to 69.8 percent, effective April 1, 1999.

Legislation enacted in 1999 reduced the PBT rate on commercial heating oil by 20 percent and provided for reimbursement of PBT tax imposed on fuels used for mining and extraction, effective April 1, 2001. To preserve dedicated funds revenue flows, the 1999 legislation increased the share of the basic tax going to the Dedicated Funds Pool from 69.8 percent to 70.5 percent, effective April 1, 2001. Like the aforementioned changes made in 1994, 1995 and 1996, these changes were designed to be revenue-neutral to the Dedicated Funds Pool.

Legislation adopted with the 2000-01 State Enacted Budget eliminated the PBT minimum taxes, effective March 1, 2001, and reduced the PBT rate on commercial heating oil by 33 percent, effective September 1, 2002. To save the Dedicated Funds Pool harmless from these tax cuts, the legislation earmarked certain motor vehicle registration fees to the Dedicated Funds Pool (see "MTTF Receipts – Motor Vehicle Fees" below). Legislation adopted with the 2000-01 State Enacted Budget and effective April 1, 2001, also increased revenues flowing to the Dedicated Funds Pool by earmarking \$7.5 million of the PBT basic tax, which had been directed to the State General Fund, to the Dedicated Funds Pool; increasing the percentage of the remaining basic tax receipts earmarked to the Dedicated Tax Funds Pool from 70.5 percent to 80.3 percent; and depositing receipts from the PBT carrier tax to the Dedicated Tax Funds Pool.

Legislation enacted in 2004 eliminated the PBT on fuels used for aircraft overflight and landing, effective November 1, 2004, and exempted fuel burned on takeoff by airlines operating non-stop flights between at least four cities in the State. The financial impact to the MTTF and MMTOA funds is minimal.

Tax Imposition and Payment. Imposition of the tax occurs at different points in the distribution chain, depending upon the type of product. The tax is imposed on motor fuels at the same time as the eight-cent-per-gallon motor fuel tax. Gasoline, which represents the preponderance of automotive fuel sales in the State, is taxed upon importation into the State for sale or upon manufacture in the State. Other non-diesel automotive fuels such as compressed natural gas, methanol and ethanol become subject to the tax on their first sale as motor fuel in the State. Automotive diesel motor fuel becomes taxed upon its first non-exempt

sale or use in the State. Nonautomotive diesel fuel (such as No. 2 fuel oil used for commercial heating) and residual fuel usually become taxable on the sale to the consumer or upon use of the product in the State.

Most petroleum businesses remit this tax on a monthly basis. Taxpayers with yearly motor fuel tax and PBT liability totaling more than \$5 million now remit tax for the first 22 days of the month by electronic funds transfer by the third business day thereafter. Tax for the balance of the month is paid with the monthly returns filed by the 20th of the following month. The Department of Taxation and Finance advises that, in State Fiscal Year 2003-04, 25 taxpayers, accounting for almost 82 percent of all PBT receipts, participated in the electronic funds transfer program.

Aspects relating to the imposition and collection of the PBT have from time to time been and may continue to be the subject of administrative claims and litigation by taxpayers.

Historical Summary of PBT Revenue

Since 1983, the State has substantially changed its taxation of petroleum businesses. These revisions altered collection mechanisms, modified tax bases, and increased the level of taxation. The following table provides historical information since 1995-96 on the basic PBT and the supplemental PBT, the major funding source for the MTTF.

**Basic and Supplemental PBT Collections
(in millions)**

<u>Collection Period (State Fiscal Year)</u>	<u>Basic PBT</u>	<u>Supplemental PBT</u>
1995-96	\$534.7	\$365.1
1996-97	552.3	371.7
1997-98	565.9	384.0
1998-99	602.0	409.9
1999-00	587.2	398.0
2000-01	562.4	389.3
2001-02	635.7	347.4
2002-03	618.9	384.5
2003-04	674.2	358.3
2004-05	692.3	370.9

Source: New York State Department of Taxation and Finance.

Receipts for State Fiscal Year 1995-96 remained constant over the prior year. Robust growth in the consumption of automotive fuels, the surge in utility usage of residual fuels as a result of the severe winter, and the index-driven increase in the tax rates by more than four percent in the last quarter of the fiscal year were offset by the first full-year impact of the 1994 tax reductions and the part-year impact of the tax reductions implemented in 1995.

Receipts for State Fiscal Year 1996-97 reflect the index-driven rate increase of up to five percent, as offset by a slight decline in automotive fuel consumption and utility consumption of residual fuel after robust growth in these products in State Fiscal Year 1995-96, the full year effect of the 1995 tax reductions and the first year impact of the 1996 tax reductions.

Receipts for State Fiscal Year 1997-98 reflect more than two percent and four percent increases in gasoline and diesel consumption, respectively, and the return to a more moderate winter caused a decline in the consumption of residual fuel by utilities. Collections also reflect the annual indexing provisions that increased the 1996 rates by up to 5 percent on January 1, 1997 and the 1997 rates by up to 5 percent on January 1, 1998, and the impact of the 1996 legislative changes, as described above.

The healthy economy and low fuel prices produced an increase in New York State gasoline consumption of nearly three percent and diesel consumption of more than eight percent in State Fiscal Year 1998-99. The consumption of residual fuel for utilities grew dramatically in State Fiscal Year 1998-99 due to lower residual fuel prices relative to natural gas. PBT receipts for State Fiscal Year 1998-99 also reflect the annual indexing provisions that increased the 1997 rates by up to 5 percent on January 1, 1998 and that decreased the 1998 rates by up to 5 percent on January 1, 1999.

Continued economic growth contributed to an increase in New York State motor gasoline and diesel consumption in State Fiscal Year 1999-2000. Consumption growth would have likely been even greater, absent higher fuel prices. Collections also reflect the annual indexing provisions that reduced PBT tax rates by up to 5 percent on January 1, 1999 and January 1, 2000. PBT receipts in 1999-2000 also reflect the impact of legislation enacted in 1996 that reduced tax rates on diesel motor fuel and fuels used for utilities, effective April 1, 1999.

Tax receipts in State Fiscal Year 2000-01 were \$16.4 million less than State Fiscal Year 1999-2000 mainly due to the economic slowdown and high fuel prices. However, tax receipts from residual fuel used by utilities were higher due to the decrease in the relative price of residual fuel compared to natural gas. Tax collections for State Fiscal Year 2000-01 also reflect the 5 percent decrease in PBT rates that took effect on January 1, 2000, and the 5 percent increase effective January 1, 2001.

Receipts for State Fiscal Year 2001-02 reflect about a two percent increase in gasoline consumption. Diesel consumption declined about 9 percent due to the economic slowdown. Aviation fuel consumption dropped more than 23 percent in the second half of the year due to the terrorist attack on the World Trade Center in New York City on September 11, 2001. Receipts from residual fuel used by utilities declined due to the warm winter. Collections also reflect the 5 percent increase in PBT rates effective January 1, 2001, another 5 percent increase effective January 1, 2002 and \$19.3 million from the carrier tax.

Receipts for State Fiscal Year 2002-03 reflect the more than two percent increase in gasoline consumption. Diesel consumption increased about 7 percent. Collections reflect the 5 percent increase in PBT rates effective January 1, 2002, and 5 percent decline effective January 1, 2003. Collections also include \$20.2 million from the carrier tax.

