

I. Introduction

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Metropolitan Transportation Authority

State of New York



July 29, 2004

MTA Board Members:

Over the last several months, each of our operating agencies together with the MTA financial management staff have been working to develop a sound and realistic 2005 Preliminary Budget and Financial Plan for 2005 through 2008. As was disclosed last fall, the MTA is facing significant budget gaps in each of the next several years -- primarily due to increasing debt service costs to support its current 5 year capital plan; increasing pension and health and welfare costs; and the drying up of one time budgetary saving actions. Given the magnitude of these costs it would not be reasonable to expect that they could be offset by fare and toll increases alone.

Pursuant to its governing statute, this Board is required to adopt a self-sustaining budget in December for 2005. While the Chairman and I remain optimistic that increased governmental assistance will be forthcoming to aid in addressing the budget gaps for 2005 and beyond, we must, nevertheless, commence the necessary public hearing processes and environmental reviews to permit the Board to implement whatever budget reduction measures/fare and toll changes that may be necessary to adopt a balanced budget for 2005 at the end of the year.

Last fall and again in February 2004, the MTA Board was presented a Financial Plan for 2004 - 2007 in which large deficits were projected for the years 2005 through 2007. The February Plan projected a base deficit for 2005 of \$871 million. That base deficit was adjusted downward to \$539 million based on the programming in of a 5% increase in the yield from fares and tolls (\$227 million) in 2005 as well as assumed savings from legislative approval of our corporate restructuring package (\$25 million) and unspecified agency reduction program targets carried in 2005 (\$80 million).

February Plan Projected Deficits (\$ Millions)

	<u>Base</u>	<u>Adjusted Base</u>
2005	\$871	\$539
2006	1,567	1,184
2007	1,985	1,311

Using the \$871 million projected deficit for 2005 as a starting point, several favorable actions have transpired since February that have improved the MTA's finances. Receipts from the Real Estate and Petroleum Business Taxes continue to be strong and have exceeded projections. For the first five months of 2004 our subsidies for these Taxes have exceeded projection by \$135 million. The 2005 Preliminary Budget expects this trend to continue, though at a lower rate, and overall subsidies are anticipated to improve by \$222 million in

2004. In addition to subsidies, the Preliminary Budget is also forecasting improvements over the February Plan in reduced Debt Service costs (\$26 million), and increased toll revenues of (\$11 million). Overall the plan projects a net improvement of \$273 million in the year-end cash balance for 2004. This improvement is carried forward to offset some of the \$871 million deficit for 2005 projected in the February plan.

In 2005, we are projecting that overall subsidies will continue to yield revenue beyond the amount forecasted in February and we have therefore adjusted our revenue estimate upward by \$136 million. After these and other improvements are factored in, the \$871 million gap for 2005 is reduced to \$436 million. Once that base is adjusted to reflect the 5% revenue yield increase from fares and tolls (\$219 million), the deficit is reduced to \$217 million. That deficit, absent unforeseen increases in other revenue above current forecasts, will be addressed through Agency Action/Reduction Programs.

While the reduced budget gap for 2005 is clearly good news, the internal actions necessary by each of the MTA agencies to address the remaining deficits are difficult and will require extensive review and debate by the MTA Board absent the availability of other resources. Over the last several years, the MTA has implemented hundreds of millions of dollars worth of budget reductions (\$250 million in 2004 alone) to reduce costs and improve efficiencies. We also continue to maximize all opportunities to increase revenue from other sources, such as advertising revenues and real estate revenues. The MTA is also pursuing other initiatives to reduce non-service related costs, including a review of the MTA wide non-operating financial and administration functions to improve efficiency and eliminate duplication, and considering sponsorship opportunities which could multiply the advertising revenue received by the MTA.

