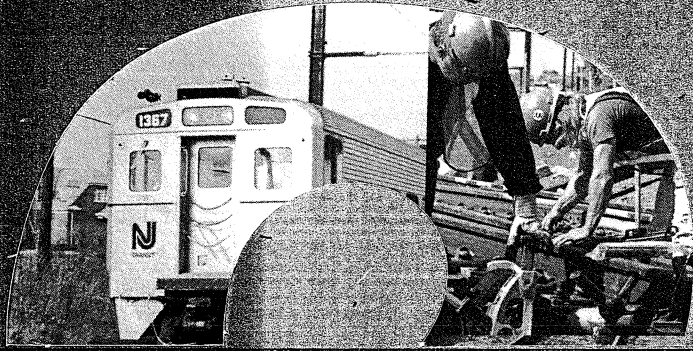


NU TRANSIT 1999 Annual Report

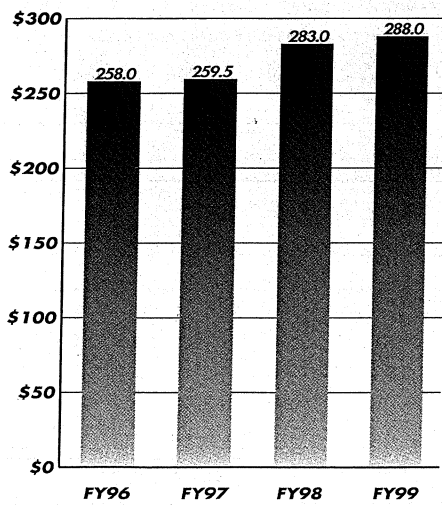


20/20 VISION • Eye on the Past, Focus on the Future



Transportation Trust Fund (TTF)

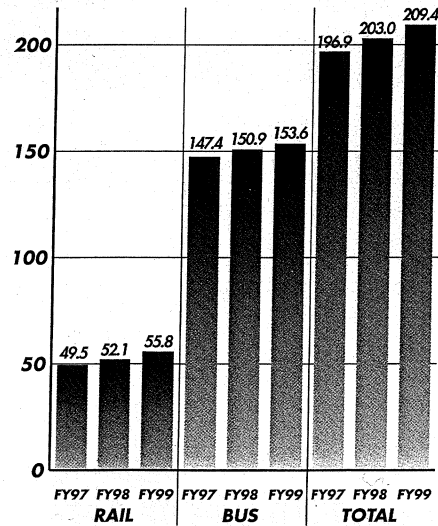
(In Millions)



Source: NJ TRANSIT Division of Capital Funding

Ridership

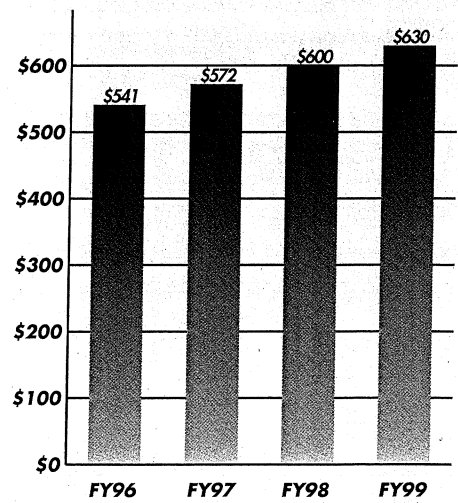
(In Millions)



Source: NJ TRANSIT Finance Department

Capital Program

(In Millions)



Source: NJ TRANSIT Division of Capital Funding

NJ TRANSIT

FISCAL YEAR 1999 Annual Report

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CHRISTINE TODD WHITMAN
Governor

“Transportation touches the lives of everyone. It figures into our decisions about where to live, where to work, where to shop, where to go to school, and where to escape for vacation.”

Christine Todd Whitman
Governor

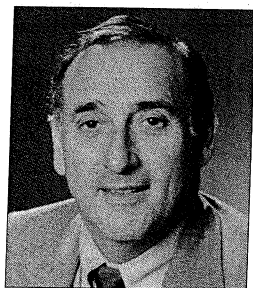
Simply put, our governor’s words underscore the complex and vital role that NJ TRANSIT plays in moving the people of New Jersey. They further manifest the importance of providing the links to get riders where they need to go. Through New Jersey FIRST, her transportation vision for the 21st century, Governor Whitman calls for a transportation system that will redefine the way we travel in the new millennium and NJ TRANSIT is a key partner in making that vision a reality.

NJ TRANSIT continuously works to provide innovative options to make public transit in New Jersey “quicker, safer, smarter and more convenient” — options that include bi-level trains to address growing capacity issues; communication systems to provide passengers with real-time information aboard all trains; “transit villages” to maximize existing services and attract private investment in downtown areas; and, regional transit fare cards for more convenient ticket purchases. These are a few examples of the many projects under study or underway that will help catapult the Garden State’s public transit system to new heights.

Board of Directors



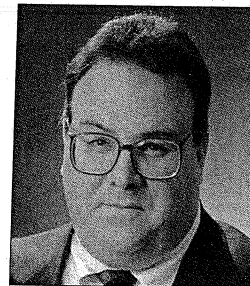
JAMES WEINSTEIN
Chairman



MYRON P. SHEVELL
Vice Chairman



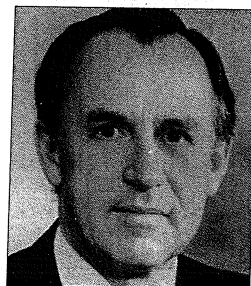
JAMES A. DIELEUTERIO, JR.
State Treasurer



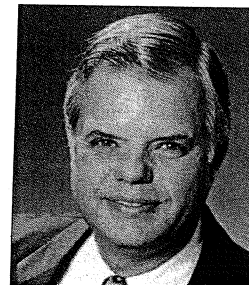
VICTOR CANTILLO
Governor’s Representative



FLORA M. CASTILLO



JOHN L. MCGOLDRICK



PATRICK W. PARKINSON

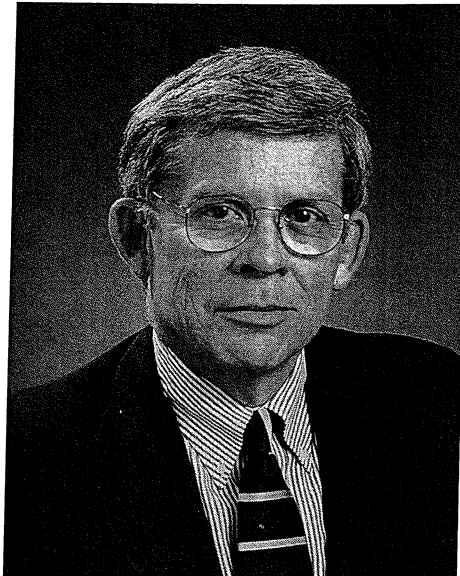
NJ TRANSIT

20/20 VISION • Eye on the Past, Focus on the Future

What was once a disjointed group of small, ill-equipped bus and rail transit providers scattered throughout New Jersey is now NJ TRANSIT, the third largest and one of the best public transportation agencies in the nation. In its short history, NJ TRANSIT has proven, to riders and non-riders alike, that public transit in the Garden State is worth investing in, for now and for the future.

This annual report provides a retrospective of how and why NJ TRANSIT began and what the corporation has accomplished, from early growing pains to being voted the best transit agency in North America in 1984, 1994, 1996, and 1998. The report also chronicles FY99 accomplishments, which help put into perspective what the corporation is planning for the future of transportation in the Garden State.

Keeping an eye on NJ TRANSIT's past is the key to its future and only through scrutiny of past endeavors and by capitalizing on its many successes will the corporation continue to improve and maintain its standing as a model for other transit providers. Only through the determination to deliver on its promises can the corporation maintain the public's confidence and the continued support of state and federal legislators. And, only through the continued dedication, hard work and foresight of its men and women will NJ TRANSIT find new and better ways to transport residents safely, affordably, and reliably into the next millennium.



Message from the Chairman

NJ TRANSIT has much to be proud of. In its short history as New Jersey's primary public transportation provider, NJ TRANSIT has restored confidence in public transit through a revitalized infrastructure, increased reliability, and through the quality of service provided to residents. The corporation has become a stalwart proponent of New Jersey's quality of life, as well as a valued contributor to its economic development.

Over the years, NJ TRANSIT has accomplished things that other transit properties could not. In addition to being a lean, well-managed organization, NJ TRANSIT has fostered creative thinking that brings new technologies and unique perspectives to solving problems. A strong relationship with the investment community has saved the corporation and taxpayers millions of dollars, and partnerships with people and their neighborhoods have restored stations and terminals and made these facilities vital components of the towns that they serve. These and other accomplishments also underscore the importance of initiatives like the state's Transportation Trust Fund, which designates one-third of its dollars solely to public transit projects. Without the fund, many transit projects currently underway would still be dreams waiting to happen.

In addition, the corporation has and will continue to work hand-in-hand with the state of New Jersey and NJDOT in the pursuit of a bold, unprecedented public transportation vision as set forth by Governor Whitman — the vision for a seamless system that redefines convenience, reliability, technology, safety and affordability, and plays a pivotal role in the economic vitality of the state.

NJ TRANSIT's role in the state's Work First New Jersey Program is a prime example of how the economy benefits when NJ TRANSIT carries people to their jobs. And people continue to benefit as new transit services are provided — services like the Hudson-Bergen Light Rail, a singular achievement that stands above anything the corporation has ever attempted and one that promises to offer unique environmental, economic, and rider benefits.

I am confident that, with the continued support and guidance of Governor Christie Whitman and the state, as well as the collaborative spirit, wisdom and tenacity of NJ TRANSIT's Board of Directors, New Jersey's public transit system will continue to evolve and provide the types of service that all New Jerseyans deserve.

A handwritten signature in dark ink, appearing to read "James Weinstein". The signature is fluid and cursive, written in a professional style.

JAMES WEINSTEIN
Chairman



Message from the Executive Director

By providing the best possible public transit service and keeping fares stable for nine consecutive years, NJ TRANSIT has made great strides in the last two decades and is proud to celebrate its 20th anniversary of serving New Jersey. Always with the best interests of all residents; the neighborhoods in which they live, the communities where they do business, and the state as a whole in mind, NJ TRANSIT has become an important partner in shaping New Jersey's future — an honor the corporation has not and will not take lightly.

NJ TRANSIT currently maintains a solid reputation as one of the best transit agencies in the nation and serves as a model of how such public transit organizations should operate. With all of its accomplishments, NJ TRANSIT has a strong foundation in place. As we approach 2000, our challenge is to build on that foundation, find new ways of doing business, and strengthen our relationships with the residents and businesses of New Jersey.

Proactive alliances with state and federal legislators together with the private sector are critical for NJ TRANSIT. These public/private partnerships will be the key to the Governor's vision of a seamless transit system for the entire state.

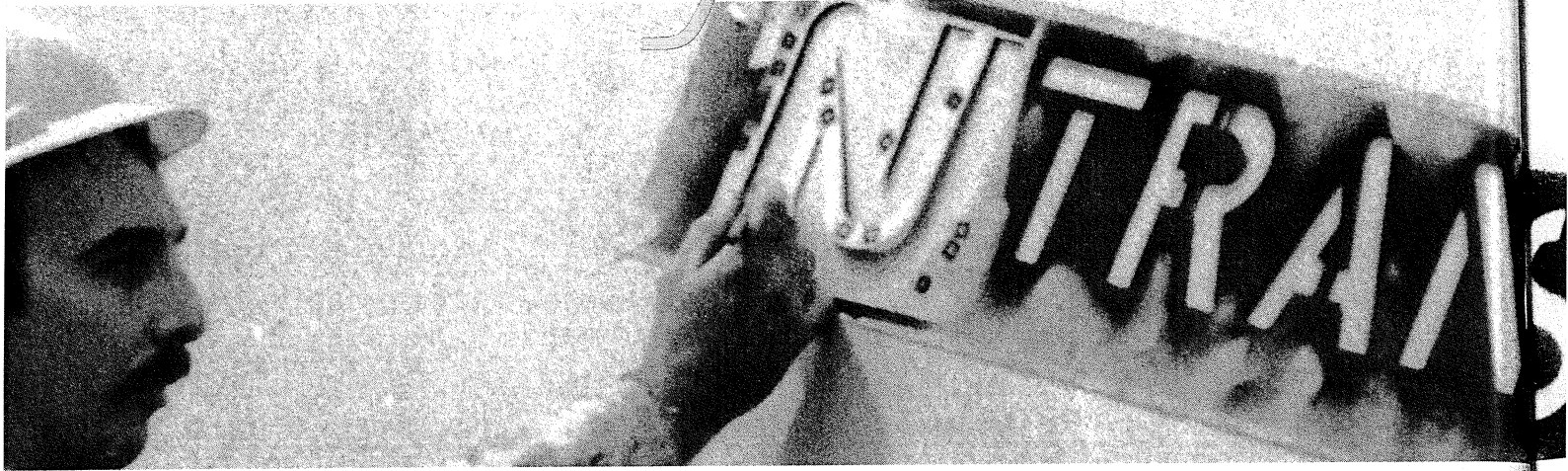
There will be many challenges facing the corporation as we move forward. But, I am confident that, with a strategic business plan in place, the continued dedication of our workforce, and the last 20 years of experience, the next 20 will bring unprecedented accomplishments for NJ TRANSIT and a vastly improved quality of life for all New Jerseyans.

In conclusion, I would like to express my gratitude for the confidence and support of the Governor, the NJ TRANSIT Board of Directors, and its chairman, the Commissioner of Transportation. On behalf of myself and my fellow employees, I also would like to affirm that this is more than a perfunctory annual report, it is a hymn to a great history and a harbinger of greater things to come. Thank you for riding — and reading — with us.

A handwritten signature in black ink that reads "Jeffrey A. Warsh". The signature is written in a cursive, flowing style.

JEFFREY A. WARSH
Executive Director

Eye on



The Birth and Evolution of NJ TRANSIT

It was the 1950s. World War II was becoming a memory and life in the United States was changing. Inexpensive gasoline and unprecedented suburban growth fueled the increasing use of private automobiles, as the ridership, infrastructure, and profitability of public transit declined.

Though New Jersey reflected this national trend, the pulse of "public transit" weakened but did not stop. The state's dynamic mix of city and suburb meant that public transit was still needed. But only a patchwork of rail and bus services remained and the financial base that supported them was eroding.

Recognizing that preserving commuter rail service was crucial, the New Jersey Legislature created the Division of Railroad Transportation within the State Highway Department (the present-day New Jersey Department of Transportation) in 1959 to help the major commuter rail lines continue to provide service. The Transportation Act of 1966 made New Jersey the first state to integrate its approach to managing highways and public transit and created the Commuter Operating Agency (COA), a policy-making body charged with overseeing rail carrier contracts and capital improvements. By the late 1960s, private bus carriers were struggling as their passenger-rail counterparts had

the Past

“The 20th century has been a transportation odyssey...an incredible journey born of imagination and transformed into reality by the will of visionaries.”

Christine Todd Whitman
Governor

A 20-Year Retrospective

done a decade before, even as growing public concern about the environment focused new attention on public transit. In 1969, the New Jersey Legislature launched a program that provided financial operating assistance to preserve essential bus service, enabling the COA to purchase equipment and make it available to private carriers at a nominal cost.

In 1976, when virtually all of the nation's northeastern private rail systems were in financial



On July 17, 1979, Senator Francis Herbert, Gov. Brendan T. Byrne and Louis J. Gambaccini, Commissioner of Transportation sign legislation to create NJ TRANSIT.

jeopardy, Congress passed the Railroad Reorganization Act. The act created Conrail, a consolidation of those railroads, and the COA contracted with Conrail to operate passenger service in New Jersey. In 1979, the COA took advantage of an option which

facilitated the state's purchase of all active commuter tracks, some unused routes, and all rail stations not owned privately or by municipalities.

As the energy crisis escalated and the quality of public transit service within the Garden State

continued to decline, concern about the lack of public control over publicly financed bus operations led to the New Jersey Public Transportation Act of 1979 and the



NJ TRANSIT was put to the test early on in its career when an 81-day PATH strike in 1981 left thousands of commuters stranded.

creation of the New Jersey Transit Corporation, the nation's first state agency devoted exclusively to public transit. Then on January 1, 1983, the still-young corporation took over passenger-rail operations from Conrail to further consolidate and start on the long road to improving public transit in New Jersey.

