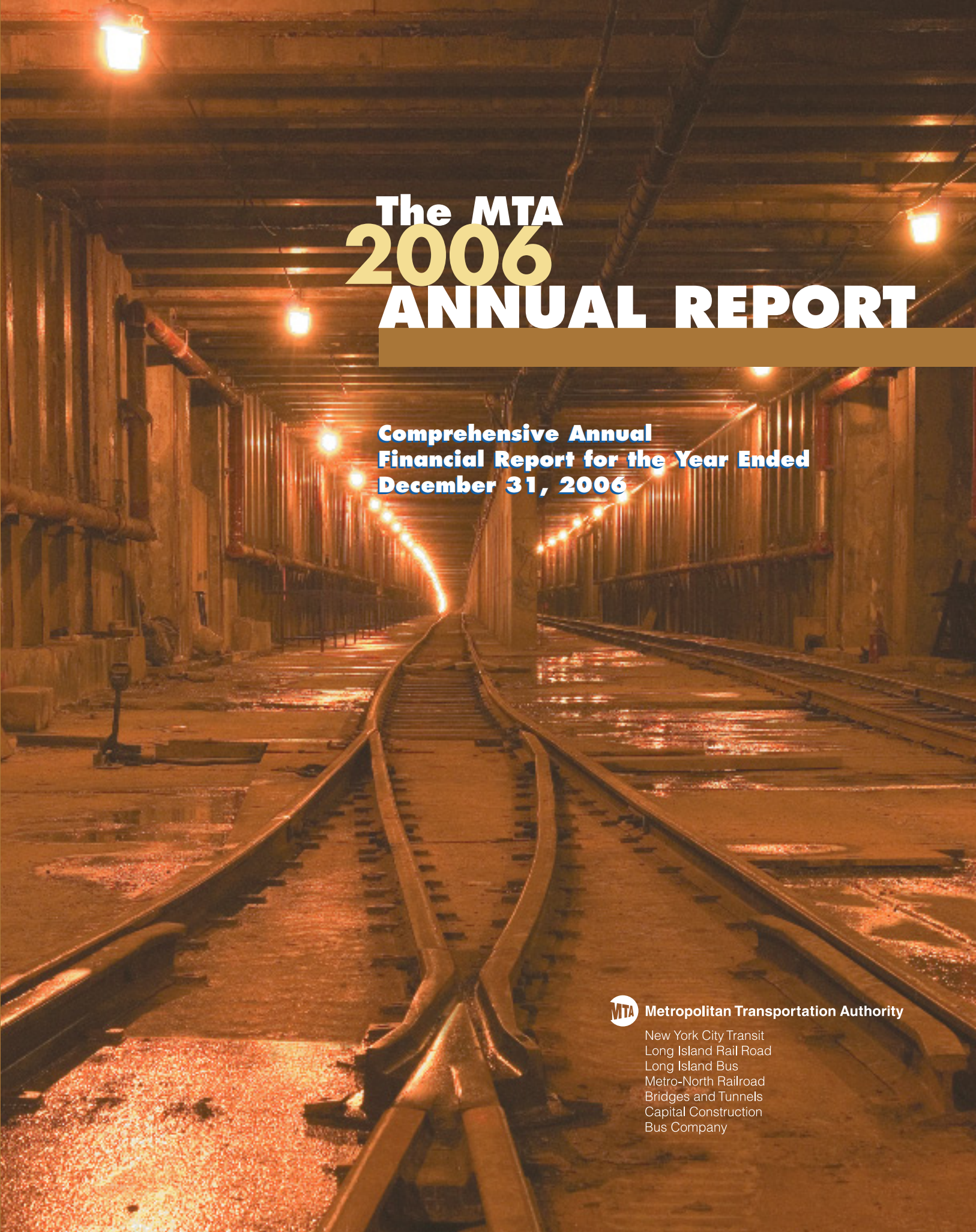

The MTA 2006 ANNUAL REPORT

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

Metropolitan Transportation Authority

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

Construction of the new South Ferry subway terminal viewed from the top of the Old U.S. Custom House.

The MTA 2006 ANNUAL REPORT

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Message from the Chairman

May 1, 2007

I am pleased to report that in 2006 the Metropolitan Transportation Authority reached two important milestones. After enormous effort, we secured the future of our network when the first system expansion projects in decades – East Side Access (ESA) and the Second Avenue Subway (SAS) – received funding agreements from the Federal Transit Administration (FTA). ESA received a Full Funding Grant Agreement for $2.6 billion; two major ESA tunneling contracts have already been awarded and contracts worth a billion dollars will be awarded in 2007. When complete, ESA will save our riders up to 40 minutes a day and alleviate overcrowding at Penn Station by creating a Long Island Rail Road terminal under Grand Central Terminal.

SAS received FTA approval for an Early Systems Work Agreement for its first phase, which will provide service from 96th Street to the existing Lexington Avenue 63rd Street station, connecting the new line to N, Q, R, W service running south on Broadway into Brooklyn. This agreement allows SAS to proceed with construction, contract, and other commitments before a Full Funding Grant Agreement is awarded and helps ensure that it will be. Construction of SAS tunnels will begin in 2007. Our riders have been waiting 60 years for this new line that will relieve congestion on the country's most crowded subway, the Lexington Avenue line. They will soon be seeing a unique tunnel boring machine creating the tunnels for it.

We also made important progress on Lower Manhattan mobility projects. We are within one year of finishing the South Ferry Terminal – the final contract was awarded in 2006 – and two years from completing the Fulton Street Transit Center. These projects will improve trip time and reliability on the 1 line and access to the 12 subway lines that serve the Fulton Street/Broadway-Nassau complex and nearby stations. This will speed Lower Manhattan's growth and support new economic vigor.

When completed in 2008, the new station at South Ferry will provide a two-track terminal for the 1 line, improving service in Lower Manhattan.

We have methodically pursued our core commitment of maintaining our enormous system in a state of good repair. The bulk of our Capital Program funds still goes toward repair, replacement, and upgrading of everything from purchasing rail cars and buses, rehabilitating stations, and redecking bridges to the "invisible" infrastructure that few ever see but that keeps the system running – pump rooms, power stations, track switches and signals, and more.

Our successes in preserving and upgrading the existing system, in pressing forward with the revitalization of Lower Manhattan, and in expanding the system to meet the needs of an expanding population and support a vibrant economy – all these accomplishments took a lot of hard work from our 67,000 employees, and that work paid off dramatically in 2006. I am proud of their commitment and expertise. Together we have made a real difference: we have moved the system definitively forward into the 21st century, and I am proud to lead this great organization in these exciting times.

Peter S. Kalikow
Chairman

Message from the Executive Director and Chief Executive Officer

May 1, 2007

It was a great honor to be nominated by Governor Eliot Spitzer and appointed by Chairman Peter Kalikow and the MTA Board as executive director and chief executive officer of the MTA.

In my first weeks, I visited all seven MTA agencies, met many of my co-workers, and had substantive conversations with quite a few. Throughout the agencies, the pride, commitment, and expertise that resides so deeply in this organization shines through clearly and powerfully.

Moving more than 8 million people each day in some of the most difficult operating conditions of any public transportation organization – often with infrastructure originally built half to a full century ago – presents a unique set of hurdles. The MTA's impact on our regional economy, environment, and quality of life is unparalleled. If we are not functioning properly, the region literally doesn't move.

Our biggest immediate challenge is financial. Like many organizations, the MTA faces sharp increases in costs we cannot control: the 40 percent of our $10 billion annual operating budget devoted to health and welfare benefits, pension obligations, energy, insurance, and paratransit service contracts is expected to see extraordinary increases in the next several years.

Revenues to pay for these expenses are flattening and we face large gaps beginning next year. Our February 2007 financial plan forecasts ending 2007 with a $270 million cash balance, which reduces the 2008 deficit to $799 million. Deficits of $1.46 billion loom in 2009 and $1.78 billion in 2010. And our Capital Program is threatened by bid escalation on many projects, a situation mirrored throughout the region and the nation.

We are acting to find solutions. I am leading an evaluation of opportunities for shared services across the seven agencies, especially for a business service center to handle all of the day-to-day human resources, payroll, and financial transactions currently performed by seven separate functions, one at each of our agencies. I am taking a thoughtful look at the potential financial and operational value of merging the three bus systems. I am appointing a blue-ribbon panel of construction industry leaders to partner with MTA's chief engineers and capital program staff to make sure we're using the best practices available to reduce our capital construction costs. These initiatives are part of overarching efforts not only to uncover every potential avenue for reducing costs but also to identify areas to improve service, efficiency, and labor relations. Included in the package are analyses across the organization to pinpoint strengths, weaknesses, opportunities, and threats; a blue-ribbon panel on workforce development; and a customer service initiative focused on providing our customers with the best transit system in America: from safe, reliable, on-time service to clear communications and accountability.

All of the stations of the Second Avenue Subway will be ADA accessible.

I have no doubt that this organization, working with its funding partners, is up to the tasks and challenges it faces. Having worked at the MTA in the early and mid-1980s – specifically, managing the Manhattan Bus Division for NYC Transit – I know firsthand how far we've come. That impressive performance reinforces my confidence that the MTA will meet the myriad challenges ahead of us and play a leading role in building the region's future prosperity and quality of life.

Elliot G. Sander
Executive Director and
Chief Executive Officer

MTA Leadership

MTA Board

As of December 31, 2006

Peter S. Kalikow,
Chairman

David S. Mack,
Vice Chairman

Andrew M. Saul,
Vice Chairman

Andrew B. Albert

John H. Banks

James F. Blair

Nancy Shevell Blakeman

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.

Ed Watt

Carl V. Wortendyke

MTA Management*

As of December 31, 2006

Katherine N. Lapp, Executive Director



(left to right) Christopher P. Boylan, Deputy Executive Director, Corporate and Community Affairs; Michael J. Fucilli, Auditor General; Linda G. Kleinbaum, Deputy Executive Director, Administration




(left to right) Gary M. Lanigan, Director, Budgets and Financial Management; William A. Morange, Deputy Executive Director, Director of Security; Catherine A. Rinaldi, Deputy Executive Director, General Counsel; William Wheeler, Director of Special Project Development and Planning

Agency Presidents







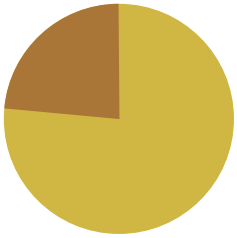
(left to right) Peter A. Cannito, MTA Metro-North Railroad; Raymond P. Kenny (Acting), MTA Long Island Rail Road; Susan Kupferman, MTA Bridges and Tunnels; Mysore L. Nagaraja, MTA Capital Construction; Lawrence Reuter, MTA New York City Transit; Thomas J. Savage, MTA Bus; Neil S. Yellin, MTA Long Island Bus

* On January 2, 2007, Elliot G. Sander was appointed executive director and chief executive officer; Susan Kupferman became chief operating officer, and David Moretti became acting president of MTA Bridges and Tunnels. On April 11, 2007, Howard H. Roberts, Jr. became president of New York City Transit, following the February retirement of Lawrence G. Reuter. Millard L. Seay served as acting president of NYC Transit during the interim period.

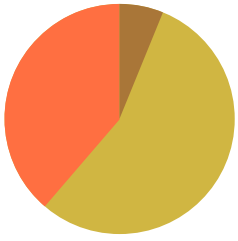
2006 Consolidated Financial Highlights

Assets and Liabilities

($ millions)



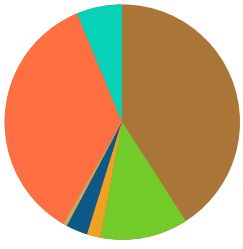
Assets	$50,085	100.00%
Capital assets, net	38,307	76.48%
Other assets	11,778	23.52



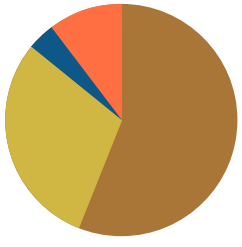
Liabilities and Net Assets	$50,085	100.00%
Current liabilities	$3,073	6.14%
Long-term liabilities	27,649	55.20
Net assets	19,363	38.66

Income and Expenses

($ millions)



Income		
Fares and operating revenues, except tolls	$4,246	40.74%
Tolls	1,241	11.91
State subsidies	206	1.98
Local subsidies	325	3.12
Other subsidies	53	0.51
State/regional taxes	3,725	35.74
Other	626	6.01
Total	$10,422	100.00%



Expenses		
NYC buses and subways	$5,840	56.04%
Commuter rail, suburban buses, Staten Island Railway, MTA Bus and MTA headquarters	3,083	29.58
Bridges and tunnels	407	3.91
Interest expense and other	1,092	10.48
Total	$10,422	100.00%

Capital Program Progress

Capital Program Funding Received through December 31, 2006*

($ millions)	1982-2006	2006
MTA federal grants	18,217	1,412
State service contracts	1,905	38
State appropriations	623	—
City appropriations	3,712	46
MTA bonds	16,283	1,746
MTA debt restructuring	4,523	—
MAC surplus	925	—
Lessor equity/Asset sales	1,010	—
Investment income**	2,100	-79
Capital-operating transfer/Pay-as-you-go	1,333	147
Other***	2,344	353
Total	**52,974**	**3,662**

* Funding for MTA Bridges and Tunnels Capital Programs not included.
** As part of reconciliation by the MTA Office of the Comptroller, investment income has been recalculated to reflect actual funding receipts.
***Adjusted to exclude carryover that was mistakenly included in prior report.

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

Capital Program Progress, 1982–2006

($ millions)	Commitments	Expenditures	Completions
MTA Total*	$57,586	$50,037	$41,081
MTA New York City Transit	36,840	33,235	29,612
MTA Long Island Rail Road	7,588	7,042	5,017
MTA Metro-North Railroad	5,728	4,978	3,752
MTA Bridges and Tunnels	2,712	2,036	1,750
MTA Capital Construction	3,876	2,104	425
MTA Bus	385	248	181

Capital Program Progress, 2006

($ millions)	Commitments	Expenditures	Completions
MTA Total*	$4,245	$3,755	$3,663
MTA New York City Transit	1,581	1,720	1,949
MTA Long Island Rail Road	290	597	916
MTA Metro-North Railroad	617	340	324
MTA Bridges and Tunnels	304	178	112
MTA Capital Construction	1,367	767	241
MTA Bus	80	127	122

* MTA totals include the following amounts:
World Trade Center recovery: Total commitments, $239 million; total expenditures, $224 million; total completions, $203 million. 2006 commitments, $41 million; 2006 expenditures, $10 million.
Planning and Customer Service Projects: Total commitments, $114 million; total expenditures, $74 million; total completions, $51 million. 2006 commitments, $41 million; 2006 expenditures, $16 million; 2006 completions, $7 million.
Interagency Projects: Total commitments, $11 million; total expenditures, $3 million. 2006 commitments, $10 million; 2006 expenditures, $2 million.
MTA Police: 2006 Commitments, $5 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.

At the South Ferry terminal, a worker removes a temporary support pillar.

MTA Operations

Capital Program 2006 Highlights

East Side Access (ESA) received its Full Funding Grant Agreement for $2.6 billion from the Federal Transit Administration (FTA) on December 18, 2006. ESA will create a Long Island Rail Road terminal under Grand Central Terminal, saving riders up to 40 minutes each day on their round-trip commute and alleviating overcrowding at the Penn Station complex. Two large tunneling contracts amounting to over $500 million have been awarded. In 2007 contracts totaling nearly $1 billion dollars will be awarded and major work within and beneath Grand Central Terminal will begin.

The Second Avenue Subway (SAS) received FTA approval for an Early Systems Work Agreement for Phase I of the project, which will provide service from 96th Street to the existing Lexington Avenue 63rd Street station, connecting the new line to N, Q, R, W service running south on Broadway into Brooklyn. This agreement allows SAS to proceed with construction, contract, and related commitments before the Full Funding Grant Agreement. The first contract – for digging tunnels under Second Avenue with a tunnel boring machine – will be awarded in 2007. The full SAS will take 560,000 daily subway riders from 125th Street to Lower Manhattan, relieving congestion on the Lexington Avenue line, the most crowded subway line in the country.

A funding agreement with the City of New York for $2.1 billion was reached for the 7 line extension to the Far West Side. The first construction contract and a construction management contract have been advertised, with award planned for 2007. The construction contract is for boring the running tunnels from the Times Square station to 27th Street and 11th Avenue and excavating the 34th Street and 10th Avenue stations.

Downtown Mobility Projects

The final contract for the South Ferry Terminal Project was awarded in 2006. Substantially federally funded, the project will replace the obsolete curved, single-track 1 line station (which accommodates only half the length of a subway train) with a straight two-track terminal that will accommodate full-length trains and improve average trip time and reliability of the entire 1 line. The terminal will also support growth that is already underway and expected to accelerate with the development of the World Trade Center (WTC) site, Staten Island Ferry Terminal reconstruction, planned rehabilitation of Battery Park and expansion of its cultural event offerings, and Lower Manhattan's growth in residential population. Excavation for the project is finished and the concrete structural box of the new South Ferry station is near completion; when completed, a contractor will install the mechanical and electrical equipment, tiling, and Arts for Transit installations. The South Ferry Project was featured on the Discovery Channel's "Extreme Engineering" program.

The 2, 3 Fulton Street station has been rehabilitated; it is the first improvement in the Fulton Street Transit Center (FSTC), a major reconstruction project that will support the revitalization of Lower Manhattan. The new transit center, which is being built mostly with federal funding, will benefit hundreds of thousands of commuters each day and serve many of the five million or more visitors a year anticipated for the World Trade Center Memorial.

At the site of the most heavily used subway lines in Lower Manhattan, the FSTC will provide a direct connection to the WTC site. The current Fulton Street facilities serve over 225,000 passengers each day, but are poorly connected and difficult to access from the street. The new transit

The Fulton Street Transit Center will dramatically improve mobility in Lower Manhattan.

center will more seamlessly connect the 12 subway lines that serve the Fulton Street/Broadway-Nassau complex and nearby stations, improving circulation and reducing crowding by reconfiguring the current maze of narrow ramps and stairs.

The Dey Street Concourse will connect the east and west sides of Lower Manhattan with a pedestrian link from the FSTC to the E and R, W lines, the World Trade Center site, and the World Financial Center. Part of the Concourse, the underpinning of the R, W line at Cortlandt Street and the 4, 5 line at Fulton Street, was completed in 2006.

2006 Capital Program Commitments

The MTA's capital commitment plan for 2006 was $6.2 billion; actual commitments were $4.2 billion, 68 percent of plan.

MTA NYC Transit committed $27.9 million to bring the 100-year-old Joralemon Tube subway tunnel to a state of good repair with rehabilitation of two miles of tunnel structure and repair of water leaks in the tunnel from Bowling Green Station on the Lexington Avenue line in Manhattan to the Nevins Street Station on the Eastern Parkway line in Brooklyn. New control cables to accommodate Transit's new technology trains will also be installed between two substations serving the tube.

Other commitments will bring full Americans with Disabilities Act (ADA) accessibility to two more subway stations. At the Chambers Street Station on the Broadway-7th Avenue 1, 2, 3 lines in Manhattan, Transit will install three new elevators, add four new stairways and make structural repairs, rehabilitate existing stairways and platform edges, install mezzanine improvements, upgrade electrical systems, and install new lighting and public address systems ($33.4 million). At the 47th-50th Street/Rockefeller Center Station on the Sixth Avenue B, D, F, V lines construction of three new elevators, an ADA accessible station booth, handrail and signage upgrades, and new platform edge warning strips are planned ($26 million).

Transit also committed $96 million to Corona Yard track operations on the Flushing line 7 train to install new fixed-block wayside signals, seven lay-up tracks, and a new loop track (which enables the trains to be washed and turned around on site), and to construct a new master tower complex to control these new installations and the territory now controlled by equipment at the 111th Street location.

A $172.4 million commitment will provide asynchronous transfer mode (ATM) nodes at the B Division (numbered lines) stations and at the remaining A Division (lettered lines) stations, a total of 289 passenger stations. At the conclusion of this project, all 468 stations will have communication network accessibility to allow the transmission of voice (telephone, public address, etc.), video (CCTV), and MetroCard® data within each facility and nearby where practical. ATM will use the high-speed synchronous optical network (SONET) that covers the entire subway system.

A signal modernization project ($138.9 million) will completely reconstruct the Chambers Street interlocking and modernize two adjacent interlockings at Canal Street and World Trade Center that will be controlled from a new master tower located at the World Trade Center Station. New fire suppression and access control systems will be provided for signal enclosures and two new relay rooms will be constructed.

Approximately 11.3 track miles of modern tunnel lighting from 42nd Street to 96th Street on the Broadway-Seventh Avenue 1, 2, 3 lines in Manhattan will replace outdated incandescent lighting ($39.7 million).

A new maintenance shop and car wash at the Corona Yard, serving the 7 line, was substantially completed in 2006.

NYC Transit committed $15 million for 30 new 45-foot clean-fuel over-the-road coach buses to be delivered in 2007 and $15.4 million for 200 paratransit vehicles. A $0.89 million contract was awarded to replace bus radios that have exceeded their useful life. The 501 portable hand-held radios will be delivered in 2007 and used to provide the dispatcher and road control managers along routes with information on failures, diversions, and emergencies. An $8.6 million contract was awarded to install paint application and monitoring systems at nine bus depots. The systems ensure consistent quality of paint application and generate accurate usage records.

MTA Long Island Rail Road committed $77 million for East River Tunnel ventilation work, $56 million for its annual track program, $13 million to purchase track maintenance equipment, and $16.8 million for improvements of the Long Island City Yard, including remediation of petroleum-contaminated soil, replacement of five tracks, a two-car passenger platform, two service platforms for cleaning cars, new east-end fueling facilities including spill-collection pans and an oil/water separator, and paved roadways, walkways, and lighting.

MTA Metro-North Railroad and the Connecticut Department of Transportation contracted with Kawasaki Rail Car, Inc. to manufacture 300 M-8 rail cars for service on Metro-North's New Haven Line. The contract includes options for a total of up to 380 cars; if all are exercised, the contract value would be approximately $881 million, the largest single equipment purchase in either agency's history. Costs will be jointly funded by the State of Connecticut (65 percent) and Metro-North (35 percent; $100.0 million in the 2005-2009 Capital Program).

The first M-8s embody advances made in the new M-7 cars currently in operation on the Harlem and Hudson Lines and are scheduled for delivery in 2009. These new cars will supplement and replace the M-2 Fleet on Metro-North's New Haven Line, improving reliability and allowing increased service to accommodate the line's growing ridership.

At the Croton-Harmon Maintenance Facility, contracts valued at $292 million were awarded for the design and construction of a new coach

Major Capital Program Project Completions and Milestones in 2006

New York City Transit

- Put 20 new R-160 subway cars in service
- Added 97 hybrid-electric buses to fleet
- Began Communications-Based Train Control Service on L line
- Completed station renovations at nine stations, including Phase II at Times Square-42nd Street
- Reconstructed 6.6 miles of tunnel on G line
- Completed subway maintenance shop and car wash at Corona Yard
- Rehabilitated fan plant at Broadway-Lafayette Street
- Modernized fixed block signals in upper Manhattan and Bronx on B, D lines
- Completed upgrades of bus depots at Fresh Kills and East New York

Long Island Rail Road

- Put 244 new M-7 cars into service, completing its total order of 802 cars
- Opened Intermodal Center at Mineola Station
- Completed renovations at 11 stations, including Jamaica Station
- Upgraded parking facilities at Ronkonkoma Station

Metro-North Railroad

- Put 76 new M-7 cars into service, completing its total order of 336 cars
- Completed improvements at 24 stations, including exterior restoration of Grand Central Terminal
- Upgraded parking facilities at five stations

Bridges and Tunnels

- Completed redecking of the suspended spans of the Bronx–Whitestone Bridge. Completed rehabilitation of service building as well as tunnel walls, roadway, and drainage system of Brooklyn Battery Tunnel

Capital Construction

- Completed new platform for 2, 3 lines and new entrances for northbound 4, 5 line service at Fulton Street/Broadway–Nassau

MTA Bus

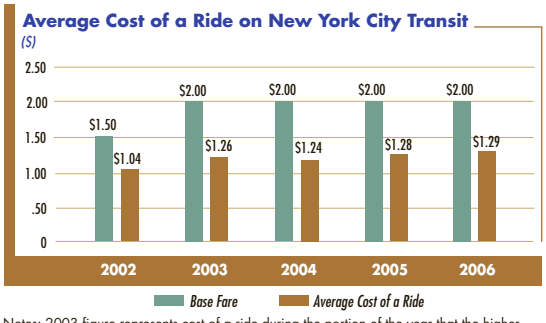
- Added 186 coach buses to fleet for express bus service
- Added 63 hybrid-electric buses to fleet for local bus service

and locomotive shop and construction of the new wheel-true facility.

MTA Bridges and Tunnels committed $304 million to projects in its Capital Program, 105 percent of plan; $80.8 million will be used to replace the lower level deck of the Henry Hudson Bridge, $21 million for structural steel repairs at the Marine Parkway–Gil Hodges Memorial Bridge, $21.1 million for anchorage rehabilitation and dehumidification at the Triborough Bridge, $12 million for rewrapping suspended span cable at the Throgs Neck Bridge, $19 million for the rehabilitation of approach and Lily Pond Avenue Bridge at the Verrazano-Narrows Bridge, and $60.5 million to rehabilitate the lower level approach of the Verrazano-Narrows Bridge.

The agency also committed $40 million of the $48 million Randall's Island property acquisition as part of a memorandum of understanding with NYC Department of Parks and Recreation and the State Office of Mental Health, ensuring the rehabilitation of the 70-year-old Triborough Bridge deck and modernization of its toll and service building as well as space for the agency's engineering- and operations-related functions. This critical negotiation has established support facilities for the agency on Randall's Island that should meet its needs for a half-century.

