



April 10, 2020

Mr. Joseph Aiello, Chair
Fiscal & Management Control Board
c/o Mr. Owen Kane, Esq., Senior Counsel to the Board of Directors
Massachusetts Bay Transportation Authority
10 Park Plaza
Boston, MA 02111

Dear Chairman Aiello:

On behalf of and in the name of the MBTA Advisory Board presents the enclosed report to the Fiscal and Management Control Board of the Massachusetts Bay Transportation Authority. This report encompasses the Advisory Board's review of the Authority's preliminary operating budget, as presented by MBTA staff and approved for release on March 9. Advisory Board member communities, meeting remotely during this time of social distancing, reviewed the materials provided by the Authority, and voted to approve the enclosed report by a vote of 134-1, with voting closing on April 10, 2020 at noon.

In addition to the recommendations included in the report, the Advisory Board further requests that the Authority present an updated FY21 Operating Budget for review by the Advisory Board in the fall of 2020. We ask that FMCB to pass this request on to its successor Board of Directors. Thank you.

Respectfully Submitted

Brian Kane
Acting Executive Director



MBTA Advisory Board
FY21 Massachusetts Bay Transportation Authority
Operating Budget Oversight Report

REPORT
Approved by vote of the Board
April 10, 2020

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Acting Executive Director

Deborah Gaul
Executive Assistant

Paul Regan
Executive Director Emeritus

The MBTA Advisory Board is an independent statutory organization organized under Massachusetts General Law to oversee the finances, operations, and activities of the Massachusetts Bay Transportation Authority. The Advisory Board represents the interests of the 176 cities and towns in the MBTA service district. In FY21 these municipalities will contribute over \$177 million in subsidies to the MBTA via municipal assessments.

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Dedication

John R. “Jack” Buckley



January 1, 1932 – January 21, 2020

This report is dedicated to the memory of the Honorable John R. “Jack” Buckley of Abington. During his distinguished career, Jack served at the state level as State Representative, and as Secretary of Administration & Finance; at the local level he served as Town Moderator, and on a variety of committees in his beloved Abington. Jack also served for many years as a member of the MBTA Advisory Board and was a relied-upon member of its Finance Committee He is missed. May he rest in peace.

