

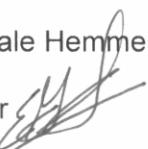


Metropolitan Transportation Authority

State of New York

Date: November 20, 2008

To: Chairman H. Dale Hemmerdinger and MTA Board Members

From: Elliot G. Sander 

Re: **MTA Final Proposed 2009 Budget and the November Financial Plan for 2009-2012**

I am transmitting for your consideration the 2009 Final Proposed Budget and the Four-year Financial Plan for 2009-2012, which reflects even more sobering developments than were described in the July submission. Most of these developments were described to the Finance Committee at its Special meeting on November 10.

The continued contraction of the economy in New York and the nation has caused significant deterioration in the MTA's finances. Evidence of the steep decline of MTA sources of revenue are visible in our projections of greater reductions in state tax revenue, further declines in real estate taxes, escalating debt-service costs, falling ridership and the need to increase pension contributions to address losses in pension funds retirees depend upon. As you know, our State and City funding partners are also grappling with declines in revenue. You will recall that in the July Plan we forecast that the City and State would be able to help reduce these gaps. The cumulative impact of all of these developments is discussed in detail below. It is in this context that this November plan presents gap-closing actions required to address the MTA's financial problems.

In July, as you know, the baseline, before prior-year carryovers and gap closing actions, required us to close a gap of \$345 million in 2008, \$1,143 million in 2009, \$1,882 million in 2010 and more than \$2 billion in both 2011 and 2012. In the July plan we listed a variety of gap closing measures, including a plan to increase the yield from fares and tolls by 8%. However, our updated forecasts of economically sensitive revenues have proven even gloomier than originally projected, resulting in wider and more daunting deficits.

Let's start with real estate tax revenue. On top of the significant reductions assumed in July, which were already based on the precipitous drop in real estate tax revenues, this new financial plan now recognizes an additional falloff in this revenue source of \$76 million in 2008, \$66 million in 2009, \$80 million in 2010, \$72 million in 2011 and \$29 million in 2012.

Similarly, you will remember that the July plan had reduced our state tax projections for the period 2008-2011 from earlier projections built off of an assumption of a growing economy. However, in light of the impact of a contracting economy on the State, these projected tax revenues have been reduced even further-- by an additional \$15 million in 2008, \$175 million in 2009, \$133 million in 2010, \$133 million in 2011 and \$123 million in 2012.

The agencies of the MTA, H. Dale Hemmerdinger, Chairman

MTA New York City Transit
MTA Long Island Rail Road

MTA Long Island Bus
MTA Metro-North Railroad

MTA Bridges and Tunnels
MTA Capital Construction

MTA Bus Company

Further compounding the impact of these reductions is the increased cost of borrowing in this economic market. Higher interest expense assumptions for debt issuance are driving an increase of an additional \$18 million in 2009, \$54 million in 2010, \$94 million in 2011 and \$144 million in 2012.

The economic downturn and declines in the markets have also significantly reduced the value of MTA pension holdings. The plan presented today estimates that this increased obligation as it relates to the MTA-controlled pension plans will result in additional costs to the MTA of \$35 million in 2009, \$70 million in 2010, \$105 million in 2011 and \$140 million in 2012. This represents only one component of MTA's exposure in this area; not included at this time is the modest amount that will be required for MTA's NYSERS participation or the more significant amount that will be associated with MTA's NYCERS' contribution, which will not be calculated by the City for another year or so. We expect that the impact of both of these changes will materialize in the latter half of 2010.

Finally, the July baseline will be affected by changes in farebox and toll revenue without regard to any fare actions. While we expect an additional \$47 million in 2008 as a result of increased ridership, these revenues are expected to decline by \$17 million in 2009, \$44 million in 2010, \$32 million in 2011 and \$7 million in 2012.

The only really positive news since July is the impact of reduced fuel prices. Through 2010, it is now assumed that MTA's net fuel costs, including higher delivery charges, will be \$30 million lower than the July Plan.

Applying the above noted impacts, along with the countless smaller changes that have occurred since the July baseline, increases the deficit to \$383 million in 2008, \$1.441 billion in 2009, \$2.394 billion in 2010, \$2.647 billion in 2011 and nearly \$3 billion in 2012 before prior-year carryover or gap-closing actions.