Receipts for State Fiscal Year 2003-04 reflect the 5 percent decline in PBT rates effective January 1, 2003, and the 5 percent increase effective January 1, 2004. Receipts from residual fuels used by utilities are increased due to the decrease in the relative price of residual fuel oil compared to natural gas. Collections also include \$19.9 million from the carrier tax.

Receipts for State Fiscal Year 2004-05 reflect the 5 percent increase in PBT rates effective January 1, 2004 and another 5 percent increase effective January 1, 2005. Collections also include \$21.9 million from the carrier tax.

Actual Revenues from Dedicated PBT. Actual receipts from the dedicated PBT since State Fiscal Year 1995-96 through State Fiscal Year 2004-05 are as set forth in the following table:

**MTTF Revenues from Petroleum Business Taxes
(in millions)**

State <u>Fiscal Year</u>	Dedicated Funds <u>Pool</u>	<u>MTTF Total(1)</u>	Related Entities' <u>Share of</u> <u>MTTF(2)</u>
1995-96	\$686.8	\$253.9	\$233.5
1996-97	720.7	266.7	245.0
1997-98	756.4	279.8	257.2
1998-99	814.8	301.5	277.0
1999-00	802.7	297.0	272.9
2000-01	776.7	287.4	264.1
2001-02	878.7	325.1	298.8
2002-03	901.7	333.6	306.6
2003-04	921.1	340.8	313.2
2004-05	950.2	351.6	323.1

(1) Represents 37% of the Dedicated Funds Pool.

(2) Represents 34% of the Dedicated Funds Pool.

Source: New York State Division of the Budget.

MTTF Receipts – Motor Fuel Tax

General. Motor fuel and diesel motor fuel taxes (“MFT”) are derived from an eight-cent-per-gallon excise tax levied with respect to gasoline and diesel motor fuels, generally for highway use. The aggregate rate of tax on gasoline was last changed on February 1, 1972, when it was increased from seven cents to eight cents per gallon. The aggregate rate of tax on diesel motor fuel was last changed on January 1, 1996, when it decreased from ten cents per gallon to eight cents per gallon.

Effective April 1, 2000, legislation enacted in 2000 earmarked 2.25 cents of the gasoline MFT and 4 cents of the diesel MFT to the Dedicated Funds Pool, of which 34% is deposited in the MTA Dedicated Tax Fund. Effective April 1, 2001, legislation enacted in 2000 earmarked an additional 2.25 cents of the diesel MFT to the PBT Dedicated Funds Pool, of which 34% is deposited in the MTA Dedicated Tax Fund.

Effective April 1, 2003, legislation adopted with the 2000-01 State Enacted Budget earmarked an additional 1.75 cents tax on gasoline and diesel motor fuels to the Dedicated Funds Pool.

Tax Imposition and Payment. The tax on motor fuel is payable by distributors registered with the State. The gasoline motor fuel tax is imposed when gasoline is imported (or caused to be imported) into the State for sale or use in the State, or manufactured in the State. Generally, the tax on other nondiesel motor fuels earmarked to the Dedicated Funds Pool (such as compressed natural gas, propane, methanol and ethanol) is remitted by the dealer selling them as motor fuels. The tax on diesel motor fuel is imposed on the first non-exempt sale of diesel in the State.

Most petroleum businesses remit these taxes on a monthly basis. Businesses with yearly MFT and PBT liability totaling more than \$5 million remit the PBT and MFT for the first 22 days of the month by electronic funds transfer by the third business day thereafter. Tax for the balance of the month is paid with the monthly returns filed by the 20th of the following month. In State Fiscal Year 2003-04, almost 87 percent of the MFT was paid by 25 taxpayers that participated in the electronic funds transfer program.

Although the tax is remitted by distributors, the incidence of the tax falls primarily on final users of the fuel on the highways and waterways of the State. Governmental purchases are exempt from the tax. Fuel purchased for certain road vehicles (such as fire trucks, buses used in local transit, taxicabs and ambulances), upon which the tax has been paid, may be eligible for full or partial reimbursement of the MFT. Reimbursement of the tax is also available for fuel not used on the highways (e.g., fuel used in farming).

Actual and Estimated Revenues from Dedicated Motor Fuel Taxes

**MTTF Revenues from Motor Fuel Tax
(\$ millions)**

<u>State Fiscal Year</u>	<u>MTTF Portion of Gasoline MFT(1)</u>	<u>MTTF portion of Diesel MFT(2)</u>	<u>MTTF Total(3)</u>	<u>Related Entities' Share of MTTF(4)</u>
2000-01	\$46.7	\$11.4	\$58.1	\$53.4
2001-02	44.9	16.9	61.8	56.7
2002-03	49.8	18.8	68.6	63.0
2003-04	85.6	19.5	105.1	96.6
2004-05	85.8	24.5	110.3	101.4

(1) From the gasoline motor fuel tax, effective April 1, 2000, 2.25 cents per gallon is paid to the Dedicated Funds Pool, and, effective April 1, 2003, 4 cents per gallon is paid to the Dedicated Funds Pool. The MTTF portion is 37% of the Dedicated Funds Pool deposit.

(2) From the diesel motor fuel tax, effective April 1, 2000, 4 cents per gallon is paid to the Dedicated Funds Pool, effective April 1, 2001, 6.25 cents per gallon is paid to the Dedicated Funds Pool, and effective April 1, 2003, 8 cents per gallon is paid to the Dedicated Funds Pool. The MTTF portion is 37% of the Dedicated Funds Pool deposit.

(3) Represents 37% of the Dedicated Funds Pool.

(4) Represents 34% of the Dedicated Funds Pool.

Source: New York State Division of the Budget.

Gasoline and diesel motor fuel tax receipts for State Fiscal Years 2002-03 through 2004-05 increased from the previous year as the economy recovered from the adverse impact of the 2001 terrorist attacks and the national recession. Gasoline motor fuel tax receipts for State Fiscal Years 2003-04 and 2004-05 reflect the additional 1.75 cents per gallon dedicated to the Dedicated Funds Pool.

MTTF Receipts – Motor Vehicle Fees

General. Motor vehicle fees are derived from a variety of sources, but consist mainly of vehicle registration and driver license fees. A percentage of State motor vehicle registration fees is earmarked to the MTA Dedicated Tax Fund. These motor vehicle fees derive from the registration of passenger vehicles, trucks, vans, motorcycles, trailers, semitrailers, buses and other types of vehicles operating on the public highways of the State.

The State Department of Motor Vehicles administers motor vehicle registration provisions of the State Vehicle and Traffic Law. County clerks in most counties act as agents for the State in administering the issuance of most types of motor vehicle registration. Motor vehicle registration renewals generally are accomplished by mail.

