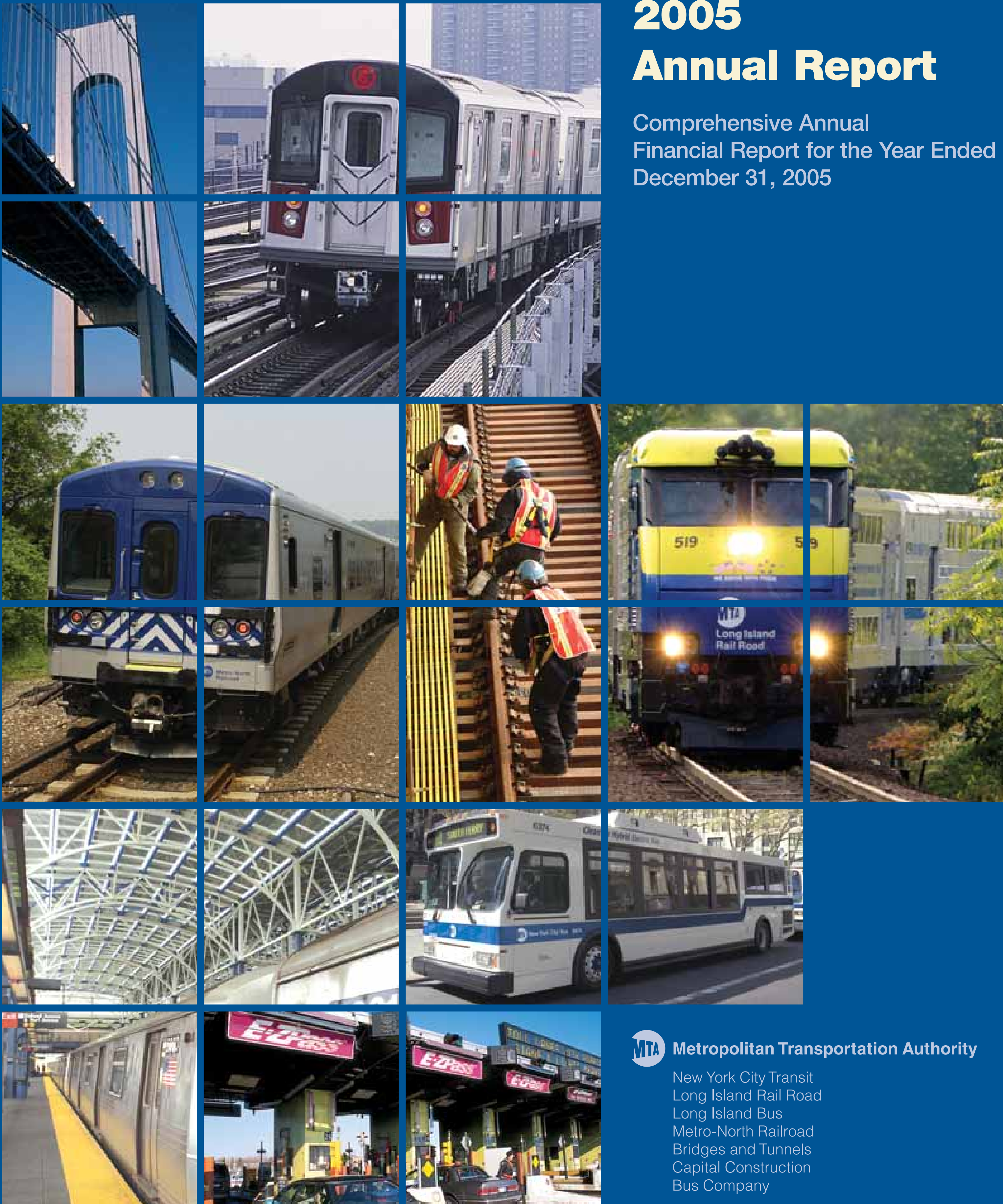


2005 Annual Report

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

Metropolitan Transportation Authority

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


MTA
New York City
Subway

Contents

The MTA

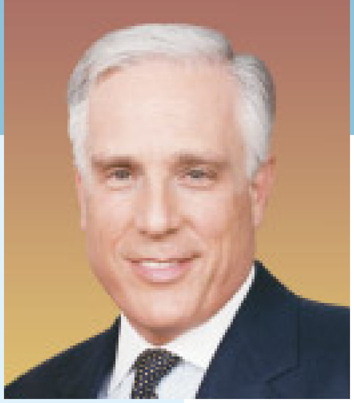
The MTA Agencies

Comprehensive Annual Financial Report

Introductory Section

Financial Section

Statistical Section



Peter S. Kalikow, Chairman

Katherine N. Lapp, Executive Director

Message from the Chairman and the Executive Director

May 1, 2006

While 2005 was filled with significant challenges for the MTA, it was nonetheless also a year of positive achievement. Putting the Authority's financial house in order continued to be front and center as projected long-term deficits were masked by a number of short-term positive developments on the revenue side of the ledger. Lower borrowing costs and strength in the regional real estate market, which provided a temporary spike in transit-dedicated tax revenues, combined to provide an unanticipated budget surplus. The good news was that the additional revenue enabled us to pay down some pension and other costs that threatened our future budgets—and to give customers back a portion of the surplus in a first-ever Holiday Bonus program. Nevertheless, it did not entirely solve a series of structural problems that remain.

Two developments in 2005 validated the MTA's efforts in rebuilding the system over the past 20 years and ushered in a new era for our regional public transportation network. When the state Capital Program Review Board approved the MTA's 2005-2009 Capital Program and the state's voters approved the Rebuild and Renew Bond Act, they gave the MTA a vote of confidence as a driving force keeping our region and its economy vital and growing by serving current and future riders.

Both actions committed substantial funds to continue incremental improvement—replacing out-of-date signals and hardware, maintaining and upgrading the system in general.

They also earmarked funds to make the next five years a definitive breakthrough to expand a transit network that has not grown in decades. In the next five years, we will begin to construct the first elements of a series of expansion projects that will dramatically enhance our capacity and flexibility: the East Side Access Project, which will bring Long Island Rail Road commuters into Grand Central Terminal and relieve overcrowding in Penn Station, and the Second Avenue Subway, which will relieve congestion on the nation's most crowded subway line and give 400,000 commuters an alternate route from 125th Street to Lower Manhattan. In addition, we'll begin working on elements of a direct rail link between JFK International Airport and Lower Manhattan. These projects and others will fill strategic gaps in our ability to respond to the needs of today's customers and prepare to handle the flood of new customers projected to sweep into the region in the future. The next few years will bring tangible bricks-and-mortar progress.

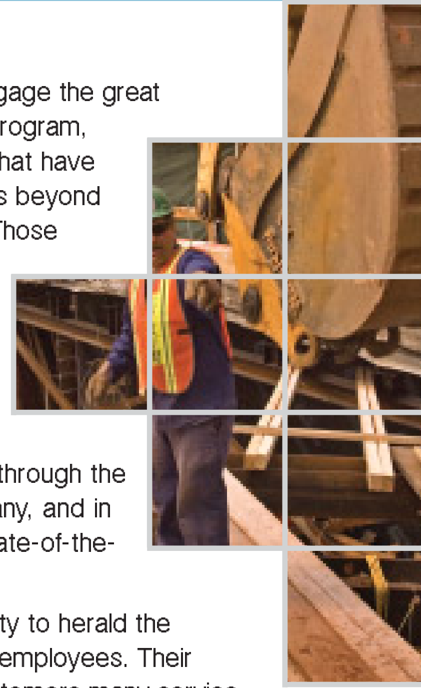
We are proud of the creativity and long hours MTA staff put into crafting a visionary yet prudent new Capital Program. We are gratified that the effort we devoted to briefing legislators, working with the construction and financial industries, and mounting a public education campaign to highlight the past and future contributions of public transportation to our collective prosperity have won over these constituencies in support of the plans we laid out to maintain the system and expand it.

Difficult challenges remain, however. The issues of the 2005 transit strike are still not resolved and we will work towards forging a fair, fiscally sound settlement, searching exhaustively for ways to solve the looming crisis that growing pension and health care costs pose.

And while the MTA ended 2005 with a balanced budget and a $1.18 billion cash surplus, projections show deficits beginning in 2007 and reaching $1.5 billion by 2009—due to debt service, benefit and pension costs, paratransit costs, inflation, insurance, and increased materials costs. Even a continuation of the strong real estate market that generated so much of the 2005 surplus, along with the increased tax-related subsidies that will have full effect in 2006, are not expected to cover these increases.

We always like to report tangible, measurable, results: increases in ridership, number of stations rehabilitated, reductions in number of breakdowns, increases in number of miles traveled between breakdowns. Achievements of this kind speak for themselves; customers, regulators, and the financial community readily appreciate them. The 2005-09 phase of our core program will enable us to continue to achieve such benchmarks; the rest of the Capital Program will enable us to actually begin building the expansion projects that have been on the drawing board for many years.

Finding solutions to budgetary and financial challenges will be equally if not more demanding and will require the same if not more daily creativity and energy. We learned in 2005 that working with our constituencies to heighten their awareness of how public transportation contributes centrally to their prosperity is essential for success, and we will continue to develop the support we have built with our funding partners as well as with the general public to find these solutions.



At the same time as we engage the great challenges of the new Capital Program, we will also advance initiatives that have deep impact and consequences beyond headlines, as we did last year. Those included additional strides in improving the transparency of the MTA's operations, especially our financial status and plans, in assuming the routes once operated by formerly city-franchised bus companies through the newly created MTA Bus Company, and in awarding major contracts for state-of-the-art security systems.

We also take this opportunity to herald the day-to-day work of our 63,500 employees. Their efforts last year brought our customers many service records and enhancements, better safety performance, and countless visible and invisible infrastructure upgrades to make the daily commute more routinely uneventful and comfortable.

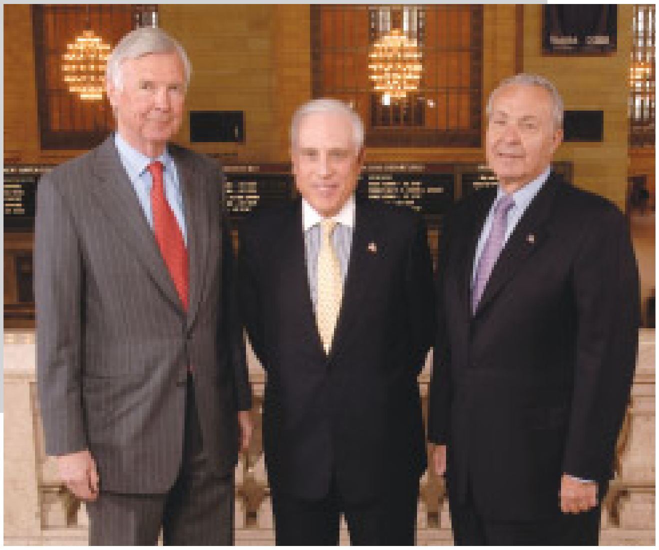
The next five years will be no less demanding than the past five, but we are confident that the skills, plans, working relationships, and commitment we have developed will prove to make them even more fruitful.

Sincerely,

Peter S. Kalikow
Chairman

Katherine N. Lapp
Executive Director

MTA Board

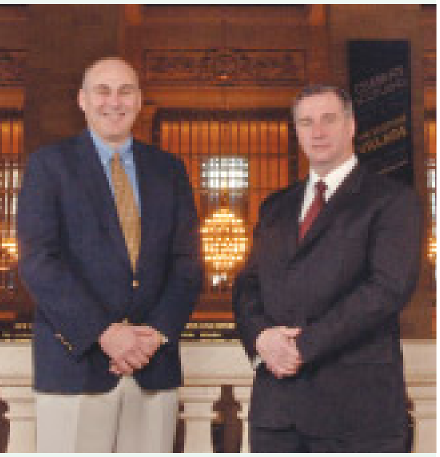


Left to right:
Edward B. Dunn, Vice Chairman (retired December 31, 2005)
Peter S. Kalikow, Chairman
David S. Mack, Vice Chairman

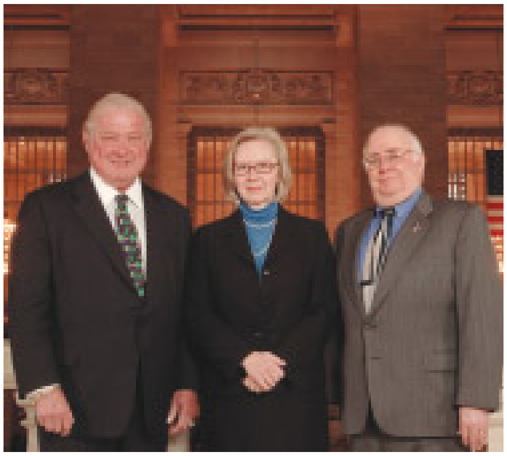
Left to right: Carl V. Wortendyke, Mitchell H. Pally, Susan L. Kupferman,* James H. Harding Jr.

Left to right: Nancy Shevell Blakeman, Michael J. Canino

Left to right: Barry L. Feinstein, Andrew B. Albert, Donald Cecil



Left to right: Anthony J. Bottalico, Ed Watt



Left to right: Francis H. Powers, Susan G. Metzger, James L. Sedore Jr.

Left to right: John H. Banks III, Mark D. Lebow, James F. Blair, James L. McGovern

* Resigned from Board March 26, 2006 to assume presidency of MTA Bridges and Tunnels.

Not shown: Mark Page

MTA Management

Left to right: William Wheeler, Director of Special Project Development and Planning; Thomas Kelly, Director, Communications; William Morange, Deputy Executive Director/Director of Security; Paul Spinelli, Auditor General; Katherine N. Lapp, Executive Director; Linda G. Kleinbaum, Deputy Executive Director/Administration; Gary M. Lanigan, Director, Budgets and Financial Management; Catherine A. Rinaldi, Deputy Executive Director/General Counsel; Timothy A. O'Brien, Corporate Secretary/Chief of Staff (Named Deputy Director, Communications on March 31, 2006); Christopher Boylan, Deputy Executive Director/Corporate and Community Affairs

MTA Agency Presidents

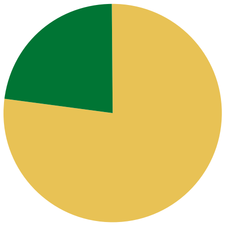
Left to right: James J. Dermody, MTA Long Island Rail Road; Mysore L. Nagaraja, MTA Capital Construction; Lawrence G. Reuter, MTA New York City Transit; Peter A. Cannito, MTA Metro-North Railroad; Thomas J. Savage, MTA Bus Company; Neil S. Yellin, MTA Long Island Bus

(Not in photo: Susan L. Kupferman, who became president of MTA Bridges and Tunnels on March 27, 2006.)

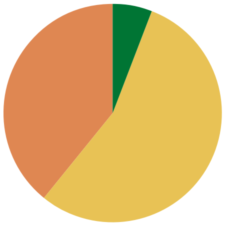
2005 Consolidated Financial Highlights

Assets and Liabilities

($ millions)



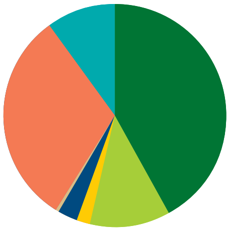
Assets	$46,626	100.00%
Capital assets, net	35,900	77.00%
Other assets	10,726	23.00



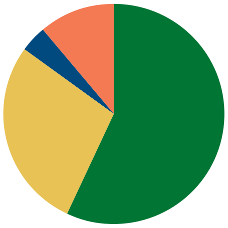
Liabilities and Net Assets	$46,626	100.00%
Current liabilities	$2,834	6.08%
Long-term liabilities	25,799	55.33
Net assets	17,993	38.59

Income and Expenses

($ millions)



Income		
Fares and operating revenues, except tolls	$3,993	40.82%
Tolls	1,205	12.32
State subsidies	230	2.35
Local subsidies	322	3.29
Other subsidies	44	.45
State/regional taxes	3,048	31.16
Other	939	9.60
Federal subsidies	0	0.00
Total	$9,781	100.00%



Expenses		
NYC buses and subways	$5,641	57.67%
Commuter rail, suburban buses, Staten Island Railway, MTA Bus and MTA headquarters	2,722	27.83
Bridges and tunnels	389	3.98
Debt service and other	1,029	10.52
Total	$9,781	100.00%

Capital Program Progress

Capital Program Funding Received through December 31, 2005* ($ millions)	1982-2005	2005
MTA federal grants	16,805	1,224
State service contracts	1,867	—
State appropriations	623	1
City appropriations	3,666	117
MTA bonds	14,537	2,060
MTA debt restructuring	4,523	43
MAC surplus	925	—
Lessor equity/Asset sales	1,010	180
Investment income	2,179	148
Capital-operating transfer/Pay-as-you-go**	1,186	-28
Other	2,936	482
Total	**50,256**	**4,226**

* Funding for MTA Bridges and Tunnels Capital Programs not included.
** As part of reconciliation by the MTA Office of the Comptroller, capital-operating transfer/pay-as-you-go has been recalculated to reflect actual funding receipts.

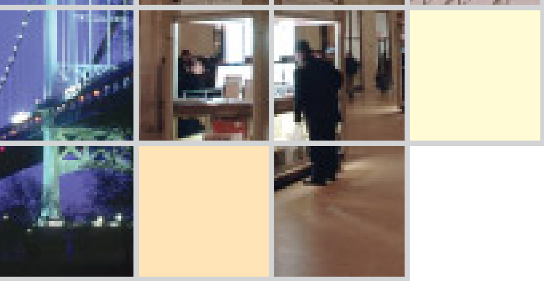
Note: Because of rounding, totals may not add exactly.

Capital Program Progress, 1982–2005 ($ millions)	Commitments	Expenditures	Completions
MTA Total*	$52,981	$46,191	$38,994
MTA New York City Transit	35,095	31,515	28,639
MTA Long Island Rail Road	7,229	6,445	4,934
MTA Metro-North Railroad	5,090	4,638	3,386
MTA Bridges and Tunnels	2,410	1,858	1,527
MTA Capital Construction	2,454	1,337	108

Capital Program Progress, 2005 ($ millions)	Commitments	Expenditures	Completions
MTA Total*	$3,791	$3,650	$3,396
MTA New York City Transit	1,243	1,840	1,959
MTA Long Island Rail Road	649	697	562
MTA Metro-North Railroad	293	431	545
MTA Bridges and Tunnels	324	173	147
MTA Capital Construction	1,036	360	122

* MTA totals include the following amounts:
World Trade Center recovery: Total commitments, $232 million; total expenditures, $214 million; total completions, $203 million; 2005 expenditures, $14 million.
Planning and Customer Service Projects: Total commitments, $73 million; total expenditures, $60 million; total completions, $46 million; 2005 expenditures, $11 million.
MTA Bus: Total commitments, $306 million; total expenditures, $121 million; total completions, $61 million; 2005 expenditures, $121 million.
Interagency Projects: Total commitments, $1 million; total expenditures, $1 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.



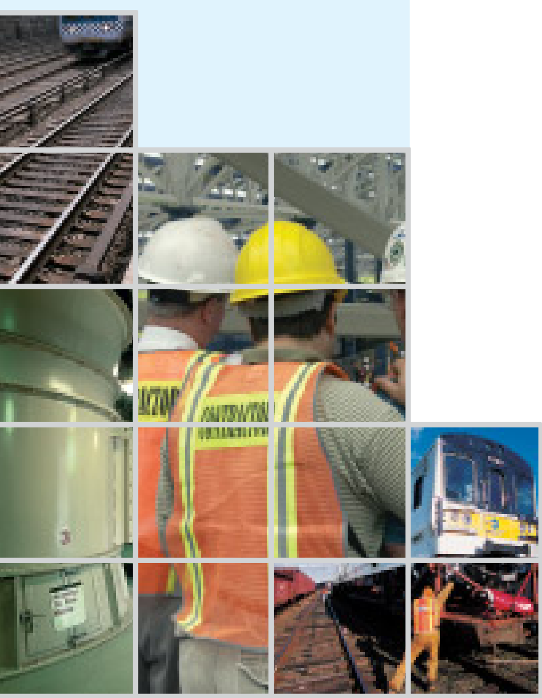
MTA Operations

2005-2009 Capital Program

In 2005 the MTA received both the mandate and the funding needed to extend the achievements of the past 20 years of its capital programs in core work (maintaining and upgrading its system and rolling stock) and in major expansion projects critical to the health of the region's public transportation system and economy now and in the future. The New York State Capital Program Review Board approved the MTA's 2005-09 Capital Program and voters approved the state Transportation Bond Act (which provides funds for portions of the Capital Program as well as for upstate transportation projects) in a double vote of confidence that was the result of the MTA's vigorous effort to win support for its programs among the broad public and from the business and financial community. The total value of the program is $21.1 billion.

Over the next five years, customers will experience significant improvements in their daily experience of public transportation because of new rolling stock and rehabilitated/upgraded visible and invisible infrastructure. Customers will also see megaprojects move definitively from planning and design to construction.

Partial funding for core projects and system expansion will also come from New York State's $2.9 billion "Rebuild and Renew Transportation Bond Act," approved by New York State voters on November 8, 2005, which includes a significant $1.45 billion for MTA core and expansion projects. Discussions are also underway among the MTA, the state, and the Federal Transit Administration (FTA) to finalize the federal New Starts funding for East Side Access and the Second Avenue Subway.



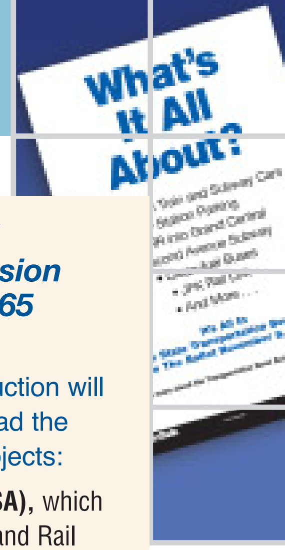
2005-2009 Capital Program Core Program Highlights

MTA New York City Transit ($11.3 billion)

- 959 new subway cars (including 47 to expand the A division fleet)
- 1,360 new buses, including 1,010 standard (all using clean fuel technology), 112 articulated, and 238 express buses; 948 paratransit vehicles; bus and paratransit locator systems; security cameras on buses; replacement of the Mother Hale Depot; new Jamaica depot
- 44 station rehabilitations
- Replacement of 49 miles of mainline track and 177 mainline switches
- Further investments in Automatic Train Supervision and Communications-Based Train Control
- Tunnel lighting and fan plant upgrades to improve system safety

MTA Long Island Rail Road ($2.2 billion)

- Mainline corridor improvements: design and Phase I construction
- 158 new M-7 cars to complete replacement of the 35-year-old M-1 fleet and accommodate ridership growth
- Completion of Atlantic Terminal rehabilitation



2005-2009 Capital Program Core Program Highlights

- Station renovations, including platform rehabilitations and parking improvements
- 82 new ticket machines
- Track, power, signal, and communications improvements
- Shop component replacements and investments to support rolling stock life-cycle maintenance

MTA Metro-North Railroad ($1.4 billion)

- 36 new M-7 cars for the Harlem and Hudson lines to completely replace the 35-year-old M-1 fleet and provide for ridership growth
- 100 new M-8 cars (with Connecticut Department of Transportation) to meet existing ridership demands and begin replacement of the New Haven line M-2 fleet
- 25 station rehabilitations on Hudson, Harlem, New Haven lines; Grand Central Terminal Rehabilitation
- Continue replacement of railcar maintenance facilities at the 100-year-old Croton-Harmon Shop and Yard
- Intermodal/parking facilities
- Track, interconnecting/switches maintenance/rehabilitation
- Power and signal system improvement

MTA Bridges and Tunnels ($1.7 billion)

- Replacement of Randalls Island and Wards Island viaduct deck of Triborough Bridge
- Rehabilitation of lower-level approach span and upper-level suspension span decks of the Verrazano-Narrows Bridge; rehabilitation of Throgs Neck Bridge approach structure and deck; replacement of Henry Hudson Bridge lower-level deck and upper-level toll plaza
- Structural rehabilitation for the Cross Bay Veterans Memorial Bridge

MTA Bus Company ($138 million)

- Achievement of state of good repair for bus maintenance facilities
- Replacement of aged fleet inherited from former private companies

2005-09 Capital Program Expansion Highlights ($4.465 billion)

MTA Capital Construction will continue to spearhead the following system projects:

- **East Side Access (ESA),** which will create a Long Island Rail Road terminal on the East Side under Grand Central Terminal, saving riders up to 40 minutes each day on their round-trip commute and alleviating pressure on the overcrowded Penn Station complex
- **Initial phase of a full-length Second Avenue Subway (SAS),** from 96th Street and Second Avenue to the existing 63rd Street station on the Broadway line, serving 200,000 daily riders. The complete SAS will take 560,000 daily NYC Transit customers from 125th Street to Lower Manhattan, relieving congestion on the Lexington Avenue line, the most crowded subway line in the country
- **Extension of NYC Transit's Flushing (7) subway line** to the far West Side, approved at $1.99 billion and to be funded by the City of New York

Transportation Bond Act Core Program Highlights

NYC Transit ($326 million)

- Rolling stock (subway cars and buses), mainline track replacement, tunnel lighting, bus locator system, Staten Island Railway bridges
- Bus and paratransit locator systems

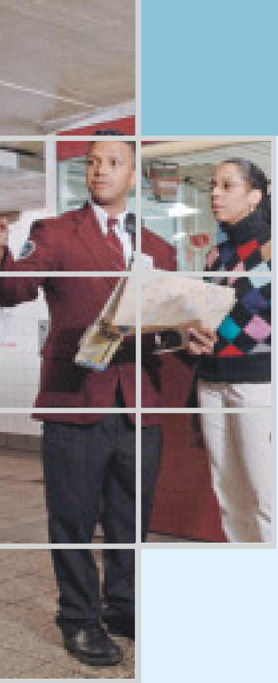
Long Island Rail Road ($73 million)

- M-7 cars, parking improvements, passenger communications, annual track program

Metro-North Railroad ($51 million)

- M-8 cars, parking improvements, track improvements

The Transportation Bond Act also provides $450 million for East Side Access, $450 million for the first phase of the Second Avenue Subway, and $100 million for the initial elements of the JFK Rail Link.



MTA Operations

Ridership

Total network ridership was up by 1.01 percent in 2005; all agencies experienced increases except for New York City Transit buses and Bridges and Tunnels vehicle traffic.

Ridership	2004	2005	% change
New York City Transit*	2,173,952,510	2,193,724,617	0.91%
Subway	1,426,040,136	1,449,109,242	1.62%
Bus	740,586,160	736,493,445	-0.55%
Long Island Rail Road	79,253,521	80,130,571	1.11%
Long Island Bus**	30,594,795	31,507,473	2.98%
Metro-North Railroad	72,374,775	74,507,341	2.95%
Bridges and Tunnels (vehicles)	302,995,482†	300,385,193	-0.86%
Total System (except Bridges and Tunnels)	**2,356,175,601**	**2,379,870,002**	**1.01%**
Average Weekday (except Bridges and Tunnels)	7,627,285†	7,785,174	2.07%

* Includes ridership on New York City Transit subways and buses, 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.
† Amended from 2004 Annual Report

Customer Satisfaction

Despite the 2005 fare hike, customer satisfaction levels (measured by independent citywide and regional surveys) rose for most agencies. The agency sections of this report detail the specific customer service initiatives implemented by each agency including scheduling and communications improvements, cleaner station environments, improved on-time performance, and many others. The cumulative achievements of current and past Capital Program work on maintaining the system's visible and invisible infrastructure in a state of good repair, replacing and upgrading rolling stock and systems, and rehabilitating stations also markedly improved the commuter's experience of public transportation. (All survey results are on a scale of 0 to 10.)

New York City Transit/Subway	2003	2004	2005
Overall	6.2	6.1	6.2
Cost	5.0	5.3	5.8
Value	5.9	6.0	6.3
On time	6.7	6.6	6.6
Station environment	5.8	5.7	5.8
Safe/secure in cars	6.2	6.1	6.3
Police in station	5.3	5.5	5.7

Long Island Bus	2003	2004	2005
Overall	6.9	7.2	7.4
Cost	5.3	5.9	7.0
Value	6.4	6.8	7.6
On time	6.9	7.3	7.3
Safe/secure on bus	8.0	7.8	8.2

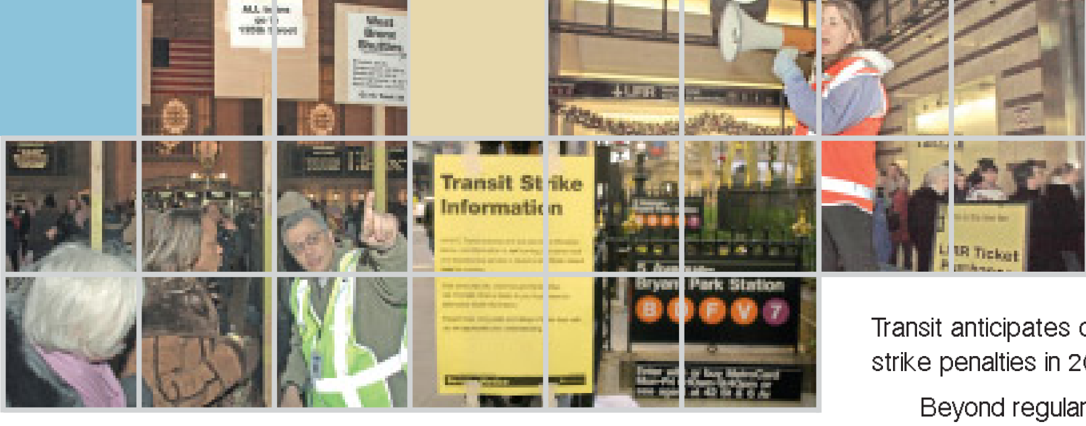
New York City Transit/Bus	2003	2004	2005
Overall	6.1	5.9	6.1
Cost	5.3	5.5	5.9
Value	5.8	5.9	6.2
On time	5.7	5.6	5.8
Safe/secure on bus	7.1	7.1	7.2

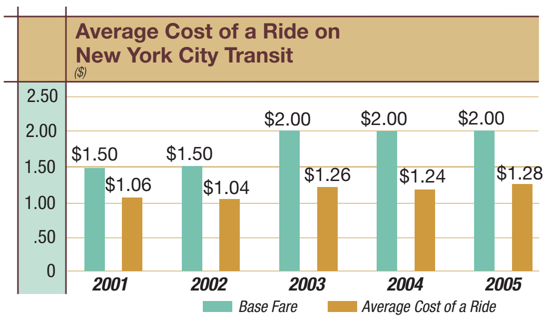
Metro-North Railroad	2003	2004	2005
Overall	7.3	7.1	7.4
Cost	6.2	6.4	6.8
On time	7.6	7.6	7.9
Personal security	7.4	7.2	7.6
Comfort	6.9	6.8	6.9

Long Island Rail Road	2003	2004	2005
Overall	6.9	6.9	6.7
Cost	5.7	6.0	5.9
On time	7.3	7.2	6.9
Personal security	6.9	6.7	6.7
Comfort	7.0	7.0	6.8

Bridges and Tunnels	2003	2004	2005
Overall*	7.3	7.4	7.0
Cost/value	6.2	6.3	5.4

* Ratings are related to extensive construction/rehabilitation on some facilities. Customers were least satisfied at facilities – Triborough, Verrazano, and Bronx Whitestone Bridges – undergoing extensive rehabilitation. E-ZPass, with ratings of 8.2, received the highest ranking of any Bridges and Tunnels attribute. E-ZPass customers remained more satisfied (7.1) than cash customers (6.8).