The July Plan anticipated gap-closing contributions from the State and City; however, the impact of a contracting economy on those entities has made those assumptions unrealistic. In order to achieve budget balance in 2009, actions to fill these gaps largely fall on the MTA and its customers. The gap-closing actions are discussed below.

- MTA Internal Actions Proposed in July: The gap-closing internal actions anticipated in July remain in place. These include 6% cost reductions without cutting service over the plan period, continuing the 1.5% annual reduction begun last year. In addition to belt tightening, we have implemented a series of administrative reductions in hiring, travel and food, and telecommunications in 2008 and 2009 at all of the agencies.

We continue to assume that our employees will make a modest contribution to the plan through negotiation of new contracts. In addition we expect efficiency measures to save money, especially the efficiencies that will be achieved by the new Business Service Center. BSC will consolidate back-office operations for all of our agencies. This will result in a downsizing of the workforce and this plan, like previous plans, provides funds to cover the expected cost of downsizing. The MTA will begin to realize the savings from these BSC initiatives in 2012. Savings are also assumed from other reorganization initiatives.

In addition, as we outlined in July, the MTA will take an inter-agency loan of \$135 million to reduce the gap in both 2009 and 2010, which we will pay back in 2011 and 2012. We have also identified funds that had been allocated from the 2006 surplus but not yet committed that will be transferred back to the operating budget in 2008 to be used for future gap-closing. Projects that would have used these funds will instead be included in the next capital program. MTA will also reduce its subsidy to Long Island Bus by \$4 million to \$10 million annually. In addition, in the absence of increased subsidy from Nassau County, Long Island Bus will need to reduce expenses or raise revenue by \$5 million in 2009 in order to balance its budget. Finally, with the approval of the Board, MTA eliminated E-Z Pass forgiveness of official city, state and county vehicles, which is anticipated to generate \$10 million annually.

These internal actions generate \$137 million in 2008, \$242 million in 2009, \$404 million in 2010, \$217 million in 2011 and \$354 million in 2012.

- Governmental Partners: The November Plan continues to propose legislative changes to federal mandates for commuter railroad employees that, beginning in late 2009, are projected to save \$15 million, and, in subsequent years, roughly \$62 million annually without affecting employee benefits. The plan also continues to propose asking the State to eliminate tax loopholes affecting real estate transactions, which is expected to generate \$50 million annually beginning in 2009.

However the plan no longer anticipates the \$600 million in new State and City contributions beginning in 2010 or reimbursement for school fares and senior discounts, which had been expected to generate \$104 million annually beginning in 2009. Nor does it assume that the City and the MTA will share paratransit costs, which would have provided \$113 million in 2009 and more thereafter or the restoration of the revenue lost in reductions in State tax aid.

- Additional Actions for Budget Balance: To make up the remaining deficit and balance the budget as required by law, significant additional agency reductions are required as well as dramatically higher proposed fare and toll increases. Each agency has identified actions to reduce its budget by an additional 4.7%, or an MTA-wide cost reduction to save \$1,452 million over the plan period¹. This target was originally established to close the July deficit if State and City contributions were not forthcoming. In light of the contraction of the regional, State and national economy, these actions are now necessary.

To meet the 4.7% target, each agency identified additional administrative cuts that could be taken over and above the normal, recurring 1.5% reduction program proposed in July (as discussed above). For the additional reductions, each agency was required to meet an independent target of no less than 5% of its managerial expenses. Since administration is a small component of the overall budgets of MTA operating agencies, these additional administrative savings are not sufficient to meet the target. Reductions in service will be required to balance the budget under the November Plan.

¹ This excludes MTA Bus actions of \$87.6 million which is targeted to reduce City Subsidy.

The proposed service reductions were guided by two principles: first, reductions should not compromise safety, security or reliability; and second, we must respect our fundamental mission of getting people where they need to go, recognizing that to continue to do so in this environment may mean reductions in the quality, frequency and length of their regular trips. The proposed reductions, which are described in more detail in the budget documents attached, are summarized below.

