

Mission Statement of the Blue Ribbon Committee

Presented by Kevin Sullivan, Secretary of Transportation and Construction and Chairman of the MBTA Board of Directors

With the recent passage of the forward funding legislation, the Chairman of the MBTA established an independent, external Blue Ribbon Committee to recommend how to best allocate and utilize the MBTA's financial resources to assure the operational reliability of the system and the integrity of the MBTA's finances as an independent public transportation entity.

While the MBTA will now issue debt using its own credit under the new legislation, the agency is limited in its bonding capacity by the need to preserve revenues for operations and maintenance. Also, limiting the Commonwealth's support to the amount of dedicated tax revenues will create new pressure on the MBTA to effectively manage its resources. Implementing these new financial arrangements requires a long-term perspective.

The Committee's purpose is to provide the MBTA Board of Directors with an independent evaluation of the MBTA's financial revenue policies and cost management strategies under the recently enacted fiscal reform legislation. The Committee's assignment is to identify the major challenges and opportunities available to the MBTA consistent with the new financial structure and the mandate to operate as an independent financially self-sustaining public transportation agency.

The Blue Ribbon Committee on Forward Funding

Patricia McGovern, Chair, former chair of the Senate Ways and Means Committee

Charles Chieppo, Director, Center for Restructuring Government, Pioneer Institute

Beverly Johnson, President, Bevco Associates, Inc. –Voting Alternate

Dr. James Molloy, Dean of Academic Affairs, Northeastern University

Philip Puccia, Director, Adelphi Capital LLC

Paul Regan, Executive Director, MBTA Advisory Board

Kirk Sykes, Partner, Crosstown Associates

Michael Widmer, President, Massachusetts Taxpayers Foundation

Ex Officio Participants

Joseph Sullivan, House Chair, Joint Transportation Committee

Paul Haley, Chair, House Ways and Means Committee

Shani Mason, Research Director, Joint Transportation Committee

Kate Fichter, Research Analyst, Joint Transportation Committee

Mary Wells, Budget Analyst, House Ways and Means

John Simon Executive Office for Administration and Finance

Glen Tepke, Senior Policy Associate, Massachusetts Taxpayers Foundation

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Robert H. Prince, Jr., General Manager

Jonathan Davis, Chief Financial Officer

Judy Hart, Director of Financial Planning

William Mitchell, General Counsel

Joseph Giglio, Executive Professor, Northeastern University

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I. Executive Summary

Regardless of forward funding, the MBTA is facing a budgetary dilemma. Given the competing demands on limited resources, how best can the MBTA fund daily operations in the most cost effective way, allocate sufficient resources to maintain, or perhaps modernize, the current system, entertain system expansion projects and fund its debt service?

Throughout the history of Massachusetts, transportation issues have been in the forefront of discussion and innovation. Today the Massachusetts Bay Transportation Authority (MBTA) continues to be a critical component to the economic vitality of the Commonwealth, making some 1.2 million passenger trips each business day.

With the passage of forward funding legislation and its impending effective date of July 1, 2000, the MBTA is set to, once again, chart a new course. The legislation creates a new funding mechanism for the MBTA, changes its enabling legislation and sets the stage for the MBTA to become a financially independent, self-sustaining authority.

The Blue Ribbon Committee was charged with making recommendations on how the MBTA could seize the opportunity the new legislation affords. The committee took a comprehensive look at the challenges facing the MBTA and sought to make recommendations that will allow the MBTA to fully realize the benefits of forward funding legislation and create a system that best meets the needs of the Commonwealth.

The MBTA faces enormous challenges. It is a system that has enjoyed tremendous growth in service area as well as ridership compared to major systems nationally. In the wake of such expansion and continuing pressure to further expand the system, however, has come increased operating and maintenance costs without corresponding increases in revenues. So, too, has the MBTA seen the aging of its fleet and other equipment and an ongoing need to maintain the current system in order to provide timely and safe transportation. The system is also financially constrained by pressure to complete expansion projects associated with the Central Artery Project, Americans with Disabilities Act (ADA) requirements, other expansion projects already underway and the need to finance previously issued debt.

...the Blue Ribbon Committee stresses the need for the MBTA to think, act and conduct business differently as it enters a new era of financial and managerial independence. There now exists a critical opportunity and need for the MBTA to reinvent itself, develop sound management systems and create strong financial controls through organizational and cultural changes.

Regardless of forward funding, the MBTA is facing a budgetary dilemma. Given the competing demands on limited resources, how best can the MBTA fund daily operations in the most cost effective way, allocate sufficient resources to maintain, or perhaps modernize, the current system, entertain system expansion projects and fund its debt service? The simple answer is to make “tough choices”.

After three months of reviewing the current picture and future needs of the MBTA, the Blue Ribbon Committee has made a series of recommendations aimed at defining priorities to take the MBTA to the next level of progress.

Among the committee’s recommendations is that fares be increased to bring them in line with similar systems across the country and to have revenues fund a more significant portion of operating costs. Today, the MBTA has among the lowest fares in the country and there has not been a fare increase since 1991. Additionally, fares, combined with other revenue sources, only covers 37 percent of operating costs. The committee feels fares can be raised to offset operating expenses, but also felt any fare increases should be tied to service enhancements and continued improvement to the system for its riders and the communities served by the MBTA. The committee has made the recommendation to raise fares only after looking at every other available revenue enhancement option and cost cutting mechanism.

The Blue Ribbon Committee has also made a series of recommendations to enhance customer service, reduce costs and generate additional non-fare revenue. The committee suggests, in addition to cost-cutting and revenue generation projects that have been undertaken, there is still room to gain further savings and generate additional revenue by capitalizing on the MBTA’s assets. The committee suggests further cost savings can be achieved by reviewing such personnel issues as hiring, salaries and overtime practice and exploring ways to outsource various services. In order to add to the MBTA’s revenue base, the committee suggests there are tremendous opportunities in real estate, telecommunications and utilities that should be exploited.

A key recommendation from the committee is to implement an automated fare collection system, which would

greatly benefit customers as well as provide the system with much needed modernization, flexibility and cost savings.

The MBTA, through its capital program, has the dual responsibility of maintaining the current system to guarantee safe and timely transit services throughout the region while at the same time overseeing expansion projects. After weighing the competing demands of maintenance and modernization versus expansion of the system, the committee believes the MBTA must place its emphasis on maintenance and modernization as its core priority. Following an unprecedented period of growth and expansion, the ongoing integrity of the system requires focus on ensuring that the equipment in place is safe, well maintained and efficient.

The MBTA cannot afford expansion while at the same time, maintaining and modernizing its existing system. Expansion projects compete against maintenance and modernization needs and all expansion projects, regardless of their origin, add to the MBTA's debt service and operating costs, increasing the pressures on finances. These facts create a tightly structured budget scenario with little room for error and mean the MBTA must be prudent with its remaining limited resources in order to ensure the current system is maintained. This also means that decisions should be made to fund projects that increase revenues, enhance productivity or put downward pressure on operating costs, such as automated fare collection.

In addition to several recommendations regarding the prioritization of capital expenditures for system maintenance and modernization, the committee recommends the MBTA look for ways to reduce its debt from the current 33 percent of its budget.

It is also critical that the MBTA make decisions in the best interest of the environment and public health.

Finally, and perhaps, as the thread that runs through the entire report, the Blue Ribbon Committee stresses the need for the MBTA to think, act and conduct business differently as it enters a new era of financial and managerial independence. There now exists a critical opportunity and need for the MBTA to reinvent itself, develop sound management systems and create strong financial controls through organizational and cultural changes.

II. Introduction

This legislation calls for fundamental changes in the way the MBTA operates and represents a significant opportunity for the MBTA to become truly a self-sustaining independent and financially stable authority.

Massachusetts and Boston are recognized throughout the world for their rich and colorful history. American mass transportation originated in Boston, revolutionizing the way Americans get from one place to another.

