

**FINAL REPORT  
TO THE MBTA ADVISORY BOARD  
MBTA FISCAL YEAR 2010 BUDGET REQUEST**

Submitted by the  
MBTA Advisory Board Finance Committee

May 28, 2009

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**Submitted by the  
MBTA Advisory Board Finance Committee**

**May 28, 2009**

**FINANCE COMMITTEE MEMBERS**

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**ADVISORY BOARD STAFF**

**Paul Regan  
Executive Director**

**Brian Kane  
Budget and Policy Analyst**

**Deborah Gaul  
Executive Assistant**

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## **PREFACE**

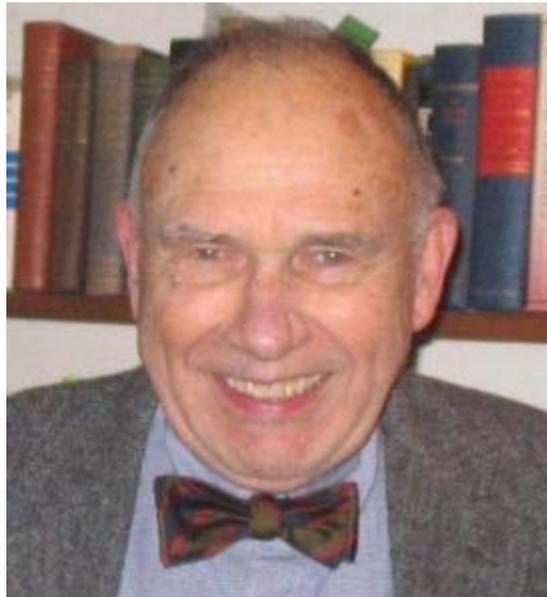
The MBTA Advisory Board Finance Committee transmits the enclosed report for your consideration.

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

The committee also acknowledges the invaluable budget analysis the Advisory Board staff has provided in preparation for this report.

**Dedicated to the memory of**

**George B. Bailey  
1926-2009**



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### Statement of Revenue and Expense

**Moved:** That the Massachusetts Bay Transportation Authority's fiscal year 2010 budget of total revenues of \$1,466,750,752 and total expenses of \$1,466,750,752 be hereby adopted by the MBTA Advisory Board and transmitted to the MBTA Board of Directors as the Authority's fiscal year 2010 budget, and that this budget be based on the statement below.

	MBTA FY 09 Transfer Budget March 24, 2009	MBTA FY 10 Budget Request March 4, 2009	Advisory Board Adjustments May 28, 2009	MBTA FY 10 Budget As Adopted May 28, 2009
<b>FINANCING</b>				
<b>Operating Revenues</b>				
Revenue from Transportation	448,957,752	453,447,330	-	453,447,330
Other Operating Revenue	67,560,758	72,874,489	-	72,874,489
<b>Total Operating Revenue</b>	<b>516,518,510</b>	<b>526,321,819</b>	<b>-</b>	<b>526,321,819</b>
<b>Non-Operating Revenues</b>				
Total Non-Operating Revenue	40,713,344	23,261,170	-	23,261,170
<b>Government Subsidies</b>				
Local Assessments	146,486,059	150,148,212	-	150,148,212
Sales Tax Receipts	767,019,551	767,019,551	-	767,019,551
Other	-	160,394,142	(160,394,142)	-
<b>Total Subsidies</b>	<b>913,505,610</b>	<b>1,077,561,905</b>	<b>(160,394,142)</b>	<b>917,167,763</b>
<b>TOTAL FINANCING</b>	<b>1,470,737,464</b>	<b>1,627,144,894</b>	<b>(160,394,142)</b>	<b>1,466,750,752</b>
<b>EXPENSES</b>				
<b>Wages</b>				
Wages	395,599,085	383,264,308	(90,681,998)	292,582,310
Overtime	15,943,333	17,743,358	-	17,743,358
<b>Total Wages</b>	<b>411,542,418</b>	<b>401,007,666</b>	<b>(90,681,998)</b>	<b>310,325,668</b>
<b>Fringe Benefits</b>				
Pensions	47,665,008	53,960,414	(12,202,356)	41,758,058
Healthcare	107,084,278	115,676,142	(26,158,462)	89,517,680
Group Life	1,714,381	1,469,482	(332,302)	1,137,180
Disability Insurance	63,819	63,820	(14,432)	49,388
Worker's Comp	10,829,027	10,820,897	(2,446,987)	8,373,910
Other Fringe Benefits	290,414	290,414	(65,673)	224,741
<b>Total Fringe Benefits</b>	<b>167,646,927</b>	<b>182,281,169</b>	<b>(41,220,211)</b>	<b>141,060,958</b>
<b>Payroll Taxes</b>				
FICA	29,767,180	30,673,688	(6,936,404)	23,737,284
Unemployment	908,214	911,274	6,229,853	7,141,127
<b>Total Payroll Taxes</b>	<b>30,675,394</b>	<b>31,584,962</b>	<b>(706,551)</b>	<b>30,878,411</b>
<b>Other Operating Costs</b>				
Materials, Supplies and Services	182,943,233	183,805,352	(27,785,382)	156,019,970
Casualty & Liability	15,535,693	15,535,693	-	15,535,693
Commuter Rail Contract	270,838,408	280,956,341	-	280,956,341
Purchased Local Services	61,531,256	81,525,339	-	81,525,339
Financial Service Charges	4,328,960	5,157,569	-	5,157,569
<b>Total Other Operating Costs</b>	<b>535,177,550</b>	<b>566,980,294</b>	<b>(27,785,382)</b>	<b>539,194,912</b>
<b>Total Operating Expenses</b>	<b>1,145,042,289</b>	<b>1,181,854,091</b>	<b>(160,394,142)</b>	<b>1,021,459,949</b>
<b>Debt Service Expenses</b>				
Interest (All)	245,716,876	266,965,765	-	266,965,765
Principal Payments	102,567,312	157,325,038	-	157,325,038
Lease Payments	19,500,000	21,000,000	-	21,000,000
<b>Total Debt Service Expenses</b>	<b>367,784,188</b>	<b>445,290,803</b>	<b>-</b>	<b>445,290,803</b>
<b>TOTAL EXPENSES</b>	<b>1,512,826,477</b>	<b>1,627,144,894</b>	<b>(160,394,142)</b>	<b>1,466,750,752</b>
Surplus/(Deficit)	(42,089,013)	-	-	-
<b>FUNDS FROM CASH RESERVES</b>				
Deficiency Fund	16,000,000	-	-	-
Capital Maintenance Fund	26,089,013	-	-	-
Stabalization Fund	-	-	-	-
<b>Total from Cash Reserves</b>	<b>42,089,013</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Revenue in Excess of Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

