

# **I. Introduction**

# Memorandum

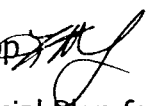


## Metropolitan Transportation Authority

State of New York

Date November 24, 2004

To Chairman Kalikow and MTA Board Members

From Katherine N. Lapp 

Re November Financial Plan for 2005-2008 & Final Proposed 2005 Budget

I am transmitting to you for your consideration the November Financial Plan for 2005-2008 which includes an MTA-wide consolidated plan for 2005 reflecting the proposal I outlined to you at last week's Board meeting.

In July, the Board was provided a 2005-2008 Financial Plan which, at that time, projected a \$309M surplus in 2004, a \$436M deficit in 2005 a \$1.36 billion deficit in 2006, a \$1.68 billion deficit in 2007 and a \$2.08 billion deficit in 2008. Since that Plan was released last summer, we have realized improvements in our 2004 budget in the amount of \$330 million -- increasing the 2004 surplus to \$639 million. These improvements are as follows:

- ✓ \$166 million increase in our real estate tax subsidies over and above those projected in early 2004;
- ✓ \$61 million in lower than expected debt service costs in 2004; and
- ✓ \$103 million of improvements in agency and other baseline changes largely related to the shifting of expenses from 2004 to 2005.

In light of the continuing growth in the region's real estate market (residential and commercial), our projection for real estate related tax subsidies has been increased by \$104 million in 2005 over and above that projected last summer. Given the historic volatility of these revenues, however, I only recommend this change if the Board also approves, as

indicated below, the creation of a \$200 million stabilization account out of this year's surplus to hedge against a downturn in our real estate tax subsidies in 2005. In addition, adjustments were also made in 2005 to reduce our debt service costs by \$42 million to reflect lower interest rates and timing changes in issuance schedules.

When all of the improvements in 2004 and 2005 are accounted for the baseline projections for the budget before gap closing actions are as follows:

2004	-	\$639 million surplus
2005	-	\$116 million deficit
2006	-	\$1.267 billion deficit
2007	-	\$1.540 billion deficit
2008	-	\$1.884 billion deficit

While, at first blush, the Board might conclude that the previously noticed fare/toll increases are not necessary in 2005, I strongly disagree with that approach given the billion dollar deficits looming in a mere 14 months.

As such, the plan set forth to the Board is a prudent, measured and necessary plan to begin the difficult process of placing this agency back on sound financial footing in the years to come. The essential elements of this plan, as I outlined at the November 18<sup>th</sup> Board meeting, are as follows;

- ✓ Implement a 5% increase in fare box revenue and \$0.50 toll increase effective March '05;
- ✓ Increase the express bus fare by \$1.00;
- ✓ Maintain fundamental service levels;
- ✓ Avoid layoffs of represented employees; and
- ✓ Create a stabilization account in the amount of \$200M out of the \$639M surplus in 2004 to offset a potential decrease in real estate related tax subsidies in 2005.

Included within the 2005 are expense reductions throughout the MTA of \$117 million with a concomitant reduction in the headcount of 1,295 positions.

If the Board were to adopt the strategy proposed above, the budget forecast would be as follows;

2004	-	\$459 million surplus
2005	-	\$55 million surplus
2006	-	\$606 million deficit
2007	-	\$690 million deficit
2008	-	\$994 million deficit

Assuming the stabilization account were to remain intact at the end of 2005, those monies could be applied to the benefit of our riders to offset the severe service reductions totaling \$180 million in 2006 (e.g. eliminating 33 bus routes, 30 minute headways on late night subway service, abandon certain LIRR branches).

As a cautionary note, Board members are reminded that the 2005-2009 Capital Plan approved by the Board in September and submitted to the State in October, remains unfunded. Efforts to secure Federal, State and local resources needed to support this plan continue, as do our efforts to secure increased subsidies for our operating budget for 2006.

I look forward to the Board input on this plan over the next few weeks and the 2005 budget adoption at the December Board meeting.