



MBTA Advisory Board
FY19 Massachusetts Bay Transportation Authority
Operating Budget Oversight Report

REPORT
Offered by the
Finance Committee
March 29, 2018

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The MBTA Advisory Board is an independent statutory organization which represents the interests of the 176 cities and towns in the MBTA service district. Each year these municipalities contribute over \$170.1 million in subsidies to the MBTA via municipal assessments.

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We dedicate this report to Mr. Richard Leary of Brookline. Mr. Leary was the longest serving member of the Finance Committee and of the MBTA Advisory Board. Mr. Leary was a dedicated public servant who passed away earlier this month.

MBTA FY2019 Preliminary Budget Request
Statement of Revenue and Expenses

REVENUE	FY16 Actuals	FY17 Actuals	FY18 Budget	FY19 Preliminary Budget Request	FY19 \$ Inc/(Dec) over FY18 Budget	FY19 % Inc/Dec over FY18 Budget
Operating Revenues						
Revenue from Transportation	619,214,399	659,002,809	676,675,764	671,435,823	(5,239,941)	-1%
Other Operating Revenue	59,247,490	62,579,836	89,520,571	101,562,515	12,041,944	13%
Total Operating Revenue	678,461,889	721,582,645	766,196,335	772,998,338	6,802,003	1%
Non-Operating Revenues						
Dedicated Local Assessments	162,883,175	164,023,015	166,457,995	170,066,009	3,608,014	2%
Dedicated Sales Tax	986,274,139	992,191,784	1,006,806,769	1,032,067,551	25,260,782	3%
Other Income	34,496,658	47,393,066	27,724,550	45,660,151	17,935,601	65%
Total Non-Operating	1,183,653,972	1,203,607,865	1,200,989,314	1,247,793,711	46,804,397	4%
TOTAL REVENUES	1,862,115,861	1,925,190,510	1,967,185,649	2,020,792,048	53,606,399	3%
EXPENSES						
Operating Expenses						
Regular Wages	433,397,565	452,165,500	444,936,379	440,243,493	(4,692,886)	-1%
Collateral Wages	19,589,195	19,036,959	18,712,060	18,862,439	150,379	1%
Total Regular	452,986,760	471,202,459	463,648,439	459,105,932	(4,542,507)	-1%
Overtime	41,945,524	46,519,800	42,125,862	46,921,215	4,795,353	11%
Total Wages	494,932,284	517,722,258	505,774,300	506,027,146	252,846	0%
Fringe Benefits						
Pensions	75,135,356	90,769,458	88,532,113	96,942,152	8,410,039	9%
Healthcare	98,847,443	100,992,293	104,243,213	104,614,104	370,891	0%
Group Life	631,111	672,772	640,029	466,644	(173,385)	-27%
Workers' Comp	10,633,413	11,413,225	12,372,237	12,393,650	21,413	0%
Other Fringe Benefits	8,114,624	106,563	277,517	210,884	(66,633)	-24%
Total Fringe Benefits	193,361,947	203,954,311	206,065,109	214,627,435	8,562,326	4%
Health & Welfare Fund	9,471,734	8,808,497	10,524,530	10,908,266	383,736	4%
Payroll Taxes						
FICA (used 7.65% of wages)	36,390,709	39,481,590	38,696,879	38,471,167	(225,712)	-1%
Unemployment	1,577,353	1,831,477	1,606,579	1,735,739	129,160	8%
Total Payroll Taxes	37,968,062	41,313,067	40,303,458	40,206,906	(96,552)	0%
Materials, Supplies and Services	246,995,335	227,175,979	257,013,183	237,603,775	(19,409,408)	-8%
Casualty and Liability	16,397,876	12,478,752	14,179,252	11,134,068	(3,045,184)	-21%
Commuter Rail Service	382,317,343	384,998,511	395,062,672	407,037,973	11,975,301	3%
Local Service Subsidy	116,467,785	124,708,378	110,085,111	126,581,118	16,496,007	15%
Financial Service Charges	6,429,179	5,967,861	7,250,025	7,328,754	78,729	1%
Total Operating Expenses	1,504,341,546	1,527,127,614	1,546,257,640	1,561,455,440	15,197,800	1%
Debt Service Expenses						
Interest	231,044,655	210,124,894	208,054,671	229,961,030	21,906,359	11%
Principal Payments	208,117,584	213,692,704	240,435,000	265,900,000	25,465,000	11%
Lease Payments	4,540,084	4,106,842	2,900,793	0	(2,900,793)	-100%
Total Debt Service Expenses	443,702,322	427,924,440	451,390,465	495,861,031	44,470,566	10%
TOTAL EXPENSES	1,948,043,868	1,955,052,054	1,997,648,105	2,057,316,471	59,668,366	3%
Net Revenue	(85,928,007)	(29,861,544)	(30,462,456)	(36,524,422)	(6,061,966)	20%
Additional Assistance	155,833,334	140,250,001	127,000,000	127,000,000	0	0%
Net Revenue	69,905,327	110,388,457	96,537,544	90,475,578	(6,061,966)	-6%
Legacy Capital Maintenance Fund						
Deficiency Fund	(38,905,327)					
Capital Maintenance Fund (Cost Control Lock Box)	(31,000,000)	(67,750,000)	(53,127,941)			
Capital Maintenance Fund (Fare Increase Lock Box)		(42,600,000)	(43,409,602)			
NET Revenue in Excess of Expenses ⁽¹⁾	0	38,457	0			

