

**MTA-WIDE
FEBRUARY FINANCIAL PLAN
2004-2007**

**MTA Finance Committee
MTA Board**

**February 23, 2004
February 26, 2004**



Metropolitan Transportation Authority

**Certification of the Executive Director
of the
Metropolitan Transportation Authority
in accordance with Section 202.3 (l)
of the
State Comptroller's Regulations**

I, Katherine N. Lapp, Executive Director of the Metropolitan Transportation Authority ("MTA"), hereby certify, to the best of my knowledge and belief after reasonable inquiry, including certifications from senior management at the MTA agencies, that, subject to the items identified in the attached letter to the State Comptroller, dated February 19, 2004, the attached budget and financial plan is based on reasonable assumptions and methods of estimation and that the requirements of Section 202.3 and 202.4 of the Regulations referenced above have been satisfied.

Metropolitan Transportation Authority

By: 
Katherine N. Lapp
Executive Director

Dated: February 23, 2004



Metropolitan Transportation Authority

State of New York

February 19, 2004

The Honorable Alan G. Hevesi
Comptroller of the State of New York
State Capitol Building
Albany, New York 12236

Re: Regulations relating to the Metropolitan Transportation Authority

Dear Comptroller Hevesi:

We are in the process of preparing the first budget and financial plan subsequent to the effective date of your office's Regulations (the "Regulations") relating to the Metropolitan Transportation Authority ("MTA"). Last fall, we submitted comments to your office on the proposed regulations and, in meeting with your staff, identified a number of issues that we believe justify exceptions or temporary variances from the financial information required by the Regulations as we continue to implement major changes throughout the MTA agencies. Our specific list of requested exceptions and variances is set forth in the attached Schedule 1.

The MTA's February 2004 Financial Plan presentation will be in the same format as the October 2003 Financial Plan presentation that was submitted to your office prior to the effective date, and without knowing the final version, of the Regulations. Consequently, the February Financial Plan will not be fully compliant with the Regulations due to, among other reasons, the complexity of converting massive amounts of financial reporting information from the various agencies into a single consistent format. However, we have added the following substantive financial information that was not included in the October 2003 Financial Plan to reflect closer compliance with the Regulations:

- identification of (a) planned transactions in excess of \$1 million that would shift resources, from any source, from one year to another, and (b) the amount of reserves;
- a corresponding cash budget and plan (with the exception of TBTA that is exempt under the Regulations), and identification of all cash adjustments, in excess of \$500,000, including but not limited to debt service, taxes and government subsidies;
- a statement of the source and amount of non-recurring receipts and savings in excess of \$1 million;
- detailed estimates of projected debt service;
- a debt affordability statement; and
- detailed capital program and capital project information.

In March 2004, MTA will issue its first monthly reports as required by the Regulations. The monthly reports will, for the first time, present the 2004 annual budget in the revenue and expense categories required by the Regulations broken out on a month-by-month basis. The monthly reports will not only show the current month as well as year-to date comparisons, but also highlight the material variances as required by the Regulations. The monthly reports will also report personal service and non-personal service operating expenses by reimbursable and non-reimbursable categories.

As we previously advised you in our written comments last Fall, one of the most difficult areas to resolve is full compliance with generally accepted accounting principles ("GAAP"). Budgets are generally not required to comply with GAAP, though we understand the goal is to prepare the budget so that comparisons to audited financial statements can be readily made. The difficulty arises not only due to the fact that some aspects of the Regulations require us to prepare information that is not generally covered in our GAAP-based audited financial statements (such as breaking down personal service and non-personal operating expenses that are reimbursable and non-reimbursable), but also due to the unique relationships imposed by statute on the MTA agencies and our funding sources. For example, even though the Metropolitan Suburban Bus Authority (aka, Long Island Bus) is an MTA subsidiary, substantial portions of its operating funds come from Nassau County. In reporting state operating subsidies, the MTA budget materials net out the Long Island Bus subsidies, whereas GAAP would require us to report the gross amount. While there are a number of small exceptions similar to this, none of these are significant dollar-wise.

The following are certain additional examples of variances from GAAP that will continue to appear on our February Financial Plan:

- (a) inter-company lease agreements;
- (b) compensated absences' costs;
- (c) claims and judgments costs;
- (d) self-insurance revenue;
- (e) depreciation. In the February Financial Plan, all MTA agencies are reporting depreciation for the first time. However, we also show debt service. In the budget, we account for debt service for both the principal and interest components. In our audited financial statements, principal is reflected on the balance sheet and interest is recorded as an expense;
- (f) changes in market value of investments; and
- (g) accounting gains/losses from derivative financial instruments.

