

**MTA METRO-NORTH RAILROAD
2005 PRELIMINARY BUDGET
JULY FINANCIAL PLAN 2005-2008**

The Non-Reimbursable expenses and cash adjustments listed above reflect the impact of net cost/deficit reductions vs. the February Plan of \$11.3 million in 2006 and \$9.9 million in 2007. Major assumptions reflected in the 2006-2008 projections and reconciliation to the February Plan for 2006 and 2007 are furnished later in this document. PEGs for 2006 total \$36.6 million, \$33.5 million for 2007 and \$22.4 for 2008.

GAP CLOSING MEASURES

2005 PEG ACTIONS

As mentioned previously, PEGs totaling \$15.9 million have been identified for 2005. The initiatives listed to begin in 2004 and 2005 met selection criteria that first deferred improvements then increased parking fees and commissary prices, and last reduced existing programs/efforts. These were sequenced to first affect programs that are administrative in nature and /or address customer convenience and amenities (including cleanliness) followed by maintenance and other programs. The PEGs listed for 2005 will affect 180 positions: the deferral of 96 position additions, and the abolishment of 84 current positions.

2006 PEG ACTIONS

The value of PEGs listed for 2006 totals \$36.6 million. This amount in addition to PEGs continued from 2005 includes measures that will have serious adverse impact on Metro-North services and ridership. They include the closure of most NYS ticket offices (only GCT and 5 NYS stations will have staffed ticket offices), increase in East of Hudson-NYS loading standard (more riders will stand), and NYS peak service (East and West of Hudson) as well as West of Hudson weekend service reductions. Additional cost savings from these measures net of projected loss in revenue totals \$10.1 million. The amount also includes \$9.7 million in as of yet unspecified PEGs. Due to the adverse impact on service, Metro-North believes these measures may require public hearings and environmental reviews pursuant to the State Environmental Quality Review Act. The specified PEGs listed for 2006 will involve the elimination of 71 more positions (total of 251: 155 existing and 96 new).

2007-2008 PROJECTIONS

The value of PEGs listed for 2007 totals \$33.5 million. Of that amount, \$6.1 million is unspecified. The value of PEGs currently listed for 2008 totals \$22.4 million; specific reductions of \$24.9 million exceed the targeted reduction by \$2.5 million.

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- Customer Service Amenities improvements with additional car cleaning, E-cleaning and maintenance at Highbridge Yard (\$1.1million) as well as GCT platform cleaning (\$.2 million).
- Maintenance force increases in GCT, West of Hudson and along the right-of-way (\$.7 million).
- Service increases primarily on the Harlem line due to new third track (\$.6 million).
- Security upgrades to signal and information systems and on-going testing and inspection of life safety devices (\$.6 million)
- Administrative oversight to strengthen quality assurance functions in key operations groups (\$1.1 million).
- 2006 - 2008 additional labor costs are added for on-going safety improvements to systems and facilities and service increases on all lines.

Reimbursable

- 2004-2006 costs include an annual wage increase of 3.0%. Differentials between 3% and CPI rates of 2.0% in 2005 and 2.2% in 2006 for management staff represent projected costs for phased merit costs as well as equity adjustments required for compression differentials with agreement employees.
- 2005 includes an increase staffing for the M2 Critical System Replacement project
- 2007 and 2008 include CPI-based wage increases of 2.6% and 2.8%, respectively.

OVERTIME

Non-Reimbursable

- 2005-2006 costs include annual wage increases of 3.0%.
- 2007 and 2008 include CPI-based wage increases of 2.6% and 2.8%, respectively.
- 2005-2008 includes additional on-board coverage requirements due to increases in service levels on all lines.

Reimbursable

- 2005-2006 costs include annual wage increases of 3.0%.
- 2007 and 2008 include CPI based wage increases of 2.6% and 2.8%, respectively.

HEALTH AND WELFARE

Non-Reimbursable

- Projected inflationary increases of 14.2% in 2004, 12.9% in 2005, and 9.3% each year 2006 - 2008.
- 2005-2008 include the non-reimbursable share of cost reductions associated with escalating levels of agreement employee premium contributions estimated at \$.374 million in 2005, \$.643 million in 2006, \$.927million in 2007 and \$1.227million in 2008.

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- Other Cost adjustments for 2005-2008 are the result of changes in staffing levels associated with the programmatic changes that are incorporated into each year of the financial plan for Maintenance Improvements, Service Plan Enhancements, Customer Service Amenities, Security, and Administration.

Reimbursable

- Projected inflationary increases of 14.2% in 2004, 12.9% in 2005, and 9.3% each year 2006 - 2008.
- 2005-2008 include the reimbursable share of cost reductions associated with escalating levels of agreement employee premium contributions, estimated at \$.374 million in 2005, \$.643 million in 2006, \$.927 million in 2007 and \$1.227 million in 2008.

PENSIONS

Non-Reimbursable

- Pension cost increases 2005-2006 are based on payroll costs that increase by 3% each year and CPI-based wage increases for 2007-2008.
- 2005-2006 agreement pension costs incorporate an effective employer contribution rate of 6% of payroll costs; employer contribution rate increases by 0.2% in 2007 and 2008.
- 2005-2008 management pension costs reflect the non-reimbursable share of a \$0.3 million annual cost increase.

Reimbursable

- Pension cost increases 2005-2006 are based on payroll costs that increase by 3% each year and CPI-based wage increases for 2007-2008.
- 2005-2006 agreement pension costs incorporate an effective employer contribution rate of 6% of payroll costs; rate increases by 0.2% in 2007 and 2008.
- 2005-2008 management pension costs reflect the reimbursable share of a \$0.3 million annual cost increase.

OTHER FRINGE BENEFITS

Non-Reimbursable

- Railroad Retirement tax rates for Tier I and II remain constant for 2005-2008 at 7.65% and 13.1%, respectively.
- Maximum earnings level for Tier I are estimated at \$94,500 in 2005, \$99,000 in 2006, \$103,800 in 2007, and \$108,000 in 2008.
- Maximum earnings level for Tier II are estimated at \$70,200 in 2005, \$73,500 in 2006, \$77,100 in 2007, and \$80,400 in 2008
- Other cost adjustments reflect inflationary salary increase and changes in staffing levels.

Reimbursable

- Railroad Retirement tax rates for Tier I and II remain constant for 2005-2008 at 7.65% and 13.1%, respectively.