

THE RELATED ENTITIES

This Appendix A is dated April 26, 2007 and contains information only through that date (or the specific earlier dates noted herein, such as year-end December 31, 2006 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 on its website at www.mta.info/mta/investor/index.html, (3) as part of its quarterly financial statement reports, or (4) in connection with its periodic issuance of bonds, notes and other obligations. MTA retains the right to update and supplement specific information contained herein as events warrant.

MTA has 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.dacbond.com). DAC has contracted to email copies of the information that the Related Entities file with DAC to any person who registers with DAC in the manner set forth on its website.

All of the information (1) set forth in revised Continuing Disclosure Filings, (2) contained in quarterly financial statement reports, (3) posted on the MTA website at www.mta.info/mta/investor/index.html, and (4) filed with DAC is included herein by specific cross-reference. Such information is accurate as of its respective date.

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 paragraphs, 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.

APPENDIX A
Table of Contents

Page A

PART 1. BUSINESS.....	1
THE RELATED ENTITIES	2
Legal Status and Public Purpose.....	2
Use of Popular Names	3
Governance	3
Facilities and Operations	3
Financial Operations	5
Management	8
PART 2. OPERATIONS.....	10
TRANSIT SYSTEM	11
Legal Status and Public Purpose.....	11
Management	11
History of the Transit System.....	12
Description of the Transit System.....	13
Relationships with the State, the City and the Federal Government.....	13
COMMUTER SYSTEM	15
Legal Status and Public Purpose.....	15
Management	15
Description of the Commuter System	16
Relationships with the State, Certain Local Governments and the Federal Government	16
TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY	18
Legal Status and Public Purpose.....	18
Management	18
MTA Bridges and Tunnels Facilities	19
Authorized Projects of MTA Bridges and Tunnels	20
MTA CAPITAL CONSTRUCTION COMPANY	21
Legal Status and Public Purpose.....	21
Management	21
East Side Access	21
Second Avenue Subway	23
No. 7 Subway Line Extension.....	24
Lower Manhattan Projects: Fulton Street Transit Center and South Ferry Terminal	24

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY.....	28
Legal Status and Public Purpose.....	28
Management	28
METROPOLITAN SUBURBAN BUS AUTHORITY.....	29
Legal Status and Public Purpose.....	29
Management	29
MTA BUS COMPANY.....	30
Legal Status and Public Purpose.....	30
Description of the MTA Bus System.....	30
Management	30
PART 3. STATISTICAL AND FINANCIAL INFORMATION.....	32
RIDERSHIP AND FACILITIES USE.....	33
Transit System (MTA New York City Transit and MaBSTOA) Ridership	33
Commuter System Ridership	40
MTA Bridges and Tunnels – Total Revenue Vehicles.....	44
Toll Rates	44
Competing Facilities and Other Matters	47
E-ZPass.....	48
REVENUES OF THE RELATED ENTITIES	49
Fares and Tolls	49
State and Local General Operating Subsidies	51
State Special Tax Supported Operating Subsidies	52
MTA Bridges and Tunnels Surplus.....	53
Financial Assistance and Service Reimbursements from Local Municipalities	55
Miscellaneous Revenues.....	56
Mortgage Recording Taxes	57
Operating Funding for the Transit and Commuter Systems	59
METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS	61
MetroCard	61
E-ZPass.....	61
Commuter Railroads	62
General.....	62
FINANCIAL PLANS AND CAPITAL PROGRAMS	63
2007-2010 Financial Plan.....	63
Capital Programs – Background and Development.....	64
2005-2009 MTA Capital Program.....	65
Proposed Amendments to the MTA Capital Programs	71

2005-2009 MTA Bridges and Tunnels Capital Program.....	72
1992-2004 Transit Capital Program Objectives	73
1992-2004 Commuter Capital Program Objectives.....	73
1992-2004 MTA Bridges and Tunnels Capital Programs	73
Oversight and Review of Administration of Capital Programs	74
Non-Capital Program Projects	74
FUTURE CAPITAL NEEDS	75
INVESTMENT POLICY	76
PART 4. PUBLIC DEBT SECURITIES AND OTHER FINANCIAL INSTRUMENTS	77
GENERAL.....	78
Financing of Capital Projects and Statutory Ceiling.....	78
MTA Capital Program Bonds.....	79
Non-Capital Program Securities	80
Interagency Loans.....	80
Leasing.....	81
Types of Debt Outstanding	82
Swap Agreements Relating to Synthetic Fixed Rate Debt	82
Counterparty Ratings.....	88
Risks Associated with the Swap Agreements	89
TRANSPORTATION REVENUE BONDS	96
General.....	96
Pledged Transportation Revenues	97
Description of Pledged Revenues	100
Factors Affecting Revenues.....	100
Security – General.....	101
Pledge Effected by the Resolution.....	102
Flow of Revenues	102
Covenants	104
MTA BRIDGES AND TUNNELS SENIOR REVENUE BONDS	105
Sources of Payment	106
Security – General.....	108
Pledge Effected by the MTA Bridges and Tunnels Senior Resolution	109
Revenues and Additional MTA Bridges and Tunnels Projects	109
Flow of Revenues	109
Rate Covenant.....	110
Additional Bonds.....	111
Refunding Bonds.....	111

Subordinate Obligations	111
MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS	112
Sources of Payment	113
Security – General	115
Pledge Effected by the MTA Bridges and Tunnels Subordinate Resolution	116
Revenues and Additional Subordinate MTA Bridges and Tunnels Projects	116
Flow of Revenues	116
Rate Covenant	117
Additional Subordinate Revenue Bonds	117
Refunding Subordinate Revenue Bonds	118
DEDICATED TAX FUND BONDS	119
Sources of Payment – Revenues from Dedicated Taxes	120
Factors Affecting Revenues from Dedicated Taxes	123
Security – General	123
Pledge Effected by the DTF Resolution	124
Flow of Funds	124
Debt Service Fund	127
Covenants	127
Parity Debt	128
Appropriation by the State Legislature	128
Agreement of the State	129
MTTF Receipts – Dedicated Petroleum Business Tax	129
MTTF Receipts – Motor Fuel Tax	133
MTTF Receipts – Motor Vehicle Fees	135
MMTOA Account — Special Tax Supported Operating Subsidies	136
STATE SERVICE CONTRACT BONDS	141
Sources of Payment – General	142
Conditions in the State Service Contract	142
Nature of State’s Obligation to Make State Service Contract Payments	143
Pledge Effected by the State Service Contract Bond Resolution	143
Agreement with the State	144
PART 5. REGULATORY, EMPLOYMENT, INSURANCE AND LITIGATION MATTERS	145
FEDERAL AND STATE LAWS	146
General	146
Transit System	146
Commuter System	146
MTA Bridges and Tunnels	147

EMPLOYEES, LABOR RELATIONS AND PENSION AND OTHER POST-EMPLOYMENT OBLIGATIONS.....	148
General.....	148
MTA Headquarters.....	148
Transit System.....	148
MTA Bus.....	149
Commuter System.....	149
MTA Bridges and Tunnels.....	149
MTA Staten Island Railway.....	150
MTA Long Island Bus.....	150
OPEBs.....	150
INSURANCE.....	152
General.....	152
Property Insurance.....	153
Commuter Stations and Force Liability.....	154
FMTAC Excess Loss Fund.....	154
Commercial Excess Liability Policy.....	155
All Agency Protective Liability.....	155
Paratransit and Non-Revenue Vehicle Policies.....	156
Premises Liability.....	156
Builder's Risk.....	156
OCIPs.....	156
LITIGATION.....	158
General.....	158
MTA.....	158
Transit System.....	159
MTA Bus.....	159
Commuter System.....	159
MTA Bridges and Tunnels.....	159

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 “MTA Commuter Transportation District”).

MTA carries out these responsibilities directly and through its subsidiaries and affiliates, which are also public benefit corporations. The following entities, listed by their legal names, are subsidiaries of MTA:

- The Long Island Rail Road Company,
- Metro-North Commuter Railroad Company,
- Staten Island Rapid Transit Operating Authority,
- Metropolitan Suburban Bus Authority,
- MTA Bus Company, and
- MTA Capital Construction Company.

The following entities, listed by their legal names, are affiliates of MTA:

- Triborough Bridge and Tunnel Authority, and
- New York City Transit Authority, and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority.

MTA and the foregoing subsidiaries and affiliates are collectively referred to herein, from time to time, as the “Related Entities.” Throughout this Appendix A, the Related Entities are referred to by their popular names, which are listed below under “Use of Popular Names.”

Certain insurance coverage for the Related Entities is provided by a New York State-licensed captive insurance public benefit corporation subsidiary of MTA, First Mutual Transportation Assurance Company (“FMTAC”). See “INSURANCE” in Part 5.

MTA and its subsidiaries are generally governed by the Metropolitan Transportation Authority Act, being Title 11 of Article 5 of the New York Public Authorities Law, as from time to time amended (the “MTA Act”).

Triborough Bridge and Tunnel Authority is generally governed by the Triborough Bridge and Tunnel Authority Act, being Title 3 of Article 3 of the New York Public Authorities Law, as from time to time amended (the “MTA Bridges and Tunnels Act”).

The New York City Transit Authority and its subsidiary are generally governed by the New York City Transit Authority Act, being Title 9 of Article 5 of the New York Public Authorities Law, as from time to time amended (the “MTA New York City Transit Act”).

Due to the continuing business interrelationship of the Related Entities and their common governance and funding, there are provisions of each of these three acts (the MTA Act, the MTA Bridges and Tunnels Act and the MTA New York City Transit Act) that affect some or all of the other Related Entities in various ways.

Use of Popular Names

The following table sets forth the legal and popular names of the Related Entities. Throughout this Appendix A, reference to each agency will be made using its popular name.

<u>Legal Name</u>	<u>Popular Name</u>
Metropolitan Transportation Authority	MTA
New York City Transit Authority	MTA New York City Transit
Manhattan and Bronx Surface Transit Operating Authority	MaBSTOA
Staten Island Rapid Transit Operating Authority	MTA Staten Island Railway
MTA Bus Company	MTA Bus
Metropolitan Suburban Bus Authority	MTA Long Island Bus
The Long Island Rail Road Company	MTA Long Island Rail Road
Metro-North Commuter Railroad Company	MTA Metro-North Railroad
MTA Capital Construction Company	MTA Capital Construction
Triborough Bridge and Tunnel Authority	MTA Bridges and Tunnels

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.

MTA Headquarters. MTA Headquarters includes the executive staff of MTA, as well as a number of departments that perform largely all-agency functions, including audit, budget and financial management, capital programs management, finance, governmental relations, insurance and risk management, legal, planning, procurement, real estate and treasury. In addition, MTA maintains its own Police Department with non-exclusive jurisdiction over all facilities of the Related Entities, and MTA Headquarters is responsible for the costs and expenses of such police department.

Transit System. MTA New York City Transit and its subsidiary MaBSTOA operate all subway transportation and substantially all of the public bus transportation within the City (the “Transit System”). Throughout this Appendix A, unless otherwise noted, the term “Transit System” includes only the operations of MTA New York City Transit and its subsidiary MaBSTOA, and does not include the operations of MTA Staten Island Railway (except for certain capital projects included in the Transit Capital Programs, as defined below under “—*Capital Programs*”), MTA Bus or MTA Long Island Bus.

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 (the “MTA Bus System”). MTA Bus completed its consolidation of the routes and operations of the seven operators in the first quarter of 2006.

- 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.*” The City is not currently responsible for paying debt service on bonds issued by MTA for the benefit of MTA Bus; the debt service on such bonds is being paid by MTA Bus and MTA.
- MTA Bus became an “Additional Related Transportation Entity” within the meaning of the Transportation Resolution (as hereinafter defined) effective as of April 1, 2006, which allows MTA Bus to finance its capital projects with Transportation Revenue Bonds. See “TRANSPORTATION REVENUE BONDS” in Part 4.

MTA Staten Island Railway. MTA Staten Island Railway 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 unencumbered funds the operating expenses of MTA Staten Island Railway not covered by fares, State and local subsidies and other amounts. Capital needs of MTA Staten Island Railway are financed under Transit Capital Programs.

Commuter System. MTA Long Island Rail Road and MTA Metro-North Railroad operate commuter rail services in the MTA Commuter Transportation District (the “Commuter System”).

- MTA Long Island Rail Road operates commuter rail service between the City and Long Island and within Long Island.
- MTA Metro-North Railroad 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.

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

MTA Bridges and Tunnels. MTA Bridges and Tunnels operates all nine of the intra-State toll bridges and tunnels in the City.

- MTA Bridges and Tunnels is authorized to issue its own obligations to finance the cost of capital costs and projects of its own facilities and the Transit and Commuter Systems.
- MTA Bridges and Tunnels’ annual operating surplus, after meeting its own expenses and after payment of debt service on its own obligations, is 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 Bridges and Tunnels' annual surplus investment income, after meeting its own expenses and after payment of debt service on its own obligations, is used at the MTA Board's discretion to fund the operating or capital expenses of any of the Related Entities.

MTA Capital Construction. MTA Capital Construction is responsible for the planning, design and construction of current and future major MTA system expansion projects for the other Related Entities, including East Side Access (bringing MTA Long Island Rail Road into Grand Central Terminal), extension of the No. 7 subway line from Times Square south to 34th Street and Eleventh Avenue in 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 for approval to the Metropolitan Transportation Authority Capital Program Review Board (the "Review Board") successive five-year capital programs for the (1) Transit System and MTA Staten Island Railway and (2) Commuter System. MTA Bridges and Tunnels, MTA Bus and MTA Long Island Bus undertake their own capital planning that is not subject to Review Board approval; however, certain security projects of MTA Bridges and Tunnels and certain capital projects of MTA Bus have been included in Review Board-approved MTA Capital Programs (as defined below).

As used in this Appendix A, the following terms shall have the following definitions:

- The term "Capital Program," as used in connection with any five-year period, shall refer to the combined "MTA Capital Program" and "MTA Bridges and Tunnels Capital Program" for that period. For example, the term "2005-2009 Capital Program" shall refer to the combined "2005-2009 MTA Capital Program" and the "2005-2009 MTA Bridges and Tunnels Capital Program."
- The term "MTA Capital Program," as used in connection with any five-year period, shall refer to the combined "MTA Transit Capital Program" and "MTA Commuter Capital Program" for that period. For example, the term "2005-2009 MTA Capital Program" shall refer to the combined "2005-2009 Transit Capital Program" and the "2005-2009 Commuter Capital Program."
- The term "Transit Capital Program," as used in connection with any five-year period, shall refer to the capital program for MTA New York City Transit, MaBSTOA and MTA Staten Island Railway that is approved by the Review Board for that five-year period.
- The term "Commuter Capital Program," as used in connection with any five-year period, shall refer to the capital program for MTA Long Island Rail Road and MTA Metro-North Railroad that is approved by the Review Board for that five-year period.
- The term "MTA Bridges and Tunnels Capital Program," as used in connection with any five-year period, shall refer to the capital program for MTA Bridges and Tunnels that is adopted by the Board, but that does not need the approval of the Review Board to become effective.

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. The preparation of the financial plans of the Related Entities includes provision for capital spending (including debt service) authorized by the Capital Programs of the Related Entities, including those Capital Programs approved by the Review Board as described above.

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 and financial plan documents are distributed to certain elected officials and posted on MTA’s website for review by the public.
- Each of the Related Entities (other than MTA Bridges and Tunnels) 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. MTA Bridges and Tunnels 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 by one year the period covered by the four-year financial plan referenced above) 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 (1) Transit System and MTA Staten Island Railway and (2) Commuter System. MTA has included certain aspects of funding the MTA Bus capital program in approved Capital Programs and certain MTA Bridges and Tunnels security projects are included in a broader list of security projects in approved Capital Programs.
- Though not required by law, MTA Bridges and Tunnels prepares its own capital program that covers the same time period as the MTA Capital Programs.
- MTA Bus' annual capital program is prepared by MTA.
- MTA Long Island Bus' annual capital program is prepared and funded by Nassau County after consultation with MTA.
- The capital programs of MTA Bridges and Tunnels, MTA Bus and MTA Long Island Bus are not 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 unaudited quarterly financial statement reports for the Related Entities on a consolidated basis. The reports will be filed with the Nationally Recognized Municipal Securities Information Repositories and will be 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 moneys 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 moneys 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 operating needs and other periodic financial commitments without the use of public or private cash flow borrowings. The last publicly-offered cash flow borrowing was in 1996.

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 prepared by MTA. 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 filings, from time to time, for information regarding the Related Entities and their financial condition.

Management

- The Chairman and Members of MTA, by statute, are also the Chairman and Members of the other 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 its chief executive officer and is responsible for the discharge of the executive and administrative functions and powers of the Related Entities. 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.

Elliot "Lee" Sander was recommended to the position of Executive Director and Chief Executive Officer of the Metropolitan Transportation Authority by Governor Eliot Spitzer on Dec. 15, 2006, and appointed by MTA Chairman Peter Kalikow on January 2, 2007. Mr. Sander has over 25 years of public and private sector experience executing high profile transportation programs and projects in the New York metropolitan area. He is a former Senior Vice President at DMJM Harris, a global transportation infrastructure firm, and former Director and Founder of the Rudin Center for Transportation Policy and Management at New York University. In his public service career he has served in a variety of positions, including Commissioner of New York City Department of Transportation, Commissioner on the New York City Taxi and Limousine Commission, Director of Transit for New York State Department of Transportation, Deputy Commissioner in the New York State Division of Housing and Community Renewal, where he oversaw the State's rent regulatory system, Assistant General Manager for MTA New York City Transit, where he ran the Manhattan Bus System, and Executive Director of Operational Services at New York City Department of Transportation, where he oversaw the City's municipal parking system and borough traffic engineering. Mr. Sander began his career as a budget analyst in the New York City Office of Management and Budget. He is also a graduate of the School of Foreign Service at Georgetown University.

Susan Kupferman, Acting Chief Operating Officer. Ms. Kupferman assumed the duties of Acting Chief Operating Officer in January 2007. Prior to her appointment, she had been President of MTA Bridges and Tunnels since March 27, 2006. Prior to then, Ms. Kupferman served as Director of the New York City Mayor's Office of Operations for Mayor Michael R. Bloomberg where she was responsible for promoting the efficient and effective delivery of public services. During her tenure as the Director, Ms. Kupferman also served as the Mayor's advisor and leading representative on the Board of MTA. Prior to her appointment in City government, Ms. Kupferman was the first full-time Co-Director of the Rudin Center

for Transportation Policy and Management, a research and policy arm of New York University's Robert F. Wagner Graduate School of Public Service. Ms. Kupferman guest lectured at graduate level courses, and today continues her affiliation with the Center as both a Visiting Scholar, and as a member of its Advisory Committee. Prior to her Rudin Center position, Ms. Kupferman enjoyed a 20-year career in New York State government, serving in senior positions in a variety of transportation and infrastructure organizations, including as Deputy Executive Director for Planning, Policy and Capital Programs at MTA, Director of the Department of Strategic Planning and External Affairs at the New York State Thruway Authority, Assistant Secretary for Transportation under Governor Mario M. Cuomo, and on the staff of the New York State Senate Finance Committee. She holds Master of Arts and Bachelor of Arts degrees from The State University of New York at Albany.

Gary Dellaverson, Chief Financial Officer since March 2007. In this position, Mr. Dellaverson is responsible for the Budgets and Financial Management, Finance and Treasury departments at the MTA. Prior to this position, Mr. Dellaverson served as MTA's Director of Labor Relations and Chief Labor Negotiator since 1990. He was also responsible for the MTA's Human Resource functions. Prior to joining MTA, Mr. Dellaverson served as Deputy Fire Commissioner for Administration for the New York City Fire Department, Assistant Director for the Mayor's Office of Labor Relations, and as an attorney representing labor and management clients. Mr. Dellaverson is a graduate of Columbia College and New York University's School of Law.

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.

James B. Henly, General Counsel since January 16, 2007. Prior to joining MTA, Mr. Henly was Chief of the Litigation Bureau at the Office of State Attorney General Eliot Spitzer from 1999 to January 2007. Mr. Henly served as an Assistant Corporation Counsel in the New York City Law Department from 1991 to 1999, prior to which he worked as a law clerk to United States District Court Judge Robert W. Sweet, Southern District of New York and as a litigation associate at the firm of Debevoise & Plimpton. Mr. Henly received a B.A. in Anthropology from Stanford University in 1984 and a J.D. from Yale Law School in 1987.

PART 2. OPERATIONS

TRANSIT SYSTEM
(popular names – MTA New York City Transit and MaBSTOA)

Legal Status and Public Purpose

MTA New York City Transit was created in 1953 pursuant to the MTA New York City Transit 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 MTA New York City Transit 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 MTA New York City Transit Act, MTA New York City Transit and the City entered into an agreement of lease dated June 1, 1953 providing for the lease to MTA New York City Transit of the transit facilities then owned or thereafter to be acquired or constructed by the City for use in the fulfillment of MTA New York City Transit's corporate purposes. In connection with the creation of MaBSTOA, MTA New York City Transit 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.

MTA New York City Transit became an affiliate of MTA in 1968. The Chairman and Members of MTA, by statute, are also the Chairman and Members of MTA New York City Transit and Directors of MaBSTOA, and the Executive Director of MTA is, *ex officio*, Executive Director of MTA New York City Transit. The Executive Director is responsible for the discharge of the executive and administrative functions and powers of MTA New York City Transit, including the administration and the day-to-day operations of MTA New York City Transit. The President of MTA New York City Transit is primarily responsible for the general management and operation of MTA New York City Transit. The executive personnel of MTA New York City Transit and MaBSTOA report to the President of MTA New York City Transit.

Management

The following are brief biographies of the MTA New York City Transit's senior officers, who also serve as MaBSTOA's senior officers.

Howard H. Roberts, Jr., 67, was appointed President effective April 11, 2007. Mr. Roberts served in the U.S. Army from 1961 to 1981, and served in positions of leadership at MTA New York City Transit from 1981 to 1986, first as Finance and Administration Vice President (June 1981 to April 1983) and then as Surface Transit Vice President and Chief Operating Officer (April 1983 to September 1986). Mr. Roberts joined the Southeastern Pennsylvania Transportation Authority (SEPTA) in 1989, where he served as Deputy General Manager until January 1997. In that role, Mr. Roberts was responsible for managing all operations and overseeing construction for the fourth largest regional transportation system in the country. Mr. Roberts has most recently served as a transportation consultant. Mr. Roberts graduated from the United States Military Academy at West Point and holds masters degrees in public affairs and engineering from Princeton University.

Barbara R. Spencer, Executive Vice President, 57, is responsible for the controller, budget, human resources, procurement, technology and information services and distribution functions. Prior to being appointed to this position, Ms. Spencer served as Assistant to the President and Assistant Vice President, Employee and Organizational Development. Ms. Spencer received her B.A. degree from Herbert H. Lehman College and her M.A. and Doctor of Education from Columbia University.

Michael Lombardi, Senior Vice President, Subways, 63, oversees the maintenance and operation of the system's signals, track, power distribution, rolling stock, station infrastructure and security. In addition, he is responsible for MetroCard operations, telecommunications and electronic maintenance. Mr. Lombardi

joined MTA New York City Transit'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, 58, briefly served as Acting President of MTA New York City Transit in 2007 prior to the appointment of Mr. Roberts. Mr. Seay returned to MTA New York City Transit in 1996 from Washington Metropolitan Area Transit Authority where he was responsible for the monitoring and evaluation of bus and rail service. Mr. Seay previously worked for MTA New York City Transit from 1985-1993 serving as Senior Director, Operations Planning. He brings to his position more than 26 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, 51, is responsible for Capital Program Management. Prior to joining MTA New York City Transit 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, 56, joined MTA New York City Transit 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 MTA New York City Transit.

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 MTA New York City Transit 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, MTA New York City Transit 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.

MTA is in the process of developing new expansions and improvements to the Transit System, including the extension of the No. 7 subway line from Times Square south to 34th Street and Eleventh Avenue in 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, 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 MTA New York City Transit 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 MTA New York City Transit and MaBSTOA have since assumed the operation of additional franchises and routes.

Although most bus service within the City is operated by MTA New York City Transit and MaBSTOA, private bus companies continue to operate local service on certain routes within the City and provide certain bus services between the outer boroughs and the Manhattan central business district. MTA Bus is currently operating the bus routes formerly operated by seven of those franchise private bus companies. See “MTA BUS COMPANY” 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 2006, nearly 1.5 billion revenue passengers used the subway. It currently has a fleet of 6,241 subway cars, two major subway car repair shops, 13 maintenance shops, 23 subway car storage yards and 468 passenger stations. As of December 31, 2006, MTA New York City Transit employed 27,795 workers in rapid transit.

Bus System. MTA New York City Transit 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 2006, over 741 million revenue passengers used the bus system. 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. As of December 31, 2006, the bus system employed 14,387 persons and operated 4,437 buses.

Paratransit. On July 1, 1993, MTA New York City Transit 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 MTA New York City Transit. 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 (a portion of a mortgage recording tax and a portion of a property transfer tax imposed upon commercial property 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 MTA New York City Transit 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 MTA New York City Transit. Over the years, the costs of the paratransit program have risen substantially in excess of the City’s twenty percent additional funding contribution, so MTA New York City Transit 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. MTA New York City Transit 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 2006, State and City operating assistance, special tax supported

subsidies and reimbursements for the Transit System constituted, on a cash basis, approximately 46% of the total pledged revenues of MTA New York City Transit and MaBSTOA. 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 MTA New York City Transit and MaBSTOA from the City, MTA New York City Transit 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. MTA New York City Transit 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 not currently authorized by Federal law for mass transit operations, including the Transit 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 MTA New York City Transit and MaBSTOA. Officers of MTA New York City Transit and MaBSTOA respond to these reports and adopt some of the recommendations made therein or take other appropriate remedial actions.

MTA New York City Transit 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
(popular names – MTA Long Island Rail Road and MTA Metro-North Railroad)

Legal Status and Public Purpose

MTA Long Island Rail Road. Through MTA Long Island Rail Road, MTA directly operates commuter railroad service between the City and Long Island and within Long Island (the “MTA Long Island Rail Road Commuter Service”).

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

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

MTA Metro-North Railroad was incorporated by MTA on September 22, 1982 as a subsidiary public benefit corporation. MTA or MTA Metro-North Railroad 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 MTA Metro-North Railroad owns approximately 55% of the rolling stock and CDOT owns the remainder.

The New Haven Line is operated by MTA Metro-North Railroad 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 MTA Metro-North Railroad (the “ASA”). Under the provisions of the ASA, at the expiration of each term, 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.

The Port Jervis and Pascack Valley Lines are operated by NJ Transit Rail Operations, Inc. (“NJTRO”) pursuant to the terms of an Agreement for Operation dated as of July 27, 2006, between NJTRO and MTA Metro-North Railroad (the “AFO”), the initial term of which expires on June 30, 2012. Under the provisions of the AFO, at the expiration of each term, it is automatically extended for an additional year, subject to the right of NJTRO or MTA Metro-North Railroad to terminate the AFO by no later than March 15, in which case the AFO will terminate on June 30 of that same year.

Management

The following are brief biographies of the chief operating officers of MTA Long Island Rail Road and MTA Metro-North Railroad.

Raymond P. Kenny was appointed Acting President of MTA Long Island Rail Road on September 1, 2006. Prior to the appointment, Mr. Kenny had been Senior Vice President, Operations for three years. In that position, Mr. Kenny was responsible for the oversight of the Transportation, Engineering, Operations Analysis & Support and Maintenance of Equipment Departments. Prior to that position, Mr. Kenny served

as Chief Transportation Officer. Starting his career with MTA Long Island Rail Road in 1970, Mr. Kenny served as a summer ticket clerk for three years before he was hired as a junior industrial engineer in the Planning Department. He then worked in various Transportation Department positions, including a block operator, a train dispatcher and Manager-Timetable Schedules. He also worked in the Human Resources Department as a training specialist and Manager-Operations Training. In the Transportation Department, Mr. Kenny held increasingly responsible positions, rising to General Superintendent-Transportation in 1993 before being named Chief Transportation Officer in 1999. Mr. Kenny holds a Master of Arts in Psychology degree from the Derner Institute of Advanced Psychological Studies at Adelphi University, a Master of Arts degree in Government and Politics and a graduate certificate in Public Administration from St. John's University, a Bachelor of Business Administration in Management from Adelphi University and an Associate in Science degree in Business Administration from Nassau Community College. He is currently working toward a graduate certificate in Emergency Management at Adelphi University.

Peter A. Cannito was appointed President of MTA Metro-North Railroad in May 1999. Prior to joining MTA Metro-North Railroad, 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

MTA Long Island Rail Road Commuter Service and Metro-North Commuter Service are, respectively, the largest and second largest commuter railroad services in the nation. MTA Long Island Rail Road uses 29 yards and 6 major repair shops. MTA Metro-North Railroad 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 MTA Long Island Rail Road Commuter Service and the Metro-North Commuter Services.

**MTA Long Island Rail Road and MTA Metro-North Railroad Commuter Services
as of December 31, 2006⁽¹⁾**

	Revenue Passengers (in thousands) ⁽²⁾	Stations	Actual Route Miles	Main Line Track Miles	Passenger Cars
MTA Long Island Rail Road	82,037	124	319.1	594.1	1,153
MTA Metro-North Railroad	<u>75,044</u>	<u>109</u>	<u>272.9</u>	<u>701.2</u>	<u>1,056</u>
Totals	157,081	233	592.0	1,295.3	2,209

⁽¹⁾ Certain of the stations, track and passenger cars are not owned by MTA, MTA Long Island Rail Road or MTA Metro-North Railroad.