Today, the MBTA is the oldest and sixth largest transit system in the country, operating subway, trackless trolley, trolley, bus and commuter rail service throughout eastern Massachusetts. The MBTA is central to the Commonwealth and the region's economic vitality. The Authority is responsible for an estimated 1.2 million passenger trips every business day. and operates over 64 miles of rapid transit rail routes. It owns more than 1,000 buses which cover routes totaling 730 miles. The MBTA's commuter rail service operates over 440 units of passenger rail equipment providing service between Boston and 117 outlying rail stations. In addition, the MBTA provides a broad range of other passenger services including commuter boats, "The Ride" servicing the elderly and the disabled, and express buses.

In November 1999 Governor Paul Cellucci signed into law legislation reforming the finances of the MBTA and rewriting the MBTA's enabling legislation. This legislative act created a critical milestone in the life of the MBTA.

This legislation calls for fundamental changes in the way the MBTA operates and represents a significant opportunity for the MBTA to become truly a self-sustaining independent and financially stable authority. Prior to passage of "forward funding" provisions, the MBTA operated in an unprecedented open-ended financial arrangement that was unlike any other state agency. The MBTA would operate throughout the year, recover what it could from its own revenue sources and would seek appropriation from the Commonwealth to cover the balance after costs have been incurred. This unorthodox budget scenario led to an organization with no functional independence and diminished responsibility for managing its financial affairs in a stable manner.

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simply implement new law but to take a comprehensive look at the financial and operational picture of the authority and to develop sound policies to carry the MBTA into the future.

In January 2000 Secretary of Transportation and MBTA Board of Directors Chairman Kevin J. Sullivan, established an independent, external review panel to look at how to best allocate and utilize the MBTA's financial resources to assure the operational reliability of the system and the integrity of the MBTA's financial responsibilities as an independent public transportation entity. He also sought recommendations on how, within this new operational framework, to improve performance of the system.

The Committee's purpose was to provide the MBTA Board of Directors with an independent evaluation of the MBTA's financial plan and the impact on operating revenues and operating costs under the recently enacted fiscal reform legislation. The Committee's assignment was to identify the major challenges and opportunities available to the MBTA consistent with the new financial structure and the mandate to operate as an independent financially self-sustaining public transportation authority.

The committee conducted open public meetings from January through April 2000, held a public hearing to solicit input from the general public and accepted public comment prior to making any recommendations. The committee toured the MBTA system and was briefed by various members of the staff. William W. Millar, a nationally recognized expert on transportation issues and president of the American Public Transit Association provided a comparison of transportation systems around the country to the committee. There is a public record of all committee meetings and the public hearing.

This report is the summation of the committee's work. The committee reviewed every aspect of the system to develop its report. Its purpose is to give the MBTA a set of recommendations that will allow it to fully realize the benefits the forward funding legislation affords. The committee sought to provide a blueprint to take the MBTA to the next level of progress.

III. Background

A Look Back at the Funding Structure

As the history of public transit in Massachusetts has deep roots, so too does today's funding structure. As early as 1918, Massachusetts saw legislative action aimed at securing the financial stability of the transit system with the passage of the Public Control Act. This bill was designed to ensure fare prices were ample enough to cover 100 percent of operating costs. If there was a shortfall between the fare revenues and operating expenses, the communities served would be assessed.

The MTA was established in 1947 with the hope of having a financially self-sufficient authority that could overcome the financial difficulties of the predecessors by managing both the capital costs of transit as well as the operational costs and by replacing private equity with low-cost public debt. This was not to be the case, however. The MTA was not financially successful and the private bus and commuter lines serving the suburbs were experiencing their own monetary problems, threatening the mass transportation system between Boston and the suburbs. A difficult situation continued to escalate. In 1964, the United States Congress passed the Urban Mass Transportation Act, providing states with assistance for capital expenses. Given this financial assurance the Massachusetts Legislature agreed to take over the private lines combining them with the MTA to create the MBTA.

The financial structure established for the new MBTA was based on the premise that the system's beneficiaries—riders and served communities—could continue to pay for operating costs if the state and federal governments provided for expanding and maintaining the system's infrastructure. With new federal support available for up to two-thirds (later 80 percent) of capital outlays, the Legislature agreed to pay the debt service on the bonds issued by the MBTA to meet the state share. Operating costs that were not covered by system revenues would be recouped after the fact through modest assessments to the communities served by the MBTA, continuing the practice initiated in 1918. Costs would be kept

Throughout the decades, individual legislative actions have attempted to fix the financial structure of the MBTA, only to provide temporary piece-meal approaches. A much more comprehensive solution needed to occur in order to truly re-establish the MBTA's financial footing.

in check by an advisory board consisting of representatives of the cities and towns.

The funding concept of the MBTA was not realized. Expanding the system increased operating expenses faster than ridership. Fares, which were kept low to retain and attract customers, covered ever smaller shares of the rising costs. Together with high labor costs, these factors caused operating deficits and, therefore, assessments to cities and towns to grow dramatically. The MBTA's deficit increased from \$21 million in its first full year of operation to over \$100 million by the early 1970s.

To gain support for additional expansion necessitated by the decision to abandon new highway development within Route 128, communities served by new commuter rail lines were exempted from assessments in 1973, adding to the burden on the original district members. In response to a growing revolt over assessments, in 1974 the Legislature agreed to pay for half of the operating deficits after new federal operating aid promised to cushion the impact on the state. Like the assessments, the state's operating support was provided in arrears. After the passage of Proposition 2½ in 1980, the annual increase in assessments was limited to 2.5 percent, far below the rate of growth in costs. The assessment system became largely inequitable and bore little relationship to the benefits individual communities receive from transit services. Over the next decade federal operating support was drastically scaled back, leaving the state to cover the growing gap between operating costs and revenues.

The outcome is a system for funding the MBTA that has been unable to meet its original intent. Throughout the decades, individual legislative actions have attempted to fix the financial structure of the MBTA, only to provide temporary piece-meal approaches. A much more comprehensive solution needed to occur in order to truly re-establish the MBTA's financial footing.

Nineteen ninety-nine saw the next significant milestone in the history of the T – legislation calling for forward funding and changing the enabling act. This legislation set the stage for the Commonwealth to build upon its 300 year history of innovation to create a more vibrant transportation system to carry the Commonwealth into the next century.

Prior to this legislative enactment, the MBTA operated in an open-ended financial environment without parallel among transit agencies in the United States.

The Forward Funding Concept

In November 1999, the Governor signed into law, as part of the fiscal 2000 budget appropriation, language requiring changes to the way the MBTA is funded and rewriting the authority's enabling legislation. This represented the culmination of the Commonwealth's concerted efforts to create a positive environment under which the MBTA could move to stabilize its finances and become a self-sustaining authority.

Prior to this legislative enactment, the MBTA operated in an open-ended financial environment without parallel among transit agencies in the United States.

Under the previous arrangement, the MBTA operated on a system whereby the net cost of service was being appropriated after operating expenses were already incurred. The net cost of service was defined as the amount by which the MBTA's combined spending for operating expenses and debt service exceed its total revenues from passenger fares, plus modest amounts from parking fees, advertising sales, federal operating assistance, and miscellaneous sources.

