Born Broke

How too much debt and a faltering financing source threaten the MBTA

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I. Introduction:

The Massachusetts Bay Transportation Authority (MBTA) is a key component of the economic and environmental health of Massachusetts. Nearly 1.3 million unlinked trips in and around greater Boston each day are made by T, including 55% of all work trips into Boston, and 42% of all trips into downtown.[1] Economic realities and poor past decisions threaten the viability of the greater Boston's largest public transportation service provider. At the start of FY10 the MBTA faces a $160.4 million budget deficit[2], a capital maintenance backlog of at least $2.7 billion[3], and an outstanding debt load of over $8 billion in principal and interest payments[4]. $78 million of the $160.4 million deficit is due to increased debt service payments.[5]

The MBTA's finances have been in trouble for many years. In 2004 the MBTA Advisory Board budget report warned that the "threat to the operating budget and to the long-term fiscal solvency of the Authority is the tremendous debt load that the MBTA currently bears.[6]" In March 2007, the Transportation Finance Commission's report noted, "the state sales tax has generated far less revenue than anticipated, and it is unlikely that those revenue targets will ever be achieved … this is a significant shortfall for MBTA operations and capital programs.[7]"

The MBTA owes over $8 billion in debt principal and interest. Principal and interest payments on these debts consumes between 25% – 30% of all MBTA spending each year. Over two-thirds of this debt was assigned to the MBTA by the Commonwealth of Massachusetts in 2000 when the Authority was made responsible for its own financing as part of the Forward Funding legislation

For many years the Authority has relied on one-time fixes to balance its budget. Unexpected federal tax credits, deferred maintenance, the exhaustion of cash reserves, land sales, and most commonly, the restructuring of its sizable debt, have allowed the T to end each fiscal year on budget.

Good economic times and periods of higher fuel prices also produced short-term revenue windfalls that helped close budget gaps and even lead to some years of surpluses. However, now all the quick-fixes, band-aids, and accounting actions are gone. Over the past 5 years, and until recently, as the American economy boomed, the MBTA's structural weaknesses of too much debt, a faltering principal subsidy source and too much debt, a faltering principal subsidy source and too much deferred maintenance were hidden from public attention by close budgetary shaves, accounting solutions, and one-off payments. Now as the American economy is in decline, Massachusetts consumers are making fewer purchases yielding less sales tax receipts. This coupled with declining ridership, the evaporation of land sales and a tight credit market spells a prolonged period of decreased financing available to the Authority.

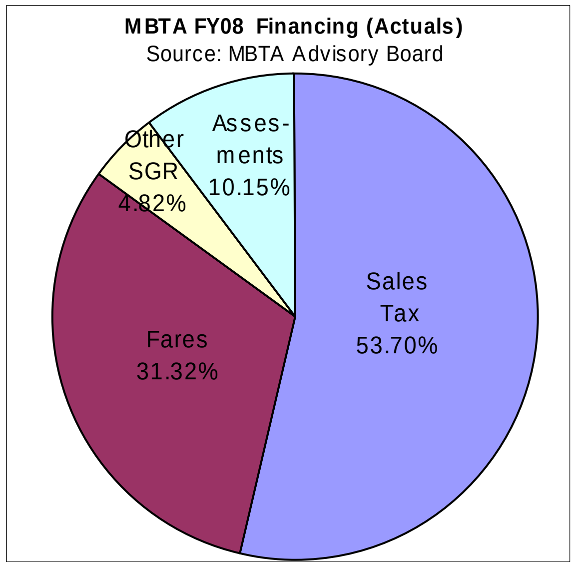
In light of these economic realities the staff of the MBTA Advisory Board presents this report to detail the state of the MBTA's financial health, explain how this came to pass and compare it to its peers.

II. Scope of the Problem

All major American transportation organizations are financed through a combination of system generated revenues (SGR) and government subsidies, and the MBTA is no different. The MBTA is financed from a combination of dedicated revenues (sales tax receipts and assessments) and system generated revenues derived from fares, parking fees, investments, land sales, etc. From these sources, the MBTA pays all its operating, on-going maintenance and debt service costs.

Financing

The MBTA's two principal subsidy sources are a portion of all sales taxes collected in the Commonwealth and assessments on municipalities within the MBTA service district. The portion

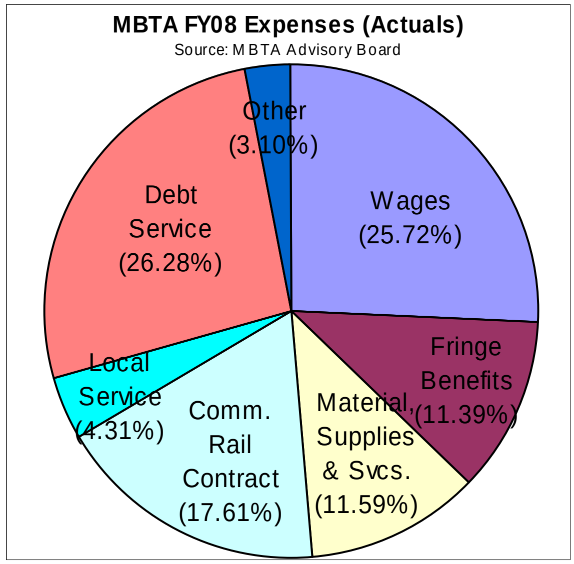


of sales tax receipts the MBTA receives is its largest single source of financing. Throughout the 1990's the state sales tax enjoyed average annual growth of 6.5%. Since 2000 the state sales tax has grown at an average of 1.0%, well below State projections and less than inflation.[8] In FY08 (07/01/2007 – 06/30/2008) the MBTA had financing of just over \$1.4 billion generated from: sales tax receipts (\$756 million), fares (\$441 million), assessments ($143 million) and other system generated revenue ($68 million).[9]

