

## **II. ECONOMIC OUTLOOK AND MAJOR FINANCIAL PLAN ASSUMPTIONS**

## **1. ECONOMIC OUTLOOK**

### **Overview**

There has been a continued divergence between the national economy and the New York City regional economy. The U.S. economy has exhibited positive economic growth for every quarter since the fourth quarter of 2001, with the national recession officially ending in November 2001. Conversely, the New York City economy has continued to decline every quarter since the first quarter of 2001. During the second quarter of 2003, the national economy grew at an annual rate of 3.3 percent while New York City's gross city product declined 0.8 percent.

Employment, both nationally and locally, has been extremely weak since September of 2001, with job growth in New York City significantly weaker than the national average for the past two years. During the second quarter of 2003, employment in New York City, significantly weaker than the national average, had fallen to levels not seen since January of 1999.

But economic indicators reveal a climate for job growth, both nationally and locally. In order to sustain or increase productivity levels to meet consumer and business demand, it is expected that companies will need to increase the number of labor force hours worked. This, in turn, eventually should lead to new hiring and increases in employment.

But, just as the national economy has emerged from recession, the New York City region's economy shows signs of a similar turnaround, albeit later than the national economy began its reversal and at a slower rate of growth.

### **National Economy**

The U.S. economy appears to be coming out of the doldrums. In the second quarter, real GDP rose at an annual rate of 3.3 percent, which was higher than expected. This compares to an annual rate of 1.4 percent in the first quarter. Along with the surge in defense spending related to the Iraq War, private spending also showed signs of stronger growth. The effects of tax cuts and declining inventory levels should help output continue its growing momentum in the second half of 2003. The economy is expected to grow at a seasonally adjusted annual rate of 4.7 percent during the third quarter and 4.0 percent in the fourth quarter of 2003, according to a recent survey of 53 economists conducted by the Wall Street Journal Online.

Spending by consumers, businesses, and government increased at a robust rate in the second quarter. Final sales of domestic product rose 4.0 percent, compared to a 2.3 percent increase in the first quarter. Real gross domestic purchases – purchases by U.S. residents of goods and services wherever produced – increased 4.2 percent in the second quarter, compared with a 0.6 percent increase in the first quarter. Consumer

spending grew 3.8 percent in the second quarter, compared to an increase of 2.0 percent in the first quarter. Sales of durable goods were especially robust.

After slumping for several quarters, business fixed investment rose 8.0 percent in the second quarter compared to a decline of 4.4 percent in the first quarter. Spending on technology showed impressive gains of 8.2 percent in the second quarter after a fall of 4.8 percent in the first quarter.

This has been a disappointing year for employment, with the U.S. Department of Labor reporting that job losses for 2003 have totaled 507,000. Through August, nonfarm payrolls had fallen for seven consecutive months, but in September the number of jobs increased for the first time during 2003, with the private sector adding 57,000 new jobs. In September, the unemployment rate stood at 6.1 percent, slightly lower than the recent high point of 6.4 percent reached in June 2003. A recent Wall Street Journal Online survey of economists indicated that 1.4 million jobs should be created over the next year. Even with this expected improvement in job creation, the national unemployment rate is not expected to decline significantly.

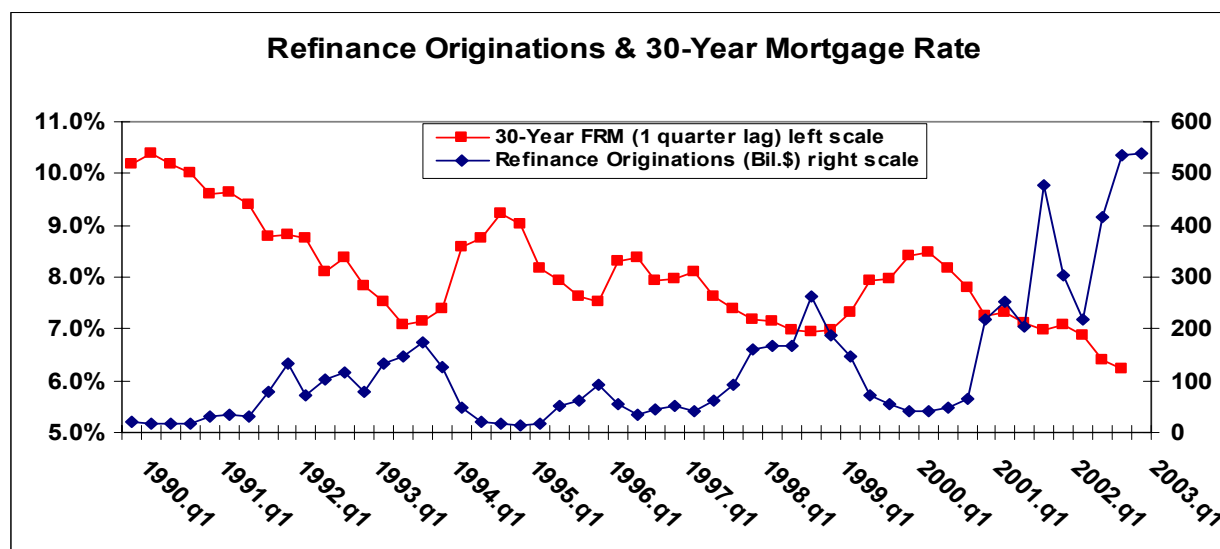
In the second quarter of 2003, personal income increased 0.85 percent compared to the first quarter of 2003. Since the second quarter of 2002, personal income has increased 2.9 percent. Mortgage refinancing has allowed consumers to maintain strong spending growth throughout the economic downturn. As interest rates begin to creep up from historic lows and mortgage refinancing slows, the recent tax cuts, wage and salary growth, and a stronger-than-expected increase in corporate profits are expected to result in a faster growing U.S. economy for the remainder of the year.