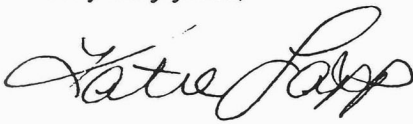
We also have not yet completed the functional classification of employees required by the Regulations, which require that the employees be classified in categories such as operating, maintenance or administrative. The issue presented by this regulation is determining how to categorize, for example an administrator in a maintenance department. Similarly, a mechanic may spend all or a substantial portion of his time doing administrative work. Is he or she classified as maintenance or administrative? It is

Honorable Alan G. Hevesi
February 19, 2004
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practically impossible to make these determinations without individually surveying every department of each agency, a very time-consuming process. In addition, we want to ensure a consistent approach across all of the MTA agencies so as to achieve a meaningful comparison. We have mentioned this issue in meetings with your staff and are trying to resolve a method by which we can make these classifications that makes sense.

We trust that these exceptions and variances meet with your approval. We look forward to working with your office to continue the process of complying with the letter and spirit of the regulations.

Very truly yours,

A handwritten signature in black ink, appearing to read "Katie Lapp". The signature is fluid and cursive, with the first name "Katie" written in a larger, more prominent script than the last name "Lapp".

Att.

Schedule 1

February 2004 Financial Plan 2004-2007 List of Specific Exceptions and Variances

1. Variances by individual categories:
 - a. Estimates of projected reimbursable and non-reimbursable personal service operating expenses, including but not limited to salary and wage costs, overtime, health insurance and pension costs; and
 - b. Estimates of projected reimbursable and non-reimbursable non-personal service operating expenses, including but not limited to power, fuel, public liability, insurance, materials and supplies, contract services and depreciation.
2. GAAP-based budgets: We are assessing the differences between MTA's GAAP-based audited financial statements and the budget. We intend to fully reconcile actuals presented in the budget with the audited financial statements, both quarterly and on an annual basis when the prior year's actuals become available.
3. Headcount: Projection of the number of employees to be employed by the MTA and each of the MTA Agencies covered in the Plan, including:
 - a. Whether the sources of funding such employees' salaries and benefits are reimbursable or non-reimbursable,
 - b. Numbers of full-time and full-time equivalents, and
 - c. Functional classification (e.g. operating, maintenance, administrative).

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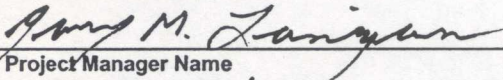
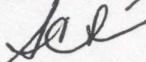
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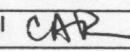
I. INTRODUCTION

Staff Summary

Subject Revision to the 2004 Adopted MTA-Wide Operating Budget
Department Budgets and Financial Management
Department Head Name Gary M. Lanigan
Department Head Signature 
Project Manager Name Sharon C. Lubitz 

Date February 12, 2004
Vendor Name
Contract Number
Contract Manager Name
Table of Contents Ref #

Board Action					
Order	To	Date	Approval	Info	Other
1	Finance Comm.	2/23	X		
2	Board	2/26	X		

Internal Approvals			
Order	Approval	Order	Approval
2	Executive Director 		Affirmative Action
	Chief of Staff	1	Legal 
	Chief Financial Officer		IST&P
	Procurement		Other

Purpose:

To obtain MTA Board approval for a revision to the December, Board-approved MTA-wide 2004 Adopted Budget. The revisions affect depreciation (Bridges and Tunnels only) and MTA-wide debt service and subsidies. The MTA-wide February Financial Plan for 2005-2007 has been adjusted accordingly. Since the changes only affect MTA transactions for debt service and subsidies, and Bridges and Tunnels' depreciation, debt service and operating surplus transfers, the only Agency Budget requiring revision is Bridges and Tunnels. A separate staff summary for Bridges and Tunnels has been prepared and will also require Board Approval.

Discussion:

In May 2003, the MTA Board approved new budgeting and financial reporting procedures applicable to MTA and all of the operating agencies. These procedures require that, "a final budget will be adopted by the MTA Board no later than December 31, and (w)ithin 60 days of the adoption of the final budget, the MTA will issue an update of the four-year financial plan." The MTA Board adopted the MTA-wide 2004 Budget at its December 2003 meeting. Since then, Agencies have adjusted the Financial Plan projections for 2005-2007 to reflect the impact of the 2004 adopted actions on the outyears.

Normally, the materials presented this month (the February Financial Plan) would be for information only, as they reflect action already taken by the Board. However, as part of the MTA-wide effort to update and revamp its financial systems, the MTA Executive Director had a thorough review conducted of all assumptions and the model used for projecting debt service. As a result, capital program cash flow needs were revised, which in turn affected bonding needs and corresponding debt service. The outcome of these revisions, when compared with the October Plan, decreases debt service projections by \$491 million cumulatively from 2004-2007 (2004 - \$112.4 million; 2005 - \$122.6 million; 2006 - \$132.3 million 2007 - \$123.5 million). The savings attributable to 2004, \$112.4 million, will be used to offset a portion of the \$121.3 million of Additional Governmental Assistance included in the 2004 Adopted Budget. Thus, the 2004 Financial Plan now assumes \$8.9 million in additional Governmental Assistance (\$121.3 million less the debt service savings of \$112.4 million). The additional savings in years 2005-2007 were applied to reduce the cash deficits in each of those years.