With the exception of buses, which are charged according to seating capacity, and semitrailers, which are currently registered at a flat fee of \$23, motor vehicle registration fees in the State are currently based on vehicle weight. Since July 1, 1998, passenger vehicles are registered at graduated annual rates of 64.5

cents per 100 pounds up to 3,500 pounds, and 97 cents for each 100 pounds over 3,500 pounds, with a maximum yearly registration fee of \$56.06. The yearly registration fee for trucks and light delivery vehicles is \$2.88 per 500 pounds of maximum gross weight. Tractors are registered at an annual fee of \$1.21 per 100 pounds of maximum gross weight. Motorcycles, snowmobiles, all-terrain vehicles, ambulances, trucks used exclusively in the transportation of household goods, and other specialized vehicles have separate registration fee schedules.

Legislation enacted in 1989 mandated biennial registration of all motor vehicles weighing less than 18,000 pounds. Thus, most motor vehicle registrations are issued and renewed for two-year periods; registrations are staggered evenly throughout the months to ensure an even workload.

Pursuant to legislation enacted in 2000, effective April 1, 2001, 23.5 percent of certain motor vehicle registration fees is deposited in the Dedicated Funds Pool. Effective April 1, 2002, that percentage increased to 54.5 percent. In addition, legislation enacted with the 2000-01 State Enacted Budget and effective April 1, 2003 directs the State Comptroller to deposit \$67.9 million in motor vehicle fees other than registration fees to the Dedicated Funds Pool. The MTA Dedicated Tax Fund will receive 34 percent of such revenues. The following table provides information related to the amount of motor vehicle fees dedicated to the MTTF.

**MTTF Revenues From Motor Vehicle Fees
(in millions)**

State Fiscal Year	Registration Fees	Other Fees	MTTF Total(1)	Related Entities' Share of MTTF(2)
2001-02	\$27.8	\$ -0-	\$ 27.8	\$ 25.5
2002-03	67.4	8.3	75.7	69.6
2003-04	79.5	25.1	104.6	96.1
2004-05	80.3	57.5	137.8	126.6

(1) Represents 37% of the Dedicated Funds Pool.

(2) Represents 34% of the Dedicated Funds Pool.

Source: New York State Division of the Budget.

MMTOA Account — Special Tax Supported Operating Subsidies

General. The Transit System and Commuter System have historically operated at a deficit and have been dependent upon substantial amounts of general operating subsidies from the State, as well as the City and Federal governments. Over time, the ongoing needs of State mass transportation systems led the State to supplement the general operating subsidies with additional operating subsidies supported by State special taxes.

Starting in 1980, in response to anticipated operating deficits of State mass transportation systems, the State Legislature enacted a series of taxes, portions of the proceeds of which have been and are to be deposited in a special State fund, the MTOA Fund, to fund the operations of mass transportation systems. The MMTOA Account was established in the MTOA Fund to fund the operating expenses of transportation systems in the Transportation District, including the Transit Authority, MaBSTOA and the commuter railroads operated by MTA. Payments from this Account are made to MTA and its affiliates periodically to the extent that: (i) appropriations are made by the Legislature, (ii) the State Director of the Budget certifies that the Account contains sufficient funds to make such payments, and (iii) State officials determine that the funds are necessary to finance operations of MTA and its affiliates and subsidiaries. Such payments are allocated among the various public transportation systems within the Transportation District in accordance with schedules as specified by such appropriations. Such payments to MTA are first deposited in the Pledged Amounts Account of the MTA Dedicated Tax Fund to meet the requirements of the DTF

Resolution and then any remaining amounts are transferred to the Operating and Capital Costs Account to be used to meet operating costs of the Transit System and SIRTOA and the Commuter System.

The table below summarizes the historical amounts appropriated and paid to MTA from the MMTOA Account (including investment income) for State Fiscal Years 1995-96 through 2004-05.

State Fiscal Year	MMTOA Account (in millions)	
	Appropriations to MTA(1)	Payments to MTA(2)
1995-96	\$673.4	\$673.4
1996-97	655.4	655.4
1997-98	719.8	689.8
1998-99	848.6	878.6
1999-00	907.2	818.6
2000-01	755.2	755.2
2001-02	755.2	755.2
2002-03	772.9	861.5
2003-04	730.9	730.9
2004-05	736.4	736.4

(1) Does not include \$128.0 million, \$141.6 million, \$155.1 million, \$155.1 million, \$155.1 million, \$155.1 million and \$155.1 million appropriated to MTA in State Fiscal Years 1995-96 through 2004-05, respectively, through the Section 18-b program; in all other years shown the Section 18-b program was funded from the State’s General Fund.

(2) Payments to MTA in certain years may be in excess of the amount appropriated for that year due to the payment in that year of amounts appropriated, but not paid, in prior years.

Source: New York State Division of the Budget.

Although a variety of taxes have been used to fund the special tax supported operating subsidies, the taxes levied for this purpose currently include the MMTOA PBT, the District Sales Tax, the Franchise Taxes and the Temporary Franchise Surcharge (MMTOA Taxes), all described in more detail below. State law gives State officials the authority to disburse funds to MTA from the MMTOA Account to the extent such officials determine that the funds are necessary to finance operations of the Transit System and SIRTOA and the Commuter System. Fluctuations in the economic and demographic conditions of the Transportation District are directly related to the growth of economically sensitive taxes, including the District Sales Tax and the Temporary Franchise Surcharge. Therefore, there can be no assurance that such taxes will generate tax receipts at current levels. If shortfalls are experienced in the collection of MMTOA Taxes, the Commissioner of Transportation is authorized to reduce each recipient’s payment from the MTOA Fund proportionately. MTA has historically received approximately 89 percent of such amounts deposited in the MMTOA Account.

MMTOA PBT

General. The products that are subject to the tax, the tax rates and the transactions excluded from such tax are identical to the basic PBT as described above under “MTTF Receipts – Dedicated Petroleum Business Tax” which is dedicated to the MTTF.

As described above in “MTTF Receipts--Dedicated Petroleum Business Tax”, legislation in 1994, 1995, 1996 and 1999 added new exemptions and credits and certain rate reductions with respect to the MMTOA PBT. To preserve dedicated funds revenue flow such legislation increased the share of the PBT basic tax earmarked to the MTOA Fund. As a result, the share of the PBT basic tax earmarked to the MMTOA Account increased from 9.735 percent to 10.230 percent, effective September 1, 1994; to 10.560 percent, effective September 1, 1995; to 10.615 percent, effective April 1, 1996; to 10.725 percent effective January 1, 1998; and to 10.835 percent effective April 1, 2001. However, legislation enacted in 1995

diverted excess MTOA Fund balances to the Revenue Accumulation Fund for deposit in the State's General Fund. As a result, an amount equivalent to the MMTOA PBT receipts deposited into the MMTOA Account in State Fiscal Year 1994-95 was deposited in the General Fund in State Fiscal Year 1995-96. In addition, during State Fiscal Year 1995-96 the MMTOA share of basic PBT receipts was deposited directly to the Revenue Accumulation Fund for deposit in the State's General Fund.

As described above in "MTTF Receipts--Dedicated Petroleum Business Tax", aspects relating to the imposition and collection of the MMTOA PBT have from time to time been and may continue to be the subject of administrative claims and litigation by taxpayers.

Historical Summary of MMTOA PBT. The following table provides historical information relating to MMTOA PBT receipts deposited into the MMTOA Account from State Fiscal Years 1995-96 through 2004-05.

