

MBTA Advisory Board
FY16 Massachusetts Bay Transportation
Authority Operating Budget Oversight Report

REPORT
Offered by the
Finance Committee
April 13th, 2015

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Micah Gensler
Transit Policy Analyst

Deborah Gaul
Executive Assistant

The MBTA Advisory Board is an independent statutory organization which represents the interests of the 175 cities and towns in the MBTA service district. Each year these municipalities contribute over \$162 million in subsidies to the MBTA via municipal assessments.

MBTA Advisory Board
177 Tremont Street, 4th Floor
Boston, MA 02111
Phone: 617-426-6054
Fax: 617-451-2054

Email: info@mbtaadvisoryboard.org
Website: www.mbtaadvisoryboard.org

MBTA FY16 Statement of Revenue & Expenses				
REVENUE	FY15 Budget	FY16 Budget	FY16 % Incr/Decr over FY15 Budget	FY16 \$ Incr/Decr over FY15 Budget
Operating Revenues				
Revenue from Transportation	597,647,752	617,848,214	3.4%	20,200,462
Other Operating Revenue	48,527,035	49,659,634	2.3%	1,132,599
Total Operating Revenue	646,174,787	667,507,848	3.3%	21,333,061
Non-Operating Revenues				
Dedicated Local Assessments	160,135,712	162,858,019	1.7%	2,722,307
Dedicated Sales Tax	970,637,174	986,274,139	1.6%	15,636,965
Other Income	31,045,029	34,767,700	12.0%	3,722,671
Total Non-Operating	1,161,817,915	1,183,899,858	1.9%	22,081,943
TOTAL REVENUES	1,807,992,703	1,851,407,706	2.4%	43,415,004
EXPENSES				
Operating Expenses				
Wages	493,470,467	511,113,576	3.6%	17,643,110
Fringe Benefits				
Pensions	76,874,711	82,273,069	7.0%	5,398,358
Healthcare	110,187,626	108,663,780	-1.4%	(1,523,846)
Group Life	584,316	600,679	2.8%	16,363
Disability Insurance	0	0	0.0%	0
Workers' Comp	11,170,527	11,077,679	-0.8%	(92,848)
Other Fringe Benefits	234,171	237,069	1.2%	2,898
Total Fringe Benefits	199,051,351	202,852,276	1.9%	3,800,925
Health & Welfare Fund	10,436,865	11,474,924	9.9%	1,038,059
Payroll Taxes				
FICA	37,750,491	38,895,488	3.0%	1,144,997
Unemployment	1,320,087	1,339,665	1.5%	19,578
Total Payroll Taxes	39,070,578	40,235,153	3.0%	1,164,575
Materials, Supplies and Services	237,872,565	271,119,563	14.0%	33,246,998
Casualty and Liability	16,566,513	15,110,409	-8.8%	(1,456,104)
Purchased Commuter Rail Service	384,346,300	383,946,449	-0.1%	(399,851)
Purchased Local Service Subsidy	122,116,771	126,512,940	3.6%	4,396,169
Financial Service Charges	5,990,000	6,490,000	8.3%	500,000
Total Operating Expenses	1,508,921,410	1,568,855,291	4.0%	59,933,881
Debt Service Expenses				
Interest	240,945,845	238,256,615	-1.1%	(2,689,230)
Principal Payments	178,695,803	209,277,065	17.1%	30,581,262
Lease Payments	4,296,777	4,575,488	6.5%	278,711
Total Debt Service Expenses	423,938,425	452,109,168	6.6%	28,170,743
TOTAL EXPENSES	1,932,859,835	2,020,964,459	4.6%	88,104,624
Net Revenue	(124,867,132)	(169,556,753)	35.8%	(44,689,621)
Additional Assistance	135,100,000	187,000,000	38.4%	51,900,000
NET Revenue after Additional Assistance	10,232,868	17,443,247	70.5%	7,210,379
Transfer (Weather Resiliency Fund)	0	(11,697,586)	-	(11,697,586)
NET Revenue in Excess of Expenses	10,232,868	5,745,661	-43.9%	(4,487,207)

Headcount			
FY	Operating	Capital	Total
FY15 Budget	6,046	532	6,578
FY16 Request	6,145	532	6,677
Headcount inc/(dec)	99	0	99
% Headcount inc/(dec)	1.6%	0.0%	1.5%

Recovery Ratios	With Debt Included
Revenue	34.75%
Fare	30.57%
FY 16 MassDOT Funded Projects	33.25%

BUDGET OVERVIEW

On March 11, 2015 the MBTA Board of Directors gave preliminary approval to the FY2016 budget and sent it to the Advisory Board for review. The budget totals \$2,019,767,566 and is an increase of \$86.9M or 4.5%, over last year's budget.

