Draft Finance Committee Report

Budget Overview

The Request

On February 27th 2002, the MBTA presented its FY2003 Budget Request to the Full Advisory Board. The CFO and Deputy General Manager Jonathan Davis outlined a budget that projected total revenues of $1,175,640,431.

MBTA FY2003 Revenues

Operating Revenues	$ 339,911,229
Non-Operating Revenues	10,305,714
Assessments	141,142,988
Sales Tax Revenues	684,280,500
Total	**$1,175,640,431**

The projected revenues amount to an increase of $44.3 million over last year's revenues. While the operating and non-operating revenue figures are projections, both the Assessments and the Sales Tax Revenues figures have been certified by the state. The Authority may well receive an amount in excess of the certified Sales Tax Revenue figure.

The Authority is seeking an increase of $44,323,221 over last year's total budget. $28,189,290 of that increase is in the operating budget and $16,133,931 is in Debt Service. The FY2003 Operating Budget increases are in the following areas:

MBTA FY2003 Operating Budget Increase Request

Wages, Fringe and Payroll Taxes	$ 9,644,580	34% of the increase
Materials, Supplies and Services	4,107,444	15%
Casuality and Liability	2,785,875	10%
Commuter Rail Service	9,545,910	34%
Local Service Subsidy	2,105,482	7%
Total	**$28,189,290**	

The Debt Service Budget shows a significant increase in interest costs off set by a drop in principal.

MBTA FY2003 Debt Service Budget Request

	FY2002	**FY2003**	**Change**
Interest	$203,445,063	$230,873,873	$27,428,810
Principal	123,554,746	111,047,078	(12,507,668)
Leases	15,133,713	16,346,502	1,212,789
Total	**$342,133,522**	**$358,267,453**	**$16,133,931**

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The focus of the Authority's presentation was the continued improvements in Bus Operations, bringing new equipment into revenue service in FY2003 and contractually related cost increases. The Authority spent a great deal of time addressing the rationale behind the increased headcount request during the budget presentation to the full Board and continued to focus on their headcount needs during the Finance Committee meetings.

The Review Process

The Finance Committee met five times to consider the Authority's budget request. Staff of the MBTA, including the CFO, Budget Director and Chief Operating Officer met with the Committee to present their departmental needs and answer questions for the Committee members. As in past years, the Finance Committee was provided all of the budget materials and information requested and would like to thank the Authority for the timeliness and quality of the review materials provided.

The legislation that re-created the Authority under Forward Funding envisioned an agency that was independent and focused on delivering the service with greater efficiency and cost effectiveness. To accomplish this goal, the Authority needs to control its costs, reduce its burden of debt and resist calls for additional services that do not meet the threshold of reasonable effectiveness. These three goals are interrelated: cost control frees funds to reduce the overwhelming burden of debt service that absorbs 31% of all available revenues. Reducing the debt load in the future makes cash available for service and infrastructure improvements. Resisting pressure for unwarranted service expansion saves both capital funds and operating costs.

The Advisory Board knows that this is not easy. In any given year, there are pressures that push the Authority away from these goals. The Advisory Board's role is to help the Authority keep focused on the long-term goals and to try to minimize the year-to-year tendencies to drift off course. This year is particularly important because the MBTA will enter into negotiations on two critical fronts. The negotiations for new union contracts are underway and the process for soliciting bids for Commuter Rail service is just getting started. These two items represent 63.5% of the FY2003 operating expense request or $519,150,797. Add in fringe benefits and payroll taxes to wages, and that percentage jumps to 79.5%.

The Finance Committee looked at other items in the operating budget as well. The next largest line item is Materials, Supplies and Services. Aside from the labor costs involved in running the department, the majority of the costs associated with the line item are purchases from vendors and suppliers selected through a public bid process. This line item represents 14.37% of the operating request and totals $115,335,519. The private sector competes for the Authority contracts in the purchase of materials, services and supplies and that competition keeps the prices at market rates. The Authority has implemented innovations in the bidding process to try to get more value for its dollar. The Advisory Board supports those efforts and expects the Authority to continue to pursue those opportunities in the coming years.