MTA Bus committed $80 million for the purchase of 158 express buses.



Notes: 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).

Special Service Issues

A parking shortage at Shea Stadium developed in August when the New York Mets began construction of a new stadium in a space that previously served as a parking lot. Because the Mets were heading to the playoffs, attendance at games increased, and the lack of parking in the Shea Stadium area was exacerbated on two weekends when the U.S. Open at the Billie Jean King National Tennis Center, also at Willets Point, ran concurrently with Mets home games.

NYC Transit scheduled additional service along the 7 line to Shea Stadium, at times running trains every 2 to 3 minutes. After games and tennis matches it operated additional trains toward Times Square to enable sports fans to get home quickly.

The LIRR increased the frequency of service on the Port Washington Branch from hourly to half-hourly on weekends and added Woodside

Ridership

	2005	2006	% change
New York City Transit*	2,193,724,617	2,249,319,891	2.53%
Subway	1,449,109,242	1,498,915,984	3.44%
Bus	736,493,445	741,419,747	0.67%
Long Island Rail Road	80,130,571	82,036,736	2.38%
Long Island Bus	31,507,473	32,577,477	3.40%
Metro-North Railroad	74,507,341	76,850,478	3.14%
MTA Bus**	—	99,254,478	—
Bridges and Tunnels (vehicle crossings)	300,385,193	302,058,593	0.56%
Total System (excluding Bridges and Tunnels)†	**2,379,870,002**	**2,540,039,060**	**6.73%**
Average Weekday (excluding Bridges and Tunnels)	7,785,178	8,272,117	6.25%

* Includes ridership on MTA New York City Transit subways and buses, MTA Staten Island Railway, and Access-A-Ride paratransit.
** Includes ridership on fixed-route bus service, Able-Ride paratransit, and contract services with Long Island Rail Road.
† MTA Total System ridership includes the results of MTA Bus, which completed its first year of substantial service in 2006. Excluding MTA Bus ridership, total ridership on MTA subways, buses, and commuter rail services (and excluding MTA Bridges and Tunnels crossings) rose 2.56 percent, average weekday ridership rose 2.01 percent.

stops to selected trains between Jamaica and Penn Station to allow more frequent transfers for customers bound for Shea Stadium. During the Mets playoffs special expanded service was offered and it increased ridership – LIRR carried approximately 6.4 percent of stadium attendees during the regular season and 19.2 percent of attendees during the playoffs. The USTA also partnered with Metro-North Railroad to encourage tennis fans to leave their cars home and travel by rail to Grand Central and then by subway to the Tennis Center.

A different service issue occurred on LIRR and MNR tracks when fallen leaves were crushed by trains and their oil residue caused some wheels on following trains to slip, and develop flat spots and warping.

Both railroads took significant numbers of cars out of service for repair, and more trains ran short, increasing crowding during rush hours. Both LIRR and Metro-North kept their wheel-truing shops operating around-the-clock through much of the fall to remedy the situation, and Metro-North leased an additional wheel truing machine to help speed repairs. LIRR and Metro-North are working with the car manufacturers to develop a solution that will decrease the occurrence of this situation.

Customer Satisfaction

In 2006, customer satisfaction survey ratings for overall service remained stable compared to 2005. Ratings for cost or value went up for all agencies except Metro-North, which showed a slight decline. These results indicate that customer satisfaction has recovered from the 2005 fare increases. At Metro-North, a drop in overall service ratings by commuters was largely offset by a rise in ratings by occasional travelers.

New York City Transit—Subway

	2004	2005	2006
Overall	6.1	6.2	6.3
Cost	5.3	5.8	6.3
Value	6.0	6.3	6.8
On time	6.6	6.6	6.7
Station environment	5.7	5.8	5.7
Safe/secure in cars	6.1	6.3	6.3
Police in station	5.5	5.7	5.6

New York City Transit—Bus (includes MTA Bus)

	2004	2005	2006
Overall	5.9	6.1	5.9
Cost	5.5	5.9	6.5
Value	5.9	6.2	6.6
On time	5.6	5.8	5.7
Safe/secure on bus	7.1	7.2	7.4

Long Island Rail Road

	2004	2005	2006
Overall	6.9	6.7	6.9
Cost	6.0	5.9	6.2
On time	7.2	6.9	7.1
Personal security	6.7	6.7	7.0
Comfort	7.0	6.8	7.0

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

Long Island Bus

	2004	2005	2006
Overall	7.2	7.4	7.2
Cost	5.9	7.0	7.2
Value	6.8	6.6	7.7
On time	7.3	7.3	7.2
Safe/secure on bus	7.8	8.2	8.1

Metro-North Railroad

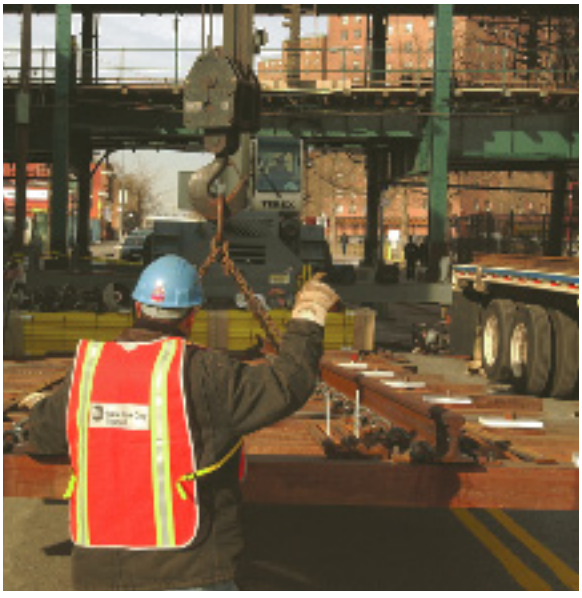
	2004	2005	2006
Overall	7.1	7.4	7.2
Cost	6.4	6.8	6.7
On time	7.6	7.9	7.7
Personal security	7.2	7.6	7.6
Comfort	6.8	6.9	6.7

Bridges and Tunnels

	2004	2005	2006
Overall*	7.4	7.0	7.1
Cost/value	6.3	5.4	5.5
Efficiency of crossing	7.2	6.8	6.9
Safety & security	7.9	7.7	7.8
Road conditions	6.9	6.9	7.1
E-ZPass performance	8.5	8.2	8.3

* E-ZPass customers in 2006 remained more satisfied overall (7.2) than cash customers (7.0).

MTA Operations



Because MTA employees work with and around heavy machinery and equipment, the operating agencies have developed strong commitments to employee safety.

Customer Injuries*

Per million customers

	2002	2003	2004	2005	2006
New York City Transit					
Subway	2.94	2.85	3.15	3.13	2.98
Bus	1.58	1.47	1.53	1.49	1.67
Long Island Rail Road	2.95	4.83	5.08	4.77	4.70
Long Island Bus	1.75	1.90	1.72	1.32	1.12
Metro-North Railroad	2.68	3.00	3.90	2.27	2.35
Bridges and Tunnels†	1.95	1.46	1.21	1.20	1.13
MTA Bus	—	—	—	—	1.98

* Some figures have been 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

	2002	2003	2004	2005	2006
New York City Transit**	3.18	2.98	2.82	2.89	2.53
Long Island Rail Road	4.10	3.44	2.74	3.40	2.79
Long Island Bus†	3.67	6.59	2.40	3.62	3.05
Metro-North Railroad	4.26	4.36	3.49	2.49	2.07
Bridges and Tunnels†	3.20	3.50	2.20	2.70	2.82
MTA Bus	—	—	—	—	7.33

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

** NYC Transit measures lost-time and restricted-duty injury rates on an equivalent "per 100 employees" basis.

† Figures reflect lost-time injuries only.

Safety

To increase safety awareness and decrease employee and customer accidents, NYC Transit extended its eight-hour safety awareness classes for hourly and supervisory personnel in station operations, rapid transit operations, and operations support to employees with minimal or no on-the-job injuries. Initially the training had focused on employees with multiple on-the-job injuries.

NYC Transit continues to provide performance evaluation training of paratransit drivers at contracted carriers who have been involved in two incidents, including both vehicle accidents and customer incidents, within a six-month period. The additional training has contributed to the decline in the trend of accidents and incidents.

Following the unfortunate death of a young woman, Long Island Rail Road began a complete review of gaps between trains and stations, immediately posted new signage on rail cars and platforms to warn customers of gap problems, and distributed a bilingual English-Spanish *Watch the Gap* brochure. The LIRR also began making gaps smaller where feasible. The railroad raised and shifted track along 24 platforms at 16 stations and is continuing the program. At 12 stations either new edgeboards have been installed along platform edges or platform slabs have been shifted.

Long Island Bus reduced its fixed-route accident rate 13 percent from 3.71 accidents per 100,000 miles driven in 2005 to 3.23 in 2006 and reduced its customer injury rate 15 percent, from 1.32 to 1.12 injuries per one million passengers carried. Refresher training is provided to all bus operators, regardless of driving records, every three years. The training enhances defensive driving skills and includes security awareness, accident report writing, fare-box procedures, and "clever device" operations. The accident evaluation committee reduces accidents by evaluating vehicle accidents and recommending corrective actions and training. LI Bus also reduced its employee lost-time accident rate 23 percent, from 4.0 per 200,000 work hours in 2005 to 3.1 in 2006.

LI Bus completed hearing conservation training for 63 employees whose job duties involve long-term exposure to noise over 85 decibels. The training included identification of high-noise sources at the agency's operations and the proper use and maintenance of hearing protection equipment. LI Bus has procured audiometric testing equipment to perform baseline testing on new hires and to monitor the hearing capacity of employees annually.

The agency also created a program to instruct employees in the prevention of falls when working on surfaces higher than four feet. All mechanics who routinely check and maintain compressed natural gas (CNG) cylinders on the roofs of buses were instructed in the proper use and maintenance of safety harnesses. LI Bus partnered with LIRR in a training session, sanctioned by the Nassau County Fire Service Academy, for 50 firefighters on CNG buses and familiarized them with CNG safety systems. Firefighters were also taught how to enter a bus that has an incapacitated operator.

A new icon was developed to draw customer attention to gaps between cars and platforms.

Metro-North's workplace safety achievements are largely due to the Priority One program under which departments can select from the program's menu of safety initiatives (24/7 Safety Awareness Training, Safety Audits, Safety Briefings, Job Safety Observations) to customize their own safety program. Through its sustained efforts, the railroad has achieved a 52 percent reduction in the rate of employee lost-time and restricted-duty incidents since 2001 and achieved a record 29 percent single-year reduction in 2005 from 2004.

To re-promote the wearing of personal protective equipment, Metro-North issued a "Safety is Always in Style" poster campaign featuring employees modeling the correct safety gear for specific tasks. A quarterly poster campaign also reminds employees of general safe work practices.

Bridges and Tunnels added a new safety theme-of-the-month to its safety programs to focus field personnel attention on critical safety issues including safe lifting and carrying, directing traffic, personal protective equipment, safety belt use, climbing and stepping, and avoiding dehydration. Various communications reinforced these themes, including a monthly safety newsletter, roll call messages, and signage.

The agency also focused the efforts of regular multi-department safety meetings on addressing issues relating to employees with multiple lost-time injuries. Ongoing safety awareness programs include the safety slogan contest, "Right To Know" (hazardous materials) training, firearms training, firearms qualifying and re-qualification, and operations safety newsletters.

The agency's contractor lost-time injury rate fell almost 24 percent in 2006 through a contractor safety program that Engineering and Construction (E&C) began in 2002 with the goal of reducing contractor lost-time accidents 5 percent annually. That goal has been exceeded every year due to aggressive safety oversight on E&C projects through unannounced surveys of each job site and by holding the contractor accountable for preventable accidents and requiring corrective action plans. Management is com-

mitted to maintaining a steady downward trend in contractor lost-time injuries by supporting the E&C safety officer and engineering staffs in safety initiatives.

Security and Preparedness

NYC Transit installed a two-way police radio communications system with interoperability ($129.4 million), using the existing NYPD above-ground radio system and bi-directional amplifiers for the underground radio system to enable seamless above- and below-ground police portable dispatcher radio communication.

Transit's Bus Camera Security System Project (BCSS) will equip Manhattan buses with video recorders. The $5-million project is both a major security effort and, as the first installation of security cameras in 400 buses at two depots, a large-scale demonstration project. The project will improve passenger and employee security, act as a deterrent to criminal and terrorist activity, provide a video record for use in investigating and prosecuting criminal activity, and assess the appropriateness of expanding the program citywide. In 2006 BCSS equipment was installed on six buses on a trial basis. The project should be completed by early September 2007. Written procedures are being prepared, in conjunction with Transit's Legal Department, to establish strict guidelines in the appropriate use of video for all employees to follow.

The "If you see something, say something" theme, developed after 9/11, has been adopted by transit agencies around the world.

Following 9/11, Transit began programs to enhance the physical security of its bus facilities and formulated a Heightened Awareness Plan to strengthen security procedures. A $13.6-million project was implemented to enhance physical security at all locations by tightening depot access and improving the visibility of movement inside the depots. Key elements included: replacement or enhancement of lighting, installation of closed-circuit television monitors and door swipe access

MTA Police purchased two mobile command centers that assist the department in responding to and managing serious events.

systems, additional fencing, moving or constructing security booths at depot entrances, and installation of rapid roll-up doors.

The MTA Police designed, engineered, purchased with federal funds, and received two emergency mobile command vehicles to assist the department in responding to and managing serious events. In 2006 the department's Canine Explosive Detection Unit, which is deployed throughout the system and dedicated at major terminals to provide a quick response to suspicious events or packages, reached its expansion goals one year ahead of target. To enhance its canine capabilities the MTA Police implemented portable explosion-detection technology.

The Inter-Agency Counterterrorism Task Force (ICTF) provides emergency management and intelligence oversight for the MTA and its operating agencies. It has increased its intelligence-gathering and reporting capabilities by incorporating real-time access to various intelligence databases (NYPD Finest System, HIDTA (High Intensity Drug Trafficking Area) Intelligence Network, Regional Information Sharing System).

Long Island Rail Road began installing security fencing and self-locking gates at critical areas along its railroad yards, power substations, and communication huts, and continued to install planters, street bollards, and vehicle barriers at Jamaica, Penn Station, and Flatbush Avenue.

LI Bus upgraded its facility closed-circuit TV cameras and enhanced perimeter security with street bollards. It also installed equipment that electronically sends images and fingerprints to the Department of Justice to obtain security clearance for newly hired bus operators and mechanics within 30 minutes.

Federal National Incident Management Systems (NIMS) training provides a common set of organizational structure and terminology in the event of an emergency to enable different organizations to work together better to ensure public safety. In 2006, 60 LI Bus employees completed security awareness training and 82 employees whose duties include responding to an incident completed federally mandated NIMS training in-house using an online training site.

All Bridges and Tunnels operations personnel and selected managers throughout the agency also completed NIMS training in 2006. Over 200 Bridges and Tunnels personnel are dedicated to anti-terrorism efforts that include security patrols, staffing vehicle checkpoints, and sharing counter-terrorism information with other agencies. The agency participated in interagency disaster drills to ensure readiness and to improve the performance of its facility personnel and coordination with other agencies.

Of the $721 million worth of security projects MTA Capital Construction has identified and prioritized, $560 million has been committed. The projects include perimeter protection for major facilities such as Grand Central Terminal, electronic protection (including access control and closed-circuit television monitoring) in critical locations, structural hardening of vulnerable locations such as bridges and tunnels, and consequence management to allow life-saving measures to be carried out immediately to remove people if an incident occurs.

Security bollards have been installed to help protect Grand Central Terminal.

NYC Transit had 432 clean-fuel hybrid electric buses in service by year-end 2006.

Environment

In-depth Environmental Compliance Reviews of the Coney Island and 239th Street complexes were performed by NYC Transit to assess compliance with numerous environmental regulations, including air, water, petroleum/chemical bulk storage, and hazardous waste.

Transit's Department of Buses received an award from New York Power Authority (NYPA) for reducing its energy use when high demand for electricity strains the system on the hottest summer days. The program helps NYPA manage the peak load electrical demand of its customers, decreases NYPA's portion of the in-city peak load, reduces the amount of in-city capacity needed, and reduces the likelihood of blackouts.

The Department of Buses has recently awarded a one-year contract to test the use of re-refined motor oils (waste oil that comes out of the engine processed to remove the contaminants), an environmentally friendly solution to the handling of waste oils.

Transit's newly completed Corona Yard train maintenance facility incorporates sustainable design features, including fuel cells, rain water reclamation for the facility's car wash, photovoltaic cells, natural ventilation, and daylighting. It will be the first MTA facility to apply for Leadership in Energy and Environmental Design (LEED) certification from the US Green Buildings Council.

With the implementation of the bulk fuel delivery program and with all retail suppliers required to offer only ultra-low-sulfur diesel fuel, all of Transit's mini-bus type Access-A-Ride (AAR) paratransit vehicles now participate in the reduction of exhaust emissions.

Long Island Rail Road completed investigations for mercury contamination at 20 LIRR substations, completed remedial design of the Babylon Yard substation, and began soil and groundwater investigations at Long Island City and Richmond Hill yards.

Contracts were awarded for interim remedial measures at Yaphank, site investigation at Holban Yard, and construction and operation of petroleum remediation at Morris Park. The latter included a combination of remedial technologies including pumping light non-aqueous phase liquids (LNAPL) and bioremediation (enhancement of naturally occurring organisms that eat the con-

The Corona maintenance facility incorporates sustainable design features.

At Metro-North's Harmon Yard, a compressed air system is used to power tools and operations. When fully operational, it will save 350 kilowatts annually.

taminated soil). A chlorofluorocarbon (CFC) remedial investigation began at Morris Park Yard with groundwater and soil sample collection.

In a pilot program to reduce locomotive fuel use and exhaust, a SmartStart device which monitors fuel consumption and exhaust emissions was installed in an LIRR locomotive. The device automatically shuts down and restarts the locomotive based on idle time and the demand for power. In the first 14 months of operation, approximately 6,700 gallons of diesel fuel have been saved; LIRR will add 21 locomotives to the program in 2007.

LI Bus expanded its storm water control program by increasing the use of oil skimmers in storm water catch basins that service bus parking areas. All of the storm water catch basins in both the bus and public parking areas were labeled to increase the awareness of water pollution prevention.

Federal requirements mandate that diesel locomotives begin using ultra-low-sulfur fuel (ULSF) beginning in 2012. Metro-North has already begun the process of switching over to ULSF for its locomotives and expects to implement this change in 2007, five years before the required date.

A pond adjacent to MNR's new Pearl River parking expansion, partially on railroad property and in sight of the new facility, had experienced decades of dumping. MNR's Department of Environmental Compliance and Services (DECS) arranged for the removal of dumped materials and planted over 1,000 wetland plants. Supplementing earlier efforts to arrange for the reuse of recovered diesel oil, DECS purchased an oil burner capable of burning recovered lube oil to provide heating for a railroad facility.

MNR will replace the compressed air system and fan motors at its largest maintenance facility, the Harmon Yard Overhaul and Maintenance Shop. Compressed air will be used extensively to power a variety of tools and operations, and will save the railroad approximately $122,000 annually once the project is completed.

Salt domes shield roadway de-icer material from rain and prevent storm water runoff that could contaminate waterways and surface soil. A dome to serve the Rockaway bridges, Cross Bay Veteran's Memorial and Marine Parkway-Gil Hodges Memorial, was completed in 2006, giving Bridges and Tunnels storage areas for all its facilities.

Bridges and Tunnels has expanded its lighting

At Fulton Street/Broadway-Nassau, construction has begun on the Fulton Street Transit Center, which will improve mobility in Lower Manhattan.

replacement program – including the installation of energy-saver transformers that reduce electric voltage without affecting visible light levels – to its tunnel service facilities and ventilation buildings.

MTA Capital Construction has established sustainable procedures that are used on expansion projects to reduce impacts on natural resources and optimize performance without compromising other project goals. The Fulton Street Transit Center, for example, is designed to meet the Leadership in Energy and Environmental Design (LEED) Silver Rating. Construction practices in Lower Manhattan have become a model of success and will be used on all Capital Construction projects. This year, the United States Environmental Protection Agency filmed Capital Construction's clean diesel emissions program that is underway at South Ferry to encourage its adoption in other areas of the country. This program has helped alleviate concerns of many who live and work in downtown Manhattan, where heightened awareness of air quality issues has hindered progress on other projects.

MTA Bus inherited an antiquated fleet from the seven private companies that formerly operated its routes. The MTA Board has approved a purchase of 284 hybrid-electric buses for local routes and an additional 105 are planned for purchase in 2007. MTA Bus also inherited facilities with environmentally substandard components. To remedy the situation, the agency has replaced obsolete in-ground lift units with environmentally friendly portable lifts to service new express and local buses, installed or updated tailpipe exhaust systems at three depots, constructed or updated battery charging rooms at four depots, and is continuing asbestos abatement at two depots.

MTA Bus has replaced 26 steel roll-up doors with high-speed rapid roll-up doors throughout its eight bus depots. The well insulated doors open and close up to three times faster than conventional steel roll-up doors, minimizing air exchange between the depot and the outside environment and decreasing heating and cooling demand throughout the year.

People with Disabilities

The stations of the Times Square complex that serve the Flushing line 7 train, the Broadway-Seventh Avenue 1, 2, 3 trains, and the Broadway N, Q, R, W trains have been designated key stations by the MTA. They are among the system's stations where Americans with Disabilities Act (ADA) compliance will benefit the most people because of their high ridership, transfer opportunities, and service to major areas of activity. Phase II of the Times Square renovation ($123 million) rehabilitated the passageway from Broadway and Seventh Avenue to the Eighth Avenue A, C, E trains, widened passageways, replaced three existing escalators, and installed two new elevators, bringing these stations into full ADA compliance.

Total NYC Transit paratransit ridership for 2006 was 5.2 million – including ADA registrants and their personal care attendants (PCAs) and guests – an increase of 11.5 percent over 4.7 million in 2005; ADA registrant trips, at 3.9 million, increased 13.9 percent. PCAs accounted for 19 percent of total boardings in 2006, down from 22 percent in 2004. Preliminary on-time performance was 93.9 percent. Customer satisfaction with Access-A-Ride (AAR) paratransit service remained at 79 percent, as in 2005; AAR has maintained a zero percent denial rate since 2003.

NYC Transit continues making key stations accessible to people with disabilities.

Although fleet size increased 22.8 percent from 1,206 to 1,481 vehicles in 2006, the number of collisions and customer incidents declined to 1,343 from 1,360 in 2005.

Paratransit ridership is expected to grow about 15 percent a year. In conjunction with NYC Transit's Materiel and Law departments, Paratransit negotiated and expedited fleet expansions with four of the eight primary carriers for an increase of 235 vehicles over the remaining two years of the contract. Four new carriers were awarded contracts to provide inter-borough trips in a three-year contract through the addition of 150 vehicles.

Customers who travel from the same location to the same destination at the same time of day at least one day a week can take advantage of subscription service, which automatically schedules trips and eliminates the need for customers to call in advance for each trip, reducing reservation call levels. At the end of 2005 about 12 percent of daily scheduled trips were subscription service trips. In March 2006, an outreach to customers began, and by the end of the year the daily percentage had increased to 21.4 percent.

Preliminary and final design reviews of Paratransit's Automatic Vehicle Location and Monitoring System (AVLM) were completed in 2006. The system will operate within the five boroughs of New York City, overcome urban canyon issues, and provide reliable data and real-time communications. It will interface with the paratransit scheduling software (ADEPT) for real-time updates to routes and trips. The project was awarded in November 2005 and will be completed by 2008.

LI Bus's Able-Ride paratransit ridership increased a substantial 8 percent over 2005 to 352,589 customers in 2006. LI Bus has begun procuring 27 replacement light-duty buses to

provide the capacity needed for Able-Ride service. Site modifications and drainage improvements to the agency's paratransit facility were completed in 2006; the upgrade of the interior will begin in 2007.

MTA Bus started a wheelchair lift overhaul program, including replacement lifts and a rebuilding program together with an expanded preventive maintenance program and additional employee training, to improve the reliability of compressed natural gas bus wheelchair equipment.

Arts for Transit

Subway and commuter rail station rehabilitation projects include funds allocated for the installation of permanent works of art. Since 1986, more than 170 projects have been installed in the MTA system; another 50 are currently underway.

Thirteen permanent artworks of faceted glass panels were installed in 2006 on platforms, mezzanines, and stairways at elevated stations along the 2, 5 and 4 lines in the Bronx; light pours through, bringing vibrant color and vivid images to the stations.

The artists (including several Bronx natives) each brought a unique vision to the work and were inspired by the borough's landscape, flowers, birds, and the spirit of its people and neighborhoods. At the Nereid Avenue station (artist: Noel Copeland), riders can see a depiction of the profusion of leaves and flowers in nearby community gardens. At 170th Street (artist: Dina Bursztyn), the bright glass panels are colorful renditions of the neighborhood as seen from above.

Along the Way: MTA Arts for Transit, a book illustrated with 200 color photographs that details each public art project in the MTA system, was published and is sold nationwide; sales revenues benefit the Transit Museum. At the 2006 American Public Transportation Association Rail Conference, Arts for Transit presented an exhibit and tours on the contribution of art and design to MTA subway and commuter rail stations.

Colorful figures in faceted glass portray a theme of sun, planet, and city at the Gun Hill Road station in the Bronx.

The annual holiday train show at the Transit Museum's Grand Central Store and Annex is among the most popular Museum attractions.

