Metropolitan Transportation Authority
A component unit of the State of New York

2007 Annual Report

Comprehensive Annual Financial Report
for the Year Ended December 31, 2007

The year 2007 was marked by significant increases in ridership and improvements in service and an increased MTA focus on relationships with its workforce, environmental sustainability, financial stability, and long-term planning.

2007 Annual Report

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Improvements funded by the MTA Capital Program have turned the Long Island Rail Road Jamaica Station into a modern transportation hub.

Message from the Chairman

May 1, 2008

The MTA is facing extremely difficult economic and financial times as this report is being written. They are sure to test the resiliency of our nearly 70,000 employees and our over 8 million daily customers. The good news is that as we celebrate our 40th anniversary, the MTA is better positioned to address these difficulties than it has been in the past.

We have made great strides in the last 20 years in rebuilding a system that was on the brink of collapse in the early 1980s. The results are dramatic improvements in performance and reliability which have, in turn, enabled us to move more people than we've moved since the early 1950s – before the car reigned supreme!

We have a vision and a plan that will enable our entire region to remain globally competitive over the next 40 years. By improving, expanding, and better integrating our services, we will be able to address an anticipated regional population growth of more than 3 million people by 2030.

We are doing all these things while trying to maintain affordability. With an average subway ride of $2 or less – compared to one that hovers around $8 in London – we are, I believe, doing fairly well. Our customers must agree, since MTA ridership continues to grow, and doubtless will continue growing as long as we deliver reliable and improving service.

But our success going forward will require even closer partnerships with our customers and regional decision makers. Everyone will need to better understand not only the fiscal realities we face, but where the money comes from – and where it goes – to keep the system running 24 hours a day. Many are surprised that fares and tolls cover only half the actual cost of operating the system. The balance, along with the entire cost of maintaining and improving our infrastructure, is borne by our state, local, and federal funding partners. The reality is that at the end of the day that's all of us, since those funds come from our tax dollars.

To reinforce and strengthen these partnerships, we will communicate more aggressively and more immediately. Through a variety of public outreach efforts, from webinars and public workshops to email and text alerts, we will be even more forthcoming. We will also recommit ourselves to working with and through our employees to help tell our story – and to listen to theirs. Collectively, we need to work together on thoughtful solutions to secure the funding necessary to continue to transform the network and sustain the region's economic growth.

On behalf of the Board, I pledge our guidance, direction, and support to getting this done and I look forward to a challenging and rewarding 2008.

H. Dale Hemmerdinger

Message from the Executive Director and Chief Executive Officer

May 1, 2008

To ensure that the MTA remains the greatest transportation system in the world I established seven strategic priorities early in 2007.

First, our ***Workforce Development*** initiative commits us to creating an organizational culture that values, engages, and supports employees and their contributions – this is vital to running a successful system. With the help of our Blue Ribbon Panel on Workforce Development we issued a report in December that laid out some 61 specific recommendations that will make our organizational culture more responsive and institute succession planning throughout the organization. This initiative is very important to me and I have personally shared its recommendations in writing with each and every MTA employee, encouraging them to share their thoughts about how to make our workplace even better.

Second, we are working to bring about ***Institutional Transformation***. By creating a single bus company out of our three bus fleets we have driven home our commitment to creating value internally by breaking down boundaries, eliminating redundancies across all agencies, and creating new synergies. Similarly, we are better coordinating the operations of our two regional railroads, and, in a newly established Business Service Center, providing for a common approach to the back office functions of our seven operating agencies that will not only bring more efficient operations but save some $30 to $40 million a year. Externally, we are creating value with stronger partnerships with other agencies such as the Port Authority, NYC Department of Transportation, NJ Transit, and NYPD to deal with regional transportation issues in an integrated manner.

Third, we are focused on improving ***Customer Service***. Using common sense and technology we will bring more timely and relevant communication to our customers through email and text message alerts. We added new customer information screens in various parts of the system and have posted elevator/escalator outages on the web. We will also be providing more consistency in approach to our customers and we have already been meeting with them on a more frequent basis through outreach sessions and webinars. Perhaps most important to our customers, we have added more service to address growing demand. We have already added new rolling stock (including 850 new hybrid buses); reinstituted weekend service on the Pascack Valley line after 50 years; created our first interstate bus route between Staten Island and Bayonne, NJ; and continued to bring more of our system into a state of good repair.

Fourth, we are developing a coherent ***Long-Term Planning Vision*** to all our efforts to accommodate population and employment spikes projected over the next 25 to 30 years. This vision will enable our region to retain and attract vital businesses and the people who make them work. Our region competes not only with other

great American cities, but with world centers like London, Shanghai, and Singapore. The MTA Capital Program must therefore sustain our current mega-projects, such as the Second Avenue Subway and East Side Access. But beyond that we must also create a system that reaches more parts of our 5000-square mile service area and serves all parts of it better. The recommendations of a Blue Ribbon Panel on Construction Excellence, which I appointed in 2007, are guiding our work on major projects as we confront significant increases in material and construction costs.

Fifth, the MTA must establish a ***Stable Financial Platform*** for our operational and capital investments. We are aggressively pursuing increased support from Albany and other governmental partners. We are also increasing internal efficiencies through a four-year financial plan that includes a host of common-sense initiatives to reduce expenses by 6 percent while increasing fares and tolls modestly to keep pace with inflation and provide funds for our long-range plans.

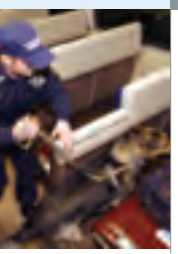
Sixth, we are continuously enhancing ***Safety and Security*** throughout our system by addressing potential threats to the network, continuing to harden the system with more than $1 billion in capital spending, hundreds of millions of dollars in additional police and employee training, and enhanced federal, state, and local police presence on rail vehicles and stations under the MTA's new Directed Patrol Strategy.

Seventh, the MTA is by its nature one of the most environmentally friendly entities in the region, and with a ***Sustainability*** agenda that is on the cutting edge nationally and globally, we are further reducing the environmental impact of our operations. Our Blue Ribbon Commission on Sustainability and the MTA is analyzing all dimensions of the MTA's own carbon footprint – carbon dioxide emissions, water, waste, and resource use. At the end of 2008, the Commission will recommend ways to make the MTA's footprint lighter even as the MTA expands its services to the region. We are also advancing transit-oriented-development projects like the "Be in Beacon" effort, as well as a host of other initiatives.

As we celebrate the MTA's 40th anniversary our seven priorities now focus us clearly on the next steps towards a lean, effective organization with sustainable operations and a truly regional reach and effectiveness. To ensure that the MTA remains one of the best-in-class of large public transportation agencies in the world, we are committed to working through those priorities with our workforce, stakeholders, and the general public to achieve our goals and remain a major driver of regional prosperity for the next forty years.

Elliot G. Sander

MTA Leadership
As of May 1, 2008



MTA Board

H. Dale Hemmerdinger,
Chairman

David S. Mack,
Vice Chairman

Andrew M. Saul,
Vice Chairman

Andrew B. Albert

John H. Banks

James F. Blair

Norman E. Brown

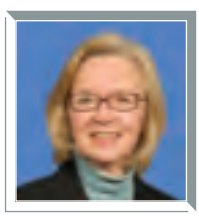
Donald Cecil

Barry Feinstein

Jeffrey A. Kay

Mark D. Lebow

James L. McGovern



Susan G. Metzger

Mark Page

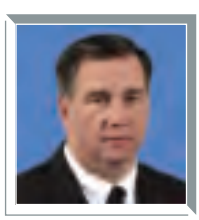
Mitchell H. Pally

Francis H. Powers

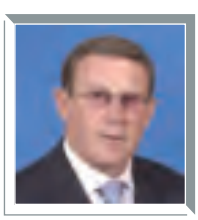
Norman I. Seabrook

James L. Sedore, Jr.

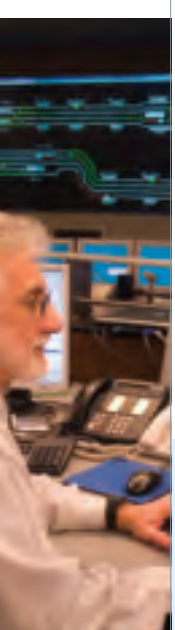
Nancy Shevell

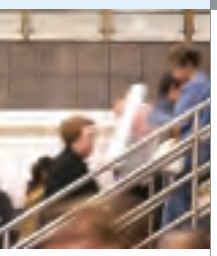


Ed Watt



Carl V. Wortendyke



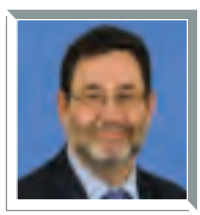


MTA Management

Elliot G. Sander, Executive Director and Chief Executive Officer

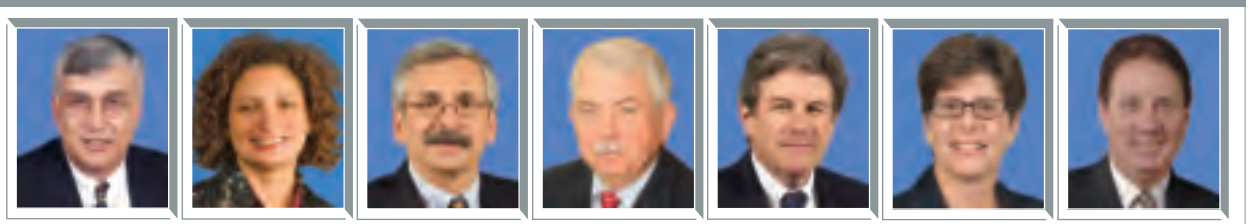
(left to right) Susan L. Kupferman, Chief Operating Officer; Myrna I. Ramon, Chief of Staff

(left to right) Christopher P. Boylan, Deputy Executive Director, Corporate and Community Affairs; Michael J. Fucilli, Auditor General; James B. Henly, Deputy Executive Director, General Counsel



(left to right) Linda G. Kleinbaum, Deputy Executive Director, Administration; William A. Morange, Deputy Executive Director, Director of Security; Hilary D. Ring, Director of Government Affairs; Ernest Tollerson, Director for Policy and Media Relations; William Wheeler, Director of Special Project Development and Planning

Agency Presidents



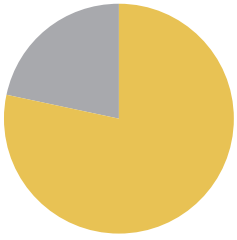
(left to right) Peter A. Cannito, MTA Metro-North Railroad; Veronique Hakim (Acting), MTA Capital Construction; David Moretti (Acting), MTA Bridges and Tunnels; Howard H. Roberts, Jr., MTA New York City Transit; Thomas J. Savage, MTA Bus; Helena E. Williams, MTA Long Island Rail Road; Neil S. Yellin, MTA Long Island Bus

Not pictured: Gary Dellaverson, Chief Financial Officer

2007 Consolidated Financial Highlights

Assets and Liabilities

($ millions)

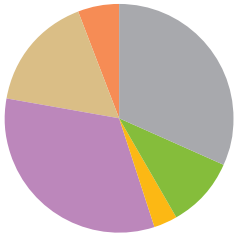


Assets		
Capital assets, net	$40,611	78.45%
Other assets	11,158	21.55
Total	**$51,769**	**100.00%**

Liabilities and Net Assets		
Current liabilities	$3,492	6.75%
Long-term liabilities	28,980	55.98
Net assets	19,297	37.28
Total	**$51,769**	**100.00%**

Income and Expenses*

($ millions)



Income		
Passenger fares	$3,995	31.89%
Tolls	1,251	9.99
Other operating revenue	420	3.35
Tax-supported subsidies	4,105	32.77
Grants and appropriations	2,035	16.24
Other nonoperating revenue	721	5.76
Total	**$12,527**	**100.00%**

Expenses		
Salaries and wages	$4,339	34.46%
Retirement and other employee benefits	3,265	25.93
Interest on long-term debt	1,054	8.37
Power, fuel, materials and supplies	1,005	7.98
Depreciation	1,689	13.41
Other	1,241	9.85
Total	**$12,593**	**100.00%**

* The difference between income and expenses is the change in net assets.

Capital Program Progress

Capital Program Funding Received through December 31, 2007*

($ millions)	1982–2007	2007
MTA federal grants	19,919	1,702
State service contracts	1,905	—
State appropriations	623	—
City appropriations	3,780	68
MTA bonds	17,557	1,274
MTA debt restructuring	4,523	—
MAC surplus	925	—
Lessor equity/Asset sales	1,143	133
Investment income	2,157	57
Capital-operating transfer/Pay-as-you-go	1,350	17
Other	2,899	555
Total	**56,780**	**3,805**

* Funding for MTA Bridges and Tunnels Capital Programs not included.

Note: Because of rounding, totals may not add exactly.

Capital Program Progress, 1982–2007

($ millions)	Commitments	Expenditures	Completions
MTA Total*†	$64,320	$53,887	$44,513
MTA New York City Transit	40,017	35,207	31,552
MTA Long Island Rail Road	7,881	7,386	5,858
MTA Metro-North Railroad	5,970	5,302	4,050
MTA Bridges and Tunnels	2,834	2,271	1,971
MTA Capital Construction	6,720	2,926	502
MTA Bus	443	366	228

Capital Program Progress, 2007

($ millions)	Commitments	Expenditures	Completions
MTA Total*	$6,434	$3,844	$2,621
MTA New York City Transit	3,029	1,972	1,618
MTA Long Island Rail Road	250	317	204
MTA Metro-North Railroad	252	302	153
MTA Bridges and Tunnels	121	233	234
MTA Capital Construction	2,718	822	209
MTA Bus	64	18	204

* MTA totals include the following amounts:
World Trade Center recovery: Total commitments, $239 million; total expenditures, $236 million; total completions, $203 million; 2007 expenditures, $12 million.
Planning and Customer Service Projects: Total commitments, $114 million; total expenditures, $98 million; total completions, $59 million; 2007 expenditures, $24 million; 2007 completions, $8 million.
Interagency Projects: Total commitments, $13 million; total expenditures, $6 million; 2007 commitments, $2 million; 2007 expenditures, $3 million.

† Does not include $92 million of commuter rail project commitments made in the 1982–1991 Capital Program for projects that could not be assigned to either railroad since they benefited both.

Note: Because of rounding, totals may not add exactly. Commitments may be more than receipts since bonds are sold as cash is needed.

Ridership on subways, commuter railroads, and buses reached a new high in 2007: more than 2.6 billion paid rides.

Performance

A consistently high level of performance is critical to the economic well-being of the MTA region. MTA services offer efficient, environmentally sound alternatives to gridlocked streets and highways, and that mobility helps maintain New York's status as a world center of finance, commerce, culture, and entertainment.

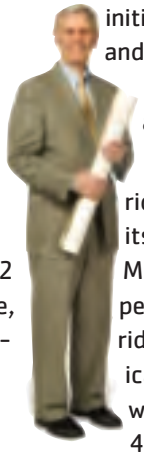
The rail, bus, and bridge and tunnel agencies of the Metropolitan Transportation Authority all made impressive gains in 2007, with substantial increases in ridership and crossings.

Overall annual mass transportation ridership on subways, commuter rail lines, and buses increased by 3.1 percent, from 2.54 billion to 2.62 billion. MTA systems are not only being used more, they are being used at more times and in all directions, with increases in off-peak, night, weekend, and reverse commute ridership. Bridge and tunnel crossings rose by 0.8 percent from 302.9 million to 304.4 million, a record high.

Nearly all MTA transportation modes improved reliability, while at bridges and tunnels wait times for both E-ZPass® and cash customers continued to fall.

Ridership

At MTA New York City Transit, ridership on both the subway and MTA Staten Island Railway increased. Subway ridership grew 4.2 percent and is now at a level not achieved since 1951, benefiting from a strong city economy, including record tourism, and MetroCard® discounts. Market share of the 30-Day Unlimited Ride MetroCard reached 31.3 percent, the highest since the introduction of unlimited ride cards in 1998. The effect of MetroCard unlimited ride and bonus discounts kept the average non-student New York City Transit subway and bus fare at $1.29.



Staten Island Railway ridership grew 9.2 percent after a previous 9.4 percent increase in 2006. The growth is attributed to the development of a comprehensive service improvement program initiated in 2005 to respond to changing markets, and to construction-related congestion on area highways that led Staten Islanders to seek alternate transportation modes.

MTA Long Island Rail Road, which had a ridership increase of 5.0 percent, experienced its highest ridership since 1949, while MTA Metro-North Railroad, which achieved a 4.3 percent increase in ridership, reached the highest ridership in its 25-year history. The most significant gains were in noncommutation ridership, which increased by 6.4 percent on LIRR and 4.6 percent on MNR.

MTA Bus ridership grew by 10.6 percent due to substantial service improvements, more reliable service, and MetroCard bonuses and transfers available since the agency took over the operations of seven private bus operators. MTA Bus also saw modest increases in express bus ridership in Queens and the Bronx.

The E-ZPass electronic toll collection systems shorten wait time for E-ZPass customers as well as for those who pay cash.

Ridership

	2006	2007	% change
Subways			
New York City Transit – Subway	1,498,915,984	1,562,515,065	4.2%
Staten Island Railway	3,782,591	4,129,328	9.2%
Commuter Rail Lines			
Long Island Rail Road	82,036,736	86,098,475	5.0%
Metro-North Railroad	76,850,478	80,133,867	4.3%
Buses			
New York City Transit – Bus	741,419,747	738,039,531	-0.5%
Long Island Bus	32,224,888	32,172,149	-0.2%
MTA Bus*	99,169,399	110,269,609	11.1%
Paratransit			
Access-A-Ride (New York City)	5,201,569	5,871,941	12.9%
Able-Ride (Nassau County)	352,589	352,160	-0.1%
Bridges and Tunnels (vehicle crossings)	302,058,539	304,364,216	0.8%
Total System (excluding Bridges and Tunnels)	**2,539,953,981**	**2,619,582,125**	**3.1%**
Average Weekday (excluding Bridges and Tunnels)	8,288,987	8,505,966	2.6%

*2006 ridership figure modified from 2006 Annual Report

New York City Transit bus ridership declined 0.5 percent. Weekday local bus ridership was down in Manhattan and Brooklyn, while express bus ridership was down in all boroughs. Transit's express bus ridership decline in Staten Island was principally due to traffic problems relating to roadwork on the Verrazano-Narrows Bridge and connecting highways. Despite a decrease of 0.2 percent, Long Island Bus remained close to its historic annual ridership high set in 2006.

Performance Indicators

On-time performance declined slightly on subways but reached record highs on the commuter railroads, and other rail performance indicators remained strong.

At the commuter railroads, LIRR achieved its highest on-time performance since modern recordkeeping began in 1979: 94.1 percent, up from 93.3 percent in 2006. Metro-North on-time performance was 97.7 percent, a statistically insignificant difference from the 97.8 percent achieved in 2006, and the third consecutive year that more than 97 percent of trains were on time.

Subway wait assessment, which measures service reliability during the day, declined to 85.6 percent from 86.7 percent. Schedule adherence, which measures on-time performance at night, declined to 80.3 percent from 81.2 percent. Terminal on-time performance (trains arriving at their terminals within five minutes of schedule) declined to 92.8 percent from 94.5 percent.

Railroad mean distance between failures (MDBF), the distance cars travel before they need to be taken out of service for repairs, continued to improve. MDBF on the LIRR rose to 107,825 miles, up 37.1 percent from 78,597 miles in 2006, reflecting the continued impact of the new M-7 cars, which are averaging over 300,000 miles between breakdowns. MDBF at Metro-North was 110,361 miles in 2007, up 6.8 percent from 103,377 miles in 2006. The difference in these results is due to fleet configurations. MNR trains, especially those on the New Haven Line, are on average older than those of the LIRR. Working with the Connecticut Department of Transportation and Kawasaki, MNR has developed a new M-8 car that will allow it to retire the oldest cars on the New Haven Line; deliveries begin in 2008.

Both railroads took actions during the year to prevent the slip-slide that created problems during

continues on page 14

The new M-7 fleets of Long Island Rail Road and Metro-North Railroad are providing customers with more reliable service.

The August 8 Storm

On August 8, the New York region was hit by a major storm that disrupted transit service and traffic in the city and region-wide. The storm reached the city just after 6 a.m. and all but shut down the subway system and crippled commuter rail service. Bus service was overwhelmed by rail passengers seeking alternate transportation to work.

The commuter rail lines and buses recovered soon after the end of the storm, but it was not until 3:30 p.m. that 75 percent of subway service was back to normal. The storm marked the fourth time since 2004 – and the third time in 2007 – that severe weather had crippled the regional transit system.

In the wake of the disruption, the governor asked the MTA to prepare a comprehensive report to examine the causes of the service disruptions and develop plans to prevent them in the future.

The report – which drew on the expertise of city and state agencies, Columbia University's Center for Climate Systems Research, the University Transportation Research Center of City University, and industry consultants – concluded that the severity, timing, and lack of warning of the August 8 storm hindered storm preparations and exposed the vulnerabilities of the MTA's transportation system. The system flooded due to enormous amounts of water pouring into subways and low-lying rights-of-way from flooded streets, overwhelmed pumps, or backflow from external drainage sources, as well as some drainage blocked by debris from the storm itself. At the height of the disruption, the MTA could not in many cases provide alternative travel options, and customers had difficulty gaining access to timely and accurate information.

To address these issues, the MTA has planned improvements in operations, engineering, and communications.

Operationally, Doppler radar is being monitored in each agency's operations center, an MTA-wide Emergency Response Center has been created, and new storm protocols are in place to guide alternative service.

Engineering solutions targeting flood-prone locations – 33 at NYC Transit, 12 at LIRR, 10 at MNR, and 10 at Bridges and Tunnels – had action plans in place by year-end. Working with the NYC Department of Transportation and Department of Environmental Protection, the MTA drew from a toolbox of potential fixes to prevent water inflow and to remove it if it flows in, including installing check valves to prevent backflow, pursuing better sewer connections, increasing pumping capacity, predeploying portable pumps and personnel, installing closeable vents, and raising the level of station stairwell entrances that flood. Innovative street furniture, such as benches that incorporate raised air vents, will be considered for key locations.

Communications solutions include email and text message alerts, cell phone service on subway platforms, advancing new public address technologies, and improving communications between operations centers and field personnel with PDAs and BlackBerries. Some of these proposals were in place by the end of 2007, others will be completed in 2008.

To begin implementing these solutions, the MTA has committed $30 million to fund initiatives that can be put into place quickly. Just as important, the MTA quantifed the costs of the longer-term capital needed to prepare the system for operating in future storms and for communicating with customers in all types of emergencies. ●

the fall of 2006. Slip-slide results from low adhesion between the train wheel and the rail during braking, which is caused by a slippery substance (pectin) that is released when wheels crush fallen leaves. The condition is similar to a car's wheels skidding on an icy road, but on a railroad the steel wheels become flattened and cars have to be taken out of service for repairs.

MTA Bus operations recorded strong performance and high customer satisfaction rates.

The railroads reduced slip-slide by early trimming of trees, shrubs, and bushes along the right-of-way, piloting the use of "smart sanders" on 50 M-7 cars, and using special chemicals, and power washers. They also modified brake application software (similar to the anti-lock braking systems on cars) to prevent wheels from locking and sliding, and restricted speeds in areas where leaves covered the tracks until they could be cleared.

On the subway system, MDBF decreased during 2007 to 149,646 miles from 156,624 miles. The largest proportion of the fall-off occurred in the R-40, R-44, and R-46 cars, which make up 22 percent of the fleet and are an average of 36 years old. As these older car classes are retired and replaced by the R-160 subway cars now coming into service, the new equipment will improve fleet performance. In addition, Transit had problems with the braking systems on the R-142 cars.

At Staten Island Railway MDBF increased 68.2 percent to 242,005 miles in 2007 from 143,865 miles the year before.

All of the MTA's bus operations recorded strong performance in 2007. As in prior years, indicators such as MDBF, on-time performance, trips completed, and rush hour pull-outs were affected by unprecedented levels of construction activity, including the Second Avenue Subway, the 146th Street Bridge closure, the Verrazano-Narrows Bridge, and Bartow Avenue, as well as regional incidents such as the August 8 storm and the ConEd steam pipe explosion in July.

MDBF for NYC Transit buses reached a record-high 4,109 miles, up 1.2 percent from 4,059 miles in 2006. MDBF for Long Island Bus fell to 1,789 miles, down 1.1 percent from 1,808 miles in 2006. The decline is due to the fact that many buses in the LI Bus fleet are nearing the end of their useful life. The agency is addressing the needs of the bus fleet in its Capital Program with the purchase of 60 replacement compressed natural gas buses that will be delivered in 2008. At MTA Bus, MDBF rose a substantial 42.2 percent to 3,369 miles in 2007 from 2,369 miles in 2006. Since taking over the seven private bus operations, MTA Bus has replaced 61.4 percent of its original fleet, retiring its oldest buses, and instituted best-practice maintenance programs at all depots.

NYC Transit bus on-time performance declined, with wait assessment decreasing slightly to 80.9 percent from 81.8 percent and en-route performance to 67.9 percent from 68.9 percent. LI Bus and MTA Bus track the number of completed trips or bus pull-outs rather than on-time performance. During 2007, LI Bus completed 99.2 percent of its morning and afternoon peak periods trips, down very slightly from 99.5 percent in 2006. At MTA Bus, morning peak pull-outs were 99.3 percent in 2007, compared to 98.5 percent in 2006.

Paratransit Operations

Access-A-Ride, in the five boroughs, recorded substantial gains in ridership, and Able-Ride, in Nassau County, continued at historic high levels.

Access-A-Ride provided 5.9 million rides in 2007, up 12.9 percent over 2006. This gain was achieved despite a ten-day strike of drivers and mechanics at four of the 14 Access-A-Ride carriers. Although the four carriers operate 50 percent of the assigned fleet capacity for paratransit operations, NYC Transit's contingency plan enabled the remaining carriers to fulfill all subscriptions and prescheduled trips without interruption, while denying just 357 trip requests during the strike. Paratransit customers were subject to delays, but service was not curtailed.

In 2007 Able-Ride served 352,160 passengers in Nassau County, virtually the same number as in 2006, and set a single-day ridership mark of 1,556 passengers.

Crossings

Despite sharp jumps in fuel prices across the region, crossings at MTA Bridges and Tunnels increased to a record 304.2 million in 2007, up just under 1 percent from 302.1 million in 2006. The previous high was recorded in 2004, when there were 303.0 million crossings.

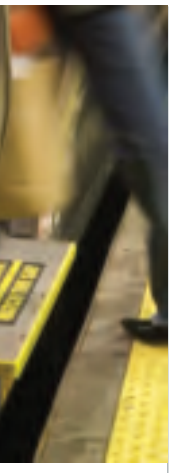
E-ZPass market share grew to 73.5 percent of the vehicles that used the seven bridges and two tunnels, up from 72.6 percent in 2006. The year was a milestone for the electronic toll collection system – for the first time, the median wait time during peak hours at toll plazas was virtually zero, while for cash customers the wait time dropped to 11 seconds, down from 25 seconds in 2006.

Customer Safety

All of the MTA rail operations – Transit subways, Staten Island Railway, Long Island Rail Road, and Metro-North Railroad – continued to address issues arising from gaps between stations and rail cars in 2007. These gaps are wider at stations built on curves than along straight track, and all rail operations have worked for the past 18 months to minimize the danger to riders, and Transit and MNR completed most of the necessary work in 2005.

LIRR – which has a number of stations built on curved track – developed a comprehensive program that included moving track closer to platforms, extending platform edging, and other physical changes at stations to address many of its most serious gap problems. At year-end LIRR announced the decision to install edge boards at additional platforms, to revise the 5'8" track centerline platform edge standard to 5'7", and to add wider threshold plates on its fleets of M-7 and C-3 cars.

More than 304 million vehicles crossed MTA-operated bridges and tunnels, the second highest total ever. The Henry Hudson Bridge (above) connects Manhattan and the Bronx.



At Syosset Station the railroad added new responsibilities to the job of the special platform conductor and installed a closed circuit television system to assist customers in boarding and exiting the train and to allow the conductor to monitor the platform. It also partnered with the New York Mets in a new public information campaign to promote gap safety. The Mets posted "Watch the Gap" messages on their scoreboard at Shea Stadium and made announcements, and LIRR produced a flyer featuring Mr. Met at the LIRR's Shea Stadium Station showing how to safely step over the gap.

To ensure a consistently delivered message, the MTA created new signage, working with an internationally recognized iconography expert to develop a memorable and intuitive visual image.

LIRR created a series of celebrity safety announcements which were also used by MNR. The announcements used media personalities who donated their services to remind customers of gap and other safety issues, and both agencies included articles on boarding and detraining awareness in their customer publications.

SIR updated its platform gap survey data in 2006, and a program to tighten both vertical and horizontal gap tolerances in accordance with NYC Transit standards was instituted in 2007. Completion is planned for 2008.

Ongoing customer safety programs include frequent emergency drills that familiarize both in-house and outside agency emergency responders with detailed information about stations and other facilities.

In July, the LIRR rolled out a new "Be TrainSmart" customer awareness safety campaign to raise awareness about safe habits and promote behaviors that reduce the risk of accidents. This comprehensive campaign focuses on a different safety factor every two months, including platform safety, child safety aboard trains, door safety, grade crossing safety, and escalator/stair safety.

The tragedy of a bridge collapse in Minnesota in August focused public attention on inspection programs across the United States. MTA Bridges and Tunnels has long complied with the inspection requirements of New York State, which are more comprehensive and demanding than the federal program, and its continuous planning and ongoing rehabilitation and replacement of infrastructure components have kept MTA Bridges and Tunnels facilities structurally sound with satisfactory overall ratings. Moreover, during 2007, outside consultants reviewed the bridge and tunnel inspection programs overseen by Bridges and Tunnels engineering staff and found that they exceed the required standards and are of a very high quality.

Certain state-permitted overweight vehicles, previously allowed to use the Throgs Neck Bridge during the day under a special program, were restricted to overnight travel for several months while needed repairs, detected during an inspection, were completed. Truck weight enforcement was increased at all facilities during the year because of evidence of grossly overweight vehicles

A new icon warning passengers to "Watch the Gap" is in use across the MTA commuter rail network.

without permits using bridge crossings. This violation of Bridges and Tunnels regulations can cause structural damage. Increased enforcement, requiring additional overtime to provide coverage at major crossings, was implemented and will continue. Weight detection technology is being developed to aid in enforcement.

Employee Safety

In April 2007 two NYC Transit employees were killed while performing track work, prompting formation of a President's Track Safety Task Force to deal with issues such as proper flagging procedures, emergency communication, and the introduction of new safety equipment. Working closely with the Transport Workers Union, Transit developed and implemented major changes in safety procedures.

Principal among these was a revision of a number of track flagging rules. Flaggers – who look out for approaching trains to warn track workers – are currently the only protection for workers along the right-of-way, but Transit is evaluating vendors that can provide a portable device which will warn workers of approaching trains. Flagging protection for workers on adjacent tracks was mandated, and ways to reduce the impairing affect of noise by power tools and equipment are being investigated. Portable radios are being issued to work crews performing emergency work in areas where emergency alarm boxes or emergency telephones are out of service, and supervisors are required to accompany flaggers when establishing and removing track flagging protection.

To improve the safety of right-of-way workers, communication between employees and supervision was improved, and supervisors were required to communicate information to train operators at the beginning of each tour about track work and other events that could affect train operation.

In addition to measures recommended by the Track Safety Task Force, NYCT upgraded safety

LED lanterns help make tunnel work safer for NYC Transit workers.

equipment issued to employees. For flaggers, Transit is shifting from incandescent to light-emitting diode (LED) lanterns that provide greater illumination. New nitrile-lined leather-palm work gloves prevent physical contact with creosote-impregnated wood ties, and ice cleats, which slip over shoes and improve traction, were issued to many workers who might work outdoors during inclement weather.

Also to reduce slips, trips, and falls, Transit began a condition survey of every truck type in its fleet in 2007 to identify vehicles that need retro-fitting with grab bars and/or nonskid coating on their landings and take appropriate follow-up action, including modifications to the vehicles and vehicle specifications. Nearly half of the truck fleet was inspected by the end of 2007; the remainder will be completed in 2008.

Metro-North improved the effectiveness of key components of Priority One, its safety improvement program, with campaigns that involved all supervisors making personal contact with each of their employees and discussing the responsibilities each has to ensure a safe work environment. The 2007 campaigns focused on the importance of supervisors holding job safety briefings at the start of each work day; stressed that employees were not only responsible for their own safety, but also for

the safety of their colleagues; and promoted wearing proper personal protective equipment. These efforts enabled Metro-North to maintain the lowest employee injury levels in its history.

Fifty-eight LI Bus operators have received bus simulator training since June 2007. Using the agency's bus simulator, a trainer observes and critiques new operators' defensive driving skills, including adapting to traffic conditions and actual accident scenarios in a simulated environment.

An Audiometric Testing Booth was installed to test hearing in areas of high noise levels. The booth is also used to provide baseline testing for all new employees. In addition, automatic external defibrillators (AED) were placed throughout LI Bus facilities and CPR/AED training was made available to all personnel.

To ensure the safety of Bridges and Tunnels officers working at toll plazas, the agency performed extensive carbon monoxide monitoring in 2007, finding that its highest exposure reading (2.4 parts per million) was only a fraction of the federal allowable workplace limit (50 parts per million) under the federal Occupational Safety and Health Administration regulations. (These results were even lower than samples obtained in a 1991/1992 survey, which were also low.) An environmental consultant conducted the program, which involved thousands of samples collected from monitoring devices worn by employees at all toll plazas to give the agency an accurate representation of carbon monoxide exposure to individual employees during a typical shift.

To enhance safety training at its nine facilities, Bridges and Tunnels used toolbox training (on-site small group sessions that demonstrate safe practices on the job). By year-end 269 sessions had been held. In addition, all of the more than 700 Bridge and Tunnel officers attended communications training programs to improve customer interactions on the toll plaza.

Carbon monoxide monitoring at toll plazas helps keep Bridges and Tunnels employees safe.

Customer Injury Rate*

Per million customers

	2003	2004	2005	2006	2007
New York City Transit					
Subway	2.85	3.15	3.13	3.01	3.30
Bus	1.47	1.53	1.49	1.67	1.37
Long Island Rail Road	4.83	5.08	4.77	5.34	6.51
Long Island Bus	1.90	1.72	1.32	1.12	1.00
Metro-North Railroad	4.19	4.23	3.00	3.04	3.30
Bridges and Tunnels†	1.46	1.20	1.21	1.13	1.12
MTA Bus	—	—	—	1.98	2.26

* Some figures are amended from prior years based on additional information from operating agencies.

† Vehicle accidents with injury per 1 million vehicle crossings.

Lost-time and Restricted-Duty Injury Rate*

Per 200,000 work hours

	2003	2004	2005	2006	2007
New York City Transit†	2.99	2.84	2.93	2.64	2.60
Long Island Rail Road	3.44	2.74	3.40	2.78	2.31
Long Island Bus§	6.58	2.40	4.04	3.05	4.85
Metro-North Railroad	4.36	3.51	2.49	2.07	2.08
Bridges and Tunnels§	3.70	2.20	2.70	3.20	2.50
MTA Bus†	—	—	—	7.33	6.71

* Some figures are amended from prior years based on additional information from operating agencies.

† NYC Transit and MTA Bus measure lost-time and restricted-duty injury rates on an equivalent "per 100 employees" basis.

§ Figures for Long Island Bus and Bridges and Tunnels reflect lost-time injuries only.

Customer Satisfaction

Based on citywide and regional surveys carried out by independent contractors during the fall and winter of 2007, MTA customers gave mixed results to the service provided by the MTA operating agencies.

Among commuter rail customers, satisfaction ratings were up in 2007. NYC Transit bus and LI Bus ratings remained constant; ratings for subway service and Bridges and Tunnels decreased. 2007 was the first year a survey was conducted for MTA Bus; its services received favorable ratings.

NYC Transit customer responses were solicited both before and after a November 20 announcement that fare increases would be smaller than initially proposed. Customers surveyed before the announcement rated NYCT subway and bus service lower than did those surveyed after.

The decline for Bridges and Tunnels can be attributed to the traffic impact of an unavoidable lane closure for deck replacement at the Verrazano-Narrows Bridge during the survey period. Excluding the Verrazano results, customer satisfaction scores have remained at the 2006 level of 7.1.

New York City Transit – Subway*

	2005	2006	2007
Overall	6.2	6.3	6.0
Cost	5.8	6.3	6.1
Value	6.3	6.8	6.3
On time	6.6	6.7	6.3
Station environment	5.8	5.7	5.8
Safe/secure in cars	6.3	6.3	6.2
Police in station	5.7	5.6	5.6

New York City Transit – Bus*

	2005	2006	2007
Overall	6.1	5.9	5.9
Cost	5.9	6.5	6.3
Value	6.2	6.6	6.3
On time	5.8	5.7	5.3
Safe/secure on bus	7.2	7.4	6.8

Long Island Bus

	2005	2006	2007
Overall	7.4	7.2	7.2
Cost	7.0	7.2	7.2
Value	7.6	7.7	7.6
On time	7.3	7.2	7.2
Safe/secure on bus	8.2	8.1	7.9

MTA Bus

	2005	2006	2007
Local Service - Queens			
Overall	n/a	n/a	6.2
On time	n/a	n/a	6.4
Safe/secure on bus	n/a	n/a	7.8
Express Service - Queens			
Overall	n/a	n/a	7.4
On time	n/a	n/a	6.8
Safe/secure on bus	n/a	n/a	8.5
Express Service - Bronx			
Overall	n/a	n/a	7.1
On time	n/a	n/a	6.6
Safe/secure on bus	n/a	n/a	9.0

Note: All survey results are on a scale of 0 to 10.

*The 2007 ratings for New York City Transit – Subway and New York City Transit – Bus reflect customer responses that were solicited both before and after a November 20 announcement that fare increases would be smaller than initially proposed. Customers surveyed before the announcement rated NYCT subway and bus service lower than did those surveyed after.

Long Island Rail Road

	2005	2006	2007
Overall	6.7	6.9	7.3
Cost	5.9	6.2	6.7
On time	6.9	7.1	7.4
Personal security	6.7	7.0	7.3
Comfort	6.8	7.0	7.4

Metro-North Railroad

	2005	2006	2007
Overall	7.4	7.2	7.5
Cost	6.8	6.7	7.0
On time	7.9	7.7	8.1
Personal security	7.6	7.6	7.8
Comfort	6.9	6.7	7.3

Bridges and Tunnels

	2005	2006	2007
Overall	7.0	7.1	6.7
Cost/value	5.4	5.5	5.6
Efficiency of crossing	6.8	6.9	6.5
Safety & security	7.7	7.8	7.2
Road conditions	6.9	7.1	6.8
E-ZPass performance	8.2	8.3	8.2

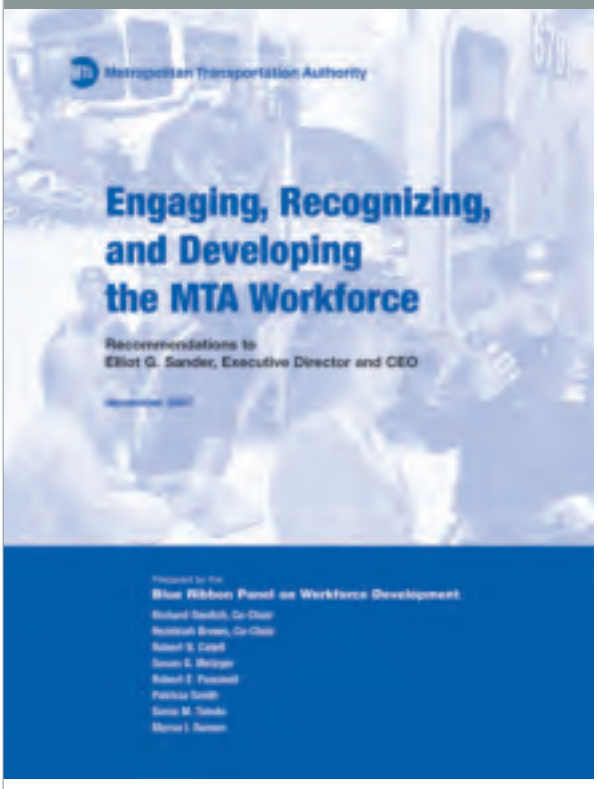
Workforce Development

The MTA is working to create an organizational culture that values, engages, and supports employees and fosters professional career growth.

Workforce Development Panel

The MTA formed a Blue Ribbon Panel on Workforce Development in 2007 to identify ways to improve efficiency and address the current and future issues that affect the workforce so that the MTA's mission and vision are achieved. The panel, which was co-chaired by Richard Ravitch, former MTA chairman, and Hezekiah Brown, mediator and arbitrator, included representatives from the public and private sectors with a wide array of experience and expertise.

