

New York City Transit Authority

(Component Unit of the Metropolitan Transportation
Authority)

Consolidated Financial Statements as of and
for the Years Ended December 31, 2016 and 2015,
Required Supplementary Information, and
Independent Auditors' Report

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of net position of the New York City Transit Authority (the "Authority"), a public benefit corporation which is a component unit of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2016 and 2015, and the related consolidated statements of revenues, expenses, and changes in net position and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the Authority's consolidated financial statements, as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated net position of the Authority as of December 31, 2016 and 2015, and the respective changes in the consolidated net position and consolidated cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

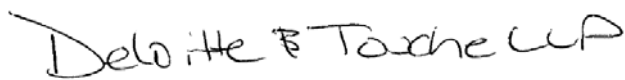
Emphasis of a Matter

As discussed in Note 1 to the consolidated financial statements, the Authority is a component unit of the MTA. The MTA is a component unit of the State of New York. The Authority requires significant subsidies from and has material transactions with MTA, The City of New York and the State of New York. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 16, Schedule of Changes in the Authority's Net Pension Liability and Related Ratios for the MABSTOA Pension Plan on Page 70, Schedule of the Authority's Proportionate Share of the Net Pension Liability in the NYCERS Pension Plan on page 71, Schedule of the Authority's Contributions to all Pension Plans on page 72, and Schedule of Funding Progress for the New York City Transit Postemployment Benefit Plan on page 75 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



June 16, 2017

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

OVERVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction to the Annual Report:

This annual report consists of three parts: Management's Discussion and Analysis, Consolidated Financial Statements and Notes to the Consolidated Financial Statements and Required Supplementary Information.

Management's Discussion and Analysis:

The following is a narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2016 and 2015. This management discussion and analysis (MD&A) is intended to serve as an introduction to the Authority's basic consolidated financial statements. It provides an assessment of how the Authority's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Authority's overall financial position. It may contain opinions, assumptions or conclusions by the Authority's management that should not be considered a replacement for, and must be read in conjunction with, the consolidated financial statements described below.

The Consolidated Financial Statements Include:

The Consolidated Statements of Net Position provide information about the nature and amounts of resources, with present service capacity, that the New York City Transit Authority (the Authority) presently controls (assets), consumption of net assets by the Authority that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Authority has little or no discretion to avoid (liabilities), and acquisition of net assets by the Authority that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources being reported as net position.

The Consolidated Statements of Revenues, Expenses and Changes in Net Position show how the Authority's net position changed during each year. They account for all of the current year's revenues and expenses, measures the financial results of the Authority's operations over the past year and can be used to determine how the Authority has funded its costs.

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

The Notes to the Consolidated Financial Statements:

The notes provide information that is essential to understanding the basic consolidated financial statements, such as the Authority's accounting methods and policies, details of cash and investments, capital assets, employee benefits, lease transactions, and future commitments and contingencies of the

Authority, and information about other events or developing situations that could materially affect the Authority's financial position.

Required Supplementation Information:

The Required Supplementary Information provides information concerning the Authority's net pension liabilities, related ratios and contributions to its pension plans, and progress in funding its obligation to provide other postemployment benefits to its employees.

FINANCIAL REPORTING ENTITY

The New York City Transit Authority and its component unit, Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) (collectively, the Authority) are public benefit corporations established pursuant to the New York State (the State) Public Authorities Law, to operate public subway, bus and paratransit services within The City of New York (The City). The Authority is a component unit of the Metropolitan Transportation Authority (MTA), which is a component unit of the State, and 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.

CONDENSED FINANCIAL INFORMATION

All amounts are in millions, except as noted.

The following sections will discuss the significant changes in the Authority's financial position for the years ended December 31, 2016 and 2015. Additionally, an examination 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, summaries of the consolidated financial statements and the various exhibits presented conform to the Authority's consolidated financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America.

Total Assets, Distinguishing Between Capital and Other Assets, and Deferred Outflows of Resources

| (In millions) | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>Increase/(Decrease)</u> | |
|--|------------------|------------------|------------------|----------------------------|------------------|
| | | | | <u>2016-2015</u> | <u>2015-2014</u> |
| Capital assets | \$ 60,526 | \$ 57,654 | \$ 54,703 | \$ 2,872 | \$ 2,951 |
| Accumulated depreciation | <u>(20,549)</u> | <u>(18,900)</u> | <u>(17,249)</u> | <u>(1,649)</u> | <u>(1,651)</u> |
| Capital assets, net of accumulated depreciation | 39,977 | 38,754 | 37,454 | 1,223 | 1,300 |
| Other assets | <u>2,717</u> | <u>2,368</u> | <u>1,923</u> | <u>349</u> | <u>445</u> |
| Total assets | <u>42,694</u> | <u>41,122</u> | <u>39,377</u> | <u>1,572</u> | <u>1,745</u> |
| Deferred outflows of resources | <u>1,402</u> | <u>527</u> | <u>-</u> | <u>875</u> | <u>527</u> |
| Total assets and deferred outflows of resources | <u>\$ 44,096</u> | <u>\$ 41,649</u> | <u>\$ 39,377</u> | <u>\$ 2,447</u> | <u>\$ 2,272</u> |

The Authority's capital assets totaled \$60.5 billion at December 31, 2016. Of the total, depots, yards, signals, and stations were 45.4%, subway cars and buses accounted for 20.4% and track and structures were 20.3%. These gross capital assets exclude significant infrastructure assets such as tunnels and elevated structures, which are assets owned by The City. More detailed information about the Authority's capital assets is presented in Note 5 to the consolidated financial statements.

Correction of Prior Year Financial Statements - The discussions and financial information presented herein for the year ended December 31, 2015 have been revised for the effects of the errors identified by the Authority in its previously reported Consolidated Financial Statements as of and for the year ended December 31, 2015. See further information regarding the correction of these errors in Note 17 to the Authority's Consolidated Financial Statements included elsewhere herein.

Significant changes in assets include:

December 31, 2016 versus 2015

Capital assets increased from December 31, 2015 to December 31, 2016 by \$2,872, or 5.0%. This increase was primarily due to under construction work of \$1,501, station rehabilitation work of \$364 and signals enhancements of \$396. Accumulated depreciation has increased by \$1,649, or 8.7%, due to annual depreciation expense of \$1,650, and partly offset by normal retirements of \$1.

Other assets increased by \$349, or 14.7%, compared with the prior year. This increase was mostly due to an increased in receivables from MTA for the purchase of capital assets of \$429, and higher receivables due from MTA and constituent authorities of \$182, partly offset by lower MTA investment pool assets of \$210.

Deferred outflows of resources increased by \$875, or 166.0% compared with prior year based upon the most recent actuarial valuation report in accordance with GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Refer to Note 6 to the financial statements for more information regarding the Authority's pensions.

December 31, 2015 versus 2014

Capital assets increased from December 31, 2014 to December 31, 2015 by \$2,951, or 5.4%. This increase was primarily due to station rehabilitation work of \$1,175, track and structures of \$694, depots and yards of \$302 and new buses of \$484. Accumulated depreciation has increased by \$1,651, or 9.6%, due to annual depreciation expense of \$1,741 and adjustment of a prior year account balance recorded to beginning net position in 2015 of \$88 (see Note 17 to the consolidated financial statements), partly offset by normal retirements of \$2. Accordingly, all discussions and financial information presented affected by these corrections have been restated in the 2015 consolidated financial statements.

Other assets increased by \$445, or 23.1%, compared with the prior year. This increase was mostly due to increased MTA investment pool assets of \$234 and higher receivables due from MTA for the purchase of capital assets (labor reimbursements) of \$243, partly offset by lower current receivables of \$39.

As a result of adopting GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, the Authority is reporting deferred outflows of resources related to pension liabilities of \$527 at December 31, 2015. See Note 6 to the consolidated financial statements for more information regarding the Authority's pensions.

Total Liabilities, Distinguishing Between Long-Term Liabilities and Current Liabilities, and Deferred Inflows of Resources

| (In millions) | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>Increase/(Decrease)</u> | |
|---|------------------|-----------------|-----------------|----------------------------|------------------|
| | | | | <u>2016-2015</u> | <u>2015-2014</u> |
| Current liabilities | \$ 1,710 | \$ 1,648 | \$ 1,998 | \$ 62 | \$ (350) |
| Long-term liabilities | <u>20,741</u> | <u>18,236</u> | <u>11,239</u> | <u>2,505</u> | <u>6,997</u> |
| Total liabilities | <u>22,451</u> | <u>19,884</u> | <u>13,237</u> | <u>2,567</u> | <u>6,647</u> |
| Deferred inflows of resources | <u>210</u> | <u>423</u> | <u>-</u> | <u>(213)</u> | <u>423</u> |
| Total liabilities and deferred inflows of resources | <u>\$ 22,661</u> | <u>\$20,307</u> | <u>\$13,237</u> | <u>\$ 2,354</u> | <u>\$7,070</u> |

At the end of 2016, the Authority's liabilities consisted primarily of employee fringe benefit-related liabilities (for retirement, health and other benefits), 55.6%, net pension liability of 29.0%, and injuries to persons (public liability and workers' compensation), 11.2%. Included in the employee fringe benefit-related liabilities was \$11,795 of post-employment benefits other than pensions.

Significant changes in liabilities include:

December 31, 2016 versus 2015

Liabilities increased from December 31, 2015 to December 31, 2016 by \$2,567, or 12.9%. Current liabilities increased by \$62, or 3.8%, and long-term liabilities increased by \$2,505, or 13.7%.

The net increase in current liabilities was mainly due to an increase in other various accrued expenses of \$31, an increase of \$21 resulting in a higher level of accounts payable, and an increase of \$16 in the estimated liability arising from injuries to persons.

The increase in long-term liabilities was due primarily the to the addition of \$1,193 of Postemployment benefits other than pensions, a \$904 increase in the net pension liability and an increase of \$431 in the estimated liability arising from injuries to persons, based on the most current actuarial valuations.

Deferred inflows of resources decreased by \$213, or 50.4% compared with prior year based upon the most recent actuarial valuation report in accordance with GASB Statements No. 68. Refer to Note 6 to the financial statements for more information regarding the Authority's pension

December 31, 2015 versus 2014

Liabilities increased from December 31, 2014 to December 31, 2015 by \$6,647, or 50.2%. Current liabilities decreased by \$350, or 17.5%, and long-term liabilities increased by \$6,997, or 62.3%.

The net decrease in current liabilities was mainly due to a decrease in retirement and death benefits of \$365 resulting from the adoption of GASB Statement No. 68, which classifies pension liability under long-term and a decrease of \$17 in accrued salaries and wages offset, in part, by an increase in vacation and sick pay benefits of \$31 and an increase in the current portion of injuries to persons (public liability and workers' compensation) of \$24. See Note 6 to the consolidated financial statements for more information regarding the Authority's pensions.

The increase in long-term liabilities was primarily the result of the addition of \$5,596 of net pension liability resulting from the adoption of GASB Statement No. 68, and an increase of \$1,130 of post-employment benefits other than pensions based upon an updated OPEB actuarial valuation, and an increase of \$281 in liabilities arising from injuries to persons, also based on the most current actuarial valuation.

As a result of adopting GASB Statement No. 68, the Authority is reporting deferred inflows of resources related to pension liabilities of \$423 at December 31, 2015. See Note 6 to the consolidated financial statements for more information regarding the Authority's pensions.

Total Net Position, Distinguishing Among Net Investment in Capital Assets, Restricted and Unrestricted Amounts

| (In millions) | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>Increase/(Decrease)</u> | |
|----------------------------------|------------------|------------------|------------------|----------------------------|-------------------|
| | | | | <u>2016-2015</u> | <u>2015-2014</u> |
| Net investment in capital assets | \$ 39,808 | \$ 38,555 | \$ 37,249 | \$ 1,253 | \$ 1,306 |
| Unrestricted | <u>(18,373)</u> | <u>(17,213)</u> | <u>(11,109)</u> | <u>(1,160)</u> | <u>(6,104)</u> |
| Total net position | <u>\$ 21,435</u> | <u>\$ 21,342</u> | <u>\$ 26,140</u> | <u>\$ 93</u> | <u>\$ (4,798)</u> |

Net position represents the residual interest in the Authority's assets after liabilities are deducted and consist of three components: net investment in capital assets, restricted and unrestricted. Net investment in capital assets include capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. All other net position are unrestricted.

December 31, 2016 versus 2015

Total net position was \$21,435 at the end of 2016, a net increase of \$93, or 0.4% from the end of 2015. The net increase was primarily due to an operating loss of \$5,791 and offset by net nonoperating income of \$3,966 and capital contributions from the MTA of \$1,918.

December 31, 2015 versus 2014

Total net position was \$21,342 at the end of 2015, a net decrease of \$4,798, or 18.4% from the end of 2014. The net decrease was primarily due to an operating loss of \$5,218, decrease of \$5,500 for the restatement of beginning net position related to the adoption of GASB Statements No. 68 and 71 and an increase of \$88 for the restatement of beginning net position for adjustment of a prior year account balance (see Note 17 to the consolidated financial statements), offset by net nonoperating income of \$3,939 and capital contributions from the MTA of \$1,893. Accordingly, all discussions and financial information presented affected by these corrections have been restated in the 2015 consolidated financial statements.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

| (In millions) | Year Ended December 31, | | | Increase/(Decrease) | |
|---|-------------------------|-----------------|-----------------|---------------------|-------------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2016-2015</u> | <u>2015-2014</u> |
| Operating revenues | \$ 4,859 | \$ 4,827 | \$ 4,611 | \$ 32 | \$ 216 |
| Operating expenses | <u>(10,650)</u> | <u>(10,045)</u> | <u>(10,518)</u> | <u>(605)</u> | <u>473</u> |
| Operating loss | <u>(5,791)</u> | <u>(5,218)</u> | <u>(5,907)</u> | <u>(573)</u> | <u>689</u> |
| Nonoperating revenues (expenses): | | | | | |
| Subsidies: New York State and The City of New York | 3,670 | 3,639 | 3,753 | 31 | (114) |
| Triborough Bridge and Tunnel Authority | 313 | 318 | 266 | (5) | 52 |
| FTA/FEMA reimbursement | - | 1 | 12 | (1) | (11) |
| Interest expense | (20) | (21) | (22) | 1 | 1 |
| Other nonoperating revenue/(expenses) | <u>3</u> | <u>2</u> | <u>1</u> | <u>1</u> | <u>1</u> |
| Total nonoperating revenues (expenses) | <u>3,966</u> | <u>3,939</u> | <u>4,010</u> | <u>27</u> | <u>(71)</u> |
| Loss before capital contributions | <u>(1,825)</u> | <u>(1,279)</u> | <u>(1,897)</u> | <u>(546)</u> | <u>618</u> |
| Capital contributions | <u>1,918</u> | <u>1,893</u> | <u>1,951</u> | <u>25</u> | <u>(58)</u> |
| Change in net position | 93 | 614 | 54 | (521) | 560 |
| Net position — beginning of year | 21,342 | 26,140 | 26,086 | (4,798) | 54 |
| Restatement of beginning net position adoption of GASB No. 68 | - | (5,500) | - | 5,500 | (5,500) |
| Restatement of beginning net position correction to opening balance | <u>-</u> | <u>88</u> | <u>-</u> | <u>(88)</u> | <u>88</u> |
| Net position — end of year | <u>\$21,435</u> | <u>\$21,342</u> | <u>\$26,140</u> | <u>\$ 93</u> | <u>\$ (4,798)</u> |

Revenue from Fares/Ridership

| (In millions) | <u>2016</u> | <u>2015</u> | <u>2014</u> | Increase/(Decrease) | |
|----------------------------|-----------------|-----------------|-----------------|---------------------|------------------|
| | | | | <u>2016-2015</u> | <u>2015-2014</u> |
| Subway revenue | \$ 3,351 | \$ 3,314 | \$ 3,172 | \$ 37 | \$ 142 |
| Bus revenue | 966 | 965 | 950 | 1 | 15 |
| Expired fare media revenue | 80 | 75 | 53 | 5 | 22 |
| Paratransit revenue | <u>18</u> | <u>17</u> | <u>16</u> | <u>1</u> | <u>1</u> |
| Total revenue from fares | <u>\$ 4,415</u> | <u>\$ 4,371</u> | <u>\$ 4,191</u> | <u>\$ 44</u> | <u>\$ 180</u> |
| Total ridership (millions) | <u>2,404</u> | <u>2,422</u> | <u>2,427</u> | <u>(18)</u> | <u>(5)</u> |
| Non-student average fare | <u>\$ 1.90</u> | <u>\$ 1.87</u> | <u>\$ 1.80</u> | <u>\$ 0.03</u> | <u>\$ 0.07</u> |

2016 versus 2015

Total revenue from fares was \$4,415 in 2016, an increase of \$44, or 1.0%. This increase was due mostly to the annualization of the March 2015 fare increase in 2016. Total ridership was 2,404, a decrease of 18, or 0.7% from 2015.

2015 versus 2014

Total revenue from fares was \$4,371 in 2015, an increase of \$180 or 4.3%. This increase was due mostly to a March 2015 fare increase. Total ridership was 2,422, a decrease of 5, or 0.2% from 2014.

Operating Expenses, by Major Function

| (In millions) | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>Increase/(Decrease)</u> | |
|---|------------------|------------------|------------------|----------------------------|------------------|
| | | | | <u>2016-2015</u> | <u>2015-2014</u> |
| Salaries and wages | \$ 3,632 | \$ 3,535 | \$ 3,455 | \$ 97 | \$ 80 |
| Health and welfare | 830 | 741 | 667 | 89 | 74 |
| Pensions | 800 | 553 | 908 | 247 | (355) |
| Other fringe benefits | 592 | 512 | 437 | 80 | 75 |
| Reimbursed overhead expenses | (263) | (241) | (226) | (22) | (15) |
| Postemployment benefits other than pensions | 1,613 | 1,501 | 1,991 | 112 | (490) |
| Electric Power | 250 | 287 | 313 | (37) | (26) |
| Fuel | 78 | 102 | 172 | (24) | (70) |
| Insurance | 74 | 72 | 69 | 2 | 3 |
| Public liability claims | 251 | 184 | 147 | 67 | 37 |
| Paratransit service contracts | 384 | 379 | 366 | 5 | 13 |
| Maintenance and other operating contracts | 223 | 196 | 185 | 27 | 11 |
| Professional service contracts | 134 | 94 | 124 | 40 | (30) |
| Pollution remediation projects | 10 | 13 | 12 | (3) | 1 |
| Materials and supplies | 312 | 290 | 302 | 22 | (12) |
| Depreciation | 1,650 | 1,741 | 1,520 | (91) | 221 |
| Other expenses | <u>80</u> | <u>86</u> | <u>76</u> | <u>(6)</u> | <u>10</u> |
| Total operating expenses | <u>\$ 10,650</u> | <u>\$ 10,045</u> | <u>\$ 10,518</u> | <u>\$ 605</u> | <u>\$ (473)</u> |

2016 versus 2015

Total operating expenses increased by \$605 or 6.0% compared to 2015 as follows:

- Salaries and wages were higher than 2015 by \$97 or 2.7%. Payroll increased by 3.0% as most represented and non-represented personnel received wage increases in 2016 and headcount increased in support of various maintenance programs and operations requirements. Overtime expenses increased by 1.3%, due mostly to maintenance requirements, unscheduled service, and vacancy/absentee coverage requirements.
- Health and welfare expenses increased by \$89, or 12.0%, due primarily to increased rates for health and welfare plans.
- Pension expenses increased by \$247, or 44.7%, based on the most current actuarial valuation.
- Other fringe benefit expenses increased by \$80, or 15.6%, due primarily to higher Workers' Compensation reserve requirements based upon a current actuarial valuation.

