

Dear Metro Customer:

Today the Niagara Frontier Transportation Authority and its Metro Bus and Rail system is at a crossroads. How we navigate this crossroad going forward will affect the lives of thousands of people in Buffalo Niagara.

We fully understand that public transportation is a vital means of maximizing community mobility. We know that each day approximately 77 percent of the thousands of Western New Yorkers who ride Metro to work, school, health care, shopping, recreation, visit friends and countless other destinations are transit dependent, so we are working diligently to ensure that using Metro is a viable option for as many riders as possible.

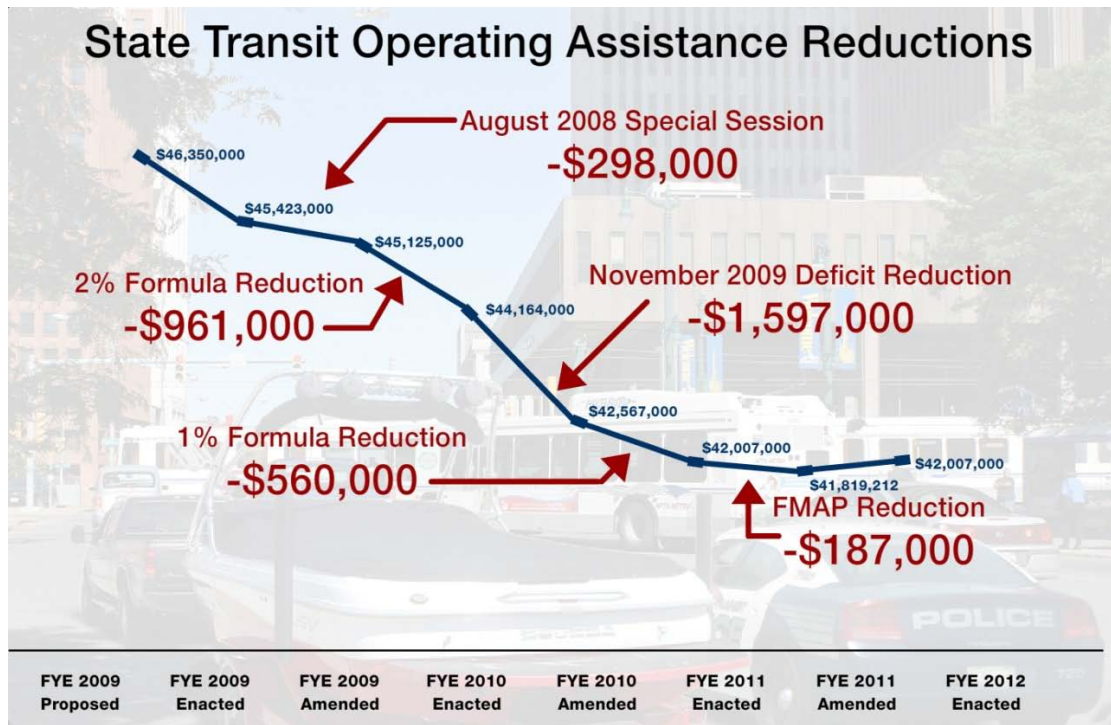
Ever increasing expenses, coupled with reduced state and county operating assistance, in addition to a drop in revenue is not a recipe for success. We cannot continue to do business the same way in the future and expect different results. The Metro system needs to be reshaped going forward to guarantee the vitality of the system for future generations.

HOW WE ARRIVED AT THIS POINT . . .

