## Budget Overview

*The Request*

On March 14th 2003, the MBTA presented its FY2004 Budget Request to the Full Advisory Board. CFO and Deputy General Manager Jonathan Davis outlined a budget that projected total revenues of $1,175,640,431.

**MBTA FY2004 Revenues**

| | |
|---|---|
| Operating Revenues | $ 354,969,017 |
| Non-Operating Revenues | 8,796,210 |
| Assessments | 139,437,615 |
| Sales Tax Revenues | 684,280,500 |
| **Total** | **$1,187,483,342** |

Projected revenues amount to an increase of $11.9 million over last year's revenues and include additional revenue associated with a fare increase. 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 is seeking a net increase of $21,258,171 over last year's total expense budget. $30,481,464 of that increase is in the Operating Budget offset by $9,223,293 in Debt Service savings. The FY2004 Operating Budget increases are in the following areas:

**MBTA FY2004 Operating Budget Increase Request**

| | | |
|---|---|---|
| Commuter Rail Expense | $14,261,609 | 47% of the increase |
| Fringe Benefits | 7,650,657 | 25% |
| Wages and Payroll Taxes | 3,766,928 | 12% |
| Casualty and Liability | 2,901,303 | 10% |
| Local Service Expense | 944,301 | 3% |
| Materials, Supplies, Services | 703,666 | 2% |
| Financial Service Charges | 253,000 | 1% |
| **Total** | **$30,481,464** | |

The Debt Service Budget shows an increase in interest costs offset by a drop in principal.

**MBTA FY2004 Debt Service Budget Request**

| | **FY2003** | **FY2004** | **Inc/(Dec)** |
|---|---|---|---|
| Interest | $219,763,873 | $228,920,283 | $ 9,156,410 |
| Principal | 122,157,078 | 103,699,161 | (18,457,917) |
| Leases | 16,346,502 | 16,424,716 | 78,214 |
| **Total** | **$358,267,453** | **$349,044,160** | **($ 9,223,293)** |

The focus of the Authority's presentation was their continued commitment to cost containment, improvements in service and reliability, station cleanliness, safety and security, bringing new equipment into revenue service in FY2004, and contractual/statutory cost increases. The Authority spent a great deal of time addressing the need for the additional revenue generated by the fare increase during the budget presentation to the full Board and 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. 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 budget submitted by the Authority is consistent with their objective of maximizing revenue and containing the growth of the operating budget, while improving customer service and providing funds for the Capital Investment Program. It recognizes savings from implemented workforce efficiencies as well as lower costs associated with public bid processes for utilities and Commuter Boat Services.

FY2003 was a banner year for the Authority. Several contracts were signed that will have a positive impact on the T's operating budget in future years. The Local 589 Union contract was signed in December 2002 and contains the lowest wage increases in several years: 0%, 2%, 3%, and 4%. In March 2003, a new 15-year advertising contract was signed with Clear Channel Outdoor that will not only provide the T with 60% more revenue than the former contract, but also conveys ownership of 175 billboards and associated infrastructure to the Authority at the end of the contract period. In this same month, the new Commuter Rail contract with Massachusetts Bay Commuter Railroad (MBCR) was executed, paving the way for MBCR to take over maintenance and operation of the T's commuter rail system on July 1st of this year. The five-year contract worth $1 billion will save the Authority approximately $59 million dollars over its term in comparison to the previous contract with Amtrak. Although FY2004 Commuter Rail expenses increase by $17 million over FY2003, the per year escalation average with MBCR is only 1.01%, compared to Amtrak's yearly escalation of 5%. Finally, the Automatic Fare Collection contract was signed with Scheidt and Bachmann and the 15-month installation period has begun. Other cost saving initiatives the T has undertaken are joining the New England Power Pool, which will save the Authority $3 million dollars over the current Nstar contract, and locking in hedge prices on fuel contracts in an effort to reduce their risk in a time of fluctuating fuel prices.

The Authority has had to spend additional funds on some operating expenses. The T's commitment to customer satisfaction brought about an effort to improve the cleanliness of the stations. The Authority is now spending approximately $250,000 more per month on station cleaning. Market conditions have also caused the cost for the Authority's excess liability insurance premium to double in FY2004.