- Post-employment benefits other than pensions increased by \$112, or 7.5%, based on the most recent actuarial valuation.
- Electric power expenses decreased by \$37, or 12.9%, due mostly to lower prices.
- Fuel expenses decreased by \$24, or 23.5%, due mostly to lower prices.
- Public liability claims expenses increased by \$67, or 36.4%, due primarily to an actuarial valuation update, which reflected the increase in major claims and the cost of claims.
- Maintenance contract expenses increased by \$27 or 13.8%, due largely to additional requirements for revenue vehicle maintenance & repairs, safety equipment and tires & tubes.
- Professional service contract expenses increased by \$40, or 42.6%, including implementation of a new Enterprise Asset Management Program, other additional professional service contract requirements, and expense increases in Information Technology regarding additional data communications and other requirements.

2015 versus 2014

Total operating expenses decreased by \$473, or 4.5% compared to 2014 as follows:

- Salaries and wages were higher than 2014 by \$80, or 2.3%. Payroll increased by 1.2% as most represented and non-represented personnel received wage increases in 2015 and headcount increased in support of various maintenance programs and operations requirements. Overtime expenses increased by 10.6%, due mostly to adverse weather, maintenance, unscheduled service, and vacancy/absentee coverage requirements.
- Health and welfare expenses increased by \$74, or 11.1%, due primarily to increased rates for health and welfare plans.
- Pension expenses decreased by \$355, or 39.1%, resulting from the adoption of GASB Statement No. 68.
- Other fringe benefit expenses increased by \$75, or 17.2%, due primarily to higher Workers' Compensation reserve requirements based upon the current actuarial valuation.
- Post-employment benefits other than pensions decreased by \$490, or 24.6%, based on the most recent actuarial valuation, which reflects a significant reduction in pharmacy claims due to the introduction of an Employee Group Waiver Plan.
- Fuel expenses decreased by \$70, or 40.7%, due mostly to lower prices.
- Public liability claims expenses increased by \$37, or 25.2%, due primarily to an actuarial valuation update, which reflected the increase in major claims.
- Professional service contracts expenses decreased by \$30, or 24.2%, due primarily to the MTA consolidation of IT functions.

- Depreciation expenses increased by \$221, or 14.5%, due to the capitalization of construction work, new station rehabilitations, trackwork, signal enhancements and new buses and subway cars in 2015.

Nonoperating Revenues and Expenses

The Authority receives a variety of tax-supported subsidies from New York State and The City of New York. These subsidies represent a State Mobility Tax and corporate franchise, sales, energy, mortgage recording and real estate taxes and are impacted by the strength of the State and City economies and prevailing interest rates.

Operating assistance subsidies from New York State and The City have been maintained at the same level each year.

The Triborough Bridge & Tunnel Authority, another affiliate of the MTA, distributes to the Authority, each year, funds that vary based upon its operating surplus.

Capital contributions from the MTA of \$1,918 in 2016 and \$1,893 in 2015, represent capital program funding from several sources including bonds, Federal, State and City funding.

Changes in Net Position

The change in net position represents the net total of capital contributions, operating losses and nonoperating income. The net position increased by \$93 in 2016.

Budget Highlights

Total operating revenues in 2016 of \$4,859 were lower than budget by \$32, or 0.7%. Total revenue from fares underran budget by \$40, or 0.9%, due mostly to lower ridership including the impact of adverse weather early in the year. Other operating revenue exceeded budget by \$8.2, or 1.9%.

Total operating expenses (excluding depreciation, OPEB Long-Term and GASB Statement No. 68) in 2016 of \$7,981, exceeded budget by \$401, or 5.3%. Labor-related expenses of \$6,196 were above budget by \$364, or 6.2%. This result was due primarily to an increase in other fringe benefit expenses of \$280, or 90.2%, caused mainly by higher Workers' Compensation claims reserve requirements, based on a current actuarial update. Pension expenses also increased by \$100, or 11.4%, based largely on an actuarial update mostly impacting NYCERS pension. Non-labor expenses exceeded budget by \$38, or 2.1%, of which public liability claims expenses were higher by \$126, or 100.9%, based largely on a current actuarial update of additional reserve requirements. Partially offsetting this increase were lower expenses reported in electric power of \$59, or 19.1%, and fuel of \$33, or 30.0%, both resulting largely from lower prices.

OVERALL FINANCIAL POSITION, RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS

Economic Conditions

Metropolitan New York is the most transit-intensive region in the United States, and a financially sound and reliable transportation system is critical to the region's economic well-being. The Authority consists of urban subway and bus systems. In order to achieve maximum efficiency and success in its operations, the Authority must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Metropolitan New York is the most transit-intensive region in the United States, and a financially sound and reliable transportation system is critical to the NYC area's economic well-being. In order to achieve maximum efficiency and success in its operations, the Authority must identify economic trends and continually implement strategies to adapt to changing economic conditions.

The Authority system-wide utilization for the year 2016 of 2.40 billion decreased 17.9 million trips (0.7%) from 2015. Subway ridership was 1.757 billion, a decline of 5.8 million (0.3%), while New York City Transit Bus ridership of 638.4 million declined by 12.3 million trips (1.9%). Paratransit ridership in 2016 was 8.9 million, an increase of 0.1 million (1.2 %) from 2015.

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2016 than in 2015 by 71.6 thousand jobs (1.7%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-five quarters – the last decline occurred in the third quarter of 2010 – and is higher than at any time since 1950, when non-agricultural employment levels for New York City were first recorded by the Bureau of Labor Statistics.

National economic growth, as measured by Real Gross Domestic Product (RGDP), expanded at an annualized rate of 1.9% in the fourth quarter of 2016, according to the most recent advance estimate released by the Bureau of Economic Analysis. The increase in RGDP reflected positive contributions from personal consumption expenditures, private inventory investment, residential and nonresidential fixed investment, and state and local government spending that were partly offset by negative contributions from exports and federal government spending; imports, which are a subtraction to Gross Domestic Product (GDP), increased. The deceleration in RGDP growth, over the third quarter's revised 3.5% growth rate, reflected downturns in exports and in federal government spending, an acceleration in imports, and a deceleration in personal consumption expenditures. These were partly offset by upturns in residential fixed investment and in state and local government spending, and acceleration in private inventory investment and in nonresidential fixed investment.

The New York City metropolitan area's price inflation, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), was lower than the national average in the fourth quarter of 2016, with the metropolitan area index increasing 1.6% while the national index increased 1.8%, when compared with the fourth quarter of 2015. A 3.8% increase in the regional price of energy products, along with a 2.2% national increase, had little impact on overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.5%; nationally, inflation exclusive of energy prices increased 1.8%. Consistent with the rise in overall energy prices, the spot price for New York Harbor conventional gasoline rose by 14.0% from an average price of \$1.35 per gallon to an average price of \$1.54 per gallon between the fourth quarters of 2015 and 2016.

In December 2015, citing evidence that economic activity had been expanding at a moderate rate, the Federal Open Market Committee (FOMC) raised its target for the Federal Funds rate to the range of 0.25% to 0.50%, the first increase in the Federal Funds rate since the target was lowered to a range of 0% to 0.25% in late 2008 when the financial and housing crises deepened. Since that increase, the FOMC had maintained the target range for the Federal Funds rate at 0.25% to 0.50%, maintaining an accommodative monetary policy stance, and thereby supporting further improvement in labor market conditions and a return to 2% inflation.

This December, the FOMC announced another increase, raising the target range for the Federal Funds rate to 0.5% to 0.75%. The FOMC, in its December 14, 2016 policy release, noted the labor market has continued to strengthen and economic activity has been expanding at a moderate pace since mid-2016. Job gains have been solid and the unemployment rate has declined; but while household spending has been rising moderately, business fixed investment has remained soft. Inflation has increased since the

early part of 2016, but is still below the FOMC's 2% longer-run objective. Market-based measures of inflation compensation have moved up but remain low, and most survey-based measures of longer-term inflation expectations have hardly changed in recent months. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. The FOMC expects that economic conditions will evolve in a manner that will warrant only gradual increases in the Federal Funds rate, and that the Federal Funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.

The influence of Federal Reserve monetary policy on the mortgage market is a matter of interest to the Authority, since variability of mortgage rates can affect the number of real estate transactions and can thereby impact receipts from the Urban Tax, an important source of the Authority's revenue.

Results of Operations and Overall Financial Position

Total revenue from fares was \$4,415 in 2016, an increase of \$44 or 1.0% from 2015. Total ridership was 2,404 million, a decrease of \$18 or 0.7% from 2015. Total operating expenses, including depreciation, other post-employment benefits and environmental remediation expenses, were \$10,650 in 2016, an increase of \$605 or 6.0%.

Going forward, the stability of the Authority's financial position is subject to certain risks, requiring the efficient management of costs, including the establishment of new cost reduction programs, in order to counteract any adverse impacts to revenue streams or cost increases.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program

The MTA has ongoing programs on behalf of the Authority and other affiliated agencies, subject to approval by the New York State Metropolitan Transportation Authority Capital Program Review Board (the State Review Board), which are intended to improve public transportation in the New York Metropolitan area.

2000-2004 Capital Program — The 2000-2004 Capital Program, which was approved by the State Review Board in May 2000, provided for \$17.1 billion in capital expenditures, of which the Authority's portion was \$10.3 billion. In May and December of 2002, the MTA Board approved amendments to the program reflecting changes to budgets, schedules, funding and added to the infrastructure and facilities security programs. In December 2003, the MTA Board approved a general update to the plan to incorporate changes and authorized its submission to the MTA Capital Program Review Board (CPRB). In January 2004, the MTA Board approved a further modification to that program to support the accelerated purchase of additional commuter railcars. In December 2004, the MTA Board approved an amendment that incorporated the creation of the MTA Bus Company, and included additional funding from The City for the #7 Extension design work, as well as additional security grant funding. In December 2005, the MTA Board approved an amendment that increased the overall capital program total to \$19.9 billion, of which the Authority's share was \$10.2 billion. This amendment included additional federal funds for the Fulton Street Transit Center, South Ferry Station, a new Bus Depot on Staten Island and CCTV installation in NYCT stations. In December 2006, the MTA Board approved an amendment that increased the overall capital program total to \$21.2 billion, of which the Authority's share was increased to \$10.3 billion. In 2009, the capital program received \$0.2 billion in federal stimulus funding. Reallocation between programs resulted in an additional \$0.5 billion to the 2000-2004 Capital Program, increasing the overall total plan to \$21.7 billion, of which the Authority's share is \$10.4 billion. Among the projects included in the 2000-2004 Transit Capital Program and subsequent amendments are the

following: rebuilding the 1/9 line track and structures destroyed by the September 11, 2001 attacks on the World Trade Center, design and initiation of construction of the full-length Second Avenue Subway, acquisition of 1,210 new subway cars, replacing 927 existing cars and expanding the fleet by 283 cars, acquisition of 985 new buses, including 135 CNG buses, rehabilitation of 70 stations, provision of full Americans with Disability Act (ADA) accessibility at 23 stations, replacement of 20 escalators at various stations, replacement of approximately 42 miles of mainline track and 212 mainline switches, signal modernization, communications improvements, and improvements to shops, yards, and depots.

The combined funding sources for the 2000-2004 Capital Program are comprised of \$7.4 billion in bonds, \$7.4 billion in federal funds, \$4.6 billion from debt restructuring, and \$2.3 billion from other sources.

As part of the 2000-2004 Capital Program, the MTA, the TBTA and the Authority have refunded and defeased substantially all of their outstanding debt and consolidated most of their existing credits.

At December 31, 2016, \$10.4 billion has been encumbered to Authority projects from the 2000-2004 approved plan, of which approximately \$10.3 billion has been expended.

2005-2009 Capital Program — The MTA Capital Program for 2005-2009 was approved by the CPRB in July 2005 and amended in July 2006. The 2005-2009 Program, as approved, provided for \$20.1 billion in capital expenditures, of which the Authority's share was \$11.2 billion. In February 2007, the MTA Board further amended the Program to add \$1.2 billion of Federal East Side Access Full Funding Grant Agreement (FFGA) funds to the East Side Access project, which relates to the Capital Construction Company's capital program. In July 2008, the MTA Board further amended the Program to add an additional \$267 million of Federal East Side Access FFGA funds and \$764 million in Federal Second Avenue Subway FFGA funds relating to the Capital Construction Company's capital program. Also included in this amendment were the rollover of unused LaGuardia Airport Project funds from the 2000-2004 Capital Program and other miscellaneous funding adjustments. In 2009, the capital program received \$0.7 billion in federal stimulus funding.

The 2005-2009 Capital Program is designed to continue a program of capital expenditures that would support on-going maintenance and provide needed improvements to enhance services to its customers. Reallocation between programs, subsequent to the amendments and federal stimulus funding noted above, resulted in the overall plan totaling \$24.5 billion, of which the Authority's share is \$11.6 billion. The Authority's portion of the capital program excludes \$7.7 billion of approved capital projects managed by the MTA Capital Construction Company on behalf of the Transit Authority and the Long Island Rail Road. Among the projects in the 2005-2009 Transit Capital Program are the following: normal replacement of 1,002 B Division Cars, fleet growth of 23 A Division Cars, the purchase of 1,236 new buses including 1,043 standard, 90 articulated and 103 express buses, the purchase of 1,387 new paratransit vehicles, rehabilitation of 36 stations, replacement of 23 escalators, replacement of 52 miles of mainline track and 143 mainline switches, signal modernization, communications improvements, and improvements to shops, yards, and depots.

The combined funding sources for the 2005-2009 Capital Program are comprised of \$9.1 billion in federal funds, \$1.5 billion from the New York State voter approved State-Wide Transportation Bond Act, \$9.8 billion in bonds, and \$4.1 billion from other sources.

At December 31, 2016, \$11.4 billion has been encumbered to Authority projects from the 2005-2009 approved plan, of which approximately \$11.1 billion has been expended.

2010-2014 Capital Program — The 2010-2014 Capital Program was approved by the MTA Board in September 2009. The program totaling approximately \$25.6 billion was subsequently submitted to the NYS Capital Program Review Board (CPRB) for their review and approval. The submitted Program was

vetoed without prejudice by the Review Board in December 2009. Subsequently, the resubmitted 2010-2014 Program, totaling \$26.3 billion was approved by the CPRB in June 2010, of which the Authority's share is \$12.8 billion. The approved CPRB program fully funded only the first two years of the plan, with a commitment to come back to CPRB with a funding proposal for the last three years. On December 21, 2011, the MTA Board approved an amendment to the 2010-2014 Program that funds the last three years of the program through a combination of self-help (efficiency improvements and real estate initiatives), participation by our funding providers and innovative and pragmatic financing arrangements. The Authority's share of the \$24.3 billion revised program was \$11.6 billion. On December 19, 2012, the MTA Board approved an amendment to the 2010-2014 Capital Programs to add projects for the repair and restoration of MTA agency assets damaged as a result of Tropical Storm Sandy, which struck the region on October 29, 2012. The revised programs provide for an additional \$4.8 billion in Sandy recovery-related capital expenditures, of which the Authority's share is \$3.3 billion. On January 23, 2013, the amended program as submitted was deemed approved by the CPRB. On July 22, 2013, the MTA Board approved a further amendment to the 2010-2014 Capital Programs for the Transit, Commuter and Bridges and Tunnels systems to include specific revisions to planned projects and to include new resilience/mitigation initiatives, totaling \$5.8 billion in response to Tropical Storm Sandy. The Authority's share of the new initiative is \$5.1 billion. On August 27, 2013, the CPRB deemed approved those amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted. Reallocation between programs, subsequent to the amendments resulted in the overall plan totaling \$34.9 billion, of which the Authority's share is \$20.0 billion.

The combined funding sources for the 2010-2014 Capital Program are comprised of \$12.7 billion in MTA bonds, \$6.3 billion in federal funds, \$2.1 billion in Bridges and Tunnels dedicated funds, \$0.1 billion in MTA Bus Federal and City Match, \$0.8 billion in State Assistance, \$0.8 billion in City Capital Funds, and \$1.5 billion from other sources. The funding strategy for Tropical Storm Sandy repair and restoration assumes the receipt of \$9.4 billion in insurance and federal reimbursement proceeds (including interim borrowing by MTA to cover delays in the receipt of such proceeds), \$0.2 billion in Pay-as-you-go capital, supplemented, to the extent necessary, by external borrowing of up to \$1.0 billion in additional MTA and MTA Bridges and Tunnels bonds.

At December 31, 2016, \$13.0 billion has been encumbered to Authority projects from the 2010-2014 approved plan, of which approximately \$8.8 billion has been expended.

2015-2019 Capital Program — the 2015-2019 Capital Program totaling \$32.0 billion was approved by the MTA Board in September 2014. The program totaling approximately \$29.0 billion was subsequently submitted to the CPRB for their review and was vetoed without prejudice by the Review Board in October 2014. On October 28, 2015, the MTA Board approved a revised 2015-2019 capital program totaling \$26.1 billion. The revised 2015-2019 MTA Bridges and Tunnels Capital Program totaling \$2.9 billion was approved by the MTA Board in October 2015 and was not subject to CPRB approval. On April 20, 2016, the MTA Board approved a further revised 2015-2019 capital program totaling \$29.5 billion, of which \$26.6 billion was subsequently approved by the CPRB on May 23, 2016 (The MTA Bridges and Tunnels 2015-2019 Capital Program totaling \$2.9 billion is not subject to CPRB approval.). The Authority's share of the approved 2015-2019 capital program is \$15.8 billion.

In the 2015-2019 Capital Program, NYC Transit continues normal replacement of key assets like rolling stock and mainline track/switches while also emphasizing overdue investments in signals and other infrastructure. Stations continue to be an important focus of investment given the importance of the station environment to NYC Transit's customers and their communities. Core infrastructure investments include: modernization of six interlockings; the purchase of 950 railcars to replace railcars reaching the end of their useful lives; 1,391 new buses, including 1,041 standard, 300 articulated and 50 express buses; replacement of approximately 51 miles of mainline track and 127 mainline switches; communications

improvements and improvements to shops, yards, and depots; ADA accessibility improvements; completion of the new fare payment system; elimination of station defects; substantial access and circulation improvements at the Grand Central Times Square stations.

The combined funding sources for the 2015-2019 Capital Program are comprised of \$5.9 billion in MTA Bonds, \$2.9 billion in MTA Bridges and Tunnels dedicated funds, \$8.3 billion in funding from the State of New York, \$6.9 billion in Federal Funds, \$2.5 billion from City Capital Funds, \$1.8 billion in pay-as-you-go (PAYGO) capital, and \$1.2 billion from Other Sources.

At December 31, 2016, \$2.0 billion has been encumbered to Authority projects from the 2015-2019 approved plan, of which approximately \$0.3 billion has been expended.

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.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Going forward, the Authority's February 2017 Financial Plan includes certain risks such as:

- Biennial fare increases approximating inflation
- Achieving efficiencies/consolidations
- Chronic looming cost issues such as Workers Compensation and Public Liability claims, and health care costs, including the "Cadillac Tax" of which the implementation has been delayed to 2020.

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NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015
(In thousands)

| | 2016 | 2015 |
|---|----------------------|----------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| CURRENT ASSETS: | | |
| Cash (Note 3) | \$ 61,177 | \$ 62,213 |
| MTA investment pool (Note 4) | 310,675 | 520,960 |
| Receivables: | | |
| Billed and unbilled charges due from New York City | 17,270 | 24,305 |
| Accrued subsidies | 96,040 | 135,757 |
| Due from MTA and constituent Authorities (Note 9) | 641,017 | 458,722 |
| Other | 108,877 | 95,499 |
| Less allowance for doubtful accounts | <u>(9,857)</u> | <u>(9,792)</u> |
| Net receivables | 853,347 | 704,491 |
| Materials and supplies | 274,402 | 291,732 |
| Prepaid expenses and other current assets | <u>44,741</u> | <u>45,096</u> |
| Total current assets | <u>1,544,342</u> | <u>1,624,492</u> |
| NONCURRENT ASSETS: | | |
| Due from MTA for the purchase of capital assets | 1,172,325 | 743,171 |
| Capital assets (Note 5): | | |
| Construction work-in-progress (Note 17) | 4,984,843 | 3,483,815 |
| Other capital assets, net of accumulated depreciation (Note 17) | 34,817,683 | 35,089,882 |
| Leased property under capital lease, net of accumulated amortization (Note 5) | 71,485 | 73,897 |
| Leasehold improvements on property, net of accumulated depreciation (Note 5) | 103,033 | 106,257 |
| Restricted deposits and other escrow funds | <u>491</u> | <u>521</u> |
| Total assets | <u>42,694,202</u> | <u>41,122,035</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | |
| Related to pensions (Note 6) | <u>1,402,174</u> | <u>527,127</u> |
| Total deferred outflows of resources | <u>1,402,174</u> | <u>527,127</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 44,096,376</u> | <u>\$ 41,649,162</u> |

See notes to consolidated financial statements.