With that backdrop, the budget reductions proposed for 2005 total \$248 million, which allows us to balance our 2005 budget and end the year with a \$31 million year-end cash balance (represents less than .4% of the MTA's annual budget). While many of these actions warrant implementation as necessary belt-tightening measures, the balance will require serious attention by the Board before implementation. These reductions include:

➤ **NYCT**

- **Station Automation Plan** – The 2005 Preliminary Budget proposal incorporates plans to automate 49 full-time booths and all remaining 115 part-time booths, commencing in April 2005. This follows the automation of 45 part-time booths in 2003 and 17 part time booths in early 2004. The program assures that there will be one booth open at all times in each station complex.
- **Off peak bus schedule revisions** – Revisions to the off-peak bus schedule are being proposed that would accommodate a seated passenger load at the busiest point along a route. The average bus headway is estimated to increase by approximately two to three minutes under this proposal. Peak period service is not affected under this proposal.
- **Increase Express Bus fare to \$6.00** – Express Bus routes are the most expensive ones to operate and even with this proposed increase, the farebox-operating ratio for express bus service will remain lower than that for other transit and rail services.

➤ **LIRR**

- **Reduced Car and Station Cleaning** – Reductions are proposed in several railroad cleaning programs. This includes doubling the Extraordinary Interior Cleaning (EIC) interval from 60 to 120 days.
- **Suspend Planned AM Peak Service Enhancements** – The railroad projected and budgeted for an increase in peak service to accommodate ridership growth and seat loss associated with the M7 rollout. This service enhancement would not be implemented under this budget proposal.

➤ **MNR**

- **Suspend Third Track Enhancement** – The Metro-North's prior service plan included enhanced service and reduced travel time with completion of the Mid-Harlem Line Third Track Project. This enhancement will not be implemented in 2005 as planned.
- **Reduce Station Cleaning** – Reductions are proposed for station cleaning that will involve longer cleaning and trash removal cycles at Grand Central Terminal and the outlying stations.

➤ **B&T**

- **Establish new E-ZPass Account fees** – Establish \$1 monthly E-ZPass account fee on MTA E-ZPass account holders similar to the Port Authority of New York and New Jersey and New Jersey toll agencies.

In light of the fact that projections for 2006 through 2008 continue to show gaps of significant proportions, the Financial Plan includes proposed budget reductions in the areas of service beginning in 2006 that would undoubtedly impact our customers and the mobility in our service district. Implementation of certain of these service reductions may require environmental review prior to implementation, a process that could take many months. As such, the environmental review process of these measures will commence now.

As with prior financial plans, the Preliminary Budget continues to assume a 5% increase in the yield from fares and tolls for 2005 generating a total of \$219 million. One example of how the MetroCard discount pricing could be adjusted to generate this 5% is as follows:

30-Day Card - \$76.00 (up from \$70) [customer breaks even after 38 rides instead of 35 rides]

7-Day Card - \$24.00 (up from \$21) [customer breaks even after 12 rides instead of 11 rides]

1-Day Card - \$7.00 – no change

Bonus Card – 20% @ \$10.00 – no change

However, this example is only one potential scenario, and many other MetroCard discount adjustments are also possible.

Bridges and Tunnels' share of the increased yield could be generated by increasing tolls up to \$.50 on its major crossings and \$.25 on its other crossings. And LIRR and MNR would change their respective tariff rates to generate the necessary 5% revenue yield increase.

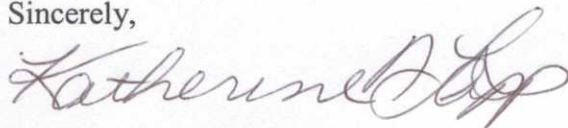
In order to provide the Board with as much flexibility as possible in December when it adopts the 2005 budget, it is recommended that the Board authorize any required public notice of a fare/toll increase that would yield between 5% and 8%. This would enable the Board to increase revenue beyond a 5% yield should it determine that such an increase is desirable in order to avoid some of the more serious budget actions.