Even with all of these measures in place, the Authority is experiencing the same problems that many other transit agencies, and businesses in general, have been experiencing. The Authority has experienced declining ridership and fare revenue over the last 12 months and local assessments will decrease by $1.7m in FY2004. The economic climate in the state will result in sales tax receipts to the Authority remaining flat. These decreases, coupled with statutory and contractual increases in the operating budget put the T in a very difficult position for the upcoming year as it remains under the mandate that operating and debt service expenses be fully supported by available revenue sources. In addition, it is imperative that the Capital Maintenance Fund continue to grow so that the MBTA is able to pay down a debt load that consumes 30% of the expense budget.

*Revenue*

The FY2004 budget contains projected revenues of $25 million associated with a fare increase to take effect in January 2004. This fare increase is necessary for the Authority to continue service at existing levels and comes at a time when the T is also implementing cost saving initiatives, as well as maximizing non-fare revenues.
The fare revenue portion has not yet gone through the necessary process to be approved. That process will not begin until after the statutory budget review and approval period that the Advisory Board must adhere to has passed. However, without the fare increase, the Authority will be prohibited from funding the necessary increases in its contractual and statutory obligations.

The Advisory Board does not have the power to approve or reject the proposed fare increase and the Authority cannot implement the increase prior to a public review and comment period. The fare structure also has not been defined - the Fare Policy Statement will do that. However, the Finance Committee believes that a fare increase, in some form, will take place in January and is supports the revenue numbers submitted. In the event that the increase does not take place, or is delayed, the Authority will be looking at an $18 million dollar whole. We have identified areas from which reductions can be taken before the Authority looks at service cuts.

- <u>Police</u>: During the FY2003 budget review process, the Finance Committee spent a great deal of time going through the additional headcount request from this department in light of additional security measures that needed to be implemented in the wake of the World Trade Center disaster. Our concerns were that there were current vacancies being carried, the department was asking for additional positions, and an academy had not yet been planned. Chief O'Loughlin, who headed the department at the time, met with the Finance Committee and detailed the difficulties he was encountering in filling the vacant positions: high turnover due to movement from the T police force to city police forces, and not having enough recruits to run an academy. In the end, the Finance Committee approved the additional headcount requested for officers under the mandate that a hiring plan/timeline be submitted and that future headcount increases associated with police officers be tied to scheduled academies. That hiring plan was received and an academy has taken place, however the police department is still carrying a significant number of vacancies. Although there is no request for additional headcount for FY2004, FY2003 March YTD Average vacancies are at 42: 25 patrolmen, 2 deputy chiefs, 2 patrolmen on military leave, 1 sergeant on military leave, 4 patrolmen on unpaid sick leave status, 7 patrolmen on workers' compensation, and 1 sergeant on workers' compensation. The new head of the department, Chief Carter plans to start an academy in early FY2004 in order to hire 30 officers. If the fare increase does not take place, the Finance Committee recommends that the academy be postponed. Wage and Fringe savings associated with the 30 positions not being filled would total $2 million.

- Debt Service: The Authority's management of its debt service expenses has resulted in year-end savings in recent fiscal years and has also allowed the flexibility to refinance high coupon debt at lower rates and pay for some capital-related expenses using cash (PAYGO). The Advisory Board has made its position clear that any debt-related savings should be used to build up the Capital Maintenance Fund, not to fund overages in the operating budget. However, in the financial position the T is currently in, the Finance Committee estimates approximately $9 million from debt service be used to offset the lost revenue and support operations if the fare increase is not implemented.

*Wages and Headcount*

The MBTA's headcount submission for FY2004 shows an overall decrease of (37) positions - (88) in operating, offset by an increase of 51 in capital. The decrease on the operating side is the net result of increases in some departments combined with an across the board non-service personnel headcount reduction of (100) which the Authority projects as savings of $5.0 million. The $3.1 million dollar increase in the Wage line item is due to the 2% contracted union increase, $2.0 million, and executive wage increases, $1.1m. Of the total $8.3 million increase in Fringe Benefits and Payroll Taxes, $6.6 million is attributed to rate increases for healthcare (5%) and dental insurance (7.5%). The approval of this request would bring the T's headcount budget to 6,286 and increase the Wage, Fringe Benefits, and Payroll Taxes line items by $11.4 million.

Bus: The Authority is requesting a total headcount increase of 56 in Operating, of which 55 are directly associated with additional bus operations staff for the Silver Line Phase II – The Transitway. The opening date of December 2003 is currently delayed due to a large piece of debris in the Fort Point Channel. The potential for this delay to extend beyond the opening date is very high, therefore, the Finance Committee feels that this additional staffing will not be necessary for FY2004 and would not affect the Authority's ability to continue to provide bus service at current levels. This headcount reduction is in addition to the Authority's submission and will result in an FY2004 budgeted headcount of 6,231 - reducing the wage and associated line item budgets by a total of $3.7 million.