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).

Transit Strike

Beginning December 20 an illegal strike against New York City Transit by the Transport Workers Union forced bus and subway riders to find alternate transportation and prevented many from reaching their jobs for three days—at a cost to the city's economy estimated at $400 million a day. Union membership defeated a proposed contract, agreed upon by union leadership and MTA management, by seven votes. At this writing a new contract has not been approved.

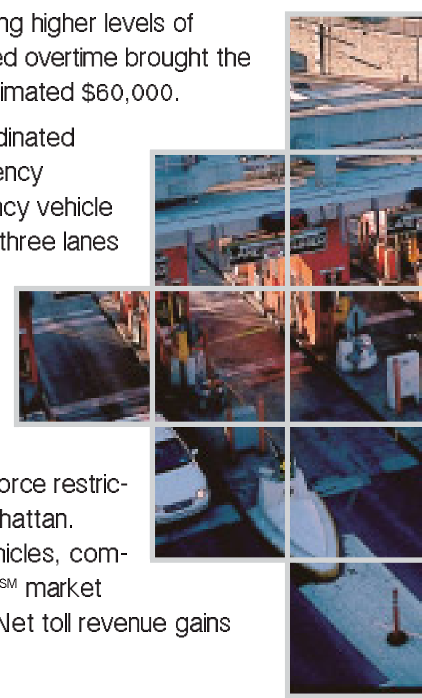
During the strike, the subway system was shut down in a safe and orderly manner. Supervisory and management personnel were deployed at key locations and ran "fire watch" trains on all lines to protect the integrity of the system, maintain rails in operating condition and prevent oxidation, and check signals and interlocking. Security initiatives were coordinated with the New York City Police Department and police officers were assigned to each station. Buses were fueled, parked, and secured. Access-A-Ride paratransit services operated at approximately 65 percent of normal trip levels. The strike ended on December 22, and the first normally scheduled train on each line left the terminal on or just after midnight and the system was restored to full customer service by the morning rush hour.

NYC Transit ridership was down by 23 million in December mainly because of the strike. Revenue was down by $27.3 million which was partly offset by $14.0 million of expense savings, mostly in payroll. NYC Transit anticipates collecting $14.0 million in Taylor Law strike penalties in 2006.

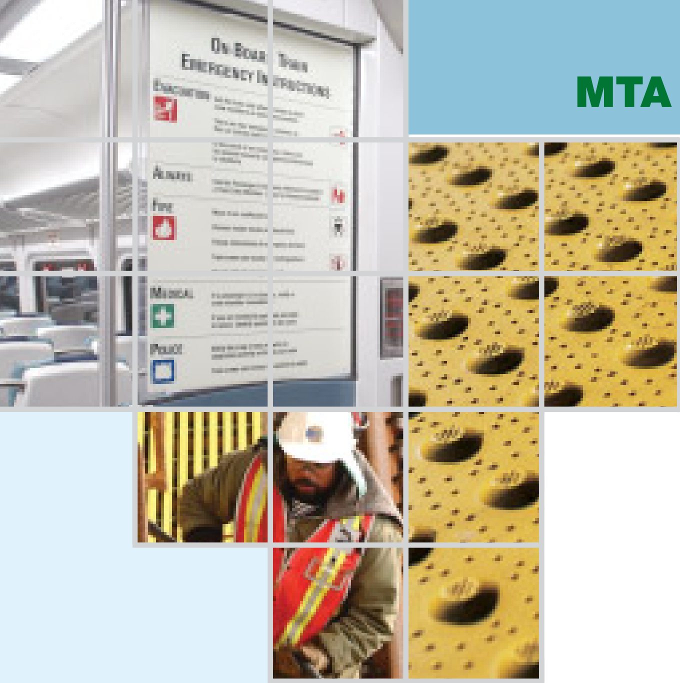
Beyond regular service the commuter rail lines provided shuttles to accommodate up to 60 percent more riders than normal. Employees helped commuters negotiate the shuttles and new stops. LIRR provided altered peak service in the corridor between Jamaica and Penn Station and through Queens hub stations at Queens Village, Bayside, and Laurelton. Remaining Queens stations were served with shuttle trains and extra stops on regular trains between 9 a.m. and 4 p.m. and 7 and 10 p.m. Added stops were provided in Brooklyn at East New York and Nostrand Avenue.

Metro-North's shuttle service ran almost 190 extra train trips with 13 shuttle trains totaling 90 cars to and from Grand Central for stranded Bronx NYC Transit customers. A temporary station at Yankee Stadium served customers using a Park & Ride there. Metro-North's Customer Information Center, which normally handles 3,000 calls a day, fielded 43,779 calls during the strike. At the Customer Service Center, the normal call average is 120 calls daily; during the strike period, it handled 653 calls.

LI Bus ridership declined by an estimated 39,000 riders during the strike, for a $48,000 revenue loss. Additional expenses for providing higher levels of security coverage and increased overtime brought the strike's cost to LI Bus to an estimated $60,000.



Bridges and Tunnels coordinated with the city's Office of Emergency Management on high-occupancy vehicle restrictions and also operated three lanes in peak directions at the two tunnels to move vehicles in and out of Manhattan. Because traffic increased each day through the strike, extra personnel were provided for traffic control and to enforce restrictions on vehicles entering Manhattan. Traffic (including passenger vehicles, commercial volumes, and E-ZPass^{SM} market shares) was up by 4 percent. Net toll revenue gains are estimated at $506,000.



Safety

All agencies maintained excellent safety records and improved performance in many areas using ongoing and new safety programs.

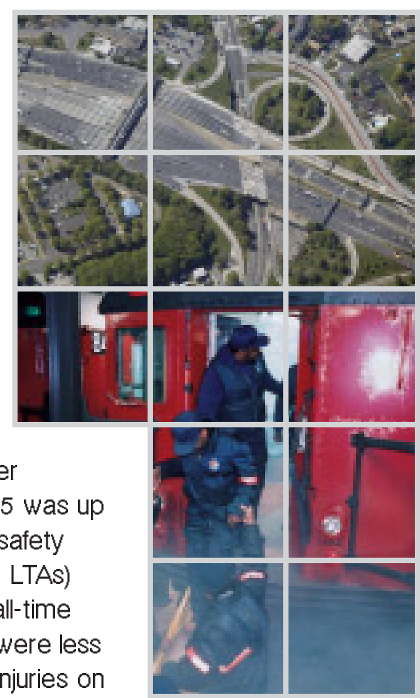
NYC Transit maintained its agency-wide lost-time accident (LTA) rate at its 2004 level of 2.79 per 100 employees. Transit's subway employees had 3.8 percent fewer lost-time accidents (LTAs) in 2005 than in 2004, a reduction achieved despite a 19 percent increase in LTAs in the first quarter. The general superintendent's Safety Audit program, under which six different audit committees perform daily safety management audits of subway properties to identify hazards and unsafe employee actions and recommend improvements, was re-established. A safety training program targeting supervisors and hourly employees who reported multiple lost-time accidents was also instituted. Safety awareness classes reviewed safety bulletins and safety rules and regulations, aired videos of "slips, trips, and falls" prevention and security awareness, and included instruction on how to avoid certain types of accidents and use personal protective equipment. As a result, Transit reduced the subway LTA rate 10.4 percent over the year's last three quarters, from 2.39 to 2.14 accidents per 100 employees.

Long Island Rail Road has reduced FRA (Federal Railroad Administration) reportable accidents by 78 percent since 1991, but experienced its first increase in these accidents since that time (15 percent: from 188 in 2004 to 217 in 2005). LIRR's lost-time accidents per 200,000 work hours also increased from 2.74 in 2004 to 3.37 in 2005. System Safety continues to work closely with all departments on action plans to reduce these accidents. Actions include display of safety awareness videos at facilities, additional training in accident investigation, and an ongoing safety incentive program supported by safety steering and sub-committees.

Although LTAs per 200,000 work hours at LI Bus increased from 2.4 in 2004 to 3.6 (an additional 14 LTAs), the agency still met its LTA rate goal. LI Bus has implemented an accident evaluation committee with representatives from safety and operations for greater objectivity in rating bus accidents and identifying corrective actions. Overall, 256 bus operators received safety training to enhance defensive driving skills and improve customer sensitivity. Nearly 800 additional employees were instructed in the agency's various safety initiatives such as security awareness, biohazard, right-to-know, and respirator training.

Metro-North beat its record 2004 safety performance, reducing injuries across all safety categories: total injuries down 19 percent (to 278), FRA reportable injuries down 26 percent (to 198), and lost-time injuries down 29 percent (to104) from MNR's previous lowest lost-time injury rate of 2004. MNR's LTA rate per 200,000 work hours also dropped to 2.49 from its previous 3.49 record low in 2004.

Metro-North's continuing improvement stems from its commitment to its Priority One Safety program that focuses on both physical conditions and individual behaviors that can cause accidents — including a 24/7 safety observation and feedback program, safety audits, post-incident/high-frequency reviews, and job safety briefings.



Bridges and Tunnels' 2.70 lost-time accident rate per 200,000 hours worked in 2005 was up slightly from 2004. Employee safety performance in operations (46 LTAs) was second only to its 2004 all-time record, but injuries sustained were less severe and there were fewer injuries on

Lost-time and Restricted Duty Injury Rate* *Per 200,000 work hours*	2001	2002	2003	2004	2005
New York City Transit**	3.02	3.17	2.96	2.79	2.79
Long Island Rail Road	5.06	4.10	3.44	2.74	3.37
Long Island Bus†	4.50	3.67	6.59	2.40	3.62
Metro-North Railroad	5.25	4.26	4.36	3.49	2.49
Bridges and Tunnels†	3.80	3.20	3.70	2.20	2.70

* 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.

Customer Injuries* *Per million customers*	2001	2002	2003	2004	2005
New York City Transit					
Subway	3.04	2.94	2.85	3.15	3.10
Bus	1.67	1.58	1.47	1.53	1.49
Long Island Rail Road	3.80	2.95	4.83	5.03	4.66
Long Island Bus	1.60	1.75	1.90	1.72	1.32
Metro-North Railroad**	3.07	2.68	3.00	3.90	2.27
Bridges and Tunnels†	1.85	1.95	1.46	1.21	1.20

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

** Metro-North figures have been amended from 2004 Annual Report using a methodology consistent with that used by Long Island Rail Road.

† Vehicle accidents with injury per 1 million vehicle crossings.

duty (IOD) days (2,033 in 2005, 2,285 in 2004). Four groups incurred no lost-time injuries (Cross Bay and Marine Parkway Bridges, Randalls Island Warehouse and Special Operations Division.) Facility-specific safety action plans coordinated in quarterly inter-departmental Safety Review Board meetings produced excellent safety results. Facility accountability and on-site corrective actions were based on regular safety audits and interventions, and ideas were shared in cross-facility safety audits. In addition to the focus on LTAs, non-lost-time injuries also receive regular reviews to identify potential safety problems before injuries occur.

Contractor lost-time accidents with injuries were reduced 24 percent to 20 in 2005 and 47 percent since 2003 when Bridges and Tunnels Engineering and Construction department added a dedicated construction safety officer to enhance its ongoing contractor safety program.

Security and Preparedness

By December 2005 $428 million of the $591 million ($143 million of which the federal government agreed to provide through FEMA) earmarked in the 2000-04 Capital Program for security had been committed; the remainder is expected to be committed in the first quarter of 2006.

In August, Lockheed Martin was awarded a $212 million contract to develop and install the Integrated Electronic Security System (IESS), an extensive network of fixed recording cameras, "smart" cameras to detect such things as unattended packages in subways, and sophisticated anti-intrusion devices that use laser beams and microwave signals to spot intruders in tunnels and other sensitive locations. Tied into regional command centers, these systems can also dispatch responders. Over 1,400 recording cameras are scheduled to be in place by July 2006.

In a project sponsored by the Department of Homeland Security (DHS) and supported by Argonne National Labs, the "Protect" system was installed in Grand Central Terminal to detect harmful chemicals and warn customers and employees before such chemicals can spread. Partnering with DHS, the New York City Department of Health, and Lawrence Livermore Labs, the MTA installed 15 Bio-Watch detection units that test for six different biological agents in Penn Station, Grand Central Terminal, and the subway system.

The "If You See Something, Say Something" customer awareness campaign, started in 2002 and updated semi-annually, was expanded to regional newspapers and radio in 2005. The campaign has also been adopted widely by transportation systems

around the country and in Canada and Australia. A comprehensive customer awareness campaign was also developed using posters, seat drops, and brochures to instruct customers on how to evacuate subway and commuter rail cars safely in an emergency. A short evacuation video was put on the MTA website (www.mta.info) and made available on CD to community groups and all NYC Police precincts. Regional cable access stations were also asked to air the video. Business leaders were briefed on the “If You See Something, Say Something” and customer safety awareness campaigns; subsequently the materials were distributed to over 110,000 employees from 23 major NYC-based companies.

NYC Transit established a hazardous materials team, working with or under the supervision of NYC Fire and Police Department hazmat teams, to respond to emergencies involving chemical or biological agents within or affecting its properties.

Bridges and Tunnels completed ten security enhancements worth close to $600,000—including improved lighting, concrete barriers, security gates, portable generators, fencing, closed circuit television, and structural enhancements—with funding from the MTA Office of Security.

Preparedness Measures Since 2001

- MTA-wide **Director of Security** hired in 2002 to address security projects and policing strategies across the MTA
- **Director of Interagency Preparedness** hired in 2005 to develop ongoing risk assessments ensuring that response protocols are in place, security investments are appropriately prioritized, and security training for MTA workers is appropriate
- **$430 million** committed to security capital projects in 2005
- **MTA Police Department (uniformed and civilian personnel) increased by 38 percent,** from 521 to 719 (total cost from end of 2001 to the end of 2005: $56 million). MTAPD to grow by another 36 positions to a total of 755 by end of 2006
- **261 additional Bridges and Tunnels officers hired** (total cost 2001 to end of 2005: $101.7 million) to enhance security at MTA’s seven bridges and two tunnels
- **Counterterrorism activities and heightened security alerts** account for $37 million in MTA Police overtime from the end of 2001 to the end of 2005
- Over **$6 million** spent for **police-related equipment** to create an MTA PD Emergency Services Unit and a 35-dog Canine Unit (goal of 50 dogs by 2007)
- **$53 million** spent on security fencing, lighting, barriers, radios, chem-bio detection systems, and protective gear for operating personnel
- Additional **$25 million** committed for installing **more recording cameras in 66 stations** and for a pilot program to put **recording cameras in local buses** with routes through midtown
- **Quick-release emergency bars on station exit gates** throughout the subway system to facilitate safe passenger evacuation in emergencies (prototypes developed in 2005 to be installed at stations by end of 2006)
- **Quarterly drills** (on-site and table top) conducted with state (NY and CT) and local emergency management agencies in MTA service region
- **Security awareness brochures** developed specifically for rail and bus operating personnel

Environment

Responding to new environmental requirements, MTA agencies developed and implemented programs to recycle fluorescent and other mercury-containing light bulbs to reduce the risk of mercury contaminating the environment. Each agency also continued storm water management programs that prevent contaminated storm water runoff from entering streams, lakes, and rivers adjacent to MTA properties.

NYC Transit audited refrigerant handling and usage quarterly at each maintenance shop; replaced incandescent train signal lights with energy-efficient, low-maintenance LED signals; performed shop and safety audits twice a year to ensure compliance with its procedures, including those that apply to the handling of hazardous waste; and performed an in-depth Environmental Compliance Review at the 239th Street Yard, the first of six that will provide assessments of environmental management issues throughout the NYC Transit system. With the implementation of the bulk fuel delivery program, all Access-A-Ride paratransit vans now operate using ultra-low-sulfur diesel fuel, reducing exhaust emissions.

Fuel-efficient, low-polluting hybrid-electric buses that combine the best features of diesel and battery operation demonstrate Transit's commitment to clean-fuel bus technology. In 2005, Transit received 206 hybrid buses and placed an order for an additional 216 to be delivered in 2006 and 2007. Transit's Department of Buses won a prestigious Blue Sky Award for 2005 for leadership and innovation in technology for clean, sustainable transportation as well as a significant commitment to its use.

In the first full year of its new Corporate Tank Management program, LIRR moved all regulated tank inventory data into the new DataPipe environmental data system that will facilitate record-keeping, tracking events, and providing notification to key railroad personnel on deadlines. LIRR also removed over 90,000 linear feet of asbestos-containing cable on the Main Line and closed a total of 35 spills, both recent and historic.

To reduce electrical consumption, LIRR has introduced a program that identifies and corrects voltage imbalances on its third-rail traction power system.

As part of its Storm Water Management Plan, LI Bus implemented a program of continuous improvement of its oil spill control practices, in part by training key managerial employees and initiating training for dispatchers and line supervisors. LI Bus also began using oil skimmers in outdoor storm water basins to trap and remove contaminated storm water runoff from its property.

LI Bus is working with the county's Department of Public Works to replace all underground storage tanks containing coolants, lubricants, and heating oil.

Metro-North, in cooperation with the Connecticut Department of Environmental Protection, pilot-tested a supplemental treatment system designed to correct recurring difficulties with the ultrafiltration plant that treats industrial wastewater at the New Haven Yard. Metro-North's "Standardized Environmental Protocols" formalize and simplify environmental activities for operating and capital construction-related employees and contractors. The protocols include spill response, fueling specifications, soil sampling standards to determine reuse and disposal options, standard specifications for storm water plans associated with construction, and standards for storage of soils and other regulated materials.

Bridges and Tunnels' Health and Safety Department conducted 153 inspections for lead and asbestos, including 11 abatement projects. Technical guidance, review, and oversight of construction and maintenance activities on lead, asbestos, environmental programs, hazardous waste management, storage tanks, storm water, and air and water permits were provided to support operations and engineering and construction activities.

Bridges and Tunnels pursued energy efficiency by installing a new tank in fleet operations to pump an alternate fuel (85 percent ethanol and 15 percent gasoline) that reduces tailpipe emissions and dependence on foreign oil. It also upgraded or changed to more energy-efficient equipment, such as automatic roll-up doors to contain heat in its fleet operations garage, and participated in the New York State Power Authority peak load reduction program to cut power during peak demands.

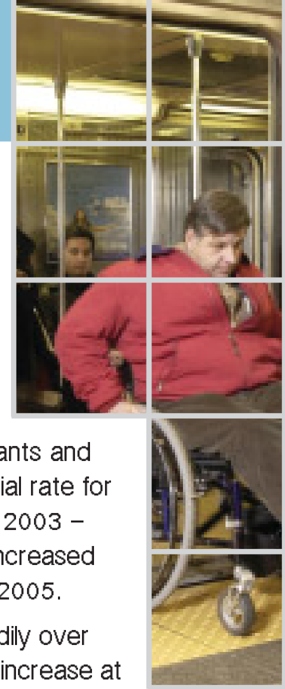
MTA Capital Construction, moving beyond simple compliance, has implemented Environmental Performance Commitments (EPCs) on the Downtown Manhattan Mobility projects. The Lower Manhattan Construction Command Center created by Governor George E. Pataki has adopted MTA Capital Construction's implementation strategies, including the use of certification stickers to ensure the use of clean off-road construction equipment, for the Lower Manhattan Recovery projects.

MTA Bus Environmental Initiatives

When previously privately owned bus companies were merged into MTA Bus Company, the agency quickly implemented significant environmental programs and upgrades.

- All diesel fuel nozzles replaced with spill-proof nozzles; buses equipped with devices that prevent fuel spills caused by overfill
- Strict fluid consumption program takes any vehicle using over two quarts of coolant, engine oil, or transmission fluid out of service until positive repair completed
- Diesel buses fueled daily with ultra-low-sulfur diesel fuel, the new industry standard for clean-burning diesel operation
- All 317 new express coaches outfitted with an after-exhaust treatment system that exceeds federal, state, and local emission standards
- 284 hybrid electric buses, with greatly reduced emissions, ordered to replace older diesel-fueled buses
- Aggressive spill-containment program implemented on all properties
- Bus painting booths upgraded; environmentally friendly paint with zero volatile organic compounds to be used

People with Disabilities



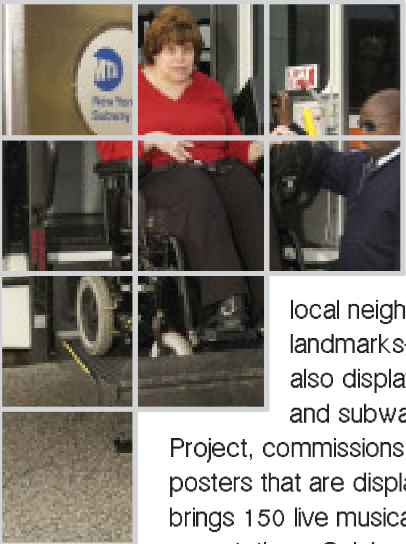
NYC Transit's Access-A-Ride (AAR) paratransit program had a total ridership of 4,663,077 in 2005, up 17.1 percent from 3,982,892 in 2004, including Americans with Disabilities Act (ADA) registrants and their personal care attendants and guests. AAR achieved a zero-percent denial rate for an unprecedented 33-month period (April 2003 – December 2005). Customer satisfaction increased from 77 percent in 2004 to 79 percent in 2005.

AAR ridership has been growing steadily over the last several years, and is expected to increase at approximately 20 percent a year through the foreseeable future. Responding to an unanticipated spike in service demand in October 2005, a 30-unit fleet expansion was negotiated and expedited. The 2005-09 Capital Program includes procurement of 948 vehicles; about 400 will be used to meet growth in service demand.

Among reports developed to monitor and improve quality of service, a "Driver No-Show" report was implemented to identify drivers with a pattern of significant no-shows. Another new initiative enforces the requirement that wheelchairs on AAR vans be properly and completely secured. If an incident occurs with evidence of an improperly secured wheelchair, the driver is removed from service and cannot return until he/she is retrained and demonstrates the ability to properly secure a wheelchair to management of the carrier and to NYC Transit.

In 2005 five subway stations were made ADA accessible: West 4th Street/Washington Square (A, B, C, D, E, F, V), DeKalb Avenue (B, M, Q, R), Utica Avenue (3, 4), Fordham Road (4), and Jamaica/179th street (F). Five Metro-North stations were also made ADA accessible: Morris Heights, University Heights, Riverdale, Glenwood, and Greystone.

Since 1996 LI Bus' Able-Ride, with a registered customer base of almost 28,000, has tripled the rides it provides to nearly 325,000. Work has begun on renovations to its paratransit facility, which will house all facets of the operation.



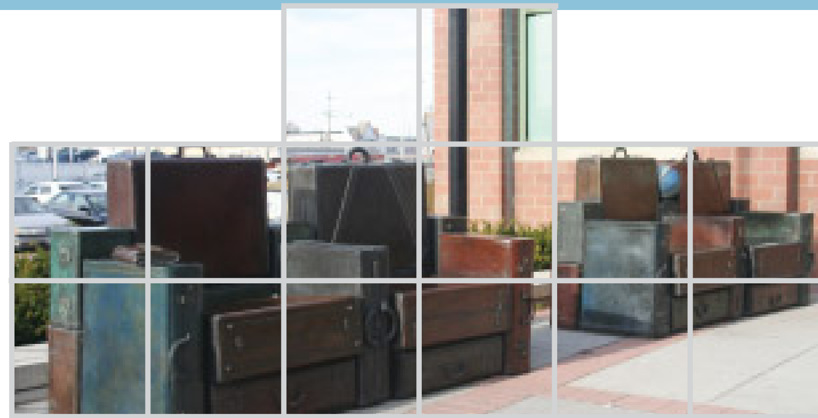
MTA Arts for Transit

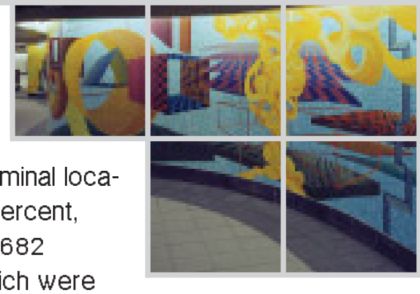
To humanize and enhance the experience of public transportation, Arts for Transit installs permanent public art—often evoking local neighborhoods, their history, and landmarks—in subway and rail stations. It also displays photography in terminals and subway stations through its Lightbox Project, commissions artists to produce artwork for posters that are displayed in subway trains, and brings 150 live musical performances weekly to subway stations. Celebrating Arts for Transit's 20th anniversary, an exhibit at the UBS Art Gallery in midtown Manhattan featured more than 150 site-specific art projects in the MTA system.

Of the 12 projects Arts for Transit completed in 2005, two are particularly outstanding. At LIRR's Hempstead Station, Ron Baron's *Lost and Found: An Excavation Project* includes a tower of old-fashioned trunks and suitcases in richly painted cast bronze and a seating area also made of cast bronze vintage luggage pieces. *Passing Through,* at 53rd Street and Lexington Avenue, the last major public project completed by artist Al Held before his death, is the work of a master at his peak, a major wall piece in mosaic tile, bright color, and large geometric forms that conveys depth, energy, and movement along an undulating wall.

New York Transit Museum

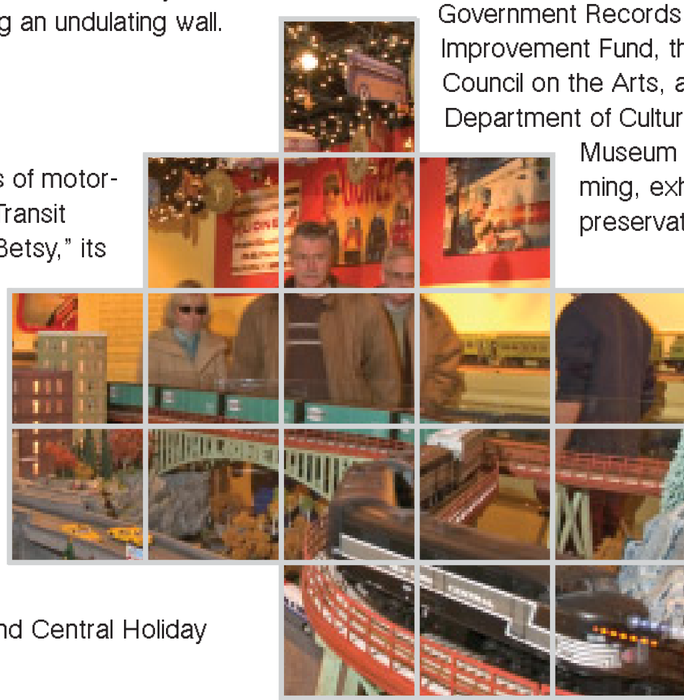
Celebrating one hundred years of motorized bus service in New York, the Transit Museum in Brooklyn showcased "Betsy," its newly accessioned 1931 double-decker Fifth Avenue coach bus in 2005. The bus celebration was carried through 2005 with Build a Bus workshops, tours of NYC Transit bus depots, a blockbuster Bus Festival, an interactive "Day in the Life of a Bus" segment on the Education Station website, and some 50 vintage bus toy models featured at the annual Grand Central Holiday Train Show.

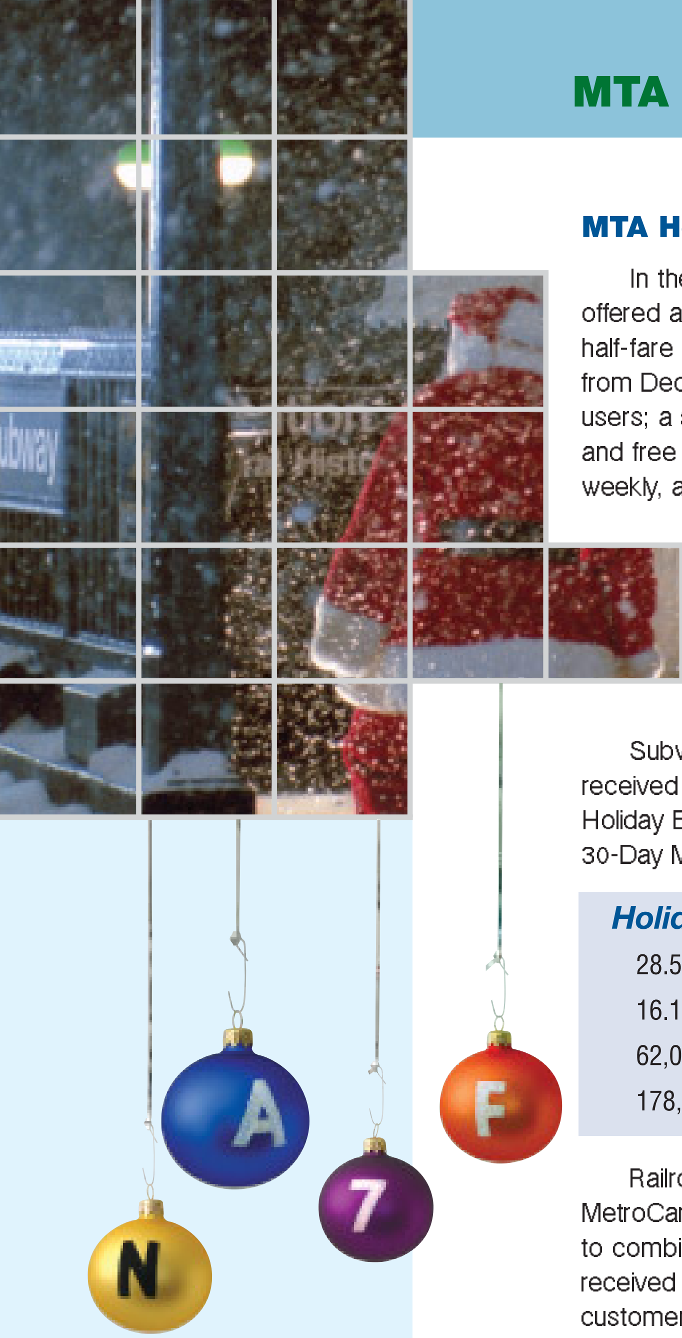




Combined attendance at the Museum's Brooklyn and Grand Central Terminal locations rose by 22 percent, including visits by 682 school groups which were offered age-specific guided tours and hands-on workshops. A long-term exhibit plan that explores the history of the MTA's seven operating agencies was completed; it will guide Museum content into the next decade.

Dell Inc. and the Verizon Foundation generously donated hardware for the Museum's computer lab and funds to pilot teacher training and remote links between educational institutions with an interest in studying public transportation. Grants from the Local Government Records Management Improvement Fund, the New York State Council on the Arts, and the New York City Department of Cultural Affairs enabled the Museum to further its programming, exhibition, and collection preservation goals.