Expenses

In FY08 the MBTA spent over $1.4 billion to provide public transportation services across seven broad categories: debt service (26.28%), wage (25.72%), contracted commuter rail operations (17.61%), materials, supplies, and services (11.59%), fringe benefits (11.39%), contracted local services including paratransit, ferry and other subsidized private operations (4.31%), and other costs such as insurance products and finance service charges (3.10%).[10]

Over 90% of all MBTA employees are members of a labor union who bargain collectively for pay and benefits, sometimes through binding arbitration. Once an agreement is in place the Authority itself has little control over the pay and benefits its employees receive. What it can control is the number of employees on its payroll. Between June 2004 and January 2009 the MBTA's headcount increased by only 0.76% per year.[11] This only includes employees paid directly by the MBTA, not those employed to provide MBTA services under contract such as



commuter rail engineers, RIDE drivers, or ferry boat captains.

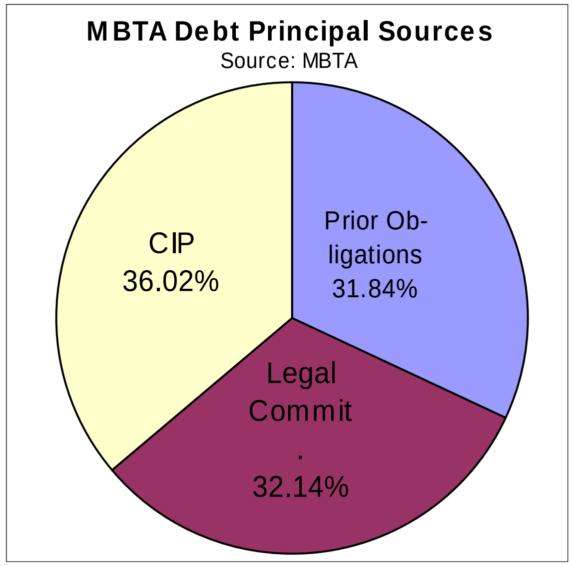
Debt

Debt service payments were the largest single MBTA expenditure in FY08. These were scheduled principal and interest payments to bondholders who are owed over $5.2 billion in principal and $3 billion in interest. Before the enactment of Forward Funding in 2000 the Commonwealth borrowed money for MBTA projects and made principal and interest payments on its behalf. When forward funding was enacted the MBTA not only received its own revenue stream but also responsibility for all debts on the state's books labeled as MBTA debt. The current $5.2 billion in debt principal went to 3 main categories: prior obligations, capital investment program and legal commitments.[12]

Prior obligations ($1.652 billion) are those debts which the Commonwealth entered into for the benefit of public transportation users in eastern Massachusetts prior to forward funding, primarily in the form of 30 year bonds.

Debt in the legal obligation category ($1.688 billion) corresponds to the State Implementation Plan Transit Commitment Projects, or SIP commitments. These commitments were public transportation projects which the state agreed to build in order to satisfy the concerns of a coalition of environmental groups in the run up to the final permitting for the Big Dig project. In the 1990's the state borrowed the money to design and built the SIP commitments, and in 2000 it transferred this debt burden to the MBTA. Since not all the SIP commitment projects were completed when forward funding was the MBTA was forced to go further into debt to complete some of them.[13]

The final category is capital improvement program (CIP) debt ($1.869 billion). These are funds borrowed by the Authority since 2000 to



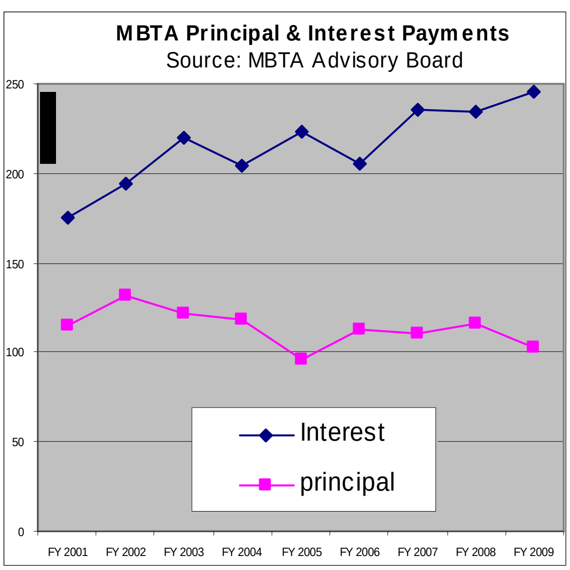
fund its capital maintenance and improvement plans. These costs include basic maintenance and modernization costs to MBTA tunnels, rails, facilities, as well as the costs of acquiring new buses, rolling stock, and other infrastructure. Most CIP costs qualify for federal 5309 or 5307 grants which generally cover 80% of costs with the MBTA going into debt to provide the remaining 20% match.

Since 2000 the MBTA's CIP program has included the purchase of a new bus fleet as well as the acquisition of new blue line and green line cars as well as major modernization work throughout the system.

Restructuring

Since FY2003 the MBTA has often relied on debt restructuring to balance its budgets. In many cases restructuring allowed it to take advantage of lower interest rates, saving money over the long term. However, in other cases restructuring took the form a reduction in principal payments in return for an extended loan term. The result of this is a decrease in short-term costs, but at the cost of greater interest payments over time- increasing costs in the long term.