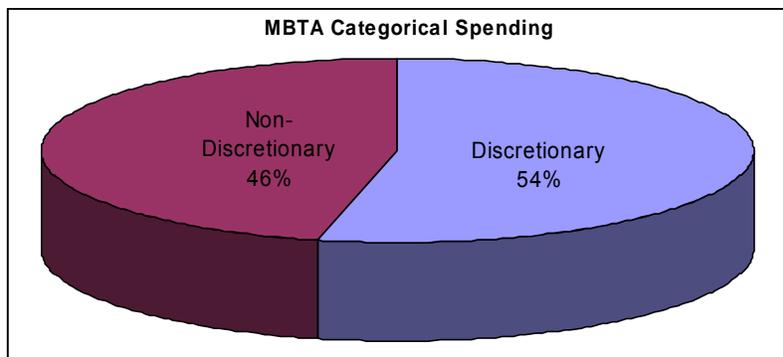
**1. BUDGET OVERVIEW**

On March 24, 2009 the Massachusetts Bay Transportation Authority (MBTA) presented its fiscal year 2010 budget request to the full Advisory Board. CFO and Deputy General Manager Jonathan Davis outlined a budget that projected total expenses of \$1,627,144,894 and financing of \$1,627,144,894.

Inherent in the financing projection is \$160,394,142 in “Other” financing. At the time this request was prepared, the Authority believed that this funding would be available from an increase in the Commonwealth’s motor fuels tax. As of yet no such funding stream, or reasonable expectation of such a funding stream, has materialized. Therefore, the Finance Committee was not able to include it in the MBTA’s final FY10 budget.

Expenses in the Authority’s requested budget total \$1,627,144,894: the amount equal to its forecast of available funds. Since we are required to present a balanced budget, the Committee recommends cuts equal to the amount of revenue cut in the financing side of the budget.

Finding \$160.4 million in cuts was a difficult task given the contractual nature of much of the Authority’s expenses.



As this chart shows, nearly half of all MBTA spending is non-discretionary either because it is contractually or legally obligated by state and/or federal regulations. Examples of non-discretionary spending include the commuter rail contract, the contract to operate The RIDE, Commuter Boats and private carrier bus service, and debt service costs.

Non-discretionary costs are expenses which the Authority cannot unilaterally reduce. The MBTA may attempt to renegotiate service levels, seek concessions or restructure contracts, but only with the consent of the counter-party. Were the Advisory Board to make categorical cuts in these areas, we would place the Authority in a weak bargaining position vis-à-vis its counter-parties. In short, the Committee believed it was not fiscally prudent to make cuts in non-discretionary line items.

In essence the MBTA (and by extension the Advisory Board) has unilateral authority only over its discretionary costs. Such costs include wages, fringe benefits, and materials, supplies and services. Even in the realm of wages and fringe benefits, the Authority’s discretion is limited by collective bargaining agreements. The only real discretion the Authority has is over the size of its workforce and on the service level driven amounts of money spent on fuel, spare parts and other materials, supplies and services.

Faced with inadequate revenues, the Finance Committee was forced to make its cuts exclusively from those areas which the MBTA has discretion- wages, fringe benefits and materials, supplies and services.

This budget cuts \$160,394,142 in MBTA expenses. These cuts fulfill a technical, statutory requirement to submit a balanced budget. The Committee notes that should these cuts result in reductions in service, fare and other revues will decline proportionally, resulting in a budget deficit, the severity of which cannot be reasonably estimated.

We invite the MBTA submit a supplementary budget to the Advisory Board as soon as the Authority receives additional funds, achieved debt relief or completes an open, public process to reallocate available funding.

The Committee would have preferred that the MBTA Board of Directors presented it with a balanced budget. The Committee would have preferred that the Legislature acted to properly finance public transportation in Massachusetts. The Advisory Board exists to ensure that the interests of municipalities are represented and to provide oversight. If we do not provide oversight and ensure that budgets are realistic who will?

It is time that we, and all who understand the vital role that public transportation plays in the way we live in Eastern Massachusetts accept this reality and face these choices. The only way to begin these processes is to start with a reality-based budget predicated on reasonably expected revenues. The revenue the Authority reasonably expects to realize in FY10, \$1,466,750,752, is all the money the MBTA has to meet its obligations and provide public transportation services at this point. The Finance Committee believes that it is in the best interests of the municipalities we represent, MBTA customers and the Commonwealth to accept this fact and begin the process of dealing with the MBTA’s financial situation from this point forward. We look forward to working with the Authority and the Commonwealth to address these financial issues and do hereby present this budget report to the Advisory Board for their consideration.

**A. Revenue** (excluding “other” funding)

**MBTA FY 2010 Revenue Request**

Operating Revenues	526,321,819
Non-Operating Revenues	23,261,170
Assessments	150,148,212
<u>Sales Tax Revenues</u>	<u>767,019,551</u>
<b>Total</b>	<b>1,466,750,752</b>

Exclusive of “Other” revenue, total Authority revenue is projected to increase by 0.93% in FY10 over the most recent FY09 budget.