MTA Holiday Bonus

In the holiday period following Thanksgiving 2005 and into 2006, the MTA offered a series of special discounts and bonuses to customers. These included half-fare on local buses, subways, and paratransit on holidays, weekends, and from December 24 to January 2; free bonus days for Unlimited MetroCard® users; a special Holiday Unlimited MetroCard with up to 11 free bonus days; and free bonus off-peak tickets for purchasers of commuter railroad monthly, weekly, and ten-trip tickets.

Awareness of the Holiday Bonus Program was very high among most customers due to a communications campaign that included television, radio, and print ads, in-system ads, posters, and brochures, as well as considerable positive press: about three-quarters of NYC Transit, LI Bus, and LIRR customers and about half of MNR customers were aware of the program.

Subway and bus customers took almost 46 million half-fare trips and received 5.07 million bonus days of subway and bus travel courtesy of 114,000 Holiday Bonus MetroCards (good for up to 41 days) and 2.16 million 7-Day and 30-Day MetroCards.

Holiday Half-Fare Bonus Trips

28.5 million on NYC Transit subways	697,000 on LI Bus
16.1 million on NYC Transit local buses	8,600 on Able-Ride
62,000 on Staten Island Railway	334,000 on MTA Bus local service
178,000 on Access-A-Ride	

Railroad customers and those holding an annual MetroCard received 2.71 million free rides. Subscribers to combined monthly railroad and annual MetroCard received 93,460 free $12-value MetroCards. Railroad customers received tickets for 2.15 million free one-way off-peak trips (1.05 million for MNR, 1.10 million for LIRR).

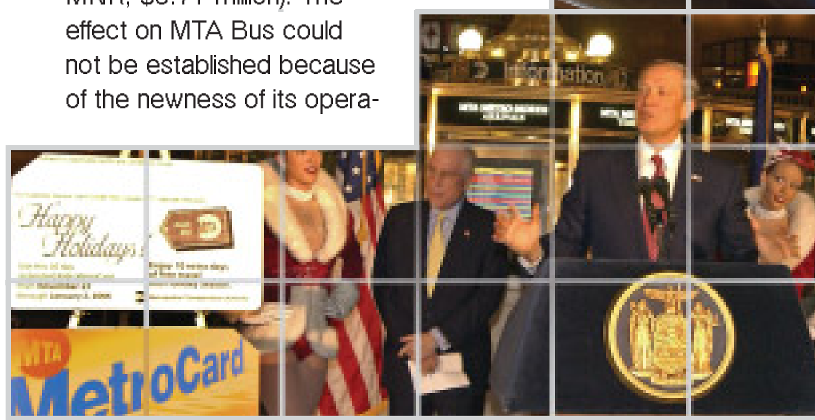
Across the MTA, ridership increased by 4.64 million during the program. The half-fare bonus on subways and buses generated the most additional ridership (4.6 percent on subways, about 6 percent on NYCT and LI Bus buses); Metro-North had 187,000 additional trips, LIRR 162,000.

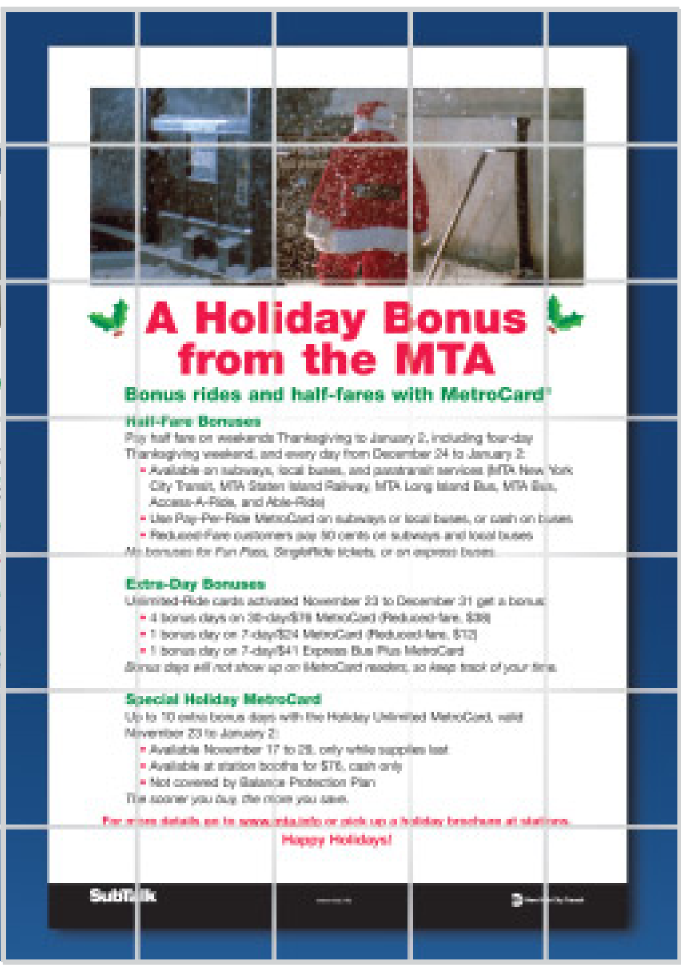
The Holiday Bonus was generally well received by those who took advantage of it. NYC Transit customers gave the program a rating of 7.7 on a 0-10 scale, LI Bus customers 8.5, LIRR customers 5.4, and Metro-North customers 7.3. Of NYCT and LI Bus respondents, 77 percent liked the program because it saved them money.

Research showed that the program generated some positive attitudes toward the mass transit and rail systems. The program made 44 percent of NYC Transit and 50 percent of LI Bus respondents feel more positive about the subway and bus system; about half said it did not change their perception. About half of MNR respondents and one-third of LIRR respondents said the program made them feel more positive about the railroad.

Most subway and bus riders used their extra trips for shopping; commuter rail customers used bonus tickets for recreation and leisure. Most monthly commuter rail ticket-holders, usually unable to use their off-peak bonus tickets themselves, gave their bonus tickets to members of their households; about half of the weekly 10-trip purchasers used their bonus round-trip ticket themselves.

The overall cost of the program was $46.28 million ($40.78 million lost revenue and $5.51 million expenses), slightly less than the $50 million budgeted. Agency-wide expenses for the program included additional service to meet capacity demands ($0.47 million), reprogramming MetroCard Vending Machines and ticket machines ($0.59 million), ticket sales/customer service ($0.03 million), printing and distribution of special MetroCard and bonus tickets ($0.09 million), advertising and market research ($4.28 million), and Metro-North West-of-Hudson (NJ Transit) $0.05 million. The primary cost of the program agency-wide was revenue loss from discounted and free trips (NYC Transit, $33.68 million; Staten Island Railroad, $0.04 million; LIRR, $2.76 million; LI Bus, $0.59 million; MNR, $3.71 million). The effect on MTA Bus could not be established because of the newness of its operations as well as other initiatives implemented before and during the program.





2005 MTA Holiday Bonus Program

- Half-fare on local buses, subways, and paratransit on holidays and weekends and from December 24 through January 2 (applied to both regular and reduced fares)
- Free bonus days added to 7-Day and 30-Day Unlimited Ride MetroCard
- Special $76 Holiday MetroCard valid from day before Thanksgiving through January 2, 2006 and (extended to January 5 because of the three-day transit strike in December)
- Free ten-trip off-peak commuter railroad ticket with purchase of monthly railroad ticket
- Free $12 MetroCard with purchase of monthly railroad ticket combined with monthly MetroCard
- Free round-trip off-peak railroad ticket with purchase of ten-trip or weekly ticket

Financial Performance

Revenue and Budget

Fare and toll increases that took effect in February and March, coupled with growing ridership, increased revenue at all MTA agencies in 2005.

As in 2004, a strong economy increased MTA subsidies, particularly receipts from real estate-related taxes, which were significantly better than initially projected. This was fueled by low interest rates that continued to generate a significant amount of mortgage refinancing and other real estate activity. In addition, New York State provided additional revenues to improve the long-term financial stability of the MTA.

These factors combined to provide an unanticipated year-end cash surplus of just over $1.18 billion in 2005; more than $700 million of the surplus is considered to be non-recurring.

The MTA considered a number of plans for utilizing the non-recurring portion of the surplus, ultimately choosing a series of policy actions to provide better service to customers, improve system security, and reduce future costs. Some $450 million will be used to reduce unfunded pension liabilities; $100 million will be allocated to improving network security by funding immediate capital needs, including increasing the number of closed-circuit television cameras installed in subway stations and on buses; and $50 million will be allocated to service enhancements for MTA New York City Transit, MTA Long Island Rail Road, and MTA Metro-North Railroad. Finally, $50 million was allocated to the Holiday Bonus Program in 2005 and another $50 million was set aside for a similar effort in 2006.

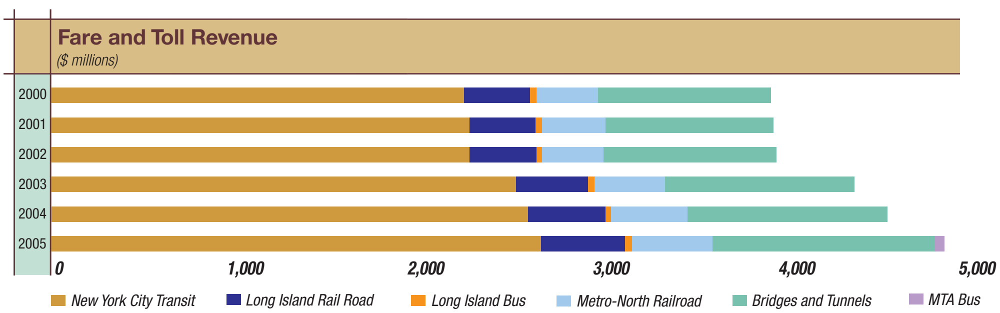
Although 2005 had a major surplus and 2006 is expected to end with a surplus of $217 million after earmarking $700 million for the above policy actions, the MTA projects growing deficits beginning in 2007, which will reach $1.5 billion by 2009. This swing over a five-year period is attributable to:

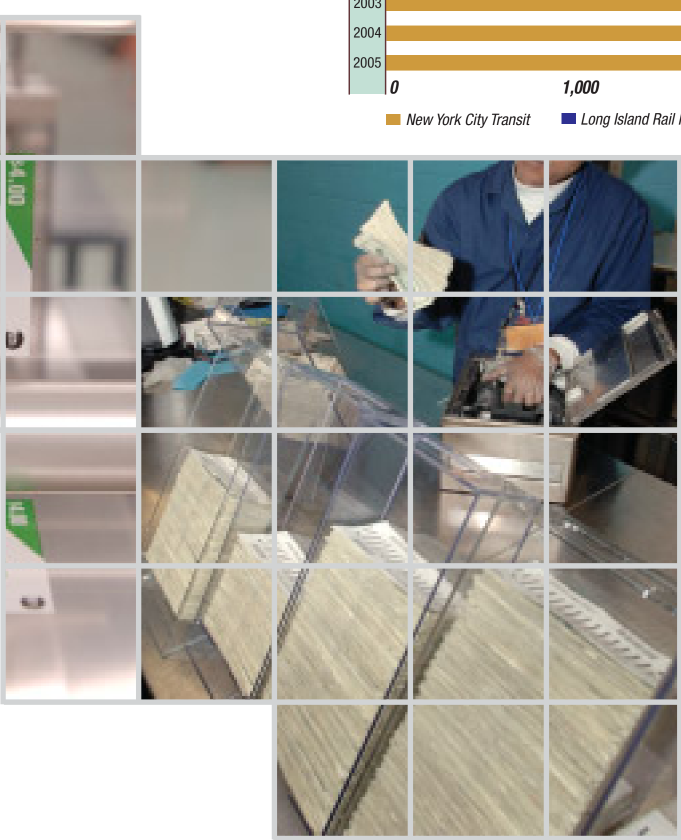
- Debt service—up $779 milllion, or 75 percent.
- Health and welfare payments—$345 million, an increase of 44 percent due to projected higher rates.
- Pension costs—increasing by $112 million based on actuarial projections, a 17 percent jump.
- Paratransit service costs—increasing by $144 million based on anticipated usage, a 90 percent hike.
- Inflation—raising operating expenses by $623 million.
- Insurance costs—up $24 million, or 86 percent, based on rates.
- Other expenses (including changes to the general reserve provision and higher materials costs)—increasing by $132 million.

State Resources Increased

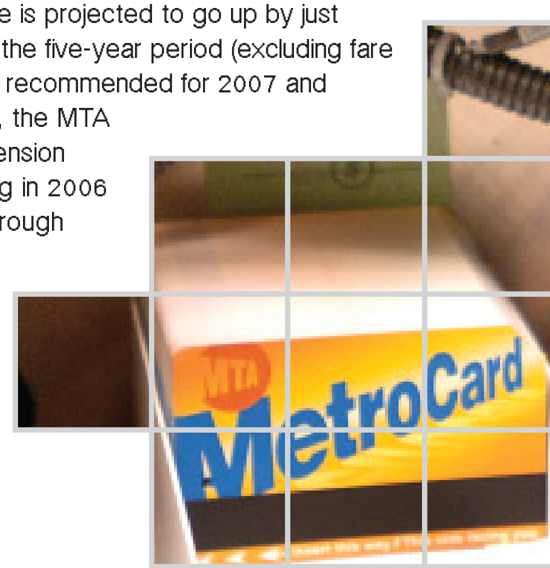
In 2004 and early 2005, the MTA worked closely with its funding partners in Albany to develop stable funding sources that will enable it to address significant out-year deficits and help fund the MTA's five-year Capital Program. Responding to those needs, the 2005-2006 State Budget included three new or enhanced revenue sources for the MTA:

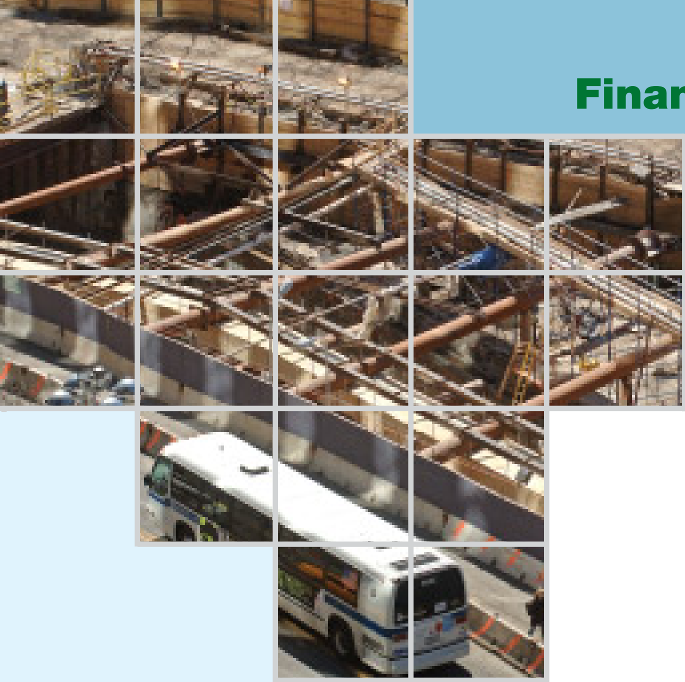
- an additional 0.125 percent (1/8 of 1 percent) regional sales tax throughout the New York State counties served by the MTA (the Transportation District) effective June 1, 2005, expected to generate approximately $110 million in 2005, $202 million in 2006, and $230 million annually beginning in 2007.
- an increase in the MRT-1 tax (mortgage recording tax) effective June 1, 2005, from 25 cents per $100 of recorded mortgage to 30 cents, expected to generate approximately $29 million in 2005 and approximately $50 million annually thereafter.
- increases to certain motor vehicle fees effective October 1, 2005. The MTA will receive 34 percent of the increase, expected to generate approximately $61 million annually.
- a $2.9 billion Transportation Bond Act—with $1.45 billion allocated to the MTA—that was approved by New York State voters in November 2005.





These figures are only slightly offset by slow growth in revenue due to modest ridership and traffic changes. Revenue is projected to go up by just $251 million over the five-year period (excluding fare and toll increases recommended for 2007 and 2009). In addition, the MTA projects higher pension earnings beginning in 2006 and continuing through 2009 as a result of the $450 million investment to reduce pension liabilities.





However, the growing budget gap has led the MTA to institute a series of gap-closing measures. MTA programs to eliminate the gap (PEG) include use of the real estate tax stabilization account in 2006, agency cost-cutting programs beginning in 2005, and proposed fare and toll increases in 2007 and 2009.

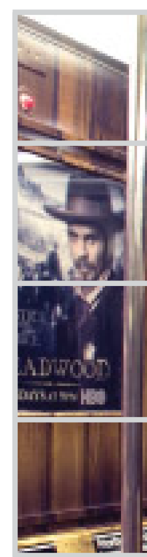
The chart shows the effects of the budget actions taken or planned as well as the PEGs (for example, the actual 2005 surplus was reduced from $1.18 billion to $582 million when the MTA transferred funds to cover pension liabilities, the additional costs of the network security program, and the cost of the Holiday Bonus Program).

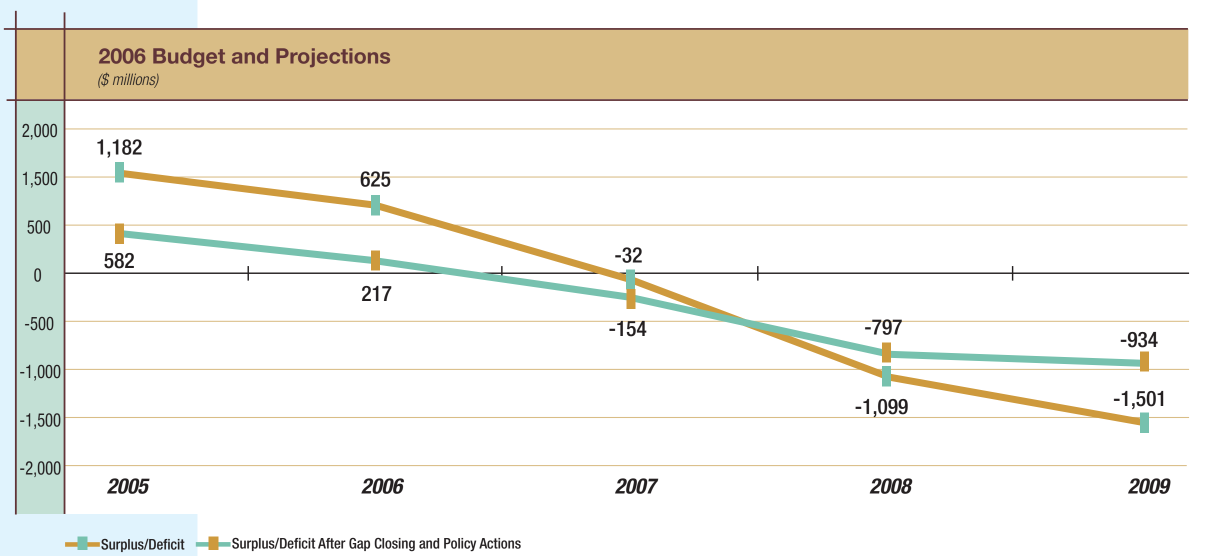
Finance

The MTA's credit ratings remained strong. In May 2005, Moody's upgraded its rating on the Triborough Bridge and Tunnel Authority's (TBTA's) General Revenue Bonds to Aa2 from Aa3 and upgraded the rating on TBTA's Subordinate Lien to Aa3 from A1, citing strong debt service coverage, diversity in toll revenue sources, and the positive trends in the metropolitan New York City economy. MTA's remaining credits maintained their strong ratings in 2005, and, since 2002, all bonds have been rated A or better by all three bond rating agencies: Moody's, Standard & Poor's, and Fitch.

The MTA issued 11 bond issues totaling $4.24 billion in 2005, six of which were new money bond issues totaling $2.2 billion. Proceeds from the new money issues were used for existing approved Capital Program projects. The MTA also paid off $720 million of Transportation Revenue Bond Commercial Paper, which it expects to reissue in 2006 in a smaller amount.

Three refundings of prior debt were issued, totaling $1.32 billion. These refunding transactions will save the MTA an estimated total of $262.2 million, or approximately $10.7 million annually.





Note: The chart shows the effects of MTA budget actions. For example, in 2005, the actual cash surplus was $1.18 billion. That surplus was reduced to $582 million by actions approved by the MTA Board, including the funding of certain pension liabilities, additional allocations to the security projects of the Capital Program, and the cost of the Holiday Bonus Program. Subsequent years illustrate the growing budget deficits and the MTA's current budget planning.

The MTA also entered into two forward starting interest rate swaps to hedge future new money bond issues by locking in low long-term rates on the Dedicated Tax Fund Credit.

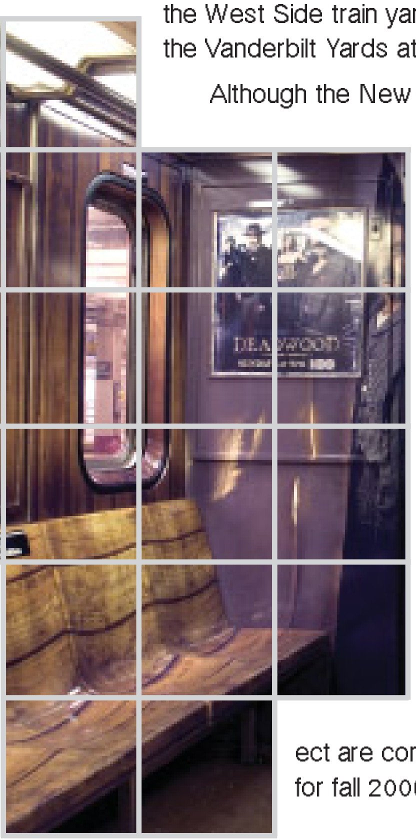
Insurance Operations

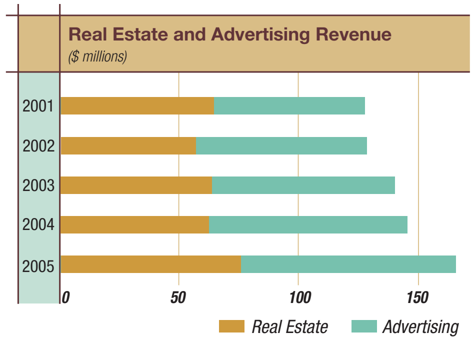
The MTA's captive insurance company, First Mutual Transportation Assurance Company (FMTAC), enables the MTA to achieve substantial savings on its Capital Program and other construction projects by keeping down the costs of required insurance for contractors and their employees. Four active Owner-Controlled Insurance Programs, put in place when rates were significantly lower than they were in 2005, are helping to keep down the costs of Capital Construction projects.

Real Estate and Advertising

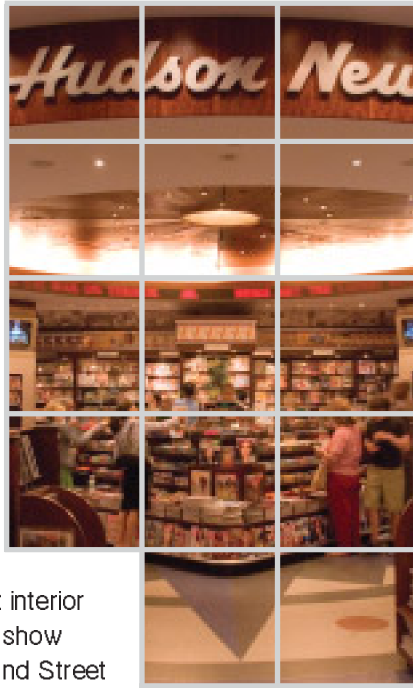
MTA Real Estate managed two major requests for proposals during 2005: one for the rights to build over the West Side train yard and another to build over the Vanderbilt Yards at Atlantic Terminal in Brooklyn.

Although the New York Jets bid was viewed as the best received, the potential deal for the West Side train yard ended when the Jets opted to remain in New Jersey. In Brooklyn, the board approved the sale of development rights to Forest City-Ratner, which proposes to build a mixed use development over the yards, including a new stadium to house the New Jersey Nets, a professional basketball team. While a final price has been negotiated, the closing on the property will not take place until after the environmental reviews for the project are completed, currently scheduled for fall 2006.





The Real Estate operation was also involved in negotiating the buy-out of properties at Fulton Street and Broadway in preparation for the construction of the Fulton Street Transit Center. One building at the site has been acquired and Real Estate is in negotiations with the remaining building owners. The MTA will provide building tenants with both fixture payments and relocation assistance, working to keep business owners in the downtown area. The current plan is to complete all of the property acquisitions by the fall of 2006.



In an innovative approach to creating new advertising opportunities, Real Estate negotiated the first interior train "wrap" with the television show "Deadwood." Riders of the 42nd Street Shuttle train were taken back to the Old West when they rode the cars that ran on Track 1 during the month of March. All three train cars were redecorated to match the show's Gem saloon, with cars covered from floor to ceiling with a special wallpaper-like plastic cover. Although the display covered the interior, all of the decals that mark seats for individuals with disabilities, emergency brakes and doors, and other safety and operational messages remained visible to passengers.

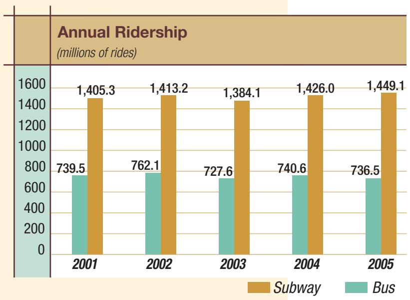
MTA New York City Transit

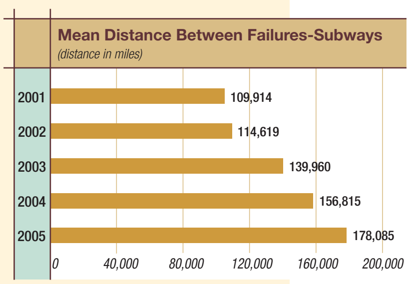
Ridership and Customer Service

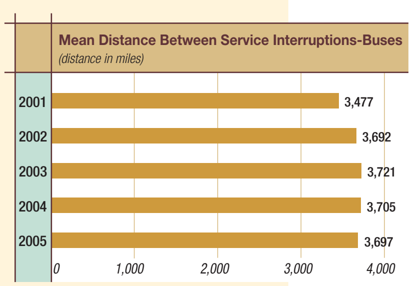
MTA New York City Transit ridership was up in 2005, reaching a 35-year high of 2.19 billion riders, a 0.91 percent increase over 2004, when ridership totaled 2.17 billion. The gain was attributable to subway ridership, which was up 1.62 percent from 2004 to 1.45 billion, its highest level since 1953. Bus ridership declined by 0.55 percent to 736.5 million.

The subway ridership increase came despite the loss of three days to an illegal strike by transit workers in December and a major service disruption in January 2005 following a fire in a switch room near Chambers Street, which curtailed service on the A and C lines for three months. Bus ridership decreased primarily because of the loss of four service days (2004 was a leap year).

To improve customer communications, NYC Transit launched a customer e-mail service to provide customized weekly notifications of weekend service changes. More than 20,000 people registered for the service.

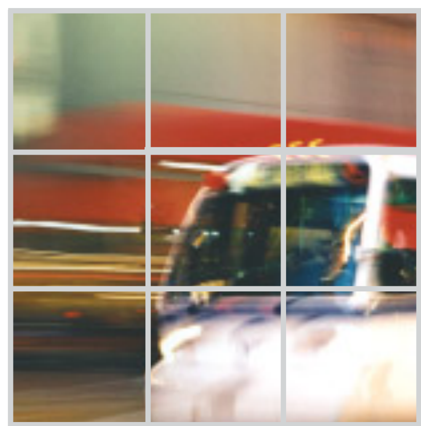




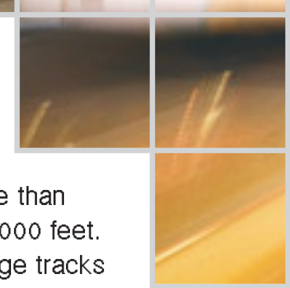


Subways

NYC Transit had impressive gains in subway service reliability, with mean distance between failures on subways up 13.6 percent from 156,815 miles in 2004 to 178,085 miles in 2005.



A large part of the increase is due to the outstanding performance of new subway cars, which make up an increasingly large part of the fleet. In 2005, Transit put the final 30 R-142 A-Division (numbered lines) subway cars into service during the year. In addition, two R-160 trains, each eight cars long, were delivered and began what will be up to 14 months of testing and potential modification before they are put into full production. Similar to the high-tech R-143s, the cars represent the next generation of upgrades for the B Division (lettered lines).



New York City Transit has a number of programs in place that help provide more reliable service. By using continuous welded rail (CWR) and instituting an intensive program of track bed cleaning that preserves ties and extends the maintenance cycle, Transit is delivering smoother, quieter rides and has fewer rail breakages. In 2005 Transit added 24,000 feet of CWR and more than 110,000 feet of track bed were cleaned, nearly triple the goal of 42,000 feet. The agency also eliminated more than 9,000 water leaks that damage tracks and track beds.

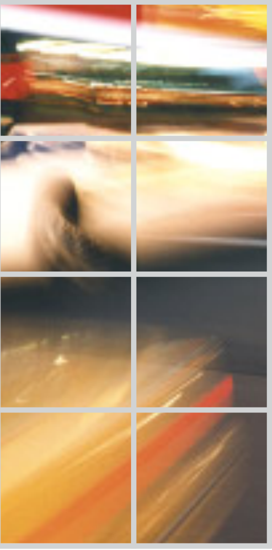
Transit introduced a station customer assistant (SCA) program in May to enhance customer service by allowing the SCA to operate throughout the entire station area, with the ability to observe both the mezzanine and platform, report incidents, respond to customer inquiries, or summon assistance when needed.

NYC Transit discontinued the 9 line in May, ending skip-stop service along upper Broadway and into the Bronx. Service levels at all stations were maintained by increasing the frequency of the 1 train operating along the Broadway route.

Capital Program projects continue to improve the performance and comfort of subways. Among the station rehabilitations completed in 2005 were 77th Street ($17 million) and Lexington Avenue ($85 million) in Manhattan; DeKalb Avenue ($50 million), West 8th Street ($36 million), and Utica Avenue ($34 million) in Brooklyn; Woodlawn ($22 million), Fordham Road ($22 million), 170th Street ($14 million), and Mt. Eden Avenue ($17) on the number 4 line in the Bronx, and the Roosevelt Avenue Complex in Queens ($131 million).

In the Bronx, the Phase II re-signaling of the White Plains Road line and the modernization of the Canarsie Yard Signals was completed.

To improve operational flexibility, the Nassau Street line was reconfigured at a total cost of $47 million. The project entailed the reconstruction of about 4,000 linear feet of track and installation of new switches and signal equipment.



