

PRELIMINARY REPORT
TO THE MBTA ADVISORY BOARD
MBTA FISCAL YEAR 2001 BUDGET

Submitted by the

MBTA Advisory Board Finance Committee

June 1, 2000

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FINANCE COMMITTEE MEMBERS

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Mr. Noah Berger
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PREFACE

The MBTA Advisory Board Finance Committee transmits the enclosed report for your consideration.

The Committee wishes to thank the MBTA for their efforts in responding to requests for supporting documentation and for attending committee meetings.

The Finance Committee also acknowledges the work of the Advisory Board staff who provided the budget analysis for the Committee.

**Finance Committee Recommendation
MBTA FY2001 Budget Request**

The Finance Committee recommends a budget of \$991,341,504 for FY2001 in support of the following:

- Current Service Levels
- Service Increases
- Contractual Obligations
- FY2001 Capital Program

The Committee's recommendation reduces the MBTA's requested budget level of \$1,016,463,645, by \$25,122,141 in the following line items:

Line Item	<u>Recommended Decrease</u>	<u>Reason for Decrease</u>
Debt Service	\$16,000,000	Deferral of principle expense
Commuter Rail	\$ 5,126,337	Savings in Amtrak-related expense; reduction in Extra Work expense
Wages	\$ 2,877,383	Reduction in budgeted headcount
Pensions	\$ 330,899	See Wages
Healthcare	\$ 555,335	See Wages
FICA	\$ 227,313	See Wages
Unemployment	\$ 4,874	See Wages
Total Recommended Decrease	\$25,122,141	

BUDGET OVERVIEW

The Request

On April 27th the MBTA Board of Directors approved the FY2001 Authority Budget and sent it to the Advisory Board for approval. On May 8th, Deputy General Manager Mike Mulhern and CFO Jonathan Davis presented the MBTA spending plan to the full Advisory Board. This budget is the first for the Authority under the new forward funding legislation and begins the process of placing the MBTA on an income and expenditure basis as opposed to the Net Cost of Service basis that was the norm in the past. This changeover makes for some confusion in some areas, but overall the Finance Committee expects future MBTA budgets to be clear and direct.

The main areas of increase in the budget as presented are in the Wages and Fringe line items, Local Service Subsidy, and Commuter Rail. Wages and associated costs would rise \$14.4 million, primarily due to collective bargaining increases; the Local Service Subsidy would increase \$4.8 million due to increases in THE RIDE costs and the inclusion of the inter-district bus program (previously funded through EOTC as a pass-through administered by the MBTA) and Commuter Rail would increase \$22.6 million, which is discussed in detail below. Principal and Interest on Funded Debt were also slated to rise by \$23.5 million.

With expenses of \$1.086 billion and projected revenue from all sources of \$1.068 billion, the budget approved by the Board of Directors is out of balance. A fare increase is required to completely fund the increases in contractual and statutory obligations and the MBTA Board of Directors began that process at the Board meeting subsequent to the approval of their budget submission. The Board voted on May 11th, 2000 to have the General Manager update the Fare Policy Statement and propose a new fare structure. The MBTA estimates the value of a 25% increase in fare revenues that goes into effect on November 1, 2000 at \$30 million. **While the Finance Committee recognizes the need and value of a fare increase and supports the MBTA in this effort, the committee cannot recommend to the full Advisory Board a budget with projected expenses that exceed current revenues.** Without a fare increase, the FY2001 request is almost \$18 million out of balance. The Finance Committee recommends significant cuts in the budget as proposed in order to avoid exceeding projected revenues and to help establish a secure financial footing for the MBTA under the new financing system. The Authority must, under the forward funding law, have revenues in excess of operational costs and they must establish reserve funds. The MBTA needs to build its operating capital as well in order to avoid expensive short-term borrowings. The MBTA must also build the capacity to fund a greater percentage of its Capital Program on a “pay as you go” basis to control growth in debt service and increase flexibility in its Capital program. These goals require strong discipline, clear vision and a fare structure that provides sufficient resources to augment the Authority’s other sources of revenue.