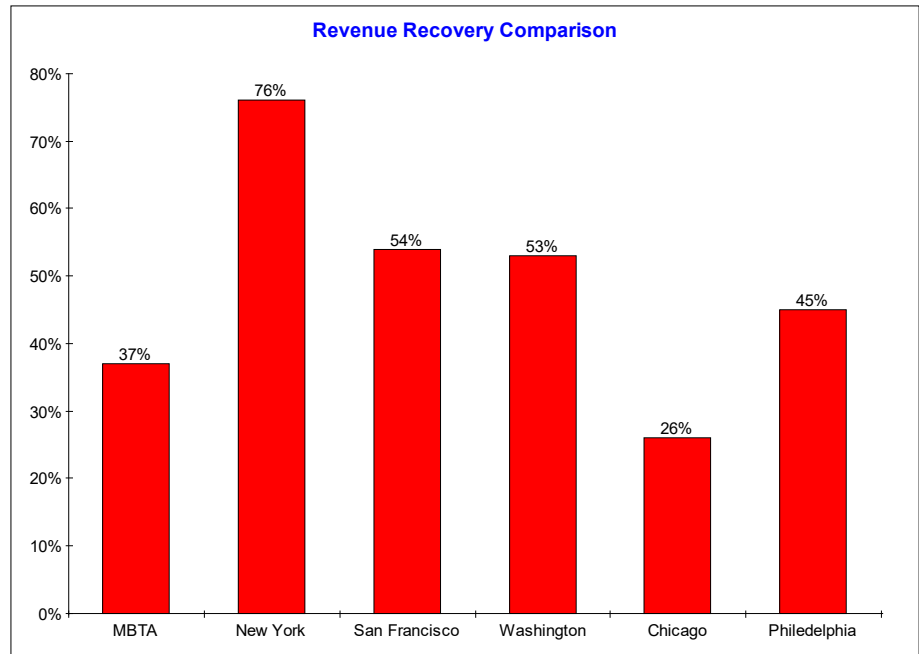
The Commonwealth would appropriate "reimbursement funds" to cover this amount. The Commonwealth would seek to recover some portion of the net cost of service by assessing local governments in the MBTA's service district, and the appropriation came from state tax revenues.

To assist in bridging the cash gap between the MBTA's on-going payments during the year and its receipt of reimbursement funds from the Commonwealth up to eighteen months after the close of the year, the MBTA was authorized to issue short-term working capital notes. This debt was supported by the Commonwealth.

This non-traditional budget process meant that the MBTA had no functional independence or incentive for managing its financial affairs in a stable manner.

The major consequence of this open-ended funding arrangement is that the MBTA's passengers have little real involvement in the responsibility of helping to assure its financial stability. The MBTA basic fare is one of the lowest in the nation and hasn't been raised since 1991. As a result, revenues (both fare and non-fare) now cover barely 37 percent of its operating expenses. This compares to 76 percent for

New York City’s Transit Authority, 54 percent for San Francisco’s BART system, 53 percent for Washington’s Metro, 26 percent for Chicago’s Transit Authority, and 45 percent for Philadelphia’s SEPTA system. The MBTA’s passenger revenue policies are clearly out of step with standard practice among large transit systems elsewhere in the nation.



In addition, there was a growing concern that the policy of paying for the MBTA’s services after the fact created an open-ended liability for the Commonwealth and could possibly jeopardize the Commonwealth’s financial health. As expenses grew, the amount the Commonwealth needed to reimburse grew, creating financial instability for the Commonwealth as a whole.

The forward funding legislation takes effect on July 1, 2000, which is the beginning of the MBTA’s 2001 fiscal year. Key provisions are:

- **For the first time, the MBTA is given a dedicated source of revenue.**

This is the central feature of the forward funding concept and follows standard practice for public funding of transit service in other U.S. metropolitan regions. It replaces “backward funding” from the Commonwealth budget with

two predictable sources of revenue.

- A fixed portion of the Massachusetts tax on retail sales.
- A restructured program for assessing local governments that are served by the MBTA on a reasonable, balanced, and predictable basis.

For the first time, the MBTA will receive a reasonably predictable taxpayer subsidy. This is intended to provide a basis for sound financial planning by the MBTA with respect to its operating expenses, fare policies, and capital spending.

- **The Commonwealth will cease to have an open-ended liability for MBTA finances.**

The Commonwealth will no longer fund operating deficits in arrears or guarantee the MBTA's debt after July 1, 2000. The intent is that the MBTA should become a truly independent enterprise with its own sources of funds for operations and capital investment. Forward funding is a major step forward and will bring about profound change by endowing the MBTA with its own predictable sources of revenue and the authority to manage its finances as an independent enterprise. It paves the way for developing a meaningful strategy to achieve financial stability. Although the new legislation provides the MBTA with a chance to restructure its financial operations, it does not mean there will be unlimited resources. In fact, it will be just the opposite. The MBTA will have to make tough choices in order to create financial stability, provide an effective and affordable range of transit services to the Massachusetts Bay region and over time, expand the reach of transit services as passenger demand and economic circumstances warrant. The MBTA is required to develop rational fare policies and prioritize capital projects.

The legislation also calls for some changes in the present governance structure. The existing board terminates on June 30, 2000. The MBTA board will expand from the current seven members to nine members and the assessed service area will grow from the present 78 to 175 cities and towns.

Finally, the fiscal reform package includes a requirement

for the MBTA to develop service quality standards for each mode of service based on measurements of comfort, communication, convenience, rider satisfaction, reliability, security and environment benefit, and to use standards to ensure high-quality and cost effective operations.

IV. Challenges Facing The MBTA – Findings of the Blue Ribbon Committee

It is only when revenue enhancements and productivity improvements are added to the current cost structure, can the system paint a more realistic financial picture with which to meet the demands on the system.

The MBTA will no longer have the Commonwealth guarantee of bonds after July 1, 2000. Therefore it is essential that the MBTA establish itself as a strong independent credit capable of financing a robust capital program and demonstrate credible financial planning and strong management to financial markets and rating agencies.

With or without forward funding, the MBTA is facing tremendous challenges to continue to provide state of the art transportation services in the Commonwealth and must stabilize its finances. Financial stability is essential if the MBTA is to provide an effective and affordable range of transit services to the Massachusetts Bay Region and over time, expand the reach of transit services as passenger demand and economic circumstances warrant.

Forward funding provides an important setting within which to create the kind of strategic planning necessary to meet the challenges. As Secretary Sullivan noted in establishing the Blue Ribbon Committee, there are competing demands on limited resources, requiring the MBTA to make difficult financial choices. A look at the financial projections reveals that without increases in fare and non-fare revenue, reduction in costs and changes in organizational culture, the MBTA cannot afford needed system maintenance and modernization, much less entertain expansion ideas. In addition, under the current financial and operational structure, the MBTA is not in a position to enhance or even maintain the quality of service to riders. It is only when revenue enhancements and productivity improvements are added to the current cost structure, can the system paint a more realistic financial picture with which to meet the demands on the system.

See Next Page– Base Case Cash Flow

Additionally, the MBTA will no longer have the Commonwealth guarantee of bonds after July 1, 2000. Therefore it is essential that the MBTA establish itself as a strong independent credit capable of financing a robust capital program and demonstrate credible financial planning and strong management to financial markets and rating agencies.

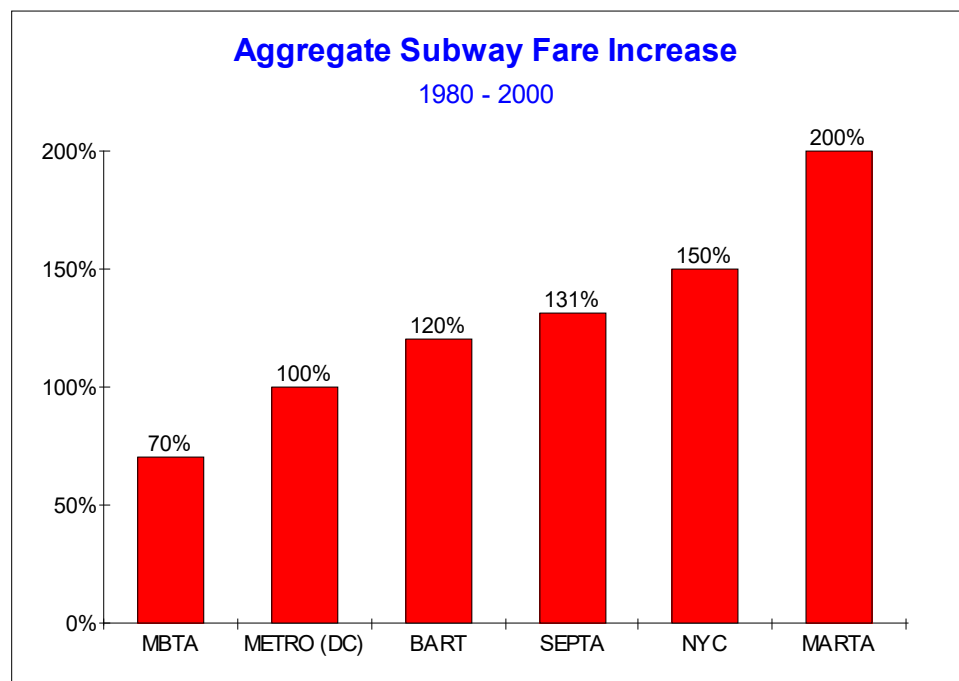
The MBTA is under pressure or influence by a wide variety of external organizations and other environmental factors as illustrated in **Page 17**. Managing these pressures while implementing the fiscal reforms is perhaps the MBTA's greatest challenge.