New York Transit Museum

To celebrate its 30th anniversary, the Transit Museum presented exhibits and programs featuring all of the MTA operating agencies. *Many Hands: Representations of Railroad Workers* honored professions in railroading with photos and artifacts of the Long Island and Metro-North railroads and their historic predecessors. Another exhibit celebrated the 70th anniversary of the Triborough Bridge and explored Robert Moses' influence on regional transportation. The Museum's Bus Festival, held this year as a feature of the Atlantic Antic Street Fair, welcomed more visitors than ever (5,827) and showcased vintage vehicles from all MTA agencies. In December, when federal funding for East Side Access was authorized, an exhibit focused on that enormous MTA undertaking.

Guided tours and hands-on workshops were provided for 1,000 school and camp groups; 29 off-site tours and excursions were offered along with 23 lectures and special events. Attendance rose over 15 percent from 2005, and new membership rose 63 percent; membership revenue was up 23 percent, store revenue was up 20 percent. An online teacher resource center was launched to provide teachers with ideas to supplement their classroom curricular activities before and after a visit to the Transit Museum.

The Transit Museum partnered with the LaGuardia Community College/Wagner Archives to develop a subway-based curriculum for fourth-grade classrooms and distributed 18,000 copies to public school teachers. With Lionel, the Museum presented its fifth annual *Holiday Train Show at Grand Central* to a record 120,000 visitors. In collaboration with the Doll and Toy Museum of New York City, the Museum presented *Toot, Toot, Beep, Beep, Toys that Move,* a compendium of historic transportation toys from major private collectors.

A new revenue facility handles cash receipts for both New York City Transit and Bridges and Tunnels, helping to lower costs for both agencies by sharing services.

Financial Performance

Revenue and Budget*

The MTA completed 2006 with a closing cash balance of $937 million that will be carried over to support 2007. Of this figure, $582 million was carried over from prior year cash balances.

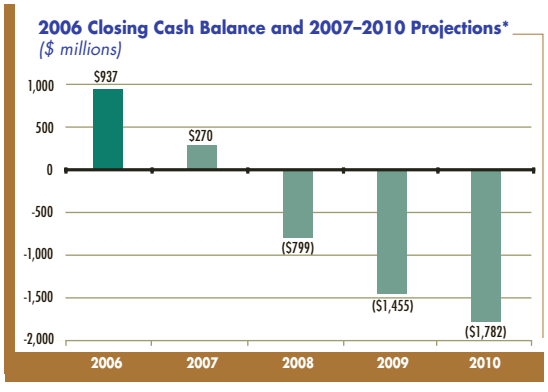
The MTA budget continued to benefit from the high level of real estate transfer tax and the mortgage recording tax it received as a strong real estate market continued to outpace expectations. MTA's financial plans over the last few years, like those of the city and the state, have assumed that the real estate market would "normalize" from the record-breaking returns of 2003 and 2004, which were fueled by low-interest rates and refinancing activity. Instead, in the New York region the market has continued its high level of activity despite rising interest rates and a slowing of related economic indicators.

The MTA generates 60 percent of its operating budget from fares and tolls, a proportion significantly higher than any other major transit 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.

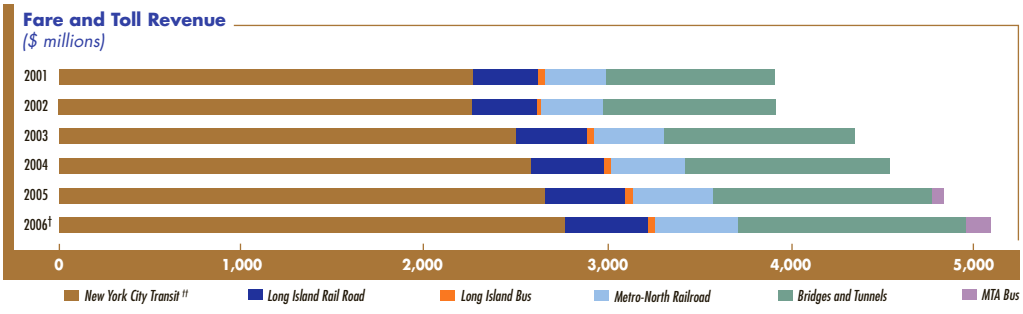
The current MTA Financial Plan, which assumes there will be no fare or toll increases in the near future, projects that both revenues and subsidies – including dedicated taxes – will flatten. Real estate tax revenues, which defied expert predictions and continued to grow considerably through 2006, are expected to decline in 2007 and then show modest annual increases through 2010.

Expenses, which are forecast at $9.7 billion in 2007, 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. Simple inflationary pressures are responsible for a 26 percent growth in overall expenses between 2004 and 2010. Over the same period debt service, which was $848 million in 2004, will increase to $1.84 billion in 2010, a rise of 217 percent.

The MTA is not alone in facing significant increases moving forward in health and welfare and pension costs; all government and private sector operations are affected. Energy costs and insurance are also beyond the MTA's direct control and are expected to see extraordinary increases as well, while the costs of providing paratransit service to people with disabilities, a



*2006 figure is actual as of April 2007; 2008–2010 figures are from February 2007 Financial Plan.



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

* Figures are from the 2007 Adopted Budget and February Financial Plan 2007–2010, except 2006 closing cash balance, which is from the Review of MTA-Consolidated 2006 Actual Results, April 24, 2007.

responsibility assigned to transit agencies but without adequate funding, are expected to grow significantly by 2010, largely due to federal requirements for service.

In the near term, the combination of increased costs and stable revenue creates growing deficits in MTA's operating budget, currently projected at $799 million in 2008, $1.46 billion in 2009, and $1.78 billion in 2010.

The MTA is working with the New York State Governor and Legislature to develop a strategic plan to meet these challenges.

Finance

The MTA's credit ratings remained strong in 2006, with all bond issues maintaining ratings of A or better from all three bond rating agencies: Moody's, Standard & Poor's, and Fitch. In September Standard & Poor's upgraded the rating on unenhanced Dedicated Tax Fund Bonds to "AA" from "AA-" citing increased confidence in tax-backed securities.

During the year the MTA issued five series of bonds totaling $2.15 billion, four of which were new money bonds to finance projects in the existing Capital Programs. In the remaining series, the MTA refunded $278 million of Transportation Revenue Bonds and paid off $450 million of Transportation Revenue Bond Commercial Paper. The refunding resulted in average annual savings of $887,000 through 2032, with total savings of over $23 million.

In December the MTA negotiated an increase in the letter of credit securing the commercial paper program that allowed it to issue $750 million of Transportation Revenue Bond Commercial Paper in February 2007. During 2006, the MTA also terminated two interest rate hedges that it competitively bid during 2005, resulting in net payments to MTA of $41.6 million.

Insurance and Risk Management Operations

The MTA's Risk Management operation put in place a new Owner-Controlled Insurance Program (OCIP) for the Second Avenue Subway Project and two OCIP programs for other 2005-2009 projects of New York City Transit, Long Island Rail Road, and Metro-North Railroad. An OCIP enables the MTA to purchase workers compensation and general liability insurance for its contractors directly through its captive insurance company, First Mutual Transportation Assurance Company, guaranteeing coverage at a fixed cost over the life of the contract. Since contractors do not include insurance costs and potential increases in their bids, the OCIPs save approximately 2 percent of the value of each construction project – for example, construction costs of Phase I of the Second Avenue Subway total $2.5 billion, and the OCIP should save the MTA about $50 million.

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 2006, although neither deal has been finalized.

In Brooklyn, the development company Forest City Ratner is planning a multi-use project to be built in part over the Vanderbilt Yard of 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 tracks. Key to the project is an arena that will be home to the Nets professional basketball team that is currently playing in New Jersey.

The MTA is also planning to sell the right to build over the LIRR rail yard on the Far West Side of Manhattan. The Hudson 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. The MTA is drafting a request for proposals from companies interested in developing the site. The RFP will be released in mid-2007.

In 2006, MTA Real Estate completed the

purchase of properties needed to complete the Fulton Street Transit Center in Lower Manhattan and worked with tenants to help them find alternate space. Demolition of the existing buildings will begin in 2007.

Income from real estate, which is generated primarily from independent vendors doing business on MTA property, was $73.5 million, down slightly from $74.6 million in 2005.

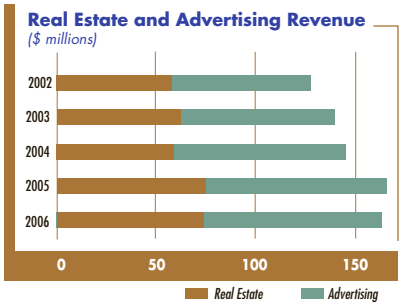
Advertising revenue also decreased slightly, falling to $90.5 million in 2006 from $91.4 million in 2005.

The MTA is beginning to see significant gains from its promotional programs, both those run by the MTA operating agencies and its in-house licensing program that contracts with vendors to create MTA-themed products.

In 2006, MTA New York City Transit created 28 promotional campaigns with brand-recognizable partners that resulted in more than $800,000 in revenue and almost $600,000 in net revenue.

Campaigns included corporate sponsorships with MasterCard®, the Broadway debut of Dr. Seuss' *How the Grinch Stole Christmas!,* the Bodies exhibit at the South Street Seaport Exhibition Centre, and many promotions involving MetroCard-related admissions discounts to attractions in New York City. Through an ongoing partnership with NYC & Company, the city's official tourism and marketing organization, the MetroCard logo has been included in advertising for two major events: "Broadway Under the Stars" and "Culture Fest." Transit has also created barter relationships with organizations that allow it to trade advertising space on subways and buses for mass transit promotions. These include deals with the NY Road Runners for the New York City Marathon and with the New York Mets, which included radio and television time and signage at Shea Stadium.

Many of Long Island Rail Road's promotions were targeted to specific market segments and offered discounts or value-added tickets to such venues as Long Island beaches, Belmont Park, and the East End of Long Island. For



Manhattan-bound customers there were "free ride" programs to generate interest in Broadway theater and the Radio City Christmas Spectacular. The railroad also worked with the New York Mets to offer discount tickets for selected games. Total revenue from these programs reached $1.4 million in 2006.

Promotions at Metro-North Railroad, including those for the Chihuly exhibit at the New York Botanical Garden and the Radio City Christmas Spectacular, generated $580,000 in net revenue and 132,000 rides (an increase of 35 percent over 2005), a record for the function. In addition, the railroad provided service to the U.S. Open Golf Championship, held at Winged Foot Golf Club in Mamaroneck, New York, which generated 100,000 rides and $600,000 in revenue.

In 2006, the MTA earned $267,000 in royalties on nearly $2.3 million in sales of licensed products, up 24.9 percent from 2005 and 62.6 percent from 2004. The MTA's portfolio of licensees grew 40 percent to a total of 62 program participants marketing over 400 officially licensed products. Products are sold at the New York Transit Museum stores in Brooklyn and at Grand Central Terminal, online through the Transit Museum's web store, and by independent vendors.

Notable license agreements in 2006 included such brands as Timberland, Pro-Keds, Sony, and Lionel, which will launch its first-ever NYC subway train set in 2007, a scale model replica of the R27 subway that entered service in 1960.

Revenues from the MTA Brand Licensing Program support the New York Transit Museum.

New open stairways at Times Square-42nd Street provide easier connections and better sightlines for passengers.

MTA New York City Transit

Capital Program Improvements

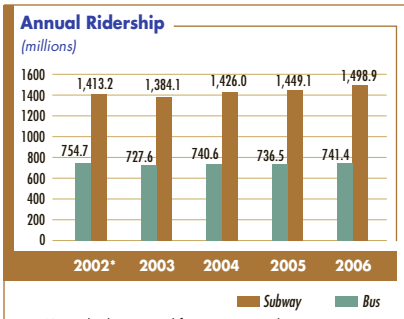
NYC Transit introduced a new generation of subway cars in 2006, placing the first 20 R-160 rail cars into revenue service following 14 months of extensive testing, including 30 days of in-service tests. An additional 10 cars were accepted and were being used for training, and 41 cars were delivered by year-end for in-service testing before being accepted and placed into service.

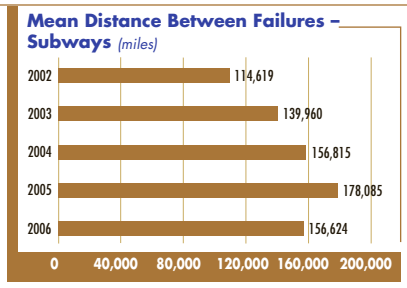
The cars, built by Alstom and Kawasaki, operate on the N line. Designed for use on the B Division (lettered lines), the cars are similar to the R-142, R-142A, and R-143 models that were introduced in 2000. In addition to all of the technological advances incorporated into the earlier high-tech cars, the R-160s have new displays that show upcoming stops and that can be reprogrammed in the event a train is rerouted. They also have video screens that in the future will be used to display service information or safety tips.

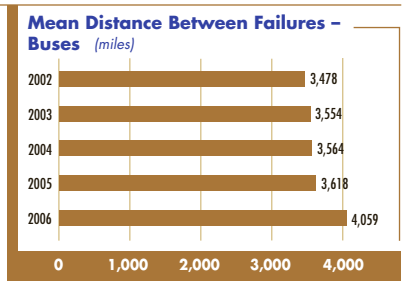
All of the new cars are compatible with Communications-Based Train Control (CBTC). Transit has ordered 660 R-160 cars to replace subway cars that have been in service since the 1960s and 1970s and have reached the end of their useful lives.

Transit completed a number of major station renovation projects during the year, including the $45.3 million rehabilitation of the Queens Plaza E, G, R, V station, which provided for three new ADA-compliant elevators, the repair of structural deficiencies, lighting and signage enhancements, and improved security and revenue controls.

In addition, the $123.2 million Phase II of the Times Square station renovation project rehabilitated the station components serving the Flushing Line 7 train, the Broadway-Seventh Avenue 1, 2, 3 trains, and the Broadway N, Q, R, W stations, as well as the passageway from the





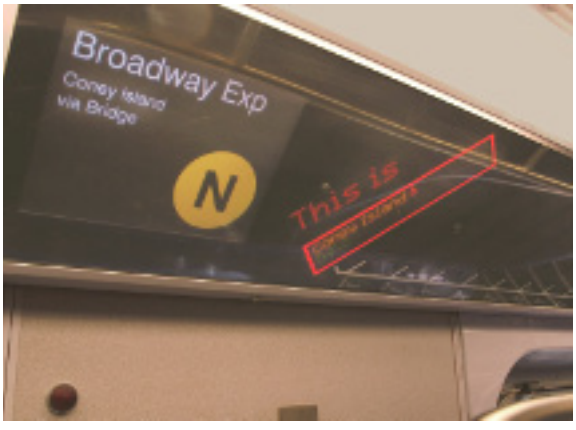


*Bus ridership restated from prior annual reports.

Broadway and Seventh Avenue lines to the Eighth Avenue A, C, E lines. The project brings nearly all of the Times Square station into ADA compliance with widened passageways, the replacement of three existing escalators, and the installation of two new elevators. (The 42nd Street shuttle platform is not yet ADA-compliant.)

Other completed stations include 167th Street and 176th Street on the 4 line in the Bronx; Sutter Avenue, New Lots Avenue, Livonia Avenue, and East 105th Street on the L line in Brooklyn; and 86th Street in Manhattan on the 4, 5, 6 lines. At Broadway Junction in Brooklyn, the Eastern Parkway station of the J, Z lines and the Broadway Junction station on the L line were also completed.

Other important infrastructure projects less visible to passengers were also completed during the year. On the G line, 6.6 miles of subway tunnel from Greenpoint Avenue to Bedford-Nostrand Avenue were reconstructed and 4.2 miles of track lights were rehabilitated between Metropolitan Avenue and Bedford-Nostrand Avenue. The projects cost a total of $46.0 million.



The R-160 train features a variable message board showing the next 10 stations.

A new $207.8 million maintenance shop and car wash in the Corona Yard was substantially completed in the last quarter of 2006, improving servicing for subway cars on the 7 line.

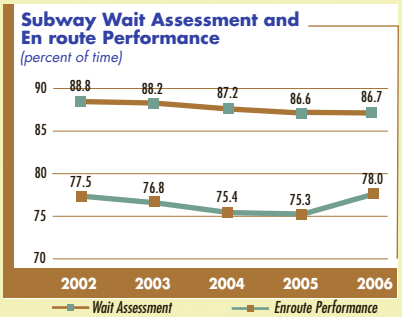
On the Sixth Avenue line in Manhattan, Transit completed a $30.7 million fan plant rehabilitation project. The plant is equipped with eight high-capacity fans, facilitating smoke removal and the flow of fresh air in the subway tunnel between the Broadway-Lafayette and Lower East Side-Second Avenue stations on the F, V lines and between the Broadway-Lafayette and Grand Street stations on the B, D lines.

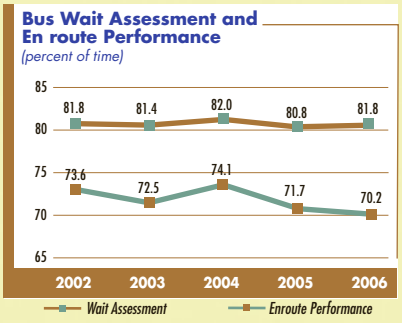
To improve service in Upper Manhattan and the Bronx, Transit modernized the fixed-block signal system on the B, D lines from 145th Street in Manhattan to 205th Street in the Bronx, consolidating local signals into master towers. The $218.9 million project increased operational flexibility, making skip-stop service possible and providing overspeed protection. This was the last modernization of fixed-block signals; from this point forward Transit plans to install Communications-Based Train Control signaling systems on all of its lines.

Transit received 97 additional hybrid-electric buses in 2006, giving it a total of 432 of these clean-fuel vehicles. The agency has been a major force behind hybrid-electric bus technology, working closely with bus and bus component manufacturers to develop or improve technologies that make hybrid-electric service economically viable in an urban setting. In addition, the agency ordered 30 coach buses – to be delivered in 2007 – for express bus service.

MTA New York City Transit

To improve bus maintenance operations, Transit continued its program to modify depots in order to handle the growing fleet of hybrid-electric buses. To date five depots have been upgraded, with Fresh Pond and East New York depots completed in late 2006.





Wait assessment measures daytime performance

– Rush hours: trains arriving within two minutes of scheduled interval and buses arriving within three minutes of scheduled interval

– Non-rush hours: trains arriving within four minutes of scheduled interval and buses arriving within five minutes of scheduled interval

En route performance measures nighttime performance

En route Schedule Adherence: trains leaving designated stations up to one minute before and five minutes after their scheduled departure times; buses leaving designated stops up to one minute before and five minutes after their scheduled departure times.

Ridership and Service

NYC Transit ridership (subways, buses, paratransit, and Staten Island Railway combined) increased to 2.25 billion in 2006, up 2.53 percent from 2.19 billion in 2005. Subway ridership grew by 3.44 percent; bus ridership grew by 0.67 percent. Paratransit ridership was up 11.55 percent to 5.2 million in 2006 from 4.6 million in 2005, the tenth year in a row of double-digit growth; Staten Island Railway ridership rose 9.36 percent to 3.78 million from 3.46 million.

Mean distance between failures on the subways fell 12.1 percent in 2006, to 156,624 miles from 178,085 miles.

On buses, the mean distance between failures rose 12.2 percent to 4,059 miles in 2006 from 3,618 miles in 2005.

Subways

NYC Transit opened its new Rail Control Center in 2006. This state-of-the-art facility will allow centralized monitoring of all subway operations and will be the nerve center of the system as it integrates such computer-based operations as CBTC and Automatic Train Supervision (ATS).

On the L line, operating crosstown on 14th Street to Canarsie, trains began in-service testing of CBTC technology in March. This computerized control system will allow trains to operate with shorter distances between trains so that during rush hours trains will be able to run more frequently, and platform displays will tell passengers how long they will have to wait until the next train arrives. Increases in service will be made as Transit receives subway cars that were ordered to allow for fleet expansion.

The station customer assistance program continued to grow in 2006. By the end of the year, customer service agents were assigned to 158 locations throughout the system.

To improve air conditioning on older subway cars, Transit replaced direct current electric motors with alternating current motors that are more reliable and have lower maintenance costs. Nearly 250 R-62A cars were fitted with the new motors.

Transit installed emergency exit bars that unlock swing gates at subway stations (except those being rehabilitated or that lead to private entrances) to make stations safer and allow passengers to exit quickly during emergencies, replacing the electromagnetic locks that required a station employee to unlock the gate. Although there have been some abuses of the panic bars – some customers use them for normal exiting, setting off the alarm – Transit planned an educational campaign for early 2007 and the Transit Bureau of the New York Police Department has announced plans to monitor compliance.

On the Staten Island Railway, which is operated by NYC Transit, new train schedules were introduced in July to allow more riders the benefit of express service. As a result, 62 percent of morning peak riders took express trains, up from 38 percent before the changes. The new schedule was revised again in November to coincide with an increase in weekend service on the Staten Island Ferry and to fine-tune running times.

Buses

Transit is installing SPEAR 3i, an improved computerized maintenance tracking and reporting system that is being rolled out to depots and shops to help keep buses on the road longer and limit in-service breakdowns that inconvenience passengers. Four shop facilities and the Ulmer Park Depot have been upgraded to the new system through 2006, and rollout to the remaining 17 depots will continue in 2007 until all are upgraded. The new system improves the ability of bus personnel to schedule preventive maintenance and manage work flow and parts inventories.

To improve passenger safety, NYC Transit, working with the New York City Department of Transportation, created a new terminal area at Brooklyn's Kings Plaza Shopping Mall. The terminal area eliminates a dangerous u-turn that buses had to use in order to reach the bus stops at the mall and removes the buses from traffic lanes when they discharge and pick up passengers.

Paratransit

At the start of the year, Access-a-Ride shared-ride service was provided by eight independent companies under contract to Transit, using equipment owned by the agency but maintained by the individual companies.

To meet the growing demand for service, Transit awarded contracts to four additional carriers to provide interborough trips over a three-year period, adding 150 vehicles to the fleet. It also accepted delivery of 550 vehicles in 2006, which included 333 vans and 217 sedans. The service companies use a growing fleet of sedans to provide Access-A-Ride service where lift-operated vehicles are not required by customers.

Transit's new high-tech rail control center will one day serve as the hub for all subway operations.

The rehabilitated mezzanine at Jamaica provides access to all LIRR tracks and links to the subway and AirTrain JFK.

MTA Long Island Rail Road

Capital Program Improvements

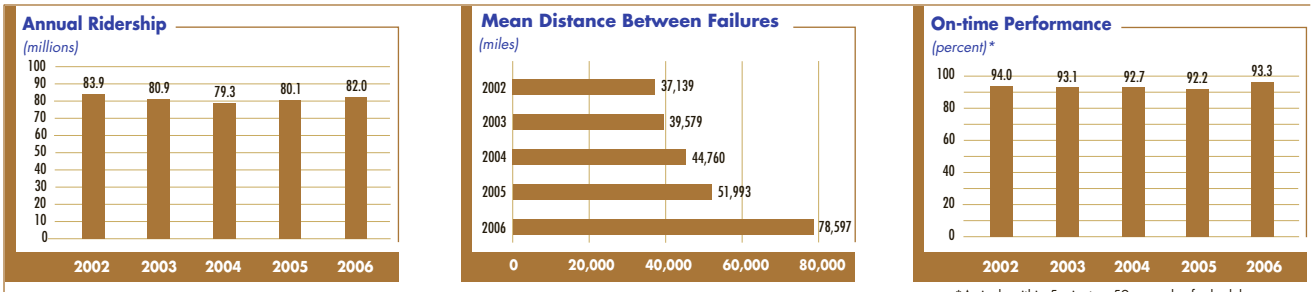
The completion of the Jamaica Station rehabilitation and a new intermodal center at Mineola highlighted Long Island Rail Road's Capital Program progress in 2006.

Jamaica has long been the major hub of the railroad's operations, with trains from Manhattan, Queens, and Brooklyn terminals converging at the station then heading out along nine of the ten LIRR branches (trains along the Port Washington Branch do not travel through the station). The 94-year-old station was completely transformed into a major transportation center that links not only Long Island Rail Road with NYC Transit subways and buses but added an international dimension to its service with a link to AirTrain/JFK, which is operated by the Port Authority of New York and New Jersey.

The rehabilitation included replacement of all platforms and canopies, platform facilities, and systems, while preserving portions of the historic nature of Jamaica Station. A new mezzanine improved the ability of customers to circulate through the station, provided direct, ADA-compliant connections to other services, and enhanced customer amenities and access to information. Work was substantially completed in 2006 with the installation of the canopy roofing, new tactile signage, and stair handrails. The railroad also tested new in-station communications systems, including a public address system, closed-circuit television system, and information signage.

Another major project completed in 2006 was a $45 million intermodal center at Mineola that provides easy access to parking and seamless transfers to seven local bus lines operated by Long Island Bus.

The center has more than 700 parking spaces in a four-level garage, two elevators that connect the center to the station platforms, a pedestrian overpass that connects the north and south sides of the station, handicapped accessible parking spaces and revenue collection machines, an audio-visual paging system on each of the facility's four levels that provides arrival and departure information, and directional signage that allows customers to move efficiently and quickly



*Arrivals within 5 minutes, 59 seconds of schedule.

throughout the facility. A regional office of the MTA Police Department and a Long Island Bus dispatch facility also opened at the site.

Other station projects completed in 2006 included new stairways and railings at Bellmore and Wantagh stations; station and/or platform renovations at Copiague, Garden City, Lindenhurst, Nassau Boulevard, and Rosedale; new vintage-style platform lights at Kings Park and Northport stations; a new overpass at Cold Spring Harbor; and parking improvements at Ronkonkoma and Valley Stream.