Now, 20 years later, the aggressive yet prudent path that NJ TRANSIT has been traveling since its inception has transformed the corporation into the third largest and one of the nation's best public transit systems. The vision that launched NJ TRANSIT has been refined over the years — it has become broader, and more ambitious, but its essence has not changed — to create a system that provides safe, reliable, convenient, and cost-effective transit services to those who live, work, play, or do business in the Garden State.

Today, NJ TRANSIT has become a benchmark for transportation agencies not only in the United States, but also throughout North America. The corporation's 10,000 employees provide bus, rail, light rail and paratransit services for 358,000 daily commuters, linking them to centers of commerce, employment, education, and recreation throughout New Jersey and into New York City and Philadelphia.

Many milestones mark NJ TRANSIT's 20-year journey: milestones in consolidating operations and expanding services; implementing customer service initiatives that attract and retain passengers; and, fostering mutually productive partnerships with the communities and businesses that the corporation serves.

Vision for a Unified Transit System

Two major acquisitions early in its history helped set NJ TRANSIT's unique course: the corporation's October 1980 purchase of Transport of New Jersey (TNJ) and its wholly owned subsidiary, the Maplewood Equipment Company (MEC), the largest private bus company in America; and, the transfer of direct operating responsibility for Conrail's commuter rail services in the state to NJ TRANSIT in January 1983. The TNJ/MEC purchase brought with it 2,000 buses, 156 routes in 20 of New Jersey's 21 counties, the 4.3-mile Newark City Subway, and 5,000 employees. Conrail transported 75,000 commuters on 510 trains per day at the time NJ TRANSIT assumed complete responsibility. These acquisitions became NJ TRANSIT Bus Operations and NJ TRANSIT Rail Operations, respectively. They gave direct control of a statewide

multi-modal system to NJ TRANSIT and put the people of New Jersey "in the driver's seat."

Infrastructure Upgraded

Service must be supported by infrastructure — and the infrastructure inherited by NJ TRANSIT in 1979 required considerable upgrading. Electrification was high on the corporation's agenda, as were the rehabilitation of the Newark City Subway, rail service for South Jersey, and construction of the Secaucus Transfer.

A seven-year project on the North Jersey Coast Line (NJCL) began with the rehabilitation of the Navesink River Bridge and Morgan Drawbridge. Electrification of the NJCL segment between South Amboy and Matawan began in 1982 and was completed with the full electrification to Long Branch in 1988. Re-electrification of the Morris & Essex Lines and purchase of new rail cars in 1984 represented the first upgrade of the lines' outmoded power system and equipment in 50 years, giving area commuters good cause to return to public transit.

The year 1984 was also a landmark for the many thousands of riders using the Newark City Subway when NJ TRANSIT completed the renovation of the 50-year-old, 4.3-mile light rail system. The project was a clear example of NJ TRANSIT's core commitment to working with municipal government, local citizens, city planners, and minority- and women-owned businesses to implement projects in ways that not only optimize the utility of public transit but also maximize the economic benefits of transit to businesses and communities.

NJ TRANSIT finished the 1980s by launching the

corporation's first new rail service with the 1989 grand opening of the Atlantic City Line — complete with six new station stops. Only six years later, NJ TRANSIT broke ground for the Secaucus Transfer, a landmark project that will play a crucial role in public transit in the 21st century by interconnecting all rail service in northern New Jersey. A multi-level rail station will serve as the interconnecting node for NJ TRANSIT's Main, Bergen



The date is July 2, 1988, and the first electric train to travel the North Jersey Coast Line's newly electrified 16-mile stretch between Long Branch and Matawan begins its trip to New York.

County, Pascack Valley and Port Jervis lines, allowing commuters to transfer to trains traveling on the Northeast Corridor. The project is expected to bring new jobs to North Jersey and make public transit a reality for an unprecedented number of new riders.

Out With the Old & In With the New

Throughout its history, NJ TRANSIT has also been at the forefront of advances in equipment, equipment maintenance systems, and transit-related technology. In 1981, the corporation purchased 271 "advanced design" buses from the Grumman-Flexible Corporation. In 1983,

funding from the Urban Mass Transportation Administration (now the Federal Transit Administration) and the Port Authority of New York and New Jersey was made available to purchase 700 new "Jersey Cruiser" buses, the largest single bus purchase in the state's history. With an additional purchase of 165 Grumman in the same year, the average age of NJ TRANSIT's bus fleet was decreased from 12 to 6.8 years.

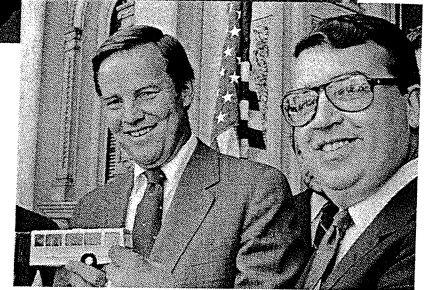
By 1986, riders welcomed 9,000 new or refurbished rail seats and 3,000 additional peak-hour bus seats, some of them on the state's first 110 articulated "Dependable Bendable" buses. Ten years later, thanks to funding from the Federal Transit Administration and the New Jersey Transportation Trust Fund, the advanced, state-of-the-art NOVA bus debuted. Its features include streamlined design, easy accessibility via wheelchair lift, radial tires, safety-enhancing eye-level brake lights, and new engines that emit up to 90% fewer pollutants and get two more miles per gallon of fuel.

In June 1983, NJ TRANSIT began a series of rail equipment purchases when 117 new Bombardier Comet II cars were put into service on the Raritan Valley Line. Customers on the line, who had not ridden new equipment in half a century, were among the first to enjoy the Comet IIs.

Modern buses and rail equipment require modern maintenance facilities to keep them in peak condition. NJ TRANSIT's program of upgrading or replacing



Governor Thomas Kean and John Sheridan, Commissioner of Transportation inaugurate the purchase of 110 new articulated buses at a statehouse ceremony in early 1986. The "artics" provide 40 percent more seating than conventional buses and were purchased to address travel needs in the more densely populated areas of the state.



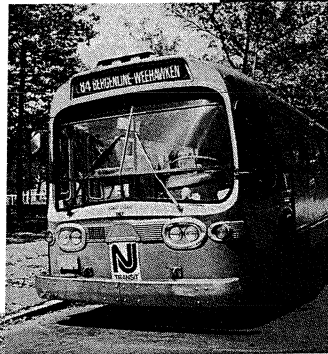
older, inefficient facilities and building new ones reduces the amount of time that equipment is out of service and ensures passenger safety. The corporation's most significant bus maintenance facility construction projects include facilities in Howell on the Route 9 Corridor, which opened in 1987; in South Jersey's Washington Township (1988), Newton Avenue in Camden (1991), the Newark Bus Complex (1993) and, most recently, in Egg Harbor Township (1997). On the rail side, the Meadows Maintenance Complex in Kearny opened in 1987 providing a centralized rail equipment maintenance shop accessible to all NJ TRANSIT rail lines.

Services Enhanced

NJ TRANSIT continued to increase the scope and quality of transit services available in the Garden State, making it easier for more people to use public transit, supporting landmark federal statutes such as the Americans with Disabilities Act and the Clean Air Act,

and taking advantage of federal, state, and local legislation and funding partnerships. The examples that follow illustrate the evolution of NJ TRANSIT's services as the corporation's ability to meet the needs of more and more constituents grew.

AccessLink, a system of fully accessible minivans and minibuses contracted by NJ TRANSIT, was inaugurated in 1993 to provide curb-to-curb public transportation for people whose disabilities cannot be accommodated on the corporation's lift-equipped buses. By 1997, AccessLink was serving 24,000 disabled riders in 14 counties each month. WHEELS service, launched in 1994, provides fixed and flexible bus service to suburban, commuter, medical, educational, and recreational destinations not served by typical transit systems.



The debut of the state-of-the-art NOVA bus (right) in 1996 brought NJ TRANSIT closer to meeting the state's vision for a "quicker, safer, smarter and more convenient" transportation system. Over-aged buses like the 1976 Flexible (left) and the 1960 General Motors P700 (center) — the first suburban bus ever built — have long since been retired.

Commitment to Attracting and Retaining Riders

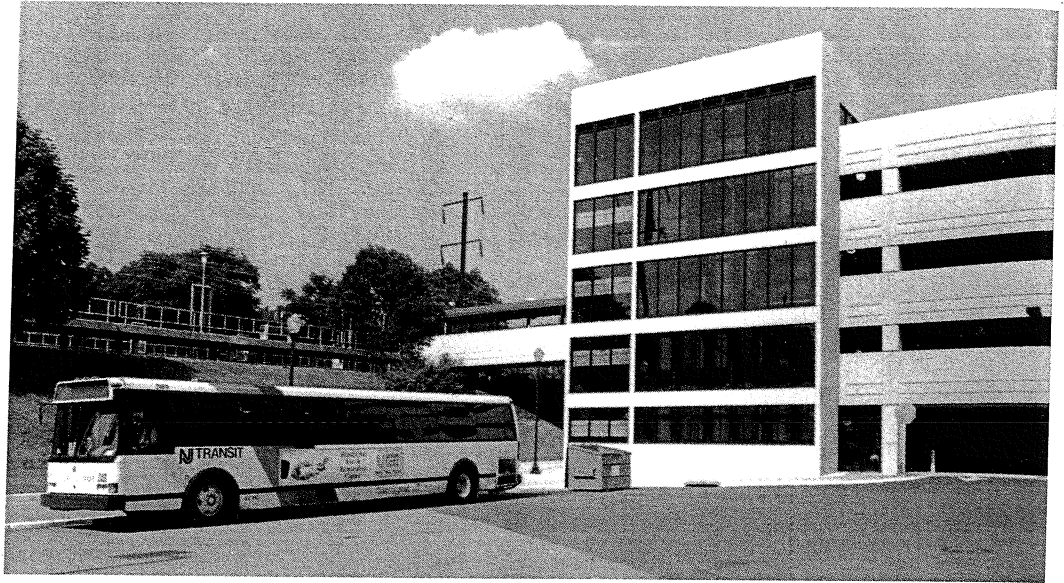
Although NJ TRANSIT's service- and infrastructure-related achievements might be the most tangible evidence of the corporation's success over the last 20 years, what many customers think about when they use public transit is whether or not the experience is convenient, pleasant, and worthwhile.

At the time NJ TRANSIT was formed, frustration with public transit was running high. Many existing customer facilities needed rehabilitation and, in some locations where public transit was needed most, facilities

For customers on the Morris & Essex Lines, the wait for a ride directly into Manhattan ended in 1996 when the long-planned MidTOWN DIRECT service began. MidTOWN DIRECT now provides a one-seat ride to Penn Station New York. Today more than 10,000 commuters use the service, each saving as much as 40 minutes a day.

In 1997, a joint venture involving NJ TRANSIT

were insufficient or even nonexistent. Major initiatives undertaken throughout the 1980s and 1990s included repairs to Newark Penn Station and Hoboken Terminal. New stations were constructed at Matawan, Fanwood, Mountain View, Elberon, Pt. Pleasant Beach, and Rahway; and, upgrades were completed at 35 rail



Parking expansion projects, like the 3,500-space parking decks constructed at Metropark Station, will allow NJ TRANSIT to better meet the needs of riders.

stations and three light rail stations, as part of the Key Stations Program — an initiative spurred by the Americans with Disabilities Act (ADA).

One of the ramifications of ever-growing rail service has been a substantially greater need for commuter parking. A major parking project at Trenton Station added 1,800 new spaces at a seven-level parking deck in 1995. In 1997, a 1,500-space deck opened at Metropark Station; and, 2,000 more in a second deck opened in 1998.

Rail passengers haven't been the only customers to benefit from improved facilities. In 1989, the new Walter Rand Transportation Center in Camden opened its doors to more than 2,500 bus riders and 1,800 PATCO passengers. In 1997, the new Atlantic City Bus Terminal opened, serving an average of 10,000 people a day, from Jersey shore visitors to regular riders who work at the convention center, casinos, and local businesses.

NJ TRANSIT has also demonstrated a strong commitment

to public service that extends beyond adding bus stops; upgrading bus facilities, rail stations and rights-of-way; and, purchasing and maintaining equipment. Safety, amenities, and enhancing the popularity of publicly supported transportation have been at the core of the corporation's strategy since its inception. Initiatives such as the Bus Card Program have made it simpler to use public transit. Launched in 1981, the program enables bus passengers to purchase a monthly commutation pass eliminating the need for riders to worry about having exact change when boarding buses. Approximately 298,000 passes were sold during FY99.

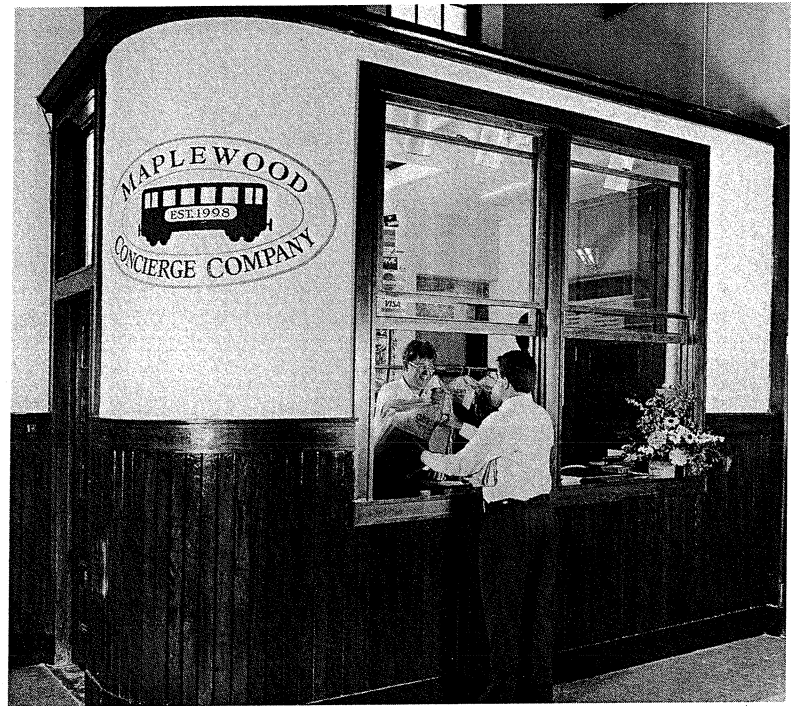
The NJ TRANSIT bus shelter program, first implemented in 1981, was the result of a partnership with municipal and county governments that put almost 900 shelters into service within just a few years. In 1991, two-way radios were installed on all buses to enable each vehicle to report delays, detours, and breakdowns, facilitating quick response in emergencies and minimal disruption in service. The same year, NJ TRANSIT installed electronic fare boxes so that riders could use dollar bills to pay fares.

NJ TRANSIT continued building on its commitment to the safety of the riding public when it created the NJ TRANSIT Police in April 1992. A police chief heads the department and its officers have full police power in the state, although their primary objective is to ensure a safe and orderly environment within the transit system. NJ TRANSIT's Transit on Patrol (TOP) program, the first of its kind nationwide, was initiated to provide a helping hand to the corporation's police force. TOP is a partnership that links NJ TRANSIT bus operators with state and local law enforcement officers via on-board radios enabling operators to more quickly report emergency situations and police to respond.

Bus simulator training, begun in 1994, was another first for NJ TRANSIT – the interactive, computer-driven simulation system allows the corporation to create one-on-one customized training for bus operators, and, as the first of its kind, this award-winning program has become the standard for bus operator training systems worldwide.

Keeping people on public transit is a matter of providing reliable, cost-effective service to and from the places they need to go. Attracting ridership depends on proving that public transit fulfills people's needs and fits their lifestyles. NJ TRANSIT works with communities and businesses to adapt rail stations so that they provide the types of amenities today's busy riders want, from bike racks, lockers, decorative lighting, and planters to enhancements such as vending machines, cafes, "fast food," newsstands, and kiosks. An example of this innovative Adaptive Reuse Program is the launch of a

concierge service at the Maplewood Station on the Morris & Essex Lines. Passengers preregister for the concierge service. Then, they simply leave orders at the station in the morning and pick them up on their way home. More than 50 local companies are involved, lending further vitality to our communities.



Finding innovative ways to use and "reuse" stations is key to providing the kinds of services busy commuters want. The Maplewood Concierge Service, started in June 1998, is just one of the ways that NJ TRANSIT implemented its Adaptive Reuse Program.

