



## Metropolitan Transportation Authority

State of New York

Date: July 23, 2008

To: Chairman H. Dale Hemmerdinger and MTA Board Members

From: Elliot G. Sander

A handwritten signature in black ink, appearing to be "E. Sander", written over the printed name.

Re: Preliminary 2009 Budget and July Financial Plan for 2009-2012

As the Executive Director and Chief Executive Officer of the MTA, I present to you for your consideration the Preliminary Budget for 2009 and proposed Four-Year Financial Plan for 2009-2012. These reflect sobering developments that have occurred since the last Plan was issued in February 2008, particularly declining real estate tax revenue and soaring fuel costs, and the gap closing actions needed to address the MTA's structural and long-term financial challenges exacerbated by the economic slowdown. We will continue over the months to come to discuss the MTA's financial outlook and proposed actions in great detail prior to the Board's adoption of the 2009 Budget in December.

In February, as you know, as a result of policy actions, gap closing measures and cash management strategies, MTA projected ending 2008 with a \$368 million cash balance with small deficits in 2009 and beyond. You will recall that 2008 benefited from earlier real estate tax windfalls that were rolled forward. You will also recall that the plan assumed the City's tax projections of these subsidies moving forward, which showed revenues dropping off in 2008 and 2009 from the previous high levels and then resuming modest growth. However, these City estimates have proven to be overly optimistic. In fact, as has been described at recent Finance Committee meetings, real estate tax revenues have been dropping precipitously. This financial plan recognizes the fall off occurring in this revenue source, reducing projections for 2008 and 2009 by \$443 million since February, a reduction of \$201 million in 2008 and \$242 million in 2009. A further reduction of \$587 million is anticipated in 2010 and 2011.

Similarly, you will remember, the State had assumed that the strong economy would continue in the out years and so we had adjusted upward our state tax projections for the period 2008-2011. However, these projections have also been reduced, by \$60 million in 2008 and 2009 (\$41 million and \$19 million respectively) and by another \$205 million in 2010 and 2011.

Further compounding the impact of these reductions is the unparalleled increase in fuel and energy prices. The July Financial Plan assumes an increase of \$208 million in 2008 and 2009 for increased costs in this category, \$81 million in 2008 and \$127 million in

*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

2009. The out years of the plan project another \$126 million increase, \$66 million in 2010 and \$60 million in 2011.

The July baseline before prior-year carryover reflects this overall net decline since February. In my letter last year, I cautioned that while we had assumed that tax receipts would remain robust over the financial plan period, if receipts dropped, say to 2004 levels, we would be out over \$300 million in 2008 and nearly \$1.2 billion during the plan period. This unfortunately has proven to be the case. As a result, the July baseline forecasts that absent gap closing measures, MTA will face a deficit greater than \$2 billion in the out years of the Plan.

To address these looming multi-billion dollar gaps, we are proposing a series of gap-closing measures that we are asking you to consider over the next several months. We have strived to propose an equitable sharing of the burden by all our key stakeholders that use and benefit from our system, starting with ourselves—our agencies and employees—and including our governmental partners and our customers.

- MTA Actions: Before proposing that others contribute to the solution, the MTA must first assure that we have done all we can to reduce costs. The MTA operating agencies will be expected to cut costs by 6% over the four-year plan period without cutting service, continuing the 1.5% annual reduction begun last year. I have heard many times from you and other advocates of mass transit that service cuts are not the answer and they are not being proposed today as any part of the solution, although, unfortunately, neither are the enhancements that I had proposed a year ago. 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 have also assumed that our employees will make a modest contribution to the plan through negotiation of new contracts. In addition we expect efficiency measures, notably the Business Service Center, which will consolidate back office operations for all of our agencies. This will require downsizing the workforce and this plan, as previous plans, provides funds to cover the expected cost of downsizing, but anticipates annual savings to begin in 2012. Savings are also assumed from other reorganization initiatives.

These and other efforts by the MTA agencies and employees will save \$212 million between 2008 and 2009 alone and are projected to keep controllable operating expenses well below CPI over this Plan period and in fact, essentially flat for 2009.

In addition, we have identified some other internal actions that we can take to contribute to reducing the gap before turning to other stakeholders. MTA will take an inter-agency loan of \$135 million to reduce the gap in 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. Finally, MTA will reduce its subsidy to Long Island Bus by \$4 million annually, returning to our historical \$10 million allocation.

- **Governmental Partners:** Actions by each of our governmental partners are also required to overcome the projected deficits. Let's start with our Federal partners. Legislative changes to federal mandates for commuter railroad employees will be proposed which, beginning in late 2009, are projected to save \$62 million annually without affecting employee benefits.

A year ago, the financial plan relied on \$600 million in new State and City contributions beginning in 2010. This Plan proposes accelerating about half of that contribution into 2009. The following list represents a series of proposed changes that will improve the MTA's bottom line. It is not exhaustive, only illustrative. Other actions taken by our funding partners could substitute for these examples.

First, the plan proposes full State and City reimbursement for school fares and senior discounts, which will generate \$104 million annually. Reduced fares to school children cost MTA \$89 million more than the current annual \$90 million subsidy from the State and the City (\$45 million each). Similarly, NYC Transit provides half-fare discounts to seniors in the peak period, which costs \$15 million more than the City's current \$13.8 million subsidy. The second action proposes that the City and the MTA share paratransit costs. When the MTA assumed paratransit service responsibilities from the City in 1993, the agreement presupposed sharing costs but allowed for annual caps on the City's contribution. Demand for these services and consequent costs have been growing beyond any expectation at that time and this action proposes that the costs now be shared. This will provide \$113 million in 2009 and grow thereafter. The plan also proposes restoration of the fall off in State tax aid discussed earlier that has been adversely impacted by the economy. We are also proposing to ask the State to eliminate tax loopholes affecting real estate transactions, which is expected to generate \$50 million annually beginning in 2009.

Finally, the plan proposes charging for Bridge and Tunnel crossings by official city, state and county vehicles, which will generate \$10 million annually.

- Transit Riders and Bridge and Tunnel Drivers: Just as the plan proposes to accelerate the contributions forecast in 2010 by our governmental partners, it also proposes accelerating the fare and toll increase that had been forecast for January 2010 to July 2009. It also proposes increasing it from a 5% yield to an 8% yield in order to make up for the revenue that was lost when the last increase was reduced from 6.5% to 3.85% to hold the base fare at \$2.00. This modest deviation from our plans for regular every other year fare and toll increases that are indexed to inflation is driven, as are all of the actions proposed herein, by the impact of falling real estate taxes and soaring gas prices. If we were to forego this action, the plan could not be balanced without service cuts.

Based on these proposed gap closing actions, the Financial Plan is balanced in 2009, with a modest deficit in 2010 and growing structural deficits in the remainder of the Plan period. The actions proposed 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 or to negotiate with our stakeholders. They are by no means the only possible actions that can be taken and over the next five months between this submission and budget adoption we will work with our stakeholders and the Ravitch Commission to consider all actions proposed to meet the overwhelming need created by current financial conditions.

Clearly, fiscal challenges confront the MTA in the years to come; however, Board action requiring multi-year financial planning has been a critical asset in helping the Board address these challenges with as much public input and comment as possible. As we move forward toward the looming multi-year billion dollar gaps, the Board's continued fiscal discipline and leadership will be needed to ensure that the MTA operates efficiently, effectively and safely for our customers and workers.

I look forward to public and Board input on this plan over the coming months, culminating with the adoption of the 2009 Budget by the Board in December.