In recent years, mortgage refinancing has been an important factor in consumer spending. Low interest rates, higher home values, and lower transaction fees have given homeowners greater incentives to refinance their mortgages. As long as rates remain low, refinancing activity will remain strong, relative to historic levels, and perspective homebuyers will be able to afford more expensive properties.

Mortgage interest rates fluctuate on national economic conditions. Investors evaluate risk and potential return on investment alternatives – equities, corporate bonds, municipal bonds, mortgage-backed securities – and move their capital according to the risks they are willing to tolerate and the potential returns they expect. Over the past few years, with economic data indicating first a recession and more recently sluggish growth at best, investors have shied away from equities and bonds, and have invested in relatively safe mortgage-backed securities. With investors' money flooding into mortgage-backed securities, mortgage lenders have had more money available with which to provide mortgages. The "supply" of mortgage funds, coupled with the "demand" for mortgage funds, has resulted in the historic low points that mortgage interest rates have reached this year. However, as the national economy rebounds, investors will move their investment funds to options that provide greater investment return such as equities and bonds, which investors believe to be less risky in a growing economy. As investor money moves out of mortgage-backed securities, the availability

of funds to homebuyers and those refinancing is reduced, and with the “supply” of mortgage funds dwindling, rates will begin to move higher. With mortgage refinance activity being interest rate-sensitive, a higher interest rate environment will lead to a decrease in mortgage refinancing.

Money raised from mortgage refinancing had a significant role in overall consumer spending and the sales tax revenue generated from such spending. Nationally from 2001 through the first half of 2002, the average amount of cash raised by homeowners who refinanced was \$26,700 per transaction. Overall, refinancing raised \$131.6 billion for homeowners. According to a Federal Reserve survey, 26 percent of the dollars raised from refinancing went to repaying other debt, 35 percent went into home improvement and 16 percent paid for consumer expenditures. Consumer expenditures include vehicle purchases, vacations, education and medical expenses, living expenses, and other consumer purchases. According to a Federal Reserve estimate, refinancing has added between a quarter-percent and a half-percent to personal consumption expenditures in recent years.

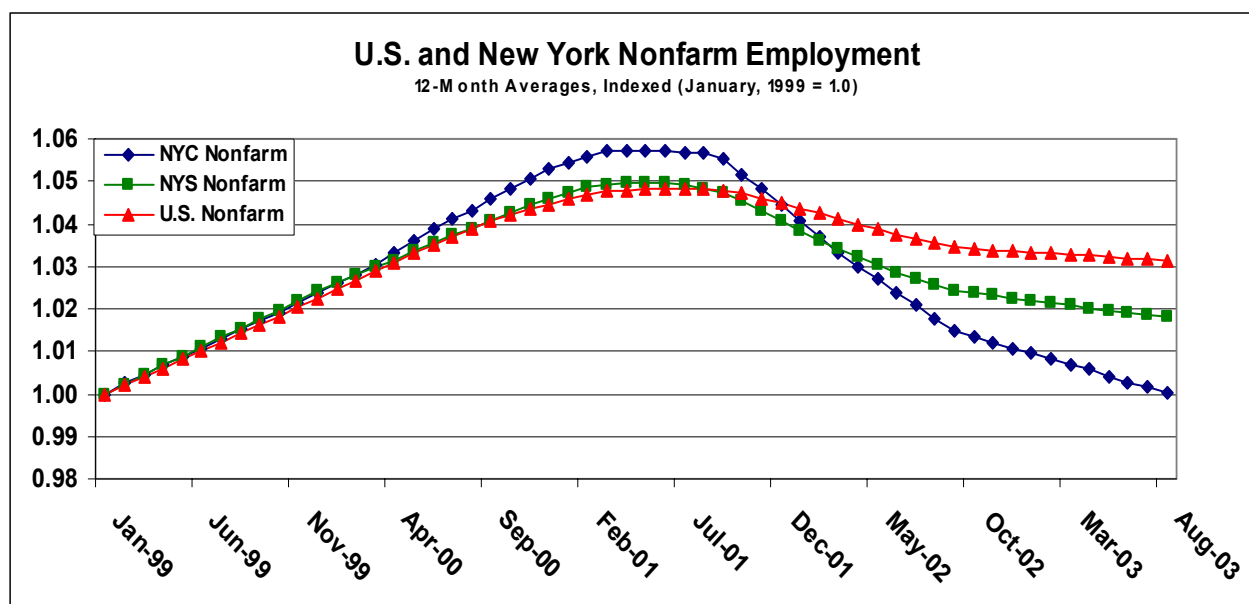


The electrical blackout that affected the northeastern United States on August 14 will have an impact on third quarter economic growth. Nationally, some economists have estimated the economic and social cost of the blackout as high as \$6 billion, and the region affected by the blackout accounted for about 25 percent of the nation’s economy. But any economic impact should be contained in the third quarter. City Controller Thompson estimated that the blackout might have cost the city more than \$1 billion. Some of the city’s costs should be alleviated by federal aid approved by the Bush Administration.

## New York State and New York City Economies

The national recession has had a more significant impact on, and has lasted longer in, New York State than other states and the nation as a whole. Over the two years ending August 2003, New York State has lost 185.1 thousand jobs, a decline of 2.2 percent, while the nation as a whole has lost just over 2 million jobs, a decline of 1.5 percent. The impact on New York State is more evident when one considers that, while the number of jobs located in New York State constitute 6.5 percent of the national total, over 9 percent of the jobs lost nationwide during the past two years had been located in New York State. In fact, during this time New York State lost more jobs than any other state in the nation.