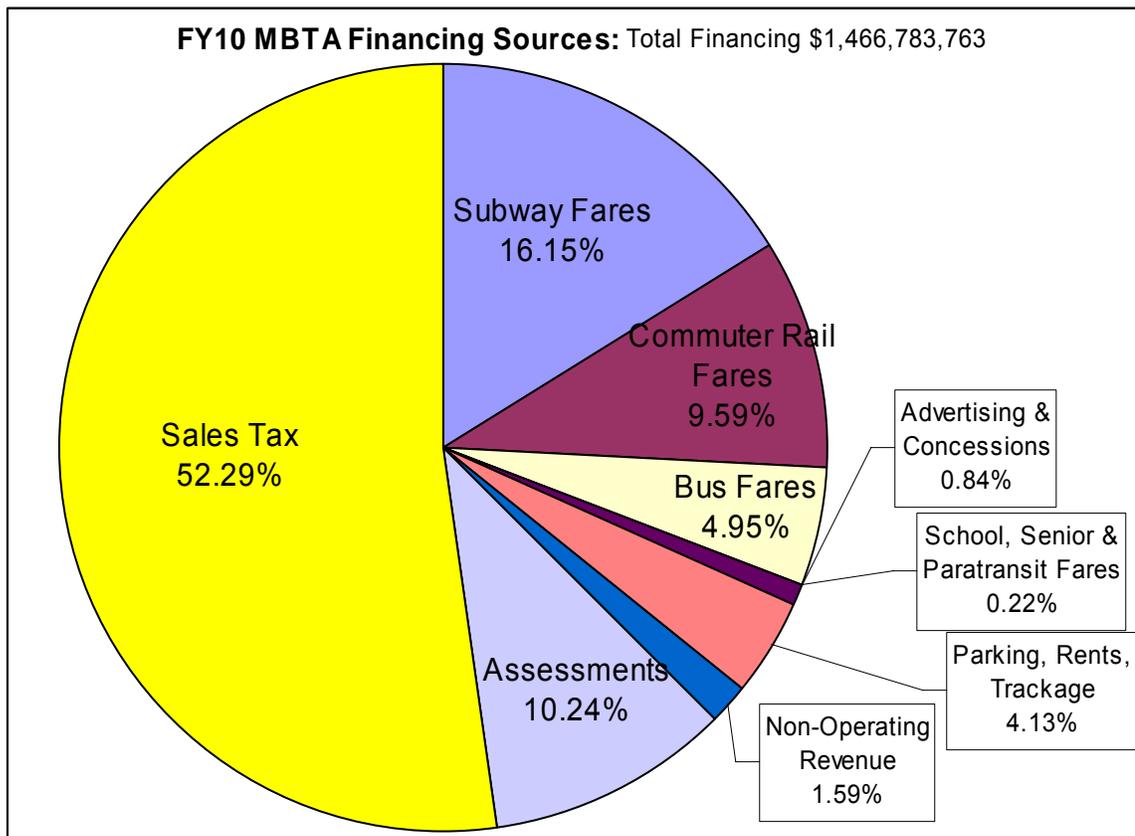
Fare revenue (Revenue from Transportation) is projected to grow by \$4.5m (0.99%) in FY10. All of this increase is expected from rapid transit (light and heavy rail) fares (15.45% increase).

Fare revenue from buses, commuter trains, boats, paratransit vehicles and all other modes are projected to decline by 11.15%.

Non-fare operating revenues (parking fees, advertising, concessions etc.) are projected to increase by 7.29% over FY09 amounts. All of this increase is expected to come from real estate operations, principally from a full year of increased parking rates at Authority parking lots. Any increases in these areas will be tempered by decreases in revenue generated from land sales, lease proceeds from concessionaires, advertising revenues and development opportunities as the economy stagnates real estate development and forces businesses to cut back on marketing.

Non-operating revenues are projected to decrease \$17.45m (-42.87%) reflective of the collapse of land sales as a revenue source, the loss of market-rate leases to state departments at South Station, and declines in interest income due to economic conditions.

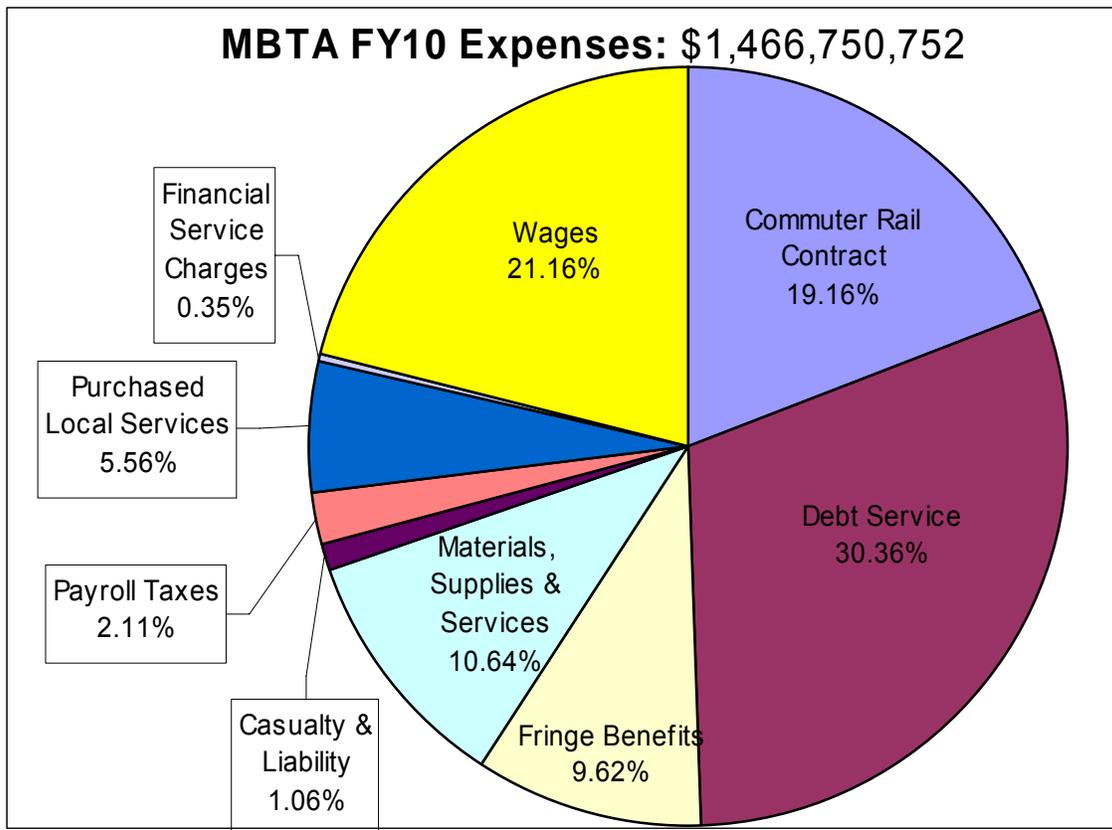
Revenue from assessments is projected to grow at the maximum allowable rate of 2.5%. In FY10 the Authority will see no increase in the amount of sales tax revenue it receives from the Commonwealth. As its largest financing source, sales tax revenue continues to fail to reach its targeted 3.0% annual growth target. Since 2000 sales tax receipts have increased by an average of about 1% annually, below the rate of inflation, MBTA costs, and well below the base revenue amounts anticipated when Forward Funding was adopted in 2000.