The LIRR continued its annual track program, replacing or rehabilitating 82 miles of track at a cost of $56.0 million. It also completed Phases I and II of the rehabilitation of the East River Tunnels, an $18.3 million project.

Other components of the railroad's infrastructure were also improved. In order to provide more efficient and safer service, the railroad installed signals between Patchogue and Speonk on the Montauk Branch; signalization along the 17.5 miles of track cost $41.0 million. Five full-service and 77 express ticket machines were installed at 81 stations in a project costing $4.2 million.

The LIRR also received 244 M-7 cars, bringing the total owned to 802. The last 34 M-7 cars on order will be delivered in 2007.

Ridership and Performance

Long Island Rail Road ridership was up 2.38 percent in 2006, from 80.1 million to 82.0 million riders, with increases in both commuter and off-peak markets. The largest increases were in sales of ten-trip peak tickets (up 11.0 percent), senior ten-trip tickets (up 10.3 percent), family fare tickets (up 5.9 percent), and off-peak ten-trip tickets (up 5.7 precent).

Since 1994, the LIRR has experienced a growth of non-commutation ridership of 42 percent. During that period, off-peak ridership has grown from 21 percent to 27 percent of the railroad's total ridership.

Mean distance between failures, a key performance indicator, was up 51.2 percent, to 78,597 miles in 2006 from 51,993 miles in 2005.

Some 93.3 percent of LIRR trains arrived on time in 2006, the railroad's best on-time performance in four years. The morning peak was 93.2 percent, off-peak was 94.0 percent, and afternoon peak for the year came in at 89.9 percent.

Service

In March the Long Island Rail Road initiated the largest service increase in nearly 20 years. This increase was in response to crowding on some branches and increased customer demand for off-peak service.

The service changes provided for new rush-hour service on the Ronkonkoma and Babylon Branches, new dual-mode service from Speonk during the morning rush hour to provide a one-seat ride from diesel territory into Penn Station, and new late evening Montauk Branch service.

In addition, the revised schedules offered new half-hourly weekend service on the Huntington/Port Jefferson Branch, with increased service on Main Line stations at Hicksville and west, and new weekend service on the Port Washington Branch.

The intermodal center at Mineola serves as a major transfer point between Long Island Bus and Long Island Rail Road.

MTA Long Island Bus

Capital Program and Other Improvements

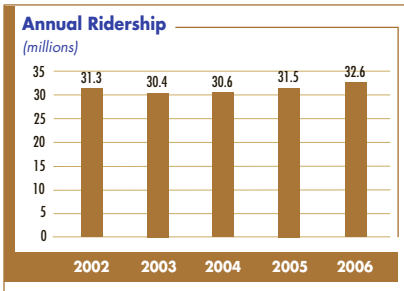
Long Island Bus customers are benefiting from a number of improvement projects that were completed in 2006.

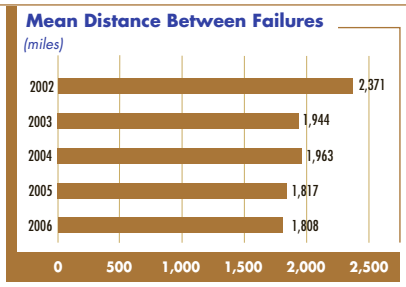
The new $45 million intermodal center at the LIRR Mineola Station offers LI Bus customers seamless transfers to seven bus lines that serve the Hub, Nassau County's largest commercial and employment center. The intermodal center serves approximately 45 buses an hour and 1,000 customers daily.

At its own facilities, LI Bus completed drainage and site modifications at its paratransit depot in Garden City. The building houses both office and operational components of the service and provides parking and maintenance facilities for paratransit vehicles. Major renovations on the interior of the building will begin in 2007.

To improve overall security at two key facilities, LI Bus installed emergency generators and exhaust fans at the Hempstead Transit Center and safety garage doors at the Senator Norman J. Levy Facility in Garden City. In addition, perimeter fencing was constructed around the Levy Facility and street bollards were installed around the compressor station.

LI Bus is also installing a new energy storage system at its main fueling area. This innovative system is among the first and largest sodium-sulfur cell technology installations in the United States. It allows power storage during non-peak periods. By using the batteries during peak hours, LI Bus can reduce overall peak demand. The system can also use a stand-alone electric source to supply grid-independent back-up power for up to two days.





To provide better communications with bus operations and enhance operational flexibility, the agency upgraded its fixed-route radio frequency system and integrated its stand-alone vehicle operations system network.

Ridership and Performance

Ridership continued to grow in 2006, and Long Island Bus has posted ridership increases in eight of the past nine years. A robust local economy, higher gasoline prices, affordable fares, and continued service reliability all contributed to the surge in ridership. Travel patterns, which are affected by the county's changing demographics, are also adding to ridership gains. With the growth of service industry jobs, LI Bus is attracting additional riders from Queens who are commuting to jobs in Nassau County.

As a result, for the second consecutive year LI Bus set ridership records for weekday, Saturday and Sunday service. The agency set all-time annual fixed route and paratransit ridership marks and established new highs for single weekday, with 119,243, Saturday 64,884 and Sunday 38,247 ridership. Annual ridership for the fixed route system was 32,224,858 customers and 352,589 passengers for paratransit.

Total ridership increased by 3.40 percent to 32.6 million, up from 31.5 million in 2005. Fixed-route ridership grew 3.43 percent to 32.2 million in 2006 from 31.1 million in 2005; paratransit ridership grew 8.5 percent to 352,619 in 2006 from 324,905 a year ago.

Mean distance between failure results for 2006 fell slightly to 1,808 miles, from 1,817 miles for 2005. This was attributed to increased average fleet age and higher average mileage due to increased fleet use. LI Bus is addressing this issue by expediting the purchase of funded replacements while working with its funding partners to examine the shortfalls in its scheduled replacement program.

Service Improvements

A number of service improvements were made to meet increased customer demand. To provide faster service from Flushing to Hicksville, limited express service during the morning rush was added to the N20/N21 schedule. On the N6, six new trips were added on Sundays to meet the growing customer demand for travel between the Hempstead Transit Center and Jamaica, Queens.

For customers with limited vision, LI Bus renewed its program of placing Braille bus numbers on its fixed-route vehicles. To enhance security and better identify paratransit customers, LI Bus's Able-Ride service instituted a photo ID program for active participants. More than 6,300 Able-Ride customers were contacted, screened, and issued laminated photo cards during 2006. These cards help LI Bus ensure that only those customers certified for paratransit travel use this service.

A number of safety initiatives were completed in 2006, including hearing conservation training for employees exposed to high noise levels on a long-term basis. A fall prevention program was also implemented. In addition, LI Bus participated in a training session that was held to familiarize local firefighters with safety issues regarding buses fueled by clean compressed natural gas.

The final phase of the three-year rehabilitation of the façade of Grand Central Terminal was completed in 2006.

MTA Metro-North Railroad

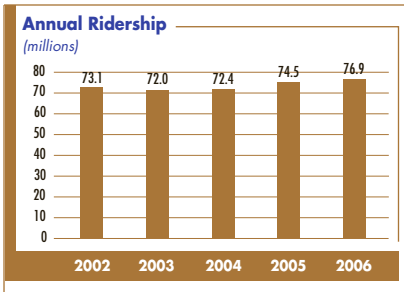
Capital Program Improvements

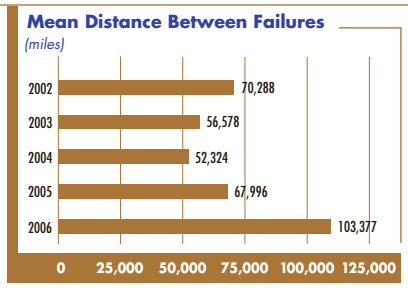
MTA Metro-North Railroad's 2006 Capital Program project completions totaled $324 million (90 percent of plan); commitments totaled $617 million (87 percent of plan).

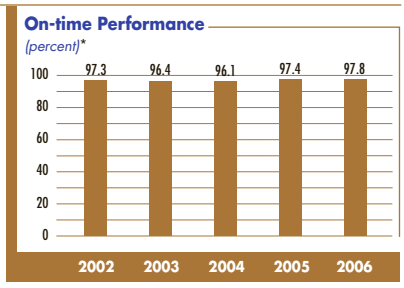
The railroad accepted the final 76 M-7 cars for revenue service, for a total fleet of 336 cars. The overhaul of the West-of-Hudson locomotive fleet began as did the refurbishment and retrofit of 24 West-of-Hudson and 40 East-of-Hudson end-door push-pull coaches. Pilot cars are scheduled for completion in the second quarter of 2007.

Station rehabilitation projects were completed on the New Haven Line (Larchmont), the lower Harlem Station Rehabilitation Project (Melrose, Tremont, Fordham, Woodlawn, Tuckahoe, Crestwood, Fleetwood), and Phase II of the Upper Harlem Station Rehabilitation Project (14 stations from White Plains through South East). Design and construction for the rehabilitation of three West-of-Hudson Stations (Salisbury Mills, Pearl River, Tuxedo) were completed in June. Parking improvements were completed at Mamaroneck, Beacon, Pearl River, Salisbury Mills, and Otisville stations, and planning began for parking expansion and access improvements at Cortlandt. A total of 1,000 new spaces were added and 1,300 were rehabilitated, bringing the total spaces in New York controlled by Metro-North to 39,000.

Rehabilitation of Grand Central Terminal's Graybar Passageway Lexington Avenue entrance vestibule was completed in January. The final items in the terminal's three-year Grand Central Terminal Exterior Restoration Program – exterior cleaning and repairs of the limestone and granite on the east façade, painting of the monumental windows, and re-roofing the cornice and upper gutter – were completed in October.







* Arrival within 5 minutes, 59 seconds of schedule.

Ridership and Service Improvements

2006 was a record-setting year for Metro-North: its total annual ridership, 76.9 million, was up 3.1 percent from 2005, including 75.0 million on all three East-of-Hudson lines (Hudson up 4.1 percent, Harlem up 2.6 percent, New Haven up 3.1 percent). Both West-of-Hudson lines also showed significant gains (Port Jervis 5.3 percent, Pascack Valley 1.9 percent). The largest increases were in weekend (7.0 percent), intermediate (3.0 percent), and reverse commutation (2.0 percent). Since 1984 Metro-North's annual ridership has increased 60 percent and is now at its highest ever.

Continued regional economic growth, service expansion, and marketing contribute to ridership increases, but high reliability remains the key factor. Metro-North's on-time performance set a record: the best in MNR's history – a system-wide 97.8 percent. For six months of 2006 the railroad ran better than 98 percent on time, and for ten months it ran better than 97 percent on time.

In April Metro-North added 19 weekday and nine weekend trains – a total of 104 more trains every week to its schedule and the biggest single improvement to train service since 1984. This schedule featured more early morning service to accommodate a 23 percent ridership increase over the last five years.

About 49 percent of the railroad's ridership was made up of commuters to Grand Central; 51 percent of Metro-North's customers are now reverse-commuting out of New York to suburban employment centers, traveling during off-peak hours, or taking day trips in the region without passing through Grand Central Terminal.

Ridership was also high on most connecting services, with the Hudson Rail Link (buses connecting Riverdale locations with the Spuyten Duyvil and Riverdale stations and trains into Grand Central) growing 25 percent, reaching a ridership milestone of over 1,400 daily rides. The Haverstraw-Ossining Ferry grew 12 percent, reaching a milestone of over 500 daily rides. The newly-inaugurated Newburgh-Beacon Ferry experienced steady growth, averaging almost 340 daily rides. The two ferries combined have provided almost 600,000 rides since the inception of the Haverstraw service in 2000.

In 2006 Metro-North and Westchester DOT Bee-Line bus service began planning to introduce MetroCard into the Bee-Line system. They will launch a joint marketing and on-property communications effort to explain the benefits of MetroCard to existing Metro-North customers as well as to attract new customers to the system.

Metro-North set a new ridership record during the year.

The redecking of the Bronx-Whitestone Bridge was substantially completed in 2006.

MTA Bridges and Tunnels

Capital Program Improvements

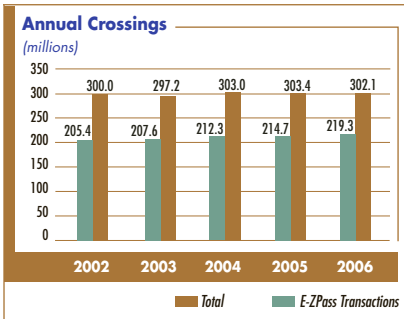
MTA Bridges and Tunnels completed work totaling $111.6 million, 94 percent of plan. Significant completions included service building rehabilitation ($5.2 million) and rehabilitation of tunnel walls, roadway, and the drainage system at the Brooklyn Battery Tunnel ($82.6 million). Substantial completion of the redecking of the suspended spans of the Bronx-Whitestone Bridge permitted the permanent reopening of all six lanes to traffic by Labor Day. The project involved the removal of the original 1939 concrete-filled grid deck roadway and supporting steel and replacement with a new prefabricated "orthotropic" steel deck with a bonded aggregate wearing surface. The new deck also lightened the weight load of the span by 25 percent, increasing the useful life of the suspension cables.

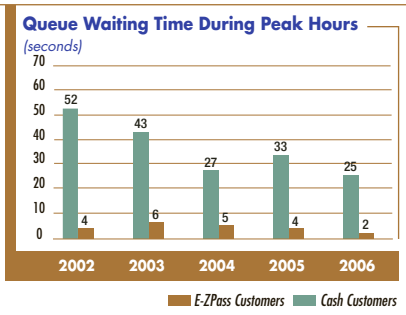
Customer Service

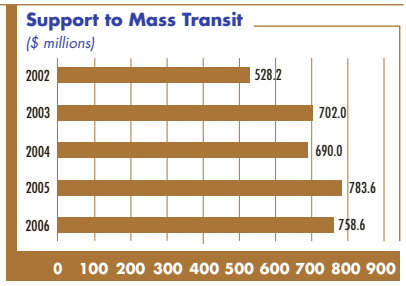
Real-time travel information was displayed on variable message signs (VMS) at the Triborough and Verrazano-Narrows bridges for the first time in 2006. Motorists were shown estimated travel times to the George Washington Bridge via the Harlem River Drive or to 116th Street via the FDR Drive and travel time to the Belt Parkway and Brooklyn Queens Expressway from Staten Island on the Verrazano-Narrows Bridge. More real-time travel information will be added to VMS signs at other facilities in the next year. Bridges and Tunnels completed implementation of its state-of-the-art Advanced Traffic Management System (ATMS) at all of its major bridge and tunnel facilities.

Bridges and Tunnels added three new VMS in 2006, two at the Henry Hudson Bridge and one at the Triborough Bridge, at a cost of $400,000. New and existing VMS signs are integrated into a centralized traffic management system for better control. They improve communication to customers of information that includes accidents, delays, regional events, weather-related restrictions, and Amber Alerts.

ATMS supports improved safety, security, and customer service. The system integrates large amounts of real-time data – including status of VMS, variable speed limit signs, key weather data, the operational configuration of the toll plaza, and regional incident data – into a graphic







*Figures for 2003 and 2005 updated from 2005 annual report. Measure for 2002 is average waiting time; measure for 2003-2006 is median waiting time, a more accurate depiction of customer experience.

format that it provides to several workstations throughout the facility and the Operations Command and Control Center (OCCC). In addition to displaying data, the system provides for control of traffic cameras, VMS, and variable speed limit signs, and allows operators to route individual camera scenes to various video displays. All of the data collected and displayed at each facility are also shared by the OCCC, enabling the central staff to augment facility staff during incidents. Integration of the system with the OCCC, which will be completed in early 2007, will provide central control and monitoring of all the facilities.

Bridges and Tunnels continued to expand the use of its Video Incident Detection System, which was installed in the two tunnels in 2005, to improve safety, security, and customer service. The same technology was installed at the Throgs Neck Bridge in 2006 and similar systems were tested at the Triborough and Verrazano-Narrows bridges. The system constantly analyzes video scenes from traffic cameras mounted throughout the facilities to automatically detect unusual occurrences such as stopped vehicles on the roadway – which often indicate that an accident or vehicle breakdown has occurred – and notifies the facility operations desk by an audio and visual alarm. The relevant video can be reviewed instantly; if it is an incident, assistance can be directed to the site immediately.

The toll lane staff changeover performance goal of less than two minutes was achieved 97.6 percent of the time, exceeding the goal of 96 percent. The median peak time traffic queue waiting time at all Bridges and Tunnels facilities for 2006 was nine seconds.

"Tag wavers" are drivers who don't keep their E-ZPass® tags mounted on the windshield and don't get them out quickly enough to register in the toll lane. Between May and November, Bridges and Tunnels personnel handed out almost 40,000 anti-tag waving flyers, helping to reduce E-ZPass interventions due to improperly mounted tags by more than 20,000 – 15 percent fewer than the same period in 2005.

Crossings and E-ZPass

E-ZPass was used by 73 percent of the 302.1 million vehicles that used Bridges and Tunnels facilities in 2006, a one percent gain in market share over 2005.

The E-ZPass system is over ten years old, however, and some of its key components are reaching the end of their lifecycle. Bridges and Tunnels began significant capital projects that will modernize the E-ZPass toll collection system. Computer equipment in each toll lane and at each of the toll plazas that carry out the process and communicate with the customer service center will be replaced by 2007 in an ongoing effort to ensure an accurate and efficient system.

Control of Overtime

New 12-hour tours for Superior Officers in Bridges and Tunnels' police force were implemented in September 2006, initiating a fundamental change in the work schedules of sergeants and lieutenants, who worked eight hours a day, 256 days a year. Under a new, negotiated contract, the work day is set at 12 hours, 182 days a year, for an estimated savings of $700,000 in annual scheduled overtime.

Tunnel work is progressing at the South Ferry station. The new 1 line terminal will open in 2008.

MTA Capital Construction

MTA Capital Construction made significant progress on all its major projects in 2006. Funding agreements for the three MTA Capital Program expansion projects – East Side Access, Second Avenue Subway, and the 7 line extension to the Far West Side – were in place by year-end, and construction moved forward on the Downtown Mobility Projects – the Fulton Street Transit Center and the South Ferry Terminal.

East Side Access (ESA) will bring the Long Island Rail Road through the 63rd Street tunnel and south below Park Avenue into a new East Side terminal underneath Grand Central Terminal. With the signing of the Full Funding Grant Agreement with the Federal Transit Administration in December, the completion of the East Side Access project is virtually assured. The Full Funding Grant Agreement commits the federal government to providing Federal New Starts funding of $2.63 billion to the project.

Over $500 million in ESA contracts were awarded in 2006 to begin tunneling in both Queens and Manhattan, and in 2007 contracts totaling about $1 billion dollars will be awarded, including contracts for major work within and beneath Grand Central Terminal.

The Second Avenue Subway project received federal approval for an Early Systems Work Agreement that will allow the MTA to proceed with the first construction contract and make other commitments. Phase I of the project will run from a new 96th Street and Second Avenue station to new stations at 86th and 72nd Streets and then to the existing 63rd Street station before connecting with the N, Q, R, W lines on Broadway and into Brooklyn. The first trains are expected to begin operating in 2013.

The 7 line extension reached a critical milestone in 2006 with a $2.1 billion funding agree-

Expansion Projects Progress, 2000-2006*

($ millions)	Commitments	Expenditures	Completions
East Side Access**	1,738.65	958.27	200.21
Second Ave Subway	430.66	274.27	232.24
7 Line Extension†	111.14	87.81	43.60
Fulton Transit Center	489.11	358.48	37.49
South Ferry Terminal	468.71	255.82	9.00

Expansion Projects Progress, 2006*

($ millions)	Commitments	Expenditures	Completions
East Side Access**	725.33	173.59	9.00
Second Ave Subway	128.21	30.56	232.24
7 Line Extension†	9.60	26.26	–
Fulton Transit Center	176.14	253.74	–
South Ferry Terminal	134.70	134.56	–

* 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.

ment between the MTA and New York City and the city's sale of bonds that will fund the project.

With funding in place, Capital Construction began the process of soliciting contracts for construction management services and a construction contract to bore tunnels from the existing Times Square station to 27th Street and 11th Avenue and to excavate station caverns at 10th Avenue and 41st Street and 34th Street and 11th Avenue. The current plan calls for fitting out only the station at 34th Street. Contract awards are set for mid-2007.

The rehabilitation of the 2, 3 Fulton Street station was completed in 2006, the first step in building the Fulton Street Transit Center. In addition, the MTA's Real Estate Department completed the acquisition of all of the properties necessary to build the Fulton Street Transit Center and supported tenant relocation as needed. Demolition of the acquired buildings will begin in 2007. New southern entrances for the 4, 5 station will facilitate customer access during construction. Significant progress has been made on the pedestrian concourse that will provide underground passenger connections from Fulton Street to the R, W station at Cortlandt Street and the World Trade Center station on the E line. The Transit Center budget is currently $888 million, excluding the cost of the connector between the R, W lines and the E line.

Construction of the new South Ferry Terminal station has been underway for the last two years. More than 25,000 cubic yards of concrete have been poured and the terminal structure is taking form. The final contract has been awarded and the contractor will be installing the mechanical and electrical equipment, tiling, Arts for Transit installations, and other finishing elements. The $490 million project is expected to be completed in August 2008.

Both Fulton Street and South Ferry are largely funded by the federal government and are part of the Lower Manhattan recovery effort developed after the attack on the World Trade Center.

Workers have begun digging the foundation for the Fulton Street Transit Center.

New hybrid-electric buses are giving MTA Bus a reliable, clean-fuel fleet.

MTA Bus

Capital Program Improvements

Improving service – with new buses, upgraded depots, better maintenance, and adjustments in service and schedules – remained top priorities as MTA Bus entered its second year of operations.

By February, MTA Bus had assumed the operations of the final three private bus companies and their four depots in New York City. The fleet it inherited is composed of 15 different bus models; buses on average were 13 years old and had been poorly maintained.

Placing new buses into service through Capital Program purchases was the first order of business, and during the year MTA Bus added 186 coach buses to its fleet to improve express bus service and 63 low-floor hybrid-electric buses for local service. Nearly all of the buses that operate out of the Yonkers and Eastchester depots, both of which support express bus service only, have been replaced.

By year-end the agency had added 499 buses in its first two years of service, more than half of the 759 new buses ordered (with options for more). With deliveries scheduled over the next two years, the new buses will reduce the average age of the fleet to less than four years.

As it introduced new buses, MTA Bus identified those buses in its fleet that were in the best shape and began a series of upgrades and stronger preventive maintenance programs, with special attention to improving wheelchair lift reliability. It opened a bus operating training center at its Baisley Park Depot and initiated a series of facility improvements at other depots, including the installation of environmentally friendly portable lifts to service the new express and local buses, installation or updating of the depot tailpipe exhaust systems, construction or updating of battery charging rooms, asbestos abatement, and other projects.

Ridership and Service

Total MTA Bus ridership in 2006 was 99.3 million. Ridership on express buses was 10.1 million and on local buses 89.2 million. These figures represent full-year results from the operations of four of the former independent bus companies and partial-year results from three companies whose operations were assumed by MTA Bus during the first two months of 2006; 2007 will mark the first full year for all operations of MTA Bus.

With the folding in of the operations of the final three bus companies – Green Line on January 9, Jamaica Bus on January 30, and Triboro Coach on February 20, 2006 – MTA Bus was able to turn its attention to service patterns.

Fifteen routes were adjusted, extended, or shortened to meet ridership needs, and, where necessary, additional buses were added to individual lines to provide better service. Among the changes made were the extension of Q72 service to LaGuardia Airport, providing a direct bus route from central Queens to the airport; extension of Q25, Q34, and Q65 service to Jamaica Station to allow easier transfers to the subway, MTA Long Island Rail Road, and AirTrain JFK; addition of weekday and limited-stop service to the Q10 to JFK Airport and discontinuing the Q10A express service that has been largely supplanted by AirTrain JFK; and addition of Saturday service to the B103.

Service was also improved through the creation in 2006 of a central Road Operations unit that monitors all road supervision and bus operations and ensures service standardization among the different depots. The establishment of a unified Command Center was completed at the College Point Depot and provided MTA Bus with 24-hour coverage of all road activity, permitting faster incident response.

The agency also continued to revise individual bus line schedules to deal with overloaded conditions, unmarketable and non-uniform service intervals and service hours, and inadequate running times that did not take into account current traffic conditions.

MTA Bus added 186 new coach buses to its fleet.

To make it easier for customers to find and identify bus stops, MTA Bus began installing Guide-a-Ride signage throughout its service area. The new signs, on high poles and matching signage used by MTA New York City Transit buses, will ultimately be installed on all MTA Bus routes.

Staffing at MTA Bus remains below its planned baseline levels due primarily to hiring freezes imposed prior to the transition. There are about 300 vacancies to be filled, including 200 bus operator, mechanic, and supervisor positions. It is also expected there will be significant attrition due to retirements after pension improvements and changes become effective through collective bargaining agreements.

Fire at LaGuardia Depot

Even as the agency confronted the predictable challenges of personnel shortages, disparate administrative structures, obsolete information systems, and inadequate bus maintenance by the private bus companies, management also had to deal with the aftermath of an explosion and fire that damaged part of its depot near LaGuardia Airport. The fire occurred during the decommissioning of the depot's CNG fueling station, which was being done by the employees of the vendor. The fire also damaged a small number of the older buses at the site.

Comprehensive Annual FINANCIAL REPORT

for the years ended December 31, 2006 and 2005

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

Prepared by Department of Budgets and Financial Management

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Introductory Section

Letter of Transmittal

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Gary J. Dellaverson
Chief Financial Officer

Metropolitan Transportation Authority
State of New York

April 27, 2007

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, 2006. 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 2.5 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

* The current board (as of April 27, 2007) includes 16 voting and 5 non-voting members.