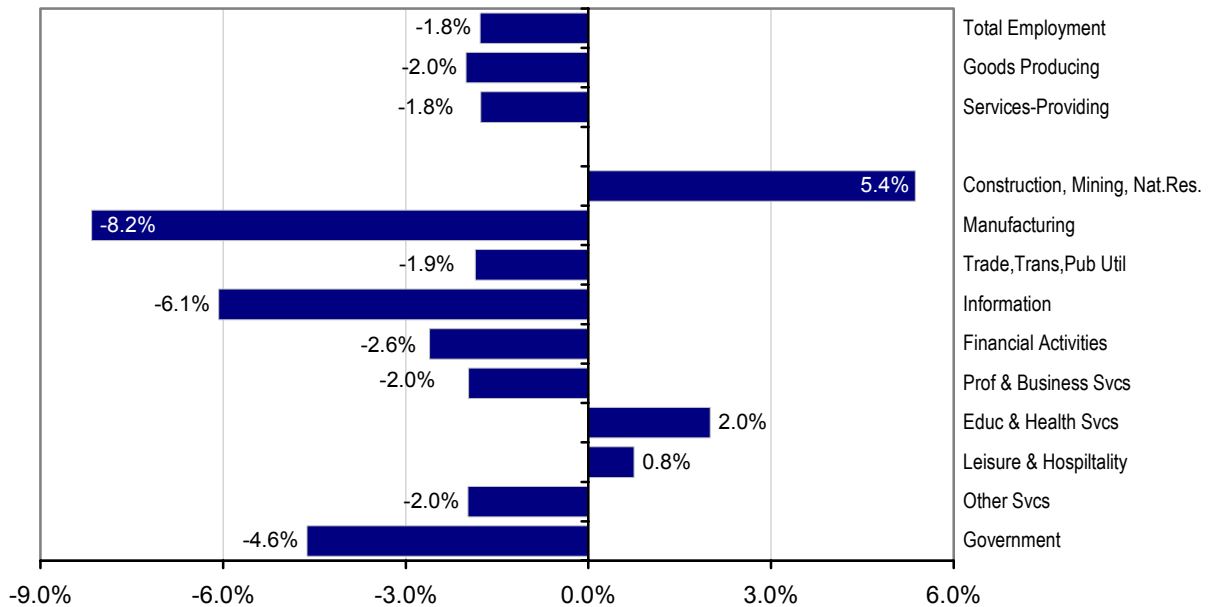
New York City, and the rest of the MTA region, have fared worse than New York State as a whole. Over the two years ending August 2003, New York City has lost 196.1 thousand jobs, and an additional 6.4 thousand jobs were lost in the suburban MTA counties. Six of the other eight metropolitan areas in the State also lost jobs (Albany, Binghamton, Buffalo, Elmira, Rochester and Syracuse lost jobs, while Glens Falls and Utica-Rome gained jobs), so most job growth in New York State took place away from the metropolitan areas.



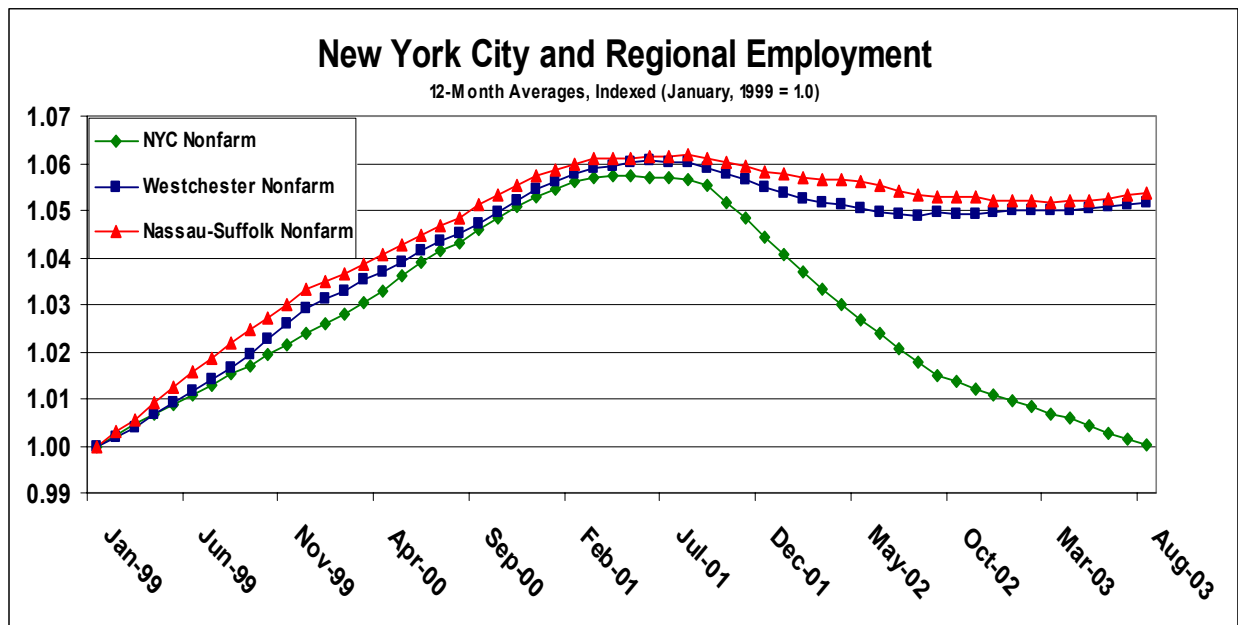
One out of every five jobs lost in New York City over the past two years has been in the financial activities sector, a sector that accounts for about 13 percent of all jobs in the City. Financial activities jobs declined 5.3 percent Statewide and increased by 2.0 percent nationally during the same two-year period.

