

MassDOT Finance and Audit Meetings  
Report

Options for The Budget Shortfall FY2014

MBTA Advisory Board members know that the FY2014 proposed budget is under review by Advisory Board staff. The MassDOT Board has been having meetings to discuss further changes to the MBTA budget should there be no legislative solution to the decade old financing problems at the MBTA. The solutions discussed so far would place a tremendous burden on the 175 communities served by the MBTA and the almost three quarters of the Massachusetts population who lives in the MBTA district. Advisory Board members need to understand the impact on their constituents and their local economies of some of the actions the MassDOT Board is contemplating, and decide if they wish to urge their Legislators to take action on the Transportation proposal before them.

The MassDOT/MBTA Board of Directors met on March 13, 2013 to approve the preliminary FY2014 Budget and send it to the MBTA Advisory Board for their review and comment. The FY14 budget increased overall spending at the MBTA 5.8% over FY13, with the majority of the additional spending coming in the Commuter Rail and the Materials, Supplies and Services line items. These two line items increase totaled \$74.3m. Wages also increases by \$16.8m (the pattern bargaining estimate) so these three items represent \$91 million out of the total \$102,054,457 increase in FY14 over FY13. The FY14 budget also reflects an expected drop of \$16.8m in revenues. The total shortfall expected in FY14 at the time of the Board's preliminary approval was \$118.8m.

The \$118.8m number was a marked improvement over the original estimate. The MBTA had found an additional \$20.3 in savings over last year's estimated of the FY14 budget deficit, reducing the number from \$139.1m to \$118.8m. Some of that was due to the fact that the fare increase implemented last year did not decrease ridership to the extent expected. The MBTA also found savings in major line items, decreasing the original estimated increases in Wages, Materials Supplies and Services, and the Purchased Local Service Subsidy line items totaling \$37.7m. Mitigating these savings was, as in previous years, the poor performance of the Sales tax, which serves as the largest revenue stream supporting the MBTA.

The MassDOT/ MBTA Board of Directors approved the FY14 budget at their meeting, acknowledging that the budget was \$118,834,618 out of balance and that they would be required to balance the budget with the tools they have in hand should the Legislature choose not to act on the MBTA's budget crisis. The MassDOT Board's Finance and Audit Committee met on March 5<sup>th</sup> and March 19<sup>th</sup> to discuss their options for a balanced budget. They are scheduled to meet one more time on March 28<sup>th</sup> before the full MassDOT Board meets in April to approve the final

budget. The MBTA Advisory Board believes that the budget must be actually balanced; an estimated bailout based on action not yet approved by the Legislature cannot and should not be used to balance a budget on paper. The MassDOT Board seems to agree, and has hosted presentations on the options they control to balance the FY2014 budget. The impacts of those options are the subject of this report.

## The Options

Starting from the premise that the MBTA must use its own powers and resources to close the budget gap, then we start with the same tools that the MBTA used last year, namely: service cuts and fare increases. The fare increase only option assumes a need to fill a \$130m gap. The MBTA used much of the research developed to plan for last year's fare increase to generate the following:

# Fare Scenario A



## All Fare Approach

Assumes \$130m deficit

- 33% fare increase
- New fare revenue \$130m
- Passenger trips lost 29.3m or 8%

### ■ Sample Fares

	Current	New
Bus	\$1.50	\$2.00
Subway	\$2.00	\$2.60
RIDE	\$4.00	\$5.25
CR Z9 Mo	\$329	\$461

Source-MBTA

There was considerable discussion as to whether the assumption of 8% decline in passenger trips is accurate given the fact that the expected decline in Ridership after the last fare increase failed to materialize. However, given significant fare increases in successive years, it is safe to assume that there would be an effect on overall ridership. The fare increase would still take time to implement and it is unlikely that it could go into effect before November of 2013, or half way through the fiscal year.

The MassDOT Audit and Finance Committee also discussed in detail the options around a combination of service cuts and fare increases. For discussion purposes, the idea was to close half of the deficit with fare increases and half with service cuts.



## Fare Scenario B

### Half Fare / Half Service Reduction Approach

Assumes \$65m in new fare revenue + \$65m in operating savings

- 15% fare increase
- New fare revenue \$65m
- Passenger trips lost 13m or 4%

**Fare impact dependent on service reductions**

#### ■ Sample Fares

	Current	New
Bus	\$1.50	\$1.75
Subway	\$2.00	\$2.25
RIDE	\$4.00	\$4.50
CR Z9 Mo	\$329	\$389

Source MBTA

MBTA staff discussed the limitations of savings from service cuts, acknowledging that the savings from cuts in routes are offset by the lost revenue. The scope and impact of the proposed cuts are startling.

Bus:

- Eliminate the 30 least productive routes
- All service after 11:00pm
- A loss of 5.75 of passenger trips
- Cut 368 MBTA jobs

Commuter Rail:

- Cut weekend service
- Reduce the number of conductors
- Reduce weekday customer service hours

Heavy and Light Rail:

- Eliminate service after 11:00 pm weekdays
- No weekend service
- Cut 217 MBTA jobs

The Audit and Finance Subcommittee discussed the implications of this policy on the customers generally and the transit dependent in particular. The MassDOT Board was reluctant to take these actions last year and are even more so this year, given the compounding nature of these changes two years in a row. The Audit and Finance Committee of the MassDOT Board of Directors sent MBTA staff back to look for other alternatives.

The Committee met again on March 19, 2013. The MBTA staff led the discussion, starting with an additional \$75.5 million in further reductions. It is important to point out that these reductions are not savings and efficiencies, rather they are almost exclusively made up of deferring critical maintenance, legal settlements, liability contributions and selling property. The effect of these deferrals is to increase future budget deficits and reduce critical infrastructure spending. The MBTA staff sought to build a "Short-term Bridge" that would hold the budget in place while awaiting the passage of the Governor's Transportation Budget proposal.

The Budget and Audit Committee heard from the MBTA senior staff that, should Legislative relief not be forthcoming, there would have to be significant steps taken to “re-size” the MBTA. The current revenues and projected future revenues of the MBTA cannot support the existing system. There will have to be closures of facilities, workforce reductions, reductions in the sizes of the various fleets of revenue vehicles and other changes. There would be Ridership loss and revenue loss as the MBTA becomes a different agency. It was recognized that the MBTA could become a “peak service” only transit system and that it would by definition be of less value to the transit dependent and those seeking to live a more car free lifestyle. The MBTA would no doubt fall from its current position as the fifth largest transit system. Commuter rail and outlying bus service changes would likely increase traffic congestion on major roads as commuters try to access the Metro Boston area. It is absolutely up to the MassDOT Board of Directors to lead the fight if this eventuality is to be avoided.

The MassDOT PowerPoint presentation from the March 19 meeting can be seen here (<http://www.mbtaadvisoryboard.org/reports/>) and it is worth viewing for the information on MBTA riders and ridership patterns.

By law, the MBTA must act on their final budget before April 15. It is important to remember that the MBTA has faced serious budget problems for almost 10 years. Organizations like the MBTA Advisory Board and others have been calling out the structural deficiencies of the MBTA’s operating and capital funding for at least that long. Every year the MBTA defers actions, capitalizes revenue streams, sells assets, raises fares and cuts services. The cumulative effects of these actions have severely impacted the amount and the quality of the remaining service. Service is generally perceived as unreliable and expensive. Leaders continue to call for greater efficiency and cutting of fat, as if 10 years of budget crises has not already led to that eventuality. In the absence of a Legislative fix, we will not see the expansion of transit options statewide, we will definitely see the shrinking of transit options for 175 communities and almost two thirds of the state’s population.

