

MTA-WIDE FINANCIAL PLAN

FOR 2004-2007

AND

FINAL PROPOSED BUDGET FOR 2004

October 28, 2003

MTA Finance Committee
MTA Board



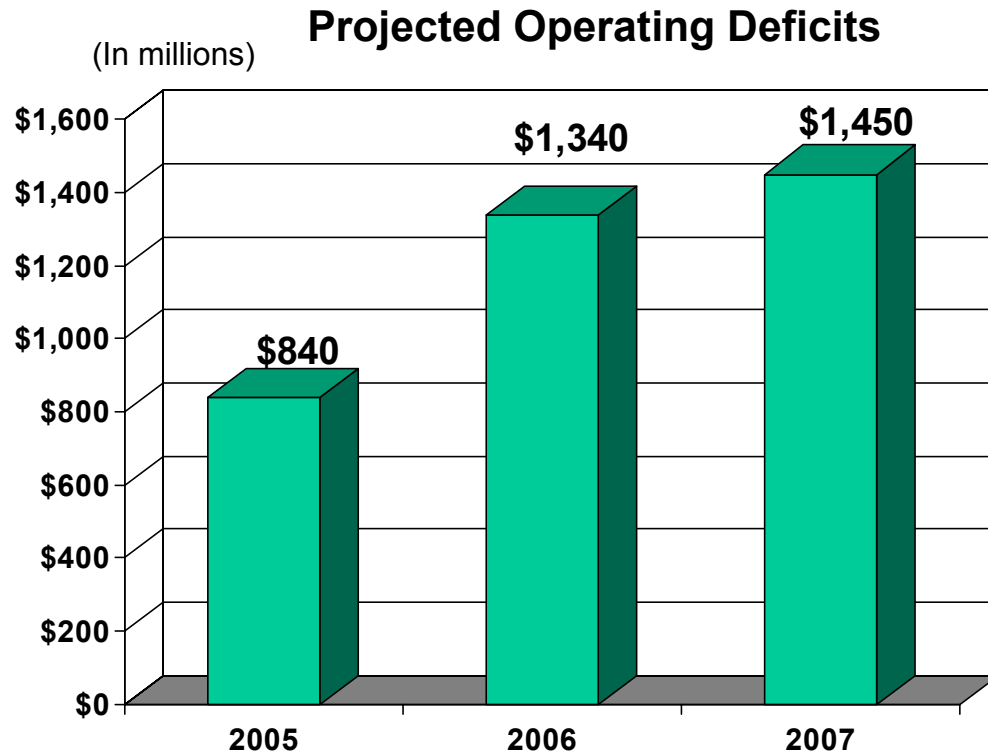
Introduction

- This document represents the Final Proposed 2004 Budget and Four Year Financial Plan for 2004 through 2007.
- The MTA's 2003 and 2004 budgets are balanced.
- Adoption of the 2004 Budget in December will fulfill the Board's pledge to hold service, fares and tolls levels through the end of 2004.
- Deficits are projected starting in 2005 through 2007.
- The Financial Plan anticipates 5% increases in fare and toll revenue in 2005 and 2007 to offset normal operating expense growth by a combination of increased ridership, increased traffic volume and/or adjustments in discount pricing on bridges, tunnels, commuter rails and/or transit.

Projected Out-Year Deficits

■ These deficits represent structural imbalances in the MTA's budget stemming primarily from

- Rising Debt Service Costs
- Increasing Pension, Health and Welfare Expenses
- Depletion of Non-Recurring Resources



How We Got Here

- The structural imbalances are evident in comparing the 2004 Final Proposed Budget and the 2005 Plan.
- The 2004 Final Proposed Budget estimates a net cash balance of \$36.2 million at year-end.
- The 2005 Plan, however, projects an end-of-year cash deficit of \$839.7 million, a worsening of \$875.9 million from 2004.