The decline of Wall Street profits has had a significant effect on the regional economy. Financial sector bonuses – which are tied to profit margins – are estimated to have

### NYC Employment Change, August 2002 to August 2003



declined by 28 percent in 2001 and by an additional 21 percent in 2002. As a result of declining Wall Street bonuses, financial sector job cuts, and a less-active equity market, state and local tax revenue from this sector declined significantly in 2002 and 2003.



Overall, the number of jobs in New York City continues to fall, declining 1.8 percent over the past year through August. During the last twelve months, goods producing jobs have fallen 2.0 percent and service-providing jobs have fallen 1.8 percent. In the goods producing categories, manufacturing jobs have declined 8.2 percent and jobs in the

natural resources, mining and construction sector has increased 5.4 percent over the past year. In the service-providing categories, employment in the leisure and hospitality sector increased 0.8 percent and employment in the education and health services sector increased 2.0 percent. All other service-providing sectors had employment reductions during the past 12 months, with significant employment declines in the information (-6.1%), financial activities (-2.6%) and professional and business services (-2.0%) sectors.

Employment in the leisure and hospitality sector, hit hard in the aftermath of the September 2001 terrorist attacks, has shown signs of bottoming out. Manhattan hotels have reported that occupancies were up nearly five percent in July and early August, albeit possibly due to an average 3 percent reduction in room rates during the summer months.

The twelve-county MTA region has lost 202.5 thousand jobs during the past two years, 3.5 percent of the jobs that existed prior to the September 11, 2001 terrorist attacks. The bulk of these losses have been in New York City, which has lost 196.1 thousand jobs, a 1.8 percent decline. Over the past two years, the suburban counties lost 15.6 thousand jobs during the first year (a 0.8 percent decline), followed by an employment increase of 9.2 thousand jobs during the past 12 months. During the past 12 months, all the suburban counties in the MTA region have experienced employment gains. In fact, Putnam, Orange and Rockland Counties did not suffer a decline in employment during the first year after the terrorist attacks.

About 80 percent of the MTA region suburban employment is located in Westchester, Nassau or Suffolk Counties, and about 60 percent of the job gains during the past 12 months took place in these counties.

The commercial real estate market in New York City has remained soft during the past two years, but recent analysis points towards a limited recovery. The amount of space leased this year is higher than the amount leased last year, and the percentage of asking rents that new tenants agree to pay is rebounding in some areas of the city. Additionally, sublet space as a percentage of total vacancy is slowly declining. On the other hand, the supply of additional space being placed on the open market is growing faster than the demand.

The economic data continues to suggest that the economic recovery seen in national economic statistics has yet to reach New York City. New York City has lagged the nation in employment creation and output growth in goods and services since 2001. But the factors that have assisted in the turnaround of the national economy are beginning to have a positive impact in the New York City area as well. It appears that as corporate profits increase, companies will begin to increase the number of labor force hours worked. This, in turn, eventually should lead to new hiring and increases in employment.

In the New York City area, where manufacturing plays less of a role than it does nationally, service sector employment will play a large part in the regional economic rebound. Health service employment, business and professional employment and financial activities employment growth are expected to lead the economic recovery.

Still, while the New York City region's economy shows some signs of a similar turnaround, it is anticipated that the turnaround in the local economy will start later than the national economy began its reversal and at a slower rate of growth. In 2004, MTA regional employment is expected to increase just under 1 percent, and over the final years of the financial plan (2005 to 2007), employment is projected to increase just over 1 percent each year. In New York City, employment is projected to increase 1.1 percent each year, while annual suburban employment growth is projected to fluctuate between 0.8 and 1.1 percent per year. These projections yield an increase of 240 thousand jobs during the financial plan period, with two-thirds of the job growth occurring in New York City.

## **2. RIDERSHIP AND REVENUE PROJECTIONS**

### **2003**

As the result of the MTA raising fares an average of 25 percent in May 2003 (and tolls by 50 cents on major facilities and 25 cents at minor facilities), ridership on the various MTA services is expected to decline 2.6 percent in 2003 while vehicular traffic is expected to fall 2.1 percent in 2003. Ridership for New York City Transit is projected to fall 2.6 percent for the year (a 2.4 percent decline for subway ridership and a 3.0 percent decline for bus ridership), while ridership on Long Island Rail Road is projected to fall 4.2 percent and Metro-North Railroad's east-of-Hudson operations (the Hudson, Harlem and New Haven lines) are projecting a 0.3 percent decline in ridership.

Overall, fare revenue is projected to increase 11.2 percent in 2003 over 2002, while toll revenue is expected to be up 8.2 percent for the year. Farebox revenue for New York City Transit's bus and subway operations is forecast to end the year 7.9 percent above last year's level. Long Island Rail Road projects fare revenue 12.4 percent above 2002 levels, and fare revenue for Metro-North Railroad's east-of-Hudson operations are expected to end the year 12.3 percent higher.

To estimate fare and toll revenues, along with ridership and traffic, for the 2003 October Forecast, revenue, ridership and traffic changes subsequent to the May increases were evaluated and compared with impacts that were anticipated at the time the fares and tolls were increased.