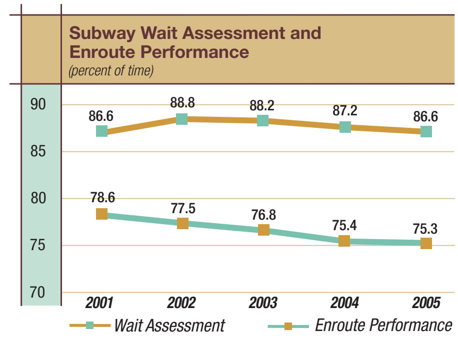
The final touches were put on the Stillwell Avenue Terminal in Coney Island, and N service—suspended in 2002 to accommodate the rebuilding of the terminal—was restored in the spring.

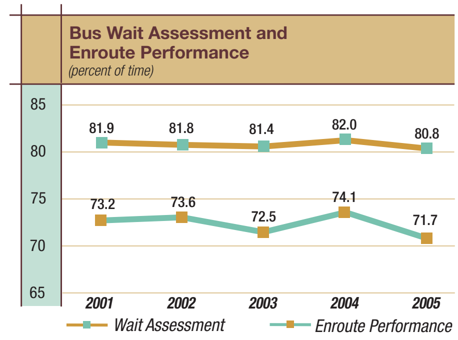
Disaster and Recovery

A fire broke out in the early morning hours of January 23 near a switching relay room in Lower Manhattan. Within minutes it had spread to the relays, destroying the electrical equipment that controlled switches along the A and C lines.

Transit began assessing the damage as soon as the fire was out and, to get trains moving again, put employees on subway platforms and used

On-Time Performance





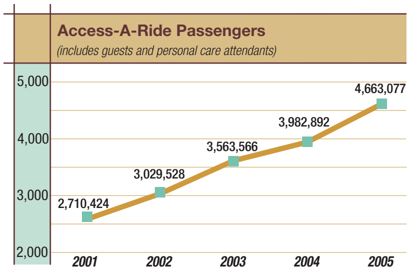
Wait assessment measures daytime performance

— 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

Enroute performance measures nighttime performance

Enroute 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



Paratransit Ridership Increases

Ridership on New York City Transit's Access-A-Ride paratransit service for people with disabilities is up 72 percent over the past five years, with annual double-digit growth. To meet the growing demand for service in 2005, Access-A-Ride added 139 vehicles to its fleet and ordered an additional 198 vehicles.

hand-held radios to direct traffic on the A line; C service was suspended. Some of the slack was taken up by extending the V into Brooklyn so passengers could change trains at Jay Street, providing more service on an alternate route into Manhattan.

A simple signals system was installed between Chambers and Canal Streets, and on February 2, just nine days after the fire, Transit restored C service and 60 percent of A line capacity. Modifications to this system—including additional hardware—returned the A line to 80 percent of capacity by February 10 and full service on April 20.

Transit has developed a multi-year project to rebuild the damaged relay room.

Buses

Mean distance between service interruptions on buses remained nearly constant, down less than a quarter of a percent from 3,705 miles in 2004 to 3,697 in 2005. It was the fourth consecutive year that buses ran at or near 3,700 miles without a breakdown or service interruption.

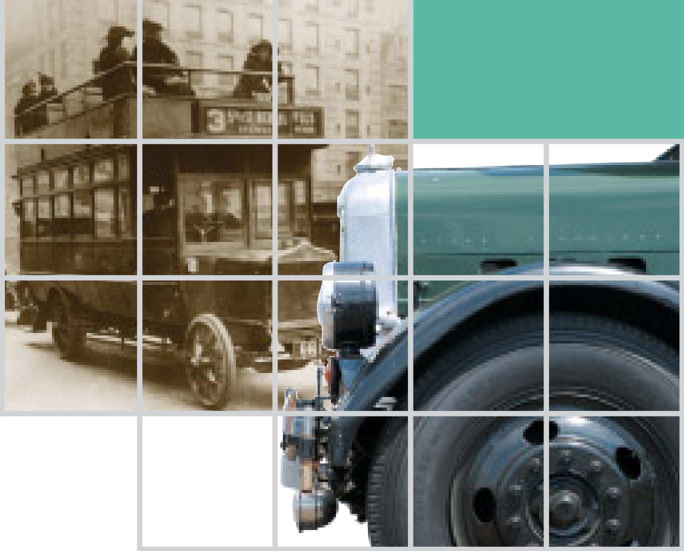
NYC Transit has made a major commitment to clean-fuel technology through its purchase of hybrid-electric buses. The size and scope of the potential orders from NYCT has made it possible for the agency to encourage manufacturers to invest in the technologies that combine the best features of diesel and battery operation in a fuel-efficient low-polluting bus. In 2005 Transit received 206 hybrid buses and placed an order for an additional 216 buses to be delivered in 2006 and 2007.

With ridership continuing to grow on Staten Island, NYC Transit expanded the employee facilities and storeroom at its Castleton Depot to provide the additional space required to operate the borough's growing bus fleet. The agency has also begun planning a third depot for Staten Island.

In Brooklyn, Transit worked with the New York City Department of Transportation to create safer, more convenient trips for passengers to and from the Kings Plaza shopping mall through a redesign of the mall's bus terminal area, including spacious bus islands, improved lighting, and new bus stop shelters. The mall area is served by five bus routes, two of which are among the busiest in the system.

100 Years of Motorized Bus Service

Transit's Department of Buses celebrated the 100th anniversary of motorized bus service in New York during 2005 with a series of events and activities, including the addition of an exhibition of antique bus models and toys at the Grand Central Holiday Train



and Bus Show and the introduction by the New York Transit Museum of a newly-acquired 1931 bus used by the Fifth Avenue Coach Company.

When the first motorized bus in Manhattan roared to life in September 1905, it signaled the beginning of a new era of efficient service. Operating during the evening from Washington Square to 88th Street, the round trip could be completed in under an hour, down from an hour and a half from the horse-drawn omnibus it replaced. And for the premium price of 10 cents (the regular fare was a nickel) passengers were guaranteed seats. By 1907 the operator—Fifth Avenue Coach Company—had converted its entire fleet.

Bus service expanded across Manhattan in 1913 when the city began issuing franchises for new lines, including many east-west routes. But the bus companies struggled because the regulated fares rarely provided enough for the companies to be profitable.

City officials solved the problem through direct public ownership, a process that began in 1940 when the city assumed the bus routes of the Brooklyn-Manhattan Transportation Company to begin a process of consolidation and service improvement.

Other takeovers followed, and in 1953 the city created the New York City Transit Authority (now NYCT) to operate all buses and subways. In 1962, Fifth Avenue Coach Lines became a subsidiary of the NYC Transit Authority, which itself was incorporated into the Metropolitan Transportation Authority in 1968 as New York State and City sought to improve regional transportation planning and oversight.

Nassau County had a similar experience. By the early 1970s, eight of eighteen local bus services had gone bankrupt, and many of the remaining companies were awash in red ink. The state and county combined the operations of the companies into the Metropolitan Suburban Bus Authority (now LI Bus).

The consolidation of New York's bus service under the auspices of the MTA took another significant step forward in 2005 as the city's seven franchise operations began to be merged into MTA Bus, the newest operating agency of the MTA. The change is bringing new buses, improved maintenance, and consistent pricing to the customers who relied on the local and express fixed-route lines operating by the companies.

Repaying a Debt

When word reached New York City Transit bus depots that help was needed in New Orleans and the Gulf Coast, many bus operators, mechanics, and other hourly and managerial employees signed up immediately; New York City Transit's Department of Buses provided 53 buses, two road trucks, and 131 volunteer employees to help transport military and police personnel in the region.

Despite the prospect of a non-stop 1,300-mile bus trip to New Orleans (there were two operators on every bus) and a week away from home and family, the hurricane disaster was a fresh reminder of the aid that poured into New York City after the 9/11 attack on the World Trade Center.

NYCT bus employees provided transportation to the hundreds of workers who came to aid in the clean-up and recovery work at Ground Zero, and many bus operations employees felt they had a debt to pay to those who had responded to New York City in a time of crisis.

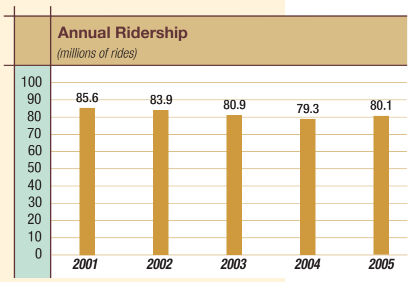
MTA Long Island Rail Road

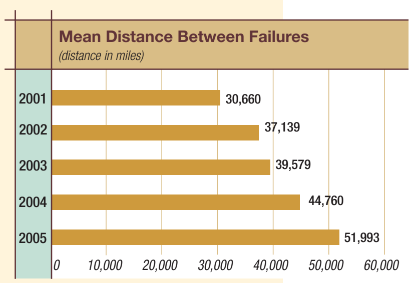
Ridership

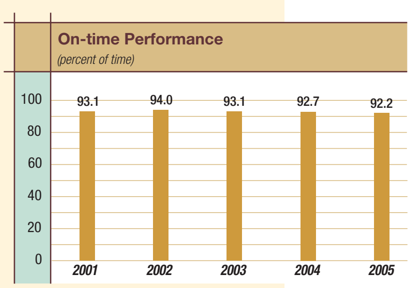
In 2005 MTA Long Island Rail Road (LIRR) turned a corner, recording its first ridership increase in the past four years: ridership was 80.1 million, up 1.1 percent from 79.3 million in 2004. The strong results mark the first time in LIRR history that ridership improved during a year that fares were increased and reflect not only an improving local economy but also many of the railroad's service and reliability improvements.

Mean distance between failure, a key measure of service reliability, rose 16.2 percent to 51,993 miles in 2005 compared to 44,760 in 2004, the seventh consecutive year of improvement.

On-time performance—including added shuttle and other service during the three-day NYC Transit strike in December—was 92.2 percent, down half a percent from 2004.







Customer Service

Other customer-related programs have enhanced the commuter's experience. Improved maintenance and new rolling stock permitted the LIRR to increase the number of cars available during rush hours, allowing more trains to run with a full complement of cars and providing more seats during the morning and evening peaks.

Equally important was a program to maintain on-board comfort levels with properly functioning heating and air conditioning units. Frequent inspections ensure that both are operating in their respective seasons. As a result, during 2005, 99 percent of cars operated in the compliant range of 64 to 78 degrees.

The railroad also improved its customer service training for employees, targeting areas of concern that have been raised through the customer e-mail service on the MTA website.

The LIRR took other steps to enhance customer service and communications, including the launch of its Customer E-Mail Notification System that automatically e-mails customers about both planned service changes and temporary disruptions that can affect their commutes.

Capital Program

Capital Program improvements continued in 2005. The railroad received 216 M-7 rail cars and as a result was able to retire 196 M-1 cars, which at more than 30 years old, are the fleet's oldest and least reliable. At mid-year, the LIRR exercised an option for an additional 158 cars at a cost of $347 million,

Capital Program Station Improvements

Atlantic Terminal	Completed installation of improved lighting, a new platform ventilation system, a tempered air system, and new platform signs.
Cold Spring Harbor	New west end overpass installed (funded by the LIRR operations budget).
Copiague	New aluminum staircases replaced concrete stairways.
Deer Park	Reconfiguration of parking lot provided 64 new spaces for commuters. Parking lot was resurfaced, new signage and brick pavers were installed, and drainage was improved.
Jamaica	Completed concourse along Sutphin Boulevard and stairway connecting Sutphin Boulevard to platforms. Completed granite façade and new stairways on west side of station and added new lighting and train information displays at mezzanine. Peoplemover to AirTrain service completed.
Kew Gardens	Station building roof replaced, building exterior painted and a new plaza area—with concrete walkways, brick pavers, ornamental railings, and landscaping—was completed.
Lindenhurst	Two new aluminum staircases replaced concrete stairways.
Lynbrook	Station rehabilitation included exterior painting of the station building; a new plaza area with concrete walkways, brick pavers, new signage, bicycle racks, and landscaping; and a new aluminum staircase replacing a concrete stairway.
Murray Hill	New pedestrian overpass and four new staircases completed. Plaza area improved with new sidewalks, lighting, landscaping, benches, and fencing. New public address system and signage installed.
Westhampton	Existing lot south of station building resurfaced and new parking lot east of station building provided 70 additional spaces for commuters.

which will increase the M-7 fleet to 836 when deliveries are completed through 2006 and early 2007.

An automated audio-video public address system was installed at 39 stations. The system provides train arrival and departure data at the platform and will be expanded to all stations by 2010.

In 2005, the LIRR ordered 82 additional Ticket Machines to increase ticket sales capability in order to reduce waiting and improve convenience at stations. By the end of the year, 55 daily Ticket Machines and three full service Ticket Machines had been installed system-wide; the remaining 24 will be in place by the end of the first quarter of 2006.

A new state-of-the-art microprocessor signal system was installed at the Valley Stream tower, a key location for the dispatching of trains, serving multiple branches along the South Shore. In conjunction with this signal modernization project, the West Hempstead Yard received a new signal system.

New Car Reliability

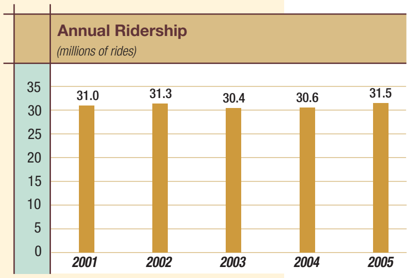
Improvements in mean distance between failures are being driven by the addition of M-7 rail cars to the fleet. As the M-7 cars become a significant portion of the fleet, they push up overall reliability and enable the railroad to put more rail cars into service for the morning and evening rush hours, with far fewer trains pulling out without a full complement of cars. The effect of the M-7s is further magnified as the railroad retires cars from the M-1 fleet, most of which are more than 30 years old.

MTA Long Island Bus

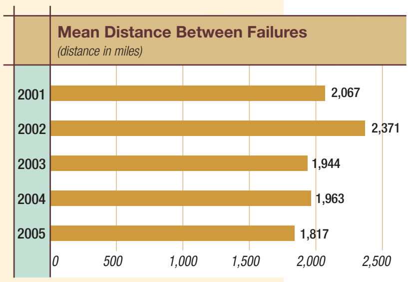
Ridership and Customer Service

MTA Long Island Bus had its best ridership year ever in 2005. The agency set an all-time annual fixed route ridership record and established new records for single weekday ridership at 118,568, Saturday at 63,281, and Sunday at 36,870. Annual ridership on the fixed-route and paratransit systems totaled 31.5 million customers, up from 30.5 million in 2004, a 2.98 percent increase. Paratransit ridership reached 324,905 customers, up from 318,377 in 2004, a 2.0 percent increase. LI Bus has posted ridership increases in seven of the last eight years.

The growth in fixed-route ridership reflects the extension of LI Bus service to a growing commuter population that uses the bus network to travel to jobs and schools in Nassau County, to Long Island Rail Road stations, or to other parts of Long Island. In addition, over the past decade LI Bus has met the changing needs of Nassau County residents, expanding services to shopping centers, schools, and entertainment venues while building a strong core of discretionary riders.



On its fixed-route service, mean distance between bus failures was 1,817 miles, down 7.4 percent from 1,963 miles in 2004. Despite the drop-off, LI Bus achieved a 100 percent bus pullout rate for the year during both morning and afternoon peaks, and completed 99.5 percent of its scheduled trips.

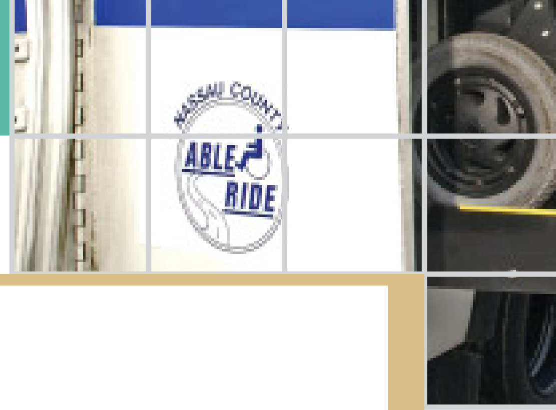


The agency continued to work with Nassau County planners to meet anticipated demand from customers. By altering routes of two fixed-route lines, in September LI Bus began providing direct service to Nassau County's newly opened Health and Human Services Building in Uniondale. A special bus lane was constructed within the ten-agency complex to facilitate service. The rerouting was immediately popular with customers; on the N16 route ridership increased more than 10 percent by year-end.

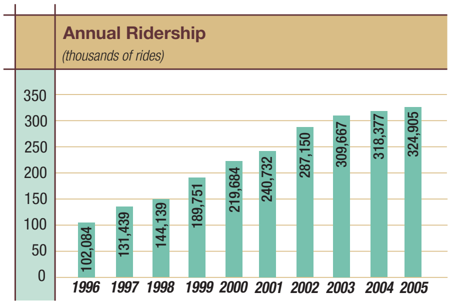
LI Bus also continued to work closely with Long Island Rail Road, modifying schedules to provide better coordination for customers who use both modes of transportation. Together with the railroad it launched an educational campaign encouraging drivers to leave their cars at home and take the bus to the railroad station.

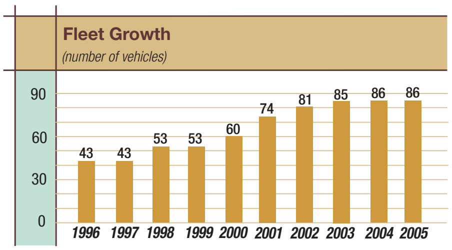
Capital Program

A Vehicle Locator System that will facilitate the real-time tracking of buses was completed in 2005. Future enhancements will enable LI Bus to notify passengers of the expected arrival times at specific transit hubs.



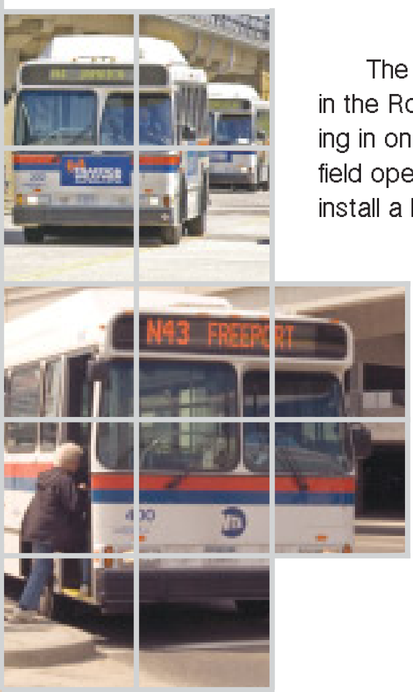
Paratransit Ridership and Fleet Growth





LI Bus has operated Able-Ride, Nassau County's paratransit service for people with disabilities, since 1991, and has seen outstanding growth over the past 10 years. Beginning with five buses, the fleet grew quickly to 43 buses by 1996 and has since doubled. Able-Ride now has 86 vehicles and provided 324,905 rides in 2005, more than triple the number provided in 1996. Its registered customer base totals 27,813.

In 2005 LI Bus began renovations of its paratransit facility. All facets of the operations will be housed at this location, including passenger scheduling, bus maintenance, and vehicle storage. The first phase of the program addressed the exterior infrastructure and storage and will be completed in 2006. The design for the second phase includes interior modifications to the facility and will be completed in 2008.



The agency completed a new training facility in the Rockville Centre depot, consolidating training in one location for both administrative and field operations employees. LI Bus is planning to install a bus simulator that will significantly enhance its driver training program.

Able-Ride, the paratransit service operated by LI Bus, received six vehicles in 2005 as part of its normal replacement program.

MTA Metro-North Railroad

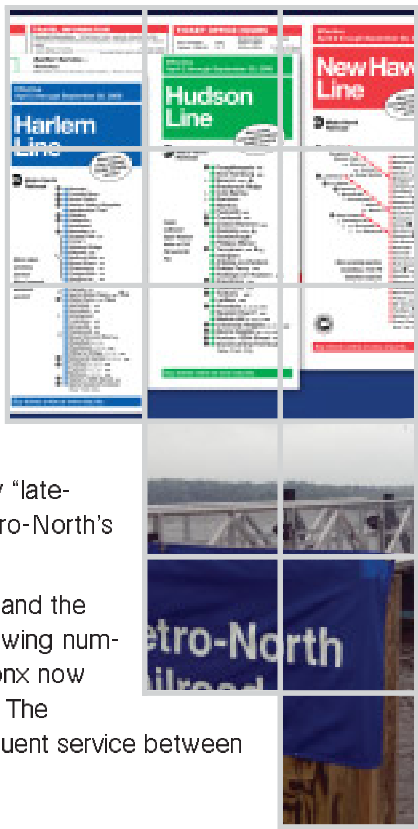
Ridership and Service Improvements

In 2005 MTA Metro-North Railroad's ridership—and revenue—were the highest ever. Ridership increased on all three East-of-Hudson lines (Hudson Line 3.8 percent, Harlem Line 3.0 percent, New Haven Line 2.4 percent) and 6.49 percent on the two West-of-Hudson lines. The largest increases were in intermediate, weekday off-peak, and weekend ridership. Annual ridership has increased by 56 percent since 1984 and is now at its highest ever.

Total annual ridership (combined East- and West-of-Hudson service) topped 74.5 million, up 2.95 percent. Annual ridership for East-of-Hudson service reached 72.8 million, up 2.9 percent, and total annual revenue reached approximately $437 million (8.5 percent above 2004). High-quality service, arrival of new M-7 cars, an improved regional economy, and new late-night train service, as well as the one-time effects of the Bee-Line Bus strike and "The Gates" exhibit, and additional Bronx ridership during the NYC Transit strike all contributed to the record ridership.

On-time performance—including special added shuttle service during the three-day NYC Transit strike in December—was 97.4 percent, the highest in Metro-North's history.

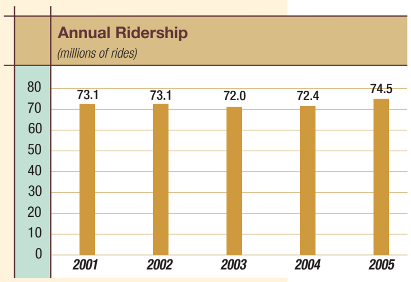
A comprehensive review of train schedules re-allocated one to four minutes of running time among intermediate stations in the evening peak to improve service reliability at outlying stations without adding to the overall travel time of each train. As a result, on-time performance at key intermediate stations rose from 92.2 percent to 95.8 percent.

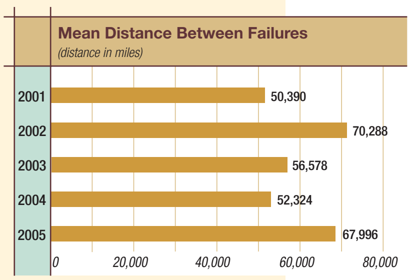


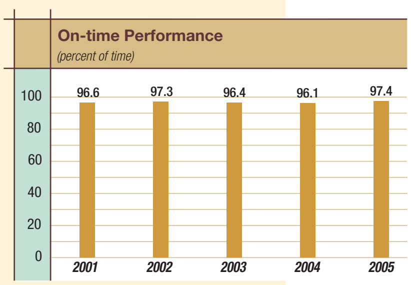
Metro-North and New York Waterway premiered the Newburgh-Beacon Ferry, offering six ferries in the morning and eight in the evening to meet frequent Beacon express trains. The ferry/train combination takes 90 minutes to/from Grand Central and enables Orange County residents to reach any intermediate Metro-North station or New York City. A Newburgh facility provides free parking, and the ferry dock is only steps away from the Beacon station.

For the growing number of customers looking for service from Grand Central after 11 p.m., an extra daily "late-night train" was added to the schedule for each of Metro-North's three lines.

With completion of the Mid-Harlem Line third track and the addition of the new M-7s to Metro-North's fleet, the growing number of commuters traveling from White Plains to the Bronx now enjoy direct rush-hour train service and a one-seat ride. The Harlem Line schedule was also adjusted to provide frequent service between the Bronx and Westchester.







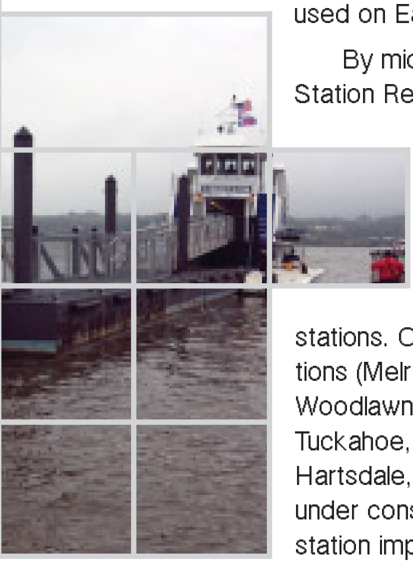
Metro-North's web-based Service Alert and e-mail notification systems introduced an emergency timetable element that gives staff the ability to create and post special timetables on the web quickly to better serve customers during a major service disruption.

Customer Service Inspectors now use wireless hand-held devices to connect with various company systems to report train incidents, required maintenance, and problems that may impact the safety of both customers and employees.

Capital Program

Metro-North's Capital Program project completions totaled $545 million (115 percent of plan) in 2005; commitments totaled $293 million (96 percent of plan).

Metro-North accepted 136 M-7 cars for revenue service, for a total of 260 cars accepted; the remaining 76 cars will be delivered in 2006. The M-2 Car Remanufacture Program, funded jointly with CDOT, continues overhauling 242 M2 (121 CDOT and 121 Metro-North) cars. It includes in-kind replacement of critical system components as well as upgrading of various components. The overhaul of the West-of-Hudson coach fleet commenced. Requests for proposals were issued for procurement of new electric railcars to supplement and ultimately replace the M-2 fleet on the New Haven Line and for the overhaul of the Genesis dual-mode locomotives used on East-of-Hudson lines.

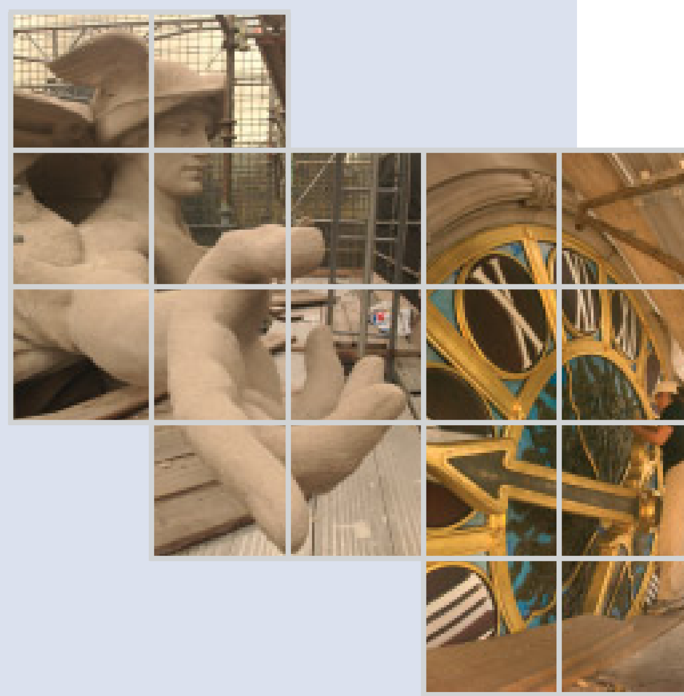


By midyear the Lower Hudson Line Station Rehabilitation Project, begun in 2001, had completed work on the Morris Heights, University Heights, Marble Hill, Spuyten Duyvil, Riverdale, Ludlow, Yonkers, Glenwood, and Greystone stations. On the Harlem Line, 11 stations (Melrose, Tremont, Fordham, Woodlawn, Wakefield, Fleetwood, Tuckahoe, Crestwood, Scarsdale, Hartsdale, and North White Plains) were under construction or completed, and station improvements began at all Upper Harlem Line Stations from White Plains through Southeast.

Through a public/private partnership with a developer 350 parking spaces were added in Port Chester. Comprehensive parking and access improvements both east and west of the Hudson resulted in the construction of over 675 new and 75 rehabilitated spaces.

Grand Central Rehabilitation

Rehabilitation of Grand Central Terminal's exterior and restoration of its interior courts and west façade as well as the exterior repair, cleaning, and painting of monumental windows on the Park Avenue south façade were completed. The east façade restoration is underway. The design for rehabilitating portions of the upper level of the Terminal's train shed and the Park Avenue Tunnel was completed.



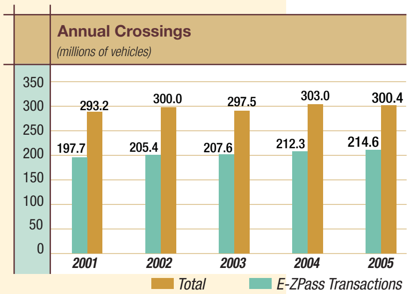
MTA Bridges and Tunnels

Customer Service

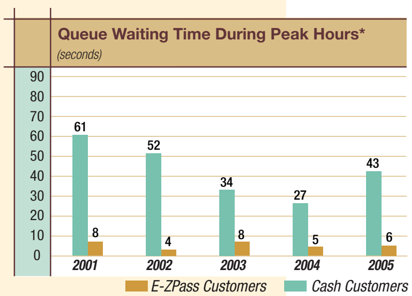
To inform and assist customers as they travel over its crossings, MTA Bridges and Tunnels uses a combination of video detection systems, advanced traffic management systems, and more traditional means such as Variable Speed Limit Signs to post safety-related reduced speeds; plaza toll lane reconfigurations; and line striping. In 2005 the first three of a planned 12 electronic Variable Message Signs to alert customers about traffic and rehabilitation situations were installed at the Bronx-Whitestone and Henry Hudson bridges to alert customers about traffic and rehabilitation situations.

Bridges and Tunnels' new Video Incident Detection System constantly analyzes video scenes from traffic cameras mounted throughout the facilities, automatically detects unusual occurrences, such as stoppage of vehicles on the roadway, and notifies the desk officer with audio and visual alarms, significantly decreasing reaction time for dealing with incidents and increasing public safety.

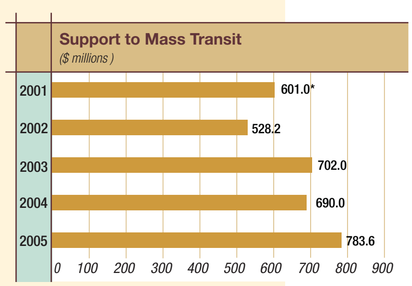
A highly analytical approach to improving customer safety coordinates actions through regular interdepartmental meetings that guide physical improvements and enforcement actions. Despite ongoing capital construction, Bridges and Tunnels facilities have never been safer: 1.2 customer accidents with injury per million vehicles in 2005.



Figures for total crossings in 2003 and 2004 and for E-ZPass transactions in 2001, 2002, and 2003 amended from 2004 Annual Report.



*Measure for 2001-2002 is average waiting time; measure for 2003-2005 is median waiting time, which is a more accurate depiction of customer experience.



*Amended from 2004 Annual Report.