Insert Base Case

Insert Environment Variables Chart

Low Fare and Revenue Recovery

In comparison to other major transit systems across the country Massachusetts has seen the lowest aggregate subway fare increases. Between 1980 and 2000 the fares in Massachusetts have only increased 70 percent compared to a national range of between 120 percent and 200 percent. The MBTA has not changed the fares since 1991, despite increasing operating costs, service expansion and improvements to the system as well as external factors such as inflation.



Fares have not kept pace with the national average or the level of service being provided by the system, resulting in an extremely low revenue recovery ratio and requiring the Commonwealth to make up the difference. The MBTA has traditionally struggled with ratios of system revenues to operating expenses that are the lowest of any major transit system in the United States. Since the federal government has greatly reduced its operating support for transit operations in major metropolitan regions (which are the sources of most of

its tax revenues), the Commonwealth and the communities in the MBTA's assessment district have been left with the burden of closing the cash gaps in the Region's transit operating budget.

Right now, revenue recovery covers a mere 37 percent of operating costs, not including debt service, for the MBTA. The majority of other systems across the country recover between 28 and 76 percent of operating costs through revenues.

Heavy System Maintenance and Modernization Needs

The MBTA has enjoyed unprecedented growth among transit systems throughout the country during the last eight years. The system has broadened its service area with the introduction of new and expanded lines and seen tremendous increases in ridership. The MBTA, through its capital program, has the dual responsibility of maintaining the current system to guarantee safe and timely transit services throughout the region while at the same time overseeing expansion projects.

With virtually all of the MBTA's capital program financed through debt, the ability to sustain the capital program is seriously constrained by the Authority's capacity for additional debt service costs. Even without additional capital financing, the MBTA will spend a significant portion of its annual operating budget—33 percent—on debt service.

The MBTA faces an enormous backlog of deferred maintenance and investments in modernization. The annual needs to maintain the system at a "state of good repair", which means all assets perform their intended functions without limitations, would be \$505 million. The MBTA is currently only funding 30 percent of this need, and is therefore neither able to fully maintain the system nor retire the backlog.

At the same time, the MBTA is under tremendous pressure to continue to expand the system. Nearly \$2 billion in projects that were added to the Authority's capital plan as environmental mitigation for the Central Artery highway project remain to be completed. Several other major expansion projects that are in preliminary stages of planning and design would add billions more to the MBTA's capital costs. Complying with the requirements of the Americans With

Disabilities Act (ADA) compounds the Authority's challenges.

The MBTA cannot afford this level of expansion while at the same time, maintaining and modernizing its existing system. Current projections are that over 90 percent of capital plan for the next five years is consumed by financing the Artery commitments, ADA requirements or projects already underway. Expansion projects compete against maintenance and modernization needs and all expansion projects, regardless of their origin, add to the MBTA's debt service and operating costs, increasing the pressures on finances. These facts create a tightly structured budget scenario with little room for error and mean the MBTA must be prudent with its remaining limited resources in order to ensure the current system is maintained.

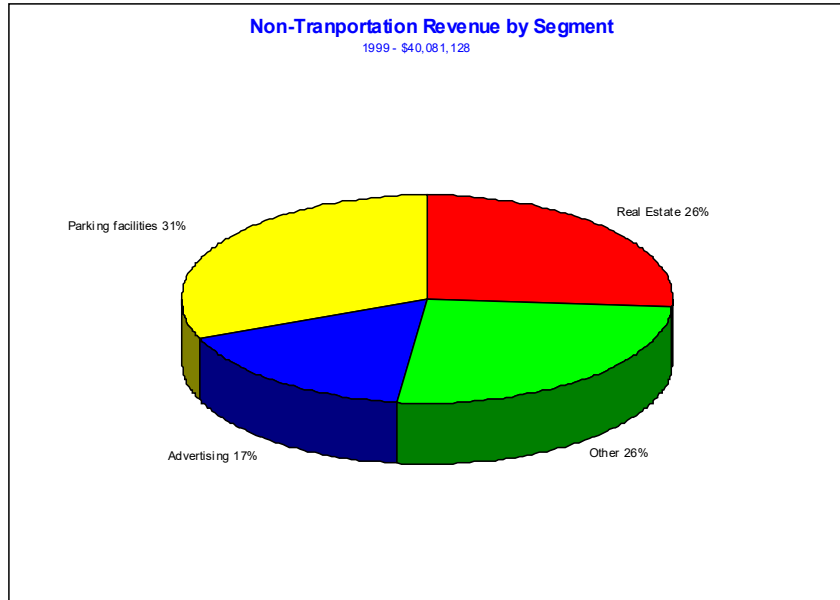
Inadequate Fare Collection System

Another area of the system that is woefully outdated but presents tremendous opportunity to bring the MBTA into the modern era while greatly enhancing customer service is the fare collection system. The existing fare collection equipment in use is 25 years old and is the product of a combination of several independent systems that have outlived their useful lives. At this point in time, it has more negatives for the system than positives. First and foremost, it is inconvenient to the customer. On the system management side, it impedes the ability to efficiently collect and account for all the fare revenue, makes the system vulnerable to fare evasion and prevents accurate tracking of ridership and revenue. The current system does not utilize station personnel in as efficient a manner as possible and lastly, the antiquated fare collection system does not allow for any ability to effectively, efficiently or equitably develop pricing strategies.

High Costs

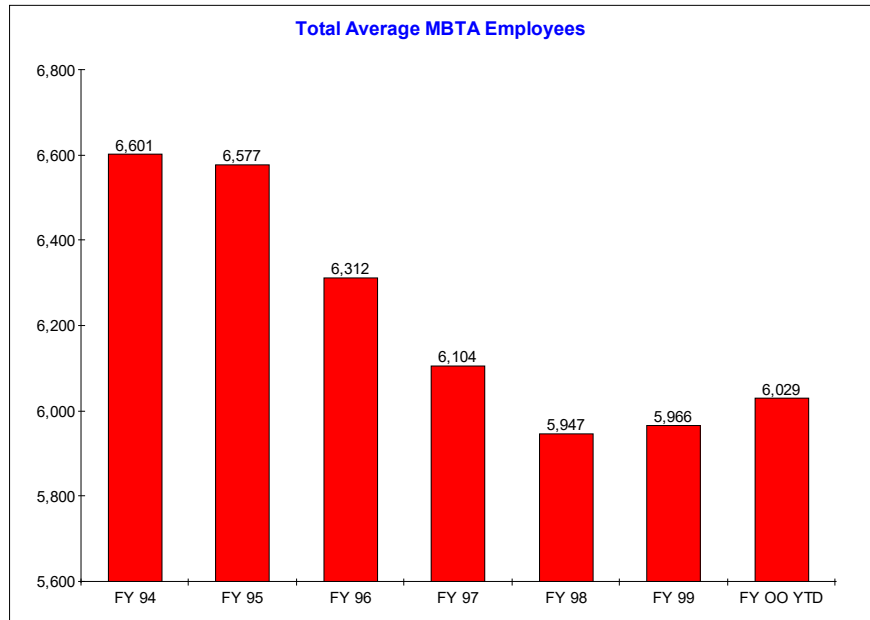
The MBTA has undertaken several steps to contain or, where able, reduce costs while at the same time expanding advertising programs and parking facilities, implementing a unique real estate contract and entering into innovative lease transactions. These efforts have created the foundation from

which to build financial stability.