(Continued)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015
(In thousands)

| | 2016 | 2015 |
|--|-----------------------------|-----------------------------|
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 168,137 | \$ 146,787 |
| Accrued expenses: | | |
| Salaries, wages, and payroll taxes | 123,196 | 137,332 |
| Vacation, sick pay, and other benefits | 675,314 | 655,501 |
| Retirement and death benefits | 11,635 | 11,634 |
| Estimated liability arising from injuries to persons (Note 14) | 260,810 | 245,079 |
| Pollution remediation projects (Note 15) | 7,628 | 8,346 |
| Other | <u>133,261</u> | <u>102,130</u> |
| Total accrued expenses | 1,211,844 | 1,160,022 |
| Due to MTA for repayment of debt, current portion (Note 8) | - | 9,738 |
| Unredeemed farecards | 293,032 | 294,390 |
| Unearned subsidy revenue | 36,888 | 36,887 |
| Paratransit reimbursement advances | <u>310</u> | <u>-</u> |
| Total current liabilities | <u>1,710,211</u> | <u>1,647,824</u> |
| NONCURRENT LIABILITIES: | | |
| Due to MTA for repayment of Certificates of Participation (Note 8) | - | 22,801 |
| Obligation under capital lease, long-term (Note 5) | 168,532 | 165,963 |
| Net pension liability (Note 6) | 6,500,128 | 5,596,056 |
| Postemployment benefits other than pensions (Note 7) | 11,794,843 | 10,602,300 |
| Estimated liability arising from injuries to persons (Note 14) | 2,246,134 | 1,815,354 |
| Pollution remediation projects (Note 15) | 30,512 | 33,383 |
| Restricted deposits and other escrow funds | <u>491</u> | <u>521</u> |
| Total liabilities | <u>22,450,851</u> | <u>19,884,202</u> |
| DEFERRED INFLOWS OF RESOURCES: | | |
| Related to pensions (Note 6) | <u>210,151</u> | <u>422,994</u> |
| Total deferred inflows of resources | <u>210,151</u> | <u>422,994</u> |
| NET POSITION: | | |
| Net investment in capital assets | 39,808,512 | 38,555,349 |
| Unrestricted | <u>(18,373,138)</u> | <u>(17,213,383)</u> |
| Total net position | <u>21,435,374</u> | <u>21,341,966</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u><u>\$ 44,096,376</u></u> | <u><u>\$ 41,649,162</u></u> |

See notes to consolidated financial statements.

(Concluded)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands)

| | 2016 | 2015 |
|--|--------------------|--------------------|
| OPERATING REVENUES: | | |
| Rapid transit | \$ 3,351,083 | \$ 3,313,600 |
| Surface transit | 966,344 | 964,784 |
| Expired fare media | 79,993 | 75,583 |
| Paratransit fares | 17,620 | 17,425 |
| School, elderly, and paratransit reimbursement | 262,893 | 275,081 |
| Advertising and other (Note 10) | 181,014 | 180,223 |
| | <u>4,858,947</u> | <u>4,826,696</u> |
| Total operating revenues | | |
| OPERATING EXPENSES: | | |
| Salaries and wages | 3,632,435 | 3,534,572 |
| Health and welfare | 829,974 | 741,052 |
| Pensions | 800,387 | 553,144 |
| Other fringe benefits | 591,545 | 511,676 |
| Reimbursed overhead expenses | (262,840) | (240,903) |
| Postemployment benefits other than pensions | 1,613,258 | 1,501,343 |
| Electric power | 250,256 | 286,555 |
| Fuel | 78,076 | 101,574 |
| Insurance | 73,427 | 72,444 |
| Public liability claims | 251,372 | 184,365 |
| Paratransit service contracts | 383,704 | 379,271 |
| Maintenance and other operating expenses (Note 12) | 222,509 | 196,382 |
| Professional service contracts | 134,344 | 93,673 |
| Environmental remediation | 9,662 | 12,876 |
| Materials and supplies | 311,856 | 289,716 |
| Depreciation (Note 17) | 1,650,337 | 1,741,169 |
| Other expenses (Note 11) | 79,921 | 85,978 |
| | <u>10,650,223</u> | <u>10,044,887</u> |
| Total operating expenses | | |
| OPERATING LOSS | <u>(5,791,276)</u> | <u>(5,218,191)</u> |

See notes to consolidated financial statements.

(Continued)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands)

| | 2016 | 2015 |
|--|---------------------|---------------------|
| NONOPERATING REVENUES: | | |
| Tax-supported subsidies: | | |
| New York State (Note 2) | \$ 2,587,022 | \$ 2,351,883 |
| New York City | 771,476 | 974,987 |
| Operating Assistance subsidies: | | |
| New York State | 158,672 | 158,672 |
| New York City | 158,672 | 158,672 |
| Triborough Bridge and Tunnel Authority | 312,901 | 318,435 |
| Less amounts provided to Staten Island Rapid Transit Operating Authority | <u>(5,190)</u> | <u>(4,601)</u> |
| Total subsidies revenues | 3,983,553 | 3,958,048 |
| Federal Transit Authority/Federal Emergency Management Agency reimbursement | - | 450 |
| Interest expense | (20,123) | (21,341) |
| Interest income and other nonoperating revenues | <u>2,670</u> | <u>1,484</u> |
| Total nonoperating income | <u>3,966,100</u> | <u>3,938,641</u> |
| LOSS BEFORE CAPITAL CONTRIBUTIONS | (1,825,176) | (1,279,550) |
| CAPITAL CONTRIBUTIONS (Note 2) | <u>1,918,584</u> | <u>1,893,442</u> |
| CHANGE IN NET POSITION | 93,408 | 613,892 |
| NET POSITION: | | |
| Beginning of year | 21,341,966 | 26,139,632 |
| Restatement of beginning net position - adoption of GASB No. 68 | - | (5,499,537) |
| Restatement of beginning net position - correction to opening balance (Note 17) | <u>-</u> | <u>87,979</u> |
| End of year | <u>\$21,435,374</u> | <u>\$21,341,966</u> |

See notes to consolidated financial statements.

(Concluded)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands)

| | 2016 | 2015 |
|--|--------------------------------|--------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from passengers, tenants, advertisers, and others | \$ 4,844,018 | \$ 4,869,289 |
| Cash payments for payroll and related employee costs | (5,876,103) | (5,525,525) |
| Cash payments to suppliers for goods and services | <u>(1,596,586)</u> | <u>(1,741,196)</u> |
| Net cash used in operating activities | <u>(2,628,671)</u> | <u>(2,397,432)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Subsidies received | 4,011,536 | 3,925,354 |
| Net working capital loans from MTA | - | (100,000) |
| Recoveries from insurance related to Tropical Storm Irene | <u>-</u> | <u>450</u> |
| Net cash provided by noncapital financing activities | <u>4,011,536</u> | <u>3,825,804</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Principal payments | (7,457) | (9,738) |
| Interest paid | (8,625) | (10,058) |
| Payments on MTA Transportation bonds issued to fund capital assets | (1,172,722) | (1,135,630) |
| Subsidies designated for debt service payments | 294,932 | 279,077 |
| Capital project costs incurred for capital program | (1,027,317) | (996,198) |
| Cash transferred to capital program fund | (565,920) | (374,949) |
| Reimbursement of capital project costs from MTA | <u>891,176</u> | <u>1,059,314</u> |
| Net cash used in capital and related financing activities | <u>(1,595,933)</u> | <u>(1,188,182)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Change in MTA investment pool | 210,285 | (233,811) |
| Interest on investments | <u>1,747</u> | <u>689</u> |
| Net cash provided (used) in investing activities | <u>212,032</u> | <u>(233,122)</u> |
| NET (DECREASE) INCREASE IN CASH | (1,036) | 7,068 |
| CASH — Beginning of year | <u>62,213</u> | <u>55,145</u> |
| CASH — End of year | <u><u>\$ 61,177</u></u> | <u><u>\$ 62,213</u></u> |

See notes to consolidated financial statements.

(Continued)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands)

| | 2016 | 2015 |
|--|-----------------------|-----------------------|
| RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Operating loss | \$ (5,791,276) | \$ (5,218,191) |
| Adjustments to reconcile operating loss to net cash used in operating activities — depreciation (Note 17) | 1,650,337 | 1,741,169 |
| CHANGES IN OPERATING ASSETS AND LIABILITIES: | | |
| (Increase) decrease in operating receivables | (13,571) | 18,170 |
| Decrease in prepaid expenses and other current assets | 355 | 1,984 |
| Decrease in deferred pension asset | - | 33,782 |
| Decrease (increase) in materials and supplies | 17,330 | (36,376) |
| Increase in deferred outflows of resources | (875,047) | (527,127) |
| (Decrease) increase in farecard liability | (1,358) | 24,423 |
| (Decrease) increase in accrued salaries, wages and payroll taxes | (14,136) | 7,754 |
| Increase (decrease) in accounts payable and other accrued liabilities | 52,187 | (63,193) |
| Increase in accrued vacation, sick pay and other benefits | 19,813 | 31,266 |
| Increase (decrease) in accrued retirement and death benefits | 1 | (365,388) |
| Increase in net pension liability | 904,072 | 97,408 |
| (Decrease) increase in deferred inflows of resources | (212,843) | 422,994 |
| Increase in postemployment benefits other than pensions | 1,192,543 | 1,130,113 |
| Increase in estimated liability arising from injuries to persons | 446,511 | 304,734 |
| Decrease in liability for environmental pollution remediation | (3,589) | (954) |
| NET CASH USED IN OPERATING ACTIVITIES | <u>\$ (2,628,671)</u> | <u>\$ (2,397,432)</u> |
| SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES — Contributed capital assets (Note 17) | <u>\$ 1,570,261</u> | <u>\$ 1,707,269</u> |

See notes to consolidated financial statements.

(Concluded)

NEW YORK CITY TRANSIT AUTHORITY

(Component Unit of the Metropolitan Transportation Authority)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015 (\$ IN THOUSANDS, EXCEPT AS NOTED)

1. BASIS OF PRESENTATION

Reporting Entity — The accompanying consolidated financial statements include the accounts of the New York City Transit Authority (Transit Authority), and its component unit, the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) (collectively, the Authority), which are public benefit corporations and component units of the Metropolitan Transportation Authority (MTA) created pursuant to the Public Authorities Law (the Act) of the State of New York (the State) to operate public subway and bus services within The City of New York (The City).

The Authority is operationally and legally independent of the MTA. The Authority enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, the Authority is included in the MTA's consolidated financial statements as a blended component unit because of the MTA's financial accountability and the Authority is under the direction of the MTA Board (a reference to "MTA Board" means the board of MTA and/or the boards of the Authority and other MTA component units that apply in the specific context, all of which are comprised of the same persons). Under accounting principles generally accepted in the United States of America (GAAP), the MTA is required to include the Authority in its consolidated financial statements.

MaBSTOA is a component unit of the Transit Authority and, therefore, the financial results of MaBSTOA are combined with those of the Transit Authority in the consolidated financial statements. The MaBSTOA Pension Plan (the Plan) is not a component unit of the Transit Authority, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, and therefore, the financial results of the Plan are not included in the Authority's consolidated financial statements.

MaBSTOA is operationally and legally independent of the Authority. MaBSTOA enjoy certain rights typically associated with separate legal status. However, MaBSTOA is included in the Authority's consolidated financial statements as a blended component unit because of the Authority's financial accountability.

The Authority has material transactions with affiliated agencies included in the MTA financial reporting group. Such agencies include the MTA, Triborough Bridge and Tunnel Authority (TBTA), Metro North Commuter Railroad (MNCR), Long Island Rail Road (LIRR), MTA Bus Company (MTA Bus) and Staten Island Rapid Transit Operating Authority (SIRTOA).

The Authority is a part of the financial reporting group of the MTA and is included in the consolidated financial statements of the MTA in accordance with GASB Statement No. 14, as amended by GASB Statement No. 61. The MTA is a component unit of the State and is included in the State of New York Comprehensive Annual Financial Report of the State Comptroller as a public benefit corporation.

In July 2003, the MTA Capital Construction Company was created by action of the MTA Board of Directors as a public benefit corporation subsidiary of the MTA under section 1266(s) of the Public Authorities Law. The mission of this new subsidiary company is to plan, design and construct current

and future major MTA system expansion projects. Projects currently underway, include all activities associated with the Long Island Rail Road East Side access, the Number 7 Line Extension, the Lower Manhattan Fulton Transit Center, the new South Ferry station complex, system-wide capital Security Projects, and the Second Avenue Subway, which are consolidated under the management of the MTA Capital Construction Company.

In December of 2004, MTA Bus was created as a public benefit corporation subsidiary of the MTA specifically to operate certain City bus routes. These routes are currently operated by MTA Bus and not by the Authority. All material transactions between MTA Bus and the Authority have been properly recorded as of December 31, 2016.

Staten Island Rapid Transit Operating Authority — The Staten Island Rapid Transit Operating Authority (SIRTOA) is a component unit of the MTA and provides transportation service on Staten Island. SIRTOA is managed by the Authority on behalf of The City. The Authority has no responsibility for the operating deficit of SIRTOA. The Authority collects, on SIRTOA's behalf, its share of certain operating assistance subsidies determined by formula, and transfers such subsidies to SIRTOA. The amount of subsidy funds to which SIRTOA is entitled is recorded as a reduction of the subsidy revenues of the Authority.

Operations — Operations are conducted pursuant to leases with The City which expired on November 1, 1989, except that the terms of the leases continue so long as any financing agreement between the Authority and the MTA and any MTA Transportation Revenue Bonds remain outstanding (see Note 8). The City has the option to terminate the leases at any time. In the event of termination, The City is required to assume the assets and liabilities of the Authority and must pay or make provision for the payment of any debt incurred pursuant to financing agreements of the Authority.

Substantial operating losses (the difference between operating revenues and expenses) result from the essential services that the Authority provides; such operating losses will continue in the foreseeable future. To meet the funding requirements of these operating losses, the Authority receives subsidies from:

- a. The State, in the form of annual subsidies of special State and regional tax revenues, operating assistance, and reimbursement of certain expenses;
- b. The City, in the form of operating assistance, tax revenues, and reimbursement of certain expenses; and
- c. An affiliated agency (TBTA), in the form of a portion of its operating surplus.

The New York State Public Authorities Law and the financing agreement between the Authority and the MTA provide that the Authority shall establish fares, tolls, and other fees for the use of its facilities as may be necessary to maintain its combined operations on a self-sustaining basis as defined in such law. It is the opinion of management that the Authority is in compliance with these requirements. The Authority is not liable for real estate taxes, franchise taxes, or sales taxes on substantially all of its purchases or other excise taxes on its properties.

Capital Financing — The MTA has ongoing programs on behalf of the Authority and other affiliated agencies, subject to approval by the New York State Metropolitan Transportation Authority Capital Program Review Board (the State Review Board), which are intended to improve public transportation in the New York Metropolitan area.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Authority applies Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) Section P80, *Proprietary Accounting and Financial Reporting*.

New Accounting Standards Adopted

The Authority adopted the following GASB Statements for the year ended December 31, 2016:

GASB Statement No. 72, *Fair Value Measurement and Application* defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. The adoption of this Statement resulted in expanded note disclosures related to the level of fair value hierarchy and valuation techniques.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The adoption of this Statement had no impact on the Authority's financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures* defines a tax abatement and requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The adoption of this Statement had no impact on the Authority's financial statements. No additional disclosures are required.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* applies to state and local governmental employers that provide a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The adoption of this Statement had no impact on the Authority's financial statements. No additional disclosures are required.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement also establishes additional note

disclosure requirements for qualifying external investment pools. The adoption of this Statement had no impact on the Authority's financial statements.

GASB has issued the following pronouncements that may affect the future financial position, results of operations, cash flows, or financial presentation of the Authority upon implementation. Management has not yet evaluated the effect of implementation of these standards.

| GASB Statement No. | GASB Accounting Standard | MTA Required Year of Adoption |
|-------------------------------|---|--|
| 73 | <i>Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68</i> | 2017 |
| 74 | <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i> | 2017 |
| 75 | <i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pension</i> | 2018 |
| 80 | <i>Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14</i> | 2017 |
| 81 | <i>Irrevocable Split-Interest Agreement</i> | 2018 |
| 82 | <i>Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73</i> | 2017 |
| 83 | <i>Certain Asset Retirement Obligations</i> | 2019 |
| 84 | <i>Fiduciary Activities</i> | 2020 |
| 85 | <i>Omnibus 2017</i> | 2018 |
| 86 | <i>Certain Debt Extinguishment Issues</i> | 2018 |

Net Position — The Authority follows the “business type” activity requirements of GASB 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments* which requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Unrestricted: Net position that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by actions of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Subsidies — The Authority receives subsidies from various sources, including the State and The City, which are included in nonoperating revenues. In general, these subsidies are subject to annual

appropriations by the governmental units and periodic approval of the continuation of the taxes supporting the subsidies.

The principal funding sources for the Authority are as follows:

Operating Assistance Appropriations and Grants — The Authority receives, subject to annual appropriations, State and City operating assistance funds. The funds received under the State transit operating assistance program are fully matched by contributions from The City. State and City operating assistance subsidies are recognized as non-operating revenue in the amount of the respective annual appropriation when such appropriation becomes effective.

Triborough Bridge and Tunnel Authority — The New York State Public Authorities law requires the TBTA to transfer its annual operating surplus, as defined, to the Authority and the MTA. The initial \$24 million of the operating surplus is provided to the Authority and the balance is divided equally between the Authority and the MTA. However, the amounts transferred to the Authority and the MTA are net of a provision for debt service on TBTA bonds issued to finance the acquisition of facilities under their respective portions of the Capital Program. For the years ended December 31, 2016 and 2015, \$261.8 million and \$255.9 million, respectively, were paid from the operating surplus of the TBTA to satisfy the Authority's portion of debt service requirements.

Mortgage Recording Taxes — Under New York State law, the MTA receives operating and capital assistance from the State Mortgage Recording Tax, which is collected by The City and the seven counties within the MTA transportation region, at the rate of three-tenths of 1% of the debt secured by certain real estate mortgages. Such legislation governs the use of the funds from this revenue source whereby the proceeds of this tax are first used by the MTA to meet the operating costs of the MTA headquarters, with the remaining funds allocated 55% to the Authority and 45% to the commuter railroads for their capital and operating needs. The Authority recognizes such sources of funds when designated by the MTA for the Authority's use. The portion of this subsidy attributable to the Authority is reported in "Tax-supported subsidies: New York State" in the accompanying consolidated statements of Revenues, Expenses, and Changes in Net Position. The Authority records the portion of its State Mortgage Recording Tax subsidy which funds principal and interest payments on long-term debt, net of investment earnings on unexpended proceeds, used to construct capital assets as capital contributions.

In addition, the State designated for the MTA's use an additional mortgage recording tax (the Additional Mortgage Recording Tax) of one-quarter of 1% of mortgages secured by real estate improved or to be improved by structures containing one to six dwelling units in the MTA transportation region. The funds from this additional tax are available, after satisfying debt service requirements, to meet the capital and operating needs of the Authority and the commuter railroads to be disbursed at MTA's discretion.

No funds from the Additional Mortgage Recording Tax were disbursed to the Authority in 2016 and 2015.