Debt service payments have consistently consumed between 25% – 30% of all spending each year since forward funding was initiated. But, as this chart shows, the amount spent on interest has steadily increased while payments against debt principal have steadily declined. Surely, these actions freed up needed cash at the time, but only at the long-term cost of greater costs over the long term.



III. National Context

The MBTA is not alone in facing stark choices in the midst of the worst economic conditions in generations. All large public transportation organizations rely on government subsidies derived from taxes for part of their financing. Just as states, counties, cities and towns across the nation are realizing less revenue from taxes this year, so too are major public transportation entities.

In New York City the MTA faces a $1.2 billion deficit heading into FY10. In late March its Board voted to raise fares by up to 25% for bus and subway rides, 30% for tolls at its bridges, and 26% for commuter rail. At the same time it voted to eliminate 35 bus routes and 2 subway lines, lay off about 1,000 employees, reduce off-peak service on all modes and cancel some bus service on weekends.[14] The Chicago Transit Authority (CTA) faces $242 million deficit and is considering fare hikes and service cuts in 2009. CTA last raised fares in January, 2008.[15] In Los Angeles the LACMTA faces a $409 million deficit due to the elimination of state subsidies for mass transit.[16] The DC

Metro, faced with a $154 million FY10 deficit, laid off 313 employees, cut overtime, reduced most discretionary funding, in order to bring this deficit down to $29 million. To close this gap, the Authority has proposed the elimination of 10 bus routes, the truncation of 12 others and increasing headways on all modes.[17] In Seattle the King County Metro faces a $100 million deficit and is currently mulling service cuts.[18] Following the failure of a ballot initiative to increase subsidies last year, the St. Louis Metro announced a 40% cut in bus service, 30% cut in light rail service, the lay offs of 25% of its workforce, and significant cuts to paratransit service.[19] Even in Dublin, Ireland the agency which provides public bus service is considering mothballing 10% of its fleet, major service reductions and 160 layoffs to close a €31 million shortfall.[20] This list is growing and changing daily.

National Transportation Database

Each year the Federal Transit Administration collects the same expansive data from public transportation agencies, collates it and produces the national transit database (NTD). The latest year for which NTD date is available is 2007. The labeling of some NTD financial data may differ from how individual agencies label their own data. For instance NTD counts lease costs as an operating expense, while the MBTA counts it as a debt service costs. As such, categorical costs may differ between NTD and agency budgets. But, since NTD remains consistent in its reporting throughout the database, for the purposes of comparison these differences are moot.

All numbers reported in the following tables are taken form the NTD 2007 report and most likely have changed since then.

Using NTD data makes it possible to compare the top 10 largest public transportation organizations in the United States with one another. The top 10 represent a diverse grouping of organizational structures, geography, mode mix and size. Although no two of these organizations are exactly alike, they all share several common traits. No large public transportation entity in the United States funds its operations from fare revenue alone. All major public transportation organizations are financed by a combination of fare revenue, other

NTD 2007 Report - Top 10 Largest Public Transportation Agencies					
Organization	**NYCT**	**CTA**	**LACMTA**	**DC Metro**	**MBTA**
Rank	1	2	3	4	5
Region	New York	Chicago	Los Angeles	Wash. DC	Boston
Governance	Ops. Unit	Indp. Auth.	Indp. Auth	Indp. Auth	Indp. Auth
Operating Financing $	6,473,476,165	1,117,505,455	1,286,350,062	1,344,979,661	1,241,654,161
Operating Expenditure $	5,397,368,807	1,408,238,949	1,124,937,069	1,240,615,192	987,148,623
# FT Employees	49,391	10,589	9,587	10,207	7,428
Organization	**SEPTA**	**NJT**	**MUNI**	**MARTA**	**KCMTA**
Rank	6	7	8	9	10
Region	Indp. Auth	Indp. Auth	Govt. Unit	Indp. Auth	Govt. Unit
Governance	Philadelphia	New Jersey	San Francisco	Atlanta	Seattle
Operating Financing $	962,655,190	1,707,288,936	531,910,848	455,390,523	463,474,018
Operating Expenditure $	916,470,647	1,605,189,531	509,391,225	373,519,151	497,519,684
# FT Employees	8,784	10,309	3,802	4,459	3,073
Source: NTD 2007 Report					

system generated revenues (parking fees, advertising, investment income, etc) and government subsidies. In all cases government subsidies constitute a major percentage of financing. As the economy softened over the past year the amount of subsidy financing available to transit agencies has also declines because governments at all levels are collecting less in tax revenue. The United States is in the midst of a national public transportation financing crisis without a national solution.

1. MTA – NYC Transit

New York City Transit (NYCT) is a division of the Metropolitan Transportation Administration (MTA). Because of the MTA's vast size the NTD uniquely breaks out operating and financial data of its operating divisions separately. NYCT operates 26 subway, 243 bus routes, the Staten Island Railway and paratransit service across New York City and is the largest provider of public transportation service in the United States. The MTA centralizes all financing, planning and governance for its operating divisions. The MTA is governed by a 23-member board of directors comprised of 17 voting and 6 non-voting members; each of whom is appointed by the Governor of New York. Of the 17 voting members, 6 are appointed directly by the Governor, 4 on the recommendation of New York City's Mayor and 1 each by the County Executives of Nassau, Suffolk, Westchester, Putnam, Duchess, Orange and Rockland Counties respectfully. The directors from Putnam, Duchess, Orange and Rockland Counties cast one collective vote. The remaining 6 non-voting seats rotate between representatives of stakeholders.