FY2003 Line Item Reduction

Recommended Headcount Reduction	27
Average Salary (based on straight-time only)	$47,517
Recommended Wage Reduction (1)	$2,810,900
Recommended Healthcare Reduction	216,888
Recommended Pension Reduction	108,123
Recommended FICA Reduction	101,642
Recommended Unemployment Reduction	2,002
Total Wage and Associated Fringe Reduction	**$3,239,555**
Total Materials, Supplies and Services Reduction (2)	$ 143,942
Total FY2003 Requested Budget Reduction	**$3,383,497**

Departmental Reductions (Headcount):

Subway	18
Environmental Affairs	3
Revenue	2
Safety	2
Police (Admin.)	2
Total	**27**

(1) includes regular and overtime wages associated with full-year of Night Owl Service
(2) reduction associated with full year of Night Owl Service

Wages, Fringe Benefits and Payroll Taxes

The MBTA is requesting an increase in headcount of 183 – 109 in operating, and 74 in capital. This would result in an increase of $9.6m in Wages, Fringe Benefits, and Payroll Taxes. The approval of this request would bring the T's headcount budget to 6,350.

Over the last six years (FY1997-FY2002), the T's headcount budget has fluctuated from a low of 6,106 in FY1997 to a high of 6,410 in FY2000; however, the actual average at year-end has remained fairly steady at between 5,950 and 6,088. The T's budgeted headcount has fluctuated in the 300 range, while the actual headcount has fluctuated in the 100 range. The six-year average for budgeted headcount is 6,222, which is 128 less than the current request.(see Appendix 1) The six-year actual average is 6,037, which is 313 less than the current request. In the year that the budgeted headcount was highest (FY2000), the actual headcount was lowest, creating savings of $3.16m in

Wages and Fringe, and $.13m in Payroll Taxes. Those savings were used to cover overages in other operating expense line items. Although FY1999 could have yielded wage-related savings due to lower than budgeted headcount, the retroactive collective-bargaining wage payments derailed any savings that could have been realized that year. In none of the years mentioned has the Authority been prohibited from providing service due to lack of staffing. Maybe not as efficiently as possible, and maybe not to everyone's satisfaction, but the T has continued to maintain and improve service and move the riding public on a daily basis.

The Finance Committee raised these points in meetings with the fiscal and operations staff during the review of this budget request. We wanted to know specifically why the additional positions were needed and what the effect of not providing them would be.

<u>Bus</u>: The Authority is requesting a total headcount increase of 47, primarily for maintenance staffing. The T has made a commitment to the maintenance of the aging bus fleet as it awaits delivery of new buses. Of this request, approximately 12 of the positions are specified as CNG maintenance staff. According to the Delivery/Facility Coordination Schedule provided by the T, these buses are arriving at a staggered pace: 15 in FY2001, none in FY2002, 44 in FY2003, and the remainder in FY2004 and FY2005. In FY2002, the Advisory Board approved a headcount increase in this area of 11 maintenance positions to accommodate the aging bus fleet maintenance, and this request asks for an additional 15 for the same reason - an increase of approximately 26 positions over the last 2 years strictly for fleet maintenance. The Chief Operating Officer walked the Finance Committee through the proposal for additional maintenance staff, pointing out the renewed commitment to bus service and the problems with an aging fleet. Since the Authority plans to retire old buses as new buses come in over the next few years, it would make sense to begin earmarking funding for retraining maintenance staff to deal with the new technology.

<u>Subway</u>: The Authority is requesting an additional 18 in headcount for transportation and maintenance staff in relation to an anticipated 32% increase in Green Line service by introducing the new low-floor Breda cars. Those cars are currently not in service due to track and design problems resulting in derailments, and are not anticipated to be in service anytime soon. At March's MBTA Board of Directors meeting, an amendment in the amount of $2.5m was approved to increase the contract value for engineering services in support of the procurement of these cars. The T has spent approximately $1.0m on the investigation of the derailment problems and the new term of the contract is 2005. Even if the track and engineering problems are resolved in a reasonable time frame, the new cars will be likely be reintroduced into revenue service incrementally. There is little probability that these cars will be in service prior to the end of FY2003; therefore, the additional staff request is unnecessary.