Partnership with the Residents of New Jersey

Support for New Jersey's diverse communities has been an NJ TRANSIT hallmark. From the corporation's inception, it has relied on partnerships to help ensure that transit is doing what it needs to do. In response to the NJ TRANSIT enabling legislation, its Board of Directors formed the North Jersey and South Jersey Advisory committees to represent the residents of New Jersey and be their voice. Composed of citizens selected for their

understanding of the existing system, their grasp of the disciplines that make up transit planning, and their ability to represent the needs and desires of public transit riders, each committee forges an important link with



Through cross-border leasing, fiscal year 1990 ushered in an innovative approach to financing new equipment purchases like the ALP-44 locomotive (pictured left). Old-time steam engines and Erie Lackawanna Multiple Unit (MU) cars are now a nostalgic reminder of our past.

NJ TRANSIT and the people it serves. A number of other specialized advisory groups, task forces, and committees, such as the Business Transit Alliance and the Special Services Citizens Advisory Committee, have made critical contributions to NJ TRANSIT's planning and implementation process. NJ TRANSIT will continue to call on such groups in the years to come.

NJ TRANSIT has supported New Jersey's 566 municipalities in other important ways, too. Governor Whitman's Work First New Jersey Program, which began in 1997 in response to the passage of the federal welfare reform bill, helps remove transportation-related barriers to employment as welfare recipients make the transition to the workplace. While receiving job training, Work First participants

are eligible to use existing bus and van service. Once they finish the program and secure employment, they receive a one-month free NJ TRANSIT public transit pass, courtesy of the corporation's Get a Job, Get a Ride Program, and everyone wins — the workforce grows, businesses fill job openings, and public transit ridership increases.

In 1986, NJ TRANSIT set an example of how well public/private partnerships can work when it formed the Private Carrier Advisory Committee and the corporation began to contract bus service to privately-owned transit providers. This effort produced a series of guidelines for contracting bus services and strengthened the state's bus transportation network.

The corporation also set a trend in 1990 when it

began a cross-border leasing program for rail rolling stock. Leases of this type allow foreign firms to hold title to equipment and lease it back to NJ TRANSIT, which shares in foreign tax benefits that accrue to the owner. NJ TRANSIT's first cross-border lease of 15 new locomotives netted the corporation a benefit of approximately \$4 million. Since 1990, the program was expanded to U.S. leveraged leasing and has generated benefits of more than \$100 million for NJ TRANSIT.

Leveraging state and local transportation-related legislation has also proven to be good business. Funds from New Jersey's 1985 Transportation Trust Fund legislation spurred an intensive program of modernization and infrastructure upgrades, established the framework for Trust Fund allocations in subsequent years, and allowed NJ TRANSIT to begin pursuing its long-range vision of public transit in the 1990s. In 1992 the corporation

received its first funding from the federal Intermodal Surface Transportation Efficiency Act (ISTEA). ISTEA funding of more than \$600 million allowed NJ TRANSIT to begin pursuing long-term transportation initiatives, known then as the Urban Core, which will ultimately create a seamless transit system that serves New Jersey's all-important industrial and business hubs. Urban Core projects include the Waterfront Connection, completed in fiscal year 1992, as well as the Montclair Connection, MidTOWN DIRECT, the Newark-Elizabeth Rail Link, the Secaucus Transfer, and the Hudson-Bergen Light Rail Transit System. ISTEA, which has funded other projects as well, including equipment purchases, was renewed by Congress in 1998.

These two funding sources have been instrumental in enabling NJ TRANSIT to build and maintain the type of public transit system that residents of the Garden State demand and deserve.

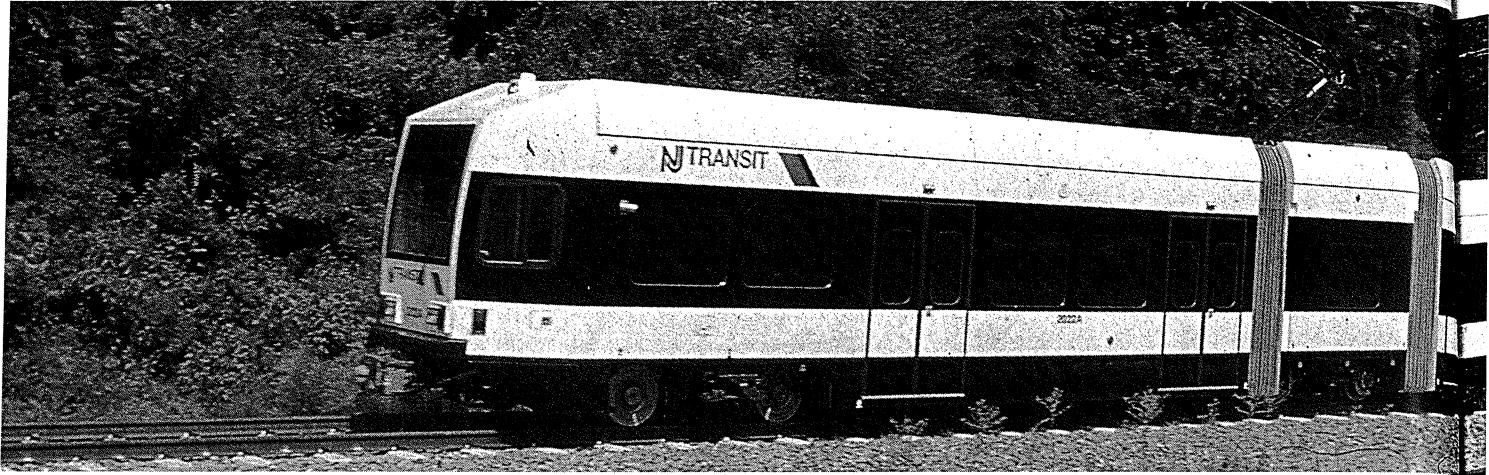
Business Transit Alliance Programs Highlight the Benefits of Commuting via Public Transit

It is a strong relationship – in fact, the partnership between NJ TRANSIT and the Business Transit Alliance (BTA) goes back to FY88, when the alliance was created to identify and respond to the transit needs of New Jersey's work force, educate employers and employees about the merits of using public transit, and build strong communication between NJ TRANSIT and the business community. In its first year, BTA introduced 200,000 employees in 130 companies to mass transit through BTA programs such as TransitChek, a voucher for use toward the cost of monthly or weekly bus or rail tickets, and BusinessPass, which lets employees purchase passes via payroll deduction. By 1992, 207 area companies took part in BTA programs, subsidizing the travel expenses of employees who adopted public transit. FY93 saw the formation of Transportation Management Associations (TMAs) throughout New Jersey, which, together with the BTA, continue to encourage employers and employees to leave their cars at home and take public transit. Participation in BTA programs grew to 250 firms and by FY94, almost 450 companies were members.

At the time of the BTA's 10th anniversary in 1997, 1,045 firms and 700,000 employees were taking advantage of its programs. BTA activities had grown to include Employee Transit Coordinator training, a Transit Information and Resource Center, custom bus service, relocation assistance, Transit Days, job fairs, and transit research as well as the long-standing BusinessPass and TransitChek programs.

Several major employers joined the BusinessPass Program in FY99, including the statewide St. Barnabas Health Care System. Participating employers deduct up to \$65 per month from the employee's pretax salary, effectively increasing the employee's take-home pay while reducing the employer's payroll cost. Employers can also provide a complete or partial subsidy for employees of up to \$65 per month for commutation passes, which is tax-deductible to the employer and tax-free to the employee. To get the word out about the new tax benefits BusinessPass offers, NJ TRANSIT developed and implemented an award-winning marketing campaign to promote the program in FY99.

FOCUS on



Meeting the Transit Needs of a New Generation

While clothes look a bit different and laptops, cell phones, beepers and backpacks are now the rage, the people who use public transit today aren't much different from their 1979 counterparts. They want to get from here to there and back again on time, comfortably, safely, and affordably. But it isn't just the people who ride with NJ TRANSIT who benefit from public transit — all New Jerseyans, directly or indirectly, have a vested interest in the corporation.

With this in mind, NJ TRANSIT readied itself for a historic transition that happens only once every thousand years. FY99 projects are providing benefits today even as they lead the way to the intermodal transit system of the future ... one that will connect

riders throughout the state to centers of employment, education, recreation and medical care, as well as to other modes of transportation. Residents today are beginning to witness the returns on their investment as a transportation vision is being realized.

Innovations in Safety

Testing of NJ TRANSIT's integrated Automatic Train Control (ATC)/Positive Train Stop (PTS) braking system began in FY99. When the dual system is fully operational in 2003, NJ TRANSIT will be the first transit property in the world to integrate ATC and PTS, raising the level of safety aboard trains and setting a new industry standard.

the Future



“Our past has demonstrated we have the ingenuity to meet the challenges that lie ahead. Our future will tell if we still have the will.”

Christine Todd Whitman
Governor

FY99: Positioning for the Next 20 Years

ATC, already installed on 72% of the corporation's rail system, monitors conditions along the track, detects damaged rails or improperly thrown switches and uses electrical current from the rails to relay continuous signals to the train's onboard computer so the engineer can stop the train before an accident occurs. If the engineer does not respond, the system activates the brakes automatically. ATC also prevents a train from passing through a stop signal at 20 MPH or above.

PTS, which is widely used in Europe, is a radio-



During the last 20 years, the corporation brought about tremendous change in how residents view the state's public transit system. New and reliable equipment, enhanced safety systems, modern facilities, and more convenient schedules are only a few of the reasons why more than 209 million chose to ride with NJ TRANSIT in FY99.

based system that uses transponders placed along the tracks to send intermittent commands to the train's computer, which in turn provides information to the engineer. PTS can slow or stop a train automatically before a stop signal if an engineer fails to respond appropriately, and enforces speed restrictions on curves and along stretches in which rail maintenance work is taking place.

PTS will be installed systemwide after current testing and all federal reviews and approvals are completed. At

least one of the two technologies is expected to be operational on all of NJ TRANSIT's rail lines by the end of the 2000 calendar year.

A Broader Range of Service

FY99 brought better service and accessibility to New Jersey's urban and suburban communities alike. In Newark, a new series of Newark City Subway renovations began in preparation for the introduction of new light rail vehicles to be used on the system in 2000. The project involves installing four new power substations, converting the existing trolley wire system to catenary, upgrading signals, installing four crossover tracks, and replacing old sections of track, as well as the construction of a new, accessible station at Franklin Avenue in Bloomfield.



NJ TRANSIT's FY99 Challenge Grant helps give residents easier access to area rail stations. On March 25, 1999, Deputy Executive Director/Chief Operating Officer Stanley J. Rosenblum delivered the program's first vehicle to Springfield, NJ. The community-maintained jitney service travels fixed routes to nearby stations, enabling rail riders to leave their cars at home.

With ridership at an all-time high, parking for users of public transit continues to be an issue affecting many of the municipalities in which rail stations are located. FY99 parking expansion projects added a significant number of parking spaces at Lyons Station in Bernards Township (142

spaces), Cherry Hill Station (359 spaces), Brick Church Station in East Orange (95 spaces), and South Orange Station (273 spaces). The corporation also broke ground for a new 469-space Park-and-Ride lot on Route 9 in Howell Township and instituted changes to the operation of the new Liberty State Park Park-and-Ride in Jersey City to attract new riders to the Hudson-Bergen Light Rail system when it begins operating in Spring 2000.

Five municipalities served by NJ TRANSIT were chosen to receive minibuses and initial funding for community-based jitney service to and from local train stations in a different kind of approach to address parking problems. Springfield, Chatham Township, Maplewood, East Orange, and West Orange expect the jitney service to alleviate congestion at parking lots that has resulted from unprecedented growth along the Morris & Essex Lines. NJ TRANSIT selected the participating communities based on specific criteria: the ability to operate the service, maintain the vehicle and obtain appropriate insurance coverage; the degree to which access to NJ TRANSIT rail service is hampered by a shortage of parking; clear local support from municipal government and residents; and, the ability to help sustain the service at the end of the first year of operation. This innovative Challenge Grant Program was designed to encourage communities to tailor solutions that close the loop in the public transit system by providing their residents easier access to the train system.

A unique new NJ TRANSIT discount ticket service called the OzonePass was made available through employers in FY99. Not only will the initiative introduce new riders to NJ TRANSIT, it will also help improve air quality in the Garden State by reducing the number of

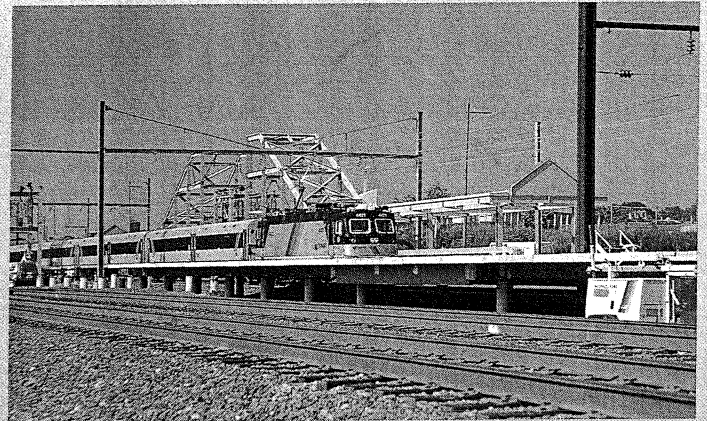
private cars on the road during "ozone alerts" – the most polluted days of the year. To participate, employers purchase bulk quantities of the OzonePass. They then distribute or sell the \$2 round-trip passes to employees so that they can commute on NJ TRANSIT on high-ozone days instead of driving to work. Employers are notified by fax the day before unhealthy ozone levels are expected. Another initiative giving seniors, 65 and older, and people with disabilities a greater incentive to ride is the expansion of the Reduced Fare Program that allows for more frequent rides at reduced fares aboard NJ TRANSIT beginning January 2000.

Investments in New Systems and Equipment

October 1999 introduced a new fare payment system for passengers of the Newark City Subway and the first segment of the Hudson-Bergen Light Rail (HBLR), when it is completed in Spring 2000. The payment system allows for quick and safe passenger boarding while ensuring that fares are paid. The program, known as proof-of-payment (POP), requires customers to first purchase their tickets from Ticket Vending Machines (TVMs), ticket agents, or through NJ TRANSIT's Mail-Fare Program and then use a time stamp machine at the station to validate the tickets. A customer education program will be launched as the system is phased in and fare inspectors will make random checks to ensure that customers have purchased and validated their tickets. Initially, inspectors will issue warnings and instructions to passengers found to be without a validated ticket. Eventually, customers who fail to purchase and validate tickets will be subject to fines.

Moving Toward Interconnectivity

Construction began on the intermodal station at Newark International Airport in FY99. When the project is completed in 2001, riders will be able to transfer from the Northeast Corridor – the busiest section of railroad in the country – and the North Jersey Coast Line to the airport. When the Secaucus Transfer Station opens in mid-2002, passengers on NJ TRANSIT's Main, Bergen County, Pascack Valley and Morris & Essex lines will also be able to "take the train to the plane."

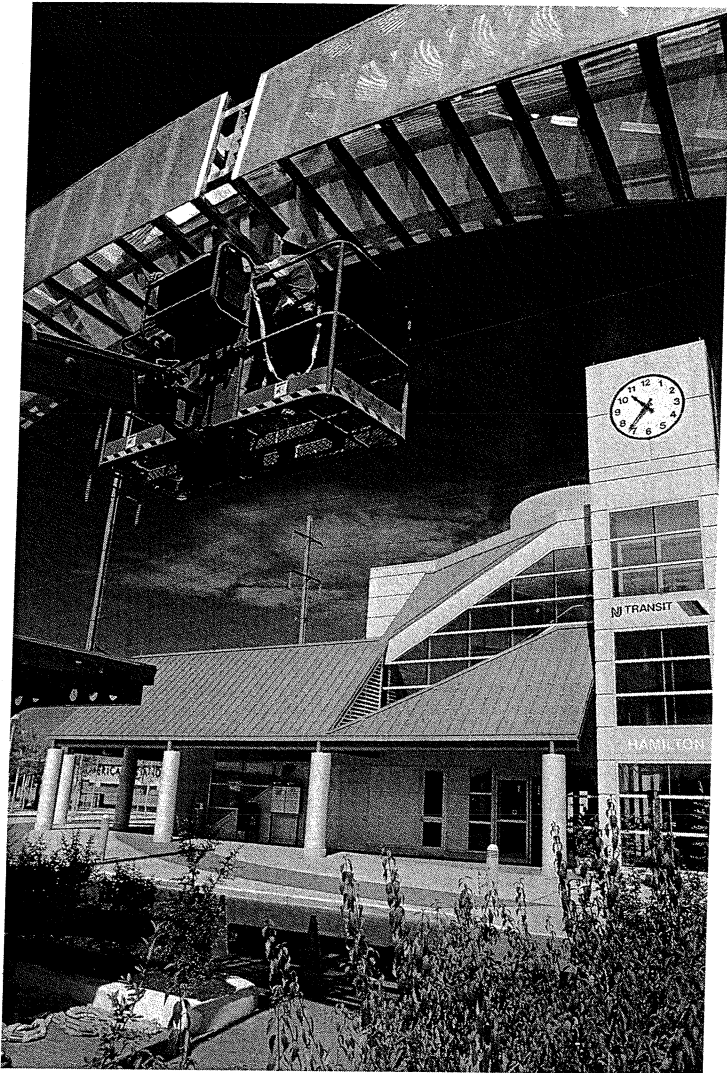


Construction of the intermodal Newark International Airport Station continues.