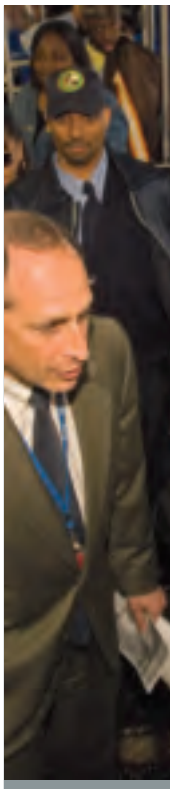
Over a five-month period, the panel conducted interviews with MTA employees at various levels throughout the organization and with labor representatives. Data and research materials from internal and external sources were reviewed and analyzed. Site visits to MTA facilities augmented the interviews and data analysis.



A panel of public and private sector experts made recommendations that are already strengthening the relationship between the MTA and its workforce.

The panel's report identified key areas and proposed recommendations to: change the organizational culture to foster a work environment that reflects and rewards the core values of mutual respect, teamwork, and quality customer service; develop training and career development programs to ensure that employees at all levels are well equipped to meet current and future challenges in the realization of the MTA's mission and vision; develop a succession planning process that helps identify and develop candidates for senior level positions to ensure the continuity of managerial expertise and leadership skills; address issues of employee availability and the effect absenteeism has on service delivery and morale; and improve labor-management relations to make them more respectful and collaborative as well as an effective tool for promoting efficiency and resolving workplace issues.

A number of these transformative ideas have already begun to have an impact on the MTA workforce, and in 2008 the MTA will continue to implement the recommendations of the panel in ways that will augment existing programs and create new ways to engage, recognize, and develop the workforce to its greatest potential.



Employee Engagement

To engage employees in the process of improving the MTA, immediately after his appointment as head of the MTA, Executive Director and Chief Executive Officer Elliot G. Sander began a series of worksite visits at all MTA agencies. In one-on-one discussions with workers, he spoke with them about their concerns and received input about ways to improve service delivery. Agency presidents have held similar meetings with their employees.

To increase communication and create an environment that encourages discussion among managers across the family of agencies, Sander also initiated a special monthly lunch forum for employees, bringing together groups from different MTA agencies. The "Dialogue, Engage, Lead, and Innovate" (DELI) lunch series enables MTA leadership to engage in a series of conversations with employees on an issue or initiative of importance to the organization and allows the MTA to tap into the wealth of knowledge and ideas that exists within the workforce. Over 120 participants attended DELI lunches in 2007.

At the agencies, a number of steps were taken during 2007 to engage employees in improving the work environment.

MTA New York City Transit bus operations improved morale among drivers and maintenance workers by consolidating the selection of work locations. Location choices, which had been restricted because of differences in work rules, are now available to all bus operators and maintainers. The new system provides more selections and additional locations (potentially closer to home)

to employees. In addition to making more employees available, the move standardized overtime pay rates throughout the system.

NYCT bus also used a bus operator action committee – a joint labor-management initiative – to address operations, safety, and security issues. In 2007 the committee collaborated on action programs to reduce assaults on employees and developed a curriculum for a "First Line of Defense" training program that is now used MTA-wide.

After being named Executive Director and Chief Executive Officer, Elliot G. Sander toured the MTA systems, meeting with employees to discuss the challenges they face and ways to improve the MTA.

At both New York City Transit and MTA Bus, employee facilities at many depots were upgraded during the year to provide better environments for employees before and after their shifts.

Management/Labor Relations

In 2007, both MTA Long Island Rail Road and MTA Metro-North Railroad settled all outstanding collective bargaining agreements, the first time that all agreements for both railroads were resolved at the same time.

The LIRR reached a landmark agreement with the United Transportation Union-Carmen that will change the way in which car mechanics are hired. Agreements were also reached with the Brotherhood of Locomotive Engineers and Trainmen that will allow changes to its locomotive engineer training program and enable the LIRR to attract and retain employees for this critical position. The International Brotherhood of Electrical Workers also entered into an agreement regarding the introduction and use of an on-track crane to assist with third-rail work. An important agreement was also reached with the United Transportation Union Local 29, representing carpenters and track workers, that will aid in the hiring and retention of employees in the facility that repairs track construction and repair machinery.

A new labor agreement will allow LIRR to change its engineer training program.

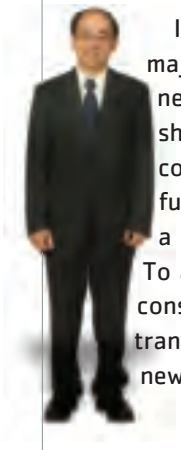
Intense bargaining enabled Metro-North to reach contract agreements with 17 of its unions, many of which had been working without contracts. Following the signing of new contracts with 10 of its unions in May, Metro-North was able to reach agreement with Teamsters Local 601 Track Workers and Bridge and Building Workers on a contract that had expired in 2002. In addition, MNR management worked to resolve differences between two union locals that stood in the way of comprehensive agreements. All of the agreements covered salary, benefit, and work rules issues and are effective through 2010.

At New York City Transit, labor and management responded quickly following the accidental deaths of two track workers over the course of two weeks. Transit and TWU Local 100 worked together to create new safety procedures that provided a higher level of safety for workers and still met productivity goals.

Institutional Transformation

The MTA is pursuing two major opportunities to eliminate similar and overlapping duties and make procedures more consistent: integrating the operations of its two regional railroads and three bus fleets, and integrating the back office functions of its seven operating agencies to create value and reduce redundancy.

Business Service Center



In 2007 the groundwork was laid for major organizational changes in the near-term future. The MTA completed a shared services study that explored the consolidation and redesign of back office functions and processes that will use a consolidated technology platform. To achieve this goal the MTA will begin by consolidating finance and human resources transactional services for all agencies in a new Business Service Center.

The center, which will require five years to build and implement, will ultimately reduce MTA staffing costs by $30 to $40 million annually and will save an additional $50 million in software expenditures.

Shared Software

To better coordinate financial planning and human resources programs MTA selected PeopleSoft as its standard Enterprise Resources Planning systems solution. By standardizing software management, the MTA will be able to facilitate data and information sharing across the agencies and be better equipped to identify best practices, establish consistent policies and procedures, and integrate and optimize business processes throughout the organization.

A major amendment to the MTA's existing agreements with software-provider Oracle (owner of PeopleSoft) provided a consolidated Enterprise License Agreement (ELA) for use of

Shared software among MTA agencies makes it easier to integrate financial planning and will aid in the establishment of a Business Service Center.

shared applications software and related database products and tools. The ELA essentially extends use of these products to all remaining agencies, and allows the flexibility of rolling out modules individually as agencies replace or upgrade outdated systems or collectively within a shared services environment. The new contract marks a major step forward in MTA efforts to increase efficiency and consistency across all agencies.

MTA successfully implemented a new multi-agency pension system in 2007. Over 12,000 employees were covered under the first phase of this initiative, including management and union employees from MTA Long Island Rail Road, MTA Long Island Bus, and MTA Metro-North Railroad, as well as MTA Police Department employees currently enrolled in the defined benefits plan. A major second phase, including the employees of the Manhattan and Bronx Surface Transit Operating Authority (part of MTA New York City Transit), and MTA Staten Island Railway, and a closed plan of LIRR, is expected to get underway in 2008. A unified pension database will provide consistent, timely reporting of pension liabilities and facilitate more precise forecasting of funding requirements.

Interagency Coordination

To better coordinate its regional bus operations, Transit created a new General Manager of Road Operations position with responsibility for both Transit and MTA Bus operations. This will enable the road operations function to respond more quickly to regional service disruptions that affect bus, commuter rail, and subway operations.

MTA Bus drew on Transit's expertise by having Transit structural employees upgrade a number of its facilities, including reconstruction of the first floor and mezzanine of the Administration Building; new bathrooms and locker rooms at Eastchester Depot; rebuilding of an employee swing room, bathrooms, and office space at LaGuardia Depot; and rebuilding of the JFK Depot money room.

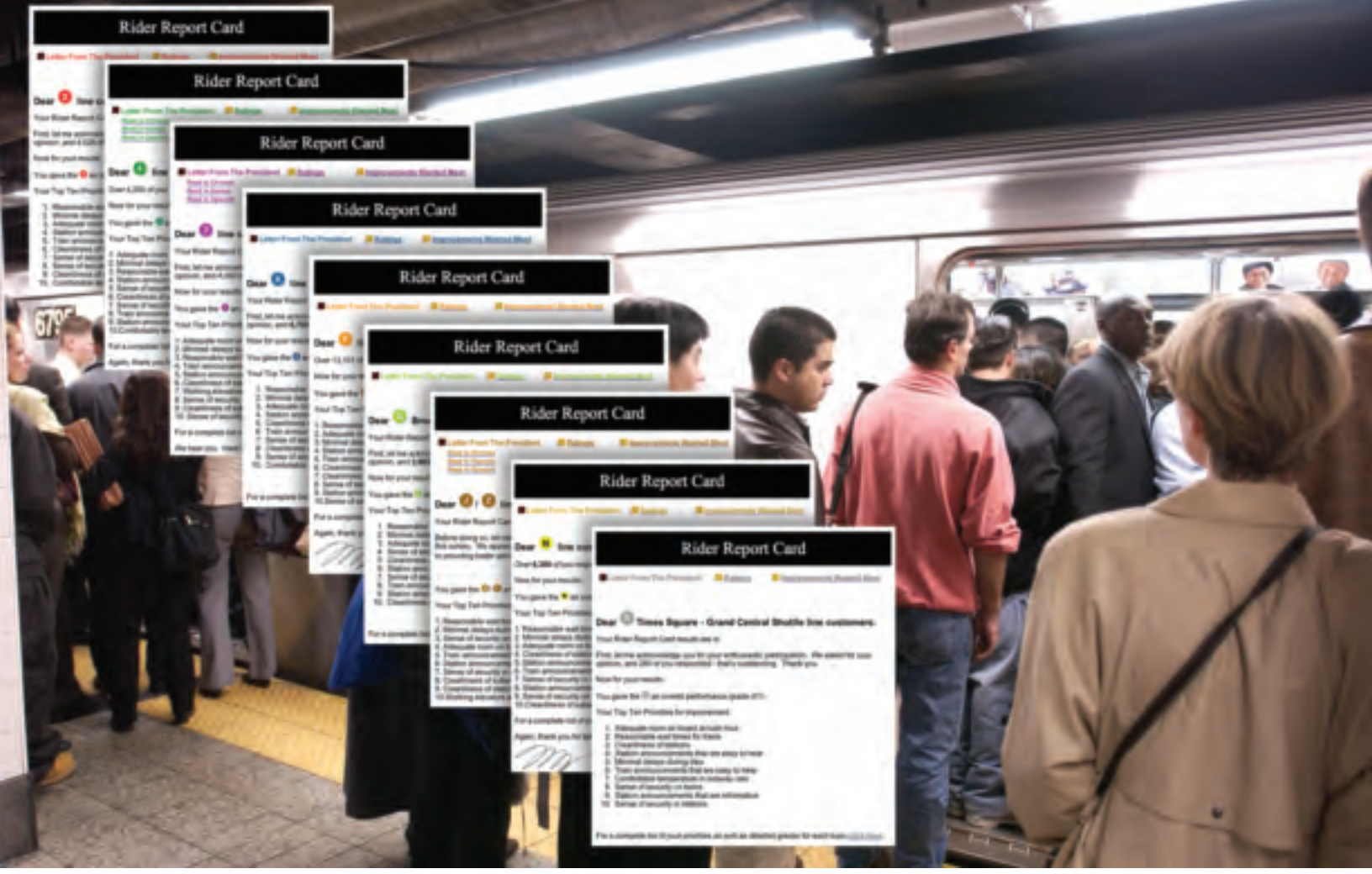
Transit and MTA Bus took substantial steps in the merger of their training centers by developing and managing databases and defining hourly performance, monitoring program criteria, and coordinating personnel assignments. The two agencies also held their first combined NYCT Safety Blitz at MTA Bus sites, and Transit shared its monthly bus Safety Times, quarterly safety poster, and related safety-support materials with MTA Bus for use in safety programs, and provided its Safety Guidebook and System Safety Program Plan in electronic format to MTA Bus.

At the commuter railroads, LIRR and MNR are stepping up their collaboration on a wide range of issues affecting regional railroads, including lost and found procedures, maintenance practices, rail car design, and regional ticketing that would allow customers to purchase a single ticket valid for travel across the region.

MTA Bus is implementing PeopleSoft financial management software to replace the outdated legacy systems inherited from the seven private bus companies. The agency is leveraging the knowledge and experience of Metro-North to manage this project. MTA Bus is also implementing a central maintenance management system that is used at MTA Bridges and Tunnels. Bridges and Tunnels will host the system and its consultants will work with MTA Bus to integrate and launch the system.

Taking advantage of the procurement expertise of NYC Transit, MTA Bus joined with Transit to order a total of 850 hybrid-electric buses. MTA Bus has also worked closely with Transit and adopted many of its best practices in revamping its maintenance procedures.

The operations of New York City Transit buses and MTA Bus are being integrated to provide improved service and operational flexibility.



New York City Transit introduced Rider Report Cards to measure customer satisfaction with each subway line.

Customer Service

The MTA is using technology to improve communications and increase service, and is pushing decision-making and responsibility down to those closest to subway, commuter rail, and bus operations and customers.

Interagency Customer Service Initiative

An interagency Customer Service Initiative (CSI) Task Force was formed in spring 2007 and charged with improving customer service in all MTA agencies. It identified short- and long-term initiatives to improve the customer's experience in three broad areas: customer information with a strong web component, customer engagement including new outreach efforts, and service improvements, some of which may be undertaken jointly by more than one agency and some that will lead to partnerships with other regional transportation providers. Specifics included near real-time text and email messaging to announce service alerts, cell phone service underground, car rental service at MTA Metro-North Railroad stations, and better customer signage. The task force report was issued in December, and many of the initiatives were therefore still in early stages of planning and implementation.

More Service, Better Service

MTA agencies modify their services frequently, for example adding service in response to customer needs, rerouting buses

to better serve areas (malls and hospitals, for example) that have drawn increasing customer traffic, or completing MTA Bridges and Tunnels cash lane shifts in quick time.

Two new concepts will bring a more direct approach and quicker response to subway customer needs. First, to better understand customer priorities, a "Rider Report Card" was created and distributed by management teams at subway stations on all MTA New York City Transit subway lines and the MTA Staten Island Railway and also made available on the web in 14 languages. Surveys were independently tabulated, and performance grades were given to each line. Next, Line General Managers and Deputy Line General Managers were appointed for the 7 and L lines, decentralizing decision-making and enabling managers in the field to take a hands-on approach to subway operations, stations, and subway cars on their lines.

The survey is being extended to customers on all bus lines. It asks customers to rate 21 areas of service and to name and rank their top three improvements. Responses have already resulted in new safety and maintenance programs (described below), as well as increased service on the L and 7 lines, the largest scheduled subway service increases since 2004.

Staten Island Railway added three morning peak-direction express trips and five evening peak-direction express trips for South Shore customers and modified morning stopping patterns to increase local service at three of the railway's busiest stations. To reduce crowding, longer, five-car trains were also introduced on select rush-hour trips.

Staten Island Railway added additional peak period express service to accommodate increased ridership.

MTA Long Island Rail Road added peak stops, trains, and additional cars for several morning and evening trains to provide more seating. The LIRR also added three eastbound trains and three westbound trains on weekdays on the Montauk Branch from Speonk to Montauk to assist businesses and residents of the East End of Long Island by easing traffic congestion during the reconstruction of County Road 39. The new service began on October 23, 2007 and will run through May 22, 2008 under a modified fare schedule ($2.25 one-way; $1.00 one-way for seniors and disabled riders; $20 weekly; and $66 for a monthly ticket). The success of this service has brought calls for it to continue after construction is complete and suggests that Long Island residents are interested in using the LIRR for intra-island trips.

Metro-North restored weekend, off-peak, and holiday service to the Pascack Valley line on October 28 after a 50-year absence. Thirteen added weekday trains and 23 trains on both Saturday and Sunday almost doubled service, a major improvement made through an agreement with New Jersey Transit, which operates the New York State portion of the Pascack Valley line under contract to Metro-North.

Over the past decade, growing numbers of discretionary travelers have significantly increased ridership at Poughkeepsie Station on Saturday mornings. To improve customer service to these riders, Metro-North increased ticket booth staffing on weekends and during the holiday season from Thanksgiving through New Year's Day. A new audio-visual information system also gives Poughkeepsie customers train, track, and operating status information on easy-to-read monitors.

Metro-North's Lost & Found returns approximately 60 percent of the 22,000 lost items it

handles each year. In 2007 information became available to customers 24 hours a day over the Internet, enabling customers to submit queries about lost property at their convenience with a few keystrokes. Hand-held devices were also introduced to expedite inventorying lost property that is recovered or reported.

In Brooklyn, Transit's B83 bus line was extended to connect the 14,000 Spring Creek Towers residents with Brooklyn's Gateway Mall. The B83 route was extended from its present terminal on Seaview Avenue to provide direct service to the Gateway Mall from the A, C, J, L, and Z subway lines at Broadway Junction and the 3 line at the Pennsylvania Avenue station, as well as a direct connection between Gateway Mall and the B6, B12, B14, B15, B20, B82, Q24, and Q56 bus routes. Customers who live close to the mall, as well as Spring Creek Towers residents, no longer need to transfer to other bus routes in order to travel to the mall.

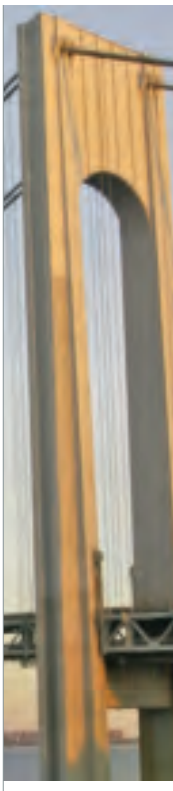
The MTA created its first interstate bus route, the new S89 bus route on Staten Island, to provide limited-stop service between the Eltingville Transit Center on Staten Island and the Hudson-Bergen Light Rail Service in Bayonne, New Jersey. Since operations began, ridership gains on this line – from about 400 daily passengers in September to nearly 800 by year-end – have been so dramatic that MTA New York City Transit increased service.

The S55 bus route was extended to previously unserved areas of the South Shore, and the S52 turnaround was completed at Staten Island University Hospital with a new, shorter route, providing improved access for the hospital's visitors, outpatients, and employees.

During construction on the Verrazano-Narrows Bridge, the evening runs of the X31 express bus have been rerouted through New Jersey. The X31, which originates from 57th Street and Third Avenue, returns to Staten Island through the Lincoln Tunnel. Since the reroute, on-time performance has improved significantly. The opening of a contra-flow bus lane outbound to Staten Island in the Brooklyn-Battery Tunnel during the evening rush has also contributed to this improvement, and the reopening of the Trinity Place exit of the tunnel has further improved express bus operations.

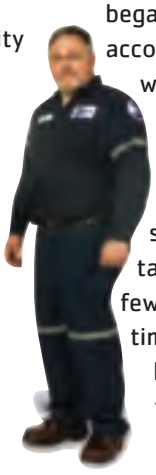
MTA Bus significantly revised the stopping pattern and route path, and expanded the schedule and span, of the Q53 service between Rockaway Park and Woodside and the Q113 service between Far Rockaway and Jamaica, transforming both into true corridor limited-stop services with immediate and significant ridership growth. A weekday peak period limited-stop variant of existing local service was also introduced on the Q25 and Q65, both operating on separate corridors, between Jamaica and College Point.

MTA Bus extended the span of weekday peak period express bus service to the Rockaway peninsula on routes QM16 and QM17. In addition, the terminus of the QM16 was extended from Rockaway Park to Neponsit.



The S89 bus – NYCT's first interstate service – connects Staten Island to the Hudson-Bergen Light Rail service (at right) in New Jersey.

MTA Bridges and Tunnels personnel completed cash lane shift changeovers in less than two minutes 98.7 percent of the time, exceeding its 97 percent goal, and E-ZPass toll lane availability was 99.9 percent. Median peak period queue waiting time in cash lanes set a new record of only 11 seconds, with virtually no delays in E-ZPass lanes barring accident or incident on the plaza. All Bridge and Tunnel officers (over 700 personnel) were given training in communications to improve cuustomer interactions on the toll plaza.



More Payment Flexibility

After a successful test in 2007 between PATH and MTA's fare collection system, the PATH system now issues and accepts NYC Transit's MetroCard fare media: the card is fully interoperable between PATH and NYCT. The PATH Fare Collection System provides for the automatic collection of transaction data such as cash sales, credit and debit transactions, card usage, and settlement with NYCT, giving users of both systems greater convenience and flexibility and encouraging intermodal travel.

Staten Island Railway installed two additional MetroCard vending machines at the St. George Terminal, an investment that will improve convenience for both train and bus passengers as well as improve customer service and productivity.

In August, employees at LIRR ticket windows began accepting debit/credit cards for payment to accommodate the growing number of customers who prefer them to cash.

Metro-North reorganized the maintenance division responsible for its ticket-vending machines (TVMs) to deploy its troubleshooting staff more effectively. TVMs are now maintained on a 7-day/24-hour basis, ensuring that fewer machines are out of service at any given time and enabling customers – especially those boarding at stations without ticket offices – to purchase tickets before their trip.

Overall E-ZPass market share is 73.5 percent, and use of E-ZPass at MTA Bridges and Tunnels is among the highest of all toll agencies. A simplified one-page E-ZPass application designed for individual customers was developed and tested favorably to better serve new customers. It will be available on request in the cash lanes in early 2008. Plans were also made to offer "E-ZPass on the Go," a prepaid ready-to-use tag available in a pilot program at certain local stores. In addition, Bridges and Tunnels will interview cash customers in a formal focus group in early 2008 about why they don't use the electronic device.

In June, the Indiana Toll Road became the twenty-second toll agency to join the E-ZPass Interagency Group. E-ZPass can now be used from Maine to Virginia, west to Indiana in 12 states and into Canada via the Peace Bridge.

Long Island Rail Road began accepting credit and debit cards at ticket windows.

Better Communications

The MTA held its first-ever public engagement workshop in October to provide MTA customers with more opportunities to be heard regarding proposed fare and toll increases. The public workshop supplemented the formal public hearing

processes and provided for a direct exchange of ideas. Two weeks later, the MTA sponsored a webinar that gave similar opportunities for exchanges in a web-based format.

MTA Mobile was introduced in 2007 to make the most often accessed parts of the MTA's website – schedules, maps, service advisories – available to people via cell phone, BlackBerry, or any other web-enabled hand-held device. The service also provides a text-only version of the entire website for accessibility programs used by people with disabilities.

Transit has upgraded the public address/customer information screens (PA/CIS) at 24 stations on the Canarsie Line by installing PA/CIS equipment in the remaining Canarsie stations and integrating them with communications-based train control (CBTC) to take advantage of real-time train location information and enable Transit to provide real-time service announcements to passengers.

The second phase installation of new PA/CIS equipment has begun at 156 A Division (numbered lines) stations. In addition, ten A Division stations will include an integrated application program for the CCTV system, help-point intercoms, and station device management that provides control and indication hardware. The system will be integrated with automatic train supervision to provide real-time train-arrival information to passengers waiting on platforms or mezzanines at all 156 stations. This PA/CIS system will be capable of supporting similar B Division (lettered lines) stations or other intermodal locations for rollout under future contracts.

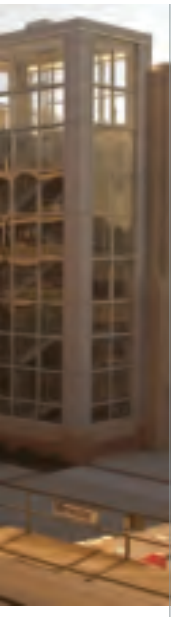
NYCT now offers its customers 24/7 access to simplified trip planning over the Internet by entering starting point, destination, date, and arrival or departure times. Trip Planner offers bus and subway directions, departure and arrival times, walking distance, wheelchair accessibility, and service alerts, and notices of planned service changes. Trip Planner has a user-friendly graphical interface and the capability to email and print all itinerary results.

To help customers evaluate alternate travel options, LIRR introduced its PlainSpeak initiative. It provides LIRR customers, particularly those already aboard trains, with information that is accurate, timely, and useful in concise, conversational, easy-to-understand language rather than hard-to-understand technical or railroad industry jargon to describe the impact and length of service disruptions. The LIRR also installed six large flat-screen message boards in Penn Station to display

New message boards at Penn Station provide real-time service information.

detailed, real-time, regularly updated information on disruptions to train service. When train service is operating normally, the monitors provide information on planned service adjustments such as extra train service for holiday eves, service to special events, and the substitution of bus service while track work is being performed.

The LIRR's Public Information Office (PIO) was opened in October 2007 in the Movement Bureau, the nerve center of LIRR train operations.



Staffed with employees from both the Transportation and Public Affairs departments, the PIO provides customers, the press, and the public with consistent, accurate, and helpful information in a more timely fashion. The PIO generates updates on service disruptions that are sent to customers via email, posted on the LIRR website as service alerts, posted on the new Penn Station message boards, included in a recorded message for all callers to the LIRR's Travel Information Center, and communicated to traffic and weather reporting services as well as major media outlets, including TV, radio, wire services, and newspapers.

In fall 2007, LI Bus began installing digital display signs and information kiosks at the Mineola Intermodal Center. The seven digital display towers will show customers the bus route, primary destinations, the next three arrival times, and bus bay assignments on 32-inch LCD screens. In 2008, the agency will install similar signage in the Hempstead Transit Center.

In a major outreach effort to its various customer segments LI Bus sent its senior staff to local community events, senior centers, and special interest groups to gather feedback. More than 25 events and outreach dialogs were held with groups such as the Permanent Citizens Advisory Committee, AARP, Helen Keller National Center, and LI Alzheimer's Foundation. *LI Magazine* named LI Bus a "2007 Business MVP" for its dedicated service to the local community and the Long Island region.

At the White Plains Station on the Harlem Line, Metro-North is testing a new automated train-tracking system that provides customers with real-time train information.

Four new electronic variable message signs were installed to notify customers of traffic and safety conditions at the Verrazano-Narrows, Henry Hudson, and Triborough Bridges, and the Queens Midtown Tunnel, and the upgrade of Bridges and Tunnels' communication infrastructure to high bandwidth fiber network was initiated. Nine variable speed-limit signs were installed at the Throgs Neck Bridge.

Improving the Transit Experience

The first phase of a computerized system for monitoring and managing NYCT elevator and escalator breakdowns in the subways was implemented in 2007 to enable quick response to and customer notification of breakdowns. That implementation enabled elevator/escalator staff to manually enter information about the location of elevator/escalator breakdowns and post the information on the MTA website. In the second phase, scheduled to go live in the second quarter of 2008, a real-time maintenance system will enable the elevator/escalator group to maintain the status of equipment online and allow for real-time posting of information. Customers will have the option to select a status report based on borough, station, and subway line. To cut the time when facilities are out of service for repair, Transit also set up a scheduled equipment maintenance system and established an on-hand inventory of parts with long lead times. (Elevator status for LIRR and Metro-North stations is posted and updated on the MTA website.)

NYC Transit purchased three ROTOMAC cleaning machines with multiple sets of rotating vinyl brushes that clean both the cleats and the risers of escalators at the same time. The machines also use a cleaning solution in the vacuum to eliminate residue on the step. Starting in 2008,

Nereid Avenue on the 2, 5 line in the Bronx is one of six key subway stations that became ADA-accessible.

all 169 escalators system-wide will be cleaned annually.

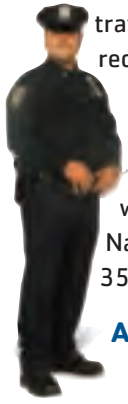
Along with improving the availability and cleanliness of elevators and escalators, Transit is improving the subway car environment on the 1 and 7 lines by providing additional cleaners for subway cars and stations, replacing damaged Mylar window shields within 24 hours, and dispatching anti-vandalism teams for "scratchitti." The program, started in September, aims to achieve and maintain an etched/scratch-free glass environment on these lines. Transit's 2007 bus quality control program is also maintaining 844 buses in a "like-new condition" based on strict interior and exterior appearance standards and a zero tolerance policy regarding graffiti, scratchitti, and body damage. A program of car cleaning on the 7 and L lines provides cleaning resources at current staffed and unstaffed terminals as a first response to graffiti, litter, and cleanliness problems encountered during service.

ADA Initiatives

In 2007, six of New York City Transit's ADA Key Stations were made accessible, bringing the current total to 61. An additional 16 non-Key stations also are accessible.

At the request of the disability community, NYCT commenced the design for two pilot projects to implement the Induction Loop System at 23 subway stations and on 83 articulated buses. This new technology, which filters out background noise to allow customers who wear hearing aids to hear announcements more clearly when using the bus and subway system, is being piloted.

Long Island Bus has begun renovations of the Stewart Avenue Depot that will transform it into a first-class paratransit facility. The current facility's design did not allow for efficient Able-Ride operations relative to daily service, maintenance, storage, and administrative functions. The new facility has been redesigned to address all these operating deficiencies. Able-Ride provides transportation services to many disabled Nassau residents who travel to work, school, medical services, and recreational activities.



LI Bus will replace all 85 vehicles in its paratransit fleet by next year to help meet the growing demand for this service, which operated at near-record levels in Nassau County during 2007, carrying 352,160 customers.

Arts for Transit

In 2007, the MTA Arts for Transit (AFT) program completed permanent art installations at 14 locations – on the J, M, Z lines at Crescent Avenue, Norwood Avenue, Cleveland Avenue, Van Siclen Avenue, and Alabama Street; on the L line at East 105th Street, New Lots Avenue, Livonia Avenue, and Sutter Avenue; on the 2 line at Freeman Street, and Pelham Parkway; on the 4 line at Bedford Park Boulevard-Lehman College, and Kingsbridge Road; and at the Dobbs Ferry Station of Metro-North.

The windscreen at Cresent Street station on the J, Z lines is among 14 Arts for Transit projects completed in 2007.

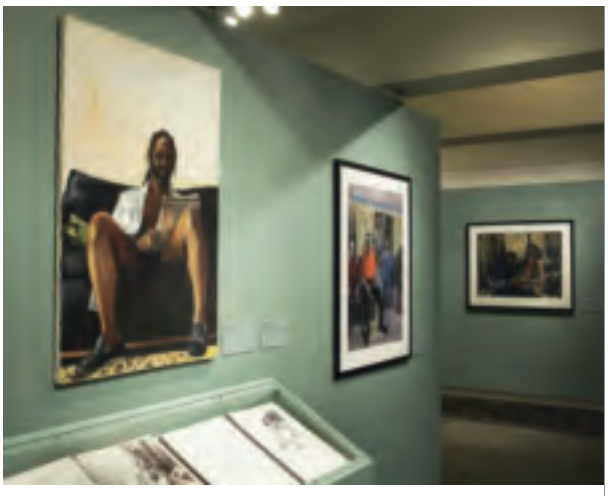
The mezzanine windows of the East 105th Street station of the L line feature laminated glass art.

Also during the year AFT commissioned nine new NYCT Arts for Transit projects and three at Long Island Rail Road stations. As part of its Lightbox photography program AFT installed new Lightbox exhibitions at 42nd Street-Bryant Park, Bowling Green, and Grand Central Terminal.

In a redesigned website created by in-house design and web staff in early 2007, Arts for Transit offered a user-friendly navigation system to highlight the extensive collection of artwork and provided a platform for educational outreach with podcasts, descriptive text, maps, and music clips.

New York Transit Museum

A two-part series on "Architects of the New York City Subway" at the Grand Central Terminal Gallery Annex and Store was the high point of the Transit Museum's 2007 offerings. In Brooklyn, "Show Me the Money" traced the path customer fares take from the turnstile to the bank. "The Art of Marvin Franklin" commemorated the life and work of NYCT track maintainer Marvin Franklin, who died in the line of duty in 2007. An exhibit at Penn Station about East Side Access provided an education for LIRR customers on this project which will soon affect their commutes.



"The Art of Marvin Franklin" was featured at the New York Transit Museum.

A record 25,000 children in school and camp groups participated in the Museum's guided programs, and the Museum piloted an after school program for high school students, using mass transit as a theme to teach video documentary techniques.

Overall retail revenue increased by 34 percent. The Transit Museum's annual gala fundraising dinner welcomed over 900 guests and increased revenue by 16 percent. In addition, 2007 saw memberships rise by 23 percent; individual contributions, 36 percent; grants, 117 percent; and corporate contributions, 28 percent.

In its exhibit, "Show Me the Money," the Transit Museum traced the flow of cash from the turnstiles to the bank.

Tunnels that will link the Long Island Rail Road to a Grand Central Terminal station are being dug by two tunnel boring machines.

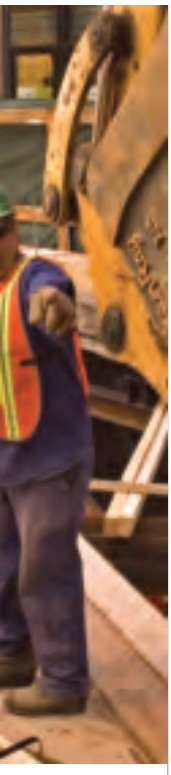
Projects and Planning

The MTA must create a broad strategic vision that will meet the needs of stakeholders – state and local government, labor, the business community, and customers – and serve the increases in population and ridership projected over the next 25 to 30 years.

Planning for the Next 40 Years

In addition to completing the current mega-projects already under construction – East Side Access, the Second Avenue Subway, and the 7 Line Extension to the Far West Side – the MTA must make plans to meet the needs of a region that is expected to see continued population growth over the next 25 to 30 years, with the population of New York City expected to grow to more than 9 million and the regional population forecasted to increase to over 26 million.

Ridership on subways, commuter rail lines, and buses has grown significantly over the past decade, and there have been marked changes in ridership patterns, with increasing demand for night and weekend service and reverse commutation out of Manhattan to central business districts in Westchester, Connecticut, and to a lesser extent Nassau and Suffolk counties. Immigration rates to the United States are at levels not seen since the 1920s, and the city is experiencing a rise in immigration by people who enter the United States in the West or Southwest and move to New York to take advantage of its strong job market. The new and changing demands have strained the system, which does not have the capacity to meet all of the new needs. The MTA network needs



continued rebuilding, funding for the current mega-projects, and additional expansion to accommodate spiking population and job growth and ridership demand.

To address these trends, in 2007 the MTA began to map out its long-term future in a report titled "The MTA: The Next 40 Years," the first step in a regional strategic review that examines the economic and demographic forecasts and begins to develop plans to serve the needs of the region for the next 40 years and beyond. This review lays the groundwork for a broad strategic approach to accommodate regional growth. By articulating a coordinated vision, the MTA hopes to create a broad consensus on priorities among regional stakeholders.

Construction Excellence Panel

To ensure that the MTA will be able to meet its construction goals, in 2007 it created a Blue Ribbon Panel on Construction Excellence – co-chaired by John A. Cavanagh, a leading construction industry consultant, and James H. Jones of TDX Construction – to examine MTA project management and develop ways to deal with sharp increases in construction costs.

The current Capital Program – approved by the MTA Board in September 2004 – prepared project budgets using 10-year forecast indices that projected national cost trends in transportation equipment and construction of industrial buildings; inflation adjustments of 2 to 4 percent over a five-year period were standard.

Despite this prudent planning, beginning in early 2004 material prices began escalating, with some raw material costs doubling. Much of the growth was attributed to higher demand from competing world economies, particularly China, for such commodities as fabricated structural steel, copper, aluminum, zinc, lumber, and concrete. Devaluation of the dollar – which has fallen by as much as 30 percent against other currencies – helped fuel these cost increases.

At the same time the regional construction market has seen a significant number of new projects initiated, and regional investment through 2016 is now estimated at $25 to $30 billion annually. The result has been multi-venture partnerships and fewer bidders on projects.

The Blue Ribbon Panel brought together MTA engineers, planners, board members, and policy makers with independent leaders of the construction, architecture, and planning industries, as well as representatives of labor and government. Based on the panel's preliminary work outlined in its interim reports, the MTA has begun to implement procedures that split major contracts into smaller components, streamline and standardize bidding and procurement procedures to encourage additional bidders, and adopt industry best practices in project planning and management.

Mega-Projects

In 2007 all of the MTA's mega-projects, which are managed by MTA Capital Construction, took significant steps toward eventual completion. Capital Construction also made progress on the downtown Manhattan mobility projects.

On April 12, the MTA held a ceremonial groundbreaking for the Second Avenue Subway (SAS). The event – held underground in a segment of tunnel of an earlier Second Avenue project built in the 1970s – marked the beginning of project construction. In November, SAS received a full-funding grant agreement from the Federal Transit Administration for $1.3 billion.

The symbolic groundbreaking for the Second Avenue Subway was held in a segment of tunnel dug in the 1970s. The federal government is providing significant funding for this project.

One of the tunnel boring machines at work on the East Side Access project.

The first SAS contract will construct a launch box under Second Avenue between 92nd and 95th Streets, two rail tunnels from 92nd to 63rd streets, and two shafts that are the first steps in construction of the 72nd Street station. The rail tunnels will be constructed using a tunnel boring machine that starts at the launch box.

SAS is the first major subway expansion project in New York City since the Sixth Avenue Line was opened in 1940.

As part of the East Side Access project, two tunnel boring machines were assembled in a chamber under Second Avenue and 63rd Street and began mining toward Park Avenue, where they will turn south toward Grand Central Terminal and 38th Street.

With a financing agreement in place with the City of New York, the MTA also began construction of the 7 Line Extension from Times Square to the Far West Side and the Javits Convention Center. The first construction contract, awarded in November, will construct the running tunnels from 27th Street and 11th Avenue to 41st Street and Eighth Avenue, the structure of the 34th Street/Javits Center station, and other structural elements. The contract includes an option for a station at 10th Avenue.

Construction continued at South Ferry on a two-track terminal station for the 1 line that will be in service by February 2009. On the Fulton Street Transit Center project, MTA Capital Construction completed work on the rehabilitation of the 2, 3 station and new southern entrances for the 4, 5 line station, but the sharp increases in construction costs have led the MTA to review the scope of work above the station complex. Decisions will be made during 2008.

Rail Projects

Well-maintained rolling stock and a program that replaces cars as they reach the end of their useful lives remain a priority in the MTA's Capital Program. As part of a total base order of 660 cars, MTA New York City Transit received 278 R-160 rail cars in 2007, bringing the total received to 349. All are replacing aging cars that have outlived their useful lives. The remaining base-order cars are to be delivered by October 2008. Transit also exercised its first option in its contract and ordered an additional 620 R-160 rail cars at a cost of $1.2 billion in order to continue the replacement of its oldest cars. Deliveries will begin in June 2008 and be completed by August 2009.

MTA Long Island Rail Road completed its acquisition of 836 M-7 cars with the delivery of the final 34 cars under the current contract, closing out the contract with this final delivery, valued at $75.5 million.

MTA Metro-North Railroad continued its comprehensive equipment renewal program that will replace or overhaul all of its rail cars. The first of 12 new MNR multi-purpose diesel locomotives – which will be used in shuttle and switcher service on the East-of-Hudson lines – was delivered in December. Delivery of the remaining locomotives will be completed by summer 2008.

Work continued on the design and development of Metro-North's M-8 rail cars. The cars, which are funded jointly with Connecticut Department of Transportation (CDOT), will replace the aging M-2 New Haven Line fleet. Initial deliveries are scheduled

for the third quarter of 2009. While the new cars are being developed, the M-2 cars are being remanufactured. In 2007 MNR and CDOT completed work on 36 cars. To improve its West-of-Hudson service, MNR overhauled 12 Comet rail cars at a cost of $15.1 million; another 12 cars will be completed in 2008.

At Transit, renovations at five stations along the J, Z line in Brooklyn (Alabama Avenue, Van Siclen Avenue, Cleveland Street, Norwood Avenue, and Crescent Street) were completed in 2007, along with 1.9 miles of elevated track at a cost of $61 million. Also completed were 10 stations on the White Plains Road line from 180th Street to the northern terminus and 4.1 miles of elevated structures, with three of the stations – Gun Hill Road, Pelham Parkway, and 233rd Street – made ADA-accessible, a $261 million project. Three other stations were made ADA-accessible: Junction Boulevard on the 7 line, 168th Street on the A, C line, and Bowling Green on the 4, 5 line.