For NYC Transit, cumulative savings of \$167 million are proposed for 2008 and 2009 and \$280 million for each of the out years of the plan. This reflects \$1,007 million over the plan period. NYCT first proposes a 7.5% reduction in managerial, professional and clerical positions on top of those already taken before turning to service reductions. NYCT's proposed service reductions on the subway system largely involve route modifications, increased headways and loading guidelines during non-rush hours, reducing selected station booth and station customer assistant staffing, and elimination of the enhanced station area track cleaning program begun in late 2007. Reductions in bus service largely involve reducing or eliminating low ridership services, especially during weekends or late night, and services that largely duplicate subway service. In addition, NYCT proposes increasing express bus fares to \$7.50 to be more in line with local bus operating recovery ratios. Finally, NYCT proposes reductions to paratransit, including tightening customer cancellation/no-show policy, raising the fare to twice the regular Transit base fare as allowed by federal law and consistent with many other bus agencies including LI Bus, and continuing to maximize the use of lower-priced carriers to the extent practicable.

MTA Bus is slated to achieve \$17 million of savings in 2009 and approximately \$24 million annually thereafter. To achieve \$88 million in savings over the plan period, MTA Bus will first make additional managerial cuts of 10%. MTA Bus proposes to increase express bus fares and loading guidelines to align with NYCT's, in addition to eliminating low ridership services and streamlining select routes. Maintenance efficiencies are also proposed.

Long Island Rail Road proposes to achieve \$36 million in 2009 and approximately \$53 million annually thereafter, reflecting \$196 million in savings over the plan period. LIRR proposes reducing administrative positions, ticket offices/ticket sellers/ticket window hours, as well as train crew staffing. Service reductions on special service trains and on some select weekend and/or off peak trains are proposed. Extending select maintenance cycles and other maintenance changes are also proposed.

Metro-North Railroad's reductions total \$35 million annually, \$140 million over the plan period. They include: additional administrative cuts in management, clerical and other areas; increased loading guidelines and reduced service to both East and West of Hudson; maintenance reductions; reduced car and station cleaning; reducing specified ticket offices, ticket sellers and or ticket window hours; and a slowdown in restoration efforts at Grand Central Terminal (in addition to the impact on GCT from many of the actions described above).

Long Island Bus proposes \$5 million of savings in 2009 and \$6 million annually thereafter; \$23 million in savings over the plan period are targeted to be achieved by reducing managerial headcount up to 10%, reducing/eliminating service on low-ridership routes, savings associated with CNG and service contracts and increasing employee health and welfare contributions.

The largest component of MTA Bridges and Tunnels' \$59 million reduction over the plan period is administrative savings; B&T is slated to achieve savings of \$17 million in 2009, \$24 million in 2010, \$7 million in 2011, and \$11 million in 2012. Other savings result from closing some manual/cash lanes, reducing facility security and truck weight enforcement personnel, rescheduling some bridge painting projects to align with structural work in the next capital program, eliminating the Cross Bay Bridge Rebate Program and E-Z Pass paper statements, and tightening E-Z Pass controls.

Headquarters proposes to meet its target of \$36 million over the plan period through reductions in managerial headcount, service contracts and OTPS. MTAHQ savings are expected to yield \$9 million annually beginning in 2009.

- Fares and Tolls: The remaining deficit is made up by fares and tolls, increasing the 8% yield proposed in the July Plan to 23% effective in June, 2009. While this increase is significant, it is preferable to even deeper cuts in service. The mix of specific fare policies associated with this yield will be proposed and vetted early in 2009. The November Plan also includes a 5% revenue yield increase effective January, 2011, reflecting MTA policy of implementing small alternate-year fare/toll increases to cover inflation.

Adding prior year carry over to these gap closing measures allows us to end 2009 with a modest \$65 million surplus, and with deficits thereafter of \$266 million in 2010, \$454 million in 2011 and \$608 million in 2012. The actions proposed, while painful, address our requirement to balance the budget based on reasonable assumptions; the reasonableness of these actions is based on the fact that they are within our ability to implement. However, other opportunities may present themselves based on the Ravitch Commission report, scheduled to be released in early December. We will consider the opportunities these proposals present to meet the overwhelming need created by current financial conditions as we bring the budget and financial plan to the Board for adoption in December.

Clearly, the fiscal challenges confronting the MTA in the years to come are daunting. However, I am confident that the Board will address these challenges, with as much public input and comment as possible, and will continue to demonstrate the continued fiscal discipline and leadership needed to respond to this crisis.

I welcome public and Board feedback on this plan as we move toward the adoption of the 2009 Budget by the Board in December.