The Secaucus Transfer, now more than 55% complete, will do more than enable riders to connect to service for Newark International Airport – it will carry 32,000 passengers per day once it becomes fully operational and allow northern New Jersey customers to shave as much as 15 minutes each way off of their commute to Manhattan.

In FY99 rail passengers on the Boonton Line in Montclair and Little Falls moved closer to their own direct ride to midtown Manhattan via the Montclair Connection, with the Board of Directors approving the implementation of rail electrification along a portion of the line. The next and final phase involves construction of a 1,200-foot rail connection that will link the Boonton Line, just east of Walnut Street Station in Montclair, and the Montclair Branch at Bay Street Station. NJ TRANSIT will provide a parcel of land to the township for community development, contribute towards parking, allocate space at the new Bay Street Station for community activities and a police substation, and participate in community development planning.

Plans for extending the Newark City Subway by linking Broad Street Station and Newark Penn Station progressed in FY99 as well, with the submission of the Final Environmental Impact Statement to the Federal Transit Administration (FTA) and the Board's approval of the final design contract. The extension, to be completed in 2005, is the Minimum Operable Segment (MOS-1) of the Newark-Elizabeth Rail Link (NERL), an 8.8-mile light rail line that will serve more than 13,000 riders daily. Funds from the Transportation Trust Fund and FTA are underwriting the \$198.9 million MOS-1 project.



The new Hamilton Station (pictured), part of the Hamilton Transit Complex, began serving Northeast Corridor customers in FY99. The station provides an attractive and convenient alternative to commuting to and from the congested Princeton Junction area. The Hamilton Bus Maintenance Facility, also housed at the complex, provides state-of-the-art upkeep of buses serving the region.

Customers will not only be entering and exiting the HBLR easily when it debuts in FY00, they'll be riding new, state-of-the-art light rail vehicles (LRVs). Twenty-nine LRVs will be allocated to the initial operating segment of the HBLR and 16 LRVs will be used on the Newark City Subway. The vehicles, which are being manufactured in Japan and assembled and tested here in New Jersey at the Harrison Assembly Warehouse, feature eight double doors, 68 seats, two wheelchair securements,

accommodations for 122 standees, a climate-controlled heating and air conditioning system, automated station announcements, and other customer amenities.

In FY99, the corporation purchased an additional 620 new NOVA buses, which are equipped to comply with both the Americans with Disabilities Act and the Clean Air Act Amendment. The buses are powered by engines that feature a state-of-the-art electronic system to control the diesel fuel combustion process in a way that reduces emissions. Two hundred and seventy-five buses will be provided during the first year of the contract, with 200 allocated to private carriers. The program moves NJ TRANSIT closer to its



An avid supporter of public transit improvements and author of New Jersey FIRST, a transportation vision for the 21st century, Governor Christie Whitman celebrates the Hamilton Station grand opening on Feb. 17, 1999.

goal of replacing a minimum of 1,400 aging buses within the next five years.

Two long-anticipated, state-of-the-art NJ TRANSIT bus storage and maintenance facilities debuted in FY99: the Hamilton Bus Maintenance Facility, part of the Hamilton Transit Complex, and the Wayne Township Bus Maintenance Facility. The 130,000-square-foot Hamilton facility, under construction since FY97, houses 80 buses and replaces the 93-year-old Mercer Garage in Trenton. The 210,000-square-foot Wayne Township facility, which is serving a number of routes transferred from the Market Street and Madison Avenue garages in Paterson, can accommodate up to 135 buses and provide maintenance services for a fleet of 180 coaches.

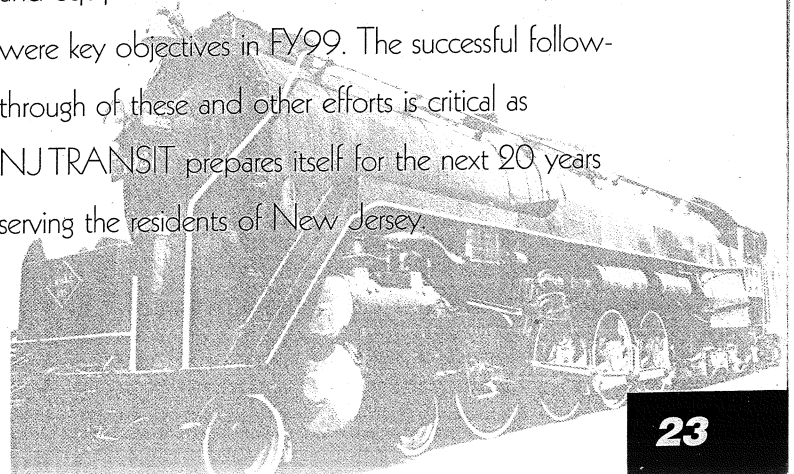
Quicker Commuting

Raritan Valley Line (RVL) riders are enjoying the benefits of the \$33 million Hunter Connection project completed in FY99. The project required realignment of a 5,400-foot ramp on Amtrak's Northeast Corridor to Conrail's Lehigh Valley Line and construction of a new 17,000-foot passing track, a 2,500-foot embankment to support the new ramp connections, and catenary foundations and structures along the ramp tracks. Trains now may proceed through the area at 45 MPH instead of the 15 MPH necessitated by the ramp's old configuration. The RVL schedule has been reconfigured to reflect the time savings of four minutes per trip and a new morning train serving Plainfield, Fanwood, Westfield, Cranford, and Roselle Park has been added.

Satisfying Customers

Pilot customer-satisfaction programs initiated on the Raritan Valley Line and MidTOWN DIRECT in FY98 provided a wealth of information regarding rail customer attitudes on everything from parking and scheduling to performance, equipment, and communications. NJ TRANSIT expanded its customer-input efforts by distributing a comprehensive customer survey systemwide in the final weeks of FY99. The survey is just part of the Customer First Program, which aims to improve the corporation's understanding of customers' evolving needs and priorities. The program will help NJ TRANSIT to develop customer satisfaction benchmarks, allowing the corporation to track customer satisfaction on an ongoing basis. Initial feedback from the 100,000 copies of the survey distributed to riders indicates that customers want more frequent updates on system performance and the status of improvement projects. The information that results from the survey will be integrated with input that is gathered routinely via customer forums, e-mail, focus groups, advisory committees, and advocacy groups. Soon, a similar survey will be developed to measure bus customer satisfaction.

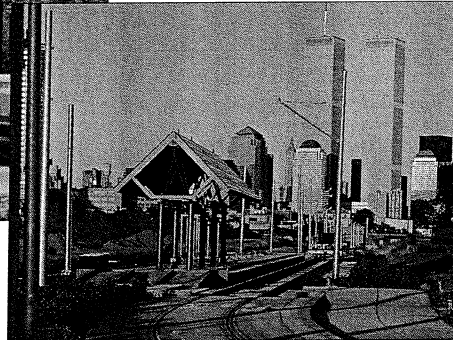
Expanding service and investing in new systems and equipment to ensure that customers are satisfied were key objectives in FY99. The successful follow-through of these and other efforts is critical as NJ TRANSIT prepares itself for the next 20 years serving the residents of New Jersey.



FY99 Projects Underscore the Importance of Partnerships



In February 1999, the first light rail vehicle to be used on the HBLR was unveiled and testing of the vehicle began. In May, NJ TRANSIT's Board of Directors gave the go-ahead to begin final design and engineering of the second phase of the project, which will operate between Hoboken Terminal and Tonnelle Avenue in North Bergen.



Completion of the first segment of the Hudson-Bergen Light Rail in Spring 2000 will bring a much-needed travel alternative to this densely populated northern New Jersey region.

NJ TRANSIT's focus on developing transit-related partnerships has contributed immeasurably to the rapid growth and increasing convenience of New Jersey's public transit network during the past two decades, and more such projects are planned or underway. The benefits of mutual investments in public transit go beyond numbers of riders to transit's ability to enhance the quality of life and work in the state and make a meaningful difference in the economic viability of the communities and businesses NJ TRANSIT serves.

In New York City, work continued on NJ TRANSIT's new 50,000-square-foot East End Concourse at Penn Station New York, a project that is vital to meeting the needs of ever-increasing ridership between the Big Apple and the Garden State. The project, which is scheduled for completion in mid-2001, is funded jointly by the Federal Transit Administration, the New Jersey Transportation Trust Fund, and Metro-North, working together to improve one of the most important passenger rail hubs in the nation. Seven new stairways and escalators, and six new elevators will ease access to NJ TRANSIT's platforms 1 through 6, and a new passenger waiting area will be built, complete with 13 new ticket vending machines, train service monitors, restrooms, expanded customer service and ticketing facilities, and an information booth.

In addition to the cooperative efforts involved in the construction of the East End Concourse project, a partnering steering committee involving Amtrak, the Long Island Rail Road (LIRR) and NJ TRANSIT was established in early FY99 to improve overall operations at the station. The committee regularly

examines existing operations and potential enhancements to address capacity and other issues. They discuss and establish long-range goals and prepare business plans and projects to implement life/safety improvements in the station and in tunnels connecting to the station as well.

With the inception of the steering committee, these "Penn Station partners" have put an end to counterproductive parochialism and are working together to ensure that the needs of the riders of all three railroads are met. The committee meets weekly and, each quarter, the presidents of the railroads assemble with the group to provide guidance, approve the current agenda and emphasize the importance of this partnership.

The idea of creating a light rail system to spur the growth of the Hudson River Waterfront has been in the works since 1988. But the innovative way it's being turned into reality is a first in U.S. public transit — a Design, Build, Operate and Maintain (DBOM) partnership.

Under a DBOM initiative, a single contractor takes responsibility for all aspects of designing, building, and operating a transit system. This approach offers several benefits, including a shorter construction schedule and incentives to build a high-quality system at a reasonable cost. Though DBOM contracts are

a fairly common means of approaching public works projects in Europe and elsewhere, all eyes in the public transit industry are on NJ TRANSIT as once again the corporation sets a new standard, this time by applying DBOM principles in the United States.

NJ TRANSIT's initial DBOM project is the 20.5-mile Hudson Bergen Light Rail (HBLR); the second will be the 34-mile Southern New Jersey Light Rail (SNJLR). Both are crucial components of New Jersey FIRST, Governor Whitman's transportation vision for the 21st century.

The \$1.3 billion HBLR is being developed by the 21st Century Rail Corporation, Inc., a Raytheon engineers- and constructors-led consortium of U.S. and international companies. When completed in 2010, HBLR will transport 100,000 passengers a day on a 20.5 mile route from the Vince Lombardi Park-and-Ride in Bergen County to Bayonne. In FY99, NJ TRANSIT and 21st Century Rail Corporation reached several milestones in the first phase of the project, and a portion of the initial operating segment (IOS) is slated to begin carrying passengers between 34th Street in Bayonne and Exchange Place in Jersey City in Spring 2000.

In southern New Jersey, the SNJLR will run between Camden and Trenton, through Burlington County and along the Delaware River, improving mobility and air quality, reducing vehicular congestion, and contributing to economic growth in the area. The system, which will link suburban communities in Mercer, Burlington, and Camden counties, will also enable direct connections with PATCO and the Northeast Corridor services of NJ TRANSIT, SEPTA, and Amtrak. Service is expected to begin in 2002.

Better Facilities to Meet the Evolving Needs of Customers, Business, and the Community

For the 2,500 passengers who use Rahway Station as a commuting base, completion of a \$12.6 million station reconstruction project in FY99 signaled a new era of convenience. The reconstruction began in 1995 and features a new station building, high-level platforms, a reconfigured pedestrian tunnel and a multitude of customer amenities to help make commuting a positive experience. Aesthetic improvements around the station include a magnificent bronze map located at the station entrance to welcome riders to the facility.

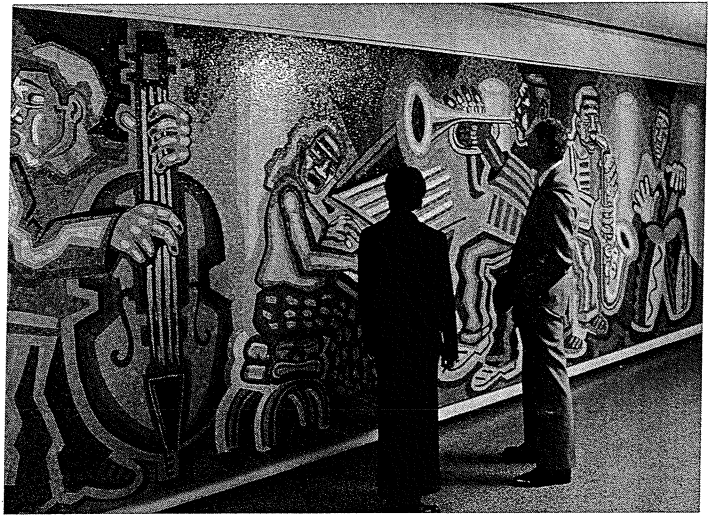
Riders on the Northeast Corridor have a new station in Hamilton Township, one they've awaited for 20 years. Hamilton Station, part of the Hamilton Transit Complex, will help alleviate crowding at Princeton Junction Station, which up until now has been the only alternative for area residents who wish to use rail service. Hamilton Township commuters who have searched for parking at Princeton Junction now have a 1,615-space parking lot to call their own, as well as a world-class, 13,000-square-foot, climate-controlled station building.

In FY99, NJ TRANSIT continued its program of station rehabilitation and the addition of amenities. Restoration of the waiting room at Hoboken Terminal, listed on the State and National Registers of Historic Places and originally built in 1907, will provide a brighter, friendlier waiting room in which to relax while waiting for a train. The state's second-



The new Rahway Station opened its doors to riders in September 1998.

oldest rail station, the Anderson Street Station in Hackensack, underwent a facelift that blended historic accuracy with modern amenities and signage. Perth Amboy Station, also a historic building, is undergoing a three-phase restoration, courtesy of a partnership between NJ TRANSIT, state and local government, and the private sector. In Trenton, passengers and businesses alike are expected to profit from a joint NJ TRANSIT/City of Trenton station rehabilitation project and joint development program. Renovation of the station and a redesign of the plazas outside the station will make it more pleasant for passengers to make connections to buses, taxis, nearby destinations, the central business district of Trenton, and the Statehouse. Finally, customers who use Middletown Station or Avenel Station will remember FY99 as the year their stations were upgraded with high-level platforms, canopies and shelters, repairs to pedestrian tunnels, and other improvements. In both cases, the municipalities played crucial roles in the projects.



NJ TRANSIT's Transit Arts Program continued efforts to beautify transit facilities with the installation of numerous art works throughout FY99. A notable example is this mosaic, which graces an interior promenade at Newark Penn Station.

Several new projects are improving passenger circulation access and amenities at historic Newark Penn Station. A concourse with six retail spaces is being constructed underneath the station viaduct to provide access to train platforms via elevator, escalator, and stairs. Renovations of the existing Gateway concourse level will reconfigure the area and create new management offices and retail space. Among other enhancements, a new computerized system has improved the quality of video displays that provide information to passengers and will enable future upgrades. New, historically appropriate signage that also meets mandates of the Americans with Disabilities Act has been installed to assist passengers as they make their way through the station. A glass tile mural depicting singers and musicians has been created and installed under the auspices of NJ TRANSIT's Transit Arts Program.