⁽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 2006, State and local operating assistance, special tax supported subsidies and reimbursements for the Commuter System constituted, on a cash basis, approximately 39% of the total pledged revenues of MTA relating to the Commuter System. 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 not currently authorized by Federal law for mass transit operations, including 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 MTA Long Island Rail Road and MTA Metro-North Railroad. Officers of MTA Long Island Rail Road and MTA Metro-North Railroad respond to these reports and adopt some of the recommendations made therein or take other appropriate remedial actions.

MTA Long Island Rail Road and MTA Metro-North Railroad are subject to regulation by Federal, State and, with respect to MTA Metro-North Railroad, 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
(popular name – MTA Bridges and Tunnels)

Legal Status and Public Purpose

MTA Bridges and Tunnels, a public benefit corporation, became an affiliate of MTA effective March 1, 1968. MTA Bridges and Tunnels 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 “MTA Bridges and Tunnels Facilities”) operated by MTA Bridges and Tunnels :

MTA Bridges and Tunnels Facilities

7 Bridges

Triborough Bridge
Verrazano-Narrows Bridge
Bronx-Whitestone Bridge
Throgs Neck Bridge
Henry Hudson Bridge
Marine Parkway-Gil Hodges Memorial Bridge
Cross Bay Veterans Memorial Bridge

2 Tunnels

Brooklyn-Battery Tunnel
Queens Midtown Tunnel

A more detailed description of the MTA Bridges and Tunnels Facilities is set forth below.

MTA Bridges and Tunnels 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, was recently renovated, and has space for 2,100 vehicles.

Title to the MTA Bridges and Tunnels Facilities and the Battery Parking Garage is vested in the City, but MTA Bridges and Tunnels 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 MTA Bridges and Tunnels.

David Moretti, Acting President, 52. Prior to being appointed Acting President, Mr. Moretti was Executive Vice President and Chief Financial Officer responsible for Labor Relations, Health and Safety, Technology, Planning and Budget and Finance. Mr. Moretti joined MTA Bridges and Tunnels in 1988 and has held the positions of Deputy CFO and Budget Director. Prior to joining MTA Bridges and Tunnels, 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.

Thomas Bach, Vice President and Chief Engineer. Mr. Bach directs a staff of 170 professionals responsible for the planning, design and construction of MTA Bridges and Tunnels’ capital and major maintenance programs. Prior to coming to MTA Bridges and Tunnels 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, 62. Mr. O'Brien has been General Counsel to MTA Bridges and Tunnels since May 1990. Prior to his present appointment, Mr. O'Brien served as the Chief of Construction Litigation at MTA New York City Transit. 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.

Donald Spero, Acting Chief Financial Officer. Prior to his current appointment, Mr. Spero served as Deputy Chief Financial Officer for Planning and Budget. Since joining MTA Bridges and Tunnels in 1988, he has also served as Director of Capital and Strategic Planning and Director of Capital Budget. Before coming to MTA Bridges and Tunnels, he worked for the New York City Mayor's Office of Operations as Chief of Staff and Deputy Assistant Director and for the New York City Comptroller's Office. Mr. Spero holds degrees from Syracuse University and the George Washington University.

MTA Bridges and Tunnels Facilities

The following is a brief description of the MTA Bridges and Tunnels Facilities, listed in order of revenue generation:

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.

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.

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.

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.

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.

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.

MTA Bridges and Tunnels also operates the Battery Parking Garage. Only the bridges and tunnels constitute MTA Bridges and Tunnels Facilities under the MTA Bridges and Tunnels bond resolutions⁽¹⁾, 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.

MTA Bridges and Tunnels is a founding member of the E-ZPass Interagency Group (“IAG”), which is a consortium of 32 agencies in 11 states that operate an interoperable electronic toll collection system. In addition, the Indiana Toll Road has been approved for membership by the IAG. An agreement is waiting to be executed by all members. See “RIDERSHIP AND FACILITIES USE – E-ZPass” in Part 3.

Authorized Projects of MTA Bridges and Tunnels

- MTA Bridges and Tunnels’ powers have been broadened by the State Legislature beyond its traditional role as a vehicular toll facility authority within the City. MTA Bridges and Tunnels is also authorized to participate in the financing of the following two public benefit projects:
 - the Transit and Commuter Project, and
 - the Convention Center Project (Jacob K. Javits Convention Center in Manhattan).
- The Transit and Commuter Project consists of certain capital projects for the benefit of the Commuter System and the Transit System and MTA Staten Island Railway. The capital assets constructed or acquired by MTA Bridges and Tunnels as part of the Transit and Commuter Project are to be transferred or leased for a nominal consideration to MTA or MTA New York City Transit, and neither such conveyance nor any capital grants made as part of the Transit and Commuter Project will produce revenues for MTA Bridges and Tunnels. Alternatively, such capital assets may be sold to parties other than MTA or MTA New York City Transit and leased back by MTA Bridges and Tunnels for subleasing for a nominal consideration to MTA or MTA New York City Transit or leased directly to MTA or MTA New York City Transit at the expense of MTA Bridges and Tunnels.
- The Convention Center Project is not and cannot become a project for which MTA Bridges and Tunnels can issue its Senior Revenue Bonds. In accordance with legislation enacted in 2004, it is expected that MTA Bridges and Tunnels’ 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, MTA Bridges and Tunnels has no obligation with respect to the operation and maintenance of the equipment or facilities financed as the Transit and Commuter Project or the Convention Center Project.

⁽¹⁾ For purposes of the bond resolutions, the MTA Bridges and Tunnels Facilities are referred to as the “TBTA Facilities.”

MTA CAPITAL CONSTRUCTION COMPANY
(popular name – MTA Capital Construction)

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 major MTA projects. Current projects include three major MTA system expansion projects—East Side Access, Second Avenue Subway, and extension of the No. 7 subway line; two Lower Manhattan Recovery Projects, Fulton Street Transit Center and the new South Ferry Terminal station; and the MTA-wide capital security projects.

Management

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

Mysore Nagaraja, P.E., President, 65. Mr. Nagaraja transferred to MTA Capital Construction from MTA New York City Transit, where he was Senior Vice President/Chief Engineer. He joined MTA New York City Transit 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.

Mr. Nagaraja leads a program management team experienced in executing complex construction projects within funding and schedule constraints. The team frequently employs unique project management strategies in project financing, design management, contract procurement, stakeholder management, and construction management.

East Side Access

The East Side Access project consists of construction of a 3.5 mile commuter rail connection between MTA Long Island Rail Road's Main and Port Washington lines in Queens to a new terminal to be constructed beneath Grand Central Terminal. The new connection will increase MTA Long Island Rail Road's capacity into Manhattan, dramatically shorten travel time for Long Island and eastern Queens commuters traveling to the east side of Manhattan, and provide a new commuter rail station in Sunnyside, Queens. The project has a budget of \$6.3 billion, excluding financing costs, and is scheduled for completion in 2013.

MTA Long Island Rail Road's current daily passengers total almost 270,000, of which approximately 240,000 depart at Penn Station on the west side of Manhattan, accounting for more than three-quarters of the work trips to Manhattan's central business district from Queens, Nassau and Suffolk counties. Many of these passengers then walk or take other forms of transportation (including subway, bus and cab) to their jobs on the east side of Manhattan. MTA Long Island Rail Road shares Penn Station, which is at or near its service limits, with trains and subways operated by Amtrak, New Jersey Transit and MTA New York City Transit. This project will allow MTA Long Island Rail Road not only to add service to the east side of Manhattan (the genesis of its name "East Side Access"), but also to service additional commuters at Penn Station.

New tunnels will be constructed from the Mainline tracks in Queens, under Amtrak's Sunnyside Yard and MTA Long Island Rail Road's existing rail yard, connecting to the existing 63rd Street Tunnel. In Manhattan, new tunnels will be bored from the existing bellmouth at Second Avenue and 63rd Street, west and south, under Park Avenue and MTA Metro-North Railroad's four-track right-of-way. At Grand Central Terminal, a new passenger concourse will be constructed in space currently occupied by MTA Metro-North Railroad's Madison Avenue yard. Eight tracks and four wide platforms will be constructed, along with mezzanines and concourses, beneath Park Avenue at an elevation below the existing lower level.

On December 18, 2006, MTA executed a Full Funding Grant Agreement (the “East Side Access FFGA”) with the U.S. Department of Transportation, Federal Transit Administration (“FTA”), which will provide up to \$2.6 billion in Federal funding to MTA for the East Side Access project. Under the East Side Access FFGA, MTA will be responsible for funding the local share of this project. To date, the FTA has awarded a total of \$0.6 billion in Federal capital new starts financial assistance to the East Side Access project, with up to an additional \$2.0 billion to be awarded subject to the availability of funding from Federal appropriations.

MTA began construction of certain portions of the East Side Access project in 2001. To date, the following contracts have been successfully completed:

- Highbridge Yard – A new storage and maintenance facility in the Bronx, which makes room for the new concourse at Grand Central Terminal’s lower level, was completed in December 2003. The facility provides six tracks for train storage for MTA Metro-North Railroad trains previously stored in Grand Central Terminal, as well as a maintenance facility.
- Environmental Remediation – Hazardous material abatement within the Grand Central Terminal’s East Yard on the lower level was completed in September 2003 and the removal of asbestos-containing materials from the lower level of the 63rd Street Tunnel was completed in January 2004, in preparation for contracts that will lay new track work.
- Shaft Construction at Existing Bellmouth – Completed in November 2003, this Queens shaft sets the stage for open-cut excavation between Northern Boulevard and the existing rail yard. It also makes the bellmouth of the 63rd Street Tunnel in Manhattan accessible to the hard-rock tunnel boring machine contractor.
- Demolition of Buildings and Existing Rail Yard Preparation – Completed in September 2003, three buildings were demolished and tracks removed from the existing rail yard in Queens. To pave the way for future contracts, a construction access road was built and new track was installed to accommodate the New York & Atlantic Railway freight service.
- Arch Street Yard and Shop – Completed in June 2005, the yard and shop are being used for the delivery, testing and acceptance of new M-7 train cars as part of the fleet replacement program. In the future, it will support mid-day inspection, maintenance and cleaning of trains that will be used in East Side Access service.
- Manhattan Approach Tunnel Utilities and Excavation – Completed in August 2004, this contract included the removal of the existing bulkhead and installation of tunnel lighting and other utilities in the 63rd Street Tunnel. A limited amount of rock excavation has also been performed.

The following contracts are currently underway or in the procurement stage:

- Woodside Interlocking – High speed switches, signal instrument houses and signal bridges are currently being installed to provide operational flexibility at Woodside Interlocking in Queens to support East Side Access construction.
- Manhattan Approach Tunnels – MTA is in the process of procuring Tunnel Boring Machinery (“TBM”) equipment. Once the TBM equipment is procured, a TBM assembly chamber will be constructed. Additionally, the running tunnels to the south end of the Grand Central Terminal tail tracks from the existing 63rd Street Tunnel and Second Avenue will be constructed via four TBM drives. The work also includes excavation for cross passages between the tunnels and a central instrument room.

- Queens Open-Cut Excavation – The shaft that was completed in November 2003 will be expanded via tunneling under Northern Boulevard and into MTA Long Island Rail Road’s existing rail yard. The open-cut structure will be decked over and serve as the TBM launch for the Queens tunnels prior to its permanent use, which is to house an interlocking and an emergency exit/ventilation facility.
- Harold Structures (Part 1) – This contract will construct various civil infrastructure elements in Harold Interlocking in Queens and expand the existing MTA Long Island Rail Road/Amtrak right-of-way for the future TBM tunnels and Mainline track diversions.
- Grand Central Terminal Concourse Civil and Structural – This contract will prepare the Grand Central Terminal Madison Avenue Yard for the future construction of the new MTA Long Island Rail Road concourse by performing demolition, civil and structural work.

Second Avenue Subway

MTA and MTA New York City Transit have undertaken the process of planning and designing a full-length Second Avenue Subway, which will be the City’s first major expansion of the subway system in over 50 years. When fully completed, the Second Avenue Subway will provide customers with a new service, now expected to be designated as the “T” Line, running approximately 8.5 miles along the length of Manhattan’s East Side, generally under Second Avenue, from 125th Street in Harlem to Hanover Square in Lower Manhattan. This new line will also connect at 63rd Street with the existing Broadway Line, which runs south through Manhattan and into Brooklyn over the Manhattan Bridge.

Sixteen new Americans with Disabilities Act (“ADA”) accessible stations will be built, serving communities in Harlem, the Upper East Side, East Midtown, Gramercy Park, the East Village, the Lower East Side, Chinatown and Lower Manhattan. The Second Avenue Subway will reduce overcrowding and delays on the Lexington Avenue subway line, improving travel for both City and suburban commuters, and provide better access to mass transit for residents of the far East Side of Manhattan. Stations will have a combination of escalators, stairs and, in compliance with the ADA, elevator connections from street-level to station mezzanine and from mezzanine to platforms.

Under the current plan, the project is expected to be built in four phases.

- Phase One: Construction will include tunnels from 105th Street and Second Avenue to 63rd Street and Third Avenue, with new stations along Second Avenue at East 96th, 86th and 72nd Streets and new entrances to the existing Lexington Avenue/63 Street Station. The contract for tunneling from East 92nd Street to East 63rd Street was advertised in October 2006 and was awarded in early 2007. The first segment will provide service from East 96th Street to the existing Lexington Avenue/63rd Street Station and connect the new service to the Broadway Line. Actual construction of this segment is planned to start in 2007 and to be completed by 2013. On January 5, 2007, the FTA approved an Early System Work Agreement for Phase One in the amount of \$693 million. When completed, Phase One subway service is projected to carry nearly 200,000 weekday riders.
- Phase Two: From 125th Street to 105th Street, including the utilization of an existing subway tunnel section from 110th to 120th Streets. Subway service will be provided from 125th Street to West Midtown Manhattan and Brooklyn via the Broadway Line.
- Phase Three: From 72nd Street to Houston Street. New “T” service will run from 125th Street to Houston Street and Second Avenue. Subway service will continue to be provided by the Broadway Line.

- Phase Four: From Houston Street to Hanover Square. New “T” service will be extended to Hanover Square in Lower Manhattan and service will continue to be provided from 125th Street to West Midtown Manhattan and Brooklyn via the Broadway Line.

The first contract is underway and includes the construction of the launch box for the tunnel boring machine between 92nd to 95th Streets, construction of the tunnels between 92nd and 63rd Streets, and construction of access shafts at 69th and 72nd Streets. Contract duration is expected to be 39 months.

Subsequent contracts will provide for the construction of stations at 96th, 72nd, and 86th Streets and a 3rd Avenue entrance to the existing 63rd/Lexington station.

No. 7 Subway Line Extension

MTA and the City are jointly working on the redevelopment of the Hudson Yards area of Manhattan (the “Hudson Yards Area”), which extends generally from West 28th Street on the south, Eighth Avenue on the east, West 43rd Street on the north and the Hudson River Park on the west. As a part of the redevelopment, the No. 7 subway line will be extended from its current terminal near Times Square on West 41st Street between Seventh and Eighth Avenues to a new terminal at West 34th Street and Eleventh Avenue. The extension will provide a transit link to the Javits Convention Center and is expected to help transform the surrounding manufacturing and industrial neighborhood into a mixed-use community. The scope of the project also includes the construction of the shell (unfinished) of an intermediate station at West 41st Street and Tenth Avenue and subway tail tracks extending to West 25th Street and Eleventh Avenue. The tail tracks will permit the storage of six subway trains and enhance operational reliability.

On September 28, 2006, the MTA Board authorized the execution of a memorandum of understanding with the City and two City-controlled corporations with respect to the design, construction and funding of the No. 7 subway line extension (the “No. 7 Line MOU”). The No. 7 Line MOU outlines the parameters for the participation of the City, the Hudson Yards Infrastructure Corporation (“HYIC”), the Hudson Yards Development Corporation (“HYDC”) and MTA. The basic agreement is for the City to fund the cost of the subway extension and the real estate acquisition needed for the project. MTA Capital Construction, working with MTA New York City Transit, will manage the completion of the final design and construction of the project.

The budget for the No. 7 subway line extension is \$2.1 billion, including \$100 million designated as contingency. On December 21, 2006, HYIC issued bonds, a portion of which will be used to fund design and engineering and initial construction. If additional work in excess of the budget is required because of the City, HYDC or HYIC, or issues associated with real estate development being coordinated by the City, then those costs will be borne by the City, and their capital investment in the subway line will be correspondingly increased. Neither MTA nor TBTA can issue bonds or notes to fund any cost overruns in excess of the \$100 million agreed to by the City, unless the additional costs are included in a capital program amendment or future capital program that is approved by the Review Board.

Design work for the subway extension project is substantially complete. MTA Capital Construction has hired a consultant construction manager and expects to award the initial subway tunnel construction contract in the summer of 2007. The expected completion date is 2013. Fit out of the Tenth Avenue and 41st Street station is now planned to be constructed as a future project, separate from the subway extension.

Lower Manhattan Projects: Fulton Street Transit Center and South Ferry Terminal

On December 3, 2003, \$1.15 billion in Federal funding was approved for the Fulton Street Transit Center and new South Ferry Terminal projects. Subsequent agreements with the FTA (which are called Construction Agreements and are similar to full funding grant agreements) raised the Federal commitment to a total of \$1.27 billion.

Fulton Street Transit Center. The Fulton Street/Broadway-Nassau complex is the busiest in Lower Manhattan, with over 275,000 passenger entries, exits and transfers daily. Many of these trips are made by commuters traveling to or from their homes in the metropolitan area or to or from commuter rail hubs at Penn Station, Grand Central Terminal, and Atlantic Terminal in Brooklyn. Subway connections are also available to the subway station at Howard Beach Station and the subway and commuter rail stations at Jamaica, both of which are served by the Port Authority's AirTrain automated rail service to John F. Kennedy International Airport.

The Fulton Street Transit Center, a centerpiece of the plan to improve mobility in Lower Manhattan, will greatly facilitate connections between 13 subway lines that serve the Fulton Street/Broadway-Nassau complex in Lower Manhattan and nearby stations, will link MTA New York City Transit facilities with Port Authority PATH train services, and will provide access to the redeveloped World Trade Center site and World Financial Center ferry services. The goal of the Fulton Street Transit Center project is to improve circulation and reduce crowding by reconfiguring the current maze of tunnels and stairways that now connect subway lines that were built years apart (between 1905 and 1932) by separate entities.

Another element of the project is a free transfer connector between the R/W and the E Lines. The link will run through the World Trade Center site, so MTA is coordinating the design and construction plan with the Port Authority.

The cost estimate for the project is \$888 million and it is expected to be completed in 2009.

The following contracts are underway or in procurement:

- 2/3 Fulton Street Station Rehabilitation and 4/5 Fulton Street Station Southern Entrances – The rehabilitation of the Fulton Street Station on the 2/3 line includes structural repairs and installation of new platform to mezzanine stairs, a new platform to mezzanine elevator, new wall and floor finishes, new electrical services, new lighting, and new communications systems, bringing the 2/3 Line station to a state of good repair and improving overall functionality and customer convenience. The construction of entrances and access stairways in the north and southbound directions at the south end of the 4/5 Line Fulton Street Station will help relieve severe passenger congestion currently experienced at existing entrances. Completion is expected by the end of 2007.
- Dey Street Concourse Structural Box – The first stage of construction of a pedestrian concourse under Dey Street from Broadway to Church Street is underway. The full-length of the excavation is approximately 400 feet at an average depth of 45 feet. The Concourse will be 29 feet wide when finished. The scope of this design-build contract includes constructing underpasses under the R/W and 4/5 Lines at either end of the Concourse. Once completed, the Dey Street Concourse will link the Fulton Street Transit Center to the World Trade Center. Currently, MTA Capital Construction is in the process of Hazmat removal and deconstruction of buildings on the site of the new Transit Center on the east side of Broadway. Contract completion is expected in 2008.
- Deconstruction of Buildings on Transit Center Site – In conjunction with Hazmat removal efforts, four of the five buildings on the site of the new Fulton Street Transit Center are now being deconstructed. The fifth building, at the northeast corner of John Street and Broadway, will be preserved as a recognized historic resource. Completion of this contract is expected in June 2007.
- Transit Center Building Construction, A/C Subway Line Mezzanine Reconstruction, and Various Finish Work – The final contract of the project will construct the Transit Center Building itself, reconstruct and reconfigure the existing A/C mezzanines, construct the finishes on the Dey Street Connector (the product of the Dey Street Concourse Structural Box referenced above), rehabilitate the 4/5 Fulton Street Station, install new elevators and escalators throughout the complex in new and existing portions, and restore the façade of the historic building at the northeast corner of Broadway and John Street. Award is expected in mid-2007 and completion is expected in late 2009, when the overall project reaches substantial completion.

South Ferry Terminal Station. The South Ferry station is at the southern end of the No. 1 subway line and is used by more than six million people each year, including commuters transferring from the adjacent Staten Island Ferry Terminal, and tourists visiting such nearby sites as Battery Park, the Statue of Liberty and Ellis Island. This project will replace the deficient existing station with a full-length, two-track terminal station with three station entrances, ADA accessibility, and a new free transfer between the No. 1 and R/W subway lines. The project has a budget of \$489 million, with \$420 million in Federal funding, and is projected to be completed in the summer of 2008.

The investment will improve service along the entire West Side of Manhattan and into the Bronx by eliminating end-of-the-line bottlenecks and other physical deficiencies that have an impact on the Nos. 1, 2, and 3 subway lines. The existing station, which was built in 1905, is on a single service track on a sharp curve with only one short platform and only one staircase entrance/exit from the street. Because the platform can accommodate only the first five cars of each train, customers in the rear cars must walk forward to exit. With only one service track, terminal train storage, which can be used to improve service reliability, is not possible. The curvature of the platform is so severe that mechanical “gap fillers” are used to fill the space between the platform and the train door and moving trains generate a very unpleasant screeching noise. Failure of the gap fillers, with delays on terminal operations that reverberate through the whole line, are not uncommon. The single egress point significantly limits passenger flow and the efficiency of operations.

The new station is expected to reduce customer travel times and improve the overall quality of service. The additional station entrances will reduce congestion, improve station safety and provide improved access to the Staten Island Ferry Terminal, Battery Park, the Statue of Liberty and the commercial and residential buildings nearby. In the long term, the new terminal will increase the potential for future service growth and support for the redevelopment of Battery Park and Lower Manhattan.

The following contracts are currently underway:

- Structural Box Design/Build Contract – This contract is constructing the structural box for the project, including modifications to the existing No. 1 subway line tunnel under Battery Place along Greenwich Street. The scope of the contract includes the new station, the approach tunnel, and the bellmouth connecting the existing right-of-way with the new approach tunnel. The full-length of the structural box is approximately 1,700 feet and the platform will be 600 feet in length, adequate to service two full-length train sets. Both cut-and-cover and tunneling has been used to excavate the space for the box. Construction work included a significant amount of rock excavation. Tunneling excavated the new station’s section under the existing No. 1 subway line and No. 4/5 subway line tunnels, which required underpinning. Under the same contract, but funded with World Trade Center-related insurance proceeds, a ventilation facility structural box is being constructed in the tunnel bellmouth section beneath Battery Place. The fan plant will serve the tunnel sections and the adjacent station to the north in emergency situations of fire and/or smoke. Contract completion is expected by September 2007.
- Signal Equipment Fabrication, Delivery, Testing Contract – The signal equipment fabrication, delivery, and testing contract will furnish the signal equipment required to fit out the structural box of the station, approach tunnels, and bellmouth of the South Ferry Terminal station project. In addition to fabrication, the work includes circuit design and in-place testing to put the equipment in-service. The finishes/systems contractor will install all equipment and finishes necessary to turn the structural box into part of an operating railroad. The signal equipment is being procured outside of the finishes/systems contract because of the long lead-time needed for design and fabrication. Contract completion is expected in August 2008 with completion of the overall project.
- Finishes/Systems Contract – The finish work will turn the structure built in the design-build tasks into an actual subway station, support facilities and subway right-of-way. The work will outfit the passenger spaces, including platforms, mezzanines, and station entrances. The work includes staircases, two ADA-compliant elevators (one from street to concourse mezzanine level and one from mezzanine to platform level) and eight escalators and 13 staircases. Non-passenger spaces

will be fit out with major operational and support infrastructure and equipment, including track and switches, signal and train control systems, electrical power systems for lighting and train propulsion, communications systems, a water pumping system, and an air-tempering system. Fan plants in the station mezzanine will be used for station ventilation in fire or smoke emergencies. The finish contractor will also install MTA Arts for Transit commissioned artwork in the new station space. Under the same contract, but funded with World Trade Center-related insurance proceeds, the finish/systems contractor will equip the Battery Place fan plant structural box with the equipment and systems necessary to operate and benefit from the facility. Contract completion is expected in August 2008 with completion of the overall project.

- Battery Park Improvements and Restoration of Peter Minuit Plaza – Previously planned as a separate contract, this work will be carried out by the City.

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(popular name – MTA Staten Island Railway)

Legal Status and Public Purpose

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

MTA Staten Island Railway 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. MTA Staten Island Railway'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 MTA.

Management

Howard H. Roberts, Jr., the President of MTA New York City Transit, is also the President of MTA Staten Island Railway.

METROPOLITAN SUB URBAN BUS AUTHORITY
(popular name – MTA Long Island Bus)

Legal Status and Public Purpose

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

- Service levels, route structure, maintenance and administration are the responsibility of MTA Long Island Bus, 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 MTA Long Island Bus 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 MTA Long Island Bus 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 MTA Long Island Bus Board.

Management

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

Neil Yellin was appointed President of MTA Long Island Bus in February 1998. Prior to his appointment, he was MTA Long Island Bus’ 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 MTA Long Island Bus, 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
(popular name – MTA Bus)

Legal Status and Public Purpose

MTA Bus was created as a public benefit corporation subsidiary of MTA in 2004. 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 seven private bus companies 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.
- Certain portions of the MTA Bus capital program are included in the Capital Programs approved by the Review Board. The City is not currently responsible for paying debt service on bonds issued by MTA for the benefit of MTA Bus; the debt service on such bonds is being paid by MTA Bus and MTA.

MTA Bus completed the consolidation of the seven bus lines in the first quarter of 2006. As discussed below under "FINANCIAL PLANS AND CAPITAL PROGRAMS," the Review Board has included certain capital funding for MTA Bus in the 2000-2004 MTA Capital Program.

Effective as of April 1, 2006, MTA Bus has pledged 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. All or a portion of MTA Bus' capital needs may be financed from the proceeds of the Transportation Revenue Bonds.

Description of the MTA Bus System

MTA Bus presently operates bus service on 46 local routes in The Bronx, Brooklyn and Queens and 42 express routes between Manhattan and The Bronx, Brooklyn and Queens. In calendar year 2006, over 99 million revenue passengers used the MTA Bus system. As of December 31, 2006, the MTA Bus system employed 3,055 persons and operated 1,285 buses. The MTA 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.

Management

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

Thomas J. Savage was designated to be President of MTA Bus in October 2004, which was before its incorporation. Prior to being appointed President, Mr. Savage was MTA Chief Operating Officer from October 20, 2003. Prior to that, Mr. Savage was Senior Vice President for MetroCard Operations at MTA New York City Transit, where he was responsible for MetroCard-related activities including the Automated Fare Collection Program on MTA New York City Transit's subways and buses, as well as customer services, marketing, AFC equipment maintenance and revenue collection. Mr. Savage joined MTA New

York City Transit 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 (MTA New York City Transit and MaBSTOA) Ridership

General. Subway revenue passengers in 2006 totaled 1.5 billion, an increase of 3.4% over 2005. Bus ridership in 2006 was 741 million, 0.7% higher than in 2005. The primary reasons for the increases were the transit strike in December 2005 (which lowered the 2005 ridership), higher student ridership and continued growth in City employment.

To meet the overall growth in demand in recent years, MTA New York City Transit has been expanding service since 1996, adding new capacity on 93% of its subway lines and 98% of its bus routes. Since 1996, subway service has increased by 13% and bus service has increased by 26%.

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 MTA New York City Transit or service disruptions caused by City infrastructure problems which are not under the control of MTA New York City Transit 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 since 1996, the first year that MetroCard was fully operational throughout the Transit System, and the percentage increase/(decrease) each year.

Years	Subway	Revenue Passengers ⁽¹⁾ (in thousands)						
		Subway Increase/ (Decrease)	Bus ⁽²⁾	Bus Increase/ (Decrease)	Para- Transit ⁽³⁾	Paratransit Increase/ (Decrease)	Total Revenue Passengers ⁽⁴⁾	Total Increase/ (Decrease)
1996	1,110,026	1.6	480,019	(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	3,983	11.8	2,170,609	2.6
2005	1,449,109	1.6	736,493	(0.6)	4,663	17.1	2,190,265	0.9
2006	1,498,916	3.4	741,420	0.7	5,202	11.6	2,245,538	2.5

⁽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.

⁽³⁾ Paratransit ridership includes trips made by Personal Care Attendants and guests.

⁽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.

Date of Increase	New Base Fare	Amount of Increase	Percent Increase
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 MTA New York City Transit. Each fare increase, except the 1986 increase, has been followed by an immediate decrease in ridership.

In addition to the above-referenced increases in the base fare, on February 27, 2005, MTA New York City Transit 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 local base fare.

Nevertheless, current fares, without giving effect to any changes in ridership patterns, remain, on average, low in real terms as compared to 1982 (the year in which MTA’s first capital program began) after adjusting for inflation based on increases in the Consumer Price Index (“CPI”). The following chart shows historical fare information since 1996.