Crossings and E-ZPass

MTA Bridges and Tunnels was the first agency to implement E-ZPass in an urban environment when it introduced the electronic toll-collection system at the Verrazano-Narrows Bridge in 1995. Twenty-two other toll agencies throughout the eastern United States now use the system. In 2005, average daily E-ZPass market share at all Bridges and Tunnels facilities was 71.5 percent and weekday peak-hour market share was 77.2 percent. There are now 1.6 million Bridges and Tunnels accounts and 3.3 million tags in circulation; more than 50,000 accounts have been added since December 2004.

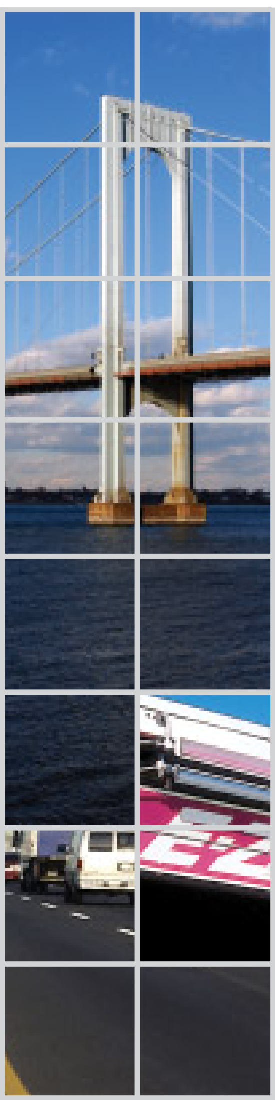
In 1995, total Bridges and Tunnels paid traffic was 266.1 million vehicles; by 2005 it had risen 12.9 percent to 300.4 million vehicles. E-ZPass has enabled Bridges and Tunnels to handle the increased traffic—34 million additional vehicles a year—while reducing congestion at toll plazas.

More than 71 percent of all customers (a record high of over 214 million in 2005) and 84 percent of commercial vehicles used E-ZPass in 2005. Every

month of the year E-ZPass achieved its standard of at least 99.5 percent lane availability at all plazas. Faster E-ZPass processing times benefit all customers: the 12-second actual median peak-period queue time on the toll plazas beat the agency's goal of 20 seconds for the year. This enabled Bridges and Tunnels facilities to maintain low average peak-hour queue times while managing traffic levels near 2004's record volumes.

Bridges and Tunnels has been replacing E-ZPass tags that are nearing the end of their service lives since 2002. By the end of 2005, 1.9 million E-ZPass tags had been replaced.

Twice a year, Bridges and Tunnels conducts an aerial survey of congestion at the seven largest of its nine facilities. The spring 2005 survey showed that at most facilities E-ZPass lanes usually had no significant queues while cash lanes did. Queues at cash lanes were about half as long as those observed during a period a decade ago before E-ZPass was introduced. Quick changeover by personnel in cash toll lanes—two minutes or less 96.7 percent of the time—minimized delays for cash customers in 2005.



Capital Program

MTA Bridges and Tunnels completed projects worth $147 million (97 percent of plan), and awarded contracts worth $324 million (92 percent of plan).

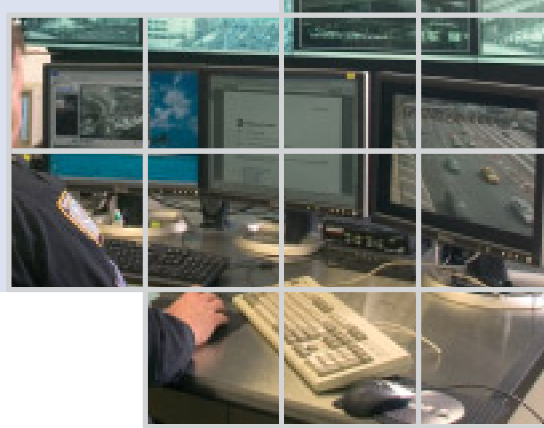
Significant completions include: deck replacement on the Triborough Bridge Harlem River span and approach span ($51 million); design for rehabilitation of the electrical system on the Verrazano-Narrows Bridge suspended span ($24 million); and structural and electrical rehabilitation of the 55-year-old Brooklyn Battery Tunnel ($18 million).

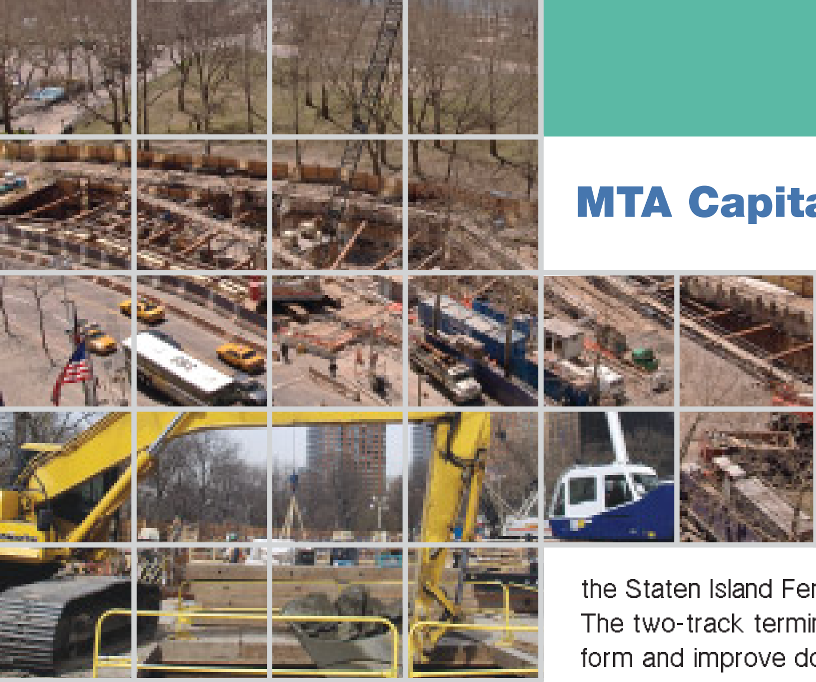
Other projects valued at $54 million were also completed.

Major reconstruction of the suspension span of the Bronx Whitestone Bridge proceeded, minimizing customer impact by diversions to the Throgs Neck Bridge and the use of a moveable barrier that provides three lanes of traffic in the most used rush hour direction while construction is performed one lane at a time using a permanent lane closure. As planned, three of six roadway replacement stages on the suspended spans were completed. The original concrete-filled grid deck roadway and supporting steel were removed and replaced with a prefabricated steel deck roadway that has a factory-installed bonded aggregate wearing surface.

State-of-the-Art Advanced Traffic Management System (ATMS)

- Operates at four Bridges and Tunnels facilities and Operations Command and Control Center; installation at all facilities by end of 2006
- Integrates traffic management systems (variable message signs, roadway weather monitoring systems, closed circuit TV cameras, incident-detection systems) into a single workstation
- Provides real-time data display and direct monitoring and control of multiple systems at a single workstation (change variable message signs and control closed circuit TV cameras directly through the graphical interface)
- Enhances post-9/11 security, customer service, and safety





MTA Capital Construction

Lower Manhattan Mobility Projects

In 2005 MTA Capital Construction began major construction on the MTA's Lower Manhattan mobility projects and laid the groundwork to begin significant construction on three long-planned network expansion projects.

At South Ferry, Capital Construction began major excavation on a tunnel in Battery Park and in front of the Staten Island Ferry Terminal for the new South Ferry terminal for the 1 line. The two-track terminal will allow full 10-car trains access to the station platform and improve downtown service. Working with the New York City Parks Department, the agency developed a plan to keep most of the park open and accessible during construction. The new South Ferry terminal is scheduled to open in 2008.

At the site of the Fulton Street Transit Center on Broadway, where nine subway lines come together, MTA Real Estate continued the process of acquiring the necessary property to construct the new complex. At the same time, Capital Construction began the rehabilitation of the 2, 3 Fulton Street station and construction of southern entrances to the 4, 5 Fulton Street station. Completion of the Fulton Street Transit Center—a new building that will ease transfers throughout the complex—is scheduled for June 2009.

Construction also began on the Dey Street Connector, which will provide a pedestrian link from the Transit Center to the E, R, and W lines, the World Trade Center site, and the World Financial Center. In order to reduce the risk to customers while the work is being done, the Cortlandt Street station on the R and W lines was closed in 2005; it will reopen in mid-2007 when the connector is substantially completed.

Expansion Projects Progress, 2000–2005*

($ millions)

	Commitments	Expenditures	Completions
East Side Access**	1,013.32	784.68	191.21
Second Avenue Subway	302.45	243.71	—
7 Line Extension†	101.54	61.55	43.60
Fulton Transit Center	312.97	104.74	37.49
South Ferry Terminal	334.01	121.26	9.00

Expansion Projects Progress, 2005*

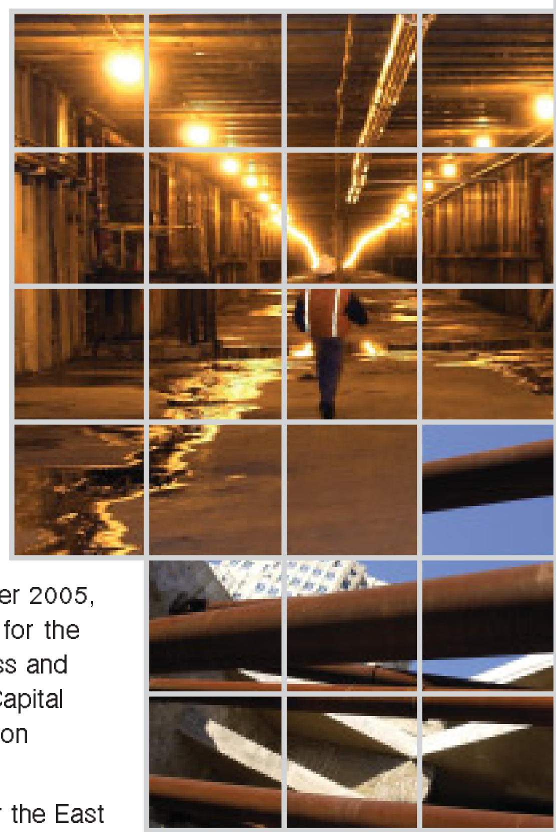
($ millions)

	Commitments	Expenditures	Completions
East Side Access**	110.55	110.10	84.72
Second Avenue Subway	5.55	34.28	—
7 Line Extension†	45.00	22.30	—
Fulton Transit Center	209.96	64.80	37.49
South Ferry Terminal	308.70	108.96	—

* Excludes MTA security-related projects.

** East Side Access figures include amounts attributable to the 1995-1999 Capital Program.

† The MTA expects that construction of the 7 line extension will be fully funded by New York City.



Expansion Projects

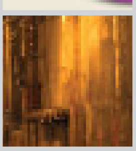
Following the approval of the Transportation Bond Act in November 2005, which contained substantial funding for the initial phases of the East Side Access and Second Avenue Subway projects, Capital Construction continued major work on both projects.

Tunneling under Park Avenue for the East

Side Access project—which will bring MTA Long Island Rail Road into a terminal under Grand Central Terminal—will begin in 2006. East Side Access will improve travel time for Long Island and Queens commuters into the Midtown business district and alleviate overcrowding at Penn Station. The project is scheduled to be completed in 2013.

Construction for Phase I of the Second Avenue Subway—from 96th Street to 63rd Street—is planned for 2006 and is scheduled for completion by 2013. At 63rd Street the line will be linked to the existing N, Q, R, and W lines. The full-length project includes three additional phases that will extend service from 125th Street to the Financial District, The entire project is scheduled for completion by 2020.

Capital Construction is also continuing to work with New York City planners on an extension of the 7 line to the West Side. The plan calls for construction of a station shell at 10th Avenue and 42nd Street and a completely fit-out station at 34th Street and 11th Avenue, serving the Javits Convention Center. Track will extend to 23rd Street for off-peak train storage. Funding for the extension will come from New York City.



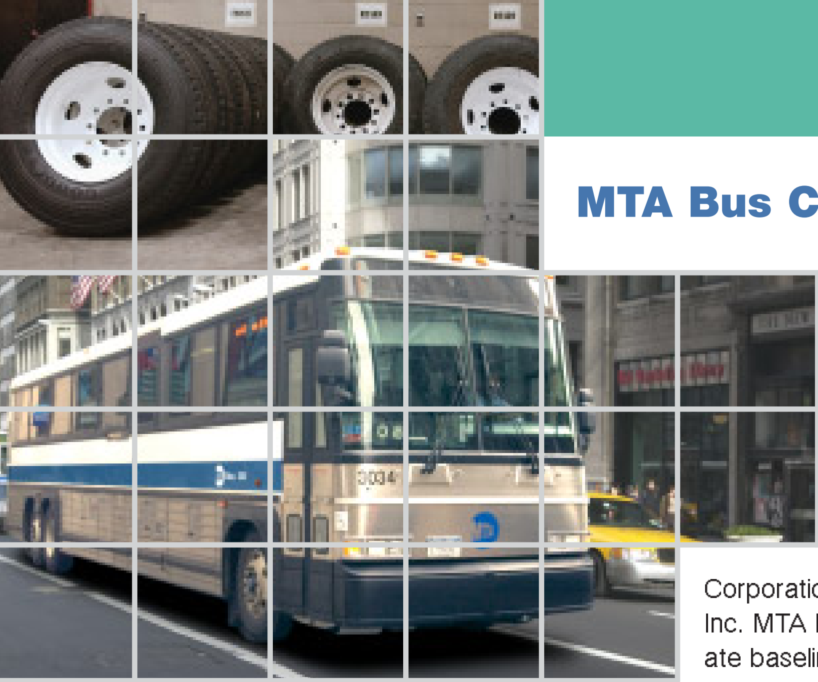
Uncovering the Past

Digging tunnels can sometimes uncover unexpected items, but rarely do workers make what turn out to be archaeologically significant finds. The construction of a new terminal for the 1 line at South Ferry, however, uncovered what may be an important part of New York City's past.

Buried under Battery Park were masonry walls and artifacts that may be from the 17th and 18th centuries (the process of dating the finds is still incomplete). The walls in Battery Park may have been parts of early fortress walls that protected the young city, the battery walls that gave the area its name.

Work was halted while archaeologists examined the site and the Parks Department determined the best way to preserve the wall. The walls were carefully marked and dismantled so they could be reconstructed at a later time, and one may be incorporated into the new subway terminal. The Parks Department agreed to allow Capital Construction to work in Battery Park past the time in the original schedule to compensate for the time lost during excavations.

Coins photo credit: Greg Morris/Insight-Visual



MTA Bus Company

Assuming Private Bus Routes

Improving service reliability and maintaining ridership were the top priorities for MTA Bus Company as it began the process of assuming the operation of routes formerly run by seven privately-owned franchise bus companies in New York City.

By year-end MTA Bus was operating routes formerly run by Liberty Lines Express, Queens Surface Corporation, New York Bus Service, and Command Bus Company, Inc. MTA Bus implemented standardized procedures in order to create baseline data that can be used in future years to track performance, including ridership, mean distance between service interruptions, bus pullout and on-time performance, farebox recovery ratio, and other performance and financial measurements.

With the assumption of the routes by MTA Bus, the fare structure was adjusted to match the fares of MTA New York City Transit and MTA Long Island Bus. This made ridership a key concern for MTA Bus because fares on the franchise buses before the takeover were, in some instances, lower than MTA fares. Franchise local bus fares were $1.50 during rush hour and $1.00 during non-rush hour and on weekends, while express bus fares were $4.00. The base fare for MTA is $2.00 for local buses and $5.00 for express buses. Because of the fare policy changes however, MTA Bus riders who use MetroCard no longer pay a step-up fare when transferring to the subway or buses operated by NYCT or LI Bus.

Ridership followed a similar pattern as the routes became part of MTA Bus. Local bus ridership increased, due largely to improved on-time performance, better service reliability, and early-action schedule improvements. On some routes, for example, MTA Bus provided service on snowy days; in the past some of the private companies cancelled service during snowstorms. In addition, the fare increase had little impact on local service since customers had paid step-up fares when transferring to the subway or an MTA Bus. Express bus ridership initially fell after the fare increased from $4 to $5 to match that of MTA New York City Transit, but began to recover as MTA Bus deployed new coach express buses and upgraded schedules.

Mean Distance Between Service Interruptions

		miles
Yonkers Depot (formerly Liberty Lines Express)	January 2005	2,161
	December 2005	5,213
College Point Depot (formerly Queens Surface)	March 2005	768
	December 2005	1,651

New Buses Improve Fleets

Company	Merger Date	Buses	Routes	New Buses Allocated	Average Age of Fleet at Merger	Average Age of Fleet on Dec. 31
Liberty Lines Express (Yonkers Depot)	January 3, 2005	62	7	65	14.9	5.0
Queens Surface Corporation (College Point Depot)	February 27, 2005	305	18	70	9.2	7.4
New York Bus Service (Eastchester Depot)	July 1, 2005	141	6	65	17.6	8.5
Command Bus Company (Spring Creek Depot)	December 5, 2005	137	7	30	12.7	7.0
Green Bus Lines	January 9, 2006	234	21	15		
Jamaica Buses	January 30, 2006	103	5	5		
Triboro Coach Corporation	February 20, 2006	220	18	41		

Fleet Upgrades

The immediate upgrade of the express bus fleets was an important component of the plan. MTA Bus purchased 317 express coach buses (125 of which were ordered in 2004) to be apportioned out to the seven companies, putting 250 into service by year-end. MTA Bus also plans to exercise an option for 140 additional express coach buses early in 2006.

To upgrade its fleet of local buses, MTA Bus ordered 284 hybrid-electric buses, all of which will be delivered in 2006 and early 2007, and developed plans to exercise an option for an additional 105 hybrid-electrics to be delivered later in 2007. These buses feature fuel-efficient hybrid technology, have a low-floor design to ease boarding and alighting, and all are wheelchair accessible, which will allow MTA Bus to greatly expand accessibility. Many of the private buses did not have wheelchair lifts and among those that did, many were in need of repairs, a top priority for MTA Bus.

Agreements were finalized on Fridays, with MTA Bus beginning operations the following Monday, allowing the company just two days to assess the condition of buses and determine which required immediate replacement and which could be repaired. In the week before, management met with employees at all of the companies to instill a customer-oriented environment and distribute employment and benefits information. The weekend was used for preliminary training so that by Monday morning bus operators had experience with the new buses and mechanics had a grounding in maintenance of the new equipment.

To measure initial performance, MTA Bus tracked mean distance between service interruptions at each depot on a monthly basis, with both the Yonkers and College Point depots showing improvement by year-end. (Comparable figures are not available for the Eastchester Depot, and the Spring Creek Depot was not merged into MTA Bus until early December.)

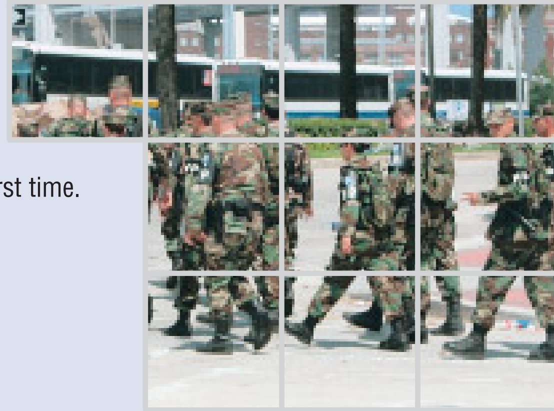
To quickly establish its identity for both customers and employees, MTA Bus installed new logos on all of its buses before the Monday morning runs and provided drivers with new uniforms bearing the MTA logo. In addition, all of the buses that had electronic destination signage were reprogrammed to reflect the MTA's information format.

A Helping Hand

Just nine months after beginning bus operations, MTA Bus (along with MTA New York City Transit) was called upon to provide disaster relief in the wake of Hurricane Katrina. On September 3, 73 buses (53 from New York City Transit and 20 from MTA Bus) were part of a convoy that left for the Gulf Coast. They carried more than 170 New York Police as well as critically needed food, water, and other emergency supplies.

Along with the buses were 20 MTA and 27 NYPD support vehicles, including highway cars, and tow, repair, supply, and communications vehicles.

Buses and drivers remained in the south for a week, providing transportation to military and police units across the region devastated by the hurricane. For MTA Bus, the mission helped establish a shared culture for the agency as drivers, mechanics, managers, and support personnel from what had been three different companies worked together for the first time.



Comprehensive Annual Financial Report

for the years ended December 31, 2005 and 2004

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

Prepared by Department of Budgets and Financial Management

Table of Contents

Introductory Section

This page is intentionally left blank

347 Madison Avenue
New York, NY 10017-3739
212 878-7236 Tel
212 878-0186 Fax

Gary M. Lanigan
Director of Budgets and Financial Management

Metropolitan Transportation Authority

State of New York

April 28, 2006

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, 2005. 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 is 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 CAFR is presented in three parts:

Introductory Section, including a copy of the 2004 Certificate of Achievement for Excellence in Financial Reporting, this Letter of Transmittal, and the MTA Organizational Structure.

Financial Section, including Independent Auditor's Report, Management's Discussion and Analysis, Consolidated Basic Financial Statements for the Years Ended December 31, 2005 and 2004, and accompanying notes to the financial statements. The Management's Discussion and Analysis immediately precedes the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. It is a complement to this letter of transmittal and should be read in conjunction with it.

Statistical Section, including a number of tables and graphs of unaudited data for the past 10 years and other information.

The Reporting Entity

The MTA is the largest public transportation provider in the Western Hemisphere. Its agencies serve 14.7 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 2.3 billion rail and bus customers a year.

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

The following table shows the legal and popular names:

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

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

Major Initiatives, Service Efforts, and Accomplishments

In 2005 the MTA continued to address its financial needs for both its operating and capital budgets.

To ensure that its 2005 budget would be in balance, in 2004 the MTA Board approved fare and toll increases that were effective in February and March 2005. Working with Governor George E. Pataki and the state legislature, the MTA received additional tax support for its operating budget, including an additional 0.125 percent (1/8 of 1 percent) regional sales tax throughout the New York State counties served by the MTA (the Transportation District) effective June 1, 2005, an increase in the MRT-1 tax (mortgage recording tax) effective June 1, 2005, from 25 cents per $100 of recorded mortgage to 30 cents, and increases to certain motor vehicle fees effective October 1, 2005.

*The current board (as of April 27, 2006) includes 15 voting and 6 nonvoting members.

The state legislature addressed on-going capital construction needs when the Capital Program Review Board in April approved the MTA 2005-2009 Capital Program, enabling the MTA to fund its core program of system maintenance, repair, and improvement for $16.0 billion and agreeing to a Transportation Bond Act referendum to fund $1.45 billion of MTA expansion and core projects. The Bond Act was approved by voters in November.

The combined effect of the fare, toll and tax increases, coupled with a strong real estate market, lower than expected interest rates, and internal cost-savings measures, enabled the MTA to achieve a $1.182 billion cash surplus in 2005 and to project a cash surplus of $625 million in 2006 ($217 million after gap-closing and policy actions).

The MTA Board took actions to allocate the cash surplus in part to confront both long- and short-term financial needs and to benefit mass transit customers. Some $450 million is expected to be used to reduce unfunded pension liabilities; $100 million is expected to be allocated to improving network security by funding immediate capital needs such as the closed-circuit television cameras in 60 subway stations and in a pilot program on buses, and $100 million was allocated to the Holiday Bonus Program in 2005 and scheduled for 2006. Between 2006 and 2009, an estimated $155 million (including $50 million in 2006) will be allocated to service enhancements for MTA New York City Transit, MTA Long Island Rail Road, and MTA Metro-North Railroad.

An analysis of the MTA's February 2006 Financial Plan shows that it confronts increasing operating deficits beginning in 2007 and continuing at least through 2009. The deficits are primarily a result of increases in debt service, pension fund payments, and health and welfare benefit costs.

The MTA entered into labor negotiations with Transit Workers Union (TWU) Local 100, the largest union of MTA employees with more than 33,000 members employed by MTA New York City Transit. Negotiations continued up to and past the contract expiration date of December 15, but on December 20 the members of the union, along with locals of the Amalgamated Transit Union (ATU), engaged in an illegal three-day strike. Following meetings with state mediators, the union negotiating team and the MTA agreed to a new contract proposal that was later approved by the union's Executive Board. The membership of Local 100, representing the vast majority of New York City Transit subway and bus workers, rejected the proposal in January 2006. Members of ATU Local 726, representing bus employees in Staten Island, and ATU Local 1056, representing bus employees in southern Queens, approved the contract. At the request of the MTA, the New York State Public Employment Review Board in March 2006 ordered that binding arbitration be used to settle the contract dispute with TWU Local 100.

Results of Operations

Ridership Ridership increased slightly in 2005 to 2.38 billion, up from 2.36 billion in 2004.

New York City Transit carried a total of 2.19 billion customers in 2005, up from 2.17 billion in 2004. Ridership on the Long Island Rail Road was up to 80.1 million from 79.3 million. Long Island Bus ridership, including its paratransit operations, rose to 31.5 million from 30.6 million. Metro-North Railroad ridership was 74.5 million in 2005, up from 72.4 million in 2004. Vehicle crossings at facilities of MTA Bridges and Tunnels were 300.4 million in 2005, down from 303.0 million in 2004. The decline was attributable in part to a surge in gasoline prices in the fall that affected discretionary travel. The market share of the E-ZPass electronic toll collection system continued to grow, reaching 73.8 percent of all weekday crossings and 84.1 percent of commercial vehicle weekday crossings on Bridges and Tunnels facilities. Total market share was 71.5 percent, up from 69.8 percent in 2004. The E-ZPass program is the largest electronic toll collection system in the world and is accepted at highway tolls in 10 states from Maine west to Illinois and south to Virginia, at the Peace Bridge between the United States and Canada, and at parking facilities at New York's three major airports.

Operating Revenues

Operating Revenues

($ millions)	2005	Percent of Total	2004	Dollar Change
Passengers	$3,606	69%	$3,424	$182
Tolls	1,205	23%	1,097	108
Rent, freight, and sundry	387	7%	316	71
Total	**$5,198**	**100%**	**$4,837**	**$361**

Operating revenues rose in 2005.

Operating Expenses

Operating Expenses

($ millions)	2005	Percent of Total	2004	Dollar Change
Salaries and wages	$3,819	44%	$3,645	$174
Retirement and other employee benefits	1,618	18%	1,403	215
Traction and propulsion power	253	3%	203	50
Fuel for buses and trains	143	2%	95	48
Insurance	67	1%	66	1
Claims	90	1%	133	(43)
Paratransit service contracts	158	2%	135	23
Maintenance and other operating contracts	460	5%	408	52
Professional service contracts	227	3%	180	47
Materials and supplies	405	5%	370	35
Depreciation	1,474	17%	1,344	130
Other	38	>1%	31	7
Total	**$8,752**	**100%**	**$8,013**	**$739**

Salaries and benefits expenses increased across all reporting groups, principally because of additional service frequency, higher levels of overtime, and wage increases associated with labor contracts for many of the MTA's represented staff. Benefit expenses increased commensurate with the higher salaries and wages and were affected by the nationwide increase in health benefit costs and recalculated pension contributions necessitated by stock market losses.

Nonoperating Revenues (Expenses)

Nonoperating Revenues (Expenses)

($ millions)	2005	Percent of Total	2004	Dollar Change
Tax-supported subsidies:				
New York State	$1,665	57%	$1,442	$223
New York City and local	1,383	48%	1,011	372
Operating subsidies:				
New York State	230	8%	206	24
New York City and local	188	6%	188	0
Operating subsidies recoverable from Connecticut Department of Transportation related to Metro-North Commuter Railroad's New Haven line	44	2%	52	(8)
Subsidies paid to Dutchess, Orange, and Rockland counties	(23)	(1%)	(22)	(1)
Suburban Highway Transportation Fund subsidy	(20)	(1%)	(20)	0
Interest on long-term debt	(984)	(34%)	(819)	(165)
Station maintenance, operation, and use assessments	134	5%	129	5
Loss on disposal of subway cars	(2)	0%	(1)	(1)
Unrealized gain (loss) on investment	7	0%	15	(8)
Other nonoperating income	279	10%	317	(38)
Total	**$2,901**	**100%**	**$2,498**	**$403**

Risk Management

The MTA has an extensive risk management program, including its own captive insurance company, and combines self-insurance with commercial insurance coverage.

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 is 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 New York law and 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 auditing standards generally accepted in the United States of America. The report of the independent auditors on the financial statements of the MTA is included in the Financial Section of this CAFR.

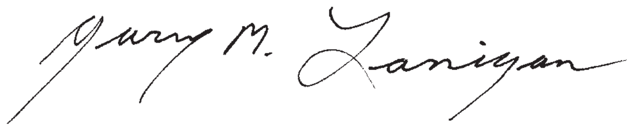
Awards

The Government Finance Officers Association ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the MTA for its 2004 annual report. This was the tenth consecutive year the MTA received this prestigious 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 M. Lanigan
Director of Budgets and Financial Management

Certificate of Achievement for Excellence in Financial Reporting

Presented to

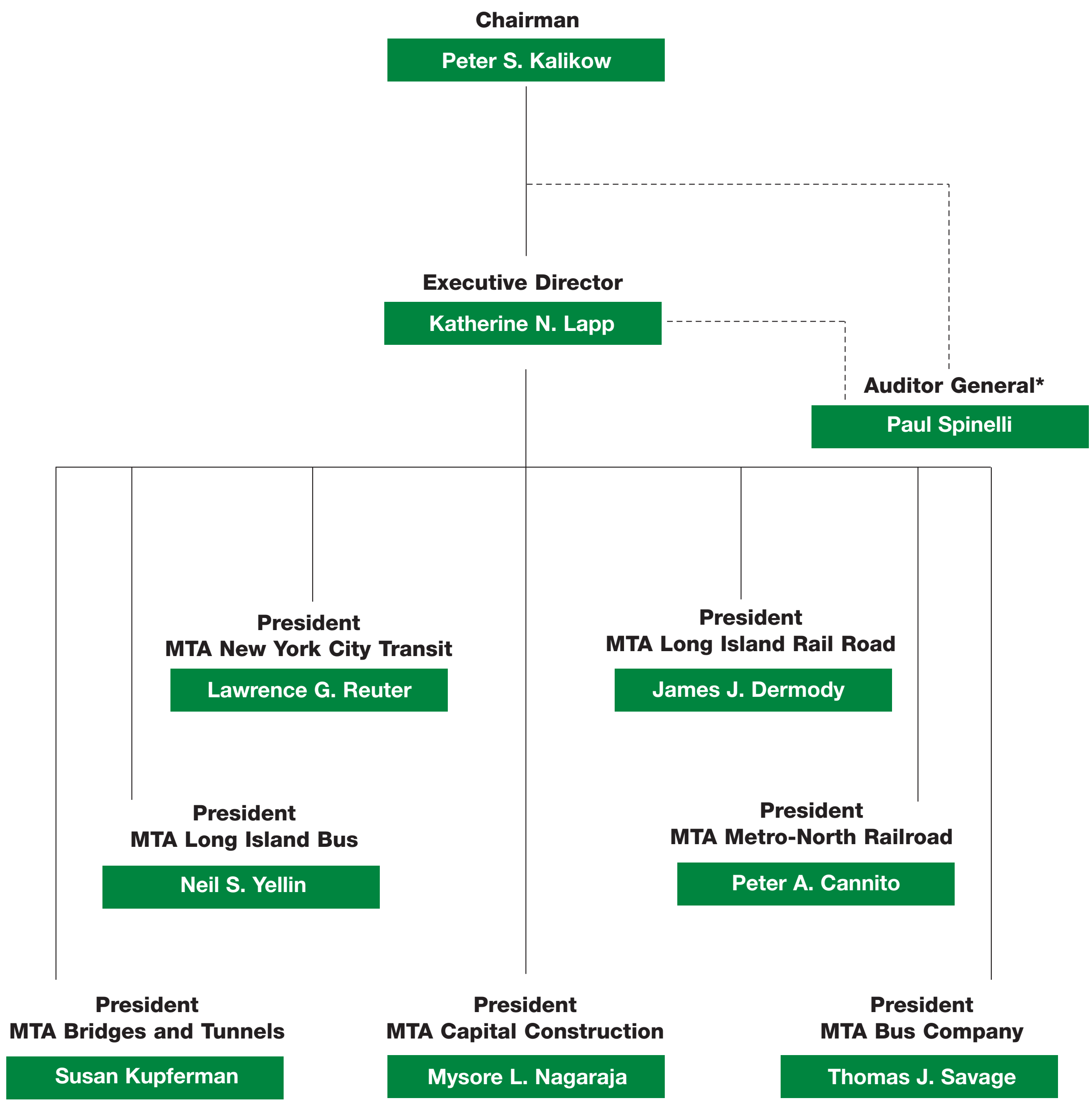
Metropolitan Transportation Authority, New York

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

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



* Also reports to Audit Committee of MTA Board.