In summary, the 2005 Preliminary Budget presents challenges for the MTA Board. Given the limitations of growing operating revenues coupled with ever increasing debt service costs, pension, health and welfare expenses and normal operating costs, the constraints on the system are not insignificant. Difficult choices will need to be made in order to ensure the continued safe, efficient and reliable service our customers deserve.

These challenges become even more difficult as the Board considers the size of the MTA's Capital Plan for 2005 through 2009, which is also presented today. State of good repair, normal replacement and system improvement needs totaling \$17.26 billion have been identified across all the agencies; \$500 million in security capital projects are needed to "harden" the system against terrorist attack; and, at least \$4.2 billion will be needed within the MTA's capital budget to advance network expansion projects -- including East Side Access, Second Avenue Subway, #7 Line Extension and the Lower Manhattan Rail Link to Jamaica/JFK Airport. As discussions focus on the funding sources available for the next 5 year Capital Plan, the increasing burden of debt service costs on our operating revenues will need to be factored into the decision making process. If, for example, the MTA were required to bond up to \$10 billion to support the next 5 year Capital Plan, debt service costs would double by 2012.

Today, we begin a five (5) month review process, including any required public hearings, of the proposals set forth for the 2005 Preliminary Budget. The process will culminate in December when the Board will adopt the 2005 budget -- balancing the needs of our riders, the maintenance of our high service standards and the welfare of our workers. The process will be a difficult one but it will undoubtedly result in a sound and realistic budget plan for the MTA and its operating agencies.

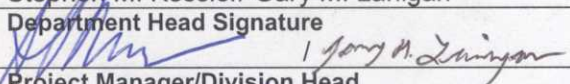
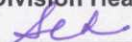
Sincerely,

A handwritten signature in dark ink, appearing to read "Katherine N. Lapp", written in a cursive style.

Katherine N. Lapp
Executive Director

Staff Summary

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Subject 2005 Preliminary Budget & July Financial Plan 2005-2008
Department Chief Financial Officer/Budgets & Financial Mgt.
Department Head Name Stephen M. Kessler/ Gary M. Lanigan
Department Head Signature 
Project Manager/Division Head Sharon C. Lubitz 

Date July 23, 2004
Vendor Name
Contract Number
Contract Manager Name
Table of Contents Ref #

Board Action					
Order	To	Date	Approval	Info	Other
1	Finance Comm.	7/29	X		
2	Board	7/29	X		

Internal Approvals			
Order	Approval	Order	Approval
2	Executive Director 		Civil Rights
	Chief of Staff	1 	Legal 
	Chief Financial Officer		Chief Operating Officer
	Procurement		Other

Purpose:

- (1) To present, for information, the 2005 Preliminary Budget & July Financial Plan 2005-2008 to the MTA Board and the public pursuant to the Board approved budget process, thus beginning the development of the 2005 Budget.
- (2) To seek Board authorization for the Chairman, the Executive Director and their designees to proceed with the steps necessary to develop alternatives for the Board to consider in order to achieve a balanced budget for 2005 to be voted upon in December 2004, including, as required, the issuance of public notices and the holding of public hearings to elicit public comments.

Discussion:

In accordance with Board policy, the Executive Director submits to the MTA Board with this staff summary a preliminary budget for next year (2005). The Preliminary Budget for 2005 is intended to enable the Board to consider various options for achieving a balanced budget in 2005 to be voted upon at the December 2004 Board meeting in order to be compliant with established budget procedures. The Executive Director will also transmit the Preliminary Budget to the Governor, the State Legislature, the Mayor of New York City and the County Executives of seven counties for review and comment. In addition to the Preliminary Budget, also submitted is the July Financial Plan for 2005-2008.

Although the Board will not be voting on a 2005 budget proposal until December 2004, the Board is requested to authorize the Chairman, the Executive Director and their designees to take necessary steps, including, to the extent required, publishing notices and conducting public hearings and undertaking environmental review, in order to implement a balanced 2005 budget. This will enable the staff to prepare a final budget proposal for the Board in the Fall of 2004 that will be compliant with legal requirements and contain the necessary actions and alternatives to produce a balanced 2005 Budget. The recurring nature of 2005 gap closing measures will also materially improve the gaps forecast for 2006 through 2008. In addition, some 2006 proposals contained in the July Financial Plan require that the process for environmental review, which may take considerable time to complete, begin in 2004.