FY 21 Budget Statement of Revenue & Expense

REVENUE	FY18 Actuals	FY19 Actuals	FY20 Budget	FY21 Budget Request	FY21 \$ Inc/ (Dec) over FY19 Actuals	FY21 % Inc/ (Dec) over FY19 Actuals	FY21 \$ Inc/ (Dec) over FY20 Budget	FY21 % Inc/ (Dec) over FY20 Budget
Operating Revenue								
Revenue from Transportation	661,055,110	671,701,199	696,801,296	711,602,511	39,901,312	5.9%	14,801,215	2.1%
Other Operating Revenue	88,104,672	90,194,862	111,319,197	100,518,076	10,323,214	11.4%	(10,801,121)	-9.7%
Total Operating Revenue	749,159,782	761,896,061	808,120,493	812,120,587	50,224,526	6.6%	4,000,094	0.5%
Non-Operating Revenue								
Dedicated Local Assessments	166,480,960	170,091,004	174,373,072	177,860,334	7,769,330	4.6%	3,487,462	2.0%
Dedicated Sales Tax	1,006,806,769	1,053,201,141	1,063,029,378	1,136,000,000	82,798,839	7.9%	72,970,422	6.9%
Additional Assistance	127,000,000	127,000,000	127,000,000	200,000,000	73,000,000	57.5%	73,000,000	57.5%
Other Income	92,835,096	57,204,215	37,362,663	61,588,249	4,384,034	7.7%	24,225,584	64.8%
Total Non-Operating Revenue	1,393,142,825	1,407,496,360	1,401,765,315	1,575,448,783	167,952,423	11.9%	173,683,468	12.4%
TOTAL REVENUES	2,142,302,607	2,169,392,421	2,209,885,808	2,387,569,370	218,176,949	10.1%	177,683,562	8.0%
Operating Expenses								
Regular Wages	431,138,162	418,101,440	455,143,741	515,666,720	97,565,280	23.3%	60,522,979	13.3%
Collateral Wages	17,826,386	20,005,296	17,749,108	20,222,202	216,906	1.1%	2,473,094	13.9%
Total Regular	448,964,548	438,106,736	472,892,849	535,888,922	97,782,186	22.3%	62,996,073	13.3%
Overtime	54,175,926	49,426,239	34,086,973	43,745,106	97,999,092	198.3%	63,469,167	192.1%
Total Wages	503,140,474	487,532,975	506,979,822	579,634,028	195,781,278	40.2%	128,465,240	25.3%
Fringe Benefits								
Pensions	93,839,949	101,644,584	118,153,514	146,779,701	45,135,117	44.4%	28,626,187	24.2%
Healthcare	100,999,511	99,660,514	104,614,103	104,711,244	3,030,730	3.1%	97,141	0.1%
Group Life	336,543	406,413	345,261	421,304	14,891	3.7%	76,043	22.0%
Worker's Comp.	11,625,322	11,603,689	11,820,618	11,808,629	204,940	1.8%	(11,989)	-0.1%
Other Fringe Benefits	203,089	127,266	214,120	217,136	89,870	70.6%	3,016	1.4%
Total Fringe Benefits	207,006,414	213,442,466	235,147,616	263,938,014	50,495,548	23.7%	28,790,398	12.2%
Health & Welfare Fund	11,698,226	11,710,284	12,019,134	12,808,828	1,098,544	9.4%	789,694	6.6%
Payroll Taxes								
FICA (7.65% of wages)	37,998,680	38,232,477	38,783,956	44,342,003	6,109,526	16.0%	3,358,047	14.3%
PMLA (0.75% of wages)	0	0	0	4,347,255	4,347,255	n/s	4,347,255	n/s
Unemployment	2,242,297	1,580,546	2,358,745	2,370,967	790,421	50.0%	12,222	0.5%
Total Payroll Taxes	40,240,977	39,813,023	41,142,701	51,060,225	11,247,202	28.3%	9,917,524	24.1%
Materials, Supplies & Services	244,111,665	247,902,030	256,964,007	289,346,186	41,444,156	16.7%	32,382,179	12.6%
Materials	47,368,972	44,718,141	43,720,877	49,225,693	4,507,552	10.1%	3,504,816	12.6%
Services	109,331,747	114,367,099	125,983,305	144,380,443	30,213,344	26.4%	18,397,138	14.8%
Utilities	46,570,438	43,817,430	40,810,496	43,453,645	-361,785	-0.8%	2,645,149	6.5%
Fuel	14,385,756	17,710,597	14,617,825	15,781,760	-1,928,837	-10.9%	1,163,935	8.0%
Contract Cleaning	23,041,511	24,797,628	29,701,150	32,786,864	7,989,236	32.2%	3,085,714	10.4%
Uniform	1,413,241	2,491,135	2,130,354	3,515,781	1,024,646	41.1%	1,385,427	65.0%
Casualty & Liability	10,573,101	16,168,085	14,339,300	18,655,217	2,487,132	15.4%	4,315,917	30.1%
Insurance (T-C)	6,102,345	6,921,198	7,839,300	9,655,217	2,734,019	39.5%	1,815,917	23.2%
Injuries & Damages	4,470,756	9,246,887	6,500,000	9,000,000	-246,887	-2.7%	2,500,000	38.5%
Commuter Rail Service	394,319,758	409,150,692	418,930,055	443,883,067	34,732,375	8.5%	24,953,012	6.0%
Fixed Price	320,482,677	327,297,228	335,129,031	341,899,369	14,602,141	4.5%	6,770,338	2.0%
Extra work & Services	39,587,440	43,192,190	44,825,154	61,800,133	18,607,943	43.1%	16,974,979	37.9%
Fuel	27,572,194	29,691,014	29,675,870	29,075,015	-615,999	-2.1%	(600,835)	-2.0%
PRIIA (NECC)	6,677,447	8,970,260	9,300,000	11,108,550	2,138,290	23.8%	1,808,550	19.4%
Local Service Subsidy	124,373,488	140,244,994	134,911,744	144,392,477	4,147,483	3.0%	9,480,733	7.0%
The RIDE	108,561,822	121,593,569	115,202,175	123,705,924	2,112,355	1.7%	8,503,749	7.4%
Ferry Service	13,404,171	15,484,978	16,545,199	17,494,237	2,009,239	13.0%	949,038	5.7%
Other LSS	2,407,495	3,166,447	3,164,370	3,192,316	25,869	0.8%	27,946	0.9%
Financial Service Charge	7,720,464	7,808,873	8,069,304	9,009,411	1,200,538	15.4%	940,107	11.7%
TOTAL OPERATING EXPENSES	1,543,184,567	1,573,773,422	1,628,503,683	1,812,727,453	238,954,081	15.2%	184,223,770	11.3%
Debt Service Expenses								
Interest	243,634,881	266,564,583	276,870,000	303,850,546	37,285,963	14.0%	26,980,546	9.7%
Principal Payments	228,355,010	220,347,347	214,051,690	210,149,434	-10,197,893	-4.6%	(3,902,236)	-1.8%
Lease Payments	18,880	0	0	0	0	n/s	0	n/s
Total Debt Service Expenses	472,008,771	486,911,930	490,921,690	514,000,000	27,088,070	5.6%	23,078,310	4.7%
TOTAL EXPENSES	2,015,193,338	2,060,685,352	2,119,425,373	2,326,727,453	266,042,101	12.9%	207,302,080	9.8%
Net Revenue	127,109,269	108,707,069	90,460,435	60,841,917	(47,865,152)		(29,618,518)	
Deficiency Fund								
Capitol Maint. Fund	(127,109,269)	(108,707,069)	(90,460,435)					
CIP Projects & Capital Wage Spend				(90,000,000)	(90,000,000)		(90,000,000)	
Net Revenue in Excess of Expenses	0	0	0	(29,158,083)	(137,865,152)		0	(119,618,518)