The Review Process

The Finance Committee met four times to review the submission from the MBTA. The Authority's CFO and Budget Director, as well as other Authority staff met with the Committee to answer questions and discuss options. Unlike previous years, the Finance Committee was provided all of the materials and information necessary to review the budget early in the process. The MBTA is to be complimented on the timeliness and quality of the review materials provided to the Committee.

Line Item Discussion

Wages and Fringe Benefits

The Committee recommends a reduction of \$3,995,804 in Wages and Fringe expenses. This reduction represents a 1% cut in current budgeted positions at the MBTA. The MBTA asserts that the FY2001 budget reduces headcount 111 positions from FY2000: 69 in operations (from 5821 to 5752) and 42 in capital (589 to 547) The headcount issue is one that the Finance Committee has struggled with for years. In reviewing the monthly budgeted vs. actual headcount at the MBTA, the committee notes that the MBTA averages an actual headcount 3% below the budget headcount. The Committee recognizes that an organization with 6300 employees will have a certain percentage of vacancies at any given time. In making this cut, the Committee is saying that the MBTA should manage the headcount number more efficiently and also look for other opportunities to reduce headcount this year and in future years. The Committee does not feel that the cut proposed will impact the MBTA's operations. The reduction the 63 positions represent assumes an average salary of \$45,680 (which the Committee believes is conservative) and associated Pension, Healthcare, FICA, and Unemployment costs that total \$3,995,804. The total reduction in head count from last year, including the 111 positions the Authority eliminates totals 174. Our estimates are that the MBTA will have an average rolling vacancy of almost 200 positions.

MBTA Advisory Board Recommended Wage-Related Reductions

Recommended Headcount Reduction (1% of Workforce)	63
<u>Average Salary</u>	<u>\$45,680</u>
Recommended Wage Reduction	\$2,877,383
Recommended Pension Reduction	\$330,899
Recommended Healthcare Reduction	\$555,335
Recommended FICA Reduction	\$227,313
Recommended Unemployment Reduction	\$4,874
Total Wage and Associated Fringe Reduction	\$3,995,804

Commuter Rail Subsidy

By far, the largest increase is in Commuter Rail Subsidy. The MBTA Board of Directors vote requests \$111,962,536 in FY2001; a \$25,084,134 increase from FY2000. Since the Board of Director's vote, the MBTA has reached an accommodation with Amtrak and the new projected FY2001 spending estimate is \$109,422,081. This is a disappointing figure given the savings that appeared possible by bidding out the Amtrak maintenance work. In addition to the minor reductions in the new agreement from the FY2001 budget as voted by the Board in estimated spending, the Committee looked at the following areas for additional reductions:

Savings related to the new Amtrak agreement (primarily the new Environmental Services contract)	\$2,540,455
Reductions associated with Extra Work:	
(1) Procurement Expense:	
- Consulting services to develop the RFP/Procurement process	\$ 400,000
- Legal services for close-out of Bay State contract	\$ 300,000
- Settlement with Bay State	\$ 400,000
- Security Services	\$ 100,000
(2) Additional Assistant Conductors:	\$1,385,882
- The new agreement is not specific as to service levels and crew size; this was put in as a contingency that still needs to be negotiated	
Total Commuter Rail Subsidy Reduction:	\$5,126,337 (see Appendix A)

There was little rationale provided for these expenditures in the new agreement. In the case of the procurement expenses, the Committee felt that the estimates for consulting and for close out of the Bay State contract were excessive. The Committee had been told that Bay State had received significant funds to defer start-up expenses and that they had not incurred additional costs. The Committee also felt that the contingency for additional assistant conductors was excessive.

There are a number of lessons to be learned through the experience of bidding out a piece of the Amtrak contract. One general lesson that the Committee would like to note is that the MBTA is more likely to succeed in the era of Forward Funding by finding ways to use incentives and cooperation with its workforce and vendors to generate cost savings.