New York City Transit ridership declined less than expected, and ridership was adjusted upward by 11.4 million rides; these trips account for \$13.8 million in additional fare revenue. However, the average fare paid per trip did not increase as much as expected, and projected revenue was reduced by \$12.9 million to reflect the lower

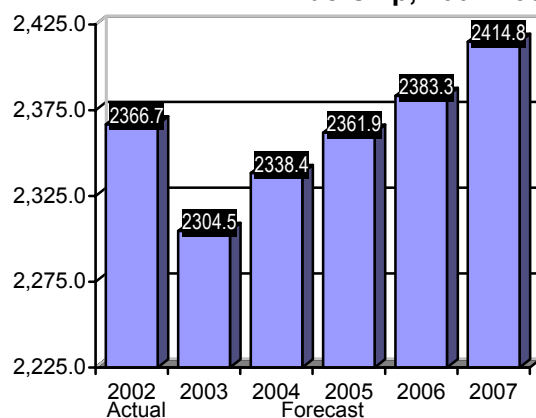


average fare. Both the lower ridership loss and smaller revenue gain can be attributed to customers shifting to deeper discounted fare media (7-day and 30-day Unlimited Ride MetroCards). Transit also factored into their analysis a preliminary estimate of the impact of the August blackout, reducing ridership by 6.5 million trips and reducing revenue by \$5.9 million.

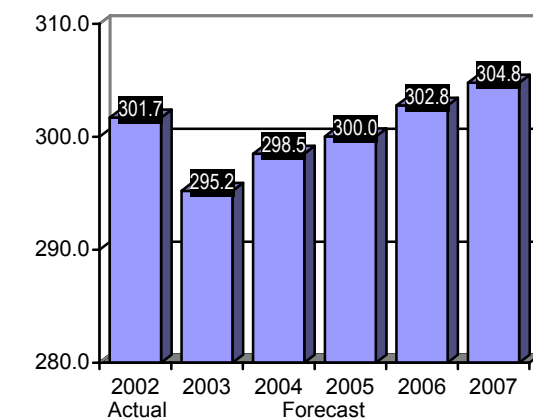
Long Island Rail Road expects both ridership and revenue to remain consistent with their earlier projections. To account for the estimated impact from the August blackout, LIRR reduced ridership by 0.8 million and reduced revenue by \$0.1 million.

Metro-North Railroad expects both ridership and revenue to be higher than estimated at mid-year, despite adverse impacts from the August blackout, which is estimated to have cost Metro-North \$1.5 million in fare revenue and reduced ridership by 200 thousand trips. The impact on ridership and revenue from both the MTA and Connecticut fare increases has been less than expected, resulting in an additional \$5.6 million in fare revenue and 1.0 million trips compared with the mid-year forecast.

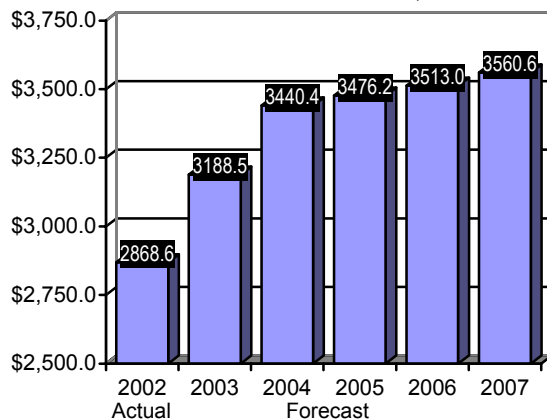
**MTA Ridership, 2002-2007**



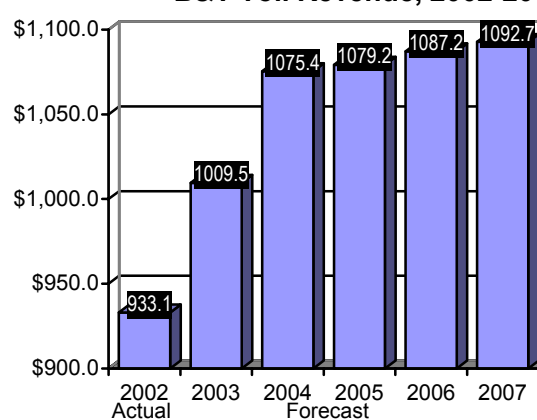
**B&T Traffic, 2002-2007**



**MTA Fare Revenue, 2002-2007**



**B&T Toll Revenue, 2002-2007**



Bridges and Tunnels has increased toll revenue and traffic forecasts for the 2003 October Forecast, relative to the 2003 Mid-Year Forecast, as the result of higher than projected traffic since the May toll increase went into effect. Toll revenue is \$15.1 million higher than the mid-year forecast, while vehicle volume is 4.2 million more than

### MTA Agency Ridership and Traffic Projections, in millions

				Favorable / (Unfavorable)	
	<b>2003 March Budget</b>	<b>2003 Mid-Year Forecast</b>	<b>2003 October Forecast</b>	<b>2003 October Forecast vs.</b>	
				<b>2003 March Budget</b>	<b>2003 Mid-Year Forecast</b>
New York City Transit	2,112.0	2,113.8	2,117.9	5.9	4.1
Metro-North Railroad *	70.4	70.4	71.4	1.0	1.0
Long Island Rail Road	81.4	80.5	80.4	(1.0)	(0.1)
Bridges and Tunnels	288.7	291.1	295.2	6.5	4.1