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 non-voting 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 components:

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 MTA headquarters (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 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 2005 annual report. This was the 11th 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

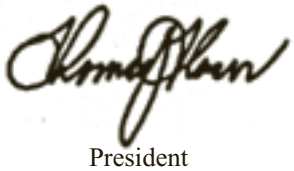
Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metropolitan Transportation Authority, New York

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

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.

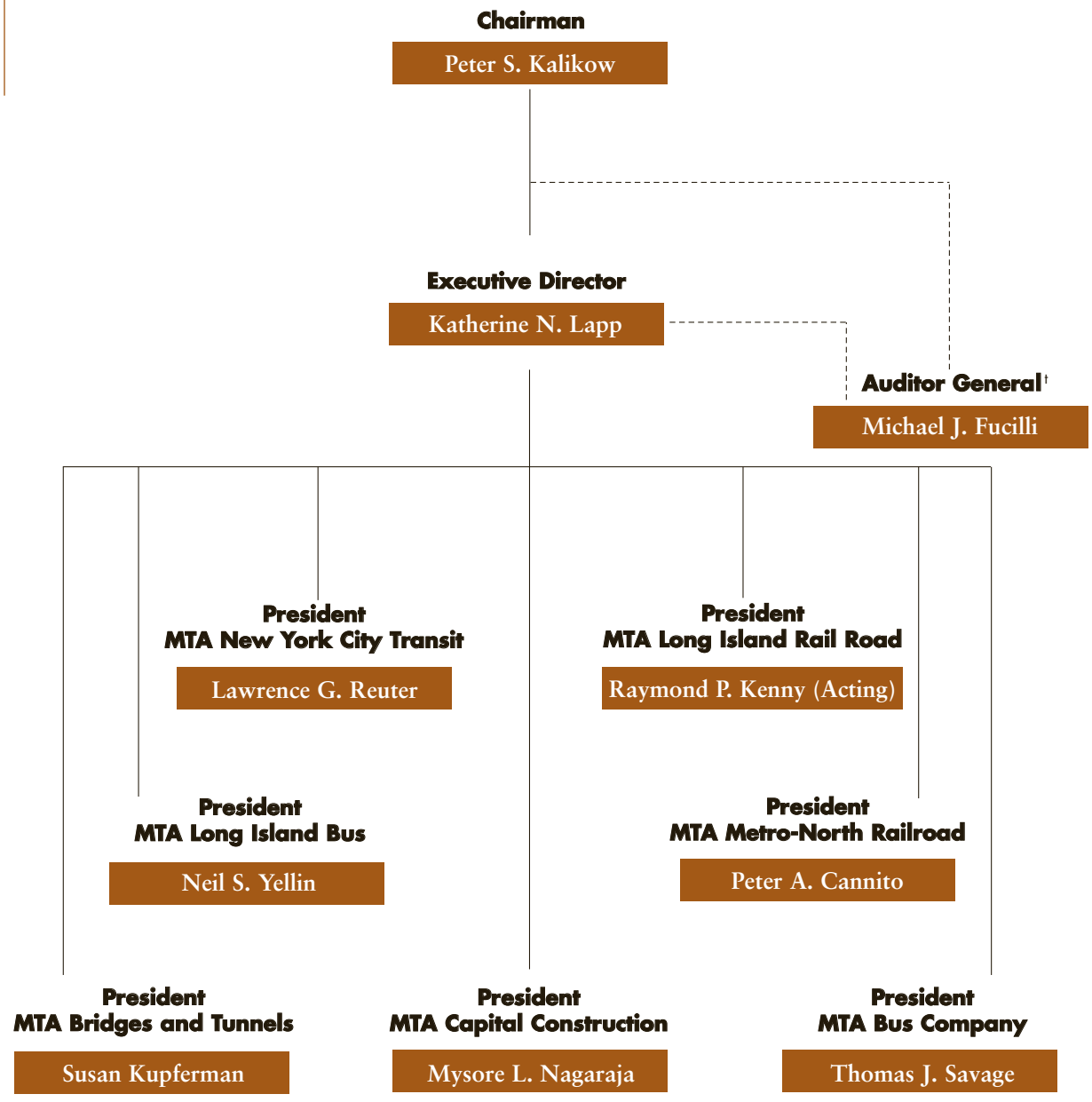


President

Executive Director

MTA Organization Structure

As of December 31, 2006 *



* On January 2, 2007, Elliot G. Sander was appointed executive director and chief executive officer; Susan Kupferman became chief operating officer, and David Moretti became acting president of MTA Bridges and Tunnels. On April 11, 2007, Howard H. Roberts, Jr. became president of New York City Transit, following the February retirement of Lawrence G. Reuter. Millard L. Seay served as acting president of NYC Transit during the interim period.

† Also reports to Audit Committee of MTA Board.

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Financial Section

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

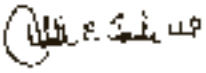
We have audited the accompanying consolidated balance sheets of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of December 31, 2006 and 2005, and the consolidated statements of revenues, expenses and changes in net assets, and consolidated cash flows 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 54 percent and 55 percent, and 43 percent and 42 percent, of the assets and revenues of the MTA, respectively, as of and for the years ended December 31, 2006 and 2005. 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 consolidated financial statements. An audit also includes 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, 2006 and 2005, 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.

The Management's Discussion and Analysis on pages 12 through 25 is not a required part of the basic consolidated financial statements but is 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 basic consolidated 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 schedule of pension funding progress has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic consolidated financial statements and, in our opinion, based on our audits and the reports of other auditors, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole. 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.



April 20, 2007

Member of
Deloitte Touche Tohmatsu

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 the 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 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, 2006 and 2005. 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.

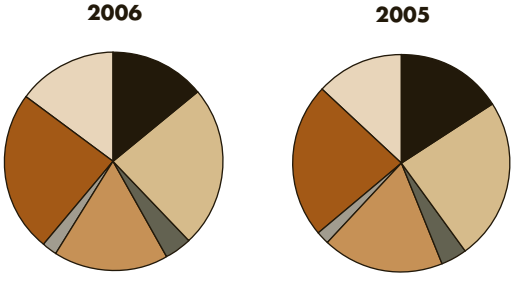
3—Condensed Financial Information

The following sections discuss the significant changes in the MTA's financial position for the year ended December 31, 2006. 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 2006	December 2005	December 2004
Capital assets, net (see Note 5)	$38,307	$35,900	$33,654
Other assets	11,778	10,726	10,183
Total assets	$50,085	$46,626	$43,837

Capital Assets, Net



	2006	2005
Construction and work-in-progress	14%	16%
Buildings and structures	24%	24%
Bridges and tunnels	4%	4%
Passenger cars and locomotives	17%	18%
Buses	2%	2%
Infrastructure	24%	23%
Other	15%	13%
Land	0%	0%

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 MTA 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 Stanton 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 $322.5 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 $365.1 and $60.0 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.

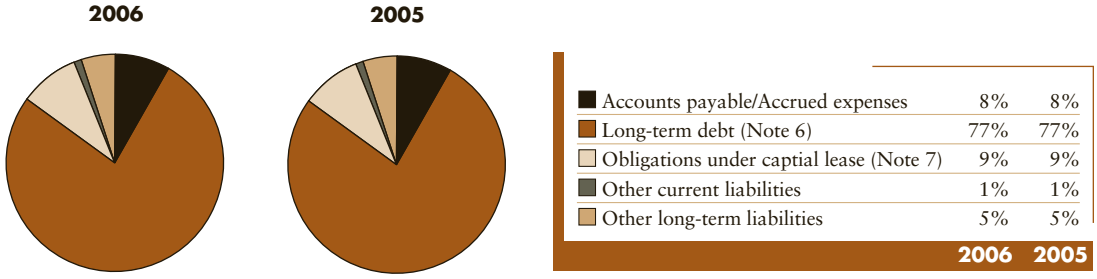
December 31, 2005 versus 2004

- Net capital assets increased at December 31, 2005 by $2,246. The most significant portion of the increase occurred in buildings and structures, $1,120, followed by infrastructure, $813, and passenger cars and locomotives, $632, and other, $623. These increases were partially offset by normal depreciation expenses, the decommissioning of 196 M-1 electric passenger cars from MTA Long Island Rail Road service and the demolition of the ADA overpass in Jamaica. Some of the more significant projects contributing to the increase included:
  - — Rehabilitation of the East River tunnel, including safety and ventilation improvement projects on MTA Long Island Rail Road line.
  - — Rehabilitation of the Atlantic Terminal complex area.
  - — Construction of a new substation in Babylon yard of MTA Long Island Rail Road contributed to the increase in both buildings and equipment. This project work will support MTA Long Island Rail Road's future yard track re-configuration efforts while the substation supplies power through the yard tracks and the adjacent main line tracks on the Montauk Branch.
  - — Placing 214 new M-7 electric cars into service on the MTA Long Island Rail Road system and 134 on the MTA Metro-North Railroad system and the incurring of additional costs for construction, testing and quality assurance oversight.
  - — Installation of an audio-visual paging system at the Jamaica Station and platform announcement systems for 121 stations.
  - — Continuation of the Jamaica Station rehabilitation and the construction of an inter-modal transportation center which links MTA Long Island Rail Road, JFK, AirTrain, and MTA New York City Transit subway and bus lines.
  - — Capitalization of the Stillwell Avenue reconstruction project in Coney Island and upgrade to the Police radio communication system.
  - — Various shop, yard and depot rehabilitations, upgrades and replacements, and road, track and infrastructure improvements throughout the systems.
  - — Several passenger station rehabilitations on the MTA New York City Transit subway lines.
  - — 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.
- Other assets had a net increase of $543.
- The major items contributing to this change include:
  - — A net increase in current and non-current investments and capital leases of $491 due to various reasons, including an increase in agency pool funds available, but not immediately required for operating expenses, MRT receipts due to the increase in MRT funds collected by the State and remitted to the MTA, an increase in Transportation Revenue Bond proceeds due to new issuance at the end of the year (the proceeds of which were not totally used), proceeds available from MTA Bridges and Tunnels Bonds not totally used, an increase in the Transportation Revenue Debt Service Fund and adjustment to fair market value and income received for capital leases. These increases were partially offset by reductions in funds from bond and non-bond sources used to fund capital expenditures and debt service payments.
  - — Other current receivables and prepaid expenses had a net increase of $19. Material and supplies increased by $18. Other non-current assets increased by $49, offset by a reduction of $48 in recoverables from New York State.

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

	December 2006	December 2005	December 2004
Current liabilities	$ 3,073	$ 2,834	$ 2,487
Long-term liabilities	27,649	25,799	23,754
Total liabilities	$30,722	$28,633	$26,241

Total Liabilities



Significant Changes in Liabilities Include:

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, 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 of 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; 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.

December 31, 2005 versus 2004

- Current liabilities increased by $347.
- This net increase is due primarily to:
  - — Accounts payable and accrued expense having a net increase of $327. Accounts payable increased by $157 due primarily to timing differences in invoices submitted for payment. Accrued expenses increased by a net of $170 due primarily to an increase in retirement and death benefits of $105 due to an increase in pension accruals for payments due in 2006 to the New York City Employees Retirement System, an increase of $26 in vacation and sick pay benefits, an increase of $19 in salaries, wages and payroll taxes due in part to the calculation of Retroactive Wage Adjustments for Metro-North Railroad unions that have not settled their contracts. A reduction in interest expense of $6, an increase in the current portion of estimated liability from injuries arising to persons of $9 and miscellaneous other of $17 account for the remaining increase.
  - — Other current liabilities had a net increase of $20. This was due to a reduction of $6 in the current portion of long-term debt and an increase of $26 for deferred revenue due to an increase in the value of unused MetroCards.
- Non-current liabilities increased by $2,045. This net increase is primarily related to:
  - — The net increase of $2,044 in Long-Term Debt — MTA is authorized to issue bonds to refund outstanding bonds and to finance transit and commuter capital projects. MTA Bridges and Tunnels is authorized to issue bonds to finance its own bridge and tunnel capital projects and/or transit and commuter capital projects and to refund outstanding bonds. During 2005, MTA and MTA Bridges and Tunnels issued the following bonds to finance transit and commuter capital projects, refund certain outstanding Bonds and to finance MTA Bridges and Tunnels' projects:

    $350 MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A
    $650 MTA Transportation Revenue Bonds, Series 2005A
    $750 MTA Transportation Revenue Bonds, Series 2005B
    $150 MTA Transportation Revenue Bonds, Series 2005C
    $250 MTA Transportation Revenue Variable Rate Bonds, Series 2005D
    $250 MTA Transportation Revenue Variable Rate Bonds, Series 2005E
    $469 MTA Transportation Revenue Bonds, Series 2005F
    $250 MTA Transportation Revenue Variable Rate Bonds, Series 2005G
    $173 MTA Transportation Revenue Refunding Bonds, Series 2005H
    $150 MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A
    $800 MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B

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

	2006	2005	2004
Invested in capital assets, net of related debt	$14,777	$14,044	$13,678
Restricted for debt service	1,095	1,069	828
Unrestricted	3,491	2,880	3,090
Total assets	**$19,363**	**$17,993**	**$17,596**

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.

December 31, 2005 versus 2004

At December 31, 2005, the total net assets increased by $397 from December 31, 2004. This increase includes net non-operating revenues of $2,901, and appropriations, grants and other receipts externally restricted for capital projects of $1,050, partially offset by operating losses of $3,554.

Capital assets net of related debt increased by $366.

Funds restricted for debt service increased by $241 due to the issuance of new bonds.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	December 2006	December 2005	December 2004
Operating Revenues			
Passenger and tolls	$ 5,081	$ 4,811	$ 4,521
Other	406	387	316
Total operating revenues	5,487	5,198	4,837
Nonoperating Revenues			
Grants, appropriations and taxes	4,119	3,466	2,847
Other	288	223	513
Total nonoperating revenues	4,407	3,689	3,360
Total Revenues	9,894	8,887	8,197
Operating Expenses			
Salaries and wages	4,123	3,819	3,645
Retirement and other employee benefits	1,623	1,618	1,403
Depreciation and amortization	1,606	1,474	1,344
Other expenses	1,978	1,841	1,621
Total operating expense	9,330	8,752	8,013
Nonoperating Expense			
Interest on long-term debt	1,039	984	819
Other nonoperating expense	53	45	43
Total nonoperating expense	1,092	1,029	862
Total Expenses	10,422	9,781	8,875
Appropriations, grants and other receipts externally restricted for capital projects	1,898	1,291	761
Change in net assets	1,370	397	83
Net assets, beginning of period	17,993	17,596	17,513
Net assets, end of period	$19,363	$17,993	$17,596

Revenues and Expenses, by Major Source:

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 MetroCards, 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 generating $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. MTA 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 acquired 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 MTA 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, cost associated with Penn Station tunnel resurfacing and costs resulting from the discovery of chlordane contamination. Materials and supplies costs increased by $43 primarily at MTA 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, 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.

December 31, 2005 versus 2004

- Total operating revenues for the year ended December 31, 2005 were $361 higher than in the year ended December 31, 2004.
  — Fare revenues and vehicle toll revenues were higher than in the prior year due to the fare adjustment implemented for 30-day and 7-day Unlimited Ride MetroCards, and the express bus fare increases that went into effect on February 27, 2005; the commuter rail fares that went into effect on March 1, 2005; and the increased bridge and tunnel crossing charge schedule that went into effect on March 13, 2005. In addition, revenues of $45 from the MTA Bus Company that went into operation in 2005 are included for the first time. Revenues that could have been realized from the adjusted MTA New York City Transit fares were reduced by the effect of the holiday bonus fare program and the effect of the three-day strike in December 2005.
- Total operating expenses for the year ended December 31, 2005 were higher than the year ended December 31, 2004 by $739.
  — Labor costs, including retirement and other employee benefits, were higher by approximately $389. Contractual increases are the primary reason for the $174 labor cost increases in addition to increased overtime due to service disruptions on the transit system, track and platform clearance during the winter snows, and a reduction in capital project reimbursable work at MTA Long Island Rail Road due to a delay in approval of funding for the 2005 — 2009 Capital Program. Included for the first time are the labor and employee benefit costs of the MTA Bus Company which total $96. Rate increases have resulted in higher costs for health, welfare, pension and other benefit programs.
  — Non-labor operating costs were higher by approximately $350. Cost elements contributing to this increase were depreciation resulting in part from new capital assets being placed into service, $130, traction and propulsion power, and fuel expense increases of $98 are due primarily to New York Power Authority rate increases and higher fuel costs. Maintenance and other operating contracts increased by $52 primarily from higher facility power rate increases, real estate rentals and increased heating fuel costs and major maintenance and bridge painting expense. Paratransit Service Contract cost increased $23 primarily due to increased trip volume.
- Total grants, appropriations and taxes were higher by approximately $619 for the year ended December 31, 2005 compared to the year ended December 31, 2004. The major components of the increase are tax-supported subsidies-NYS and tax-supported subsidies-NYC and local. The increase in tax-supported subsidies from New York State is due primarily to an increase in the appropriation of Metropolitan Mass Transportation Operating Assistance in 2005 over 2004 of $231 (primarily due to increasing the regional sales tax from .25 of 1 percent to .375 of 1 percent effective June 1, 2005). The increase in tax-supported subsidies — NYC and local is primarily due to an increase in the urban tax of $268 and an increase in the Mortgage Recording Tax 2 of $91. In addition Mortgage Recording Tax 1 was increased from 25 cents per $100 of mortgage recorded to 30 cents per $100 of mortgage recorded effective June 1, 2005. Operating subsidies-NYS contributed a net of $24 to the increase.

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 2006, system-wide utilization — excluding MTA Bus Company — continued to increase significantly, with 2006 MTA ridership 2.6 percent higher (60.9 million more trips) compared to 2005. In addition, MTA Bus Company carried 99.3 million revenue passengers in 2006, the first full year for which ridership data have been available. Vehicle crossing levels at MTA Bridges and Tunnels facilities were 0.6 percent higher (1.7 million more crossings) through December 2006 when compared to the same period in 2005.

By the end of the fourth quarter of 2006 New York City had added nearly 60,000 new jobs compared to the number of jobs existing during the fourth quarter of 2005. According to Coincident Economic Indicators (CEI's) published by the Federal Reserve Bank, the regional economy experienced modest growth during the quarter, while New York City itself grew robustly, stimulated in part by the rebuilding of the downtown infrastructure and the MTA's multi-billion-dollar capital programs.

In spite of the city's strong economic growth, the consumer price index in the New York metropolitan area increased by only 2.75 percent in the fourth quarter of 2006 relative to the fourth quarter of 2005. The energy component of the consumer price index actually decreased by 6.0 percent, so the consumer price index excluding energy increased 3.5 percent in the same period. The New York Harbor spot price for conventional gasoline averaged $1.59 per gallon in the fourth quarter, a slight decrease of 0.3 percent compared to the average spot price in the fourth quarter of 2005. Because of unusually mild winter weather, lower energy prices partly reflect a smaller than normal demand for home heating fuels.

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 September 2006, the Federal Reserve Board raised the Federal Funds Rate by one-quarter point on each of seventeen occasions. Five of the seventeen rate increases occurred during 2004, eight occurred in 2005 and four occurred in 2006; the most recent increase occurred on June 29, 2006, when the Feds increased the Federal Funds Rate from 5.00 percent to 5.25 percent, its highest level since January of 2001. These increases started to have an impact on 30-year conforming fixed-rate mortgage rates, which slowly rose during the first and second quarter of this year, but Fed restraint since the end of June has led to falling mortgage rates in both the third and fourth quarters. The behavior of mortgage rates is a matter of interest to the MTA, since mortgage rates can affect the number of real estate transactions, impacting receipts from the mortgage recording tax and Urban Tax, two primary sources of MTA revenue.

Results of Operations

Paid MTA Bridges and Tunnels traffic level for the year ended December 31, 2006 reached 302.1 million vehicles, which was the second highest level in MTA Bridges and Tunnels' history. Total volume was 0.6 percent greater in 2006 than in 2005. Relatively unfavorable weather and higher gasoline prices suppressed traffic by 0.4% in total for the first three quarters of 2006, but the declines were more than offset by significant volume gains in the fourth quarter. Gasoline prices began falling in October and the weather was much more favorable on a year-to-year basis throughout the quarter. The

E-ZPass electronic collection system continued to facilitate the management of heavy traffic volumes. On an average weekday during 2006, 74.9 percent of all MTA Bridges and Tunnels traffic used E-ZPass compared to 73.8 percent during 2005. In 2006, toll revenues were $1,241.6 which was $36.6 or 3.0 percent greater than the toll revenues of 2005. The revenue gain was largely the result of a toll increase implemented on March 13, 2005 and the 1.00 dollar per month E-ZPass account maintenance fee instituted on July 1, 2005 (which fee was terminated June 1, 2006) and the considerably higher traffic volumes in the last quarter of 2006.

MTA New York City Transit's fare revenues for the year ended December 31, 2006 were higher than in 2005 by $115.9 or 4.4 percent. This increase is due primarily to the fare adjustments implemented on February 27, 2005 which raised the price of 7-day and 30-day passes and the express bus fare, and the impact of the three-day transit strike in December of 2005, as well as the reduced fares during the Holiday Bonus Program in 2005. Total ridership was higher by 2.5 percent, attributed in part to an improving local economy and negative impact of the December 2005 transit strike. Other operating revenues increased by $17.9 due primarily to higher paratransit and urban tax revenues.

MTA Long Island Rail Road ridership for the year ended December 31, 2006 was at approximately 82.0 million on passenger revenues of $457.4. Revenues increased by approximately $15.1 or 3.0 percent for the year ended December 31, 2006 over the year ended December 31, 2005. This increase is due in part to the fare increase that went into effect on March 1, 2005 as well as increased ridership attributed to rising gasoline prices and job gains in New York City.

MTA Metro-North Railroad's operating revenue increased by $20.3 or approximately 4.3 percent for the year ended December 31, 2006 over the year ended December 31, 2005. A 5.5 percent fare increase on travel that begins or ends in the State of Connecticut was effective as of January 1, 2005. A fare increase on travel in New York State designed to increase 2005 revenues by 5.0 percent took effect on March 1, 2005. Ridership on the Harlem, Hudson and New Haven Lines increased in 2006 by approximately 3.2 percent. This includes increases in commuter ridership to Manhattan, as well as 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 2006, however, the State advanced the payment of $200 of MMTOA assistance to the MTA from MTA's 2006 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 have generally exceeded expectations due primarily to the high level of home buying and refinancings caused by historically low interest rates. Due to, among other things, the Federal Reserve Bank's continuation of its interest rate increases and the adverse consequences those actions are expected to have on the level of activity in the real estate market, the MTA does not expect that its collection of mortgage recording taxes will continue at the current levels.

Capital Programs

At December 31, 2006, $5,170 had been committed and $1,670 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and $19,074 had been committed and $15,225 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

Increase in Subsidies

Effective June 1, 2005, (1) the MTA's portion of the regional sales tax in the commuter transportation district was increased from .25 of 1 percent to .375 of 1 percent and (2) the MRT-1 portion of the MTA's mortgage recording taxes was increased from 25 cents per 100 dollars of recorded mortgage to 30 cents per 100 dollars of recorded mortgage.

Creation of MTA Bus Company

MTA Bus was created as a public benefit corporation subsidiary of MTA in 2004 specifically to operate certain City bus routes. At its meeting in December 2004, the MTA Board approved a letter agreement with the City of New York (the "City") with respect to MTA Bus' establishment and operation of certain bus routes (the "City Bus Routes") in areas then served by private bus operators in Manhattan, the Bronx, Queens and Brooklyn pursuant to franchises granted by the City. The letter agreement with the City provides for the following:

- A lease by the City to MTA Bus of the bus assets to operate the City Bus Routes.
- The City agrees to pay MTA Bus the difference between the actual cost of operation of the City Bus Routes (other than certain capital costs) and all revenues and subsidies received by MTA Bus and allocable to the operation of the City Bus Routes. The letter agreement permits the parties after a period of 18 months to negotiate an agreement to establish a formula-based approach for the payment of the City subsidy.
- If the City fails to timely pay any of the subsidy amounts due for a period of 30 days, MTA Bus has the right, after an additional 10 days, to curtail, suspend or eliminate service and may elect to terminate the agreement. The City can terminate the agreement on one year's notice.
- MTA Bus completed its consolidation of the various bus routes of the seven original companies during the first quarter of 2006.

Additional Bond Issues During 2006

During the month of June, the MTA issued MTA DTF fixed rate bonds in the amount of $350. Also during the month of June, the MTA Bridges and Tunnels issued fixed rate General Revenue Bonds in the amount of $200. During the month of July, the MTA issued fixed rate Transportation Revenue Bonds in the amount of $475. During the month of November, the MTA issued MTA DTF fixed rate bonds in the amount of $410. During the month of December, the MTA issued fixed rate MTA Transportation Revenue Bonds in the amount of $717.7.

* * * * *

Consolidated Balance Sheets

Years Ended December 31, 2006 and 2005
($ millions)

	2006	2005
Assets		
Current Assets:		
Cash (Note 3)	$ 155	$ 138
Investments (Note 3)	2,604	1,561
Receivables:		
Station maintenance, operation, and use assessments	101	98
State and regional mass transit taxes	106	52
Mortgage Recording Tax receivable	60	63
State and local operating assistance	8	8
Other subsidies	108	35
Connecticut Department of Transportation	7	19
New York City	28	26
Other	353	328
Less allowance for doubtful accounts	(25)	(47)
Total receivables — net	746	582
Materials and supplies	317	292
Advance to Defined Benefit Pension Trust	425	—
Prepaid expenses and other current assets (Notes 2 and 4)	114	90
Total current assets	4,361	2,663
Noncurrent Assets:		
Capital assets — net (Note 5)	38,307	35,900
Restricted investment held under capital lease obligations (Note 3 and 7)	2,463	2,505
Investments (Note 3)	1,583	2,196
Receivable from New York State	2,246	2,294
Other noncurrent assets	1,125	1,068
Total noncurrent assets	45,724	43,963
Total Assets	**$50,085**	**$46,626**

See notes to consolidated financial statements.