EXECUTIVE SUMMARY

The budget presented to the Advisory Board in mid-March by the Massachusetts Bay Transportation Authority will likely never come to pass. The revenue assumptions underpinning it did not presume the global Covid 19 pandemic, nor the economic recession that it created¹. There was, of course, no way for MBTA budget writers to have foreseen this global change in the economy. Nevertheless, at the time this report is drafted, it seems that the world, nation, and region are either in a recession or headed to one. Whatever the timing of this recession, it will affect the MBTA's FY21 operating budget negatively. However, there are actions that can be taken now to prepare for the post-Covid 19 world. With this in mind, and with the likelihood of federal funds forthcoming, the Advisory Board recommends the following actions:

- MBTA to maximize Federal Transit Administration (FTA) funding in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Recent FTA guidance indicates approximately \$875 million of funding is available to Massachusetts in the Boston UZA/region². In addition, the FTA indicates that these funds could be used for operating expenses incurred after the Governor's declaration of a state of emergency related to COVID-19. Unusually, this includes a 100% federal grant for operating expenses.³
- Legislature to relieve the MBTA of the regulation forbidding the payment of employee salaries on the capital budget for state- and MBTA bond funded capital projects.

¹ "Morgan Stanley, Goldman Declare Global Recession Under Way" by: Christopher Condon & Jeff Kearns. Bloomberg, March 17, 2020.

² <https://www.transit.dot.gov/funding/apportionments/table-1-fy-2020-cares-act-appropriations-and-apportionments-grant-programs>

³ <https://www.transit.dot.gov/frequently-asked-questions-fta-grantees-regarding-coronavirus-disease-2019-covid-19#CARES>

- FMCB to institute a hiring freeze for positions that are not either classified as safety-sensitive, or essential to delivering the capital program immediately
- FMCB to order the development and publication of output measures to ensure that the public, and stakeholders and all interested parties can measure the impact of additional spending to ensure that the MBTA is becoming safer, more frequent, and utterly reliable.

The MBTA must continue to push its accelerated capital spending, especially now in a time of recession. Government spending, especially on infrastructure, can help pull the region out of this economic slump. Federal money is beginning to flow, but the MBTA must begin preparing now to receive these funds and be ready to translate these dollars into improvements on the system for all. The Advisory Board looks forward to continuing to work with the MBTA's leadership to ensure that this continues, and that the safer, cleaner, better MBTA we all have been promised for so long takes form.

PROCESS OVERVIEW

On March 9, 2020, the Fiscal and Management Control Board (FMCB) authorized the Massachusetts Bay Transportation Authority (MBTA) General Manager, or his designee to submit the preliminary FY2021 itemized operating budget, as presented on that day, with the addition of appropriate staffing levels to advance a means-testing fares study, in the name of and on behalf of the Authority, to the MBTA Advisory Board for review. Advisory Board staff received this budget and supporting materials on March 17, 2020. State Law requires the MBTA to approve a balanced budget no later than April 15 of each year.

The Advisory Board's Finance Committee received the MBTA's budget and materials on March 17. Finance Committee members received these materials

shortly thereafter, and on April 2, a draft version of this report from Advisory Board staff. Members of the committee discussed the draft, corresponded, and approved it for submission to the full Advisory Board electronically. The Finance Committee approved submission of this report to the full Advisory Board with a recommendation for approval on April 7. The Advisory Board voted to approve this report, as edited, and authorized staff to present it to the MBTA in its name, and on its behalf on this date. The next FMCB meeting is scheduled for April 13, 2020, when this report will be presented.

BUDGET OVERVIEW

For FY21, the MBTA proposes to increase spending by more than \$200 million over its FY20 budget, and FY19 actuals. The majority of this increase is allocated to hire more employees (\$72.6 million in wages and \$28.8 million in fringe benefits). To account for this increased expenditure, the FY21 budget relies on a \$200 million increase in additional assistance from the Commonwealth. Governor Baker, and the House of Representatives have separately filed legislation to increase MBTA operating funding effective July 1, 2020. The State Senate is currently crafting its legislation, which is also expected to include significant recurring operating revenue for the MBTA. Given that the Governor, and House, and Senate leadership have expressed support for additional recurring, operating funding for the MBTA this year, optimism remains that significant revenue will be forthcoming in time for the start of FY21.