MMTOA Petroleum Business Taxes	
<u>State Fiscal</u> <u>Year</u>	<u>Net Receipts</u> <u>(in millions)</u>
1995-96(1)	\$ 0.0
1996-97	58.1
1997-98	59.5
1998-99	63.8
1999-00	62.2
2000-01	60.4
2001-02	68.1
2002-03	66.3
2003-04	72.2
2004-05	74.2

(1) As described above, during State Fiscal Year 1995-96, the MMTOA PBT receipts were directed to the State's General Fund.

Source: New York State Division of the Budget.

District Sales Tax

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

District Sales Tax receipts have been a significant source of tax receipts deposited in the MMTOA Account. The level of District Sales Tax receipts is necessarily dependent upon economic and demographic conditions in the Transportation District, and therefore there can be no assurance that historical data with respect to collections of the District Sales Tax will be indicative of future receipts.

The base of the District Sales Tax is identical to the base of the State's 4 percent sales and compensating use tax. The tax now applies to (1) sales and use of most tangible personal property; (2) certain utility service billings; and (3) charges for restaurant meals, hotel and motel occupancy, and for specified admissions and services. The base of the tax has been amended periodically by the Legislature, with changes such as the following: inclusion of interstate printing and mail order businesses in 1989; inclusion of charges for interior decorating services and motor vehicle parking in 1990; inclusion of prewritten computer software in 1991; exemption for meteorological services in 1995; temporary exemptions for certain clothing and footwear in 1997, 1998 and 1999 and the first quarter of 2000; exemptions for college textbooks and certain computer system hardware in 1998; and expanded exemptions for equipment used to provide telecommunications services for sale in 1999.

Legislation enacted in 1997 and modified in 1998 and 1999 exempts clothing and footwear costing less than \$110 from the State sales and use tax on a year-round basis. Legislation enacted in 2003, 2004 and 2005 suspended the year-round exemption through March 31, 2007 and temporarily replaced it with two exemption weeks annually at the same \$110 threshold. Under these statutes, the District Sales Tax on such clothing and footwear is removed in those counties and cities that opt to exempt such items from local sales tax within their jurisdictions. Pursuant to the Tax Law, localities opting to remove their tax must reimburse the MMTOA Account for one-half of the foregone District Sales Tax revenue, while the State will provide the other half. Thus, the MMTOA Account is expected to be held harmless from the impact of the clothing and footwear exemption.

Administrative actions also have affected District Sales Tax revenues. Since December 1992, the State has required vendors with yearly State and local sales and use tax liability totaling more than \$5 million to remit tax for the first 22 days of the month by electronic funds transfer by the third business day thereafter. Tax for the balance of the month is paid with the monthly returns filed by the 20th day of the following month. District Sales Tax receipts benefited from this change in the method of sales tax payment by \$4.5 million in the State's 1992-93 Fiscal Year. Legislation in 1994, 1995 and 2002 expanded the electronic funds transfer program by lowering the threshold of participation from \$5 million to \$4 million, from \$4 million to \$1 million, and from \$1 million to \$500,000, respectively. In State Fiscal Years 1994-95, 1995-96 and 2002-03, District Sales Tax receipts received a small one-time benefit from such legislation.

During the middle of State Fiscal Year 1995-96, the method of depositing monthly District Sales Tax receipts to the MMTOA Account was modified. As a result, District Sales Tax Receipts in State Fiscal Year 1995-96 include a one-time increase of \$20 million that reflects the early deposit of estimated portions of monthly receipts that historically have been deposited to the MMTOA Account in the following month.

Historical Summary of District Sales Tax. The following table provides historical information relating to District Sales Tax receipts deposited into the MMTOA Account from State Fiscal Years 1995-96 through 2004-05.

District Sales Tax (in millions)			
State <u>Fiscal Year</u>	Net <u>Receipts</u>	Held Harmless <u>Amount</u>	<u>Total</u>
1995-96	\$293.2	-0-	\$293.2
1996-97	289.1	-0-	289.1
1997-98	305.9	-0-	305.9
1998-99	321.4	-0-	321.4
1999-00	345.6	-0-	345.6
2000-01	368.2	10.8	379.0
2001-02	364.7	13.9	378.6
2002-03	361.9	23.8	385.7
2003-04	399.3	15.4	414.7
2004-05	428.9	3.2	432.1

Source: New York State Division of the Budget.

Franchise Taxes

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

State Tax Law formerly required that 40 percent of the monies collected from such taxes be deposited in the MMTOA Account. For State Fiscal Year 1996-97, 48 percent of such monies were required to be so deposited. The percentage of such deposit increased to 54 percent in calendar years 1998 and 1999, 64 percent in 2000, and to 80 percent thereafter. These changes were made to preserve the dedicated funds revenue flow subsequent to changes enacted in 1995 reducing the base of the gross earnings tax and enacted in 1996 and 1997 reducing the tax rates. Other legislation enacted in 1995 diverted excess MTOA Fund balances to the Revenue Accumulation Fund for deposit in the State's General Fund. As a result, an amount equivalent to 34.4 percent of such Franchise Taxes collected in State Fiscal Years 1994-95 and 1995-96 was so diverted to the General Fund in State Fiscal Year 1995-96; in 1995-1996 such amount was deposited directly to the Revenue Accumulation Fund.

Historical Summary of the Franchise Taxes. The following table provides historical information relating to the portion of Franchise Tax receipts deposited into the MMTOA Account from State Fiscal Years 1995-96 through 2004-05. Receipts for 1996-97 were lower than recent trends would indicate due to accounting adjustments made in 1996. Legislation exempting non-local telephone companies from Section 184 was passed in July 1995 effective for calendar year 1995. Non-local telephone companies had already remitted their payments on the Franchise Taxes in March and June of 1995 prior to the enactment. Such monies not owed for the Franchise Taxes in 1995 were therefore credited to the companies' Section 186-e excise tax accounts. This crediting occurred in July and August, 1996. A one-time election to remain under the taxes imposed on trucking and railroad companies was enacted in 1996 for elections made before March 15, 1998. Companies not electing to remain under Sections 183 and 184 were taxed under the general corporate franchise tax. As part of the same legislation, the Section 184 rate was reduced from 0.75 percent to 0.6 percent on gross earnings. The MMTOA revenue distribution was held harmless. Additional rate reductions occurred beginning in 1998 but do not affect MMTOA.

**Franchise Taxes
(in millions)**

<u>State Fiscal Year</u>	<u>Net Receipts(1)</u>
1995-96	\$ 9.2
1996-97	51.8
1997-98	73.1
1998-99	64.9
1999-00	70.5
2000-01	70.1
2001-02	82.9
2002-03	71.1
2003-04	57.4
2004-05	64.5

(1) As noted above, an amount equivalent to 34.4% of the Franchise Taxes collected in State Fiscal Year 1995-96 was directed to the State's General Fund in State Fiscal Year 1995-96.

Source: New York State Division of the Budget.