The Authority receives operating assistance directly from The City through The City Mortgage Recording Tax at the rate of five-eighths of 1% of the debt secured by certain real estate mortgages and through the Real Property Transfer Tax at the rate of 1% of certain properties' assessed value (collectively referred to as Urban Tax Subsidies). These Urban Tax Subsidies are reflected in Tax supported subsidies: New York City, in the accompanying consolidated statements of Revenues, Expenses, and Changes in Net Position. These funds are recognized as revenue, based upon the reported amount of taxes collected by The City from underlying transactions, within the Authority's fiscal year.

New York State Regional Mass Transit Taxes — The Authority receives, subject to annual appropriations, revenues from taxes enacted by the State legislature from various taxing sources.

In 1980, the State enacted a series of taxes, portions of which are deposited in the Metro Mass Transportation Operating Account (MMTOA), to fund the operating deficits of State mass transportation systems. MMTOA taxes currently include a business privilege tax imposed on petroleum business in the State, a one-quarter of 1% sales and use tax on certain personal property and services, a corporate franchise tax imposed on transportation and transmission companies, and a temporary franchise tax surcharge on certain corporations, banks, insurance, utility, and transportation companies attributable to business activity carried on in the State. MMTOA taxes are subject to annual appropriation, availability of sufficient tax collections, and determination of operating need by the State for the MTA. They are recognized as revenue in the amount of the annual appropriation when such appropriation becomes effective.

Under New York State law, subject to annual appropriation, the MTA receives operating and capital assistance through a portion of petroleum business tax receipts, certain motor fuel taxes, and certain motor vehicle fees, which are collected by the State. Such assistance is required by law to be allocated, after provision for debt service on any bonds secured by such taxes, 85% to the Authority and 15% to the commuter railroads for their operating and capital needs. MTA Dedicated Tax Fund Bonds (DTF Bonds) are secured by certain petroleum business tax receipts. The Authority recognizes such sources of funds when designated by the MTA for the Authority's use. A portion of the petroleum business tax receipts collected by the MTA is used to satisfy the debt service requirements for the DTF Bonds and is recorded as capital contributions.

Metropolitan Commuter Transportation Mobility Tax — In June 2009, Chapter 25 of the Laws of 2009 added Article 23, which established the Metropolitan Commuter Transportation Mobility Tax (MCTMT). This tax is administered by the NYS Tax Department, and the proceeds from this tax are distributed to the MTA. This tax is imposed on certain employers and self-employed individuals engaging in business within the Metropolitan Commuter Transportation District (MCTD), which includes all counties in New York City, and the counties of Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester. This tax requires certain employers that have payroll expenses within the MCTD to pay at a rate of 0.34% of an employer's payroll expenses for all covered employees for each calendar quarter. The effective date of this tax was March 1, 2009 for employers other than public schools districts; September 1, 2009 for public schools districts, and January 1, 2009 for individuals. Also in 2009, several amendments to the existing tax law provided the MTA supplemental revenues to be deposited into the MTA's Aid Trust Account. These amendments imposed a supplemental fee of one dollar for each six month period of validity of a learner's permit or a driver's license issued to a person residing in the MCTD, a supplemental fee of twenty-five dollars per year on the registration and renewals of registrants of motor vehicles who reside within the MCTD, imposed on taxicab owners a tax of fifty cents per ride on taxicab rides originating in New York City and terminating within the MCTD, and a supplemental tax of five percent of the cost of rentals of automobiles rented within the MCTD. The supplemental Aid Tax receipts are included in the Mobility Tax amounts for reporting purposes.

The composition of New York State tax-supported subsidies for 2016 and 2015 is as follows (in thousands):

| | Accrued Revenue | |
|-------------------------|------------------------|--------------------|
| | 2016 | 2015 |
| Petroleum business tax* | \$ 240,250 | \$ 238,733 |
| Metro mass tax | 1,124,265 | 1,035,757 |
| Payroll Mobility tax | 1,222,507 | 1,077,393 |
| | <u>\$2,587,022</u> | <u>\$2,351,883</u> |

* Net of \$294,932 and \$279,077 for debt service payments in 2016 and 2015, respectively.

Paratransit — Pursuant to an agreement between The City and the MTA, the Authority, effective July 1, 1993, assumed operating responsibility for all paratransit service required by the Americans with Disability Act of 1990. Services are provided by private vendors under contract with the Authority. The City reimburses the Authority for the lesser of 33% of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6% of gross urban tax proceeds as described above, or an amount that is 20% greater than the amount paid by The City for the preceding calendar year. Fare revenues and The City reimbursement aggregated approximately \$196.5 million in 2016 and \$208.5 million in 2015. Total paratransit expenses, including paratransit service contracts, were \$467.0 million and \$461.6 million in 2016 and 2015, respectively.

Operating and Non-operating Expenses — Operating and non-operating expenses are recognized in the accounting period in which the liability is incurred. All expenses related to operating the Authority (e.g. salaries, insurance, depreciation, etc.) are reported as operating expenses. All other expenses (e.g. interest on long-term debt, fuel hedge transactions, etc.) are reported as non-operating expenses.

Reimbursement of Expenditures — Engineering and labor costs incurred by the Authority for capital projects are reimbursed under the capital program by the MTA to the extent that they relate to approved expenditures applicable to capital projects primarily initiated after April 1, 1982. They are reimbursed by The City to the extent they relate to amounts approved for prior projects. In 2016 and 2015, reimbursements were netted against gross operating expenses on the consolidated statements of Revenues, Expenses, and Changes in Net Position.

Fare and Service Reimbursement from the State and City — In 1995, The City ceased reimbursing the Authority for the full costs of the free/reduced fare program for students. Beginning in 1996, the State and The City each began paying \$45 million per annum to the Authority toward the cost of the program. In 2009, the State reduced its \$45 million reimbursement to \$6.3 million. Beginning in 2010, the State increased its annual commitment to \$25.3 million while The City's annual commitment remained at \$45 million. These commitments have been met by both the State and The City for both 2015 and 2016. As of December 31, 2016, the Authority collected \$70.3 million from the State and The City.

Prior to April 1995, The City was obligated to reimburse the Authority for the transit police force. As a result of the April 1995 merger of the transit police force into the New York City Police Department, The City no longer reimburses the Authority for the costs of policing the Transit System on an ongoing basis since policing of the Transit System is being carried out by the New York City Police Department at The City's expense. The Authority continues to be responsible for certain capital costs and support

services related to such police activities, a portion of which is reimbursed by The City. The Authority received approximately \$4.1 million in 2016 and 2015, for the reimbursement of transit police costs.

MTA Investment Pool — The MTA, on behalf of the Authority, invests funds which are not immediately required for Authority's operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. All investments are held by the MTA's agent in custody accounts in the name of the MTA. The Authority categorizes its fair value measurement within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Authority's investment in the MTA Investment Pool is valued based on other observable inputs (Level 2 inputs).

Due to/from MTA and Constituent Authorities — Due to/from MTA and constituent Authorities consists of reimbursements due from the MTA Capital Program for billed and unbilled charges relating to capital projects, farecards and intercompany operating receivables, payables, and inter-agency loan transactions.

Prepaid Expenses and Other Current Assets — The Authority prepaid \$22.1 million to the New York Health Insurance Plan (NYSHIP) and \$22.6 million in risk management related insurance coverage during 2016. The Authority prepaid \$20.6 million to the New York Health Insurance Plan (NYSHIP) and \$24.5 million in risk management related insurance coverage during 2015.

Due from MTA for Purchase of Capital Assets — Due from MTA for purchase of capital assets consists of funds held by the MTA which are restricted for capital asset acquisitions by the Authority pursuant to the 2002 Transportation Revenue Bond Resolution. This capital program pool is comprised of non-bond proceed funds derived from safe harbor and sale/leaseback transactions, operating fund transfers, legal settlements, TBTA bond purchase rights and swap option agreements, and interest earnings on these pooled funds.

Capital Assets — Capital assets acquired prior to April 1982 were funded primarily by The City, with capital grants made available to the Authority. The City has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of the Authority. Subsequent acquisitions, which are part of the capital program, are recorded at cost by the Authority. Funding sources for the acquisition of these capital assets include Federal, State, and City capital grants, grants from the Port Authority of New York and New Jersey, the proceeds from the issuance of Transportation Revenue Bonds, and various TBTA bonding and other sources. Capital assets are recorded at cost and are depreciated on a straight-line basis over 25 or 35 years for subway cars, 12 years for buses, and lives generally ranging from 10 years to 60 years for the other capital assets. Cost includes capitalized interest apportioned to assets during construction. For the purposes of this calculation, interest expense is reported net of investment income.

Contributed Capital — Capital assets contributed by the MTA and restricted funds due from the MTA for the purchase of capital assets are recorded as capital contributions on the consolidated statements of Revenues, Expenses, and Changes in Net Position. Contributed capital is recognized upon identification

of capital costs to be funded by the MTA. Capital contributions for the years ended December 31, 2016 and 2015, consist of the following (in thousands):

| | 2016 | 2015 |
|---|---------------------|---------------------|
| Capital assets contributed by MTA from: | | |
| Federal grants | \$ 977,036 | \$ 1,223,012 |
| Other than federal grants | 1,614,871 | 1,471,641 |
| Petroleum business taxes received for principal and interest payments on debt | 294,932 | 279,077 |
| Principal and interest payments on MTA Transportation bonds issued to fund capital assets | (860,613) | (836,232) |
| Decrease in funds due from MTA for purchase of capital assets | <u>(107,642)</u> | <u>(244,056)</u> |
| Total capital contributions | <u>\$ 1,918,584</u> | <u>\$ 1,893,442</u> |

Passenger Revenue — Revenues from the sale of farecards are recognized as income as the farecards are used and are reported as operating income. Expired fare media revenue is recognized on the date of the expiration on the farecard.

Materials and Supplies — Materials and supplies are recorded at weighted average cost, net of a reserve for obsolescence.

Employee Benefits — Effective for the year-ended December 31, 2015, the Authority adopted the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plans.

The Authority recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the Authority's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the pension plans' measurement dates. Changes in the net pension liability during the year are recorded as pension expense, or as deferred inflows of resources or deferred

outflows of resources depending on the nature of the change, in the year incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the year in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

In 2003, and as a result of collective bargaining, the Authority assumed responsibility for providing health benefits to its employees who are members of the Transport Workers Union (TWU) Local 100, as well as to retirees who were members of the TWU Local 100 and reach normal retirement age while working for the Authority. During 2005, the Authority also began providing health benefits for active and retired members of the Amalgamated Transit Union (ATU) Local 1056 and Local 726. Previously,

these benefits were being provided by the TWU and ATU Health Benefits Trusts (the Trusts) with the Authority required to make monthly contributions to the Trusts on behalf of the participants on a ‘pay as you go’ basis. The majority of the benefits provided under the plan are self-insured with administrative services provided by various health insurance companies.

The Authority has recorded a liability for claims incurred but not reported (IBNR). The liability represents those estimated future payments that are attributable, under the plan’s provisions, to services rendered to participants prior to year-end. The estimated liability of claims includes benefits expected to be paid to retired or terminated employees or their beneficiaries and present employees or their beneficiaries, as applicable. The estimated liability for claims incurred but not reported or paid is \$95.2 million and \$82.3 million as of December 31, 2016 and 2015, respectively.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable required supplementary information (RSI) in the financial reports of state and local governmental employers. In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement No. 45. The Authority has adopted these standards for its Postemployment Benefits Other Than Pensions.

Receivables — Receivables are recorded as amounts due to the Authority, reduced by an allowance for doubtful accounts, to report the receivables at their net realizable value.

Pollution Remediation Projects — Pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 15). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations, which previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: the Authority is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the Authority is named by a regulator as a responsible or potentially responsible party to participate in remediation; the Authority voluntarily commences or legally obligates itself to commence remediation efforts; or the Authority is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

Use of Management’s Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

3. CASH

Cash consists of the following at December 31 (in thousands):

| | Book Balance | |
|---|-------------------------|-------------------------|
| | 2016 | 2015 |
| Insured and collateralized deposits* | \$ 22,415 | \$ 24,158 |
| Less escrow and other restricted deposits | (666) | (803) |
| Commercially insured funds on-hand and in-transit | <u>39,428</u> | <u>38,858</u> |
| | <u><u>\$ 61,177</u></u> | <u><u>\$ 62,213</u></u> |

* Deposits are insured up to FDIC limits of \$250,000 at December 31, 2016.

Deposits in the Authority's bank accounts are collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds, pursuant to the New York State Public Authorities Law. The on-hand and in-transit funds consist primarily of passenger revenue funds collected, but not yet deposited.

4. MTA INVESTMENT POOL

The MTA, on behalf of the Authority, invests funds which are not immediately required for the Authority's operations, in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds. All investments are held by the MTA's agent, in custody accounts, in the name of the MTA. The Authority records its position in the Pool based upon a net asset value derived on assets invested in the Pool plus all realized income and losses earned. The Authority's earnings from short-term investments approximated \$1.9 million and \$0.8 million for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the Authority had an investment pool balance of \$310.7 million and \$521.0 million, respectively.

5. CAPITAL ASSETS

Capital assets, at December 31, 2016 and 2015, consist of the following (in thousands):

| | December 2015 | Additions / Reclassifications | Deletions / Reclassifications | December 2016 |
|--|----------------------|----------------------------------|----------------------------------|----------------------|
| Capital assets not being depreciated: | | | | |
| Construction work-in-progress | \$ 3,483,815 | \$ 2,838,529 | \$ (1,337,501) | \$ 4,984,843 |
| Total capital assets not being depreciated | <u>3,483,815</u> | <u>2,838,529</u> | <u>(1,337,501)</u> | <u>4,984,843</u> |
| Capital assets being depreciated: | | | | |
| Subway cars | 9,439,508 | 85,056 | - | 9,524,564 |
| Buses | 2,649,356 | 160,272 | - | 2,809,628 |
| Track and structures | 12,319,503 | (5,708) | - | 12,313,795 |
| Depots and yards | 4,402,751 | 88,102 | - | 4,490,853 |
| Stations | 16,449,027 | 364,199 | - | 16,813,226 |
| Signals | 5,788,544 | 397,105 | - | 6,185,649 |
| Service vehicles | 346,957 | 15,872 | - | 362,829 |
| Building | 166,733 | - | - | 166,733 |
| Other | 2,185,269 | 267,604 | (797) | 2,452,076 |
| Total capital asset being depreciated | <u>53,747,648</u> | <u>1,372,502</u> | <u>(797)</u> | <u>55,119,353</u> |
| Less accumulated depreciation: | | | | |
| Subway cars | (4,177,275) | (257,923) | - | (4,435,198) |
| Buses | (1,447,608) | (171,641) | - | (1,619,249) |
| Track and structures | (4,101,037) | (289,137) | - | (4,390,174) |
| Depots and yards | (1,807,878) | (125,633) | - | (1,933,511) |
| Stations | (4,095,848) | (480,799) | - | (4,576,647) |
| Signals | (1,529,311) | (167,797) | - | (1,697,108) |
| Service vehicles | (133,872) | (14,939) | - | (148,811) |
| Building | (79,568) | (3,309) | - | (82,877) |
| Other | (1,285,369) | (133,523) | 797 | (1,418,095) |
| Total accumulated depreciation | <u>(18,657,766)</u> | <u>(1,644,701)</u> | <u>797</u> | <u>(20,301,670)</u> |
| Total capital assets being depreciated—net | <u>35,089,882</u> | <u>(272,199)</u> | | <u>34,817,683</u> |
| Capital assets—net | <u>\$ 38,573,697</u> | <u>\$ 2,566,330</u> | <u>\$ (1,337,501)</u> | <u>\$ 39,802,526</u> |

| | December 2014 | Additions / Reclassifications | Deletions / Reclassifications | December 2015 |
|--|----------------------|----------------------------------|----------------------------------|----------------------|
| Capital assets not being depreciated: | | | | |
| Construction work-in-progress | \$ 2,394,771 | \$ 3,633,601 | \$ (2,544,557) | \$ 3,483,815 |
| Total capital assets not being depreciated | <u>2,394,771</u> | <u>3,633,601</u> | <u>(2,544,557)</u> | <u>3,483,815</u> |
| Capital assets being depreciated: | | | | |
| Subway cars | 9,252,199 | 187,309 | - | 9,439,508 |
| Buses | 2,184,906 | 464,450 | - | 2,649,356 |
| Track and structures | 11,802,909 | 516,594 | - | 12,319,503 |
| Depots and yards | 4,172,234 | 230,517 | - | 4,402,751 |
| Stations | 15,746,060 | 702,967 | - | 16,449,027 |
| Signals | 5,535,624 | 252,920 | - | 5,788,544 |
| Service vehicles | 317,435 | 29,522 | - | 346,957 |
| Building | 166,733 | - | - | 166,733 |
| Other | <u>2,708,494</u> | <u>160,278</u> | <u>(683,503)</u> | <u>2,185,269</u> |
| Total capital asset being depreciated | <u>51,886,594</u> | <u>2,544,557</u> | <u>(683,503)</u> | <u>53,747,648</u> |
| Less accumulated depreciation: | | | | |
| Subway cars | (3,885,371) | (291,904) | - | (4,177,275) |
| Buses | (1,254,045) | (193,563) | - | (1,447,608) |
| Track and structures | (3,764,100) | (336,937) | - | (4,101,037) |
| Depots and yards | (1,678,012) | (129,866) | - | (1,807,878) |
| Stations | (3,616,245) | (479,603) | - | (4,095,848) |
| Signals | (1,346,101) | (183,210) | - | (1,529,311) |
| Service vehicles | (118,598) | (15,274) | - | (133,872) |
| Building | (76,260) | (3,308) | - | (79,568) |
| Other | <u>(1,185,840)</u> | <u>(101,867)</u> | <u>2,338</u> | <u>(1,285,369)</u> |
| Total accumulated depreciation | <u>(16,924,572)</u> | <u>(1,735,532)</u> | <u>2,338</u> | <u>(18,657,766)</u> |
| Total capital assets being depreciated—net | <u>34,962,022</u> | <u>809,025</u> | <u>(681,165)</u> | <u>35,089,882</u> |
| Capital assets—net | <u>\$ 37,356,793</u> | <u>\$ 4,442,626</u> | <u>\$ (3,225,722)</u> | <u>\$ 38,573,697</u> |

Capitalized interest totaled \$5.7 million and \$8.8 million in 2016 and 2015, respectively.

Correction of Prior Year Financial Statements — See Note 17 for further information regarding the corrections to balances within the table as of December 31, 2015.

In 1990, the Authority issued approximately \$202.8 million of Transit Facility Revenue Bonds, Series 1990 to fund the acquisition of an office building located at 130 Livingston Street in Brooklyn, New York. The bonds were subsequently defeased in May 2002 by the MTA Transportation Revenue bonds. The property is located on land owned by the New York City Economic Development Corporation (NYC EDC), as trustee for The City, with whom the Authority has entered into a 99-year ground lease. In 2011, the ground lease between the MTA and NYC EDC for Livingston Street was renegotiated with monthly lease payments increasing from approximately \$47,000 to \$111,000 per month. Rent expense, on a cash basis, under the lease was approximately \$1,330,000 in 2016 and 2015.

Lease Transaction — In July 1998, the MTA, the Authority and TBTA authorized and entered into a lease and related agreements whereby each agency, as a sublessee, rents office space at Two Broadway in lower Manhattan. The triple-net-lease has an initial stated term of approximately 50 years, with the right to extend the lease for two successive 15-year periods at a rental of at least 95% of fair market rent. Remaining payments under the lease approximate \$1.2 billion. Under the subleases, the lease is apportioned as follows: the Authority, 68.7%, MTA, 21%; and TBTA, 10.3%. However, the involved agencies have agreed to sub-sublease space from one another as necessary to satisfy actual occupancy needs. The agencies will be responsible for obligations under the lease based on such actual occupancy

percentages. Actual occupancy percentages at December 31, 2016, for the Authority, TBTA and MTA (including MTA Bus, MTA Capital Construction Company and MTA Business Service Center) were 57.6%, 7.5% and 34.9%, respectively. The Authority's sublease is for a year-to-year term, automatically extended, except upon the giving of a nonextension notice by the Authority.