Revenue

In FY21, the Authority projects \$2.39 billion in revenue. This is \$177.7 million more than the FY20 budgeted amount, and \$218.2 million greater than the actual revenue amount collected in FY19. The majority of this increase in the budget is

projected from an additional \$200 million in additional assistance from the Commonwealth. The House of Representatives passed legislation in late February 2020 with additional revenue for the MBTA's operating budget supported by a \$0.05 gas tax increase (\$0.09 for diesel), increased TNC (i.e. Uber and Lyft) ride fees, and additional business taxes.⁴ This legislation pledges \$187 million in additional funds to the MBTA in FY21. Governor Baker, in his budget proposal, called for a \$73 million increase in MBTA operating funding supported by increased TNC fees⁵, and additional future funding from the proposed regional Transportation and Climate Initiative, or TCI.⁶ State Senate leadership indicated that they would draft their own legislation, and Advisory Board staff are in discussions with Senate staff on possible language to include in this bill. However, all of these actions took place in late February and early March, before the Covid-19 virus forced the closure of non-essential businesses, and the impact on the international, national, and regional economy became clearer. Today, the picture remains unclear, and no one knows what the impact of the pandemic will be on the MBTA's revenue, on pending legislation, or on public transportation itself. What is clear is that the global, national, and regional economy is either in a recession, or headed for one. The last time the region underwent a recession in 2009, the MBTA's revenue suffered. Its largest revenue source, the state sales tax, tends to decline during recessions as people defer major home improvements, major purchases, and other overall spending which decreases sales tax collections. Fare revenues tend to decline during recessions as well, as unemployment reduces the number of work

⁴ "Mass. House leaders propose gas tax increase, raising fee on Uber, Lyft rides" by: Matt Stout & Adam Vaccaro. [Boston Globe](#) February 26, 2020.

⁵ "Baker calls for Uber, Lyft fee hike, more MBTA funds in budget proposal" by: Matt Stout and Adam Vaccaro. [Boston Globe](#), January 22, 2020.

⁶ "In State of the Commonwealth speech, Baker presses for more aggressive climate action, more money for T" by: Matt Stout. [Boston Globe](#), January 22, 2020.

commuters which make up many of the MBTA’s principal customers. Overall, the revenue picture for the MBTA’s FY21 budget is uninviting.

Operating Revenue

Operating revenue consists of fares (called revenue from transportation) and other operating revenue. Fare revenue is projected at \$711.6 million. This is a 2.1% increase over the budgeted amount for FY20, and 6% greater than the actual amount of fare revenue collected in FY19. There is no fare increase planned in FY21. Given the recession, it appears that this projection is perhaps overly optimistic for FY21.

REVENUE	FY18 Actuals	FY19 Actuals	FY20 Budget	FY21 Budget Request	FY21 \$ Inc/ (Dec) over FY19 Actuals	FY21 % Inc/ (Dec) over FY19 Actuals	FY21 \$ Inc/ (Dec) over FY20 Budget	FY21 % Inc/ (Dec) over FY20 Budget
Operating Revenue								
Revenue from Transportation	661,055,110	671,701,199	696,801,296	711,602,511	39,901,312	5.9%	14,801,215	2.1%
Other Operating Revenue	88,104,672	90,194,862	111,319,197	100,518,076	10,323,214	11.4%	(10,801,121)	-9.7%
Total Operating Revenue	749,159,782	761,896,061	808,120,493	812,120,587	50,224,526	6.6%	4,000,094	0.5%

Other operating revenue consists of advertising, parking, real estate, and other such revenues. In FY21, the Authority predicts \$100.5 million in such revenue, a \$10.8 million decrease (11.4%) over the FY20 budgeted amount. Year to date (YTD) actual revenue received in FY20 is \$55.1 through January 31, 2020. This is \$7.1 million under the amount expected at this point in the fiscal year. Given that other operating revenue is off by this much YTD, the decrease of \$10.8 million in the FY20 budget is reasonable. However, it is likely that even this reduction may not be enough. There is every likelihood that advertising, parking, and real estate revenues will be significantly less than \$100.5 million in FY21. Parking revenue, in particular, will likely suffer if unemployment increases, as fewer people drive to MBTA parking facilities to commute to work.

Non-Operating Revenue

With the exception of other income, the Non-Operating Revenue category includes subsidies to the MBTA to provide public transportation. Revenue in this category is

expected to grow by nearly 12% over the FY19 actual amount, and 12.4% over the FY20 budgeted amount.