Temporary Franchise Surcharge

General. The Temporary Franchise Surcharge is imposed on the portion of the franchise and other taxes of certain corporations, banks and insurance, utility, transportation and transmission companies attributable (according to various complex formulae) to business activity carried on within the Transportation District. This surcharge, originally imposed in 1982, is currently scheduled to expire at the end of the last fiscal year of such entities ending prior to December 31, 2009; thus for calendar-year taxpayers no payments for 2009 will be due in 2009 unless the surcharge is further extended by the State Legislature. In accordance with Section 171-a of the State Tax Law, the tax revenue generated under these provisions, after the deduction of administrative costs, is to be deposited to the MMTOA Account, as such taxes are received.

Aspects relating to the imposition and collection of the Temporary Franchise Surcharge have from time to time been, are currently and may continue to be the subject of administrative claims and litigation by taxpayers. The financial impact of such challenges commenced to date has not been and is not expected to be material.

Historical Summary of the Temporary Franchise Surcharge. The following table provides historical information relating to the Temporary Franchise Surcharge receipts deposited into the MMTOA Account from State Fiscal Years 1995-96 through 2004-05.

**Temporary Franchise Surcharges
(in millions)**

<u>State Fiscal Year</u>	<u>Net Receipts</u>
1995-96	\$518.3
1996-97	560.2
1997-98	600.8
1998-99	547.0
1999-00	586.9
2000-01	563.2
2001-02	483.4
2002-03	509.5
2003-04	484.2
2004-05	571.4

Source: New York State Division of the Budget.

STATE SERVICE CONTRACT BONDS

There are \$2,353,925,000 aggregate principal amount of outstanding State Service Contract Bonds. The following **SSC Table 1** sets forth, on a cash basis, the debt service thereon.

SSC Table 1
Aggregate Debt Service

Year Ending <u>January 1</u>	Aggregate <u>Debt Service(1)</u>
2006	\$164,997,064
2007	164,991,420
2008	164,991,895
2009	164,993,993
2010	164,992,940
2011	164,997,453
2012	164,991,756
2013	164,992,223
2014	164,996,620
2015	164,995,778
2016	164,991,298
2017	164,996,998
2018	164,995,635
2019	164,996,885
2020	164,993,948
2021	164,992,873
2022	164,997,735
2023	164,992,360
2024	164,994,041
2025	164,996,685
2026	164,996,276
2027	164,992,085
2028	164,993,807
2029	164,997,894
2030	164,993,016
2031	164,993,335
2032(2)	<u>82,497,811</u>
Total	<u>\$4,372,353,822</u>

(1) Totals may not add due to rounding.

(2) Includes final debt service payment on July 1, 2031.

Sources of Payment – General

MTA has entered into a service contract, dated as of May 15, 2002, called the “State Service Contract,” with the State of New York, acting by and through the Director of the Budget of the State, pursuant to the State Service Contract Legislation, comprised of Section 16 of Chapter 314 of the Laws of 1981, Section 42 of Chapter 929 of the Laws of 1986, and Section 34 of Part O of Chapter 61 of the Laws of 2000.

MTA has filed a copy of the State Service Contract and summaries of certain provisions of the State Service Contract Resolution, including certain defined terms used therein, with the NRMSIRS identified under “TRANSPORTATION REVENUE BONDS – General.”

In addition, copies of the summaries and the State Service Contract can be obtained on MTA’s website (www.mta.info) under “MTA Home – Investor Information” or from the MTA Finance Department at 347 Madison Avenue, New York, New York 10017.

Capitalized terms used under this caption “STATE SERVICE CONTRACT BONDS” not otherwise defined herein have the meanings set forth in the State Service Contract Resolution.

The State Service Contract Legislation authorizes the Director of the Budget, acting on behalf of the State, to enter into a long-term service contract with MTA for the purposes of financing and refinancing transportation facilities, as defined in subdivision 14 of Section 1261 of the Public Authorities Law, as well as refunding obligations issued by MTA and its affiliates.

Under the State Service Contract, in consideration of MTA’s undertaking various transportation projects for the benefit of the people of the State, the State agrees to make annual payments to MTA over a period of years, with the obligation of the State subject in each year to the making of annual appropriations by the State Legislature.

The State Service Contract Legislation authorizes MTA to pledge, and assign the annual payments to be made by the State as security for obligations which have been designated “State Service Contract Bonds” issued for the following purposes:

- to finance and refinance transportation projects;
- to refund obligations issued by MTA or any affiliate; and
- to refund obligations secured in whole or in part by any or all of the prior State service contracts authorized by the State Service Contract Legislation.

Conditions in the State Service Contract

MTA may only issue State Service Contract Bonds subject to the following conditions and limitations:

- no State Service Contract Bond shall mature later than the Expiration Date of the State Service Contract, currently July 1, 2031;
- the aggregate amount of debt service on all State Service Contract Bonds (plus debt service amounts on all Old State Service Contract Bonds) shall not exceed, in any State fiscal year, \$165,000,000; and
- no State Service Contract Bond (other than a refunding Bond) shall be issued after March 31, 2003.

The aggregate debt service on the outstanding State Service Contract Bonds has exhausted MTA’s current capacity under the State Service Contract to issue additional bonds (other than refunding bonds).

Concluding on the Expiration Date, the State is required to pay to MTA, on or before the Business Day next preceding each January 1 and July 1 of each calendar year, an amount equal to the current year's debt service on all State Service Contract Bonds in two substantially equal semi-annual installments.

Nature of State's Obligation to Make State Service Contract Payments

Notwithstanding anything in the State Service Contract to the contrary,

- the obligation of the State to pay the amounts therein provided for is subject to annual appropriation by the State Legislature,
- the obligation of the State to pay the amounts therein provided for shall not constitute a debt of the State within the meaning of any constitutional or statutory provision and shall be deemed executory only to the extent of monies available and no liability shall be incurred by the State beyond the monies available for the purpose, and
- the State Legislature is not obligated to make appropriations to satisfy the State's obligations under the State Service Contract and there can be no assurance that the State Legislature will make any such appropriations.

Subject to the foregoing, the State's obligation to make the payments provided for in the State Service Contract is absolute and unconditional, without any rights of set-off, recoupment or counterclaim the State may have against MTA or any other person or entity having an interest in the State Service Contract or the payments made under the State Service Contract.

The State Legislature has appropriated and the State has made all of the payments required to date under contracts relating to the Old State Service Contract Bonds.

Pledge Effected by the State Service Contract Bond Resolution

The "Trust Estate" – which consists primarily of all payments made to MTA by the State under the State Service Contract and the proceeds of the State Service Contract Bonds – is pledged for the payment of the principal and Redemption Price of, interest on, and Sinking Fund Installments for, the State Service Contract Bonds, in accordance with their terms and the provisions of the State Service Contract Resolution, subject only to the provisions of that resolution permitting the application thereof for the purposes and on the terms and conditions set forth in that resolution.

The pledge of the Trust Estate in all respects secures on a *pari passu* basis all of the State Service Contract Bonds, and the Trust Estate is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the State Service Contract Resolution, and all corporate action on the part of MTA to that end has been duly and validly taken.

The State Service Contract Bond Resolution establishes –

- the State Service Contract Proceeds Fund, which MTA holds and administers, and
- the State Service Contract Debt Service Fund, which the Trustee holds and administers.

Amounts held at any time by MTA or the Trustee in either of those Funds shall be held in trust separate and apart from all other funds.