	<b>2003 October Forecast</b>	<b>2004</b>		Favorable / (Unfavorable)	
		<b>Prelim Budget</b>	<b>Final Proposed Budget</b>	<b>2004 Final Proposed Budget vs.</b>	
				<b>2003 October Forecast</b>	<b>2004 Prelim Budget</b>
New York City Transit	2,117.9	2,122.4	2,148.5	30.6	26.1
Metro-North Railroad *	71.4	71.2	72.2	0.8	1.0
Long Island Rail Road	80.4	81.7	81.7	1.3	0.0
Bridges and Tunnels	295.2	293.9	298.5	3.3	4.6

### MTA Agency Fare and Toll Projections, in millions

				Favorable / (Unfavorable)	
	<b>2003 March Budget</b>	<b>2003 Mid-Year Forecast</b>	<b>2003 October Forecast</b>	<b>2003 October Forecast vs.</b>	
				<b>2003 March Budget</b>	<b>2003 Mid-Year Forecast</b>
New York City Transit	\$2,398.4	\$2,371.0	\$2,365.7	(\$32.7)	(\$5.3)
Metro-North Railroad *	\$368.0	\$373.6	\$379.1	\$11.1	\$5.5
Long Island Rail Road	\$405.2	\$396.0	\$395.2	(\$10.0)	(\$0.8)
Bridges and Tunnels	\$986.8	\$994.4	\$1,009.5	\$22.7	\$15.1

	<b>2003 October Forecast</b>	<b>2004</b>		Favorable / (Unfavorable)	
		<b>Prelim Budget</b>	<b>Final Proposed Budget</b>	<b>2004 Final Proposed Budget vs.</b>	
				<b>2003 October Forecast</b>	<b>2004 Prelim Budget</b>
New York City Transit	\$2,365.7	\$2,544.0	\$2,543.5	\$177.8	(\$0.5)
Metro-North Railroad *	\$379.1	\$403.7	\$410.9	\$31.8	\$7.2
Long Island Rail Road	\$395.2	\$435.1	\$431.0	\$35.8	(\$4.1)
Bridges and Tunnels	\$1,009.5	\$1,058.5	\$1,075.4	\$65.9	\$16.9

\* Metro-North figures for east-of-Hudson service only. MNR's March 2003 budget does not include anticipated revenue and ridership impacts from Connecticut's July 2003 fare increase on the New Haven Line.

was expected in the mid-year forecast. These higher projections, the result of a smaller than expected traffic loss due to the toll increase, filter into the 2004 projections; 2004 toll revenue is projected to be \$16.9 million greater than estimated at mid-year, while traffic is projected to be 4.6 million crossings greater than was estimated at mid-year.

## **2004**

In 2004, ridership is expected to increase on all MTA operations, as is vehicle traffic. Overall, MTA ridership is projected to increase 1.5 percent in 2004, while traffic is expected to increase 1.1 percent. Ridership increases are projected to be 1.4 percent for New York City Transit, 1.7 percent for Long Island Rail Road, and 1.1 percent for Metro-North Railroad's east-of-Hudson service.

Since 2004 is the first full year under the new fare and toll levels, fare and toll revenues are expected to further increase in 2004. Overall, fare revenue is projected to increase 7.9% while toll revenue is expected to increase 8.2 percent. Fare revenue increases are projected to be 7.9 percent for New York City Transit, 9.0 percent for Long Island Rail Road, and 8.0 percent for Metro-North Railroad's east-of-Hudson service.

## **2005 – 2007**

For 2005 through 2007, ridership is projected to increase about 1.0 percent per year, and traffic is expected to increase in the 0.5 to 0.9 percent range for each year. Annual fare revenue growth is projected to fall in the 1.0 to 1.4 percent range for 2005 through 2007, while toll annual revenue is projected to grow about half of one-percent each year during the three-year period.

## **3. SUBSIDIES**

MTA subsidies come from a variety of sources, including general operating subsidies from the State and local governments, special tax-supported operating subsidies, commuter railroad station maintenance reimbursements, and subsidy for Metro-North from the Connecticut Department of Transportation (CDOT).

Under the State's section 18-b program, MTA receives subsidies from the State and matching subsidies from New York City and the seven counties in the MTA district. Tax-supported operating subsidies are derived from: the state-wide business privilege tax imposed on petroleum businesses in the State (PBT); the motor fuel tax on gasoline and diesel fuel; certain motor vehicle fees; the regional PBT; the quarter-percent sales and compensating use tax within the MTA district; franchise taxes on certain transportation and transmission companies; a temporary surcharge on a portion of the franchise tax imposed on certain corporations, banks, insurance, utility and transportation companies attributable to business activities with the MTA district; and a portion of the amounts collected by the City from certain mortgage and recording

transfer taxes. Service reimbursements are also received from localities for commuter railroad station maintenance and from the Connecticut Department of Transportation for its share of the operating deficits of Metro-North's New Haven rail line.