(continued)

Consolidated Balance Sheets

Years Ended December 31, 2006 and 2005
($ millions)

	2006	2005
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 476	$ 431
Accrued expenses:		
Interest	200	191
Salaries, wages and payroll taxes	280	174
Vacation and sick pay benefits	652	607
Current portion — retirement and death benefits	184	207
Current portion — estimated liability from injuries to persons (Note 8)	176	191
Other	408	396
Total accrued expenses	1,900	1,766
Current portion — long-term debt (Note 6)	338	306
Current portion — obligations under capital lease (Note 7)	7	7
Deferred revenue	352	324
Total current liabilities	3,073	2,834
Noncurrent Liabilities:		
Retirement and death benefits (Note 4)	6	60
Estimated liability arising from injuries to persons (Note 8)	984	983
Long-term debt (Note 6)	23,544	21,653
Obligations under capital leases (Note 7)	2,608	2,642
Contract retainage payable	180	216
Other long-term liabilities	327	245
Total noncurrent liabilities	27,649	25,799
Total liabilities	30,722	28,633
Net assets:		
Invested in capital assets, net of related debt	14,777	14,044
Restricted for debt service	1,095	1,069
Unrestricted	3,491	2,880
Total net assets	19,363	17,993
Total Liabilities and Net Assets	**$50,085**	**$46,626**

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

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2006 and 2005
($ millions)

	2006	2005
Operating Revenues		
Fare revenue	$3,840	$3,606
Vehicle toll revenue	1,241	1,205
Rents, freight, and other revenue	406	387
Total operating revenues	5,487	5,198
Operating Expenses:		
Salaries and wages	4,123	3,819
Retirement and other employee benefits	1,623	1,618
Traction and propulsion power	278	253
Fuel for buses and trains	178	143
Insurance	49	67
Claims	93	90
Paratransit service contracts	184	158
Maintenance and other operating contracts	527	460
Professional service contracts	177	227
Materials and supplies	448	405
Depreciation	1,606	1,474
Other	44	38
Total operating expenses	9,330	8,752
Operating Loss	(3,843)	(3,554)

See notes to consolidated financial statements.

(continued)

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2006 and 2005
($ millions)

	2006	2005
Non Operating Revenues (Expenses)		
Grants, appropriations and taxes:		
Tax supported subsidies — NYS	$ 2,054	$ 1,665
Tax supported subsidies — NYC and local	1,671	1,383
Operating subsidies — NYS	206	230
Operating subsidies — NYC and local	188	188
Total grants, appropriations and taxes	4,119	3,466
Operating subsidies recoverable from Connecticut Department of Transportation related to New Haven Line	53	44
Subsidies paid to Dutchess, Orange and Rockland Counties	(20)	(23)
Suburban Highway Transportation Fund subsidy	(20)	(20)
Interest on long-term debt	(1,039)	(984)
Station maintenance, operation and use assessments	137	134
Loss on disposal of subway cars	—	(2)
Unrealized (loss)/gain on investment	(13)	7
Other nonoperating revenue	98	38
Net non operating revenues	3,315	2,660
Income/(Loss) Before Appropriations	(528)	(894)
Appropriations, Grants and Other Receipts Externally Restricted for Capital Projects	1,898	1,291
Change in Net Assets	1,370	397
Net Assets, Beginning of Year	17,993	17,596
Net Assets, End of Period	**$19,363**	**$17,993**

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

Consolidated Statements of Cash Flows

Years Ended December 31, 2006 and 2005
($ millions)

	2006	2005
Cash Flows Provided by/(Used in) Operating Activities:		
Passenger receipts/tolls	$ 5,302	$ 5,006
Rents and other receipts	207	233
Payroll and related fringe benefits	(5,663)	(5,254)
Other operating expenses	(1,879)	(1,709)
Net cash used in operating activities	(2,033)	(1,724)
Cash Flows Provided by/(Used in) Noncapital Financing Activities:		
Grants, appropriations and taxes	4,209	3,592
Operating subsidies from CDOT	52	44
Suburban transportation fund subsidy	(20)	—
Subsidies paid to Dutchess, Orange and Rockland counties	(23)	(22)
Pension Funding	(465)	—
Net cash provided by noncapital financing activities	3,753	3,614
Cash Flows Provided by/(Used in) Capital and Related Financing Activities:		
MTA bond proceeds	2,020	3,409
TBTA bond proceeds	207	950
MTA bonds refunded	(281)	(528)
TBTA bonds refunded	—	(772)
MTA anticipation notes proceeds	450	—
MTA anticipation notes redeemed	(11)	(720)
Capital lease payments	(22)	(27)
Grants and appropriations	2,191	1,423
CDOT capital contributions	4	3
Capital expenditures	(4,092)	(3,641)
Debt service payments	(1,824)	(1,616)
Net cash used in capital and related financing activities	(1,358)	(1,519)

See notes to consolidated financial statements.

(continued)

Consolidated Statements of Cash Flows

Years Ended December 31, 2006 and 2005
($ millions)

	2006	2005
Cash Flows Provided by/(Used in) Investing Activities:		
Purchase of long-term securities	$(3,551)	$(2,941)
(Purchase)/sales of maturities of securities — long-term	3,249	2,858
Sale/(purchase) of short-term securities	(171)	(377)
Earnings on investments	128	103
Net cash provided by investing activities	(345)	(357)
Net decrease in cash	17	14
Cash, beginning of period	138	124
Cash, end of period	**$ 155**	**$ 138**
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	$(3,843)	$(3,554)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,606	1,474
Net increase in payables, accrued expenses and other liabilities	337	275
Net (increase)/decrease in receivables	(125)	(1)
Net (increase)/decrease in materials and supplies and prepaid expenses	(8)	82
Net cash used in operating activities	**$(2,033)**	**$(1,724)**

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

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 which are designed to improve public transportation in the New York Metropolitan area.

2005-2009 Capital Program

Capital programs covering the years 2005-2009 have been approved by the MTA Board 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 Bridges and Tunnels Board. The 2005–2009 Commuter Capital Program and the 2005–2009 Transit Capital program (collectively, the "2005–2009 MTA Capital Programs") have been approved by the CPRB.

The 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program through December 31, 2006, provided for $21,331 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, $4,575 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 approved 2005–2009 MTA Capital Programs and the 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, $6,587 in Federal Funds and $3,853 from other sources.

At December 31, 2006, $5,170 had been committed and $1,670 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 have been approved by the MTA Board 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 Bridges and Tunnels Board. The 2000-2004 Commuter Capital Program and the 2000-2004 Transit Capital Program (collectively, the "2000-2004 MTA Capital Programs") have been approved by the CPRB.

The 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program through December 31, 2006, which provides 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 approved 2000–2004 MTA Capital Programs and the 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, 2006, $19,074 had been committed and $15,225 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 policies. Those policies permit investments in, among others, obligations of the U.S. Treasury, its agencies and instrumentalities, and repurchase agreements secured by such obligations.

Investments 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, 2006 and December 31, 2005.

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 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road and MTA Metro-North Railroad; $2 for MTA Long Island Bus; and $1.4 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 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 for MTA Long Island Bus; and $1.6 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. 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 per occurrence with $50 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, 2006, the balance of the assets in this program was $82.5.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA and its subsidiaries and affiliates additional coverage limits of $250, for a total limit of $300 ($250 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.

On March 1, 2006, 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 $7.0 per occurrence limit with a $.5 per occurrence deductible. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On March 1, 2006, 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 $3.0 per occurrence limit with a $.5 per occurrence deductible.

On November 1, FMTAC increased the primary coverage on the Station Liability and Force Account liability policies from $7 to $8 for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance

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

Incremental Insurance Loss	Amount Reinsured	Amount Retained by FMTAC
$ 0 – 25	$ 0.0	$ 25.0
25 – 125	100.0	0.0
125 – 175	50.0	0.0
175 – 400	225.0	0.0
400 – 700	300.0	0.0
700 – 1,000	57.1	242.9
1,000 – 1,250	250.0	0.0
Total	**$982.1**	**$267.9**

The property insurance, which is subject to annual 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 international terrorism committed by or on behalf of foreign interests, as covered by the Terrorism Risk Insurance Act of 2002, and amended by the Terrorism Risk Insurance Extension Act of 2005 ("2005 TRIA"), FMTAC is reinsured by the United States Government for 85% of such "certified" losses, subject to an annual cap on all losses payable under TRIA for $100 billion. No federal compensation will be paid unless the aggregate industry insured losses exceed $100 ("trigger"). The remaining 15% of MTA losses would be covered under an additional policy described below. TRIA coverage is provided through December 31, 2007. Negotiations are underway in Congress to extend the current arrangement, or implement a more permanent solution.

With respect to terrorism losses not covered by the United States Government under TRIA, MTA obtained an additional commercial reinsurance policy with Lexington Insurance Co. (part of AIG). That policy provides coverage for (1) 15% of any "certified" act of terrorism caused by foreign interests — up to a maximum recovery of $150 for any one occurrence, or (2) 100% of any terrorism loss not "certified" by the United States Government (including losses within the established event "trigger") — up to a maximum recovery of $100 for any occurrence. This coverage expires on December 31, 2007. Recovery under this policy is subject to a retention of $25 per occurrence and $75 in the annual aggregate — in the event of multiple losses during the policy year. Should the MTA's retention in any one year come to a total $75, then future losses in that policy year are subject to a retention of just $7.5.

Effective October 31, 2004 through October 30, 2005, FMTAC directly insured property damage claims of the MTA in excess of a $25 per occurrence self-insurance retention, subject to an annual $75 aggregate. The aggregate limitation of $1.25 billion per occurrence (up from $1 billion for the preceding year) covers all property of the related entities collectively. The property insurance 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.

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.

Non Operating 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, 2006 and 2005 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 $111.7 and $108.8 as of December 31, 2006 and December 31, 2005, 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, 2006 and December 31, 2005, were $15.1 and $18.1, respectively. Through December 31, 2006, the MTA has distributed $40.8 from the MRT-2 funds to the Commuter Railroads and $95.1 to MTA New York City Transit for their current operations. In the same period in 2005 the MTA distributed from the MRT-2 funds $0 to the Commuter Railroads and $0 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 in the second instance are used 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 6), 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 with 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 $176 for the 2006-2007 school year. It is believed that NYC will continue to provide for the City's $45 contribution for the 2006-2007 school year, of which $15 was received in December 2006. The Transit Operations approved 2007 Adopted Budget assumes that the remaining $30 from NYC will be received in 2007. It also assumes that the full $45 for the 2006-2007 school year will be received in 2007. The Transit Operation's 2008-2010 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 $3.7 in the twelve months ended December 31, 2006, and $3.8 in the twelve months ended December 31, 2005 from NYC for the reimbursement of transit police costs. In addition, $0.9 was received in February 2007 for calendar 2006.

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 33.0 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 $90.8 in the twelve months ended December 31, 2006, and $73.9 in the twelve months ended December 31, 2005. Total paratransit expenses, including paratransit service contracts, were $226.8 and $189.8 in 2006 and 2005, 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 non operating revenues in the Statements of Revenues, Expenses and Changes in Net Assets.

Reclassifications

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

Recent Accounting Pronouncements

The MTA has completed the process of evaluating the impact that will result from implementing GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*. The MTA has concluded that the implementation of GASB Statement No. 44 had little impact on the MTA's statistical section. GASB Statement No. 44 is effective for statistical sections prepared for periods beginning after June 15, 2005.

The MTA has not 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 Pension*. The MTA is therefore unable to disclose the impact that adopting this statement will have on its financial position and results of operations when such statement is adopted. 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 is 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 No. 46 had no impact on its financial position and results from operations 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 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. 47, *Accounting for Termination Benefits*. The MTA has concluded that the impact of adopting GASB No. 47 did not have a material impact on its financial position and results of operations. 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 not 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 Transfer of Assets and Future Revenues*. The MTA is therefore unable to disclose the impact GASB Statement No. 48 will have on its financial position and results of operations when such statement is adopted. The Statement establishes criteria that governments will use to ascertain whether proceeds received should be reported as revenue 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 adopting 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 and results of operations 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.

3—Cash and Investments

Cash, including deposits in transit, consists of the following at December 31, 2006 and 2005:

	December 2006		December 2005	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	$ 72	$66	$ 75	$69
Uninsured and not collateralized	83	14	63	6
	$155	$80	$138	$75

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.

Investments, at fair value, consist of the following at December 31, 2006 and 2005:

	December 2006		December 2005	
Repurchase agreements		$ 680		$ 627
U.S. Treasuries due 2005-2020		1,639		1,384
Investments restricted for capital lease obligations				
U.S. Treasury Notes	8		8	
Treasury Strips	121		138	
Other Agencies	2,334		2,359	
Sub-total		2,463		2,505
Commercial Paper		651		685
Other Agencies due 2005-2011		1,217		1,061
Total	$2,463	$6,650	$2,505	$6,262

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. The net unrealized loss on investments for the twelve months ended December 31, 2006 was $13.0 as compared to a gain for the year ended December 31, 2005 of $6.8.

In connection with certain lease transactions described in Note 7, 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 5.0 percent and 4.1 percent for the years ended December 31, 2006 and 2005, respectively.

Of the above cash and investments, amounts held for restricted purposes were as follows at December 31, 2006 and December 31, 2005:

	December 2006	December 2005
Construction or acquisition of capital assets	$1,858	$1,301
Funds received from related groups for investment	1,071	897
Debt service	489	590
Payment of claims	269	304
Restricted for capital leases	2,463	2,505
Other	432	558
Total	**$6,582**	**$6,155**

Credit Risk

At December 31, 2006, 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
P-1	$1,352	29.50%
Aaa	58	1.26%
Aa	17	0.37%
A	42	0.92%
Baa	26	0.57%
Not Rated	28	0.61%
Gov't/Gov't Agencies	3,060	66.77%
Total	**$4,583**	**100.00%**

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	$1,583	0.38
U.S. Agencies	1,018	0.52
Tax Benefits Lease Investments	424	11.50
Repurchase Agreement	715	0.01
Certificate of Deposits	11	0.39
Commercial Paper	637	0.08
Mortgage Backed Securities	32	2.25
Asset Backed Securities	43	0.74
Collateralized Mortgage Backed Securities	21	4.09
Corporates	82	0.95
Total Fair Value	4,566	
Modified Duration		1.39
Equities	17	
Total	**$4,583**	

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 Pension Plan and the Long Island Rail Road Company Plan for Additional Pensions ("Additional Plan") are contributory, defined-benefit pension plans that cover employees who began service with MTA Long Island Rail Road prior to January 1, 1988. 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. This plan assigns authority to amend the plan and determine contributions to the MaBSTOA Board.

For the plan years ended December 31, 2006 and 2005, MTA New York City Transit made contributions to the MaBSTOA Plan of $159.6 and $153.4, 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 SIRTOA 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 the seven private bus companies which previously provided the service now provided by MTA Bus.

The MTA Board has approved plan and trust amendments to provide for and implement the merger of the Long Island Rail Road ("LIRR") Company Pension Plan into the MTA Defined Benefit 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 Plans' Master Trust. In addition, the Board approved amendments authorizing the MTA 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, 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.

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.

Annual pension costs and related information about each plan follows:

	Single-Employer Plans		
	LIRR	MaBSTOA	MTA Plan
Date of valuation	1/1/06	1/1/06	1/1/06
Required contribution rates:			
Plan members	variable	variable	variable
Employer:	actuarially determined	actuarially determined	actuarially determined
Employer contributions made in 2006	$124.5	$260.0	$72.6
Three-year trend information:			
Annual Required Contribution:			
2006	$124.5	$159.6	$72.6
2005	109.1	153.4	58.2
2004	102.8	142.0	54.7
Percentage of ARC contributed:			
2006	100%	163%	100%
2005	100%	101%	100%
2004	100%	101%	100%
Annual Pension Cost (APC):			
2006	$124.6	$157.6	$72.6
2005	109.2	151.4	58.2
2004	102.9	140.1	54.7
Net Pension Obligation (NPO) (assets) at end of year:			
2006	(4.6)	(47.5)	–
2005	(4.6)	54.9	–
2004	(4.7)	57.0	–
Percentage of APC contributed:			
2006	100%	165%	100%
2005	100%	101%	100%
2004	100%	101%	100%
Components of APC:			
Annual required contribution (ARC)	$124.5	$159.6	$72.6
Interest on NPO	(0.3)	4.4	–
Adjustment of ARC	(0.4)	6.4	–

	Single-Employer Plans		
	LIRR	MaBSTOA	MTA Plan
APC	124.6	157.6	72.6
Contributions made	124.5	260.0	72.6
Change in NPO (assets)	0.1	(102.4)	–
NPO (assets) beginning of year	(4.7)	54.9	–
NPO (assets) end of year	$ (4.6)	$ (47.5)	$ –
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 ending June 30, 2006, and 2005 were $220.5 and $182.4, respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2006 and 2005 were $12.9, and $10.1, 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. 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. Generally, employees contribute 3 percent of salary. In 2000, the State Legislature passed legislation that suspends the 3 percent contribution of members who have 10 or more years of member service. MTAHQ and MTA Long Island Bus recognize pension expense based upon annual assessments made by NYSLERS. NYSLERS pension expense was approximately $11.2 and $11.8, for the years ended December 31, 2006 and 2005, 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. Effective January 1, 2004, employees who were participants in the Money Purchase Plan have become participants in the MTA Plan and have similar benefits as those applicable to non-represented employees of MTA Long Island Rail Road in the MTA 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 match 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 MTA Plan and have similar benefits as those applicable to non-represented employees of MTA Metro-North Railroad in the MTA Plan.

	December 31, 2006		December 31, 2005	
	LIRR Money Purchase Plan	MNCR Agreement Plan	LIRR Money Purchase Plan	MNCR Agreement Plan
Employer contributions	$ –	$10.8	$ –	$10.8
Employee contributions	0.3	0.6	0.7	0.6

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 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.

Other Post-Employment Benefits

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

	December 31, 2006		December 31, 2005	
	Number of Participants (Actual)	Cost of Benefits	Number of Participants (Actual)	Cost of Benefits
MTA Total	42,198	$243.9	39,218	$233.0

5—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, 2006 and December 31, 2005:

	Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005	Additions	Deletions	Balance December 31, 2006
Capital assets, not being depreciated							
Land	$ 125	$ 11	$ –	$ 136	$ 1	$ –	$ 137
Construction work-in-progress	5,471	1,629	1,459	5,641	2,083	2,469	5,255
Total capital assets, not being depreciated	5,596	1,640	1,459	5,777	2,084	2,469	5,392
Capital assets, being depreciated							
Buildings and structures	10,692	1,295	175	11,812	1,096	41	12,867
Bridges and tunnels	1,604	43	–	1,647	65	–	1,712
Equipment							
Passenger cars and locomotives	8,519	716	84	9,151	666	183	9,634
Buses	1,852	205	1	2,056	182	–	2,238
Infrastructure	10,635	819	6	11,448	1,395	79	12,764
Other	7,144	628	5	7,767	1,095	21	8,841
Total capital assets, being depreciated	40,446	3,706	271	43,881	4,499	324	48,056
Less accumulated depreciation							
Buildings and structures	2,856	328	17	3,167	364	1	3,530
Bridges and tunnels	337	16	–	353	15	–	368
Equipment							
Passenger cars and locomotives	2,623	297	79	2,841	341	181	3,001
Buses	1,128	119	1	1,246	122	–	1,368
Infrastructure	2,867	372	4	3,235	398	18	3,615
Other	2,577	342	3	2,916	363	20	3,259
Total accumulated depreciation	12,388	1,474	104	13,758	1,603	220	15,141
Total capital assets, being depreciated, net	28,058	2,232	167	30,123	2,896	104	32,915
Capital assets, net	**$33,654**	**$3,872**	**$1,626**	**$35,900**	**$4,980**	**$2,573**	**$38,307**

Interest capitalized in conjunction with the construction of capital assets at December 31, 2006 and December 31, 2005 was $75.9 and $70, 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 scrapped 10 subway cars and 3 buses during the year ended 2005 and recorded a loss on disposal of $1.9. In the 12 months ended December 31, 2005, MTA Long Island Railroad retired 196 fully depreciated M-1 electric cars from revenue service. In addition, the overpass at the Jamaica station constructed to accommodate passengers with disabilities (ADA overpass) was demolished and taken out of service and a loss on disposal of assets of $18 was recorded. During the 2006, MTA Long Island Rail Road placed into service 244 new M-7 electric cars and retired 206 M-1 electric cars and a locomotive from service, and MTA Metro-North purchased 76 new M-7, completed overhaul on 15 M-2 and disposed of 69 M-1 cars, 79 MU cars, 1 M-1 car, 2 M-3 cars and 1 Dual Mode locomotive.

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, 2006 and December 31, 2005 these securities totaled $71.6 and $76.1, respectively, and had a market value of $75.9 and $85.1 respectively, and are not included in these financial statements.

6—Long-Term Debt

	December 31, 2005	Issued	Retired	Refunded	December 31, 2006
MTA:					
Transportation Revenue Bonds 2.25% – 5.752% due through 2035	$ 9,207	$1,193	$192	$268	$ 9,940
Transportation Revenue Bond Anticipation Notes Commercial Paper	–	450	10	–	440
State Service Contract Bonds 3.00% – 5.50% due through 2031	2,332	–	43	–	2,289
Dedicated Tax Fund Bonds 3.00% – 6.25% due through 2031	3,278	760	66	–	3,972
Certificates of Participation 4.40% – 5.625% due through 2029	443	–	12	–	431
	15,260	2,403	323	268	17,072
Less net unamortized bond discount and premium	(363)	65	3	14	(315)
	$14,897	$2,468	$326	$282	$16,757
TBTA:					
General Revenue Bonds 4.00% – 5.77% due through 2033	$ 4,586	$ 200	$ 85	$ –	$ 4,701
Subordinate Revenue Bonds 4.00% – 5.77% due through 2032	2,364	–	40	–	2,324
	6,950	200	125	–	7,025
Less net unamortized bond discount and premium	112	–	12	–	100
	$7,062	$200	$137	$ –	$ 7,125
Total	$21,959	$2,668	$463	$282	$23,882
Current portion	(306)				(338)
Long-term portion	**$21,653**				**$23,544**

MTA Transportation Revenue Bonds

Prior to 2005, MTA issued ten 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 $6,695. 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 2005, the MTA issued the following series of Transportation Revenue Bonds to finance transit and commuter projects or to refund outstanding bonds: Series 2005A in the amount of $650; Series 2005B in the amount of $750; Series 2005C in the amount of $150; Series 2005D in the amount of $250; Series 2005E in the amount of $250; Series 2005F in the amount of $469; Series 2005G in the amount of $250; and Series 2005H in the amount of $173. The Series 2005H was issued to redeem Series 2002C.

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.

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 refund (at least each five years), its commercial paper notes with bonds.

As of December 31, 2005, MTA issued its Transportation Revenue Bonds, Series 2005F and Series 2005G to refund its outstanding commercial paper program in the amount of $720. In March 2006 MTA issued Transportation Revenue Bond Anticipation Notes, Series CP-1 Credit Enhanced in the amount of $450.

MTA State Service Contract Bonds

Prior to 2005, 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 2005, MTA issued seven 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 $3,391. 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 2005, the MTA issued the following series of Dedicated Tax Fund Bonds to refund outstanding bonds: Series 2005A in the amount of $350.

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.

MTA Certificates of Participation

Prior to 2005, 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 2005, MTA Bridges and Tunnels issued eight 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 $4,447. 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 2005, MTA Bridges and Tunnels issued the following series of General Revenue Bonds to finance bridge and tunnel projects or to refund outstanding bonds: Series 2005A in the amount of $150 and Series 2005B in the amount of $800.

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.

MTA Bridges and Tunnels Subordinate Revenue Bonds

Prior to 2005, 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 $14,866 at December 31, 2006. 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 December 31, 2006, 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	$1,529
Commuter Facilities Revenue Bonds	1,480
Commuter Facilities Subordinate Revenue Bonds	18
Transit and Commuter Facilities Service Contract Bonds	895
Dedicated Tax Fund Bonds	1,363
Excess Loss Trust Fund	19
MTA New York City Transit:	
Transit Facilities Revenue Bonds (Livingston Plaza Project)	121
MTA Bridges and Tunnels:	
General Purpose Revenue Bonds	2,259
Special Obligation Subordinate Bonds	214
Mortgage Recording Tax Bonds	236
Total	**$8,134**

Debt Service Payments

Principal and interest debt service payments (excluding refunded bonds) at December 31, 2006, are as follows:

	MTA		MTA BRIDGES AND TUNNELS					
			Senior Revenue		Subordinate Revenue		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 324	$ 773	$ 87	$ 215	$ 43	$ 113	$ 454	$ 1,101
2008	337	758	97	210	44	111	478	1,079
2009	353	744	102	206	48	108	503	1,058
2010	368	728	106	202	50	105	524	1,035
2011	384	711	112	196	52	103	548	1,010
2012-2016	2,220	3,259	627	885	304	470	3,151	4,614
2017-2021	2,817	2,660	826	701	450	378	4,093	3,739
2022-2026	3,584	1,939	969	484	519	267	5,072	2,690
2027-2031	4,482	1,017	1,232	228	654	132	6,368	1,377
2032-2036	1,763	162	543	21	160	9	2,466	192
	$16,632	**$12,751**	**$4,701**	**$3,348**	**$2,324**	**$1,796**	**$23,657**	**$17,895**

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

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

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 2004D – 4.00% per annum

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

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

Dedicated Tax Fund Bonds, Series 2004B – 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

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

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

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

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.