**B. Expenses (including matching cuts)**

**MBTA FY 2010 Expenses**

Wages	310,325,668
Fringe Benefits	141,060,958
Payroll Tax	30,878,411
Materials, Supplies, Services	156,019,970
Causality & Liability	15,535,693
Purchased Commuter Rail	280,956,341
Purchased Local Service Subsidy	81,525,339
Financial Service Charges	5,157,569
Debt Service	445,290,803
<b>Total</b>	<b>1,466,750,752</b>



Debt service costs will once again be the largest category of MBTA spending. Wages are cut by \$90,681,998 with corresponding cuts to fringe benefit categories and payroll taxes. The only line item that will increase is unemployment costs, which will increase by \$6,229,852 in anticipation of payouts for unused vacation time, unemployment cost increases and other costs related to lay-offs. Materials, Supplies and Services are cut by \$27,785,382 in anticipation of reduced fuel costs Authority wide as service levels are adjusted.

**C. The Review Process**

The Finance Committee met four times to consider the Authority’s FY10 budget submission. Staff of the MBTA, including the CFO, deputy budget director and numerous department heads met with the Committee to present their departmental needs and answer questions. As in past years, the Finance Committee was provided all of the requested budget review materials and additional information, and would like to thank the Authority for the timeliness and quality of those items.

**2. DISCUSSION**

**A. Revenue**

The MBTA, like all major American public transit systems is financed through a combination of system generated revenues and government subsidies. System generated revenues are categorized as operating revenues and non-operating revenues. In FY10 system generated revenues will account for 38.07% of all MBTA revenues and government subsidies 63.54%.

Operating revenues include bus, subway, commuter rail, ferry, school, senior and paratransit fares as well as revenue from parking fees, trackage payments from other railroads, payments from MassPort under partnership agreements, intermodal facility rents/lease payments, rents from concessionaires in MBTA facilities, and proceeds from contracts with the advertising industry

Non operating revenues include interest earned on Authority cash accruals, proceeds from land sales, non-capital federal funds for preventative maintenance, and reimbursements from utility companies related to the Authority’s own power generation and consumption.

The MBTA is subsidized by the Commonwealth. Under Forward Funding legislation the Authority receives 20% of all sales tax receipts collected state wide (1¢ of the 5¢ per \$1.00 tax). In FY10 the amount transferred by the Commonwealth to the MBTA will be equal to the amount it in FY09.

The MBTA’s municipal partners also subsidize it via the payment of assessments. Assessment amounts are calculated annually by the State and set by the Authority under formula. In FY10 assessments will increase 2.50% over the FY09 amounts.

Total revenue is budgeted to decrease by 0.27% in FY10 over FY09’s transfer budget amounts, a reduction of \$3,986,712.

**Operating Revenue**

<b>Operating Revenue</b>	<b>FY09 Budget</b>	<b>FY10 Budget</b>	<b>\$ Δ 09-10</b>	<b>% Δ 09-10</b>
Fare Box	448,957,752	453,447,330	4,489,578	1.00%
Advertising & Concessions	13,500,000	12,250,000	-1,250,000	-9.26%
Real Estate Operations	54,060,758	60,624,489	6,563,731	12.14%
<b>Total</b>	<b>516,518,510</b>	<b>526,321,819</b>	<b>9,803,309</b>	<b>1.90%</b>

Operating revenues will increase by \$9.8 million (1.90%) of which farebox revenues comprise \$4.49 million (a 1.0% increase) and other operating revenues the remaining \$5.31 million (a 7.87% increase). It will be very difficult for the MBTA to achieve these targets in FY10 given the condition of the Massachusetts economy. In the past when the economy has slowed and unemployment rates risen the MBTA experienced a reduction in ridership and an associated decline in fare revenues, parking fees and other income. There is no new evidence to suggest that this pattern will not continue in FY10, or throughout the current downturn.

All of the increased fare revenue is projected in rapid transit (subway) fare receipts, which the Authority expects to increase by \$31.7 million (15.45%) over the FY09 transfer budget amount. Revenue from commuter rail (-0.96%), surface transit (bus) (-22.65%) and school, senior and paratransit (-58.79%) are all expected to decrease.