Year	CPI-U ⁽¹⁾	Historical Fare Information		Non-Student	
		Base Fare	Base Fare Real Fare 1982\$ ⁽²⁾	Average Fares ⁽³⁾	Average Fares ⁽⁴⁾
1996	166.9	1.50	0.856	1.284	1.378
1997	170.8	1.50	0.837	1.229	1.323
1998	173.6	1.50	0.824	1.084	1.160
1999 ⁽⁵⁾	177.0	1.50	0.808	1.028	1.093
2000	182.5	1.50	0.784	1.013	1.075
2001	187.1	1.50	0.764	1.001	1.058
2002	191.9	1.50	0.745	0.986	1.044
2003 ⁽⁶⁾	197.8	2.00	0.964	1.120	1.189
2004	204.8	2.00	0.931	1.174	1.244
2005 ⁽⁷⁾	212.7	2.00	0.896	1.198	1.272
2006	220.7	2.00	0.864	1.215	1.294
2007 projected	227.1	2.00	0.839	1.214	1.295

⁽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. 2007 estimate based on Global Insight forecast of 2.91% increase in NY/NJ CPI-U.

⁽²⁾ Base fare after adjusting for inflation since 1982 (1982 CPI = 95.3).

⁽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⁾ 1999 is the first complete calendar year in which unlimited ride passes were available.

⁽⁶⁾ Base fare increased from \$1.50 to \$2.00 in May 2003. Average fares in the table are for the full year.

⁽⁷⁾ 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.

MTA New York City Transit 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.

On January 31, 2007, the MTA New York City Transit Board approved a tariff change which became effective on April 1, 2007, establishing reciprocal free transfers between Westchester County Bee-Line Bus service and (1) MTA New York City Transit subways, (2) MTA Staten Island Railway, and (3) buses operated by MTA New York City Transit, MaBSTOA, MTA Bus or MTA Long Island Bus. A step-up fare is required for transfer from local bus or subway service to express bus service. MTA estimates that the annual cost of such transfers will be approximately \$3.0 million.

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. MTA New York City Transit has replaced or overhauled its entire fleet. The entire fleet is now free of painted graffiti, and subway cars now run an average of 156,624 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 94.5% in 2006. MTA New York City Transit has also rehabilitated shops, depots, warehouses and stations, which has helped make operations more efficient.

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

MTA New York City Transit 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 in 1982 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 2005-2009 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 since 1996.

Vehicle Miles Traveled by Subways		
<u>Year</u>	<u>Subway VMT (in millions)</u>	<u>Increase/ (Decrease)</u>
1996	309	N/A
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
2005	346	(1.1)
2006	350	1.2

The decline in subway VMT from 2004 to 2005 was due to the three day strike in December 2005, reduced service during the recovery from the Chambers Street fire in the first quarter of 2005 and service diversions to support major construction projects such as the Fulton Street Transit Center, the new South Ferry station and implementation of communication-based equipment on the “L” line.

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 train abandonments, because the skipping of a regularly scheduled station stop is counted as an en route train abandonment. 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 1996, subway MDBF has increased by 129.5% .

The following table shows subway MDBF since 1996.

Subway MDBF		
<u>Year</u>	<u>Subway MDBF (in miles)</u>	<u>Increase/ (Decrease)</u>
1996	68,238	N/A
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
2005	178,085	13.6
2006	156,624	(12.1)

Except in 2006, there has been steady improvement in fleetwide MDBF since the beginning of the capital program. These improvements are attributable to a number of factors, including: increased supervision and management control of the MTA New York City Transit 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. The Scheduled Maintenance System (“SMS”) program is the agency’s primary means of maintaining fleet reliability. Under SMS, important car components and subsystems are overhauled or replaced at regular intervals – six years for most subsystems.

In 2006, fleet MDBF declined to 156,624 miles, a 12.1% decline from 2005 (178,085), the first significant decrease in MDBF in many years, mainly due to the performance of the oldest and newest cars in the fleet. The oldest cars – 1,570 cars purchased in the 1960s, all scheduled for retirement within the next five years – are experiencing some degradation in performance as they near the end of their lives, although they continue to perform well by historical standards. The newest cars – 1,842 R142s, R142As and R143s – also experienced an MDBF decline in 2006, as they approach their first six-year SMS cycle, which begins in 2007. The new cars have been experiencing some technical issues, which MTA New York City Transit is resolving through maintenance campaigns developed in consultation with the car builders and component manufacturers.

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 1996, the bus MDBF has increased by 132.6%. However, normal replacement of buses as they approach the end of their useful life has been problematic due to financial weakness among bus manufacturing vendors. This resulted in delivery delays and in some instances quality problems. In response, MTA New York City Transit’s Department of Buses developed and implemented programs to extend the useful life of its fleet. This means that each bus receives a four-year upgrade, eight-year upgrade and sometimes a 12-year upgrade during its years of service.

The following table shows bus MDBF since 1996.

Bus MDBF		
<u>Year</u>	<u>Bus MDBF (in miles)</u>	<u>Increase/ (Decrease)</u>
1996	1,745	N/A
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
2005	3,618	1.5
2006	4,059	12.2

Since 1996, bus VMT has increased by 26.3%. 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 since 1996.

Vehicle Miles Traveled by Buses		
<u>Year</u>	<u>Bus VMT (in millions)</u>	<u>Increase/ (Decrease)</u>
1996	95	N/A
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
2005	119	(2.5)
2006	120	0.8

The decline in bus VMT from 2004 to 2005 was due to the three day strike in December 2005, conversion of two routes to articulated service in Spring 2004 and cessation of two temporary September 11, 2001 related bus services in 2004 and by bus service near Coney Island in mid-2005 that temporarily replaced subway service during construction of the new Stillwell Avenue station.

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 the World Trade Center (“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. MTA New York City Transit and the New York City Police Department have 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 2006, major felonies dropped, continuing a trend that has seen serious crime drop dramatically since 1990. Since 1990, major felonies were down 84.5%. Aggressive enforcement and fare control area modifications contributed to a drop in the fare evasion ratio to 0.33% in 2006 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 13.3%, and then declined 5.0% from 2000 to 2003. From 2003 to 2006, employment grew by 3.8%. 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 8.3% from 2003 to 2006. 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. However, City employment has been growing since 2004, and by 2006, the City had recovered more than 70% of the jobs lost between 2000 and 2003.

Average weekday subway passengers increased 32.1% from 1996 to 2006, including a 2.7% increase in 2006, and average weekend subway passengers increased by 55.7% since 1996, including a 2.2% increase in 2006.

Automated Fare Collection. MTA New York City Transit employs an automated fare collection (“AFC”) system in all subway stations and on all MTA New York City Transit, MaBSTOA, MTA Long Island Bus, MTA Bus and Westchester County Bee-Line 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 to implement 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 2006, 93.2% of non-student trips were made with MetroCard, surpassing the record high set in 2005, and up from 23.0% in June 1997, the month before the introduction of free intermodal transfers. 44.5% of 2006 non-student trips were made with pay-per-ride MetroCards, and 48.7% were made on unlimited-ride MetroCards (29.6% with 30-day cards, 18.1% with 7-day cards and 1.0% with one-day cards). The market share of all non-MetroCard fare media (cash and single-ride tickets) was 6.8% in 2006.

Out-of-system sales outlets, including approximately 4,300 active retail locations, generated approximately \$496 million in MetroCard sales in 2006, a 9% increase over 2005. Market share for MetroCard out-of-system sales is approximately 18%. During 2006, employers ordered 1.3 million TransitChek MetroCards valued at \$70 million, with unlimited ride products accounting for approximately 77% of non-premium TransitChek MetroCard sales. In addition, total premium TransitChek MetroCard sales for the year were \$69 million, with more than 78,000 employees enrolled in the program at year’s end. TransitChek MetroCard sales are expected to continue to grow due to Federal legislation that provides certain tax benefits with respect to 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. Vending implementation was completed in 2005. A total of 1,621 MVMs were in service in 467 stations throughout MTA New York City Transit’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, Roosevelt Island Tramway and Grand Central Station. In addition, 584 MEMs were in service in 337 stations by the end of the year. Vending machine sales totaled \$1.5 billion in 2006, accounting for 65% of total in-system sales.

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

Commuter System Ridership

From 1997 to 2006, ridership on MTA Metro-North Railroad increased by 20% and ridership on MTA Long Island Rail Road increased by 4.3%. In 2006, MTA Long Island Rail Road ridership increased to 82.0 million, and MTA Metro-North Railroad ridership increased to 75.0 million.

The following table details annual commuter services ridership over the last ten years and the percentage increase/(decrease) each year.

Year	Revenue Passengers ⁽¹⁾ (in thousands)			
	MTA Long Island Rail Road ⁽²⁾	MTA Long Island Rail Road Increase/ (Decrease)	MTA Metro-North Railroad	MTA Metro-North Railroad Increase/ (Decrease)
1997	78,643	1.8%	62,564	1.5%
1998	80,272	2.1	65,022	3.9
1999	82,113	2.3	67,071	3.2
2000	85,340	3.9	70,246	4.7
2001	85,603	0.3	71,426	1.7
2002	83,918	(2.0)	71,637	0.3
2003	80,924	(3.6)	70,502	(1.6)
2004	79,254	(2.1)	70,757	0.4
2005	80,131	1.1	72,784	2.9
2006	82,037	2.4	75,044	3.1

⁽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, MTA Long Island Rail Road adopted a new methodology for converting ticket sales data into ridership estimates that is consistent with the methodology employed by MTA Metro-North Railroad. MTA Long Island Rail Road revenue passengers for 1996 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.

<u>Date of Increase</u>	<u>Approximate Increase in NYS Average Fares</u>
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 MTA Long Island Rail Road and by 6.2% on MTA Metro-North Railroad for service between points in New York State, which resulted in an approximately 5% increase in revenues over the prior fare structure.

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 MTA Long Island Rail Road and MTA Metro-North Railroad 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. MTA Long Island Rail Road and MTA Metro-North Railroad sell reduced-fare \$3.00 weekend rides between points within the City.

During November and December 2005, MTA Long Island Rail Road and MTA Metro-North Railroad offered a Holiday Bonus Program that included bonus off-peak travel for monthly and weekly ticketholders. Many of those bonus tickets were used in the beginning of 2006, which had a temporary adverse effect on fare collections. The Holiday Bonus Program was not repeated in 2006.

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 CPI.

		MTA Long Island Rail Road		MTA Metro-North Railroad					
				Harlem		Hudson		New Haven	
<u>Year</u>	<u>CPI⁽¹⁾</u>	Average Nominal Fare ⁽²⁾	Real Fare 1982\$	Average Nominal Fare	Real Fare 1982\$	Average Nominal Fare	Real Fare 1982\$	Average Nominal Fare	Real Fare 1982\$
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	2.78
2004	204.8	5.18	2.41	4.91	2.29	6.00	2.79	6.12	2.85
2005	212.7	5.52	2.47	5.16	2.31	6.29	2.82	6.50	2.91
2006	220.7	5.58	2.41	5.19	2.24	6.40	2.76	6.51	2.81
2007Est ⁽³⁾	227.1	5.57	2.34	5.21	2.19	6.40	2.69	6.51	2.73

⁽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. 2007 estimate based on Global Insight forecast of 2.91% increase in NY/NJ CPI-U.

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

⁽³⁾ 2007 estimates provided by MTA.

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. MTA Long Island Rail Road and MTA Metro-North Railroad 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.

In 1997, MTA Metro-North Railroad, on behalf of itself and MTA Long Island Rail Road, entered into a contract for the purchase of concrete railroad ties. Ultimately, approximately 270,000 concrete ties were purchased. In 2004, the railroads put the manufacturer on notice that excessive wear and deterioration had been observed on many of the installed ties and presented a claim under the extended warranty provision of the applicable purchase order, seeking the cost of replacement ties and associated labor costs. The cost of labor for replacing the ties is substantially more than the cost of the replacement ties. The railroads have settled this matter with the manufacturer agreeing to replace substantially all of the concrete ties and to pay an additional amount to compensate the railroads for some portion of the labor costs. The railroads will pay the remainder of the cost of the tie replacement program. The new substitute ties are warranted for both cost of replacement ties and labor expenses.

The following table shows on-time performance for MTA Long Island Rail Road and MTA Metro-North Railroad for the last ten years.

On-Time Performance (%)		
<u>Year</u>	<u>MTA Long Island Rail Road</u>	<u>MTA Metro-North Railroad</u>
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
2005	92.2	97.5
2006	93.3	97.8

The following table shows the fleet's MDBF for MTA Long Island Rail Road and MTA Metro-North Railroad for the last ten years. The substantial increase in MDBF during the last few years has been mainly due to the new fleet of cars.

MDBF				
<u>Year</u>	<u>MTA Long Island Rail Road</u>		<u>MTA Metro-North Railroad</u>	
	<u>MDBF (in miles)</u>	<u>Increase/ (Decrease)</u>	<u>MDBF (in miles)</u>	<u>Increase/ (Decrease)</u>
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)
2005	51,993	16.2	67,996	30.0
2006	78,597	51.2	103,377	52.0

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.

MTA Bridges and Tunnels – Total Revenue Vehicles

The following table shows the total number of revenue vehicles at the MTA Bridges and Tunnels Facilities for the past ten years.

MTA Bridges and Tunnels Facilities Total Revenue Vehicles					
<u>Year</u>	Revenue Vehicles 000's	Increase/ (Decrease)	<u>Year</u>	Revenue Vehicles 000's	Increase/ (Decrease)
1997	266,520	2.4%	2002 ⁽¹⁾	299,995	2.3%
1998	279,463	4.9	2003 ⁽²⁾	297,465	(0.8)
1999	289,107	3.5	2004	302,995	1.9
2000	296,633	2.6	2005 ⁽³⁾	300,385	(0.9)
2001 ⁽¹⁾	293,220	(1.2)	2006	302,059	0.6

⁽¹⁾ The MTA Bridges and Tunnels 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.

⁽³⁾ Toll increase became effective March 13, 2005.

MTA Bridges and Tunnels' independent engineers, URS Corporation – New York (“URS”), have conducted a study (the “URS Study”) to develop projections of traffic, revenues and expenses for the MTA Bridges and Tunnels 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 27, 2006. The report also contains certain historical revenue, traffic and more detailed toll rate information not included herein. A copy of the URS Study has been posted on the MTA website at www.mta.info/mta/investor/index.html. The URS Study is included by specific cross-reference herein. MTA Bridges and Tunnels has requested that URS prepare a new report and it is expected that the revised report will be available in May 2007. When it is delivered to MTA Bridges and Tunnels, a copy will be filed with DAC and with the NRMSIRs, posted on the MTA website and deemed incorporated by specific cross-reference herein.

Toll Rates

General Power to Establish Tolls.

- MTA Bridges and Tunnels' 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, MTA Bridges and Tunnels 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.” MTA Bridges and Tunnels believes that the tolls on all of its vehicular toll facilities are just and reasonable.

Resident Token, Discount and Rebate Programs.

- The MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 (Staten Island) for the Verrazano-Narrows Bridge at a cost of 80% of the regular crossing fare.
- The MTA Bridges and Tunnels Act was amended in 1993 to provide that surcharges, in addition to the regular toll, imposed by MTA Bridges and Tunnels 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 2007 rebate program is expected to cost approximately \$3.5 million, and a deposit to MTA Bridges and Tunnels or its designee in such amount has been funded from MTA's unencumbered funds. In the event such amount is not sufficient, MTA Bridges and Tunnels will collect the tolls from the user's E-ZPass account, unless additional moneys are deposited with MTA Bridges and Tunnels for such purpose from another source.
- A class action suit was filed in 2006 alleging unequal treatment by MTA Bridges and Tunnels on toll collection policies on certain bridges. See below under the caption "LITIGATION – MTA Bridges and Tunnels – *Janes and Schwartz v. TBTA, MTA, Kalikow and Ascher*" in Part 5.
- MTA Bridges and Tunnels expects to implement an E-ZPass discount for drivers operating hybrid vehicles that meet certain fuel efficiency and emission standards. Neither the cost of the program nor the date of implementation has been finalized.

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

Current Toll Rates. Tolls were 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 EZPass 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.

A more complete description of the current toll structure is set forth in the URS Study under the caption "TOLL COLLECTION ON THE TBTA FACILITIES."

See "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 MTA Bridges and Tunnels Bond Resolutions. The MTA Bridges and Tunnels Senior Resolution and MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels may provide exemptions from such surcharges without regard to the limits on maximum discounts,
- in the event MTA Bridges and Tunnels 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.

Limitations on Free Crossings. The MTA Bridges and Tunnels Senior Resolution and MTA Bridges and Tunnels Subordinate Resolution limit toll free crossings with respect to the MTA Bridges and Tunnels Facilities to (i) the vehicles of present and former MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Facilities. Under the MTA Bridges and Tunnels Act, however, the State has covenanted to holders of MTA Bridges and Tunnels' bonds that it will not limit or alter the rights vested in MTA Bridges and Tunnels 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.

Legislation enacted in connection with the State's Fiscal Year 2006-07 budget prohibits all public authorities, including MTA Bridges and Tunnels, from imposing, on and after June 1, 2006, a periodic administrative or other charge on electronic payment accounts, such as the E-ZPass toll collection system described below, for the privilege of using such electronic method of payment. The legislation does not prevent the authorities from making any charge for extra services requested by a holder of such electronic method of payment, any charge for lost or damaged equipment, or for defaults, such as charges for dishonored checks.

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, MTA Bridges and Tunnels cannot predict the effect that the tolling of such bridges will have on its revenues if it occurs.

The State agrees in the MTA Bridges and Tunnels Act that while any bonds of MTA Bridges and Tunnels are outstanding, there will not be constructed any vehicular connection competitive with the MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Act regarding competitive vehicular crossings over the Harlem River.

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

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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels and revenues from the MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels has no control and which compete with MTA Bridges and Tunnels' 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 in this Appendix A under the caption "MTA Bridges and Tunnels – Total Revenue Vehicles" also lists current and proposed construction projects that could adversely affect bridge and tunnel use.

E-ZPass

MTA Bridges and Tunnels' electronic toll collection system ("E-ZPass") can be used by motorists to pay tolls charged by various authorities (currently 22) in eleven states. MTA Bridges and Tunnels' E-ZPass program requires prepayment on behalf of the customers. More than 85% of the customers pay by credit card. For 2006,

- overall E-ZPass market share was 72.6%;
- average weekday E-ZPass market share was 74.9%; and
- average weekend E-ZPass market share was 67.1%.

See "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 MTA Bridges and Tunnels 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 seven years are as follows:

<u>Year</u>	<u>Fare Revenues (in millions)</u>	<u>Year</u>	<u>Fare Revenues (in millions)</u>
2000	\$2,100	2004	\$2,570
2001	2,137	2005	2,643
2002	2,135	2006	2,759
2003	2,396		

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, persons with disabilities 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. 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 have 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 “METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS” below in this Part 3.

MTA New York City Transit 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, MTA New York City Transit is obligated to receive public comment prior to raising fares.

Transit System Fare Reimbursements from the City. MTA New York City Transit 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, MTA New York City Transit 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 eligible disabled persons.

The City no longer reimburses MTA New York City Transit and MaBSTOA for costs of the free fare program for students; however, pursuant to an agreement with the State and the City, MTA, MTA New York City Transit and MaBSTOA continue the student program with the State and the City each agreeing to pay \$45 million towards the program's cost. MTA's 2007-2010 Financial Plan assumes the continuation of the joint funding of the free fare program for students through 2010.

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 seven years are as follows:

<u>Year</u>	<u>Fare Revenues (in millions)</u>	<u>Year</u>	<u>Fare Revenues (in millions)</u>
2000	\$688	2004	\$814
2001	698	2005	880
2002	691	2006	912
2003	771		

Fares are set in accordance with complicated formulae and vary in relation to the distance traveled. Discounts are generally available for travel during off-peak hours, for senior citizens, children and persons with disabilities, 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.

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. MTA Long Island Rail Road and MTA Metro-North Railroad 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 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, MTA Metro-North Railroad 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.

MTA Bridges and Tunnels Toll Revenues. Revenues are derived from tolls at the MTA Bridges and Tunnels Facilities. Toll revenues on an accrual basis for the past ten years are as follows:

<u>Year</u>	<u>Toll Revenues (in thousands)</u>	<u>Year</u>	<u>Toll Revenues (in thousands)</u>
1997	\$851,993	2002	\$ 933,134
1998	884,439	2003	1,021,937
1999	912,792	2004	1,096,988
2000	940,607	2005	1,204,944
2001	914,856	2006	1,241,551

The average toll increased from \$3.62 per vehicle in 2004 to \$4.01 in 2005 primarily due to the March 13, 2005 toll increase. The average toll increased to \$4.12 in 2006 reflecting the full year implementation of the March 2005 toll increase.

MTA Bridges and Tunnels expects to implement an EZPass discount for drivers operating hybrid vehicles that meet certain fuel efficiency and emission standards. Neither the cost estimate of the program nor the date of implementation has been finalized.

For more information relating to MTA Bridges and Tunnels’ tolls, see “RIDERSHIP AND FACILITIES USE – Toll Rates” above in this Part 3 and “METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS” below in this Part 3. See also the URS Study under the captions “TOLL COLLECTION ON THE TBTA FACILITIES.”

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) MTA New York City Transit and MaBSTOA, and (2) MTA for the Commuter System, from such Account, as described below under “State Special Tax Supported Operating Subsidies – MMTOA Receipts.”

Under the Section 18-b Program:

- Whenever MTA New York City Transit 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 to the City and to pay such amount directly to MTA New York City Transit 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 to the City and counties 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” 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).

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 3/8 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.

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 MTA New York City Transit 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 mortgage recording and real property transfer 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 MTA New York City Transit on a monthly basis. As in the case of mortgage recording taxes described below, the Urban Taxes can change dramatically from year to year depending on the level of real estate activity.

The following table sets forth the amount of Urban Taxes received by MTA New York City Transit on an accrual basis in each of the last seven years.

<u>Year</u>	<u>Urban Taxes (in millions)</u>	<u>Year</u>	<u>Urban Taxes (in millions)</u>
2000	\$174.6	2004	\$360.2
2001	210.5	2005	594.6
2002	178.7	2006	751.6
2003	173.1		

MTA Bridges and Tunnels Surplus

General. MTA Bridges and Tunnels provides capital and operating assistance to the Transit and Commuter Systems in three important ways:

- it pays debt service on bonds that were issued to finance transit and commuter capital projects,
- it generates an annual MTA Bridges and Tunnels Operating Surplus, as described below, that is distributed to MTA New York City Transit and to MTA for the commuter railroads in accordance with a statutorily mandated formula, and
- it generates an annual MTA Bridges and Tunnels Surplus Investment Income, as described below, that is distributed at the discretion of the MTA Board.

Since 2005, MTA Bridges and Tunnels has not issued new money bonds to finance capital projects for the benefit of the Transit and Commuter Systems.

The following chart sets forth for the last three years MTA Bridges and Tunnels’ total support to the Transit and Commuter Systems, consisting of the debt service paid on bonds issued for transit and commuter capital projects, the MTA Bridges and Tunnels Operating Surplus and the MTA Bridges and Tunnels Surplus Investment Income.

<u>Year</u>	<u>Total Support to Transit and Commuter Systems (in millions)</u>
2004	\$690
2005	784
2006	759

MTA Bridges and Tunnels Operating Surplus. Section 569-c of the MTA Bridges and Tunnels Act and Section 1219-a of the MTA New York City Transit Act require MTA Bridges and Tunnels to transfer its operating surplus (“MTA Bridges and Tunnels Operating Surplus”) to MTA New York City Transit and to MTA for the commuter railroads in accordance with a statutorily mandated formula hereinafter described.

For such purposes, the MTA Bridges and Tunnels Operating Surplus subject to such transfer is the amount remaining from all tolls and other operating revenues derived from the MTA Bridges and Tunnels Facilities after (1) payment of (a) operating, administration and other expenses of MTA Bridges and Tunnels properly chargeable to such projects, and (b) principal of and sinking fund installments and interest on its bonds, including bonds issued under the MTA Bridges and Tunnels Senior Resolution and the MTA Bridges and Tunnels Subordinate Resolution (as defined under “PUBLIC DEBT SECURITIES AND OTHER FINANCIAL INSTRUMENTS” in Part 4) to the extent, if any, paid from such sources, and (2) provision for (x) reserves and for all contract provisions with respect to any such bonds and (y) other obligations, including MTA Bridges and Tunnels’ 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.

The first \$24 million of MTA Bridges and Tunnels Operating Surplus must be allocated to MTA New York City Transit, and any excess is divided equally between MTA New York City Transit and MTA; however, the cash payments are reduced by the proportional amounts of MTA Bridges and Tunnels' debt service reasonably attributable to the bond proceeds used for their respective benefit.

The MTA Chairman is authorized in his discretion to advance to MTA and MTA New York City Transit monthly, from available funds, an aggregate amount not to exceed 90% of the Chairman's estimate of the sum which that month's operations will contribute to the "operating surplus" of MTA Bridges and Tunnels that he anticipates will or may be certified and transferred for the fiscal year in which such month falls.

The MTA Bridges and Tunnels Operating Surplus declined in 2002 as shown below due primarily to the fact that, before the debt restructuring, certain MTA Bridges and Tunnels bonds were secured in the first instance by mortgage recording taxes and, thereafter, by MTA Bridges and Tunnels revenues. Those bonds were eliminated and replaced by bonds paid solely from MTA Bridges and Tunnels revenues. Consequently, more MTA Bridges and Tunnels debt service was paid from MTA Bridges and Tunnels revenues without the set-off from the mortgage recording taxes.

MTA Bridges and Tunnels Surplus Investment Income. MTA Bridges and Tunnels generates investment income on funds held by it (the "MTA Bridges and Tunnels Surplus Investment Income"). Prior to the debt restructuring in 2002, a large portion of this income was generated by the debt service reserve funds that secured the various MTA Bridges and Tunnels bond issues. With the elimination of the debt service reserve funds in 2002, the income is currently generated principally from the smaller debt service funds and operating and capital reserves held by MTA Bridges and Tunnels.

Combined Surplus Amounts. The MTA Bridges and Tunnels Operating Surplus and the MTA Bridges and Tunnels Surplus Investment Income (together, the "MTA Bridges and Tunnels Combined Surplus") 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.

The MTA Bridges and Tunnels Combined Surplus amounts transferred for each of the last seven years on an accrual basis are as follows. The amounts set forth as MTA Bridges and Tunnels Operating Surplus are net of amounts paid for debt service and other obligations described above.

<u>Fiscal Year</u>	<u>MTA New York City Transit Share</u>	<u>MTA Share</u>	<u>MTA Bridges and Tunnels Combined Surplus</u>
2006			
Operating Surplus	\$166,640,098	\$259,394,202	\$426,034,300
Investment Income	<u>-0-</u>	<u>8,636,828</u>	<u>8,636,828</u>
Total	\$166,640,098	\$268,031,030	\$434,671,128
2005			
Operating Surplus	\$179,985,259	\$271,719,439	\$451,704,698
Investment Income	<u>-0-</u>	<u>5,357,650</u>	<u>5,357,650</u>
Total	\$179,985,259	\$277,077,089	\$457,062,348
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

<u>Fiscal Year</u>	<u>MTA New York City Transit Share</u>	<u>MTA Share</u>	<u>MTA Bridges and Tunnels Combined Surplus</u>
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	\$254,205,156	\$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 seven years:

<u>Year</u>	<u>Payments (in millions)</u>	<u>Year</u>	<u>Payments (in millions)</u>
2000	\$110	2004	\$129
2001	120	2005	134
2002	117	2006	137
2003	125		

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. MTA New York City Transit 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 MTA New York City Transit 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 MTA New York City Transit. See “TRANSIT SYSTEM – Description of the Transit System – *Paratransit*” in Part 2.

Miscellaneous Revenues

Transit System. MTA New York City Transit 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.

The following table sets forth the miscellaneous revenues received by MTA New York City Transit and MaBSTOA on an accrual basis in each of the last seven years:

Miscellaneous Revenues		Miscellaneous Revenues	
<u>Year</u>	<u>(in millions)</u>	<u>Year</u>	<u>(in millions)</u>
2000	\$67.2	2004	\$85.5
2001	68.2	2005	89.9
2002	72.3	2006	92.0
2003	77.9		

Commuter System. MTA Long Island Rail Road and MTA Metro-North Railroad 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. The following table sets forth the miscellaneous revenues received by MTA Long Island Rail Road and MTA Metro-North Railroad (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) on an accrual basis in each of the last seven years:

Miscellaneous Revenues		Miscellaneous Revenues	
<u>Year</u>	<u>(in millions)</u>	<u>Year</u>	<u>(in millions)</u>
2000	\$51.7	2004	\$35.8
2001	34.1	2005	36.9
2002	31.4	2006	54.1
2003	32.3		

Mortgage Recording Taxes

General. Certain moneys 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, MTA New York City Transit and their subsidiaries. During 2002, MTA Bridges and Tunnels defeased all outstanding bonds that were secured by the mortgage recording taxes, and such taxes no longer secure any MTA or MTA Bridges and Tunnels bonds. Neither MTA Bridges and Tunnels 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 increased effective June 1, 2005 from 25 cents per \$100 of mortgage recorded to 30 cents. 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.

Moneys in the Transit Account are required to be used to pay operating and capital costs of the MTA New York City Transit, its subsidiaries, and MTA Staten Island Railway, and moneys in the Commuter Railroad Account, after first making the transfers described below under “Transfers to State Suburban Transportation Fund,” are required to be used to pay operating and capital costs of the commuter railroad operations of MTA, other than MTA Staten Island Railway.

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”).

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

- first, to make deposits into the Dutchess, Orange and Rockland Payment Subaccount described below under “Transfers to Counties,” 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, MTA New York City Transit 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 moneys (i.e., the State is not required to appropriate the moneys to MTA, so the moneys 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 seven calendar years.

<u>Year</u>	<u>MRT-1 Receipts (in millions)</u>	<u>Increase/ (Decrease)</u>	<u>Year</u>	<u>MRT-1 Receipts (in millions)</u>	<u>Increase/ (Decrease)</u>
2000	\$124	N/A	2004	\$353	42%
2001	155	25%	2005*	441	25
2002	204	32	2006	478	8
2003	248	22			

* Reflects the increase in MRT -1 effective June 1, 2005.