The lease is comprised of both operating and capital elements, with the portion of the lease attributable to the land recorded as an operating lease, and the portion of the lease attributable to the building recorded as a capital lease. Operating rent expenses under the Authority's sublease amounted to \$5.7 million in 2016 and 2015.

Assuming the occupancy percentage at December 31, 2016 will continue, the future minimum lease payments under the Authority's sublease are as follows (in thousands):

| Years Ending December 31 | Operating | Capital |
|---|-------------------|-------------------|
| 2017 | \$ 5,681 | \$ 8,930 |
| 2018 | 5,681 | 8,930 |
| 2019 | 5,681 | 10,323 |
| 2020 | 5,681 | 10,323 |
| 2021 | 5,681 | 10,323 |
| 2022–2026 | 28,403 | 56,133 |
| 2027–2031 | 28,403 | 68,536 |
| 2032–2036 | 28,403 | 83,177 |
| 2037–2041 | 28,403 | 94,451 |
| 2042–2046 | 28,403 | 104,387 |
| 2047–2048 | <u>8,519</u> | <u>32,547</u> |
| Total minimum lease payments | <u>\$ 178,939</u> | 488,060 |
| Less imputed interest | | <u>(319,528)</u> |
| Present value of net minimum lease payments | | <u>\$ 168,532</u> |

The adjusted capital lease for the aforementioned building is being amortized over the remaining life of the lease. The cost of the building and related accumulated amortization at December 31, 2016 and 2015, is as follows (in thousands):

| | 2016 | 2015 |
|--------------------------------|------------------|------------------|
| Capital lease — building | \$ 114,489 | \$ 114,489 |
| Less accumulated amortization | <u>(43,004)</u> | <u>(40,592)</u> |
| Capital lease — building — net | <u>\$ 71,485</u> | <u>\$ 73,897</u> |

In July 1999 and 2000, the MTA issued Certificates of Participation in the amount of \$328.2 million and \$121.2 million, respectively, to finance the renovation of the building and certain other tenant improvements (see Note 8).

The amount of such improvements apportioned to the Authority as of December 31, 2016 and 2015 are as follows (in thousands):

| | 2016 | 2015 |
|-------------------------------|-------------------|-------------------|
| Base building improvements | \$ 134,394 | \$ 134,394 |
| Tenant improvements | 130,792 | 130,792 |
| Furniture and fixtures | 11,434 | 11,434 |
| Computers and equipment | 10,781 | 10,781 |
| Development fees | 6,893 | 6,893 |
| Capitalized interest | <u>13,702</u> | <u>13,702</u> |
| | 307,996 | 307,996 |
| Less accumulated depreciation | <u>(204,963)</u> | <u>(201,739)</u> |
| Total leasehold improvements | <u>\$ 103,033</u> | <u>\$ 106,257</u> |

6. EMPLOYEE BENEFITS

Pensions — The Authority participates in two defined benefit pension plans for their employees, the Manhattan and Bronx Surface Transit Operating Authority Pension Plan (MaBSTOA) and New York City Employees' Retirement System (NYCERS). A brief description of each of the pension plans follows:

Plan Descriptions

MaBSTOA — The MaBSTOA Plan is a single-employer governmental retirement plan, administered by MTA New York City Transit. MaBSTOA employees are specifically excluded from NYCERS. Effective January 1, 1999, in order to afford managerial and nonrepresented MaBSTOA employees the same pension rights as like title employees in the New York City Transit Authority, membership in the MaBSTOA Plan is optional. The Plan provides retirement as well as death, accident, and disability benefits.

The Board of Administration, established in 1963, determines eligibility of employees and beneficiaries for retirement and death benefits. Article 12.08 of the MaBSTOA plan assigns authority to the MaBSTOA Board to establish and amend benefit provisions. The Board is composed of five members: two representatives from the Transport Workers Union, Local 100 (TWU) and three employer representatives.

The pension plan issues a publicly available financial report that includes financial statements and required supplementary information regarding the employee benefit plan. The report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, 2 Broadway, 10th Floor, New York, New York, 10004 or at www.mta.info.

NYCERS — The NYCERS Plan is a cost-sharing, multiple-employer retirement system for employees of The City of New York (The City) and certain other governmental units whose employees are not otherwise members of The City's four other pension systems. NYCERS administers the New York City Employees Retirement System qualified pension plan.

NYCERS was established by an act of the Legislature of the State of New York under Chapter 427 of the Laws of 1920. NYCERS functions in accordance with the governing statutes contained in the New York State Retirement and Social Security Law (RSSL), and the New York City Administrative Code, which are the basis by which benefit terms and employer and member contribution requirements are established and amended. The head of the retirement system is the Board of Trustees.

NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the New York City Employees' Retirement System at 335 Adams Street, Suite 2300, Brooklyn, NY 11201-3724 or at www.nycers.org.

All employees holding permanent civil service positions in the competitive or labor class are required to become members of the NYCERS six months after their date of appointment, but may voluntarily elect to join the NYCERS prior to their mandated membership date. All other eligible employees have the option of joining the NYCERS upon appointment or anytime thereafter. NYCERS members are assigned to a "tier" depending on the date of their membership.

Tier 1 All members who joined prior to July 1, 1973.

Tier 2 All members who joined on or after July 1, 1973 and before July 27, 1976.

Tier 3 Only certain members who joined on or after July 27, 1976 and prior to April 1, 2012.

Tier 4 All members (with certain member exceptions) who joined on or after July 27, 1976 but prior to April 1, 2012. Members who joined on or after July 27, 1976 but prior to September 1, 1983 retain all rights and benefits of Tier 3 membership.

Tier 6 Members who joined on or after April 1, 2012.

Benefits Provided

MaBSTOA — MaBSTOA provides retirement, disability, death, and accident benefits to plan members and beneficiaries. The benefits provided by the Plan are generally similar to the benefits provided to participants in NYCERS. Benefits vest after either 5, 10, or 20 years of credited service, depending on the date of employment.

In 2008, NYCERS has determined that Tier 4 employees are and have been eligible for a post retirement death benefit retroactive to 1986. In June 2012, the MTA Board approved an amendment to the MaBSTOA Plan to provide for incorporation of this benefit.

Tier 1 —

Eligibility and Benefit Calculation: Tier 1 members must be at least age 50 with the completion of 20 years of service to be eligible to collect a service retirement benefit. Generally, the benefit is 1.50% for service before March 1, 1962, plus 2.0% for service from March 1, 1962 to June 30, 1970, plus 2.5% for service after June 30, 1970. The accumulated percentage, up to a maximum of 50%, is multiplied by the member's compensation, which is the greater of earned salary during the year prior to retirement. Once the accumulated reaches 50%, the percentage for each further year of service reverts back to 1.5%. The percentage in excess of 50% is multiplied by the final compensation, which is the highest average earnings over five consecutive years.

Ordinary Disability Benefits — Generally, ordinary disability benefits, are provided to eligible Tier 1 members after ten years of service with the benefit equal to the greater of the service retirement percentages or 25% multiplied by final compensation.

Accidental Disability Benefits — The accidental disability benefit to eligible Tier 1 members is equal to 75% of final compensation reduced by 100% of any worker's compensation payments.

Ordinary Death Benefits — Tier 1 members requires the completion of six months of service but completion of twenty years of service is required to receive a lump sum equal to the present value of the retirement benefit.

Tier 2 —

Eligibility and Benefit Calculation: Tier 2 members must be at least age 55 with the completion of 25 years of service to be eligible to collect a service retirement benefit. Generally, the benefit equals 50% of final 3-year average compensation, defined as the highest average earnings over three consecutive years, plus 1% of final 5-year average compensation, defined as the highest average earnings over five consecutive years, per year of credited service in excess of 20 years. For early retirement, members must be at least age 50 with the completion of at least 20 years of service. The benefit is determined in the same manner as the service retirement but not greater than 2.0% of final 3-year average compensation per year of service.

Ordinary Disability Benefits — Generally, ordinary disability benefits, are provided to eligible Tier 2 members after ten years of service with the benefit equal to the greater of the service retirement percentages or 25% multiplied by the final 5- year average compensation.

Accidental Disability Benefits — The accidental disability benefit to eligible Tier 2 members is equal to 75% of the final 5-year average compensation reduced by any worker's compensation payments.

Ordinary Death Benefits — Tier 2 members require the completion of 90 days of service to receive a lump sum equal to 3 times salary, raised to the next multiple of \$1,000.

Tiers 3 and 4 —

Eligibility and Benefit Calculation: Tier 3 and 4 members in the Regular 62 and 5 Plan must be at least age 62 with the completion of at least 5 years of service to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 2.0% of Final Average Salary (FAS) for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. FAS is defined as the highest average earnings over three consecutive years, of which earnings in a year cannot exceed 110% of the average of the two preceding years. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. For early retirement, members must be at least age 55 with the completion of at least 5 years of service. The benefit equals the service retirement benefit reduced by 6% for each of the first two years prior to age 62, and by 3% for years prior to age 60.

Tier 3 and 4 members in the Regular 55 and 25 Plan must be at least age 55 with the completion of at least 25 years of service, or be at least age 62 with the completion of at least 5 years of service, to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 25 years of service, is equal to 2.0% of FAS for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 25 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service.

Tier 4 members in the 57 & 5 Plan must be at least age 57 with the completion of at least 5 years of service to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 2.0% of FAS for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service.

Ordinary and Accidental Disability Benefits — For eligible members of the Regular 62 and 5 Plan, 55 and 25 Plan and 57 and 5 Plan, ordinary and accidental disability benefits, are provided after 10 years of service for ordinary and no service required for accidental. The benefit equals the greater of 1-2/3% of FAS per year of service and 1/3 of FAS.

Ordinary Death Benefits — For eligible members of the Regular 62 and 5 Plan, 55 and 25 Plan, 57 and 5 Plan, the pre-retirement ordinary death benefit is equal to a lump sum of annual salary times the lesser of completed years of service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable. Upon retirement, the post-retirement benefit is reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

Tier 6 —

Eligibility and Benefit Calculation: Tier 6 members in the 55 and 25 Special Plan must be at least age 55 with the completion of at least 25 years, or at least age 63 with the completion of at least 10 years of service, to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 25 years of service, is equal to 2.0% of FAS for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. FAS is defined as the highest average pensionable earnings over five consecutive years.

Tier 6 members in the Basic 63 and 10 Plan must be at least age 63 with the completion of at least 10 years to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 35% of FAS plus 2.0% of FAS for years of service in excess of 20. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. FAS is defined as the highest average pensionable earnings over five consecutive years. For early retirement, members must be at least age 55 with the completion of at least 10 years of service. The benefit equals the service retirement benefit reduced by 6.5% for each year prior to age 63.

Ordinary and Accidental Disability Benefits — For eligible members of the 55 and 25 Special Plan and the Basic 63 and 10 Plan, ordinary and accidental disability benefits, are provided after 10 years of service for ordinary and no service required for accidental. The benefit equals the greater of 1-2/3% of FAS per year of service and 1/3 of FAS.

Ordinary Death Benefits — For eligible members of the 55 and 25 Special Plan and the Basic 63 and 10 Plan, the pre-retirement ordinary death benefit is equal to a lump sum of annual salary times the lesser of completed years of service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable. Upon retirement, the post-retirement benefit is reduced by 50% and reduced an additional 25% after completion of one year of retirement.

After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

NYCERS — NYCERS provides three main types of retirement benefits: Service Retirements, Ordinary Disability Retirements (non-job-related disabilities) and Accident Disability Retirements (job-related disabilities) to participants generally based on salary, length of service, and member Tiers.

The Service Retirement benefits provided to Tier 1 participants fall into four categories according to the level of benefits provided and the years of service required. Three of the four categories provide annual benefits of 50% to 55% of final salary after 20 or 25 years of service, with additional benefits equal to a specified percentage per year of service (currently 1.2% to 1.7%) of final salary. The fourth category has no minimum service requirement and instead provides an annual benefit for each year of service equal to a specified percentage (currently 0.7% to 1.53%) of final salary.

Tier 2 participants have provisions similar to Tier 1, except that the eligibility for retirement and the salary base for benefits are different and there is a limitation on the maximum benefit.

Tier 3 participants were later mandated into Tier 4, but could retain their Tier 3 rights. The benefits for Tier 3 participants are reduced by one half of the primary Social Security benefit attributable to service, and provides for an automatic annual cost-of-living escalator in pension benefits of not more than 3.0%.

During March 2012, the Governor signed Chapter 18 of the Laws of 2012 that placed certain limitations on the Tier 3 and Tier 4 benefits available to participants who joined on and after April 1, 2012. In general, these changes, commonly referred to as Tier 6, increase the age requirement to 63 for most non-uniformed employees to retire and receive a full pension, require member contributions for all years of service for non-uniformed employees, institute progressive member contributions for non-uniformed employees, and lengthen the final average salary period from 3 to 5 years.

NYCERS provides automatic Cost-of-Living Adjustments (COLA), death benefits, accident, disability retirement benefits, and other supplemental pension benefits to certain retirees and beneficiaries. Members become fully vested as to benefits upon the completion of 5 years of service.

The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired. In 1973, 1976, 1983 and 2012, significant amendments made to the State Retirement and Social Security Law (RSSL) modified certain benefits for employees joining the Plan on or after the effective date of such amendments, creating membership tiers.

Membership

Membership in the MaBSTOA pension plan consisted of the following at January 1, 2015 and 2014, the date of the latest actuarial valuations:

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| Active Plan Members | 8,122 | 7,739 |
| Retirees and beneficiaries receiving benefits | 5,394 | 5,168 |
| Vested formerly active members not yet receiving benefits | <u>1,054</u> | <u>1,104</u> |
| Total | <u><u>14,570</u></u> | <u><u>14,011</u></u> |

Contributions and Funding Policy

MaBSTOA — The contribution requirements of plan members are established, approved and may be amended only by the MaBSTOA Board, in accordance with the Articles of the MaBSTOA plan. The financial objective of the Plan is to fund, on an actuarial basis, the retirement and death benefits for eligible MaBSTOA employees and beneficiaries. The Plan's funding policy is for periodic employer contributions to provide for actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. MaBSTOA contributions to the fund are made annually.

The MaBSTOA Pension Plan includes the following plans: (i.) the Tier 3 and 4 Transit Age 62 Plan; (ii.) the Tier 6 Age 63 Plan; (iii.) the 55/25 Plan; (iv.) the Tier 4 25 Year Early Retirement Plan; (v.) the Tier 4 Age 57 Plan, and (vi.) the 2000 amendments which are all under the same terms and conditions as NYCERS.

For employees, the Plan has both contributory and noncontributory requirements depending on the date of entry into service. Employees entering qualifying service on or before July 26, 1976, are non-contributing (Tiers 1 and 2). Certain employees entering qualifying service on or after July 27, 1976, are required to contribute 3% of their salary (Tiers 3 and 4).

In March 2012, pursuant to Chapter 18 of the Laws of 2012, individuals joining NYCERS or the MaBSTOA Pension Plan on or after April 1, 2012 are subject to the provisions of Tier 6. The highlights of Tier 6 include:

- Increases in employee contribution rates. The rate varies depending on salary, ranging from 3% to 6% of gross wages. Contributions are made until retirement or separation from service.
- The retirement age increases to 63 and includes early retirement penalties, which reduce pension allowances by 6.5 percent for each year of retirement prior to age 63.
- Vesting after 10 years of credited service; increased from 5 years of credited service under Tier 3 and Tier 4.
- Adjustments of the Pension Multiplier for calculating pension benefits (excluding Transit Operating Employees): the multiplier will be 1.75% for the first 20 years of service, and 2% starting in the 21st year; for an employee who works 30 years, their pension will be 55% of FAS under Tier 6, instead of 60% percent under Tier 4.
- Adjustments to the FAS Calculation; the computation changed from an average of the final 3 years to an average of the final 5 years. Pensionable overtime will be capped at \$15,000 per year plus an inflation factor.
- Pension buyback in Tier 6 will be at a rate of 6% of the wages earned during the period of buyback, plus 5% compounded annually from the date of service until date of payment.

Pursuant to Section 7.03 of the MaBSTOA Plan, active plan members are permitted to borrow up to 75% of their contributions with interest. Their total contributions and interest remain intact and interest continues to accrue on the full balance. The participant's accumulated contribution account is used as collateral against the loan.

Upon termination of employment before retirement, certain participants are entitled to refunds of their own contributions including accumulated interest less any loans outstanding.

Contributions as a percent of covered payroll are 30.5% and 31.0% for the year ended December 31, 2016 and 2015, respectively. The Authority's contributions to the MaBSTOA plan amounted to \$220.7 million and \$214.9 million for the year ended December 31, 2016 and 2015, respectively.

NYCERS — NYCERS funding policy is to contribute statutorily-required contributions (Statutory Contributions), determined by the Chief Actuary for the New York City Retirement System, in accordance with State statutes and City laws, and are generally funded by employers within the appropriate Fiscal Year. The Statutory Contributions are determined under the One-Year Lag Methodology (OYLM). Under OYLM, the actuarial valuation date is used for calculating the Employer Contributions for the second following Fiscal Year. Statutory Contributions are determined annually to be an amount that, together with member contributions and investment income, provides for NYCERS' assets to be sufficient to pay benefits when due.

Member contributions are established by law. NYCERS has both contributory and noncontributory requirements, with retirement age varying from 55 to 70 depending upon when an employee last entered qualifying service.

In general, Tier 1 and Tier 2 member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tier 3 and Tier 4 members make basic contributions of 3.0% of salary, regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees enrolled in the Transit 20-Year Plan, are not required to make basic contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. In addition, members who meet certain eligibility requirements will receive one month's additional service credit for each completed year of service up to a maximum of two additional years of service credit. Effective December 2000, certain Transit Authority Tier 3 and Tier 4 members make basic member contributions of 2.0% of salary, in accordance with Chapter 10 of the Laws of 2000. Certain Tier 2, Tier 3 and Tier 4 members who are participants in special retirement plans are required to make additional member contributions of 1.85%, in addition to their base membership contribution. Tier 6 members are mandated to contribute between 3.0% and 6.0% of salary, depending on salary level, until they separate from City service or until they retire.

The Authority is required to contribute at an actuarially determined rate. Contributions as percent of covered payroll are 21.9% and 21.6% for the year ended December 31, 2016 and 2015, respectively. The Authority's contributions to NYCERS for the years ended December 31, 2016 and 2015 were \$753.2 million and \$694.4 million, respectively.

Net Pension Liability

The Authority's net pension liabilities for each of the pension plans reported at December 31, 2016 and 2015 were measured as of December 31, 2015 and 2014, respectively for the MaBSTOA plan and June 30, 2016 and 2015, respectively for NYCERS. The total pension liability for each of the pension plans were determined as of the actuarial valuation dates of January 1, 2015 and 2014 for MaBSTOA plan and June 30, 2014 and 2013 for NYCERS, respectively, and updated to roll forward the total pension liability to the respective year-ends. The fiduciary net position and additions to and deductions from the fiduciary net position have been determined on the same basis as reported by NYCERS and MaBSTOA. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the Plan; and investments are reported at fair value.