This page is intentionally left blank

Financial Section

This page is intentionally left blank

Deloitte.

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

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

INDEPENDENT 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, 2005 and 2004, 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 55 percent and 55 percent, and 43 percent and 45 percent, of the assets and revenues of the MTA, respectively, as of and for the years ended December 31, 2005 and 2004. 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 report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective 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, 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 consolidated financial position of the MTA, as of December 31, 2005 and 2004, and the 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 14 through 27 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 audit was 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, the schedule of consolidated subsidy accrual reconciliation between financial plan and financial statements, and schedule of consolidated 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 audit and the report 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, the schedule of consolidated subsidy accrual reconciliation between financial plan and financial statements, schedule of consolidated reconciliation between financial plan and financial statements, and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, accordingly, we express no opinion on them.

Deloitte & Touche LLP

April 14, 2006

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 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, 2005 and 2004. 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.

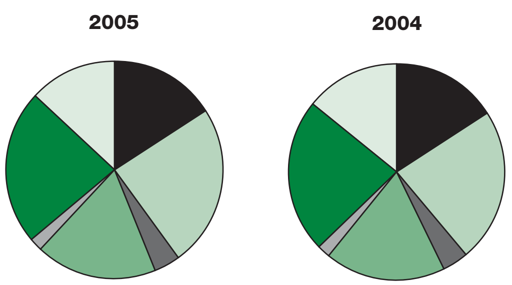
3. Condensed Financial Information

The following sections discuss the significant changes in the MTA's financial position for the years ended December 31, 2005 and 2004. 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 2005	December 2004	December 2003
Capital assets, net (see Note 5)	$ 35,900	$ 33,654	$ 31,556
Other assets	10,726	10,183	10,474
Total assets	**$46,626**	**$43,837**	**$42,030**

Capital Assets, Net



	2005	2004
Construction and work-in-progress	16%	16%
Buildings and structures	24%	23%
Bridges and tunnels	4%	4%
Passenger cars and locomotives	18%	18%
Buses	2%	2%
Infrastructure	23%	23%
Other	13%	14%
Land	0%	0%

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.

December 31, 2004 versus 2003

- Net capital assets increased in 2004 by $2,098. The most significant portion of the increase occurred in infrastructure, $892, followed by other, $622, and passenger cars and locomotives, $566. These increases were partially offset by normal depreciation expenses. Some of the more significant projects included:

— Rehabilitation of track on the Main Line, Port Washington West Hempstead Branches and Atlantic Avenue Tunnel and installation of the third rail on the mainline of the MTA Long Island Rail Road.

— Updating of the Valley Stream and Queens interlocking with a microprocessor-logic.

— Rehabilitation of the Atlantic Terminal and construction of a new transit entry area.

— Placing new M-7 electric cars into service on both the commuter rail systems and the incurring of additional costs for construction, testing and quality assurance oversight.

— 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.

— Acquisition of 188 new articulated CNG and hybrid buses for the MTA New York City Transit.

— Various shop, yard, and depot rehabilitations, upgrades and replacements.

— 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.

— Rehabilitation of the Battery-Parking Garage.

— Replacement of the deck at the Triborough and Bronx-Whitestone Bridges, including span replacement on the Bronx-Whitestone Bridge.

($ Millions)

— Replacement of structural steel and the repairing of the drainage system at the Throgs Neck Bridge.

- Other assets had a net decrease of $291. The major items contributing to this change include:

— An increase of $320 in investments due primarily to an increase in MRT special assistance funds, various non-bond proceeds and available Dedicated Tax Fund funds.

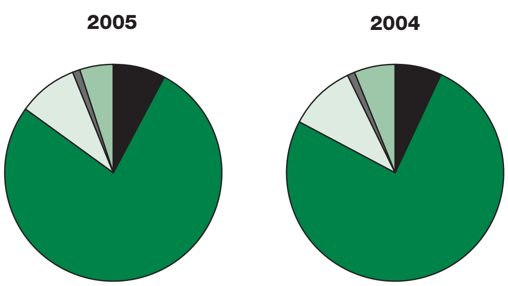
— A net decrease in receivables of $212. This decrease is due primarily to receipt of the $200 World Trade Center insurance settlement.

— A decrease in prepaid and other current and noncurrent assets of $399 also contributed to the decrease. A related group of the MTA changed its method of accounting for certain assets and liabilities related to its employee benefit plan in 2004.

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

	December 2005	December 2004	December 2003
Current liabilities	$ 2,834	$ 2,487	$ 2,384
Long-term liabilities	25,799	23,754	22,133
Total liabilities	**$28,633**	**$26,241**	**$24,517**

Total Liabilities



	2005	2004
Accounts payable/Accrued expenses	8%	7%
Long-term debt (Note 6)	77%	76%
Obligations under capital lease (Note 7)	9%	10%
Other current liabilities	1%	1%
Other long-term liabilities	5%	6%

Significant Changes in Liabilities Include:

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

December 31, 2004 versus 2003

- Total liabilities increased by $1,724.
- Other liabilities increased by $103. This net increase is due primarily to:

  — An increase in the current portion of retirement and death benefits of $58 and the current portion of long-term debt of $98 which is partially offset by reductions in accounts payable of $176 and other miscellaneous increases of $123.

- Long-term liabilities increased by $1,621. This net increase is primarily related to:

  — The increase of $1,896 for 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 2004, MTA and MTA Bridges and Tunnels issued the following bonds to refund outstanding bonds, and to finance transit and commuter capital projects:

- $250 MTA Dedicated Tax Fund Bonds, Series 2004A
- $500 MTA Dedicated Tax Fund Variable Rate Bonds, Series 2004B
- $120 MTA Dedicated Tax Fund Bonds, Series 2004C
- $280 MTA Dedicated Tax Fund Variable Rate Bonds, Series 2004D
- $500 MTA Transportation Revenue Bonds, Series 2004A
- $250 MTA Bridges & Tunnels Subordinate Revenue Variable Rate Bonds, Series 2004A

  — An increase of $56 in the long-term portion of estimated liabilities arising from injuries to persons.

Years Ended December 31, 2005 and 2004
($ Millions)

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

	December 2005	December 2004	December 2003
Invested in capital assets, net of related debt	$ 14,044	$ 13,678	$ 13,671
Restricted for debt service	1,069	828	2,130
Unrestricted	2,880	3,090	1,712
Total	**$17,993**	**$17,596**	**$17,513**

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.

December 31, 2004 versus 2003

At December 31, 2004, the total net assets increased by $83 from December 31, 2003. This increase includes non-operating revenue of $2,498, and appropriations, grants and other receipts externally restricted for capital projects of $761, offset by operating losses of $3,176.

Capital assets net of related debt increased by $7.

Funds restricted for debt service decreased by $1,302 mainly due to the payment of debt service on January 1, 2004 for MTA Bridges and Tunnels bonds and the payments made on May 15 and November 15, 2004 for the Transportation Revenues Bonds and Dedicated Tax Bonds.

($ Millions)

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	December 2005	December 2004	December 2003
Operating Revenues			
Passenger and tolls	$ 4,811	$ 4,521	$ 4,228
Other	387	316	316
Total operating revenues	5,198	4,837	4,544
Nonoperating Revenues			
Grants, appropriations and taxes	3,466	2,847	2,394
Other	464	513	723
Total nonoperating revenues	3,930	3,360	3,117
Total Revenues	9,128	8,197	7,661
Operating Expenses			
Salaries and wages	3,819	3,645	3,548
Retirement and other employee benefits	1,618	1,403	1,185
Depreciation and amortization	1,474	1,344	1,235
Other expenses	1,841	1,621	1,614
Total operating expense	8,752	8,013	7,582
Nonoperating Expense			
Interest on long-term debt	984	819	780
Other nonoperating expense	45	43	70
Total nonoperating expense	1,029	862	850
Total Expenses	9,781	8,875	8,432
Appropriations, grants and other receipts externally restricted for capital projects	1,050	761	1,422
Change in net assets	397	83	651
Net assets, beginning of period	17,596	17,513	16,862
Net assets, end of period	**$17,993**	**$17,596**	**$17,513**

Revenues and Expenses, by Major Source:

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 cost 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.

December 31, 2004 versus 2003

- Total operating revenues for the twelve months ended December 31, 2004 were $293 higher than in the twelve months ended December 31, 2003.
  - — Fare revenues and vehicle toll revenues were higher than the prior year due primarily to the full-year impact of the fare and toll increases that became effective in May 2003. Also impacting revenues were ridership and vehicle bridge and tunnel crossings, which showed a modest increase as the New York City economy continued to improve.

- Total operating expenses for the twelve months ended December 31, 2004 were higher than December 31, 2003 by $431.
  - — Labor costs, including retirement and other employee benefits, were higher by approximately $315 for the twelve months ended December 31, 2004 when compared to the twelve months ended December 31, 2003. The labor cost increase is due primarily to a 3 percent salary increase approved in 2004 and to higher pension, health and welfare cost.
  - — Non-labor costs were higher by approximately $116 for the twelve months ended December 31, 2004 when compared to the twelve months ended December 31, 2003. Cost elements contributing to this increase were depreciation resulting from new capital assets being placed into service, maintenance and other operating contracts and fuel and power expense. These higher costs were partially offset by lower costs in materials and supplies, claims, and professional service contracts.
  - — Total grants, appropriations, and taxes were higher by approximately $453 for the twelve months ended December 31, 2004 compared to the twelve months ended December 31, 2003. This is predominantly the result of the NYS budget being approved in August 2004 with increases in NYS and Local operating subsidies and an increase in tax supported subsidies.

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 2005, system-wide utilization posted a modest increase, with MTA ridership 1.01 percent higher (23.7 million more trips) compared with ridership through December 2004. Vehicle crossings at MTA Bridges and Tunnels facilities were 1 percent lower (2.6 million fewer crossings) through December 2005 when compared to the same period in 2004. Vehicle traffic decreased (3.2 percent) during the last quarter of 2005 compared to the last quarter of 2004.

In December 2004, the MTA Board adopted a strategy to begin the process of placing MTA back on sound financial footing in the years to come. The gap closing measures approved include: implementation of agency expense reductions which maintain fundamental service levels, the implementation of fare and toll increases, and the establishment of a stabilization account to offset a potential decline in real estate related tax subsidies. Fares on MTA New York City Transit subways and buses, MTA Staten Island Railway and MTA Long Island Bus increased on February 27, 2005, fares on MTA Long Island Rail Road and MTA Metro-North Railroad increased on March 1, 2005, and tolls at MTA Bridges and Tunnels facilities increased on March 13, 2005.

Beginning with Thanksgiving 2005, the MTA Board approved a Holiday Fare Program that provided a range of discounts and free trips on MTA services. The benefits of these promotional fare initiatives are: it provides environmental benefits by encouraging use of mass transit for traveling in and around the metropolitan region during the holiday season — one of the most heavily traffic congested periods of the year; it enables MTA customers who are confronting record high gas and heating fuel prices to realize additional savings through increased use of mass transit; and it contributes to the economic health of the region by incentivizing the use of mass transit for discretionary trips for shopping and entertainment. The financial impact from this program is still being evaluated.

Commencing on December 20, 2005 and lasting through December 22, 2005, a union strike against MTA New York City Transit, MaBSTOA and MTA Bus resulted in a complete suspension of subway, local bus and express bus service operated by those agencies. Including residual impacts on the day following the strike, it is estimated that 23 million fewer subway and bus trips were taken because of the shut-down.

Between January 2005 and December 2005, New York City added almost 30,000 new jobs compared to 2004. The regional recovery continued to gain strength, benefiting from the current economic expansion, the rebuilding of the downtown infrastructure and the economic stimulus provided through the MTA's multi-billion-dollar capital programs which create an annual average of 21,000 private sector jobs, $1,100 in wages, $100 in state and local revenues and $2,500 in economic activity.

The recoveries of the national and regional economies have resulted in a more inflationary climate. The consumer price index in the New York metropolitan area increased 3.9 percent in 2005, the largest increase since 1991. The rising cost of energy in the aftermath of the Gulf Coast hurricanes had a tremendous impact on the consumer price index: the energy component of the index increased 18.1 percent in 2005, while the consumer price index excluding energy increased only 3.0 percent in 2005. The consumer price index excluding energy increased 2.6 percent in December 2005 compared to December 2004. The New York Harbor spot price for conventional gasoline averaged $1.57 per gallon in 2005, an increase of 33.1 percent over the 2004 average spot price. The average spot price in December 2005 was $1.60 per gallon, an increase of 50 percent over the same period in 2004.

Low mortgage rates have lifted the housing boom to a new level, increasing the forecast for real estate transaction tax revenues by $365 in 2005. For over a year, economists have been predicting that mortgage rates will increase. While mortgage rates have increased to date, the rate of increase had little adverse impact on real estate activity. Breaking from historical precedent, consumer interest rates have only increased slightly over the past year, while the Federal Funds Rate has increased.

As the national economy has emerged from recession, the Federal Reserve Board has adjusted its monetary policies in an effort to keep inflation under control. Since the end of June 2004, through December 2005, the Federal Reserve Board has raised the Federal Funds Rate by one-quarter point on each of thirteen occasions. Five of the thirteen rate increases occurred during 2004, and eight have occurred in 2005. The last 2005 Federal Funds Rate increase occurred on December 13, when the Feds increased the rate from 4.00 percent to 4.25 percent. Since June 2003, the Federal Funds Rate increased from a 46 year low of 1.00 percent in June 2003 to 4.25 percent by the end of 2005, its highest level since April 2001. Despite these increases, 30-year conforming fixed-rate mortgage rates increased only modestly during the fourth quarter of 2005, fluctuating in a narrow band in the low to mid six percent range.

Results of Operations

Paid MTA Bridges and Tunnels traffic reached 300.3 million vehicles, which is 2.6 million vehicles or .9 percent less than 2004's traffic volume. This decline can be attributed in part to one day less (no leap year day) and consumer fears regarding fuel prices in early September following hurricane Katrina. Severe rainfall in October also contributed to the reduced traffic volume. The E-ZPass electronic collection system continued to facilitate the management of heavy traffic volumes. On an average weekday in 2005, 73.8 percent of all MTA Bridges and Tunnels traffic used E-ZPass compared to 72.5 percent in 2004.

MTA New York City Transit's fare revenues in 2005 were higher than in 2004 by $73 or 2.8 percent. A major contributing factor to the revenue increases were the fare adjustments implemented on February 27, 2005 which raised the price of 7 day and 30 day passes and the express bus fare. Total ridership was 2,190 million, an increase of .09 percent over 2004. The ridership growth can be attributed to an improving City economy and higher tourism also contributed to the fare revenue increase. MTA New York City Transit's revenues would have been significantly higher if the three day strike in December had not occurred and the holiday fare bonus program had not been offered.

MTA Long Island Rail Road ridership for 2005 was 80.1 million, an increase of .9 percent over 2004. Total revenues increased by approximately $31.5 or 8.0 percent. This increase is attributed, in large part to the fare increase that went into effect on March 1, 2005 as well as an improving economy and rising gasoline prices.

MTA Metro-North Railroad ridership increased on the East of Hudson (Harlem, Hudson and New Haven) Lines during 2005 by 3.7 percent over 2004. This ridership growth reflects the arrival of the new M-7 cars, marketing, service expansion initiatives, including new late night service, and the improved regional economy. A 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 took effect on March 1, 2005.

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 into 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. 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

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 Metropolitan Transportation Authority Capital Program Review Board (the "CPRB").

The MTA Board approved the 2005–2009 MTA Capital Programs and the MTA Bridges and Tunnels 2005–2009 Capital Program through December 31, 2005, which provides for $21,145 in capital expenditures, of which $11,300 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, $3,558 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad, $4,465 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, $159 relates to MTA interagency initiatives including MTA Police Department plus an MTA-wide integrated computer systems initiative, and $1,168 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 $9,317 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, $6,588 in Federal funds, and $3,790 from other sources.

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 ("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 ("2000–2004 Transit Capital Program"), and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels ("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 CPRB approved the 2000–2004 MTA Capital Programs and the 2000–2004 MTA Bridges and Tunnels Capital Program through December 31, 2005, which provides for $20,894 in capital expenditures, of which $10,227 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, $3,894 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad, $4,532 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction, $490 relates to planning and design and customer service projects, $249 relates to World Trade Center repair projects, $1,035 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities, and $467 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, $6,482 in Federal funds, $4,575 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002 and $1,918 from other sources.

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 2005

During 2005, MTA and MTA Bridges and Tunnels issued the following series of bonds:

- On February 15, 2005, the MTA issued MTA Transportation Revenue Bonds, Series 2005A in the amount of $650. These bonds were issued to finance transit and commuter projects.
- On March 24, 2005, the MTA issued MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A in the amount of $350. These bonds were issued to refund and defease outstanding dedicated tax fund bonds.
- On May 11, 2005, MTA Bridges and Tunnels issued MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A in the amount of $150. These bonds were issued to finance MTA Bridges and Tunnels' bridge and tunnel projects.
- On July 1, 2005, the MTA issued MTA Transportation Revenue Bonds, Series 2005B in the amount of $750. These bonds were issued to finance transit and commuter projects.
- On July 7, 2005, MTA Bridges and Tunnels issued MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005B in the amount of $800. These bonds were issued to refund certain outstanding MTA Bridges and Tunnels bonds and to finance MTA Bridges and Tunnels' bridge and tunnel projects.
- On November 2, 2005, the MTA issued MTA Transportation Revenue Bonds, Series 2005C in the amount of $150, MTA Transportation Revenue Variable Rate Bonds, Series 2005D in the amount of $250, and MTA Transportation Revenue Variable Rate Bonds, Series 2005E in the amount of $250. These bonds were issued to finance transit and commuter projects.

- On December 6, 2005, the MTA issued MTA Transportation Revenue Bonds, Series 2005F in the amount of $469 and MTA Transportation Revenue Variable Rate Bonds, Series 2005G in the amount of $250. These bonds were issued to pay the principal portion of MTA's outstanding commercial paper program.
- On December 6, 2005, the MTA issued MTA Transportation Revenue Refunding Bonds, Series 2005H in the amount of $173. These bonds were issued to refund certain outstanding MTA bonds.

Consolidated Balance Sheets

Years Ended December 31, 2005 and 2004
($ Millions)

	2005	2004
Assets		
Current Assets:		
Cash (Note 3)	$ 138	$ 124
Investments (Note 3)	1,561	1,495
Receivables:		
Station maintenance, operation and use assessments	98	94
State and regional mass transit taxes	52	46
MRT Receivable	63	51
State and local operating assistance	8	8
Other subsidies	35	29
Connecticut Department of Transportation	19	19
New York City	26	27
Other	328	256
Less allowance for doubtful accounts	(47)	(34)
Total receivables – net	582	496
Materials and supplies	292	274
Prepaid expenses and other current assets (Notes 2 and 4)	90	157
Total receivables – net	2,663	2,546
Noncurrent Assets:		
Capital assets – net (Note 5)	35,900	33,654
Restricted investment held under capital lease obligations (Notes 3 and 7)	2,505	2,479
Investments (Note 3)	2,196	1,797
Receivable from New York State	2,294	2,342
Other noncurrent assets	1,068	1,019
Total noncurrent assets	43,963	41,291
Total assets	**$46,626**	**$43,837**

See notes to consolidated financial statements.

(continued)

Years Ended December 31, 2005 and 2004
($ Millions)

	2005	2004
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 431	$ 274
Accrued expenses:		
Interest	191	197
Salaries, wages and payroll taxes	174	155
Vacation and sick pay benefits	607	581
Current portion–retirement and death benefits	207	102
Current portion–estimated liability from injuries to persons (Note 8)	191	182
Other	396	379
Total accrued expenses	1,766	1,596
Current portion – long-term debt (Note 6)	306	312
Current portion – obligations under capital lease (Note 7)	7	7
Deferred revenue	324	298
Total current liabilities	2,834	2,487
Noncurrent liabilities:		
Retirement and death benefits (Note 4)	60	59
Estimated liability arising from injuries to persons (Note 8)	983	945
Long-term debt (Note 6)	21,653	19,609
Obligations under capital lease (Note 7)	2,642	2,634
Contract retainage payable	216	206
Other long-term liabilities	245	301
Total noncurrent liabilities	25,799	23,754
Total liabilities	28,633	26,241
Net assets:		
Invested in capital assets, net of related debt	14,044	13,678
Restricted for debt service	1,069	828
Unrestricted	2,880	3,090
Total net assets	17,993	17,596
Total liabilities and net assets	**$46,626**	**$43,837**

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

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2005 and 2004
($ Millions)

	2005	2004
Operating Revenues		
Fare revenue	$3,606	$3,424
Vehicle toll revenue	1,205	1,097
Rents, freight and other revenue	387	316
Total operating revenues	5,198	4,837
Operating Expenses		
Salaries and wages	3,819	3,645
Retirement and other employee benefits	1,618	1,403
Traction and propulsion power	253	203
Fuel for buses and trains	143	95
Insurance	67	66
Claims	90	133
Paratransit service contracts	158	135
Maintenance and other operating contracts	460	408
Professional service contracts	227	180
Materials and supplies	405	370
Depreciation	1,474	1,344
Other	38	31
Total operating expenses	8,752	8,013
Operating Loss	(3,554)	(3,176)

See notes to consolidated financial statements.

(continued)

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2005 and 2004
($ Millions)

	2005	2004
Non Operating Revenues (Expenses)		
Grants, appropriations and taxes:		
Tax supported subsidies-NYS	$ 1,665	$ 1,442
Tax supported subsidies-NYC and local	1,383	1,011
Operating subsidies – NYS	230	206
Operating subsidies – NYC and local	188	188
Total grants, appropriations and taxes	3,466	2,847
Operating subsidies recoverable from Connecticut Department of Transportation		
related to New Haven Line	44	52
Subsidies paid to Dutchess, Orange and Rockland Counties	(23)	(22)
Suburban Highway Transportation Fund subsidy	(20)	(20)
Interest on long-term debt	(984)	(819)
Station maintenance, operation and use assessments	134	129
Loss on disposal of subway cars	(2)	(1)
Unrealized gain on investment	7	15
Other nonoperating revenue	279	317
Net non operating revenues	2,901	2,498
Loss before appropriations	(653)	(678)
Appropriations, grants and other receipts externally restricted for capital projects	1,050	761
Change in net assets	397	83
Net assets, beginning of year	17,596	17,513
NET ASSETS, END OF YEAR	**$17,993**	**$17,596**

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

Consolidated Statements of Cash Flows

Years Ended December 31, 2005 and 2004
($ Millions)

	2005	2004
Cash Flows Provided by/(Used in) Operating Activities:		
Passenger receipts/tolls	$ 5,006	$ 4,663
Rents and other receipts	233	208
Payroll and related fringe benefits	(5,254)	(4,902)
Other operating expenses	(1,709)	(1,569)
Net cash used in operating activities	(1,724)	(1,600)
Cash Flows Provided by/(Used in) Noncapital Financing Activities:		
Grants, appropriations and taxes	3,592	2,773
Operating subsidies from CDOT	44	54
Suburban transportation fund subsidy	–	(39)
Subsidies paid to Dutchess, Orange and Rockland counties	(22)	(20)
WTC insurance claims	–	200
Net cash provided by noncapital financing activities	3,614	2,968
Cash Flows Provided by/(Used in) Capital and Related Financing Activities:		
MTA bond proceeds	3,409	2,045
TBTA bond proceeds	950	250
MTA bonds refunded	(528)	(345)
TBTA bonds refunded	(772)	–
MTA anticipation notes proceeds	–	300
MTA anticipation notes redeemed	(720)	–
Capital lease payments	(27)	(53)
Grants and appropriations	1,423	1,409
CDOT capital contributions	3	4
Capital expenditures	(3,641)	(3,470)
Debt service payments	(1,616)	(1,318)
Net cash used in capital and related financing activities	(1,519)	(1,178)

See notes to consolidated financial statements.

(continued)

Years Ended December 31, 2005 and 2004
($ Millions)

	2005	2004
Cash Flows Provided by/(Used in) Investing Activities:		
Purchase of long-term securities	$ (2,941)	$ (2,254)
Sales of maturities of securities–long-term	2,858	2,640
Purchase of short-term securities	(377)	(647)
Earnings on investments	103	61
Net cash used in investing activities	(357)	(200)
Net increase/(decrease) in cash	14	(10)
Cash, beginning of year	124	134
Cash, end of year	**$138**	**$124**

	2005	2004
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	$ (3,554)	$ (3,176)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,474	1,344
Net increase/(decrease) in payables, accrued expenses and other liabilities	275	(41)
Net (increase)/decrease in receivables	(1)	239
Net decrease in materials and supplies and prepaid expenses	82	34
Net cash used in operating activities	**$(1,724)**	**$(1,600)**

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.
- 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 MTA Board approved the 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program through December 31, 2005, which provides for $21,145 in capital expenditures, of which $11,300 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, $3,558 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad, $4,465 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, $159 relates to MTA interagency initiatives including MTA Police Department plus an MTA-wide integrated computer systems initiative, and $1,168 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 $9,317 in MTA and MTA Bridges and Tunnel Bonds, $1,450 in New York State general obligation bonds approved by the voters in the November 2005 election, $6,588 in Federal Funds and $3,790 from other sources.

At December 31, 2005, $2,088 had been committed and $443 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 CPRB approved the 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program through December 31, 2005, which provides for $20,894 in capital expenditures, of which $10,227 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, $3,894 relates to ongoing repairs of, and replacements to, the Commuter System operated by MTA Long Island Rail Road and MTA Metro-North Railroad, $4,532 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction, $490 relates to planning and design and customer service projects, $249 relates to World Trade Center repair projects, $1,035 relates to the ongoing repairs and replacements to MTA Bridges and Tunnels facilities, and $467 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, $6,482 in federal funds, $4,575 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002 and $1,918 from other sources.

At December 31, 2005, $17,550 had been committed and $12,750 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 maturing and expected to be utilized within a year of December 31 have been classified as current assets in the financial statements.

All investments are recorded on the balance 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, 2005 and December 31, 2004.

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

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

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

Self-Insurance and Risk Retention

On October 31, 2003, FMTAC, an insurance captive subsidiary of MTA, in return for the transfer of the existing assets, assumed an existing program that insured certain claims in excess of the self-insured retention limits of the agencies ("ELF") on both a retrospective and prospective basis. 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. 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, 2005, the balance of the assets in this program was $83.2. Effective October 31, 2005, an All-Agency Excess Liability Insurance Policy was renewed. The coverage affords the MTA and its subsidiaries and affiliates an additional limit 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.

Property Insurance

Effective October 31, 2004 through October 30, 2005, the MTA's captive insurance company subsidiary, First Mutual Transportation Assurance Company ("FMTAC"), directly insures property damage claims of the MTA in excess of a $25 per occurrence self-insurance retention, subject to an annual $75 aggregate. The per occurrence and aggregate retentions are the same as in the annual policy effective October 31, 2003 through October 30, 2004. 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. With the exception of acts of terrorism (both domestic and foreign), FMTAC is reinsured in the domestic, London and European marketplaces for this coverage. With respect to acts of international terrorism covered by the Terrorism Risk Insurance Act of 2002 ("TRIA"), FMTAC is reinsured by the United States government for 90% of losses, subject to an annual cap on all losses payable under TRIA of $100 billion. The remaining 10% of MTA losses would be covered under an additional policy described in the next sentence. With respect to acts of terrorism not covered by TRIA, the MTA obtained an additional commercial reinsurance policy that provides coverage against all acts of terrorism in an amount up to $125 (up from $100 for the preceding year) per occurrence (subject to the $25 per occurrence self-insurance retention). In the event the occurrence is covered by TRIA, the coverage afforded by the additional policy provides for the payment of FMTAC's 10% retention not covered by TRIA subject to a maximum recovery of $97.5.

Effective October 31, 2005 through October 30, 2006, FMTAC directly insures property damage claims of the related entities in excess of a $25 per occurrence self-insurance 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 and European marketplaces for this coverage. As a consequence of this year's severe contraction in available market capacity at reasonable premium levels, FMTAC has not fully reinsured all 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.

($ Millions)

Incremental Insurance Loss	Amount Reinsured	Amount Retained by FMTAC
$ 0 – 25	$ 0.0	$ 25.0
25 – 125	100.0	0.0
125 – 175	36.8	13.2
175 – 400	164.0	61.0
400 – 700	224.2	75.8
700 – 1,000	80.5	219.5
1,000 – 1,250	250.0	0.0
Total	**$855.5**	**$394.5**

The property insurance, which is subject to annual renewal on October 31, 2006, 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 90% such "certified" losses, subject to an annual cap on all losses payable under 2005 TRIA of $100 billion. No federal compensation will be paid unless the aggregate industry insured losses exceed $50. The remaining 10% of MTA losses would be covered under an additional policy described below. The 2005 TRIA coverage is provided through December 31, 2007, but subject to certain changes in 2007, including a lower reimbursement rate (85%) and a higher "trigger" for industry losses ($100). With respect to terrorism losses not covered by the United States Government under 2005 TRIA, MTA obtained an additional commercial reinsurance policy that provides coverage for (1) 10% of any "certified" act of terrorism caused by foreign interests, or (2) 100% of any terrorism loss not "certified" by the United States Government. Coverage under this policy is subject to a limit of $100 per occurrence and $200 in the aggregate annually (subject to the $25 per occurrence self-insurance retention).