Summary of Baseline Financial Projections

In February 2004, the Financial Plan covering 2004-2007 projected a positive balance of \$36 million for 2004, and gaps of \$539 million in 2005, \$1,184 million in 2006 and \$1,311 million in 2007. These gaps assumed increased revenue yields of 5% in 2005 and 2007 as well as unspecified Agency savings; without these gap-closing actions, the baseline gaps were \$871 million in 2005, \$1,567 million in 2006 and \$1,985 million in 2007.

The gaps projected in the July Financial Plan, although still substantial, have been materially reduced largely by external economic improvements that have occurred since February. The 2004 closing cash balance (contained in the 2004 Mid-Year Forecast) is now expected to be \$309 million, \$273 million better than the Adopted Budget. This gain is primarily due to better than expected actual results at the end of 2003 and the first half of 2004, notably, increased real estate and petroleum business tax revenues and the impact of lower-than-anticipated interest rates on debt service costs. In addition, the continuing effect of real estate and other tax yields combined with other improvements in the regional

economic forecast for the plan period, reduces the baseline gaps in the February Plan (without fare actions or agency gap closing measures) to \$436 million in 2005. This reduction in the \$871 million baseline 2005 gap projected in February is attributable to the carry forward from 2003 and 2004 of \$309 million, the continued increase in tax revenues going forward and other refinements in budget forecasting. Assuming that the region's economy remains relatively healthy, the baseline gaps are projected at \$1,359 million in 2006 and \$1,681 million in 2007; the comparable gap in 2008 is projected to be \$2,081 million. Thus, the baseline gaps in 2005 through 2007 improved \$163 million, \$208 million and \$304 million, respectively, since February. Despite these improvements, which do not include gap-closing actions in 2005-2008, MTA's baseline financial position beyond 2004 remains structurally imbalanced.

Gap Closing Measures

The Preliminary 2005 Budget presents options for the Board to consider for closing the currently projected gap of \$436 million in that year. These include: (1) agency programmatic actions, "Program to Eliminate the Gap" (PEGs), which, in total are valued at an estimated \$20 million in 2004 and \$208 million in 2005; (2) increased fare and toll yields valued in the Preliminary Budget at \$219 million in 2005; and (3) an increase in the NYCT Express Bus Fare to \$6.00 in 2005, valued at \$19 million.

The July Financial Plan for 2006 through 2008 reflects the projected recurring values of these actions commencing in 2005. In addition, the outyear forecasts for gap closing measures include additional PEG actions which the Board may determine to implement in 2006 (\$134 million) and an additional increase in Fare and Toll Yields commencing in 2007 (valued at \$256 million in that year).

The fare and toll options contemplated at this time for implementation in 2005 include:

- Increasing New York City Transit Express Bus Base Fare from the current \$4.00 to \$6.00.
- Changing MetroCard discount pricing, while maintaining the subway and local bus \$2.00 base fare (New York City Transit and Long Island Bus), in order to increase revenue yields between 5% and 8%.
- Increase commuter railroad fares between 5% and 8%.
- Increase tolls on all MTA bridges and tunnels by up to 50 cents in each direction for passenger vehicles, or by \$1.00 where tolls are collected in one direction only, and in other amounts for other classes of vehicles.

After taking into account all internal gap closing proposals as contained in the July Financial Plan, 2005 would end the year with a positive balance of \$31 million. The resulting outyear gaps are forecast to be \$695 million in 2006, \$801 million in 2007 and \$1,151 million in 2008.

