

REPORT OF THE
MBTA ADVISORY BOARD

MBTA FISCAL YEAR 2010
Supplemental Budget Request

Submitted by the

MBTA Advisory Board Finance Committee

Approved by the

MBTA Advisory Board

September 1, 2009

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

Submitted by the

MBTA Advisory Board Finance Committee

September 1, 2009

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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 attending committee meetings.

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

Massachusetts Bay Transportation Authority
Statement of Revenue and Expense
FY 2010 Supplemental Budget

Proposed: September 1, 2009 by the MBTA Advisory Board: Supplement to the Massachusetts Bay Transportation Authority's fiscal year 2010 budget as detailed below for total revenues of \$1,626,750,752 and total expenses of \$1,626,750,752.

	MBTA FY 09 Budget As Approved 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	MBTA FY 10 Supplemental Budget Request Aug. 6, 2009	MBTA FY 10 Budget As Adopted Sept. 1, 2009
FINANCING						
Operating Revenues						
Revenue from Transportation	448,957,752	453,447,330	-	453,447,330	-	453,447,330
Other Operating Revenue	67,560,758	72,874,489	-	72,874,489	-	72,874,489
Total Operating Revenue	516,518,510	526,321,819	-	526,321,819	-	526,321,819
Non-Operating Revenues						
Total Non-Operating Revenue	40,713,344	23,261,170	-	23,261,170	-	23,261,170
Government Subsidies						
Local Assessments	146,486,059	150,148,212	-	150,148,212	-	150,148,212
Sales Tax Receipts	767,019,551	767,019,551	-	767,019,551	-	767,019,551
Other	-	160,394,142	(160,394,142)	-	160,000,000	160,000,000
Total Subsidies	913,505,610	1,077,561,905	(160,394,142)	917,167,763	160,000,000	1,077,167,763
TOTAL FINANCING	1,470,737,464	1,627,144,894	(160,394,142)	1,466,750,752	160,000,000	1,626,750,752
EXPENSES						
Wages						
Wages	395,599,085	383,264,308	(90,681,998)	292,582,310	90,287,856	382,870,166
Overtime	15,943,333	17,743,358	-	17,743,358	-	17,743,358
Total Wages	411,542,418	401,007,666	(90,681,998)	310,325,668	90,287,856	400,613,524
Fringe Benefits						
Pensions	47,665,008	53,960,414	(12,202,356)	41,758,058	12,202,356	53,960,414
Healthcare	107,084,278	115,676,142	(26,158,462)	89,517,680	26,158,462	115,676,142
Group Life	1,714,381	1,469,482	(332,302)	1,137,180	332,302	1,469,482
Disability Insurance	63,819	63,820	(14,432)	49,388	14,432	63,820
Worker's Comp	10,829,027	10,820,897	(2,446,987)	8,373,910	2,446,987	10,820,897
Other Fringe Benefits	290,414	290,414	(65,673)	224,741	65,673	290,414
Total Fringe Benefits	167,646,927	182,281,169	(41,220,211)	141,060,958	41,220,211	182,281,169
Payroll Taxes						
FICA	29,767,180	30,673,688	(6,936,404)	23,737,284	6,936,404	30,673,688
Unemployment	908,214	911,274	6,229,853	7,141,127	(6,229,853)	911,274
Total Payroll Taxes	30,675,394	31,584,962	(706,551)	30,878,411	706,551	31,584,962
Other Operating Costs						
Materials, Supplies and Services	182,943,233	183,805,352	(27,785,382)	156,019,970	27,785,382	183,805,352
Casualty & Liability	15,535,693	15,535,693	-	15,535,693	-	15,535,693
Commuter Rail Contract	270,838,408	280,956,341	-	280,956,341	-	280,956,341
Purchased Local Services	61,531,256	81,525,339	-	81,525,339	-	81,525,339
Financial Service Charges	4,328,960	5,157,569	-	5,157,569	-	5,157,569
Total Other Operating Costs	535,177,550	566,980,294	(27,785,382)	539,194,912	27,785,382	566,980,294
Total Operating Expenses	1,145,042,289	1,181,854,091	(160,394,142)	1,021,459,949	160,000,000	1,181,459,949
Debt Service Expenses						
Interest (All)	245,716,876	266,965,765	-	266,965,765	-	266,965,765
Principal Payments	102,567,312	157,325,038	-	157,325,038	-	157,325,038
Lease Payments	19,500,000	21,000,000	-	21,000,000	-	21,000,000
Total Debt Service Expenses	367,784,188	445,290,803	-	445,290,803	-	445,290,803
TOTAL EXPENSES	1,512,826,477	1,627,144,894	(160,394,142)	1,466,750,752	160,000,000	1,626,750,752
Fare Recovery Ratio						
Fare Recovery Ratio	39.21%	38.37%	-	44.39%	-	38.38%
Revenue Recovery Ratio						
Revenue Recovery Ratio	48.66%	46.50%	-	53.80%	-	46.52%
NOIPM						
NOIPM	\$0.34	\$0.36	-	\$0.27	-	\$0.36

Recommendation

The Finance Committee recommends approval of the MBTA’s FY2010 supplemental budget request as submitted to the Advisory Board on August 6, 2009 with changes to the following line items. The Committee believes that even with this approval the FY10 budget is not in balance due to weaknesses in the manner in which the MBTA’s finances are structured and a host of factors beyond the control of the Authority (see final notes).