BUDGET OVERVIEW

The Fiscal and Management Control Board (FMCB) approved the FY19 Budget on March 19, 2018 and will meet to approve the final Budget on April 9, 2018 which considerably shortened the review period for the MBTA Advisory Board. Staff at the Authority has been very helpful and have outlined the choices facing the MBTA very clearly, which has facilitated this review. The Finance Committee wishes to thank MBTA Budget staff for their help and cooperation.

Revenue

On the Authority's Statement of Revenues and Expenses, the Authority chooses to carry the appropriated Additional Assistance under total expenses. The MBTA carries \$127m, which after the \$36.5m shortfall represents \$90.4m that will go to the MBTA Capital Spending Lockbox. Non-operating revenues are:

Non-Operating Revenues	FY17 Actuals	FY18 Budget	FY19 Budget	Inc(Dec) FY18-FY19
Assessments	164,023,015	166,457,995	170,066,009	3,608,014
Sales Tax	992,191,784	1,006,806,769	1,032,067,551	25,260,782
Other Income	47,393,066	27,724,550	45,660,151	17,935,601
Total	1,203,607,865	1,200,989,314	1,247,793,711	46,804,397

With the exception of Other Income, the Non-operating Revenues are set in law and escalate according to a set formula. These revenue sources represent the bulk of the revenue that the MBTA receives. Operating Revenues tell a different story. The good news is that the MBTA continues to make progress towards its goal of generating over \$100m in so called "Other Operating Revenue" which includes advertising, leases and parking. Disturbing news is that for the first time in a number of years, fare revenue is expected to decline slightly (1%). This is unexpected given the strength of the economy and the rate of job growth throughout the MBTA District. The numbers look like this:

Operating Revenues	FY17 Actuals	FY18 Budget	FY19 Budget	Inc(Dec) FY18-FY19
Transportation Revenue	659,002,809	676,675,764	671,435,823	(5,239,941)
Other Operating Revenue	62,579,836	89,502,571	101,562,515	12,041,944
Total	721,582,645	766,196,335,	772,998,338	6,802,003

The Fiscal Management and Control Board (FMCB) which controls the MBTA and sets the Authority's Budget has set goals to contain escalations of operational costs and to increase the total amount of revenue that the MBTA itself generates. The proposed budget outlines an increase of about 1% over the FY18 operating budget expenses and hopes to see a 2.2% growth in total revenues. However, even with this tight control on spending and growing income, the MBTA still has a structural deficit that the MBTA hopes to limit to \$36.5m, which would then be covered by a special appropriation expected in the State budget.

The MBTA hopes to generate \$25m in revenue in the following ways:

- Advertise and Promote the Corporate Pass Program \$8.0m
 - Expansion in Advertising (electronic screens) \$6.0m
 - Investment Income \$4.0m
 - Parking Fee Revision* \$7.0m
- \$25.0m

The Authority seeks to save significant costs through the following programs:

- LEAN Productivity Programs \$30.0m
 - Changes to the RIDE's Uber/Lyft Pilot \$ 1.0m
 - Voluntary Retirement Incentives \$ 5.0m
- \$36.0m

(*The details of the Parking Fee Revision are still being worked out and the program is not ready in detail as yet. Staff assumes that the program will be in place by the beginning of the fiscal year if the Authority is to see the full financial benefit of program)

Expenses

The focus of Management at the MBTA has been on cost control. Many of the actions that they have taken, most importantly the negotiations with their labor unions, have borne fruit in terms of limiting the overall increase in operating expenses to 1%. This is a very impressive accomplishment.

Labor cost will represent \$771m (wages, fringe taxes) of the operating costs with the growth in wages offset by attrition and the effort by the Authority to allocate \$27m in personnel costs to the capital budget. The Legislature had ordered both MassDOT and the MBTA to transfer all employees to the operating budget after discovering significant abuse of the system by MassDOT. Last year MassDOT was granted some relief from this rule in cases where an employee were exclusively working on Capital issues. The MBTA is seeking the same relief from the Legislature. Given the expansion of the capital spending at the MBTA, we support this legislation and hope that the transfer of these capital cost are allowed. Growth in Fringe Benefits is almost entirely the Pension contribution, a development that has the Authority very concerned. Pensions, like the Commuter Rail cost and the RIDE are costs that the Authority can only address with great difficulty. The Pension contribution is set in agreement, the Commuter Rail cost inflation is in a contract that pre-dates the FMCB and it is demographics which largely drives the cost increases at the RIDE. These three items largely are the operating cost increases at the MBTA.

These increases are offset by significant savings in Materials Supplies and Services with an expected \$19.4m reduction over FY18 levels. The Authority continues to enjoy the benefits of the fuel hedge and expects to see significant efficiencies through better management.