Two major station rehabilitation contracts were awarded by Transit during the year. The Jay Street station on the A, C, F lines will undergo a $153.2 million rehabilitation that will bring it to a state of good repair and make the station fully ADA-accessible. There will also be a new free transfer to the M, R lines at Lawrence Street, with construction scheduled for completion in 2011. The 96th Street station on the 1, 2, 3 line will undergo rehabilitation, including a new above-ground station house with a landscaped entrance promenade and full ADA-accessibility with two elevators and accessible station booths, handrails, signage, and platform warning strips.

LIRR improved parking at Valley Stream, where 118 existing spaces were rehabilitated and an additional 193 created, and at Greenport, where 49 spaces in an existing facility were rehabilitated. New commitments for station work at LIRR in 2007 included improvements to be made at Shea Stadium, Valley Stream, and Seaford stations.

Metro-North station improvements included the rehabilitation of elevators at Grand Central Terminal, platform improvements at Poughkeepsie Station, and parking improvements at Brewster and Irvington, increasing the available parking at both stations.

A contract for the design and construction of a new Yankee Stadium Station on the Hudson Line was awarded in 2007. The new station will have two island platforms serving four tracks, a mezzanine above the platforms, and a pedestrian overpass to provide access from the stadium to parking, ferry facilities, and new park land. The project will be completed in the summer of 2009, shortly after the new Yankee Stadium opens, and will allow MNR to provide regular service to and from games and other stadium events. The railroad also awarded a contract to upgrade eight New Haven Line stations.

One of the most important infrastructure projects at NYC Transit is changeover to communications-based train control (CBTC) signals to replace aging fixed-block signals on the Canarsie line. To enhance passenger communications along the 24 stations on the Canarsie Line operating with CBTC, new public address/customer information systems were installed, providing riders with real-time information about train arrivals and other system information.

In other projects, Transit rehabilitated the Cliff Street substation ($34 million), three fan plants at West 13th Street on the Sixth Avenue line ($46.3 million), and communications rooms on the A, D, and N lines ($21.4 million).

To enhance safety and improve service, LIRR completed its portion of the grade crossing at Mineola ($41.9 million); New York State is continuing with necessary road work. LIRR also

completed a new police facility at Jamaica and a new HVAC (heating, ventilation, and air-conditioning) Shop at the Hillside Maintenance Complex.

In 2007 the railroad awarded contracts for the replacement or construction of seven substations, signal work at Penn Station and along the Babylon Branch, and facility improvements at Hillside.

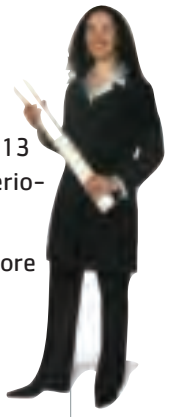
Metro-North's completed projects included Hudson Line overpass improvements at Hastings,

All three MTA rail operations use in-house employees to maintain track.

Dobbs Ferry, and Ardsley ($44.6 million), replacement of switchgears at 59th and 72nd Street ($13.5 million), and the inspection and design of a rehabilitation project for 111 New York State overhead power structures on the Hudson Line.

All three rail operations use in-house employees for much of their track and switch work. These programs maintain track and switches in a state of good repair, minimizing delays caused by broken or deformed track and preventing more serious problems, including derailments.

At Transit, the 2007 track and switch replacement program spent $226 million to reconstruct approximately 60,000 feet of mainline track throughout the system and replace nearly 20,600 feet of worn jointed rails and obsolete plates with continuous welded rail; reconstruct 30 mainline switches and replace 13 yard switches; and replace 152 panels of deteriorated yard and lay-up track.



The LIRR annual track program replaced more than 80,000 wood ties, 10 concrete switches, and 31 crossings, performed 698 miles of rail profiling, and surfaced 143 miles of track at a cost of $59 million, while MNR's $27 million program installed 45,600 new ties and 33 switches and surfaced 170 miles of track on its East-of-Hudson lines. Its $9 million West-of-Hudson program, carried out by New Jersey Transit, included installation of 13,700 ties, 7.5 miles of continuous welded rail, and 31.5 miles of track surfacing.

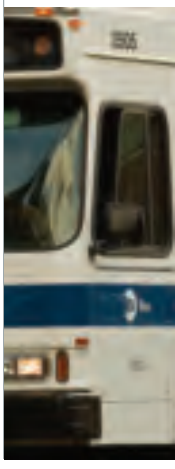
Bus Projects

New York City Transit received 30 over-the-road express buses and 120 new hybrid-electric standard 40-foot buses in 2007 and ordered an additional 745 low-emissions standard 40-foot buses in 2007, with deliveries beginning in June 2008 and continuing through 2010. These low-floor buses are replacing the oldest diesel buses in the fleet and increasing Transit's fleet size to meet ridership demands.

NYC Transit also received 170 vans and 220 sedans that are used to provide paratransit service, both for normal replacement and fleet growth.

MTA Bus received 39 over-the-road buses for express service and 216 new hybrid-electric standard 40-foot buses in 2007. MTA Bus continued its upgrades of rolling stock by ordering 105 new standard 40-foot hybrid-electric buses for local service. The buses were added to the NYC Transit order, allowing MTA Bus to take advantage of the favorable pricing negotiated for the larger order.

Design work to demolish the 100-year-old Mother Clara Hale Depot began in February and was completed in October. Preliminary engineering design for a state-of-the-art replacement began in May 2007. The new facility will provide indoor storage for 150 standard buses.



New portable lifts are improving maintenance at the Manhattanville and other depots

A project to install 41 rapid roll-up doors at bus facilities – including door panels, sensors, in-line photo cells, and other electronic equipment – was completed in 2007. To maintain contact across the bus system, Transit purchased 501 hand-held radios to replace current failing inventory. The older radios, which will be replaced with a new system in 2014, can no longer be repaired because parts have been discontinued.

Keeping depots in a state of good repair is critical to maintaining bus service levels. In 2007, Transit awarded contracts to replace in-ground lifts with portable lifts at the Manhattanville and Casey Stengel Depots. These lifts – which will be completed in 2009 – provide greater operational flexibility and can accommodate the hybrid-electric bus fleet as well as Transit's older diesel buses. Transit also contracted for a new fire alarm system at the Casey Stengel Depot and awarded a contract for the rehabilitation of the Castleton Depot.

Although MTA Long Island Bus is not included in the MTA Capital Program, the agency continues to make capital improvements with a program funded by Nassau County. In 2007, LI Bus completed the installation of replacement fire alarm panel systems at its Senator Norman J. Levy facility and the Hempstead Transit Center.

In the fall LI Bus began installing digital display signs and information kiosks at the Mineola Intermodal Center. The seven digital display towers show customers the bus route, primary destinations, the next three arrival times, and bus bay assignments on 32-inch LCD screens. In 2008, the agency will embark on the next phase to install similar signage at the Hempstead Transit Center.

Bridge and Tunnel Projects

MTA Bridges and Tunnels completed a number of important projects in 2007: replacement of the suspended span deck at the Bronx-Whitestone Bridge ($180.5 million); rehabilitation of the Second Avenue Overpass at the Queens Midtown Tunnel ($5.2 million); installation of new rotating toll lane signs at the Brooklyn Battery and Queens Midtown Tunnels ($6.4 million); installation of curb plate and scupper on the lower level of the Verrazano-Narrows Bridge to improve driver safety ($5.5 million); and replacement of trailers with a new modular service building at the Marine Parkway-Gil Hodges Memorial Bridge ($11.2 million).

Among the agency's new commitments were $26.1 million for the rehabilitation of the Brooklyn-Battery Tunnel ventilation buildings in Manhattan, Brooklyn, and Governors Island; $59.6 million for roadway deck and structural rehabilitation at the Cross Bay Veteran's Memorial Bridge, including installation of closed circuit television, fiber optic cable, and variable message signs; and $11.2 million for construction management for the rebuilding of the Bronx approach to the Bronx-Whitestone Bridge.

Rehabilitation of the Brooklyn-Battery Tunnel ventilation buildings in Brooklyn and Manhattan and on Governors Island (right) will begin in 2008.

New York City Transit shares its financial operations center with Bridges and Tunnels.

Finance

The MTA must meet its obligation to maintain and improve service for a rapidly growing ridership, even during times of fiscal austerity. Its four-year financial plan and its five-year Capital Program call for increased revenue or savings from all MTA stakeholders and funding partners: management, labor, state and local government, and customers.

Revenue and Budget

The MTA completed 2007 with a closing cash balance of $502 million that will be carried over to support 2008.

With the real estate market cooling and the economy slowing, however, the MTA in 2007 initiated a plan to raise fares and tolls in order to balance its budget in 2008 and began to meet with legislative leaders in order to address a series of budget deficits that are expected to begin in 2009.

Although the MTA initially proposed fare and toll increases to yield 6.5 percent more revenue, working with the governor and his staff, the MTA held revenue yield increases to 3.85 percent. The fare and toll increases are effective March 2008.

The base fare for subways and buses across the region – which includes the operations of MTA New York City Transit, MTA Long Island Bus, and MTA Bus – remains $2.00, with the increases restricted to the MetroCard bonus program and the cost of unlimited ride cards. On the commuter railroads – MTA Long Island Rail Road and MTA Metro-North Railroad – fare increases (which do not apply to New Haven Line service in Connecticut) average 3.85 percent, with the vast majority of monthly and weekly commuter rail tickets increasing between 3.76 and 4.25 percent.

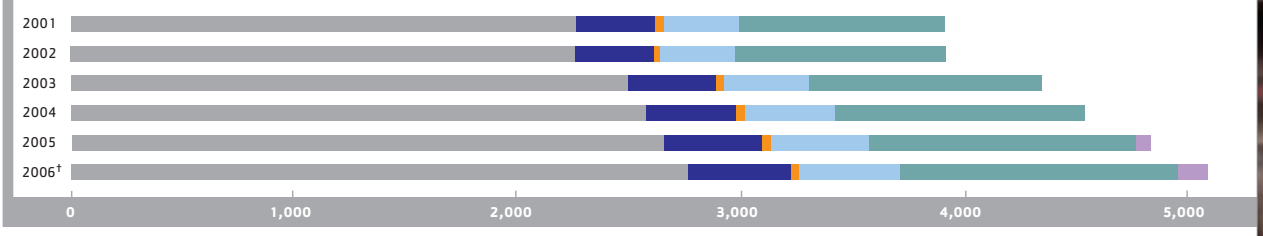
MTA Bridges and Tunnels toll increases are lower for E-ZPass holders than for those who pay cash, with E-ZPass tolls increasing by approximately 3.85 percent while cash tolls increase approximately 11.1 percent.

The MTA generates more than half of its operating budget from fares and tolls, a proportion significantly higher than any other major transportation system in the country, and has benefited from higher revenue from fares and tolls, driven by ridership gains, and more toll crossings at bridges and tunnels.

With the increases in place, the MTA is projecting a cash balance of $368 million at year-end 2008, attributable to the carry-over of prior-year cash surpluses. Even with these funds carried over to 2009, the MTA projects a deficit of $216 million in 2009, followed by deficits of $335 million in 2010 and $416 million in 2011. The Financial Plan included a cost-of-living adjustment to fares and tolls in 2010 to help close the gap. These projections are made based on prudent estimates of revenues, subsidies, and expenses and are considered to result in manageable deficits.

The MTA will also reach out to stakeholders – state and local government, labor, the business community, and customers – to create a long-term financial plan that recognizes that each has a role to play in maintaining the MTA's financial stability.

Fare and Toll Revenue
($ millions)

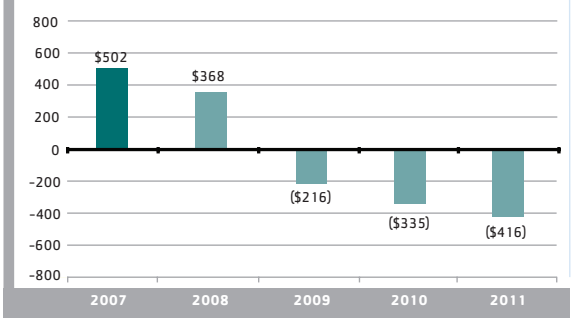


† 2006 represents the first full significant year of operations for MTA Bus.
†† Includes fare revenue from Staten Island Railway.

Expenses, which are forecast at $10.6 billion in 2008, are made up of controllable and uncontrollable expenses. Approximately 60 percent of MTA expenses are driven by the cost of providing service: operations, maintenance, and security. The remaining 40 percent are expenses largely out of the direct control of MTA management and include health and welfare costs, debt service, and pensions.

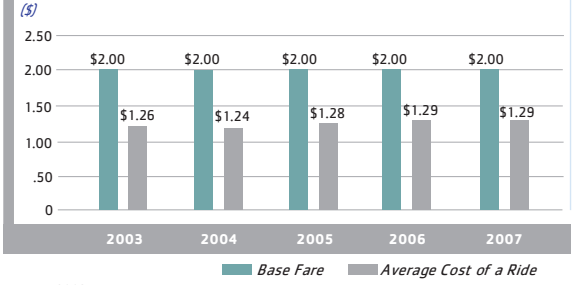
The MTA must also continue to invest in its Capital Program to ensure that core services remain strong while it builds new infrastructure to meet the growing needs of the region. Many of the same stakeholders are involved in the funding decisions that drive the Capital Program, and the MTA is continuing to focus on both operational and capital needs.

2007 Closing Cash Balance and 2008–2011 Projections*
($ millions)



*2007 figure is final actual; all figures are from February 2008 Financial Plan.

Average Cost of a Ride on New York City Transit
($)



Note: 2003 figure represents cost of a ride during the portion of the year that the higher $2.00 base fare was in effect (May 3 through December 31); 2005 figure represents cost of a ride during the portion of the year that higher 7-Day and 30-Day MetroCard fares were in effect (February 27 through December 31).

Finance

During 2007, MTA issued four series of new money bonds totaling $1.5 billion to finance projects in the existing Capital Programs. Three were issued as fixed-rate bonds and one was issued as 7-day auction rate securities. MTA also issued $750 million of Transportation Revenue Bond Commercial Paper. In September 2007 MTA and MTA Bridges and Tunnels cash defeased $296.8 million of outstanding bonds due in 2009, a transaction that will result in present-value savings of $19 million.

The MTA consolidated four MTA Bridges and Tunnels Subordinate Revenue Variable Rate Bonds into two series, providing liquidity fee savings.

The MTA's credit ratings remain strong. Since 2002, all bonds have maintained ratings of "A" or better from the three bond rating agencies: Moody's, Standard & Poor's, and Fitch.

Insurance and Risk Management

To provide more cost-effective insurance options, the MTA selected Marsh USA to provide broker services for the MTA and its agencies. In addition to marketing the MTA All Agency insurance program, Marsh is reviewing all programs for more comprehensive coverage and cost savings as well as providing loss control services to enhance the safe operations of the agencies.

Real Estate, In-System Advertising, and External Programs

Two large projects, each to be built over MTA rail yard properties, continued to move forward in 2007, although neither deal has been finalized.

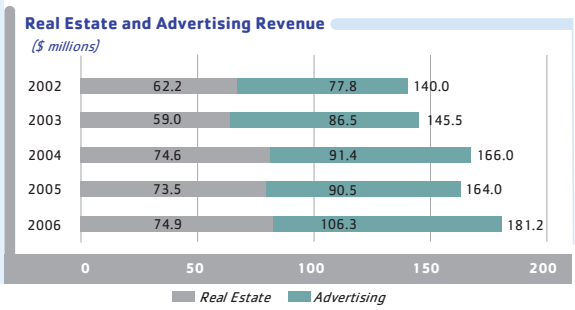
A request for proposals process resulted in five proposals for the right to build over the LIRR rail yard on the Far West Side of Manhattan. The West Side Yards project, endorsed by New York City, calls for a platform to be built above the Caemmerer Yard for commercial and mixed commercial-residential development. Following a period of public input, the MTA asked the five companies to revise their proposals for the property rights, with a new deadline set for early 2008.

In Brooklyn, the development company Forest City Ratner continues its planning for a multi-use project to be built in part over the Vanderbilt Yard of the Long Island Rail Road, adjacent to its Flatbush Avenue-Atlantic Terminal Station. The deal will become final once all of the requisite approvals are in place. Forest City Ratner has agreed to pay the MTA $100 million for the right to build a portion of its Atlantic Yard project over the current yard and to build a new yard for LIRR on adjacent LIRR property. Key to the project is an arena that will be home to the Nets professional basketball team that is currently playing in New Jersey.

Income from real estate, generated primarily from independent vendors doing business on MTA property, rose 1.9 percent to $74.9 million in 2007 from $73.5 million in 2006.

Advertising revenue also increased 17.5 percent to $106.3 million in 2007 from $90.5 million in 2006.

MTA- and agency-sponsored promotional programs continued to make gains in 2007. NYC Transit executed 24 marketing promotions that generated approximately $642,000 in revenue and netted $485,000. Notable promotions included partnerships with New York State Parks & Preservation (to promote New York City Heritage Trails), the City Parks Foundation (to promote Summer Stage concerts in Central Park and the free sport instruction for children in parks in all five boroughs), the American Museum of Natural History, Municipal Art Society, Whitney Museum, and New-York Historical Society.

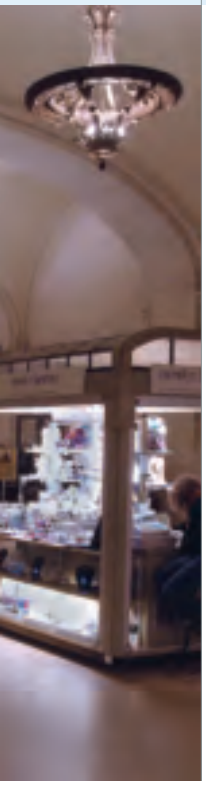


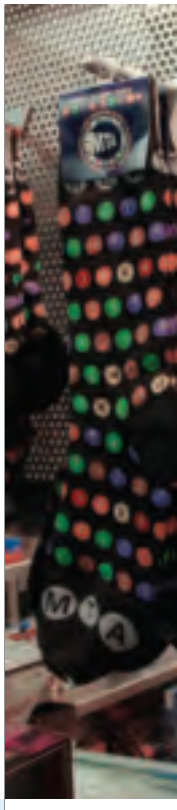
In addition, in 2007 the three rail agencies continued a partnership with the NY Mets baseball team. On the MTA website and in print advertising, fans were encouraged to "Take the Train to the Game" to avoid the parking problems caused by the construction of a new stadium at the site. The Mets supplemented the program with a rider discount plan and radio, television, print, and in-stadium advertising. Ridership on the 7 line to Shea for games increased 24 percent.

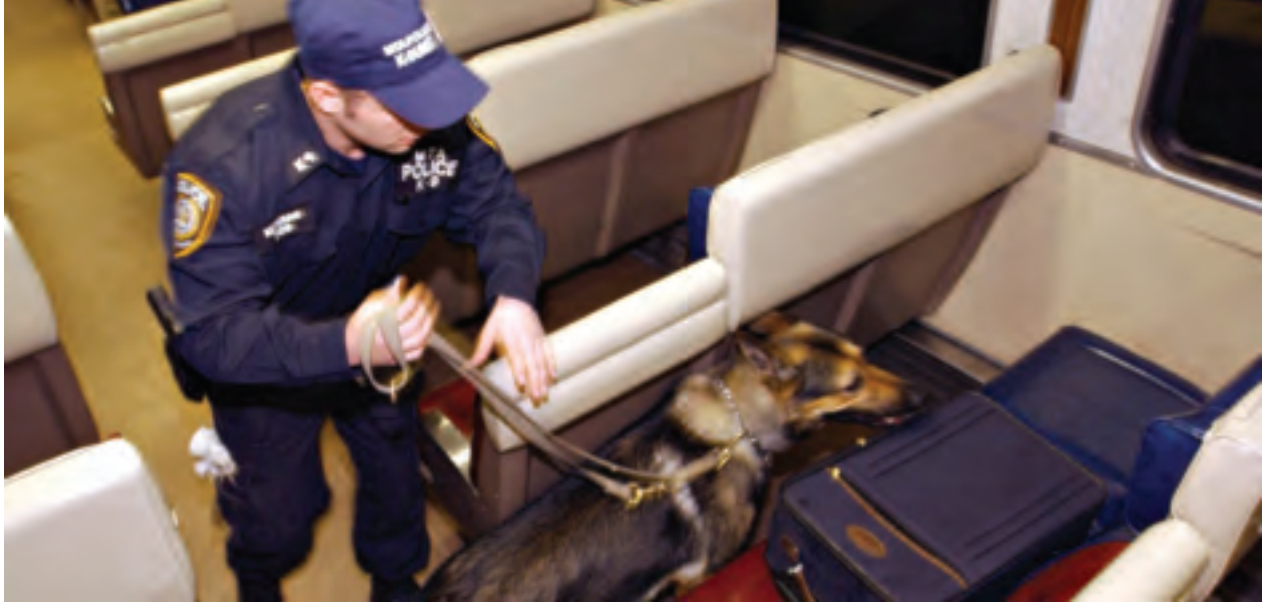
At Long Island Rail Road, some 30 targeted promotions for travel to both New York City and Long Island destinations generated incremental revenue of $1.6 million, an increase of 12.8 percent over 2006.

A business development initiative at Metro-North Railroad included a partnership with Enterprise Rent-a-Car to provide service at 23 stations beginning in 2008. Other promotions generated $415,000 in net revenue and 80,000 rides.

In 2007, the MTA earned $273,000 in royalties on $2.8 million in sales of licensed products, up 2.3 percent from 2006. The MTA's portfolio includes more than 400 officially licensed products. Notable license agreements in 2007 included such brands as New Era Cap Company, the largest worldwide manufacturer of caps and provider to most professional sports leagues. Revenues from the MTA Brand Licensing Program support the New York Transit Museum.







The MTA Police K-9 Unit is part of the overall safety and security operation for the commuter railroads and Staten Island Railway.

Security

The MTA considers network security a first-tier priority and continues to develop aggressive strategies to address potential threats to the network in the post-9/11 environment.

The MTA has allocated more than $1 billion in capital funds to protect the network against terrorist threats and hundreds of millions of dollars for additional police and employee training, enhanced federal, state, and local police presence, and customer awareness campaigns to remind riders of the need for vigilance.

Many construction projects were completed or underway in 2007 to harden the transportation system, and enhanced perimeter protection was established for additional assets throughout the network.

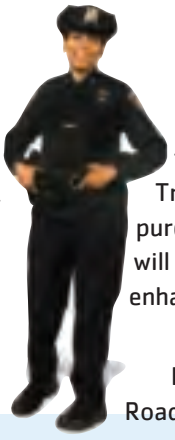
Anti-terrorist and Anti-crime

To protect the transit systems, all MTA agencies have conducted baseline audits of their networks. Working with Homeland Security's Transit Security Administration, the agencies have also carried out security emergency planning.

Under the MTA's new Directed Patrol Strategy, partially funded by the Department of Homeland Security, the commuter railroads – MTA Long Island Rail Road and MTA Metro-North Railroad – increased the number of MTA Police Department officers on trains and in stations, providing a new level of deterrence and increased visibility. MTAPD is also part of the federal "Secure Our Cities" initiative, which is designed to assist regional collaborations of metropolitan law enforcement and other agencies to set up detection and interdiction rings around the region, with the goal of preventing radioactive materials or nuclear weapons from entering densely populated areas.

As part of a Capital Program project, MTA New York City Transit installed intrusion detection alarms and access control equipment at 471 subway emergency exits. Including the under-river tubes, all system exits are being equipped with intrusion-detection capabilities that are linked to the Rail Control Center.

Completed Transit hardening projects include equipping 223 signal relay rooms with fire alarm and access control systems; closed circuit television enhancements at the Rail Control Center, the Police Control Center, the Power Control Center, and Livingston Plaza; emergency exit auxiliary



lighting in under-river tunnels and emergency escape hoods; upgraded access control at the Power Control Center; and new roof, walkway, and gate sensors and fencing.

MTA Staten Island Railway awarded an $18 million station security initiatives project for prevention measures at the St. George Terminal station, and customer assistance intercoms and closed circuit television at all SIR stations.

Consistent, agency-wide security policies to protect electronic systems and data from unauthorized access are a cornerstone of the MTA's enterprise-level security architecture and strategy. Enterprise security policies are in place and are regularly reviewed during monthly all-agency security administration meetings.

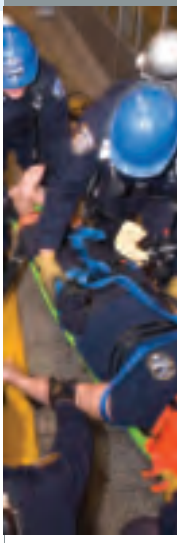
At Metro-North, both physical and cybersecurity were upgraded to protect against unauthorized access to data. MNR computers require a biometric authentication for access, and new policies were developed to disseminate confidential data protection information to the user community. An online security awareness tutorial was updated with new content and all staff personnel with desktop access were required to view it. Additional network sensors were deployed for intrusion detection and data encryption was enabled on the revenue system to protect customer credit card information. At Grand Central Terminal, the railroad completed the installation of structural security bollards.

As part of a program to stem a rising tide of graffiti, Transit created a special enforcement team to patrol railyards and other locations favored by graffiti vandals.

To encourage customers to remain vigilant, the MTA developed a new series in the "If you see something, say something" campaign of ads that cited the number of times in 2006 that local police have responded to the security-related concerns of MTA customers, reminding customers that they remain a crucial component of network security.

With partial funding from a grant from the New York State Department of Transportation, the MTA Police Department purchased two mobile response vehicles – which will also improve radio interoperability – to enhance its ability to respond to emergencies.

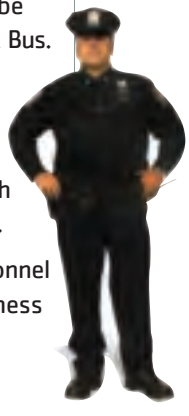
In October, the department's Third District Headquarters opened at Long Island Rail Road's Jamaica Station complex. The new headquarters, located in the AirTrain JFK Building, is a modern, three-floor 18,000-square-foot facility that includes a first aid room, questioning and line-up rooms, holding cells, muster room, conference rooms, and offices. New security fencing was installed along key points of the right-of-way to prevent trespassing.



The Police Department also opened a satellite office at Harriman, its first permanent facility in the West-of-Hudson territory. The move allows the department to work more closely with New York State Police and local police agencies in Orange and Rockland counties.

Training

All NYCT managers, supervisors, and hourly employees have completed National Incident Management System training focused on awareness of possible terrorist activity in everyday situations during daily operations and Transit employees' responsibilities to respond adequately. In September, Transit began security-related training sessions for road-based supervision and management in the Department of Buses. Materials developed for the program will also be used by the Department of Subways and by MTA Bus.



To ensure that its employees are well versed in responding to emergencies, LIRR held four major emergency preparedness drills during the year at Penn Station, Flatbush Avenue, Jamaica, and the Hicksville train yard.

MTA Bridges and Tunnels operations personnel participated in interagency disaster preparedness drills, including several with other city, state, and federal agencies.

Sustainability

Sustainability focuses on enabling societies to last longer and have less impact on ecological systems, climate change, and oil depletion. The MTA continues to develop and pursue forward-looking policies and innovative projects designed to reduce and manage the MTA's ecological footprint in all of its dimensions: greenhouse gases, water, and other resource use.

The Next Wave of Sustainability

The MTA and its agencies contribute to sustainability by providing fast, efficient, reasonably priced public transportation that reduces pollution by decreasing car travel. The MTA is also acutely aware that its vast network contains infrastructure of various vintages – including parts that may be made more efficient by new technologies, revised construction practices, better planning, and many other approaches. Thus the network offers both great benefits today and immense potential for future advances in environmental sustainability. The challenge for the MTA is to continue to provide the environmental and fuel-efficient benefits of mass transportation while reducing and managing its own carbon footprint – the energy and other inputs and impacts involved in providing transportation services.

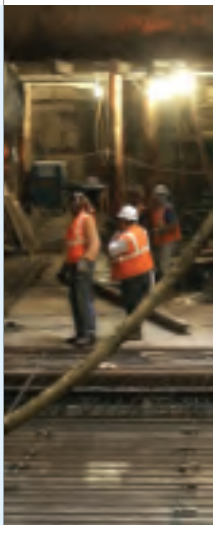
Sustainability issues and opportunities are being examined by a Blue Ribbon Commission on Sustainability and the MTA chaired by Jonathan F. P. Rose, a leader in environmentally conscious development, and by environmental leaders in the private and independent sectors. The commission began its work in September; an interim report will be available on Earth Day 2008, and the final report will be completed by the end of that year. All agencies are participating in the commission's work and are an integral part of the effort to expand upon their previous environmental and energy achievements.

During 2007, MTA Bridges and Tunnels undertook an initiative to apply sustainability principles aggressively to all aspects of its operations, Capital Program, and day-to-day conduct of business. It named a senior Bridges and Tunnels staff member to chair the agency's Sustainability "Green" Council with representatives from every department. The agency mission statement was revised to include sustainability, and the council quickly began taking action in a number of areas, while also educating and involving employees. The council meets monthly and has a link on the Bridges and Tunnels InfoNet featuring information and its quarterly newsletter.

MTA New York City Transit and MTA Bus have jointly established the position of Chief Officer of Environmental Sustainability to manage their green bus and other sustainability programs aimed at reducing their emissions footprint and to institute lasting structural and behavioral changes that promote eco-responsibility. A unified, targeted, and strategic approach to achieving measurable reductions in its emissions footprint and use of resources (that is, reduction of kilowatt hours, electrical and maintenance costs, carbon dioxide, etc.) will be implemented. The Chief Environmental Sustainability Officer will research available grants, partnerships, loans, and tax credits and determine the availability of these options to a government agency.

Building Green

The United States Environmental Protection Agency (EPA) recognized MTA Capital Construction's efforts in the Environmental Performance Commitments (EPC) working group as a model for "building green" construction practices with the EPA 2007 Environmental



Excellence Award. In addition, MTACC's implementation of air quality mitigation measures (diesel particulate filters and ultra-low-sulfur diesel fuel) was featured in an educational video produced by the U.S. EPA and hailed as an example of green construction to encourage other projects around the country to implement the same program.

Capital Construction successfully implemented sustainable measures in project designs and construction practices in 2007. Platform edge doors, which will separate cooler station air from the warmer tunnel air, will be installed at the new 34th Street Station as part of the 7 Line Extension. Station designs for the Second Avenue Subway are also being modified to support the future installation of platform edge doors.

Energy savings will also be realized from stations designed for maximum daylighting; aluminum third rail, which has less electrical resistance than steel; demand-controlled escalators; light-emitting diode (LED) lighting in tunnels; efficient lighting technologies in station areas; "Energy Star" equipment; and sustainable opportunities with external partners such as Con Edison (the "Smart Grid" initiative, which would enable the underground electric system to perform functions including the aggregation of meter reading, peak load reductions and demand side management, energy flow measurements, stray voltage detection, and partial discharge detection).

NYCT and MTA Bus have incorporated sustainability elements in all of their design and construction projects to maximize energy efficiency, improve indoor environments, achieve waste reduction through use of recycled and reusable materials, prevent pollution, and conserve water and natural resources. Initiatives include: LED signals, high-efficiency lighting, rapid roll-up doors, heat-recovery systems, steel-aluminum composite third rail (for reduced transmission losses), and ultra-low-sulfur diesel fuel. Daylighting and natural ventilation are incorporated, where applicable, to save energy.

NYCT's Environmentally Responsible Purchasing (ERP) pilot project evaluates select items in the construction procurement chain to determine if alternative products with superior environmental characteristics can be substituted for traditional products.

Recent capital projects – the Stillwell Terminal reconstruction, the rehabilitation of the 74th Street/Roosevelt Avenue complex, and the new Corona Maintenance Shop – have incorporated photovoltaic or solar energy systems. The Corona Shop also included heat-recovery units, a rainwater harvesting system, and a washwater reclamation system. This shop is NYCT's first LEED (Leadership in Energy and Environmental Design)-certified facility. LEED, a rating system developed by the U.S. Green Building Council, measures the sustainable elements of buildings. The green design elements incorporated reduce the collective environmental impacts of the building. NYCT will also seek LEED certification for the new Mother Clara Hale Bus Depot.

NYCT's Department of Capital Program Management (CPM) organized its efforts under the structure of an ISO 14001-certified Environmental Management System. (ISO 14001 is recognized globally as the benchmark of sound environmental management practices.) The majority of ongoing sustainability approaches are increasingly becoming standard design requirements.

Bridges and Tunnels is committed to seeking LEED certification on one major building rehabilitation on Randalls Island and two new construction projects. The agency also began participation in the federal EPA program focused on fleet maintenance facilities.

Running Green

Transit is moving forward on initiatives to enhance sustainability, including extending the 7 line to the new Hudson Yards development area on Manhattan's Far West Side, adopting green design principles for construction projects

Solar panels at Metro-North's Harmon Shop provide some of the electricity needed to operate the facility.

(including ISO 14001 standards for environmental management accreditation and LEED certification), continuing to improve the efficiency of its 100 percent clean-fuel bus fleet, new subway train and infrastructure systems that feature reduced power consumption and longer useful life, and recycling programs that are among the nation's most effective.

Transit cleans ventilators on a regular schedule to maintain indoor air quality. Most vents are scheduled for cleaning every three years; problem locations are cleaned more often. Of the 37,000 vent bays system-wide, approximately 13,000 are inspected and cleaned each year.

Last year NYCT also began its second series of disposals of obsolete and retired 60-foot IND/BMT subway cars through REEF-EX, a federal reefing program that creates habitats for marine life in coastal waters. The barging contract has been awarded, and rolling stock is being stripped and cleaned in preparation for shipments in January 2008. (The first REEF-EX program disposed of 1,269 cars between August 2001 and November 2003.)

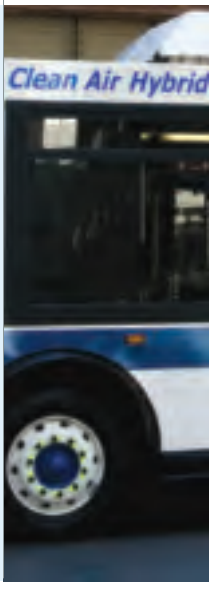
The MTA Long Island Rail Road's South Fork Commuter Connection, a seven-month pilot program designed to ease the highway traffic crunch during the reconstruction of the area's major east-west highway, also promotes the use of public transportation on the East End and provides time and cost savings. Local communities are also partnering in the effort with connecting bus service between LIRR's South Fork train stations and local businesses and school districts to provide a seamless transfer between transportation modes. The service also demonstrates the willingness of residents to use LIRR for intra-island trips.

MTA Metro-North Railroad converted to ultra-low-sulfur diesel fuel in early 2007 – five years before the required date of 2012 – reducing sulfur by 95 percent and particulates by 13 percent (10 tons a year), and prompting The Federated Conservationists of Westchester County to award MNR its "Green Seal."

At various locations, MNR installed yard switches with energy-saving photovoltaic panels – solar-powered switch machines that also have internal battery storage backup. In the Grand Central Terminal trainshed, incandescent bulbs were replaced with 28-watt fluorescent bulbs. Natural lighting was brought into the Highbridge Car Appearance Facility through skylights, storefront doors, continuous band windows, and translucent panels.

At the Highbridge Car Appearance facility and several new Harmon facilities, an automated building management system was installed to optimize HVAC, hot water usage, refrigeration components, and air quality (including temperature, humidity, and carbon dioxide level).

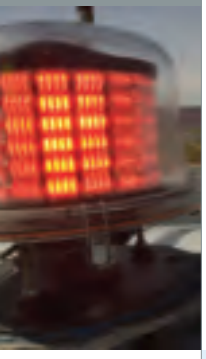
Transit continued its aggressive program to make its bus fleet the cleanest in the nation, adding 191 hybrid-electric buses to its fleet in 2007, for a total hybrid fleet of 548. Hybrid buses have greater fuel efficiency and are more environmentally friendly than standard buses.



NYCT's Department of Buses and MTA Bus have successfully introduced the exclusive use of synthetic and re-refined engine oils and lubricants in their bus fleets for all engine and transmission fluids, greases, and other lubricating oils to reduce the need for and dependence on new mineral-based petroleum products. Other than the products for wheelchair lift and articulated joint hydraulic systems, the fleets currently use only synthetic and re-refined oils and lubricants.

Transit undertook tests of various technologies to improve the environmental and sustainability impacts of its bus fleet, including hybrid-electric

buses, bus wash meters and water reclamation systems, biodiesel fuel, nitrogen-filled tires, detergent fuel additives, and salvage of metals from diesel particulate filters and catalytic converters. Results in many cases were promising and the technologies are undergoing further tests before selection for implementation.



Bridges and Tunnels converted the 22 bridge tower beacon aviation lights to energy-conserving light-emitting diodes (LED) at the Verrazano-Narrows, Throgs Neck, Bronx-Whitestone, Marine Parkway-Gil Hodges Memorial, and Triborough Bridges. Test LED fixtures for necklace lights were also installed on the Triborough, Verrazano-Narrows, and Throgs Neck Bridges. Close to 70 percent of all stocked lighting and bulbs in the agency's inventory has been replaced with energy-saving equivalents.

At mid-year Bridges and Tunnels began using biofuel for all diesel-powered vehicles, and in the last quarter began using bio-heating fuel at all facilities. Its inventory of light-duty alternative-fuel and hybrid vehicles was increased from 62 to 87, and all light-duty vehicles purchased in 2007 were alternative-fuel vehicles.

A more environmentally friendly washing soap was selected for washing the two tunnels; remanufactured computer printer toner cartridges are being phased in with used cartridges being collected for recycling; all appliances and equipment are being replaced with Energy Star-rated products if available; and a major conservation program has been initiated to promote greater recycling and significantly reduce the amount of paper used throughout Bridges and Tunnels.

Planning Green

Transit-oriented development (TOD) is a forward-looking effort to cluster mixed-use development around a transit hub to provide maximum sustainability benefits for communities and business by encouraging ridership, reducing VMT (vehicle miles traveled), and reducing demand for parking. Metro-North issued a request for expressions of interest (RFEI) to developers to join the railroad in creating a TOD project for 18 acres of railroad property on the Hudson River at Beacon. This RFEI, titled "Be in Beacon," reflects the collaboration and partnership of Metro-North, the city of Beacon, and a wide range of stakeholders. The LIRR is fostering several TOD projects, including the Tanger Outlet Center in Babylon and the proposed new 15,000-resident village of Heartland in Islip.

Compliance and Remediation

NYCT environmental compliance reviews, such as those on the Concourse and Corona facilities last year, are regularly performed, and the agency seeks out energy-efficient and green technologies, like the filtration system for the air conditioning condenser wash operation at the 207th Street Overhaul Shop for which a contract was issued in 2007. This system will filter metals (copper, zinc) and dissolved solids from waste water, allowing it to be disposed of into the sewer system instead of being removed and disposed of by a contractor as industrial waste.

The LIRR remediated soil at the Babylon Yard substation and developed a site investigation report, action plan, and design for sites that will be remediated in 2008 (Nassau Boulevard, Floral Park, Little Neck and Lindenhurst substations). LIRR completed an interim remedial measure (fencing, contaminated soil removal, erosion controls, and landscaping) at the Yaphank landfill and began constructing a petroleum remediation system that will be placed into operation in the second quarter of 2008 at the Morris Park Yard.

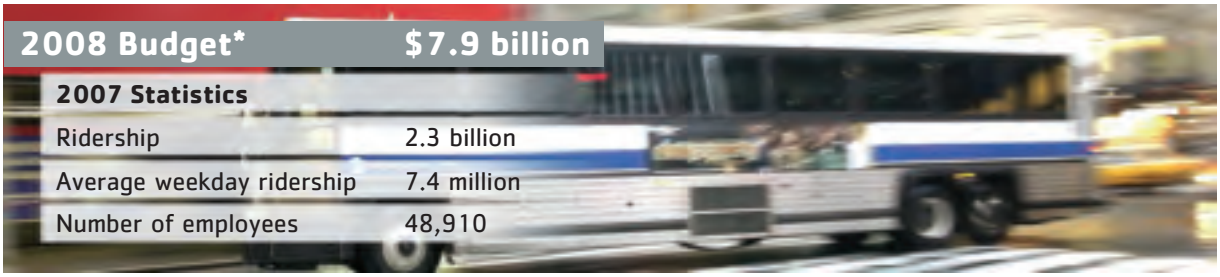
MTA Long Island Bus conducted an environmental self-audit at the Senator Norman J. Levy facility. The findings of the audit were presented to the Environmental Protection Agency. Additional audits are scheduled for other LI Bus facilities.

Metropolitan Transportation Authority

New York City Transit
Long Island Rail Road
Long Island Bus
Metro-North Railroad
Bridges and Tunnels
Capital Construction
Bus Company

New York City Transit

The largest mass transit system in North America, New York City Transit provides subway, rail, bus, and paratransit services to the growing population of New York City's five boroughs, suburban commuters, and millions of tourists. The system's 26 subway lines cover 233 route miles, and its 244 bus routes extend over more than 2,000 miles within the metropolitan region. Both operate 24 hours a day, seven days a week.