Revenue from advertising and concessions is expected to decrease by \$1.25 million (-9.26%) as large corporations reduce their marketing budgets in this economy. Real estate operations revenue, which includes parking fees, is projected to increase by \$6.56 million (12.14%), primarily from the realization of a full year of increased parking fees. As with the projected increase in rapid transit revenue, it is likely that the Authority will have great difficulty in achieving this target.

Non-Operating Revenue

<b>Non-Operating Revenue</b>	<b>FY09 Budget</b>	<b>FY10 Budget</b>	<b>\$ Δ 09-10</b>	<b>% Δ 09-10</b>
Interest Income	4,000,000	3,016,320	(983,680)	-24.59%
Non-Opps. Income	23,662,344	7,041,300	(16,621,044)	-70.24%
Federal Funds	10,000,000	10,000,000	-	0.00%
Utility Reimbursements	3,051,000	3,203,550	152,550	5.00%
<b>Total</b>	<b>40,713,344</b>	<b>23,261,170</b>	<b>(17,452,174)</b>	<b>-42.87%</b>

Non-operating revenues are projected to decline by \$17.45 million (-42.87%). In FY10 the Authority expects no proceeds from land sales as the market for such deals has evaporated. Recent decisions by State agencies to move from South Station also contribute to this decline. Interest income is also expected to be lower in FY10 due to declining interest rates and the fact that the MBTA will accrue less cash to earn interest on. Federal preventative maintenance funds will be level funded and reimbursements from utilities are expected to marginally increase.

Subsidies

<b>Subsidies</b>	<b>FY09 Budget</b>	<b>FY10 Budget</b>	<b>\$ Δ 09-10</b>	<b>% Δ 09-10</b>
Assessments	146,486,059	150,148,212	3,662,153	2.50%
Sales Tax	767,019,551	767,019,551	-	0.00%
<b>Total</b>	<b>913,505,610</b>	<b>917,167,763</b>	<b>3,662,153</b>	<b>0.40%</b>

Government subsidies will increase by \$3.66 million (0.40%). Assessments paid by the Authority’s municipal partners will increase by the maximum allowable 2.5%, or \$3.66 million. This is the only increase in subsidy financing the MBTA will receive in FY10. As the principal financing source for the MBTA, the lack of growth in the sales tax is at the heart of the FY10 fiscal troubles. Between 1990 and 2000 the Massachusetts sales tax grew at an average of 6.5% per year, but, since 2000 it has grown at a meager 1.0% per year on average. It is now clear that

as the principal financing source for public transportation in Eastern Massachusetts the sales tax has failed.

Assessment and sales tax totals have been certified by the Commonwealth.

**B. Measures of Efficiency**

Efficiency Measures	FY09 Budget	FY10 Budget
Fare Recovery Ratio	39.21%	44.39%
Revenue Recovery Ratio	45.11%	51.53%
NOIPM (1,734,986,303)	\$0.36	\$0.29

Fare Recovery Ratio

Fare recovery ratio is a measure of how much subsidy is required to pay for the costs of providing public transportation services [Fare Revenue ÷ Operating Costs]. It is a measure of how much of a passenger’s trip is covered by the fare they pay. The ratio is calculated by dividing total fare revenues by operating expenses (not including debt service). A high fare recovery ratio means that fares are high compared to costs. A low fare recovery ratio means that costs are high compared to fares. The MBTA has no statutory or policy fare recovery ratio target. Under this budget the Authority’s fare recovery ratio is 44.39%, up from 39.21% in FY09.

Revenue Recovery Ratio

Recovery ratio is a more expansive measure of efficiency in that it takes all system generated revenues into account as a measure of operating costs. By including parking fees, advertising proceeds and other financing the Authority realizes by virtue of operating public transportation services, revenue recovery ratio is a more accurate measure of how much of a trip is paid for by non-subsidy sources. Revenue recovery ratio is calculated by dividing operating revenue by operating cost (not including debt service) [Operating Revenue ÷ Operating Costs]. The higher the revenue recovery ratio the higher amount of operating costs paid by users of the system. The April 2000 report of the MBTA Blue Ribbon Committee recommended the MBTA aim to achieve a revenue recovery ratio of 50.0%. In this budget the Uauthority’s revenue recovery ratio is 51.53% up from 45.11% in FY09.

Net Operating Investment Per Passenger Mile (NOIPM)

NOIPM is another measure of efficiency. It is calculated by subtracting all operating revenue from operating expenses and dividing this figure by annual passenger miles traveled [(Operating Cost – Operating Revenue) ÷ Annual Passenger Miles]. The result is expressed as a dollar amount which represents the amount of subsidy required to move a passenger one mile. Conversely, \$1.00 minus the NOIPM is the amount the amount of system generated revenue money required to move a passenger one mile. The lower the NOIPM the higher the ratio of fares to operating costs. The lower the NOIPM the less the amount of subsidies required to move a passenger one mile. To significantly change a NOIPM score fares must increase and costs remain the same, or fares remain the same and costs decrease. Under the MBTA’s enabling legislation (MGL CH 161A, sec 11) the MBTA is supposed to achieve a NOIPIM score of \$0.20, and do so by maximizing non-fare revenue. Given that it is impossible to calculate annual passenger miles in advance it is not possible to calculate NOIPM at the start of a fiscal year. If we assume that the federally reported 2007 annual passenger mile figure of

1,734,986,303 remains constant, than the FY10 NOIPM score is \$0.29, down from \$0.38 in FY09.