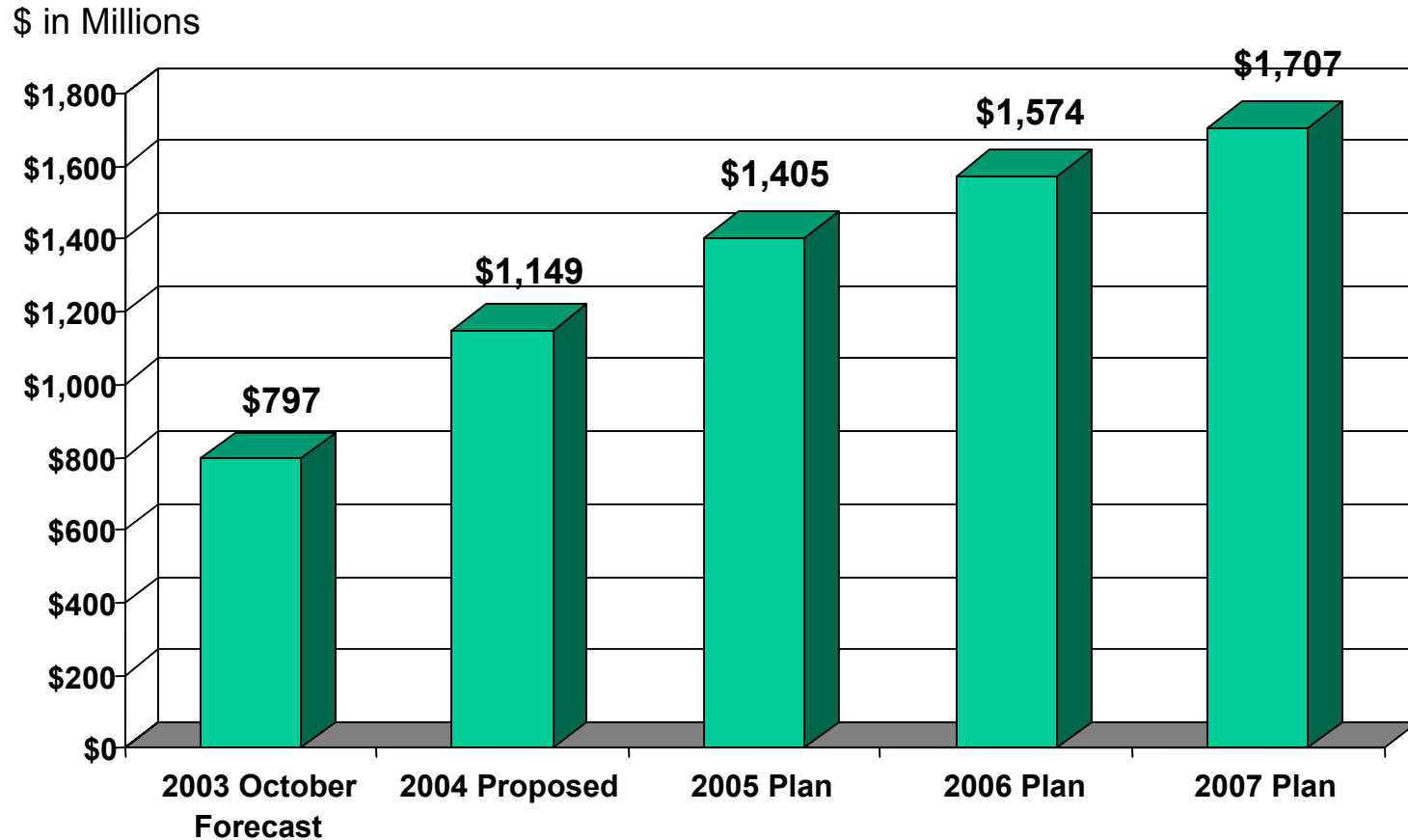
Major Reasons for Change in Net Cash Balance

2004 vs 2005 Favorable/(Unfavorable)