REVENUE	FY18 Actuals	FY19 Actuals	FY20 Budget	FY21 Budget Request	FY21 \$ Inc/ (Dec) over FY19 Actuals	FY21 % Inc/ (Dec) over FY19 Actuals	FY21 \$ Inc/ (Dec) over FY20 Budget	FY21 % Inc/ (Dec) over FY20 Budget
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Dedicated Local Assessments	166,480,960	170,091,004	174,373,072	177,860,534	7,769,530	4.6%	3,487,462	2.0%
Dedicated Sales Tax	1,006,806,769	1,053,201,141	1,063,029,578	1,136,000,000	82,798,859	7.9%	72,970,422	6.9%
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Other Income	92,855,096	57,204,215	37,362,665	61,588,249	4,384,034	7.7%	24,225,584	64.8%
Total Non-Operating Revenue	1,393,142,825	1,407,496,360	1,401,765,315	1,575,448,783	167,952,423	11.9%	173,683,468	12.4%

The FY21 sales tax subsidy amount assumes an amount which exceeds the sales tax base revenue amount by \$53 million, due to projected strong sales tax revenue receipts in FY21. The Commonwealth has certified the sales tax revenue subsidy \$1.1 billion, which is the higher amount. However, given the likely economic downturn, questions remain about how solid this certification is.

As discussed above, given the financial realities of today, versus when this document was created, these projections will likely be difficult to attain. Sales tax revenue collected by the Commonwealth tends to decline in times of recession as citizens defer major purchases, and economic activity as a whole slows. Local assessments from cities and towns will likely be the one area that comes in on budget due to the formulaic nature of how communities are assessed. The amount of additional assistance that the MBTA receives must also be in question at this time. How likely is the Commonwealth to raise taxes and other revenues during a recession? The answer is unknown, especially given that the Senate has yet to act. There is a distinct possibility, however, that the additional funding for the MBTA will evaporate as the Commonwealth looks to balance its own books, and pay healthcare and insurance costs that will likely be in the billions of dollars.

Expense

Operating expenses, which are all MBTA expenses except debt service, are budgeted at \$1.8 billion for FY21, a 15.2% increase over the actual amount spent in FY19, and 11.3% over the FY20 budgeted amount. All other operating expenses (Materials, Supplies & Services; Casualty & Liability Insurance; Commuter Rail Service; Local Service Subsidy, and Financial Service Charges) are also projected to increase between 6.0% - 30.1%. These costs represent an over \$269.5 million increase in spending since 2018, a 17% increase.

Employee Costs

Employee costs are budgeted to increase by \$154.9 million over the FY19 actual amount spent, and \$112.2 million over the FY20 budgeted amount. Employee costs include wages, overtime, fringe benefits, health and welfare fund payments, and payroll taxes. According to MBTA materials, by the end of FY20, employee headcount will have increased by 428 positions over the FY19 actual number.

	FY18 Actuals	FY19 Actuals	FY20 Budget	FY21 Budget Request	FY21 \$ Inc/ (Dec) over FY19 Actuals	FY21 % Inc/ (Dec) over FY19 Actuals	FY21 \$ Inc/ (Dec) over FY20 Budget	FY21 % Inc/ (Dec) over FY20 Budget
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PMLA (0.75% of wages)	0	0	0	4,347,255	4,347,255	n/a	4,347,255	n/a
Unemployment	2,242,297	1,580,546	2,358,745	2,370,967	790,421	50.0%	12,222	0.5%
Total Payroll Taxes	40,240,977	39,813,023	41,142,701	51,060,225	11,247,202	28.3%	9,917,524	24.1%
Total Employee Costs	762,086,091	752,498,748	795,289,273	907,441,095	154,942,347	20.6%	112,151,822	14.1%

The FY21 budget proposes increasing the headcount by an additional 333 to 475 positions.

Baseline headcount increases in FY21 Budget

Safety Panel Recommendations	275
Other Operational Initiatives	25
<u>PFML Coverage</u>	<u>33</u>
Total	333

FY20 Policy Decision Headcount Increase

Peak Bus Expansion	50
<u>Light/Heavy Rail</u>	<u>38</u>
Total	88

FY21 Additional Headcount Requests

Bus Transformation (PMO)	3
Service Enhancements	34
Bus Network Redesign	12
<u>Weekend Pilots</u>	<u>5</u>
Total	54

Total potential headcount increase: 475

Baseline Employee Growth

Baseline headcount increases include those safety panel recommendations that are contained in the December 9, 2019 “Safety Review Panel” report.⁷ Perhaps the sentence that best summarizes this report is: “In general, the SRP (Safety Review Panel) found that the T’s approach to safety is questionable, which results in safety culture concerns. In almost every area we examined, deficiencies in policies, application of safety standards or industry best practices, and accountability were apparent.” In addition to this scathing assessment, the panel also made 34 recommendations, which MBTA staff translated into the desire to hire an additional 305 employees (note that 30 employees were hired under the FY20 budget). According to the Authority, these employees will address PMI, specialized

⁷ See <https://www.mbta.com/safetyreport>

inspections, and increased training for employees, at a cost of \$44.3 million in FY21. Also, in the baseline of headcount increases are 25 positions for “other operational initiatives,” and PFML coverage.” Taken together, these 333 positions form the baseline of employee cost increases in FY21.