Ridership is expected to increase on the Raritan Valley Line with the construction of a new rail station in Union Township. Monies from the Transportation Trust Fund will fund the project, which is scheduled for completion in mid-2001. The project is an outgrowth of a 1995 study that indicated significant potential for a Union Township station, both in terms of attracting ridership and spurring economic development in the area.

NJ TRANSIT has unveiled its comprehensive Model Stations and Shelters Program, a new, multi-faceted initiative to improve access, maintenance, overall aesthetics, and the availability of transit-related information at 22 train stations, two Newark City Subway stations, six bus terminals and 15 bus shelters. The facilities were selected based on ridership, geographic diversity, whether or not they serve as transfer points, and history of community stewardship. Community representatives and transit officials will join forces to develop the program and oversee its implementation. The initiative is also intended to encourage expanded community and retail use of participating facilities to help ensure that they remain centers of activity for years to come. Facilities will be continuously added to the program until all stations and shelters meet the high Model Station and Shelters standards.

NJ TRANSIT

FISCAL YEAR 1999 Annual Financial Statements

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING RESULTS

NJ TRANSIT began its 20th year of operations with a surplus carryforward of \$20.3 million to be utilized to cover fiscal year 1999 operating costs. NJ TRANSIT concluded the fiscal year utilizing \$19 million of this carryforward.

NJ TRANSIT passenger revenue increased by \$19.3 million or 4.6 percent as a result of a 3.2 percent growth in ridership. The increases in ridership and revenue continued to reflect the economic health of the State and regional economies, additional passenger service and the impact of holding passenger fares constant for the ninth consecutive year. State operating subsidies increased by \$29.6 million, an 18 percent increase above the fiscal year 1998 level. Other revenues, meanwhile, declined \$13.2 million essentially due to the decreased level of leveraged lease activity during fiscal year 1999 compared to fiscal year 1998. This decrease was due to the lack of available qualified assets. Still, leveraged lease arrangements for fiscal year 1999 provided \$7.0 million of other revenue.

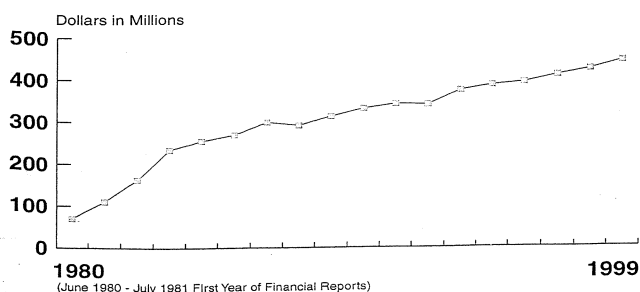
Expenses increased \$48.7 million or 5.6 percent when compared to fiscal year 1998. This increase was attributed to higher employment costs and increased consumption of parts and materials required to maintain the revenue vehicle fleets.

PASSENGER REVENUES

Passenger revenues consist of revenues recognized from the sale of rail tickets and passes utilized during the year by riders on either NJ TRANSIT or Amtrak trains (under a cross-honoring agreement), and bus farebox receipts, tickets and passes sold during the year to riders on either NJ TRANSIT buses or contract bus service managed by NJ TRANSIT.

Over the course of the past 20 years, passenger revenues have significantly increased. During NJ TRANSIT's initial period of operations, this increase was the result of service expansions which included the acquisition of various bus operations followed by the assumption of rail service in 1983. Fare increases during the first 11 years also generated additional revenues. However, fares have been held constant for the past nine years with passenger revenues and ridership reaching record levels.

Passenger Revenues



During fiscal year 1999, Rail and Bus passenger revenue both increased over fiscal year 1998, by \$15.0 million and \$4.1 million, respectively, representing a 4.6 percent improvement overall. Rail ridership grew by 3.7 million passengers while Bus ridership grew by 2.7 million passengers.

| RIDERSHIP (in millions) | FY99 | FY98 | % Inc. |
|-----------------------------|--------------|--------------|------------|
| Newark Division Rail Lines | 35.6 | 33.5 | 6.4 |
| Hoboken Division Rail Lines | 19.2 | 17.6 | 9.0 |
| Atlantic City Rail Line | 1.0 | 1.0 | --- |
| Total Rail Ridership | 55.8 | 52.1 | 7.1 |
| Northern Division Bus Lines | 55.8 | 54.4 | 2.6 |
| Central Division Bus Lines | 73.3 | 72.3 | 1.5 |
| Southern Division Bus Lines | 24.5 | 24.2 | 1.0 |
| Total Bus Ridership | 153.6 | 150.9 | 1.8 |
| Total Ridership | 209.4 | 203.0 | 3.2 |

OTHER REVENUES

Other revenues consist of proceeds from leveraged lease transactions, interest income on investments, station and vehicle advertising, rental of equipment and facilities, operation of parking lots and proceeds from the leasing of certain NJ TRANSIT rights related to the private operation of bus service.

Although \$7.0 million was generated from leveraged lease activity during fiscal year 1999, this was half the amount generated in the prior fiscal year due to the lack of available qualified assets. Leveraged lease transactions, which occur periodically, have generated significant proceeds in the past several years. The impact of the decrease in leveraged lease activity was partially offset by an increase in advertising income and revenues from leases and permits.

EMPLOYMENT COSTS

Employment costs consist of full-time and part-time agreement wages and overtime, non-agreement salaries, employment taxes, health and welfare benefits expenses, retirement costs and other fringe benefits.

Employment costs were up by \$39.5 million or 7.5 percent compared to fiscal year 1998. This increase reflects additional cost of service in response to ridership growth, agreement labor contract increases and additional overtime costs associated with the continued maintenance of aging revenue vehicles. NJ TRANSIT's medical, health care and pension expenses increased, further impacting overall employment cost.

OTHER COSTS

Other costs include parts and materials used to maintain the rolling stock and facilities, outside services, fuel,

propulsion power, trackage, tolls and fees, contracted transportation services and other miscellaneous expenses.

Parts, materials and supplies expenses increased \$8.7 million or 10.6 percent above fiscal year 1998 levels. These increases were the result of service expansions and the continued emphasis on safety and preventative maintenance. Improvements to NJ TRANSIT's revenue fleet, as well as right-of-way, and facilities also had a significant impact on the Corporation's materials costs.

Services expenses declined by \$7.2 million or 14.9 percent. This decrease was principally related to reduced spending on environmental remediation activities as compared to fiscal year 1998.

Trackage, tolls and fees expenses declined by \$0.4 million or 1.2 percent. Included in this expense is \$26.9 million paid to Amtrak for access on the Northeast Corridor and \$4.8 million paid to the Port Authority of New York and New Jersey for tolls on Port Authority-owned bridges and tunnels and departure fees at the Port Authority Bus Terminal.

NJ TRANSIT'S continued outstanding safety record, improved claims management and the impact of the Railroad Immunity Act resulted in a modest increase in Claims and Insurance expense of \$1.2 million or 6.4 percent compared to the prior fiscal year.

LIQUIDITY & CAPITAL RESOURCES

NJ TRANSIT receives government operating assistance which consists primarily of State of New Jersey appropriations. Total operating assistance for fiscal year 1999 increased by \$25.9 million reflecting an increase of \$29.6 million in state appropriations and a decline of \$3.7 million in federal operating assistance. However, federal, state, and local reimbursements increased \$10.2 million in fiscal year 1999 as compared to the prior fiscal year. This funding group includes the New Jersey Transportation Trust Fund, Casino Revenue Fund, and various federal grants for specific activities.

OPERATING ASSISTANCE AND REIMBURSEMENTS

| (Dollars in Millions) | FY99 | FY98 | Inc/(Dec) |
|--|----------------|----------------|---------------|
| State Operating Assistance | \$194.2 | \$164.6 | \$29.6 |
| Federal Operating Assistance | 0.5 | 4.2 | (3.7) |
| Total Operating Assistance | 194.7 | 168.8 | 25.9 |
| Federal, State & Local Reimbursements | 201.3 | 191.1 | 10.2 |
| Total Operating Assistance & Reimbursements | \$396.0 | \$359.9 | \$36.1 |

NJ TRANSIT also receives federal, state and local grants for essentially all of its capital construction and acquisitions. The federal, state and local interest in

assets acquired and constructed is provided in the Consolidated Statements of Net Investments in Facilities and Contributed Capital. Capital grant receipts totaling \$412.5 million for fiscal year 1999 is consistent with fiscal year 1998. In addition to these grants, \$277.7 million of expenditures associated with the Hudson-Bergen Light Rail (HBLR) and the acquisition of buses were funded by Grant Anticipation Notes (GANs) and Certificates of Participation (COPs). Federal and state grants will be utilized to meet both GANs and COPs payments scheduled in future periods.

Major project activity during the year included the HBLR, Secaucus Transfer, the purchase of rolling stock and improvements to passenger and support facilities and rail infrastructure. NJ TRANSIT's Board of Directors and management will continue to sustain the basic infrastructure of New Jersey's public transit system within the context of Governor Christine Todd Whitman's "New Jersey FIRST: A Transportation Vision for the 21st Century".

The Board of Directors approved a fiscal year 2000 capital spending program that totals \$867.3 million, subject to the availability of funds, and provides for the continuation of the major projects currently underway, such as the Southern New Jersey Light Rail Transit System as well as a number of new initiatives. Funds have been allocated for the replacement and overhaul of rolling stock, passenger and maintenance facilities and right-of-way throughout the state, as well as payments to Amtrak for improvements to the Northeast Corridor. Provisions have also been made to comply with all federally mandated accessibility and environmental regulations.

WORKING CAPITAL

NJ TRANSIT ended fiscal year 1999 with working capital of \$35.5 million representing the excess of current assets over current liabilities. This is a decrease of \$52.4 million from fiscal year 1998. The working capital decrease is essentially the result of a decrease in cash related to the purchases of fixed assets with operating capital and use of the surplus carryforward from fiscal year 1998.

FINANCING ACTIVITIES

In the last 10 years, NJ TRANSIT has earned approximately \$107 million through leveraged leasing activities. During fiscal year 1999, NJ TRANSIT continued such activities by completing one transaction that involved four bus facilities. NJ TRANSIT received a one-time, up-front cash benefit of \$7.0 million recorded as other revenue for entering into this lease in-lease out transaction. The opportunity to enter into these transactions occurs periodically. Fiscal year 1999 leveraged lease revenues were \$7.1 million below fiscal year 1998 due to the lack of available qualified assets.

In accordance with the Statement of Financial Accounting Standards (SFAS) 125 (Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities), NJ TRANSIT recognized amounts on deposit to meet lease payment obligations under these arrangements as an asset and the lease obligations due under these arrangements as a liability on its consolidated statements of financial position. These amounts appear as "Restricted Funds" in the asset section and "Obligations Under Capital Leases" in the current and long term liability sections.

During fiscal year 1999 NJ TRANSIT issued \$151.5 million in Certificates of Participation for the purchase of 500 transit buses. At fiscal year end, \$50.8 million of related expenditures were financed from the proceeds generated from the sale of these certificates.

BUDGETARY INTEGRITY, ACCOUNTING SYSTEMS AND INTERNAL CONTROLS

NJ TRANSIT's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and fund accounting for enterprise funds of state and local governmental units as prescribed by the Governmental Accounting Standards Board.

NJ TRANSIT's accounts are maintained on the accrual basis of accounting whereby revenues are recognized when measurable and available and expenditures are recognized when goods and services are received and the related liabilities are incurred.

Budgetary control is exercised at the department level by major types of expenditures and actual to budget performance is regularly reported to the Board of Directors.

These reports are reviewed quarterly by NJ TRANSIT's Independent Auditors who provide a separate report thereon to the Board as well as the Department of Transportation's Inspector General. This report discloses the difference between GAAP and budgetary reporting in the areas of capitalization and depreciation expense.

In developing and maintaining NJ TRANSIT's accounting system, consideration is given to the adequacy of internal controls. Internal accounting controls are designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived from its use and that the evaluation of cost and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework.

OTHER MATTERS

NJ TRANSIT recognizes transition to the year 2000 as a serious business issue affecting all business processes dependent upon electronic computer systems including our customers, our vendors and third party organizations that support our business.

NJ TRANSIT's Year 2000 Project Office has inventoried and identified systems requiring Year 2000 attention. Project schedules were developed for the identified computer applications. They were summarized to include five milestones which are regularly reported to the Board of Directors and management: awareness, assessment, remediation, validation/testing and project completion.

While there can be no guarantee that all NJ TRANSIT's computer systems or the systems of third parties that are relied upon will be Year 2000 compliant, management continues to concentrate its efforts so that there will not be an adverse impact upon NJ TRANSIT's operations or finances. The cost of implementing the Year 2000 modifications will not have a material effect on NJ TRANSIT's results of operations or consolidated financial position.

NJ TRANSIT must comply with current standards that regulate the discharge of material into the environment or otherwise relate to the protection of the environment. Compliance with these progressively more stringent regulations results in higher operating costs and unanticipated capital expenditures. NJ TRANSIT has made and will continue to make the necessary expenditures for environmental protection and remediation. During fiscal year 1999, NJ TRANSIT's expenditures for these activities were incurred for work performed in the current period. Additional amounts were recorded to reflect the future costs of site cleanups known at fiscal year end but not yet completed. Note 14 to the consolidated financial statements includes additional information on environmental matters.

The Americans with Disabilities Act (ADA) is a federal civil rights law passed in 1990 that carries severe sanctions for noncompliance as well as civil litigation by private citizens and the U.S. Department of Justice. The law requires that people with disabilities be guaranteed access to public transportation and mandates that virtually all new equipment, services and facilities be fully accessible. All costs of this unfunded mandate must be borne by existing revenue and funding sources. Note 14 to the consolidated financial statements has additional information on the ADA.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in thousands)

| | As of June 30, | |
|--|--------------------|--------------------|
| | 1999 | 1998 |
| Assets | | |
| Current Assets: | | |
| Cash and Equivalents (Note 6) | \$225,624 | \$261,311 |
| Due from Federal Government | 38,586 | 26,197 |
| Due from State of New Jersey | 40,103 | 38,158 |
| Inventories | 58,917 | 55,802 |
| Other Current Assets | 30,850 | 28,509 |
| Total Current Assets | 394,080 | 409,977 |
| Restricted Funds (Notes 6, 7, 11, and 12) | 1,231,146 | 1,237,538 |
| Transit Operating Property, Plant and Equipment-Net (Note 8) | 3,773,580 | 3,417,212 |
| Other Assets | 18,651 | 21,763 |
| Total Assets | \$5,417,457 | \$5,086,490 |
| Liabilities and Equity | | |
| Current Liabilities: | | |
| Accounts Payable | \$130,365 | \$114,445 |
| Accrued Payroll and Benefits (Note 9) | 121,398 | 109,817 |
| Current Installments under Capital Leases (Note 13) | 47,443 | 40,548 |
| Other Current Liabilities (Notes 4 and 10) | 59,420 | 57,313 |
| Total Current Liabilities | 358,626 | 322,123 |
| Notes Payable (Notes 11 and 12) | 505,581 | 350,859 |
| Accrued Injury and Damage Claims (Note 4) | 58,183 | 60,793 |
| Obligations under Capital Leases (Note 13) | 1,143,011 | 1,035,761 |
| Postretirement Benefits Other Than Pensions (Note 9) | 220,614 | 209,914 |
| Deferred Revenue and Other Non-Current Liabilities | 91,445 | 93,915 |
| Total Liabilities | 2,377,460 | 2,073,365 |
| Equity: | | |
| Contributed Capital | 3,127,662 | 3,081,820 |
| Net Deficiency in Facilities | (87,665) | (68,695) |
| Total Equity | 3,039,997 | 3,013,125 |
| Total Liabilities and Equity | \$5,417,457 | \$5,086,490 |

See notes to consolidated financial statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES

(Dollars in thousands)

| | Years Ended June 30, | |
|---|----------------------|-------------------|
| | 1999 | 1998 |
| Revenues: | | |
| Passenger Fares | \$441,124 | \$421,747 |
| Other Revenues (Note 3) | 52,191 | 65,376 |
| Total Revenues | 493,315 | 487,123 |
| Expenses: | | |
| Labor | 360,323 | 339,536 |
| Fringe Benefits | 205,707 | 186,963 |
| Parts, Materials, and Supplies | 91,128 | 82,417 |
| Services | 40,961 | 48,161 |
| Claims and Insurance (Note 4) | 19,666 | 18,488 |
| Fuel and Propulsion | 39,174 | 40,040 |
| Trackage, Tolls, and Fees | 31,701 | 32,124 |
| Utilities | 23,939 | 18,398 |
| Purchased Transportation | 69,693 | 68,842 |
| Interest | 6,400 | 6,901 |
| Other | 14,861 | 12,974 |
| Total Expenses | 903,553 | 854,844 |
| Loss Before Operating Assistance and Reimbursements and Depreciation | (410,238) | (367,721) |
| Operating Assistance and Reimbursements: | | |
| State Appropriation | 194,250 | 164,657 |
| Federal Appropriation (Note 5) | 483 | 4,206 |
| Federal, State, and Local Reimbursements | 201,280 | 191,050 |
| Total Operating Assistance and Reimbursements | 396,013 | 359,913 |
| Loss Before Depreciation | (14,225) | (7,808) |
| Depreciation | 208,151 | 191,860 |
| Loss Before Depreciation Transfer | (222,376) | (199,668) |
| Depreciation Transferred to Contributed Capital | 203,406 | 187,644 |
| Net Loss | \$(18,970) | \$(12,024) |

See notes to consolidated financial statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET INVESTMENT IN FACILITIES AND CONTRIBUTED CAPITAL

(Dollars in thousands)

| Years ended June 30, 1999 and 1998 | | CONTRIBUTED CAPITAL | | |
|---------------------------------------|--------------------------------------|---------------------|--------------------|---------------------------|
| | | Total | Federal | State, Local and Other |
| | Net (Deficiency) in Facilities | | | |
| Balance June 30, 1997 | \$(56,671) | \$2,854,500 | \$1,836,242 | \$1,018,258 |
| Loss Before Depreciation Transfer | (199,668) | | | |
| Capital Grants | | 415,756 | 222,075 | 193,681 |
| Assets Removed from Service | | (792) | (140) | (652) |
| Depreciation on Capital Improvements | 187,644 | (187,644) | (135,027) | (52,617) |
| Balance June 30, 1998 | \$(68,695) | \$3,081,820 | \$1,923,150 | \$1,158,670 |
| Loss Before Depreciation Transfer | (222,376) | | | |
| Capital Grants | | 412,505 | 251,757 | 160,748 |
| Capital Grants Pass-Throughs (Note 8) | | (161,714) | (76,514) | (85,200) |
| Assets Removed from Service | | (1,543) | (463) | (1,080) |
| Depreciation on Capital Improvements | 203,406 | (203,406) | (132,374) | (71,032) |
| Balance June 30, 1999 | \$(87,665) | \$3,127,662 | \$1,965,556 | \$1,162,106 |

See notes to consolidated financial statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

| | Years ended June 30, | |
|--|----------------------|------------------|
| | 1999 | 1998 |
| Cash Flows from Operating Activities: | | |
| Loss Before Operating Assistance & Depreciation | \$(410,238) | \$(367,721) |
| Adjustments to Reconcile Loss Before Operating Assistance and Depreciation to Net Cash Used in Operating Activities: | | |
| Interest on Investments | (13,966) | (15,567) |
| Interest Expense | 6,399 | 6,901 |
| Changes in Assets and Liabilities: | | |
| Inventories | (3,115) | (2,971) |
| Other Current Assets | (2,341) | (6,973) |
| Other Assets | 3,112 | (3,924) |
| Accounts Payable | 15,920 | (31,668) |
| Accrued Payroll and Benefits | 11,581 | 6,170 |
| Postretirement Benefits Other Than Pensions | 10,700 | 9,900 |
| Other Current Liabilities | 2,107 | (1,829) |
| Accrued Injury and Damage Claims | (2,610) | (14,435) |
| Deferred Revenue and Other Non-Current Liabilities | (2,470) | 51,120 |
| Net Cash Used in Operating Activities | (384,921) | (370,997) |
| Cash Flows from Non-Capital Financing Activities: | | |
| Operating Assistance and Reimbursements Received | 394,180 | 369,235 |
| Cash Flows from Capital and Related Financing Activities: | | |
| Acquisition of Transit Operating Property, Plant and Equipment, and Construction in Progress | (728,462) | (537,196) |
| Capital Grants | 400,011 | 437,166 |
| Repayment of Obligations under Capital Leases | (1,966) | (16,534) |
| Interest Expense | (6,399) | (6,901) |
| Transfers to/from Restricted Funds | 43,858 | 75,124 |
| Notes Payable | 234,046 | (724) |
| Net Cash Used in Capital and Related Financing Activities | (58,912) | (49,065) |
| Cash Flows from Investing Activities: | | |
| Interest on Investments | 13,966 | 15,567 |
| Net Decrease in Cash and Equivalents | (35,687) | (35,260) |
| Cash and Equivalents: | | |
| Beginning of Year | 261,311 | 296,571 |
| End of Year | \$225,624 | \$261,311 |

See notes to consolidated financial statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 1999 AND 1998

1. ORGANIZATION AND BUSINESS PURPOSE

The New Jersey Transit Corporation (NJ TRANSIT) was created by the New Jersey Public Transportation Act of 1979 and is empowered with the authority to acquire, own, operate, and contract for the operation of public transportation services. NJ TRANSIT is a component unit of the State of New Jersey.

NJ TRANSIT receives operating assistance and capital funds from the State of New Jersey by legislative appropriation, the Federal Government by defined formula grants and discretionary funding under the Urban Mass Transportation Act of 1964 as amended by the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 and the Transportation Equity Act for the 21st Century (TEA-21) of 1998 and Local sources. The federal grants are administered by the Federal Transit Administration (FTA). These government grants are used to support construction, acquisition, and operation of public transportation facilities, equipment, and services.

NJ TRANSIT provides these services through the operation of wholly owned bus and commuter rail subsidiaries. NJ TRANSIT also contracts with several motor bus carriers for certain transportation services. Under these contracts, NJ TRANSIT has the right to set fares and coordinate service levels and schedules. In addition, NJ TRANSIT contracts with the National Railroad Passenger Corporation (Amtrak) for the maintenance of certain NJ TRANSIT rolling stock and the use of Amtrak's Northeast Corridor, including propulsion costs, right-of-way maintenance, costs, and certain transportation services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

The accounts are maintained on the accrual basis of accounting in conformity with generally accepted accounting principles of fund accounting for enterprise funds of State and Local governmental units. Also, all FASB Statements and interpretations issued after November 30, 1989, except those that conflict with or contradict Government Accounting Standards Board (GASB) pronouncements, have been applied.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of NJ TRANSIT and its wholly owned subsidiaries.

RECLASSIFICATIONS

Certain reclassifications have been made to the 1998 consolidated financial statements to conform to the current year's presentation.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, demand deposits and other short term investments with maturities of three months or less when purchased.

INVESTMENT VALUATION

Investments are stated at fair value based on quoted market prices, when available (see note 6).

CAPITAL GRANTS

NJ TRANSIT receives designated funds from Federal, State and Local sources for a substantial portion of its capital acquisitions and construction. The receivables for these capital grants and the related contributed capital are recorded when eligible expenditures are incurred on projects funded by such grants. Assets acquired in connection with capital grants are included in Transit Operating Property, Plant and Equipment ("Transit Operating Property"). Certain grants require a State or Local match at an agreed upon percentage of the total project costs.

REVENUE RECOGNITION

The two principal sources of revenue are passenger fares and governmental operating assistance. Passenger fares are recorded in the period in which the transportation services are provided to the customer. State of New Jersey appropriations represent the largest single source of operating assistance revenue. It is NJ TRANSIT's policy to record all operating assistance revenue in the year for which the funds are appropriated and received. Federal, State and Local Reimbursements for planning and operating projects and leases are recorded as related expenditures are incurred.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded net of an allowance for uncollectible amounts of \$2.0 million and \$2.2 million as of June 30, 1999 and 1998, respectively.

TRANSIT OPERATING PROPERTY

Transit Operating Property is recorded at cost and depreciated using the straight-line method based on the estimated useful lives of the related assets as follows:

| | Years |
|-----------------------------------|-------|
| Buildings, Stations and Trackwork | 25 |
| Rail Cars and Locomotives | 22-25 |
| Buses and Vans | 5-12 |
| Furniture, Fixtures and Equipment | 3-10 |

Transit Operating Property, which was acquired by the State of New Jersey, Department of Transportation, and subsequently transferred to NJ TRANSIT at cost, is recorded as Contributed Capital. Depreciation is included as an expense in the Consolidated Statements of Revenues and Expenses with that portion of depreciation relating to assets funded by Federal, State or other Local contributions transferred as a reduction of Contributed Capital.

Ordinary maintenance and repairs are charged to expense as incurred. Expenditures over \$5,000 determined to represent additions or betterments with a useful life greater than one year are capitalized.

INVENTORIES

Fuel, spare parts and supplies purchased are recorded as Inventories at average cost net of a reserve for slow moving and obsolete parts of approximately \$8.8 million and \$8.1 million as of June 30, 1999 and 1998, respectively.

INJURY AND DAMAGE CLAIMS

Injury and damage claims resulting from NJ TRANSIT operations are accrued at estimated award or settlement amounts when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. NJ TRANSIT is insured against public liability, property damage and Federal Employee Liability Act (FELA) claims through various levels of coverage placed with commercial insurance carriers. Such coverages include self-insurance retention.

PENSION COSTS

Current service costs, determined on an actuarial basis, are accrued. Prior service costs are amortized over a 30-year period.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

INCOME TAXES

NJ TRANSIT is exempt from Federal income taxes under the Internal Revenue Code, Section 115 and from State income taxes under NJSA 27:25-16. Accordingly, no provision is made for Federal and State income taxes.

3. OTHER REVENUES

Other Revenues are comprised of the following (in millions):

| | For the years ended June 30, | |
|------------------------------------|------------------------------|---------------|
| | 1999 | 1998 |
| Leveraged Lease Benefits (Note 13) | \$ 7.0 | \$14.1 |
| Investment Income, net | 10.5 | 19.3 |
| Lease and Rental Revenues | 8.7 | 7.8 |
| Advertising Revenues | 7.4 | 6.3 |
| Other Operating Revenues | 11.1 | 10.5 |
| Other Non-operating Revenues | 7.5 | 7.4 |
| Total Other Revenues | \$52.2 | \$65.4 |

4. INJURY AND DAMAGE CLAIMS

As of June 30, 1999, NJ TRANSIT's self-insurance retention was \$5 million per occurrence with commercial excess liability insurance coverage for the amounts in excess of \$5 million to \$200 million. Additionally, NJ TRANSIT is self-insured for workers' compensation and employment practice claims. NJ TRANSIT has recorded an estimated liability of \$92.7 million and \$95.8 million as of June 30, 1999 and 1998, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims. Of this amount, \$34.5 million and \$35.0 million are included in Other Current Liabilities as of June 30, 1999 and 1998, respectively.

A reconciliation of total claims liability follows (in millions):

| | As of June 30, | |
|-----------------------------|----------------|---------------|
| | 1999 | 1998 |
| Balance, Beginning of Year | \$95.8 | \$109.8 |
| Claims Expense | 17.0 | 15.6 |
| Payment of Claims | (20.1) | (29.6) |
| Balance, End of Year | \$92.7 | \$95.8 |

5. FEDERAL GRANTS

The Urban Mass Transportation Act of 1964, as amended by ISTEA and TEA-21, provides for the funding of a portion of NJ TRANSIT's operating costs and capital needs based upon a defined formula grant program. Generally, such funds may be utilized for no more than 80 percent of project costs for capital assistance or 50 percent for operating assistance. Funds are apportioned to NJ TRANSIT annually and generally are available until expended.

NJ TRANSIT also receives discretionary capital grant awards to supplement the capital assistance obtained from the defined formula grant programs. Such discretionary awards are generally limited to projects for equipment acquisition, continued system expansion and modernization or construction of major facilities.

6. CASH AND INVESTMENTS

The investment of NJ TRANSIT funds is governed by the by-laws of NJ TRANSIT. The Treasurer is authorized to invest and deposit funds of NJ TRANSIT in obligations and/or depositories, which are generally consistent with the investment policies of the State of New Jersey Cash Management Fund as permitted under Public Law 1950 and subsequent legislation or as otherwise prescribed by the Board of Directors of NJ TRANSIT. Investee institutions and organizations qualify as depositories based on such criteria as minimum capital, credit ratings and other evaluation factors.

Cash and investments consist of the following (in millions):

| | As of June 30, | |
|--|----------------|----------------|
| | 1999 | 1998 |
| Cash on Hand | \$ 3.5 | \$ 6.0 |
| Short Term Investments | 222.1 | 255.3 |
| Total Cash and Equivalents | 225.6 | 261.3 |
| Restricted Funds | 254.9 | 297.7 |
| Total Cash, Cash Equivalents, and Investments | \$480.5 | \$559.0 |

Government Accounting Standards Board (GASB) Statement No. 3 requires disclosure of the level of investment risk assumed by NJ TRANSIT as of June 30, 1999. Category 1 includes investments that are insured or registered, or held by NJ TRANSIT or its agent in its name. Category 3 includes uninsured and unregistered investments held by a broker or dealer, by its trust department or agent but not in the entity's name.

NJ TRANSIT's portfolio of cash and investments include the following (in millions):

| | GASB Category | As of June 30, | |
|--|---------------|----------------|----------------|
| | | 1999 | 1998 |
| Cash | 1 | \$ 5.1 | \$ 7.4 |
| State Cash Management Fund | N/A | 51.2 | 35.7 |
| Commercial Paper | 3 | 348.9 | 287.6 |
| U.S. Government and Agencies Obligations | 1 | 9.1 | 10.4 |
| Collateralized Investment Agreements (Note 11) | 1 | 66.2 | 217.9 |
| Total Cash and Investments | | \$480.5 | \$559.0 |

At June 30, 1999 NJ TRANSIT's cash balance was \$5.1 million. Of the cash balance, \$100,000 was covered by federal depository insurance and \$5 million was covered by collateral pool maintained by the bank as required by New Jersey statutes. The New Jersey Cash Management Fund is a common trust fund administered by the New Jersey

Department of Treasury, Division of Investment. Securities in the fund are insured, registered or held by the division or its agent in the Fund's name.

All investments, except for investment agreements, are carried at fair value. Investment agreements are collateralized, non-participating guaranteed investment contracts that are carried at cost. U.S. Government and Agencies obligations are guaranteed by the full faith and credit of the issuing entity and are held by NJ TRANSIT's escrow agent in an account for NJ TRANSIT. Commercial paper is uncollateralized and uninsured and is limited to investment-grade paper.

7. RESTRICTED FUNDS

Restricted Funds consist of cash, investments, and amounts on deposit with various lessors restricted from use for normal operations and held for the following (in millions):

| | As of June 30, | |
|---|------------------|------------------|
| | 1999 | 1998 |
| Cash and Investments | | |
| Grant Anticipation Notes (Note 11) | \$ 66.2 | \$ 217.9 |
| Certificates of Participation (Note 12) | 103.8 | --- |
| Secaucus Transfer Project | 58.8 | 56.3 |
| Newark Penn Station | 9.7 | 10.0 |
| All Other Restricted Funds | 16.4 | 13.5 |
| | 254.9 | 297.7 |
| Leveraged Lease Deposits | 976.2 | 939.8 |
| Total Restricted Funds | \$1,231.1 | \$1,237.5 |

In October 1997, NJ TRANSIT entered into a funding agreement with Metro-North Commuter Railroad Company for the Secaucus Transfer Project and the right-of-way modifications to the Main/Bergen County and Northeast Corridor rail lines. This agreement provided initial cash proceeds of \$53.0 million to NJ TRANSIT. Such proceeds, along with interest earnings on investment of funds, have been recorded as Restricted Funds and Deferred Revenue.

Since fiscal year 1996, NJ TRANSIT has entered into leveraged leases with certain domestic and overseas lessors. Restricted funds for these lease agreements represent deposit arrangements made to meet NJ TRANSIT's payment obligations throughout the term of the leases.

In May 1984, NJ TRANSIT purchased the land under and adjacent to Newark Penn Station along with air rights above the land and acquired operational control of the station. This arrangement also provides cash proceeds to NJ TRANSIT which management utilizes to assist in the funding of net station operating expenditures. Such proceeds have been recorded as Restricted Funds and Deferred Revenue.