<b>MTA Subsidy Levels by Agency, in millions</b>					
	<u><b>2003</b></u>	<u><b>2004</b></u>	<u><b>2005</b></u>	<u><b>2006</b></u>	<u><b>2007</b></u>
State Operating Assistance <sup>1</sup>	\$207.1	\$207.4	\$207.6	\$208.0	\$208.4
Local Operating Assistance <sup>2</sup>	196.3	191.4	191.4	191.4	191.4
MMTOA Allocation	730.8	750.3	763.1	783.7	805.8
Gross PBT Receipts	479.5	524.0	538.8	540.5	543.4
Mortgage Recording Tax <sup>3</sup>	421.8	379.9	296.1	286.8	286.3
Urban Tax	143.7	147.0	147.7	148.5	149.2
Unspecified Governmental Aid	0.0	121.3	0.0	0.0	0.0
CDOT Subsidy	60.3	52.4	62.1	69.6	78.5
Station Maintenance	124.7	128.7	132.9	137.2	141.6
Net B&T Accrued Current Yr Allocation	343.6	344.4	265.3	242.2	209.7
Investment Income	1.8	2.5	2.9	3.2	4.2
Additional Mass Transportation Assistance	20.4	0.0	0.0	0.0	0.0
MTA	31.6	46.3	54.9	59.3	63.3
Unspecified PEG <sup>4</sup>	0.0	4.9	4.9	4.9	4.9
Total Subsidies:	\$2,761.3	\$2,900.3	\$2,667.7	\$2,675.2	\$2,686.6
Less: Interagency Subsidy & Surplus Transfers	(\$375.1)	(\$390.8)	(\$320.3)	(\$301.6)	(\$273.1)
<b>Total State and Local Subsidies</b>	<b>\$2,386.2</b>	<b>\$2,509.5</b>	<b>\$2,347.4</b>	<b>\$2,373.6</b>	<b>\$2,413.5</b>
<sup>1</sup> . Including State of New York aid to Long Island Bus (non 18-b). <sup>2</sup> . Including Nassau County aid to Long Island Bus (non 18-b). <sup>3</sup> . Reflects revenue available to MTA after statutory transfers to suburban counties. <sup>4</sup> . Unspecified PEG needed to offset Nassau County subsidy reduction.					

The New York State Commissioner of Transportation administers the statewide mass transportation operating assistance program. The MTA receives Section 18-b State operating assistance funds, along with funds from two transportation-dedicated trust funds and several taxes. These dedicated trust funds are the Metropolitan Mass Transportation Operating Assistance Fund (MMTOA) and the Dedicated Tax Fund (DTF); the MTA is allocated portions of the proceeds from these funds by State appropriation.

MTA expects Section 18-b State operating assistance funding will remain at current levels (\$187.4 million plus \$3.0 million for Long Island Bus) during the financial plan period. Localities are required by legislation to match the State's Section 18-b funding level, and those levels are also expected to remain constant during the financial plan period, except for Nassau County's subsidy to Long Island Bus. Nassau County's proposed 2004 budget reduces the Long Island Bus operating subsidy from \$8.3 million

in 2003 to \$3.4 million beginning in 2004. This follows a \$2 million reduction in the County's 2003 funding level. Pending final action by the Nassau County Legislature, the Financial Plan assumes that the subsidy reduction will not be made up by MTA, but rather, will be made up by additional governmental subsidy or service reductions.

The DTF is funded from the revenue generated from certain privilege taxes imposed by the State on petroleum businesses, motor fuels, and certain motor vehicle fees. The MMTOA receipts derive revenues from a one-quarter of one percent regional sales tax; a temporary regional franchise tax surcharge; a portion of taxes on certain transportation and transmission companies; and an additional portion of the business privilege tax imposed on petroleum businesses. DTF receipts must be used first to pay debt service on Dedicated Tax Fund bonds. If DTF receipts are insufficient, MMTOA Receipts must be used to pay the remainder of the debt service on the Dedicated Tax Fund bonds. After the debt service on the bonds are paid, any remaining DTF and MMTOA receipts are then allocated to the Transit Authority and the Commuter System in accordance with the formula provided by the statute.

The MTA also receives the proceeds from the Mortgage Recording Taxes (known as MRT-1 and MRT-2). MRT-1 is imposed on mortgage borrowers based on the amount of the mortgage, excluding the first \$10 thousand of the amount borrowed; MRT-2 is imposed on lenders of mortgages used to purchase 1- to 6-family residential structures, and excludes the first \$10 thousand of mortgage borrowed. Revenues from these taxes are used by the MTA to fund operating and capital costs, including debt service and reserve requirements.

Receipts from MRT-1 are first used to pay expenses for MTA Headquarters. Of the remaining funds, MTA transfers 55 percent to New York City Transit and 45 percent to the Commuter Railroad account for use by Long Island Rail Road and Metro-North Railroad.

Revenue generated by MRT-2 is remitted to the MTA; the first \$8 million in receipts are placed in an account for transfer back to Dutchess, Orange and Rockland Counties. The remaining MRT-2 receipts are used to cover MTA, New York City Transit and Commuter Rail operating and capital costs. Current MTA Board guidelines designate 85 percent of the remaining MRT-2 proceeds for New York City Transit and 15 percent for the Commuter Railroads.

New York City Transit also receives additional funding from Urban Taxes collected by New York City. The Urban Taxes are composed of a mortgage recording tax (Urban MRT) and a real property transfer tax (Urban RPTT). The Urban MRT is imposed on mortgages of \$500 thousand or more, on all property except for 1- to 3-family houses and condominium units. The Urban RPTT is imposed on the transfer of all properties valued more than \$500 thousand except on 1- to 3-family houses and condominium units. Thus, the taxes are largely imposed on commercial properties. Ninety percent of the Urban Tax proceeds are allocated to New York City Transit, six percent are utilized to offset the costs of New York City paratransit operations, and four percent are used to

subsidize private bus operators providing City bus service under New York City Department of Transportation franchise agreements.

The 2003 October Forecast for MMTOA payments to the MTA were set by the appropriation included in the State Fiscal Year (SFY) 2004 Budget.

The 2004 Final Proposed Budget was estimated by applying the following to the 2003 October Forecast:

- 1) District Sales Tax – the projected annual change in total retail sales for the New York PMSA;
- 2) Petroleum Business Tax – the projected annual change in the producer price index for refined petroleum products;
- 3) Franchise Tax on Transmission/Transportation Companies – the projected annual change in state fiscal year estimates provided by State Division of Budget (DOB);
- 4) Franchise Business Tax Surcharge - the projected annual change in state fiscal year estimates provided by State DOB.