Revenues

The MBTA expects to receive \$2.04B in revenues in FY16. The breakdown is as follows:

Source	Amount	% of Budget
Dedicated Sales Tax	\$986.3m	49%
State Assistance	187m	9%
Assessments	162.9m	8%
Non-Fare Revenue	84.4m	4%
Fare Revenues	617.8	30%
Total	\$2.04B	

58% of all revenue to the Authority will come from the state. It is important to recall that the \$160m that the MBTA has received over the last few years has been incorporated into the sales tax revenue and is no longer subject to appropriation by the Legislature. The only funds subject to appropriation are the \$187m that the Governor included in his budget. This was a continuation of the commitment made in the Transportation Finance legislation that provide \$135.1m last year. The original legislation called for \$202m from the state in additional assistance, but the Baker budget provides the \$187m figure and the Secretary of MassDOT assured the staff that that figure was adequate for the coming fiscal year.

Growth in the budget is focused in a few areas. The growth in the wage line item is related to the most recent union settlement. Pension contributions will grow by 7%. Every other item in the wages and fringe line items, especially health care shows little or no growth.

The two largest areas of growth both in terms of dollars and percentage increase are in Materials, Supplies and Services line-item and the Principal Payments line-item. The Materials, Supplies and Services line item is expected to grow by 42.8% or \$33,246,998. This represents the MBTA's continued investment in keeping their older fleet running until replacements arrive.

EXPENSES		FY14	FY15	Request	% +/- FY15	\$ +/- FY15
Operating Expenses						
	Wages	450,098,277	493,470,467	510,001,739	3.4%	16,531,272
-						
	Fringe Benefits					
	Pensions	70,527,331	76,874,711	82,273,069	7.0%	5,398,358
	Healthcare	117,193,055	110,187,626	108,663,780	-1.4%	(1,523,846)
	Group Life	1,031,982	584,316	600,679	2.8%	16,363
	Disability Insurance	46,597	0	0	0.0%	0
	Workers' Comp	9,794,930	11,170,527	11,077,679	-0.8%	(92,848)
	Other Fringe Benefits	125,305	234,171	237,069	1.2%	2,898
	Total Fringe Benefits	198,719,200	199,051,351	202,852,276	1.9%	3,800,925
	Health & Welfare Fund	0	10,436,865	11,474,924	9.9%	1,038,059
	Payroll Taxes					
	FICA	34,305,399	37,750,491	38,810,433	2.8%	1,059,942
	Unemployment	1,101,052	1,320,087	1,339,665	1.5%	19,578
	Total Payroll Taxes	35,406,451	39,070,578	40,150,098	2.8%	1,079,520
	Materials, Supplies and Services	229,979,936	237,872,565	268,329,515	12.8%	30,456,950
	Casualty and Liability	13,939,451	16,566,513	15,110,409	-8.8%	(1,456,104)
-	Purchased Commuter Rail Service	375,471,622	384,346,300	386,736,497	0.6%	2,390,197
	Purchased Local Service Subsidy	121,179,408	122,116,771	126,512,940	3.6%	4,396,169
	Financial Service Charges	5,189,174	5,990,000	6,490,000	8.3%	500,000
	Total Operating Expenses	1,429,983,519	1,508,921,410	1,567,658,398	3.9%	58,736,988

DISCUSSION

It is strange to say given the turmoil that has surrounded the MBTA in 2015 that the budget as submitted by the Authority to the Advisory Board is very good news for the MBTA. Revenues and ridership is strong and continues to grow. The second year of the Transportation Finance legislation provides adequate funding for the coming fiscal year. The Authority has a small surplus despite the storms of February that will allow for additional investment, including the ability to build a Weather Resiliency Fund to prepare for future weather event. For the coming year at least, the MBTA can pay its bills and provide the current service levels.

It seemed reasonable to wait for the report of the Governor's Commission on the MBTA to finalize this report. We were unsure if some of the decisions the Commission could recommend would affect the preliminary budget approved by the MassDOT Board in March. The decisions have no effect on this fiscal year. This commission, like the many that came before it, focused on some of the chronic problems that face the MBTA as well as some issue that have not gotten the attention they deserve.

Advisory Board members know that the MBTA Budget is a relatively simple document. Labor costs dominate, because this is a labor-intensive industry. The wage and fringe line items are a function of headcount and binding arbitration. Arbitration decides what the employees will be paid and previous agreements define the benefits. The Authority decides the total size of the workforce, by departments. Almost all of the other costs are negotiated contracts. The MBTA contracts with a vendor to provide commuter rail service, contracts with vendors to provide The Ride, contracts with energy companies to purchase electricity, natural gas and diesel fuel. This is the core of the operating budget and it is also how the MBTA is different from almost any other agency in government. The MBTA is a manufacturer of transit.