**C. Operating Expenses**

Wages

<b>Wages</b>	<b>FY09 Budget</b>	<b>FY10 Budget</b>	<b>\$ Δ 09-10</b>	<b>% Δ 09-10</b>
Wages	395,599,085	292,582,310	(103,016,775)	-26.04%
Overtime	15,943,333	17,743,358	1,800,025	11.29%
<b>Total</b>	<b>411,542,418</b>	<b>310,325,668</b>	<b>(101,216,750)</b>	<b>-24.59%</b>

This budget cuts the wage line item by \$90,681,998 from the Authority’s FY10 request and \$103.02 million (26.04%) from the FY09 budgeted amount. Unless the MBTA realizes more revenue or debt relief, this reduction in wages will result in over 1,200 lay-offs across all MBTA departments including operations departments. Currently the Authority has about 6,300 employees on its payroll.

We note that in April, 2009 the Authority announced the elimination of 75 non-operations positions, principally from within administrative areas.. While some of these positions came from vacant positions, dozens of other employees are currently no longer with the MBTA. These actions were expected to yield \$811,933 in savings in FY09 and \$1.77 million in FY10. The Committee also notes that all non-unionized MBTA employees will take 3 or 5 day furloughs yielding savings in FY09. Furthermore, we note that non-unionized MBTA employees earning over \$70,000 annually have not seen a pay increase since 2006, while those earning under \$70,000 received one 3% since then. No non-unionized employee will receive a raise in FY10. The Committee’s sense is that non-unionized MBTA employees have sacrificed for the Authority’s financial well being.

The Committee also notes that most unionized MBTA employees are scheduled to receive a 4.0% raise on July 1, 2009 in line with the Arbitration Award of July 2008. The Authority is currently negotiation with its unions regarding postponement of FY10’s wage increase, and some have already agreed to do so.

The Committee applauds the Authority for being among the only transportation agencies in the Commonwealth to follow the recommendations of the Transportation Finance Commission and seriously begin the process of shifting employees from the capital budget to the operating budget. In the long-term, this will save money.

Overtime

The Committee recommends funding the MBTA’s FY10 overtime request at its full amount of \$17.74 million. This is a \$1.8 million (11.29%) increase over FY09. The Advisory Board has kept close tabs on the Authority’s use of overtime over the past number of years, and the Committee feels that the MBTA now understands the Board’s concerns about relying on overtime and that it has the necessary internal controls over overtime utilization to merit this increase.

Absenteeism

Unexcused absences have been a problem for the MBTA for many years. Since the early part of this decade the Advisory Board has closely tracked this trend. For many years the Board found the MBTA’s absenteeism rates unreasonable. We note that even when hourly employees forgo pay by missing shifts, it often costs the Authority extra in overtime costs for someone else to cover that shift. We also note that throughout the course of a year hundreds of bus and subway runs are missed due to the unavailability of an operator due to absenteeism. While missing a shift may not cost an employee any pay, it can and often does impact those customers whose bus or train does not run.

The Committee believes that the MBTA takes this matter seriously and we applaud their commitment to this matter. The Authority has revised dozens of policies and trained numerous managers and supervisors to make the noting of absenteeism a priority throughout the system. The Committee insists that the Authority continue its diligence in this area, and research ways to better track and discipline scofflaws within its ranks.

Fringe Benefits

<b>Fringe Benefits</b>	<b>FY09 Budget</b>	<b>FY10 Budget</b>	<b>\$ Δ 09-10</b>	<b>% Δ 09-10</b>
Pensions	47,665,008	41,758,058	(5,906,950)	-12.39%
Healthcare	107,084,278	89,517,680	(17,566,598)	-16.40%
Group Life	1,714,381	1,137,180	(577,201)	-33.67%
Disability Insurance	63,819	49,388	(14,431)	-22.61%
Worker's Comp	10,829,027	8,373,910	(2,455,117)	-22.67%
Other FB	290,414	224,741	(65,673)	-22.61%
<b>Total</b>	<b>167,646,927</b>	<b>141,060,958</b>	<b>(26,585,969)</b>	<b>-15.86%</b>

This budget cuts fringe benefits line items by \$41.22 million from the MBTA’s FY10 budget request and \$26.56 million (15.86%) from FY 09 budget amounts. All cuts to these line items were made relative to the wage line item reduction in line with MBTA ratios provided to Advisory Board staff based on a load factor of 67.18%. Load factor percentages are detailed in the box below.

<b>Fringe Benefit Load Factor</b>	<b>% of wages</b>
Pensions	13.46%
Healthcare	28.85%
Group Life	0.37%
Disability Insurance	0.02%
Worker's Comp	2.70%
Other Fringe Benefits	0.07%

Payroll Taxes

<b>Payroll Taxes</b>	<b>FY09 Budget</b>	<b>FY10 Budget</b>	<b>\$ Δ 09-10</b>	<b>% Δ 09-10</b>
FICA	29,767,180	23,737,284	(6,029,896)	-20.26%
Unemployment	908,214	7,141,127	6,232,913	686.28%
<b>Total Payroll Taxes</b>	<b>30,675,394</b>	<b>30,878,411</b>	<b>203,017</b>	<b>0.66%</b>

This budget cuts payroll tax line items by \$706,551 from the MBTA’s FY10 budget request but increases it slightly from FY09 budget amounts. This boost is due to expected increases in unemployment insurance costs tied to potential lay-offs. All cuts to these line items were made relative to the wage line item reduction in line with MBTA ratios provided to Advisory Board staff based on a load factor of 67.18%.

Under state and federal law laid off employees are entitled to 26 weeks of unemployment payments, and COBRA health coverage, part of which is covered by the employer. Under MBTA policy, terminated employees are also entitled to payment for unused vacation time, and pay in lieu of notice (severance) equal to two weeks of pay. These are costs associated with terminating an employee. In calculating budget cuts, the Committee directed Advisory Board staff to craft a budget as close to reality as possible given the information available. While unemployment insurance costs will decrease proportionally to the reduction in the total number of employees, these other factors will lead to increased costs as well.