The MTA is financed from a combination of system generated revenues (47%) and government subsidies (53%).[21] System generated revenues come principally from fares and toll revenue from bridges and tunnels the MTA owns. Government subsidies come from a series of dedicated sources and appropriations. The MTA receives a dedicated portion of the New York State gas tax and portions of special statewide corporate and franchise taxes. It also receives the proceeds of a special MTA sales tax (0.375%) collected within the counties of the MTA service district. A mortgage recording tax is also assed as a percentage of the amount money borrowed to purchase real estate within the MTA service district. New York City residents are also subject to additional "urban taxes" consisting of a further mortgage recording tax, and a property transfer tax equal to 1% of a property's value when ownership is transferred.

NYCT	
Service Area pop.	8,008,278
Annual Unlinked Trip	3,256,977,960
Governance Type	Ops. Unit
Total # Employees	49,391
Fare Financing	$2,811,715,386
Non-Fare SGR	$228,535,771
Total SGR	$3,040,251,157
Local Subsidy	$1,511,178,615
State Subsidy	$1,922,046,393
Federal Subsidy	$0
Total Subsidies	$3,433,225,008
Total Financing	**$6,473,476,165**
Employee Costs	$4,890,319,875
Mat. & Supplies	$480,157,780
Purchased Transport	$205,420,477
Other Ops. Costs	-$178,529,325
Total Expenditure	**$5,397,368,807**
Source: NTD 2007 Report	

New York State, the county governments in the service district and the New York City government also appropriate grants to the MTA each year. According to a report of the New York City Independent Budget Office, New York City appropriated $191 million in operating and $106 million in capital grants to the MTA in 2007. That same year New York State appropriated $191 million for operating costs.[22] County governments are responsible for reimbursing the MTA for the costs of maintaining commuter rail stations within their borders.

Even with millions of transit dependent riders, diversified subsidy sources (sales, gas, property and corporate taxes), and appropriations for operating and capital costs the MTA faces a budget deficit of up to $1.2 billion as the soft economy has reduced ridership and all but arrested consumer spending, resulting in less sales, gas and property transfer tax receipts.[23] Coupled with these declining revenues is what an independent finance commission called "a structural budget imbalance driven by years of over-reliance on self-supported debt to fund its capital needs.[24]" In late March its Board voted to raise fares between 20 and 30% depending on mode, raise tolls, and eliminate 35 bus routes and 2 subway lines. In addition, 1,000 MTA employees will loose their jobs and off-peak service on all modes and will be reduced, headways stretched and some weekend service canceled outright.[25]

An alternative to major service cuts and fare increases was offered by the Ravitch Commission which proposed an 8% fare and toll rate increase, new tolls on previously un-tolled bridges entering Manhattan, and a special payroll tax of 0.33% on wages earned within the MTA service district.[26] The New York State Assembly is currently debating this plan, which, if adopted, would preempt fare hikes and service cuts.[27]

2. CTA – Chicago

The Chicago Transit Authority (CTA) operates 153 bus routes and 8 heavy rail lines throughout the City of Chicago and in 40 surrounding municipalities. CTA is a political subdivision of the State of Illinois, overseen by a 7 member board of directors, 4 of whom are appointed by the Mayor of Chicago and 3 by the Governor of Illinois. Along with Metra (commuter rail), and Pace (paratransit and suburban mobility), CTA is a service board of the Chicago Regional Transportation Authority (RTA), itself a political subdivision of Illinois. The RTA's primary responsibility is financial and budget oversight to its service boards.

CTA is financed through a combination of system generated revenue (45%) and government subsidies (55%).[28] Most system generated revenue comes from fares. Nearly all government subsidies are channeled to CTA through the RTA. An RTA sales tax (1.25% in Cook County, 0.75% in DuPage, Kane, Lake, McHenry and Will counties) is levied on all purchases made within the RTA service district.[29] The RTA retains 15% of all sales tax receipts and returns 85% to its service boards under a formula based on geography and service provision. Additionally, the City of Chicago levies a $1.50 per $100 real estate transfer tax on all property transactions within the city for dedicated use by CTA. The State of Illinois provides a match to locally generated funds from the Illinois Public Transportation fund. This fund is financed principally from the state gas tax. The State also directly appropriates funding to service boards for mandated free or reduced fares for students, the elderly, the disabled and veterans.[30]

In 2008 to close a $158 million deficit the State of Illinois increased the RTA sales tax and the Chicago real estate transfer tax which allowed CTA to end 2008 with a balanced budget. However, in February 2009 it was reported that CTA would not be receiving at least $58 million in tax subsidies it expected from RTA to close its FY08 books (CTA's fiscal year mirrors the calendar year). On top of this, CTA was also told that tax collections were so far below

CTA	
Service Area pop.	3,763,791
Annual Unlinked Trip	499,544,307
Governance Type	Independent
Total # Employees	10,589
Fare Financing	$459,670,179
Non-Fare SGR	$44,175,591
Total SGR	$503,845,770
Local Subsidy	$307,176,469
State Subsidy	$195,642,681
Federal Subsidy	$110,840,535
Total Subsidies	$613,659,685
Total Financing	**$1,117,505,455**
Employee Costs	$1,131,641,346
Mat. & Supplies	$155,359,197
Purchased Transport	$0
Other Ops. Costs	$121,238,406
Total Expenditure	**$1,408,238,949**
Source: NTD 2007 Report	

expectations that it should lower its revenue projections by $155 million, for a total 2009 deficit of $213 million.[31]

To close its 2008 $158 million deficit CTA announced plans to eliminate 50% of bus routes, layoff 2,400 employees and dramatically increase fares. Thus far CTA has not said how it plans to close its 2009 deficit.