Recommendation:

It is recommended that the Board:

- Authorize the Chairman, the Executive Director and their designees to take necessary steps, including publishing any required notices and conducting any required public hearings, in order to identify implementable measures consistent with the above, including tariff and service changes, to achieve a 2005 budget that will permit the agencies to operate on a self-sustaining basis;
- Authorize the Chairman, the Executive Director and their designees to begin in 2004 any necessary environmental review for potential operating actions that commence in 2005 and in 2006.

METROPOLITAN TRANSPORTATION AUTHORITY
LONG ISLAND RAIL ROAD COMPANY
METRO-NORTH COMMUTER RAILROAD COMPANY
STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
METROPOLITAN SUBURBAN BUS AUTHORITY

RESOLUTION

WHEREAS, the 2005 Preliminary Budget and July Financial Plan (the "Financial Plan") has been submitted to the Board of the Metropolitan Transportation Authority ("MTA") acting on its own behalf and on behalf of the Long Island Rail Road Company ("LIRR"), the Metro-North Commuter Railroad Company ("Metro-North"), the Staten Island Rapid Transit Operating Authority ("SIRTOA") and Metropolitan Suburban Bus Authority ("MSBA"), (LIRR, Metro-North, MSBA and SIRTOA shall be referred to collectively as the "Subsidiaries"); and

WHEREAS, the Financial Plan contemplates the development of alternatives, which include fare increases, service changes and savings programs, in order to achieve a balanced budget for 2005, to be voted upon in December 2004; and

WHEREAS, such changes as described in the Financial Plan would be expected to provide the resources necessary for the MTA and the Subsidiaries to maintain fiscal stability and continue their operations on a self-sustaining basis through 2005;

NOW THEREFORE BE IT RESOLVED by the Boards of the MTA and the Subsidiaries:

1. That the Chairman, the Executive Director and their designees are hereby authorized and directed to take those steps as may be required to identify implementable measures to achieve a 2005 budget that will permit the MTA and the Subsidiaries to operate on a self-sustaining basis, including the solicitation of the views of the public to the extent required by applicable provisions of law and/or the MTA Locally Developed Process for the Solicitation and Consideration of Public Comment, and the commencement of any required environmental review.
2. That following the solicitation of views from the public as may be required, the proposed fare and service changes and savings programs are subject to the further approval of these Boards.
3. This resolution shall take effect immediately.

Dated: July 29, 2004

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

RESOLUTION

WHEREAS, the 2005 Preliminary Budget and July Financial Plan (the "Financial Plan") has been submitted to the Board of the Triborough Bridge and Tunnel Authority ("TBTA"); and

WHEREAS, a crossing charge increase proposal described in the Financial Plan would be expected to provide the revenues necessary for the integrated transportation system of the Metropolitan Transportation Authority ("MTA") and its affiliates and subsidiaries to maintain fiscal stability and continue their operations on a self-sustaining basis for 2005, to be voted upon in December, 2004; and

WHEREAS, the Board and the relevant committee members have deemed it appropriate to solicit of the views of the public prior to approving and implementing any crossing charge increase.

NOW THEREFORE BE IT RESOLVED by the Board of the TBTA:

1. That the Chairman, the Executive Director and their designees are hereby authorized and directed to take the steps necessary to commence the implementation of crossing charge increases in connection with the proposed Financial Plan, including compliance with all applicable laws, the commencement of any necessary environment review, and solicitation of the views of the public in accordance with the MTA Locally Developed Process for the Solicitation and Consideration of Public Comment to the extent required.
2. That, upon completion of the requisite steps authorized herein, the proposed crossing charge increase is subject to the further approval of this Board.
3. This resolution shall take effect immediately.