Some of the efforts undertaken include:

- Between FY 1991 and FY 2000 the MBTA reduced the total workforce by 630 from 7,040 to 6,410. Such reductions were realized through departmental consolidations, attrition and retirements and efficiencies through technology;



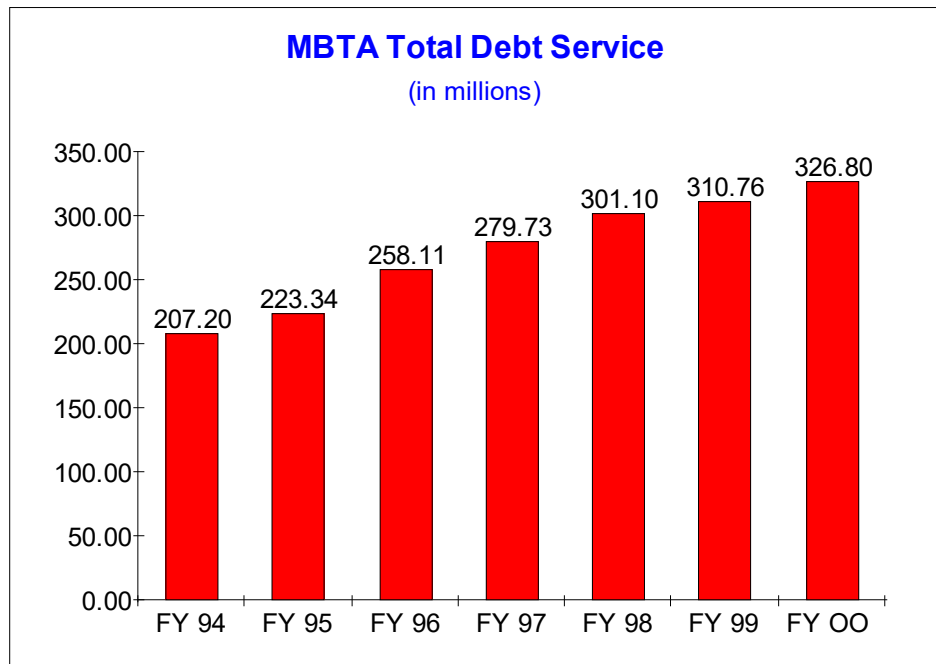
- The MBTA outsourced its real estate operations in FY 1997, generating more than \$26 million dollars while reducing costs for the system.

Despite significant efforts to reduce costs, the committee found that the MBTA is facing additional constraints in areas such as workforce, debt service and privatization that have made it difficult to realize additional savings.

Hourly wages for MBTA’s bus operators are the highest in the nation. Its wages for bus maintainers, rail maintainers, and rail operators exceed those in New York, Chicago, Philadelphia, and Atlanta.

The MBTA’s high labor costs are exacerbated by rules regarding overtime that are contained in the Authority’s collective bargaining agreements. For example, if a specialty mechanic is needed to perform repair work on the an overtime basis and the specialty mechanic is 15th on the seniority list of all available mechanics, the first 14 must be brought in and paid overtime even though they do not have the needed specialty skills.

Today, as a result of an aggressive capital program over the last decade, nearly 33 percent of the MBTA’s budget funds its debt service, compared to just under 11 percent in 1980. For fiscal year 2000, debt service payments will be over \$300 million of the MBTA’s budget and debt service is expected to grow to over \$415 million by 2005.



Restrictions on Outsourcing

As currently written, the Commonwealth's privatization law, requires that proposed privatization contracts be subject to a process that increases costs and discourages both agency and vendor participation.

In 1996, the MBTA attempted to contract out the operation of 40 percent of its bus routes. While it is impossible to project anticipated savings with specificity, one study conducted by The Center for Restructuring Government at Pioneer Institute projected that savings would be at least \$54 million over five years, or about 20 percent. This figure is reinforced by the experiences of San Diego, Las Vegas, Indianapolis, and Denver, all of which saw savings in the 20-to-30 percent range when they contracted out all or part of their bus operations.

That same year, the MBTA sought to contract out the cleaning and maintenance of its bus shelters. A private vendor agreed to clean and maintain the shelters at no charge, and to guarantee the MBTA a revenue stream from the sale of advertising on the shelters. The vendor also guaranteed the authority additional revenue from the construction of more shelters.

In each case the proposed contract was struck down under the provisions of the privatization law. There have been other examples of attempted cost savings initiatives by the MBTA of which they have been unable to implement due to the privatization law.

Outdated Organizational Structure

The MBTA's unconventional budget scenario and reliance on the Commonwealth to guarantee its debt has led to an organization where there is little empowerment or incentive to reduce costs or seek new ways of doing business. Although the MBTA has increased its sources of non-fare revenue there are still chances lost due to the current management structure and priorities. As set up, the manager's do not have the incentive or capacity to react fast enough on proposals that could enhance financial gains for the MBTA, therefore, some opportunities are bypassed.

In the current structure, the general manager's responsibility is focused on operations and to a lesser degree on cost control. Although, some cost controls have been recently introduced, the nature of the MBTA's budget formula did not require a heavy reliance on such controls and therefore, the responsibilities of the general manager and the organizational responsibilities do not reflect the new need to have a greater focus on the fiscal side of the business.

V. Recommendations

After three months of reviewing the current system in the context of the new forward funding legislation, the committee developed a series of recommendations geared towards creating a financially stable authority able to balance operating expenses with a sound capital investment program, manage a reasonable cost containment/reduction effort and introduce rational fare policies in conjunction with a program to increase non-fare revenues.

Taken together, these recommendations would substantially strengthen the MBTA's fiscal capacity. The Authority's projected bottom line would be transformed from the operating deficits discussed in the previous section to modest surpluses. The projected surpluses would be sufficient for the MBTA to finance a capital program.

See Next Page - Base Case Flow adjusted to reflect revenue enhancements and productivity improvements.

This base case flow makes several assumptions to meet the intended financial goal.

- A fare increase of 25 percent was incorporated effective October 1, 2000
- Further fare increases based on inflation are incorporated on July 1, 2003 and July 1, 2005.
- Non-fare revenue increases of \$5million per year are incorporated effective October 1, 2000.
- A 10 percent decline in operating costs is phased in from FY2002 through FY2006.
- It assumes no issuance of additional bonds or pay-as-you-go capital expenditures.

Insert Base Case with Enhancements

Enhancing Customer Service

Service is a primary key to a successful transportation system.

The committee recommends the MBTA build upon its record of superior service to customers to make continuous upgrades to service and facilities. A portion of revenues from fares should be targeted to system improvements. Such improvements should include an automated fare collection system, track repair that allows for higher travel speeds, improved station maintenance and lighting, communication systems that provide information to riders, additional bus shelters and bike racks to contribute to customer convenience.

The MBTA should set high expectations for customer service when it develops the service quality standards required by the forward funding legislation in the areas of comfort, communication, convenience, rider satisfaction, reliability, security and environmental benefit. The MBTA should use the measurement of its performance on these standards as a management tool for driving higher levels of customer service.

Automated Fare Collection

A critical recommendation of the committee is to make automated fare collection (AFC) the highest priority in the MBTA's capital plan.

The MBTA has enjoyed tremendous growth in the monthly pass program. It has grown from 33,000 per month in 1978 to 210,000 per month in 1999, growing at a faster pace than cash revenue since 1987, thus setting the stage for introducing AFC.

The AFC system would provide access to the system by a magnetically encoded ticket or smart card which stores and deducts values as trips are taken on the system. Subway stations would have ticket vending machines to sell fare media, ticket operated turnstiles and special access gates. Riders would be able to add value to their tickets as well as check the remaining value right at the stations. AFC allows for a variety of special pricing arrangements, such as distance based pricing and off-peak discounts, and would allow for an efficient

transfer policy. The current station collector would become a customer service representative assisting customers where needed and monitoring stations more effectively.