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

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

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 – 4.00% per annum

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 $2.7 in 2005. No additional rebate liability was recorded for the year ended December 31, 2006.

Swap Agreements

Board-adopted Guidelines

The Related Entities adopted guidelines governing the use of swap contracts to manage the interest rate exposure of their debt. The Guidelines establish specific requirements that must be satisfied for a Related Entity to enter into a swap contract, 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 entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA, MTA Bridges and Tunnels and MTA New York City Transit would have paid to issue fixed-rate debt.

Fair Value

Relevant market interest rates on the valuation date of the swaps reflected in the following charts (December 31, 2006) in some cases were higher than, and in some cases were lower than, market interest rates on the effective date of the swaps. Consequently, as of the valuation date, some of the swaps had negative fair values and some had positive fair values. A negative fair value means that MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would have to pay the counterparty that approximate amount to terminate the swap. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be entitled to receive a payment from the counterparty to terminate the swap; consequently, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the swap be terminated.

The fair values listed in the following tables represent the theoretical cost to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bond due on the date of each future net settlement on the swap. In the event both parties continue to perform their obligations under the swap, there is not a risk of termination and neither party is required to make a termination payment to the other. MTA, MTA Bridges and Tunnels and MTA New York City Transit are not aware of any event that would lead to a termination event with respect to any of their existing swaps. See "*Termination Risk*" below.

Terms and Fair Values

The terms, fair values and counterparties of the outstanding swaps of MTA and MTA Bridges and Tunnels, as well as the swaps entered into in connection with the 2 Broadway Certificates of Participation refunding, are reflected in the following tables. The MTA swaps are reflected in separate tables for the Transportation Revenue Bonds and Dedicated Tax Fund Bonds. The MTA Bridges and Tunnels swaps are reflected in separate tables for the senior lien and subordinate revenue bonds.

MTA Transportation Revenue Bonds

Associated Bond Issue	Notional Amounts as of 12/31/06 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/06 (in millions)	Swap Termination Date	Counterparty
Series 2002D-2	$200.0	05/30/02	3.627%	BMA[1]	$ 0.0	01/01/07	Bear Stearns Capital Markets Inc.
Series 2002D-2	200.0	01/01/07	4.45	69% of one-month LIBOR[2]	(23.1)	11/01/32	Bear Stearns Capital Markets Inc.
Series 2005D and Series 2005E	500.0	11/02/05	3.561	67% of one-month LIBOR	(6.2)	11/01/35	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.
Total	$900.0				$(29.3)		

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

(2) London Interbank Offered Rate.

MTA Dedicated Tax Fund Bonds

Associated Bond Issue	Notional Amounts as of 12/31/06 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/06 (in millions)	Swap Termination Date	Counterparty
Series 2002B	$440.0	09/05/02	4.06%	Actual bond rate until 04/30/10, and thereafter, BMA	$(11.7)	09/01/13	Morgan Stanley Capital Services Inc.
Series 2005A	346.6	03/24/05	3.3156	67% of one-month LIBOR	5.9	11/01/31	Citigroup Financial Products Inc.
Total	$786.6				$ (5.8)		

MTA Bridges and Tunnels Senior Lien Revenue Bonds

Associated Bond Issue	Notional Amounts as of 12/31/06 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/06 (in millions)	Swap Termination Date	Counterparty
Series 2001B and 2001C[3]	$ 230.9	01/01/02	5.777%	Actual bond rate	$(27.0)	01/01/19	Citigroup Financial Products Inc.
Series 2002C[4]	77.2	01/01/00	5.634	Actual bond rate	(7.3)	01/01/13	Ambac Financial Services, L.P.
Series 2005B	800.0	07/07/05	3.076	67% of one-month LIBOR	40.7	01/01/32	25% each – Citibank, N.A., JPMorgan Chase Bank, BNP Paribas North America, Inc. and UBS AG
Series 2005B	800.0	07/07/05	67% of one-month LIBOR plus 43.7 basis points[5]	BMA minus 10 basis points	(12.6)	01/01/12	UBS AG
Total	$1,908.1				$ (6.2)		

(3) In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of $19.2.

(4) In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of $8.4.

(5) For the purpose of mitigating the basis risk during the escrow period with respect to the $800 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 12/31/06 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/06 (in millions)	Swap Termination Date	Counterparty
Series 2000A and 2000B[6]	$212.9	01/01/01	6.08%	Actual bond rate	$(29.8)	01/01/19	Bear Stearns Capital Markets Inc.
Series 2000C and 2000D[6]	212.8	01/01/01	6.07	Actual bond rate	(29.7)	01/01/19	Citigroup Financial Products Inc.
Series 2002G-1	90.5	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(1.4)	01/01/18	JPMorgan Chase Bank
Series 2002G-2	90.5	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(1.6)	01/01/18	JPMorgan Chase Bank
Total	$606.7				$(62.5)		

(6) In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying to MTA Bridges and Tunnels a premium of $22.7.

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 $357.9 Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities) in connection with the refunding of certain certificates of participation originally executed to fund certain improvements to the office building located at 2 Broadway in Manhattan. The 2 Broadway swaps have (1) an effective date of September 22, 2004, (2) a fixed rate paid of 3.092%, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67% of one-month LIBOR minus 45 basis points, and (4) a termination date of January 1, 2030. Based on the aggregate notional amount of $355.5 outstanding as of December 31, 2006, MTA New York City Transit is responsible for $244.3 aggregate notional amount of the swaps, MTA for $74.6 aggregate notional amount, and MTA Bridges and Tunnels for $36.6 aggregate notional amount. As of December 31, 2006, the aggregate fair value of the swaps was ($2.1).

Counterparty Ratings

The current ratings of the counterparties 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	Aa2	AA
Citigroup Financial Products Inc.	AA-	Aa1	AA+
JPMorgan Chase Bank	AA-	Aa2	A+
Lehman Brothers Special Financing Inc.	A+	A1	A+
Morgan Stanley Capital Services Inc.	A+	Aa3	AA-
UBS AG	AA+	Aa2	AA+

Except as set forth below, the notional amounts of the swaps match the principal amounts of the associated bonds. The following table sets forth the notional amount and the outstanding principal amount as of December 31, 2006 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 (in millions)**	**Notional Amount (in millions)**
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	$296.4	$230.9
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002C	$103.3	$ 77.2

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

Risks Associated with the Swap Agreements

From MTA's, MTA Bridges and Tunnels' and MTA New York City Transit's perspective, the following risks are generally associated with swap agreements:

- ***Credit Risk*** – The counterparty becomes insolvent or is otherwise not be able to perform its financial obligations. In the event of a deterioration in the credit ratings of the counterparty or MTA/MTA Bridges and Tunnels/MTA New York City Transit, the swap agreement may require that collateral be posted to secure the party's obligations under the swap agreement. See "*Collateralization*" below. Further, ratings deterioration by either party below levels agreed to in each transaction could result in a termination event requiring a cash settlement of the future value of the transaction. See "*Termination Risk*" below.

- ***Basis Risk*** – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA, MTA Bridges and Tunnels or MTA New York City Transit on the associated bonds may not be the same. If the counterparty's rate under the swap is lower than the bond interest rate, then the counterparty's payment under the swap agreement does not fully reimburse MTA, MTA Bridges and Tunnels or MTA New York City Transit for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty's rate on the swap, there is a net benefit to MTA, MTA Bridges and Tunnels or MTA New York City Transit.
- ***Termination Risk*** – The swap agreement will be terminated and MTA, MTA Bridges and Tunnels or MTA New York City Transit will be required to make a termination payment to the counterparty.
- ***Rollover Risk*** – The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds on a variable rate bond issuance, and MTA, MTA Bridges and Tunnels or MTA New York City Transit may be exposed to then market rates and cease to receive the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk

The following table shows, as of December 31, 2006, 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 both Bear Stearns swaps relating to the Transportation Revenue Bonds, Series 2002D-2 (one of which terminates on January 1, 2007, which is the date that the other swap becomes effective) and includes 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 millions)	% of Total Notional Amount
UBS AG	$1,655.5	36.33%
Citigroup Financial Products Inc.	990.3	21.73
Bear Stearns Capital Markets Inc.	612.9	13.45
Morgan Stanley Capital Services Inc.	440.0	9.66
JPMorgan Chase Bank	381.0	8.36
BNP Paribas North America, Inc.	200.0	4.39
AIG Financial Products Corp.	100.0	2.19
Lehman Brothers Special Financing Inc.	100.0	2.19
Ambac Financial Services, L.P.	77.2	1.69
Total	**$4,556.9**	

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

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

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

Collateralization

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

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

MTA Transportation Revenue Bonds

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+	$10.0
	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	$ 0.0
Series 2005D and Series 2005E	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10.0
	Fitch –below BBB+, Moody's – below Baa1, or S&P – below BBB+	$ 0.0

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+	$10.0
	Fitch – BBB and below or unrated, or S&P – BBB and below or unrated	$ 0.0
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-	$10.0
	Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below	$ 0.0

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+	$25.0
	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	$ 0.0
	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	$ 0.0

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-	$10.0
	For MTA, Fitch – BBB+, or Moody's – Baa1, or S&P – BBB+	$30.0
	For MTA, Fitch – BBB, or Moody's – Baa2, or S&P – BBB	$15.0
	For counterparty, Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below	$ 0.0
	For MTA, Fitch – BBB- and below, or Moody's – Baa3 and below, or S&P – BBB- and below	$ 0.0

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 2000A and 2000B	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Bear Stearns is required to post collateral if its estimated termination payments are in excess of $1.0.	
Series 2000C and 2000D	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of $1.0.	
Series 2002G-1 and 2002G-2	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10.0
	Fitch – Below BBB+, Moody's – Below Baa1, or S&P – Below BBB+	$ 0.0

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

Under each MTA and MTA Bridges and Tunnels bond resolution, the payments relating to debt service on the swaps are parity obligations with the associated bonds, as well as all other bonds issued under that bond resolution, but all other payments, including the termination payments, are subordinate to the payment of debt service on the swap and all bonds issued under that bond resolution. In addition, MTA and MTA Bridges and Tunnels have structured each of the swaps (other than the 2 Broadway swaps) in a manner that will permit MTA or MTA Bridges and Tunnels to bond the termination payments under any available bond resolution.

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

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

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

MTA Transportation Revenue and Dedicated Tax Fund Bonds

Associated Bond Issue	Additional Termination Event(s)
Transportation Revenue Bonds	
Series 2002D-2 (both swaps), 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.
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.

MTA Bridges and Tunnels Senior and Subordinate Revenue Bonds

Associated Bond Issue	Additional Termination Events
Subordinate Revenue Bonds	
Series 2000A, 2000B, 2000C and 2000D	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 $90.5 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 $90.5 may be terminated at the option of MTA Bridges and Tunnels on or after January 5, 2011.

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

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% per annum.
- The net swap payments were calculated using the actual fixed interest rate on the swap agreements.

	MTA (in millions)			
	Variable-Rate Bonds			
Fiscal Year Ending December 31	Principal	Interest	Net Swap Payments	Total
2007	$ 1.5	$ 59.5	$ (3.4)	$ 57.5
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
2012-2016	144.0	289.0	(17.5)	415.6
2017-2021	398.3	235.0	(16.3)	617.0
2022-2026	303.8	157.0	(10.9)	449.9
2027-2031	381.2	98.1	(3.8)	475.5
2032-2036	251.3	16.8	(0.1)	267.9

	MTA Bridges and Tunnels (in millions)			
	Variable-Rate Bonds			
Fiscal Year Ending December 31	Principal	Interest	Net Swap Payments	Total
2007	$ 26.3	$ 71.2	$ 4.5	$ 102.0
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
2012-2016	274.1	295.2	(14.4)	554.8
2017-2021	225.6	239.1	(34.7)	429.9
2022-2026	217.0	200.1	(33.0)	384.2
2027-2031	691.0	119.1	(22.1)	788.0
2032-2036	222.7	0.3	–	222.9

7—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 $.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, 2006, 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, 2006, 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 MTAHQ 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.

QTE Lease 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 basic lease rent payments under that lease and to pay 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% of the net benefit received from these four QTE transactions. At December 31, 2005, MTA had paid the City of New York $13.7.

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 million, 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 6). 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.

On May 17, 2006, President Bush signed into law an act entitled the "Tax Increase Prevention and Reconciliation Act of 2005" (P.L. 109-222). Among other provisions, P.L. 109-222 imposes an excise tax on the net income or proceeds of certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions, such as MTA and its affiliates and subsidiaries. Some of the MTA leasing transactions that could be subject to the tax are described in footnote 7. The United States Department of the Treasury and the Internal Revenue

Service are in the process of drafting regulations that will further clarify which transactions are subject to the excise tax and the calculations of the excise tax. MTA is evaluating P.L. 109-222 and awaiting these regulations. At this time, the magnitude of MTA's excise tax liability with respect to the lease transactions that are subject to P.L. 109-222 is unclear.

Total rent expense under operating leases approximated $28.5 through December 31, 2006 and $32 through December 31, 2005.

At December 31, 2006, the future minimum lease payments under non-cancelable leases are as follows:

Year	Operating	Capital
2007	$ 25	$ 1,142
2008	24	98
2009	23	305
2010	20	174
2011	20	70
2012 - 2016	81	445
2017 - 2021	65	530
2022 - 2026	63	571
2027 - 2031	51	171
2032 - 2033	48	1,623
Thereafter	443	584
	$863	5,713
Amount representing interest		(3,098)
Present value of capital lease obligations		**$ 2,615**

8—Estimated Liability Arising from Injuries to Persons

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2006 and 2005 is presented below:

	December 31, 2006	December 31, 2005
Balance, beginning of year	$1,174	$1,127
Activity during the year:		
Current year claims and changes in estimates	157	200
Claims paid	(160)	(153)
Balance, end of period	1,171	1,174
Less current portion	(176)	(191)
Long-term liability	**$ 995**	**$ 983**

9—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.

10—Operating Activity Information

	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	(479)	(749)	(1,767)	931	31	(2,033)
Net cash provided by/(used in) noncapital financing activities	3,351	783	2,399	(440)	(2,340)	3,753
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
December 31, 2005						
Operating revenue	$ 133	$ 939	$ 2,908	$ 1,254	$ (36)	$ 5,198
Depreciation and amortization	35	434	955	50	–	1,474
Subsidies and grants	381	–	315	–	(156)	540
Tax revenue	2,295	–	1,565	–	(934)	2,926
Interagency subsidy	457	–	180	(457)	(180)	–
Operating (deficit) surplus	(442)	(1,208)	(2,765)	861	–	(3,554)
Net (deficit) surplus	313	(1,182)	1,111	153	–	395
Capital expenditures	3,618	214	708	166	(1,067)	3,639
December 31, 2005						
Total assets	10,487	9,087	25,430	3,571	(1,949)	46,626
Net working capital	(373)	(99)	49	(235)	487	(171)
Long-term debt – (including current portion)	14,897	–	–	7,107	(45)	21,959
Net assets	(9,069)	8,213	22,885	(4,036)	–	17,993
December 31, 2005						
Net cash (used in)/provided by operating activities	(411)	(683)	(1,543)	879	34	(1,724)
Net cash provided by (used in) noncapital financing activities	3,244	717	2,090	(479)	(1,958)	3,614
Net cash provided by/(used in) capital and related financing activities	(2,120)	(12)	(284)	(447)	1,344	(1,519)
Net cash provided by/(used in) Investing activities	(736)	(10)	(237)	46	580	(357)
Cash at beginning of year	58	17	36	13	–	124
Cash at end of period	34	29	63	12	–	138

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

11—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.

Required Supplementary Information: Schedule of Pension Funding Progress

($ millions)

	January 1, 2006	January 1, 2005	January 1, 2004
LIRR			
a. Actuarial value of plan assets	$ 625.0	$ 659.6	$ 689.7
b. Actuarial accrued liability (AAL)	1,898.6	1,786.7	1,745.6
c. Total unfunded AAL (UAAL) [b-a]	1,273.6	1,127.1	1,055.9
d. Funded ratio [a/b]	32.9%	36.9%	39.5%
e. Covered payroll	$ 117.3	$ 137.1	$ 151.2
f. UAAL as a percentage of covered payroll [c/e]	1085.8%	822.1%	698.3%
MaBSTOA			
a. Actuarial value of plan assets	$ 841.0	$ 762.1	$ 713.2
b. Actuarial accrued liability (AAL)	1,725.2	1,680.5	1,663.3
c. Total unfunded AAL (UAAL) [b-a]	884.2	918.4	950.1
d. Funded ratio [a/b]	48.7%	45.3%	42.9%
e. Covered payroll	$ 498.0	$ 479.5	$ 460.9
f. UAAL as a percentage of covered payroll [c/e]	177.5%	191.5%	206.1%
MTA			
a. Actuarial value of plan assets	$ 613.6	$ 463.6	$ 391.6
b. Actuarial accrued liability (AAL)	793.3	625.5	554.0
c. Total unfunded AAL (UAAL) [b-a]	179.7	161.9	162.4
d. Funded ratio [a/b]	77.4%	74.1%	70.7%
e. Covered payroll	N/A*	$ 480.8	$ 451.1
f. UAAL as a percentage of covered payroll [c/e]	N/A*	33.7%	36.0%

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

Supplementary Information: Schedule of Financial Plan to Financial Statements Reconciliation

Year Ended December 31, 2006
($ millions)

	Unaudited
Financial Plan Actual – Operating Loss	$(3,817.6)
Reconciling items:	
FMTAC revenues are recorded as operating on the Financial Plan and recorded as non-operating on the Financial Statements.	(15.4)
Various agencies recorded adjustments to the Financial Statements after the Financial Plan was completed.	(33.8)
The Financial Plan includes TBTA capital transfer to agencies.	24.1
Other miscellaneous adjustments and accruals.	–
Financial Statement – Operating Loss	$(3,842.7)

Supplementary Information: Consolidated Reconciliation between Financial Plan and Financial Statements

Year Ended December 31, 2006 ($ millions)

Category	Financial Plan Actual	Financial Statement GAAP Actual	Variance
	(Unaudited)		
Revenue			
Farebox Revenue	$ 3,839.8	$ 3,839.7	$ (0.1)
Vehicle Toll Revenue	1,241.5	1,241.5	–
Other Operating Revenue	467.2	406.1	(61.1)
Total Revenue	**5,548.5**	**5,487.3**	**(61.2)**
Expenses			
Labor:			
Payroll	3,676.0	3,722.0	(46.0)
Overtime	436.7	401.2	35.5
Health and Welfare	839.0	843.6	(4.6)
Pensions	600.4	601.6	(1.2)
Other Fringe Benefits	397.9	406.6	(8.7)
Reimbursable Overhead	(260.0)	(228.7)	(31.3)
Total Labor Expenses	**5,690.0**	**5,746.3**	**(56.3)**
Non-Labor:			
Traction and Propulsion Power	277.8	277.8	–
Fuel for Buses and Trains	177.9	177.9	–
Insurance	45.2	48.7	(3.5)
Claims	79.6	92.7	(13.1)
Paratransit Service Contracts	183.6	183.6	–
Maintenance and Other Operating Contracts	533.9	527.1	6.8
Professional Service Contract	179.5	177.4	2.1
Materials & Supplies	452.8	448.1	4.7
Other Business Expenses	156.8	44.3	112.5
Rounding	–	–	–
Total Non-Labor Expenses	**2,087.1**	**1,977.6**	**109.5**
Other Expenses Adjustments:			
TBTA Transfer	24.1	–	24.1
General Reserve	6.0	–	6.0
Interagency Subsidy	(34.5)	–	(34.5)
Other	(11.9)	–	(11.9)
Total Other Expense Adjustments	**(16.3)**	**–**	**(16.3)**
Total Expenses Before Depreciation	**7,760.8**	**7,723.9**	**36.9**
Depreciation	1,605.3	1,606.1	(0.8)
Total Expenses (Excluding TBTA Depreciation)	**9,366.1**	**9,330.0**	**36.1**
Net Operating Deficit Excluding Subsidies and Debt Service	**$(3,817.6)**	**$(3,842.7)**	**$(25.1)**

Supplementary Information: Consolidated Subsidy Accrual Reconciliation between Financial Plan and Financial Statements

Year Ended December 31, 2006
($ millions)

Accrued Subsidies	Financial Plan Actual	Financial Statement GAAP Actual	Variance
	(Unaudited)		
Mass Transportation Operating Assistance	$ 1,311.1	$ 1,311.1	$ –
Petroleum Business Tax	612.7	612.7	–
Mortgage Recording Tax 1 and 2	759.8	759.8	–
MRT transfer	(36.8)	(40.1)	(3.3)[1]
Urban Tax	704.7	704.7	–
Operating subsidies from NYC	199.0	196.7	(2.3)[2]
State and Local Operating Assistance	378.8	378.8	–
Additional Mass Transportation Assistance Program	15.0	15.0	–
Nassau County Subsidy to Long Island Bus	10.5	10.5	–
Station Maintenance	137.4	137.4	–
Connecticut Department of Transportation (CDOT)	52.6	52.6	–
NYS Grant for Debt Service	–	130.2	130.2[3]
Investment income	24.4	46.2	21.8[4]
Total Accrued Subsidies	4,169.2	4,315.6	146.4
Net Operating Surplus/(Deficit) Excluding Accrued Subsidies and Debt Service	$(3,817.6)	$(3,842.7)	(25.1)
Total Net Operating Surplus/(Deficit)	**$ 351.6**	**$ 472.9**	**$121.3**
Interest on Long-Term Debt		**$ 1,039.2**	
Debt Service	**$ 1,310.0**		

(1) The Financial Plan records on a cash basis while the Financial Statements records on an accrual basis.
(2) Adjustment made to the MTA Bus Company financial statements after the close of the Financial Plan.
(3) 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.
(4) The Financial Plan excludes certain pool and capital funds.

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Statistical Section

Statistical Tables and Charts
Financial Trends

MTA Net Assets
($ millions)

	2006
Invested in Capital Assets, Net of Related Debt	
Capital Assets, Net	$ 38,307
Related Debt	(24,769)
Defeasance Cost	549
Unused Funds	690
Restricted for Debt Service	
Transportation Revenue Bonds	167
Dedicated Tax Fund Bonds	38
Capital Leases	424
General Revenue Bonds — Senior	312
General Revenue Bonds — Subordinate	154
Unrestricted	3,491
Net Change	**19,363**

MTA Changes in Net Assets
($ millions)

	2006
Operating Revenues	$ 5,487
Operating Expenses	(9,330)
Non-Operating Revenue	3,315
Grants and Other Receipts Restricted for Capital Purchases	1,898
Net Change	**1,370**

MTA Revenue Base

	December 31, 2006	
Subway and Local Buses	MTA New York City Transit, MTA Long Island Bus, MTA Bus, MTA Staten Island Railway	
Base Fare	$2.00	
Commuter Rail Roads	Long Island Rail Road	Metro-North Railroad
One-Way Peak	$4.936 + 16.41¢/mile	$4.941 + 16.47¢/mile (EOH-NYS) $5.452 + 18.17¢/mile (EOH-CT) $3.749 + 10.97¢/mile (WOH)
Bridge and Tunnel Crossings	Major Crossings	Minor Crossings
One-Way Passenger Vehicle Toll	$4.50	$2.25

Notes: The base fare for subways and local buses is a cash or single-ride fare. Nearly all riders take advantage of various pre-paid discounts available with MetroCard; seniors and people with disabilities pay a reduced fare that can be further discounted by using prepaid MetroCard.

Commuter railroad 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 40 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. Metro-North figures show charges for East-of-Hudson (EOH) service for stations in New York State and Connecticut and for West-of-Hudson (WOH) service.

Bridges and Tunnels' charges for other types of vehicles are based on vehicle size and type. Customers using E-ZPass receive special discounts. Major crossings are the Bronx-Whitestone, Triborough, Throgs Neck, and Verrazano-Narrows bridges and the Brooklyn-Battery and Queens Midtown tunnels; minor crossings are the Henry Hudson, Marine Parkway-Gil Hodges Memorial, and Cross Bay Veterans Memorial bridge. Tolls are collected in a single direction on the Verrazano-Narrows Bridge and are doubled. Other discounts for the Verrazano-Narrows Bridge are available to residents of Staten Island and other discounts for the Marine Parkway-Gil Hodges Memorial Bridge and the Cross Bay Veterans Memorial Bridge are available to Rockaway and Broad Channel residents.