FY20 Policy Decision Headcount Increase

In FY20, the FMCB also made several policy decisions to increase headcount to support fleet expansions, including 50 operations personnel for peak bus expansion, and 38 for light and heavy rail enhancements. In the fall of 2020 (in FY21), the authority expects to receive delivery of 60 new buses in its fleet, without retiring existing buses from the fleet. To support the operation of these new vehicles, the budget seeks funds to hire additional operations staff to allow these buses to operate during peak periods. On most days currently 100% of the existing bus fleet operates during peak. In addition, 38 employees are also sought to be hired to staff light and heavy rail operations that will increase in coming years as the GLX expansion opens, and the new red and orange line fleets come online. These projects will increase the light and heavy rail fleets, requiring additional operations employees.

FY21 Headcount Increase Requests

The Authority in FY21 is also seeking an additional 54 employees to support FY21 policy decisions related to a bus transformation project management office, service enhancements designed to decrease dropped trips and increase on time performance, support for the bus network redesign initiative, and support of weekend pilot projects around additional service on some bus lines.

Capital Salaries

Although not part of the operating budget, the growth in capital employee headcount does impact the operating budget. Due to state laws recently enacted,

employees working on state- and MBTA-bond funded projects are ineligible to have their salaries paid by the capital budget. This forces these costs onto the operating budget, via the use of lockbox funds. The estimated cost in FY21 is \$60 million for capital salaries from the lock box. These expenses could be born on the capital budget, assuming the salaries are directly related to capital projects.

Non-Employee Costs

Non-employee costs include all operating expenses not associated with compensation, including materials, supplies and services; casualty and liability insurance; commuter rail contract; local service subsidized service; and financial service charges. Expenses in this category are projected to grown by 8.6% over the amount budgeted in FY20, and 10.2% over the actual amount spent in FY19. Growth ranges from 6.0% to 12.6% across all the line items in the category.

Materials, Supplies, and Services

Expenses in this category include non-durable goods used on the MBTA fleet, professional services such as engineering and management consultant activities, fuel for MBTA vehicles, utility costs to operate vehicles and facilities, cleaning services for stations, vehicles, and facilities and the cost of uniforms for certain employees. The FY21 budget requests an increase in these line items of \$32.4 million over the FY20 budget, principally due to an \$18.6 million increase in the services sub-line item. The MBTA needs to explain this increase. The MBTA has a 50% fuel hedge in place that expires in June of this year. The recent decrease in fuel prices is likely to benefit the FY21 budget, depending on how locked in the prices are.

Causality & Liability

These costs are for the Authority's insurance and self-insurance programs, as well as for payouts for court cases involving the Authority. Expenses are projected to increase by 6% over the FY20 budgeted amount, to \$18.7 million in FY21.

Commuter Rail Service

The fixed price contact cost for the commuter rail contract is projected to be \$443.9 million in FY21, a 2% increase over the FY20 budgeted amount. July 2020 marks the sixth year of the eight-year contract. Overall, commuter rail service costs are projected to increase by 6.0% over the FY20 budgeted amount. Other costs in this category, other than the fixed price costs, include extra work and services costs awarded to Keolis by the MBTA, fuel costs associated with commuter rail, and costs associated with the Passenger Rail Investment and Improvement Act of 2008, or PRIIA. These costs include payments by the Authority to Amtrak for Northeast Corridor operating, maintenance, and capital costs.