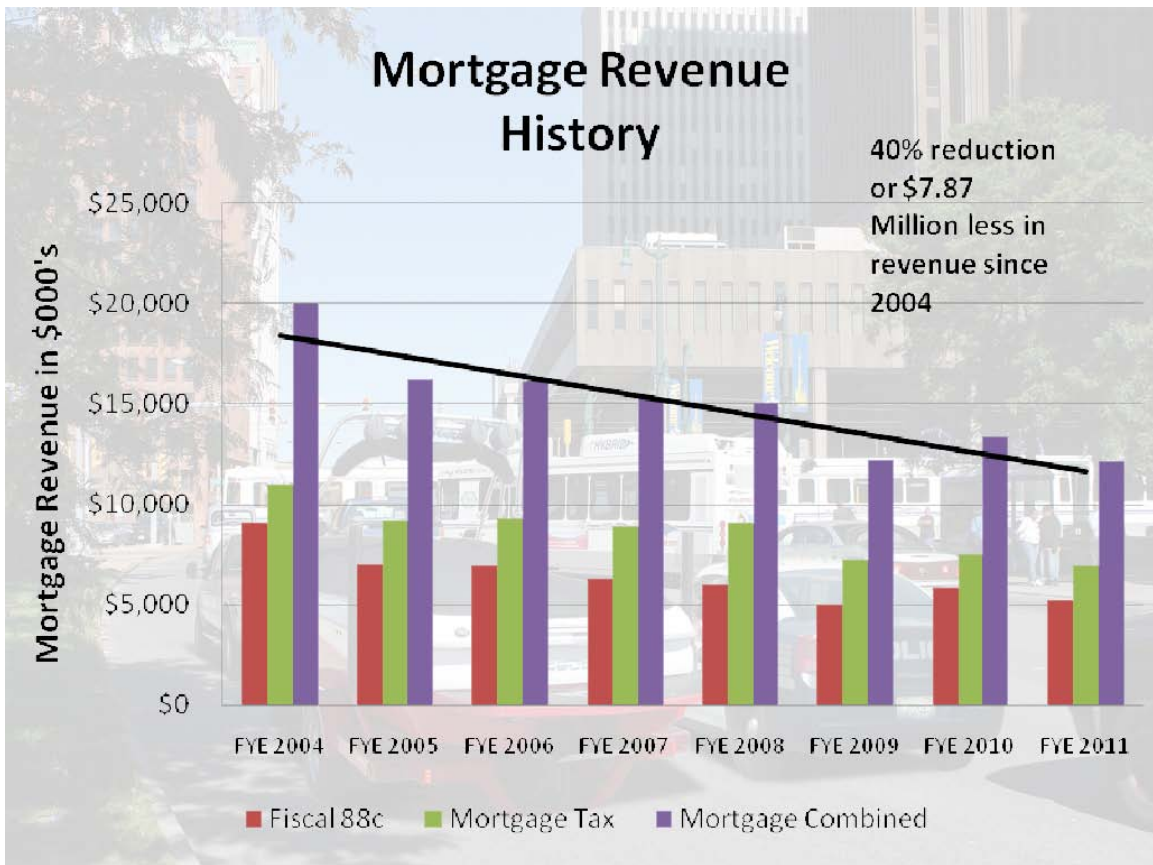
Decreased Assistance

- From 2009 to 2011 the NFTA's State Transit Operating Assistance **STOA was cut six separate times for a total of \$ 4.3 million**. The NFTA relies on STOA to keep the Metro System running, as it helps fund workforce, fleet maintenance, and service delivery costs. The governor's 2009 budget proposal was the last time that STOA allocation was close to historic levels. Of the six STOA cuts, three of these were made outside of the traditional annual budget process, making it very difficult to adjust to the reductions.
- STOA quarterly payments have been delayed because of the state's fiscal issues. Consistent STOA cuts and delays hinder the Authority's ability to plan effectively and deliver services.