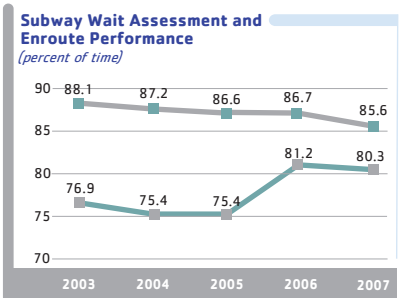
2008 Budget*	$7.9 billion
2007 Statistics	
Ridership	2.3 billion
Average weekday ridership	7.4 million
Number of employees	48,910

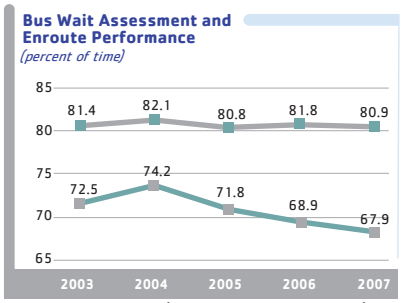
*From MTA Adopted Budget, February 2008

Market Share Grows

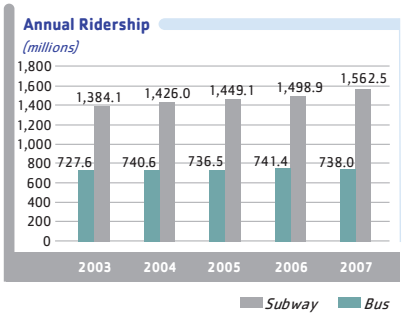
Mass transit market share in New York City has been growing steadily in recent years, as shown in the report of an independent research firm that computes the market share for mass transit services.

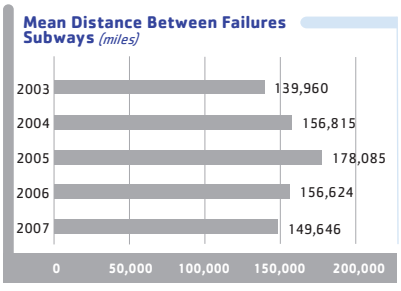
In September 2007, 58.5 percent of weekday peak trips in New York City were taken by subway or local bus, while automobiles accounted for 28.7 percent of trips (a change from 50.9 percent and 34.0 percent, respectively, from 2006). Of the rest, 2.4 percent are taxi, limousine, or car service; 7.7 percent are walking (including only trips of 10 minutes or more); and 2.7 percent are other. The convenience, cost-effectiveness, and comprehensiveness of the subway and bus networks contribute to the rising market share.

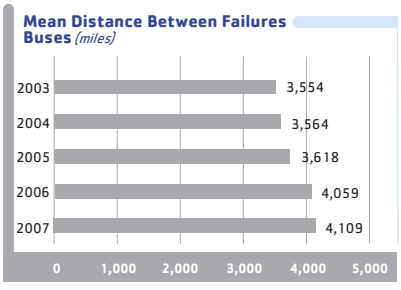




Note: In 2006, Transit changed its methodology, monitoring performance from 7p.m. to midnight only, instead of subways from 9p.m. to 6a.m. and buses from 7p.m. to 7a.m.







Long Island Rail Road

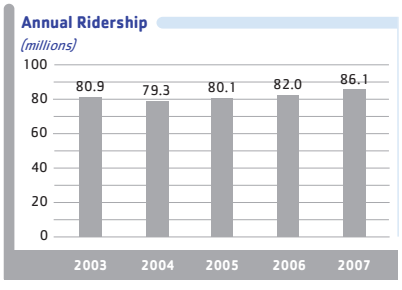
Long Island Rail Road is the largest commuter railroad in America. Its 11 lines extend from three major New York City terminals – Penn Station, Flatbush Avenue, and Hunterspoint Avenue – through a major transfer hub at Jamaica to the easternmost tip of Long Island. Along these extensive routes, passengers have access to service at 124 stations over 319 route miles. Completion of East Side Access, which began tunneling work in 2007, will add a new hub in Grand Central Terminal, bringing LIRR customers directly to Manhattan's East Side.

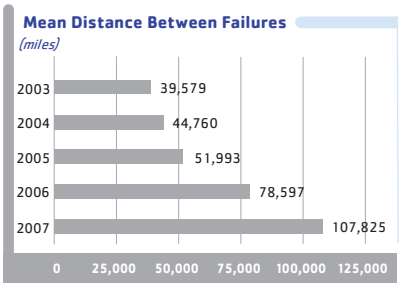
2008 Budget*	$1.5 billion
2007 Statistics	
Ridership	86.1 million
Average weekday ridership	301,763
Number of employees	6,471

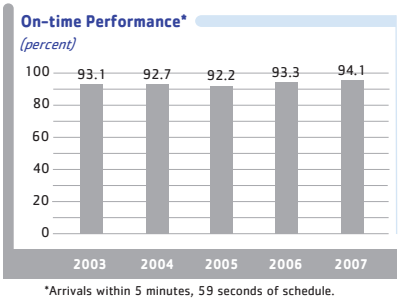
*From MTA Adopted Budget, February 2008

Preparing for East Side Access

The Main Line Corridor (MLC) project, also known as Third Track, is critical to the success of East Side Access. The corridor is a 10-mile stretch between Floral Park and Hicksville where five LIRR branches carrying 41 percent of the railroad's total ridership converge. Improvements to the Corridor will create a passing lane, express service, additional operational flexibility to reroute if service is disrupted, and the infrastructure to permit the additional service into Grand Central when East Side Access is completed. By the end of 2007, Long Island Rail Road had the MLC Preliminary Draft Environmental Impact Statement ready to submit to the Federal Transit Administration for review.







*Arrivals within 5 minutes, 59 seconds of schedule.

Long Island Bus

Long Island Bus operates 417 fixed-route and paratransit buses throughout Nassau County. Its nearly 4,400 weekday trips provide a link to 96 communities, 48 Long Island Rail Road stations, five New York City Transit subway stations, and numerous other destinations on Long Island and in the borough of Queens, covering a total of 954 route miles.

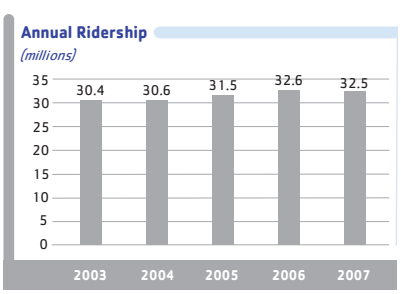
2008 Budget*	$134.1 million
2007 Statistics	
Ridership	32.5 million
Average weekday ridership	108,380
Number of employees	1,103

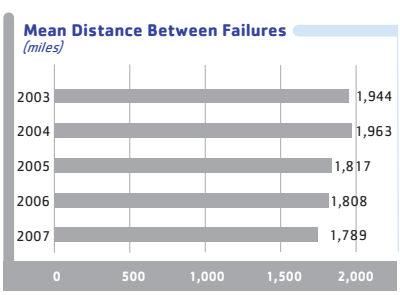
*From MTA Adopted Budget, February 2008

35 Years of Service to Nassau County

In 1973 Nassau County acquired ten privately owned bus companies and leased operations to the Metropolitan Suburban Bus Authority, a newly formed subsidiary of the MTA. The operations were consolidated into a unified bus network, which became MTA Long Island Bus. The agency launched a system-wide service improvement plan that has brought uniform fares, expanded routes, and high quality service to its customers.

Beginning in the early 1990s, LI Bus led the industry in changing over its fleet to environmentally friendly compressed natural gas (CNG) fueled buses. Today, the agency has the largest all-CNG fleet in the nation and the largest CNG refueling station on the East Coast.





Metro-North Railroad

Metro-North Railroad serves seven counties in New York State and two counties in Connecticut with 120 stations across 383 route miles. Its East-of-Hudson lines – Hudson, Harlem, and New Haven – operate out of Grand Central Terminal and its West-of-Hudson lines – Port Jervis and Pascack Valley – operate out of New Jersey with a connection at Secaucus for service into Penn Station.

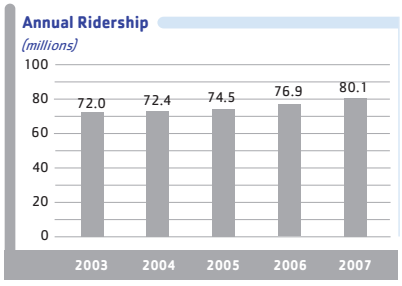
2008 Budget*	$1.2 billion
2007 Statistics	
Ridership	80.1 million
Average weekday ridership	276,555
Number of employees	5,855

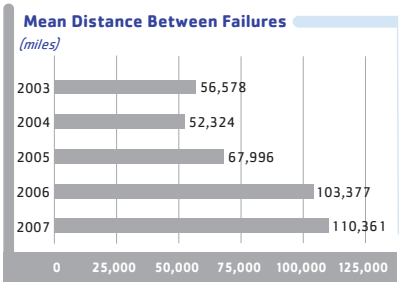
*From MTA Adopted Budget, February 2008

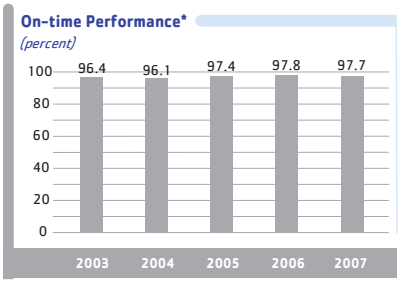
Celebrating 25 Years of Service

In January 1983 the MTA took over all commuter rail operations from Conrail and created Metro-North. That year, on-time performance was 80.5 percent and ridership was only 40 million (down from 47 million in 1982 due to a six-week strike). Within ten years, on-time performance had soared above 96 percent, and in 1993 the railroad received the coveted American Public Transportation Association's Outstanding Achievement Award for being the "best in the U.S." – an honor that was repeated in 1998 and 1999.

In 2007 Metro-North had another outstanding year, with a system-wide on-time performance record of 97.7 percent (the third consecutive year over 97 percent), a ridership record of 80.7 million, and an all-time high customer service satisfaction rating of 93 percent. On four days in 2007, the railroad achieved 100 percent on-time performance, meaning all trains arrived within five minutes 59 seconds of their scheduled arrival times, the standard measure of the commuter railroad industry.



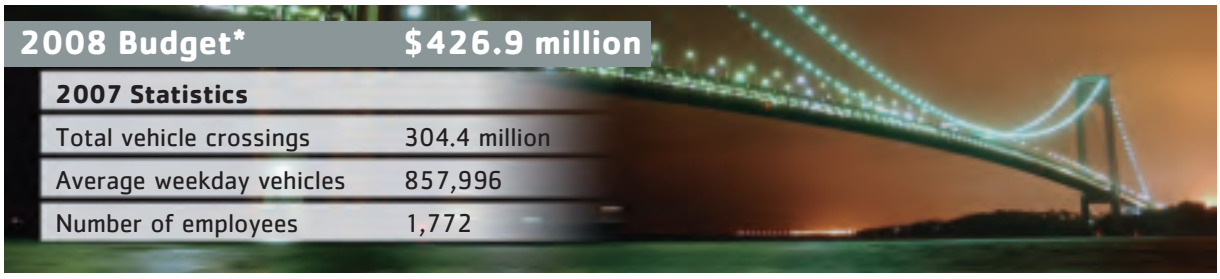




*Arrival within 5 minutes, 59 seconds of schedule.

Bridges and Tunnels

Bridges and Tunnels operates seven bridges – the Triborough, Throgs Neck, Verrazano-Narrows, Bronx-Whitestone, Henry Hudson, Marine Parkway-Gil Hodges Memorial, and Cross Bay Veterans Memorial – and two tunnels – the Brooklyn-Battery and Queens Midtown. It serves more than 850,000 vehicles carrying more than a million people daily in the New York metropolitan area. The largest among the nation's bridge and tunnel toll authorities in terms of traffic volume, the agency provides surplus toll revenues that help support MTA transit and commuter rail services.

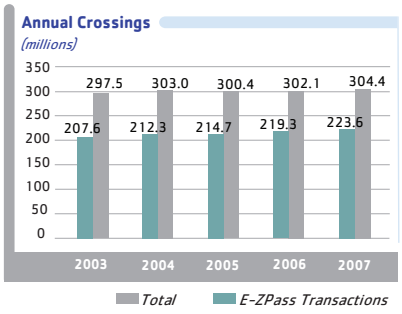


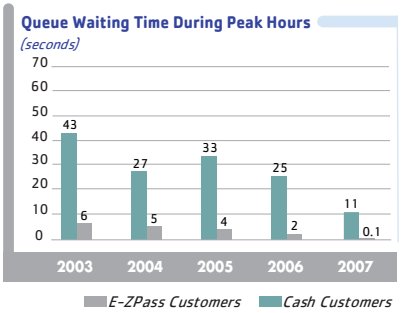
2008 Budget*	$426.9 million
2007 Statistics	
Total vehicle crossings	304.4 million
Average weekday vehicles	857,996
Number of employees	1,772

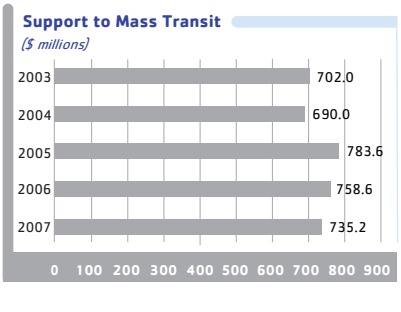
*From MTA Adopted Budget, February 2008

75th Anniversary Marked

Bridges and Tunnels was established in 1933 in the middle of the Great Depression as the Triborough Authority to build the Triborough Bridge. The agency went on to build or become responsible for six other bridges and two tunnels that connect the five boroughs of New York City. E-ZPass, an electronic toll collection system, moves traffic through Bridges and Tunnels toll plazas quickly and efficiently. Over 70 percent of the vehicles that use Bridges and Tunnels crossings use E-ZPass.







Capital Construction

Capital Construction was formed in 2003 to act as the construction management company for MTA expansion projects and system-wide security projects. Construction is underway on five major projects – East Side Access, Second Avenue Subway, 7 Line Extension, Fulton Street Transit Center, and South Ferry Terminal – with total costs projected at more than $14 billion.

*From MTA Adopted Budget, February 2008

Major Milestones on System Expansion

On April 12, 2007, a groundbreaking ceremony marked the beginning of construction on the Second Avenue Subway. Phase I of the project will provide new service from Second Avenue and 96th Street to the existing Lexington Avenue/63rd Street station, where it will link to the Broadway N, Q, R, W lines. Signing the Phase I Full Funding Grant Agreement with the Federal Transit Administration (FTA) on November 19, 2007 secured $1.3 billion in funding for the project.

Tunnel excavation for the East Side Access project began in October 2007 with the start of operations of the first of two massive tunnel boring machines. Rail tunnels will be constructed from 63rd Street and Second Avenue to Park Avenue under Grand Central Terminal and reaching to Park Avenue and 38th Street.

Construction also began on the 7 Line Extension with a $1.1 billion contract awarded in November 2007 for constructing tunnels from 27th Street and 11th Avenue to 41st Street and 8th Avenue, the 34th Street/Javits Center station structure, and other key structural elements.

Expansion Projects Progress, 2000–2007*

($ millions)	Commitments	Expenditures	Completions
East Side Access†	2,590.08	1,156.79	200.21
Second Avenue Subway	972.45	429.67	232.24
7 Line Extension**	1,380.60	113.17	43.60
Fulton Transit Center	527.76	445.95	100.70
South Ferry Terminal	471.13	371.06	9.00

* Excludes MTA security-related projects.
† East Side Access figures include amounts attributable to the 1995-1999 Capital Program.
** The MTA expects that construction of the 7 line extension will be fully funded by New York City.

Expansion Projects Progress, 2007*

($ millions)	Commitments	Expenditures	Completions
East Side Access†	851.43	198.52	—
Second Avenue Subway	541.79	155.39	—
7 Line Extension**	1,269.46	25.37	—
Fulton Transit Center	38.65	87.47	63.21
South Ferry Terminal	2.42	115.24	—

* Excludes MTA security-related projects.
† East Side Access figures include amounts attributable to the 1995-1999 Capital Program.
** The MTA expects that construction of the 7 line extension will be fully funded by New York City.

MTA Bus Company

MTA Bus was created in September 2004 to assume the operations of seven bus companies that had franchises granted by the New York City Department of Transportation. The agency has 46 local routes in the Bronx, Brooklyn, and Queens, and 35 express bus routes between Manhattan and the Bronx, Brooklyn, and Queens, covering 893 route miles. Its fleet of more than 1,350 buses is the 10th largest in the United States and Canada.

2008 Budget*	$491.3 million
2007 Statistics	
Ridership	110.3 million
Average weekday ridership	376,920
Number of employees	3,301

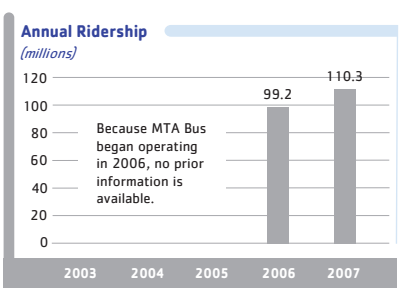
*From MTA Adopted Budget, February 2008

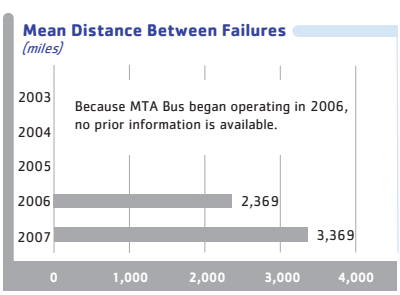
Extraordinary Ridership Growth

In 2007 MTA Bus had the greatest increase in ridership among MTA transit service providers. Weekday overall growth was 9.7 percent, Saturday growth was 15.1 percent, and Sunday growth was 13.0 percent.

This tremendous growth was achieved through improved service. New maintenance practices and upgraded facilities, coupled with the addition of 475 new express buses and 284 local buses, more than doubled fleet reliability. A second key factor was greatly improved customer amenities, including cleaner buses, fully operable air conditioning/heating systems and wheelchair lifts, and better maintained bus destination signs.

Other improvements remedied long-standing service inadequacies such as overcrowding and the need to increase the span of service during the evening hours and on weekends. Revised service schedules, route path adjustments, and the expansion of both service hours and levels of service allowed the agency to better serve high growth markets.





Comprehensive Annual FINANCIAL REPORT

for the years ended December 31, 2007 and 2006

Metropolitan Transportation Authority,
a component unit of the State of New York

Prepared by Department of Budgets and Financial Management

Table of Contents

Introductory Section

Financial Section

The MTA has received a revised Independent Auditor's Opinion Letter from its outside auditor, Deloitte & Touche LLP. The original Independent Auditor's Report, included in the MTA's Comprehensive Annual Financial Report (page 11), was amended to clarify that the audit did not include the schedule of pension funding progress. The schedule of pension funding progress of the basic consolidated financial statements is required supplemental information by the Governmental Accounting Standard Board and is prepared for purposes of additional information only.

Statistical Section

Introductory Section

Letter of Transmittal

347 Madison Avenue
New York, NY 10017-3739
212 878-7238 Tel

Gary J. Dellaverson
Chief Financial Officer

Metropolitan Transportation Authority
State of New York

April 28, 2008

Chairman and Members of the Board
Metropolitan Transportation Authority

I hereby submit the Comprehensive Annual Financial Report ("CAFR") of the Metropolitan Transportation Authority ("MTA," the "Authority") prepared by the Comptroller's Office for the year ended December 31, 2007. Responsibility for both the accuracy of the enclosed data and the completeness and fairness of the presentation, including all disclosures, rests with the MTA. I believe that the data as presented are accurate in all material respects and that the information is presented in a manner designed to set forth fairly the financial position and results of operations of the MTA in accordance with generally accepted accounting principles. To the best of my knowledge, all disclosures necessary to enable the reader to gain an understanding of the MTA's financial affairs have been included.

The Reporting Entity

The MTA is the largest public transportation provider in the Western Hemisphere. Its agencies serve 14.8 million people spread over 5,000 square miles from New York City through Long Island, southeastern New York State, and Connecticut. MTA agencies move more than 2.6 billion rail and bus customers a year.

A public benefit corporation chartered by the New York State Legislature in 1965, the MTA is governed by a 17-member Board.* Members are nominated by the Governor, with four recommended by New York City's mayor and one each by the county executives of Nassau, Suffolk, Westchester, Dutchess, Orange, Rockland, and Putnam counties. (Members representing the last four counties cast one collective vote.) The Board also has six rotating nonvoting seats, three held by members of the Permanent Citizens Advisory Committee ("PCAC"), which serves as a voice for users of MTA transit and commuter facilities, and three held by representatives of organized labor. All Board members are confirmed by the New York State Senate.

The following table shows the legal and popular names of MTA agencies:

Legal Name:	*Popular Name:*
New York City Transit Authority	MTA New York City Transit
Staten Island Rapid Transit Operating Authority	MTA Staten Island Railway
The Long Island Rail Road Company	MTA Long Island Rail Road
Metropolitan Suburban Bus Authority	MTA Long Island Bus
Metro-North Commuter Railroad Company	MTA Metro-North Railroad
Triborough Bridge and Tunnel Authority	MTA Bridges and Tunnels
MTA Capital Construction Company	MTA Capital Construction
MTA Bus Company	MTA Bus

For financial reporting purposes, the above agencies are blended with MTAHQ for the combined financial statements because the oversight boards of each agency consist of the same members.

Accounting and Budgetary Control

Management of the MTA is responsible for establishing and maintaining an internal control structure to ensure that the assets of the MTA are protected from loss, theft, or misuse and ensure that adequate accounting data are

* The current board (as of April 28, 2008) includes 16 voting and 6 non-voting members.

compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles.

Basis of Accounting The MTA prepares its financial statements using the accrual basis of accounting. The activities of the MTA are similar to those of proprietary funds of local jurisdictions and are therefore reported in conformity with governmental accounting and financial reporting principles issued by the Governmental Accounting Standards Board ("GASB").

Budgetary Controls The MTA maintains budgetary procedures in order to ensure compliance with the annual operating budgets approved by the MTA's Board. It is the responsibility of each office to administer its operation in such a manner as to ensure that the use of funds is consistent with the goals and programs authorized by the Board and that approved levels are not exceeded.

Cash Management The MTA's investment policies comply with the New York State Comptroller's guidelines. These polices permit investments in, among others, obligations of the U.S. Treasury and its agencies and instrumentalities, and repurchase agreements secured by such obligations.

Independent Audit

The accounting firm of Deloitte & Touche LLP performed the annual audit of the financial records of the MTA in accordance with generally accepted auditing standards. The report of the independent auditors on the financial statements of the MTA is included in the Financial Section of this CAFR.

Awards

The Government Finance Officers Association ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the MTA for its 2006 annual report. This was the 12th consecutive year the MTA received this award. In order to be eligible for a Certificate of Achievement, the MTA published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is

valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated service of the director of Financial Management and the entire staff of the Comptroller's Office. Each member of the office has our sincere appreciation for the contributions made in the preparation of this report.

Sincerely,

Gary J. Dellaverson
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metropolitan Transportation Authority, New York

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

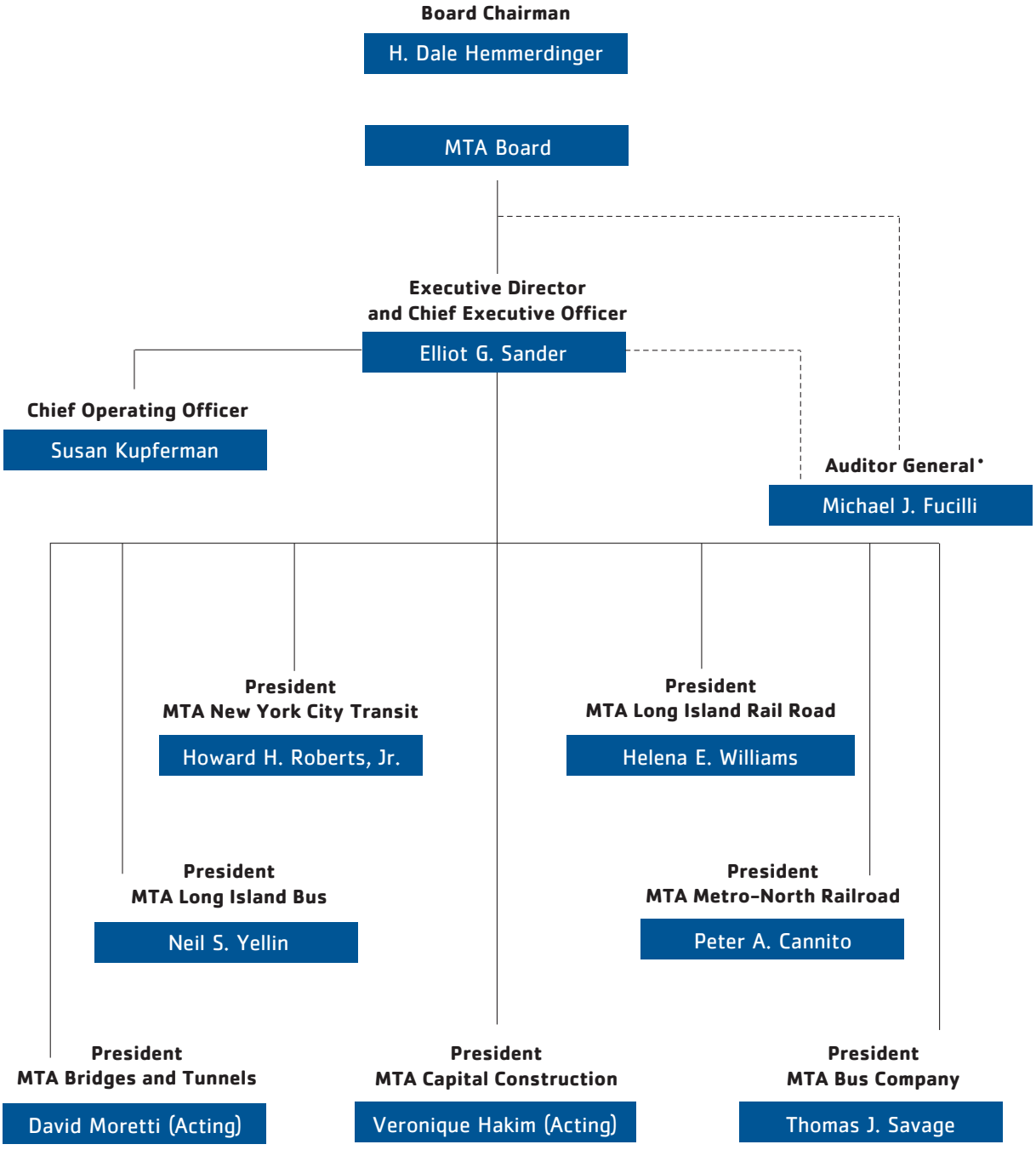
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

MTA Organization Structure

As of December 31, 2007*



* Also reports to Audit Committee of MTA Board.

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Financial Section

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Deloitte.

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
USA

Tel: +1 212 436 2000
Fax: +1 212 436 5000
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of
Metropolitan Transportation Authority

We have audited the accompanying consolidated balance sheets of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of December 31, 2007 and 2006, and the consolidated statements of revenues, expenses and changes in net assets, and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the MTA's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We did not audit the financial statements of the New York City Transit Authority ("MTA New York City Transit"), Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway"), and the Metropolitan Suburban Bus Authority ("MTA Long Island Bus"), which represent 56 percent and 54 percent, and 42 percent and 43 percent, of the assets and revenues of the MTA, respectively, as of and for the years ended December 31, 2007 and 2006. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for MTA New York City Transit, MTA Staten Island Railway and MTA Long Island Bus, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the respective consolidated balance sheets of the MTA, as of December 31, 2007 and 2006, and the respective changes in the consolidated statements of revenues, expenses and changes in net assets, and consolidated cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5 to the consolidated financial statements, in 2007, the MTA adopted Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions.*

The Management's Discussion and Analysis on pages 12 through 25 and the Schedule of Pension Funding Progress on page 81 are not a required part of the basic consolidated financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the MTA's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the MTA's consolidated basic financial statements. The introductory section, statistical section, schedule of pension funding progress, schedule of financial plan to financial statements reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, and schedule of consolidated subsidy accrual reconciliation between financial plan and financial statements are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. This supplementary information is the responsibility of the MTA's management. The introductory section, schedule of financial plan to financial statements reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, schedule of consolidated subsidy accrual reconciliation between financial plan and financial statements, and the statistical section have not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, accordingly, we express no opinion on them.

Deloitte & Touche LLP

April 24, 2008

Member of
Deloitte Touche Tohmatsu

Years Ended December 31, 2007 and 2006 ($ in millions)

1—Overview of the Financial Statements

Introduction

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

Consolidated Financial Statements include:

Consolidated Balance Sheets which provide information about the nature and amounts of investments in resources (assets) and the obligations to Metropolitan Transportation Authority (the "MTA") creditors (liabilities), with the difference between the two reported as net assets.

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets which provide information about the MTA's changes in net assets for the period then ended and accounts for all of the period's revenues and expenses, measures the success of the MTA's operations during the period, and can be used to determine how the MTA has funded its costs.

The Consolidated Statements of Cash Flows which provide information about the MTA's cash receipts, cash payments and net changes in cash resulting from operations, non-capital financing, capital and related financing and investing activities.

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

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

Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the MTA for the years ended December 31, 2007 and 2006. This management discussion and analysis is intended to serve as an introduction to the MTA's consolidated financial statements. It provides an assessment of how the MTA's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the MTA's overall financial position. It may contain opinions, assumptions, or conclusions by the MTA's management that should not be considered a replacement for, and must be read in conjunction with, the consolidated financial statements.

2—Financial Reporting Entity

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

MTA Related Groups

- Headquarters ("MTAHQ") provides general oversight, planning and administration, including budget, cash management, finance, legal, real estate, treasury, risk management, and other functions to the related groups listed below.
- The Long Island Rail Road Company ("MTA Long Island Rail Road") provides passenger transportation between New York City and Long Island.
- Metro-North Commuter Railroad Company ("MTA Metro-North Railroad") provides passenger transportation between New York City and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in New York State and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway") provides passenger rail transportation on Staten Island.
- Metropolitan Suburban Bus Authority ("MTA Long Island Bus") provides public bus service in Nassau and Queens counties.
- First Mutual Transportation Assurance Company ("FMTAC") operates as a captive insurance company to provide insurance coverage for property and primary liability.
- New York City Transit Authority ("MTA New York City Transit") and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority ("MTA Bridges and Tunnels") operates seven toll bridges, two tunnels, and the Battery Parking Garage.
- MTA Capital Construction Company ("MTA Capital Construction") provides oversight for the planning, design, and construction of current and future major MTA system expansion projects.
- MTA Bus Company ("MTA Bus") operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.

Years Ended December 31, 2007 and 2006 ($ in millions)

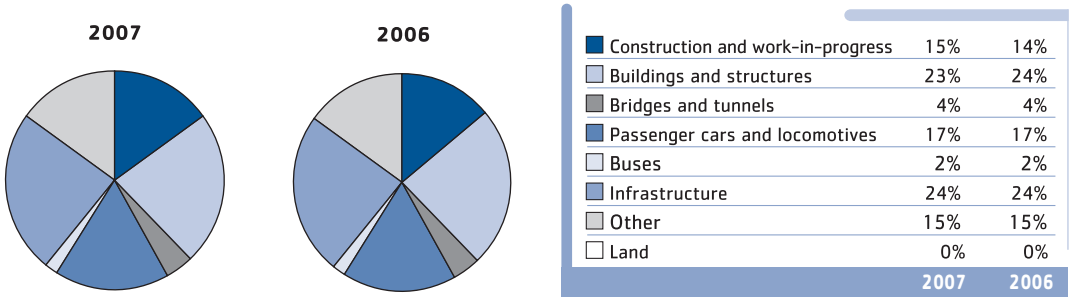
3—Condensed Financial Information

The following sections discuss the significant changes in the MTA's financial position for the year ended December 31, 2007. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, the information contained within the summaries of the consolidated financial statements and the various exhibits presented were derived from the MTA's consolidated financial statements. All dollar amounts are in millions.

Total Assets, Distinguished Between Capital Assets, Net and Other Assets

	December 2007	December 2006	December 2005
Capital assets, net (see Note 6)	$40,611	$38,307	$35,900
Other assets	11,158	11,778	10,726
Total assets	**$51,769**	**$50,085**	**$46,626**

Capital Assets, Net



December 31, 2007 versus 2006

- Net capital assets increased at December 31, 2007 by $2,304. The largest increase, $1,035, occurred in other capital assets (which includes work trains, service vehicles, passenger stations, and other equipment, excluding passenger cars and locomotives and buses); infrastructure, $860; construction in progress, $700; passenger cars and locomotives, $658; and buildings and structures, $362. These increases were partially offset by additional accumulated depreciation of $1,637. Some of the more significant projects contributing to the increase included:
  - — Rehabilitation of the East River tunnel, including safety improvements and ventilation projects.
  - — Projects upgrading shops and yards and a new automated materials handling system in the Hillside Complex of MTA Long Island Rail Road.
  - — Milestone costs for construction, testing, and quality assurance of new electric passenger cars.
  - — MTA Long Island Rail Road signals and communication assets have continued to grow with a number of projects nearing completion, such as the fiber optic network and various microprocessor signal projects.
  - — Passenger station rehabilitations continue, including the Atlantic Terminal Phase II and Broadway station.
  - — MTA Long Island Rail Road security projects, including hardening of Penn Station, Jamaica, and the 63rd Street tunnel.
  - — MTA Long Island Rail Road placed into service an additional 34 new M-7 electric cars during the year and retired 8 M-1 electric cars.
  - — Improvements to MTA Long Island Rail Road's infrastructure road-assets continued under the 2007 Track Program that provided the replacement of various track elements and branches.
  - — Design and installation of a pilot Communications Based Train Control system on Canarsie Line.

- — MTA New York City Transit station rehabilitation at various locations on various lines, and the Fulton Street Transit Center.
- — MTA New York City Transit placed the following in service during 2007, R160 subway cars (294) and passenger buses (150).
- — Elevated line structural rehabilitation and subway tunnel rehabilitation.
- — Design and construction of a new depot at the Grand Avenue facility.
- — Installation of chemical, biological, and radiological early detection equipment in Grand Central Terminal.
- — Replacement of the deck at the Triborough and Bronx-Whitestone Bridges, including span replacement on the Bronx-Whitestone Bridge and rehabilitation of the electrical and mechanical systems at the Triborough Bridge. Also, the rehabilitation of the lower level approaches and suspended deck at the Verrazano-Narrows Bridge and the lower deck replacement at the Henry Hudson Bridge

- Other assets had a net decrease of $620. The items contributing to this change include but are not limited to:
  - — A net decrease in current and non-current investments and investments held under capital leases of $1,232 due to use of funds for capital expenditures, debt service payments on bonds lease obligations, and operating expense.
  - — A decrease of $59 in State and regional mass transit taxes receivable for NYS Petroleum Business Tax Funds accrued receivable being uncollected, not yet received due to timing differences between the recording of revenue and the collection of such funds.
  - — Cash decreased by a net $25 primarily due to a decrease of $40 by MTA Headquarters related to reductions in operating and capital cash funds available. Also affecting the cash position is New York City Transit's decrease of $3, FMTAC's increase of $14, Long Island Rail Road's increase of $4, MTA Bridges and Tunnels' increase of $4, and Metro-North Railroad's reduction in cash of $4.
  - — Amounts due from New York City increased by $73. This amount is due primarily to MTA Bus's receivable.
  - — Station maintenance, operation, and use assessments increased by $3. This is due to the amount accrued in 2007 for the various counties which was based on the prior year's bill.
  - — Other subsidies receivable decreased by $27 due to a decrease of $34 at MTA Bus for various advance payments and an increase at New York City Transit of $7 for the urban tax subsidy receivable.
  - — Advances to defined benefit pension decreased $259 as a result of $325 transferred to non-current assets, $32 being amortized in the current year, and $2 miscellaneous adjustment. Offsetting these decreases is an $100 pre-payment to the defined benefit pension plan.
  - — Material and supplies increased by $64. This increase is attributable primarily to increases at MTA New York City Transit of $20, MTA Long Island Rail Road of $19, and MTA Metro-North Railroad of $20. The increase is to insure availability of parts and supplies for emergency needs.
  - — Prepaid expense and other current assets increased by $144 due mainly to prepaid rent, NYSLERS and insurance premiums
  - — Other non-current assets increased by $604. This was due primarily to un-requisitioned funds for NYCT capital expenditures and for defined benefits pension assets that will be amortized over a future period. The increase was offset by miscellaneous decreases by other agencies.

December 31, 2006 versus 2005

- Net capital assets increased at December 31, 2006 by $2,407. The most significant portion of the increase occurred in infrastructure, $1,316; followed by other (which includes work trains, service vehicles, and other equipment, excluding passenger cars and locomotives and buses), $1,074; buildings and structures, $1,055; and passenger cars

and locomotives, $483. These increases were partially offset by normal depreciation expenses, the decommissioning of 206 M-1 electric passenger cars, and a locomotive from MTA Long Island Rail Road service, a total of 72 M-1, M-2, and M-3 cars, 79 MU cars, and 1 dual-mode locomotive from Metro-North Railroad service and the recording of a loss on defective concrete ties. Some of the more significant projects contributing to the increase included:

- — Rehabilitation of the Dutch Kills Bridge and the East River tunnel, including safety improvements and ventilation projects.
- — Projects upgrading shops and yards, and a new automated materials handling system in the Hillside Complex of MTA Long Island Rail Road.
- — The 2006 MTA Long Island Rail Road Track Program and various other line structure projects in addition to purchase of new track equipment.
- — Passenger station rehabilitation including Atlantic Terminal.
- — Placing in service 244 M-7 electric cars at MTA Long Island Rail Road and 76 at MTA Metro-North Railroad and the overhaul of 15 M-2 cars at MTA Metro-North Railroad.
- — Maintaining mainline track replacement program on MTA New York City Transit subway lines.
- — MTA New York City Transit switch replacements, tunnel lighting rehabilitation, ventilation facilities at various locations, and rehabilitation of a fan plant at Stenton and Chrystie Streets.
- — New Corona maintenance shop and car washer for subway cars and design and construction of new subway depot at Grand Avenue facility.
- — Subway station reconstruction and rehabilitation at various locations.
- — Purchase of new subway cars and buses.
- — Additional milestone costs for construction, testing, and quality assurance oversight associated with the continued purchase of new M-7 electric cars.
- — Rehabilitation of the tunnel walls and roadway of the Brooklyn-Battery Tunnel.
- — Replacement of the deck at the Triborough and Bronx-Whitestone Bridges, including span replacement on the Bronx-Whitestone Bridge and rehabilitation of the electrical and mechanical systems at the Triborough Bridge.

• Other assets had a net increase of $1,052. The items contributing to this change include but are not limited to:

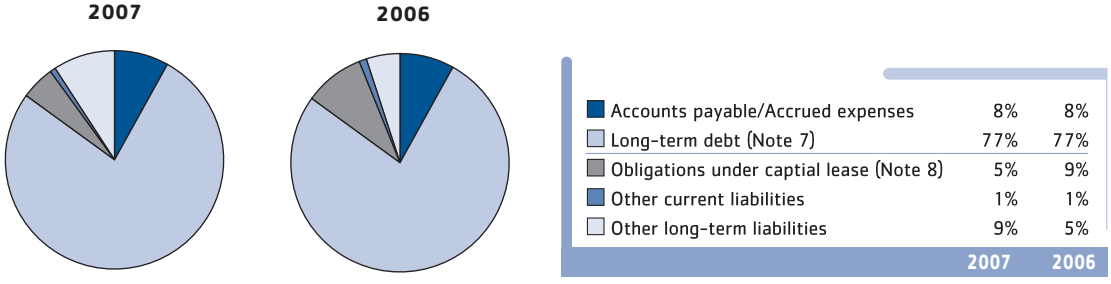
- — A net increase in current and non-current investments and investments held under capital leases of $388 due in part to the issuance of new bonds offset by use of funds for capital expenditures, debt service payments on bonds and lease obligations, and operating expense.
- — An increase of $54 in State and regional mass transit taxes receivable due to recording the accrual of Metropolitan Mass Transit Operating assistance after the New York State budget was approved. The approved budget amount was increased by $323 in 2006 over 2005. In addition, the 2005 appropriation had been received at December 31, 2005 while at December 31, 2006 there remained an outstanding receivable.
- — Other subsidies receivable increased by $73 due to the increase in MTA New York City Transit urban tax subsidies.
- — In 2006 an advance contribution was made to the MTA Defined Benefit Plans' Master Trust in the amount of $365 and $60 to the MaBSTOA Pension Plan. No such advances were recorded in 2005.
- — Prepaid expenses and other current assets increased a net $24. The increase includes prepaid rent, NYSLERS expense, insurance premiums, and farecard media related with ticket machines, WebTickets, and AirTrain tickets.
- — Material and supplies increased by $25 – primarily at MTA New York City Transit, MTA Long Island Rail Road and MTA Metro-North Railroad – to insure availability of parts and supplies for emergency needs.