Investing in the AFC system brings tremendous benefits to the customer as well as enhancing productivity while better utilizing resources. It is estimated that a full year of labor savings due to efficiencies would total \$6.2 million. AFC will increase fare compliance by three percent or \$5.9 million in the first full year of implementation.

The AFC system also includes sorely needed technology advances to the current system. A computer network will provide real time information regarding ridership, maintenance and collection servicing, revenue collection and reconciliation; various telecommunication systems would be added to enhance communication and monitor aspects of the system.

Reducing Costs

The MBTA should conduct a top-to-bottom review of personnel needs in an effort to reduce the number of people to the level needed for safe and effective operations.

The committee recommends the MBTA develop comprehensive hiring qualifications for all positions as well as reviewing and updating, where necessary, employee training and performance review programs and develop programs to retrain for new technology.

The MBTA should conduct a top-to-bottom review of personnel needs in an effort to reduce the number of people to the level needed for safe and effective operations.

The focus should be on reducing workforce size by attrition. This review should result in benchmarks for the numbers of direct service and administrative personnel that should be incorporated into future operating budgets and that the MBTA management should use to guide future personnel decisions.

In the longer term, the committee believes that improvements in productivity resulting from improved technology and prudent capital investments will allow the MBTA to further reduce its staffing levels over the next five years.

As the MBTA moves into its new operational modality, it has an opportunity to ensure the highest standards of employee hiring and performance. **The committee recommends the MBTA develop comprehensive hiring qualifications for all positions as well as reviewing and updating, where necessary, employee training and performance review programs and develop programs to retrain for new technology.**

The MBTA has established a Financial Control Committee comprised of the chief financial officer, chief of staff and deputy general manager and developed a hiring moratorium policy. The goals of the committee are to review all exceptions to the moratorium on hiring, salary actions and personal services contracts. All exceptions require unanimous consent.

The current hiring moratorium policy should be strictly followed with exceptions being granted only in extreme need and be approved by the oversight committee. The Financial Control Committee should adhere to the administrative and direct service staffing benchmarks established by the personnel review recommended above and incorporated into the MBTA's annual operating budget.

Labor costs are largely determined by collective bargaining agreements and are constrained for the length of

The MBTA must generate sufficient revenues, both fare and non-fare to meet its operating expenses, fund debt service on its existing obligations, and support a large enough capital program to modernize its system and maintain a sound replacement schedule.

current contracts. As the next round of contract negotiations occurs, the MBTA will be able to benefit from language in the new legislation. **The MBTA should adopt a policy of bringing salaries, wages and benefits in line with industry norms adjusted for local cost of living. The MBTA should look at the current overtime practice to ensure it is the most cost effective. The MBTA should assess the size of all train crews and address it as priority for the next union negotiation.**

The MBTA should also develop and implement a plan to reduce absenteeism.

Currently, the MBTA retirees receive insurance without co-payments. It is standard practice throughout the Commonwealth that both employees and retirees pay a portion of this benefit in the form of a co-payment. **The MBTA should explore an insurance co-payment for retired personnel.**

In the context of operating as an independent authority, the MBTA should look at all other personnel and contracting issues to determine if there are cost savings that can be achieved or if there is additional revenue that can be generated.

The MBTA should work with the Legislature to determine if there are changes or corrections to be made to the Commonwealth's privatization law that might free the MBTA to pursue greater cost savings. As an independent authority with fixed limits on its revenues, the MBTA has a responsibility to explore all reasonable means to cut costs. Outsourcing legislation that is less rigid and leads to more predictable outcomes would provide the MBTA with an important tool for achieving maximum cost efficiency.

In the areas of contracts, the MBTA should pursue bidding various contracts to realize cost savings and also review other contract areas such as insurance and utilities.

The MBTA should seek legislation that would allow it to utilize design-build, build-operate-transfer, and other alternative procurement and contracting methods for its capital projects.

The MBTA should pursue a cap on tort liabilities similar to what is in place for other public entities.

The MBTA should also explore collaborating with the Commonwealth's human service and elder affairs agencies on the provision of The Ride and other

...a transit system should not increase its share of resources drawn from the local economy unless it is producing more service to meet rising demand.

transportation services for disabled and elderly individuals.

The Ride is one of the MBTA's fastest growing cost centers, currently over \$25 million per year, yet it is the source of many complaints regarding the quality of service. The Commonwealth's human services and elder affairs agencies that provide transportation services for their clients are currently in the process of developing a coordinated system for funding and managing these services, which have historically been provided independently by each agency. Given the substantial overlap between the users of The Ride and the Commonwealth's services, it may be possible to achieve significant economies of scale as well as improved services through a collaborative approach.

Controlling Operating Expenses

The MBTA must develop a sensible approach to controlling the growth of operating expenses. If the revenues riders provide are going to be linked to operating expenses, it is unreasonable for this revenue responsibility to be open-ended. The level and growth of operating expenses must be limited.

The Committee recommends that the costs of producing the present level of transit service not be allowed to grow any faster than the Region's economy.

There are various ways to measure the growth of the Region's economy. One of the best, simplest, and most current is already available to the MBTA through the forward funding concept - in the form of its dedicated portion of the sales tax. Since the sales tax reflects the dollar magnitude of consumer purchases, the revenues it generates closely track the size and growth of the large personal consumption expenditures portion of the Region's economy as well as the impact of consumer price inflation.

A second reason for addressing the issue of operating costs is that a transit system should not increase its share of resources drawn from the local economy unless it is producing more service to meet rising demand. This is true of any consumer service, regardless of whether it is produced by the public sector or the private sector. There is no reason why it should not be true for a transit system.

This points the way towards defining a logical

boundary for the growth of the MBTA operating costs.

The specific dimension of this link is less important than its consistency, since changes in the amount of transit service being produced may dictate changes in the link's quantitative dimension. What matters is that the growth of operating expenses (adjusted for any changes in the amount of service) closely track the growth of sales tax revenues.

Addressing the operating expenses issue requires a great deal more than sharper application of the usual "watch the pennies" micro measures. In fact, it will require nothing less than a complete overhaul of how the MBTA produces transit services so that its inherent cost structure is consistent with the realities of 21st century.

Increasing Revenues

The forward funding legislation creates a rational framework within which the MBTA can implement sensible fare policies and manage revenues as part of its overall financial stability. The MBTA must generate sufficient revenues, both fare and non-fare to meet its operating expenses, fund debt service on its existing obligations, and support a large enough capital program to modernize its system and maintain a sound replacement schedule. There should be a link between system fares and the level of service generated. This approach involves the rider in the financial stability of the MBTA, while linking system revenues to service improvement. The simplest way to involve transit riders in this task is for the MBTA to adopt a fare policy that establish a clear, consistent, and reasonable link between the dollar value of system revenues each year and the corresponding dollar value of the MBTA's operating expenses. The committee defines this correlation as one in which system revenues cover a percentage of operating expenses (with debt service costs excluded).

The forward funding concept provides the MBTA for the first time with a predictable source of revenue to help support its operating costs and debt service through the dedicated sales tax and a restructured program of local assessments. The dedicated revenue stream provided by the new legislation gives the MBTA the largest public subsidy as a percentage of expenses of any major transit system in the

country. Other metropolitan transit systems in the United States follow similar policies with respect to their system revenues. In some cases, they have established formal targets for the proportion of operating expenses that system revenues should cover. In other cases, these targets are implicit and may fluctuate within a narrow range from year to year, but they are no less effective.

Establishing a clearly-defined percentage target for system revenues will help minimize the illusion that fare levels are somehow arbitrary, discretionary, unrelated to service costs, and subject to negotiation. Such an illusion isn't realistic for transit fares in other metropolitan regions, or for the prices of other consumer services in the Massachusetts. There is no reason that it should persist for the MBTA fares. Fares and other own source revenues should change over time to reflect (more or less automatically) the costs of producing service and the impact of inflation in raising personal income. An MBTA percentage target for system revenues will accomplish this for fare levels.