\$ in Millions

| | |
|---|-------------------|
| Operating Expense Growth-excluding Pension, Health and Welfare and Debt Service - 2.8% Growth | (\$161.10) |
| Health and Welfare Expense - 8.2% Growth | (\$62.60) |
| Passenger, Toll and Other Operating Revenue Improvement | \$18.30 |
| Increased Fare and Toll Yields - 5.0% | \$227.00 |
| Sub-Total | \$21.60 |
| Debt Service Costs - 22.3% Growth | (\$255.90) |
| Pension Costs - 32.6% Growth | (\$150.90) |
| Subsidy Change | (\$162.10) |
| Non-Recurring Cash Adjustments | (\$139.70) |
| Reduced Opening Cash Balance (prior year cash balance) | (\$188.90) |
| Sub-Total | (\$897.50) |
| Total Change in Net Cash Balance | (\$875.90) |

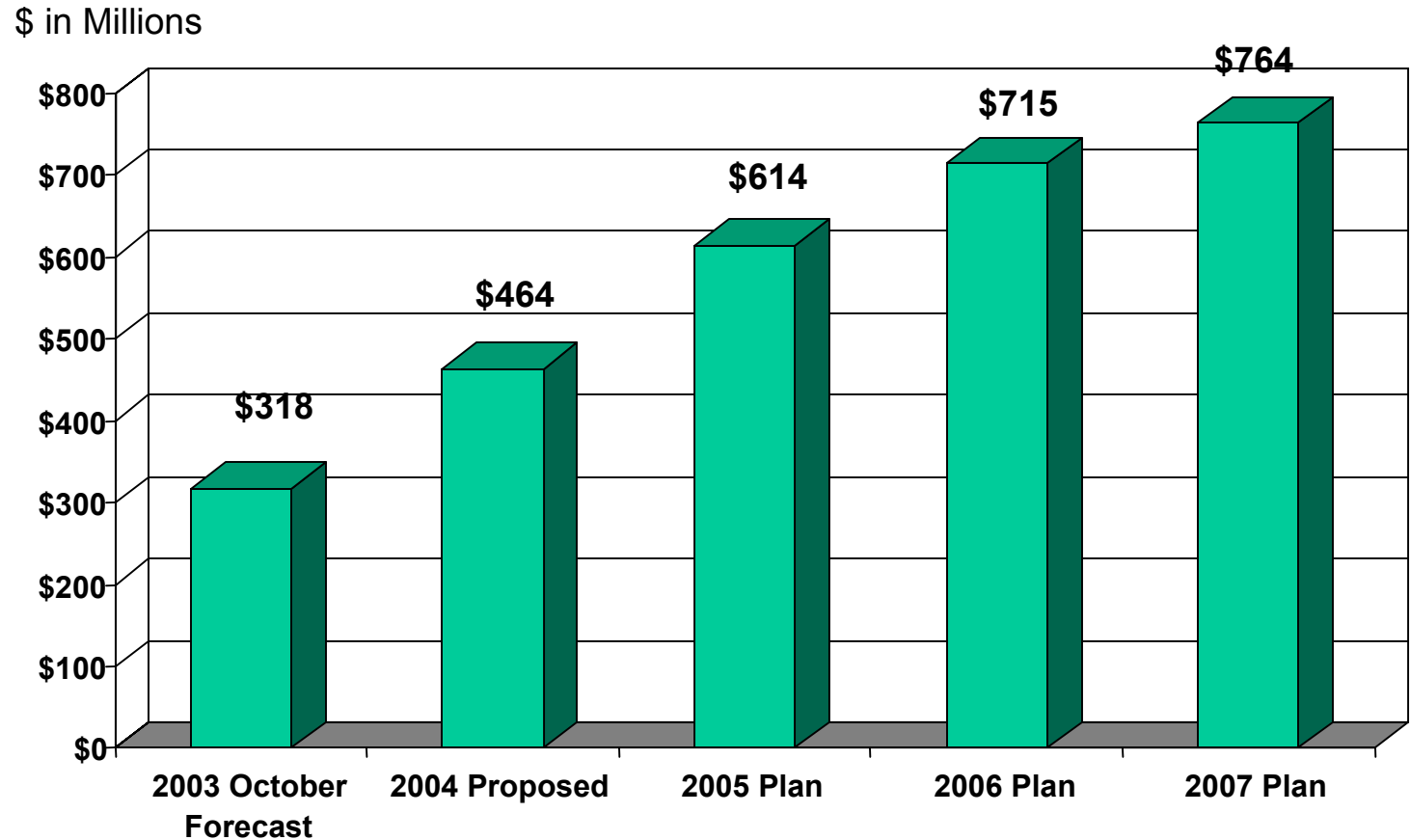
Growth in Debt Service Expenses



Debt Service Increase to Support Capital Program

- The largest cause of expense growth is the payment of debt service which is projected to grow from \$1.15 billion in 2004 to \$1.71 billion in 2007 – a 49% increase.
- Debt service costs associated with the MTA' current 2000-2004 Capital Plan have long been anticipated and were discussed when the Plan was approved in 2000.
- These costs were exacerbated by the defeat of the Transportation Bond Act of 2000.
- The MTA's debt restructuring generated greater than expected savings, however these savings were used to offset the loss of the Bond Act money rather than reducing the MTA's debt service costs.
- Without the debt restructuring, this increase in debt service costs would have occurred earlier and would have been greater than currently projected.

Growth in Pension Expenses



Sharp Increase in Pension, Health and Welfare Benefit Costs

- The MTA's pension costs are projected to increase from \$463.6 million in 2004 to \$763.6 million in 2007 – a 65% increase.
- This large increase is primarily due to a decline in the earnings for the pension systems- a trend mirrored in state and local pension systems across the country.
- During the late 1990's when the equity returns of the systems were booming, additional benefits were given to many employees and are now expensive to support.
- Because these improved benefits continue, additional employer contributions will be required until the earnings begin a sustained growth.
- Health and Welfare costs are also following national trends and are projected to increase from \$766 million in 2004 to \$972 million in 2007 – a 27% increase.

Depletion of Non-Recurring Financial Initiatives

- The MTA budgets from 2002 to 2004 relied on various non-recurring budgetary actions.
- Those actions included a one-time acceleration of State subsidy payments totaling \$368 million as well as operating savings generated from the debt restructuring (\$631 million).
- These non-recurring sources allowed the MTA to avoid a fare and toll increase in the wake of September 11th.