Source: Metropolitan Transportation Authority

<u>Year</u>	<u>MRT-2 Receipts (in millions)</u>	<u>Increase/ (Decrease)</u>	<u>Year</u>	<u>MRT-2 Receipts (in millions)</u>	<u>Increase/ (Decrease)</u>
2000	\$ 90	N/A	2004	\$ 291	39%
2001	116	29%	2005	299	3
2002	173	49	2006	281	(6)
2003	209	21			

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:

- expenses of operating MTA Headquarters, including MTA Police,
- an amount paid to MTA Bridges and Tunnels to effectively eliminate the toll that residents of Broad Channel and the Rockaway Peninsula pay when using EZPass on the Cross Bay Veterans Memorial Bridge, and
- the operating expenses of MTA Staten Island Railway and MTA Long Island Bus 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 from MRT-1 Receipts. 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 have been made since 2003.

Transfers to Counties from MRT-2 Receipts. MTA is required to transfer, in equal quarterly installments, in each year from the MRT-2 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 the last three years:

<u>Year</u>	<u>County</u>	<u>Additional Amounts</u>
2004	Dutchess	\$ 5,963,871
	Orange	5,416,891
	Rockland	<u>5,881,240</u>
	Total	\$17,262,002
2005	Dutchess	\$ 5,882,857
	Orange	5,526,762
	Rockland	<u>6,702,721</u>
	Total	\$18,112,340
2006	Dutchess	\$ 4,520,597
	Orange	5,164,895
	Rockland	<u>5,450,369</u>
	Total	\$15,135,861

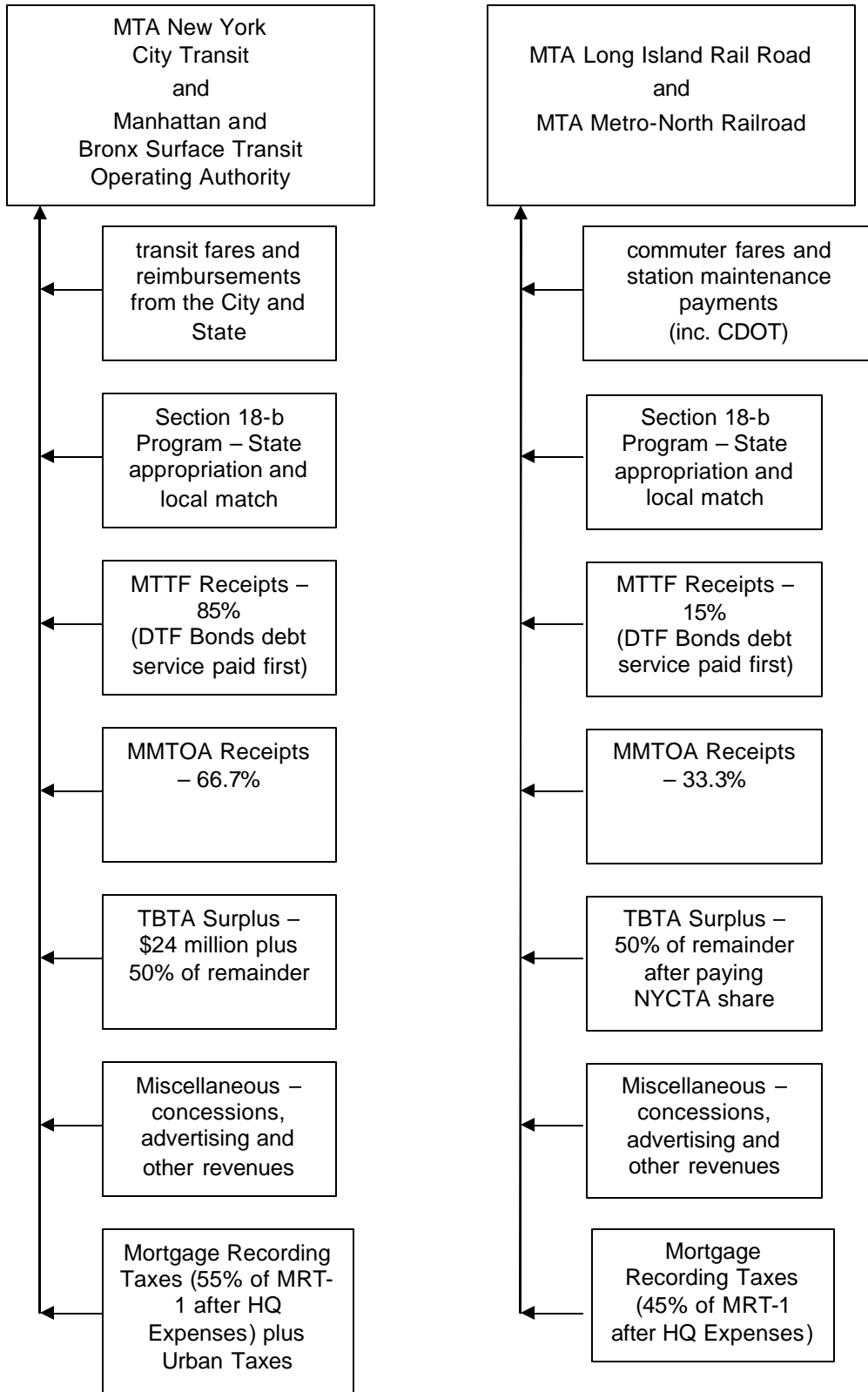
The decline in additional mortgage recording tax payments between 2005 and 2006 reflects a general decline in residential mortgage activity.

Operating Funding for the Transit and Commuter Systems

The chart on the following page shows the types of revenues and relative percentages of revenue streams that are currently available and required to be used to fund the Transit System (MTA New York City Transit and MaBSTOA) and the Commuter System (MTA Long Island Rail Road and MTA Metro-North Railroad). From time to time, MTA may, in its discretion, additionally subsidize the Transit and Commuter System operations, or the operations of the other Related Entities, from other available excess moneys, including mortgage recording taxes. All of the revenues listed on the following chart are revenues that are pledged for the payment of Transportation Revenue Bonds (as described in "TRANSPORTATION REVENUE BONDS" in Part 4), with the exception of (1) mortgage recording taxes that do not become pledged revenues until after the payment of MTA Headquarters Expenses, and (2) concession revenues at Penn Station and Grand Central Terminal.

The percentages of MMTOA Receipts reflected below for the Transit and Commuter Systems are based upon the Enacted Budget for State Fiscal Year 2007-08.

Operating Funding for the Transit and Commuter Systems



METHODS OF PAYMENT AND COLLECTION OF FARES AND TOLLS

MetroCard

MTA New York City Transit employs an 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. MTA New York City Transit 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. In addition to in-system sales at station booths and through vending machines, MetroCards are presently sold through out-of-system vendors, by MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Long Island Bus 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 MTA New York City Transit.

MTA New York City Transit 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. MTA New York City Transit 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.

MTA New York City Transit has integrated its MetroCard system with MTA Bus, MTA Long Island Bus, PATH and Westchester County Bee Line, and has future plans to integrate with New Jersey Transit, to allow payment of fares on all of the systems with the same card. PATH and MTA New York City Transit are separately currently testing the use of a Smartcard computer chip technology that does not have to be “swiped” through the turnstile, but will register the fare simply by passing it in close proximity to the turnstile. It is contemplated that this test will be expanded to MTA New York City Transit buses during 2007.

The introduction and expansion of the use of MetroCards facilitated:

- the ability of MTA New York City Transit 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.

MTA also offers a free replacement program for lost or stolen unlimited-ride 30-day MetroCard 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.

E-ZPass

MTA Bridges and Tunnels employs 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. MTA Bridges and Tunnels has integrated, and continues to integrate, its electronic toll payment media system with those of other governmental entities, whereby the integrated electronic toll payment media can be used on any entity’s facilities. Substantially all of the E-ZPass users prepay with credit cards or checks. MTA Bridges and Tunnels is a founding member of the E-ZPass IAG, which has grown to include toll authorities in Delaware, Pennsylvania, New Jersey, New York, Maryland, Massachusetts, Virginia, West Virginia, New Hampshire, Illinois, Maine and the Peace Bridge between Buffalo, New York and Fort Erie, Ontario. Payments are settled among all such entities after use of the facilities. MTA Bridges

and Tunnels transfers significantly more cash to IAG members than it receives from them, which at times could adversely affect MTA Bridges and Tunnels' cash position.

The following chart shows the amount of annual transfers to and from other IAG members during the last two years.

<u>Year</u>	<u>Transfers to IAG Members (in millions)</u>	<u>Transfers from IAG Members (in millions)</u>
2005	\$347.8	\$219.7
2006	390.7	239.8

MTA Bridges and Tunnels has negotiated agreements with commercial entities (such as parking facility operators) whereby the electronic media can be used to purchase goods and services. E-ZPass Plus is currently available to certain E-ZPass customers for use at Albany International Airport, John F. Kennedy International Airport, LaGuardia Airport and Newark International Airport. MTA Bridges and Tunnels may expand the use of agreements with commercial entities.

Commuter Railroads

Both MTA Long Island Rail Road and MTA Metro-North Railroad permit payment of certain fares by check and by credit and debit card. MTA Long Island Rail Road and MTA Metro-North Railroad 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. MTA Long Island Rail Road and MTA Metro-North Railroad mail-and-ride customers can purchase a combined MetroCard-monthly commuter ticket. In addition, MTA has implemented a program offering reduced intra-City weekend commuter tickets.

General

Payment by means other than cash (1) creates a potential risk of actual collection of payments for goods and services and (2) could delay the timing of the actual receipt of payment by the goods and services providers. 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 MTA New York City Transit and MTA Bridges and Tunnels to multiple liens and claims prior to the time that the fares or tolls are actually earned through use of the applicable facilities. 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.

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.

FINANCIAL PLANS AND CAPITAL PROGRAMS

2007-2010 Financial Plan

General. MTA has prepared a financial plan for the years 2007 through 2010 for itself and the other Related Entities (the “2007-2010 Financial Plan”). The 2007-2010 Financial Plan is designed to maintain the fiscal stability of the Related Entities and enable all those entities to maintain their respective operations on a self-sustaining basis. The 2007-2010 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 initiatives described below under “2005-2009 MTA Capital Program.”

The 2007-2010 Financial Plan includes a final budget that was adopted by the MTA Board for 2007 (the “2007 Budget”) and a financial plan for the years 2008–2010. A copy of the 2007-2010 Financial Plan, which includes the 2007 Budget, is posted on MTA’s website under “Financial Plan/Capital Program” and is included by specific cross-reference herein.

2006 Actual Results. On April 24, 2007, MTA issued a report (the “2006 MTA Year-End Report”) presenting 2006 actual results for accrual and cash in the formats used in the preparation of its financial plans. The actuals are generally consistent with those that will be contained in the audited financial statements, with differences attributable to different reporting formats. The audited financial statements are prepared on a GAAP basis, while the financial plan is generally prepared on a modified accrual basis and is intended to show MTA’s cash availability, which is the measurement for achieving operating budget balance. The most notable difference is the treatment of debt service – the GAAP statements reflect long-term interest, while the financial plan reflects cash principal and interest payments paid out of operating funds. Moreover, cash transactions are reflected in the GAAP balance sheet, while the financial plan reflects completed cash transactions and does not include account receivables or payables.

The 2006 Year-End Report noted that MTA’s closing net cash surplus at year-end was \$937 million. In addition, it was noted that real estate-related taxes significantly exceeded the projections set forth in the 2006 adopted budget. The gross cash receipts from the mortgage recording taxes and the Urban Taxes (see “REVENUES OF THE RELATED ENTITIES—State Special Tax Supported Operating Subsidies—*Urban Taxes for Transit System*” above) were \$684.1 million, or 91.5% greater than the 2006 adopted budget. Mortgage recording taxes increased modestly in 2006, but the Urban Taxes increased significantly due to the high level of commercial real estate activity in New York City.

2007- 2010 Financial Plan. Subject to the modifications required by the actual results set forth in the 2006 MTA Year-End Report, in the 2007 Budget and the 2007-2010 Financial Plan, MTA projects the following, after taking into consideration the application of MTA Bridges and Tunnels’ operating surplus to mass transit:

- After policy and gap closing actions, the 2007 Budget projects a net cash balance of \$270 million.
- After policy and gap closing actions, the 2007-2010 Financial Plan projects net cash deficits of \$799 million, \$1.455 billion and \$1.782 billion in the years 2008 through 2010, respectively.

Other than normal growth in expenses due to inflation, the major portions of the projected deficits are caused by substantial growth in debt service costs, additional pension contributions and additional health and welfare benefit costs.

MTA is required to balance its budget on a cash basis and, therefore, a plan which could include future cost reductions, fare and toll adjustments and additional subsidies will be necessary to address deficits beginning in 2008. The 2007-2010 Financial Plan assumes a level of capital spending consistent with the approved Transit and Commuter Capital Programs.

Implementation of the 2007-2010 Financial Plan. The 2007-2010 Financial Plan assumes that MTA and MTA Bridges and Tunnels will continue to issue bonds to finance projects set forth in the 2005-2009 Capital Program and prior Capital Programs. In addition, the 2007-2010 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 the MTA Bridges and Tunnels 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 and 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 2007-2010 Financial Plan do not materialize, MTA may have to make revisions to the 2007-2010 Financial Plan, the 2005-2009 Capital Program and prior and future capital programs, which could be significant.

The implementation of the 2007-2010 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 2007-2010 Financial Plan, including those capital programs. 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 2007-2010 Financial Plan or the various approved capital programs will be realized.

The 2007-2010 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 approved capital programs.

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 MTA Bridges and Tunnels' capital needs. To date, \$10.0 billion of bonds has been issued to finance projects included in the 2000-2004 Capital Program.

The 2005-2009 Capital Program assumes the issuance by MTA and MTA Bridges and Tunnels of approximately \$4.2 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. To date, \$0.431 billion of bonds has been issued to finance projects included in the 2005-2009 Capital Program.

In addition, the State expects to issue State general obligation bonds that were approved by the voters in November 2005 in an amount sufficient to contribute \$1.45 billion of proceeds for the benefit of the Transit and Commuter Systems. To date, \$0.039 billion of such proceeds have been received by MTA.

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 MTA Staten Island Railway and another for the Commuter System. The Review Board previously approved capital programs for the Transit System and MTA Staten Island Railway 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 MTA Capital Program were incorporated into the 1995-1999 MTA Capital Program. Substantially all of the projects included in the 1982-1999 MTA Capital Programs have been completed.

MTA and the Review Board have also approved separate five-year MTA Capital Programs covering the periods 2000-2004 and 2005-2009 for (1) the commuter railroad operations conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the "2000-2004 Commuter Capital Program" and the "2005-2009 Commuter Capital Program," respectively), and (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, and the rail system operated by MTA Staten Island

Railway (the “2000-2004 Transit Capital Program” and the “2005-2009 Transit Capital Program,” respectively).

The 2005-2009 Capital Programs, as amended to date, are effective and are described in detail below under “2005-2009 MTA 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 MTA Capital Program and the 2005-2009 MTA Capital Program. References to the 2000-2004 Capital Program and the 2005-2009 Capital Program include all amendments through the date of this Appendix A.

Funding for the MTA Capital Programs comes from a variety of sources, including bonds, State, City and MTA Bridges and Tunnels assistance, and Federal funds. The Federal government supplied approximately 31.5% of the funds required for the 1982-1999 Capital Programs. MTA estimates that the Federal government will supply approximately 24.8% of the funds required for the 2000-2004 MTA Capital Program, not including the lower Manhattan projects (Fulton Street and South Ferry) that are substantially 100% Federally funded. MTA estimates that the Federal government will supply approximately 34.7% of the funds required for the 2005-2009 MTA Capital Program.

MTA Bridges and Tunnels Facilities. MTA Bridges and Tunnels 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 MTA Bridges and Tunnels bonds.

Since then, while not required to do so by statute, MTA Bridges and Tunnels has developed its own five-year capital programs covering the same periods as the MTA Capital Programs to enable MTA Bridges and Tunnels to keep its own facilities in good operating condition while also maintaining its role in MTA’s unified transportation policy. The MTA Bridges and Tunnels Capital Programs are not subject to approval by the Review Board and bonds issued to finance MTA Bridges and Tunnels Facilities are not subject to the statutory ceiling.

Although substantial annual investments in major maintenance and bridge painting have regularly been made and additional expenditures are planned, MTA Bridges and Tunnels 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.

2005-2009 MTA Capital Program

General. The “2005-2009 MTA Capital Program” consists of the following components:

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

The transit and commuter core programs consist mainly of state-of-good-repair, normal replacement and modernization projects.

There can be no assurance that all the necessary governmental actions to implement the 2005-2009 MTA 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 MTA 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 MTA Capital Program needed to bring funding sources and expected project costs into balance. If the implementation of the 2005-2009 MTA 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 (which includes the proposed amendments described below under “Proposed Amendments to the MTA Capital Programs,” even though, with respect to the Transit and Commuter Systems, they have not yet been approved by the Review Board) sets forth the expected sources for funding the 2005-2009 MTA Capital Program and the 2005-2009 MTA Bridges and Tunnels Capital Program

<u>Funding Source</u>	<u>Program Amount (in millions)</u>
Federal Formula and Flexible	\$5,234
Federal New Start	2,255
Federal Security	354
City	401
City No. 7 Subway Line Funds	2,100
City Match for Buses (MTA Bus)	28
Operating to Capital	10
Asset Sales/Program Income/Carryover	1,273
New York State Bond Act Proceeds	1,450
MTA Bonds (including MTA Bridges and Tunnels)	4,341
MTA Bonds – New Source*	5,100
Other	<u>40</u>
Total**	\$22,586

* New Source revenues included the increase, in 2005, of the (1) District Sales Tax from one-quarter of 1% to three-eighths of 1%, (2) MRT -1 from 25 cents for each \$100 of mortgage recorded to 30 cents, and (3) amount of Department of Motor Vehicle fees included in MTTTF distribution.

**Total may not add due to rounding.

2005-2009 Transit Core Program. The following table (which includes the proposed amendments described below under “Proposed Amendments to the MTA Capital Programs,” even though, with respect to the Transit and Commuter Systems, they have not yet been approved by the Review Board) represents the capital program by category of work for the Transit System and MTA Staten Island Railway under the 2005-2009 Transit Capital Program (does not include MTA Network Expansion Projects related to the Transit System).

	2005-2009 Transit Core Program (in millions)
MTA New York City Transit	
Subway Cars	\$1,805
Buses	847
Passenger Stations	1,667
Track	1,156
Line Equipment	925
Line Structures	622
Signals & Communications	1,736
Power	503
Shops	306
Yards	267
Depots	591
Service Vehicles	119
Miscellaneous	591
MTA Staten Island Railway	<u>85</u>
Total*	<u>\$11,220</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 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 as of 2004. In addition, 951 new paratransit vehicles will be purchased to replace older units and to expand the total fleet by approximately 33 percent over 2004.

The plan funds the rehabilitation of 44 stations, normal replacement of approximately 51 miles of mainline track and 165 mainline switches, as well as installation of 50 track miles of continuous welded rail, which is expected to significantly lower occurrences of rail breaks and cracks.

For signals and communications, the MTA New York City Transit’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 and completion of signal modernization on the White Plains Road line. Communications system improvements feature the continued extension of the existing fiber optic network to all passenger stations.

MTA New York City Transit’s line equipment investments include replacing approximately 48 track miles of tunnel lighting, rehabilitating or expanding six fan plants to replace 10 existing units and adding three new fan plants, and state of good repair work at 17 pump rooms. Various line structure repairs and related work are addressed, including 9 route miles of subway structure, 8 route miles of elevated structure, 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 improvements at the

207th Street Overhaul Shop, an overhead crane at the Pitkin Shop and rehabilitation of a support shop (38th Street Yard Shop). In yards, a major project is Corona Yard Phase 3. In addition, the program will replace approximately seven miles of yard and non-revenue track, replace 100 yard switches and address other yard 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, improvements to the East New York Depot and reconstruction of the Clara Hale Depot. Rehabilitation work also is planned at three other depots. Projects are planned to replace bus lifts, roofs, washers and heavy depot equipment, and secure property for parking needs. In addition, a new bus locator system will be extended system-wide and a new system-wide radio system deployed.

For service vehicles, the plan replaces 212 heavy-duty 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 purchase the Tiffany St. Warehouse, which currently is leased, and 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, MTA New York City Transit will address various environmental and safety needs, such as asbestos monitoring and removal, installation of fire alarms at various facilities and environmental remediation.

For MTA Staten Island Railway, 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 four station houses.

2005-2009 Commuter Core Program. The following table (which includes the proposed amendments described below under “Proposed Amendments to the MTA Capital Programs,” even though, with respect to the Transit and Commuter Systems, they have not yet been approved by the Review Board) 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).

	<u>2005-2009 Commuter Core Program (in millions)</u>
MTA Long Island Rail Road	
Rolling Stock	\$371
Passenger Stations	105
Track	561
Line Structures	283
Communications & Signals	349
Shops & Yards	169
Power	145
Miscellaneous	<u>187</u>
Total*	<u>\$2,170</u>
 MTA Metro-North Railroad	
Rolling Stock	\$253
Passenger Stations	236
Track & Structures	245
Communications & Signals	75
Power	103
Shops & Yards	378
Miscellaneous	<u>87</u>
Total*	<u>\$1,376</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 MTA Long Island Rail Road 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 MTA Metro-North Railroad investments in this area continue the modernization of the fleet with the continuation of the M-2 overhaul. 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. MTA Metro-North Railroad will continue the structural rehabilitation of Grand Central Terminal. Also included is MTA Long Island Rail Road’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 MTA Long Island Rail Road, 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. For MTA Metro-North Railroad, the plan includes interlocking/switch replacement throughout the entire MTA Metro-North Railroad territory in New York State. Investments in line structures consist of the rehabilitation of bridges and viaducts. For MTA Long Island Rail Road, the plan includes the Atlantic Avenue viaduct and fire and life safety improvements in the East River Tunnels’ ventilation systems, bench walls, tunnel lining and floodgates. For MTA Metro-

North Railroad, the plan includes work on welfare, storage and other facilities and West of Hudson track improvements.

MTA Long Island Rail Road's communications investments include the continued expansion of the fiber optic network and the redesign of the Communications Network Operations Center. MTA Long Island Rail Road'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. MTA Long Island Rail Road will also continue its normal replacement of deteriorated communications poles system-wide. The proposed signal projects begin the rehabilitation of several of MTA Long Island Rail Road'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. MTA Metro-North Railroad'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.

MTA Long Island Rail Road'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 MTA Metro-North Railroad include upgrades to three facilities to accommodate additions to the rolling stock fleet and support for the reliability centered maintenance philosophy. Also, additional funds were transferred to fund significant cost increases in the ongoing Croton-Harmon Shop Master Plan.

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 MTA Long Island Rail Road 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 Bus Program. As part of the transition of the private bus operations from the City to MTA, the City and MTA have agreed to a reallocation of Federal urbanized formula funds that the City had received for the benefit of the private bus companies. This reallocation is expected to provide \$138.2 million and is comprised of \$110.6 million in Federal funds and \$27.6 million in City and State matching funds. The funding will support investments to bring bus maintenance facilities up to a state of good repair, thereby ensuring efficient and economical maintenance practices, as well as improving employee safety at the facilities. In addition, the need to replace heavy-duty, non-revenue vehicles will be addressed.

MTA Network Expansion Projects. MTA Capital Construction is in the process of designing and beginning the construction of the following major projects: East Side Access, the Second Avenue Subway and the No. 7 subway line extension. Funding has been placed in reserve for the Lower Manhattan rail link to JFK project.

The MTA Board has approved the addition of \$1.255 billion to East Side Access' approved 2005-2009 budget of \$1.15 billion reflecting the approval of a Federal Full Funding Grant Agreement for this project. With this addition, subject to the approval of the Review Board, the total budget in the approved 2005-2009 MTA Capital Program for expansion projects including East Side Access, Second Avenue Subway and JFK Rail Link is \$3.655 billion. The No. 7 subway line extension project currently estimated at \$2.1 billion is to be 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 2005-2009 MTA Capital Program includes an allocation of \$495 million to fund priority security initiatives. MTA expects to secure funding from the Federal Department of Homeland Security and other Federal sources to help support these critical projects.

Interagency Program. The MTA Interagency Program is made up of three initiatives: Customer Service Projects for \$46.3 million; MTA Police Department capital investments for \$64.1 million; and an MTA-wide integrated computer systems initiative for \$45 million.

Proposed Amendments to the MTA Capital Programs

On December 13, 2006, the MTA Board amended the 2000-2004 Capital Programs and the 2005-2009 Capital Programs for the purposes of updating capital project budgets and recognizing changes in funding sources. The amendments referenced below reflect MTA's projections of capital project costs to the date of the amendments. MTA will submit amendments to the Capital Programs from time to time to balance capital costs with funding sources. The amendments relating to the MTA Bridges and Tunnels' capital programs were effective upon adoption by the Board and are reflected in the information set forth below under "2005-2009 MTA Bridges and Tunnels Capital Program."

2000-2004 Capital Programs.

- The value of the plan (including the Transit, Commuter and MTA Bridges and Tunnels programs) was increased by \$253 million, from \$20.89 billion to \$21.15 billion, with the Transit and Commuter programs increasing by \$285 million and the MTA Bridges and Tunnels program decreasing by \$32 million (which was transferred to the 2005-2009 MTA Bridges and Tunnels capital program to fund cost increases).
- The operating agency programs increased by \$133 million, which includes transfers from the 2005-2009 Capital Program to fund cost increases for work still underway and the addition of new projects for MTA Metro-North Railroad's Yankee Stadium station and MTA Long Island Rail Road's Shea Stadium station. The two stadium projects are funded by the transfer of allocations from the discontinued LaGuardia Airport Access project.
- The Phase I Security Program was allocated an additional \$129 million in MTA operating and Federal sources (bringing the total to \$721 million) to fund the completion of the Phase I initiatives.
- The South Ferry Terminal project was allocated an additional \$34 million in MTA operating sources to fund additional costs needed for the final contract award.

- MTA Bus received an additional \$33.5 million of City funding representing its match for Federal funds transferred by the City as part of the City-MTA agreement relating to the takeover of the private bus companies by MTA Bus. MTA Bus also received an additional \$1.5 million in Federal funds transferred by the City.

2005-2009 Capital Programs.

- The value of the plan (including the Transit, Commuter and MTA Bridges and Tunnels programs) was increased by \$45 million, from \$21.29 billion to \$21.33 billion. The changes in the plan included a \$99 million decrease in the core Transit and Commuter programs and the interagency program, a \$34 million increase in the MTA Bridges and Tunnels program (\$32 million of which was transferred from the 2000-2004 MTA Bridges and Tunnels capital program), and a \$110 million increase in City funding for the No. 7 subway line extension.
- The operating agency programs decreased by \$95 million to transfer funds to ongoing elements in the 2000-2004 MTA Capital Program that have experienced cost increases.
- An amendment to the Phase II Security Program reflects the substitution of \$141 million in MTA Bridges and Tunnels bonds and cash to fund critical security needs of the bridges and tunnels to displace a like amount of originally anticipated Federal funding for these projects that has not materialized.

On February 28, 2007, the MTA Board amended the 2005-2009 MTA Capital Program to add \$1.255 billion of East Side Access FFGA funds to the East Side Access project budget to provide sufficient funding to progress the 2005-2009 elements of such project.

The above-referenced amendments approved by the MTA Board for the Transit and Commuter Systems were submitted to the Review Board for approval in April 2007, but have not yet been approved. The amendments to the 2000-2004 MTA Capital Program and the 2005-2009 MTA Capital Program, insofar as they relate to the Transit and Commuter Systems, will not become effective until they are submitted to, and approved by, the Review Board.

2005-2009 MTA Bridges and Tunnels Capital Program

The 2005-2009 MTA Bridges and Tunnels Capital Program, as amended in December 2006, provides for \$1.202 billion in capital commitments, which is expected to be financed with MTA Bridges and Tunnels pay-as-you-go capital and MTA Bridges and Tunnels bonds. The following table represents the current scope of the program.

<u>Category of Project</u>	2005-2009 Capital Program (in millions)
Structures	\$178
Roadways & Decks	744
Toll Plazas	75
Utilities	37
Buildings & Sites	147
Miscellaneous	<u>22</u>
Total*	\$1,202

* Total may not add due to rounding.

Among the major projects included are the following:

- Triborough Bridge rehabilitation program – deck replacement at Randall’s Island and construction of new ramps,
- Bronx-Whitestone Bridge – replacement of the elevated and on-grade approaches in the Bronx,
- Verrazano-Narrows Bridge – continuation of the rehabilitation of the elevated approaches,
- Henry Hudson Bridge – replacement of lower level deck,
- Throgs Neck Bridge – rehabilitation of the orthotropic deck,
- Cross-Bay Bridge – deck and structural rehabilitation,
- Marine Parkway-Gil Hodges Memorial Bridge – structural steel repairs, and
- Throgs Neck Bridge – suspended span cable rewinding and anchorage and tower protection.

1992-2004 Transit Capital Program Objectives

Highlights of the investments funded in the 1992-2004 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 1992-2004 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.

The projects included in the 1992-1999 Transit Capital Programs have been substantially completed. As of December 31, 2006, \$10.046 billion of the \$10.295 billion for MTA New York City Transit, MABSTOA and MTA Staten Island Railway projects included in the 2000-2004 Transit Capital Program have been committed, \$8.420 billion have been expended and \$6.697 billion of projects have been completed.

1992-2004 Commuter Capital Program Objectives

Highlights of key investments funded under the 1992-2004 Commuter Capital Program for MTA Long Island Rail Road include replacement of MTA Long Island Rail Road’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 system-wide. MTA Metro-North Railroad’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 Wassaucott.

The projects included in the 1992-1999 Commuter Capital Program have been substantially completed. As of December 31, 2006, \$3.865 billion for Commuter System projects of the \$3.959 billion of projects included in the 2000-2004 Commuter Capital Program have been committed, \$3.594 billion have been expended and \$1.063 billion of projects have been completed.