Subway: The Authority is requesting an additional 10 in headcount in Operating for transportation staff to reduce overtime spending on the Green and Blue Lines as well as an increase in service due to the reintroduction of the new low-floor Breda cars. After many delays and operational problems, several of those cars are currently in service on the Green Line and will continue to be introduced incrementally until all 100 are in service. *(waiting for additional info from Anne H. on some questions I asked)*

Authority-wide: Since Forward Funding, the Finance Committee has continued to push the Authority towards creating better workforce efficiencies. This year should be no different as we look forward to the difficulties of the upcoming fiscal year. The Finance Committee applauds the T on the reductions that have taken place thus far, as well as those outlined in the budget submission. During the budget review process, the Authority was conducting meetings with department heads to determine exactly which positions would be eliminated and plans to take these positions through volunteerism and attrition, with layoffs as a last resort. The reductions would be taken in two phases: 1) a first round prior to July 1st, and 2) a second round in October or November.

*Capital Headcount Request Observations*

The requested headcount increase of 51 is in Bus Operations. The Authority continues its commitment to maintaining the aging bus fleet and performing structural overhauls (paint, new lifts, etc.) This additional headcount is also needed as mechanic training continues for the new technology buses and acceptance testing is performed as those new buses arrive. The T anticipates delivery of all new buses by the end of calendar year 2004. The Finance Committee recommends funding for the Capital personnel request.

**FY2004 Specific Line Item Reductions**

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|---|---|
| Recommended Headcount Reduction | 55 |
| Average Salary (based on straight-time only net of Capital Fringe Credit) | $48,469 |
| | |
| Recommended Wage Reduction | $2,665,818 |
| Recommended Healthcare Reduction | 614,409 |
| Recommended Pension Reduction | 226,584 |
| Recommended FICA Reduction | 211,908 |
| **Total Wage and Associated Fringe Reduction (1)** | **$3,718,719** |
| | |
| **Total FY2004 Requested Budget Reduction** | **$3,718,719** |

Departmental Headcount Reductions:

| | |
|---|---|
| FY2004 Requested Headcount | 6,286 |
| Bus Operations-Transitway | (55) |
| **FY2004 Recommended Headcount** | **6,231** |

*(1) Unlike in previous years, there is no wage-associated reduction recommended in the Unemployment line item. Some portion of the wage savings attributed to layoffs in FY2003 and the potential for more in FY2004, will be offset by additional expense in unemployment payments.*

*Debt Service*

Principal payments are projected to decrease in FY2004 by $18.5 million, offset by an increase in Interest payments of $9.2 million. The Authority has continued to take every opportunity to pay-off their high coupon debt in an effort to reduce the total debt load. The reduction in debt service expense is indicative of the T's active management of its portfolio in conjunction with the low interest rate environment. A slight increase in Lease payments of $78K is a result of the acquisition of eleven paratransit vehicles used to provide service for The RIDE. Total Debt Service expenses for FY2004 will decrease by $9.2 million.

*Absenteeism*

During the FY2003 budget process, Advisory Board members were particularly troubled to learn that absenteeism among operating personnel averages about 20 days per year per employee. The Finance Committee revisited the issue this year and found that although the Authority has made great strides in improving the reporting mechanism, absences continue to have a negative effect on operating costs. Although there was a reduction in absenteeism between calendar year 2001 and 2002, the trend shows an upswing for calendar year 2003. The Committee looked at paid versus unpaid absences and found that 91% of the workforce took 14 days or less of unpaid time in calendar year 2002. That means that the other 8% took more than two weeks off unpaid that same year. These absences are not inclusive of those associated with workers' compensation. These are unpaid sick and unauthorized absences. Of the total absences, paid and unpaid, three departments made up almost 90% of the days – Bus Operations, Subway Operations, and Revenue. Of the average total days per employee, the small percentage of the workforce taking more than 14 days brought the average up, however, even 14 days without pay is a signal that something is very wrong. 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. There is also the potential to have to use overtime pay to cover trips for which the scheduled operator has not shown up for work. Both of these scenarios increase costs and is an inexcusable drain on both the budget and service quality.

*Final Comments*