Years Ended December 31, 2007 and 2006 ($ in millions)

Total Liabilities, Distinguishing Between Long-Term Liabilities and Other Liabilities

	December 2007	December 2006	December 2005
Current liabilities	$3,492	$3,073	$2,834
Long-term liabilities	28,980	27,649	25,799
Total liabilities	**$32,472**	**$30,722**	**$28,633**

Total Liabilities



Significant Changes in Liabilities Include:

December 31, 2007 versus 2006

- Current liabilities increased by $419. This net increase is due primarily to:
  - Accounts payable and accrued expenses having a net increase of $365. This increase is primarily due to:
    - Account payable decreased by $29 due primarily to acceleration of invoices submitted for payments.
    - $49 reduction to salaries, wages, and payroll taxes due to payment of retroactive wages on labor contract settlements as well as all increase of headcount at MTA Bus and LIRR.
    - A $44 increase on current portion of retirement and death benefits derived mainly from NYCT.
    - $343 increase on other current liabilities. This was due to the increase of the MTAHQ capital and operating accrual for work done on station, track and signal rehabilitation and improvement projects. Also contributing to this increase were increases at FMTAC and MTA Bus.
  - The current portion of long-term debt increased $53 related to the impact of debt service payments for State Service Contract Bonds, Certificate of Participation ("COPS") Bonds, and MTA Bridges and Tunnels General Revenue Bonds.
- Non-current liabilities increased by $1,331. This net increase is primarily related to:
  - Increase of $1,290 for other post-employment benefits other than pension (OPEB). This increase is due to the first-time implementation of GASB 45. This statement requires systematic accrual-based measurement and recognition of OPEB costs.
  - Long-term debt increased by $971 due primarily to the issuance by MTA of Transportation Revenue Bond, Series 2007A in July of 2007 in the amount of $425.6, Series 2007B in December of 2007 in the amount of $415, Dedicated Tax Fund Bonds in November of 2007 in the amount of $430 and MTA Bridges and Tunnels General Revenue Bonds issue in June 2007 for $223. These increases were offset by a cash defeasance that took place in December 2007 for Transportation Revenue Bonds, DTF Bonds, and MTA Bridges and Tunnels General and

Subordinate Bonds for a total amount of $296.8. Other variances are due to amortization of premium and discount of prior issuances.

— Obligations under capital lease decreased by $989 due to principal payments in 2007 for various MTA leases

December 31, 2006 versus 2005

- Current liabilities increased by $239. This net increase is due primarily to:
  - — Accounts payable and accrued expense having an increase of $179. Accounts payable increased by $45 due primarily to timing differences in invoices submitted for payment. Accrued expenses increased by a net of $134. This increase results primarily from increases in salaries, wages, and payroll taxes of $106 due for the most part to TWU wage rate increases based on a contract settlement achieved through arbitration at MTA New York City Transit on December 15, 2006 and accruals for retroactive wage rate adjustments and applicable railroad retirement tax for those unions at MTA Metro-North Railroad which had not settled their contracts for the years 2003, 2004, and 2005, and an increase of $45 in vacation and sick pay benefits due to wage rate and headcount increases. This increase is partially offset by a reduction in current portion – retirement and death benefits of $23, due in part to a favorable non-recurring NYCERS pension adjustment and a $15 reduction in the current portion – estimated liability from injuries to persons (See Note 8).
  - — Other current liabilities had a net increase of $60. This was due to an increase of $32 in the current portion of long-term debt and an increase of $28 in deferred revenue. The deferred revenue increase is due primarily to an increase in the value of unused fare media.
- Non-current liabilities increased by $1,850. This net increase is primarily related to:
  - — The net increase of $1,891 in long-term debt due primarily to the issuance of $450 of Transportation Revenue Bond Anticipation Notes Commercial Paper, $760 MTA Dedicated Tax Fund Bonds (Series 2006A, $350; and Series 2006B, $410), $1,193 of Transportation Revenue Bonds (Series 2006A, $475; and Series 2006B, $718), and $200 of MTA Bridges and Tunnels General Revenue Bonds; and an increase of $82 in miscellaneous other long-term liabilities. These increases are offset by reductions in contract retainage, $36; obligations under capital lease, $34; and reductions in retirement and death benefits, $54.

Total Net Assets, Distinguishing Among Amounts Invested in Capital Assets, Net of Related Debt, Restricted Amounts, and Unrestricted Amounts

	December 2007	December 2006	December 2005
Invested in capital assets, net of related debt	$15,903	$14,777	$14,044
Restricted for debt service and claims	1,088	1,095	1,069
Unrestricted	2,306	3,491	2,880
Total	**$19,297**	**$19,363**	**$17,993**

December 31, 2007 versus 2006

At December 31, 2007, the total net assets decreased by $66 from December 31, 2006. This decrease includes net non-operating revenues of $3,735 and appropriations, grants, and other receipts externally restricted for capital projects of $2,035 offset by operating losses of $5,836.

The investment in capital assets, net of related debt, increased by $1,126. Though the Authority increased its fixed assets, it also issued new debt.

Funds restricted for debt service and claims decreased by $7 due to bond cash defeasance, and unrestricted decreased by $1,185.

December 31, 2006 versus 2005

At December 31, 2006, the total net assets increased by $1,370 from December 31, 2005. This increase includes net non-operating revenues of $3,953 and appropriations, grants, and other receipts externally restricted for capital projects of $1,260, offset by operating losses of $3,843.

Capital assets, net of related debt, increased by $733 due to the fact that new capital expenditures net of depreciation and retirements were greater than the amount of new debt issued less debt retirement.

Funds restricted for debt service increased by $26 due to the issuance of new bonds.

Years Ended December 31, 2007 and 2006 ($ in millions)

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	December 2007	December 2006	December 2005
Operating Revenues			
Passenger and tolls	$5,246	$5,081	$4,811
Other	420	406	387
Total operating revenues	5,666	5,487	5,198
Nonoperating Revenues			
Grants, appropriations and taxes	4,504	4,119	3,466
Other	322	275	223
Total nonoperating revenues	4,826	4,394	3,689
Total Revenues	10,492	9,881	8,887
Operating Expenses			
Salaries and wages	4,339	4,123	3,819
Retirement and other employee benefits	1,690	1,623	1,618
Postemployment benefits other than pensions	1,575	—	—
Depreciation and amortization	1,689	1,606	1,474
Other expenses	2,209	1,978	1,841
Total operating expense	11,502	9,330	8,752
Nonoperating Expense			
Interest on long-term debt	1,054	1,039	984
Other nonoperating expense	37	40	45
Total nonoperating expense	1,091	1,079	1,029
Total Expenses	12,593	10,409	9,781
Appropriations, grants and other receipts externally restricted for capital projects	2,035	1,898	1,291
Change in net assets	(66)	1,370	397
Net assets, beginning of year	19,363	17,993	17,596
Net assets, end of year	$19,297	$19,363	$17,993

Years Ended December 31, 2007 and 2006 ($ in millions)

Revenues and Expenses, by Major Source:

December 31, 2007 versus 2006

- Total operating revenues for the year ended December 31, 2007 were $179 higher than for the year ended December 31, 2006.
  - — Fare and toll revenue increased by $165. Passenger revenue increased by $155 due to ridership and toll revenues increased by $10 due to increased traffic and reduced E-Z pass fees.
- Total operating expenses for the year ended December 31, 2007 were higher than the year ended December 31, 2006 by $2,172.
  - — Labor costs, including retirement and other employee benefits, were higher by approximately $283. This is primarily due to payroll and overtime increases of $216 for wage rate increases and headcount increases mostly for customer safety, maintenance programs, and the MTA Bus Company's acquisition and operation of additional bus routes. Retirement and other employee benefits increased $67 primarily for NYCT pension expenses based on an actuarial valuation. Also contributing to this increase are other fringe benefits costs for additional headcount.
  - — Post-employment benefits other than pensions increased by $1,575 due to the implementation of GASB 45 adopted in 2007.
  - — Non-labor operating costs were higher by approximately $314. Cost elements contributing to this increase were depreciation resulting in part from new capital assets being placed into service, $83; traction and propulsion power and fuel expense increases of $31 are due primarily to fuel price increases. Public liability claims expense increased $71 primarily due to actuarial review of current claims data. Materials and supplies costs increased by $70 due mainly to additional subway car body structure parts, bus electrical systems, heating/air conditioning equipment, and subway propulsion motors. Paratransit service contract costs increased $49 primarily due to increased trip volume and a decrease in productivity based on a line assigned to new vendors.
- Total grants, appropriations, and taxes were higher by approximately $385 for the year ended December 31, 2007 compared to the year ended December 31, 2006. The major components of the increase are tax-supported subsidies-NYS, $237, and tax-supported subsidies-NYC and local, $143.
  - — The increase in tax-supported subsidies from New York State is due primarily to an increase of $260 in Metropolitan Mass Transportation Operating Assistance, a decrease of $12 from NYS for debt service payments, and a decrease of $11 in Petroleum Business Tax.
  - — The increase in tax-supported subsidies NYC and local is primarily due to an increase in the urban tax and other subsidies received by MTA New York City Transit of $189 and MTA Bus of $27, offset by a net decrease in the Mortgage Recording Taxes of $73.

December 31, 2006 versus 2005

- Total operating revenues for the year ended December 31, 2006 were $289 higher than in the year ended December 31, 2005.
  - — Fare revenues and vehicle toll revenues were higher due to increased ridership and traffic and realization for the full year in 2006 of the fare adjustment implemented for 30-Day and 7-Day Unlimited Ride MetroCard, and the express bus fare increases that went into effect on February 27, 2005 generated additional revenues of $134 at MTA New York City Transit; the commuter rail fares that went into effect on March 1, 2005 generated additional revenues of $50; the full-year effect of MTA Bus operation generated $96 additional revenues; and the increased bridge and tunnel crossing charge schedule that went into effect on March 13, 2005 along with the one dollar per month E-ZPass account maintenance fee that went into effect on July 1, 2005 (which fee was terminated effective June 1, 2006) resulted in an additional $5 at MTA Bridges and Tunnels. Long Island Rail Road attributed an increase in its ridership to the higher gasoline prices and job gains in New York City.
  - — Total operating expenses for the year ended December 31, 2006 were higher than the year ended December 31, 2005 by $578.

— Labor costs, including retirement and other employee benefits, were higher by approximately $309. Wage rate increases, including accrued estimated rate increases in anticipation of wage contract settlements, additional sick and vacation reserve requirements, and the impact of MTA Bus operation of the additional bus routes due to transition in service after the first nine months of 2005 are the primary reasons for the $304 labor cost increases; health and welfare cost increased by approximately $64 due primarily to escalating premium rates for health and welfare plans. Pension expense decreased by $46 due in large part to a NYCERS pension revaluation adjustment based on recently-enacted legislation affecting New York City Transit, partially offset by increases at other agencies. The other fringe benefits increase of $15 is due in large part to the fringe benefit cost associated with MTA Bus operations including workers compensation insurance and other costs directly associated with wages at the other agencies.

— Non-labor operating costs were higher by approximately $269. Cost elements contributing to this increase were depreciation resulting in part from new capital assets being placed into beneficial service, $132; traction and propulsion power and fuel expense increases of $60 are due primarily to fuel price increases. Maintenance and other operating contracts increased by $67 due to increases in operating and facility repair and maintenance requirements, facility heating fuel and power costs, bus tire and tube rental requirements, recycling costs, costs associated with Penn Station tunnel resurfacing, and costs resulting from the discovery of chlordane contamination. Materials and supplies costs increased by $43 primarily at New York City Transit and MTA Bus for parts for fleet maintenance, including bus body structure parts, bus electrical systems, bus engines/cooling systems, bus suspensions and springs, subway propulsion motors, and subway trucks, wheels, and undercarriages. Professional service contracts decreased by $50. Paratransit service contract costs increased $26 primarily due to increased trip volume. Total grants, appropriations, and taxes were higher by approximately $653 for the year ended December 31, 2006 compared to the year ended December 31, 2005. The major components of the increase are tax-supported subsidies-NYS, $389, and tax-supported subsidies-NYC and local, $288.

— The increase in tax-supported subsidies from New York State is due primarily to an increase of $329 in Metropolitan Mass Transportation Operating Assistance and an increase of $52 in Petroleum Business Tax.

— The increase in tax-supported subsidies NYC and local is primarily due to an increase in the urban tax and other subsidies received by MTA New York City Transit of $147 and MTA Bus of $126; and a net increase in the Mortgage Recording Taxes of $15 partially offset by a reduction in the NYS special aid of $24. In addition, Mortgage Recording Tax 1 rate was increased from 25 cents per 100 dollars of mortgage recorded to 30 cents per 100 dollars of mortgage recorded effective June 1, 2005.

Years Ended December 31, 2007 and 2006 ($ in millions)

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

Economic Conditions

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

Through December 2007, system-wide utilization—excluding MTA Bus Company—continued to increase significantly, with 2007 MTA ridership 2.8 percent higher (67.9 million more trips) compared to ridership through December 2006. In addition, MTA Bus Company experienced ridership growth of 10.6 percent through the fourth quarter of 2007, carrying 10.5 million more revenue passengers than in 2006. The transition from private to MTA Bus service was not completed until part-way through the first quarter of 2006. At the start of 2006, service had been transitioned from four of the former franchisees; in early January service was transitioned from Green Bus; at the end of January service was transitioned from Jamaica Bus; and towards the end of February service was transitioned from Triboro Coach. Some of the 2007 ridership increase for MTA Bus, therefore, reflects incomplete ridership numbers from the first quarter of 2006. MTA system-wide utilization, including MTA Bus, was 3.1 percent higher (79.0 million more trips). Vehicle crossing levels at MTA Bridges and Tunnels facilities were 0.8 percent higher (2.3 million more crossings).

Between the fourth quarter of 2006 and the fourth quarter of 2007, New York City added 56,000 new jobs. According to the Federal Reserve Bank's Coincident Economic Indicator (CEI), an index of broad economic activity, the regional economy continued to experience modest growth. From the fourth quarter of 2006 to the fourth quarter of 2007, the CEI for New York State grew by 1.2 percent, while New Jersey's increased by 0.9 percent. Economic growth in New York City, however, was more robust than in the larger two-state area, stimulated in part by the rebuilding of the downtown infrastructure and the MTA's multi-billion-dollar capital programs, the CEI for New York City increased 3.7 percent.

The city's economic growth was accompanied by an increase in consumer prices, but inflation was lower than the average for all U.S. cities: the consumer price index (CPI-U) in the New York metropolitan area increased by 3.6 percent in the fourth quarter of 2007 relative to the fourth quarter of 2006, while the national consumer price index increased 4.0 percent. Fourth-quarter energy prices were the main contributor to overall inflation, as rising prices built upon the large increases that had occurred in the first and second quarters: fourth-quarter energy prices in the New York area were 17.7 percent higher than those prevailing in the fourth quarter of 2006, while consumer prices excluding energy were only 2.5 percent higher. The New York Harbor spot price for conventional gasoline averaged $2.31 per gallon in the fourth quarter, a large increase of 45.3 percent compared to the average spot price in the fourth quarter of 2006. Like energy prices overall, much of this increase took place in the first and second quarters of 2007. Between January and May gasoline prices rose nearly 57 percent, fell throughout the summer, then resumed increasing in the fall at a slower pace.

While New York City continued to experience strong growth, the national economy slowed considerably in the fourth quarter, and growth of real Gross Domestic Product fell to only 0.6 percent annually. This compares to annual real GDP growth of 3.8 percent and 4.9 percent in the second and third quarters, respectively. Consequently, third and fourth quarter interventions by the Federal Reserve Bank, aimed at forestalling recession, contrast sharply with prior Federal Reserve Bank actions in the recent past. As the national economy emerged from the recession of 2001-2003, the Federal Reserve Board adjusted its monetary policies in an effort to keep inflation under control. From the end of June 2003 – when the Federal Funds Rate was at a 46-year low of 1.0 percent – through June 2006, the Federal Reserve Board raised the Federal Funds Rate by one-quarter point on each of 17 occasions, resulting in a rate of 5.25 percent. These increases had an impact on 30-year conforming fixed mortgage rates, which slowly rose during the first and second quarters of 2006.

Federal restraint between June 2006 and June 2007 reflected steady national income growth with acceptable rates of inflation, and contributed to falling mortgage rates in three consecutive quarters, from the beginning of the third quarter of 2006 through the end of the first quarter of 2007. However, 30-year mortgage rates began to increase thereafter, and did so throughout the second quarter.

Recent decisions by the Federal Reserve Board indicate that inflation, though now a concern, has become secondary to mounting insecurity in financial and housing markets. In the third quarter of 2007, the Federal Reserve Board elected to lower the Federal Funds Rate by a half point, from 5.25 to 4.75 percent, the first diminution since the end of June 2003. In the fourth quarter, the rate was lowered by a quarter point in October and again in December, resulting in a target rate of 4.25 percent. These moves were intended to foster moderate growth and to counter tightening credit conditions, especially in mortgage markets, where the housing downturn threatened to put a brake on economic expansion or, worse, to pull the economy into recession.

The influence of Federal Reserve monetary policy on the mortgage market is a matter of interest to the MTA, since variability of mortgage rates can affect the number of real estate transactions and can thereby impact receipts from the Mortgage Recording Tax and Urban Tax, two sources of MTA revenue. Although Urban Tax receipts outpaced 2006 receipts through the fourth quarter (up 32 percent), MRT receipts fell by 8 percent and there were strong signs that residential transactions in the MTA region had slowed. Both MRT-1 and MRT-2 receipts declined in the MTA region as a whole. Through December, revenues from MRT-1 dropped 4 percent and MRT-2 revenues fell by 15 percent. MRT-1 is paid on all mortgages, while MRT-2 is paid only on residential mortgages where the structure contains one to six individual dwelling units. The decline in both MRT-1 and MRT-2 provides the strongest indication in some time of a slowdown across the entire MTA region in real estate markets, and even a 4 percent increase in MRT-1 receipts in New York City was not enough to offset the downturn.

Results of Operations

Paid MTA Bridges and Tunnels' traffic level for the year ended December 31, 2007 reached 304.4 million vehicles. Total volume was 0.8 percent greater in 2007 compared to 2006. Through October 2007, traffic was up by 1.4 percent primarily due to relatively favorable weather. The largest increases occurred in May and June, with volumes growing 2.9 percent each month due to considerably less rain in 2007 than in 2006. The traffic gains through October were partially offset by declines of 1.2 percent in November and 4.6 percent in December. Weather conditions were not as favorable in November and December of 2007 as compared to 2006. In addition, gas prices were higher in November and December of 2007, with regional prices exceeding $3.00 per gallon.

MTA New York City Transit's fare revenues for the year ended December 31, 2007 were higher than in 2006 by $96 or 3.5 percent. Total ridership from fares was 2,306, the highest annual ridership since 1969, and an increase of 61 or 2.7 percent above 2006. Subway ridership was 1,563, an increase of 64 or 4.2 percent above 2006, and the highest subway ridership since 1951.

MTA Long Island Rail Road's ridership for the year ended December 31, 2007 was at 86.1 million on passenger revenues of $479.4. Revenues increased by approximately $22 or 4.8 percent for the year ended December 31, 2007 over the year ended December 31, 2006. Long Island Rail Road served this record number of customers while at the same time hitting a modern-day high for yearly on-time performance in 2007 of 94.1 percent.

MTA Metro-North Railroad's operating revenue increased by $22.3 or approximately 4.9 percent for the year ended December 31, 2007 over the year ended December 31, 2006. Ridership on the Harlem, Hudson, and New Haven Lines increased in 2007 by approximately 4.0 percent. This includes increases in commuter ridership to Manhattan, increases in customers traveling between stations, and weekend travel.

The MTA receives the equivalent of four quarters of Metropolitan Mass Transportation Operating Assistance receipts each year, with the State advancing the first quarter of each succeeding calendar year's receipts in the fourth quarter of the current year. This results in little or no Metropolitan Mass Transportation Operating Assistance receipts being received during the first quarter of each calendar year. The MTA has made other provisions to provide for cash liquidity during this period. During the first quarter of 2008, the State did not advance any payments of MMTOA assistance to the MTA from MTA's 2008 appropriation. There has been no change in the timing of the State's payment of, or MTA's receipt of, Dedicated Mass Transportation Trust Fund ("MTTF") receipts, which MTA anticipates will be sufficient to make monthly principal and interest deposits into the Debt Service Fund for the Dedicated Tax Fund Bonds.

Over the last few years, the mortgage recording taxes payable to the MTA generally exceeded expectations, due primarily to the high level of home buying and refinancing encouraged by historically low interest rates. In the last quarter

of 2007, however, the national downturn in housing markets began to impact the frequency of local real estate transactions, and the collection of mortgage recording taxes fell. In spite of the Federal Reserve Bank's determination to forestall a recession by successively lowering interest rates, the MTA expects mortgage recording taxes to continue to decline in 2008.

Capital Programs

At December 31, 2007, $11,021 had been committed and $3,674 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and $19,957 had been committed and $17,014 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

MTA's and MTA Bridges and Tunnels' capital programs are described in Note 1 to the consolidated financial statements.

5—Currently Known Facts, Decisions, or Conditions

During the first quarter of 2008, ratings of several municipal bond insurers were downgraded by the three rating agencies, thereby lowering the ratings of MTA and MTA Bridges and Tunnels bonds insured by such insurers. The bond insurer downgrades have affected municipal issuers nationwide, including all major New York State issuers, in terms of market volatility and increased interest costs on variable rate bonds. These downgrades have not affected the underlying MTA and MTA Bridges and Tunnels bond ratings.

Additionally many regularly scheduled auctions of variable rate bonds currently in the auction mode have been failing since there are not enough buy orders to cover sell orders. In the event of a "failed" auction, the periodic rate for such bonds is set at a stated percentage of one month LIBOR (London Interbank Offered Rate) index. In mid-April MTA and MTA Bridges and Tunnels were obligated to pay interest rates on such failed auction rate bonds ranging from 125 percent to 175 percent of one month LIBOR which was setting around 2.7 percent.

Consolidated Balance Sheets

Years Ended December 31, 2007 and 2006 ($ in millions)

	2007	2006
Assets		
Current Assets:		
Cash (Note 3)	$ 130	$ 155
Investments (Note 3)	1,703	2,604
Restricted investment held under capital lease obligations (Notes 3 and 8)	8	—
Receivables:		
Station maintenance, operation, and use assessments	104	101
State and regional mass transit taxes	47	106
Mortgage Recording Tax receivable	43	60
State and local operating assistance	8	8
Other subsidies	81	108
Connecticut Department of Transportation	20	7
New York City	101	28
Due from Hudson Yards Infrastructure Corporation	67	—
Capital project receivable from federal and state government	209	—
Other	222	353
Less allowance for doubtful accounts	(23)	(25)
Total receivables – net	879	746
Materials and supplies	381	317
Advance to defined benefit pension trust	166	425
Prepaid expenses and other current assets (Note 2)	258	114
Total current assets	3,525	4,361
Noncurrent Assets:		
Capital assets – net (Note 6)	40,611	38,307
Restricted investment held under capital lease obligations (Notes 3 and 8)	1,483	2,463
Investments (Note 3)	2,224	1,583
Receivable from New York State	2,197	2,246
Other noncurrent assets	1,729	1,125
Total noncurrent assets	48,244	45,724
Total assets	**$51,769**	**$50,085**

See notes to consolidated financial statements.

(continued)

Consolidated Balance Sheets

Years Ended December 31, 2007 and 2006 ($ in millions)

	2007	2006
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 447	$ 476
Accrued expenses:		
Interest	201	200
Salaries, wages and payroll taxes	231	280
Vacation and sick pay benefits	684	652
Current portion – retirement and death benefits	228	184
Current portion – estimated liability from injuries to persons (Note 9)	199	176
Other	751	408
Total accrued expenses	2,294	1,900
Current portion – long-term debt (Note 7)	391	338
Current portion – obligations under capital lease (Note 8)	7	7
Deferred revenue	353	352
Total current liabilities	3,492	3,073
Noncurrent Liabilities:		
Retirement and death benefits	42	6
Estimated liability arising from injuries to persons (Note 9)	1,033	984
Post employment benefits other than pensions (Note 5)	1,290	—
Long-term debt (Note 7)	24,515	23,544
Obligations under capital leases (Note 8)	1,619	2,608
Contract retainage payable	177	180
Other long-term liabilities	304	327
Total noncurrent liabilities	28,980	27,649
Total liabilities	32,472	30,722
Net Assets:		
Invested in capital assets, net of related debt	15,903	14,777
Restricted for debt service and claims	1,088	1,095
Unrestricted	2,306	3,491
Total net assets	19,297	19,363
Total liabilities and net assets	**$51,769**	**$50,085**

See notes to consolidated financial statements. *(concluded)*

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

Years Ended December 31, 2007 and 2006 ($ in millions)

	2007	2006
Operating Revenues:		
Fare revenue	$ 3,995	$ 3,840
Vehicle toll revenue	1,251	1,241
Rents, freight, and other revenue	420	406
Total operating revenues	5,666	5,487
Operating Expenses:		
Salaries and wages	4,339	4,123
Retirement and other employee benefits	1,690	1,623
Postemployment benefits other than pensions	1,575	—
Traction and propulsion power	294	278
Fuel for buses and trains	193	178
Insurance	66	49
Claims	164	93
Paratransit service contracts	233	184
Maintenance and other operating contracts	520	527
Professional service contracts	181	177
Materials and supplies	518	448
Depreciation	1,689	1,606
Other	40	44
Total operating expenses	11,502	9,330
Operating loss	(5,836)	(3,843)

See notes to consolidated financial statements. *(concluded)*

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

Years Ended December 31, 2007 and 2006 ($ in millions)

	2007	2006
Non-operating Revenues (Expenses):		
Grants, appropriations, and taxes:		
Tax-supported subsidies – NYS	$ 2,291	$ 2,054
Tax-supported subsidies – NYC and local	1,814	1,671
Operating subsidies – NYS	211	206
Operating subsidies – NYC and local	188	188
Total grants, appropriations, and taxes	$ 4,504	$ 4,119
Operating subsidies recoverable from Connecticut Department of Transportation related to New Haven Line	64	53
Subsidies paid to Dutchess, Orange, and Rockland Counties	(17)	(20)
Suburban Highway Transportation Fund subsidy	(20)	(20)
Interest on long-term debt	(1,054)	(1,039)
Station maintenance, operation and use assessments	142	137
Other non-operating revenue	116	85
Net non-operating revenues	3,735	3,315
Loss before appropriations	(2,101)	(528)
Appropriations, grants, and other receipts Externally restricted for capital projects	2,035	1,898
Change in net assets	(66)	1,370
Net assets, beginning of year	19,363	17,993
Net assets, end of year	**$19,297**	**$19,363**

See notes to consolidated financial statements. *(concluded)*

Consolidated Statements of Cash Flows

Years Ended December 31, 2007 and 2006 ($ in millions)

	2007	2006
Cash Flows Provided by/(Used in) Operating Activities:		
Passenger receipts/tolls	$5,472	$5,302
Rents and other receipts	326	207
Payroll and related fringe benefits	(6,376)	(6,128)
Other operating expenses	(2,406)	(1,879)
Net cash used in operating activities	(2,984)	(2,498)
Cash Flows Provided by/(Used in) Noncapital Financing Activities:		
Grants, appropriations, and taxes	4,512	4,209
Operating subsidies from CDOT	60	52
Suburban transportation fund subsidy	(20)	(20)
Subsidies paid to Dutchess, Orange, and Rockland counties	(20)	(23)
Net cash provided by noncapital financing activities	4,532	4,218
Cash Flows Provided by/(Used in) Capital and Related Financing Activities		
MTA bond proceeds	1,290	2,020
MTA Bridges and Tunnels bond proceeds	228	207
MTA bonds refunded	(211)	(281)
MTA Bridges and Tunnels bonds refunded	(91)	—
MTA anticipation notes proceeds	750	450
MTA anticipation notes redeemed	(439)	(11)
Capital lease payments	(158)	(22)
Grants and appropriations	2,017	2,191
CDOT capital contributions	1	4
Capital expenditures	(4,197)	(4,092)
Debt service payments	(1,608)	(1,824)
Net cash used in capital and related financing activities	(2,418)	(1,358)
Cash Flows Provided by/(Used in) Investing Activities:		
Purchase of long-term securities	(5,015)	(3,551)
(Purchase)/sales of maturities of securities – long-term	4,938	3,249
Sale/(purchase) of short-term securities	682	(171)
Earnings on investments	240	128
Net cash provided by/ (used in) investing activities	845	(345)
Net (decrease)/increase in cash	(25)	17
Cash, beginning of year	155	138
Cash, end of year	**$130**	**$155**

See notes to consolidated financial statements.

(continued)

Consolidated Statements of Cash Flows

Years Ended December 31, 2007 and 2006 ($ in millions)

	2007	2006
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	$ (5,836)	$ (3,843)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,689	1,606
Net increase in payables, accrued expenses, and other liabilities	1,390	337
Net increase in receivables	(32)	(125)
Net increase in materials and supplies and prepaid expenses	(195)	(473)
Net cash used in operating activities	**$(2,984)**	**$(2,498)**

See notes to consolidated financial statements. *(concluded)*

Years Ended December 31, 2007 and 2006 ($ in millions)

1—Basis of Presentation

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

These consolidated financial statements are of the Metropolitan Transportation Authority, including its related groups (collectively, the "MTA") as follows:

Metropolitan Transportation Authority and Related Groups –

- Metropolitan Transportation Authority Headquarters ("MTAHQ") provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the related groups listed below.
- The Long Island Rail Road Company ("MTA Long Island Rail Road") provides passenger transportation between New York City ("NYC") and Long Island.
- Metro-North Commuter Railroad Company ("MTA Metro-North Railroad") provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway") provides passenger transportation on Staten Island.
- Metropolitan Suburban Bus Authority ("MTA Long Island Bus") provides public bus service in NYC and Nassau County, New York.
- First Mutual Transportation Assurance Company ("FMTAC") provides primary insurance coverage for certain losses, some of which are reinsured, and assumes reinsurance coverage for certain other losses.
- MTA Capital Construction Company ("MTA Capital Construction") provides oversight for the planning, design and construction of current and future major MTA system-wide expansion projects.
- MTA Bus Company ("MTA Bus") operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.
- MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, MTA Long Island Bus, FMTAC, MTA Capital Construction, and MTA Bus, collectively are referred to herein as MTA. MTA Long Island Rail Road and MTA Metro-North Railroad are referred to collectively as the Commuter Railroads.
- New York City Transit Authority ("MTA New York City Transit") and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA"), provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority ("MTA Bridges and Tunnels") operates seven toll bridges, two tunnels, and the Battery Parking Garage, all within the five boroughs of New York City.

MTA New York City Transit and MTA Bridges and Tunnels are operationally and legally independent of the MTA. These related groups enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, they are included in the MTA's financial statements because of the MTA's financial accountability for these entities and they are under the direction of the MTA Board. Under accounting principles generally accepted in the United States of America ("GAAP"), the MTA is required to include these related groups in its financial statements. While certain units are separate legal entities, they do have legal capital requirements and the revenues of all of the related groups of the MTA are used to support the organization as a whole. The components do not constitute a separate accounting entity (fund) since there is no legal requirement to account for the activities of the components as discrete accounting entities. Therefore, the MTA financial statements are presented on a consolidated basis with segment disclosure for each distinct operating activity.

Capital Program

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

2005-2009 Capital Program

Capital programs covering the years 2005-2009 were originally approved by the MTA Board in April 2005 and subsequently by the CPRB in July 2005 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the "2005-2009 Commuter Capital Program"), (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 "2005-2009 Transit Capital Program"), and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the "2005-2009 MTA Bridges and Tunnels Capital Program"). The 2005-2009 MTA Bridges and Tunnels Capital Program was effective upon adoption by the MTA Board in April 2005. The 2005-2009 amended Commuter Capital Program and the 2005-2009 Transit Capital program (collectively, the "2005-2009 MTA Capital Programs") were last amended by the MTA Board in March 2007. This latest 2005-2009 MTA Capital Program amendment was submitted to the CPRB for approval in April 2007, but was subsequently vetoed.

As last amended by the MTA Board, the 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, provide for $22,586 in capital expenditures, of which $11,220 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; $3,546 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; $5,830 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; $495 relates to a multi-faceted security program; $155 relates to MTA interagency initiatives including MTA Police Department plus an MTA-wide integrated computer systems initiative, $138 relates to MTA Bus company initiatives; and $1,202 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities.

The combined funding sources for the MTA Board-approved 2005-2009 MTA Capital Programs and 2005-2009 MTA Bridges and Tunnels Capital Program include $9,441 in MTA and MTA Bridges and Tunnels Bonds, $1,450 in New York State general obligation bonds approved by the voters in the November 2005 election, $7,842 in Federal Funds, and $3,853 from other sources.

At December 31, 2007, $11,021 had been committed and $3,674 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program.

2000-2004 Capital Program

Capital programs covering the years 2000-2004 were originally approved by the MTA Board in April 2000 and subsequently by the CPRB in May 2000 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the "2000-2004 Commuter Capital Program"), (2) the transit system operated by the 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 (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the "2000-2004 MTA Bridges and Tunnels Capital Program"). The 2000-2004 MTA Bridges and Tunnels Capital Program was effective upon adoption by the MTA Board in April 2000. The 2000-2004 amended Commuter Capital Program and the 2000-2004 amended Transit Capital Program (collectively, the "2000-2004 MTA Capital Programs") were most recently amended by the MTA Board in December 2006. This latest 2000-2004 MTA Capital Program amendment was submitted to the CPRB for approval in April 2007, but was subsequently vetoed.

As last amended by the MTA Board, the 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program through December 31, 2007 provide for $21,147 in capital expenditures, of which $10,295 relates to ongoing repairs of, and replacements to, the Transit System operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; $3,959 relates to ongoing repairs of, and

replacements to, the Commuter System operated by MTA Long Island Rail Road and MTA Metro-North Railroad; $4,689 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; $450 relates to planning and design and customer service projects; $249 relates to World Trade Center repair projects; $1,003 relates to the ongoing repairs and replacements to MTA Bridges and Tunnels facilities; and $502 relates to MTA Bus.

The combined funding sources for the MTA Board-approved 2000-2004 MTA Capital Programs and 2000-2004 MTA Bridges and Tunnels Capital Program include $7,919 in bonds, $6,522 in Federal funds, $4,575 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002, and $2,131 from other sources.

At December 31, 2007, $19,957 had been committed and $17,014 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

The federal government has a contingent equity interest in assets acquired by the MTA with federal funds, and upon disposal of such assets, the federal government may have a right to its share of the proceeds from the sale. This provision has not been a substantial impediment to the MTA's operation.

2—Significant Accounting Policies

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

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

Principles of Consolidation
The consolidated financial statements consist of MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, MTA Long Island Bus, FMTAC, MTA Bus, MTA Capital Construction, MTA New York City Transit, and MTA Bridges and Tunnels. All significant related group transactions have been eliminated for consolidation purposes.

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

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

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

All investments are recorded on the balance sheets at fair value and all investment income, including changes in the fair value of investments, is reported as revenue on the statement of revenues, expenses and changes in net assets. Fair values have been determined using quoted market values at December 31, 2007 and December 31, 2006.

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

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

Capital Assets

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

Liability Insurance

FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program ("ELF") that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2001, but before November 1, 2006, the self-insured retention limits are: $7 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road, and MTA Metro-North Railroad; $2 million for MTA Long Island Bus; and $1.4 million for MTA and MTA Bridges and Tunnels. Effective November 1, 2006, the self-insured retention limits for ELF were increased to the following amounts: $8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road and MTA Metro-North Railroad; $2.3 million for MTA Long Island Bus; and $1.6 million for MTA and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than $50 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the MTA, its subsidiaries and affiliates above their specifically assigned self-insured retention with a limit of $50 million per occurrence with a $50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2007, the balance of the assets in this program was $76.7 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA and its subsidiaries and affiliates additional coverage limits of $350 million, for a total limit of $400 million ($350 excess of $50). In certain circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of $50 million.

On March 1, 2007, the "non-revenue fleet" automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA and its member agencies with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides $7 million per occurrence limit with a $0.5 million per occurrence deductible. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible. FMTAC issued a comprehensive automobile excess liability policy that provides $1 million per occurrence excess of $7 million.

On March 1, 2007, the "Access-A-Ride" automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit's Access-A-Ride program, including the contracted operators. This policy provides a $3 million per occurrence limit with a $1 million per occurrence deductible.

On December 15, 2007, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies $8 million per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance

Effective October 31, 2007, FMTAC renewed the all-agency property insurance program. For the period October 31, 2007 through May 1, 2009, FMTAC directly insures property damage claims of the related entities in excess of a $25 million per occurrence self-insured 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), FMTAC is reinsured in the domestic, London, European, and Bermuda marketplaces for this coverage. Given the absence of major catastrophes in 2006 and 2007, available capacity has emerged, along with pricing reductions. As a result, FMTAC was able to obtain additional reinsurance capacity over last year and has fully reinsured the all-risk component for the full $1.25 billion, subject to certain program sublimits.

The property insurance, which was subject to a renewal on October 31, 2007, provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverages.

With respect to acts of terrorism, FMTAC is reinsured by the United States Government for 85 percent of "certified" losses, as covered by the Terrorism Risk Insurance Act of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. Until 2007, the Act only provided coverage for acts sponsored by foreign organizations. The remaining 15 percent of MTA losses would be covered under an additional policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed a $100 million ("trigger").

To supplement the reinsurance to FMTAC though TRIA 2007, the MTA obtained an additional commercial reinsurance policy with Lexington Insurance Co. (part of AIG). That policy provides coverage for (1) 15 percent of any "certified" act of terrorism – up to a maximum recovery of $183.75 million for any one occurrence, or (2) 100 percent of any "certified" terrorism loss which does not reach the $100 million trigger – up to a maximum recovery of $100 million for any occurrence. This coverage expires on April 30, 2009. 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 exceed $75 million, future losses in that policy year are subject to a retention of just $7.5 million.

Operating Revenues

Passenger Revenue and Tolls

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

Nonoperating Revenues

- *Operating Assistance* — The MTA receives, subject to annual appropriation, NYS operating assistance funds that are generally recognized as revenue when all applicable eligibility requirements are met. Generally, funds received under the NYS operating assistance program are fully matched by contributions from NYC and the seven other counties within the MTA's service area.
- *Mortgage Recording Taxes ("MRT")* — Under NYS law, the MTA receives capital and operating assistance through a Mortgage Recording Tax (MRT-1), which is collected by NYC and the seven other counties within the MTA's service area, at the rate of .25 of one percent of the debt secured by certain real estate mortgages. Effective June 1, 2005, the rate was increased from 25 cents per 100 dollars of recorded mortgage to 30 cents per 100 dollars of recorded mortgage. The MTA also receives an additional Mortgage Recording Tax (MRT-2) of .25 of one percent of certain mortgages secured by real estate improved or to be improved by structures containing one to six dwelling units in the MTA's service area. MRT-1 and MRT-2 taxes are recognized as revenue based upon reported amounts of taxes collected.
  - — MRT-1 proceeds are initially used to pay MTAHQ's operating expenses. Remaining funds, if any, are allocated 55 percent to certain Transit Operations and 45 percent to the Commuter Railroads. The Commuter Railroad portion is first used to fund the NYS Suburban Highway Transportation Fund in an amount not to exceed $20 annually (subject to the moneys being returned under the conditions set forth in the governing statute if the Commuter Railroads are operating at a deficit). As of December 31, 2007 and 2006 the amount payable to the NYS Suburban Highway Transportation Fund was $20 for each of the years. Of the MTA New York City Transit portion, the MTA distributed $0 and $111.7 as of December 31, 2007 and December 31, 2006, respectively.
  - — The first $5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange, and Rockland Fund ($1.5 each for Dutchess and Orange Counties and $2 for Rockland County). Additionally, the MTA must transfer to each County's fund an amount equal to the product of (i) the percentage by which each respective County's mortgage recording tax payments (both MRT-1 and MRT-2) to the MTA increased over such payments in 1989 and (ii) the base amount received by each county as described above. The counties do not receive any portion of the June 1, 2005 increase in MRT-1 from 25 cents per $100 of recorded mortgage to 30 cents. Excess amounts transferable

to the counties as of December 31, 2007 and December 31, 2006, were $11.7 and $15.1, respectively. Through December 31, 2007, the MTA has distributed $26.2 from the MRT-2 funds to MTA Bus and advanced to MTA Bridges and Tunnels $90.8 for the defeasance of MTA Bridges and Tunnels Senior and Subordinate bonds. In the same period in 2006 MTA distributed $40.8 from the MRT-2 fund to the Commuter Railroads and $95.1 to MTA New York City Transit for their current operations. During 2006, $2.1 of MRT-2 funds was transferred to fund the MaBSTOA Pension Plan and $267.1 was transferred to fund the MTA Defined Benefit Pension Plan.