<u>REVENUE (\$)</u>		
<u>FY2010 Budget</u>	<u>Supplemental Request</u>	<u>FY2010 Adjusted Budget</u>
Other Dedicated Revenue		
0.00	160,000,000	160,000,000
<u>EXPENSES (\$)</u>		
<u>FY2010 Budget</u>	<u>Supplemental Request</u>	<u>FY2010 Adjusted Budget</u>
Wages		
310,325,668	90,287,856	400,613,524
Fringe Benefits		
141,060,958	41,220,211	182,281,169
Payroll Taxes		
30,878,411	706,551	31,584,962
Materials, Supplies & Services		
156,019,970	27,785,382	183,805,352

Review of Requested Action

The Authority requests Advisory Board approval to increase the FY2010 budget by \$160,000,000. In March 2009 the MBTA’s original FY10 budget request included \$160,394,142 in “Other Dedicated Revenue.” At the time Governor Patrick had filed legislation to increase the Massachusetts motor fuels tax, and the funds for “other dedicated revenue” were expected from this source. However, last May the Advisory Board felt it more prudent to wait until the gas tax was actually approved before allowing the MBTA to budget revenue from it. As such, the Advisory Board cut the Authority’s budget request by the “other dedicated revenue” amount with the idea that once the gas tax was approved, the Authority would file a supplemental budget and seek the reinstatement of this funding.

The gas tax never materialized. Instead, the Legislature approved an increase in the Massachusetts sales tax and dedicated \$160 million of the projected proceeds from this increase to the MBTA for its immediate financial needs. Based on this action by the legislature, and the fact that the Authority has already begun receiving this funding in monthly allotments, it now seems prudent to restore the \$160 million in cuts.

REVENUE

This action will increase the MBTA's budgeted revenue projections by \$160 million based on the increase of the Massachusetts sales and use tax from 5.0% to 6.25% as approved in the Commonwealth's FY10 budget and signed by the Governor. The sales tax increase was included as outside section 53 of the FY10 budget. Outside section 138(b)(i) of the same legislation dedicated \$160 million annually to the MBTA. It should be noted that this amount is level-funded and will not increase year-over-year.

Non-Operating Revenues / Government Subsidies

The non-operating revenues/government subsidies category will increase as the line item marked "other dedicated revenue" or just "revenue" will increase by \$160 million.

EXPENSES

This action will increase the wage, fringe benefit, payroll tax and materials, supplies and services line items by \$160 million. The amount cut by the Advisory Board in May was \$160,394,142, a difference of \$394,142. The MBTA noted this difference and revised its wage request by that amount. It seeks the full restoration of cuts made by the Advisory Board in the other line items.

Wages:

The original request for the wage line item was \$383,264,308, which was reduced by \$90,681,998 to a new total of \$292,582,310. This action will restore \$90,287,856 to a new line item total of \$382,870,166. In our May, 2009 action the Advisory Board allowed the MBTA's overtime request to stand as submitted at \$17,743,358. This overtime request remains the same and is unaffected by this action. The overtime total of \$17,743,358 plus the supplemental wage total of \$382,870,166 brings the overall wages categorical total to \$400,613,524.

Fringe Benefits

The original request for the fringe benefit category was \$182,281,169. The Advisory Board's action in May 2009 reduced this category by \$41,220,211 to a total of \$141,060,958. The reduction was calculated as a proportion of the wage reduction based on so-called "load" factors given to Advisory Board staff by the Authority's budget office. This supplemental budget will restore the entire \$41,220,211 to this category by restoring the line items to their originally requested amounts.

Payroll Taxes

The payroll taxes category comprises two line items, FICA and unemployment payments. In the Advisory Board's action in May the FICA line item was reduced proportionally to the wage line item reduction. However, the unemployment line item was actually increased. Had the Legislature not acted Advisory Board staff predicted that the MBTA would lay-off 1,200 employees. In anticipation of this the May 2009 Advisory Board budget increased the unemployment line item by \$6,229,853 from the originally requested \$911,274 to a new total of \$7,141,127. This supplemental action will reduce the unemployment line item by \$6,229,853 to its originally requested amount of \$911,274.