Proceeds Fund. MTA is required to deposit, upon receipt, into the State Service Contract Proceeds Fund, the proceeds of the sale of State Service Contract Bonds as provided for in a supplemental resolution. Amounts in any account or sub-account of the State Service Contract Proceeds Fund are required to be applied to the payment of Capital Costs.

Debt Service Fund. MTA is required to deposit each State Service Contract Payment, upon receipt or on the next succeeding business day, into the State Service Contract Debt Service Fund. In addition,

amounts remaining in the State Service Contract Proceeds Fund after the payment of Capital Costs and not applied to pay such Capital Costs are required to be deposited in the State Service Contract Debt Service Fund. If, on the business day next preceding a Debt Service Payment Date, the amount in the State Service Contract Debt Service Fund is less than the Debt Service payable on that date, then MTA is required to apply amounts from the State Service Contract Proceeds Fund to the extent necessary to make up the deficiency. Amounts in the Debt Service Fund will be used to make debt service payments on the State Service Contract Bonds.

Agreement with the State

The MTA Act prohibits MTA from filing a petition in bankruptcy under Chapter 9 of the Federal Bankruptcy Code or such successor chapters or sections as may from time to time be in effect and the State has pledged that so long as any notes, bonds or lease obligations of MTA are outstanding, it will not limit or alter the denial of authority to MTA to so file.

Under the MTA Act, the State pledges to and agrees with the holders of any notes, bonds or lease obligations issued or incurred by MTA, including the State Service Contract Bonds, that the State will not limit or alter the rights vested in MTA (which do not include the right to an appropriation of debt service from the State) to fulfill the terms of any agreements made by MTA with the holders of its notes, bonds and lease obligations, including the State Service Contract Bonds, or in any way impair the rights and remedies of such holders.

**PART 5. REGULATORY, EMPLOYMENT, INSURANCE
AND LITIGATION MATTERS**

FEDERAL AND STATE LAWS

General

Federal and State laws concerning, among other things, protection of the environment and access to transportation and non-transportation facilities by the physically disabled will require future operating and capital expenditures by the Related Entities. Those expenditures are material. Many of the capital projects are being funded through the Transit and Commuter capital programs.

Future Federal and State laws and regulations concerning the environment and access by the physically disabled could subject the Related Entities to additional operating and capital costs, which costs may be material.

Transit System

Environmental. The Transit Authority is currently the subject of a cleanup consent decree with a State governmental entity. Approved Transit Capital Programs include capital expenditures to replace underground storage tanks in accordance with the decree.

The Transit Authority has received approval from the Federal Transportation Administration to meet the requirement to provide certain alterations for access by persons with disabilities over a twenty-year period. The Transit Authority is also subject to certain provisions of the State Public Buildings Law (the "Public Buildings Law") relating to facilities for the physically disabled, under which its key station accessibility requirements under the Americans with Disabilities Act ("ADA") and the Public Buildings Law are extended to 2020.

Commuter System

Environmental. LIRR and MNCRC are required to file annual reports with the State Department of Environmental Conservation ("NYSDEC") identifying areas of environmental concern. LIRR and MNCRC have each incurred and will continue to incur costs of asbestos abatement and lead paint removal on their respective properties. The Commuter Capital Programs allocate funds for, among other matters, asbestos abatement, costs of fuel handling and storage, and wastewater treatment and other environmental remediation. LIRR and MNCRC each are required to clean up various conditions on properties they own, and each has established reserves for the clean-up costs. LIRR has completed interim remediation on up to 20 substations for mercury contamination due to the utilization of mercury rectifiers that were removed during the 1970's, with further remediation having been completed at certain of those sites and plans for remediation having been finalized at others. State and Federal environmental agencies are currently investigating the presence of pollutants at certain LIRR and MNCRC facilities. The extent of pollution, the cost of clean-up and LIRR's and MNCRC's liability, if any, which may be material, cannot be determined at this time.

Access by Physically Disabled. LIRR and MNCRC are in substantial compliance with ADA requirements.

TBTA Bridges and Tunnels

Environmental. TBTA's capital program incorporates the removal and clean-up of lead paint on its bridges and tunnels in compliance with Federal, State and local laws, codes and regulations.

Bridge Inspections. The New York State Department of Transportation ("NYSDOT") maintains a program of comprehensive bridge management, maintenance and inspection applicable to TBTA's bridges. That program includes the uniform code of bridge inspection, which:

- meets or exceeds applicable Federal law,

- requires that bridges be inspected at least every two years in accordance with the provisions of that code,
- prescribes qualifications for licensed professional engineers who inspect bridges, and
- requires that all bridge inspections be performed or supervised by such persons.

Bridge inspection and maintenance reports must be filed with NYSDOT and NYSDOT may close bridges found unsafe for public use. TBTA is in compliance with the NYSDOT program.

TBTA regularly reviews its facility maintenance programs, both remedial and preventive, and believes the same to be of high quality. TBTA intends to continue its comprehensive inspection and maintenance programs for the TBTA Facilities and to continue to engage independent engineering firms to provide biennial inspections of its bridge facilities and periodic inspections of its tunnel facilities. TBTA's independent engineers, URS Corporation – New York, have reviewed the inspection reports of the bridges and tunnels undertaken by TBTA's engineering consultants. Their report thereon entitled "History and Projection of Traffic, Toll Revenues and Expenses and Review of Physical Conditions of the Facilities of Triborough Bridge and Tunnel Authority," dated April 29, 2005, is attached to the Continuing Disclosure Filings and has also been posted on the MTA website under "MTA Home – Investor Information." The URS Study is included by specific cross-reference herein.

EMPLOYEES, LABOR RELATIONS AND PENSION OBLIGATIONS

General

The transportation services provided by the Related Entities, as well as related maintenance and support services, are labor intensive. Consequently, the major portion of the Related Entities' expenses consists of the costs of salaries, wages and fringe benefits for employees.

As public employees, the employees of TBTA, the Transit Authority, MaBSTOA, MTA Capital Construction, SIRTOA, MSBA and MTA Bus are prohibited by State law from striking. There have been no labor stoppages at TBTA since 1976 or at the Transit Authority and MaBSTOA since 1980. The employees of LIRR and MNCRC are not subject to the same State prohibition, but are governed by Federal railroad employment statutes.

Transit System

As of December 31, 2004, the Transit Authority had 39,375 employees (full and part time), 36,197 of whom were represented by 20 different unions. The Transit Authority has a contract with the TWU, which represents 76% of the represented employees, through December 14, 2005.

As of December 31, 2004, MaBSTOA had 7,807 employees (full and part time), 5,917 of whom were represented by 10 different unions. MaBSTOA has a contract with the TWU, which represents 85% of the represented employees, through December 14, 2005.

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

Employees of the Transit Authority are members of the New York City Employees Retirement System ("NYCERS"). Employees of MaBSTOA have a separately funded pension plan that offers benefits similar to NYCERS. The MaBSTOA pension plan has a substantial unfunded accrued actuarial liability. The Transit Authority and MaBSTOA are required to make significant annual contributions to the respective plans on a current basis. See Footnote 6 to the Consolidated Financial Statements of the Transit Authority.

Commuter System

As of December 31, 2004, LIRR had 6,318 employees, 5,618 of whom were represented by 11 different unions. For the period 2003-2006, LIRR has reached agreement with substantially all of its represented work force, and is currently in negotiations with the remaining unions.