				FY21 Budget Request	FY21 \$ Inc/ (Dec) over FY19 Actuals	FY21 % Inc/ (Dec) over FY19 Actuals	FY21 \$ Inc/ (Dec) over FY20 Budget	FY21 % Inc/ (Dec) over FY20 Budget
Non-Employee Costs	FY18 Actuals	FY19 Actuals	FY20 Budget					
Materials, Supplies & Services	244,111,665	247,902,030	256,964,007	289,346,186	41,444,156	16.7%	32,382,179	12.6%
Materials	47,368,972	44,718,141	43,720,877	49,225,693	4,507,552	10.1%	5,504,816	12.6%
Services	109,331,747	114,367,099	125,983,305	144,580,443	30,213,344	26.4%	18,597,138	14.8%
Utilities	46,570,438	43,817,430	40,810,496	43,455,645	-361,785	-0.8%	2,645,149	6.5%
Fuel	14,385,756	17,710,597	14,617,825	15,781,760	-1,928,837	-10.9%	1,163,935	8.0%
Contract Cleaning	25,041,511	24,797,628	29,701,150	32,786,864	7,989,236	32.2%	3,085,714	10.4%
Uniform	1,413,241	2,491,135	2,130,354	3,515,781	1,024,646	41.1%	1,385,427	65.0%
Casualty & Liability	10,573,101	16,168,085	14,339,300	18,655,217	2,487,132	15.4%	4,315,917	30.1%
Insurance (T-C)	6,102,345	6,921,198	7,839,300	9,655,217	2,734,019	39.5%	1,815,917	23.2%
Injuries & Damages	4,470,756	9,246,887	6,500,000	9,000,000	-246,887	-2.7%	2,500,000	38.5%
Commuter Rail Service	394,319,758	409,150,692	418,930,055	443,883,067	34,732,375	8.5%	24,953,012	6.0%
Fixed Price	320,482,677	327,297,228	335,129,031	341,899,369	14,602,141	4.5%	6,770,338	2.0%
Extra work & Services	39,587,440	43,192,190	44,825,154	61,800,133	18,607,943	43.1%	16,974,979	37.9%
Fuel	27,572,194	29,691,014	29,675,870	29,075,015	-615,999	-2.1%	(600,855)	-2.0%
PRIIA (NECC)	6,677,447	8,970,260	9,300,000	11,108,550	2,138,290	23.8%	1,808,550	19.4%
Local Service Subsidy	124,373,488	140,244,994	134,911,744	144,392,477	4,147,483	3.0%	9,480,733	7.0%
The RIDE	108,561,822	121,593,569	115,202,175	123,705,924	2,112,355	1.7%	8,503,749	7.4%
Ferry Service	13,404,171	15,484,978	16,545,199	17,494,237	2,009,259	13.0%	949,038	5.7%
Other LSS	2,407,495	3,166,447	3,164,370	3,192,316	25,869	0.8%	27,946	0.9%
Total Non-Employee Costs	773,378,012	813,465,801	825,145,106	896,276,947	82,811,146	10.2%	71,131,841	8.6%

Local Service Subsidy

Costs in this category include The RIDE, the MBTA's parallel paratransit service, the Authority's ferry service, and subsidies to certain cities and towns for small, contract bus operations. Costs in this category are projected to increase by 7% over the FY20 budgeted amount, driven largely by \$8.5 million increase for providing the RIDE. Paratransit costs have grown dramatically over the years, and show no signs of decreasing. It seems clear that a statewide solution is required.

Debt Service Costs

In 2021, Debt Service costs will consume over half a billion dollars in MBTA revenue. This is the second largest source of expenditure, just behind wage costs. In FY21, debt expenses will devour 22% of the operating budget. Debt service payments consist of interest payments of \$303.1 million, and interest payments of \$210.1 million. These payments support the MBTA's piece of the capital improvement plan. Principal payments are projected to be 9.7% greater in FY21 than in the FY20 budget, and 14% greater than the actual amount paid in FY19.

Debt Service Expenses	FY18 Actuals	FY19 Actuals	FY20 Budget	FY21 Budget Request	FY21 \$ Inc/ (Dec) over FY19 Actuals	FY21 % Inc/ (Dec) over FY19 Actuals	FY21 \$ Inc/ (Dec) over FY20 Budget	FY21 % Inc/ (Dec) over FY20 Budget
Interest	243,634,881	266,564,583	276,870,000	303,850,546	37,285,963	14.0%	26,980,546	9.7%
Principal Payments	228,355,010	220,347,347	214,051,690	210,149,454	-10,197,893	-4.6%	(3,902,236)	-1.8%
Lease Payments	18,880	0	0	0	0	n/a	0	n/a
Total Debt Service Expenses	472,008,771	486,911,930	490,921,690	514,000,000	27,088,070	5.6%	23,078,310	4.7%

Interest payments in FY21 are projected to be \$210.1 million which is a 1.8% decrease over the FY20 budgeted amount, and 4.6% below the actual amount paid in FY19.

Analysis

The projected FY21 budget is unlikely to be realized in its current form, as the global, national, and regional economy has changed for the worse since the FMCB voted to submit it to the Advisory Board in early March 2020. For instance, the

national unemployment rate at the end of February 2020 was 3.5%, while at the end of March 2020, 6.65 million Americans had filed for first-time unemployment claims due to the Covid 19 pandemic.⁸ The MBTA's operating budget is significantly affected by regional unemployment rates. During past recessions, statewide sales tax revenue plummeted, T ridership dropped, and T parking receipts shrunk as fewer people commuted to work via public transport.