1992-2004 MTA Bridges and Tunnels Capital Programs

Highlights of key investments funded under MTA Bridges and Tunnels’ 1992-2004 capital programs include 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;

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; 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; 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; and rehabilitation of toll plazas, including electronic toll collection systems.

The projects included in the 1992-1999 MTA Bridges and Tunnels Capital Program have been substantially completed. As of December 31, 2006, \$969 million for MTA Bridges and Tunnels projects of the \$1,003 million of projects included in the 2000-2004 MTA Bridges and Tunnels Capital Program have been committed, \$831 million have been expended and \$613 million of projects have been completed.

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.

Non-Capital Program Projects

2 Broadway. MTA (on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad), MTA New York City Transit and MTA Bridges and Tunnels 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 MTA New York City Transit and MTA Bridges and Tunnels that formerly occupied space at the New York Coliseum that was sold in 2000. Other portions of the building are occupied by MTA Capital Construction and certain MTA Headquarters personnel, such as the audit department. MTA New York City Transit, MTA Bridges and Tunnels and/or MTA occupy substantially all of the remainder of 2 Broadway. 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. MTA Bridges and Tunnels 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 MTA Long Island Rail Road operates its layup yards (the "Hudson Yards") for trains not in service pending travel from Penn Station, its Manhattan hub. As described below, the City and MTA have entered into a memorandum of understanding relating to the development of the Hudson Yards. It is expected that, in connection with any development of the Hudson Yards, MTA Bridges and Tunnels will transfer title to MTA.

In addition to the No. 7 Line MOU described above under "MTA CAPITAL CONSTRUCTION COMPANY – No. 7 Subway Line Extension," on September 28, 2006, the MTA Board also authorized the execution of a memorandum of understanding with the City with respect to the development of the Hudson

Yards (the “Rail Yards MOU”). The eastern portion of the rail yards between 10th and 11th Avenues was rezoned by the City in 2005. The western portion of the Hudson Yards between 11th and 12th Avenues was not rezoned by the City.

The Rail Yards MOU provides that HYIC will purchase 50% of the transferable development rights (“TDRs”) on the eastern portion created by the rezoning from MTA for \$200 million. HYDC has the authority to market and negotiate the price and payment terms for all of the eastern portion TDRs, subject to the terms and conditions set forth in the Rail Yards MOU. Pursuant to the Rail Yards MOU, once the City has realized from the TDRs sales its original \$200 million plus interest, all remaining proceeds from the sale of the TDRs will be paid to MTA. MTA retains all on-site development rights on the eastern portion. MTA has received the first \$100 million and the remainder is payable to the MTA in three equal annual installments beginning in December 2007.

The western portion of the rail yards between 11th and 12th Avenues is currently zoned for low density industrial uses and must be rezoned by the City prior to more extensive development. Under the Rail Yards MOU, HYDC, in cooperation with MTA and the City Council, will develop a statement of planning and design guidelines (the “Guidelines”). Following completion of the Guidelines, MTA, in consultation with HYDC, the Department of City Planning and the City Council, will issue a request for proposals to develop both the eastern and western portions of the rail yards, other than the eastern portion TDRs. Separate developers may be chosen for the eastern and western portions. The final selection of a developer or developers and the material business terms of any proposed disposition are subject to further approval of the MTA Board.

It is currently planned that the proceeds that MTA receives from the rail yards development will be used as a funding source for the 2005-2009 MTA Capital Program.

While agreement has been reached by certain parties on certain portions of the Westside development, the City, the State 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. In addition, a number of cases have been commenced in New York State Supreme Court, New York County challenging certain aspects of the Hudson Yards development. Additional litigation is possible.

FUTURE CAPITAL NEEDS

MTA periodically 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 moneys to fund current and future capital needs, the improvements to the Transit System’s and MTA Staten Island Railway’s, the Commuter System’s and MTA Bridges and Tunnels’ 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, the State Comptroller's investment guidelines, bond resolutions and MTA Board-adopted 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, 2006, \$719 million market value non-bond capital funds consisted of approximately 7.4% cash and repurchase agreements, 25.4% United States Treasury obligations, 44.9% agency obligations, 21.5% commercial paper, and less 0.8% in certificates of deposit. The maturity of non-bond capital funds was less than four months.

As of December 31, 2006, the operating and working capital of the Related Entities amounted to \$1,197 million, and was invested with an average weighted days to maturity of less than four months.

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

GENERAL

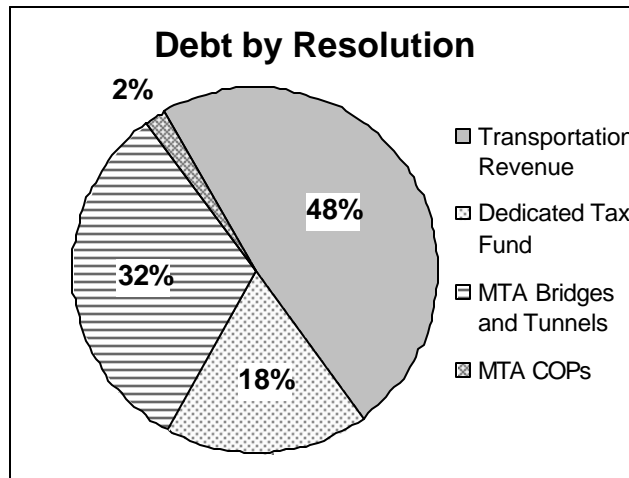
Financing of Capital Projects and Statutory Ceiling

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 MTA Bridges and Tunnels. 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 MTA 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 MTA Capital Programs will also be subject to a statutory ceiling expected to be imposed by the State Legislature. Obligations issued by MTA Bridges and Tunnels to fund capital projects relating to its seven bridges and two tunnels, the MTA Bridges and Tunnels Facilities, and obligations issued by the Related Entities for purposes other than financing projects in the MTA Capital Programs are not subject to the current statutory ceiling.

Current Statutory Ceiling. The MTA Act permits MTA, MTA Bridges and Tunnels and MTA New York City Transit, collectively, to issue on or after January 1, 1993 an aggregate of \$28.877 billion of bonds, notes and other obligations (net of certain statutory exclusions, including refunding bonds) for the MTA Capital Programs for the years 1992-2009. MTA and MTA Bridges and Tunnels have previously issued a substantial amount of such bonds pursuant to prior statutory ceilings. MTA, MTA Bridges and Tunnels and MTA New York City Transit have issued approximately \$14.9 billion of bonds (not including \$750 million of commercial paper) net of such statutory exclusions under the current statutory ceiling. MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of all MTA Capital Programs approved by the Review Board to date, including the 2005-2009 MTA Capital Program.

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

The following pie chart shows, by percentages, the amount of debt MTA and MTA Bridges and Tunnels have outstanding as of April 1, 2007, under the resolutions relating to the MTA Transportation Revenue Bonds, MTA Dedicated Tax Fund Bonds, MTA Bridges and Tunnels Senior Revenue Bonds and MTA Bridges and Tunnels Subordinate Revenue Bonds, and the 2 Broadway Certificates of Participation Trust Agreement, all as described below. For purposes of the following pie chart, the MTA Bridges and Tunnels Senior Revenue Bonds and MTA Bridges and Tunnels Subordinate Revenue Bonds have been combined.



MTA 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 MTA New York City Transit and MaBSTOA and the commuter railroads operated by MTA Long Island Rail Road and MTA Metro-North Railroad, concession revenues, and operating subsidies (not including Federal operating subsidies), including expense reimbursement payments, from the State, the City and MTA Bridges and Tunnels. The proceeds from the sale of such bonds are used solely to finance capital projects set forth in the MTA Capital Programs.

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

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 MTA Capital Programs. For more information on the Dedicated Tax Fund Bonds, see “DEDICATED TAX FUND BONDS” below in this Part 4.

MTA Bridges and Tunnels Senior Revenue Bonds. Bonds are issued pursuant to the General Resolution Authorizing General Revenue Obligations of MTA Bridges and Tunnels, adopted on March 26, 2002 (the “MTA Bridges and Tunnels Senior Resolution”), and are payable from the net revenues collected on the MTA Bridges and Tunnels Facilities described under “TBTA – MTA Bridges and Tunnels Facilities.” The proceeds from the sale of such bonds are used to finance capital projects relating to the MTA Bridges and Tunnels Facilities and the MTA Capital Programs (i.e., the Transit System, MTA Staten Island Railway and the Commuter System), as described herein under “TBTA – Authorized Projects of MTA Bridges and Tunnels” in Part 2. Only that portion of any such bonds issued to finance capital projects of the MTA Capital Programs is subject to the current statutory ceiling. For more information on the MTA Bridges and Tunnels Senior Revenue Bonds, see “MTA BRIDGES AND TUNNELS SENIOR REVENUE BONDS” below in this Part 4.

MTA Bridges and Tunnels Subordinate Revenue Bonds. Bonds are issued pursuant to the 2001 Subordinate Revenue Resolution Authorizing Subordinate Revenue Obligations of MTA Bridges and Tunnels, adopted on March 26, 2002 (the “MTA Bridges and Tunnels Subordinate Resolution”), and are payable from the net revenues collected on the MTA Bridges and Tunnels Facilities after the payment of operating expenses and debt service as required by the MTA Bridges and Tunnels Senior Resolution. The proceeds from the sale of such bonds are used to finance capital projects relating to the MTA Bridges and Tunnels Facilities and the MTA Capital Programs. Only that portion of any such bonds issued to finance capital projects of the MTA Capital Programs is subject to the current statutory ceiling. For more information on the MTA Bridges and Tunnels Subordinate Revenue Bonds, see “MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS” below in 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 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 MTA Capital Programs. 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 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 MTA New York City Transit, MTA (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad), and MTA Bridges and Tunnels, as obligors with respect to their base rent proportionate shares (68.7% in the case of MTA New York City Transit, 21.0% in the case of MTA (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad), and 10.3% in the case of MTA Bridges and Tunnels), 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 MTA New York City Transit, MTA and MTA Bridges and Tunnels 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 MTA New York City Transit 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 MTA Long Island Rail Road and MTA Metro-North Railroad) 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 MTA Bridges and Tunnels to pay its base rent proportionate share is, by agreement, subordinate to MTA Bridges and Tunnels' payment of other operating and maintenance expenses of MTA Bridges and Tunnels, 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 were used to finance certain building and leasehold improvements to an office building occupied by MTA New York City Transit, MTA or its subsidiaries (MTA Long Island Rail Road and MTA Metro-North Railroad), and/or MTA Bridges and Tunnels at 2 Broadway in lower Manhattan. The office building is not a project within the Capital Programs. There are \$422,125,000 aggregate principal amount of Certificates of Participation outstanding.

MTA Bridges and Tunnels Convention Center Project Bonds. Bonds issued pursuant to the Convention Center Project Revenue Bond Resolution of MTA Bridges and Tunnels, adopted on July 23, 1980, are not payable from any MTA Bridges and Tunnels revenues, but are payable solely from and secured by payments to be made by the State to MTA Bridges and Tunnels 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 original Jacob K. Javits Convention Center in Manhattan. There are \$184,445,000 aggregate principal amount of such Convention Center Project Bonds outstanding.

Revenue Anticipation Notes. MTA and MTA New York City Transit 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. The ability of the Related Entities to engage in the interagency loans described below has lessened the need for the issuance of revenue anticipation notes. Neither MTA nor MTA New York City Transit 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 moneys 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 moneys and securities so transferred will be reimbursed, repaid or otherwise provided for by the end of the next succeeding calendar year.

Leasing

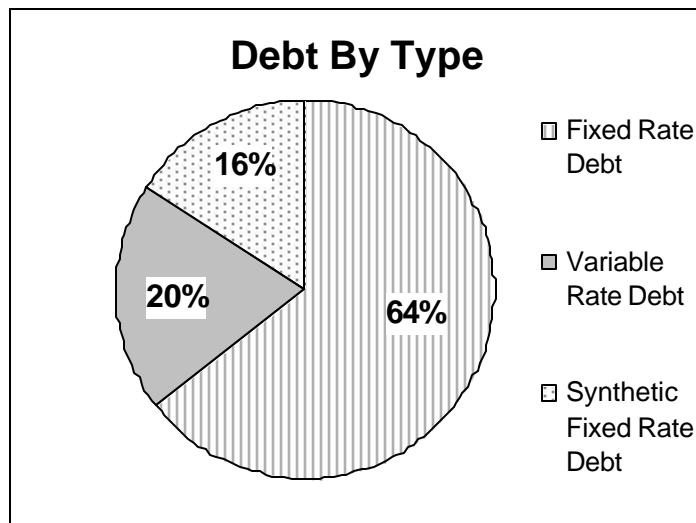
The Related Entities lease real property, facilities, equipment and other personal property in the normal course of business. In addition, the Related Entities have entered into financing leases and other financial transactions, including sale-leaseback and lease-leaseback arrangements, pursuant to which 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 MTA Bridges and Tunnels, a reduction in the amount of operating surplus transferred from MTA Bridges and Tunnels could result.

In May 2006, the "Tax Increase Prevention and Reconciliation Act of 2005" (P.L. 109-222) enacted section 4965 of the Internal Revenue Code of 1986, imposing an excise tax on the net income or proceeds of certain types of prohibited tax shelter transactions entered into by tax-exempt entities, including states and their political subdivisions, such as MTA and its affiliates and subsidiaries. Some of the MTA leasing transactions that could be subject to the excise tax are described in footnote 7 to MTA's consolidated financial statements for the years ended December 31, 2006 and 2005 that are included herein by specific cross-reference. The United States Department of the Treasury and the Internal Revenue Service are in the process of completing regulations that will further clarify whether any of the MTA's lease transactions are subject to the excise tax and, if so, the calculation of the excise tax. At this time, the magnitude of MTA's (including its affiliates and subsidiaries) excise tax liability, if any, with respect to the lease transactions that are subject to section 4965 is unclear. Accordingly, MTA is unable to determine at this time whether the imposition of the excise tax will have a material adverse effect on MTA's financial results or condition.

For more information with respect to certain of these 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, 2006 and 2005, Footnote 5 to the consolidated financial statements of MTA New York City Transit for the years ended December 31, 2006 and 2005, and Footnotes 13 and 16 to the financial statements of MTA Bridges and Tunnels for the years ended December 31, 2006 and 2005.

Types of Debt Outstanding

The following pie chart shows, by percentages, the types of debt MTA and MTA Bridges and Tunnels have outstanding under the resolutions relating to the MTA Transportation Revenue Bonds, MTA Dedicated Tax Fund Bonds, MTA Bridges and Tunnels Senior Revenue Bonds and MTA Bridges and Tunnels Subordinate Revenue Bonds, and the 2 Broadway Certificates of Participation Trust Agreement.



Swap Agreements Relating to Synthetic Fixed Rate Debt

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

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

Fair Value. Relevant market interest rates on the valuation date of the swaps reflected in the following charts (March 31, 2007) in some cases were higher than, and in some cases were lower than, market interest rates on the effective date of the swaps. Consequently, as of the valuation date, some of the swaps had negative fair values and some had positive fair values. A negative fair value means that MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would have to pay the counterparty that approximate amount to terminate the swap. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be entitled to receive a payment from the counterparty to terminate the swap; consequently, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the swap be terminated.

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

date of each future net settlement on the swap. 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, MTA Bridges and Tunnels and MTA New York City Transit 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 MTA Bridges and Tunnels, as well as the swaps entered into in connection with the 2 Broadway Certificates of Participation refunding, are reflected in the following tables. The MTA swaps are reflected in separate tables for the Transportation Revenue Bonds and Dedicated Tax Fund Bonds. The MTA Bridges and Tunnels swaps are reflected in separate tables for the senior lien and subordinate revenue bonds.

MTA TRANSPORTATION REVENUE BONDS

<u>Associated Bond Issue</u>	<u>Notional Amounts as of 3/31/07 (Unaudited) (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 3/31/07 (Unaudited) (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2002D-2	200.000	01/01/07	4.45	69% of one-month LIBOR ⁽²⁾	\$(21.647)	11/01/32	Bear Stearns Capital Markets Inc.
Series 2005D and Series 2005E	500.000	11/02/05	3.561	67% of one-month LIBOR	(3.696)	11/01/35	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.
Total	\$700.000				\$ (25.343)		

⁽²⁾ London Interbank Offered Rate.

MTA DEDICATED TAX FUND BONDS

<u>Associated Bond Issue</u>	<u>Notional Amounts as of 3/31/07 (Unaudited) (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 3/31/07 (Unaudited) (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2002B	\$440.000	09/05/02	4.06 %	Actual bond rate until 04/30/10, and thereafter, BMA	\$ (13.327)	09/01/13	Morgan Stanley Capital Services Inc.
Series 2005A	346.555	03/24/05	3.3156	67% of one-month LIBOR	7.397	11/01/31	Citigroup Financial Products Inc.
Total	\$786.555				\$ (5.930)		

MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 3/31/07 (Unaudited) (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 3/31/076 (Unaudited) (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2001B and 2001C ⁽³⁾	\$205.200	01/01/02	5.777%	Actual bond rate	\$ (25.679)	01/01/19	Citigroup Financial Products Inc.
Series 2002C ⁽⁴⁾	77.200	01/01/00	5.634	Actual bond rate	(6.890)	01/01/13	Ambac Financial Services, L.P.
Series 2005B	797.200	07/07/05	3.076	67% of one-month LIBOR	44.874	01/01/32	25% each – Citibank, N.A., JPMorgan Chase Bank, BNP Paribas North America, Inc. and UBS AG
Series 2005B	797.200	07/07/05	67% of one-month LIBOR plus 43.7 basis points ⁽⁵⁾	BMA minus 10 basis points	(12.738)	01/01/12	UBS AG
Total	\$1,876.800				\$ (0.432)		

⁽³⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of \$19,204,000.

⁽⁴⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of \$8,400,000.

⁽⁵⁾ For the purpose of mitigating the basis risk during the escrow period with respect to the \$797.2 million notional amount swaps entered into in connection with the Series 2005B Bonds, MTA Bridges and Tunnels will pay 67% of one-month LIBOR plus 43.7 basis points to the UBS AG and receive a variable rate equal to the BMA Index minus 10 basis points.

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 3/31/07 (Unaudited) (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 3/31/07 (Unaudited) (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2000A and 2000B ⁽⁶⁾	\$201.100	01/01/01	6.08 %	Actual bond rate	\$ (28.297)	01/01/19	Bear Stearns Capital Markets Inc.
Series 2000C and 2000D ⁽⁶⁾	201.100	01/01/01	6.07	Actual bond rate	(28.184)	01/01/19	Citigroup Financial Products Inc.
Series 2002G-1	90.500	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(1.601)	01/01/18	JPMorgan Chase Bank
Series 2002G-2	90.525	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(1.756)	01/01/18	JPMorgan Chase Bank
Total	\$583.225				\$(59.839)		

⁽⁶⁾ In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying to MTA Bridges and Tunnels a premium of \$22,740,000.

2 Broadway Certificates of Participation Swaps

In addition to the foregoing, MTA, MTA New York City Transit and MTA Bridges and Tunnels entered into separate ISDA Master Agreements with UBS AG relating to the \$357,925,000 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. Based on the aggregate notional amount of \$355,525,000 outstanding as of March 31, 2007, MTA New York City Transit is responsible for \$244,250,000 aggregate notional amount of the swaps, MTA for \$74,650,000 aggregate notional amount, and MTA Bridges and Tunnels for \$36,625,000 aggregate notional amount. As of March 31, 2007, the aggregate unaudited fair value of the swaps was \$1.206 million.

Counterparty Ratings

The current ratings of the counterparties 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+
BNP Paribas North America, Inc.	AA	Aa2	AA
Citibank, N.A.	AA+	Aaa	AA+
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 amount and the outstanding principal amount as of March 31, 2007 for the swap where the notional amount does not match the outstanding principal amount of the associated bonds.

<u>Associated Bond Issue</u>	<u>Principal Amount of Bonds (in millions)</u>	<u>Notional Amount (in millions)</u>
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	\$296.400	\$205.200
MTA Bridges and Tunnels 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, MTA Bridges and Tunnels' and MTA New York City Transit's perspective, the following risks are generally associated with swap agreements:

- **Credit Risk** – The counterparty becomes insolvent or is otherwise not be able to perform its financial obligations. In the event of a deterioration in the credit ratings of the counterparty or MTA/MTA Bridges and Tunnels/MTA New York City Transit, the swap agreement may require that collateral be posted to secure the party's obligations under the swap agreement. See "Collateralization" below. Further, ratings deterioration by either party below levels agreed to in each transaction could result in a termination event requiring a cash settlement of the future value of the transaction. See "Termination Risk" below.
- **Basis Risk** – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA, MTA Bridges and Tunnels or MTA New York City Transit on the associated bonds may not be the same. If the counterparty's rate under the swap is lower than the bond interest rate, then the counterparty's payment under the swap agreement does not fully reimburse MTA, MTA Bridges and Tunnels or MTA New York City Transit for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty's rate on the swap, there is a net benefit to MTA, MTA Bridges and Tunnels or MTA New York City Transit.
- **Termination Risk** – The swap agreement will be terminated and MTA, MTA Bridges and Tunnels or MTA New York City Transit will be required to make a 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, MTA Bridges and Tunnels or MTA New York City Transit may be exposed to then market rates and cease to receive the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk. The following table shows, as of March 31, 2007, the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA and/or MTA Bridges and Tunnels, or in connection with the 2 Broadway Certificates of Participation refunding. The notional amount totals below include all five swaps (including the UBS basis risk swap) in connection with the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B. The counterparties have the ratings set forth above.

<u>Counterparty</u>	<u>Notional Amount (in millions)</u>	<u>% of Total Notional Amount</u>
UBS AG	\$1,652,025	38.40%
Citigroup Financial Products Inc.	752,855	17.50
Morgan Stanley Capital Services Inc.	440,000	10.23
Bear Stearns Capital Markets Inc.	401,100	9.32
JPMorgan Chase Bank	380,325	8.84
BNP Paribas North America, Inc.	199,300	4.63
Citibank, N.A.	199,300	4.63
AIG Financial Products Corp.	100,000	2.32
Lehman Brothers Special Financing Inc.	100,000	2.32
Ambac Financial Services, L.P.	<u>77,200</u>	<u>1.79</u>
Total	\$4,302,105	100.00%

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

- Bear Stearns Capital Markets Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels 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, MTA Bridges and Tunnels or MTA New York City Transit, as the case may be, or the counterparty falls to a certain level, the party whose rating falls is required to post collateral with a third-party custodian to secure its termination payments above certain threshold amounts. Collateral must be cash or U.S. government or certain Federal agency securities.

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

MTA Transportation Revenue Bonds		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA 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>
Series 2002D-2	<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
Series 2005D and Series 2005E	<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

<u>MTA Dedicated Tax Fund Bonds</u>		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA 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>
Series 2002B	<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
Series 2005A [Note: for this swap, MTA is not required to post collateral under any circumstances.]	<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 <u>Moody's</u> – Baa1 and below, or <u>S&P</u> – BBB+ and below	\$0

<u>2 Broadway Certificates of Participation</u>		
<u>Associated Agencies</u>	<u>If the highest rating of the MTA Transportation Revenue Bonds falls to</u>	<u>Then MTA, MTA Bridges and Tunnels and MTA New York City Transit must post collateral if its estimated termination payments are in excess of</u>
MTA MTA Bridges and Tunnels MTA New York City Transit	<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
	<u>If the highest rating of the Counterparty's long-term unsecured debt falls to</u>	<u>Then the Counterparty must post collateral if its estimated termination payments are in excess of</u>
	<u>Moody's</u> – Baa1 or lower, or <u>S&P</u> – BBB+ or lower	\$0

MTA Bridges and Tunnels Senior Lien Revenue Bonds		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA Bridges and Tunnels 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>
Series 2001B and 2001C	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2002C	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Ambac is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2005B interest rate swap and Series 2005B basis risk swap	For counterparty, <u>Fitch</u> – A-, or <u>Moody's</u> – A3, or <u>S&P</u> – A-	\$10,000,000
	For MTA, <u>Fitch</u> – BBB+, or <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$30,000,000
	For MTA, <u>Fitch</u> – BBB, or <u>Moody's</u> – Baa2, or <u>S&P</u> – BBB	\$15,000,000
	For counterparty, <u>Fitch</u> – BBB+ and below, or <u>Moody's</u> – Baa1 and below, or <u>S&P</u> – BBB+ and below	\$0
	For MTA, <u>Fitch</u> – BBB- and below, or <u>Moody's</u> – Baa3 and below, or <u>S&P</u> – BBB- and below	\$0

MTA Bridges and Tunnels Subordinate Revenue Bonds		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA Bridges and Tunnels 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>
Series 2000A and 2000B	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Bear Stearns is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2000C and 2000D	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2002G-1 and 2002G-2	<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 MTA Bridges and Tunnels bond resolution, the payments relating to debt service on the swaps are parity obligations with the associated bonds, as well as all other bonds issued under that bond resolution, but all other payments, including the termination payments, are subordinate to the payment of debt service on the swap and all bonds issued under that bond resolution. In addition, MTA and MTA Bridges and Tunnels have structured each of the swaps (other than the 2 Broadway swaps) in a manner that will permit MTA or MTA Bridges and Tunnels to bond the termination payments under any available bond resolution.

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

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

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

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

2 Broadway		
<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.

MTA Bridges and Tunnels Senior and Subordinate Revenue Bonds	
<u>Associated Bond Issue</u>	<u>Additional Termination Events</u>
Senior Lien Revenue Bonds	
Series 2001B and 2001C and Series 2002C	<p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, Ambac Assurance Corporation.</p>
Series 2005B interest rate swap and basis risk swap	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Moody's with respect to the MTA Bridges and Tunnels Senior Lien Revenue Bonds falls below "BBB" or "Baa2," respectively, or , in either case the ratings are withdrawn.
Subordinate Revenue Bonds	
Series 2000A, 2000B, 2000C and 2000D	<p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, Financial Security Assurance Inc.</p>
Series 2002G-1 and Series 2002G-2	<p>1. The ratings by S&P and Moody's of the Counterparty or the MTA Bridges and Tunnels Subordinate Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.</p> <p>2. MTA Bridges and Tunnels may terminate the swap at no cost on or after December 29, 2010 in the case of the Series 2002G-1 swap, and on or after January 5, 2011 in the case of the Series 2002G-2 swap.</p>

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

<u>Associated Bond Issue</u>	<u>Bond Maturity Date</u>	<u>Swap Termination Date</u>
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	11/01/22	09/01/13
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	01/01/32	01/01/19
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002C	01/01/33	01/01/13
MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels on or after January 5, 2011.

It should also be noted that, in connection with the MTA Bridges and Tunnels 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, MTA Bridges and Tunnels 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 MTA Bridges and Tunnels decided to readjust the sinking fund schedules, MTA Bridges and Tunnels would be exposed to rollover risk at the swap termination date. MTA Bridges and Tunnels 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. MTA Bridges and Tunnels has no current intention of exercising these rights.

TRANSPORTATION REVENUE BONDS

General

There are \$9,940,320,000 aggregate principal amount of outstanding Transportation Revenue Bonds. In addition, MTA issued \$750 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 for the bond year ending November 15, the debt service on outstanding MTA Transportation Revenue Bonds.

TRB Table 1
Aggregate Debt Service
(in thousands)

<u>Year Ending November 15</u>	<u>Aggregate Debt Service⁽¹⁾</u>
2007	\$ 655,466
2008	657,922
2009	657,802
2010	657,638
2011	657,480
2012	657,301
2013	658,606
2014	658,590
2015	658,595
2016	658,565
2017	657,956
2018	658,018
2019	658,114
2020	658,171
2021	658,244
2022	658,302
2023	666,982
2024	667,069
2025	667,195
2026	667,295
2027	667,389
2028	667,534
2029	667,657
2030	667,754
2031	667,888
2032	617,419
2033	264,313
2034	264,448
2035	235,697
2036	<u>27,693</u>
Total	<u>\$17,943,101</u>

⁽¹⁾ Includes the following variable rate assumptions for debt service: Series 2002D-2, Series 2005D and Series 2005E Bonds at their respective swap rates; and Series 2002B, Series 2002D-1, Series 2002G, Series 2004A and Series 2005G Bonds 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"), all of which are incorporated by specific cross-reference herein :

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 at no cost on MTA's website at www.mta.info/mta/investor/index.html 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, MTA Long Island Rail Road, MTA Metro-North Railroad and, effective as of April 1, 2006, MTA Bus) and affiliates (currently, MTA New York City Transit 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 moneys, 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.

TRB Table 2 sets forth the following for the five years ended December 31, 2006:

- 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.

TRB Table 2 is based on the historical audited financial statements of MTA and its subsidiaries, MTA Long Island Rail Road, MTA Metro-North Railroad and MTA Bus, and MTA New York City Transit and its subsidiary MaBSTOA. The audited financial statements for MTA and MTA New York City Transit for the last two years covered by **TRB Table 2** are included herein by specific cross-reference and should be read in connection with this information. This information in **TRB Table 2** may not be indicative of future results of operations and financial condition. **TRB Table 2** does not include MTA Bus information prior to 2006 since MTA Bus signed the Interagency Agreement effective as of April 1, 2006. For the year 2002, **TRB Table 2** is a presentation that gives effect to the combined revenues of the Transit System and Commuter System as if the Transportation Resolution had been in place before the debt restructuring. The information contained in the table has been prepared by MTA management based upon the historical financial statements and notes.