Capital Program

When the Finance Committee expressed its concern regarding the available revenues to support the MBTA's proposed budget, the Authority's staff worked with the committee to ensure that there would be cuts that would balance the budget without affecting service or endangering the financial health of the Authority long term. The lion's share of reductions comes on the capital side. The Finance Committee feels it is prudent for the Authority to agree to defer principal payments in FY2001 because the fare increase has not yet been finalized. The Committee recommends that \$16 million in principal payments currently scheduled for FY2001 be reprogrammed.

The Committee is not directly tying the proposed fare increase to the Capital program and Committee members did note that the Blue Ribbon Committee's report recommended that fare increases explicitly stated that there should be a "correlation between system revenues and the level of service generated" and that "fare increases be tied to tangible service enhancements" The Committee endorses that approach, and this item reflects the uncertainty of the first year of forward funding without an approved fare increase to guarantee the necessary revenues.

Areas For Comment

Forward Funding

Forward funding put the MBTA on the same financial footing as virtually every other transit system in the country. The MBTA now is a stand alone agency that accesses the capital markets with revenue bonds and enjoys three sources of revenue: one cent of the five cent sales tax, assessments on the MBTA district communities and the funds that the MBTA raises through fare and non-fare revenue. The MBTA cannot go back to the Legislature in the face of a deficit or an emergency. They are on their own and by and large, this is a very good thing. The legislation contains many protections for the riding public and for the member communities including caps on when and how much fares can increase, a public process for significant changes of service and a new simpler formula and cap on the assessments on cities and towns. This Committee and the full Advisory Board have long supported the requirement of a Fare Policy Statement. But at its core, the new law establishes the MBTA as a modern and independent provider of transit services. The Finance Committee members hope that the MBTA takes full advantage of this opportunity and will assist in any way that it can.

Blue Ribbon Committee Report

Every elected member of the MBTA Advisory Board received a copy of the MBTA Blue Ribbon Committee Report on Forward Funding "Taking the T – To the Next Level of Progress". The Finance Committee members have tried to review this FY2001 budget request in the context of that report and have worked with the Authority to produce a recommendation that is consistent with that report. The Committee supports the Authority's efforts to reduce costs and while there are significant increases in this first budget under forward funding, the Finance Committee expects to see only small

incremental increases as the MBTA finds efficiencies in the next several years. The mandate for Automated Fare Collection is one that has had Advisory Board support for many years.

The Blue Ribbon report outlines tough choices for the MBTA in the next few years. It recommended a hiring moratorium and outlined the need to bring personnel costs into line with costs at transit properties nationally. It called for the MBTA to conduct a “top to bottom” review to reduce the overall number of employees while maintaining safety and operational efficiency. The Finance Committee supports this reduction of workforce by attrition and has included a reduction in its recommendations.

5-Year Plan

The Finance Committee recommends to the Full Advisory Board that there be a fundamental change in the way the Advisory Board approaches MBTA spending. Given that the MBTA can count on the one cent of the sales tax stipend and the district assessments in addition to own source revenues, the Finance Committee feels that a longer-term vision should be the standard. The MBTA will be doing almost all of its own financial, capital and service planning now that the General Court has freed it from annual legislative oversight. The shift to forward funding means that the fiscal planning horizon should be five years or more. The capital plan and the MBTA financing plan are consistent with this approach. The Finance Committee feels that it would better serve the Advisory Board members by engaging the Authority on a more consistent basis.

The Committee proposes that it track the progress of the MBTA in attaining its five year plan goals in term of cost control, head count, service growth, revenue growth and other important measures. The Committee proposes that regular meetings with MBTA staff be held quarterly or more often to track key fiscal elements. The goal of this collaboration is to assist the MBTA in tracking and controlling costs; to inform the members of the Advisory Board and the riding public of the fiscal condition of the MBTA and to predict and control costs in the out years in such a way as to promote efficiency, ridership growth and the benefits of public transportation. The role of the Finance Committee, in addition to review of the annual budget, supplemental appropriations and transfer requests should be to advocate sound fiscal planning, cost control and to act in an advisory capacity on the broad fiscal issues the MBTA must contend with. The Committee feels that filling this role will benefit the MBTA and the riding public and that it is consistent with both the forward funding legislation and the findings of the Blue Ribbon Committee.