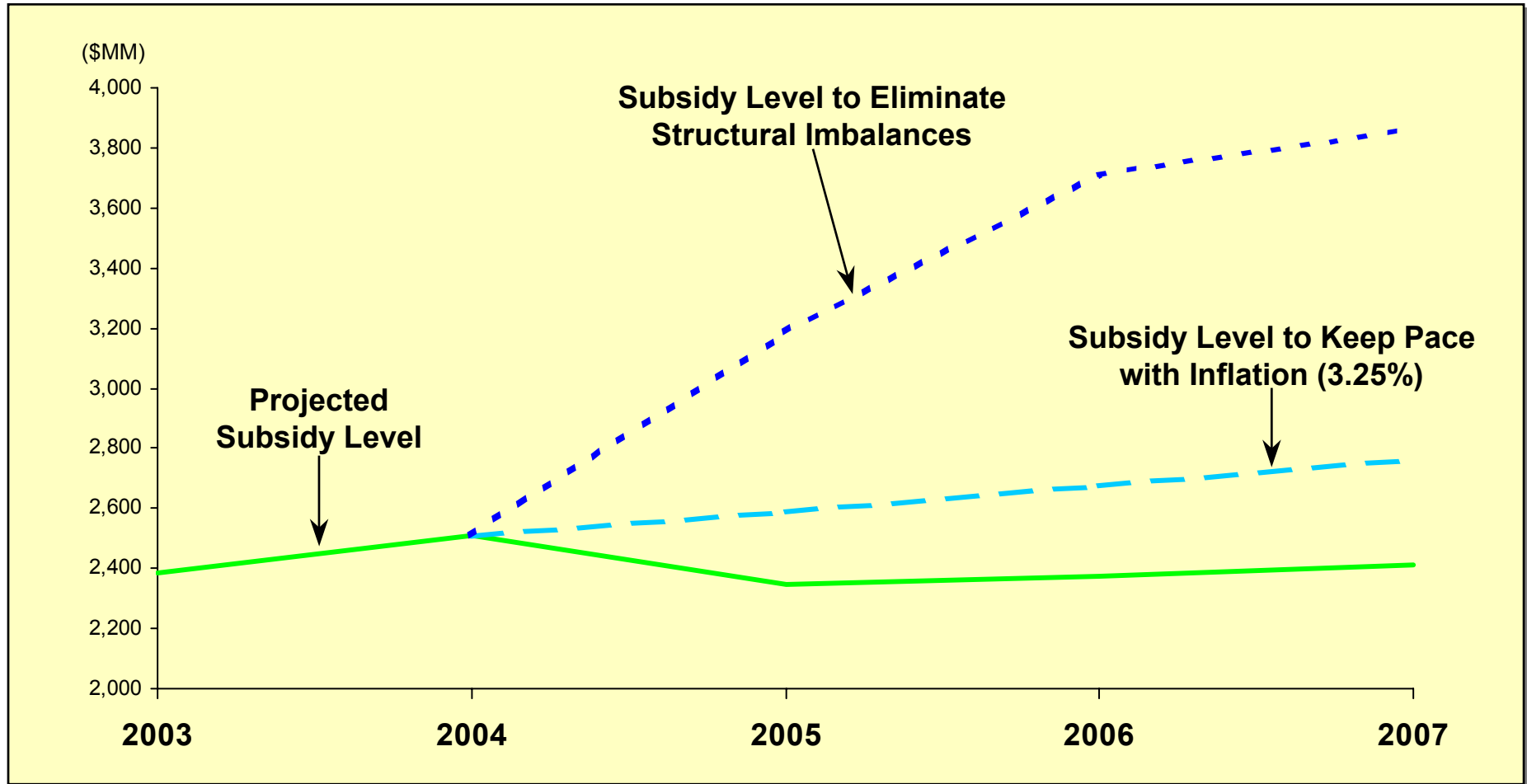
Final Proposed 2004 Budget

- The Final Proposed 2004 Budget is being presented to the MTA Board for review, analysis and comment.
- The 2004 Final Proposed Budget projects a small positive cash balance (\$36 million).
- Major changes in 2003 and 2004 over the Preliminary budget released in July include :
 - Improvements to Bridges and Tunnels tolls (\$33.1 million), Mortgage Recording Tax yields (\$42.1 million), Urban Tax yields (\$7.6 million), and Debt Service (\$14.7 million)
 - Improvement to passenger revenues (\$11.8 million)
 - Lost revenue and increased expenses associated with the August 2003 blackout (\$20.6 million)
 - Increase in pension costs (\$32.6 million)
 - Increases in Health and Welfare costs (\$19 million)
- Risks in the 2004 Budget include Additional Governmental Assistance (\$121 million), and continuation of a sluggish economy.

Addressing the Needs – Next Steps

- MTA management team will undertake a two-pronged approach to addressing these out-year deficits.
- First, extensive analysis will be undertaken to identify:
 - cost-cutting and containment actions while maintaining existing service levels without compromising safety, security and reliability standards,
 - proposed organizational restructuring,
 - reviewing existing procurement and other administrative procedures to enhance efficiencies,
 - review of pension systems management.
- Secondly, the MTA will seek necessary financial assistance from governmental funding partners. Leaders in business, government and civic associations will be contacted to make the needs of this critical service known and to garner their support.

Subsidies to MTA are not projected to grow sufficiently.



Additional Challenges

- There are additional challenges ahead. These include:
- Maintaining MTA's share of federal funds currently received under TEA-21 which is up for reauthorization.
- MTA currently receives \$800 million annually for its Capital Program.
- MTA will continue seeking New Start monies for the East Side Access and Second Avenue Subway projects.
- Ensure local and state support for MTA's next 5-year capital program (2005 – 2009).