Actuarial Assumptions

The total pension liability in each pension plan's actuarial valuation dates were determined using the following actuarial assumptions for each of the pension plans as follows:

| Valuation Date: | MaBSTOA | | NYCERS | |
|---------------------------------------|--|--|--|--|
| | January 1, 2015 | January 1, 2014 | June 30, 2014 | June 30, 2013 |
| Investment Rate of Return | 7.00% per annum, net of investment expenses | 7.00% per annum, net of investment expenses | 7.00% per annum, net of investment expenses | 7.00% per annum, net of investment expenses |
| Salary Increases | In general, merit and promotion increases, plus assumed General Wage increases of 3.5% per year to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service. | In general, merit and promotion increases, plus assumed General Wage increases of 3.5% per year to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service. | In general, merit and promotion increases, plus assumed General Wage increases of 3.0% per year. | In general, merit and promotion increases, plus assumed General Wage increases of 3.0% per year. |
| Inflation | 2.50% | 2.50% | 2.50% | 2.50% |
| Cost-of Living Adjustments | 1.375% per annum | 1.375% per annum | 1.5% per annum for Tiers 1, 2, 4 and certain Tier 3 and Tier 6 retirees. 2.5% per annum for certain Tier 3 and Tier 6 retirees | 1.5% per annum for Tiers 1, 2, 4 and certain Tier 3 and Tier 6 retirees. 2.5% per annum for certain Tier 3 and Tier 6 retirees |
| Mortality | Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all the Authority plans. | Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all the Authority plans. | Mortality tables for service and disability pensioners were developed from an experience study of the plan. The mortality tables for beneficiaries were developed from an experience review. | Mortality tables for service and disability pensioners were developed from an experience study of the plan. The mortality tables for beneficiaries were developed from an experience review. |
| Pre-retirement | RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments. | RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments. | N/A | N/A |
| Post-retirement- Healthy Lives | 95% of the rates from the RP-2000 Healthy Annuitant mortality table for males with blue collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant mortality table for females. | 95% of the rates from the RP-2000 Healthy Annuitant mortality table for males with blue collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant mortality table for females. | N/A | N/A |
| Post-retirement Disabled Lives | 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females. | 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females. | N/A | N/A |

Expected Rate of Return on Investments

The long-term expected rate of return on investments of 7.0% for both the MaBSTOA plan and NYCERS was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

For the MaBSTOA Plan and NYCERS plan, the long-term expected rate of return on investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocations of each of the funds and the expected real rate of returns (RROR) for each of the asset class in the MaBSTOA plan and NYCERS were as of the measurement dates of December 31, 2015 and June 30, 2016, respectively, are summarized as follows:

| Asset Class | MaBSTOA Plan | |
|---|--------------------------------|---|
| | Target Asset Allocation | Long-Term Expected Real Rate of Return |
| US Core Fixed Income | 10.00% | 2.11% |
| US High Yield Bonds | 8.00% | 4.32% |
| Global Bonds | 10.00% | 0.82% |
| Emerging Markets Bonds | 3.00% | 5.17% |
| US Large Caps | 10.00% | 5.09% |
| US Small Caps | 5.50% | 6.26% |
| Global Equity | 10.00% | 5.67% |
| Foreign Developed Equity | 10.00% | 6.06% |
| Emerging Markets Equity | 3.50% | 8.21% |
| Global REITs | 5.00% | 5.98% |
| Private Real Estate Property | 3.00% | 3.84% |
| Private Equity | 7.00% | 9.17% |
| Hedge Funds - MultiStrategy | 15.00% | 4.20% |
| | <u>100.00%</u> | |
| Assumed Inflation - Mean | | 2.50% |
| Assumed Inflation - Standard Deviation | | 1.89% |
| Portfolio Arithmetic Mean Return as per Actuary | | 7.31% |
| Portfolio Standard Deviation | | 11.67% |
| Long Term Expected Rate of Return selected by MTA | | 7.00% |

| Asset Class | NYCERS | |
|---|-------------------------|--|
| | Target Asset Allocation | Long-Term Expected Real Rate of Return |
| U.S. Public Market Equities | 32.60% | 2.15% |
| International Public Market Equities | 10.00% | 0.70% |
| Emerging Public Market Equities | 6.90% | 0.55% |
| Private Market Equities | 7.00% | 0.69% |
| Fixed Income | 33.50% | 0.90% |
| Alternatives (Real Assets, Hedge Funds) | 10.00% | 0.40% |
| | <u>100.00%</u> | |
| Assumed Inflation - Mean | | 2.50% |
| Long Term Expected Rate of Return | | 7.00% |

Discount Rate

The discount rate used to measure the total pension liability was 7.0% for both the MaBSTOA plan and NYCERS as of December 31, 2015 and June 30, 2016, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each pension plan and that employer contributions will be made at the rates determined by each pension plan's actuary. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and non-active members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability — MaBSTOA

The Authority's net pension liability for the MaBSTOA plan at the measurement date of December 31, 2015 and 2014 were as follows (in thousands):

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|--|-------------------------|-----------------------------|-----------------------|
| Balance as of December 31, 2014 | \$ 3,331,464 | \$ 2,265,293 | \$ 1,066,171 |
| Changes for fiscal year 2015: | | | |
| Service Cost | 77,045 | - | 77,045 |
| Interest on total pension liability | 232,404 | - | 232,404 |
| Effect of plan changes | - | - | - |
| Effect of economic/demographic (gains) or losses | (68,996) | - | (68,996) |
| Effect of assumption changes or inputs | - | - | - |
| Benefit payments and withdrawals | (179,928) | (179,928) | - |
| Administrative expense | - | (88) | 88 |
| Member contributions | - | 16,321 | (16,321) |
| Net investment income | - | (24,163) | 24,163 |
| Employer contributions | - | 214,881 | (214,881) |
| Balance as of December 31, 2015 | <u>\$ 3,391,989</u> | <u>\$ 2,292,316</u> | <u>\$ 1,099,673</u> |

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|--|--|--|--------------------------------------|
| Balance as of December 31, 2013 | \$ 3,212,528 | \$ 2,093,895 | \$ 1,118,633 |
| Changes for fiscal year 2014: | | | |
| Service Cost | 72,091 | - | 72,091 |
| Interest on total pension liability | 223,887 | - | 223,887 |
| Effect of plan changes | - | - | - |
| Effect of economic/demographic (gains) or losses | (1,596) | - | (1,596) |
| Effect of assumption changes or inputs | - | - | - |
| Benefit payments and withdrawals | (175,446) | (175,446) | - |
| Administrative expense | - | (74) | 74 |
| Member contributions | - | 15,460 | (15,460) |
| Net investment income | - | 105,084 | (105,084) |
| Employer contributions | - | 226,374 | (226,374) |
| Balance as of December 31, 2014 | <u>\$ 3,331,464</u> | <u>\$ 2,265,293</u> | <u>\$ 1,066,171</u> |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's net pension liability calculated using the current discount rate of 7.0% for the MaBSTOA Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate used as of each measurement date:

| | December 31, 2015 | | | December 31, 2014 | | |
|-----------------------|--------------------------|-------------------------|-----------------------|--------------------------|-------------------------|-----------------------|
| | 1% Decrease (6.0%) | Discount Rate (7.0%) | 1% Increase (8.0%) | 1% Decrease (6.0%) | Discount Rate (7.0%) | 1% Increase (8.0%) |
| | (in thousands) | | | (in thousands) | | |
| Net Pension Liability | \$ 1,480,961 | \$ 1,099,673 | \$ 775,092 | \$ 1,448,685 | \$ 1,066,171 | \$ 740,824 |

The Authority's Proportion of Net Pension Liability — NYCERS

The following table presents the Authority's proportionate share of the net pension liability of NYCERS at the measurement date of June 30, 2016 and 2015, and the proportion percentage of the net pension liability of NYCERS allocated to the Authority:

| | June 30, 2016 | June 30, 2015 |
|--|----------------------|----------------------|
| | (in millions) | |
| The Authority's proportion of the net pension liability | 22.227 % | 22.380 % |
| The Authority's proportionate share of the net pension liability | \$ 5,400.45 | \$ 4,529.90 |

The Authority's proportion of the net pension liability was based on the Authority's actual contributions made to NYCERS for the year-ended June 30, 2016 and 2015, relative to the contributions of all employers in the plan.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.0% for NYCERS, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate used as of each measurement date:

| | June 30, 2016 | | | June 30, 2015 | | |
|--|-----------------------|-------------------------|-----------------------|-----------------------|-------------------------|-----------------------|
| | 1% Decrease (6.0%) | Discount Rate (7.0%) | 1% Increase (8.0%) | 1% Decrease (6.0%) | Discount Rate (7.0%) | 1% Increase (8.0%) |
| | (in thousands) | | | (in thousands) | | |
| The Authority's proportionate share of the net pension liability | \$ 7,404,577 | \$ 5,400,455 | \$ 3,721,880 | \$ 6,264,740 | \$ 4,529,885 | \$ 2,918,361 |

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016 and 2015, the Authority recognized pension expense related to each pension plan as follows (in thousands):

| Pension Plans | December 31, | |
|----------------------|---------------------|-------------------|
| | 2016 | 2015 |
| MaBSTOA | \$ 167,000 | \$ 134,139 |
| NYCERS | 656,458 | 417,895 |
| Total | <u>\$ 823,458</u> | <u>\$ 552,034</u> |

For the years ended December 31, 2016 and 2015, the Authority's reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows (in thousands):

| For the Year Ended December 31, 2016 | MaBSTOA | | NYCERS | | Total | |
|--|---|--|---|--|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 59,108 | \$ - | \$ 153,291 | \$ - | \$ 212,399 |
| Changes in actuarial assumptions | - | - | 398,618 | - | 398,618 | - |
| Net difference between projected and actual earnings on pension plan investments | 174,012 | - | 292,142 | - | 466,154 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - | (62,517) | (2,248) | (62,517) | (2,248) |
| Employer contributions to plan subsequent to the measurement date of net pension liability | 220,697 | - | 379,222 | - | 599,919 | - |
| Total | <u>\$ 394,709</u> | <u>\$ 59,108</u> | <u>\$ 1,007,465</u> | <u>\$ 151,043</u> | <u>\$ 1,402,174</u> | <u>\$ 210,151</u> |

| For the Year Ended December 31, 2015 | MaBSTOA | | NYCERS | | Total | |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 1,329 | \$ - | \$ 45,423 | \$ - | \$ 46,752 |
| Net difference between projected and actual earnings on pension plan investments | 34,849 | - | - | 376,242 | 34,849 | 376,242 |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - | (63,287) | - | (63,287) | - |
| Employer contributions to plan subsequent to the measurement date of net pension liability | <u>214,882</u> | <u>-</u> | <u>340,683</u> | <u>-</u> | <u>555,565</u> | <u>-</u> |
| Total | <u>\$ 249,731</u> | <u>\$ 1,329</u> | <u>\$ 277,396</u> | <u>\$ 421,665</u> | <u>\$ 527,127</u> | <u>\$ 422,994</u> |

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs.

The following table presents the recognition periods used by each pension plans to amortize the annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions, beginning the year in which the deferred amount occurs.

| Pension Plan | Recognition Period (in years) | | |
|--------------|--|---|--|
| | Differences Between Expected and Actual Experience | Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | Changes in Actuarial Assumptions |
| MaBSTOA | 6.30 | N/A | 6.30 |
| NYCERS | 3.33 | 3.33 | 3.33 |

For the years ended December 31, 2016 and 2015, \$599.9 and \$555.6 were reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-ended

December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2016 will be recognized as pension expense as follows:

| Year Ending December 31: | MaBSTOA | NYCERS | Total |
|---------------------------------|--------------------------|--------------------------|--------------------------|
| 2017 | \$ 34,464 | \$ (14,194) | \$ 20,270 |
| 2018 | 34,464 | 103,215 | 137,679 |
| 2019 | 34,464 | 269,971 | 304,435 |
| 2020 | 25,751 | 118,208 | 143,959 |
| 2021 | (10,952) | - | (10,952) |
| Thereafter | <u>(3,287)</u> | <u>-</u> | <u>(3,287)</u> |
| Total | <u>\$ 114,904</u> | <u>\$ 477,200</u> | <u>\$ 592,104</u> |

Deferred Compensation Plans — As permitted by Internal Revenue Code Section 457, the Authority 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 Authority's consolidated statements of net position.

Certain Authority employees are participants in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). Participation in the plan is available to all nonunion and certain other employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are solely the property of the participants; accordingly, this plan is not reflected in the accompanying consolidated statements of net position. The Authority is not required to contribute to the plan.

7. OTHER POSTEMPLOYMENT BENEFITS

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

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

Plan Description — The benefits provided by the Authority include medical, pharmacy, dental, vision and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement and welfare fund contributions. The different types of benefits provided vary by employee type (represented employees versus management). All benefits are provided upon retirement as stated in the applicable pension plan (NYCERS and the MaBSTOA Plan). The Authority provides benefits to some members if terminated within 5 years of attaining retirement eligibility.

The Authority participates in the New York State Health Insurance Program (NYSHIP) to provide medical and prescription drug benefits, including Medicare Part B reimbursements, to many of its

members. NYSHIP provides a Preferred Provider Organization (PPO) plan and several Health Maintenance Organization (HMO) plans. Represented and other New York City Transit employees who retired prior to January 1, 1996 or January 1, 2001, do not participate in NYSHIP. These benefits are provided either through a self-insured health plan, a fully insured or an HMO.

The Authority is a participating employer in NYSHIP. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Services, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

In 2003 and as a result of collective bargaining agreements, the Authority assumed responsibility for directly providing health care benefits to TWU retirees or their beneficiaries, rather than via the TWU Health & Welfare Trust Fund. In 2005, the Authority also began to administer health care benefits for ATU Local 1056 and Local 726 retirees or their beneficiaries as their respective health and welfare trust funds were dissolved.

GASB 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2015 and was performed with a valuation date of January 1, 2014. The total number of plan participants as of December 31, 2016 receiving retirement benefits was 29,887.

During 2012, MTA funded \$250 million into an OPEB Trust (Trust) allocated between Headquarters and New York City Transit. In addition, \$50 million was funded during 2013 allocated between Long Island Railroad and Metro-North Railroad. There have been no further contributions made to the Trust. Under GASB 45, the discount rate is based on the assets in a trust, the assets of the employer or a blend of the two based on the anticipated funding levels of the employer. For this valuation, the discount rate reflects a blend of Trust assets and employer assets. The assumed return on Trust assets is 6.5% whereas the assumed return on employer assets is 3.25% resulting in a discount rate under GASB 45 of 3.50%, which is slightly lower than the discount rate of 3.75% used in the prior valuation. This decrease is primarily due to the decrease in Treasury yields and thus, returns on employer assets since the prior valuation. The Authority's transfer to the Trust fund inception to date is \$162.5 million.

Annual OPEB Cost (AOC) and Net OPEB Obligation — The Authority's annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. Currently, the Authority expenses the actual benefits paid during a year. The cumulative difference between the annual OPEB cost (new method) and the benefits paid during a year (old method) will result in a net OPEB obligation (the Net OPEB Obligation), included in the consolidated statements of net position. The annual OPEB cost is equal to the annual required contribution (the ARC) less adjustments if a Net OPEB Obligation exists and plus the interest on Net OPEB Obligation. The ARC is equal to the normal cost plus an amortization of the unfunded liability.

Actuarial Cost, Amortization Methods and Assumptions — For determining the ARC, the Authority has chosen to use the Frozen Initial Liability cost method (the FIL Cost Method), one of the cost methods in accordance with the parameters of GASB 45. The initial liability is amortized over a 22-year period. The remaining amortization period at December 31, 2016, is 13 years.

In order to recognize the liability over an employee's career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the Accrued Liability or Past Service Liability), the part that is being earned this year (the Normal Cost), and the part that will be earned in future years (the Future Service Liability). Under the FIL Cost Method, an initial past service liability is determined based on the Entry Age Normal (EAN) Cost Method and is amortized separately. This

method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

The Frozen Unfunded Accrued Liability is determined each year as the Frozen Unfunded Accrued Liability for the prior year, increased with interest, reduced by the end-of-year amortization payment and increased or decreased by any new bases established for the current year.

The difference between the Actuarial Present Value of Benefits and the Frozen Unfunded Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

The ARC is equal to the sum of the Normal Cost and the amortization for the Frozen Unfunded Accrued Liability with appropriate interest adjustments. Any difference between the ARC and actual plan contributions from the prior year are considered an actuarial gain/loss and thus, are included in the development of the Normal Cost.

Valuation Date — The valuation date is the date that all participant and other pertinent information is collected and liabilities are measured. This date may not be more than 24 months prior to the beginning of the fiscal year. The valuation date for this valuation is January 1, 2014 which is 24 months prior to the beginning of the 2016 fiscal year. Census data for the next full valuation will be based on a valuation date of January 1, 2016.

Inflation Rate — 2.5% per annum compounded annually.

Discount Rate — GASB 45 provides guidance to employers in selecting the discount rate. The discount rate should be based on the estimated long-term investment yield on the investments that are expected to be used to finance the benefits. If there are no plan assets, assets of the employer should be used to derive the discount rate. This would most likely result in a lower discount rate and thus, liabilities significantly higher than if the benefits are prefunded. In recognition of the decrease in short-term investment yields partially offset by the establishment of a trust, the discount rate for this valuation has been lowered from 3.75% to 3.50%.

Healthcare Reform — The valuation reflects the actuaries understanding of the impact in future health costs due to the Affordable Care Act (ACA) passed into law in March 2010. An excise tax for high cost health coverage or “Cadillac” health plans was included in ACA. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted. Legislative changes passed in December 2015 have delayed the effective date of the excise tax until 2020. However, the calculation of the threshold amounts remains unchanged. Also included in ACA are various fees (including, but not limited to, the Patient-Centered Outcomes Research Institute fee, Transitional Reinsurance Program fee, and the Health Insurer fee) associated with the initiation of health exchanges in 2014. The current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax and ACA fees which apply to the plan are not included. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the excise tax.

The OPEB-specific actuarial assumptions used in the most recent biennial valuations are as follows:

| | |
|----------------------------------|-------------------------------------|
| Valuation date | January 1, 2014 |
| Actuarial cost method | Frozen Initial Liability |
| Discount rate | 3.50% |
| Price inflation | 2.5% per annum, compounded annually |
| Per-Capita retiree contributions | * |
| Amortization method | Frozen Initial Liability |
| Amortization period | 13 years |
| Period closed or open | Closed |

* In general, all coverages are paid for by the Authority.

Actuarial valuation involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Per Capita Claim Costs (PCCC) — Use of a blended premium rate for active employees and retirees under age 65 is a common practice. Health costs generally increase with age, so the blended premium rate is higher than the true underlying cost for actives and the blended premium is lower than the true underlying cost for retirees. For retirees, this difference is called the implicit rate subsidy. Since GASB 45 only requires an actuarial valuation for retirees, it requires the plan sponsor to determine the costs of these benefits by removing the subsidy. However, a plan sponsor may use the premiums without adjustment for age if the employer participates in a community-rated plan, in which the premium rates reflect projected health claims experience of all participating employers, or if the insurer would offer the same premium rate if only non-Medicare-eligible retirees were covered.

Based on an initial 2006 report, as well as an updated 2014 report, from the Department of Civil Service of the State of New York regarding recommended actuarial assumptions used for New York State/SUNY's GASB 45 valuation sent to all participating employers, it stated that the Empire Plan of NYSHIP is community-rated for all participating employers. The actual experience of the MTA will have little or no impact on the actual premium so it is reasonable to use the premium rates without age adjustments as the per capita claims cost.

The medical and pharmacy benefits provided to TWU Local 100, ATU 1056 and ATU 726 represented Transit members are non-NYSHIP as well as some Pre-NYSHIP Transit members. For these benefits, we developed per capita claims cost relativity factors that varied by benefit, age and gender for retirees of the TWU Local 100, ATU Local 726 and ATU Local 1056 unions for 2014 and 2015. These were then combined to match the aggregate claim experience provided by the Authority and MTA. Claims were adjusted to an incurred from a paid claim basis utilizing aging reports specific to the Authority and MTA. An adjustment of (0.5)% for health benefits was applied. Finally, an administrative load was applied equal to 7.2% for Empire BCBS medical benefits, 3.5% for United Healthcare medical benefits and 4.6% for pharmacy benefits. The per capita costs assumptions reflect medical and pharmacy claims information, including the Employer Group Waiver Plan (EGWP) for providing pharmacy benefits to Medicare-eligible retirees, for 2015 and 2016.