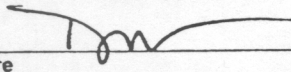

Summary of Financial Projections

The 2004 Adopted Budget includes accrued revenues of \$7,279 million and operating expenses, including depreciation for all MTA operating agencies, of \$8,013 million. Note that all Agencies now include depreciation expense, which is consistent with the new Comptroller's Regulations and MTA's standardization of agency budgeting and reporting. The Financial Plan assumes that obligations are satisfied and cash needs are met for 2004 and that the closing cash balance continues to be \$36.2 million. The Financial Plan for 2005-2007 still shows substantial gaps; however, as a result of the debt service savings discussed above, the gaps have been reduced to \$539 million in 2005, \$1,184 million in 2006 and \$1,311 million in 2007.

Recommendation

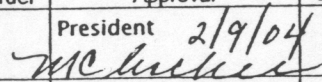
The Board should approve the depreciation (Bridges and Tunnels only) and MTA-wide debt service and subsidies revisions to the December, Board-approved, MTA-wide 2004 Adopted Budget.

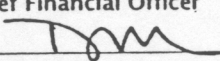

Staff Summary

Subject	Revision to the 2004 Adopted Budget
Department	Chief Financial Officer
Department Head Name	David Moretti
Department Head Signature	
Project Manager Name	Katherine DeDonno
	

Date	02/06/2004
Vendor Name	
Contract Number	
Contract Manager Name	
Table of Contents Ref #	

Board Action					
Order	To	Date	Approval	Info	Other
1	B&T Committee	02/17/04	X		
2	Finance Committee	02/23/04	X		
3	MTA Board	02/26/04	X		

Internal Approvals			
Order	Approval	Order	Approval
	President  2/9/04		VP Procurement & Materials
	General Counsel		VP Internal Audit
	VP Operations		VP Labor Relations
	VP Staff Services		VP & Chief Engineer

Internal Approvals (cont.)							
Order	Approval	Order	Approval	Order	Approval	Order	Approval
2	Chief Financial Officer 		Chief Security Officer		Chief Maintenance Officer	1	Deputy CFO - P&B 
	Chief Information Officer		Chief Health & Safety Officer		Affirmative Action		Other

PURPOSE:

To obtain MTA Board approval for a revision to the December, Board-approved, Bridges and Tunnels' 2004 Adopted Budget. The revisions affect debt service and depreciation. The Financial Plan for 2005-2007 has been adjusted accordingly.

DISCUSSION:

To comply with the State Comptroller guidelines, which were finalized after the budget was approved by the Board in December, depreciation expenses are now included in the financial tables for the first time. Depreciation is a non-cash expense used to allocate the cost of a constructed and/or purchased capitalized asset over the expected life of the asset. The inclusion of depreciation has no impact on the Total Support to Mass Transit.

In addition, revised debt service expenses have been provided by MTAHQ and are incorporated into this plan. For 2004, debt service for B&T projects increases by \$23.557 million, for a total increase of \$113.343 million over the 2004-2007 period. Total B&T debt service, including debt service for B&T, MTA Commuter Rail and NYCT projects, decreases by \$8.453 million in 2004. Over the 2004-2007 plan period, total debt service decreases by \$15.866 million.

The attached reports reflect MTA Bridges and Tunnel's Final 2003 Estimate and the Adopted Budget for 2004. The adopted budget reflects (1) amendments to the October Financial Plan adopted by the Board in December 2003, (2) the inclusion for the first time of depreciation to make Bridges and Tunnel's financial presentation consistent with the other agencies, and (3) revisions to debt service expenses to reflect adjustments in assumptions and estimates presented for approval in February 2004. The attached also presents an adjusted Financial Plan for 2005-2007 reflecting the impact of the 2004 actions, including the Board's December 2003 amendments, as well as the aforementioned inclusion of depreciation and revisions to debt service on the out years.

IMPACT ON FUNDING:

As a result of the increase in debt service for B&T projects, Total Support to Mass Transit decreases from \$641.113 million to \$617.556 million in 2004. Over the 2004–2007 period, Total Support to Mass Transit decreases from \$2,442.111 million to \$2,328.768 million. This decrease is more than offset by the reduction in New York City Transit and Commuter Railroad debt service paid for by B&T. The net result is an increase in total income available for distribution from B&T as operating subsidies to New York City Transit and the Commuter Railroads. This Distributable Income increases from \$306.949 million to \$315.402 million in 2004. Over the 2004–2007 period, it increases from \$1,042.798 million to \$1,058.664 million.

RECOMMENDATION:

It is recommended that the Board approve the depreciation and debt service revisions to the December, Board-approved, Bridges and Tunnels' 2004 Adopted Budget.