<u>Police</u>: In the wake of September 11th, security costs at the T have risen. From new bomb-resistant trash receptacles, to safety and security consultants, to anti-terrorism training, the T has had to make safety a priority. This has translated into increased police

presence. This department has expended a large amount of its overtime budget to meet this demand, however, it has also been carrying an average of 18 vacancies YTD in FY2002. Overtime saves money because there are no additional fringe benefit or pension costs associated with it, however, the FY2003 request for an increase of 20 seems very contradictory in the absence of a plan to fill the current vacancies and the new requests.

According to the T, there is no plan for an academy in FY2002, which means the current vacancies will most likely remain through year-end. Of the FY2003 request, 13 positions are for uniformed officers, approximately 6 for security/anti-terrorism staff, and 2 administrative positions. The MBTA informed the Finance Committee that the 2 administrative positions had been filled this fiscal year. That means that approximately 31 officer slots will need to be filled in FY2003 in order to fulfill the requested headcount budget. Since no academy has been announced, and one can take place within 60 days of the decision to run one, the earliest an academy would most likely commence is the beginning of FY2003. The schedule provided by the Authority indicates that more than half of FY2003 will be over before the recruits would be available to perform independent police services:

<u>if</u> there is an academy that begins on July 1, 2002:
  26 weeks of academy training will end in January 2003
  12 weeks of field officer training will end in April 2003
  eligibility for independent police service will begin in May-June 2003

This means that this department will continue to use overtime, as well as pay those attending the academy, until well into FY2003.

Given recent events, it would not be a good idea to reject the total request, however, it should be approved under a mandate that a hiring plan/timeline be submitted to the Advisory Board. It has been clearly illustrated in this instance that having the available positions doesn't translate to actually filling them. Future headcount increases associated with police officers should be tied to scheduled academies. The Committee recommends the Authority's request to add 13 uniformed officers

<u>Revenue</u>: This department received an additional 4 collectors in FY2002 to man the new entrances at North and South Stations, and sell the new weekly passes and requested an additional 5 for FY2003. The committee recommends funding for 3 positions for ¾ of the year to cover the opening of an additional headhouse at Aquarium Station scheduled for the fall.

Capital Headcount Request Observations

The requested headcount increase of 74 falls primarily in operating/service-related departments as well: 35 in Systemwide Maintenance, and 25 in Bus Operations. Most of the positions are labor, with a few associated supervisory positions to oversee projects "as a result of increased staffing."

After reviewing the last four CIPs, this year's capital headcount request of 595 is the highest, however, in respect to the number of projects listed in each year's program, FY2003 will have the next to least number of projects since FY1999. In that year, actual average headcount of 483 supported 224 projects. The budget for that same year was 539 (ending the year with 56 vacancies). In FY2003, the total number of projects listed in the draft is 154. One can argue that since the Authority has increased the percentage of the program dedicated to infrastructure (from approx. 71% in the FY2000-FY2004 CIP to approx. 76% in the current draft CIP) that the increase in laborers to maintain the system is crucial, however, the trends do not necessarily support that thinking:

	FY1999	FY2000	FY2001	FY2002*	FY2003
Budgeted Capital Headcount	539	589	542	521	**595**
Actual Average (*February YTD)	483	532	551	532	
Variance	56	57	(9)	(11)	
Number of Projects in CIP	**224**	**195**	**158**	**125**	**154**

The Authority explained that the personnel would likely remain on the Capital side of the ledger because of the ongoing capital maintenance obligations. In other words, machinists hired to staff a capital funded project in Bus Operations would be likely to continue to support capital projects funded in whole or in part with federal/bond funds on other bus models in the fleet. The impact on the operating budget is not as significant in that the labor costs are covered as part of federal grants to the Authority. Still, there is a share of the overall grant that must be matched by the Authority, so the MBTA is capitalizing some of the labor costs with long term financing. This presents a difficult choice for the Advisory Board but when balancing the state of good repair vs. reduction of long-term debt, the Advisory Board feels that the short-term positive impact on service quality should win out. Given the growing focus in the Capital Investment Program (CIP) on infrastructure support and improvements vs. expansion of the system, which was recently supported by the full Advisory Board in its review of the CIP, the Finance Committee recommends funding for the Capital personnel request. The Committee feels that this should be sufficient to support the scheduled improvements systemwide as described in the CIP.