<b>Payroll Taxes load factor</b>	<b>% of wages</b>
FICA	7.65%
Unemployment	-6.87%

**Other Operating Costs**

<b>Other Operating Costs</b>	<b>FY09 Budget</b>	<b>FY10 Budget</b>	<b>\$ Δ 09-10</b>	<b>% Δ 09-10</b>
Materials, Supplies & Services	182,943,233	156,019,970	(26,923,263)	-14.72%
Casualty & Liability	15,535,693	15,535,693	-	0.00%
Commuter Rail Contract	270,838,408	280,956,341	10,117,933	3.74%
Purchased Local Services	61,531,256	81,525,339	19,994,083	32.49%
Financial Service Charges	4,328,960	5,157,569	828,609	19.14%
<b>Total Other Operating Costs</b>	<b>535,177,550</b>	<b>539,194,912</b>	<b>4,017,362</b>	<b>0.75%</b>

Materials, Supplies, and Services

This budget cuts \$27.76 million from the MBTA’s FY10 budget request and \$26.92 million (14.72%) from the FY09 budgeted amounts. Fuel costs are dramatically lower than they were at this time last year when the FY09 budget amount was set which should save the Authority money in this category, although they are starting to rise. The Committee, in keeping with its principal of cutting discretionary line items, felt that since the T has operational control over the items purchased from this line item, that it could exercise greater fiscal restraint in its purchases in FY10. Also, should the Authority be forced to layoff 1,200 employees, operational costs like fuel will decline service levels are adjusted.

Purchased Commuter Rail Services

The Committee recommends funding this line item at its full requested amount. Given the contractual nature of the commuter rail operation, the Committee believed that it was not in the best interest of the Board, its members, or the Authority to tie the MBTA’s hands in negotiations with MBCR or any of its other contractors. While it is clear that some reductions in commuter rail service are likely, the Committee felt that it was more prudent for the Authority to negotiate these changes first and then come back to the Board for a transfer at a later date.

Purchased Local Services

The Committee recommends funding this line item at its full requested amount. This line item includes the cost to provide The RIDE, commuter boat service, private carrier bus service and local bus service. As with the commuter rail line item, the Committee understands that the service levels provided by the contractors funded by this line item will likely decrease, but that it is more sensible for the Authority to negotiate such changes from a position of strength and return to the Advisory Board for a transfer of funds at a later date.

**C. Debt Service**

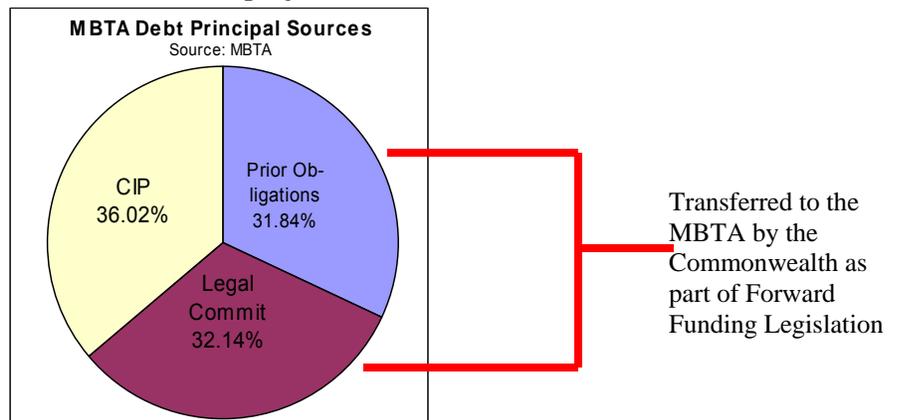
<b>Debt Service</b>	<b>FY09 Budget</b>	<b>FY10 Budget</b>	<b>\$ Δ 09-10</b>	<b>% Δ 09-10</b>
Interest (All)	245,716,876	266,965,765	21,248,889	8.65%
Principal Payments	102,567,312	157,325,038	54,757,726	53.39%
Lease Payments	19,500,000	21,000,000	1,500,000	7.69%
<b>Total</b>	<b>367,784,188</b>	<b>445,290,803</b>	<b>77,506,615</b>	<b>21.07%</b>

In FY10 Debt Service will once again be the MBTA’s largest expense. As detailed in the MBTA Advisory Board’s April 2009 report “Born Broke” in 2000 the Forward Funding legislation transferred \$3.3 billion in Commonwealth debt to the MBTA’s books. Since then Authority has accumulated another \$1.8 billion in debt as part of its capital improvement program. Currently the Authority’s debt is categorized in three ways: capital improvement program, prior obligations, and legal commitments.

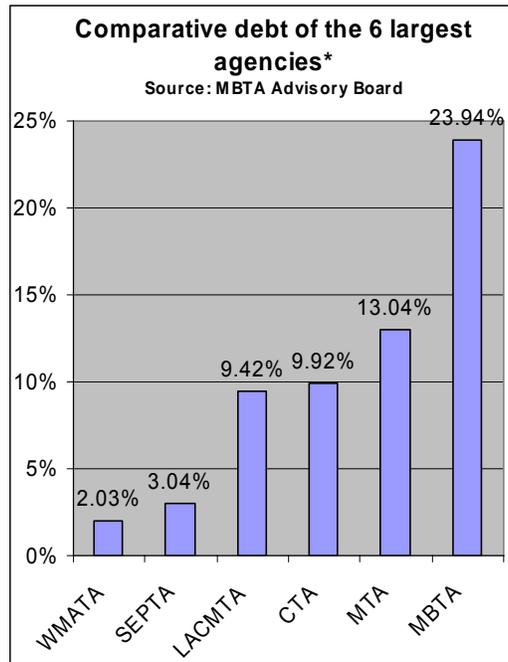
Capital improvement program debt (\$1.869 billion) corresponds to money the MBTA has borrowed since 2000 for maintenance and infrastructure modernization.

Prior obligation debts (\$1.652 billion) were borrowed by the Commonwealth to build projects and perform maintenance for the benefit of public transportation users in eastern Massachusetts prior to 2000. In 2000 these debts were transferred to the MBTA.