On March 1, 2005, 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, 2005, 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. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible. FMTAC renewed its reinsurance policy whereby it reinsures the $.250 excess of $.250 on a per occurrence basis to various reinsurance companies.

FMTAC directly insures the primary $7 in losses for Station Liability and Force Account Liability for MTA Metro-North Railroad and MTA Long Island Rail Road.

Operating Revenues

Passenger Revenue and Tolls

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

Nonoperating Revenues

Operating Assistance

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

Mortgage Recording Taxes ("MRT")

Under NYS law, the MTA receives capital and operating assistance through a Mortgage Recording Tax (MRT-1), which is collected by NYC and the seven other counties within the MTA's service area, at the rate of .25 of one percent of the debt secured by certain real estate mortgages. Effective June 1, 2005, the rate was increased from 25 cents per 100 dollars of recorded mortgage to 30 cents per 100 dollars of recorded mortgage. The MTA also receives an additional Mortgage Recording Tax (MRT-2) of .25 of one percent of certain mortgages secured by real estate improved or to be improved by structures containing one to six dwelling units in the MTA's service area. MRT-1 and MRT-2 taxes are recognized as revenue based upon reported amounts of taxes collected.

MRT-1 proceeds are initially used to pay MTAHQ's operating expenses. Remaining funds, if any, are allocated 55 percent to certain Transit Operations and 45 percent to the Commuter Railroads. The Commuter Railroad portion is first used to fund the NYS Suburban Highway Transportation Fund in an amount not to exceed $20 annually (subject to the moneys being returned under the conditions set forth in the governing statute if the Commuter Railroads are operating at a deficit). As of December 31, 2005 and 2004 the amount allocated to the NYS Suburban Highway Transportation Fund was $20 and $20, respectively. Of the MTA New York City Transit portion, the MTA distributed $108.8 and $52.9 as of December 31, 2005 and December 31, 2004, 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, 2005 and December 31, 2004, were $18.1 and $17.3, respectively. Through December 31, 2005, the MTA has distributed $0 from the MRT-2 funds to the Commuter Railroads and $0 to MTA New York City Transit for their current operations. In the same period in 2004 the MTA distributed from the MRT-2 funds $0 to the Commuter Railroads and $90.4 to MTA New York City Transit for their current operations.

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 1/4 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 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.

NYC no longer fully reimburses the MTA for costs of the free fare program for students. However, pursuant to an agreement NYS and NYC each pay $45 annually. The estimated cost of this program is approximately $156 for the 2005–2006 school year. It is believed that NYC will continue to provide for the City's $45 contribution for the 2005–2006 school year, of which $15 was received in December 2005. The Transit Operations approved 2006 Adopted Budget assumes the remaining $30 will be received in June 2006. It is also expected that the State's full $45 for the 2005–2006 school year will be received in 2006. The Transit Operation's 2006–2009 Financial Plan assumes the continuation of the joint funding of the free fare program for students.

As a result of the April 1995 merger of the transit police force into the NYC Police Department, policing of the transit system is being 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 $3.8 in 2005, and $3.2 in 2004 from NYC for the reimbursement of transit police costs.

Federal law and regulations require a paratransit system for passengers who are not able to ride the buses and trains because of their disabilities. Pursuant to an agreement between NYC and the MTA, MTA New York City Transit, effective July 1, 1993, assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. NYC reimburses the MTA for the lesser of 33 percent of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6.0 percent of gross Urban Tax Subsidies, or an amount that is 20.0 percent greater than the amount paid by the City for the preceding calendar year. Fare revenue and reimbursements aggregated approximately $73.9 in the twelve months ended December 31, 2005, and $53.2 in the twelve months ended December 31, 2004. Total paratransit expenses, including paratransit service contracts were $189.8 and $159.5 in 2005 and 2004, respectively.

Grants and Appropriations

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

Recent Accounting Pronouncements

The MTA has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. There was no impact on the MTA's financial position and results of operations for the years ended December 31, 2005 and December 31, 2004. The statement was effective for financial statements for periods beginning after June 15, 2004 and December 15, 2004, respectively.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 47 *Accounting for Termination Benefits*. Currently, MTA is unable to prepare the statement of plan net assets, the statement of changes in net assets, notes to the financial statements, and the required supplementary information as prescribed by GASB Statement No. 43. The statement is effective in three phases based on total annual revenues. The first phase ($100 million or more of annual revenues) is effective for financial statement periods beginning after December 15, 2005, the second phase (total annual revenues of $10 million or more but less the $100 million) is effective for periods beginning after December 15, 2006, and the third phase (annual revenues of less than $10 million) is effective for periods beginning after December 15, 2007.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*. The MTA is therefore unable to disclose the impact that adopting this statement will have on its statistical section when such statement is adopted. 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 implementing GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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. GASB Statement No. 45 is effective in three phases based on total annual revenues. The first phase ($100 million or more of annual revenues) is effective for financial statement periods beginning after December 15, 2006, the second phase (total annual revenues of $10 million or more but less the $100 million) is effective for periods beginning after December 15, 2007, and the third phase (annual revenues of less than $10 million) is effective for periods beginning after December 15, 2008.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34. 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 is effective for fiscal periods beginning after June 15, 2005.

($ Millions)

3—Cash and Investments

Cash, including deposits in transit, consists of the following at December 31, 2005 and 2004:

	December 2005		December 2004	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	$ 75	$69	$ 53	$45
Uninsured and not collateralized	63	6	71	30
	$138	**$75**	**$124**	**$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, 2005 and 2004:

	December 2005		December 2004	
Repurchase agreements		$ 627		$ 583
U.S. Treasuries due 2005 - 2020		1,384		899
Investments restricted for capital lease obligations				
US Treasury Notes	$ 8		$ 16	
Treasury Strips	138		160	
Other Agencies	2,359		2,303	
Sub-total		2,505		2,479
Commercial Paper		685		–
Other Agencies due 2005 - 2011		1,061		1,810
Total	**$2,505**	**$6,262**	**$2,479**	**$5,771**

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 gain on investments for the years ended December 31, 2005 and 2004 were $6.8 and $15.3, respectively.

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 4.1 percent and 2.5 percent for the years ended December 31, 2005 and 2004, respectively.

($ Millions)

Of the above cash and investments, amounts held for restricted purposes were as follows at December 31, 2005 and 2004:

	December 2005	December 2004
Construction or acquisition of capital assets	$ 1,301	$ 1,534
Funds received from affiliated agencies for investment	897	601
Debt service	590	463
Payment of claims	304	280
Restricted for capital leases	2,505	2,479
Other	558	295
Total	**$6,155**	**$5,652**

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

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

For the plan years ended December 31, 2005 and 2004, MTA New York City Transit made contributions to the MaBSTOA Plan of $153.4 and $142, respectively, equal to the required contributions for each year. During the year ended December 31, 2004, MTA New York City Transit made advance payments of $70.0 resulting in the recognition of a pension asset in the combined balance sheets.

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

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 and MTA Metro-North Railroad non-represented employees hired after December 31, 1987, certain MTA Long Island Bus employees hired prior to January 23, 1983, MTA Police, and certain MTA Long Island Rail Road represented employees hired after December 31, 1997 and certain MTA Metro-North Railroad represented employees, is a cost-sharing multiple-employer retirement plan. MTA Long Island Rail Road, MTA Metro-North Railroad and MTA contribute to the MTA Plan, which offers distinct retirement, disability, and death benefits for covered MTA

($ Millions)

Metro-North Railroad and MTA Long Island Rail Road employees, MTA 20-year Police Retirement Plan and MTA Long Island Bus Employees' Pension Plan. MTA Police contribute to the MTA Plan at various rates. Annual pension costs and related information about this plan are presented in the following table for all years presented as if the plan was a single-employer plan at the MTA level. A stand-alone financial report may be obtained by writing to the MTA Comptroller, 347 Madison Avenue, New York, New York, 10017.

MTA Long Island Rail Road, MTA Metro-North Railroad, MTA, and MTA Long Island Bus recognized 2005 and 2004 pension cost based upon an assessment, which on average was 12.11 percent and 12.13 percent respectively, of annual compensation. The MTA Plan may be amended by action of the MTA Board.

Annual pension costs and related information about each plan follows:

	Single-Employer Plans			
	LIRR	**SIRTOA**	**MaBSTOA**	**MTA Plan**
Date of valuation	1/1/05	1/1/05	1/1/05	1/1/05
Required contribution rates:				
Plan members	variable	3.00% (1st 10 yrs.)	variable	variable
Employer:	actuarially determined	actuarially determined	actuarially determined	actuarially determined
Employer contributions made in 2005	$109.1	$1.8	$153.4	$58.2
Three-year trend information:				
Annual Pension Cost (APC):				
2005	$109.2	$1.8	$151.4	$58.2
2004	102.9	1.5	140.1	54.7
2003	63.8	1.6	135.2	28.2
Net Pension Obligation (NPO) (assets) at end of year:				
2005	(4.6)	–	54.9	–
2004	(4.7)	–	57.0	–
2003	(4.8)	–	58.9	–
Percentage of APC contributed:				
2005	100%	100%	101%	100%
2004	100%	100%	101%	100%
2003	100%	100%	101%	89%
Components of APC				
Annual required contribution (ARC)	$109.1	$1.8	$153.4	$58.2
Interest on NPO	(0.3)	–	4.6	–
Adjustment of ARC	(0.4)	–	6.6	–
APC	109.2	1.8	151.4	58.2
Contributions made	109.1	1.8	153.5	58.2
Change in NPO (assets)	0.1	–	(2.1)	–
NPO (assets) beginning of year	(4.7)	–	57.0	–
NPO (assets) end of year	$ (4.6)	$ –	$ 54.9	$ –
Actuarial cost method	Entry age normal	Entry age normal frozen initial liability	Entry age normal frozen initial liability	Entry age normal frozen initial liability
Method to determine actuarial value of plan assets	5-year smoothing	5-year smoothing	5-year smoothing	5-year smoothing
Investment return	8.00%	8.00%	8.00%	8.00%
Projected salary increases	3.5%	4.0% - 11.0%	3.5% - 18.0%	3.5% - 36.2%
Consumer price inflation	2.50%	2.50%	2.50%	2.50%
Amortization method and period	level dollar / 28 years	level dollar / 21 years	level dollar / 30 years	level dollar / 23 years
Period closed or open	closed	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 and for employees who entered qualifying service after July 1976, who 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 $307.9 and $176.0, respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2005 and 2004 were $10.1, and $5.0, 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 and disability benefits. Generally, employees contribute 3 percent of salary. In 2000, the State legislature passed legislation that suspends the 3 percent contribution of members who have 10 or more years of credited service. MTAHQ and MTA Long Island Bus recognize pension expense based upon annual assessments made by NYSLERS. NYSLERS pension expense was approximately $11.8 and $11.2, for the years ended December 31, 2005 and 2004, 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. Employees participating in the plan contribute a percent of their compensation and MTA Long Island Rail Road has annually approved matching contributions which have ranged from 3 percent to 5 percent of their compensation. The Plan is administered by the MTA Long Island Rail Road Board of Managers of Pension. The MTA Board is responsible for establishing or amending the Plan's provisions and contribution requirements.

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 an employee of MTA Metro-North Railroad and the MTA Metro-North Railroad Board of Managers of Pension. The MTA Board of Directors is responsible for establishing or amending the Plan's provisions and contribution requirements.

($ Millions)

	December 31, 2005		December 31, 2004	
	LIRR Money Purchase Plan	MNCR Agreement Plan	LIRR Money Purchase Plan	MNCR Agreement Plan
Employer contributions	$ –	$10.8	$ –	$11.7
Employee contributions	0.7	0.6	1.1	0.7

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.

MTA Long Island Rail Road previously reported the market value of assets in the Additional Pension Plan that are held in Grantor Trust account with JP Morgan Chase & Company as an asset and corresponding liability since all rights of the employee or beneficiary are unsecured contracted rights against the MTA Long Island Rail Road. In accordance with an amendment to the Additional Plan's Trust Agreement, the assets of the trust are no longer subject to claims of general creditors and accordingly as of January 1, 2004, such assets and liabilities are no longer reflected in the consolidated financial statements.

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, 2005		December 31, 2004	
	Number of Participants (Actual)	Cost of Benefits	Number of Participants (Actual)	Cost of Benefits
MTA Total	39,218	$233.0	38,658	$211.4

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

($ Millions)

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, 2005 and 2004:

	Balance December 31, 2003	Additions	Deletions	Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005
Capital assets, not being depreciated							
Land	$ 124	$ 1	$ –	$ 125	$ 11	$ –	$ 136
Construction work-in-progress	5,020	2,000	1,549	5,471	1,629	1,459	5,641
Total capital assets, not being depreciated	5,144	2,001	1,549	5,596	1,640	1,459	5,777
Capital assets, being depreciated							
Buildings and structures	10,230	469	7	10,692	1,295	175	11,812
Bridges and tunnels	1,350	254	–	1,604	43	–	1,647
Equipment							
Passenger cars and locomotives	7,953	656	90	8,519	716	84	9,151
Buses	1,738	121	7	1,852	205	1	2,056
Infrastructure	9,743	900	8	10,635	819	6	11,448
Other	6,522	626	4	7,144	628	5	7,767
Total capital assets, being depreciated	37,536	3,026	116	40,446	3,706	271	43,881
Less accumulated depreciation							
Buildings and structures	2,556	300	–	2,856	328	17	3,167
Bridges and tunnels	324	13	–	337	16	–	353
Equipment							
Passenger cars and locomotives	2,414	271	62	2,623	297	79	2,841
Buses	1,028	107	7	1,128	119	1	1,246
Infrastructure	2,523	350	6	2,867	372	4	3,235
Other	2,279	302	4	2,577	342	3	2,916
Total accumulated depreciation	11,124	1,343	79	12,388	1,474	104	13,758
Total capital assets, being depreciated, net	26,412	1,683	37	28,058	2,232	167	30,123
Capital assets, net	**$31,556**	**$3,684**	**$1,586**	**$33,654**	**$3,872**	**$1,626**	**$35,900**

Interest capitalized in conjunction with the construction of capital assets at December 31, 2005 and December 31, 2004 is $70 and $68, 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, and 40 buses during the year ended December 31, 2004 and recorded a loss of $.8. 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 ADA overpass in Jamaica was demolished and taken out of service and a loss on disposal of assets of $18 was recorded.

($ Millions)

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, 2005 and December 31, 2004 these securities totaled $76.1 and $60.9, respectively, and had a market value of $85.1 and $60.7 respectively, and are not included in these financial statements.

6—Long-Term Debt

	December 31, 2004	Issued	Retired	Refunded	December 31, 2005
MTA:					
Transportation Revenue Bonds 2.25% – 5.752% due through 2035	$ 6,569	$2,942	$ 122	$ 182	$ 9,207
Transportation Revenue Bond Anticipation Notes Commercial Paper	720	–	720	–	–
State Service Contract Bonds 3.00% – 5.50% due through 2031	2,374	–	42	–	2,332
Dedicated Tax Fund Bonds 3.00% – 6.25% due through 2031	3,305	350	63	314	3,278
Certificates of Participation 4.40% – 5.625% due through 2029	453	–	10	–	443
	13,421	3,292	957	496	15,260
Less net unamortized bond discount and premium	(457)	115	(13)	34	(363)
	$ 12,964	$3,407	$ 944	$ 530	$ 14,897
TBTA:					
General Revenue Bonds 4.00% – 5.77% due through 2033	$ 4,431	$ 950	$ 78	$ 717	$ 4,586
Subordinate Revenue Bonds 4.00% – 5.77% due through 2032	2,404	–	40	–	2,364
	6,835	950	118	717	6,950
Less net unamortized bond discount and premium	122	–	10	–	112
	$ 6,957	$ 950	$ 128	$ 717	$ 7,062
Combined total	$ 19,921	$4,357	$1,072	$1,247	$ 21,959
Current portion	(312)				(306)
Long-term portion	**$19,609**				**$21,653**

MTA Transportation Revenue Bonds

Prior to 2004, MTA issued nine 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 $6,195. 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 2004, the MTA issued the following series of Transportation Revenue Bonds to finance transit and commuter projects: Series 2004A in the amount of $500.

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.

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.

MTA State Service Contract Bonds

Prior to 2004, 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 2004, MTA issued three 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 $2,241. 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 2004, the MTA issued the following series of Dedicated Tax Fund Bonds to finance transit and commuter projects: Series 2004A in the amount of $250; Series 2004B in the amount of $500; Series 2004C in the amount of $120; and Series 2004D in the amount of $280.

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

MTA Certificates of Participation

Prior to 2004, 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.

In September, 2004 the MTA executed and delivered Variable Rate Certificates of Participation, Series 2004A in the amount of $358 to refund certain outstanding certificates of participation.

MTA Bridges and Tunnels General Revenue Bonds

Prior to 2004, MTA Bridges and Tunnels issued nine 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 $4,476. 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.

MTA Bridges and Tunnels did not issue any General Revenue Bonds during 2004.

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.

MTA Bridges and Tunnels Subordinate Revenue Bonds

Prior to 2004, MTA Bridges and Tunnels issued eight 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 $2,225. 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.

During 2004 MTA Bridges and Tunnels issued the following series of Subordinate Revenue Bonds to finance bridge and tunnel projects: Series 2004A in the amount of $250.

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. For the 1992 through 2004 Capital Programs, the imposed limitation, subject to certain exclusions, is $16,500 compared with issuances totaling approximately $13,217 at December 31, 2005.

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.

During 2004, the MTA, MTA New York City Transit and MTA Bridges and Tunnels executed and delivered 2 Broadway Certificates of Participation, Series 2004A in the aggregate principal amount of $358 to refund certain outstanding Certificates of Participation.

During 2005, the MTA issued its Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A in the aggregate principal amount of $350 to refund certain outstanding Dedicated Tax Fund Bonds, and MTA Bridges and Tunnels issued its General Revenue Variable Rate Refunding Bonds, Series 2005B in the aggregate principal amount of $800 to refund certain outstanding General Revenue Bonds.

($ Millions)

At December 31, 2005, 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	$ 1,731
Commuter Facilities Revenue Bonds	1,637
Commuter Facilities Subordinate Revenue Bonds	20
Transit and Commuter Facilities Service Contract Bonds	951
Dedicated Tax Fund Bonds	1,395
Excess Loss Trust Fund	25
MTA New York City Transit:	
Transit Facilities Revenue Bonds (Livingston Plaza Project)	129
MTA Bridges and Tunnels:	
General Purpose Revenue Bonds	2,376
Special Obligation Subordinate Bonds	221
Mortgage Recording Tax Bonds	253
Total	**$8,738**

Debt Service Payments

Principal and interest debt service payments (excluding refunded bonds) at December 31, 2005, are as follows:

	MTA		MTA BRIDGES AND TUNNELS					
			Senior Revenue		Subordinate Revenue		Aggregate Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 289	$ 705	$ 83	$ 209	$ 40	$ 115	$ 412	$ 1,029
2007	296	693	84	206	43	113	423	1,012
2008	308	681	94	201	44	111	446	993
2009	323	668	98	197	48	108	469	973
2010	337	654	103	192	50	106	490	952
2011-2015	1,940	3,012	574	875	289	486	2,803	4,373
2016-2020	2,466	2,485	759	703	428	398	3,653	3,586
2021-2025	3,132	1,853	892	501	495	290	4,519	2,644
2026-2030	3,946	1,054	1,137	259	624	161	5,707	1,474
2031-2035	2,187	201	762	38	303	23	3,252	262
2036-2040	36	1	–	–	–	–	36	1
	$15,260	**$12,007**	**$4,586**	**$3,381**	**$2,364**	**$1,911**	**$22,210**	**$17,299**

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 rebatable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. The arbitrage liability is payable to the federal government every five years and is reported as part of other long-term liabilities. MTA made an arbitrage payment of $2.7 in 2005. No additional rebate liability was recorded for the year ended December 31, 2005.

Swap Agreements

Board-adopted Guidelines

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

Objectives of the Swaps

In order to protect against the potential of rising interest rates, to achieve a lower net cost of borrowing, to reduce exposure to changing interest rates on a related bond issue, or, in some cases where Federal tax law prohibits an advance refunding, to achieve debt service savings through a synthetic fixed rate, MTA, 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 the 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, 2005) 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. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels and 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 12/31/05 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/05 (in millions)	Swap Termination Date	Counterparty
Series 2002D-1	$ 200.0	05/30/02	3.385%	BMA[1]	$ 0.0	01/01/06	Bear Stearns Capital Markets Inc.
Series 2002D-2	200.0	05/30/02	3.627	BMA	(0.6)	01/01/07	Bear Stearns Capital Markets Inc.
Series 2002D-2	200.0	01/01/07	4.45	69% of one-month LIBOR[2]	(27.6)	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	(16.9)	11/01/35	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.
Total	$1,100.0				$(45.1)		

(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 12/31/05 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/05 (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	$(10.9)	09/01/13	Morgan Stanley Capital Services Inc.
Series 2005A	348.0	03/24/05	3.3156	67% of one-month LIBOR	(0.6)	11/01/31	Citigroup Financial Products Inc.
Proposed Series 2006A (Hedge)	350.0	04/27/06	3.171	67% of one-month LIBOR	7.6	11/01/36	60% – BNP Paribas North America, Inc. 40% – Lehman Brothers Inc.
Proposed Series 2006B (Hedge)	350.0	12/01/06	3.1419	67% of one-month LIBOR	8.6	11/01/36	Lehman Brothers Inc.
Total	$1,488.0				$ 4.7		

MTA Bridges and Tunnels Senior Lien Revenue Bonds

Associated Bond Issue	Notional Amounts as of 12/31/05 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/05 (in millions)	Swap Termination Date	Counterparty
Series 2001B and 2001C(3)	$ 255.1	01/01/02	5.777%	Actual bond rate	$(31.3)	01/01/19	Citigroup Financial Products Inc.
Series 2002C(4)	77.2	01/01/00	5.634	Actual bond rate	(8.7)	01/01/13	Ambac Financial Services, L.P.
Series 2005B	800.0	07/07/05	3.076	67% of one-month LIBOR	25.4	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	0.1	01/01/12	UBS AG
Total	$1,932.3				$(14.5)		

(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 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 12/31/05 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/05 (in millions)	Swap Termination Date	Counterparty
Series 2000A and 2000B(6)	$223.9	01/01/01	6.08%	Actual bond rate	$(34.0)	01/01/19	Bear Stearns Capital Markets Inc.
Series 2000C and 2000D	223.9	01/01/01	6.07	Actual bond rate	(33.8)	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	0.1	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	0.1	01/01/18	JPMorgan Chase Bank
Total	$628.8				$(67.6)		

(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 $357.9 outstanding as of December 31, 2005, MTA New York City Transit is responsible for $245.9 aggregate notional amount of the swaps, MTA for $75.2 aggregate notional amount, and MTA Bridges and Tunnels for $36.9 aggregate notional amount. As of December 31, 2005, the aggregate fair value of the swaps was $(8.4).

Counterparty Ratings

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

	Ratings of the Counterparty or its Credit Support Provider		
Counterparty	**S&P**	**Moody's**	**Fitch**
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, 2005 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 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 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 or 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 large termination payment to the counterparty.
- ***Rollover Risk*** – The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds on a variable rate bond issuance, and MTA, MTA Bridges and Tunnels or MTA New York City Transit may be exposed to then market rates and cease to get the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk

The following table shows the diversification, by percentage of notional amount, among the various counterparties that have currently 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 swaps 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	$ 1,657.9	30.1%
Citigroup Financial Products Inc.	1,027.0	18.6
Bear Stearns Capital Markets Inc.	823.9	15.0
Lehman Brothers Special Financing Inc.	590.0	10.7
Morgan Stanley Capital Services Inc.	440.0	8.0
BNP Paribas North America, Inc.	410.0	7.4
JPMorgan Chase Bank	381.0	6.9
AIG Financial Products Corp.	100.0	1.8
Ambac Financial Services, L.P.	77.2	1.4
Total	**$5,507.0**	

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.

($ Millions)

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-1 and 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
Series 2006A Hedge (April 27, 2006) and Series 2006B Hedge (December 1, 2006)	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

($ Millions)

2 Broadway Certificates of Participation

Associated Agencies	If the highest rating of the MTA Transportation Revenue Bonds falls to	Then MTA, MTA Bridges and Tunnels and MTA New York City Transit must post collateral if its estimated termination payments are in excess of
MTA MTA Bridges and Tunnels MTA New York City Transit	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$25.0
	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's 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 2002C	N/A – Because MTA Bridges and Tunnels's 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 $1.0.	
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	$00.0
	For MTA, Fitch – BBB- and below, or Moody's – Baa3 and below, or S&P – BBB- and below	$0.0

($ Millions)

MTA Bridges and Tunnels Subordinate Revenue Bonds

Associated Bond Issue	If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
Series 2000A and 2000B	N/A – Because MTA Bridges and Tunnels's 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's 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.

($ Millions)

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-1, 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 and Series 2006A and Series 2006B Hedges	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.
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.

($ Millions)

MTA Bridges and Tunnels Senior and Subordinate Revenue Bonds (continued)

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.
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 Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1	11/01/29	01/01/06
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 January 5, 2011 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.

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			
Year Ending December 31	Principal	Interest	Net Swap Payments	Total
2006	$ 1.4	$ 59.5	$ (5.1)	$ 55.9
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
2011-2015	92.8	293.1	(17.3)	368.6
2016-2020	354.5	249.5	(16.8)	587.1
2021-2025	347.6	170.6	(12.3)	506.0
2026-2030	339.4	111.9	(5.1)	446.2
2031-2035	345.9	30.0	(0.4)	375.5

	MTA Bridges and Tunnels (in millions)			
	Variable-Rate Bonds			
Year Ending December 31	Principal	Interest	Net Swap Payments	Total
2006	$ 22.1	$ 72.3	$ 5.4	$ 99.7
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
2011-2015	251.3	306.2	(7.9)	549.5
2016-2020	264.4	248.1	(33.2)	479.3
2021-2025	205.2	208.8	(33.5)	380.5
2026-2030	514.2	146.8	(26.8)	634.1
2031-2035	436.5	9.2	(1.7)	444.0

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, 2005, the MTA has recorded a long-term capital obligation and capital asset of $282 arising from the transaction.

Subway and Rail Cars

On December 12, 1997, the 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, 2005, the MTA has recorded a long-term capital obligation and capital asset of $49 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 and 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 and Tunnels.

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

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

Total rent expense under operating leases approximated $32 through December 31, 2005 and $50 through December 31, 2004.

($ Millions)

At December 31, 2005, the future minimum lease payments under non-cancelable leases are as follows:

Year	Operating	Capital
2006	$ 63	$ 183
2007	32	1,146
2008	28	99
2009	27	307
2010	25	175
2011-2015	84	442
2016-2020	63	514
2021-2025	62	572
2026-2030	53	205
2031-2035	47	1,616
Thereafter	452	605
	$936	5,864
Amount representing interest		(3,215)
Present value of capital lease obligations		**$2,649**

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, 2005 and 2004 is presented below:

	December 31, 2005	December 31, 2004
Balance, beginning of year	$1,127	$1,049
Activity during the year:		
Current year claims and changes in estimates	200	216
Claims paid	(153)	(138)
Balance, end of period	1,174	1,127
Less current portion	(191)	(182)
Long-term liability	**$ 983**	**$ 945**

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.

($ Millions)

10—Segment Information (Presented by Operating Activity)

	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Total
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 operating activities	(411)	(683)	(1,543)	879	34	(1,724)
Net cash provided by noncapital financing activities	3,244	717	2,090	(479)	(1,958)	3,614
Net cash 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 year	34	29	63	12	–	138
December 31, 2004						
Operating revenue	$ 89	$ 869	$ 2,787	$1,130	$ (38)	$ 4,837
Depreciation and amortization	28	379	892	45	–	1,344
Subsidies and grants	374	–	317	–	(159)	532
Tax revenue	1,791	–	1,329	–	(805)	2,315
Interagency subsidy	397	–	151	(397)	(151)	–
Operating (deficit) surplus	(313)	(1,145)	(2,496)	765	13	(3,176)
Net (deficit) surplus	(1,516)	456	1,286	(143)	–	83
Capital expenditures	3,484	219	723	463	(1,419)	3,470
December 31, 2004						
Total assets	9,611	8,531	24,115	3,341	(1,761)	43,837
Net working capital	523	(83)	(85)	(166)	(130)	59
Long-term debt – (including current portion)	12,964	–	–	7,003	(46)	19,921
Net assets	(7,703)	7,713	21,773	(4,187)	–	17,596
December 31, 2004						
Net cash used in operating activities	(299)	(732)	(1,428)	816	43	(1,600)
Net cash provided by noncapital financing activities	2,497	737	1,859	(379)	(1,746)	2,968
Net cash used in capital and related financing activities	(2,084)	(6)	(195)	(596)	1,703	(1,178)
Net cash provided by/(used in) Investing activities	(123)	(2)	(237)	162	–	(200)
Cash at beginning of year	67	20	37	10	–	134
Cash at end of year	58	17	36	13	–	124

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

11—Settlement of Claims

The September 11, 2001 terrorist attack on the World Trade Center in New York resulted in the following significant items: (1) significant physical and structural damage to MTA New York City Transit's N, R, 1, and 9 lines and related facilities and stations; (2) temporary closure of some of MTA Bridges and Tunnels' bridges and tunnels, and certain restrictions imposed on the number of vehicle occupants when the facilities were reopened; (3) safety and security expenditures in and around the World Trade Center; and (4) temporary closure of MTA Metro-North Railroad's Grand Central Terminal and MTA Long Island Rail Road's Pennsylvania Station.

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

12—Subsequent Events

Amendment of 2005-2009 of Capital Program

In January 2006, the MTA Board approved an amendment to the 2005-2009 Capital Program that was subsequently approved by the CPRB. The amendment adjusts the approved capital program to include Federal earmarks, reflect new MTA Bus funding as a result of MTA's takeover of private buses, and updates project scopes, schedules and budgets. The revised five-year program now totals $21,285. The overall increase to the program is primarily due to the addition of $138 of Federal and matching funds to the MTA Bus capital program. New Federal earmarks and other dedicated Federal funding have resulted in a modest increase to the CPRB-based program.

Issuance of New Commercial Paper Program

During March 2006, the MTA issued $450 in Transportation Revenue Bond Anticipation Notes secured by a letter of credit to begin a new commercial paper program to finance transit and commuter projects.