Much has been written about the capital costs incurred by the MBTA. The Advisory Board has spoken out in the past about the impact of the Central Artery Tunnel Project mitigation projects have had on the fiscal solvency of the MBTA. The MBTA Advisory Board has repeatedly called for the Commonwealth to address the large annual debt service costs the MBTA inherited at the beginning of Forward Funding. The Commission's report indicated that the main source of debt service at the MBTA is the \$3.5B incurred since 2001 and that the \$1.8B in Big Dig Debt and the \$230m in so-called Legacy Debt are covered by the assistance that the MBTA currently receives from the Commonwealth. This is true, but it doesn't tell the whole story. The MBTA needed to spend considerable capital dollars over and above the federal match in the early 2000's due to a number of large projects that were political priorities and also because of the desperate need for investment in the existing system. The system in the early 2000s had experienced significant system expansion and desperately needed investment in core operations. The \$3.5m in capital spending from 2000 to today represent both necessary investment and continued expansion costs imposed on the MBTA. Two examples of these are the purchase of a completely new bus fleet just after the beginning of forward funding and the financing of the Greenbush extension with MBTA Capital funds only.

The Bus fleet then, like the Orange Line fleet today, was well past its useful life and in desperate need of replacement. Instead of ordering these replacement buses in the 1990s when they were approaching the end of their service lives, these decisions were postponed until the bus fleet was both unreliable and expensive to maintain. Only when the MBTA had more control over the capital investment the system needed did bus service rise to the top of the funding list. The point is that

the bus fleet was systematic of the underinvestment in basic service at the MBTA by the Commonwealth before Forward Funding, causing the need for major capital investment by the MBTA with MBTA capital funds.

In addition to the need for basic capital maintenance investment, the MBTA also had a number of projects beyond the scope of core service that were deemed worthy of capital investment. While the MBTA tried to use federal dollars where it could for these expansion and enhancement projects, it was not always possible. An example of this is the Greenbush extension, a project that's final costs exceeded \$500m was paid with MBTA capital funds with no State or Federal assistance.

A final word on the debt service costs. MBTA Advisory Board members know that the Authority has been lurching from crisis to crisis since about 2002. They have raised fares, sold assets, reduced headcount and, yes, restructured its debt. In the absence of additional revenue, the Authority deferred principal payments to the future to balance today's budget. When given a choice between service reductions or larger and more frequent fare increases, debt restructuring was the more palatable choice. It was not the MBTA's choice alone; the political leadership, the riding public, the business community supported this approach and the Advisory Board voted for it. The MBTA had the largest debt service costs as a percentage of overall revenues in the early 2000s and may still today. The hope was that revenues would increase over time to offset this cost. They did not and now the bill is due.

The other issues covered by the report are equally important. Absenteeism at the MBTA has been a problem for years. The Advisory Board first called for the Authority to address this in 2005 and again in 2007. The MBTA answered our call by revamping their Progressive Discipline process and reporting on their progress. They also purged their records of employees who had retired or quit, but were still being carried on the books. In recent years, the MBTA Advisory Board has been tracking dropped trips on subway and bus and found that the overwhelming cause of dropped trips is that employees are unavailable due to absenteeism. We shared our results with the Commission.

The Commission stated that the Authority has not been spending capital funds at the rate the MBTA claims. Staff did not have time to examine that claim in the depth it deserves, so we will do a follow up report shortly. If true, this claim is very disturbing and needs to be addressed immediately.

Finally, the Commission recommended a Fiscal Management Control Board. It is likely that the legislation creating this will be approved and the Board will be installed. The positive is that the Board will have a mandate to focus on the core issues identified by the Commission, so it is likely that we will see some progress. Staff is willing to bet however, that the Board will find that the MBTA is a uniquely complicated service not subject to easy fixes. They will have their work cut out for them

Issues like the Pacheco Law, aspects of collective bargaining, the cap on fares and even Assessments may be included in the legislation. It is too soon to know what this means for the Advisory Board in term of our influence and our priorities. Staff recommends the Advisory Board take an active role because the decisions of the Fiscal Management Control Board and the legislation that will creates it may well effect service levels, fares and even Assessments. It is important that these decisions not take place without input from the communities served by the MBTA.

If you are interested in the full report, follow the link below:

<http://www.mass.gov/governor/docs/news/mbta-panel-report-04-08-2015.pdf>