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Total Operating Expenses	1,504,341,546	1,527,127,614	1,546,257,640	1,561,455,440	15,197,800	1%

Debt service expenses are expected to grow by 10%. This is a function of the existing debt for the MBTA not the ramp up in spending of the last few years. Longtime members will recall that the debt service spending dipped for about four fiscal years and now returns to previous levels in this fiscal year. The discussions regarding Capital Spending at the Authority mostly involve greater efficiency in project bidding, awarding and management as well as the most effective use of the

State Bond funds provided. The policy at the Authority to use MBTA bond funds to leverage federal funds has not changed.

Debt Service Expenses	FY17 Actuals	FY18 Budget	FY19Budget	Inc(Dec) FY18-FY19
Interest	210,124,894	208,054,671	229,961,030	21,906,359
Principal	213,692,704	240,435,000	265,900,000	25,465,000
Lease Payments	4,106,842	2,900,793	0	0
Total	427,924,440	451,390,465	495,861,031	44,470,566

DISSCUSSION

It is important to consider that The MBTA has had a running deficit since the beginning of Forward Funding in 2000. In some years the problem has been solved by fare increases. Other years the Authority has restructured its debt, left positions vacant or even tried to “challenge themselves” to find efficiencies after the fiscal year has begun. Another effect of the running shortfall is that every 8 to 10 years there is another legislative attempt to reform the MBTA. The leadership structure is changed, reporting requirements are added and public oversight of watchdog agencies has been reduced all under the guise of reform before revenue. The fact remains: despite the very impressive progress that the new leadership at the MBTA has achieved, the cost to provide the service the MBTA currently delivers outstrips the revenue streams dedicated to public transit. Greater efficiency is not a substitute for adequate funding. Even with the efficiencies instituted within the organization and the growth of ‘own-source’ revenues, the expansion of service within the existing transit footprint (more frequent and reliable bus service) will continue to be unaffordable. In a few years the greater efficiency of the new Red, Orange and Green Line trains will increase capacity, but it will continue to be difficult to meet the demand for additional service to the growing areas of Metro-Boston. Job growth in areas like the Seaport, Kendall Square, Everett, Revere, Quincy and many other places requires transit service to be available. At last count in 2015, there 2,374,223 registered vehicles in Massachusetts and it seem like that number has grown in the last few years, Recent media reports about the difficulty of commuting around and into Boston highlight the opportunity and the challenge for the MBTA in the near future. It is important to make sure that the Authority has the resources to meet the demand. Currently, they do not.

We must recognize that we currently do not have the revenue to operate the MBTA for the long term. We have no doubt that the current MBTA leadership will achieve a balanced budget, but no amount of management can change the fact that to a large extent, costs of fringe, labor and contracted services are beyond the control of the Board. Growth in these areas will outstrip the dedicated revenue streams forcing regular fare increases that barely keep the Authority afloat. All while customers are clamoring for expanded or additional service, and communities need reliable transit to assist with their economic development and housing growth

Part of the legislation that created the FMCB requires that body to make recommendation regarding the future governance of the MBTA. We believe the FMCB must include recommendations for additional revenue sources so the MBTA can grow with the marketplace. The Governor and the Legislature needs to be open to tying the growth of the MBTA to the value it creates. Some states

look to a land transfer tax imposed on the sale of property to tie the increase in real estate value created by proximity to the property to transit to fund transit operations. Another option is the structure development that includes MBTA property in such a way that the MBTA participates in the long-term profitability of said development. Remember that the MBTA is an Authority with the ability to issue bonds and with eminent domain powers. It is one of the largest landowners in the Commonwealth and two thirds of the Commonwealth's population live in its service area. It has some of the tools needed to participate with the development community and bring those revenues to bear for the benefit of all who commute in Eastern Massachusetts. Without another dedicated revenue stream, the MBTA cannot grow with the Commonwealth.

In the mean time we should look to ideas raised in the past regarding who should be responsible for certain services. Communities around Boston are trying to provide ferry service to the city and there are demands for ferry service to the Seaport district. The best candidate to provide that service, as we have argued in the past, is MassPort. They control the Port of Boston and large parts of the Seaport District. Ferries are a natural for this area, which is difficult to serve with traditional transit. The growth in interest and in service has outstripped the MBTA's ability to keep pace. The FMCB and MassDOT should support putting this service with MassPort where it belongs.

Part of the Authority's effort to expand use of the Corporate Pass includes marketing the availability of the pass to the riding public. The Authority is also looking to promote use of its parking lots at off peak times and on weekends. Communities distant from Boston have ideas that would increase weekend and off peak use of commuter rail. We suggest that advertisement of Family Fares on Commuter Rail. We recommend that children 16 and younger traveling with a parent or guardian ride free off peak. The discount could include up to four children and would apply only to commuter rail. The current standard of children under 11 traveling with an adult would remain for the rest of the system.

We believe that this program will benefit both the riders and the MBTA by increasing both fare revenue and ridership at off peak