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

	Years Ended December 31,				
	2002	2003	2004	2005	2006
Revenues from Systems Operations					
Fares from Transit System	\$2,156	\$2,420	\$2,567	\$2,668	\$2,778
Fares from Commuter System	689	772	819	881	911
Fares from MTA Bus	N/A	N/A	N/A	N/A	104
Other Income ⁽¹⁾	<u>157</u>	<u>109</u>	<u>245</u>	<u>129</u>	<u>79</u>
Subtotal – Operating Revenues	3,002	3,301	3,631	3,678	3,872
Revenues from MTA Bridges and Tunnels Surplus	251	395	377	477	435
MTA Bridges and Tunnels – Refund of Excess Debt Service Payments	0	164	0	0	0
Revenues from Governmental Sources					
State and Local General Operating Subsidies	423	380	377	415	391
Special Tax-Supported Operating Subsidies					
DTF Excess ⁽²⁾	333	322	411	361	391
MMTOA Receipts	1,107	731	736	946	1,219
Urban Tax	171	177	344	551	669
Excess Mortgage Recording Taxes	<u>0</u>	<u>228</u>	<u>163</u>	<u>193</u>	<u>249</u>
Subtotal Special Tax-Supported Operating Subsidies	1,612	1,458	1,654	2,051	2,528
Station Maintenance and Service Reimbursements	291	307	311	349	376
City Subsidy for MTA Bus	N/A	N/A	N/A	N/A	162
Revenues from Investment of Capital Program Funds⁽³⁾	27	14	26	52	66
Subtotal – Non-Operating Revenues⁽⁴⁾	2,604	2,718	2,745	3,344	3,958
Total Transportation Resolution Pledged Revenues	\$5,606	\$6,019	\$6,376	\$7,022	\$7,830
Debt Service⁽⁵⁾	\$106	\$257	\$389	\$506	\$629
Transit Operating Expenses	\$3,843	\$4,161	\$4,198	\$4,483	\$4,788
Commuter Operating Expenses	1,426	1,512	1,609	1,632	\$1,731
MTA Bus Operating Expenses	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>315</u>
Total Operating Expenses	\$5,269	\$5,673	\$5,807	\$6,115	\$6,834
Total Operating Expenses and Debt Service	\$5,375	\$5,930	\$6,196	\$6,621	\$7,463

(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. In December 2004, MTA provided MTA New York City Transit with a \$13 million subsidy from operating funds.

(2) Calculated by subtracting the debt service payments on the Dedicated Tax Fund Bonds from the MTTF Receipts described in Part 4 of 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 (a) Revenues from MTA Bridges and Tunnels Surplus, (b) MTA Bridges and Tunnels – Refund of Excess Debt Service Payments, (c) Revenues from Governmental Sources (including State and Local General Operating Subsidies and Special Tax-Supported Operating Subsidies), (d) Station Maintenance and Service Reimbursements, (e) City Subsidy for MTA Bus and (f) Revenues from Investment of Capital Program Funds.

(5) Actuals for the year 2002 based upon payments to bondholders made on July 1 of the current year and January 1 of the following year 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**:

- Revenues from Systems Operations – In 2003, the level of fares increased on May 4 for the Transit System and May 1 for the Commuter System. In 2005, the level of fares increased on February 27 for the Transit System and March 1 for the Commuter System.
- Other Income in 2004 includes World Trade Center and other insurance settlement moneys.
- MTA Bridges and Tunnels Surplus increased in 2003 based upon the toll increases that became effective on May 18, 2003 and again in 2005 based upon the toll increases that became effective on March 13, 2005.
- MTA Bridges and Tunnels – Refund of Excess Debt Service Payments – for 2003, approximately \$164 million in non-recurring excess debt service payments resulting from the debt restructuring that were on deposit with the MTA Bridges and Tunnels bond trustees were applied for the benefit of the Transit and Commuter Systems.
- The high level 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 continues to 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. The increased amount of MMTOA Receipts in 2005 reflects the imposition of an additional 1/8% regional sales tax commencing June 1, 2005.
- The "Urban Tax" collection reflects the activity level of certain residential and commercial real estate transactions in the City. Mortgage recording tax and urban tax proceeds from 2004 through 2006 reflect the very high level of real estate sale and refinancing activity during those years.
- Excess Mortgage Recording Taxes – Beginning in 2003, excess mortgage recording taxes were available for Transit and Commuter Systems purposes after the payment of MTA Headquarters Expenses.
- Revenues from Investment of Capital Program Funds – substantially all of the investment income is generated from bond proceeds, such as funds held in anticipation of expenditure on project costs.

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,
- MTA Bridges and Tunnels Surplus,
- Financial Assistance and Service Reimbursements from Local Municipalities, and
- Miscellaneous Revenues.

Pledged revenues also include payments made by the City under its agreement with MTA Bus to reimburse 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, as further described under the caption “MTA BUS COMPANY” in Part 2.

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, Commuter and MTA Bus 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 MTA Bus system, and MTA New York City Transit 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, Commuter and MTA Bus 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 Transportation Resolution’s 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, Commuter and MTA Bus Systems fares would produce revenues sufficient to comply with the rate covenant, particularly if the current level (or the assumed level in the budget prepared in connection with 2007 and the forecasts prepared in connection with 2008, 2009 and 2010) 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 2007-2010 Financial Plan, the budgets of the Related Entities are expected to be substantially in balance through 2007, but there are expected to be substantial gaps thereafter. Any of the Transit System, the Commuter System or MTA Bus or all of them 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 additional actions to close projected budget gaps, which could include raising fares.

2007-2010 Financial Plan. The 2007-2010 Financial Plan, the 2005-2009 Capital Program and prior 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 2007-2010 Financial Plan, the 2005-2009 Capital Program and prior and future Capital Programs, as well as on pledged revenues. See “FINANCIAL PLANS AND CAPITAL PROGRAMS” in Part 3.

MTA Bridges and Tunnels Operating Surplus. The amount of MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels’ own capital needs.

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

- 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, Commuter or MTA Bus 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, MTA New York City Transit, MaBSTOA, MTA Long Island Rail Road, MTA Metro-North Railroad and MTA Bus. 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 1, 2006, among MTA, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Bus, MTA New York City Transit and MABSTOA.

The Trustee may directly enforce an undertaking to operate the Transit System, the Commuter System or MTA Bus to ensure compliance with the Transportation Resolution.

Under the Transportation Resolution, the operators of the Transit, Commuter and MTA Bus 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).

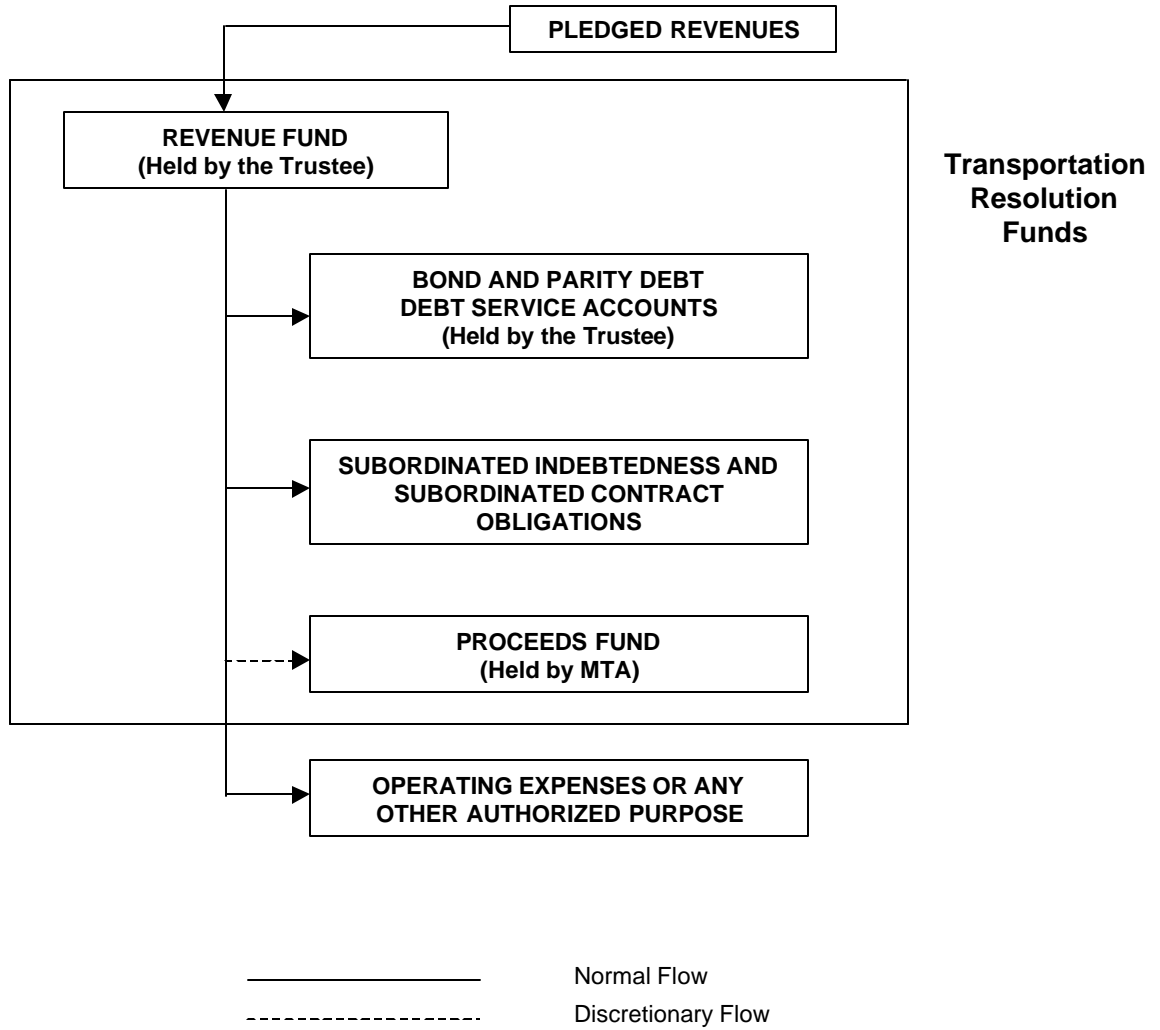
The Transportation Resolution requires the trustee promptly upon receipt of the pledged revenues in the Revenue Fund, to deposit the revenues into the following funds and accounts, in the amounts and in the order of priority, as follows:

- to the debt service accounts, the net amount, if any, required to make the amount in the debt service accounts 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 and MTA Bus 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, MTA New York City Transit, MTA Bus, MTA Metro-North Railroad and MTA Long Island Rail Road 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 for the Transit and Commuter Systems if those bonds are issued to fund projects pursuant to a Review Board-approved MTA 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.

MTA BRIDGES AND TUNNELS SENIOR REVENUE BONDS

There are \$4,691,980,000 aggregate principal amount of outstanding MTA Bridges and Tunnels Senior Revenue Bonds. The following **MTA Bridges and Tunnels Senior Table 1** sets forth, on a cash basis, the debt service thereon.

MTA Bridges and Tunnels Senior Table 1
Aggregate Senior Lien Debt Service
(in thousands)

<u>Year Ending December 31</u>	<u>Aggregate Debt Service⁽¹⁾</u>
2007	\$308,880
2008	308,799
2009	308,680
2010	308,992
2011	308,891
2012	308,760
2013	308,708
2014	307,502
2015	307,384
2016	307,269
2017	307,562
2018	307,405
2019	307,312
2020	307,594
2021	307,442
2022	307,305
2023	308,835
2024	307,424
2025	307,327
2026	307,584
2027	307,627
2028	307,501
2029	307,375
2030	307,521
2031	307,377
2032	278,164
2033	21,742
2034	21,755
2035	<u>21,768</u>
Total	<u>\$8,040,485</u>

⁽¹⁾ Includes the following variable rate assumptions for debt service: Series 2001B, Series 2001C, Series 2002C and Series 2005B at their respective swap rates for the duration of the swaps and 4% per annum thereafter if swap terminates prior to final maturity; and Series 2002F, Series 2003B and Series 2005A at an assumed variable interest rate of 4% per annum.

Sources of Payment

MTA Bridges and Tunnels 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 MTA Bridges and Tunnels' receipts from those sources, after payment of MTA Bridges and Tunnels' operating expenses, are pledged to the holders of the MTA Bridges and Tunnels Senior Revenue Bonds for payment, as described below.

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

MTA Bridges and Tunnels Senior Table 2 sets forth, by MTA Bridges and Tunnels Facility, the amount of revenues for each of the last five years, as well as operating expenses.

MTA Bridges and Tunnels Senior Table 2

**Historical Revenues, Operating Expenses and Senior Lien Debt Service
(in thousands)**

	Years Ended December 31,				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Bridge and Tunnel Revenues:					
Triborough Bridge	\$208,905	\$ 222,224	\$247,937	\$280,516	\$288,301
Verrazano-Narrows Bridge	216,312	233,482	246,322	267,276	274,100
Bronx Whitestone Bridge	160,730	175,393	187,231	188,808	186,384
Throgs Neck Bridge	157,988	172,603	184,338	210,242	223,756
Henry Hudson Bridge	34,045	37,744	40,149	43,920	44,901
Marine Parkway Gil Hodges Memorial Bridge	8,938	9,694	10,102	11,234	11,536
Cross Bay Veterans' Memorial Bridge	8,471	8,993	9,477	10,988	11,630
Queens Midtown Tunnel	88,865	99,994	107,067	121,666	127,075
Brooklyn-Battery Tunnel	<u>48,880</u>	<u>61,810</u>	<u>64,365</u>	<u>70,294</u>	<u>73,868</u>
Total Bridge and Tunnel Revenues:	\$933,134	\$1,021,937	\$1,096,988	\$1,204,944	\$1,241,551
Investment Income and Other(1)	<u>27,757</u>	<u>87,743</u>	<u>38,376</u>	<u>60,102</u>	<u>31,603</u>
Total Revenues	<u>\$960,891</u>	<u>\$1,109,680</u>	<u>\$1,135,364</u>	<u>\$1,265,046</u>	<u>\$1,273,154</u>
Operating Expenses(2)					
Personnel Costs	\$140,967	\$159,976	\$158,403	\$173,549	\$183,268
Maintenance and Other Operating Expenses	<u>159,229</u>	<u>169,041</u>	<u>160,812</u>	<u>170,123</u>	<u>169,642</u>
Total Operating Expenses	<u>\$300,196</u>	<u>\$329,017</u>	<u>\$319,215</u>	<u>\$343,672</u>	<u>\$352,910</u>
Net Revenues Available for Debt Service	\$660,695	\$780,663	\$816,149	\$921,374	\$920,244
MTA Bridges and Tunnels Senior Lien Debt Service(3)	\$349,478	\$206,946	\$251,139	\$284,462	\$300,450
Senior Lien Coverage	1.89x	3.77x	3.25x	3.24x	3.06x

(1) Includes the net revenues from the Battery Parking Garage, as well as EZPass 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 2002 through 2006, respectively: \$6,403; \$11,863; \$4,048; \$5,578 and \$5,044. The amounts set forth in this footnote, as well as all of **MTA Bridges and Tunnels Senior Table 2**, are derived from MTA Bridges and Tunnels' audited financial statements for the years 2002 through 2006.

(2) Excludes depreciation.

(3) For the year 2002, includes debt service on the senior bonds refunded under the debt restructuring until the date of defeasance thereof.

The following should be noted in **MTA Bridges and Tunnels Senior Table 2**:

- Bridge and Tunnel Revenues – In 2003, crossing charges were increased effective May 18, 2003. In 2005, crossing charges were increased effective March 13, 2005.
- Investment Income and Other –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 MTA Bridges and Tunnels. For 2005, other income includes \$25.9 million in security reimbursements and \$9.5 million relating to the \$1 per month account maintenance fee that MTA Bridges and Tunnels imposed on all E-ZPass subscribers effective July 1, 2005. Legislation enacted with the State’s budget for State Fiscal Year 2006-07 prevents MTA Bridges and Tunnels from charging that fee effective June 1, 2006. Prior to 2006, MTA Bridges and Tunnels was reimbursed for security expenses by MTA Headquarters. Since these are ongoing expenses, all security programs were included in MTA Bridges and Tunnels’ baseline Financial Plan beginning in 2006, thus eliminating the need for reimbursement.
- 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. The 2005 increase in personnel costs was caused by worker’s compensation and pension cost adjustments. The 2006 increase in personnel costs was caused by increases in salaries and wages, health and welfare, and pension costs.
- Operating Expenses—Maintenance and Other Operating Expenses – 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 EZPass tag purchases. In 2005, major maintenance and bridge painting were more than in 2004.
- Total Debt Service (Senior) – The significant decline in senior debt service between 2002 and 2003 reflects the effects of the debt restructuring.

Security – General

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

MTA Bridges and Tunnels has filed summaries of certain provisions of the MTA Bridges and Tunnels Senior Resolution, including certain defined terms used therein, with the NRMSIRS identified under “TRANSPORTATION REVENUE BONDS – General,” all of which are incorporated by specific cross-reference herein. In addition, copies of the summaries can be obtained on MTA’s website at www.mta.info/mta/investor/index.html or from the MTA Finance Department at 347 Madison Avenue, New York, New York 10017.

Capitalized terms used under this caption “MTA BRIDGES AND TUNNELS SENIOR REVENUE BONDS” not otherwise defined herein have the meanings set forth in the MTA Bridges and Tunnels Senior Resolution, except that the term “MTA Bridges and Tunnels” is used herein in place of the definition “TBTA.” So, for example, the term “MTA Bridges and Tunnels Facilities” as used herein is referred to in the MTA Bridges and Tunnels Senior Resolution and in the summaries thereof as “TBTA Facilities.”

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

Pledge Effected by the MTA Bridges and Tunnels Senior Resolution

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

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

- Revenues,
- the proceeds from the sale of the MTA Bridges and Tunnels Senior Revenue Bonds, and
- all funds, accounts and subaccounts established by the MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Projects

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

Additional MTA Bridges and Tunnels Projects that can become MTA Bridges and Tunnels Facilities. If MTA Bridges and Tunnels is authorized to undertake another project, whether or not a bridge or tunnel, that project can become an MTA Bridges and Tunnels Facility for purposes of the MTA Bridges and Tunnels Senior Resolution if it is designated as such by MTA Bridges and Tunnels and it satisfies certain conditions more fully described under “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 MTA Bridges and Tunnels Project, and no MTA Bridges and Tunnels Senior Revenue Bonds may be issued under the MTA Bridges and Tunnels Senior Resolution to finance the Convention Center Project. The revenues and expenses of the Convention Center Project are also not included in MTA Bridges and Tunnels’ financial statements or projections.

Flow of Revenues

The MTA Bridges and Tunnels Senior Resolution establishes the following funds and accounts, each held by MTA Bridges and Tunnels :

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

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

MTA Bridges and Tunnels 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 MTA Bridges and Tunnels to be required as an operating

reserve, or (iii) deemed necessary or desirable by MTA Bridges and Tunnels 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 MTA Bridges and Tunnels for an authorized purpose (excluding transfers to any other pledged Fund or Account), or withdrawn from the General Fund in accordance with the MTA Bridges and Tunnels Senior Resolution, are free and clear of the lien and pledge created by the MTA Bridges and Tunnels Senior Resolution.

Under the MTA Bridges and Tunnels Senior Resolution, MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Senior Resolution authorizes MTA Bridges and Tunnels to release amounts in the General Fund to be paid to MTA Bridges and Tunnels free and clear of the lien and pledge created by the MTA Bridges and Tunnels Senior Resolution.

MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Senior Resolution, MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels, 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 MTA Bridges and Tunnels pursuant to the MTA Bridges and Tunnels Senior Resolution, in such amount as may be determined from time to time by MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Senior Resolution, MTA Bridges and Tunnels may issue one or more series of Additional Bonds on a parity with the outstanding MTA Bridges and Tunnels Senior Revenue Bonds to provide for Capital Costs.

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

Additional Bonds for Other Purposes. MTA Bridges and Tunnels 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:

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

In the case of Additional Bonds is sued other than for the improvement, reconstruction or rehabilitation of MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Senior Revenue Bonds to be issued.

Refunding Bonds

MTA Bridges and Tunnels Senior Revenue Bonds may be issued for the purpose of refunding MTA Bridges and Tunnels Senior Revenue Bonds if (a) the Maximum Annual Calculated Debt Service (including the refunding MTA Bridges and Tunnels Senior Revenue Bonds then proposed to be issued but not including the MTA Bridges and Tunnels Senior Revenue Bonds to be refunded) is equal to or less than the Maximum Annual Calculated Debt Service on the MTA Bridges and Tunnels Senior Revenue Bonds as calculated immediately prior to the refunding (including the refunded MTA Bridges and Tunnels Senior Revenue Bonds but not including the refunding MTA Bridges and Tunnels Senior Revenue Bonds) or (b) the conditions referred to above under Additional Bonds for the category of MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Senior Resolution authorizes the issuance or incurrence of subordinate obligations. See “MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS” below.

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS

There are \$2,301,215,000 aggregate principal amount of outstanding MTA Bridges and Tunnels Subordinate Revenue Bonds. The following **MTA Bridges and Tunnels Subordinate Table 1** sets forth, on a cash basis, the debt service thereon and on the MTA Bridges and Tunnels Senior Revenue Bonds.

MTA Bridges and Tunnels Subordinate Table 1
Aggregate Senior and Subordinate Debt Service
(in thousands)

Year Ending December 31	MTA Bridges and Tunnels Senior Lien Bonds Debt Service ⁽¹⁾	Aggregate Senior and Subordinate Debt Service ⁽²⁾
2007	\$ 308,880	\$ 466,534
2008	308,799	465,309
2009	308,680	466,264
2010	308,992	466,234
2011	308,891	465,737
2012	308,760	466,389
2013	308,708	465,214
2014	307,502	465,079
2015	307,384	463,931
2016	307,269	464,802
2017	307,562	464,790
2018	307,405	463,814
2019	307,312	464,326
2020	307,594	463,722
2021	307,442	464,428
2022	307,305	463,510
2023	308,835	465,872
2024	307,424	464,245
2025	307,327	463,999
2026	307,584	464,447
2027	307,627	464,387
2028	307,501	464,546
2029	307,375	464,197
2030	307,521	464,598
2031	307,377	464,413
2032	278,164	417,471
2033	21,742	36,241
2034	21,755	36,254
2035	21,768	21,768
Total	<u>\$8,040,485</u>	<u>\$12,132,521</u>

⁽¹⁾ The variable rate assumptions for debt service on the MTA Bridges and Tunnels Senior Revenue Bonds are set forth in **MTA Bridges and Tunnels Senior Table 1** on page A-105 above.

⁽²⁾ Includes the variable rate assumptions set forth in connection with the MTA Bridges and Tunnels Senior Revenue Bonds, as well as the following variable rate assumptions for debt service on the MTA Bridges and Tunnels Subordinate Revenue Bonds: Series 2000A – D and Series 2002G at their respective swap rates; and Series 2002D and Series 2004A at an assumed variable interest rate of 4% per annum.

Sources of Payment

The revenues that are pledged to pay the MTA Bridges and Tunnels Subordinate Revenue Bonds are the same as the revenues that are pledged to pay the MTA Bridges and Tunnels Senior Revenue Bonds. See “MTA BRIDGES AND TUNNELS SENIOR REVENUE BONDS – Sources of Payment” above.

MTA Bridges and Tunnels Subordinate Table 2 sets forth, by MTA Bridges and Tunnels Facility, the amount of revenues for each of the last five years, as well as operating expenses.

MTA Bridges and Tunnels Subordinate Table 2
Historical Revenues, Operating Expenses and Senior and Subordinate Debt Service
(in thousands)

	Years Ended December 31,				
	2002	2003	2004	2005	2006
Bridge and Tunnel Revenues:					
Triborough Bridge	\$208,905	\$ 222,224	\$ 247,937	\$280,516	\$288,301
Verrazano-Narrows Bridge	216,312	233,482	246,322	267,276	274,100
Bronx-Whitestone Bridge	160,730	175,393	187,231	188,808	186,384
Throgs Neck Bridge	157,988	172,603	184,338	210,242	223,756
Henry Hudson Bridge	34,045	37,744	40,149	43,920	44,901
Marine Parkway Gil Hodges Memorial Bridge	8,938	9,694	10,102	11,234	11,536
Cross Bay Veterans' Memorial Bridge	8,471	8,993	9,477	10,988	11,630
Queens Midtown Tunnel	88,865	99,994	107,067	121,666	127,075
Brooklyn-Battery Tunnel	48,880	61,810	64,365	70,294	73,868
Total Bridge and Tunnel Revenues:	\$933,134	\$1,021,937	\$1,096,988	\$1,204,944	\$1,241,551
Investment Income and Other(1)	27,757	87,743	38,376	60,102	31,603
Total Revenues	\$960,891	\$1,109,680	\$1,135,364	\$1,265,046	\$1,273,154
Operating Expenses(2)					
Personnel Costs	\$140,967	\$159,976	\$158,403	\$173,549	\$183,268
Maintenance and Other Operating Expenses	159,229	169,041	160,812	170,123	169,642
Total Operating Expenses	\$300,196	\$329,017	\$319,215	\$343,672	\$352,910
Net Revenues Available for Debt Service	\$660,695	\$780,663	\$816,149	\$921,374	\$920,244
MTA Bridges and Tunnels Senior Lien Debt Service(3)	\$349,478	\$206,946	\$251,139	\$284,462	\$300,450
Subordinate Bond Fund Investment Earnings(4)	\$ 1,177	\$1,720	\$1,201	\$1,384	\$1,963
Net Revenues Available for Subordinate Debt Service(5)	\$312,394	\$575,437	\$566,211	\$638,296	\$621,757
Debt Service on Subordinate Revenue Bonds(6)	\$108,949	\$118,766	\$138,257	\$150,253	\$154,114
Total Debt Service (Senior and Subordinate)	\$458,427	\$325,712	\$389,396	\$434,715	\$454,564
Combined Debt Service Coverage Ratio	1.44x	2.40x	2.10x	2.12x	2.02x

(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 2002 through 2006, respectively: \$6,403; \$11,863; \$4,048; \$5,578 and \$5,044. The amounts set forth in this footnote, as well as all of **MTA Bridges and Tunnels Subordinate Table 2**, are derived from MTA Bridges and Tunnels' audited financial statements for the years 2002 through 2006.

(2) Excludes depreciation.

(3) For the year 2002, includes debt service on the senior lien bonds refunded under the debt restructuring until the date of defeasance thereof.

(4) Includes investment earnings on the MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Subordinate Resolution, future investment earnings are expected to be minimal.

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

(6) For the year 2002, includes debt service on the 1991 MRT Resolution Bonds (presented as if MTA Bridges and Tunnels 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 **MTA Bridges and Tunnels Subordinate Table 2** :

- Bridge and Tunnel Revenues – In 2003, crossing charges were increased effective May 18, 2003. In 2005, crossing charges were increased effective March 13, 2005.
- Investment Income and Other –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 MTA Bridges and Tunnels. For 2005, other income includes \$25.9 million in security reimbursements and \$9.5 million relating to the \$1 per month account maintenance fee that MTA Bridges and Tunnels imposed on all E-ZPass subscribers effective July 1, 2005. Legislation enacted with the State’s budget for State Fiscal Year 2006-07 prevents MTA Bridges and Tunnels from charging that fee effective June 1, 2006. Prior to 2006, MTA Bridges and Tunnels was reimbursed for security expenses by MTA Headquarters. Since these are ongoing expenses, all security programs were included in MTA Bridges and Tunnels’ baseline Financial Plan beginning in 2006, thus eliminating the need for reimbursement.
- 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. The 2005 increase in personnel costs was caused by worker’s compensation and pension cost adjustments. The 2006 increase in personnel costs was caused by increases in salaries and wages, health and welfare, and pension costs.
- Operating Expenses—Maintenance and Other Operating Expenses – 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. In 2005, major maintenance and bridge painting were more than in 2004.
- Total Debt Service (Senior and Subordinate) – The significant decline in senior debt service between 2002 and 2003 reflects the effects of the debt restructuring.

Security – General

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

MTA Bridges and Tunnels has filed summaries of certain provisions of the MTA Bridges and Tunnels Subordinate Resolution, including certain defined terms used therein, with the NRMSIRS identified under “TRANSPORTATION REVENUE BONDS – Pledged Transportation Revenues,” all of which are incorporated by specific cross-reference herein. In addition, copies of the summaries can be obtained on MTA’s website at www.mta.info/mta/investor/index.html or from the MTA Finance Department at 347 Madison Avenue, New York, New York 10017.

Capitalized terms used under this caption “MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS” not otherwise defined herein have the meanings set forth in the MTA Bridges and Tunnels Subordinate Resolution, except that the term “MTA Bridges and Tunnels” is used herein in place of the definition “TBTA.” So, for example, the term “MTA Bridges and Tunnels Facilities” as used herein is referred to in the MTA Bridges and Tunnels Subordinate Resolution and in the summaries thereof as “TBTA Facilities.”

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

Pledge Effected by the MTA Bridges and Tunnels Subordinate Resolution

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

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

- Revenues (after the application of those Revenues as required by the MTA Bridges and Tunnels Senior Resolution, including the payment of Operating Expenses and MTA Bridges and Tunnels Senior Resolution debt service),
- the proceeds from the sale of the MTA Bridges and Tunnels Subordinate Revenue Bonds, and
- all funds, accounts and subaccounts established by the MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Projects

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

For a discussion of other projects that MTA Bridges and Tunnels is authorized to undertake, see “MTA BRIDGES AND TUNNELS– Authorized Projects of MTA Bridges and Tunnels” in Part 2.

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

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

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

Flow of Revenues

The MTA Bridges and Tunnels Subordinate Resolution establishes the following funds and accounts, each held by MTA Bridges and Tunnels :

- Proceeds Fund, and
- Debt Service Fund.

MTA Bridges and Tunnels is required to transfer to the Debt Service Fund under the MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Senior Resolution, free and clear of the lien of the MTA Bridges and Tunnels 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

MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 MTA Bridges and Tunnels , plus
 - to pay Calculated Debt Service on all senior lien and subordinate lien bonds and parity debt, plus
 - to maintain any reserve established by MTA Bridges and Tunnels pursuant to the MTA Bridges and Tunnels Senior Resolution, in such amount as may be determined from time to time by MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 and Series 2002E Bonds—*Rate Covenant*” in the summaries of documents.