Sales tax revenue is the MBTA's largest revenue source, most recently certified by the Commonwealth at \$1,136,000,000. This amount is \$53 million more than the base revenue amount, which is the lowest amount of sales tax revenue the MBTA can receive. Given the recession that is here, it seems unlikely that the MBTA will receive this \$53 million increase. Given the Commonwealth's likely pending budget deficit as it pays out billions in healthcare and unemployment costs related to its response to the pandemic, questions remain if the Commonwealth will go forward with tax increases in a time of recession. All this suggests that it is unlikely that the MBTA will realize the revenue it is projecting in FY21.

Given the uncertainty of revenue, it is prudent to look at expenses. The growth in expenses in this budget is mostly in headcount - adding employees to payroll. It is clear from the Safety Panel's report that additional resources are needed to ensure the safety of MBTA employees and the general public. However, there must be questions asked about the sustainability of adding nearly \$270 million in operating expenses over 3 fiscal years. This begs the question: what is the right size of the MBTA's workforce? MassDOT and the MBTA should be able to answer this.

⁸ "6.65 million file jobless claims as job market collapses under weight of coronavirus pandemic" by: Larry Edelman. [Boston Globe](#), April 2, 2020.

This report is drafted during tumultuous times, with a global pandemic in play, and an economy entering recession. Quite frankly there are few certainties at this time.

Conclusions

It is the government which will help pull the nation and the region out of its economic recession, and it is likely that this will happen via a major stimulus. The MBTA, as part of the Massachusetts government, must ensure that it continues to deliver its capital plan, and even increase investment in infrastructure, both to deliver a safer, cleaner, better MBTA, but also as a form of stimulus for the regional economy. With this in mind, and with the looming recession poised reduce MBTA revenues in FY21, the following recommendations are offered:

Capital Headcount:

In 2015 the Governor's Special Panel, which was formed to advise on ways to reform the MBTA in the wake of the winter of 2015, recommended that no MBTA employee salaries be paid with bond funds. Since that time, the MBTA has worked with the legislature to refine just what this means, to the point today where T employees paid to work on capital projects funded with federal funds can have their salaries charged against the capital budget, but employees working on capital projects paid for by Commonwealth or MBTA revenue bonds cannot, and are instead charged, in effect, against the operating budget. Governor Baker, in the transportation bond bill he filed last summer, sought to rectify this situation, and allow T employees legitimately working on capital projects to have their salaries charged against those projects, regardless of the funding source. This approach is in keeping with generally accepted accounting practices, and it makes sense. Especially now, in this time of uncertainty, when the MBTA is being pushed relentlessly to accelerate its capital spending, and when so much capital

maintenance and reconstruction efforts are necessary, the operating budget should be freed of the burden of paying for capital employees. This move would free up \$60 million in operating funds for the lockbox in FY21, funds that the Authority will undoubtedly need in these uncertain times. The legislature should take action to free the T from this burden, even if only as a temporary measure during this recession.

Headcount

It is clear that the MBTA needs additional human resources to not only deliver on the safety pledge of its leadership, but also to ensure fewer dropped trips, better frequency, and improved overall reliability. However, the plan to hire an additional 475 employees in FY21, on top of the 200+ new hires this current fiscal year, seems extreme. The Advisory Board recommends that the Authority institute a hiring freeze on all non-safety sensitive positions, and all positions not deemed essential for delivering the capital program immediately. It should be noted that operators of MBTA vehicles and most engineering and maintenance personnel are considered safety sensitive employees. This freeze targets principally administrative positions, which may be less essential in this time of crisis.

Outcomes

It is not unreasonable to ask what the people of Massachusetts are paying for with the billions in subsidies granted to the MBTA annually. Public transportation is a public good, and the externalities generated are certainly good for the region overall, but how much? The Authority should be able to explain to citizens, and stakeholders alike what is being paid for and provided on their behalf. Especially as subsidies have increased in recent years with little discernable improvement in service quality, those paying, including the cities and towns represented by the Advisory Board, have the right to know how their money is being spent. For

instance, this budget calls for a huge investment into improving the safety culture of the Authority's workforce, and overall safety for the traveling public. But, how can anyone know if this is happening? How can anyone know if the T is safer? The Authority should develop a set of measures and transparently report on them to the public regularly about its outputs, especially in safety, but also in terms of spending, frequency, reliability, on time performance, etc.

Thanks

Advisory Board staff offers thanks to all members of the board, and the cities and towns they represent. MBTA staff are also thanked, especially David Panagore, Samantha Silverberg, Mary Ann O'Hara, Gina Spaziani, and Paula Beatty. Thank you.