3. LACMTA – Los Angeles

In addition to directly operating 191 bus routes, 3 light rail lines, 3 transitways, 3 light rail lines, 2 heavy rail lines, 1 BRT line, and paratransit service, the Los Angeles County Metropolitan Transportation Authority

(LACMTA) also provides regional planning, coordination, design and construction services to municipal governments throughout the LA region. LACMTA also subsidized 16 municipal bus operators managed by LA County municipalities and Metrolink, the region's commuter rail service provider. The Authority is overseen by a 13-member board of directors comprised of each of the 5 elected LA County supervisors, the Mayor of the City of Los Angeles, 3 appointees of the Mayor, 4 elected city council members from outside of City of Los Angeles, and 1 non-voting appointee of the Governor of California.

LACMTA	
Service Area pop.	8,493,281
Annual Unlinked Trip	495,362,403
Governance Type	Independent
Total # Employees	9,587
Fare Financing	$293,878,777
Non-Fare SGR	$36,984,744
Total SGR	$330,863,521
Local Subsidy	$613,335,929
State Subsidy	$156,786,942
Federal Subsidy	$185,363,670
Total Subsidies	$955,486,541
Total Financing	**$1,286,350,062**
Employee Costs	$739,469,348
Mat. & Supplies	$128,314,403
Purchased Transport	$34,463,344
Other Ops. Costs	$222,689,974
Total Expenditure	**$1,124,937,069**
Source: NTD 2007 Report	

LACMTA is financed through a combination of system generated revenues (26%) and government subsidies (74%). LACMTA receives 1.75¢ of the 8.75¢ per $1.00 sales tax collected on most purchases within the County as well as a portion of the state's special sales tax on motor fuels. The LACMTA sales tax was increased following a ballot referendum passed by over 2/3 of Los Angeles County voters at last November's election. It also receives funding from the state under the 1971 Transportation Development Act (TDA), which created two dedicated public transportation trust funds: the Local Transportation Fund (LTF) and the State Transit Assistance (STA) fund. The LTF receives 0.25¢ of the State's portion of the California sales tax, while a portion of the special state-wide sales tax on gasoline and diesel is dedicated to the STA.[32] In FY08 these taxes generated $1.7 billion, of which LACMTA received nearly $400 million in that year.[33]

Despite sales tax increases LACMTA faces a bleak budget outlook for the remainder of 2009. Consumer spending in the Los Angeles region declined in each of the final six months of 2008, rising only 0.6% in January 2009, which undoubtedly will yield less sales tax receipts.[34] Furthermore, the Authority recently lost most of its TDA subsidies under the austerity budget recently passed by the California Legislature- a loss of over $70 million for LACMTA.[35]

4. WMATA – Washington, DC

The Washington Metropolitan Area Transit Authority operates 5 heavy rail lines, 338 bus routes and paratransit service in and around Washington, DC.[36]. The Authority came into existence in 1967 following the ratification of an interstate compact between Maryland and Virginia. Its 12 member board of directors consists of 4 members each from Maryland, Virginia, and Washington, DC respectfully.

WMATA is financed through a combination of system generated revenues (55%) and subsidies (45%).[37] The WMATA service area is: the District of Columbia, Prince George's County, MD, Montgomery County, MD, and in Virginia the Counties of Arlington and Fairfax and the Cities of Fairfax, Falls Church, and Alexandria.

Each year as part of the budget process the Authority proposes a financing plan to its board complete with requested subsidies from the jurisdictions based on a series of agreed formulas. The board then collectively decides the appropriate subsidy request for each jurisdiction. These appropriations form WMATA's subsidies. Local jurisdictions pay both capital and operating subsidies.

WMATA	
Service Area pop.	1,305,693
Annual Unlinked Trip	411,598,592
Governance Type	Independent
Total # Employees	10,207
Fare Financing	$514,611,829
Non-Fare SGR	$222,227,288
Total SGR	$736,839,117
Local Subsidy	$368,815,007
State Subsidy	$221,325,537
Federal Subsidy	$18,000,000
Total Subsidies	$608,140,544
Total Financing	**$1,344,979,661**
Employee Costs	$864,999,810
Mat. & Supplies	$146,062,251
Purchased Transport	$61,013,577
Other Ops. Costs	$168,539,554
Total Expenditure	**$1,240,615,192**

Source: NTD 2007 Report

Each jurisdiction funds its subsidy differently. The District of Columbia earmarks portions of its 20.0¢ gas tax, parking meter fees, traffic fines, and vehicle registration fees directly to WMATA.[38] The State of Maryland pays Montgomery and Prince George's subsidies directly from the Maryland Transportation Trust Fund. This fund receives revenue from the state's 23.5¢ state gas tax, a special sales tax on vehicle sales (known as the tilting tax), registry fees, a portion of the corporate income tax, a rental car sales tax, and other sources.[39] In Virginia responsibility for WMATA financing is left up to the governments of the 5 jurisdictions within the service district. Each local government funds its subsidy differently, usually from a combination of the extra 2% gas tax levied within service district and returned to local governments, property taxes and general fund appropriations.[40]