The following charts detail the monthly 2014 PCCC's used in the valuation:

| Age | Empire Blue | | | Empire Blue | | |
|-------|------------------------|----------------------|-----------|------------------------|----------------------|-----------|
| | Cross / Blue Shield | United Healthcare | Pharmacy | Cross / Blue Shield | United Healthcare | Pharmacy |
| | Male Employees | | | Female Employees | | |
| <50 | \$ 735.06 | \$ 1,138.38 | \$ 300.11 | \$ 858.34 | \$ 1,337.18 | \$ 312.60 |
| 50–54 | 693.13 | 1,067.23 | 256.90 | 758.34 | 1,178.35 | 285.95 |
| 55–59 | 803.50 | 1,233.78 | 293.70 | 800.90 | 1,240.41 | 319.45 |
| 60–64 | 1,027.76 | 1,573.40 | 342.78 | 968.23 | 1,493.76 | 362.27 |
| 65–69 | 124.51 | N/A | 147.44 | 124.28 | N/A | 134.6 |
| 70–74 | 149.58 | N/A | 157.74 | 141.81 | N/A | 142.9 |
| 75–79 | 172.78 | N/A | 159.40 | 160.21 | N/A | 144.0 |
| 80–84 | 193.97 | N/A | 155.05 | 176.40 | N/A | 140.5 |
| 85+ | 215.42 | N/A | 143.39 | 191.54 | N/A | 127.9 |
| | Male Dependents | | | Female Dependents | | |
| <25 | \$ 193.50 | \$ 305.83 | \$ 67.01 | \$ 193.50 | \$ 305.83 | \$ 67.01 |
| 25–49 | 449.04 | 695.60 | 183.84 | 560.55 | 873.35 | 204.95 |
| 50–54 | 539.15 | 830.29 | 200.31 | 620.21 | 963.77 | 234.23 |
| 55–59 | 645.44 | 991.22 | 236.37 | 689.81 | 1,068.42 | 275.35 |
| 60–64 | 829.39 | 1,269.87 | 277.19 | 814.84 | 1,257.20 | 305.21 |
| 65–69 | 124.51 | N/A | 147.44 | 124.28 | N/A | 134.58 |
| 70–74 | 149.58 | N/A | 157.74 | 141.81 | N/A | 142.86 |
| 75–79 | 172.78 | N/A | 159.40 | 160.21 | N/A | 143.99 |
| 80–84 | 193.97 | N/A | 155.05 | 176.40 | N/A | 140.47 |
| 85+ | 215.42 | N/A | 143.39 | 191.54 | N/A | 127.87 |

Medicare Part B Premiums — The Medicare Part B premium reimbursement was included in the 2014 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 4.5%. These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

Medicare Part D Premiums — GASB has issued a Technical Bulletin stating that the value of expected Retiree Drug Subsidy (RDS) payments to be received by an entity cannot be used to reduce the Actuarial Accrued Liability of OPEB benefits nor the ARC. Furthermore, actual contributions made (equal to the amount of claims paid in a year if the plan is not funded) will not be reduced by the amount of any subsidy payments received. Accordingly, the 2014 valuation excludes any RDS payments expected to be received by the Authority.

Health Cost Trend — The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2014 utilizing the baseline assumptions included in the model, except real GDP of 1.8% and inflation of 2.5% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors and potential excise taxes due to healthcare reform, and other healthcare reform provisions, separately for NYSHIP and non-NYSHIP benefits. These assumptions are combined with long-term assumptions for dental and vision benefits (4%) plus Medicare Part B reimbursements (4.5%). The NYSHIP trend reflects actual increases in premiums through 2015. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements. The non-NYSHIP trend is applied directly for represented employees of NYC Transit

and SIRTOA. The following lists the NYSHIP and non-NYSHIP trend assumptions along with the resulting trends assumed for Transit and SIRTOA.

Health Cost Trend Rates

| Fiscal Year | NYSHIP | Transit and SIRTOA | |
|-------------|---------|--------------------|-------|
| | | < 65 | >=65 |
| 2014 | 0.0 % * | 7.5 % | 9.5 % |
| 2015 | 6.0 | 7.6 | 9.5 |
| 2016 | 6.0 | 6.7 | 8.1 |
| 2017 | 6.0 | 6.2 | 6.8 |
| 2018 | 5.3 | 5.4 | 5.4 |
| 2019 | 5.2 | 12.1 | 5.4 |
| 2024 | 5.2 | 6.1 | 5.4 |
| 2029 | 5.5 | 6.1 | 5.4 |
| 2034 | 6.4 | 6.1 | 5.5 |
| 2039 | 5.9 | 5.7 | 5.2 |
| 2044 | 5.7 | 5.5 | 5.1 |
| 2049 | 5.6 | 5.4 | 5.3 |
| 2054 | 5.5 | 5.3 | 5.3 |

* Trend not applicable as actual 2015 premiums were valued

Participation — The table below summarizes the census data provided by the Authority and utilized in the preparation of the actuarial valuation. The table shows the number of active and retired employees and provides a breakdown of the coverage elected and benefits offered to current retirees.

OPEB Participation as of January 1, 2014

| | <u>Active Members</u> |
|--|------------------------------|
| Number | 47,447 |
| Average Age | 49.5 |
| Average Service | 14.4 |
| | <u>Retirees</u> |
| Single Medical Coverage | 12,400 |
| Employee/Spouse Coverage | 16,784 |
| Employee/Child Coverage | 916 |
| No medical Coverage | 867 |
| Total Number | <u>30,967</u> |
| Average Age | 71.9 |
| Total Number with Dental | 6,427 |
| Total Number with Vision | 25,858 |
| Total No. with Supplement | 25,442 |
| Average Monthly Supplement Amount (Excluding Part B Premium) | \$33 |
| Total No. with Life Insurance | 5,616 |
| Average Life Insurance Amount | \$2,076 |

Coverage Election Rates — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect coverage in the Empire PPO Plan. For groups that do not participate in NYSHIP, members are assumed to elect Empire BCBS or Aetna/United Healthcare.

Dependent Coverage — Spouses are assumed to be the same age as the employee/retiree. 80% of male and 45% of female eligible members participating in NYSHIP are assumed to elect family coverage upon retirement 60% of male and 35% female eligible members participating in non-NYSHIP programs administered by NYC Transit are assumed to cover a dependent. Actual coverage elections for current retirees are used. If a current retiree's only dependent is a child, eligibility is assumed for an additional 7 years from the valuation date.

Demographic Assumptions:

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

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

Postretirement Healthy Lives — 95% of the rates from the RP-2000 Healthy Annuitant mortality table for males with blue collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue collar or percentage adjustments were used for management members of the Authority.

Postretirement Disabled Lives — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females.

Vestee Coverage — For members that participate in NYSHIP, Vestees (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Authority upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vestees are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vestees based on age at valuation date.

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

The following table shows the elements of the Authority's annual OPEB cost for the year, the amount contributed, and changes in the Authority's net OPEB obligation to the plan for the years ended December 31, 2016 and 2015. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

| (In thousands) | 2016 | 2015 |
|--|----------------------|----------------------|
| Annual required contribution | \$ 2,233,515 | \$ 2,048,069 |
| Interest on net OPEB obligation | 371,384 | 331,601 |
| Adjustment to annual required contribution | <u>(983,702)</u> | <u>(878,327)</u> |
| Annual OPEB cost/expense | 1,621,197 | 1,501,343 |
| Contributions made | <u>(428,654)</u> | <u>(371,230)</u> |
| Increase in net OPEB obligation | 1,192,543 | 1,130,113 |
| Net OPEB obligation — beginning of year | <u>10,602,300</u> | <u>9,472,187</u> |
| Net OPEB obligation — end of year | <u>\$ 11,794,843</u> | <u>\$ 10,602,300</u> |

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the years ending December 31, 2016, 2015 and 2014 were as follows (in thousands):

| Year Ending | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|--------------------|-------------------------|---|----------------------------|
| 12/31/2016 | \$ 1,621,197 | 26.4 % | \$ 11,794,843 |
| 12/31/2015 | 1,501,343 | 24.7 | 10,602,300 |
| 12/31/2014 | 1,991,062 | 17.7 | 9,472,187 |

The Authority's funding progress information as of December 31, 2016 is as follows (in millions):

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) * (b) | Unfunded (AAL) (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | (UAAL) As a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------------|--------------------------------------|--|------------------------------------|---------------------------|----------------------------|--|
| 1/1/14 | \$ 162.3 | \$ 14,013.9 | \$ 13,851.6 | 1.2 % | \$ 3,182.5 | 435.2 % |

* Based on Entry Age Normal

The required schedule of funding progress for the Authority Postemployment Benefit Plan following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

8. DUE TO MTA FOR REPAYMENT OF DEBT

Transit Facilities Revenue Bonds — Prior to December 31, 2002, the Authority recognized as a liability in the accompanying consolidated statements of net position the portion of the bond proceeds pledged to the Authority by the MTA for the acquisition of capital assets to the extent of the Authority's expenditure of such bond proceeds. As a result of the MTA's bond restructuring during fiscal year 2002, except for the Authority's portion of the Certificates of Participation, the Authority no longer records a liability to the MTA for the portion of the bonds utilized to fund the Authority's Capital Program.

The Authority is required to deposit all of its pledged revenues with a trustee for the bondholders. Such funds are first applied to meet all obligations under the revenue bonds, and the remainder is returned to the Authority for its operating needs.

The MTA is responsible for all payments from these bond proceeds and for administering the debt service reserve funds, if any, and the unexpended bond funds and has recorded the liability for these bonds. Prior to the debt restructuring, the Authority had recorded a liability to the MTA to the extent of the Authority's expenditure of such bond proceeds. Debt service paid by the Authority is net of the amount provided from the MTA's investment of the unexpended bond funds.

Certificates of Participation — In June 1999 and 2000, the MTA issued approximately \$328.2 million and \$121.2 million, respectively, of its Series 1999A and Series 2000A Certificates of Participation, which were substantially defeased with the issuance of the Series 2004A variable rate Certificates of Participation totaling \$357.9 million in September 2004. The proceeds from these issuances were used to finance certain building and leasehold improvements to an office building at Two Broadway to be occupied by the Authority, the MTA or its subsidiaries, and the TBTA. In November 2011, the MTA issued Transportation Revenue Refunding Bonds, Series 2011C, which refunded existing fixed rate Transportation Revenue Bonds. Debt service monies derived from this refunding were used to retire \$237.0 million of the 2004A variable rate COPS and \$15.0 million of the Series 1999A and 2000A fixed rate COPS. The Authority's payable to the MTA for its aggregate portion of COPS debt was reduced by approximately \$168.8 million. The 1999A, 2000A, and 2004A series represent proportionate interests in the principal and interest components of base rent paid severally, but not jointly, by the Authority, the MTA, and the TBTA pursuant to a Leasehold Improvement Sublease Agreement dated as of June 1, 1999. The Authority, the MTA, and the TBTA are obligated to pay 68.7%, 21.0%, and 10.3%, respectively, of the base rent under the Leasehold Improvement Sublease. During October 2016, the MTA outstanding principal amount of \$70.5 million, of which the Authority's portion was \$25.1 million, along with accrued interest, was prepaid using certain cash amounts made available as a result of the issuance of MTA Transportation Revenue Refunding Bonds, Series 2016D, along with other available moneys of MTA Bridges and Tunnels. The Authority's payable to the MTA for its portion of the Certificates of Participation at December 31, 2016 and 2015 is as follows (in thousands):

| | 2016 | 2015 |
|------------------------------|-----------------|------------------|
| Balance at beginning of year | \$ 32,539 | \$ 42,278 |
| Principal payments | <u>(32,539)</u> | <u>(9,739)</u> |
| Balance at end of year | - | 32,539 |
| Less current portion | <u>-</u> | <u>(9,738)</u> |
| Long-term liability | <u>\$ -</u> | <u>\$ 22,801</u> |

Interest paid on the Certificates of Participation amounted to \$6.7 million and \$7.7 million in 2016 and 2015, respectively.

9. RELATED PARTY TRANSACTIONS

The Authority receives support services from the MTA in the areas of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, most of which are charged back to the Authority through intercompany billings. The MTA also provides funding for the Authority's capital program via MTA debt issuance, federal capital grant pass-throughs, and proceeds from the sale of tax benefits on leasing transactions. The Authority recognizes funds contributed to Transit capital programs as contributed capital in the consolidated statements of revenues, expenses, and changes in net position. State and City tax — supported subsidies received by the Authority from the MTA to support operations are recorded as nonoperating revenues. The MTA also provides short-term loans, as required, to supplement the Authority's working capital needs.

The Authority has intercompany transactions with MNCR, LIRR, MTA Bus, TBTA, and SIRTOA related to farecard settlements, service agreements, shared operating contracts, inter-agency loan transactions, and other operating receivables and payables.

The resulting receivables and payables from the above transactions are recorded in Due from MTA and constituent authorities included in the accompanying consolidated statements of net position.

Due from MTA and constituent authorities consist of the following at December 31, 2016 and 2015 (in thousands):

| | 2016 | | 2015 | |
|---------------------------------------|---------------------|-----------------------|---------------------|-----------------------|
| | Receivable | (Payable) | Receivable | (Payable) |
| MTA | \$ 6,189,938 | \$ (5,668,432) | \$ 5,387,641 | \$ (5,049,703) |
| Constituent authorities | <u>130,770</u> | <u>(11,259)</u> | <u>130,929</u> | <u>(10,145)</u> |
| Total MTA and constituent authorities | <u>\$ 6,320,708</u> | <u>\$ (5,679,691)</u> | <u>\$ 5,518,570</u> | <u>\$ (5,059,848)</u> |

10. ADVERTISING AND OTHER INCOME

Advertising and other income for the years ended December 31, 2016 and 2015, consist of (in thousands):

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Advertising revenue | \$ 124,996 | \$ 128,934 |
| Metrocard green fee surcharge | 22,856 | 23,313 |
| Transit Adjudication Bureau collections | 9,237 | 8,603 |
| Station income | 8,969 | 8,748 |
| Rental income | 9,698 | 6,432 |
| Fare media transaction fees | 4,628 | 4,571 |
| All other | <u>630</u> | <u>(378)</u> |
| | <u>\$ 181,014</u> | <u>\$ 180,223</u> |

11. OTHER EXPENSES

Other expenses for the years ended December 31, 2016 and 2015, consist of (in thousands):

| | 2016 | 2015 |
|--|------------------|------------------|
| Credit and debit card fees for fare media sales | \$ 45,511 | \$ 43,101 |
| Fare media sales commissions | 12,722 | 12,368 |
| NYS Metro Commuter Transportation Mobility Tax expense | 13,486 | 13,173 |
| Print and office supplies | 6,417 | 5,422 |
| Allowance for uncollectible accounts | 1,322 | 338 |
| Business travel, meetings, and conventions | 832 | 857 |
| Dues and subscriptions | 344 | 1,223 |
| Other miscellaneous expenses | <u>(713)</u> | <u>9,496</u> |
| | <u>\$ 79,921</u> | <u>\$ 85,978</u> |

12. MAINTENANCE AND OTHER OPERATING EXPENSES

Maintenance and other operating expenses for the years ended December 31, 2016 and 2015, consist of (in thousands):

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Operating maintenance and repair services | \$ 82,364 | \$ 70,236 |
| Facility maintenance and repairs | 17,918 | 15,815 |
| Real estate rentals (including 2 Broadway operating expenses) | 22,451 | 20,374 |
| Security services | 13,595 | 14,768 |
| Refuse and recycling | 8,699 | 8,156 |
| Telephone services | 13,233 | 12,911 |
| Tire and tube rentals | 16,514 | 12,082 |
| Janitorial and custodial services | 6,116 | 6,295 |
| Water and sewage | 10,186 | 9,827 |
| Specialized equipment | 1,970 | 2,133 |
| Bridge, tunnel and highway tolls | 5,356 | 4,672 |
| Uniforms | 2,274 | 2,103 |
| Ticket stock material | 3,935 | 5,052 |
| Safety equipment and supplies | 10,033 | 9,693 |
| Other miscellaneous expenses | <u>7,865</u> | <u>2,265</u> |
| | <u>\$ 222,509</u> | <u>\$ 196,382</u> |

13. FUEL HEDGE

MTA partially hedges its fuel cost exposure using financial hedges. All MTA fuel hedges provide for up to 24 monthly settlements. The table below summarizes the twenty-four (24) active ultra-low sulfur diesel (ULSD) hedges in whole dollars:

| Counterparty | JPM – Ventures Energy Corp | Bank of America Merrill Lynch | Bank of America Merrill Lynch | Bank of America Merrill Lynch | Bank of America Merrill Lynch | Bank of America Merrill Lynch |
|---------------------|--|--|--|--|--|--|
| Trade Date | 1/29/2015 | 2/26/2015 | 3/25/2015 | 4/29/2015 | 5/28/2015 | 6/30/2015 |
| Effective Date | 1/1/2016 | 2/1/2016 | 3/1/2016 | 4/1/2016 | 5/1/2016 | 6/1/2016 |
| Termination Date | 12/31/2016 | 1/31/2017 | 2/28/2017 | 3/30/2017 | 4/30/2017 | 5/31/2017 |
| Price/Gal | \$1.81 | \$2.05 | \$1.92 | \$2.09 | \$2.00 | \$2.01 |
| Notional Qnty (Gal) | 5,253,199 | 6,017,839 | 5,629,297 | 5,957,391 | 5,831,540 | 5,882,999 |
| Counterparty | Bank of America Merrill Lynch | Bank of America Merrill Lynch | Bank of America Merrill Lynch | J. Aron & Company | Bank of America Merrill Lynch | J. Aron & Company |
| Trade Date | 7/30/2015 | 8/27/2015 | 9/28/2015 | 10/29/2015 | 11/24/2015 | 12/17/2015 |
| Effective Date | 7/1/2016 | 8/1/2016 | 9/1/2016 | 2/1/2016 | 11/1/2016 | 12/1/2016 |
| Termination Date | 6/30/2017 | 7/31/2017 | 8/31/2017 | 9/30/2017 | 10/31/2017 | 11/30/2017 |
| Price/Gal | \$1.81 | \$1.66 | \$1.70 | \$1.71 | \$1.65 | \$1.48 |
| Notional Qnty (Gal) | 5,298,402 | 4,847,240 | 5,130,241 | 5,631,317 | 4,863,189 | 4,266,180 |
| Counterparty | J. Aron & Company | JPM – Ventures Energy Corp | Macquarie Energy LLC | Macquarie Energy LLC | Macquarie Energy LLC | J. Aron & Company |
| Trade Date | 1/27/2016 | 2/23/2016 | 3/29/2016 | 4/28/2016 | 5/26/2016 | 6/30/2016 |
| Effective Date | 1/1/2017 | 2/1/2017 | 3/1/2017 | 4/1/2017 | 5/1/2017 | 6/1/2017 |
| Termination Date | 12/31/2017 | 1/31/2018 | 2/28/2018 | 3/31/2018 | 4/30/2018 | 5/30/2018 |
| Price/Gal | \$1.28 | \$1.31 | \$1.38 | \$1.55 | \$1.62 | \$1.65 |
| Notional Qnty (Gal) | 3,745,930 | 3,845,749 | 3,926,350 | 4,527,533 | 4,728,640 | 4,813,146 |
| Counterparty | J. Aron & Company | Macquarie Energy LLC | J. Aron & Company | Macquarie Energy LLC | J. Aron & Company | J. Aron & Company |
| Trade Date | 7/28/2016 | 8/24/2016 | 9/22/2016 | 10/26/2016 | 11/22/2016 | 12/20/2016 |
| Effective Date | 7/1/2017 | 8/1/2017 | 9/1/2017 | 10/1/2017 | 11/1/2017 | 12/1/2017 |
| Termination Date | 6/30/2018 | 7/31/2018 | 8/31/2018 | 9/30/2018 | 10/31/2018 | 11/30/2018 |
| Price/Gal | \$1.50 | \$1.64 | \$1.60 | \$1.62 | \$1.67 | \$1.77 |
| Notional Qnty (Gal) | 4,498,206 | 4,780,987 | 4,671,339 | 4,801,475 | 4,879,859 | 5,122,068 |

The monthly settlements are based on the daily prices of the respective commodities whereby MTA will either receive a payment, or make a payment to the various counterparties depending on the average monthly price of the commodities in relation to the contract prices. At a contract's termination date, the Authority will take delivery of the fuel. At December 31, 2016, the total outstanding notional value of the ULSD contracts was 54.0 million gallons with a positive fair market value of \$8.0 million. The valuation of each trade was based on discounting future net cash flows to a single current amount (the income approach) using observable commodity futures prices (Level 2 inputs).