Additional Subordinate Revenue Bonds

Under the provisions of the MTA Bridges and Tunnels Subordinate Resolution, MTA Bridges and Tunnels 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:

- MTA Bridges and Tunnels Facilities,
- MTA Bridges and Tunnels Transit and Commuter Project, or
- any Additional Subordinate MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Subordinate Revenue Obligations, subordinate parity debt, MTA Bridges and Tunnels Senior Obligations and senior parity debt.

In addition, MTA Bridges and Tunnels covenants that, prior to the issuance of MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Subordinate Revenue Obligations, subordinate parity debt, MTA Bridges and Tunnels Senior Obligations and senior parity debt. See “SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE REVENUE RESOLUTION —Additional Provisions Relating to the Series 2002D and Series 2002E Bonds—*Covenant Regarding Senior Resolution*” in the summaries of documents.

Refunding Subordinate Revenue Bonds

MTA Bridges and Tunnels Subordinate Revenue Bonds may be issued for the purpose of refunding MTA Bridges and Tunnels Subordinate Revenue Bonds, subordinate parity debt, MTA Bridges and Tunnels Senior Revenue Bonds or senior parity debt if

- the Combined Maximum Annual Calculated Debt Service (including the refunding MTA Bridges and Tunnels Subordinate Revenue Bonds then proposed to be issued, but not including the MTA Bridges and Tunnels Subordinate Revenue Bonds, subordinate parity debt, MTA Bridges and Tunnels 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 MTA Bridges and Tunnels Subordinate Revenue Bonds, subordinate parity debt, MTA Bridges and Tunnels Senior Revenue Bonds or senior parity debt, but not including the refunding MTA Bridges and Tunnels 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 MTA Bridges and Tunnels 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 \$3,972,090,000 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)

<u>Year Ending</u> <u>March 31(1)</u>	<u>Aggregate DTF</u> <u>Debt Service(2)</u>
2008	\$ 255,824
2009	255,890
2010	255,914
2011	255,865
2012	255,897
2013	255,886
2014	255,739
2015	255,365
2016	255,521
2017	255,622
2018	255,765
2019	255,898
2020	255,404
2021	255,950
2022	255,871
2023	256,171
2024	257,172
2025	257,079
2026	257,268
2027	257,293
2028	257,224
2029	257,418
2030	257,487
2031	257,430
2032	257,568
2033	260,068
2034	117,127
2035	72,358
2036	48,950
2037	<u>26,232</u>
Total	<u>\$6,933,256</u>

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

(2) Includes the following variable rate assumptions for debt service: Series 2002B and Series 2005A at their respective swap rates for the duration of the swaps and 4% per annum thereafter if swap terminates prior to final maturity; and Series 2004B and Series 2004D at an assumed variable interest rate of 4% per annum

Sources of Payment – Revenues from Dedicated Taxes

Under State law, 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 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. Effective October 1, 2005, certain registration and non-registration fees were increased.

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 – 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 MTA Commuter Transportation District, including MTA New York City Transit, MaBSTOA and the commuter railroads operated by MTA's subsidiaries, MTA Long Island Rail Road and MTA Metro-North Railroad. After payment of Section 18-b general operating assistance to the various transportation systems, MTA gets approximately 86% of the moneys deposited into the MMTOA Account, with the remaining 14% available to other transportation properties within the MTA Commuter Transportation District, such as MTA Long Island Bus and MTA Bus, which currently operates the routes formerly operated by the City private franchise bus lines.

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 0.375 percent sales and compensating use tax imposed on sales and uses of certain tangible personal property and services applicable only within the MTA Commuter 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 MTA Commuter 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; 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, and MTA anticipates that such receipts will be sufficient to make required 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.

The information in the following **DTF Table 2** relating to MTF Receipts and MMTOA Receipts was provided by the New York State Division of the Budget and the remaining information was provided by MTA.

Table 2
Summary of MTTF Receipts and MMTOA Receipts

<u>Dedicated Taxes (\$ millions)</u>	<u>State Fiscal Year ending March 31,</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
MTTF					
PBT	\$ 306.6	\$ 313.2	\$ 323.1	\$ 340.8	\$ 325.9
Motor Fuel Tax	63.0	96.6	101.4	101.9	98.9
Motor Vehicle Fees ⁽¹⁾	<u>69.6</u>	<u>96.1</u>	<u>126.6</u>	<u>185.0</u>	<u>210.8</u>
Total Available MTTF Taxes⁽²⁾	\$ 439.2	\$ 505.9	\$ 551.1	\$ 627.7	\$ 635.6
MTTF Receipts⁽³⁾	\$ 450.2	\$ 495.2	\$ 559.7	\$ 569.3	\$ 608.9
MMTOA					
PBT	\$ 66.3	\$ 72.2	\$ 74.2	\$ 78.8	\$ 72.5
District Sales Tax ⁽⁴⁾	361.9	399.3	428.9	603.1	688.1
Franchise Taxes	71.1	57.4	64.5	73.6	68.4
Temporary Franchise Surcharges ⁽⁵⁾	<u>509.5</u>	<u>484.2</u>	<u>571.4</u>	<u>766.2</u>	<u>962.3</u>
Total Available MMTOA Taxes⁽⁶⁾	<u>\$1,008.8</u>	<u>\$1,013.1</u>	<u>\$1,139.0</u>	<u>\$1,521.7</u>	<u>\$1,791.3</u>
MMTOA Receipts⁽⁷⁾	\$ 861.5	\$ 730.9	\$ 736.4	\$1,146.7 ⁽⁸⁾	\$1,069.2 ⁽⁸⁾
Total Pledged Revenues (MTTF Receipts plus MMTOA Receipts)	<u>\$1,311.7</u>	<u>\$1,226.1</u>	<u>\$1,296.1</u>	<u>\$1,516.0</u> ⁽⁸⁾	<u>\$1,878.1</u> ⁽⁸⁾
Debt Service⁽⁹⁾	\$ 59.7	\$ 141.9	\$ 156.8	\$ 195.4	\$ 231.4
Debt Service Coverage Ratio – MTTF Receipts Only	7.54x	3.49x	3.57x	2.91x	2.63x
Debt Service Coverage Ratio – MTTF Receipts plus MMTOA Receipts	21.97x	8.64x	8.27x	7.76x ⁽⁸⁾	8.12x ⁽⁸⁾

- (1) Beginning on April 1, 2005, all remaining General Fund revenues derived from motor vehicle fees were moved to the Dedicated Funds Pool. In accordance with the 2005-06 Enacted Budget, additional motor vehicle fees were deposited into the Dedicated Funds Pool beginning on October 1, 2005.
- (2) Represents the amount of MTTF taxes collected by the State that was deposited into the MTTF.
- (3) 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.
- (4) The district sales tax was increased from 1/4 % to 3/8% effective June 1, 2005.
- (5) For 2006 and 2007, includes certain non-recurring amounts related to increased audit activities.
- (6) 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 MTA Commuter Transportation District, including MTA.
- (7) 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 MTA Commuter Transportation District, as well as the amounts appropriated to MTA and other transportation agencies, primarily in accordance with the Section 18-b Program as described in this Appendix A under the caption "REVENUES OF THE RELATED ENTITIES – State and Local General Operating Subsidies."
- (8) At the end of the State's 2005-06 fiscal year, the State accelerated the payment of \$200 million of MMTOA Receipts to the MTA in the following manner: it increased appropriations from levels enacted in that fiscal year and upon payment within that fiscal year, required that appropriations that were recommended and subsequently enacted in the State's 2006-07 fiscal year be commensurately reduced. This money is not additional money to MTA since it is received in the same calendar year as originally expected. Total Pledged Revenues for 2006 does not include this \$200 million and, consequently, the Debt Service Coverage Ratios reflected above for 2006 also exclude the effect of this \$200 million advance. Total Pledged Revenues for 2007 does include this \$200 million and, consequently, the Debt Service Coverage Ratios reflected above for 2007 are calculated as if this \$200 million advance had not occurred.
- (9) Represents debt service on bonds outstanding under the old DTF bond resolution that was defeased in 2002 and, thereafter, bonds outstanding under the existing DTF Resolution. The lower debt service in 2003 reflects the impacts of the debt restructuring in that year.

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 moneys 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.

In late 2005, MTA proposed legislation which would have provided for the creation of an additional bonding program secured solely or primarily by the additional 1/8 of one percent of district sales tax which was imposed effective June 1, 2005. Such legislation was not enacted. In connection with the financing of the 2005-2009 MTA Capital Program or future capital programs, MTA may propose similar legislation or other legislation affecting components of the taxes currently securing MTA Dedicated Tax Fund Bonds.

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 the MTA Commuter 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 State 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 State 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 or 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 at www.mta.info/mta/investor/index.html 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 MTTF 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.

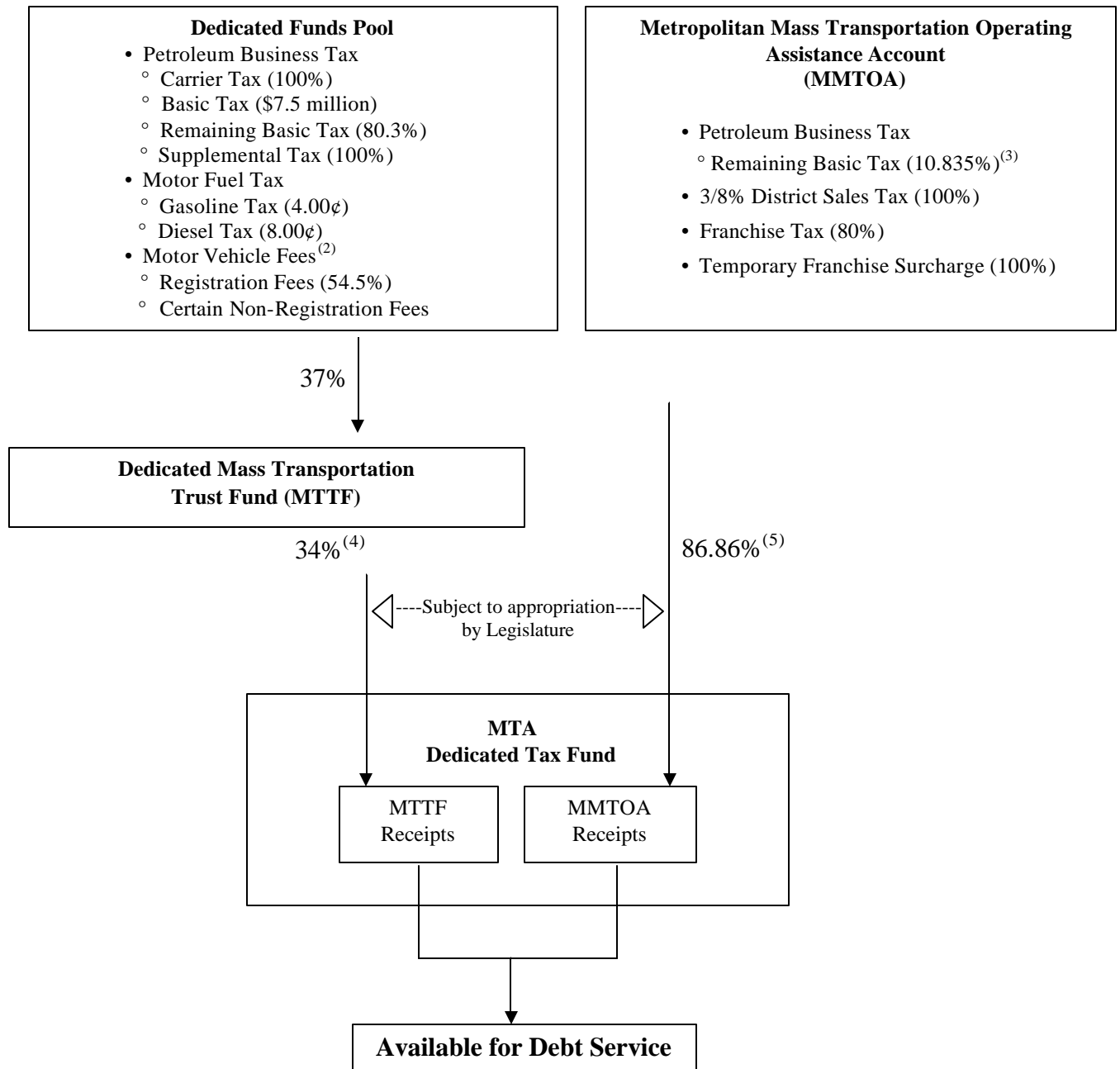
The DTF Resolution provides that the trust estate is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the DTF Resolution, and all corporate action on the part of MTA to that end has been duly and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

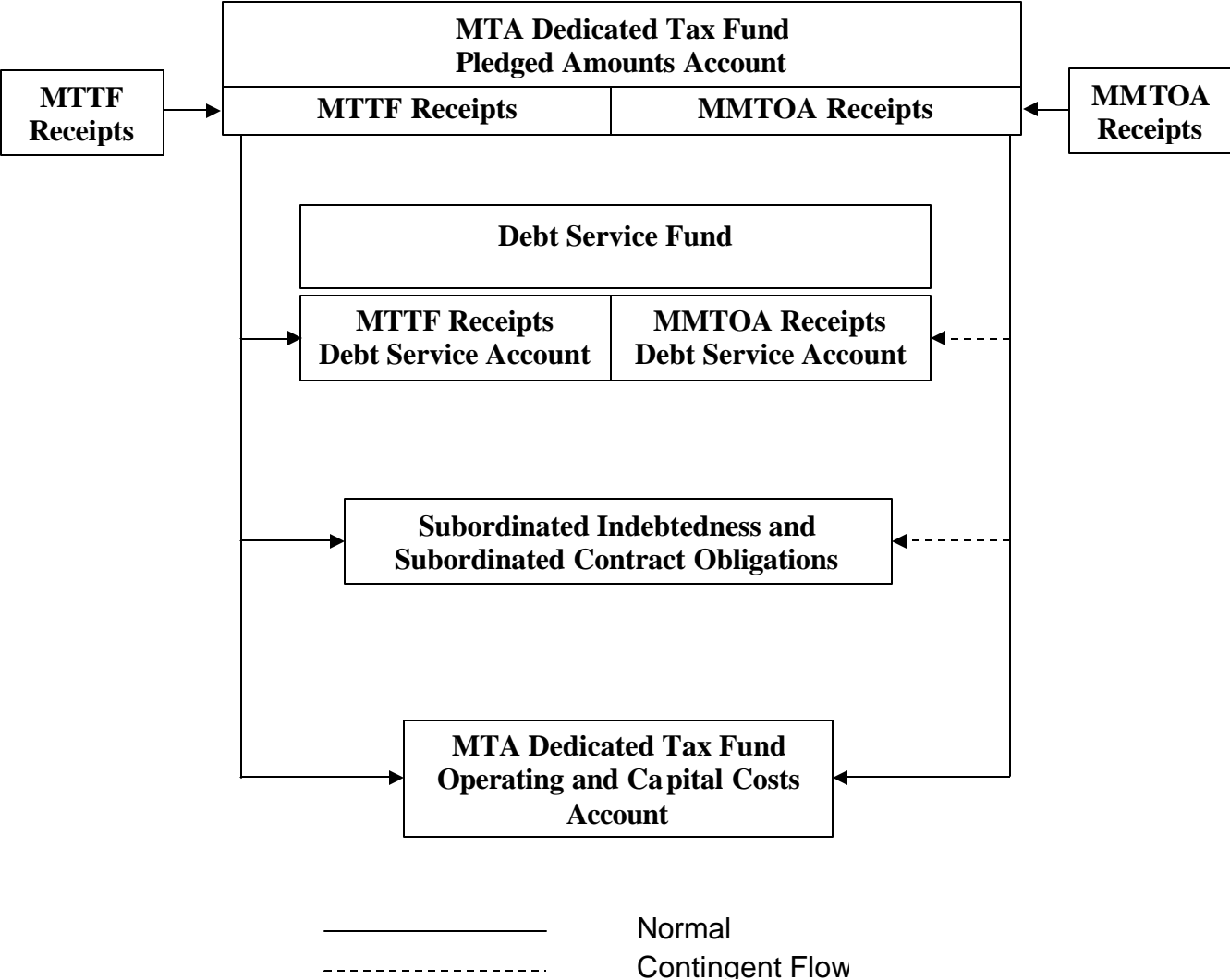
MTA DEDICATED TAX FUND BONDS – SOURCES OF REVENUE
(through March 31, 2008⁽¹⁾)



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, 2008 in the respective fund or account. The allocations shown may be changed at any time by the State Legislature.
- (2) Includes the additional Motor Vehicle Fees deposited into the Dedicated Funds Pool from time to time.
- (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 of Dedicated Funds Pool.
- (5) Percentage based upon appropriations in the Enacted Budget for State Fiscal Year 2007-08.

MTA DEDICATED TAX FUND BONDS – RESOLUTION FLOW OF FUNDS



All amounts on deposit in the Pledged Amounts Account – MTTF 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 MTF Receipts DS Account and the MMTOA Receipts DS Account. Moneys 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 MTF 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) MTF Receipts, (ii) MMTOA Receipts, and (iii) investment income received during such period on amounts on deposit in the Pledged Amounts Account, the MTF 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 MTF 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 MTF 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 State 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.

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 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 adopted State budget for 2007-08 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, 2008 and the other such appropriation is for the succeeding State Fiscal Year that ends March 31, 2009. The appropriation for the 2007-08 State Fiscal Year took effect on April 1, 2007. 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 moneys 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. The basic and supplemental PBT tax rates are 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. Current legislation provides that 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 over the last ten years .

Petroleum Business Tax Index Change (percent)			
Year for PPI Change (September 1 to August 31)	PPI for Refined Petroleum Products Change	Year for PBT Index	PBT Index Change (January 1)
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	12.94	2005	5.00
2004-05	35.10	2006	5.00
2005-06	36.01	2007	5.00
2006-07(a)	-1.60	2008(a)	-1.60

(a) Estimated.

Source: New York State Division of the Budget.

The table below shows the rates per gallon for the PBT in effect for 2006 and 2007 and estimated rates for 2008, respectively.

PETROLEUM BUSINESS TAX RATES FOR 2006 AND 2007 AND ESTIMATED FOR 2008
(cents per gallon)

<u>Petroleum Products</u>	<u>Actual 2006</u>			<u>Actual 2007</u>			<u>Estimated 2008*</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	9.60	6.30	15.90	10.00	6.60	16.60	9.80	6.50	16.30
Diesel	9.60	4.55	14.15	10.00	4.85	14.85	9.80	4.75	14.55
Aviation gasoline	9.60	6.30	15.90	10.00	6.60	16.60	9.80	6.50	16.30
Net rate after credit	6.30	0.00	6.30	6.60	0.00	6.60	6.50	0.00	6.50
Kero-jet fuel	6.30	0.00	6.30	6.60	0.00	6.60	6.50	0.00	6.50
Non-automotive diesel fuels	8.60	6.30	14.90	9.00	6.60	15.60	8.90	6.50	15.40
Commercial gallonage after credit	8.60	0.00	8.60	9.00	0.00	9.00	8.90	0.00	8.90
Nonresidential heating after credit	4.60	0.00	4.60	4.90	0.00	4.90	4.80	0.00	4.80
Residual petroleum products	6.60	6.30	12.90	6.90	6.60	13.50	6.80	6.50	13.30
Commercial gallonage after credit	6.60	0.00	6.60	6.90	0.00	6.90	6.80	0.00	6.80
Nonresidential heating after credit	3.60	0.00	3.60	3.70	0.00	3.70	3.70	0.00	3.70
Railroad diesel fuel	9.60	4.55	14.15	10.00	4.85	14.85	9.80	4.75	14.55
Net rate after exemption/refund	8.30	0.00	8.30	8.70	0.00	8.70	8.50	0.00	8.50

*Estimated – An estimated fuel price decrease of 1.6% through August 2007 will result in a decrease of 1.6% in the PBT index on January 1, 2008.

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 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 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.

Legislation adopted with the 2005-06 Enacted Budget required the collection of PBT on sales to non-Native Americans on New York reservations.

Legislation adopted with the 2006-07 Enacted Budget exempted or partially exempted PBT on certain alternative fuels. 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 2005-06, 33 taxpayers, accounting for almost 93 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

The following table provides historical information for the last ten years on the basic PBT and the supplemental PBT, the major funding source for the MTTF.

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

State			State		
<u>Fiscal Year</u>	<u>Basic PBT</u>	<u>Supplemental PBT</u>	<u>Fiscal Year</u>	<u>Basic PBT</u>	<u>Supplemental PBT</u>
1997-98	\$ 565.9	\$ 384.0	2002-03	\$ 618.9	\$ 384.5
1998-99	602.0	409.9	2003-04	674.2	358.3
1999-00	587.2	398.0	2004-05	692.3	370.9
2000-01	562.4	389.3	2005-06	735.0	389.3
2001-02	635.7	347.4	2006-07	676.2	391.9

Source: New York State Department of Taxation and Finance.

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 1996 legislative changes.

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 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.

Receipts for State Fiscal Year 2005-06 reflect the impact from the higher fuel price on fuel consumption. Collections also reflect the 5 percent increase in PBT rates effective January 1 2005 and another 5 percent increase effective January 1, 2006. Collections also include \$21.6 million from the carrier tax.

Receipts for State Fiscal Year 2006-07 reflect the 5 percent increase in PBT rates effective January 1, 2006 and the 5 percent increase effective January 1, 2007. Collections also include \$22.2 million from the carrier tax.

Actual Revenues from Dedicated PBT. Receipts from the dedicated PBT for the last ten years are as set forth in the following table:

MTTF Revenues from Petroleum Business Taxes
(in millions)

State Fiscal Year	Dedicated Funds Pool	MTTF Total ⁽¹⁾	Related Entities' Share of MTTF ⁽²⁾
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
2005-06	1,002.4	370.9	340.8
2006-07	958.6	354.7	325.9

⁽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 2004-05, almost 84 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 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
2005-06	85.4	25.5	110.9	101.9
2006-07	82.9	24.7	107.6	98.9

⁽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.

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. Effective April 1, 2005, all remaining General Fund revenues derived from motor vehicle fees were moved to the Dedicated Funds Pool. In accordance with legislation enacted with the 2005-06 Enacted Budget, additional motor vehicle fees were deposited into the Dedicated Funds Pool beginning on October 1, 2005. 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 <u>Fiscal Year</u>	Registration <u>Fees</u>	<u>Other Fees</u>	MTTF <u>Total</u> ⁽¹⁾	Related Entities' Share <u>of MTTF</u> ⁽²⁾
2001-02	\$27.8	\$ -0-	\$ 27.8	\$ 25.5
2002-03	67.4	8.3	75.7	69.6
2003-04	79.3	25.1	104.6	96.1
2004-05	78.7	59.1	137.8	126.6
2005-06	90.6	110.7	201.4	185.0
2006-07	89.5	139.9	229.4	210.8

⁽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 MTA New York City Transit, 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 MTA Staten Island Railway and the Commuter System.

The table below summarizes the historical amounts appropriated and paid to MTA from the MMTOA Account (including investment income) for the last ten years.

MMTOA Account					
(in millions)					
<u>State Fiscal Year</u>	<u>Appropriations to MTA⁽¹⁾</u>	<u>Payments to MTA⁽²⁾</u>	<u>State Fiscal Year</u>	<u>Appropriations to MTA⁽¹⁾</u>	<u>Payments to MTA⁽²⁾</u>
1997-98	\$719.8	\$689.8	2002-03	\$ 772.9	\$ 861.5
1998-99	848.6	878.6	2003-04	730.9	730.9
1999-00	907.2	818.6	2004-05	736.4	736.4
2000-01	755.2	755.2	2005-06	946.7	1,146.7
2001-02	755.2	755.2	2006-07	1,269.2	1,069.2

⁽¹⁾ Does not include \$155.1 million appropriated to MTA in each of the State Fiscal Years 1997-98 through 2003-04, \$164.6 million appropriated to MTA in State Fiscal Year 2004-05 and \$170.2 million appropriated to MTA in each of the State Fiscal Years 2005-06 and 2006-07 through the Section 18-b program.

⁽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. At the end of the State's 2005-06 fiscal year, the State accelerated the payment of \$200 million of MMTOA Receipts to the MTA in the following manner: it increased appropriations from levels enacted in that fiscal year and upon payment within that fiscal year, required that appropriations that were recommended and subsequently enacted in the State's 2006-07 fiscal year be commensurately reduced.

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 MTA Staten Island Railway 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 86 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 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 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.

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 for the last ten years .

MMTOA Petroleum Business Taxes			
State Fiscal	Net Receipts	State Fiscal	Net Receipts
<u>Year</u>	<u>(in millions)</u>	<u>Year</u>	<u>(in millions)</u>
1997-98	\$ 59.5	2002-03	\$ 66.3
1998-99	63.8	2003-04	72.2
1999-00	62.2	2004-05	74.2
2000-01	60.4	2005-06	78.8
2001-02	68.1	2006-07	72.5

Source: New York State Division of the Budget.

District Sales Tax

General. The District Sales Tax consists of a 0.375 percent sales and compensating use tax imposed on sales and uses of certain tangible personal property and services applicable only within the Transportation District. The rate was increased from 0.25 percent to 0.375 percent on June 1, 2005.

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: 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.

Clothing and footwear were permanently exempted from State sales tax on April 1, 2006. Localities have an option to also offer this exemption. Pursuant to Tax Law, localities opting to remove their tax must reimburse MTA for one-half of the foregone District Sales Tax revenue, while the State will provide the other half, but these reimbursements are paid to MTA and such reimbursements are not deposited into the MMTOA.

On June 1, 2006, the State placed a cap on the amount of State sales tax collected on motor fuel and diesel motor fuel at eight cents per gallon. Localities have an option to continue to use the percentage rate method or to change to a cents-per-gallon method of computing sales tax. Pursuant to Tax Law, the State must reimburse MTA for the entire foregone District Sales Tax revenue, but these reimbursements are paid from the State General Fund to MTA and such reimbursements are not deposited into the MMTOA.

MTA is expected to be held harmless from the impact of the clothing and footwear exemption and the cap on motor fuel and diesel motor fuel. This entire held harmless amount is reflected in the following table, but such amounts are not deposited into the MMTOA.

Historical Summary of District Sales Tax The following table provides historical information relating to District Sales Tax receipts deposited into the MMTOA Account for the last ten years.

District Sales Tax
(in millions)

State Fiscal Year	Net Receipts	Held Harmless Amount ⁽¹⁾	Total	State Fiscal Year	Net Receipts	Held Harmless Amount ⁽¹⁾	Total
1997-98	\$ 305.9	\$ -0-	\$ 305.9	2002-03	\$ 361.9	\$ 23.8	\$ 385.7
1998-99	321.4	-0-	321.4	2003-04	399.3	15.4	414.7
1999-00	345.6	-0-	345.6	2004-05	428.9	3.2	432.1
2000-01	368.2	10.8	379.0	2005-06 ⁽²⁾	603.1	1.9	605.0
2001-02	364.7	13.9	378.6	2006-07	688.1	20.4 ⁽³⁾	708.5

⁽¹⁾ This amount includes moneys paid by both the State and the localities. Such amounts are not deposited into the MMTOA.

⁽²⁾ The regional sales tax was increased from 0.25% to 0.375% effective June 1, 2005.

⁽³⁾ Includes \$17.5 million from the State and localities for the clothing exemption and \$2.9 million from the State for the cap on motor fuel and diesel fuel.

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 net 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.

For State Fiscal Year 1996-97, 48 percent of such moneys were required to be deposited in the MMTOA Account. 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.

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 for the last ten years. 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</u>	<u>State Fiscal Year</u>	<u>Net Receipts</u>
1997-98	\$ 73.1	2002-03	\$ 71.1
1998-99	64.9	2003-04	57.4
1999-00	70.5	2004-05	64.5
2000-01	70.1	2005-06	73.6
2001-02	82.9	2006-07	68.4

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 for the last ten years.

Temporary Franchise Surcharges			
(in millions)			
<u>State Fiscal Year</u>	<u>Net Receipts</u>	<u>State Fiscal Year</u>	<u>Net Receipts</u>
1997-98	\$ 600.8	2002-03	\$ 509.5
1998-99	547.0	2003-04	484.2
1999-00	586.9	2004-05	571.4
2000-01	563.2	2005-06	766.2
2001-02	483.4	2006-07	962.3

Source: New York State Division of the Budget.

STATE SERVICE CONTRACT BONDS

There are \$2,265,955,000 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

<u>Year Ending</u> <u>January 1</u>	<u>Aggregate</u> <u>Debt Service⁽¹⁾</u>
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>\$4,042,365,337</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 at www.mta.info/mta/investor/index.html 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 moneys available and no liability shall be incurred by the State beyond the moneys 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 MTA 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. MTA New York City Transit 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.

MTA New York City Transit 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. MTA New York City Transit 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, or ADA, and the Public Buildings Law are extended to 2020.

Commuter System

Environmental. MTA Long Island Rail Road and MTA Metro-North Railroad are required to file annual reports with the State Department of Environmental Conservation ("NYSDEC") identifying areas of environmental concern. MTA Long Island Rail Road and MTA Metro-North Railroad 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. MTA Long Island Rail Road and MTA Metro-North Railroad each are required to clean up various conditions on properties they own, and each has established reserves for the clean-up costs. MTA Long Island Rail Road 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 MTA Long Island Rail Road and MTA Metro-North Railroad facilities. The extent of pollution, the cost of clean-up and MTA Long Island Rail Road's and MTA Metro-North Railroad's liability, if any, which may be material, cannot be determined at this time.