8. TRANSIT OPERATING PROPERTY

Transit Operating Property is summarized as follows (in millions):

| | As of June 30, | |
|---|------------------|------------------|
| | 1999 | 1998 |
| Buildings, Stations, Trackwork, and Right-of-Way | \$2,347.1 | \$2,049.7 |
| Rail Cars and Locomotives | 1,124.5 | 1,116.1 |
| Buses and Vans | 550.5 | 519.1 |
| Furniture, Fixtures, and Equipment | 251.5 | 241.8 |
| Capital Projects in Progress | 1,469.8 | 1,263.7 |
| Transit Operating Property (at cost) | 5,743.4 | 5,190.4 |
| Accumulated Depreciation | (1,969.8) | (1,773.2) |
| Net Transit Operating Property | \$3,773.6 | \$3,417.2 |

As of June 30, 1999, Capital projects in progress include capitalized interest expense and income of \$24.1 million and \$15.1 million, respectively, related to the Grant Anticipation Notes and Certificates of Participation (Notes 11 and 12).

During the fiscal year, NJ TRANSIT recognized \$161.7 million of Capital grant proceeds which were passed through to other entities. Accordingly, these amounts were reduced from Transit Operating Property and Contributed Capital, respectively. These amounts represent funding for assets for which NJ TRANSIT has no ownership interest, primarily contributions to the betterment of Amtrak's Northeast Corridor rail line and amounts received to fund construction of the Newark Northeast Corridor Monorail Station.

9. PENSION AND EMPLOYEE BENEFIT PLANS

NJ TRANSIT and its subsidiaries have pension plans covering substantially all employees, except for certain employees who participate in the New Jersey Public Employee Retirement System (PERS), certain police employees who participate in the Police and Fireman's Retirement System (PFRS) and certain rail operations employees who participate in the Railroad Retirement Fund. NJ TRANSIT contributes to the PERS plan, the PFRS plan, and Railroad Retirement Fund based upon a fixed percentage of applicable compensation as determined by the respective plan sponsors. The PERS, PFRS, and Railroad Retirement plans are cost sharing multiple employer defined benefit pension plans and require employee contributions. Contributions to these plans for the years ended June 30, 1999, 1998 and 1997 were \$27.4, \$25.8 and \$26.8 respectively. The State of New Jersey issues separate, stand

alone financial reports for the PERS and PFRS plans that can be obtained through the Division of Pensions, State of New Jersey.

NJ TRANSIT employees not participating in PERS, PFRS or the Railroad Retirement Fund as defined above are covered by defined benefit, single-employer pension plans. Total payroll used for benefits and cost calculations for employees covered by NJ TRANSIT sponsored plans was \$266.6 million, \$243.3 million and \$232.3 million for the 1998, 1997 and 1996 plan years, respectively. Under the provisions of the pension plans, pension benefits vest after ten years of full-time employment. Employees are 100 percent vested if they are age 55 and have five years of full-time employment. As of June 30, 1999, an employee who retires at age 65 with 10 years of credited service is entitled to an annual retirement benefit equal to 1-3/4 percent for each year of service multiplied by the average of the highest three years earnings, excluding overtime, in the last 10 years of service. The sponsored pension plans also provide early retirement programs and death benefits.

Presented hereinafter is the total pension benefit obligation of the NJ TRANSIT sponsored pension plans as of June 30. A variety of significant actuarial assumptions are used to determine the valuation at the pension plan valuation dates. The current assumptions include (a) a weighted average assumed rate of return of 8.0 percent for all plans, (b) annual salary increases ranging from 5.0 percent to 6.4 percent, and (c) no postretirement benefit increases. For fiscal year 1999 there were no changes in actuarial assumptions or funding method.

Periodic employer contributions to the pension plans are also determined on an actuarial basis using the projected unit credit actuarial method. Normal costs are accrued on a current basis. The prior service costs are amortized over a thirty-year period. Contributions to sponsored plans during 1999 were made in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 1998.

The plan assets are held in a variety of investment instruments including common stock, fixed income securities, and corporate bonds.

The significant actuarial assumptions used to compute the contribution requirements are the same as those used to determine the pension benefit obligations. The pension benefit obligations of all NJ TRANSIT sponsored plans are summarized on the following page.

Pension expense for defined benefit plans (excluding PERS, PFRS, and Railroad Retirement) totaled \$29.4 million, \$22.5 million and \$20.8 million for fiscal years 1999, 1998 and 1997, respectively.

For the three plan years ended 1998, 1997 and 1996, respectively, available assets were sufficient to fund 107.5, 106.7 and 96.7 percent of the pension benefit obligation. The (funded excess)/unfunded pension benefit obligation

| (in millions) | 1998 | 1997 | 1996 | 1995 | 1994 |
|--|-----------------|-----------------|----------------|----------------|----------------|
| Accrued Benefit Obligation: | | | | | |
| Participants Currently Receiving Payments | \$168.5 | \$170.5 | \$137.1 | \$119.5 | \$99.7 |
| Employer-financed Vested Benefits | 186.0 | 165.1 | 166.7 | 151.2 | 131.2 |
| Employer-financed Nonvested Benefits | 60.2 | 11.5 | 10.3 | 8.9 | 20.9 |
| | \$414.7 | \$347.1 | \$314.1 | \$279.6 | \$251.8 |
| Pension Benefit Obligation | \$506.7 | \$420.0 | \$382.2 | \$345.3 | \$319.3 |
| Fair Value of Net Assets Available for Plan Benefits | 544.6 | 448.4 | 369.6 | 320.2 | 271.9 |
| (Funded Excess)/Unfunded Pension Benefit Obligation | \$(37.9) | \$(28.4) | \$12.6 | \$25.1 | \$47.4 |

represented 14.2, 11.6 and 5.4 percent of the annual payroll for employees covered by NJ TRANSIT pension plans for 1998, 1997 and 1996, respectively. Disclosing the (funded excess)/unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. NJ TRANSIT's contributions to the plans for the three plan years 1998, 1997 and 1996, all made in accordance with actuarially determined requirements, were 11.0, 9.2 and 8.9 percent, respectively, of applicable annual covered payroll.

NJ TRANSIT contributes to five single employer defined benefit pension plans, four of which cover Bus agreement employees and the fifth plan covers all non-agreement employees. The four agreement plans are the Amalgamated Transit Union Employees Retirement Plan, The Transport Union Employees Retirement Plan, the Utility Co-Workers Association Employees Retirement Plan and the Mercer Employees Retirement Plan. The single plan covering all non-agreement employees is the Non-Agreement Employees Retirement Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. NJ TRANSIT maintains the authority to establish and amend benefit provisions of the non-agreement plan while the agreement plans are subject to the collective bargaining process. Separate audited financial statements are issued for the five pension plans which can be obtained from NJ TRANSIT.

In addition to the defined benefit plans, NJ TRANSIT provides an employee savings and protection plan (401k) for all eligible non-agreement employees. This plan permits employees to contribute up to 17 percent of salary not to exceed \$10,000 annually on a pre-tax basis. NJ TRANSIT provides a maximum 50 percent matching contribution on the first 6 percent contributed by the employee.

NJ TRANSIT also provides a money purchase pension plan (401a) and employee savings/deferred compensation plan (457) for eligible agreement employees. The 457 plan permits employees to contribute up to 25 percent of salary not to exceed \$7,500 annually on a pre-tax basis. NJ TRANSIT contributed 3 to 5 percent of annual compensation to certain employees' accounts in the 401a plan. NJ TRANSIT's expense

for the defined contribution plans totaled \$9.3 million and \$9.2 million in fiscal years 1999 and 1998, respectively.

Recorded expenses for all plans (including PERS, PFRS and Railroad Retirement) amounted to \$66.4 million and \$57.4 million for fiscal years 1999 and 1998, respectively.

In addition to the defined benefit pension plans, NJ TRANSIT sponsors a health care plan that provides Post retirement medical, dental and life insurance benefits for retired agreement and non-agreement employees.

Bus Agreement retirees are eligible for benefits upon the earlier of age 55 with 10 years of service or once the sum of their age plus their years of service is equal to or greater than 80. These benefits include retiree and spousal coverage for medical and life insurance. Dental coverage is also available for bus agreement retirees until the age of 65.

Rail Agreement retirees are eligible for benefits once they reach age 60 with 30 years of service. These benefits include retiree and spousal coverage for medical benefits and life insurance. The spousal coverage becomes 100 percent contributory once the retiree reaches age 65.

Non-Agreement retirees are eligible for benefits upon the earlier of age 55 with 10 years of service or once the sum of their age plus their years of service is equal to or greater than 80. These benefits include retirees and spousal coverage for medical and life insurance.

Dental coverage is also available for non-agreement retirees until the age of 65 and for those non-agreement employees who retired under the Voluntary Special Retirement Program.

The accumulated Postretirement Benefit Obligation of NJ TRANSIT's Postretirement Benefit plan is summarized as follows (in millions):

| | As of June 30, | |
|-------------------------------------|----------------|----------------|
| | 1999 | 1998 |
| Retirees | \$ 79.9 | \$ 76.4 |
| Fully Eligible Active | | |
| Plan Participants | 28.9 | 31.7 |
| Other Active Plan Participants | 87.3 | 85.9 |
| Accumulated Postretirement | | |
| Benefit Obligation | 196.1 | 194.0 |
| Unrecognized Net Actuarial Gain | 24.5 | 15.9 |
| Total Accrued Postretirement | | |
| Benefit Cost | \$220.6 | \$209.9 |

The accumulated Postretirement benefit obligation was determined using the unit credit method and an assumed discount rate of 7.5 percent. The assumed health care trend rate used for bus agreement employees was 9.5 percent for pre-age 65 retirees and 6.5 percent for post-age 65 retirees; for non-agreement employees it was 9.5 percent for pre-age 65 retirees and 8.0 percent for post-age 65 retirees and for rail agreement employees it was 9.5 percent for pre-age 65 retirees only. The rate decreases to 5.5 percent, in all cases, by fiscal year 2000. The total number of employees receiving benefits was 4,321 at June 30, 1999.

The net periodic Postretirement benefit cost for fiscal years 1999 and 1998 is summarized as follows (in millions):

| | For the years ended June 30, | |
|---------------------------------|------------------------------|---------------|
| | 1999 | 1998 |
| Service Costs | \$ 7.4 | \$ 6.3 |
| Interest Costs | 12.7 | 12.6 |
| Amortization of Actuarial Gain | (.2) | (.6) |
| Total Net Postretirement | | |
| Benefit Cost | \$19.9 | \$18.3 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in millions):

| Effect | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|---|-----------------------------|-----------------------------|
| Effect on Total of Service and Interest Cost Components | \$2.8 | \$2.2 |
| Effect on the Postretirement Benefits Obligation | \$21.9 | \$18.2 |

10. OTHER CURRENT LIABILITIES

Other Current Liabilities are comprised of the following (in millions):

| | As of June 30, | |
|--|----------------|---------------|
| | 1999 | 1998 |
| Injury and Damage | | |
| Claims (Note 4) | \$34.5 | \$35.0 |
| Miscellaneous | 24.9 | 22.3 |
| Total Other Current Liabilities | \$59.4 | \$57.3 |

11. GRANT ANTICIPATION NOTES

In April 1997, NJ TRANSIT issued \$351.6 million of capital grant anticipation notes bearing interest between 4.625 percent and 5.500 percent and maturing on September 1 of the years 2000 through 2003, inclusive. The proceeds of the notes shall be used to design, acquire, construct, and equip the first phase of the Hudson-Bergen Light Rail Transit System project. As of June 30, 1999, total project expenditures financed through the note proceeds were approximately \$279.5 million. These notes are special limited obligations of the Corporation payable solely from note proceeds, Federal capital grant proceeds and investment earnings on undisbursed proceeds held by the Trustee. NJ TRANSIT has recorded the project expenditures, the remaining balance of cash received and the payment obligations as transit operating property, restricted funds and notes payable, respectively, in the Consolidated Statements of Financial Position (Notes 6, 7, and 8).

12. CERTIFICATES OF PARTICIPATION

In March 1999, NJ TRANSIT issued \$151.5 million of certificates of participation bearing interest between 3.625 percent and 5.000 percent and maturing on September 15 of the years 2001 through 2008, inclusive. The proceeds of the certificates shall be used to purchase 500 transit buses. As of June 30, 1999, total project expenditures financed through the proceeds from the sale of the certificates were approximately \$50.8 million. These certificates are special limited obligations of the Corporation payable solely from Federal Capital Grant proceeds and investment earnings on undisbursed proceeds held by the trustee. NJ TRANSIT has recorded the project expenditures, the remaining balance of cash received and the payment obligations as transit operating property, restricted funds and notes payable, respectively, in the Consolidated Statements of Financial Position (Notes 6, 7, and 8).

13. LEASES AND OTHER COMMITMENTS LEVERAGED LEASE TRANSACTIONS

In fiscal years 1999 and 1998 NJ TRANSIT entered into a number of leveraged leases with certain domestic lessors. NJ TRANSIT has made investment arrangements to meet its payment obligations throughout the terms of the leases. Effective January 1, 1997, NJ TRANSIT changed its method of accounting for extinguishment of leveraged lease obligations to conform with Statement of Financial Accounting Standards (SFAS) Number 125 (Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities). In accordance with SFAS Number 125 the Corporation no longer records "in-substance" defeasance of its leveraged lease obligations as extinguished. Accordingly, NJ TRANSIT has recorded the payment obligations as obligations under capital leases and the related investments as restricted funds in the Consolidated Statements of Financial Position (Notes 6 and 7).

Leveraged lease agreements initiated during fiscal years 1999 and 1998 are summarized as follows:

| Fiscal Year of Lease Inception | Lease Type | Lease Term | Assets Leased | Present Value of Lease Obligations (In Millions) |
|--------------------------------|------------|-----------------------|---------------------------------|--|
| 1999 | Domestic | Between 17 & 21 years | 4 Bus Facilities | \$ 73.4 |
| 1998 | Domestic | Between 8 & 13 Years | 181 Rail Cars 30 Locomotives | \$434.2 |

NJ TRANSIT received a benefit of \$7.0 million and \$14.1 million, respectively, for fiscal years 1999 and 1998 related to the above transactions. This amount has been included in Other Revenues (Note 3).

In connection with the above transactions, NJ TRANSIT has made certain indemnifications and must comply with certain covenants prescribed in the transaction agreements. NJ TRANSIT is in compliance with such commitments through June 30, 1999.

EXTINGUISHED LEVERAGED LEASE OBLIGATIONS

Since fiscal year 1991, NJ TRANSIT has entered into a number of leveraged leasing arrangements with overseas investors for transit operating equipment. NJ TRANSIT has made investment arrangements to meet all of its payment obligations throughout the term of the leases for all of these agreements and in some instances has been released as the primary obligor. Accordingly, these lease obligations have not been recorded in the Consolidated Statements of Financial Position.

Extinguished Leveraged Lease Obligations effective as of June 30, 1999 are summarized as follows:

| Fiscal Year of Lease Inception | Lease Term | Assets Leased | Present Value of Remaining Rental Payments and Fair Option Purchase Price (In Millions) |
|--------------------------------|------------|---|---|
| 1997 | 18 Years | 12 Locomotives | \$47.1 |
| 1995 | 7 Years | 147 Buses | \$15.4 |
| 1995 | 15 Years | 17 Arrow III Cars and 5 Electric Locom. | \$60.0 |
| 1995 | 15 Years | 46 Arrow III Cars | \$84.6 |
| 1994 | 7 Years | 91 Suburban and 74 Transit Buses | \$15.1 |
| 1994 | 15 Years | 46 Arrow III Cars | \$73.7 |
| 1994 | 15 Years | 48 Arrow III Cars | \$80.9 |
| 1993 | 15 Years | 43 Arrow III Cars | \$72.8 |
| 1993 | 10 Years | 16 Arrow III Cars | \$27.8 |

NJ TRANSIT has made certain indemnifications prescribed in the transaction agreements for the above and is in compliance with such commitments through June 30, 1999.

CAPITAL LEASES

In 1996, NJ TRANSIT entered into a Design, Build, Operate and Maintain (DBOM) Agreement for the design, building, operation, and maintenance of the Hudson-Bergen Light Rail Transit System (HBLRTS). In 1998, NJ TRANSIT entered into a contract for the purchase of 45 light rail cars for the HBLRTS and the Newark City Subway (NCS) system. These cars were financed through a sale of Certificates of Participation by the State of New Jersey in May 1998. The cars will be subleased by the State and Department of Transportation of New Jersey to NJ TRANSIT pursuant to an Equipment Sublease Purchase Agreement. NJ TRANSIT will repay the financed amount of \$156.2 million over 15 years beginning June 2000 and ending June 2014.