The appropriation for the SFY 2005 Budget (2004 calendar year) was estimated by assuming the MTA share of the above receipts is constant and applying the share to total MMTOA receipts. Similar assumptions and calculations were made to project MMTOA receipts for the 2005-2007 financial plan.

To estimate DTF receipts through 2007, state fiscal year estimates provided by State DOB were converted to calendar-year estimates.

To forecast MRT, year-to-date actual receipts through June 2003 (\$201.8 million) were utilized, and it was assumed that the July through December 2003 receipts would equal the July through December 2002 (\$194.2 million) for a total 2003 forecast of \$396.0 million.

For 2004, year-to-year declines for each of the MRTs were researched and it was assumed that the decrease from the 2003 forecast to the 2004 forecast would be 90% of the sharpest historical decrease for each of the MRTs. For MRT-1 the sharpest decrease was 28.6% from 1990 to 1991, and for MRT-2 the sharpest decline was 22% from 1994 to 1995. Using this methodology the MRT-1 2003 forecast of \$215.2 million was reduced by 25.7% to \$159.8 million for 2004, and the MRT-2 forecast of \$180.7 million was reduced by 19.8% to \$145.0 million for 2004. Total 2004 MRT forecast is \$304.8 million. The resulting drop in receipts is consistent with projections made by New York City for City fiscal year 2004. MRT receipts are assumed to increase 0.5 percent each year from 2005 through 2007.

Year-to-date Urban Tax receipts for June 2003 were annualized to generate the 2003 October Forecast. Like MRT, Urban Tax receipts are volatile, difficult to predict and require similar prudence in developing out-year estimates. Therefore, receipts in 2004

were held flat compared with 2003. As with MRT, Urban Tax receipts are assumed to increase 0.5% each year from 2005 to 2007.

Long Island Rail Road and Metro-North Railroad receive Station Maintenance subsidies from New York City and from Nassau, Suffolk, Westchester, Putnam, Dutchess, Rockland and Orange Counties for the maintenance of commuter rail stations located in those respective counties. The amounts charged to each county are calculated from a cost-basis established five years ago and then indexed annually based on State legislation. This legislation is set to expire on March 31, 2004, but based on current legislation and projections of the cost index, MTA estimates the Station Maintenance subsidy to increase from \$124.7 million in 2003 to \$141.6 million in 2007.

The State of Connecticut provides subsidies directly to Metro-North Railroad (CDOT subsidy) for its share of the Metro-North Railroad operating deficit. This subsidy is projected to grow – from \$60.3 million in 2003 to \$ 78.5 million in 2007 – as the Metro-North operating deficit increases.

Finally, the 2004 financial plan assumes \$121.3 million in additional governmental assistance from unspecified sources. However, the 2005-2007 financial plan excludes this additional aid.

#### **4. 2003-2007 Debt Service and Capital Plan Assumptions in the Financial Plan**

The following table reflects the estimated debt service associated with Capital Plan projects that were committed as of the end of 2004 --“Pre-2005 Capital Program” -- as well as estimates associated with the MTA’s next five-year capital program, the future “2005-2007 Capital Program”.

<b>Year</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Pre- 2005 Capital Program	797.2	1,149.2	1,401.7	1,557.2	1,656.2
2005-2007 Capital Program			3.4	16.8	50.6
Total Debt Service	797.2	1,149.2	1,405.1	1,574.0	1,706.8

By statute, the 2005-2009 program will commence in January 2005 and run through December 2009 subject to approval by the MTA Capital Program Review Board (CPRB). The 2005-2009 program is now in its initial stages of development by the MTA operating agencies. They will be approved by the MTA Board in September 2004 and submitted for CPRB review by October 2004, as required by statute.

Given this schedule, the size, composition and funding for the 2005-2009 five-year MTA capital program is currently not known. Therefore, in order to estimate the 2005-2007 debt service component, the October 2003 financial plan assumes a 2005-2007 base capital program level consistent with the currently approved capital program, plus

inflation, and assumes a funding profile similar to the current capital funding plan (38% of core capital work is funded by new debt). Beyond this base capital program, the operating plan assumes the projected commitment plan for the next stages of the MTA network expansion projects (assuming a 50% federal match) plus additional funding for its security program.

As expected, the growth of debt service due to the ramp up of new capital work during 2005-2009 is a relatively small component of the overall debt service (\$71 million out of a total of \$4.7 billion for the three years). Most of the debt service for that period is driven primarily by the substantial amount of capital work that is currently, or will be, underway prior to 2005.

The new debt service for 2005-2007 assumed in this update is necessary to support the continued replacement and renewal of the MTA's capital plant and equipment which safely and efficiently moves more than 7 million riders a day in and out of Manhattan and throughout the New York City region. In addition, it partially supports the next stages of the MTA's plans to expand the capacity of its network in order to ensure the New York region can effectively compete in the national and global marketplace.

In addition to debt service, the Financial Plan makes assumptions regarding the operating budget resources necessary to support capital program work. Agency Operating Budget projections in the Financial Plan for 2005-2007 reflect capitally reimbursable expenditures associated with continuing work on projects for the 2000-2004 MTA Capital Program, as well as projects committed under pre-2000 Capital Programs. In addition, the Financial Plan assumes that projects contained in a forthcoming 2005-2009 MTA Capital Program will require in-house labor support comparable to the 2004 level. Commensurate with these assumptions, personnel levels and capital reimbursements were calculated accordingly. These estimates will be refined as the development of the 2005-2009 Capital Program proceeds.



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