Dated: July 29, 2004

NEW YORK CITY TRANSIT AUTHORITY
MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY

RESOLUTION

WHEREAS, the 2005 Preliminary Budget and July Financial Plan (the "Financial Plan") has been submitted to the Boards of the New York City Transit Authority ("NYCTA") and the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") and

WHEREAS, the Financial Plan contemplates the development of alternatives, including a fare increase proposal and certain service changes and savings programs, including the closing of certain station booths, which are necessary to provide the resources for the NYCTA and MaBSTOA to maintain fiscal stability and continue their operations on a self-sustaining basis through 2005, to be voted upon in December 2004;

NOW THEREFORE BE IT RESOLVED by the Boards of the NYCTA and MaBSTOA:

1. That the Chairman, the Executive Director and their designees are hereby authorized and directed to take those steps as may be required to identify implementable measures to achieve a 2005 budget that will permit the NYCTA and MaBSTOA to operate on a self-sustaining basis, including the solicitation of the views of the public to the extent required by applicable provisions of law and/or the MTA Locally Developed Process for the Solicitation and Consideration of Public Comment, and the commencement of any necessary environmental review.
2. That following the solicitation of views from the public as may be required, the proposed fare and service changes and savings programs are subject to the further approval of these Boards.
3. This resolution shall take effect immediately.

Dated: July 29, 2004

METROPOLITAN TRANSPORTATION AUTHORITY
Consolidated 2004 - 2008 Projections
(\$ in millions)

Non-Reimbursable	2004 Mid-Year Forecast	2005 Preliminary Budget	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total Operating Revenue	\$4,864	\$4,904	\$4,973	\$5,038	\$5,096
<u>Operating Expense</u>					
Labor Expenses	\$4,945	\$5,304	\$5,589	\$5,827	\$6,083
Non-Labor Expenses	1,758	1,806	1,868	1,952	2,051
Debt Service	916	1,250	1,445	1,570	1,672
Other Expense Adjustments	25	36	47	54	64
Total Operating Expense Before Depreciation	\$7,644	\$8,396	\$8,949	\$9,403	\$9,870
Depreciation (excludes B&T Depreciation)	\$1,324	\$1,450	\$1,543	\$1,624	\$1,696
Net Operating Deficit Before Subsidies	(\$4,104)	(\$4,942)	(\$5,519)	(\$5,989)	(\$6,470)
Dedicated Taxes and Subsidies	\$2,652	\$2,515	\$2,552	\$2,634	\$2,671
Net Operating Deficit After Dedicated Taxes and Subsidies	(\$1,452)	(\$2,426)	(\$2,968)	(\$3,356)	(\$3,799)
Total Conversion to Cash Basis	\$1,609	\$1,681	\$1,609	\$1,675	\$1,717
Net Cash Balance from Previous Year (Baseline)	151	309	0	0	0
Net Cash Surplus/(Deficit)	\$309	(\$436)	(\$1,359)	(\$1,681)	(\$2,081)
GAP Closing Actions (includes previous year cash effect)	20	466	665	880	931
Net Cash Surplus/(Deficit)	\$328	\$31	(\$695)	(\$801)	(\$1,151)

Financial Reporting Format

The figures published in the *MTA-Wide February Financial Plan 2004-2007* were based on MTA's traditional financial reporting format. In March 2004, consistent with the MTA's dedication to providing greater transparency and standardization for Agency reporting, the MTA Finance Committee was presented with a restated 2004 Adopted Budget, consistent with the February Plan, both on an annualized and calendarized basis. The new reporting format reflected revised itemization of revenues and expenses using a consistent chart of accounts methodology for all agencies, and also segregated non-reimbursable and reimbursable items (as required by the NYS Comptroller).

A consequence of this revision was a reallocation, in some instances, between revenues and expenses, or between categories within revenue and expense, which altered total revenue and expense amounts reported in the February Plan. These changes did not alter the amount of the operating deficit.

The July Plan is based entirely on the revised format. The February Plan categories have been reclassified to be on a consistent basis with the July Plan.

The appendix of this volume contains a reconciliation of the 2004 Adopted Budget, as reflected in the February Financial Plan and compared with the reclassified 2004 Adopted Budget published in March 2004.

The projections set forth in this financial plan were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of MTA's management, were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of MTA. Because the statements are based on expectations about future events and economic performance and are not statements of fact, actual results may differ materially from those projected.

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