

**Metro**FINANCE AND BUDGET COMMITTEE
JUNE 17, 2004**SUBJECT: FY04 BUDGET****ACTION: AMEND THE FY04 BUDGET TO APPROPRIATE ADDITIONAL FUNDS****RECOMMENDATION**

Amend the FY04 budget to appropriate an additional \$23.9 million in subsidies to the Enterprise Fund.

ISSUE

Funding for the Enterprise Fund is forecasted to end the year \$23.9 million below the approved budget of \$936.4 million after considering both revenue and expense trends. An additional appropriation is required to balance the fiscal year budget.

OPTIONS

The Board may choose not to appropriate additional funds to balance the FY04 budget. However, expenses will be incurred and have to be paid. The resulting financial statement deficit would give a negative perception of the financial management of MTA.

FINANCIAL IMPACT

Staff proposes to use General Fund right-of-way lease revenues to fund this revenue shortfall. The current right-of-way lease revenues fund balance is \$97 million. These funds are programmed in the 10-year forecast for capital projects such as bus procurements and bus facilities improvements in FY06-FY13. During revision to the 10-year forecast to be completed in August 2004, staff will review the possibility of issuing debt for these capital projects to avoid project delay or cancellation.

BACKGROUND

Overall, the MTA budget of \$2.7 billion is forecast to end the year at or below the budgeted level. The Capital, General, and Special Revenue funds are forecasted to under-spend appropriations for FY04.

Strike Savings

The savings resulting from the 35-day strike is now forecast to be \$47.8 million. This is offset by the operating revenue loss of \$44.7 million. The net savings from the strike is now

projected to be \$3.1 million (it was previously reported to the board to be \$7.4 million). The difference is due to the slower than anticipated ridership recovery.

Budget Overruns

Budget overruns resulted primarily from changed conditions. The FY04 budget assumed shake-ups in October and December to reduce hub miles and create running-time efficiencies. The strike in October precluded the October shake-up and delayed the December shake-up until February. By February, Transit Operations was unable to make any significant service efficiencies because a ruling was issued by the Special Master that placed limitations on service changes and decreed additional hours of service be added to achieve compliance with the consent decree load factors. Running the unplanned level of service caused increased UTU labor costs of \$17.7 million.

Additionally, the MTA is experiencing significantly higher rates than budgeted for fuel and propulsion power. CNG is over the budget by approximately \$0.16 per therm and diesel fuel is up 30% over budgeted rates. In addition to the rate increases, the quantity of fuel is greater than budgeted due to the reasons discussed above about the inability to reduce running-time, as planned. The resulting overrun in fuel is anticipated to be about \$6.2 million.

In June of last year, the insurance industry was in continued distress due to substantial terrorism losses and losses in investment income from a declining equities market. As a result, the industry substantially increased premiums, particularly in the general and excess liability lines and pushed MTA's premium to \$5.3 million, \$1.2 million above available funding for insurance.

Also this year, several bus accident claims with significant injuries were settled, or are estimated to settle, for larger amounts than anticipated. These unexpected increases in the severity of these claims require MTA to increase the general liability expense. The estimated magnitude of this increase for FY04 is \$9.5 million.

Budget Underruns

The underruns in expenses are primarily attributable to the heavy maintenance programs in both bus and rail. After the strike, the workforce was focused on catching up the maintenance projects in the capital program creating underruns on the maintenance programs in the Enterprise Fund during the non-strike period. The capital projects are nearly on schedule in spite of the strike. Other underruns reflect lower expenditures in professional services, lower costs for the transitional duty program and delays in training programs. The underruns are anticipated to be \$24.2 million.

Other Budget Impacts

If the board approves the settlement proposed by the ATU arbitrator, the cost to FY04 will be about \$3 million. The recent reduction in force of 233 staff members is estimated to result in \$2.5 million additional FY04 Enterprise Fund costs to implement. The balance of the

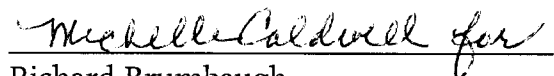
\$1.3 million implementation costs will be charged to the General Fund. And lastly, the lower than expected fund balances combined with falling interest rates have resulted in interest income shortfalls of \$8.8 million. These interest income shortfalls will also impact the Municipal Operators. These other budget impacts on the FY04 budget are about \$14.3 million.

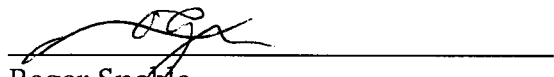
All of the above items are summarized in the following table:

**FY04 Budget Amendment for Enterprise Fund
(\$ in millions)**

Net Strike Savings		
Savings UTU, ATU, & TCU wages and benefits	(\$47.8)	
Operating Revenue Loss	<u>\$44.7</u>	
<i>Subtotal</i>		(\$3.1)
Non Strike Period Budget Overruns		
UTU Labor	\$17.7	
Fuel/Power	6.2	
Maintenance Parts and Services	1.4	
RRC Regular Maintenance	0.9	
Adjustment for Accident & Injury Settlements	9.5	
Excess Liability Premium	<u>1.2</u>	
<i>Subtotal</i>		\$36.9
Non-Strike Period Underruns		
Transportation: Training; Control Center; Scheduling	(\$1.9)	
ATU Labor	(10.4)	
RRC Preventive Maintenance	(4.9)	
Facilities; Non-Revenue	(6.1)	
Service Development, Safety	<u>(0.9)</u>	
<i>Subtotal</i>		(\$24.2)
Other Items		
ATU Arbitration Settlement	\$3.0	
Reduction-in-force Costs	2.5	
Non-Operating Revenue Shortfall	<u>8.8</u>	
<i>Subtotal</i>		\$14.3
Requested budget amendment		\$23.9

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