— In addition, MTA New York City Transit Authority receives operating assistance directly from NYC through a mortgage recording tax at the rate of .625 of one percent of the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of the assessed value (collectively referred to as "Urban Tax Subsidies") of certain properties.

- *Dedicated Taxes* — Under NYS law, subject to annual appropriation, the MTA receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund ("MTTF") and Metropolitan Mass Transportation Operating Assistance Fund ("MMTOA"). The MTTF receipts consist of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and non-registration fees. Effective October 1, 2005, the State increased the amount of motor vehicle fees deposited into the MTTF for the benefit of the MTA. MTTF receipts are applied first to meet certain debt service requirements or obligations and second to pay operating and capital costs. The MMTOA receipts are comprised of .375 of one percent regional sales tax (which was increased effective June 1, 2005 from .25 of one percent), a temporary regional franchise tax surcharge, a portion of taxes on certain transportation and transmission companies, and an additional portion of the business privilege tax imposed on petroleum businesses. MMTOA receipts, to the extent that MTTF receipts are not sufficient to meet debt service requirements, will also be applied to certain debt service obligations, and secondly to operating and capital costs of the Transit System, and the Commuter Railroads.

  The State Legislature enacts in an annual budget bill for each state fiscal year an appropriation to the MTA Dedicated Tax Fund for the then-current state fiscal year and an appropriation of the amounts projected by the Director of the Budget of the State to be deposited in the MTA Dedicated Tax Fund for the next succeeding state fiscal year. The assistance deposited into the MTTF is required by law to be allocated, after provision for debt service on Dedicated Tax Fund Bonds (see Note 7), 85 percent to certain Transit Operations (not including MTA Bus) and 15 percent to the Commuter Railroads. Revenues from this funding source are recognized based upon amounts of tax reported collected by NYS, to the extent of the appropriation.

- *Operating Subsidies Recoverable from Connecticut Department of Transportation ("CDOT")* — The portion of the deficit from operations relating to MTA Metro-North Railroad's New Haven line is recoverable from CDOT. Under the terms of a renewed Service Agreement, which began on January 1, 2000, and the 1998 resolution of an arbitration proceeding initiated by the State of Connecticut, CDOT pays 100 percent of the net operating deficit of MTA Metro-North Railroad's branch lines in Connecticut (New Canaan, Danbury, and Waterbury), 65 percent of the New Haven mainline operating deficit, and a fixed fee for the New Haven line's share of the net operating deficit of Grand Central Terminal ("GCT") calculated using several years as a base, with annual increases for inflation and a one-time increase for the cost of operating GCT's North End Access beginning in 1999. The Service Agreement also provides that CDOT pay 100 percent of the cost of non-movable capital assets located in Connecticut, 100 percent of movable capital assets to be used primarily on the branch lines and 65 percent of the cost of other movable capital assets allocated to the New Haven line. Remaining funding for New Haven line capital assets is provided by the MTA. The Service Agreement provides for automatic five-year renewals unless a notice of termination has been provided. The Service Agreement has been automatically renewed for an additional five years beginning January 1, 2005. Capital assets completely funded by CDOT are not reflected in these financial statements, as ownership is retained by CDOT. The Service Agreement provides that final billings for each year are subject to audit by CDOT. Years subsequent to 2000 remain subject to final audit.
- *Reimbursement of Expenses* — The cost of operating and maintaining the passenger stations of the Commuter Railroads in NYS is assessable by the MTA to NYC and the other counties in which such stations are located for each NYS fiscal year ending March 31, under provisions of the NYS Public Authorities Law. This funding is recognized as

revenue based upon an amount, fixed by statute, for the costs to operate and maintain passenger stations and is revised annually by the increase or decrease of the regional Consumer Price Index.

- Pursuant to an agreement NYS and NYC each pays to MTA $45 annually to cover a portion of the cost of the free-fare student program. The estimated cost of this program is approximately $173 for the 2007-2008 school year. It is believed that NYC will continue to provide for the City's $45 contribution for the 2007-2008 school year, of which $15 was received in December 2007. The MTA NYC Transit approved 2008 Adopted Budget assumes that the remaining $30 from NYC will be received in 2008. It also assumes that the full $45 for the 2007-2008 school year will be received in 2008. The Transit Operation's 2009-2011 Financial Plan assumes the continuation of the joint funding of the free-fare program for students.
- Policing of the transit system is carried out by the NYC Police Department at NYC's expense. The MTA, however, continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by NYC. The MTA received approximately $4.2 in the twelve months ended December 31, 2007, and $3.7 in the twelve months ended December 31, 2006 from NYC for the reimbursement of transit police costs. In addition, $0.9 was received in January 2008 for calendar 2007.
- Federal law and regulations require a paratransit system for passengers who are not able to ride the buses and trains because of their disabilities. Pursuant to an agreement between NYC and the MTA, MTA New York City Transit had assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. The services are provided by private vendors under contract with MTA New York City Transit. NYC reimburses the MTA for the lesser of 33 percent of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6.0 percent of gross Urban Tax Subsidies, or an amount that is 20.0 percent greater than the amount paid by the City for the preceding calendar year. Fare revenue and reimbursements aggregated approximately $111.8 in the twelve months ended December 31, 2007, and $90.8 in the twelve months ended December 31, 2006. Total paratransit expenses, including paratransit service contracts, were $282.3 and $226.8 in 2007 and 2006, respectively.

Grants and Appropriations

Grants and appropriations for capital projects are recorded when requests are submitted to the funding agencies for reimbursement of capital expenditures and beginning in 2001 were recorded as nonoperating revenues in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. These amounts are reported separately after Total Nonoperating Revenues in the Statements of Revenues, Expenses, and Changes in Net Assets.

Recent Accounting Pronouncements

The MTA has completed the process of evaluating the impact that will result from adopting GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and has disclosed the required information as per this statement in Note 5. The Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The Statement was effective for financial statement periods beginning after December 15, 2006.

The MTA has completed the process of evaluating the impact that will result from adopting GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* – an amendment of GASB Statement No. 34. The MTA has concluded that GASB Statement No. 46 had no impact on its financial position, results from operations, and cash flows based upon the MTA's current reporting of its net assets. The Statement clarifies the definition of a "legally enforceable" enabling legislation restriction on a government's net assets. The statement is effective for fiscal periods beginning after June 15, 2005.

The MTA has completed the process of evaluating the impact that will result from implementing GASB Statement No. 47, *Accounting for Termination Benefits*. The MTA has concluded that the impact of adopting GASB Statement No. 47 did not have a material impact on its financial position, results of operations, and cash flows. The Statement establishes the

accounting standards for voluntary termination benefits (for example, early-retirement incentives) and involuntary benefits (for example, severance benefits). The Statement was effective for fiscal periods beginning after June 15, 2005.

The MTA has completed the process of evaluating the impact that will result from adopting GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The MTA has concluded that GASB Statement No. 48 had no impact on its financial position, results from operations, and cash flows. The Statement establishes criteria that governments will use to ascertain whether proceeds received should be reported as revenues or as a liability. The Statement is effective for fiscal periods beginning after December 15, 2006.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The MTA is therefore unable to disclose the impact GASB Statement No. 49 will have on its financial position, results of operations, and cash flows when such statement is adopted. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. The Statement is effective for fiscal periods beginning after December 15, 2007.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The MTA is therefore unable to disclose the impact GASB Statement No. 51 will have on its financial position, results of operations, and cash flows when such statement is adopted. This statement amends GASB Statement No. 34, paragraphs 19-21, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, paragraphs 9e, 16, and 18 and relates to the recognition and recording of intangible assets as capital assets in the statement of net assets. The requirements of this Statement are for financial statements for periods beginning after June 15, 2009.

3—Cash and Investments

Cash, including deposits in transit, consists of the following at December 31, 2007 and 2006:

	December 2007		December 2006	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	$ 69	$ 69	$ 72	$66
Uninsured and not collateralized	61	79	83	14
	$130	**$148**	**$155**	**$80**

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

The MTA, on behalf of the Transit operations, MTA Bridges and Tunnels, MTA Long Island Bus, and MTA Bus operations, invests funds which are not immediately required for the MTA's operations in securities permitted by the New York State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds.

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

Years Ended December 31, 2007 and 2006 ($ in millions)

Investments, at fair value, consist of the following at December 31, 2007 and 2006:

	December 2007		December 2006	
Repurchase agreements		$ 585		$ 680
U.S. Treasuries due 2007-2020		1,967		1,639
Investments restricted for capital lease obligations				
US Treasury Notes	8		8	
Treasury Strips	112		121	
Other Agencies	1,371		2,334	
Sub-total		1,491		2,463
Other Agencies due 2007-2011		1,276		651
Commercial Paper due 2008		99		1,217
Total	**$1,491**	**$5,418**	**$2,463**	**$6,650**

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

In connection with certain lease transactions described in Note 8, the MTA has purchased securities or entered into payment undertaking, letter of credit, or similar type agreements or instruments (guaranteed investment contracts) with financial institutions that have a credit rating of AAA by Standard and Poor's, which generate sufficient proceeds to make payments under the terms of the leases. If the obligors do not perform, the MTA may have an obligation to make the related rent payments.

All investments are either insured or registered and held by the MTA or its agent in the MTA's name. Investments had weighted average yields of 4.1 percent and 5.0 percent for the years ended December 31, 2007 and 2006, respectively.

Of the above cash and investments, amounts held for restricted purposes were as follows at December 31, 2007 and December 31, 2006:

	December 2007	December 2006
Construction or acquisition of capital assets	$1,975	$1,858
Funds received from related groups for investment	830	1,071
Debt service	230	489
Payment of claims	296	269
Restricted for capital leases	1,491	2,463
Other	306	432
Total	**$5,128**	**$6,582**

Years Ended December 31, 2007 and 2006 ($ in millions)

Credit Risk

At December 31, 2007, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization:

Quality Rating Moody's	Total	Percent of Portfolio
A-1+	$ 181	3.94%
A-1	63	1.36%
AAA*	1,122	24.43%
AA	23	0.50%
A	64	1.39%
BBB	30	0.65%
Not Rated	505	11.01%
Government	2,604	56.72%
Total	**$4,592**	**100.00%**

* Includes government agencies

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The greater the duration of a bond or portfolio of bonds, the greater its price volatility will be in response to a change in interest rate risk and vice versa. Duration is an indicator of bond price's sensitivity to 100 basis point change in interest rates.

Securities	Fair Value	Duration
U.S. Treasuries	$2,293	0.13
U.S. Agencies	1,070	0.25
Tax Benefits Lease Investments	311	15.91
Repurchase Agreement	620	0.00
Certificate of Deposits	11	0.16
Commercial Paper	99	0.07
Asset-Backed Securities[1]	27	1.15
Collateralized Mortgage-Backed Securities[1]	22	5.47
Corporates[1]	121	5.03
Total Fair Value	4,574	
Modified Duration		1.37
Equities[1]	18	
Total	**$4,592**	

(1) These securities are only included in the FMTAC portfolio.

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

- obligations of the State or the United States Government;
- obligations the principal and interest of which are guaranteed by the State or the United States government;
- obligations issued or guaranteed by certain Federal agencies;
- repurchase agreements fully collateralized by the obligations of the foregoing United States Government and Federal agencies;
- certain certificates of deposit of banks or trust companies in the State;

- certain banker's acceptances with a maturity of 90 days or less;
- certain commercial paper;
- certain municipal obligations; and
- certain mutual funds up to $10 million in the aggregate.

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

FMTAC is created as a MTA subsidiary and is licensed as a captive direct insurer and reinsurer by the New York State Department of Insurance. As such FMTAC is responsible for the investment management of its funds. The investment activity is governed by State statutes and the FMTAC Board-adopted investment guidelines.

The minimum surplus to policyholders and reserve instruments are invested in the following investments:

- obligations of the United States or any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States;
- direct obligations of New York or of any county, district or municipality thereof.
- any state, territory, possession or any other governmental unit of the United States;
- certain bonds of agencies or instrumentalities of any state, territory, possession or any other governmental unit of the United States;
- the obligations of a solvent American institution which are rated investment grade or higher (or the equivalent thereto) by a securities rating agency;
- certain mortgage backed securities in amounts no greater than five percent of FMTAC's admitted assets.

FMTAC may also invest non-reserve instruments in a broader range of investments including the following general types of obligations:

- certain equities;
- certain mutual funds.

FMTAC is prohibited from making the following investments:

- Investment in an insolvent entity;
- Any investment as a general partner.
- Any investment found to be against public policy.

FMTAC investment guidelines do include other investments, but FMTAC has limited itself to the above permissible investments at this time.

Years Ended December 31, 2007 and 2006 ($ in millions)

4—Employee Benefits

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

Pension Plans

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

Defined Benefit Pension Plans

Single-Employer Pension Plans

The Long Island Rail Road Company Plan for Additional Pensions ("Additional Plan") is a contributory, defined-benefit pension plan that covers employees who began service with MTA Long Island Rail Road prior to January 1, 1988. This plan is in addition to the Long Island Rail Road Company Pension Plan which merged into the MTA Defined Benefit Pension Plan in 2006 (discussed below). Benefit provisions are established by MTA Long Island Rail Road and are based on length of qualifying service and final average compensation.

The MaBSTOA Pension Plan is a defined-benefit plan covering substantially all of its employees. In accord with applicable collective bargaining agreements, the plan's benefits, in general, are the same as those which a similarly situated NYC Transit Authority employee would receive from the New York City Employees' Retirement System. This plan assigns authority to amend the plan and determine employer contributions to the MaBSTOA Board.

For the plan years ended December 31, 2007 and 2006, MTA New York City Transit made contributions to the MaBSTOA Plan of $179.2 and $159.6, respectively, equal to or in excess of the required contributions for each year. The MTA Board recently approved amendments authorizing the MaBSTOA Plan to invest in alternative investments. Such investments will be subject to specific investment guidelines and monitored by the Plan's independent investment adviser. On September 28 and October 25, 2006, MTA made contributions to the MaBSTOA Plan of $100.0 and $.3 to reduce unfunded pension liabilities. In December 2006, MTA New York City Transit made an advance payment of $12.5.

MTA Staten Island Railway has a contributory defined benefit plan that was a single-employer public employee retirement system covering certain employees. Authority to amend the plan and to determine contributions rests with the MTA Board. In 2005, that plan was merged with the MTA Defined Benefit Pension Plan and administered by the MTA.

Multi-Employer Pension Plan

The MTA Defined-Benefit Pension Plan ("MTA Plan"), a defined benefit pension plan for certain MTA Long Island Rail Road non-represented employees hired after December 31, 1987, and MTA Metro-North Railroad non-represented employees, certain MTA Long Island Bus employees hired prior to January 23, 1983, MTA Police, certain MTA Long Island Rail Road represented employees hired after December 31, 1987, certain MTA Metro-North Railroad represented employees, employees of MTA Staten Island Railway and certain employees of the MTA Bus Company ("MTA Bus") is a cost-sharing multiple-employer retirement plan. MTA Long Island Rail Road, MTA Metro-North Railroad, MTA, MTA Staten Island Railway and MTA Bus contribute to the MTA Plan, which offers distinct retirement, disability, and death benefits for covered MTA Metro-North Railroad and MTA Long Island Rail Road employees, covered MTA Bus employees, and participants of the MTA 20-Year Police Retirement Program, MTA Long Island Bus Employees' Pension Plan, and the Staten Island Railway Pension Program. Participants of the MTA Police Program contribute to that program at various rates. Annual pension costs and related information about this plan are presented in the following table for all years presented as if the plan was a single-employer plan at the MTA level.

Beginning in 2005, certain employees of MTA Bus became participants of defined benefit programs within the MTA Plan. Those programs, most of which are contributory, are based on the pension plans which covered these employees when they were employed by bus companies which previously provided the service now provided by MTA Bus.

The MTA Board in 2006 approved plan and trust amendments to provide for and implement the merger of the Long Island Rail Road Company Pension Plan into the MTA Plan. The Board also approved amendments pursuant to which the LIRR Plan for Additional Pensions, which includes the same members as the LIRR Company Pension Plan, will participate in the MTA Plan's Master Trust. The Board of Managers of Pensions of the MTA Plan also administers the LIRR Plan for Additional Pensions. Such investments will be subject to specific investment guidelines and monitored by the Plan's independent investment adviser. On September 28, 2006, MTA made a contribution to the MTA Master Trust of $363.7 to reduce unfunded pension liabilities of the MTA Plan and the LIRR Plan for Additional Pensions. This amount has been allocated $229.7 to the MTA Plan and $134.0 to the LIRR Plan for Additional Pensions. On October 25, 2006, an additional $1.4 was contributed to the Trust. In 2007 an additional contribution of $100 was transferred into the Plan. Of that $49 will be allocated to the LIRR Additional Plan and $51 to the MTA Defined Benefit Pension Plan. The amount allocated to these Plans will be used to cover the Actuarial Required Contribution for 2008.

The Metro-North Commuter Railroad Company Cash Balance Plan ("Cash Balance Plan") is a single employer plan. The Cash Balance Plan covers noncollectively bargained employees, formerly employed by Conrail, who joined the MTA Metro-North Railroad as management employees prior to July 1, 1983, and were still employed as of December 31, 1988. Those currently employed are now covered by the MTA Defined Benefit Pension Plan.

The MTA Metro-North Railroad funded the full amount of the pension benefit obligation ("PBO") of $2,977 to a separate trust fund in 1989. As participants retire, distributions from the Plan have been made by the trustee. The market value of net assets available for benefits in the trust fund at December 31, 2007 and 2006 was $1,336 and $1,361, respectively, which is less than the current PBO of $1,398 and $1,457, respectively. The MTA Metro-North Railroad has accrued this unfunded liability.

The MTA Plan may be amended by action of the MTA Board.

A stand-alone financial report may be obtained by writing to the MTA Comptroller, 347 Madison Avenue, New York, New York, 10017.

Years Ended December 31, 2007 and 2006 ($ in millions)

Annual pension costs and related information about each plan follows:

	Single-Employer Plans		
	LIRR	MaBSTOA	MTA Plan
Date of valuation	1/1/07	1/1/07	1/1/07
Required contribution rates:			
Plan members	variable	variable	variable
Employer:	actuarially determined	actuarially determined	actuarially determined
Employer contributions made in 2007	$100.9	$179.2	$ 81.7
Three-year trend information:			
Annual Required Contribution			
2007	$100.9	$179.2	$ 81.7
2006	124.5	159.6	72.6
2005	109.1	153.4	58.2
Percentage of ARC contributed:			
2007	100%	100%	100%
2006	100%	163%	100%
2005	100%	100%	100%
Annual Pension Cost (APC):			
2007	$100.4	$180.7	$ 86.6
2006	124.6	157.6	72.6
2005	109.2	151.4	58.2
Net Pension Obligation (NPO) (assets) at end of year:			
2007	40.4	(46.0)	—
2006	(4.6)	(47.5)	—
2005	(4.6)	54.9	—
Percentage of APC contributed:			
2007	100%	99%	100%
2006	100%	165%	100%
2005	100%	101%	100%
Components of APC			
Annual required contribution (ARC)	$100.9	$179.2	$ 81.7
Interest on NPO	3.3	(3.8)	(32.8)
Adjustment of ARC	(3.8)	5.3	37.7
APC	100.4	180.7	86.6
Contributions made	100.9	179.2	81.7
Change in NPO (assets)	(0.5)	1.5	5.0
NPO (assets) beginning of year	40.9	(47.5)	—
NPO (assets) end of year	$ 40.4	$ (46.0)	$ 5.0
Actuarial cost method	Entry age normal	Entry age normal frozen initial liability	Entry age normal frozen initial liability
Method to determine actuarial value of plan assets	5-year smoothing	5-year smoothing	5-year smoothing
Investment return	8.00%	8.00%	8.00%
Projected salary increases	3.5%	3.5% – 18.0%	3.5% – 36.2%
Consumer price inflation	2.50%	2.50%	2.50%
Amortization method and period	level dollar / 27 years	level dollar / 30 years	level dollar / 23 years
Period closed or open	closed	closed	closed

Cost-Sharing Multiple-Employer Plans

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

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

Funding Policy — NYCERS is a contributory plan, except for certain employees who entered prior to July 27, 1976 who make no contribution. Employees who entered qualifying service after July 1976, contribute 3 percent of their salary. The State legislature passed legislation in 2000 that suspended the 3 percent contribution for employees who have 10 years or more of credited service. MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. The contribution requirements of plan members and MTA New York City Transit and MTA Bridges and Tunnels are established and amended by law. MTA New York City Transit's required contributions for NYCERS fiscal years ended June 30, 2007 and 2006 were $333.2 and $220.5, respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2007 and 2006 were $18.5 and $12.9, respectively, which were equal to or in excess of the actuary's recommendation, plus interest.

New York State and Local Employees' Retirement System ("NYSLERS")

Plan Description and Funding Policy — MTAHQ and MTA Long Island Bus employees who were hired after January 23, 1983, are members of NYSLERS. In addition, employees of the Capital Company who are on its payroll are also members of NYSLERS. NYSLERS is a cost-sharing multiple-employer plan and offers a broad spectrum of benefits including retirement, death and disability benefits, and cost of living adjustments. Employees who became members prior to July 27, 1976 make no contributions. Employees who became members after that date contribute 3 percent of salary. In 2000, the State Legislature passed legislation that members who have 10 or more years of credited service are no longer required to make the 3 percent contribution. MTAHQ, the Capital Company, and MTA Long Island Bus recognize pension expense based upon annual assessments made by NYSLERS. NYSLERS pension expense was approximately $10.9 and $11.2, for the years ended December 31, 2007 and 2006, respectively, and was equal to the annual required contributions for each year. Further information about the plan is more fully described in the publicly available statement of NYSLERS and may be obtained by writing to New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York, 12244-0001.

Defined Contribution Plans

Single-Employer

The Long Island Rail Road Company Money Purchase Plan ("Money Purchase Plan") is a defined contribution plan that covers certain represented employees who began service with MTA Long Island Rail Road after December 31, 1987. Beginning January 1, 2004, employees who were participants in the Money Purchase Plan have become participants in a New Program in the MTA Plan ("New Program") and have similar benefits as those applicable to non-represented employees of MTA Long Island Rail Road in the MTA Plan. The MTA Board has voted to terminate this Plan.

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

Metro-North Railroad and the Plan's Board of Managers of Pension. Effective January 1, 2004, certain employees who were participants of the Agreement Plan became participants in the New Program in the MTA Plan and have similar benefits as those applicable to non-represented employees of MTA Metro-North Railroad in the MTA Plan. In 2007, the remaining represented employees also became participants in the New Program, unless they opted out of the New Program. The "opt-out" employees became participants of the MTA 401(k) plan with the same employer contributions as the Agreement Plan.

	December 31, 2007		December 31, 2006	
	MNCR Agreement Plan	LIRR Money Purchase Plan	MNCR Agreement Plan	LIRR Money Purchase Plan
Employer contributions	$5.1	$ —	$10.8	$ —
Employee contributions	$0.3	$ —	$ 0.6	$0.3

Deferred Compensation Plans

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

Certain MTA employees are also eligible to participate in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). Participation in the plan is available to most represented and non-represented employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are in trust for the exclusive use of the participants and their beneficiaries. Accordingly, this plan is not reflected in the accompanying combined balance sheets.

Cash Balance Plan

Metro-North Railroad Cash Balance Plan ("Cash Balance Plan") covers noncollectively bargained employees, formerly employed by Conrail, who joined the MTA Metro-North as management employees prior to July 1, 1983, and were still employed as of December 31, 1988. Metro-North Railroad funded the full amount of the pension benefit obligation ("PBO") of $2,977 to a separate trust fund in 1989. As participants retire, distributions from the Plan have been made by the trustee. The market value of net assets available for benefits in the trust fund at December 31, 2007 was $1,336, which is less than the current PBO of $1,398. The MTA Metro-North Railroad has accrued this unfunded liability.

5—Other Post-Employment Benefits

The MTA has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions" ("GASB 45"). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the plan.

Plan Description:
The Benefits provided by the MTA and its Agencies include medical, pharmacy, dental, vision, and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement and welfare fund contributions.

Annual OPEB Cost and Net OPEB Obligation:
The MTA's annual OPEB cost (expense) represents the accrued cost for post-employment benefits under GASB 45. The cumulative difference between the annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation, included on the balance sheet. The annual OPEB cost is equal to the annual required contribution (ARC) less adjustments if a net OPEB obligation exists. The ARC is equal to the normal cost plus an amortization of the unfunded frozen actuarial accrued liability.

For determining the ARC, the MTA has chosen to use Frozen Initial Liability ("FIL") cost method with the initial liability amortized over a 22 year period.

In order to recognize the liability over an employee's career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the "Accrued Liability" or "Past Service Liability"), the part that is being earned this year (the "Normal Cost"), and the part that will be earned in future years (the "Future Service Liability"). Under FIL, an initial past service liability is determined based on the Entry Age Normal ("EAN") Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

Actuarial Methods and Assumptions:
The Frozen Initial Liability ("FIL") Cost Method was used for determining the Normal Cost. The Entry Age Normal ("EAN") Cost Method was used to determine the Frozen Accrued Liability and will be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. This method determines the Frozen Accrued liability for each individual based on a level percent of pay for service accrued through the initial valuation date. The difference between the Actuarial Present Value of Benefits and the Frozen Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

Valuation Date:
January 1, 2006 (January 1, 2007 for MTA Bus Company)

Discount Rate:
4.2%

Per Capita Claim Costs:

For members of NYSHIP and certain SIRTOA and Transit members who retired prior to NYSHIP availability, unadjusted premiums were used.

For (1) some of the self-insured benefits provided to Pre-NYSHIP Transit members, (2) TWU Local 100, ATU 1056, and ATU 726 represented employees, and (3) MTA Bus Company employees, per capita claim costs adjusted by age were used. A sample of these claim costs are shown below:

Age	TWU Local 100 GHI Medical	TWU Local 100 Pharmacy	Pre-NYSHIP Group 1 Hospital	Pre-NYSHIP Retirees Pharmacy	Pre-NYSHIP Group 2 Hospital
Male Employees					
30-34	132.40	41.43	79.28	46.79	69.79
35-39	157.83	59.00	98.72	66.64	86.91
40-44	199.16	75.24	131.16	84.97	115.47
45-49	256.98	100.57	178.35	113.59	157.01
50-54	320.34	121.05	234.54	136.72	206.48
55-59	364.78	126.36	277.66	142.71	244.44
60-64	473.09	149.15	372.58	168.45	328.00

Age	TWU Local 100 GHI Medical	TWU Local 100 Pharmacy	Pre-NYSHIP Group 1 Hospital	Pre-NYSHIP Retirees Pharmacy	Pre-NYSHIP Group 2 Hospital
Female Employees					
30-34	259.97	69.63	173.83	78.64	153.03
35-39	257.28	82.61	167.05	93.30	147.07
40-44	261.23	101.58	162.14	114.73	142.74
45-49	294.56	127.90	181.72	144.45	159.97
50-54	330.81	150.66	210.21	170.16	185.06
55-59	352.73	164.37	233.16	185.64	205.27
60-64	432.35	181.08	304.58	204.52	268.14

Medicare Part B Premiums:

The Medicare Part B premium reimbursement was included in the 2006 premium for those members covered by NYSHIP. Recently NYSHIP issued revised premiums for 2007 removing this reimbursement. Assuming the adjustment to the 2006 premium rate would be similar to that announced for 2007, the impact of using the revised premium rates (including the percentage increase in the premium rates from 2006 to 2007) on the Annual Required Contribution (ARC) for the MTA was estimated. For other members, where applicable, the reimbursement was determined using the 2006 premium level and increasing this amount by the Health Care Cost Trend rates.

Health Care Cost Trend Rates:

Fiscal Year	Trend	Fiscal Year	Trend
2007	11.0%	2014	7.5%
2008	10.5	2015	7.0
2009	10.0	2016	6.5
2010	9.5	2017	6.0
2011	9.0	2018	5.5
2012	8.5	2019+	5.0
2013	8.0		

In addition, 2006 premiums and claim costs were trended 11 percent to 2007.

Participation:

For members that participate in NYSHIP, 100 percent of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For groups that do not participate in NYSHIP, various coverage election rates are used. The following table displays the election rates used for future union retirees in NYC Transit:

	TWU 100	ATU 1056	ATU 726
Future Retiree Plan Election Percentage			
GHI	65%	65%	35%
HIP	35	35	49
Aetna	0	0	16
Medicare HIP/Aetna HMO Elections			
VIP 1	80%	100%	75%
VIP 2	20	0	0
Aetna	0	0	25

Dependent Coverage:

Current retirees are valued using coverage reported by the MTA. Based on an analysis of members who retired within the last 5 years, we have assumed that, for future retirees, 85 percent of male members and 55 percent of female members elect family coverage with a spouse.

Demographic Assumptions:

Mortality: Preretirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee.

Preretirement: RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments. No blue collar adjustments were used for management members of Headquarters.

Postretirement Healthy Lives: RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 133 percent of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue collar adjustments were used for management members of Headquarters.

Postretirement Disabled Lives: 75 percent of the rates from the RP-2000 Disabled Annuitant mortality table for males and females. At age 85 and later for males and age 77 and later for females, the disability rates are set to the male and female healthy rates, respectively.

Turnover and retirement rates: All demographic assumptions were based on assumptions utilized in the 2006 actuarial valuations for the pension plans, with the exception of the mortality assumption. The following is a table displaying the various sources of the assumptions utilized by group.

Group	Pension Plan
MaBSTOA	MaBSTOA
New York City Transit Authority	NYCERS – TA
MTA Bridges and Tunnels	NYCERS – MTA Bridges and Tunnels
LIRR Pre-1988	LIRR Plan
LIRR Post-1987	MTA DB Plan
Metro-North Mgrs and ACRE	MTA DB Plan
Metro-North Other Unions	DC Plan – used same as ACRE
MTA Police	MTA DB Plan
Headquarters Mgrs and IBT	NYSLERS
Long Island Bus Pre-1983	MTA DB Plan
Long Island Bus Post-1982	NYSLERS
Staten Island Railway	MTA DB Plan
Yonkers, Eastchester, College Point	MTA DB Plan
Baisley Park, LaGuardia	TWU – NYC Private Bus Lines Pension Plan
JFK	Green Bus Lines Pension Plan
Spring Creek	Command – Local 1181 Pension Plan

Vestee Coverage:

For members that participate in NYSHIP, certain vestees (members who have terminated employment with 10 or more years of retirement service credit, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Agency upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vestees are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vestees, which were only provided by Headquarters.

Age at Termination	Percent Electing
<40	0%
40-43	5
44	20
45-46	30
47-48	40
49	50
50-51	80
52+	100

The following table shows the elements of MTA's estimated net OPEB cost for the year ended December 31, 2007, the amount paid, and changes in MTA's net OPEB for the Year ended December 31, 2007:

	Amount
Annual required contribution	$1,575.5
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
Annual OPEB cost/expense	$1,575.5
Payments made	285.5
Increase in net OPEB obligation	1,290.0
Net OPEB obligation - beginning of year	—
Net OPEB obligation - end of year	**$1,290.0**

The MTA's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the year ended December 31, 2007 is as follows:

Year Ended	Annual OPEB Cost	Annual OPEB Cost to be Paid	Net OPEB Obligation
12/31/2007	$1,575.5	18.1%	$1,290.0

Years Ended December 31, 2007 and 2006 ($ in millions)

6—Capital Assets

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

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

Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 25 to 50 years for buildings, 2 to 40 years for equipment, and 25 to 100 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset whichever is less. Capital assets consist of the following at December 31, 2007 and December 31, 2006:

	Balance December 31, 2005	Additions	Deletions	Balance December 31, 2006	Additions	Deletions	Balance December 31, 2007
Capital assets, not being depreciated							
Land	$ 136	$ 1	$ —	$ 137	$ 9	$ —	$ 146
Construction work-in-progress	5,641	2,083	2,469	5,255	1,655	955	5,955
Total capital assets, not being depreciated	5,777	2,084	2,469	5,392	1,664	955	6,101
Capital assets, being depreciated							
Buildings and structures	11,812	1,096	41	12,867	424	62	13,229
Bridges and tunnels	1,647	65	—	1,712	102	—	1,814
Equipment							
Passenger cars and locomotives	9,151	666	183	9,634	661	3	10,292
Buses	2,056	182	—	2,238	215	—	2,453
Infrastructure	11,448	1,395	79	12,764	890	30	13,624
Other	7,767	1,095	21	8,841	1,044	9	9,876
Total capital assets, being depreciated	43,881	4,499	324	48,056	3,336	104	51,288
Less accumulated depreciation							
Buildings and structures	3,167	364	1	3,530	376	17	3,889
Bridges and tunnels	353	15	—	368	16	—	384
Equipment							
Passenger cars and locomotives	2,841	341	181	3,001	336	3	3,334
Buses	1,246	122	—	1,368	145	—	1,513
Infrastructure	3,235	398	18	3,615	430	16	4,029
Other	2,916	363	20	3,259	386	16	3,629
Total accumulated depreciation	13,758	1,603	220	15,141	1,689	52	16,778
Total capital assets, being depreciated, net	30,123	2,896	104	32,915	1,647	52	34,510
Capital assets, net	**$35,900**	**$4,980**	**$2,573**	**$38,307**	**$3,311**	**$1,007**	**$40,611**

Interest capitalized in conjunction with the construction of capital assets at December 31, 2007 and December 31, 2006 was $62.8 and $75.9, respectively.

Capital assets acquired prior to April 1982 for MTA New York City Transit were funded primarily by NYC with capital grants made available to MTA New York City Transit. NYC has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of the MTA. Subsequent acquisitions, which are part of the MTA Capital Program, are recorded at cost by MTA New York City Transit. In certain instances, title to MTA Bridges and Tunnels' real property may revert to NYC in the event the MTA determines such property is unnecessary for its corporate purpose. The MTA New York City Transit placed 294 new R160 subway cars and 150 new buses in service during 2007. In 2007 at the MTA Long Island Rail Road $7 was recognized for losses on disposal of capital asset due to impairment of concrete ties. During 2007, MTA Long Island Rail Road placed 34 new M-7 Electric Cars into service and retired 8 M-1 Electric Cars.

For certain construction projects, the MTA holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At December 31, 2007 and December 31, 2006 these securities totaled $82.4 and $71.6, respectively, and had a market value of $89.7 and $75.9, respectively, and are not included in these financial statements.

Years Ended December 31, 2007 and 2006 ($ in millions)

7—Long-Term Debt

	Original Issuance	December 31, 2006	Issued	Retired	Refunded	December 31, 2007
MTA:						
Transportation Revenue Bonds						
2.25% – 5.752% due through 2036	$11,671	$ 9,940	$ 841	$ 191	$156	$10,434
Transportation Revenue Bond Anticipation Notes						
Commercial Paper	750	440	750	440	—	750
State Service Contract Bonds						
3.00% – 5.50% due through 2031	2,395	2,289	—	46	—	2,243
Dedicated Tax Fund Bonds						
3.00% – 6.25% due through 2037	6,080	3,972	430	79	51	4,272
Certificates of Participation						
4.40% – 5.625% due through 2030	807	431	—	9	—	422
	$21,703	17,072	2,021	765	207	18,121
Less net unamortized bond discount and premium		(315)	23	35	1	(328)
		$16,757	$2,044	$ 800	$208	$17,793
TBTA:						
General Revenue Bonds						
4.00% – 5.77% due through 2033	$ 5,846	$ 4,701	$ 223	$ 87	$ 80	$4,757
Subordinate Revenue Bonds						
4.00% – 5.77% due through 2032	2,858	2,324	402	445	9	2,272
	$ 8,704	7,025	625	532	89	7,029
Less net unamortized bond discount and premium		100	—	16	—	84
		$ 7,125	$ 625	$ 548	$ 89	$7,113
Total		$23,882	$2,669	$1,348	$297	$24,906
Current portion		(338)				(391)
Long-term portion		**$23,544**				**$24,515**

MTA Transportation Revenue Bonds

Prior to 2006, MTA issued eighteen series of Transportation Revenue Bonds secured under its General Resolution Authorizing Transportation Revenue Obligation adopted on March 26, 2002 in the aggregate principal amount of $9,637. The Transportation Revenue Bonds are MTA's special obligations payable solely from transit and commuter systems revenues and certain state and local operating subsidies.

During 2006, the MTA issued the following Transportation Revenue Bonds: Series 2006A in the amount of $475 to finance transit and commuter projects; and Series 2006B in the amount of $717.7 to pay in full the principal portion of MTA's outstanding commercial paper notes and to refund certain MTA bonds that were previously issued to fund transit and commuter projects.

During 2007, the MTA issued the following Transportation Revenue Bonds: Series 2007A in the amount of $425.6 and Series 2007B in the amount of $415 to finance transit and commuter projects.

MTA Bond Anticipation Notes (commercial paper program)
From time to time, MTA issues Transportation Revenue Bond Anticipation Notes in accordance with the terms and provisions of the General Resolution described in the preceding paragraph in the form of commercial paper to fund its transit and commuter capital needs. The interest rate payable on the notes depends on the maturity and market conditions at the time of issuance. Payment of principal and interest on the notes are additionally secured by a letter of credit issued by a bank. The MTA Act requires MTA to periodically (at least each five years) refund its commercial paper notes with bonds.

In February 2007, MTA issued Transportation Revenue Bond Anticipation Notes, Series CP1 Credit Enhanced in the amount of $750.

MTA State Service Contract Bonds
Prior to 2006, MTA issued two series of State Service Contract Bonds secured under its State Service Contract Obligation Resolution adopted on March 26, 2002, in the aggregate principal amount of $2,395. The State Service Contract Bonds are MTA's special obligations payable solely from certain payments from the State of New York under a service contract.

MTA Dedicated Tax Fund Bonds
Prior to 2006, MTA issued eight series of Dedicated Tax Fund Bonds secured under its Dedicated Tax Fund Obligation Resolution adopted on March 26, 2002, in the aggregate principal amount of $3,741. The Dedicated Tax Fund Bonds are MTA's special obligations payable solely from monies held in the Pledged Amounts Account of the MTA Dedicated Tax Fund. State law requires that the MTTF revenues and MMTOA revenues (described above in footnote 2 under "Nonoperating Revenues") be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund.

During 2006, the MTA issued the following series of Dedicated Tax Fund Bonds to finance certain transit and commuter projects: Series 2006A in the amount of $350 and Series 2006B in the amount of $410.

During 2007, the MTA issued Dedicated Tax Fund Bonds, Series 2007A, in the amount of $430 to finance certain transit and commuter projects.

MTA Certificates of Participation
Prior to 2006, MTA, MTA New York City Transit and MTA Bridges and Tunnels executed and delivered two series of Certificates of Participation in the aggregate principal amount of $479 to finance certain building and leasehold improvements to an office building at Two Broadway in Manhattan occupied principally by MTA New York City Transit, MTA Bridges and Tunnels, MTA Capital Construction, and MTAHQ. The Certificates of Participation which represent proportionate interests in the principal and interest components of Base Rent paid severally, but not jointly, in their respective proportionate shares by MTA New York City Transit, MTA, and MTA Bridges and Tunnels, pursuant to a Leasehold Improvement Sublease Agreement.

MTA Bridges and Tunnels General Revenue Bonds
Prior to 2006, MTA Bridges and Tunnels issued ten series of General Revenue Bonds secured under its General Resolution Authorizing General Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of $5,397. The General Revenue Bonds are MTA Bridges and Tunnels' general obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels.

During 2006, MTA Bridges and Tunnels issued the following series of General Revenue Bonds to finance bridge and tunnel projects: Series 2006A in the amount of $200.

During 2007, MTA Bridges and Tunnels issued the following series of General Revenue Bonds to finance bridge and tunnel projects: Series 2007A in the amount of $223.4.