Required Supplementary Information: Schedule of Pension Funding Progress

($ Millions)

	January 1, 2005	January 1, 2004	January 1, 2003
LIRR			
a. Actuarial value of plan assets	$ 659.6	$ 689.7	$ 701.9
b. Actuarial accrued liability (AAL)	1,786.7	1,745.6	1,567.2
c. Total unfunded AAL (UAAL) [b-a]	1,127.1	1,055.9	865.3
d. Funded ratio [a/b]	36.9%	39.5%	44.8%
e. Covered payroll	$ 137.1	$ 151.2	$ 174.9
f. UAAL as a percentage of covered payroll [c/e]	822.1%	698.3%	494.7%
SIRTOA			
a. Actuarial value of plan assets	$ 38.6	$ 36.8	$ 34.4
b. Actuarial accrued liability (AAL)	46.3	44.8	42.4
c. Total unfunded AAL (UAAL) [b-a]	7.7	7.9	8.1
d. Funded ratio [a/b]	83.3%	82.3%	81.0%
e. Covered payroll	$ 16.2	$ 15.5	$ 15.7
f. UAAL as a percentage of covered payroll [c/e]	47.8%	51.0%	51.6%
MaBSTOA			
a. Actuarial value of plan assets	$ 762.1	$ 713.2	$ 629.8
b. Actuarial accrued liability (AAL)	1,680.5	1,663.3	1,564.6
c. Total unfunded AAL (UAAL) [b-a]	918.4	950.1	934.8
d. Funded ratio [a/b]	45.3%	42.9%	40.3%
e. Covered payroll	$ 479.5	$ 460.9	$ 450.6
f. UAAL as a percentage of covered payroll [c/e]	191.5%	206.1%	207.5%
MTA			
a. Actuarial value of plan assets	$ 463.6	$ 391.6	$ 243.2
b. Actuarial accrued liability (AAL)	625.5	554.0	268.0
c. Total unfunded AAL (UAAL) [b-a]	161.9	162.4	24.8
d. Funded ratio [a/b]	74.1%	70.7%	90.7%
e. Covered payroll	$ 480.8	$ 451.1	$ 154.0
f. UAAL as a percentage of covered payroll [c/e]	33.7%	36.0%	16.1%

Supplementary Information: Schedule of Financial Plan to Financial Statements Reconciliation

Year Ended December 31, 2005
($ Millions)

	Unaudited
Financial Plan Actual – Operating Loss	**$(3,421.9)**
Reconciling items:	
TBTA Depreciation Expense – The Financial Plan subtracts the TBTA's depreciation in order to reflect the transfer of surplus revenues.	(49.8)
The Financial Statements include revenue and expense for the MTA Bus Company. The Financial Plan currently does not include the MTA Bus Company.	(87.9)
FMTAC revenues are recorded as operating on the Financial Plan and recorded as non-operating on the Financial Statements.	(8.0)
LI Bus expenses are higher on the Financial Statements due to the recording of reimbursable expenses. These expenses are eliminated against appropriations and grants received.	(6.3)
The Financial Plan includes TBTA capital transfer to agencies.	22.7
Other miscellaneous adjustments and accruals.	(2.8)
Financial Statement – Operating Loss	**$(3,554.0)**

Supplementary Information: Consolidated Reconciliation between Financial Plan and Financial Statements

Year Ended December 31, 2005
($ Millions)

Category	Financial Plan Actual	Financial Statement GAAP Actual	Variance
	(Unaudited)		
Revenue			
Farebox Revenue	$ 3,565.3	$ 3,606.2	$ 40.9
Vehicle Toll Revenue	1,204.9	1,204.9	–
Other Operating Revenue	435.9	387.2	(48.7)
Total Revenue	**5,206.1**	**5,198.3**	**(7.8)**
Expenses			
Labor:			
Payroll	3,362.1	3,440.8	(78.7)
Overtime	385.5	378.0	7.5
Health and Welfare	769.4	780.4	(11.0)
Pensions	641.6	647.3	(5.7)
Other Fringe Benefits	386.0	392.2	(6.2)
Reimbursable Overhead	(240.1)	(201.1)	(39.0)
Total Labor Expenses	**5,304.5**	**5,437.6**	**(133.1)**
Non-Labor:			
Traction and Propulsion Power	253.5	253.5	–
Fuel for Buses and Trains	138.2	143.3	(5.1)
Insurance	62.0	66.5	(4.5)
Claims	90.4	90.4	–
Paratransit Service Contracts	158.2	158.2	–
Maintenance and Other Operating Contracts	452.6	459.8	(7.2)
Professional Service Contract	216.4	226.6	(10.2)
Materials & Supplies	388.0	404.7	(16.7)
Other Business Expenses	156.5	38.1	118.4
Rounding	(0.1)	–	(0.1)
Total Non-Labor Expenses	**1,915.7**	**1,841.1**	**74.6**
Other Expenses Adjustments:			
TBTA Transfer	22.7	–	22.7
Interagency Subsidy	(34.7)	–	(34.7)
Other	1.0	–	1.0
Total Other Expense Adjustments	**(11.0)**	**–**	**(11.0)**
Total Expenses Before Depreciation	**7,209.2**	**7,278.7**	**(69.5)**
Depreciation	1,468.6	1,473.6	(5.0)
TBTA Depreciation Expense	(49.8)	–	(49.8)
Total Expenses (Excluding TBTA Depreciation)	**8,628.0**	**8,752.3**	**(124.3)**
Net Operating Deficit Excluding Subsidies and Debt Service	**$(3,421.9)**	**$(3,554.0)**	**$(132.1)**

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

Year Ended December 31, 2005
($ Millions)

Accrued Subsidies	Financial Plan Actual	Financial Statement GAAP Actual	Variance
	(Unaudited)		
Mass Transportation Operating Assistance	$ 982.1	$ 982.1	$ –
Petroleum Business Tax	561.2	561.2	–
Mortgage Recording Tax 1 and 2	743.5	743.6	0.1[(1)]
MRT transfer	(43.1)	(43.1)	
Urban Tax	557.4	628.3	70.9[(2)]
State and Local Operating Assistance	378.8	378.8	–
Additional Mass Transportation Assistance Program	39.4	39.4	–
Nassau County Subsidy to Long Island Bus	10.5	10.5	–
Station Maintenance	133.7	133.7	–
Connecticut Department of Transportation (CDOT)	43.7	43.7	–
NYS Grant for Debt Service	–	122.0	122.0[(3)]
Investment income	14.8	14.8	–
Adjustment for rounding	0.1	–	(0.1)
Total Accrued Subsidies	3,422.1	3,615.0	192.9
Net Operating Surplus/(Deficit) Excluding Accrued Subsidies and Debt Service	(3,421.9)	(3,554.0)	(132.1)
Total Net Operating Surplus/(Deficit)	**$ 0.2**	**$ 61.0**	**$ 60.8**
Interest on Long-Term Debt		**$ 976.4**	
Debt Service	**$1,017.6**		

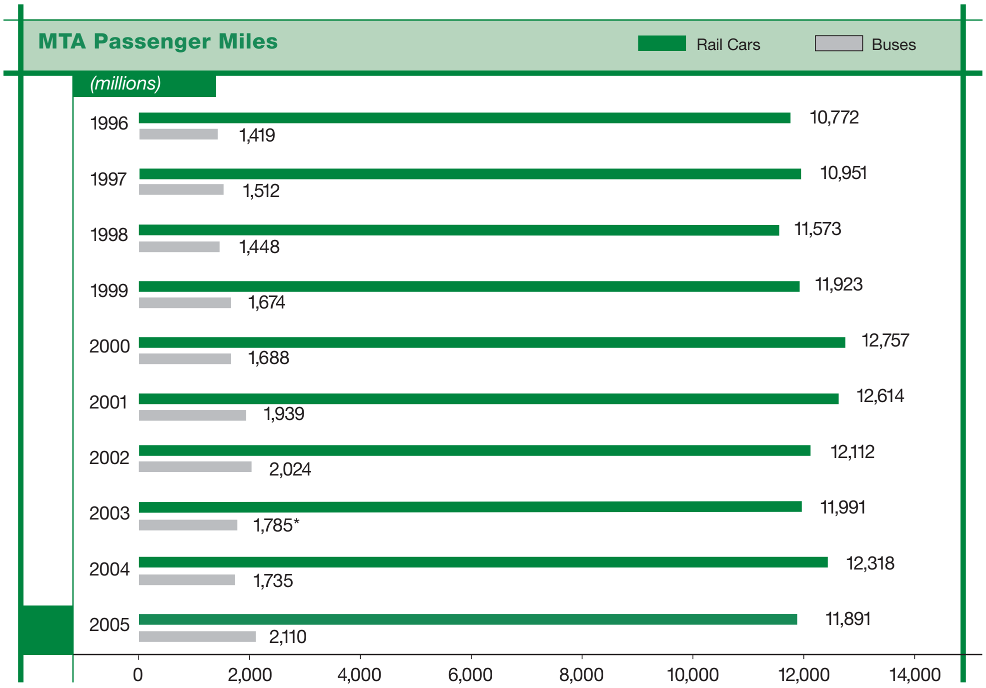
(1) The difference was due to rounding.

(2) The MTA Bus Company received operating assistance from New York City that was not included in the Financial Plan.

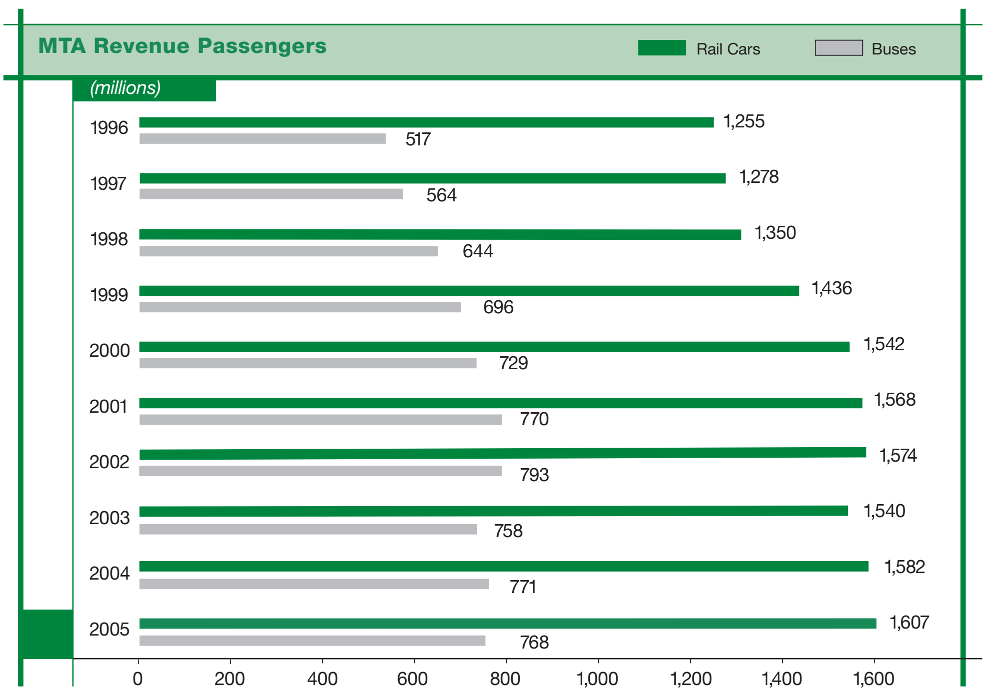
(3) In the Financial Statement, funds received from NYS to cover debt service payments for Service Contract Bonds are included in the subsidies. The Financial Plan does not include either the funds received or disbursed.

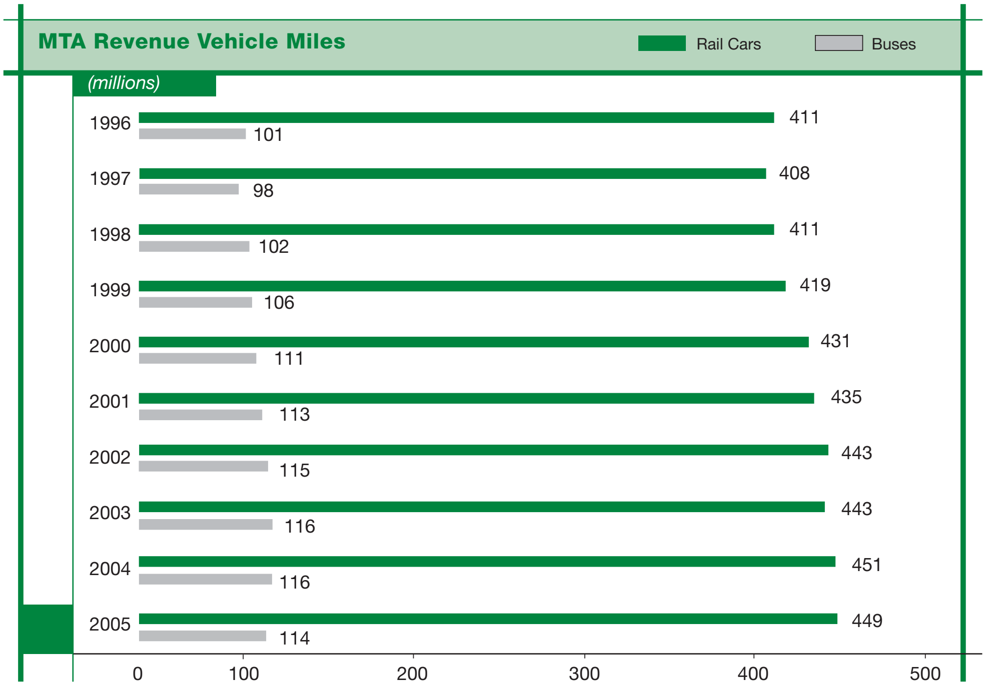
Statistical Section

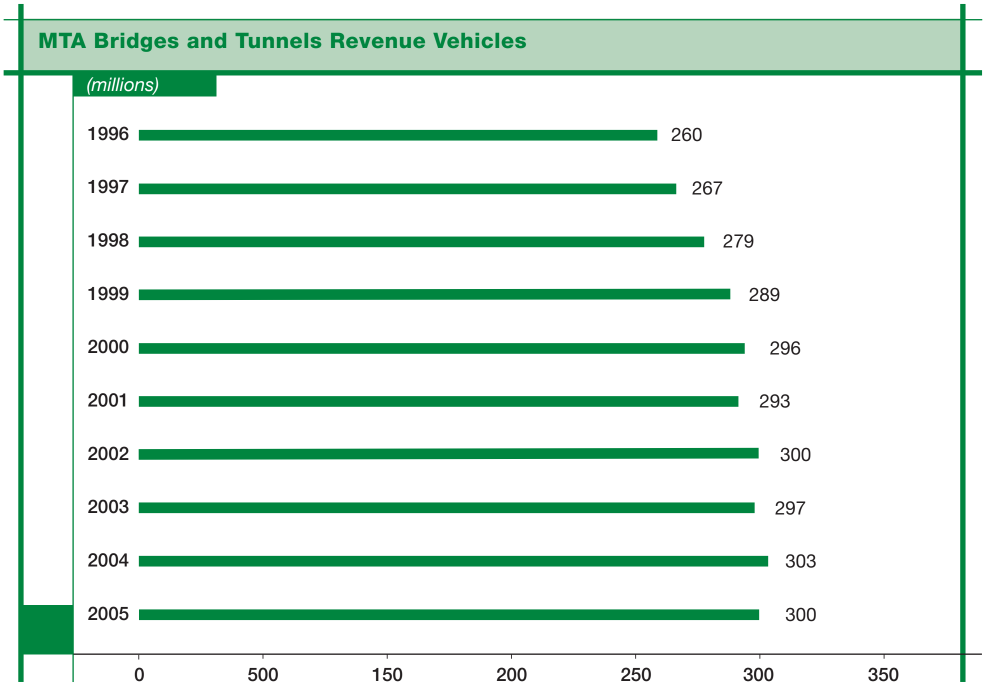
10-Year Statistical Tables

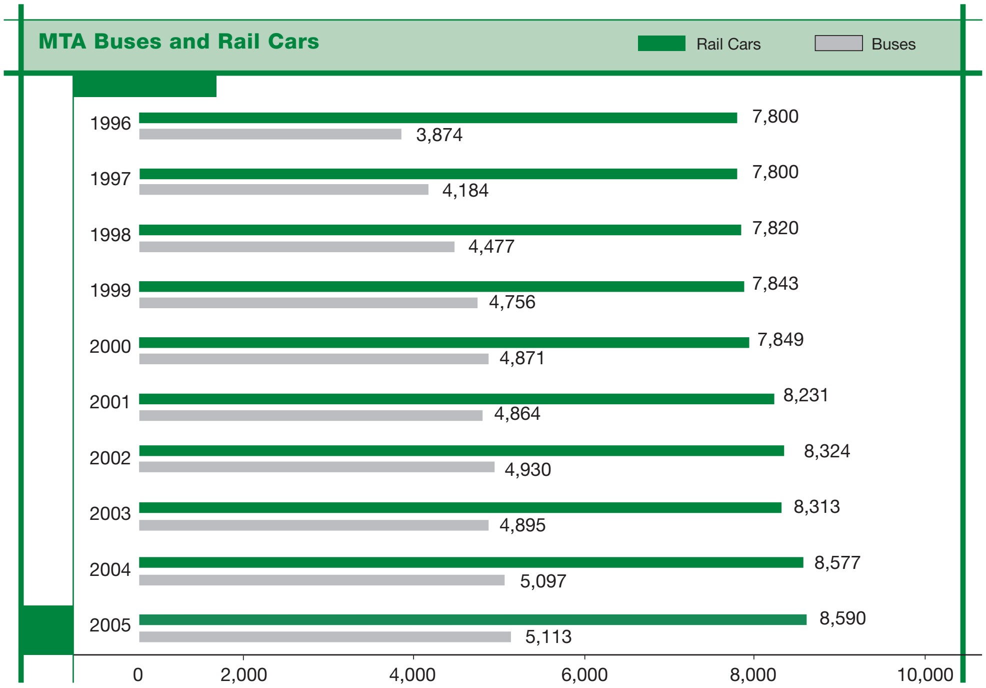


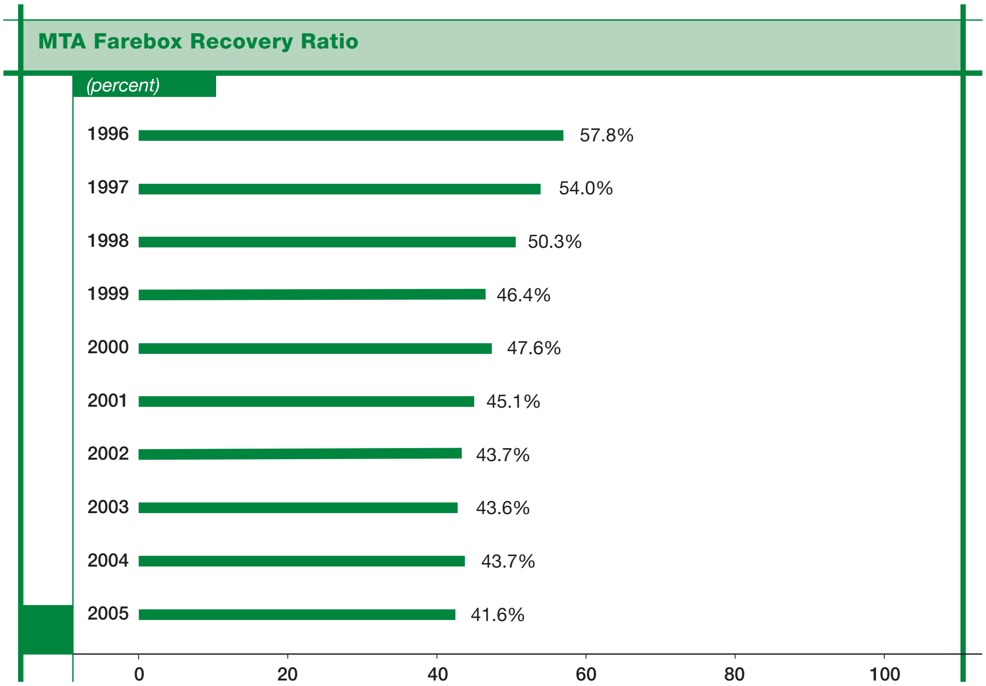
* Amended from 2004 Annual Report

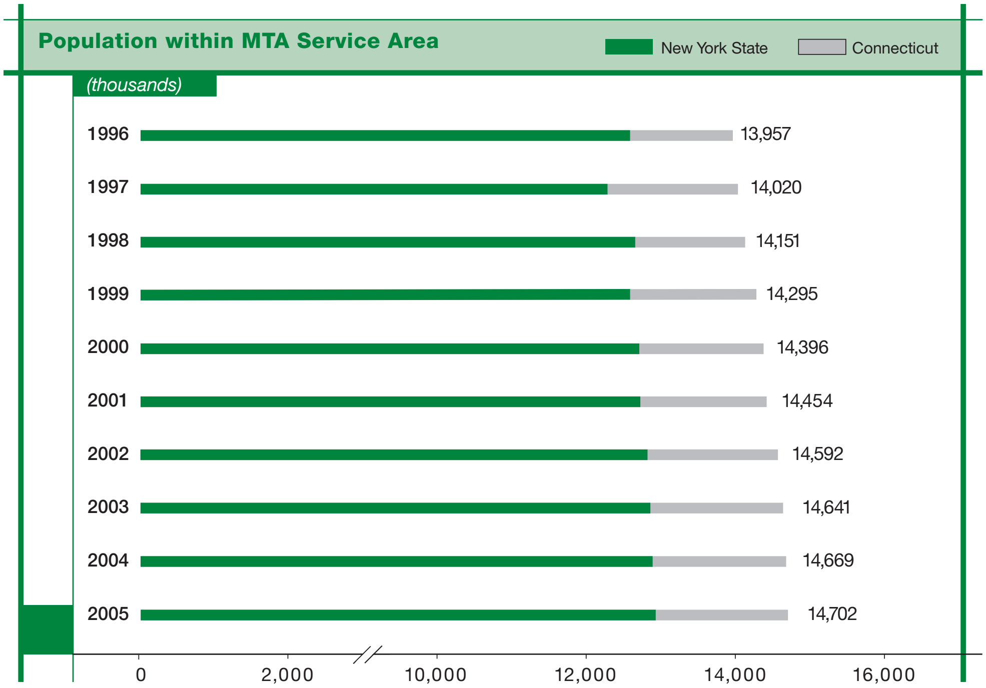


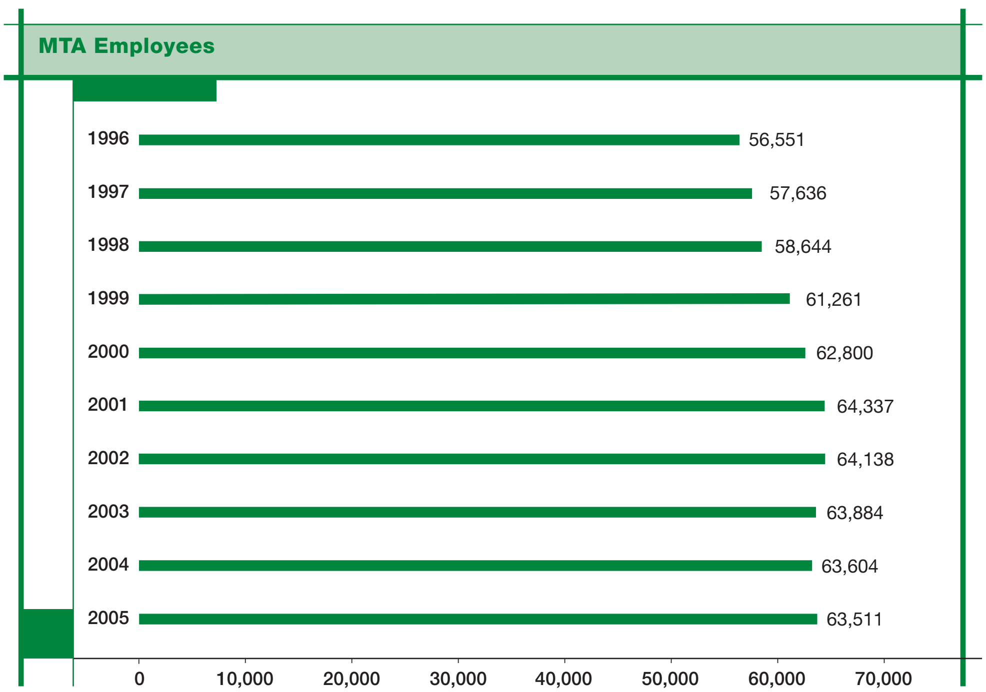

MTA Revenue Vehicle Miles
Rail Cars
Buses
(millions)
1996
411
101
1997
408
98
1998
411
102
1999
419
106
2000
431
111
2001
435
113
2002
443
115
2003
443
116
2004
451
116
2005
449
114
0
100
200
300
400
500


MTA Bridges and Tunnels Revenue Vehicles
(millions)
1996
260
1997
267
1998
279
1999
289
2000
296
2001
293
2002
300
2003
297
2004
303
2005
300
0
500
150
200
250
300
350


MTA Buses and Rail Cars
Rail Cars
Buses
1996
7,800
3,874
1997
7,800
4,184
1998
7,820
4,477
1999
7,843
4,756
2000
7,849
4,871
2001
8,231
4,864
2002
8,324
4,930
2003
8,313
4,895
2004
8,577
5,097
2005
8,590
5,113
0
2,000
4,000
6,000
8,000
10,000


MTA Farebox Recovery Ratio
(percent)
1996
57.8%
1997
54.0%
1998
50.3%
1999
46.4%
2000
47.6%
2001
45.1%
2002
43.7%
2003
43.6%
2004
43.7%
2005
41.6%
0
20
40
60
80
100


Population within MTA Service Area
New York State
Connecticut
(thousands)
1996 13,957
1997 14,020
1998 14,151
1999 14,295
2000 14,396
2001 14,454
2002 14,592
2003 14,641
2004 14,669
2005 14,702
0
2,000
10,000
12,000
14,000
16,000


MTA Employees
1996 56,551
1997 57,636
1998 58,644
1999 61,261
2000 62,800
2001 64,337
2002 64,138
2003 63,884
2004 63,604
2005 63,511
0
10,000
20,000
30,000
40,000
50,000
60,000
70,000

2005 Operating Statistics

	MTA New York City Transit/Subway	MTA New York City Transit/Bus[1]	MTA Staten Island Railway	MTA Long Island Rail Road
Paid rides (annual)				
2005	**1,449,109,242**	**736,493,445**	**3,458,853**	**80,130,571**
2004	1,426,040,136	740,586,160	3,343,322	79,253,521
Gain (loss)	23,069,106	(4,092,715)	115,531	877,050
Percent change	1.62%	-0.55%	3.46%	1.11%
Paid rides (average weekday)				
2005	**4,737,093**	**2,374,777**	**12,647**	**282,410**
2004	4,612,006	2,361,299*	12,117	278,389
Gain (loss)	125,087	13,478	530	4,021
Percent change	2.71%	0.57%	4.37%	1.44%
Annual revenue vehicle miles				
2005	**335,689,529**	**101,269,584**	**2,102,170**	**59,173,711**
2004	339,818,776*	103,665,084*	2,176,581	58,863,939
Gain (loss)	(4,129,247)	(2,395,500)	(74,411)	309,772
Percent change	-1.22%	-2.31%	-3.42%	0.53%
Average number weekday train/bus trips	8,099	46,169	128	730
Stations	468	—	22	124
Train lines/bus routes	26	243	1	11
Route miles[7]				
Rail route miles	233	—	14	319
Bus route miles	—	2,017	—	—
Track miles[8]	660	—	29	594
Rolling stock				
Rail cars 6,221 — 64	1,143 —	1,162 — 6,221	2,305 **8,590**	
Buses	—	4,694	—	—
Bridges	—	—	—	—
Tunnels	—	—	—	—
Employees	27,296	14,325	270	6,119

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.

* Amended from 2004 Annual Report.

3. Figures includes 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.

MTA Long Island Bus[2]	MTA Metro-North Railroad[3]	MTA Bridges and Tunnels	MTA New York City Transit Total[4]	Combined MTA Railroads Total[5]	MTA Network Total[6]
31,507,473	**74,507,341**	**300,385,193**	**2,190,265,764**	**154,637,912**	**2,379,870,002**
30,594,795	72,374,775	302,995,482*	2,170,609,188	151,628,296	**2,356,175,601**
912,678	2,132,566	(2,610,289)	19,656,576	3,009,616	**23,694,401**
2.98%	2.95%	-0.86%	0.91%	1.98%	**1.01%**
105,329	**257,842**	**848,154**	**7,126,950**	**540,252**	**7,785,178**
102,080	248,513	848,348*	6,986,186	526,902	**7,627,285**
3,249	9,329	(194)	140,764	13,350	**157,893**
3.18%	3.75%	-0.02%	2.01%	2.53%	**2.07%**
12,894,456	**51,826,772**	**—**	**436,959,113**	**111,000,483**	**562,956,222**
12,824,779	49,720,555	—	443,483,860	108,584,494	**567,069,714**
69,777	2,106,217	—	(6,524,747)	2,415,989	**(4,113,492)**
0.54%	4.24%	—	-1.47%	2.22%	**-0.73%**
4,082	669	—	54,268	1,399	**59,877**
—	120	—	468	244	**734**
54	6	—	269	17	**341**
—	384	—	233	703	**950**
950	—	—	2,017	—	**2,967**
—	775	—	660	1,369	**2,058**
419	—	—	4,694	—	**5,113**
—	—	7	—	—	**7**
—	—	2	—	—	**2**
1,151	5,947	1,815	46,841[9]	12,066	**63,511[10]**

5. MTA Long Island Rail Road plus MTA Metro-North Railroad.
6. Ridership totals do not include MTA Bridges and Tunnels vehicle counts.
7. Nondirectional route miles; i.e., the distance from terminal to terminal. Several rail or bus lines may share the same route.
8. Does not include track in yards.
9. Includes 1,480 employees at Capital Program Management, 2,913 at Executive Vice President, 259 at Corporate Communications, 104 at Paratransit, and 464 at General and Administration.
10. Includes 676 employees at MTA Headquarters and 692 at MTA Public Safety.

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, George E. Pataki, Governor.

MTA Agencies

MTA New York City Transit
Lawrence G. Reuter
President
2 Broadway
New York, NY 10004-2207
718-330-3000

MTA Long Island Rail Road
James J. Dermody
President
Jamaica Station
Jamaica, NY 11435-4380
718-558-7400

MTA Long Island Bus
Neil S. Yellin
President
700 Commercial Avenue
Garden City, NY 11530-6410
516-542-0100

MTA Metro-North Railroad
Peter A. Cannito
President
347 Madison Avenue
New York, NY 10017-3739
212-340-3000

MTA Bridges and Tunnels
Susan L. Kupferman
President
Randalls Island
New York, NY 10035-0035
646-252-7000

MTA Capital Construction
Mysore L. Nagaraja
President
2 Broadway
New York, NY 10004-2207
646-252-4277

MTA Bus Company
Thomas J. Savage
President
347 Madison Avenue
New York, NY 10017-3739
212-878-7174

For additional copies of the 2005 MTA annual report, write to MTA Marketing and Corporate Communications, 347 Madison Avenue, New York, NY 10017-3739; for information about the 2005 financial statements, write to MTA Office of the Comptroller, 345 Madison Avenue, New York, NY 10017-3937.

The 2005 MTA annual report and financial statements are also available on the MTA website at www.mta.info.

Metropolitan Transportation Authority

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

347 Madison Avenue
New York, NY 10017-3739

www.mta.info