Access by Physically Disabled. MTA Long Island Rail Road and MTA Metro-North Railroad are in substantial compliance with ADA requirements.

MTA Bridges and Tunnels

General. MTA Bridges and Tunnels regularly reviews its facility maintenance programs, both remedial and preventive, and believes the same to be of high quality. MTA Bridges and Tunnels intends to continue its comprehensive inspection and maintenance programs for the MTA Bridges and Tunnels Facilities and to continue to engage independent engineering firms to provide biennial inspections of its bridge and tunnel facilities. MTA Bridges and Tunnels' independent engineers, URS Corporation – New York, have reviewed the inspection reports of the bridges and tunnels undertaken by MTA Bridges and Tunnels' 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 27, 2006, has been posted on the MTA website at www.mta.info/mta/investor/index.html. The URS Study is included by specific cross-reference herein. MTA Bridges and Tunnels has requested that URS prepare a new report and it is expected that the revised report will be available sometime in May 2007. When it is delivered to MTA Bridges and Tunnels, a copy will be filed with DAC and with the NRMSIRs and posted on the MTA website.

Environmental. MTA Bridges and Tunnels' Capital Programs incorporate 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 MTA Bridges and Tunnels' 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. MTA Bridges and Tunnels is in compliance with the NYSDOT program.

Tunnel Inspections. In accordance with engineering and construction procedure, tunnel inspections are required every two years with a comprehensive inspection every ten years. MTA Bridges and Tunnels has implemented a new schedule for tunnel inspections wherein they will be undergoing formal inspection on a regular basis every two years.

EMPLOYEES, LABOR RELATIONS AND PENSION AND OTHER POST-EMPLOYMENT 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 and retirees.

The employees of MTA and its affiliates and subsidiaries, other than MTA Long Island Rail Road and MTA Metro-North Railroad, are prohibited by the State's Taylor Law from striking. Nevertheless, represented employees of MTA New York City Transit, MaBSTOA and MTA Staten Island Railway engaged in an illegal three-day strike during December 2005. There have been no labor stoppages at MTA Bridges and Tunnels since 1976. The Taylor Law also requires the TWU (and permits other unions) and MTA New York City Transit 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 Taylor Law's binding arbitration provisions.

The employees of MTA Long Island Rail Road and MTA Metro-North Railroad are not subject to the same State prohibition, but are governed by Federal railroad employment statutes.

MTA Headquarters

As of December 31, 2006, MTA Headquarters had 816 employees (full and part time), 52 of whom were represented by one union. Included in the MTA Headquarters staff are 57 employees from MTA Capital Construction, 81 employees from the MTA Inspector General's office and 22 Police Command staff employees (rank of Captain and higher). In addition, the MTA Police force (not including Command Staff) numbered 651, all of whom were represented by one union.

Most of the employees of MTA Headquarters, other than the MTA Police, are members of the New York State and Local Employees' Retirement System. The MTA Police are members of the MTA Defined Benefit Pension Plan, which has a substantial unfunded accrued actuarial liability ("UAAL"). MTA is required to make significant annual contributions to the respective plans on a current basis. See Footnote 4 to the Combined Financial Statements of MTA for more information relating to the MTA Defined Benefit Pension Plan, as well as the Required Supplementary Information attached thereto that sets forth information relating to the UAAL.

Transit System

As of December 31, 2006, MTA New York City Transit had 39,902 employees (full and part time), 36,841 of whom were represented by 20 different unions. As of December 31, 2006, MaBSTOA had 7,987 employees (full and part time), 5,934 of whom were represented by 10 different unions. The current contract with the unions expires on January 15, 2009.

Employees of MTA New York City Transit 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 UAAL. MTA New York City Transit 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 MTA New York City Transit for more information. See also the Required Supplementary Information attached to the Combined Financial Statements of MTA that sets forth information relating to the UAAL.

MTA Bus

As of December 31, 2006, MTA Bus had 3,055 employees (full and part time), 90% of whom were represented by three different unions. MTA Bus has a contract with 70% of its represented employees through March 31, 2006, and the other 30% through December 31, 2005.

The companies that formerly operated the City Bus Routes had a number of different pension plans. MTA, on behalf of MTA Bus, has amended the MTA Defined Benefit Pension Plan to include retirement programs which replicate the benefits provided by the prior plans. MTA Bus makes significant annual contributions to the plan on a current basis. See Footnote 4 to the Combined Financial Statements of MTA for more information relating to the MTA Defined Benefit Pension Plan, as well as the Required Supplementary Information attached thereto that sets forth information relating to the UAAL.

Commuter System

As of December 31, 2006, MTA Long Island Rail Road had approximately 6,200 employees, approximately 5,500 of whom were represented by 11 different unions. For the period 2003-2006, MTA Long Island Rail Road has reached agreement with all of its represented work force.

As of December 31, 2006, MTA Metro-North Railroad had 6,036 employees, 4,868 of whom were represented by 18 different unions with a total of 22 different bargaining units. For the period 2003-2006, MTA Metro-North Railroad and 6 unions representing approximately 1,464 employees reached agreement. MTA continued negotiations with the remaining 12 unions with respect to successor agreements. On March 30, 2007, tentative agreements were reached with 17 of the 18 unions, representing approximately 4,200 employees, on contracts that, if ratified, will extend until June 15, 2010. Eleven of the 17 unions have since ratified their agreements and the agreements have been approved by the MTA Board. Five of the unions are still in the process of voting. A 17th union rejected their tentative agreement by a few votes and is considering a re-vote. The remaining union representing approximately 500 workers has not reached a tentative agreement and could be authorized to engage in legal labor actions, including a strike, as early as August 2007.

Both MTA Long Island Rail Road and MTA Metro-North Railroad supplement the Federal Railroad Retirement Act benefits through other pension plans and also maintain pension plans for other employees. MTA Long Island Rail Road and MTA Metro-North Railroad have substantial UAAL 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 MTA Long Island Rail Road pension plans to make payments in future years are currently unfunded. See Footnote 4 to the Combined Financial Statements of MTA for more information on the pension plans, as well as the Required Supplementary Information attached thereto that sets forth information relating to the UAAL.

MTA Bridges and Tunnels

As of December 31, 2006, MTA Bridges and Tunnels had 1,782 employees, 1,364 of whom were represented by four different unions. The Local 1931 collective bargaining agreement covering 312 employees expired on July 14, 2006. The Bridge and Tunnel Officers Benevolent Association collective bargaining agreement covering 753 employees expired on March 1, 2006, the Local 1655 collective bargaining agreement covering 129 employees expires on March 2, 2008, and the Superior Officers Benevolent Association collective bargaining agreement covering the remaining 179 represented employees expired on December 14, 2005, but the terms of the agreements remain in effect by operation of law until a successor agreement is concluded or an award in arbitration has been rendered.

Substantially all of MTA Bridges and Tunnels' employees are eligible to be members of NYCERS and MTA Bridges and Tunnels is required to make significant annual contributions on a current basis. See Footnote 7 to MTA Bridges and Tunnels' audited financial statements for more information.

MTA Staten Island Railway

As of December 31, 2006, MTA Staten Island Railway had 270 employees, 239 of whom were represented by three 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 MTA Staten Island Railway Police were merged with the MTA Police effective June 1, 2005.

Employees of MTA Staten Island Railway are members of the MTA Defined Benefit Pension Plan with benefits similar to what NYCERS offers. MTA Staten Island Railway is required to make significant annual contributions to the plan on a current basis. See Footnote 4 to the Combined Financial Statements of MTA for more information relating to the MTA Defined Benefit Pension Plan, as well as the Required Supplementary Information attached thereto that sets forth information relating to the UAAL.

MTA Long Island Bus

As of December 31, 2006, MTA Long Island Bus had 1,157 employees, 973 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 expired on December 15, 2005, and the agreement with SSSA expired on April 7, 2006. There is also a small group of paratransit workers that are represented by TWU Local 252 under a separate contract that expired on October 15, 2006.

Employees of MTA Long Island Bus hired on or before January 23, 1983 are members of the MTA Defined Benefit Pension Plan. In 1999, the former MTA Long Island Bus retirement plan was merged with and into the MTA Defined Benefit Pension Plan. At the time of the merger, the MTA Long Island Bus 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 MTA Long Island Bus to make any additional contributions.

Employees of MTA Long Island Bus hired after January 23, 1983 are members of the New York State and Local Employees’ Retirement System. MTA Long Island Bus is required to make significant annual contributions to the plan on a current basis.

OPEBs

In addition to pensions, many state and local governmental employers, including the Related Entities, provide other post-employment benefits (“OPEB”) as part of the total compensation offered to attract and retain the services of employees. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits when provided separate from a pension plan. The Related Entities offer a variety of post-employment benefits that vary among the agencies. GASB Statement No. 45 applies to the MTA when MTA releases its first quarter 2007 unaudited financial statements.

GASB Statement No. 45: Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement (a) requires systematic, accrual-based measurement and recognition of OPEB cost (expense) over a period that approximates employees’ years of service and (b) provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The statement provides a mechanism for assessing the value of the OPEB liability, but it does not require that MTA fund it.

In general terms, the statement requires the MTA to determine each year (1) the present value of the current year’s cost of providing an additional year of OPEB to its current employees (the “normal cost”), and (2) an amortization (over a period not to exceed 30 years) of the present value of OPEB costs accrued to date for past and current employees, including retirees (the “past service cost”). Among other decisions, the MTA must choose the amortization period of the past service cost, whether it is amortizing the past service cost using a level dollar or level percentage basis, and certain interest rate assumptions. In each year,

the sum of the normal cost and the amortization of past service cost, after making certain technical adjustments, is referred to as the “Annual OPEB Cost,” which is recorded on the income statement.

The amount to be recorded on the balance sheet is the amount of the previous year’s liability (zero as of January 1, 2007), plus the current year’s Annual OPEB Cost, less the amount funded by the MTA (either as pay-as-you-go or deposited into a trust fund dedicated to OPEB costs). This amount is referred to as the “Net OPEB Obligation.”

The Net OPEB Obligation will increase each year to the extent that the MTA’s funding of OPEB through pay-as-you-go payments and trust fund deposits is less than the Annual OPEB Cost. Consequently, it is expected that the Net OPEB Obligation will increase each year (1) during the period of time that MTA has chosen to amortize the past service cost until fully amortized, and (2) MTA’s pay-as-you-go funding is less than that year’s normal cost. The principal way of reducing the Net OPEB Obligation is to fund a trust fund dedicated specifically to paying OPEB costs.

MTA has retained an actuary to assist the Related Entities in determining their liabilities under GASB Statement No. 45 and the actuary has substantially completed the underlying work necessary to begin calculating the liabilities. However, no final assessment of the liabilities has been made.

Expenses associated with OPEB are currently funded by MTA annually on a cash, or pay-as-you-go basis. The following chart shows the OPEB costs for the prior two years.

<u>Year</u>	<u>Annually Funded OPEB Costs</u> <u>(in millions)</u>
2005	\$ 233
2006	244

Beginning in 2006, the Related Entities began making contributions to separate agency accounts to cover future OPEB expenses. However, MTA has not established these accounts as trust funds dedicated exclusively to OPEB costs, so the amounts on deposit therein, though available to pay OPEB costs if MTA chooses to so apply the moneys, will not reduce the Net OPEB Obligation. As of December 31, 2006, there was approximately \$234 million on deposit in such OPEB accounts. The 2007-2010 Financial Plan projects that there will be additional contributions into the OPEB accounts of \$82 million in 2007, \$60 million in 2008, \$64 million in 2009 and \$66 million in 2010; however, future financial plans may increase, decrease or eliminate those contributions.

INSURANCE

General

MTA's Department of Risk and Insurance Management ("MTA RIM") is responsible for administering the insurance programs for the Related Entities, including obtaining insurance. Willis of New York, Inc. serves as MTA's master insurance broker and as the captive manager to FMTAC.

The insurance needs of the Related Entities vary. One of the biggest differences relates to how employees are covered for injuries on the job. The recovery by employees of the Related Entities other than the commuter railroads who get injured on the job is limited by the State workers compensation law. Recoveries by employees of the commuter railroads are governed by Federal law, and are not limited by State law, and, consequently, they can sue for damages if they are injured on the job.

The Related Entities maintain insurance coverage through MTA's captive insurance company subsidiary, FMTAC, and through the commercial marketplace. MTA RIM, which also serves as the staff of FMTAC, sets the insurance premiums for the Related Entities at levels that are expected to be sufficient to purchase the commercial insurance or reinsurance, or permit FMTAC to pay the claims and costs for claims administration. Since its creation, FMTAC, with funding from the Related Entities, has assumed greater responsibility for the direct insurance and reinsurance risk of the Related Entities.

FMTAC is licensed in New York State as both a direct insurer and as a reinsurer. When FMTAC is a direct insurer, it may reinsure all or a portion of its potential liabilities with commercial reinsurers. FMTAC retains independent entities to handle the claims administration process. FMTAC may deposit certain of its assets in trust with third parties in order to secure its insurance or reinsurance obligations under some of the insurance policies.

New York State Department of Insurance Regulations require that every captive insurance company licensed in the State be audited by State regulators every three to five years for compliance with State regulations and generally accepted accounting standards. FMTAC's first and, to date, only audit covering the period from its creation to December 31, 2003 was completed during 2004 and a favorable sign-off from the State Insurance Department was received on March 21, 2006.

The following major insurance policies are maintained for the benefit of the Related Entities and the expiration dates of such policies are set forth in the following chart.

<u>Insurance Program</u>	<u>Expiration Date</u>
Property Insurance	October 30, 2007
Commuter Stations and Force Liability	December 14, 2007
FMTAC Excess Loss Fund	October 30, 2007
Commercial Excess Liability Policy	October 30, 2007
All Agency Protective Liability	May 31, 2007
Paratransit and Non-Revenue Vehicle Policies	February 28, 2008
Premises Liability	December 6, 2007
Builder's Risk	various
Owner Controlled Insurance Programs ("OCIPs")	various

Property Insurance

- The property insurance, which is subject to annual renewal on October 31, 2007, provides replacement cost coverage for virtually 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.
- Effective October 31, 2006 through October 30, 2007, FMTAC directly insures property damage claims of the Related Entities in excess of a \$25 million per occurrence self-insurance retention (“SIR”), subject to an annual \$75 million aggregate. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 million per occurrence. The total program limit has been maintained at \$1.25 billion per occurrence covering property of the Related Entities collectively.
- With the exception of acts of terrorism (both domestic and foreign), and subject to certain parts of the program limit that have been retained by FMTAC as discussed in the next paragraph, FMTAC is reinsured in the domestic, London, European and Bermuda marketplaces for this coverage.
- Severe weather in 2005 had a major impact on pricing and capacity for property insurance. Although the market is beginning to stabilize given the absence of major catastrophes in 2006, available capacity at reasonable pricing levels remains limited. As a result, FMTAC was able to obtain additional reinsurance capacity over the last year (reducing the amount retained from \$394.5 million for the year beginning October 31, 2005 to \$267.9 million for the year beginning October 31, 2006), but continues to retain portions within the upper tiers of the program limit. The following chart shows the portions of the tiers of the program limit that have been reinsured and the portions that have been retained by FMTAC. Within each tier, losses would be shared among FMTAC and the respective reinsurers on a pro rata basis.

Incremental Insurance Loss (in millions)	Amount Reinsured (in millions)	Amount Retained by FMTAC (in millions)
\$ 0 – 25	\$ 0.0	\$ 25.0
25 – 125	100.0	0.0
125 – 175	50.0	0.0
175 – 400	225.0	0.0
400 – 700	300.0	0.0
700 – 1,000	57.1	242.9
<u>1,000 – 1,250</u>	<u>250.0</u>	<u>0.0</u>
Total	\$982.1	\$267.9

- With respect to acts of terrorism committed by or on behalf of foreign interests, as covered by the Terrorism Risk Insurance Act of 2002, and amended by the Terrorism Risk Insurance Extension Act of 2005 (“TRIA”), FMTAC is reinsured by the United States government for 85% of such “certified” losses, subject to an annual cap on all losses payable under TRIA of \$100 billion. No Federal compensation will be paid unless the aggregate industry insured losses exceed \$100 million (“trigger”). The remaining 15% of MTA losses would be covered under an additional policy described in the next paragraph. TRIA coverage is effective through December 31, 2007. Negotiations are under way in Congress to extend the current arrangement or implement a more permanent solution. There is no assurance that any extended or revised Federal terrorism risk insurance program will be enacted or, if enacted, what the terms and conditions thereof will be.

- With respect to terrorism losses not reinsured by the United States government under TRIA, FMTAC obtained an additional commercial reinsurance policy with Lexington Insurance Co. (part of AIG), which provides coverage for (1) 5% of any “certified” act of terrorism caused by foreign interests, up to a maximum recovery of \$150 million for any one occurrence, or (2) 100% of any terrorism loss not “certified” by the United States government (including losses within the established event “trigger”), up to a maximum recovery of \$100 million for any one occurrence. Recovery under this policy is subject to a retention of \$25 million per occurrence and \$75 million in the annual aggregate in the event of multiple losses during the policy year. Should the MTA’s retention in any one year total \$75 million, then future losses in that policy year are subject to a retention of \$7.5 million per occurrence.

Commuter Stations and Force Liability

- *Commuter Station Liability Insurance.* FMTAC directly insures MTA Long Island Rail Road and MTA Metro-North Railroad under the stations policy, which covers third party liability, bodily injury and property damage and personal injury at passenger stations, including moving train hazards while confined to the station area, and includes elevators, escalators, platforms, appurtenances, land, approaches and parking lots, if they are owned by the Related Entities. These policies insure up to the Self-Insured Retention set forth in the table included under the caption “FMTAC Excess Loss Fund” per occurrence with no aggregate stop loss protection.
- *Commuter Force Account Insurance.* FMTAC directly insures MTA Long Island Rail Road and MTA Metro-North Railroad under the force account policy, which covers 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 up to the Self-Insured Retention set forth in the table included under the caption “FMTAC Excess Loss Fund” per occurrence with no aggregate stop loss protection.
- *Excess Loss Fund covers judgments and settlements over Self-Insured Retention.* In the event that a judgment or settlement for a liability covered by the stations or force account policies exceeds the Self-Insured Retention limits, the excess is covered by the FMTAC Excess Loss Fund and the Commercial Excess Liability Policy described below.
- The cost of the Stations and Force Account Insurance is factored into the level of station maintenance payments required to be paid by the City and the Counties in the MTA Commuter Transportation District. See “REVENUES OF THE RELATED ENTITIES – Financial Assistance and Service Reimbursements from Local Municipalities – *Commuter System Station Maintenance Payments*” in Part 3.

FMTAC Excess Loss Fund

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 (\$82.5 million as of December 31, 2006). The following are the immediate past and current self-insured retentions by the Related Entities.

<u>Related Entity</u>	<u>Self-Insured Retention</u>	
	<u>Occurrence on or after November 1, 2001, but before November 1, 2006</u>	<u>Occurrence on or after November 1, 2006</u>
MTA New York City Transit, MaBSTOA, MTA Staten Island Railway, MTA Long Island Rail Road, MTA Metro-North Railroad and MTA Bus	\$7,000,000	\$8,000,000
MTA Long Island Bus	2,000,000	2,300,000
MTA Bridges and Tunnels and MTA Headquarters	1,400,000	1,600,000

Since January 1, 2007, a number of settlements have been provided from the Excess Loss Fund in an amount of approximately \$16 million. The following pending cases could result in payments under this liability policy in excess of agency retentions:

LIRR

- Gutierrez v. LIRR and Amtrak – This is an action by a LIRR employee under the Federal Employers Liability Act seeking recovery for injuries sustained on September 9, 2005 as a result of contact with an Amtrak catenary wire. The case is currently in discovery. FMTAC’s excess loss fund program would be responsible for the amount in excess of the LIRR’s retention of \$7 million at the time of the event.

NYCTA

- Huang v. NYCTA – This is an action by a woman who became trapped between the platform and a train on December 10, 2001. The jury returned a verdict of \$28.5 million. The verdict is under appeal. FMTAC’s excess loss fund program would be responsible for the amount in excess of the NYCTA’s retention of \$7 million at the time of the event.
- Hernandez v. NYCTA – This is an action by a woman who was struck by a bus on October 29, 2003 and suffered severe injuries. Plaintiff was granted summary judgment on the issue of liability and a jury verdict in the amount of \$12,477,529 on damages. All aspects of the case are currently on appeal. FMTAC’s excess loss fund program would be responsible for the amount in excess of the NYCTA’s retention of \$7 million at the time of the event.

Commercial Excess Liability Policy

A commercial Excess Liability Insurance Policy has been purchased that affords \$250 million in additional limits above the FMTAC Excess Loss Fund policy to give a total limit of \$300 million (\$250 million excess of \$50 million). Additionally, in the event the FMTAC Excess Loss Fund policy is exhausted due to claims payments, the excess liability insurance (\$250 million) would drop down and be excess over the respective agency retentions.

All Agency Protective Liability

- *FMTAC All-Agency Protective Liability Program*. Under the All-Agency Protective Liability Program (“AAPL”), FMTAC directly insures the Related Entities against claims arising out of work performed by independent contractors on capital projects. The policy provides coverage of \$2 million per occurrence, with a \$4 million annual aggregate.

- *Commercial All-Agency Protective Excess Liability Program.* FMTAC obtained this policy from commercial insurance companies to provide excess coverage for the Related Entities on top of the AAPL. The policy provides coverage of \$6 million excess of \$2 million per occurrence, with a \$12 million annual aggregate. Any excess is covered by the FMTAC Excess Loss Fund policy.

Paratransit and Non-Revenue Vehicle Policies

- *MTA New York City Transit Paratransit Program.* FMTAC obtained a commercial policy that provides automobile liability coverage for all vendors hired to perform services on behalf of MTA New York City Transit's paratransit Access-A-Ride program with policy limits of liability of \$3 million per occurrence, subject to a \$1 million deductible.
- *MTA Non-Revenue Auto Liability.* This program covers non-revenue vehicles (i.e., administrative and other vehicles not used for the generation of passenger revenues) of MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, MTA Police, the MTA Inspector General, MTA Headquarters, MTA Bus and MTA Long Island Bus. FMTAC obtained a commercial policy that provides coverage 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 MTA Long Island Bus which is subject to a \$2 million per occurrence combined single limit and a \$500,000 deductible for each accident. In addition, FMTAC insures \$1 million excess of \$7 million for the Related Entities where the self-insured retention has increased to \$8 million.
- The paratransit program and non-revenue auto liability policies are currently issued by the same commercial vendor.
- Claims and claims administration are funded out of the General Operating Account.

Premises Liability

Premises Liability insurance covers liability arising out of the ownership, maintenance and use of various MTA locations, including 341/345/347 Madison Avenue, the MTA Inspector General's lease of 11 West 40th Street, and 2 Broadway. The program provides the Related Entities with coverage of up to \$1 million per occurrence with a \$1 million aggregate.

Builder's Risk

- Builder's Risk insurance is a type of property insurance that provides coverage for physical damage to the insured structure during the course of construction. Builder's Risk insurance is not liability insurance.
- Builder's Risk for the Capital Program OCIPs covers the projects for the full project value up to a limit of either \$50 million or \$100 million depending upon the program and/or the value of the project. The East Side Access Project has a limit of \$300 million and Second Avenue Subway has a limit of \$500 million.
- Claims and claims administration are funded out of the General Operating Account.

OCIPs – In an owner controller insurance program ("OCIP"), MTA RIM arranges for the insurance coverage for all of the construction activity covered by the OCIP, rather than reimbursing the individual contractors and subcontractors for obtaining their own insurance. OCIPs have historically been more economical than requiring the contractors and subcontractors to obtain the insurance due to, among other things, the risk pooling nature of the program (i.e., the risks relating to insuring each individual project separately is generally considered greater than the risks associated with collectively insuring many projects) and the MTA, due to its financial strength and successful operation of safety management programs at the

job sites, is generally better able to procure insurance at favorable rates than individual smaller contractors and subcontractors. In addition, an OCIP provides the same level of insurance coverage at each project, which was not always possible when the individual contractors and subcontractors were required to obtain the insurance.

Generally, a commercial insurance policy is obtained for the OCIP, but FMTAC will typically retain a significant portion of each insured loss which ranges from the first \$250,000 or \$500,000 of each insured workers compensation or general liability loss up to the first \$50 million of a builders risk loss on a network expansion project. FMTAC holds deposit moneys and/or collateral in trust with a commercial bank as security for its reimbursement obligation to the commercial insurance carrier for any losses. Unexpended funds are returned to the Related Entities at the conclusion of the program. The following are active OCIPs:

- MTA New York City Transit Station, Escalators and Elevators (2000-2004 Program)
- MTA New York City Transit Line Structures, Shops, Yards and Depots (1999 Program)
- MTA New York City Transit Line Structures, Shops, Yards and Depots (2000-2004 Program)
- MTA Long Island Rail Road East Side Access
- MTA Long Island Rail Road and MTA Metro-North Railroad 2000-2004 MTA Capital Programs
- MTA New York City Transit 2005-2009 MTA Capital Program
- MTA New York City Transit Second Avenue Subway
- MTA Long Island Rail Road and MTA Metro-North Railroad 2005-2009 MTA Capital Programs

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 – FMTAC Excess Loss Fund." Each of the Related Entities additionally annually budgets an amount that it projects will be sufficient to pay for judgments and claims during that year.

The Related Entities also 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. The estimated liabilities are based upon independent actuarial advice obtained by the Related Entities. However, except in special circumstances and except for the annual judgments and claims budgeted amounts, additional cash reserves are not generally established in an amount equal to the full amount of the accrual.

MTA

Janes and Schwartz v. TBTA, MTA, Kalikow and Ascher. See description below under "MTA Bridges and Tunnels."

In the Matter of Nicholas Casale v. MTA, et al. In May 2003, 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. The Court granted petitioner a "name-clearing hearing," and a hearing to determine if his termination was contrary to law. The Court also granted petitioner's request to file an amended petition in order to include a claim for compensatory and other money damages, and petitioner did so. Subsequently, the matter was removed to Federal court by the defense, but that court granted petitioner's request to remand the case back to state court. The name-clearing hearing is expected to be held shortly before a jointly-selected independent arbitrator. MTA cannot determine the outcome of the litigation at this time.

In the Matter of Louis Anemone v. MTA, et al. In May 2003, MTA discharged plaintiff, the Director of Security, and his Deputy Director of Security, Nicholas Casale. Thereafter, each submitted identical notices of claim demanding damages of \$10 million. In March 2005, plaintiff 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 have answered the complaint and set forth various factual and legal defenses to the allegations. The parties are now conducting expert discovery. Meanwhile, defendants have moved for summary judgment on all claims. MTA cannot determine the outcome of the litigation at this time.

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 .

Transit System

Actions for Personal Injuries. As of December 31, 2006, MTA New York City Transit and MaBSTOA had an active inventory of approximately 7,900 personal injury cases and approximately 1,800 property damage claims arising out of the operation and administration of the Transit System.

Workers' Compensation and No-Fault. As of December 31, 2006, MTA New York City Transit and MaBSTOA had an active inventory of approximately 12,200 compensation cases and approximately 5,200 no-fault claims.

Actions Relating to the Transit Capital Program. MTA New York City Transit 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, as well as other available moneys pledged for capital purposes.

MTA Bus

As of December 31, 2006, MTA Bus had an active inventory of approximately 223 open personal injury claims, approximately 690 open property damage claims and 348 open non-fault claims arising out of the operation and administration of the MTA Bus System.

Commuter System

Actions for Personal Injuries. MTA Long Island Rail Road and MTA Metro-North Railroad are involved in numerous claims, lawsuits and administrative proceedings arising out of the operation and administration of the Commuter System. Most of these MTA Long Island Rail Road and MTA Metro-North Railroad lawsuits are personal injury claims.

Actions Relating to the Commuter Capital Program. From time to time, MTA Long Island Rail Road and MTA Metro-North Railroad 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, as well as other available moneys pledged for capital purposes.

MTA Bridges and Tunnels

Janes and Schwartz v. TBTA, MTA, Kalikow and Ascher. This is a class action suit filed in U.S. District Court in the Southern District of New York on February 22, 2006, alleging unequal treatment by MTA Bridges and Tunnels on toll collection policies at the Verrazano-Narrows Bridge, Cross Bay Veterans Memorial Bridge, and Marine Parkway-Gil Hodges Memorial Bridge. The complaint alleges that the toll collection policy, which allows discounts for Staten Island and Rockaway peninsula residents, unfairly discriminates against out-of-state residents and New Yorkers who do not live in those geographic areas. The complaint alleges violations of the Commerce, Privileges and Immunities, and Equal Protection Clauses of the U.S. Constitution, as well as the civil rights clause of the New York State Constitution. The complaint seeks relief which includes: certification of the class of plaintiffs; a judgment declaring the toll collection policy unconstitutional; a preliminary and permanent injunction; restitution to the class of plaintiffs; and attorney's fees. MTA Bridges and Tunnels filed an answer on May 15, 2006. The answer denies the material allegations of plaintiffs' claims and alleges, among other things, that the residence-based toll discounts purportedly described in the complaint do not impose a substantial burden on interstate commerce, are rationally related to legitimate state interests, and are otherwise lawful. The answer interposes thirty-eight affirmative defenses on various grounds. The answer also contends that the Court should not permit the action to proceed as a class action. Discovery in the action is proceeding. No class

has been certified in the action. The parties are currently negotiating a modified schedule in the action for the remaining discovery and for the filing of certain motions, including the putative representative plaintiffs' motion for class certification.

Actions for Personal Injuries. MTA Bridges and Tunnels is involved in numerous claims, lawsuits and administrative proceedings arising out of the operation and administration of the MTA Bridges and Tunnels Facilities. Most of these are personal injuries claims.

Actions Relating to MTA Bridges and Tunnels' Capital Program. From time to time, MTA Bridges and Tunnels 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, as well as other available moneys pledged for capital purposes.