The Transit Authority recognized a fuel hedge loss of \$0.3 million in 2016 and a fuel hedge gain of \$0.04 million in 2015.

14. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of its assets; injuries to persons, including employees; and natural disasters.

The Authority is self-insured up to certain per occurrence limits for liability claims arising from injuries to persons, excluding employees. For claims arising from incidents that occurred on or after November 1, 2001, but before November 1, 2006, the self-insured retention limit was \$7 million per occurrence. Claims arising on or after November 1, 2006, but before November 1, 2009 were subject to an \$8 million limit. Effective November 1, 2009, the retention limit was increased to \$9 million per occurrence and effective November 1, 2012, the retention limit was increased to \$10 million. Effective October 31, 2015, the self-insured retention limit was increased to \$11 million. Lower limits applied for claims arising prior to November 1, 2001. The Authority is self-insured for work-related injuries to employees. The annual cost associated with injuries to persons, other than employees, and damage to third-party property, is reflected in expenses as public liability claims in the accompanying consolidated statements of revenues, expenses and change in net position.

The Authority establishes its liability for injuries to employees and to the general public on the basis of independent actuarial estimates of future liability.

A summary of activity in estimated liability arising from injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2016 and 2015, is as follows (in thousands):

| | 2016 | 2015 |
|--|--------------------|--------------------|
| Balance at beginning of year | \$2,060,433 | \$1,755,699 |
| Activity during the year: | | |
| Current year claims and changes in estimates | 705,374 | 556,833 |
| Claims paid | <u>(258,863)</u> | <u>(252,099)</u> |
| Balance at end of year | 2,506,944 | 2,060,433 |
| Less current portion | <u>(260,810)</u> | <u>(245,079)</u> |
| Long-term liability | <u>\$2,246,134</u> | <u>\$1,815,354</u> |

First Mutual Transportation Assurance Company — (FMTAC), an insurance captive subsidiary of MTA, operates a liability insurance program (ELF) that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: \$8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 million for MTAHQ and MTA Bridges and Tunnels. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limits are: \$9 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad;

\$2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 million for MTAHQ and MTA Bridges and Tunnels. Effective October 31, 2015 the self-insured retention limits for ELF were increased to the following amounts: \$11 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3.2 million for MTA Staten Island Railway, MTAHQ, and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2016, the balance of the assets in this program was \$122.8 million.

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

On March 1, 2016, the “nonrevenue fleet” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA Group with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides \$11 million per occurrence limit with a \$0.5 million per occurrence deductible for MTA Long Island Rail Road, MTA Staten Island Rapid Transit Operating Authority, MTA Police, MTA Metro-North Railroad, MTA Inspector General and MTA Headquarters. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On March 1, 2016, the “Access-A-Ride” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit’s Access-A-Ride program, including the contracted operators. This policy provides a \$3 million per occurrence limit with a \$1 million per occurrence deductible.

On December 15, 2016, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies’ for \$11 million per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance — Effective May 1, 2016, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2016, FMTAC directly insures property damage claims of the Related Entities in excess of a \$25 million per occurrence deductible, subject to an annual \$75 million aggregate deductible. The total program is \$1 billion per occurrence covering property of the Related Entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda reinsurance markets for this coverage. Losses occurring after exhaustion of the deductible aggregate are subject to a deductible of \$7.5 million per occurrence. The property insurance policy provides replacement cost coverage for all risks (including Earthquake, Flood and Wind) of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage. FMTAC is 100% reinsured for the perils of Earthquake, Flood and Wind for \$800 million per occurrence and in the annual aggregate property program.

Supplementing the \$800 million per occurrence coverage noted above, FMTAC's property insurance program has been expanded to include a further layer of \$200 million of fully collateralized storm surge coverage for losses from storm surges that surpass specified trigger levels in the New York Harbor or Long Island Sound and are associated with named storms that occur at any point in the three year period from July 31, 2013 to July 30, 2016. This expanded coverage was not renewed in 2016.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 84% of "certified" losses in 2016, 83% of "certified" losses in 2017 and 82% of "certified" losses in 2018, as covered by the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) of 2015. The remaining 16% (2016), 17% (2017) and 18% (2018) of the Related Entities' losses arising from an act of terrorism would be covered under the additional terrorism policy described below. No federal compensation will be paid unless the aggregate industry insured losses exceed a trigger of \$120 million in 2016, \$140 million in 2017 and \$160 million in 2018. The United States government's reinsurance is in place through December 31, 2020.

To supplement the reinsurance to FMTAC through the TRIPRA, MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 16% of any "certified" act of terrorism up to a maximum recovery of \$172.0 million for any one occurrence and in the annual aggregate during 2016, 17% of any "certified" act of terrorism up to a maximum recovery of \$182.8 million for any one occurrence and in the annual aggregate during 2017 and 18% of any "certified" act of terrorism up to a maximum recovery of \$193.5 million for any one occurrence and in the annual aggregate during 2018, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the "certified" acts of terrorism insurance or (3) 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$100 million TRIPRA trigger up to a maximum recovery of \$120 million for any occurrence and in the annual aggregate.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$172 million in 2016, \$182.8 million in 2017 and \$193.5 million in 2018. Recovery under the terrorism policy is subject to a deductible of \$25 million per occurrence and \$75 million in the annual aggregate in the event of multiple losses during the policy year. Should the Related Entities' deductible in any one year exceed \$75 million future losses in that policy year are subject to a deductible of \$7.5 million. The terrorism coverages expire at midnight on May 1, 2018.

During 2016 there were no FMTAC excess loss claim reimbursements to the Authority. FMTAC had no open claims for the authority at December 31, 2016. At December 31, 2016, FMTAC had \$1.1 billion of assets to insure current and future claims.

15. CONTINGENCIES

The Authority is involved in various litigation and claims involving personal liability claims and certain other matters. The ultimate outcome of these claims and suits cannot be predicted at this time. Nevertheless, management does not believe that the ultimate outcome of these matters will have a material effect on the consolidated financial position of the Authority.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. While questioned costs may occur, ultimate repayments required of the MTA or the Authority have been infrequent in prior years.

In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in 2016 and 2015, the Authority recognized \$9.7 million and \$12.9 million, respectively, in pollution remediation expenses. The expense provision was measured at its current value utilizing the prescribed expected cash flow method (see Note 2). Pollution remediation obligations are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

A summary of the activity in pollution remediation liability at December 31, 2016 and 2015, were as follows (in thousands):

| | 2016 | 2015 |
|------------------------------|------------------|------------------|
| Balance at beginning of year | \$ 41,729 | \$ 42,683 |
| Activity during the year: | | |
| Changes in estimates | 9,662 | 12,876 |
| Payments | <u>(13,251)</u> | <u>(13,830)</u> |
| Balance at end of year | 38,140 | 41,729 |
| Less current portion | <u>(7,628)</u> | <u>(8,346)</u> |
| Long-term liability | <u>\$ 30,512</u> | <u>\$ 33,383</u> |

The Authority's pollution remediation liability primarily consists of future remediation activities associated with asbestos removal, lead abatement, ground water contamination, and soil remediation.

16. CONDENSED COMPONENT UNIT INFORMATION

The following table presents condensed financial information for MaBSTOA, a component unit of the Authority (in thousands):

| December 31: | <u>2016</u> | <u>2015</u> |
|--|------------------------------|------------------------------|
| Current assets | \$ 53,716 | \$ 35,135 |
| Capital assets | 289,169 | 313,661 |
| Other assets | - | - |
| Deferred outflows of resources | <u>394,709</u> | <u>249,731</u> |
| Total assets and deferred outflows of resources | <u>737,594</u> | <u>598,527</u> |
| Current liabilities | 226,737 | 214,098 |
| Non-current liabilities | 3,707,824 | 3,347,873 |
| Deferred inflows of resources | <u>59,108</u> | <u>1,329</u> |
| Total liabilities and deferred inflows of resources | <u>3,993,669</u> | <u>3,563,300</u> |
| Net Investment in capital assets | 289,169 | 313,661 |
| Unrestricted | <u>(3,545,244)</u> | <u>(3,278,434)</u> |
| Total net position | <u><u>\$ (3,256,075)</u></u> | <u><u>\$ (2,964,773)</u></u> |
| For the Year Ended December 31: | | |
| Fare revenue | \$ 455,630 | \$ 461,121 |
| Advertising and other revenue | <u>15,706</u> | <u>15,753</u> |
| Total operating revenue | <u>471,336</u> | <u>476,874</u> |
| Total labor expenses | 1,325,051 | 1,190,522 |
| Total non-labor expenses | 134,550 | 116,983 |
| Depreciation | <u>48,640</u> | <u>55,025</u> |
| Total operating expenses | <u>1,508,241</u> | <u>1,362,530</u> |
| Operating (deficit) surplus | <u>(1,036,905)</u> | <u>(885,656)</u> |
| Loss before capital contributions | (1,036,905) | (885,656) |
| Capital contributions | <u>745,603</u> | <u>682,716</u> |
| Change in net position | (291,302) | (202,940) |
| Net position, beginning of the year | (2,964,773) | (1,835,792) |
| Restatement of beginning net position adoption of GASB No. 68 | <u>-</u> | <u>(926,041)</u> |
| Net position, end of year | <u><u>\$ (3,256,075)</u></u> | <u><u>\$ (2,964,773)</u></u> |

17. CORRECTION OF PRIOR YEAR FINANCIAL STATEMENTS

During the preparation of the 2016 consolidated financial statements, the following errors were identified by management and corrected in the Authority's previously reported Consolidated Financial Statements as of and for the year ended December 31, 2015:

- 1) Capital assets were not reclassified in a timely manner from construction work-in-progress to other capital assets when certain capital projects were completed and the corresponding capital assets were placed into service due to a lack of timely information for which to assess and conclude on the completion and in-service date of open capital projects. As a result, construction work-in progress was overstated and other capital assets was understated by \$1,576 million, respectively, as of December 31, 2015; accumulated depreciation was understated by \$319 million as of December 31, 2015; depreciation expense was understated by \$75 million for the year ended December 31, 2015; and the Authority's beginning net position was overstated by \$244 million as of January 1, 2015; and
- 2) Contra-capital assets are recognized when certain acquired capital assets, such as rail cars, include spare parts as a portion of the total cost. The cost of these spare parts are classified as materials & supplies and the offset is classified as contra-capital assets to reduce the total cost of the corresponding capital assets. The contra-capital assets are then amortized as a reduction in depreciation expense over the estimated useful life of the corresponding capital assets. In this regard, certain contra-capital assets were not amortized in a timely manner as a reduction in depreciation expense. As a result, construction work-in progress was understated and other capital assets was overstated by \$883 million, respectively, as of December 31, 2015; accumulated depreciation was overstated by \$358 million as of December 31, 2015; depreciation expense was overstated by \$26 million for the year ended December 31, 2015; and the Authority's beginning net position was understated by \$332 million as of January 1, 2015.

Accordingly, the accompanying Consolidated Financial Statements as of and for the year ended December 31, 2015 have been revised to correct the effect of these errors, which resulted in a net decrease in construction work-in progress of \$693 million as of December 31, 2015, a net increase in other capital assets, net of accumulated depreciation of \$732 million as of December 31, 2015, a net increase in the Authority's beginning net position of \$88 million as of January 1, 2015, and a net increase in depreciation expense of \$49 million for the year ended December 31, 2015, as compared to the amounts previously reported.

In addition, the supplemental disclosure of non-cash contributed capital assets included in the accompanying Consolidated Statement of Cash Flows for the year ended December 31, 2015 has been increased by \$182 million to correct the amount previously reported as \$1,525 million to \$1,707 million.

18. SUBSEQUENT EVENTS

On January 25, 2017, the MTA Board voted to increase NYCTA's fare effective March 19, 2017. MetroCard seven-day passes increase from \$31 to \$32 and MetroCard thirty-day passes increase from \$116.50 to \$121. The basic fare remains at \$2.75. The single-ride ticket price remains at \$3.00. The bonus value decreases from 11% to 5%.

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REQUIRED SUPPLEMENTARY INFORMATION

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION LIABILITY AND RELATED
RATIOS FOR THE MABSTOA PENSION PLAN AT DECEMBER 31:
(In millions)

| | <u>2015</u> | <u>2014</u> |
|--|--------------------|--------------------|
| Total pension liability: | | |
| Service cost | \$ 77 | \$ 72 |
| Interest | 233 | 224 |
| Differences between expected and actual experience | (69) | (2) |
| Benefit payments and withdrawals | <u>(180)</u> | <u>(175)</u> |
| Net change in total pension liability | 61 | 119 |
| Total pension liability—beginning | <u>3,331</u> | <u>3,212</u> |
| Total pension liability—ending(a) | <u>3,392</u> | <u>3,331</u> |
| Fiduciary net position: | | |
| Employer contributions | 215 | 226 |
| Member contributions | 16 | 15 |
| Net investment income | (24) | 105 |
| Benefit payments and withdrawals | (180) | (175) |
| Administrative expenses | <u>-</u> | <u>-</u> |
| Net change in plan fiduciary net position | 27 | 171 |
| Plan fiduciary net position—beginning | <u>2,265</u> | <u>2,094</u> |
| Plan fiduciary net position—ending(b) | <u>2,292</u> | <u>2,265</u> |
| Employer's net pension liability—ending(a)-(b) | <u>\$ 1,100</u> | <u>\$ 1,066</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>67.6 %</u> | <u>68.0 %</u> |
| Covered-employee payroll | <u>694</u> | <u>672</u> |
| Employer's net pension liability as a percentage of covered-employee payroll | <u>158.5 %</u> | <u>158.6 %</u> |

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. In accordance with GASB No. 68, information was not readily available for periods prior to 2014.

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY IN THE NYCERS PENSION PLAN AT JUNE 30:
(In millions)

| | <u>2016</u> | <u>2015</u> |
|---|--------------------|--------------------|
| The Authority's proportion of the net pension liability | 22.227 % | 22.380 % |
| The Authority's proportionate share of the net pension liability | \$ 5,400 | \$ 4,530 |
| The Authority's actual covered-employee payroll | \$ 2,930 | \$ 2,862 |
| The Authority's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll | 184.300 % | 158.277 % |
| Plan fiduciary net position as a percentage of the total pension liability | 69.568 % | 73.125 % |

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. In accordance with GASB No. 68, information was not readily available for periods prior to 2015.

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS TO ALL PENSION PLANS
FOR THE YEARS ENDED DECEMBER 31:
(In millions)

| MaBSTOA: | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Actuarially Determined Contribution | \$ 220.7 | \$ 214.9 | \$ 226.4 | \$ 234.5 | \$ 228.9 | \$ 186.5 | \$ 200.6 | \$ 204.3 | \$ 201.9 | \$ 179.2 |
| Actual Employer Contribution | <u>220.7</u> | <u>214.9</u> | <u>226.4</u> | <u>234.5</u> | <u>228.9</u> | <u>186.5</u> | <u>200.6</u> | <u>204.3</u> | <u>201.9</u> | <u>179.2</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered Payroll | 724.7 | 693.9 | 671.6 | 582.1 | 576.0 | 579.7 | 591.1 | 569.4 | 562.2 | 519.7 |
| Contributions as a % of Covered Payroll | 30.5 % | 31.0 % | 33.7 % | 40.3 % | 39.7 % | 32.2 % | 33.9 % | 35.9 % | 35.9 % | 34.5 % |
| NYCERS: | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Actuarially Determined Contribution | \$ 753.2 | \$ 694.4 | \$ 708.2 | \$ 702.9 | \$ 695.8 | \$ 630.1 | \$ 549.1 | \$ 523.9 | \$ 479.2 | \$ 388.3 |
| Actual Employer Contribution | <u>753.2</u> | <u>694.4</u> | <u>708.2</u> | <u>702.9</u> | <u>695.8</u> | <u>630.1</u> | <u>549.1</u> | <u>523.9</u> | <u>479.2</u> | <u>388.3</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered Payroll | 3,438.5 | 3,215.1 | 2,834.4 | 2,811.1 | 2,797.7 | 2,771.9 | 2,751.5 | 2,652.8 | 2,514.1 | 2,419.2 |
| Contributions as a % of Covered Payroll | 21.9 % | 21.6 % | 25.0 % | 25.0 % | 24.9 % | 22.7 % | 20.0 % | 19.7 % | 19.1 % | 16.0 % |

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

NOTES TO SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS TO ALL PENSION PLANS:

The following actuarial methods and assumptions were used in the January 1, 2015 and 2014 funding valuation for the MaBSTOA pension plan as follows:

| | MaBSTOA | |
|----------------------------|---|---|
| Valuation Date | January 1, 2015 | January 1, 2014 |
| Measurement Date | December 31, 2015 | December 31, 2014 |
| Actuarial cost method | Frozen Initial Liability (FIL) ⁽¹⁾ | Frozen Initial Liability (FIL) ⁽¹⁾ |
| Amortization method | For FIL bases, period specified in current valuation report. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population. | For FIL bases, period specified in current valuation report. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population. |
| Asset Valuation Method | Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets. | Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets. |
| Actuarial assumptions: | | |
| Discount Rate | 7.0% | 7.0% |
| Investment rate of return | 7.0%, net of investment expenses | 7.0%, net of investment expenses |
| Mortality | Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA. | Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA. |
| Inflation | 2.5% per annum | 2.5% per annum |
| Salary increases | In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees, and 4.0% to 7.0% for nonoperating employees per year, depending on years of service. | In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees, and 4.0% to 7.0% for nonoperating employees per year, depending on years of service. |
| Overtime | Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement. For Tier 6 members, all overtime was assumed to be less than the overtime cap. | Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement. For Tier 6 members, all overtime was assumed to be less than the overtime cap. |
| Cost-of-Living Adjustments | 1.375% per annum | 1.375% per annum |
| Rate of normal retirement | Tables based on recent experience. Rates vary by age, years of service at retirement and Tier/Plan. All members are assumed to retire by age 80. | Tables based on recent experience. Rates vary by age, years of service at retirement and Tier/Plan. All members are assumed to retire by age 80. |

⁽¹⁾ Under this actuarial method, the initial liability has been established by the Entry Age Actuarial Cost Method for determining changes in the Unfunded Actuarial Accrued Liability (UAAL) due to plan provision and assumption changes.

(Continued)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

NOTES TO SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS TO ALL PENSION PLANS:

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the NYCERS Plan, should be presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms

There were no changes of benefit terms in the January 1, 2013 funding valuation.

Changes of Assumptions

There were no changes of benefit assumptions in the January 1, 2013 funding valuation.

(Concluded)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS FOR THE NEW YORK CITY TRANSIT
POSTEMPLOYMENT BENEFIT PLAN
(In millions)

| Year Ended | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) * (b) | Unfunded (AAL) (UAAL) (b-a) | Funded Ratio ((a/b) | Covered Payroll (c) | (UAAL) As a Percentage of Covered Payroll ((b-a)/c) |
|-----------------------|---|--|--|--|------------------------------------|------------------------------------|--|
| 12/31/16 | 1/1/14 | \$ 162.3 | \$ 14,013.9 | \$ 13,851.6 | 1.2 % | \$ 3,182.5 | 435.2 % |
| 12/31/15 | 1/1/14 | 162.3 | 14,013.9 | 13,851.6 | 1.2 | 3,182.5 | 435.2 |
| 12/31/14 | 1/1/12 | 159.4 | 15,770.7 | 15,611.3 | 1.0 | 3,025.2 | 516.0 |

* Based on Entry Age Normal