Statistical Tables and Charts
Debt Information

MTA Debt by Type—Par Outstanding, Year-End
($ millions)

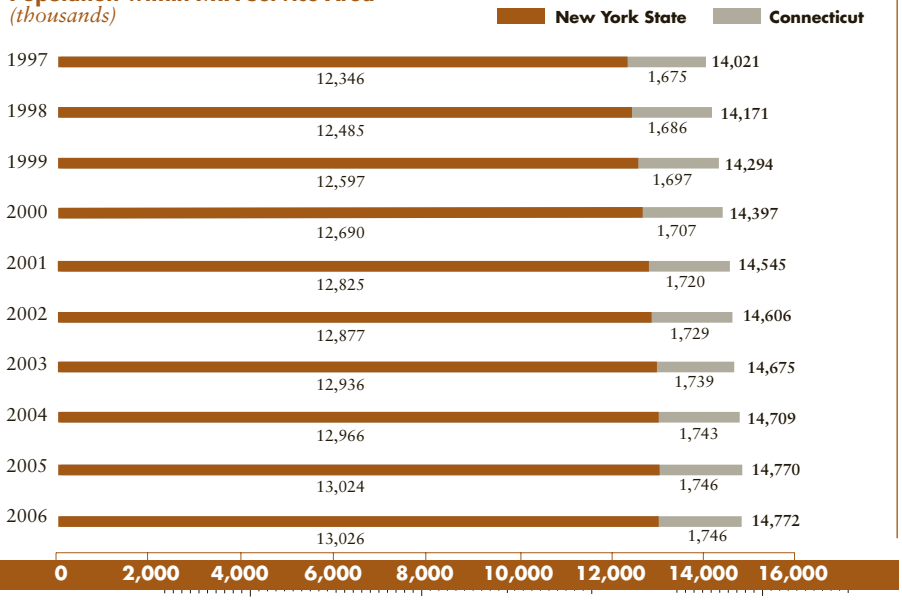
	2006
Dedicated Tax Fund	$3,972
Transportation Revenue	9,940
TBTA General Revenue	4,701
TBTA Subordinate Revenue	2,325
State Service Contract	2,289
2 Broadway Certificates of Participation	431
Total	**$23,658**

MTA Debt Capacity
($ millions)

	2006
Debt Limit	$28,877
Debt Issuance Subject to the Limit	14,866
Limit Available	**$14,011**
Percent of Limit Issued	51.48%

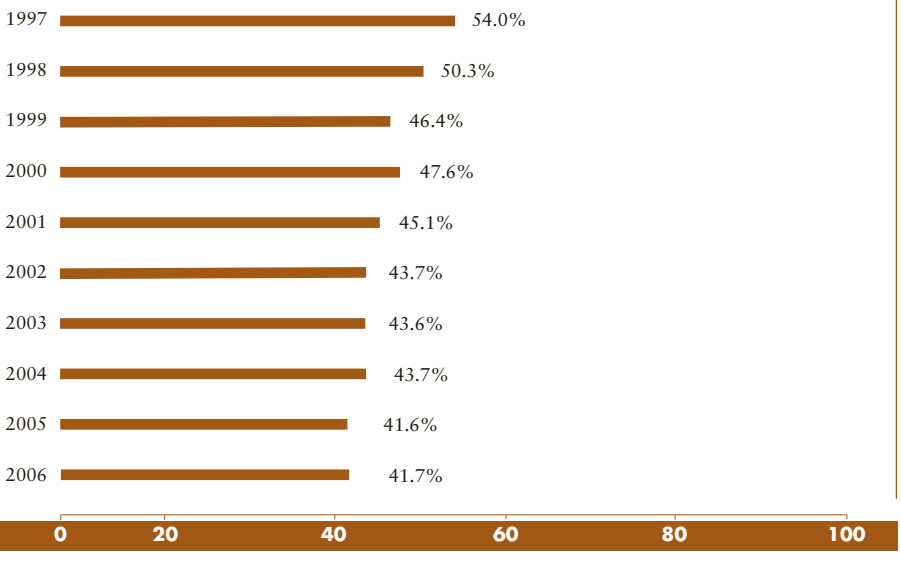
Note: The statutory debt limit includes only debt issued for transit and commuter projects set forth in the 1992 through 2009 CPRB-approved Capital Programs. Statutory exclusions include refunding bonds and bonds issued to cover the cost of issuance.

Population within MTA Service Area
(thousands)



Note: Population figures for 2000 are from the 2000 Census. Other figures are from annual estimates of population by county published by the U.S. Census Bureau.

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.)

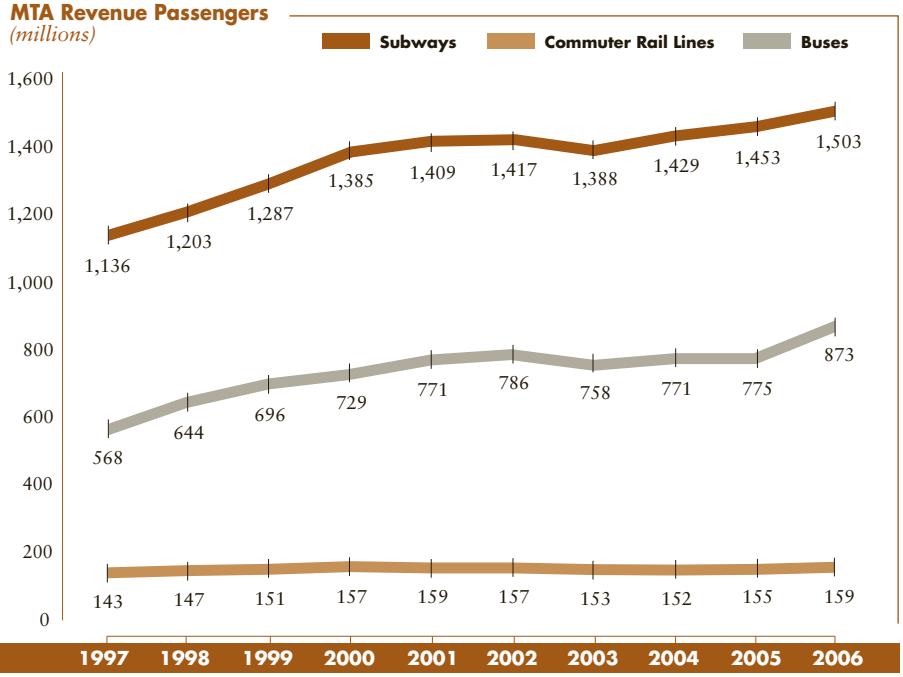
Statistical Tables and Charts
Operating Information

In the Operating Information charts, subway-related information includes operations of MTA New York City Transit subways and MTA Staten Island Railway. Unless otherwise indicated, bus-related information includes operations of MTA New York City Transit buses, MTA Long Island Bus, and (beginning with 2006 figures) MTA Bus, but excludes Access-A-Ride and Able-Ride paratransit service. Commuter rail-related information includes MTA Long Island Rail Road and MTA Metro-North Railroad.

Scope of Operations

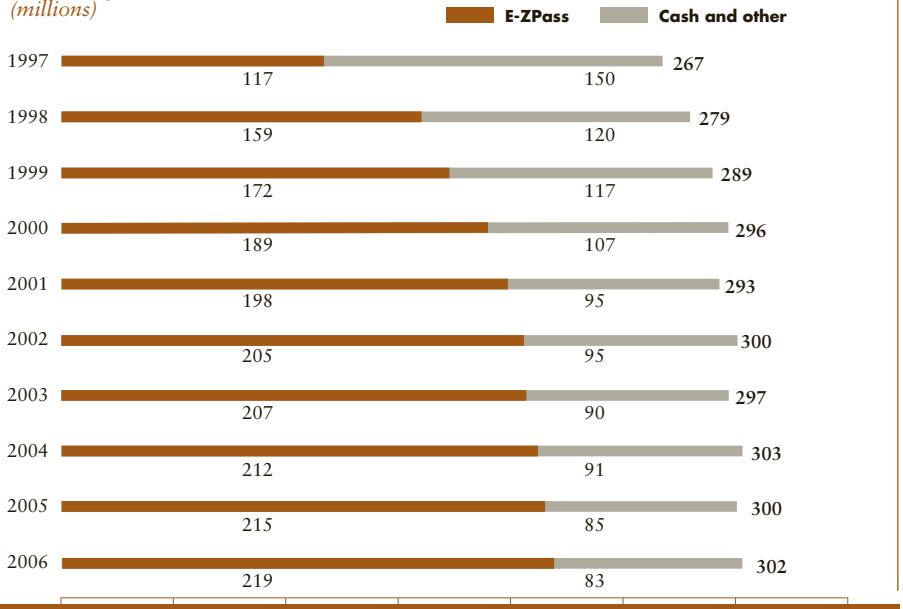
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Subway Lines	26	26	26	26	28	28	28	28	27	27
Subway Stations	490	490	490	490	490	490	490	490	490	490
Subway Route Miles	258	247	247	247	247	247	247	247	247	247
Subway Track Miles	685	685	685	685	685	685	689	689	689	689
Bus Routes	280	287	288	290	298	298	298	297	297	378
Bus Route Miles	2,355	2,355	2,637	2,641	2,646	3,012	2,967	2,967	2,967	3,879
Commuter Rail Lines	17	17	17	17	17	17	17	17	17	17
Commuter Rail Stations	251	241	241	243	243	243	244	244	244	244
Commuter Rail Route Miles	715	721	703	703	703	703	703	703	703	701
Commuter Rail Track Miles	1,353	1,370	1,370	1,369	1,369	1,369	1,369	1,369	1,369	1,369
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)

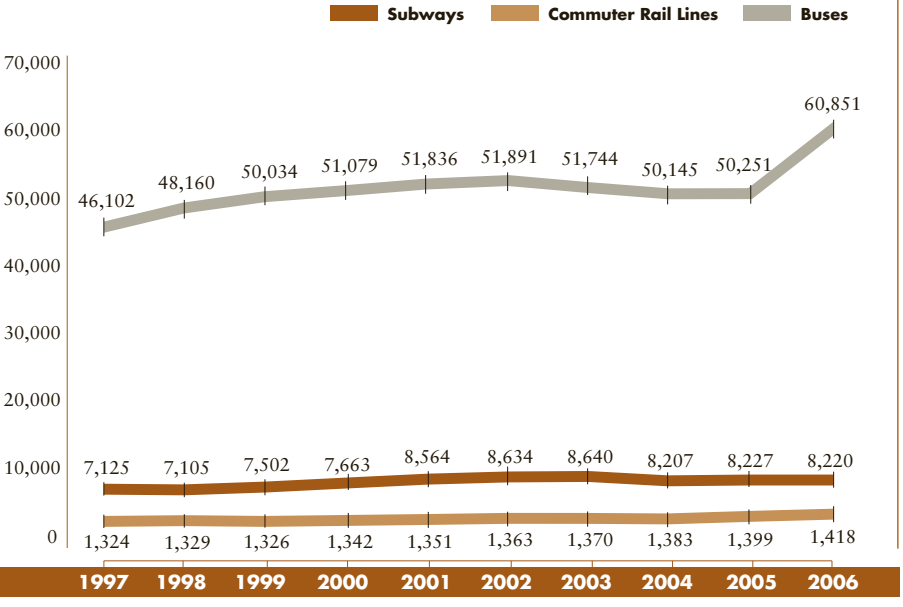


Notes: Bus figure includes rides provided by Able-Ride paratransit service but does not include Access-A-Ride paratransit service.
2002 bus total restated from prior annual reports due to recalculation of New York City Transit bus ridership.

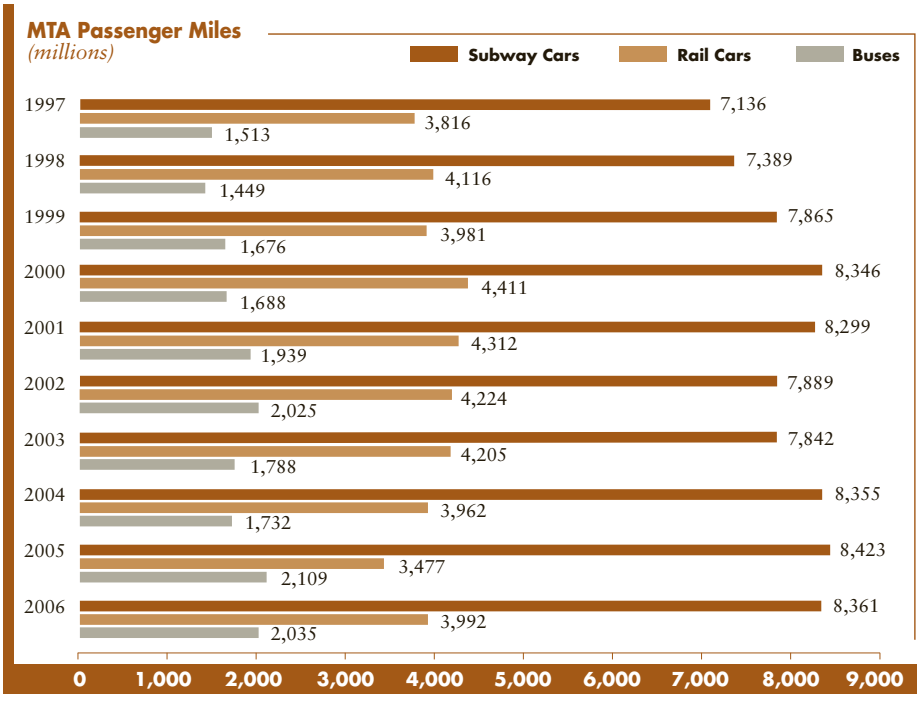
MTA Bridges and Tunnels Revenue Vehicles
(millions)



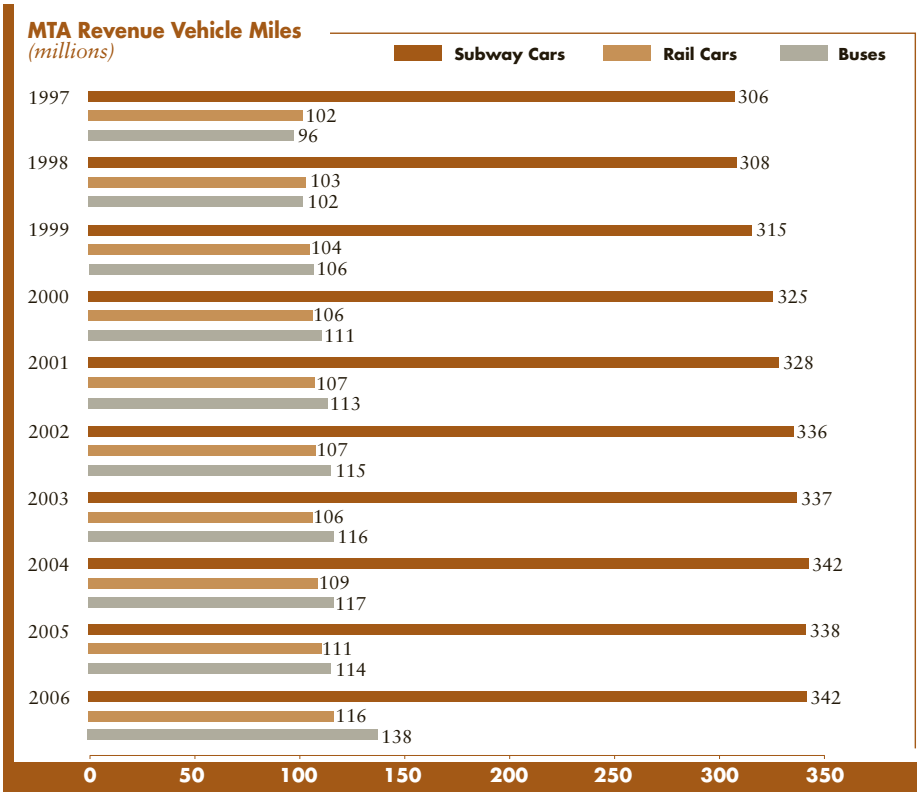
Average Number of Weekday Subway/Bus/Train Trips



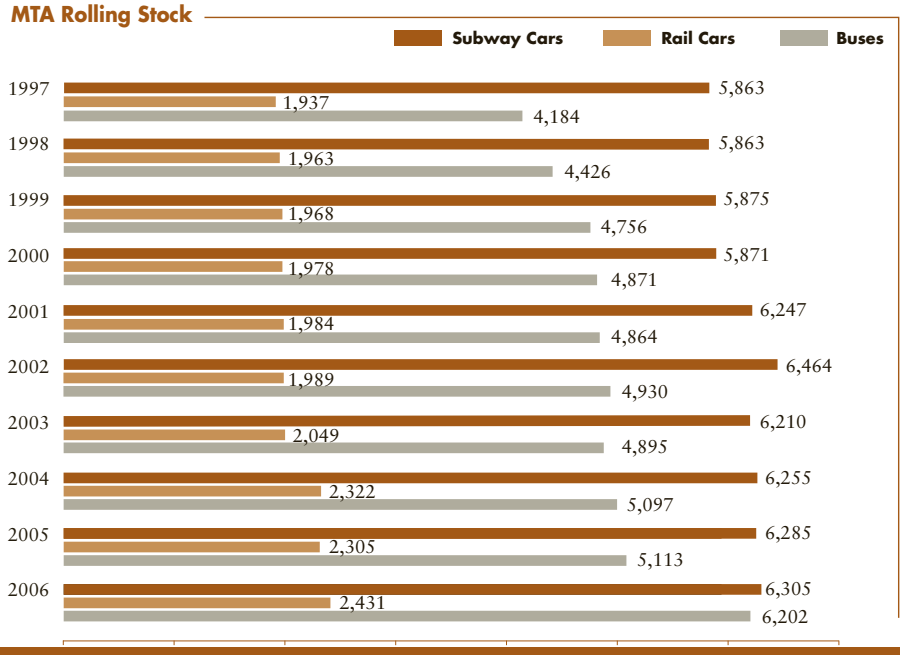
Statistical Tables and Charts
Operating Information



Note: 2006 figures exclude MTA Bus.



MTA Rolling Stock



Employees by Category

	2006
Administration	4,394
Operations	30,733
Maintenance	28,834
Engineering/Capital	1,875
Public Safety	1,621
Total	**67,457**

2006 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)					
2006	**1,498,915,984**	**741,419,747**	**3,782,591**	**82,036,736**	**32,577,477**
2005	1,449,109,242	736,493,445	3,458,853	80,130,571	31,507,473
Gain (loss)	49,806,742	4,926,302	323,738	1,906,165	1,070,004
Percent change	3.44%	0.67%	9.36%	2.38%	3.40%
Paid rides (average weekday)					
2006	**4,865,769**	**2,380,124**	**13,781**	**289,586**	**109,302**
2005	4,737,093	2,374,777	12,647	282,410	105,329
Gain (loss)	128,676	5,347	1,134	7,176	3,973
Percent change	2.72%	0.23%	8.97%	2.54%	3.77%
Annual revenue vehicle miles					
2006	**339,374,918**	**101,520,477**	**2,160,104**	**61,273,582**	**13,361,529**
2005	335,689,529	101,269,584	2,102,170	59,173,711	12,894,456
Gain (loss)	3,398,911	1,721,787	57,934	2,099,871	467,073
Percent change	1.10%	0.25%	2.76%	3.55%	3.62%
Average number weekday train/bus trips	8,093	45,839	127	733	4,179
Stations	468	—	22	124	—
Train lines/bus routes	26	243	1	11	54
Route miles[7]					
Rail route miles	233	—	14	319	—
Bus route miles	—	2,043	—	—	954
Track miles[8]	660	—	29	594	—
Rolling stock					
Rail cars	6,241	—	64	1,153	—
Buses	—	4,518	—	—	417
Bridges	—	—	—	—	—
Tunnels	—	—	—	—	—
Employees	27,807	14,393	270	6,303	1,108

1. Figures include Manhattan and Bronx Surface Transit Operating Authority, a subsidiary of MTA New York City Transit; does 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.

2006 Operating Statistics

MTA Metro-North Railroad[3]	MTA Bus	MTA Bridges and Tunnels	MTA New York City Transit Total[4]	Combined MTA Railroads Total[5]	MTA Total[6]
76,850,478	99,254,478	302,058,593	2,245,537,300	158,887,214	2,540,039,060
74,507,341	—	300,385,193	2,190,265,764	154,637,912	2,379,870,002
2,343,137	—	1,673,400	55,271,536	4,249,302	160,169,058
3.14%	—	0.56%	2.52%	2.75%	6.73%
265,949	330,739	854,443	7,262,760	555,535	8,272,117
257,842	—	848,154	7,126,950	540,252	7,785,178
8,107	—	6,289	135,810	15,283	486,939
3.14%	—	0.74%	1.91%	2.83%	6.25%
54,542,127	23,334,790	—	440,895,395	115,815,709	595,567,527
51,826,772	—	—	436,959,113	111,000,483	562,956,222
2,715,355	—	—	5,120,698	4,815,226	33,795,721
5.24%	—	—	0.90%	4.34%	5.79%
685	10,833	—	53,932	1,418	59,656
120	—	—	468	244	734
6	81	—	269	17	378
382	—	—	233	701	948
—	882	—	2,043	—	3,879
775	—	—	660	1,369	2,058
1,188	—	—	6,241	2,341	8,646
—	1,267	—	4,518	—	6,202
—	—	7	—	—	7
—	—	2	—	—	2
5,856	3,055	1,783	47,696[9]	12,159	67,457[10]

5. MTA Long Island Rail Road plus MTA Metro-North Railroad.
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 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 5,496 employees in administration, operations, maintenance, and engineering/capital construction positions.
10. Includes 586 employees at MTA Headquarters, 732 at MTA Public Safety, and 68 employees of MTA Capital Construction.

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, Eliot Spitzer, Governor.

MTA management and Board members shown on this page are current as of May 1, 2007.

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Chairman

David S. Mack
Vice Chairman

Andrew M. Saul
Vice Chairman

Elliot G. Sander
Executive Director and
Chief Executive Officer

Members of the Board

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John H. Banks III
James F. Blair*
Nancy Shevell Blakeman
Norman E. Brown*
Donald Cecil
Barry L. Feinstein
Jeffrey A. Kay
Mark D. Lebow
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Mark Page
Mitchell H. Pally
Francis H. Powers
Norman I. Seabrook
James L. Sedore, Jr.
Ed Watt*
Carl V. Wortendyke

*non-voting member

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MTA Long Island Rail Road
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For additional copies of the 2006 MTA annual report, write to MTA Marketing and Corporate Communications, 347 Madison Avenue, New York, NY 10017-3739; for information about the 2006 financial statements, write to MTA Office of the Comptroller, 345 Madison Avenue, New York, NY 10017-3937.

The 2006 MTA annual report and financial statements are also available on the MTA website at www.mta.info.

Construction of the new South Ferry subway terminal viewed from the top of the Old U.S. Custom House.

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
New York, NY 10017-3739

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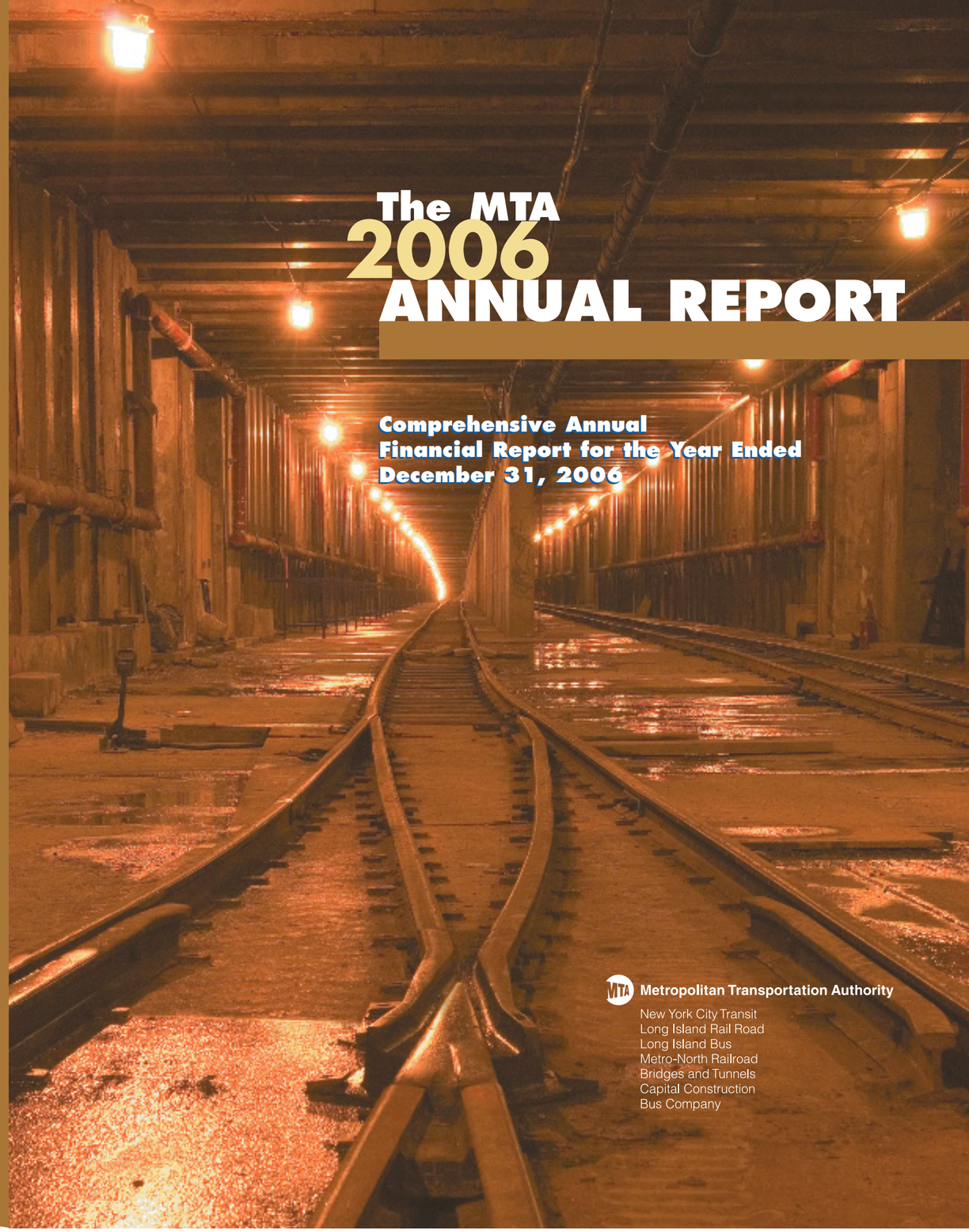
Metropolitan Transportation Authority Comprehensive Annual Financial Report for the Year Ended December 31, 2006



The MTA 2006 ANNUAL REPORT

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

Metropolitan Transportation Authority

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

Metropolitan Transportation Authority

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