Despite a high fare recovery ratio and diversified subsidy sources (gas, property, sales, appropriations etc.) WMATA predicts a $154 million deficit in its FY10 budget. The Authority reduced this deficit to $29 million by lying off 313 employees, cutting overtime, and axing most discretionary funding. To completely close the gap, however, in late March WMATA announced public hearings around the elimination of 10 bus routes, the truncation of 12 others and the stretching headways on all modes.[41] All this comes after increasing fares and freezing hiring in January 2008, and eliminating 254 positions in 2007. WMATA blames its deficit on stock market losses in its employee pension fund, contractual labor increases, rising energy costs, the increasing popularity of its paratransit service, as well as decreasing revenue from parking fees, property rentals, interest income and leased space for fiver optic cable due to the soft economy.[42]

5. MBTA

The Massachusetts Bay Transportation Authority (MBTA) provides public transportation services to the people of greater Boston on 191 bus routes, 14 commuter rail lines, 3 heavy rail lines, 3 ferry routes, 1 light rail line, and paratransit service. A political subdivision of the Commonwealth of Massachusetts, the MBTA is overseen by an independent board of directors appointed by the Massachusetts Governor and chaired by the Commonwealth's Secretary of Transportation. In addition, the MBTA's annual operating budget and multi-year capital spending plan are subject to binding review by the MBTA Advisory Board, an independent, parallel

MBTA	
Service Area pop.	4,510,400
Annual Unlinked Trip	357,578,991
Governance Type	Independent
Total # Employees	7,428
Fare Financing	$395,876,376
Non-Fare SGR	$58,636,446
Total SGR	$454,512,822
Local Subsidy	$134,988,493
State Subsidy	$644,117,259
Federal Subsidy	$8,035,587
Total Subsidies	$787,141,339
Total Financing	**$1,241,654,161**
Employee Costs	$704,584,507
Mat. & Supplies	$111,002,988
Purchased Transport	$65,068,810
Other Ops. Costs	$106,492,318
Total Expenditure	**$987,148,623**
Source: NTD 2007 Report	

organization consisting of the chief elected official of each of the 175 municipalities that constitute the MBTA service district. Over 73% of the Massachusetts population lives within the MBTA service district.

The MBTA is financed through a combination of system generated revenues (37%) and government subsidies (63%).[43] The MBTA receives 2 dedicated subsidies: 20% of state sales tax receipts and assessments levied on cities and towns within the service district based on population. In 2000 Massachusetts changed the way that the MBTA was financed by granting it a dedicated portion of the state's $0.05 sales tax at the start of each fiscal year. In FY08 this generated over $755 million, or 53% making it the largest source of MBTA financing.[44]

As it heads towards the start of FY10, the MBTA faces a projected $160.4 million deficit out of a budget of $1.6 billion. The Authority is banking on a plan to raise the Commonwealth's gas tax by 19¢ with 6¢ dedicated to the MBTA, generating an estimated $165 million in additional revenue.[45] Without additional revenue, the Authority has announced plans to raise fares by as much as 30%, cut service and lay off hundreds of employees.[46]

6. SEPTA – Philadelphia, PA

The Southeastern Pennsylvania Transportation Authority (SEPTA) operates 117 bus routes, 8 light rail lines (trolley), 3 trackless trolley routes, 2 elevated heavy rail (subway) lines, 1 interurban heavy rail line, 13 commuter rail lines, shared ride service with Philadelphia and paratransit services throughout its core service district. SEPTA's core service district is Bucks, Chester, Delaware, Montgomery and Philadelphia Counties. It is governed by a 15 member appointed Board of Directors. The Pennsylvania Governor, Senate majority and minority leaders, and House majority and minority leaders each appoint 1 member respectively. The remains seats, respectively, are appointed by Philadelphia's Mayor, Philadelphia's City Council President, and the county governments of Bucks, Chester, Montgomery and Delaware counties. The 2 Philadelphia appointees may collectively veto any board action, but a 2/3 vote of the full board may override any veto within 30 days.

SEPTA is financed through a combination of system generated revenues (40%) and government subsidies (60%).[47] In 2007 public transportation agencies in Pennsylvania were switched from being funded in arrears to a forward funding system. Under this switch, known as Act 44, SEPTA receives its subsidies upfront from a new Pennsylvania Public Transportation Trust Fund (PPTTF). The Fund is financed from 4.4% of all sales tax receipts collected statewide, funds from the state lottery dedicated to free transit for senior citizens statewide, funds from the PA Turnpike Authority, a $1 fee per tire sold statewide, a $2 per day fee on car rentals, and a 3% tax on car lease amounts.[48] The Trust Fund

SEPTA	
Service Area pop.	3,317,418
Annual Unlinked Trip	321,839,783
Governance Type	Independent
Total # Employees	8,784
Fare Financing	$348,621,108
Non-Fare SGR	$34,383,101
Total SGR	$383,004,209
Local Subsidy	$72,863,139
State Subsidy	$407,191,156
Federal Subsidy	$99,596,686
Total Subsidies	$579,650,981
Total Financing	**$962,655,190**
Employee Costs	$755,547,558
Mat. & Supplies	$84,737,506
Purchased Transport	$38,581,837
Other Ops. Costs	$37,603,746
Total Expenditure	**$916,470,647**
Source: NTD 2007 Report	

also pays a portion of SEPTA's outstanding debt as well extra financing to build up cash reserve funds.[49] Local subsidies are appropriated annually from the general funds of the city and county governments of the SEPTA service district as a match to trust fund financing.

