PRELIMINARY REPORT

TO THE MBTA ADVISORY BOARD

MBTA FISCAL YEAR 2002 BUDGET

Submitted by the

MBTA Advisory Board Finance Committee

May 23, 2001

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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.

BUDGET OVERVIEW

The Request
On March 1st the MBTA delivered the FY2002 MBTA budget as approved by the MBTA Board of Directors. Later in the month of March, Deputy General Managers Mike Mulhern and Jonathan Davis presented the FY2002 budget to the Advisory Board on March ___.

The Review Process
The Finance Committee met four times to review the submission from the MBTA. The Authority's CFO and Budget Director met with the Committee to answer questions and discuss options. 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

FY02 Budget Items

I. Wages, Fringe Benefits, Payroll Taxes

The FY2002 budget request asks for an increase of $16.3m over FY2001 approved budget in these line items. This increase includes $17.6m for wage increases offset by net savings in pensions and workers' compensation. The FY2002 request also states a budgeted headcount of 6,226, which is a reduction of 10 in comparison to FY2001 headcount.

	FY2002 Budget	FY2001 Budget	Increase
Wages	$306.6m	$294.5m	$12.1m
Fringe	102.5m	99.8m	2.7m
Payroll Taxes	24.5m	23.0m	1.5m
Total	**$433.6m**	**$417.3m**	**$16.3m**
Headcount	6,226	6,236	(10)

The FY2001 year-end transfer projects a surplus in wage and wage-related items of $4.4m. These savings are based on an average annual headcount level of 6,085, which is 151 below the budgeted headcount of 6,236.

		FY2001 Budget	FY2001 Projection	Projected Savings
	Wages	$294.5m	$291.1m	$3.4m
	Fringe	99.8m	99.4m	0.4m
	Payroll Taxes	23.0m	22.4m	0.6m
Total		**$417.3m**	**$412.9m**	**$4.4m**
	Headcount	6,236	6,085	(151)

During the FY2001 budget review process, the Authority submitted headcount levels at 6,299, which was a decrease of 111 in comparison to FY2000 budgeted headcount of 6,410. After reviewing the wage- and headcount-related information, the Finance Committee recommended a further reduction of 1% or 63. This additional reduction in headcount was used to calculate a proposed cut in wages and wage-related line items that resulted in an approved decrease of $4.0m. Among other things, this recommendation was based on headcount levels in FY2000 that resulted in a $4.2m surplus in wage and wage-related items. Hence, the final approved budgeted headcount for FY2001 was 6,236 (a 174 decrease in comparison to the FY2001 headcount request). The Authority is projected FY2001 wage and wage-related savings in the amount of $4.4m. If this projected surplus is combined with the cut approved by the Advisory Board, the result is an $8.4m positive variance between what the T requested for FY2001 and what they actually will be spending in these line items:

	FY2000	FY2001 (projected)
Budgeted Headcount	6,410	6,236
Actual Headcount	6,038	6,085
Vacancy	372	151
Vacancy Rate	6%	2%
Wage/Wage-Related Savings	$4.2m	$4.4m
FY2001 Wage Cut		4.0m
Positive Variance to Original FY2001 Request	*$8.4m*	

Looking ahead to FY2002, we propose another reduction in headcount based on actual averages for FY2001. Again, we take the stance to encourage the Authority to manage its vacancies. As in past years, where the reductions are taken is left up to the T. The proposition is to cap headcount levels for upcoming years at 100 above actuals from the prior year. This would make the FY2002 headcount level 6,185 – an additional decrease of 41 over the 10 submitted by the T in its budget request. I calculated a wage/wage-related item reduction of $3.4m based on an overall headcount decrease of 51 from the current budgeted headcount. If the vacancy rate/trend continues, the Authority could end FY2002 at an average actual headcount of 6,064 (2% of 6,185), which is still above the 5-year (FY97-FY01) actual average of 6,028. If the decision is made to proceed with this proposal, the budget for these line-items could be built in the following manner:

Projected FY01 Wage/Wage-Related Items	$412.9m	(FY01 avg actual HC - 6,085)
Plus: FY02 Wage Increase Related Items	17.6m	(FY02 HC request - 6,226)
Less: FY02 Headcount Reduction Affect	(3.4m)	(FY02 new HC - 6,185)
FY2002 Proposed Budget for Wage/Wage-Related Items	**$427.1m**	
FY2002 Requested Budget for Wage/Wage-Related Items	**$433.6m**	
Possible FY02 Savings over FY02 Budget Request	**$ 6.5m**	

The MBTA has had $4m surpluses in wage/wage-related items over the last two years (FY00 and FY01) after Advisory Board reductions, at higher headcounts, while still successfully maintaining service levels and funding union/executive wage increases. The reductions listed above are achievable.

FY01	Executive	3%
	Union	4%
FY00	Executive	--
	Union	4%

The RIDE

The MBTA projects an FY01 surplus in Purchased Local Service Expenses of $2.2m. Of this amount, $1.1m is attributed to The RIDE. The savings are due to less than anticipated demand. However, the FY02 request asks for an increase of $800K to support an increase in ridership. This increase would result in the MBTA having the ability to spend $1.9m more on The RIDE in FY02 than it projects to spend in FY01. It is proposed that The RIDE be level-funded at the FY01 budget for FY02.

Possible Savings over FY02 Budget Request $800K

Commuter Rail

The MBTA projects FY01 savings in Commuter Rail in the amount of $4.9m due to reduced expense in the Fixed Price and Extra Work items. The Fixed Price was reduced by Amtrak because it used T resources to install an FRA required speed control enforcement system on MBTA equipment for the operation of High Speed Rail Service. The Extra Work expense was reduced because of the difficulty Amtrak experienced in attracting skilled tradespersons. In addition, service reliability issues resulted in reduced operating incentives.

Of the $5.1m cut from Commuter Rail during the FY01 Budget Process, $2.6m was associated with Extra Work items that the Finance Committee felt were contingencies, and not actual expected cost. As with all the other reductions taken during the process, the MBTA communicated their concern that operations would be affected and that the budget as requested was needed. If a comparison is done between what the T originally requested for FY01 and what they are projecting at year-end, there is a difference of $10m:

FY01 Budget Request	$181.5m
Less: AdvBrd Cut	(5.1m)
FY01 Approved Budget	$176.4m
Less: Projected Savings	(4.9m)
Projected FY01 Actuals	$171.5m
Total FY01 savings in Comparison to FY01 Original Request	**$ 10m**

Total FY02 Possible Reductions $ 17.3m

Areas For Comment

As the first full year of forward funding comes to a close, now is a good time to review the recommendations and predictions that dominated the budget making process last time. The Blue Ribbon Panel had recommended that the raise fares and to attain a 50% fare recovery ratio. The MBTA should enhance customer service and safety, maintain a hiring freeze with a top-to-bottom review of positions, job descriptions and staffing needs, pursue a variety of ways to increase non-fare revenue and charged the Authority to think about its mission and its organization in new ways. On the capital spending side, The Blue Ribbon Panel recommended that Automated Fare Collection equipment be a top capital priority because of this project's ability to both provide cost control information and to generate revenue for the Authority. The bulk of capital spending should be for system maintenance and modernization, not expansion. The Panel recognized that in the absence of additional outside funding, system expansion equals a larger operating deficit.

The Authority produced the *Forward Funding Finance Plan* in May of 2000, outlining for the markets and for other interested observers how the Authority planned to become a financially sustainable transit system with the resources available. That plan promised costs containments and revenue enhancements and assumed productivity improvements. The plan assumes a 2% decline in operating costs per year starting in FY2002 through FY2006. The financing plan is silent on the actions that will make up that reduction. The plan assumed that higher than anticipated revenues would allow for the creation of cash reserves, more timely investment in system modernization and in the expansion of the Pay-as-you-go (PAYGO) capital financing method. The Financing plan noted, as did the Blue Ribbon Report, that the over reliance on debt would impair the Authority's ability to sustain operations. Both the Assessments and the Sales tax Revenue stream are pledged to cover this year's capital bonds and bond offerings anticipated in the five year Capital Improvement Plan.