Legal obligations debt (\$1.688 billion) corresponds to state implementation plan (SIP) commitment projects. These were public transportation projects the state agreed to build as part of the Big Dig. As with prior obligation debt, SIP commitment debt was transferred to the T in 2000. The State also transferred the responsibility to finish many SIP commitment projects, and the MBTA borrowed to do so. In 2007 the State agreed to re-assume responsibility for outstanding SIP projects, but not the debt for such projects borrowed before 2007.



Debt Service consumes between 20% and 30% of all MBTA spending annually. These are fares and government subsidies which are sent to Wall Street investment bankers instead of for operations, enhancements or expansion. No other large American transit agency spends close to what the MBTA spends on debt service each year.\*



Contractually obligated debt service costs will increase 21.07% in FY10 over FY09. The Committee did not see the value in cutting these line items in light of their mandatory nature. While we fully expect the MBTA to once again restructure its debt, push principal payments out further into the future, and increase the debt burden already placed on future generations, we felt it was more prudent to give the Authority the lee-way to do this without making their very difficult job even harder.

**D. Recommendations**

The FY10 budget passed by the MBTA Board of Directors and sent for final action to the MBTA Advisory Board anticipated that over \$160 million in “other” revenue would be available to the MBTA to completely fund operations and debt service in the coming fiscal year. Those funds have not yet been made available. The Finance Committee makes the following recommendations not to cut service, but rather to compel the MBTA to develop a funding plan that reflects reality and preserves MBTA service.

The Finance Committee of the MBTA Advisory Board recommends the following line item reductions:

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\* Calculated as a percentage of total expenditure from financing sources primarily used for operating costs. Based on each agency’s FY09 proposed budget. MBTA debt does not include lease payments.

Wages-	90,681,998
Fringe Benefits-	41,220,211
Payroll Taxes-	706,551
Material Supplies and Services-	<u>27,785,382</u>
<b>Total-</b>	<b>160,394,142</b>

The law requires that the MBTA have a balanced budget. The Committee makes these recommendations to balance the budget submitted by the Authority to the Advisory Board. It is the Committee’s intention that the Authority crafts a new spending plan and submit said plan to the Advisory Board once final action on the state budget is complete and the scope of state assistance, if any, is known.

Transportation in general and transit in particular has lurched from crisis to crisis for the last several years. The Authority acted to address these problems in various ways. The MBTA has raised fares and fees by a larger percentage than foreseen as part of Forward Funding. The Authority sold property to help balance budgets and used what little free cash it had to cover operating expenses. Finally, the Authority restructured its enormous debt to plug the gap created by the cost to service that debt and by the poor performance of the sales tax as a revenue stream. The MBTA took those steps while trying to modernize the oldest subway system in America. Since the beginning of Forward Funding, the Authority has purchased a new bus fleet, a new Blue Line Fleet and parts of a Green Line and Commuter Rail fleet. Other capital expenditures must be made if the system is to be operated safely and efficiently. The MBTA has over \$8 billion in debt, another \$2.7 billion in unfunded maintenance needs. The MBTA will pay over 30% of all its revenue for debt service, double the percentage of its closest competitor and three times the average what its peers pay.

The MBTA is not an island. Transit systems all over the country are in very difficult situations because of their dependence on broad based taxes. The MBTA exists in the context of the Massachusetts economy and the forces that impact Massachusetts buffet the MBTA as well. One of the Committee’s fears is that other operational revenues will sharply decline, forcing much larger cuts that are envisioned in this report. Only time will tell.

The reductions we have taken represent our efforts to make sure that the requirement for a balanced budget is met. The MBTA Advisory Board anticipates that, in the absence of a Legislative action that solves the fiscal problem in part or in total, that the MBTA will start a public process for a fare increase and/or service reductions. The Advisory Board will monitor and participate to the fullest extent to ensure that any changes recommended by the process are equitable. The Advisory Board is not trying to tie the hands of the Authority in terms of reductions in service. We recognize that the MBTA must devise a service level solution and present it to the public and to the Advisory Board. We also recognize that transit is a labor intensive industry and that there is no such thing as significant cuts to personnel without a significant impact on service. The structure of the cuts was designed to have the MBTA return to the MBTA Advisory Board with a request for a Supplemental Budget that will serve as the real fiscal blueprint for the fiscal year. One critical point is that the Authority must move as

quickly as possible to address the crisis once the Legislature has acted. If fare increases and service cuts are necessary, then any delay increases the size of the gap to be filled.

In a year where there are revenue problems across all levels of government and virtually every program is facing significant cuts, should transit be held harmless? The MBTA in particular and transportation in general must compete for a larger slice of a smaller pie. We justify this request to the Legislature by pointing out the critical role transit plays in our economy and in our environment. The MBTA serves the majority of citizens in the Commonwealth. It plays a vital role making our regional transportation system function as well as it does. The MBTA has an excellent impact on air quality and overall quality of life in the service area.

One other point that the Committee thinks is important is that this crisis was completely predictable. In fact, the MBTA Advisory Board has highlighted the problems caused by the excessive debt for several years. Recently, other organizations have joined in calls for debt relief that would have led to an MBTA able to weather this economic storm. Now that the crisis is here, we hope that political leaders will act quickly and completely address it with real debt relief and a real increase in dedicated revenue for the MBTA.

The Finance Committee requests the full MBTA Advisory Board approve the FY2010 MBTA Budget as outlined in this Report.

**XXX**

MBTA Advisory Board  
177 Tremont Street, 4<sup>th</sup> Floor  
Boston, MA 02111

Phone: 617-426-6054  
Fax: 617-451-2054

[info@mbtaadvisoryboard.org](mailto:info@mbtaadvisoryboard.org)

[www.mbtaadvisoryboard.org](http://www.mbtaadvisoryboard.org)