Local subsidies are earmarked for specific projects or services within those jurisdictions under a formula that allows for service stabilization.[50]

SEPTA released its FY09 budget in August 2008, but thus far has not released its FY10 budget. The Authority's contract with its largest labor union expired on March 15, 2009, although both sides agreed to continue negotiating after the expiration date, the threat of a strike looms. Contracts for some of its other unions expire in April.[51] Another looming issue is the viability of the Public Transportation Trust Fund. Turnpike authority payments constituted over 30% of Public Transportation Trust Fund financing in FY08. Under the legislation (Act 44) creating the fund, the PA Turnpike Authority leased a non-tolled, interstate highway (I-80) from the state in return for Trust fund payments. In return the Turnpike Authority predicted it could toll I-80. However, FHWA rejected the Turnpike Authority's tolling proposal leaving them on the hook for payments into the trust fund without additional revenue sources.[52]

7. NJ Transit

The New Jersey Transit (NJT) Corporation is a statewide public transportation corporation that operates 242 local and commuter bus routes, 11 commuter rail lines, 3 light rail lines and paratransit service throughout the state. It also subsidizes a number of private carriers to provide public transportation services. NJT is overseen by a 7 member board of directors, each of whom is appointed by New Jersey's governor. Three of the seven members are state employees including the state commissioner of transportation who also chairs the board. The governor may unilaterally veto any board decision.

NJT	
Service Area pop.	17,799,861
Annual Unlinked Trip	268,289,345
Governance Type	Independent
Total # Employees	10,309
Fare Financing	$679,299,440
Non-Fare SGR	$158,773,943
Total SGR	$838,073,383
Local Subsidy	$14,721,367
State Subsidy	$598,848,801
Federal Subsidy	$255,645,385
Total Subsidies	$869,215,553
Total Financing	**$1,707,288,936**
Employee Costs	$959,316,831
Mat. & Supplies	$220,339,772
Purchased Transport	$155,309,304
Other Ops. Costs	$270,223,624
Total Expenditure	**$1,605,189,531**
Source: NTD 2007 Report	

NJ Transit is financed from system generated revenue (49%) and government subsidies (51%).[53] State subsidies come from New Jersey's casino revenue fund, and its transportation trust fund. The casino fund is financed by an 8% tax on gambling proceeds.[54] The state transportation trust fund is financed from a combination of broad based taxes including a 10.5¢ gas tax, a 13.5¢ diesel tax, a 2.75% tax on petroleum product distributors (excluding home heating oil), a special sales tax on new vehicle purchases (constitutionally mandated to be at least $200 million annually) a portion of vehicle registration fees, a portion of a special fee on heavy truck registrations, and annual appropriations from New Jersey's toll road authorities. In 2007 gas tax receipts accounted for almost half of all trust fund receipts.[55] NJT also receives some subsidy financing from the Port Authority of NY/NJ.[56]

As a unit of state government NJ Transit's budget is wound into the overall state budget which faces a $7 billion deficit in FY10.[57] Undoubtedly, the soft economy will affect the revenue sources of the trust funds which NJT relies on. Six of the eleven casinos in Atlantic City are in bankruptcy.[58] Gambling proceeds in Atlantic City's 11 casinos were down 19.2% in February 2009 compared to February 2008.[59]

8. MUNI – San Francisco, CA

The San Francisco Municipal Railway (MUNI) is a division of the San Francisco Municipal Transportation Agency (SFMTA), a unit of city government. SFMTA is overseen by a 7 member board of directors, each of whom is appointed by the mayor and approved by San Francisco's Board of Supervisors. MUNI operates 54 bus routes, 7 light rail lines plus San Francisco's famed cable car. As a unit of city government and under the direction of the Mayor, MUNI submits a two-year budget to San Francisco Board of Supervisors annually. The Board of Supervisors may accept, reject, but not modify, the budget.[60]

MUNI	
Service Area pop.	808,844
Annual Unlinked Trip	206,458,675
Governance Type	Govt. Unit
Total # Employees	3,802
Fare Financing	$142,993,651
Non-Fare SGR	$12,724,692
Total SGR	$155,718,343
Local Subsidy	$277,074,154
State Subsidy	$93,961,396
Federal Subsidy	$5,156,955
Total Subsidies	$376,192,505
Total Financing	**$531,910,848**
Employee Costs	$409,615,265
Mat. & Supplies	$41,530,691
Purchased Transport	$18,700,137
Other Ops. Costs	$39,545,132
Total Expenditure	**$509,391,225**
Source: NTD 2007 Report	

System generated revenues account for 29% of financing and subsidies the remaining 71%.[61] State financing from California Transportation

Development Act (TDA) sources contributed about 25% (see LACMTA section for TDA information) of subsidies. Local San Francisco funding sources constituted over 73% of all subsidies received and over half of MUNI's total financing.[62] Under a city ballot initiative approved in November 2007, MUNI's parent organization, the SFMTA, receives 80% of all parking tax receipts. San Francisco's parking tax is 25% of the cost of off-street parking.[63] The city also finances MUNI through an annual appropriation from its general fund.