As of December 31, 2004, MNCRC had 5,871 employees, 4,782 of whom were represented by 18 different unions with a total of 22 different bargaining units. For the period 2003-2006, MNCRC and 6 unions representing approximately 1,407 employees reached agreement. MTA is currently in negotiations with the remaining 12 unions with respect to successor agreements.

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

TBTA

As of December 31, 2004, TBTA had 1,814 employees, 1,391 of whom were represented by four different unions. The Bridge and Tunnel Officers Benevolent Association collective bargaining agreement covering 796 employees expires on March 1, 2006, the Local 1931 collective bargaining agreement covering 304 employees expires on July 14, 2006, and the Local 1655 collective bargaining agreement covering 125 employees expires on June 30, 2005. The Superior Officers Benevolent Association collective bargaining agreement covering the remaining 166 represented employees expired on December 14, 2002, but the terms of the agreement remain in effect by operation of law until a successor agreement is concluded or an award in arbitration has been rendered.

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

SIRTOA

As of December 31, 2004, SIRTOA had 297 employees, 265 of whom were represented by four different unions. The UTU (covering the majority of the represented employees), the TCU (covering all clerical staff, tower operators, station agents and janitors), and the ATDD (representing the train dispatchers) have signed contracts through December 31, 2006. The Police Department employees have not yet signed a contract with SIRTOA.

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

Employees of SIRTOA have their own separately funded pension plan that offers benefits similar to NYCERS. SIRTOA is required to make annual contributions to the plan on a current basis.

MSBA

As of December 31, 2004, MSBA had 1,132 employees, 954 of whom were represented by either TWU Local 252 or the Subway Surface Supervisors Association ("SSSA"). The most recent collective bargaining agreement with TWU Local 252 will expire on December 15, 2005 and the agreement with SSSA expired on April 7, 2003. There is also a small group of paratransit workers that are represented by TWU Local 252 under a separate contract that expired on April 15, 2003.

Employees of MSBA hired on or before January 23, 1983 are members of the MTA Defined Benefit Pension Plan. In 1999, the former MSBA retirement plan was merged with and into the MTA Defined Benefit Pension Plan. At the time of the merger, the MSBA Plan was fully funded and closed to new employees. In addition, the fund had a surplus that was also merged into the MTA Defined Benefit Pension Plan. Since the merger, the MTA Plan has not required MSBA to make any additional contributions.

Employees of MSBA hired after January 23, 1983 are members of the New York State Employees Retirement System. MSBA is required to make significant annual contributions to the plan on a current basis.

INSURANCE

Property Insurance

- MTA's captive insurance company subsidiary, First Mutual Transportation Assurance Company ("FMTAC"), directly insures property damage claims of the Related Entities in excess of a \$25 million per occurrence self-insurance retention, subject to an annual \$75 million aggregate. The aggregate limitation has been increased \$1.25 billion per occurrence covering property of the Related Entities collectively.
- The property insurance, which is subject to annual renewal on October 31, provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverages.
- With the exception of acts of terrorism (both domestic and foreign), FMTAC is reinsured in the domestic, London and European marketplace, for this coverage.
- With respect to acts of international terrorism covered by the Terrorism Risk Insurance Act of 2002 ("TRIA"), FMTAC is reinsured by the United States for 90% of losses, subject to an annual cap on all losses payable under TRIA of \$100 billion. The remaining 10% of MTA losses would be covered under an additional policy described in the next paragraph.
- With respect to acts of terrorism not covered by TRIA, MTA obtained an additional commercial reinsurance policy that provides coverage against all acts of terrorism in an amount of up to \$125 million per occurrence (subject to the \$25 million per occurrence self-insurance retention). In the event the occurrence is covered by TRIA, the coverage afforded by the additional policy provides for the payment of FMTAC's 10% retention not covered by TRIA subject to a maximum recovery of \$97.5 million.

Liability Insurance

Financial Statement Accruals for Estimated Liabilities. The Related Entities provide accruals in their financial statements for their estimated liability for claims by third parties for personal injury arising from, among other things, bodily injury (including death), false arrest, malicious prosecution, libel and slander, for property damage for which they may be liable as a result of their operations and advertising offense, including defamation, invasion of right of privacy, piracy, unfair competition and idea misappropriation. Each year, each of the Related Entities additionally budgets an amount that it projects will be sufficient to pay for judgments and claims during that year. However, except in special circumstances, cash reserves are not generally established in an amount equal to the full amount of the accrual.

Liability Insurance. FMTAC provides a \$50 million per occurrence liability policy, subject to designated self-insured retentions by each of the Related Entities and further subject to the assets available (\$80.7 million as of December 31, 2004). The following are the current self-insured retentions by the Related Entities.

<u>Related Entity</u>	<u>Self-Insured Retention</u>
Transit Authority, MaBSTOA, SIRTOA, LIRR, MNCRC and MTA Bus	\$7,000,000
MSBA	2,000,000
TBTA and MTA Headquarters	1,400,000

The following two cases could result in payments under this liability policy in excess of agency retentions:

- Cruz v. LIRR – This is an action by a LIRR employee under the Federal Employers Liability Act that resulted in a verdict of approximately \$30 million, including \$28 million for pain and suffering. By Decision & Order dated April 11, 2005, the Appellate Division reduced the verdict to \$10,980,374 plus interest of approximately \$900,000. Plaintiff will have thirty (30) days from service of the Decision & Order upon him (which has not yet occurred) to accept this reduction. If he does not, a new damages trial (limited to the issue of pain and suffering) will be held. LIRR intends to seek permission to reargue its appeal before the Appellate Division or, alternatively, to be granted leave to appeal to the Court of Appeals. In the event LIRR is unsuccessful and the reduction is accepted by plaintiff, FMTAC would be liable for the excess over \$6 million, which was LIRR’s retention at the time of the event.
- Huang v. NYCTA – This is an action by a woman that was struck by a subway train that resulted in a verdict of \$28.5 million. The verdict was rendered in October 2004, but the judgment has not yet been entered. The Transit Authority expects to appeal once the judgment is entered. FMTAC would be liable for the excess over \$7 million, which was the Transit Authority’s retention at the time of the event.

Excess Liability Insurance. An Excess Liability Insurance Policy has been purchased from independent insurance companies to cover the Related Entities. This coverage affords \$250 million in additional limits above the FMTAC policy to give a total limit of \$300 million (\$250 million excess of \$50 million). Additionally, in the event the FMTAC issued policy is exhausted due to claims payments, the excess liability insurance (\$250 million) would drop down and be excess over the respective agency retentions.