State Transit Operating Assistance Reductions

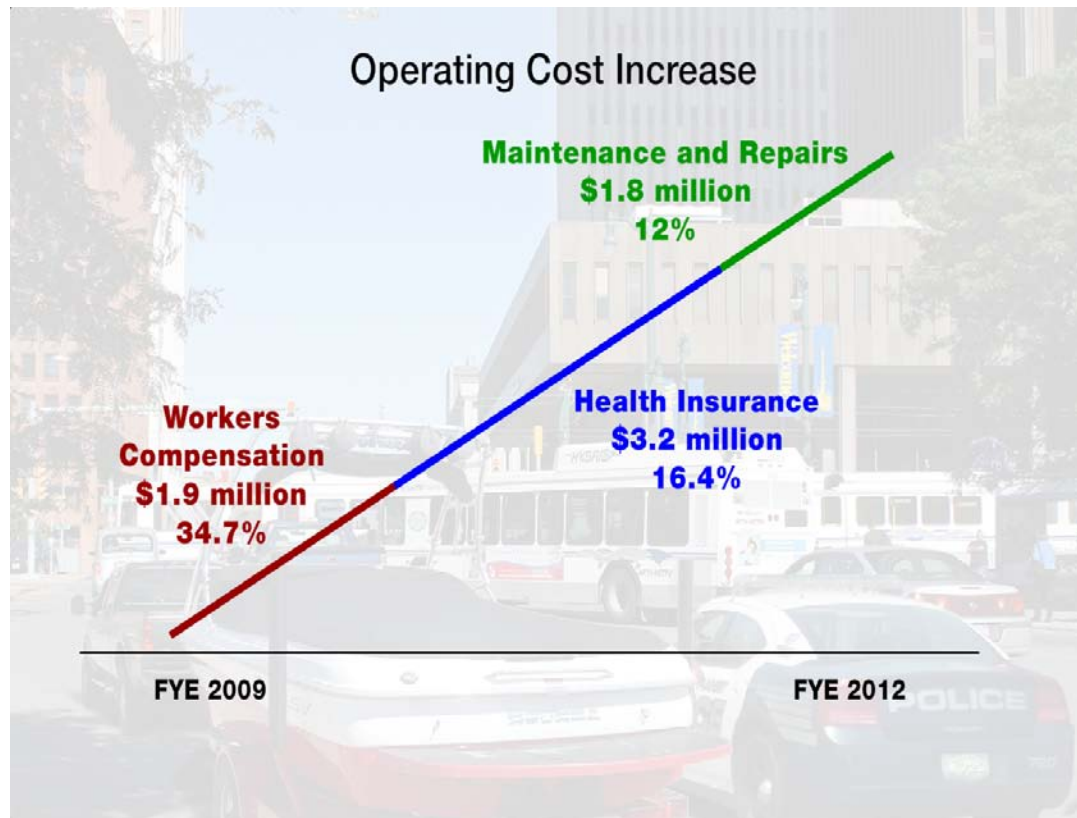


- New York State has also delayed release of Dedicated Transit Funding (DTF) allocated since Fiscal Year Ending 2008. The NFTA is scheduled to receive \$2,750,000 per year in support of safety critical projects and the Metro Light Rail Rapid Transit Railcar Rebuild. **To date through FYE 11, \$11 million of DTF has not been released to the NFTA.** Delayed DTF receipts strain remaining funding sources and puts safety critical projects at risk. This makes the provision of efficient and cost-effective public transportation services problematic.
- Beyond New York State, annual Federal Transit Administration assistance has remained close to flat since 2009, even though the costs of maintaining an aging transit system are steadily increasing.
- At the end of last fiscal year **Mortgage Recording Tax has decreased \$2.1 million** since the economic downturn in 2008.



Increased Costs

- Since 2009, the same year STOA levels started to decline, the NFTA's operating costs have spiked, including a:
 - 35% increase in workers compensation costs
 - 16% increase in health insurance costs
 - 12% increase in maintenance and repair costs



NFTA Cost Containment Measures

In response to the anticipated deficits we are facing today NFTA took steps to reduce costs and increase efficiencies across all its business centers that has saved millions of dollars. A few examples include:

- **Administrative Streamlining** has included hiring freezes, job eliminations, no pay increases for the majority of our employees, increased employee health care contributions, with all but our largest Metro union contributing, entry into the Labor-Management Healthcare Coalition, Inc for the provision of employee medical coverage. Since 2004 the NFTA's membership in the **LMHC has saved approximately \$20 million.**
- Establishment of **new Internal Control Guidelines** that provide reasonable assurance that we meet the following objectives of effectiveness and efficiency of operations, reliability of financial reporting, compliance with laws and regulations and the safeguarding of assets. The **NFTA's plan fully complies with Sarbanes-Oxley Act of 2002.**
- Through the development of an **Enterprise Resource Planning System Metro's efficiency has improved** with automatic scheduling of preventative maintenance, **increasing miles between bus failures** and we have been able to **reduce inventory by 25 percent.**
- **Utility and Telecommunications Audits** have realized over **\$216,000 in savings.**
- **Energy audits** have saved us over **\$900,000.**
- **Fuel Hedging** has saved us over **\$3 million.**

- **Metro has reduced overtime by \$1.6 million** through operational practices that have been **referenced by the New York State Office of the Comptroller as best practices.**
- The Railcar Mid-Life Rebuild Project has estimated **savings of \$64.8 million** with the current rehabilitation versus purchasing new vehicles.
- The purchase of hybrid buses **saves up \$13,700 per bus annually** through fuel and maintenance cost savings.
- Through the implementation of the **University Pass Program annual revenues increased over \$1 million.**

Increased Reliance on Reserves to meet our needs

With decreased operating assistance from State and local sources combined with increasing costs, despite cost containment measures, the delta between revenues, operating assistance and expenditures has widened. As a result, in an effort to meet the budget gaps without further increasing fares or reducing service, we have relied on the use of reserves to balance the budget. Now the reserves are at or near zero balances.

- The NFTA receives a portion of the Erie County mortgage recording tax (88c), dedicated to light rail capital projects and operating costs. Unfortunately, the slower rate of real estate sales has decreased the mortgage recording tax to a potential 15-year low, further reducing funds available for critical capital projects. In addition, the NFTA has exhausted the 88c fund due to cuts to annual state assistance, decreased sources of other operating assistance and increased costs coupled with increased capital needs for an aging system. **In the last five years over \$23 million was utilized from the 88C reserves to keep the system operating and safe.** Now that reserve is used up and any use of the funds will be on a pay as you go basis.

I know it's of little consolation to you as a rider, but our community is experiencing the same plight as transit agencies in Chicago, Atlanta, Boston, Pittsburgh, New York City, Albany, Dallas, Washington, D.C. and many more throughout the country. It's basically a funding epidemic that's sweeping communities across the United States. It's clearly not just happening here with our system.

Please know that our Board of Commissioners and staff will continue working to develop a Metro system that will provide service to the greatest number of people possible.

Sincerely,



Kimberley A. Minkel
Executive Director