Since MUNI is still in the first of its 2 year budget cycle, it is unclear what its budget deficits may be in FY10. However, the City's FY 10 budget gap is estimated to be at least $565 million.[64] Furthermore, as part of its recently passed austerity budget California slashed TDA funding for its large public transportation agencies which could result in a loss of $65 million in state aid in FY10.[65]

9. MARTA – Atlanta, GA

MARTA	
Service Area pop.	1,574,600
Annual Unlinked Trip	147,523,544
Governance Type	Independent
Total # Employees	4,459
Fare Financing	$102,141,681
Non-Fare SGR	$37,869,231
Total SGR	$140,010,912
Local Subsidy	$275,288,244
State Subsidy	$0
Federal Subsidy	$40,091,367
Total Subsidies	$315,379,611
Total Financing	**$455,390,523**
Employee Costs	$329,163,776
Mat. & Supplies	$36,372,958
Purchased Transport	$0
Other Ops. Costs	$7,982,417
Total Expenditure	**$373,519,151**

Source: NTD 2007 Report

The Metropolitan Atlanta Rapid Transit Authority (MARTA) operates 4 heavy rail lines, 138 bus routes and paratransit service in and around the metropolitan Atlanta area. MARTA is overseen by an 18 member Board of Directors. The Mayor of Atlanta appoints 4 members, the Fulton County Commission 3 members, the DeKalb County Commission 5 members, and the county commissions of Clayton and Gwinnett counties 1 member each. Rounding out the board are representatives of the state departments of revenue, and transportation, as well as representatives of the Atlanta regional transportation and buildings authorities. MARTA's service district is Fulton and DeKalb counties. Atlanta is part of Fulton County.

System generated revenues provided 31% of financing and government subsidies the remaining 69%.[66] MARTA's principal subsidy is a dedicated sales tax collected within Fulton and DeKalb counties. Each county's sales tax rate is 7% of which 1% is dedicated to MARTA. Under its enabling legislation MARTA is required to allocate 50% of its sales tax financing to operations and 50% to capital expenditure. No such restriction is placed on system generated revenues.[67]

Since over 60% of its financing comes from sales tax receipts, MARTA faces a difficult FY10. As it heads towards the start of FY10 the Authority's deficit is projected at $65 million due to the decline in sales tax receipts. To close this deficit MARTA's CEO Beverly Scott predicts a $0.25 cent fare increase and/or service cuts of between 10% and 30%.[68]

10. King County Metro – Seattle, WA

Seattle's King County Metro (KCM) provides public transportations services in King County, Washington including the City of Seattle. A unit of the King County Department of Transportation, KCM operates 222 bus

KCM	
Service Area pop.	1,861,300
Annual Unlinked Trip	113,928,156
Governance Type	Govt. Unit
Total # Employees	3,073
Fare Financing	$85,138,566
Non-Fare SGR	$73,445,979
Total SGR	$158,584,545
Local Subsidy	$290,956,818
State Subsidy	$4,060,508
Federal Subsidy	$9,872,147
Total Subsidies	$304,889,473
Total Financing	**$463,474,018**
Employee Costs	$302,504,000
Mat. & Supplies	$57,970,186
Purchased Transport	$79,644,172
Other Ops. Costs	$57,401,326
Total Expenditure	**$497,519,684**
Source: NTD 2007 Report	

routes, a public van pool operation and paratransit services. It will also operate a new regional light rail line when it opens in 2009.[69] As a unit of County government KCM is answerable to the elected King County executive and the county council.

KCM's is financed by system generated revenues (34%) and government subsidies (66%).[70] Nearly all of KCM's subsidy is generated from a portion of the 8% county sales tax. It also receives a small state subsidy dedicated to security and emergency preparedness.[71]

KCM raised fares by a total of $0.75 in three increments between

March 2008 and January 2009.[72] Despite these increases and a 20% increase in ridership since 2006 the transit agency faces a potential $100 million deficit in FY10. According to one news report "plummeting sales-tax revenues could leave Metro Transit with a $100 million funding gap and potentially 'catastrophic' cutbacks in bus service next year…"[73] To close this gap county leaders are considering a 20% service cut or requesting the state to authorize a local vehicle excise tax.[74]

III. Conclusion

The United States is in the midst of a national public transportation financing crisis without a national solution. Each of the top 10 largest public transportation systems in the United States faces cutting service or raising fares to cover spiraling expenses. The MBTA is no exception. However, the MBTA's problems are more acute than its peers due to the amount of debt it carries. $78 million of the MBTA's projected $160.4 FY10 deficit is due to contractually obligated increases in debt service payments.[75] In FY09, after refinancing, debt service consumed 24.13%. of MBTA expenditure.[76] In contrast, in FY09 the MTA dedicated 13.04% of expenditure to debt service.[77]

Few transit agencies are required to pay for operations, ongoing capital spending and debt service costs from the same sources. Most of the MBTA's peers have dedicated revenue streams for operations and separate revenue sources for capital spending. Almost no other transit agency has the MBTA's debt load let alone responsibility for paying off all of its own old debts.

The MBTA is in trouble, but its troubles are no greater or worse than its peers. All large transit agencies are financed by a combination of system generated revenues and government subsidies. Government subsidies are derived from tax collections. Regardless of source (gas, property, sales, casino, registry, parking, income, etc.) tax receipts will be lower in FY10 than in FY09 because the soft economy has reduced consumer spending, slowed real estate transactions, and caused job losses.

The MBTA does not control the international economy, but it, like everything else, is affected by it. Until the economy rebounds the MBTA will continue to face financial difficulties, and no long-term solution is plausible until this happens. But, it is clear that unless something is done to relive the MBTA of some of its considerable debt, even the economic rebound of the international economy will not make it financially stable. The T's debt laod is a millstone around its neck, and until something is done about it, the T's long–term financial viability is in doubt.

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