Materials, Supplies, and Services

The Advisory Board's May 2009 budget reduced the materials, supplies, and services line item by \$27,785,382 from its originally requested total of \$183,805,352 to \$156,019,970. Given the inextricable link between service levels and headcount, the rationale for this action in May was

that the loss of over 1000 employees would necessarily reduce service, and thus also reduce fuel, spare part and other needs which are funded out of the materials, supplies and services line item. This supplemental action will restore \$27,785,382 to this line item.

FINAL NOTES

There is a critical, structural deficit that continues to impact the Authority's ability to deliver transportation services in Eastern Massachusetts. The addition of new sales tax revenue has not adequately addressed the twin problems of excessive debt and underperformance of the sales tax as the MBTA's largest revenue stream. The actions taken by the Legislature through the FY2010 State Budget are laudable and the \$160 million in additional sales tax funds almost closes the gap for the MBTA this year. But the \$160 million is not the end of the story.

The current FY10 deficit is estimated at least at \$185 million. The \$160 million from the State Budget reduces that to a minimum of \$25 million. The Authority has floated several ideas for filling the gap including using ARRA funds, reducing the size of the workforce, yet again refinancing debt, reducing service and increasing fares. For now, service cuts and fare increases are off the table. While closing a \$25 million gap is better than a \$160 million gap, we should all recognize that this latest shortfall comes after years of spending reserves, staff reductions, parking increases and debt restructurings. It is also important to remember that the MBTA's budget was crafted last February and released in March and that the Advisory Board took action in May. Much has changed since then. As we come up on the close of the first quarter of the fiscal year assumptions made last winter and spring are perhaps no longer valid; we need to relook at the underlying assumptions included in the budget.

The FY2010 MBTA Budget was built on several revenue assumptions, including growth in ridership in an economic downturn. Given their experience with ridership during an economic downturn earlier in the decade; a downturn less severe than the one we currently face, a one percent increase in ridership may not be warranted. One service that will likely continue to see significant increase is the RIDE. Ridership on the Authority's most costly service has seen steady growth throughout this decade and there is no indication that this growth is slowing. When the RIDE was recently put out to bid, the winning bidder reconsidered providing the service and has walked away from the contract. The MBTA has the ability to go to the next qualified bid, but at a cost of over \$9 million in FY10. The Authority is weighing its options, but it is safe to say the RIDE line item will be more than currently budgeted. Finally, consumer spending continues to struggle, which means that the largest source of revenue for the MBTA, the sales tax, will continue its decade long trend of underperformance.

There is no doubt that the MBTA will have difficulty closing this year's deficit; even with the increased sales tax revenue. However, these difficulties will pale in comparison to the challenges we all will face in the future if the MBTA's own conservative financial forecasts come true. Even with the \$160 million in additional sales tax revenue factored in, the MBTA's deficit is projected to be \$75 million in FY2011, \$92 million in FY2012 and well over \$150 million per year after that. If the MBTA cannot close an expected \$25 million deficit this year, how can it possibly close deficit three times as large next year?

At the start of this budget process the MBTA added \$160 million in "other" revenue to balance its books. Since there was no reasonable expectation that this revenue was forthcoming, the

MBTA Advisory Board did not allow the Authority to balance its books in this manner. In the future, when, with recent legislative changes, no independent body has any legal authority to ensure that the MBTA's revenue and expenses are balanced based on reasonable expectations, who will play this role? Especially in the near future when the MBTA's revenue and expenses will be so out of balance, who or what group, independent from political pressure, will ensure that the budgets released to the public are based on reasonable expectations? In the recently passed reform legislation the language granting the MBTA Advisory Board oversight powers over the MBTA's capital and operations budgets were simply deleted. Unlike every other RTA in Massachusetts, the municipalities that contribute to the MBTA now lack a voice in its governance. The Finance Committee fails to see how the interest of reform is served by removing the budgetary approval authority of the Advisory Board. This set of independent eyes and this independent perspective has been a critical part of the MBTA management process for over 40 years. In the future the municipalities that contribute over 10% of the MBTA's financing annually must still pay, but will pay without any say in how their money is spent.

So, at best, with the rosiest of all possible scenarios the MBTA will have barely enough to make it through the fiscal year. But when was the last time the best case scenario came to pass at the MBTA? And, even it scrapes through this year it will require another miracle the year after that and the year after that and so on. The tremendous debt load the Authority carries is still with us and will be for years to come. The estimated \$2.7 billion in unfunded basic repairs still needs to be done. Riders are concerned that the system they rely upon is less and less dependable. While the Committee understands that some state leaders may feel that they have "done" transportation and are eager to move onto other challenges, the Committee does not agree. At best you've bought yourself a six month reprieve until the budget process begins next winter - except by then the difficulties will be much greater, state resources much less, and the competition among worthy public programs much more fierce. The Committee calls upon these same state leaders to finish the job of making the MBTA a viable economic entity.