In 1994, NJ TRANSIT entered into a 23-year lease/sublease agreement for the land adjacent to its Metropark Train Station for the purpose of constructing an above-ground parking facility. A portion of the financing for this facility was provided by the New Jersey Economic Development Authority (NJEDA) through the issuance of parking facility sublease revenue bonds. NJ TRANSIT has committed in substance to make rental payments in an amount equal to the bond obligations. The remaining rental payments have a present value of approximately \$16.2 million as of June 30, 1999.

In fiscal year 1991, NJ TRANSIT entered into a 25-year, \$66.7 million capital lease for its headquarters building in Newark, New Jersey. NJ TRANSIT will own this facility at the end of the lease. Rent increases every five years beginning at \$15.80 per square foot and rising to \$22.85 per square foot in year 21 of the lease.

In 1986, NJ TRANSIT entered into a \$35.9 million lease agreement for land and building facilities to be utilized for bus maintenance and storage. The initial lease term is 25 years and the lease contains options for an additional 25 years.

NJ TRANSIT has recorded Obligations under Capital Leases of \$1,190.4 million and \$1,076.3 million as of June 30, 1999 and 1998, respectively, of which \$47.4 million and \$40.5 million represent Current Installments under Capital Leases as of June 30, 1999 and 1998, respectively.

The cost of Transit Operating Property under capital leases, including leveraged leases, is summarized as follows and is included in Net Transit Operating Property (in millions) (Note 8):

| | As of June 30, | |
|--|----------------|----------------|
| | 1999 | 1998 |
| Land and Buildings | \$ 526.6 | \$ 409.9 |
| Rail Cars and Locomotives | 580.8 | 580.9 |
| Buses | 109.9 | 109.9 |
| Transit Operating Property under Capital Leases (at cost) | 1,217.3 | 1099.8 |
| Accumulated Depreciation | (375.2) | (297.4) |
| Net Transit Operating Property Under Capital Leases | \$842.1 | \$802.4 |

Annual depreciation of assets recorded under capital leases is included with depreciation expense.

Minimum capital lease commitments as of June 30, 1999 follow (in millions):

| Years ending June 30, | |
|--|------------------|
| 2000 | \$ 61.7 |
| 2001 | 87.3 |
| 2002 | 120.8 |
| 2003 | 92.2 |
| 2004 | 95.6 |
| Thereafter | 1,545.7 |
| Total Minimum Lease Payments | 2,003.3 |
| Estimated Amounts Representing Interest | (812.9) |
| Present Value of Minimum Lease Payments | \$1,190.4 |

As of June 30, 1999, NJ TRANSIT was committed for future expenditures under the following capital projects and special services which will be funded from Federal, State, Local or other capital sources (in millions):

| | |
|---|---------|
| Rail Passenger Facilities | \$102.8 |
| Hudson-Bergen Light Rail Transit System | 84.6 |
| Bus and Light Rail Infrastructure | 66.5 |
| Rolling Stock Improvements | 61.7 |
| Monorail NEC Connection | 44.7 |
| Rail Infrastructure | 34.6 |
| Secaucus Transfer | 30.9 |
| Special Services | 22.5 |
| Montclair Connection | 20.2 |

| | |
|--|----------------|
| Rail Support Facilities & Equipment | 17.4 |
| Bus and Light Rail Rolling Stock | 15.5 |
| Ticket Vending Machines | 11.7 |
| Northeast Corridor Signal Construction | 8.1 |
| Hunter Connection | 6.4 |
| Newark Elizabeth Rail Link | 6.2 |
| Urban Core New Initiatives | 4.5 |
| Procurement and Financial Systems | 4.5 |
| Bus Maintenance Facilities | 3.8 |
| Rail Immediate Action | 2.9 |
| Southern New Jersey Light Rail Transit System | 2.4 |
| West Shore DEIS | 2.2 |
| Other | 31.4 |
| Total Capital Projects and Special Services Commitments | \$585.5 |

14. CONTINGENCIES

NJ TRANSIT is party to various legal actions and disputes. Although the ultimate effect, if any, of these matters is not presently determinable, management believes that collectively they will not have a material effect on the results of operations or consolidated financial position of NJ TRANSIT.

There are several locations within the State in which by virtue of ownership or use of the railroad or bus facilities, NJ TRANSIT is addressing environmental issues. Management has analyzed all of these matters and has provided for amounts which it currently believes are adequate and, in its opinion, the ultimate liability if any will have no significant effect on the results of operations or consolidated financial position of NJ TRANSIT.

NJ TRANSIT receives Federal and State grants for capital projects and other reimbursable activities which are subject to audit by the grantor agency. Although the outcome of any such audits cannot be predicted, it is management's opinion that these audits will not have a material effect on the results of operations or consolidated financial position of NJ TRANSIT.

The Railroad Retirement Board (RRB) has conducted an examination of NJ TRANSIT's payroll and tax records for prior fiscal years through 1991 and has proposed certain adjustments to increase NJ TRANSIT's RRB tax liability for that period. Management has analyzed all of these matters and has provided for amounts which it currently believes are adequate and, in its opinion, the ultimate additional liability, if any, will not have a significant financial effect on NJ TRANSIT's results of operations or consolidated financial position.

The Americans with Disabilities Act (ADA) is a federal Civil Rights Law passed in July 1990. The law requires that people with disabilities be guaranteed access to public services, such as transportation. The ADA required that virtually all new equipment, services, and facilities be fully accessible to people with disabilities. As a result, NJ TRANSIT was required to identify high usage, strategically located Rail stations which would be given priority to be made accessible to people with disabilities. These stations were designated as "Key Stations." A Key Station plan was developed and submitted to the FTA by the July 26, 1992 deadline. This Key Station plan identified 37 stations which would be made accessible, 23 of which were to be made accessible by July 26, 1993. The remaining 14 stations required major renovations and time extensions were granted ranging from 1997 to 2008. The estimated total future costs of this project, \$50.5 million, will be funded by a mix of capital funding sources including Federal, State Transportation Trust, and Casino Revenue funds. NJ TRANSIT must complete these renovations as required or face severe sanctions by the Federal Government. Failure to comply with the ADA can result in the termination of all Federal funds, as well as civil litigation by private citizens and the U.S. Department of Justice.

15. SUBSEQUENT EVENT

In August 1999, NJ TRANSIT entered into a 20-year lease/sublease agreement with the New Jersey Economic Development Authority (the Authority) as required for the issuance by the Authority of its Transportation Project Sublease Revenue Bonds, consisting of \$486.7 million 1999 Series A Bonds and \$147.2 million 1999 Series B Bonds. These bonds are being issued to provide funds for the purpose of financing NJ TRANSIT's Southern New Jersey Light Rail Transit System project and the second segment of the Hudson-Bergen Light Rail Transit System project. NJ TRANSIT has committed to rental payments in an amount equal to the bonds' obligations.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 1999

YEAR 2000 ISSUE

NJ TRANSIT and its outside vendors (including governmental entities) each use software that may be affected by the Year 2000 date change and recognize that the arrival of the Year 2000 poses challenges that will require modifications to portions of its software to function properly.

NJ TRANSIT has interface systems with third parties (including Federal and State agencies) which could result in Year 2000 issues. NJ TRANSIT has communicated with its vendors, suppliers, and business partners to determine their current levels of compliance; however, there is no guarantee that the systems of these third parties, or others on which NJ TRANSIT rely, will be timely converted and will not have an adverse effect on NJ TRANSIT's operations.

NJ TRANSIT has completed the awareness, assessment, remediation, and validation/testing stages. However, the completion of these stages is not a guarantee that systems and equipment will be Year 2000 compliant. The costs of implementing the Year 2000 modifications did not have a material effect on NJ TRANSIT's results of operations or consolidated financial position.



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REPORT OF INDEPENDENT AUDITORS

BOARD OF DIRECTORS

NEW JERSEY TRANSIT CORPORATION

We have audited the accompanying consolidated financial statements of the New Jersey Transit Corporation, a component unit of the State of New Jersey, and subsidiaries as of and for the years ended June 30, 1999 and 1998. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of New Jersey Transit Corporation and subsidiaries as of June 30, 1999 and 1998, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

The Year 2000 issue supplementary information listed in the foregoing table of contents is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin No. 98-1, as amended, are not sufficiently specific to permit us to perform procedures that would provide meaningful results. In addition, we do not provide assurance that New Jersey Transit Corporation is or will become Year 2000 compliant, that New Jersey Transit Corporation's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which New Jersey Transit Corporation does business are or will become Year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 1999, on our consideration of New Jersey Transit Corporation and subsidiaries' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grants.

September 24, 1999

Ernst & Young LLP is a member of Ernst & Young International, Ltd.

NJ TRANSIT ADVISORY COMMITTEES

To assure citizen representation, two transit advisory committees – one serving North Jersey and another in South Jersey – regularly advise the Board of Directors on riders' opinions. Committee members are appointed by the Governor with the approval of the State Senate.

NORTH JERSEY TRANSIT ADVISORY COMMITTEE

Suzanne T. Mack, Chairperson
Ronald Monaco, Vice Chairperson
Nino Coviello, Esq.
Michael DeCicco
John Del Colle
Robert A. Dinardo
Kathy Edmond
Margaret Harden
Peter Koelsch
Maria LoRe
Ralph White
Audrey S. Wilson
William Wright

SOUTH JERSEY TRANSIT ADVISORY COMMITTEE

Anna Marie Gonnella, Chairperson
Ruth Byard, Vice Chairperson
Steve Cesare
Robert Dazlich
Carl Howell
Calvin Iszard, Jr.
Jeffrey B. Marinoff
Dominick Paglione

The Americans with Disabilities Act (ADA) Task Force consists of individuals with disabilities who assist NJ TRANSIT in the implementation of its ADA improvements plan.

AMERICANS WITH DISABILITIES ACT TASK FORCE

Frank Dolan
Nina Edwards
Harriet Findlay
Robbie Friedner
Luke Koppisch
Lee Nash
Charles Newman
Robert Paige
Virginia Peters
Kenneth Wedeen
Ina White

The Business Transit Alliance advises public and private sector employers about public transportation options.

BUSINESS TRANSIT ALLIANCE

Joseph F. Luste, Jr., Chairman
Michael Egenton, Vice Chairman
Louis V. Capadona
Michael C. Cubbage
Carol D'Arcangelo
S. Thomas Gagliano
John Gagliardi
Edward Kozack
Allen Magrini
Charlie Nevins
Louis J. Pignataro
Martin Robins
Gerry Romano
Herman Volk

The Transit Plus Advisory Board advises public and private sector employers in Essex and Union counties on the requirements of the Federal Clean Air Act.

TRANSIT PLUS ADVISORY BOARD

John R. Smith, Chairman
Al Trenton, Vice Chairman
Vincent DiMauro
John McKinney, Esq.
Charlie Nevins
Patricia Ott
Stephen J. Schmidt
Gene A. Vincenti
Jeffrey A. Warsh
Ronald S. Weening

The Private Carrier Advisory Committee was created in 1986 to monitor the concerns of New Jersey's private carriers.

PRIVATE CARRIER ADVISORY COMMITTEE

Richard Capitani
Robert DeCamp
John Failla
Gary D. Mariano, Co-chairperson
Marta Mazzarisi
William Revere
Barnett Rukin
John Solomita
Francis Tedesco, Co-chairperson

The Special Services Citizens Advisory Committee advises the Corporation on public transit decisions regarding accessibility issues.

SPECIAL SERVICES CITIZENS ADVISORY COMMITTEE

Ann Burns, Chairperson
Daniel Malloie, Vice Chairperson
Kathleen Belles
Pauline Benson
Christina Brino
Steve Cesare
Thomas Crawford
Harriet Findlay
James Geraghty
Sigmund A. Kay
Leroy Nash
Joseph Phillips
Richard Pinho
Dorothy Richardson
John Stanik
George Williams

NJ TRANSIT BOARD OF DIRECTORS

JAMES WEINSTEIN

Chairman – Prior to his appointment as State Commissioner of Transportation in December 1998, James Weinstein was president of Riverfront Associates, Inc., a strategic communications, government, and public affairs firm. Mr. Weinstein spent a decade as a journalist for the Philadelphia Bulletin, The Newark Evening News, and The Courier News. Between 1983 and 1989, he held a variety of positions in state government, including Executive Assistant to the New Jersey Commissioner of Transportation, Director of Communications and Community Relations for NJDOT, Senior Director of the Majority Office of the New Jersey General Assembly and Special Assistant to the Governor and Director of the Governor's Independent Authorities Unit. Mr. Weinstein also served as a member of Governor Whitman's Transition team and was appointed as the first Chair of the Port of Philadelphia and Camden. He is a former commissioner of the Delaware River Port Authority, where he served as Vice Chair from March 1994 to June 1996. Mr. Weinstein is a member of the Board of Directors of The Maritime Exchange of the Delaware River and Bay and serves on the Board of the New Jersey Alliance for Action.

MYRON P. SHEVELL

Vice Chairman

Mr. Shevell was appointed to the Board by Governor Christine Todd Whitman in May 1995. He is Chairman of the Board of New England Motor Freight and Chairman of the Shevell Group – real estate, trucking and logistic companies. He is also Board Chairman of the New Jersey Motor Truck Association and Regional Director of the Bank of New York. A resident of Long Branch, Mr. Shevell has worked in the trucking industry for more than 40 years.

JAMES A. DIELEUTERIO, JR.

State Treasurer

Mr. DiEleuterio serves on the Board in an ex officio capacity as the Treasurer of the State of New Jersey. He was installed on the Board upon his appointment as Treasurer by Governor Whitman on July 1, 1997. Mr. DiEleuterio is only the second State Treasurer in New Jersey's history to have risen from the ranks of civil service. A career public employee, he served for 23 years in various capacities within the Department specializing in data systems development, administration and tax policy.

VICTOR CANTILLO

Governor's Representative

Mr. Cantillo, who serves as Governor Christine Todd Whitman's representative, joined the Board in January 1994. As a financial advisor in the Governor's Authorities Unit, he was the liaison for many of the State's other independent authorities. A native of Brick, Mr. Cantillo holds the position of Executive Director of the New Jersey Educational Facilities Authority.

FLORA M. CASTILLO

Ms. Castillo was appointed to the Board in March 1999. Ms. Castillo is currently the Manager of Community Outreach with Physical Health Services. She also serves as President of the Hispanic Alliance of Atlantic County and is on the Board of the South Jersey AIDS Alliance, the Atlantic County Women's Hall of Fame and the LPGA Urban Youth Golf Program. She chairs the annual Latin American Festival and also serves as chairperson of the Public Policy Committee of the Atlantic County Advisory Commission on Women.

JOHN L. MCGOLDRICK

Mr. McGoldrick has been a member of the Board of Directors since the agency's establishment in December 1979. He is President, Medical Devices Group of Bristol-Myers Squibb and also Senior Vice President and General Counsel. He is a resident of Princeton. Previously he was a partner in the law firm of McCarter & English.

PATRICK W. PARKINSON

Mr. Parkinson, a resident of Middletown, was appointed to the Board by Governor Christine Todd Whitman in September 1994. He is Executive Director of the Middletown Sewerage Authority and a member of the Middletown Township Committee.

NJ TRANSIT EXECUTIVE COMMITTEE

Jeffrey A. Warsh, Executive Director

Stanley J. Rosenblum, Deputy Executive Director/Chief Operating Officer

Matthew F. Stanton, Chief of Staff

Rebecca Fields, Deputy Attorney General

Robert J. Guarnieri, Auditor General

Frank Hopper, Assistant Executive Director, Procurement and Support Services

Z. Wayne Johnson, Assistant Executive Director, Administration

Maureen A. Milan, Vice President/General Manager, Bus Operations

Mary Rabadeau, Chief, NJ TRANSIT Police

Robert Randall, Vice President/General Manager, Rail Operations

James Redeker, Acting Assistant Executive Director, Planning

Peter Saklas, Acting Assistant Executive Director, Engineering, Development & Construction

Herman Volk, Assistant Executive Director, Marketing & Communications

Gwen A. Watson, Board Secretary

H. Charles Wedel, Chief Financial Officer and Treasurer

Dan Censullo, Senior Director, New Rail Construction

Albert Hasbrouck, Senior Director, Corporate Affairs

Marianne Stock, Senior Director, Policy & Legislative Affairs

20/20 VISION • Eye on the Past, Focus on the Future

