



Metropolitan Transportation Authority

State of New York

July 28, 2003

Members of the MTA Board:

The July 2003 Financial Plan for 2003 and 2004 and the MTA Preliminary 2004 Budget represent the first step in the MTA's extensive budget and financial planning process in accordance with the new policy adopted by the MTA Board in May 2003. In an effort to improve and expand the transparency of the agency and to provide the riding public and our investors with a better understanding of the MTA finances, the Financial Plan and Preliminary Budget presentation includes the following:

- The July 2003 Financial Plan Presentation
- The July MTA-wide Financial Plan for 2003-2004
- The Preliminary 2004 Agency Budgets
- Detailed MTA-wide Financial Plan ("SuperSpreadSheet")

In keeping with the new Board policy, the Financial Plan Update and the Preliminary 2004 Budget are being transmitted to the Governor, the Majority Leader of the State Senate, the Speaker of the State Assembly, the Mayor of New York City and the seven County Executives within the MTA service district, for review and comment. To provide easy access, all of these materials are being posted on the MTA website (www.mta.info) for public inspection and comment.

The proposed budget actions included in the Preliminary 2004 Budget are being presented to the MTA Board for review, analysis and comment. It is anticipated that each of the agency's budgets will be reviewed by their respective Board Committees in the month of September. Recommendations resulting from that process will then be incorporated into the Final Proposed 2004 Budget, which will be presented to the Board at its October meeting. Accompanying the Final Proposed Budget in October will also be a Four-Year Financial Plan ('04 through '07) designed to provide the Board as well as the public with a greater understanding of the MTA's long-term financial challenges. The Final 2004 Budget will be adopted in December and a revised four-year Financial Plan issued 60 days thereafter.

In March 2003, the Board approved a plan that was balanced on a cash basis with year-end cash balances of \$91.9 million in 2003 and \$19.7 million in 2004. The current July 2003 plan incorporates a reforecast of operating revenues and expenses for 2003 and the Preliminary Budget for 2004. Again, this plan remains in balance on a cash basis with projected year-end cash balances of \$186.3 million in 2003 and \$4.1 million in 2004.

As discussed below, the increase of \$94.4 million to the cash balance in 2003 over the March Plan is directly related to unanticipated increased receipts in the Mortgage Recording Taxes (MRT's)—increases which were noted in the March through July BudgetWatch Reports presented at the monthly Finance Committee meetings.

In developing the July Plan, operating agencies were required to identify specific actions for previously unspecified Program to Eliminate the Gap (PEG) actions and to include additional programs to offset certain New Needs; combined, these PEG actions total \$336.9 million. In addition, the plan provides additional funding for items such as pension cost increases (\$49.7 million [\$13.6 million in '03 and \$36.1 million in '04]) and debt service costs increases (\$45.9 million [+\$2.2 million in '03 and -\$48 million in '04]). On the revenue side, major adjustments include reduced fare revenues (\$54.1 million [\$31.1 million in '03 and \$ 23 million in '04]) and an upward re-estimate of revenue from the MRT's (\$144.7 million [\$117.1 million in '03 and \$27.6 million in '04]). The July Plan also continues to assume, as per our prior plan, that we will receive increased State and/or Local governmental assistance of \$121.3 million. Several of these items are described in more detail below.

Overall ridership declined year-to-date through May 2003 -- the LIRR (-3.4%), MNR (-0.3%), NYCT (-1.7%) and LI Bus (-2.3%) -- compared with the same five-month period in 2002. Recent changes in passenger behavioral patterns for purchasing and using fare media, stemming from the recent fare increase, have yet to stabilize. Nonetheless, based on the limited data available, the aggregate passenger revenue assumptions contained in the Mid-Year Forecast for 2003 as well as the Preliminary Budget for 2004 have been adjusted downward.

While MTA Bridges and Tunnels (B&T) has witnessed a 0.83% decrease in overall traffic year-to-date through May 2003 compared with the same period in 2002, its toll collections continue to exceed levels included in the March Plan. Therefore, the toll revenue assumption included in the Mid-Year Forecast for 2003 and the Preliminary 2004 Budget has been adjusted upward.