Absenteeism

Advisory Board members were particularly troubled to learn that absenteeism among operating personnel averages about 20 days per year per employee. This is not an outlier—it is an average. That means that for every operator who takes one or two sick days a year, there is another taking 35 or 40 sick days a year. Given this situation, almost a tenth of the workforce can be counted on not to show up on any given day. The result is a transit system that is highly inefficient and costly to operate. In order to be assured of running trips according to a schedule that riders depend on, MBTA management must hire additional workers to fill slots on "cover boards", where they are paid to sit and wait for other operators not to show up. Additionally, operator absenteeism leads to more overtime paid to cover trips for which the scheduled operator has not shown up for work. Not only does this increase costs, it can also lead to operator burnout and fatigue, which can snowball into additional absenteeism and an even greater need for overtime in the future. Illustrative of this condition, Bus Operations is running $3,433,534 over budget for its overtime line item in FY2002 and subway operations is running $779,578 over budget for its overtime line item.

The MBTA is planning to conduct an audit of absenteeism among its employees. While the Advisory Board applauds the T for taking this first step, we are concerned that corrective action cannot wait for the results of a protracted study. This high rate of absenteeism is an inexcusable drain on both the budget and service quality. If the T is able to rein in unexcused absences, it has a real opportunity to pare down its operating budget without reducing service. The citizens who ride the MBTA's buses and trains know that if they do not show up for work, they face discipline and possible termination and believe that the same standard should apply to T employees.

The Night Owl Service

At the July 2nd 2002 meeting, the Advisory Board, voted to approve the Authority's request for a Supplemental Budget to fund the "Night Owl" Service Pilot Program: an extension of bus service along the routes served by rapid transit, light rail and some existing bus routes two days a week to 2:30 a.m. The funding involved was $2,759,410 and about $2.3 million of that was wage, payroll taxes and fringe. The Advisory Board stated at the time that the Night Owl Service had the potential to be the most expensive service that the Authority provided on a per passenger basis. One of the concerns was that the Authority was being asked to add service for reasons other than a demonstrated need.

Night Owl service was presented to the Advisory Board as a pilot program with the explicit promise that the Authority would evaluate the costs and demands of this pilot program. However the FY2003 budget requests $2.2 million for a full year of Night Owl service. We feel that the Night Owl should go through the evaluation that was promised when the proposal was first presented before it is incorporated into Bus Operations as a permanent service. Those bus routes should be examined with the same rigor as other bus routes in the Service Plan. Finally, the Authority should present its findings and if those findings warrant, request that Night Owl service be incorporated into the regular bus service via a supplemental budget request for FY2003 and as a part of the basis operations next fiscal year and beyond.

The Finance Committee is recommending that the Night Owl funds be limited to the end of the pilot program period: July through September of 2002.

Final Comments

The Finance Committee commented last year on a number of concerns we sought to track. They included headcount levels, the annual budget in the context of the long range financing plan, the impact of the budget request on the net operating investment per passenger mile and the debt to operating expense ratio. The overall size of the workforce is a critical issue and is discussed above.

The long range financing plan called for the Authority to look at raising fares and increasing parking fees. The Authority has made it clear that they are unwilling to do either. While the funding available is adequate to cover the proposed budget, the goals of the long range plan to reduce operating cost growth and reliance on debt at the expense of the operating budget needs to be addressed. The Authority should explain their willingness to forgo this income in future years.

Last year, the Board recommended a series of ways to address the fact that the net operating investment per passenger mile was increasing instead of decreasing. Those recommendations included reducing fare evasion, marketing to off-peak riders, improving the speed of service, reducing the size of train crews and addressing employee absenteeism (discussed above). This year the Authority projects a slight decline from 24.6 cents to 24.4 cents.

The Advisory Board is concerned that the ratio of operating vs. capital spending continues to move in the wrong direction. As the Authority spends more of its available revenues on debt, the ability to fund the service that millions depend upon will be compromised over time. While it is encouraging that the Capital Investment Plan, reviewed by the Advisory Board and approved by the Board of Directors, emphasizes the existing system over expansion, the debt load continues to grow to ominous proportions. Advisory Board members share the concerns of a wide variety of stakeholders that the MBTA is receiving service mandates and expansion demands without the funds necessary for implementation.

The Authority has consistently ended recent fiscal years with a positive balance in debt service interest. We recommend that any positive balances in debt service be transferred into the Capital Maintenance Fund.