Fares

Any fare policy must be implemented in a way that ensures it does not have the potential for inflicting hardships on low income members of the community and maintains the current practice of offering fare discounts to certain members of the community. These include senior citizens, students, and those who can document that they are physically-challenged. Right now, the MBTA has the among the lowest fares in the country compared to other major metropolitan systems. The minimum adult base fare for subway for the MBTA is \$.85 which compares to a national range among comparative systems of \$1.00 to \$1.60. The minimum base fare for the bus on the MBTA is \$.60 compared to a range of \$1.00 to \$1.60.

Transit System	Min. Adult Base Fare Subway	Min. Adult Base Fare Bus
Philadelphia	\$1.60	\$1.60
Atlanta	\$1.50	\$1.50
Chicago	\$1.50	\$1.50
New York	\$1.50	\$1.50
Cleveland	\$1.50	\$1.25
Baltimore	\$1.35	\$1.35
Miami	\$1.25	\$1.25
Washington	\$1.10	\$1.10
San Francisco	\$1.10	\$1.00
New Jersey	\$1.00	\$1.00
MBTA	\$.085	\$.060

The Committee recommends that the MBTA adopt a revenue recovery policy that assures sufficient system revenues to cover one-half of its operating expenses each year. Raising the coverage rate from the current 37 percent to 50 percent is the most feasible way to assure that the MBTA is able to meet all of its financial obligations. This coverage ratio is similar with the ratios maintained by other large transit systems throughout the United States and is necessary to ensure the MBTA's fiscal soundness. They have found through long experience that materially smaller ratios are incompatible with financial stability.

The committee recommends increases be implemented incrementally over the next five years to reach the 50 percent target. This could be achieved through several revenue enhancements including fare increases that result in a 25 percent increase in fare revenues effective as soon as practicable after July 1, 2000 (but no later than November 1, 2000), approximately ten percent effective July 1, 2003 and another ten percent effective July 1, 2005. After the initial increase, further increases would be predicated on the implementation of the automated fare collection system that would allow for various pricing scenarios such as off-peak discounts, price by distance, etc. so that for many passengers, actual future increases will be much lower than 10 percent.

The committee recommends that a regular schedule of increases tied to operating costs and maintaining the 50 percent revenue recovery ratio be developed.

It is imperative that fare increases be tied to tangible system improvements that result in significant improvements in the quality of service for riders. The MBTA should market these improvements to increase acceptance of fare increases.

The MBTA should partner with the Commonwealth to expand its discount program to avoid imposing unreasonable burdens on low-income transit users because of the higher fares implicit in this policy. Beneficiaries of certain public programs merit the same kind of fare discounts now enjoyed by seniors, students, and the physically challenged. The implementation of low-income discounts should be based on an evaluation of their fiscal impact and administrative feasibility.

The MBTA should move expeditiously to install automated fare collection technology in its rail stations and on its buses discussed earlier in the report. Apart from reducing the costs of revenue collection, this kind of technology can greatly improve the MBTA's ability to manage fare levels (including various kinds of discounts) with far greater flexibility and effectiveness.

Such flexibility offers the possibility of more wide-spread discounted or free transfers, which can stimulate greater transit usage. **The committee recommends the MBTA develop a reduced fare transfer system either as part of the AFC system** or before implementation of AFC if feasible. As local residents make more of their trips by transit, passenger revenues can increase. Given an MBTA policy that links these revenues to operating costs, increased transit usage can help to keep fares at lower levels than would otherwise be the case.

Automated fare collection brings systems to a new level of efficiency with greatly enhanced customer convenience at reduced costs. Systems that have implemented AFC, such as New York, have not only seen such benefits but have also increased ridership. In addition to improved customer service, AFC brings with it enhanced revenue accountability, a reduction in fare evasion and improved management information. It also utilizes station personnel better than currently and will provide for the ability to integrate smart card technology.

The committee recommends the MBTA consider fare increases for visitor passes over and above general fare increases.

Non-Fare Revenue

Earlier in the report the committee discussed the need for culture changes to occur at the MBTA in order to transition to an independent authority. This is critically important as the MBTA seeks to increase its generation of non-fare revenue. The MBTA has undertaken successful revenue generation projects recently and should be commended for their creative initiative in this area. Non-transportation revenue has doubled since FY 1994 to \$40 million and realized lease income has skyrocketed from \$1.7 million in FY 1995 to over \$40.9 million.

There are tremendous additional opportunities for the MBTA to leverage additional revenues by using its existing assets. These opportunities exist in parking fees as well as real estate, telecommunications and utilities. Many of these opportunities are very time sensitive.

Therefore, in order to achieve increased non-fare revenues, the MBTA must become more entrepreneurial. The MBTA must create a paradigm shift that changes culture and provides incentives and motivations to pursue new and creative ventures.

Parking

Parking throughout the system is priced well below the market price, relative to downtown parking and comparable parking near MBTA facilities. Many MBTA lots are at full capacity. Those that are not at full capacity are in location that probably would not have more usage at a lower price. Such ideas as premium parking and project financing to build more lots have been discussed but may be difficult to pursue or not practical given the lack of space at sought after lots.

The committee recommends the MBTA explore increased revenue generation from parking by:

- **Increasing parking rates to a minimum of \$2.00 at commuter rail stations and set a policy of**

raising them periodically as market conditions warrant, keeping parking fees consistent from station to station, except where there are unique facilities (covered garages, attendants);

- **Seeking opportunities to leverage unique facilities with higher rates, expansions, overnight parking, particularly at stations where there is direct access to the airport;**
- **Exploring project financing to increase parking capacity;**
- **Developing a consistent policy for weekend parking; and**
- **Piloting the use of parking facilities for outdoor markets on the weekends.**

Non-Parking

There continue to be major revenue opportunities for the MBTA in real estate, telecommunications and advertising. These efforts should be vigorously pursued.

Although the MBTA does benefit from some non-fare, non-parking revenue, it is has not yet been maximized. MBTA managers do not view it as a primary responsibility and the MBTA too easily gives away valuable assets to localities without regard for its monetary value and/or seeks in-kind services as trade-offs during real estate transactions. In addition, the MBTA does not respond quickly to requests and lacks adequate resources to review proposed revenue generating transactions thus foregoing opportunities. Some opportunities are extremely time sensitive, often requiring approval within a few days, and need to be viewed as high priority.

The committee recommends the MBTA explore increased revenue generation by:

- **Establishing a set time standard for response from the MBTA managers to requests to review revenue transactions. The standard should vary depending on the type of transaction (Telecommunications should be faster than licensing);**

- **Creating an executive-level policy group, with membership including the managers of different services, to review transactions with high revenue potential and ensure their prioritization;**
- **Evaluate manager's performance on their ability to implement revenue generating proposals;**
- **Establishing an incentive program for all MBTA employees that provides bonuses for ideas that generate revenue;**
- **Ending the practice of seeking in-kind services from revenue on an ad-hoc basis and setting a policy for the amount of telecommunications capacity devoted to MBTA use;**
- **Considering linking budgets to amount of revenue generated by each cost center and exploring ways to give managers an incentive to increase revenue by allowing them to re-invest some of the proceeds in their area;**
- **Exploring opportunities to capitalize on transit-oriented development, ensuring the MBTA gets fair market value of all its assets;**
- **Allocating resources to take advantage of revenue opportunities. It may be necessary to outsource for the service initially and then seek to develop an in-house capacity; and**
- **Considering establishing a position to integrate tenant concerns into operations and design of facilities.**

Setting Capital Priorities

The forward funding legislation requires the MBTA to maintain its existing infrastructure before investing in new facilities or service expansion unless the expansion is required by law, produces environmental benefits or produces quantifiable savings. In order to avoid saddling future generations of riders with overwhelming costs and ensuring the ongoing safety of the transit system, the committee makes several recommendations regarding the balance between maintenance and expansion.