The Mid-Year Forecast for 2003 and Preliminary Budget for 2004 take a cautionary approach on projecting future revenue receipts. Of note are the MRT receipts, which were up considerably (\$35.9 million) July year-to-date as compared with the same period in 2002. As such, we have forecasted that current market trends for these taxes will continue to be favorable for the remainder of 2003, yielding an increase of \$117.1 million above the amount reflected in the March Plan; but, we anticipate that this trend will not continue throughout 2004, and the MRT revenue will, in fact, decline from current levels. Therefore the current forecast assumes a modest increase beyond the March Plan of only \$27.6 million in 2004 as compared with the \$117.1 million in 2003.

New needs in the Preliminary 2004 Budget include:

- Increased pension costs for all MTA agencies due to stock market performance and updated actuarial assumptions
- Increased MTA revenue-bond debt service costs reflecting greater than projected capital contract awards in 2002 and reordering the sequence of bond issuances
- Costs associated with new flagging procedures in NYCT
- Additional costs associated with restoration of subway service on the Manhattan Bridge
- LIRR fleet improvements to enhance safety and reliability
- MNR M-1, M-3 and locomotive overhauls and rehabilitations
- B&T major maintenance projects
- MTA Headquarters funding of agency security programs

Potential risks associated with the Preliminary 2004 Budget include the expectation of increased State and/or Local governmental assistance. This assumption was also included in the March Plan. Over the next several months, the extent to which increased State and/or Local assistance is available will be assessed and feedback will be provided to the Board.

In keeping with the recent Board directive to continue to pursue cost-saving initiatives throughout the MTA organization, the following areas, among others are being focused on:

- **Bus Efficiencies**

In light of recent labor agreements that facilitate productivity improvements through the consolidation of Transit Authority and Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) operations as well as on-going discussions with New York City to transfer private bus operations to MTA, savings in 2004 are expected. These savings, which would result from efficiencies in service and maintenance rationalization, will be more precisely estimated as plan development progresses.

- **Hiring vs. Overtime**

The cost and operational benefit of performing functions with new staff as opposed to utilizing overtime for more senior staff needs to be analyzed in the various agencies. It is possible that savings can be realized through an overtime control plan which incorporates hiring in targeted areas.

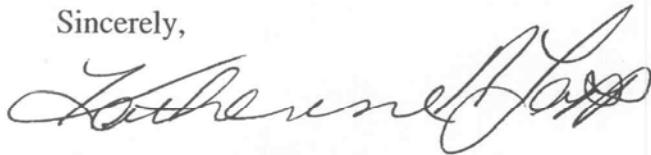
- **MTA Corporate Restructuring**

The MTA legislative staff will continue efforts to receive approval of the Legislature to proceed with MTA Corporate Restructuring. The March Plan assumed savings of \$5 million in 2003 and \$25 million in 2004. Since the necessary legislation has not yet been approved, the July Plan delays the savings assumption by one year to \$5 million in 2004.

I am confident that the new budget and financial reporting process implemented by the Board will reinforce for our customers, our investors and the public at large that the MTA is committed to transparency in its operations and finances so as to maintain their trust and confidence in the months and years to come. The MTA and its 64,000 hard working employees continue to serve over 8 million New Yorkers each day by providing the best transportation services in the nation. For those achievements, the Board, each of our Agency Presidents and our entire workforce deserve praise.

In conclusion, I take this opportunity to complement the MTA staff for their hard work over the past two months in preparing this Preliminary Budget. Similarly, the budget staffs of each of the agencies deserve praise for their long hours in preparing this material. It is this type of dedication that our customers deserve and will continue to receive from the MTA.

Sincerely,

A handwritten signature in cursive script, appearing to read "Katherine N. Lapp".

Katherine N. Lapp
Executive Director and
Chief Operating Officer