Additional Coverage through Captive Insurance Company

FMTAC currently provides the following additional insurance and reinsurance programs:

- *All-Agency Protective Liability Program.* The All-Agency Protective Liability Program (“AAPL”) was renewed for one year effective June 1, 2004. This policy provides coverage for the Related Entities against claims arising out of work performed by contractors on capital construction projects in the State. The policy provides coverage of \$2 million per occurrence, with a \$4 million annual aggregate.
- *All-Agency Protective Excess Liability Program.* The All-Agency Protective Excess Liability Program was renewed for one year effective June 1, 2004. This policy provides excess coverage for the Related Entities on top of the AAPL. The policy provides coverage of \$5 million excess of \$2 million per occurrence, with a \$10 million annual aggregate. Any excess is covered by FMTAC’s liability policy.
- *Station Liability Insurance coverage provided for LIRR and MNCRC.* The station liability policies were renewed for one year effective December 15, 2004. These policies cover third party liability, bodily injury and property damage and personal injury at passenger stations, including moving train hazards while confined to station area, and includes elevators, escalators, platforms, appurtenances, land, approaches and parking lots. These policies insure the first \$7 million per occurrence. The excess is covered by FMTAC’s liability policy.
- *Force Account Insurance coverage provided for LIRR and MNCRC.* The force account policies cover third party liability, physical damage and medical payments on force account work (i.e., employees of the commuter railroads in the course of doing work for the benefit of the Related Entities) reimbursed by others. These policies insure the first \$7 million per occurrence. The excess is covered by FMTAC’s liability policy.

- *Owner Controlled Insurance Programs (“OCIPs”)*. In OCIPs, the Related Entities provide for certain insurance coverage through FMTAC applicable to contractors and sub-contractors on their capital programs, which is expected to be more economical to the Related Entities than reimbursing the individual contractors and sub-contractors for obtaining their own insurance. FMTAC holds monies and/or collateral required in connection with the following active OCIPs:
 - Transit Authority Station, Escalators and Elevators (2000-2004 Program)
 - Transit Authority Line Structures, Shops, Yards and Depots (1999 Program)
 - Transit Authority Line Structures, Shops, Yards and Depots (2000-2004 Program)
 - LIRR East Side Access
 - LIRR and MNCRC 2000-2004 Capital Programs

- *Transit Authority Paratransit Program*. This policy provides automobile liability coverage for all vendors hired to perform services on behalf of the Transit Authority’s paratransit Access-A-Ride program. Discover P&C (a/k/a Discover Re) provides an insurance policy with limits of liability of \$3 million per occurrence, subject to a \$500,000 deductible. FMTAC issued a deductible buy-back policy covering the liability under the \$500,000 deductible. FMTAC purchased a commercial reinsurance policy for \$250,000 excess of \$250,000 each accident.

- *MTA Non-Revenue Auto Liability*. This program covers vehicles of LIRR, MNCRC, SIRTOA, MTA Police, the MTA Inspector General, MTA Headquarters and MSBA. Discover P&C issued an auto liability policy to the above entities with a \$7 million per occurrence combined single limit and a \$500,000 deductible for each accident, with the exception of MSBA which is subject to a \$2 million per occurrence combined single limit and a \$500,000 deductible for each accident as of March 1, 2005. FMTAC issued a deductible buy-back policy to the insured agencies covering their liability within the deductible.

- *MTA Premises Liability*. This policy covers the premises liability of MTA at a number of buildings in the City. The policy provides a limit of \$1 million per occurrence.

LITIGATION

General

The Related Entities maintain extensive property, liability, station liability, force account, construction and other insurance as generally described above in this Part 5 under “INSURANCE.” Many of the claims for money damages described below may be fully or substantially covered by insurance, subject to the individual agency retention set forth under “INSURANCE.” Each of the Related Entities also establishes reserves against current and future claims.

MTA

In the Matter of Nicholas Casale v. MTA, et al. In May 2003, the MTA discharged petitioner, the Deputy Director of Security, as well as the Director of Security, Louis Anemone. Thereafter, each submitted identical notices of claim demanding damages of \$10 million. On September 5, 2003, petitioner commenced an Article 78 proceeding in New York State Supreme Court against MTA, claiming that his dismissal was defamatory, that he was deprived of his liberty right to clear his name, and that his dismissal was arbitrary, capricious and contrary to law. He sought his attorney fees, back pay and other unspecified damages provided by law. On April 7, 2005, the Court granted petitioner’s motion to amend the petition to add claims arising under Federal law and granted petitioner’s request for a name-clearing hearing. The Court also granted a hearing on petitioner’s claim that he had been wrongfully discharged. MTA cannot determine the probable outcome of the litigation at this time.

In the Matter of Louis Anemone v. MTA, et al. In May 2003, the MTA discharged plaintiff, the Director of Security, as well as the Deputy Director of Security, Nicholas Casale. Thereafter, each submitted identical notices of claim demanding damages of \$10 million. In March 2005, the Director of Security filed a civil rights action in the United States District Court for the Southern District of New York, alleging retaliation and due process violations, and seeking unspecified compensatory and punitive damages. Defendants will answer the complaint by setting forth various factual and legal defenses to the allegations. It is not possible at this time to make a meaningful evaluation of the likelihood of an unfavorable outcome or to provide a meaningful estimate of the amount or range of possible loss, if any.

West Side Development. There are a number of actions that have been filed against the MTA and others relating to the development of the far west side of Manhattan. Those claims are summarized herein under “FINANCIAL PLANS AND CAPITAL PROGRAMS – Non-Capital Program Projects – *West Side Development.*”

Actions for Personal Injuries. There are numerous actions pending against MTA claiming personal injuries under the Federal Employers’ Liability Act (“FELA”) for injuries sustained while on duty, wrongful dismissal and other torts. MTA is in the process of establishing reserves for judgments and claims on the basis of independent actuarial estimates of future liability.

Transit System

Actions for Personal Injuries. As of December 31, 2004, the Transit Authority and MaBSTOA had an active inventory of approximately 9,000 personal injury cases arising out of the operation and administration of the Transit System. The Transit Authority and MaBSTOA establish reserves for judgments and claims on the basis of independent actuarial estimates of future liability.

Workers’ Compensation. The Transit Authority and MaBSTOA receive approximately 3,000 new workers’ compensation claims annually. Reserves are maintained with respect to projected costs of these claims as well as present and future liabilities arising from claims from prior years.

Actions Relating to the Transit Capital Program. The Transit Authority has received claims from several contractors engaged in work on various capital program projects. The aggregate amount demanded by all such claimants, if recovered in full, could result in an increase in the cost of the capital projects that are the subject of such disputes. The capital program contemplates the payment of such claims from project-specific and general program contingency funds.

Commuter System

Actions for Personal Injuries. LIRR and MNCRC are involved in numerous claims, lawsuits and administrative proceedings arising out of the operation and administration of the Commuter System. Most of these LIRR and MNCRC lawsuits are personal injury claims. LIRR and MNCRC establish reserves for judgments and claims on the basis of actuarial estimates of future liability based on historical information.

Actions Relating to the Commuter Capital Program. From time to time, LIRR and MNCRC receive claims relating to various Capital Program projects. In general, the aggregate amount demanded by all such claimants, if recovered in full, could result in a material increase in the cost of the capital projects that are the subject of such disputes. The capital program contemplates the payment of such claims from project-specific and general program contingency funds.

TBTA

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

Actions Relating to TBTA Capital Program. From time to time, TBTA receives claims relating to various Capital Program projects. In general, the aggregate amount demanded by all such claimants, if recovered in full, could result in a material increase in the cost of the capital projects that are the subject of such disputes. The capital program contemplates the payment of such claims from project-specific and general program contingency funds.