MTA Bridges and Tunnels Subordinate Revenue Bonds
Prior to 2006, MTA Bridges and Tunnels issued nine series of Subordinate Revenue Bonds secured under its 2001 Subordinate Revenue Resolution Authorizing Subordinate Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of $2,412. The Subordinate Revenue Bonds are MTA Bridges and Tunnels' special obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels after the payment of debt service on the MTA Bridges and Tunnels General Revenue Bonds described in the preceding paragraph.

Debt Limitation

The NYS Legislature has imposed limitations on the aggregate amount of debt that the MTA and MTA Bridges and Tunnels can issue to fund the approved transit and commuter capital programs. The current aggregate ceiling, subject to certain exclusions, is $28,877 compared with issuances totaling approximately $16,116 at December 31, 2007. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the 2000-2004 MTA Capital Program and the 2005-2009 MTA Capital program.

Bond Refundings

During 2002, as part of the Debt Restructuring, the MTA and MTA Bridges and Tunnels retired most of their outstanding debt with either funds available or by issuing new bonds. From time to time, the MTA and MTA Bridges and Tunnels issue additional refunding bonds to achieve debt service savings or other benefits. The proceeds of refunding bonds are generally used to purchase U.S. Treasury obligations that were placed in irrevocable trusts. The principal and interest within the trusts will be used to repay the refunded debt. The trust account assets and the refunded debt are excluded from the consolidated balance sheets.

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

At the end of September 2007, the MTA defeased a total of $296.8 Bonds being $155.7 from Transportation Revenue Bonds, $51.4 from Dedicated Tax Bonds, and $89.7 from MTA Bridges and Tunnels General and Subordinate Bonds. All the bonds defeased had a maturity date of November 15, 2009. The Bonds were retired with a total transfer of cash from MTA unencumbered funds to the Trustee account in the amount of $303.6.

At December 31, 2007, the following amounts of MTA bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

MTA Transit and Commuter Facilities:	
Transit Facilities Revenue Bonds	$1,285
Commuter Facilities Revenue Bonds	1,419
Commuter Facilities Subordinate Revenue Bonds	16
Transit and Commuter Facilities Service Contract Bonds	835
Dedicated Tax Fund Bonds	1,330
Excess Loss Trust Fund	13
MTA New York City Transit:	
Transit Facilities Revenue Bonds (Livingston Plaza Project)	113
MTA Bridges and Tunnels:	
General Purpose Revenue Bonds	2,135
Special Obligation Subordinate Bonds	219
Mortgage Recording Tax Bonds	207
Total	**$7,572**

Years Ended December 31, 2007 and 2006 ($ in millions)

Debt Service Payments

Principal and interest debt service payments (excluding refunded bonds) at December 31, 2007, are as follows:

	MTA		MTA BRIDGES AND TUNNELS					
			Senior Revenue		Subordinate Revenue		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 358	$ 807	$ 101	$ 217	$ 44	$ 111	$ 503	$ 1,135
2009	168	793	26	213	38	107	232	1,113
2010	391	784	110	211	50	105	551	1,100
2011	408	766	116	206	52	103	576	1,075
2012	427	747	113	200	55	100	595	1,047
2013-2017	2,470	3,402	688	895	290	453	3,448	4,750
2018-2022	3,127	2,743	879	699	449	356	4,455	3,798
2023-2027	3,982	1,947	1,059	466	482	240	5,523	2,653
2028-2032	4,728	927	1,524	198	784	98	7,036	1,223
2033-2037	1,312	131	141	15	28	2	1,481	148
	$17,371	**$13,047**	**$4,757**	**$3,320**	**$2,272**	**$1,675**	**$24,400**	**$18,042**

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

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

Transportation Revenue Refunding Bonds, Series 2002D – 4.00% per annum on Subseries 2002D-1 and 4.45% per annum on subseries 2002D-2 taking into account the interest rate swap

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

Transportation Revenue Bonds, Series 2004A – 4.00% per annum

Transportation Revenue Bonds, Series 2005D – 3.561% per annum taking into account the interest rate swaps

Transportation Revenue Bonds, Series 2005E – 3.561% per annum taking into account the interest rate swaps

Transportation Revenue Bonds, Series 2005G – 4.00% per annum

Dedicated Tax Fund Bonds, Series 2002B – 4.06% per annum until September 1, 2013 based on the interest rate swap and 4.00% per annum thereafter

Dedicated Tax Fund Bonds, Series 2004B – 4.00% per annum

Dedicated Tax Fund Bonds, Series 2004D – 4.00% per annum

Dedicated Tax Fund Refunding Bonds, Series 2005A – 3.3156% per annum taking into account the interest rate swap

Dedicated Tax Fund Bonds, Series 2007A – 4.00% per annum

MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000AB – 6.08% per annum *taking into account the interest rate swap*

MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000CD – 6.07% per annum *taking into account the interest rate swap*

MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2001B and Series 2001C – 5.777% per annum taking into account the interest rate swap and 4.00% per annum on portions not covered by the interest rate swap

MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002C – 5.634% per annum taking into account the interest rate swap and 4.00% per annum on portions not covered by the interest rate swap

MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002D – 4.00% per annum

MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002F – 4.00% per annum

MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002G – 3.218% taking into account the interest rate swap

MTA Bridges and Tunnels General Revenue Bonds, Series 2003B – 4.00% per annum

MTA Bridges and Tunnels Subordinate Revenue Bonds, Series 2004A – 4.00% per annum

MTA Bridges and Tunnels General Revenue Bonds, Series 2005A – 4.00% per annum

MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2005B – 3.513% per annum based on the Basis Risk Interest Rate Swap through January 1, 2012 and 3.076% per annum based on the Initial Interest Rate Swaps thereafter.

Certificates of Participation, Series 2004A – 3.542% per annum taking into account the interest rate swaps

Tax Rebate Liability

Under the Internal Revenue Code of 1986, the MTA accrues a liability for an amount of rebateable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. The arbitrage liability is payable to the federal government every five years and is reported as part of other long-term liabilities. MTA made an arbitrage payment of $1.9 in 2007. No payment was incurred in 2006.

MTA and MTA Bridges and Tunnels have entered into several Standby Bond Purchase Agreements (SBPA) and Letter of Credit Agreements (LOC) as listed on the table below:

Resolution	Series	Swap	Provider (Insurer)	Type of Facility	Exp. Date
Transportation Revenue	2002D-2	Y	Dexia (FSA)	SBPA	5/27/2008
Transportation Revenue	2002G-1	N	Bank of Nova Scotia (Ambac)	SBPA	11/20/2008
MTA Bridges and Tunnels General Revenue	2003B	N	Dexia	SBPA	12/8/2008
MTA Bridges and Tunnels General Revenue	2001B	P	State Street (Ambac)	SBPA	1/10/2009
Transportation Revenue	2005G	N	BNP Paribas	LoC	12/8/2010
Dedicated Tax Fund	2005A	Y	Citibank (XL Capital)	SBPA	3/9/2012
MTA Bridges and Tunnels General Revenue	2005A	N	Dexia	SBPA	5/9/2012
Transportation Revenue	2002D-1	N	West LB (FSA)	SBPA	5/9/2012
MTA Bridges and Tunnels General Revenue	2005B-2	Y	Dexia	SBPA	7/6/2012
MTA Bridges and Tunnels General Revenue	2005B-3	Y	Bank of America	SBPA	7/6/2012
MTA Bridges and Tunnels General Revenue	2005B-4	Y	Landesbank Baden-Wurttemberg (NY)	SBPA	7/6/2012
Transportation Revenue	2005E	Y	Fortis	LoC	10/9/2012
MTA Bridges and Tunnels General Revenue	2002F	N	ABN AMRO	SBPA	11/8/2012
Dedicated Tax Fund	2002B	Y	Dexia (FSA)	SBPA	5/7/2014
MTA Bridges and Tunnels Subordinate	2000AB	Y	JPMorgan (FSA)	SBPA	10/7/2014
MTA Bridges and Tunnels Subordinate	2000CD	Y	Lloyds TSB Bank (NY) (FSA)	SBPA	10/7/2014
Dedicated Tax Fund	2004D	N	Wachovia Bank (Ambac)	SBPA	12/11/2014
Transportation Revenue	2004A-1	N	Depfa Bank (CIFG)	SBPA	6/10/2015
Transportation Revenue	2004A-2	N	Depfa Bank (CIFG)	SBPA	6/10/2015
Transportation Revenue	2004A-3	N	Depfa Bank (XL Capital)	SBPA	6/10/2015
Transportation Revenue	2004A-4	N	Depfa Bank (XL Capital)	SBPA	6/10/2015
MTA Bridges and Tunnels General Revenue	2005B-1	Y	Depfa Bank	SBPA	7/7/2015
MTA Bridges and Tunnels General Revenue	2001C	P	Bayerische LB (Ambac)	SBPA	11/30/2015
MTA Bridges and Tunnels General Revenue	2002C	P	West LB (Ambac)	SBPA	12/31/2015

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 antici-

pated 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 (December 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.

Years Ended December 31, 2007 and 2006 ($ in millions)

MTA Transportation Revenue Bonds

Associated Bond Issue	Notional Amounts as of 12/31/07	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/07	Swap Termination Date	Counterparty
Series 2002D-2	200.000	01/01/07	4.45	69% of one-month LIBOR[1]	$ (29.794)	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	(20.587)	11/01/35	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.
Series 2012[2]	359.450	11/15/12	3.563	67% of one-month LIBOR	4.764	11/01/32	Bear Stearns Capital Markets Inc.
Series 2012[2]	153.700	11/15/12	3.563	67% of one-month LIBOR	3.063	11/01/32	Lehman Brothers Special Financing Inc.
Total	**$1,213.15**				**$ (42.553)**		

(1) London Interbank Offered Rate.

(2) Under the Series 2012 swaps, counterparties Bear Stearns Capital Markets Inc. and Lehman Brothers Special Financing Inc. have an option to cancel these swaps on June 15, 2012 prior to the effective date listed above. In the event each swap is canceled, each counterparty is required to make monthly cancellation payments to the MTA commencing on December 1, 2012 and ending on November 1, 2032.

MTA Dedicated Tax Fund Bonds

Associated Bond Issue	Notional Amounts as of 12/31/07	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/07	Swap Termination Date	Counterparty
Series 2002B	$440.000	09/05/02	4.06%	Actual bond rate until 04/30/10, and thereafter, BMA	$ (23.268)	09/01/13	Morgan Stanley Capital Services Inc.
Series 2005A	345.060	03/24/05	3.3156	67% of one-month LIBOR	(3.643)	11/01/31	Citigroup Financial Products Inc.
Total	**$785.060**				**$ (26.911)**		

Years Ended December 31, 2007 and 2006 ($ in millions)

MTA Bridges and Tunnels Senior Lien Revenue Bonds

Associated Bond Issue	Notional Amounts as of 12/31/07	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/07	Swap Termination Date	Counterparty
Series 2001B and 2001C[3]	$205.200	01/01/02	5.777%	Actual bond rate	$ (29.312)	01/01/19	Citigroup Financial Products Inc.
Series 2002C[4]	77.200	01/01/00	5.634	Actual bond rate	(7.794)	01/01/13	Ambac Financial Services, L.P.
Series 2005B	797.200	07/07/05	3.076	67% of one-month LIBOR	18.631	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	(9.677)	01/01/12	UBS AG
Total	**$1,876.800**				**$ (28.152)**		

(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.

(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.

(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

Associated Bond Issue	Notional Amounts as of 12/31/07	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/07	Swap Termination Date	Counterparty
Series 2000AB[6]	$201.100	01/01/01	6.08%	Actual bond rate	$ (31.557)	01/01/19	Bear Stearns Capital Markets Inc.
Series 2000CD[6]	201.100	01/01/01	6.07	Actual bond rate	(31.447)	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	(4.293)	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	(4.444)	01/01/18	JPMorgan Chase Bank
Total	**$583.225**				**$ (71.741)**		

(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.

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 percent, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67 percent 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 December 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 December 31, 2007, the aggregate fair value of the swaps was -$12.028 million.

Counterparty Ratings

The ratings of the counterparties as of December 31, 2007 are as follows:

	Ratings of the Counterparty or its Credit Support Provider		
Counterparty	S&P	Moody's	Fitch
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	Aa1	AA
Citibank, N.A.	AA+	Aa1	AA
Citigroup Financial Products Inc.	AA	Aa3	AA
JPMorgan Chase Bank	AA-	Aa2	AA-
Lehman Brothers Special Financing Inc.	A+	A1	A+
Morgan Stanley Capital Services Inc.	AA-	Aa3	AA-
UBS AG	AA	Aaa	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 December 31, 2007 for the swap where the notional amount does not match the outstanding principal amount of the associated bonds.

Associated Bond Issue	Principal Amount of Bonds	Notional Amount
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 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 and, in the case of a swap agreement which was entered into for the purpose of creating a synthetic fixed rate for an advance refunding transaction may also be required to take action to protect the tax exempt status of the related refunding bonds.
- 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 December 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.

Counterparty	Notional Amount (in thousands)	% of Total Notional Amount
UBS AG	$1,652,025	34.32%
Bear Stearns Capital Markets Inc.	760,550	15.80
Citigroup Financial Products Inc.	751,360	15.61
Morgan Stanley Capital Services Inc.	440,000	9.14
JPMorgan Chase Bank	380,325	7.90
Lehman Brothers Special Financing Inc.	253,700	5.27
BNP Paribas North America, Inc.	199,300	4.14
Citibank, N.A.	199,300	4.14
AIG Financial Products Corp.	100,000	2.08
Ambac Financial Services, L.P.	77,200	1.60
Total	**$4,813,760**	**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 2000AB,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000CD,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C
- Ambac Financial Services, L.P.
- Bear Stearns Capital Markets Inc. with respect to the MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2 and Series 2012, and
- Lehman Brothers Special Financing Inc. with respect to the MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2005E and Series 2012.

Under the terms of these agreements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting 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 non-defaulting 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 criterion would not be applicable in determining if the Counterparty is required to post collateral.

MTA Transportation Revenue Bonds

Associated Bond Issue	If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
Series 2002D-2	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10,000,000
	Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	$0
Series 2005D and Series 2005E	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10,000,000
	Fitch – below BBB+ Moody's – below Baa1, or S&P – below BBB+	$0
Series 2012	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10,000,000
	Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	$0

MTA Dedicated Tax Fund Bonds

Associated Bond Issue	If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
Series 2002B	Fitch – BBB+, or S&P – BBB+	$10,000,000
	Fitch – BBB and below or unrated, or S&P – BBB and below or unrated	$0
Series 2005A [Note: for this swap, MTA is not required to post collateral under any circumstances.]	Fitch – A-, or Moody's – A3, or S&P – A-	$10,000,000
	Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below	$0

Years Ended December 31, 2007 and 2006 ($ in millions)

2 Broadway Certificates of Participation

Associated Agencies	If the highest rating of the MTA Transportation Revenue Bonds falls to	Then MTA, MTA Bridges and Tunnels and MTA New York City Transit must post collateral if its estimated termination payments are in excess of
MTA MTA Bridges and Tunnels MTA New York City Transit	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$25,000,000
	Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	$0
	If the highest rating of the Counterparty's long-term unsecured debt falls to	**Then the Counterparty must post collateral if its estimated termination payments are in excess of**
	Moody's – Baa1 or lower, or S&P – BBB+ or lower	$0

MTA Bridges and Tunnels Senior Lien Revenue Bonds

Associated Bond Issue	If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
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, Fitch – A-, or Moody's – A3, or S&P – A-	$10,000,000
	For MTA, Fitch – BBB+, or Moody's – Baa1, or S&P – BBB+	$30,000,000
	For MTA, Fitch – BBB, or Moody's – Baa2, or S&P – BBB	$15,000,000
	For counterparty, Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below	$0
	For MTA, Fitch – BBB- and below, or Moody's – Baa3 and below, or S&P – BBB- and below	$0

Years Ended December 31, 2007 and 2006 ($ in millions)

MTA Bridges and Tunnels Subordinate Revenue Bonds

Associated Bond Issue	If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
Series 2000AB	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 2000CD	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	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10,000,000
	Fitch – Below BBB+, Moody's – Below Baa1, or S&P – Below BBB+	$0

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

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 apply to the guarantor and not to the counterparty.

Years Ended December 31, 2007 and 2006 ($ in millions)

MTA Transportation Revenue and Dedicated Tax Fund Bonds

Associated Bond Issue	Additional Termination Event(s)
Transportation Revenue Bonds	
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.
Series 2012	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.
Dedicated Tax Fund Bonds	
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

Associated Bond Issue	Counterparty	Additional Termination Event(s)
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

Associated Bond Issue	Additional Termination Events
Senior Lien Revenue Bonds	
Series 2001B and 2001C and Series 2002C	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, or MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments. 2. Negative financial events relating to the related swap insurer, Ambac Assurance Corporation.
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.

Years Ended December 31, 2007 and 2006 ($ in millions)

MTA Bridges and Tunnels Senior and Subordinate Revenue Bonds

Subordinate Revenue Bonds	
Series 2000AB and 2000CD	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, or MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments. 2. Negative financial events relating to the related swap insurer, Financial Security Assurance Inc.
Series 2002G-1 and Series 2002G-2	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. 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.

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:

Associated Bond Issue	Bond Maturity Date	Swap Termination Date
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.

Years Ended December 31, 2007 and 2006 ($ in millions)

Swap Payments and Associated Debt

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

- It is assumed that the variable-rate bonds would bear interest at a rate of 4.0 percent per annum.
- The net swap payments were calculated using the actual fixed interest rate on the swap agreements.

MTA

Fiscal Year Ended December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2008	$ 1.5	$ 59.4	$ (3.4)	$ 57.5
2009	1.6	59.3	(3.4)	57.6
2010	1.7	59.3	(3.4)	57.6
2011	1.7	59.2	(3.4)	57.6
2012	1.8	59.1	(3.3)	57.6
2013-2017	208.8	282.8	(17.6)	474.0
2018-2022	435.1	218.8	(15.5)	638.4
2023-2027	255.4	145.2	(9.5)	391.0
2028-2032	473.2	82.2	(2.6)	552.8
2033-2036	104.3	7.8	—	112.1

MTA Bridges and Tunnels

Fiscal Year Ended December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2008	$ 34.1	$ 69.8	$ 3.5	107.4
2009	36.4	68.4	3.0	107.7
2010	38.2	66.9	2.1	107.2
2011	41.1	65.2	1.2	107.5
2012	43.4	63.5	0.2	107.2
2013-2017	298.1	283.3	(21.1)	560.2
2018-2022	194.2	231.3	(35.2)	390.3
2023-2027	219.2	191.4	(32.4)	378.1
2028-2032	869.0	84.4	(15.8)	937.6
2033-2036	6.5	—	—	6.5

8—Lease Transactions

Hillside Facility

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

Under the terms of the lease/leaseback agreement, the MTA initially received $314, which was utilized as follows. The MTA paid $266 to an affiliate of the third party's lender, which has the obligation to make a portion of sublease rent payments equal to this amount, thereby eliminating the need for the MTA to make these payments to the third party. The MTA used $21 to purchase Treasury securities, which it deposited under pledge to the third party. This deposit, together with the aforementioned obligation of the third party's lender, resulted in a financial defeasance of all sublease obligations, including the cost of purchasing the third party's remaining rights at the end of the 22 year sublease period, if the purchase option is exercised. A further $0.6 was used to pay for legal and other costs of the transaction, and $3 was used to pay the first rental payment under the sublease. A further $23 is the MTA's net benefit from the transaction, representing consideration for the tax benefits. MTA Bridges and Tunnels has entered into a guarantee with the third party that the sublease payments will be made. At December 31, 2007, the MTA has recorded a long-term capital obligation and capital asset of $274 arising from the transaction.

Subway and Rail Cars

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

Under the terms of the lease/leaseback agreement, the MTA initially received $76.6, which was utilized as follows: The MTA paid $59.8 to an affiliate of the third party's lender, which has the obligation to make a portion of sublease rent payments equal to this amount, thereby eliminating the need for the MTA to make these payments to the third party. The MTA used $12.5 to purchase a Letter of Credit from an affiliate of the third-party's lender, guaranteed by the third-party lender's parent. This payment, together with the aforementioned obligation of the third-party's lender, is sufficient to settle all obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the purchase options are exercised. At December 31, 2007, the MTA has recorded a long-term capital obligation and capital asset of $44 arising from the transaction. The net proceeds are deferred and amortized to operations over the period of the lease.

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

Under the terms of the sale/leaseback agreements, the MTA initially received $1,514.9, which was utilized as follows: The MTA paid $1,058.6 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to make a portion of the lease rent payment equal to the debt service on the related loans, thereby eliminating the need for MTA to make these payments to the third parties. The MTA also purchased Freddie Mac, FNMA, and U.S. Treasury

debt securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lenders to the third parties. In the case of one of the four leases, MTAHQ also purchased Freddie Mac debt securities in amounts and with maturities which are expected to be sufficient to pay the remainder of the lease rent payments under that lease and the purchase price due upon exercise by the MTA of the purchase option if exercised. In the case of the other three leases, the MTA entered into Equity Payment Agreements with Premier International Funding Co. (which are guaranteed by Financial Security Assurance, Inc.) whereby that entity has the obligation to provide to the MTA the amounts necessary to make the remainder of the basic lease rent payments under the leases and to pay the purchase price due upon exercise by the MTA of the purchase options if exercised. The amount remaining after payment of transaction expenses, $96.2, was the MTA's net benefit from these four transactions. These amounts are deferred and amortized to operations over the period of the lease.

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

Sale/Leaseback Transactions

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

Under the terms of the sale/leaseback agreements the MTA initially received $507.4, which was utilized as follows: The MTA paid $316.2 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to make a portion of the lease rent payment equal to the debt service on the related loans, thereby eliminating the need for the MTA to make these payments to the third parties. The MTA also purchased FNMA and U.S. Treasury debt securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lenders to the third parties. In the case of three of the four leases the MTA also purchased U.S. Treasury debt securities in amounts and with maturities which are expected to be sufficient to pay the remainder of the lease rent payments under those leases and the purchase price due upon exercise by the MTA of the purchase options if exercised. In the case of the other lease the MTA entered into an Equity Payment Undertaking Agreement with XL Insurance (Bermuda) Ltd. (which is guaranteed by XL Financial Assurance Ltd.) whereby that entity has the obligation to provide to the MTA the amounts necessary to make the remainder of the equity portion of the basic lease rent payments under that lease and to pay the equity portion of the purchase price due upon exercise by the MTA of the purchase option if exercised. The amount remaining after payment of transaction expenses, $57.6, was the MTA's net benefit from these four transactions. As consideration for the cooperation of the City of New York in these transactions, including the transfer of any property interests held by the City on such equipment to MTA New York City Transit and the MTA, the MTA is obligated to pay to the City 24.11 percent of the net benefit received from these four QTE transactions. At December 31, 2007, MTA had paid the City of New York $13.7.

On February 7, 2008, MTA learned that XL Insurance (Bermuda) Ltd. was downgraded to a level that under the applicable transaction documents requires MTA to replace the Equity Payment Undertaking Agreement with other permitted collateral. MTA intends to either pledge U.S. Treasury debt obligations, having a cost of approximately $75, which will be sufficient to make the remainder of the equity portion of the basic lease rent payments under that lease and to pay the equity portion of the purchase price due upon exercise by the MTA of the purchase option if exercised, or to enter into a termination agreement with all of the parties to the transaction to terminate the transaction at a cost to MTA approximately equal to the cost to MTA of purchasing the U.S. Treasury debt obligations that would otherwise be required to be pledged as a replacement for the Equity Payment Undertaking Agreement. In either event, the Equity Payment Undertaking Agreement will be released from the lien of the pledge.

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

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

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

Under the terms of the sale/leaseback agreements, MTA initially received $294, which was utilized as follows: In the case of one of the leases MTA paid $97 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to make a portion of the lease rent payment equal to the debt service on the related loan, thereby eliminating the need for MTA to make these payments to the third party. In the case of the other lease MTA purchased U.S. Treasury debt securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loan from the other lender to the third party. In the case of both of the leases MTA also purchased REFCO debt securities that mature in 2030 under an agreement with AIG Matched Funding Corp. (guaranteed by American International Group, Inc.) whereby AIG Matched Funding Corp. receives the proceeds from the REFCO debt securities at maturity and is obligated to pay the remainder of the lease rent payments under those leases and the purchase price due upon exercise by MTA of the purchase options if exercised. The amount remaining after payment of transaction expenses, $24, was MTA's net benefit from these two transactions. These amounts are deferred and amortized to operations over the period of the respective leases.

Other Lease Transactions

On July 29, 1998, the MTAHQ, MTA New York City Transit, and MTA Bridges & Tunnels entered into a lease and related agreements whereby each agency, as sublessees, will rent, for an initial stated term of approximately 50 years, an office building at Two Broadway in lower Manhattan. The lease term expires on July 30, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. The lease comprises both operating (for the lease of land) and capital (for the lease of the building) elements. The total annual rental payments over the initial lease term are $1,602 with rent being abated from the commencement date through June 30, 1999. During 2002 and 2001 the MTA made rent payments of $21. In connection with the renovation of the building and for tenant improvements, the MTA issued

$121 and $328 in 2000 and 1999, respectively, of long-term obligations (see Note 7). The office building is principally occupied by MTA New York City Transit and MTA Bridges & Tunnels.

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

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

Total rent expense under operating leases approximated $25.8 for the year ended December 31, 2007 and $28.5 for the year ended December 31, 2006.

At December 31, 2007, the future minimum lease payments under non-cancelable leases are as follows:

Year	Operating	Capital
2008	$ 46	$ 1,099
2009	46	100
2010	44	305
2011	43	174
2012	43	70
2013–2017	201	539
2018–2022	199	433
2023–2027	210	574
2028–2032	216	175
2033–2037	242	1,627
Thereafter	926	551
	$ 2,216	5,647
Amount representing interest		(4,021)
Present value of capital lease obligations		**$ 1,626**

9—Estimated Liability Arising from Injuries to Persons

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2007 and 2006 is presented below:

	December 31, 2007	December 31, 2006
Balance, beginning of year	$1,160	$1,174
Activity during the year:		
Current year claims and changes in estimates	260	146
Claims paid	(188)	(160)
Balance, end of year	1,232	1,160
Less current portion	(199)	(176)
Long-term Liability	**$1,033**	**$ 984**

Years Ended December 31, 2007 and 2006 ($ in millions)

10—Commitments and Contingencies

The MTA actively monitors its properties for the presence of pollutants and/or hazardous wastes and evaluates its exposure with respect to such matters. When the expense, if any, to clean up pollutants and/or hazardous wastes is estimable it is accrued by the MTA.

Management has reviewed with counsel all actions and proceedings pending against or involving the MTA, including personal injury claims. Although the ultimate outcome of such actions and proceedings cannot be predicted with certainty at this time, management believes that losses, if any, in excess of amounts accrued resulting from those actions will not be material to the financial position, results of operations, or cash flows of the MTA.

11—Operating Activity Information

	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
December 31, 2007						
Operating revenue	$ 254	$ 1,024	$ 3,159	$1,263	$ (34)	$ 5,666
Depreciation and amortization	68	490	1,061	70	—	1,689
Subsidies and grants	1,939	—	1,330	—	(1,170)	2,099
Tax revenue	1,459	—	1,247	—	(301)	2,405
Interagency subsidy	406	—	156	(401)	(161)	—
Operating (deficit) surplus	(833)	(1,475)	(4,291)	763	—	(5,836)
Net (deficit) surplus	828	(1,411)	452	80	(15)	(66)
Capital expenditures	4,042	285	898	297	(1,325)	4,197
December 31, 2007						
Total assets	11,435	9,884	28,747	4,062	(2,359)	51,769
Net working capital	1,274	(31)	261	(363)	(1,108)	33
Long-term debt – (including current portion)	17,793	—	—	7,156	(43)	24,906
Net assets	(10,835)	8,820	25,119	(3,792)	(15)	19,297
December 31, 2007						
Net cash (used in)/provided by operating activities	(690)	(931)	(2,297)	893	41	(2,984)
Net cash provided by/(used in) noncapital financing activities	4,121	939	2,718	(414)	(2,832)	4,532
Net cash provided by/(used in) capital and related financing activities	(3,992)	(22)	(638)	(557)	2,791	(2,418)
Net cash provided by/(used in) Investing activities	536	13	214	82	—	845
Cash at beginning of year	78	26	38	13	—	155
Cash at end of period	53	25	35	17	—	130

NOTE: Only MTA and MTA Bridges and Tunnels agencies are issuing debt.

(continued)

Years Ended December 31, 2007 and 2006 ($ in millions)

	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
December 31, 2006						
Operating revenue	$ 232	$ 990	$ 3,041	$ 1,259	$ (35)	$ 5,487
Depreciation and amortization	52	484	1,012	58	—	1,606
Subsidies and grants	376	—	314	—	(156)	534
Tax revenue	2,646	—	2,111	—	(1,172)	3,585
Interagency subsidy	435	—	167	(435)	(167)	—
Operating (deficit) surplus	(585)	(1,276)	(2,830)	848	—	(3,843)
Net (deficit) surplus	648	(1,223)	1,781	164	—	1,370
Capital expenditures	3,931	272	857	185	(1,153)	4,092
December 31, 2006						
Total assets	11,735	9,610	27,288	3,833	(2,381)	50,085
Net working capital	2,578	(95)	290	(178)	(1,307)	1,288
Long-term debt – (including current portion)	16,757	—	—	7,169	(44)	23,882
Net assets	(10,123)	8,691	24,667	(3,872)	—	19,363
December 31, 2006						
Net cash (used in)/provided by operating activities	(944)	(749)	(1,767)	931	31	(2,498)
Net cash provided by/(used in) noncapital financing activities	3,816	783	2,399	(440)	(2,340)	4,218
Net cash (used in)/provided by capital and related financing activities	(2,509)	(33)	(476)	(429)	2,089	(1,358)
Net cash provided by/(used in) Investing activities	(319)	(4)	(181)	(61)	220	(345)
Cash at beginning of year	34	29	63	12	—	138
Cash at end of period	78	26	38	13	—	155

NOTE: Only MTA and MTA Bridges and Tunnels agencies are issuing debt. *(concluded)*

Years Ended December 31, 2007 and 2006 ($ in millions)

12—Settlement of Claims

The case of Cruz v. MTA Long Island Rail Road settled on January 20, 2006 for the total sum of $12.1 with FMTAC being responsible for the amount in excess of the MTA Long Island Rail Road's retention of $6.0 at the time of the event. FMTAC paid its portion of such settlement from the ELF.

13—Subsequent Events

Fare increases

On December 19, 2007 the MTA Board voted to increase the Authorities Fares and Tolls to generate an estimated 3.85% increase in revenues.

- *Subway, Bus and Paratransit Fares* — Cash, single ride tickets and Regular Pay-Per-Ride MetroCard fares remained unchanged. Effective March 2, 2008, the price of the 7-Day Unlimited Ride MetroCard will increase to $25 from $24 and the 30-Day Unlimited Ride MetroCard increase to $81 from $76. The fare for the new 14-Day Unlimited Ride MetroCard is $47. The MetroCard bonus percentage will be reduced from 20 percent to 15 percent. On January 30, 2008, the MTA Board authorized that the MetroCard minimum purchase amount for the bonus to apply will be reduced to $7 from $10.
- *Commuter Rail* — For travel within New York State, effective March 1, 2008, one-way, ten-trip, weekly and monthly ticket prices will increase to yield an average change in ticket prices of 3.85 percent.
- *Bridges and Tunnels* — Effective March 16, increase cash tolls for cars on major facilities and the Henry Hudson Bridge by $.50 ($1.00 for cash one-way on the Varrazano-Narrows Bridge) and on minor facilities by $.25. E-ZPass tolls for cars will increase up to 3.8 percent except on the Henry Hudson Bridge, where the increase will be 8.6 percent ($0.15). Cash tolls for trucks will increase 10.3-14.7 percent depending on the number of axles. Trucks using E-ZPass will receive a 25 percent discount from the cash toll, an increase from the current discount of 20 percent.

Bond issuances

- On February 21, 2008, MTA issued $512.470 Series 2008A and $487.530 Series 2008B Transportation Revenue Bonds to refinance prior debt issued by MTA.
- On March 27, 2008, Triborough Bridge and Tunnel Authority issued General Revenue Bonds, Series 2008A for $822.8 and General Revenue Bonds, Series 2008B for $252.2. The Series 2008 Bonds were issued to finance bridge and tunnel projects, and may also be used to finance projects and/or to refinance indebtedness issued by MTA Bridges and Tunnels.

On March 28, 2008, MTA announced the future redemption of the following series of bonds totaling over $1.4 billion:

MTA Transportation Revenue Bonds
Transportation Revenue Variable Rate Refunding Bonds, Subseries 2002G-2

Subseries	Principal Amount Refunded	Interest Rate Mode	CUSIP Number (59259R)	Redemption Date
2002G-2	$200,000,000	Weekly	LU6	May 1, 2008

Years Ended December 31, 2007 and 2006 ($ in millions)

Transportation Revenue Variable Rate Bonds, Series 2004A

Subseries	Principal Amount Refunded	Interest Rate Mode	CUSIP Number (59259R)	Redemption Date
2004A-1	$165,260,000	Weekly	TD6	May 1, 2008
2004A-2	70,825,000	Weekly	TE4	May 1, 2008
2004A-3	165,260,000	Weekly	TF1	May 1, 2008
2004A-4	70,825,000	Weekly	TG9	May 1, 2008

MTA Dedicated Tax Fund Bonds

Dedicated Tax Fund Variable Rate Bonds, Series 2004D

Subseries	Principal Amount Refunded	Interest Rate Mode	CUSIP Number (59259N)	Redemption Date
2004D-1*	$ 23,000,000	Weekly	QM8	May 1, 2008
2004D-2	112,000,000	Weekly	QN6	May 1, 2008

* Partial refunding

Dedicated Tax Fund Variable Rate Bonds, Series 2007A*

Subseries	Principal Amount Refunded	Interest Rate Mode	CUSIP Number (59259N)	Redemption Date
2007A-1	$86,000,000	7-Day Auction	VE0	March 25, 2008
2007A-2	$86,000,000	7-Day Auction	VF7	March 26, 2008
2007A-3	$86,000,000	7-Day Auction	VG5	March 27, 2008
2007A-4	$86,000,000	7-Day Auction	VH3	March 28, 2008
2007A-5	$86,000,000	7-Day Auction	VJ9	March 24, 2008

* Redemption of these bonds was previously announced on February 22, 2008

MTA Bridges and Tunnels Subordinate Bonds

MTA Bridges and Tunnels Subordinate Revenue Variable Rate Bonds, Series 2004A

Subseries	Principal Amount Refunded	Interest Rate Mode	CUSIP Number (89602N)	Redemption Date
2004A-1	$100,000,000	7-Day Auction	GK4	April 30, 2008
2004A-2	$ 75,000,000	7-Day Auction	GL2	May 1, 2008

In the future MTA may redeem additional MTA and/or MTA Bridges and Tunnels Bonds in order to manage its interest cost risk.

Years Ended December 31, 2007 and 2006 ($ in millions)

Schedule of Pension Funding Progress

	January 1, 2007	January 1, 2006	January 1, 2005
LIRR			
a. Actuarial value of plan assets	$509.1	$625.0	$659.6
b. Actuarial accrued liability (AAL)	1,543.5	1,898.6	1,786.7
c. Total unfunded AAL (UAAL) [b-a]	1,034.4	1,273.6	1,127.1
d. Funded ratio [a/b]	33.0%	32.9%	36.9%
e. Covered payroll	$94.0	$117.3	$137.1
f. UAAL as a percentage of covered payroll [c/e]	1100.4%	1085.8%	822.1%
MaBSTOA			
a. Actuarial value of plan assets	$1,057.9	$841.0	$762.1
b. Actuarial accrued liability (AAL)	1,938.3	1,725.2	1,680.5
c. Total unfunded AAL (UAAL) [b-a]	880.5	884.2	918.4
d. Funded ratio [a/b]	54.6%	48.7%	45.3%
e. Covered payroll	$519.7	$498.0	$479.5
f. UAAL as a percentage of covered payroll [c/e]	169.4%	177.5%	191.5%
MTA			
a. Actuarial value of plan assets	$1,361.6	$613.6	$463.6
b. Actuarial accrued liability (AAL)	1,477.6	793.3	625.5
c. Total unfunded AAL (UAAL) [b-a]	116.0	179.7	161.9
d. Funded ratio [a/b]	92.2%	77.4%	74.1%
e. Covered payroll	N/A*	N/A*	$480.8
f. UAAL as a percentage of covered payroll [c/e]	N/A*	N/A*	33.7%

* Not applicable since the benefits for former employees of New York Bus, Queens Surface and Liberty Lines are not related to Pay.

Supplementary Information

Years Ended December 31, 2007 and 2006 ($ in millions)

Schedule of Financial Plan to Financial Statements Reconciliation

	Unaudited
Financial plan actual – Operating loss	**$(5,813.2)**
Reconciling items:	
FMTAC revenues are recorded as operating on the Financial Plan and recorded as non-operating on the Financial Statements.	(8.0)
Various agencies recorded adjustments to the Financial Statements and not to the Financial Plan	11.7
The Financial Plan excluded Capital Construction and East Side Access.	(3.3)
The Financial Plan includes TBTA capital transfer to agencies	(22.5)
Financial Statement — Operating Loss	**$(5,835.3)**

Years Ended December 31, 2007 and 2006 ($ in millions)

Consolidated Reconciliation Between Financial Plan And Financial Statements

Category	Financial Plan Actual (Unaudited)	Financial Statement GAAP Actual	Variance
REVENUE			
Farebox Revenue	$ 3,995.4	$ 3,995.4	$ —
Vehicle Toll Revenue	1,250.5	1,250.5	—
Other Operating Revenue	480.0	420.4	(59.6)
Total Revenue	5,725.9	5,666.3	(59.6)
EXPENSES			
Labor:			
Payroll	3,861.5	3,894.8	(33.3)
Overtime	481.8	443.6	38.2
Health and Welfare	888.3	592.4	295.9
Pensions	851.2	852.4	(1.2)
Other Fringe Benefits	444.3	481.0	(36.7)
Postemployment Benefits	1,291.1	1,575.5	(284.4)
Reimbursable Overhead	(274.4)	(236.2)	(38.2)
Total Labor Expenses	7,543.8	7,603.5	(59.7)
Non-Labor:			
Traction and Propulsion Power	294.4	294.4	—
Fuel for Buses and Trains	192.7	192.7	—
Insurance	64.9	66.6	(1.7)
Claims	163.9	163.9	—
Paratransit Service Contracts	233.2	233.2	—
Maintenance and Other	533.3	519.6	13.7
Professional Service Contract	173.7	180.6	(6.9)
Materials & Supplies	516.1	518.4	(2.3)
Other Business Expenses	152.0	40.0	112.0
Total Non-Labor Expenses	2,324.2	2,209.4	114.8
Other Expenses Adjustments:			
TBTA Transfer	22.5	—	22.5
GASB General Reserve	1.7	—	1.7
Interagency Subsidy	(41.8)	—	(41.8)
Other	—	—	—
Total Other Expense Adjustments	(17.6)	—	(17.6)
Total Expenses Before Depreciation	9,850.4	9,812.9	37.5
Depreciation	1,688.7	1,688.7	—
Total Expenses (Excluding TBTA Depreciation)	11,539.1	11,501.6	37.5
Net Operating Deficit Excluding Subsidies and Debt Service	**$(5,813.2)**	**$(5,835.3)**	**$(22.1)**

Years Ended December 31, 2007 and 2006 ($ in millions)

Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements

Accrued Subsidies	Financial Plan Actual (Unaudited)	Financial Statement GAAP Actual	Variance
Mass Transportation Operating Assistance	$1,570.8	$1,570.8	$—
Petroleum Business Tax	601.5	601.5	—
Mortgage Recording Tax 1 and 2	686.9	686.9	—
MRT transfer	(36.7)	(36.7)	—
Urban Tax	893.7	893.7	—
Operating subsidies from NYC	242.3	223.6	(18.7)[1]
State and Local Operating Assistance	378.8	378.8	—
Additional Mass Transportation Assistance Program	20.0	20.0	—
Nassau County Subsidy to Long Island Bus	10.8	10.8	—
Station Maintenance	141.6	141.6	—
Connecticut Department of Transportation (CDOT)	63.9	63.9	—
NYS Grant for Debt Service	—	117.7	117.7[2]
Investment Income	2.3	40.6	38.3[3]
Total Accrued Subsidies	4,575.9	4,713.2	137.3
Net Operating Surplus/(Deficit) Excluding Accrued Subsidies and Debt Service	(5,813.2)	(5,835.3)	(22.1)
Total Net Operating Surplus/(Deficit)	$(1,237.3)	$(1,122.1)	$115.2
Interest on Long-Term Debt		$1,054.0	
Debt Service	$1,414.6		

(1) The Financial Plan records on a cash basis while the Financial Statement records on an accrual basis.