- **The committee recommends the MBTA prioritize its capital project with maintenance and modernization as the core priorities. The bulk of the MBTA's capital funds over the next several years should be dedicated to maintenance and modernization.**
- **The committee recommends that the MBTA use its capital program primarily to acquire the kind of modern plant and equipment that materially reduces the cost of producing transit service. Automated fare collection is a prime example of a capital project that would fit these criteria and should be the highest priority in the MBTA's capital plan.**
- **The committee recommends a dedicated fixed portion of fare revenues be directed towards maintenance and modernization. A majority of the additional revenue generated by the fare increases recommended above should be dedicated to a maintenance and modernization fund.**
- **The committee recommends a moratorium on all capital projects except those that meet critical maintenance needs, result in measurable increases in productivity or revenues, or are determined to be legally required.**
- **Until financial stability is achieved, new expansion should only be pursued if the project is self-financing or if it is tied to new appropriations from the Commonwealth.**

Expansion projects cannot be implemented at the expense of maintaining the existing system. Above all else, the MBTA must live up to its fiduciary responsibility to maintain the \$7 billion in public assets that are under the Authority's control.

- **The MBTA should look to reduce debt service through a variety of initiatives such as moving towards a “pay-as-you-go” capital program. Recurring, routine annual maintenance costs should be funded on a pay-as-you-go basis to the greatest extent feasible, leaving the MBTA's bonding capacity to finance the backlog of deferred maintenance and productivity improvement projects.**

It is critical the MBTA look for ways to reduce debt service which currently consumes 33% of the MBTA's budget. Intelligently-managed business firms know that the most effective way to improve their cost structures is by making continuing investments in the kind of new plant and equipment that raises the productivity of their employees. The MBTA should adopt this principle and make it the central focus of the capital program.

The MBTA doesn't need a fully restored version of a transit system designed for an earlier era of much lower labor and supply costs. It needs a system that produces transit service more inexpensively. Simply replacing in kind worn-out transit plant and equipment can do no more than provide the MBTA with a system whose shiny physical appearance masks the fact that it remains wedded to the much lower labor and supply cost patterns of a long gone era. Through this method, the capital program cannot acquire the plant and equipment needed to turn itself into what amounts to a 21st century transit system or one that is significantly less costly to operate than the existing system.

For example, the MBTA shouldn't simply replace worn-out buses with warmed-over versions of the same buses when what it truly needs a more modern system of buses that produce service more efficiently - by using less fuel per revenue vehicle mile, or possibly an entirely different and less

costly fuel; a mechanical systems that require less frequent maintenance; and an efficient unit-replacement maintenance procedures for old-fashioned tinkering by skilled craftsmen. The same principle should apply to modernizing the MBTA's rail fleet, signal systems, power facilities, and the rest of its physical plant.

None of this is easy. In some cases, it may require finding new suppliers in other parts of the world who can produce transit equipment to meet today's needs. The MBTA will have to completely re-think how it produces transit service, re-orient these production processes to improve their cost structure and come up with an entirely new capital program to carry out this transformation.

- **The MBTA should utilize innovative financing mechanisms to tap the resources of businesses and communities that benefit from transit services. Such examples include project financing to expand or construct revenue producing parking facilities in high-demand areas.**

New Commonwealth debt is an obvious source of funds for system expansion. But the Commonwealth's functional borrowing capacity is constrained by such factors as market perceptions about its fiscal health and the need to maintain a strong credit rating. And it confronts a host of capital needs other than transit expansion.

On the other hand, it's not impossible that certain transit expansion projects could stimulate further real estate development and other forms of economic growth that would generate additional tax revenues for the Commonwealth. If these new revenues are large enough to cover the debt service costs on bonds issued to fund the project's construction, such bonds effectively become "self-funding Commonwealth transit debt".

This may suggest that the planning for possible new lines should be approached not just from a transportation perspective but from a far more comprehensive subregional development perspective. If a proposed rail line becomes an essential component of detailed development package that

includes enough new housing and commercial space to have a material (and projectable) impact on the Commonwealth's tax revenue outlook, the line's construction cost may be seen as self-funding.

The cost and economic impact of many transit expansion projects have become too great for them to continue being regarded as purely public sector projects. Since the private sector can be the largest beneficiary of such projects, its financial participation is entirely appropriate and may open the door to substantially larger pools of capital funds.

Involving the private sector in financing system expansion can lead to an entirely new perspective for evaluating the feasibility of new rail projects. Under certain circumstances, they can become essentially private undertakings with some public participation rather than the other way around. For example, a private limited partnership could be established to fund, build, and own a new rail line that the MBTA would operate under contract as an extension of its existing system. Such partnerships are frequently used for commercial real estate projects. One of their key features is that they raise equity capital in addition to issuing long-term debt. This broadens the spectrum of funding sources beyond what is possible for purely public sector undertakings.

There is no reason why the Commonwealth itself couldn't be one of the partners (possibly even the general partner) in order to assure that the public interest is properly represented. Its equity contribution can be funded by a federal capital grant it may be able to obtain for the rail line, and possibly from bonds it might issue (especially if the project appears likely to generate sufficient new tax revenues to cover their debt service). In addition to regular income-oriented investors, other partners can include private corporations that have special reasons for wanting to see the rail line built. They might include:

- Utility companies that regard the line as a new source of sales revenue.
- Real estate firms wishing to exploit the development opportunities that the new line can create around its stations.

- Construction firms and suppliers of capital equipment (as private commercial entities, partnerships are not bound by the open competitive bidding requirements imposed on public agencies).

Since partnerships of this kind are private taxable entities, they are entitled to federal tax deductions for interest on the debt they issue and for accelerated depreciation on their plant and equipment. These amount to automatic federal subsidies that can reduce the partnership's true cost of capital to levels that may be below those for public sector undertakings.

This is an area the MBTA should begin to explore.

Organizational Governance and Culture

This legislation is monumental in that it, for the first time, creates a free-standing independent authority. It significantly alters the revenue streams for the MBTA requiring a total shift in the way the MBTA operates. The MBTA must operate this new organization with a dramatically different oversight and accountability profile.

The committee recommends the MBTA undertake a management and governance review to benefit fully from its new structure. The general manager should view his role as that of a chief executive officer (CEO).

In such a role, the general manager must be empowered to take actions to control costs and develop strong management controls. The general manager is responsible for overall management, oversight and implementation of change within the new authority.

As the management structure of the MBTA is reviewed, the importance of financial functions within the organization should be elevated to a senior direct report position. Finance and operations must be viewed as integrally related and equally central within the system.

In order to achieve this level of financial and managerial independence changes must occur. Not only must there be changes to the current fiscal operations, but also, a change in the way management and employees view their roles within a self-sustaining authority. The authority needs to view

itself in much more of an entrepreneurial way. It requires certain culture changes to move from a notion of “that’s the way its always been done” to “what is the best way to do it”.

The Authority needs to reward entrepreneurial initiatives that increase productivity or revenues. The MBTA also needs a strong budget management system to analyze operating and capital budget proposals, including the impact of capital projects on operating costs, make recommendations for cost reductions, and to monitor implementation of cost control policies. The MBTA needs to independently determine its staffing needs and the qualifications for those positions and independently hire the most qualified individuals to fill those positions.

The changes in governance structure are akin to when a separate entity spins off from a parent company to become its own business, requiring an assessment of organizational structure and performance. The authority needs to reinvent itself in order to effectively function in this new environment.

External Oversight and Input

Given the extraordinary challenges faced by the MBTA and the demands of implementing the fiscal reform legislation and achieving fiscal stability, the committee recommends that the Blue Ribbon Committee or a similar body continue to meet on a periodic basis to review the implementation of the recommendations made here and provide additional input and recommendations to the MBTA.

Appendix

History of MBTA

Statistical Profile

Map of MBTA Area