(2) In the Financial Statement funds received from NYS to cover debt service payments for Service Contract Bonds are included in the subsidies. The Financial Plan does not include either the funds received or disbursed.

(3) The Financial Plan excludes certain pool and capital income.

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Statistical Section

Statistical Tables and Charts
Financial Trends

These tables and charts depict the changes in the MTA's financial position by tracking net assets, changes in net assets, sources of operating and nonoperating revenues, and the farebox recovery ratio.

MTA Net Assets*
($ millions)

	2002	2003	2004	2005	2006	2007
Invested in Capital Assets, Net of Related Debt						
Capital Assets, Net	29,079	31,556	33,654	35,900	38,307	40,611
Related Debt	(16,148)	(18,741)	(20,826)	(22,841)	(24,769)	(25,821)
Defeasance Cost	632	592	589	578	549	506
Unused Funds	328	264	261	407	690	607
Restricted for Debt Service						
Transportation Revenue Bonds	24	23	21	136	167	283
Dedicated Tax Fund Bonds	18	26	24	31	38	36
Capital Leases	270	475	433	444	424	311
General Revenue Bonds — Senior	456	1,606	350	458	312	458
General Revenue Bonds — Subordinate	—	—	—	—	154	—
Unrestricted	2,203	1,712	3,090	2,880	3,491	2,306
Total Net Assets	**16,862**	**17,513**	**17,596**	**17,993**	**19,363**	**19,297**

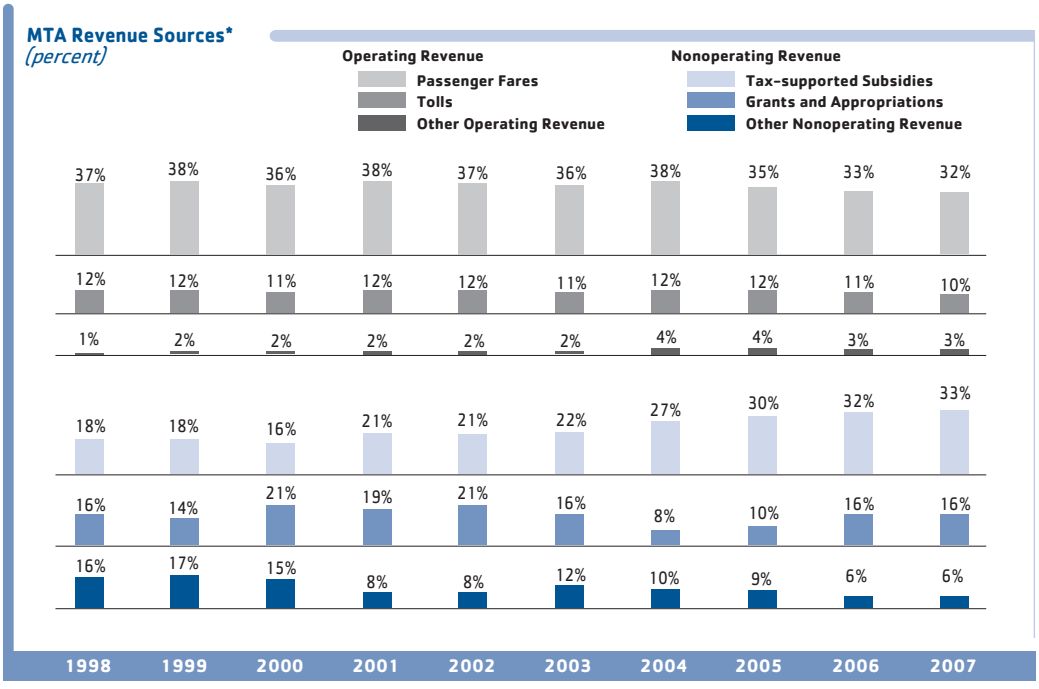
* Due to changes in reporting requirements, information is not readily available in this format prior to 2002.

MTA Changes in Net Assets*
($ millions)

	2002	2003	2004	2005	2006	2007
Operating Revenues	$4,053	$4,544	$4,837	$5,198	$5,487	$5,666
Operating Expenses	(6,996)	(7,582)	(8,013)	(8,752)	(9,330)	(11,502)
Nonoperating Revenue	1,63	2,267	2,498	2,660	3,315	3,735
Grants and Other Receipts Restricted for Capital Purchases	1,666	1,422	761	1,291	1,898	2,035
Net Change	**$360**	**$651**	**$83**	**$397**	**$1,370**	**$(66)**

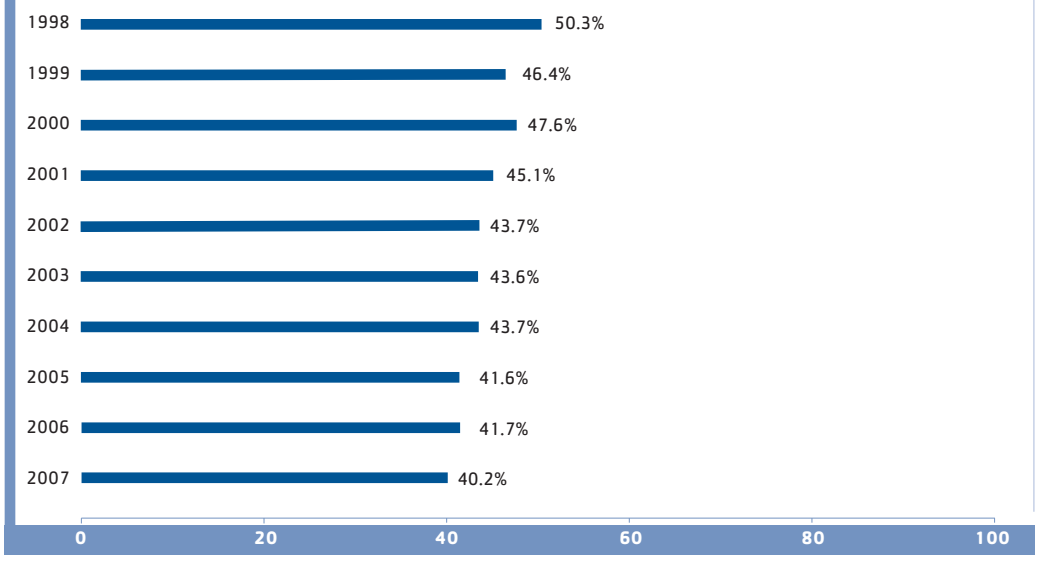
* Due to changes in reporting requirements, information is not readily available in this format prior to 2002.

MTA Revenue Sources*
(percent)



* Revenue sources total 100% in each column.

MTA Farebox Recovery Ratio
(percent)



Note: Farebox recovery ratio is the percentage of MTA expenses (including debt service) covered by fare revenue. (Excludes operations of MTA Capital Construction and MTA Bridges and Tunnels.)

These tables present MTA fares and tolls. The MTA has direct control of these sources of revenue. Fares and tolls are reported as of year-end during the time periods indicated. MTA subway and bus fares changed in November 1995, May 2003, and February 2005; MTA commuter rail fares changed in November 1995, May 2003, and March 2005 (fares to/from Connecticut stations changed in January 1998, March 2003, and January 2005); MTA bridge and tunnel tolls changed in March 1996, March 2003, and March 2005.

Subway and Bus Fares*

New York City Transit, Long Island Bus, MTA Bus

As of Dec. 31	Base Fare		MetroCard Discounts			
	Subway, Local Bus	Express Bus	Pay-Per-Ride MetroCard† Percent Added/Minimum Purchase	Unlimited Ride MetroCard**		
				7-Day	30-Day	7-Day Express Bus Plus
2007 2006 2005	$2.00	$5.00	20%/$10.00	$24	$76	$41
2004 2003	$2.00	$4.00	20%/$10.00	$21	$70	$33
2002 2001 2000 1999 1998	$1.50	$3.00	10%/$15.00	$17	$63	—

* The MTA has a Reduced-Fare program for people with qualifying disabilities and senior citizens. The base reduced fare is $1.00, and purchasers receive Pay-Per-Ride MetroCard bonuses described. The Reduced-Fare price for 30-Day and 7-Day cards is one-half the regular price. Reduced fare is not available on express buses from 6-10 a.m. and from 3-7 p.m.

† Pay-Per-Ride MetroCard includes a free transfer between buses or between a bus and subway (subject to certain restrictions). Bus customers in New York City paying cash can request a free bus-to-bus transfer. Long Island Bus customers paying cash pay an additional 25¢ for a bus-to-bus transfer; Reduced-Fare customers paying cash pay an additional 10¢.

** Unlimited Ride cards permit unlimited subway and local bus rides for the period indicated. Express Bus Plus allows unlimited express bus rides as well.

Commuter Rail Fares

One-way Peak Fare Formulas*

As of Dec. 31	Long Island Rail Road	Metro-North Railroad		
		East of Hudson New York State	East of Hudson Connecticut	West of Hudson
2007 2006 2005	$4.936 + 16.41¢/mile	$4.941 + 16.47¢/mile	$5.452 + 18.17¢/mile	$3.749 + 10.97¢/mile
2004 2003	$4.701 + 15.63¢/mile	$4.706 + 15.69¢/mile	$5.167 + 17.22¢/mile	$3.57 + 10.45¢/mile
2002 2001 2000 1999 1998	$3.761 + 12.50¢/mile	$3.795 + 12.65¢/mile	$4.493 + 14.98¢/mile	$2.55 + 9.50¢/mile

* Mileage charges are based on the average distance between the main terminal and the stations in each fare zone. Monthly ticket prices, which represent the largest component of fare purchases, are computed by Long Island Rail Road on the basis of a 48 to 59 percent discount off one-way peak fares based on approximately 42 trips per month and on Metro-North Railroad on the basis of a 48 to 51 percent discount based on approximately 42 trips per month. The MTA has a Reduced-Fare program for off-peak travel for people with qualifying disabilities and senior citizens. The reduced fare is one-half the regular fare.

Bridge and Tunnel Tolls

Bridges and Tunnels: One-way Automobile Toll, Cash/E-ZPass*

As of Dec. 31	Major Crossings: Bronx-Whitestone Bridge, Brooklyn-Battery Tunnel, Queens Midtown Tunnel, Throgs Neck Bridge, Triborough Bridge, Verrazano-Narrows Bridge†	Minor Crossings: Cross Bay Veterans Memorial Bridge, Marine Parkway-Gil Hodges Memorial Bridge	Henry Hudson Bridge
2007 2006 2005	$4.50/$4.00	$2.25/$1.50	$2.25/$1.75
2004 2003	$4.00/$3.50	$2.00/$1.33	$2.00/$1.50
2002 2001 2000 1999 1998	$3.50/$3.00	$1.75/$1.25	$1.75/$1.25

* Charges for other types of vehicles are based on vehicle size and type. Discounts for the Verrazano-Narrows Bridge are available to Staten Island residents and discounts for the Marine Parkway-Gil Hodges Memorial Bridge and the Cross Bay Veterans Memorial Bridge are available to Rockaway and Broad Channel residents.

† Tolls are collected in a single direction on the Verrazano-Narrows Bridge and are doubled.

Statistical Tables and Charts
Debt Capacity

These tables show the MTA's debt and ability to issue additional debt.

MTA Debt by Type
($ millions)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Transportation Revenue	$4,317	$4,637	$4,537	$4,410	$4,968	$6,179	$6,569	$9,207	$9,940	$10,434
Transportation Revenue Bond Anticipation Notes	625	750	750	750	750	420	720	—	440	750
Dedicated Tax Fund	840	1,208	1,533	2,064	2,231	2,193	3,305	3,278	3,972	4,272
State Service Contract	2,018	1,961	1,904	1,844	2,395	2,395	2,374	2,332	2,289	2,243
2 Broadway Certificates of Participation	—	328	447	439	431	422	453	443	431	422
MTA Bridges and Tunnels General Revenue	4,951	5,039	4,897	5,879	4,221	4,470	4,431	4,586	4,701	4,757
MTA Bridges and Tunnels Subordinate Revenue	—	—	—	—	1,706	2,187	2,404	2,364	2,324	2,272
MTA Bridges and Tunnels Bond Anticipation Notes	—	—	807	807	—	—	—	—	—	—
Total	$12,751	$13,923	$14,875	$16,193	$16,702	$18,266	$20,256	$22,210	$24,097	$25,150

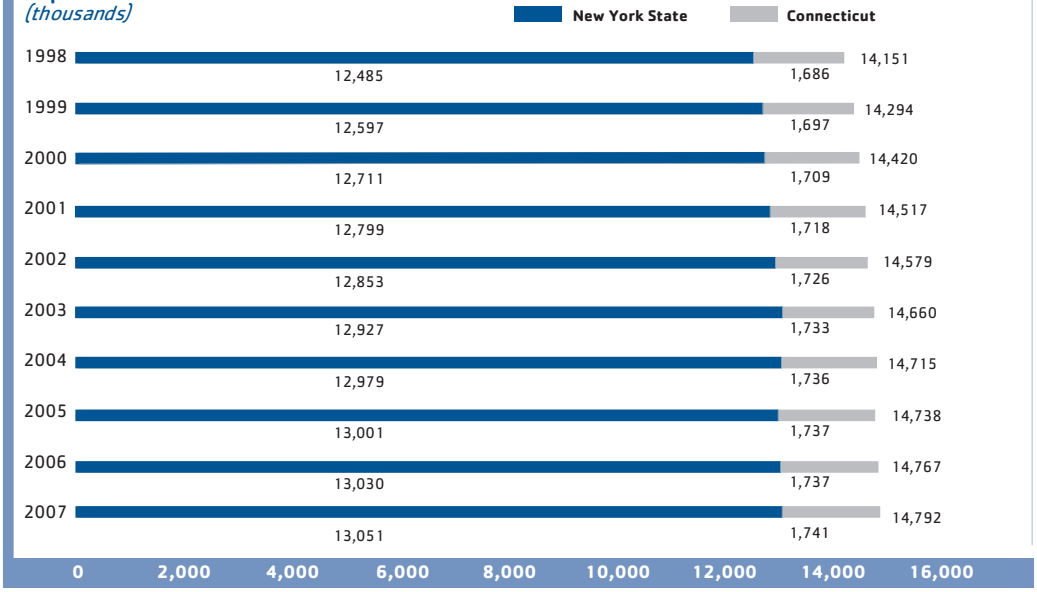
MTA Debt Capacity
($ millions)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt Limit	$6,500	$6,500	$16,500	$16,500	$16,500	$16,500	$16,500	$16,500	$28,877	$28,877
Debt Issuance Subject to the Limit	3,050	3,800	4,100	5,461	6,978	8,728	10,631	13,217	14,866	16,116
Limit Available	$3,450	$2,700	$12,400	$11,039	$9,522	$7,772	$5,869	$3,283	$14,011	$12,761
Percent of Limit	46.9%	58.5%	24.8%	33.1%	42.3%	52.9%	64.4%	80.1%	51.5%	55.8%

Note: The statutory debt limit includes only debt issued for transit and commuter projects set forth in the 1992 through 2009 CPRB-approved Capital Programs. Statutory exclusions include refunding bonds and bonds issued to cover the cost of issuance.

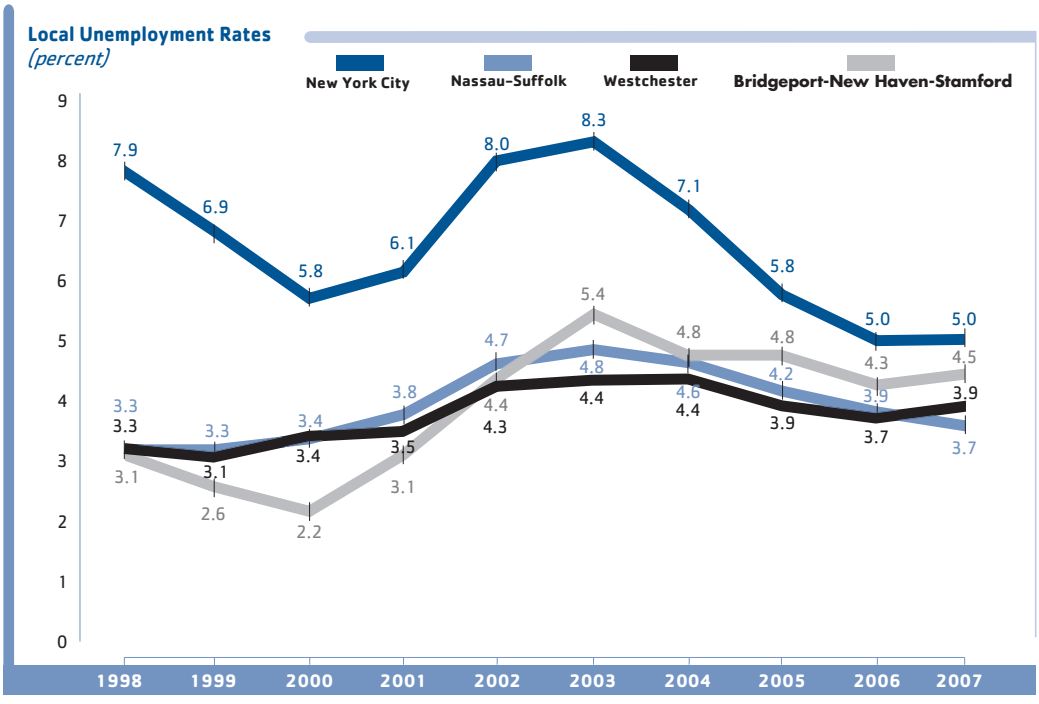
These charts depict the population in the MTA's 14-county service area and the local area unemployment rates, both of which can have an effect on ridership.

Population within MTA Service Area
(thousands)



Note: Population figures are from annual July estimates of population by county published by the U.S. Census Bureau.

Local Unemployment Rates
(percent)



Note: Data represents annual unemployment rates published by the Bureau of Labor Statistics of the U.S. Department of Labor.

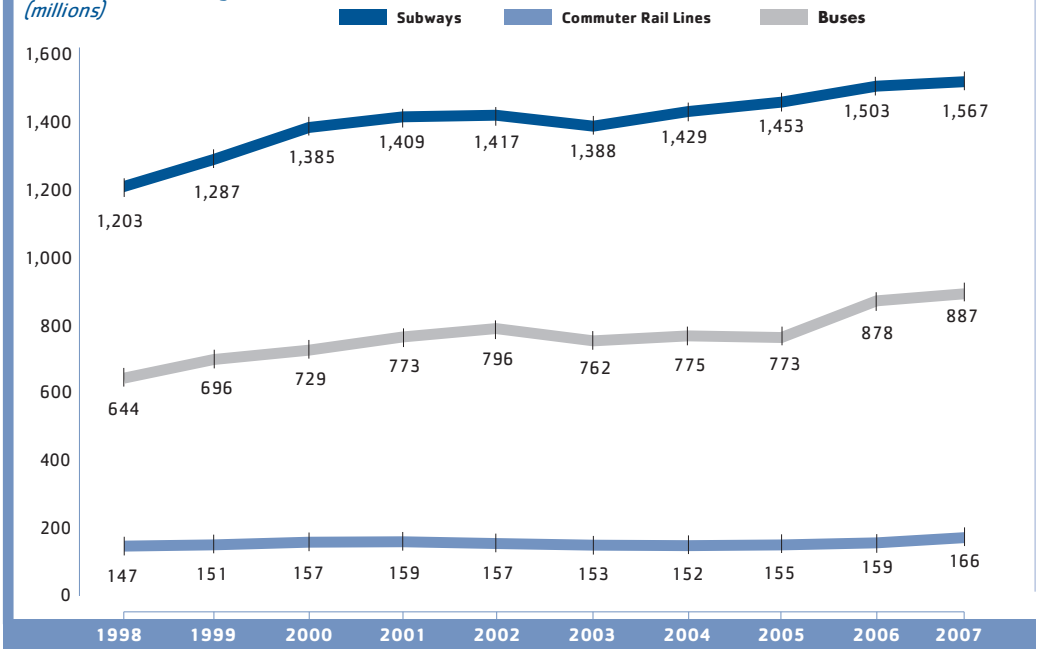
Statistical Tables and Charts
Operations

These charts and tables summarize the subway, bus, commuter rail, and bridge and tunnel operations of the MTA.

Scope of Operations

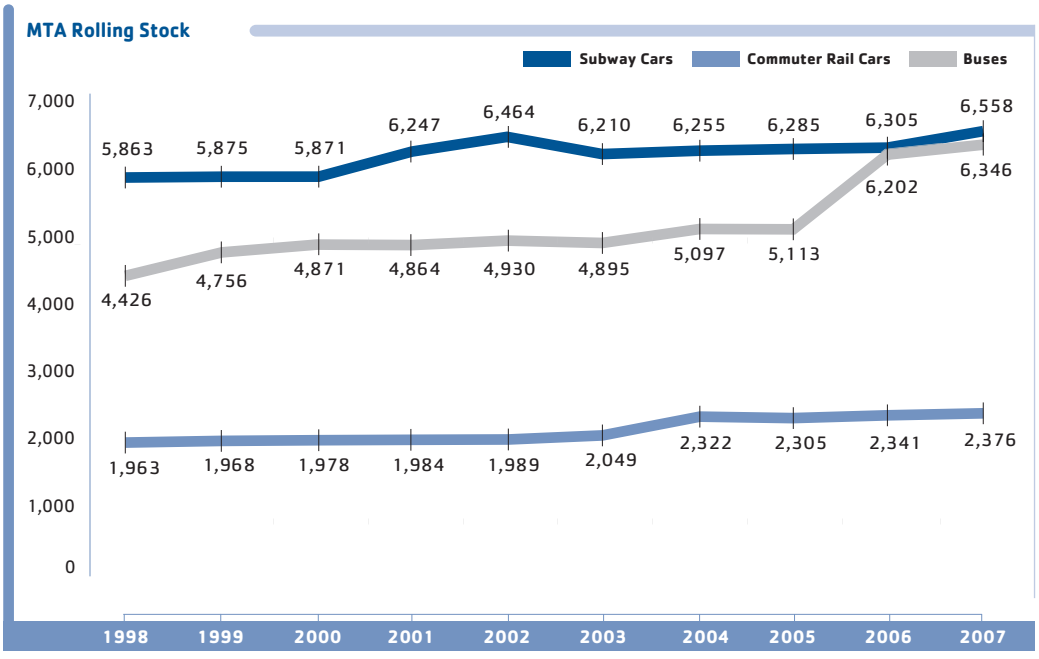
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Subway Lines	26	26	26	28	28	28	28	27	27	27
Subway Stations	490	490	490	490	490	490	490	490	490	490
Subway Route Miles	247	247	247	247	247	247	247	247	247	247
Subway Track Miles	685	685	685	685	685	689	689	689	689	689
Commuter Rail Lines	17	17	17	17	17	17	17	17	17	17
Commuter Rail Stations	241	241	243	243	243	244	244	244	244	244
Commuter Rail Route Miles	721	703	703	703	703	703	703	703	701	702
Commuter Rail Track Miles	1,370	1,370	1,369	1,369	1,369	1,369	1,369	1,369	1,369	1,368
Bus Routes	287	288	290	298	298	298	297	297	378	378
Bus Route Miles	2,355	2,637	2,641	2,646	3,012	2,967	2,967	2,967	3,879	3,903
Bridges	7	7	7	7	7	7	7	7	7	7
Tunnels	2	2	2	2	2	2	2	2	2	2

MTA Revenue Passengers
(millions)



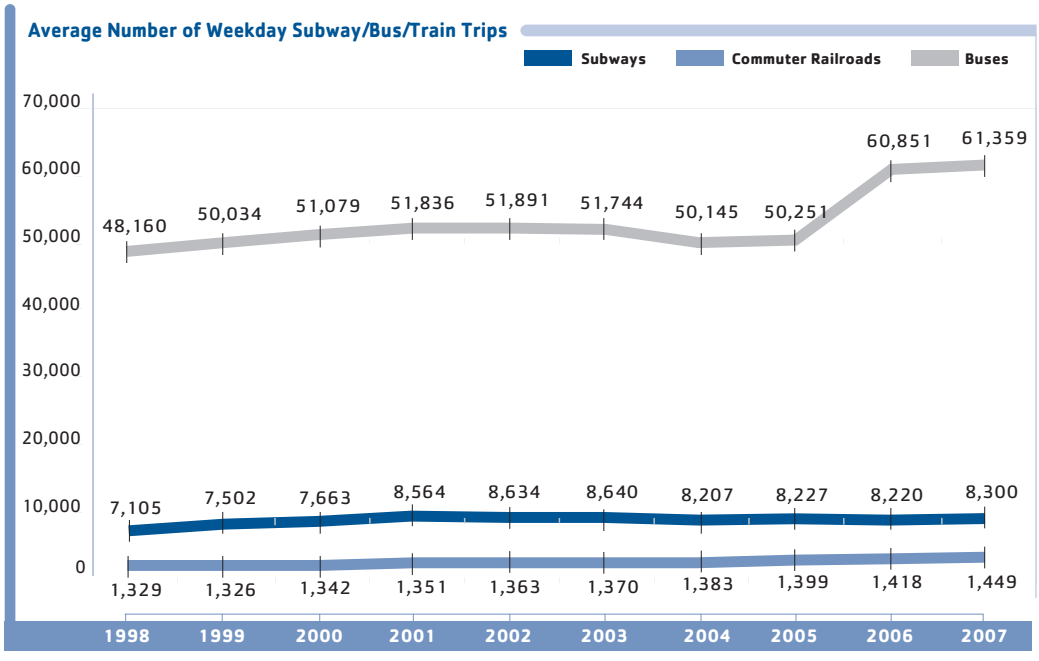
Note: Bus figures include rides provided by Able-Ride paratransit service for entire period, Access-A-Ride paratransit service beginning in 2001, and MTA Bus beginning in 2006.

MTA Rolling Stock

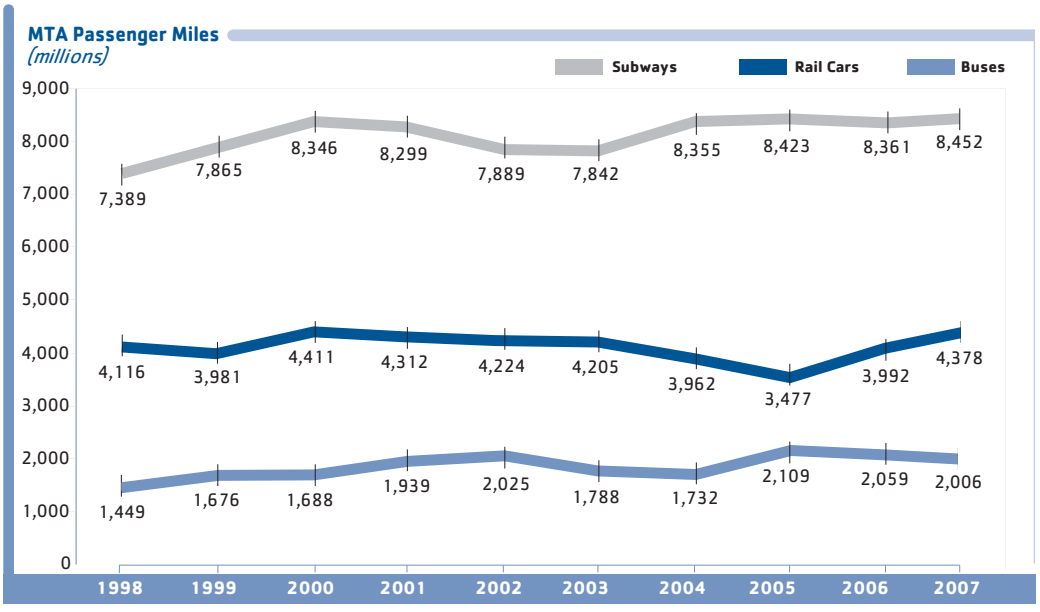


Note: Beginning in 2006, bus statistics include operations of MTA Bus.

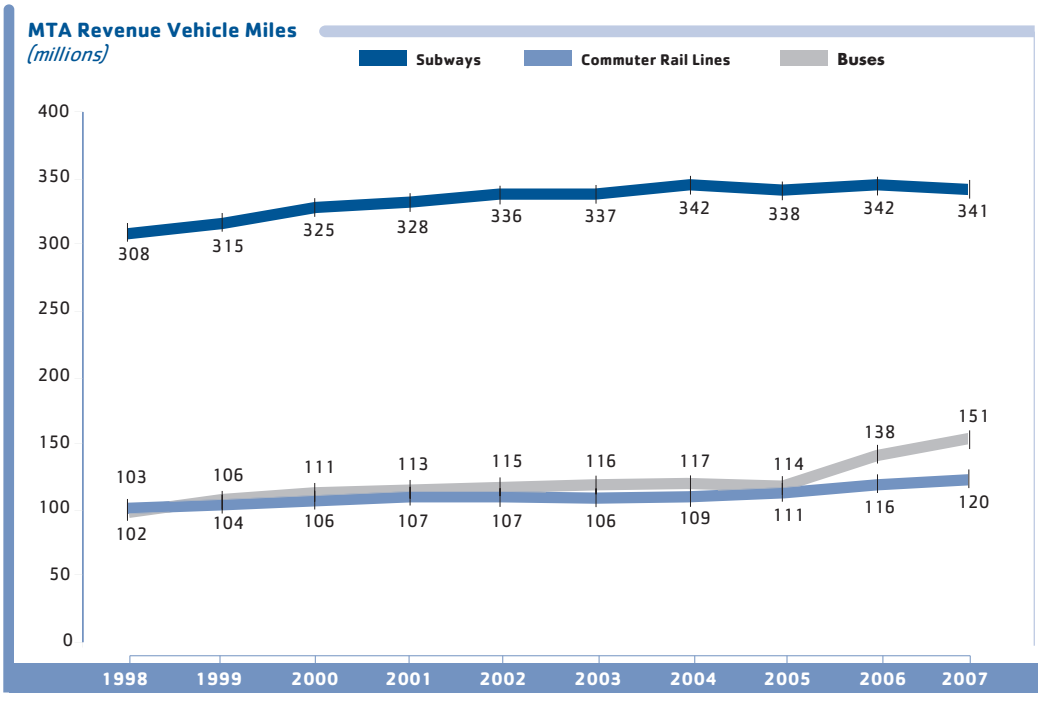
Average Number of Weekday Subway/Bus/Train Trips



Note: Beginning in 2006, bus statistics include operations of MTA Bus.

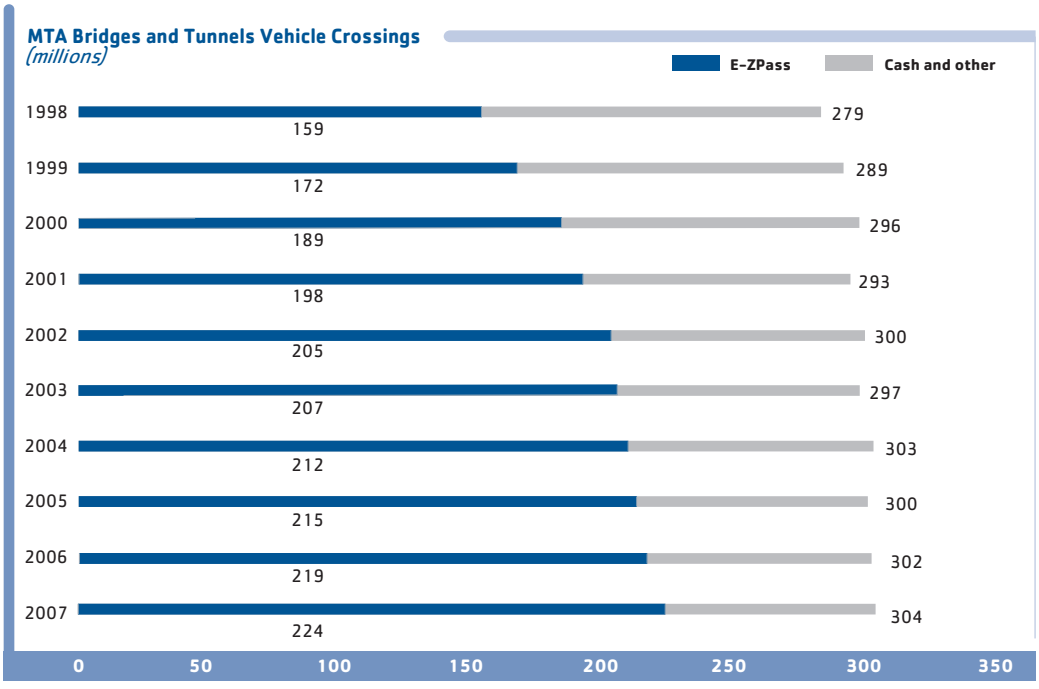


Note: Bus statistics do not include operations of MTA Bus.



Note: Beginning in 2006, buses statistics include operations of MTA Bus.

MTA Bridges and Tunnels Vehicle Crossings
(millions)



Employees by Category*

	2004	2005	2006	2007
Administration	4,320	4,254	4,394	4,783
Operations	28,505	28,201	30,733	31,005
Maintenance	27,330	27,526	28,834	29,791
Engineering/Capital	1,933	1,908	1,875	1,918
Public Safety	1,589	1,583	1,621	1,620
Total	**63,677**	**63,472**	**67,457**	**69,117**

* In 2004 the MTA standardized the category definitions of employees at its agencies. Consolidated employee counts by category prior to that date are not available.

2007 Operating Statistics

	MTA New York City Transit/Subway	MTA New York City Transit/Bus[1]	MTA Staten Island Railway	MTA Long Island Rail Road	MTA Long Island Bus[2]
Paid rides (annual)					
2007	**1,562,515,065**	**738,039,531**	**4,129,328**	**86,098,475**	**32,524,309**
2006	1,498,915,984	741,419,747	3,782,591	82,036,736	32,577,477
Gain (loss)	63,599,081	(3,380,216)	346,737	4,061,739	(53,168)
Percent change	4.24%	-0.46%	9.17%	4.95%	-0.16%
Paid rides (average weekday)					
2007	**5,042,263**	**2,356,301**	**14,956**	**301,763**	**108,380**
2006	4,865,769	2,380,124	13,781	289,586	109,302
Gain (loss)	176,494	(23,823)	1,175	12,177	(922)
Percent change	3.63%	-1.00%	8.53%	4.20%	-0.84%
Annual revenue vehicle miles					
2007	**338,410,914**	**101,476,576**	**2,176,287**	**63,044,647**	**13,488,210**
2006	339,374,918	101,520,477	2,160,104	61,273,582	13,361,529
Gain (loss)	(964,004)	(43,901)	16,183	1,771,065	126,681
Percent change	-0.28%	-0.04%	0.75%	2.89%	0.95%
Average number weekday train/bus trips	8,159	45,865	141	735	4,344
Stations	468	—	22	124	—
Train lines/bus routes	26	244	1	11	54
Route miles[7]					
Rail route miles	233	—	14	319	—
Bus route miles	—	2,056	—	—	954
Track miles[8]	660	—	29	594	—
Rolling stock					
Rail cars	6,494	—	64	1,181	—
Buses	—	4,576	—	—	416
Bridges	—	—	—	—	—
Tunnels	—	—	—	—	—
Employees	27,885	14,736	268	6,471	1,103

1. Figures include Manhattan and Bronx Surface Transit Operating Authority, a subsidiary of MTA New York City Transit; do not include ridership of Access-A-Ride paratransit operation.
2. Paid rides, revenue vehicle miles, average number of bus trips, rolling stock, and employees figures include both fixed-route and Able-Ride paratransit operations.
3. Figures include operations on the Harlem, Hudson, and New Haven lines in New York State and Connecticut and the New York State portions of the Port Jervis and Pascack Valley lines.
4. Paid rides statistics include MTA New York City Transit subway, bus, and Access-A-Ride paratransit operations.
5. MTA Long Island Rail Road plus MTA Metro-North Railroad.

MTA Metro-North Railroad[3]	MTA Bus	MTA Bridges and Tunnels	MTA New York City Transit Total[4]	Combined MTA Railroads Total[5]	MTA Network Total[6]
80,133,867	**110,269,609**	**304,364,216**	**2,306,426,537**	**166,232,342**	**2,619,582,125**
76,850,478	99,169,399*	302,058,593	2,245,537,300	158,887,214	2,539,953,981*
3,283,389	10,490,910	2,305,623	60,889,237	7,345,128	79,018,844
4.27%	11.19%	0.76%	2.71%	4.62%	3.14%
276,555	**367,920**	**857,996**	**7,417,478**	**578,318**	**8,505,966**
265,949	330,742*	855,076*	7,262,760	555,535	8,288,987*
10,606	37,178	2,920	154,718	22,783	216,979
3.99%	11.24%	0.34%	2.13%	4.10%	2.62%
56,695,109	**35,479,053**	**—**	**439,887,490**	**119,739,756**	**610,770,796**
54,542,127	29,334,790*	—	440,895,395	115,815,709	601,567,527*
2,152,982	6,144,263	—	(1,007,905)	3,924,047	9,203,269
3.95%	20.95%	—	-0.23%	3.39%	1.53%
714	11,150	—	54,024	1,449	71,108
120	—	—	468	244	734
6	81	—	270	17	423
383	—	—	233	702	949
—	883	—	2,056	—	3,903
774	—	—	660	1,368	2,057
1,195	—	—	6,494	2,376	8,934
—	1,354	—	4,576	—	6,346
—	—	7	—	—	**7**
—	—	2	—	—	**2**
5,855	3,301	1,772	48,910[9]	12,717	69,117[10]

6. MTA ridership increases shown include results of MTA Bus operations, which completed its first year of substantial service in 2006. Excluding MTA Bus ridership, total ridership in 2006 on MTA subways, buses, and commuter rail services (excluding MTA Bridges and Tunnels crossings) rose 2.56 percent, average weekday ridership rose 2.01 percent, and annual revenue vehicle miles rose 1.86 percent.
7. Nondirectional route miles; i.e., the distance from terminal to terminal. Several rail or bus lines may share the same route.
8. Does not include track in yards.
9. Includes 6,289 employees in administration, operations, maintenance, and engineering/capital construction positions.
10. Includes 1,347 employees at MTA Headquarters, and 90 employees of MTA Capital Construction.

* Figure restated from 2006 MTA Annual Report

Metropolitan Transportation Authority
347 Madison Avenue
New York, NY 10017-3739
212-878-7000
www.mta.info

The Metropolitan Transportation Authority is a public-benefit corporation chartered by the State of New York, David A. Paterson, Governor.

MTA management and Board members shown on this page are current as of May 1, 2008.

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David S. Mack
Vice Chairman

Andrew M. Saul
Vice Chairman

Elliot G. Sander
Executive Director and
Chief Executive Officer

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*non-voting member

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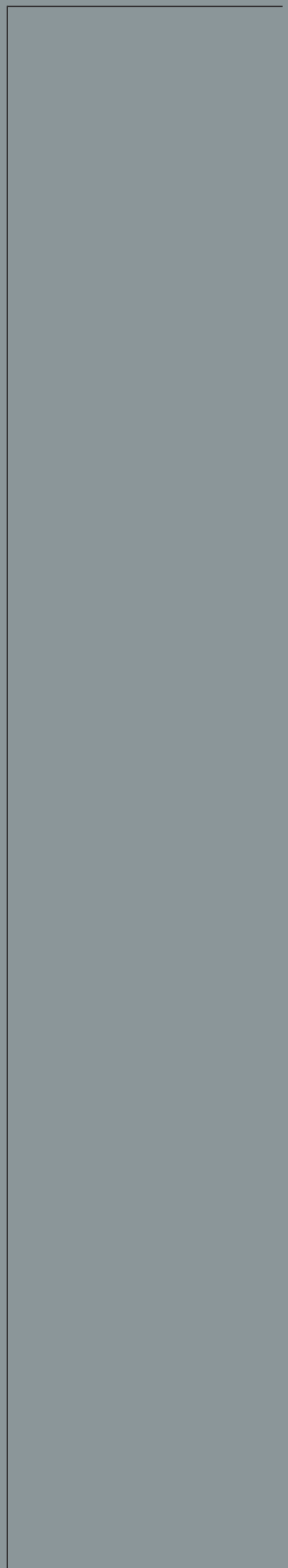
For additional copies of the 2007 MTA annual report, write to MTA Marketing and Corporate Communications, 347 Madison Avenue, New York, NY 10017-3739; for information about the 2007 financial statements, write to MTA Office of the Comptroller, 345 Madison Avenue, New York, NY 10017-3937.

The 2007 MTA annual report and financial statements are also available on the MTA website at www.mta.info.



Metropolitan Transportation Authority

New York City Transit
Long Island Rail Road
Long Island Bus
Metro-North Railroad
Bridges and Tunnels
Capital Construction
Bus Company

347 Madison Avenue
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