FINAL REPORT
TO THE MBTA ADVISORY BOARD

MBTA FISCAL YEAR 2011 BUDGET REQUEST

Submitted by the

MBTA Advisory Board Finance Committee

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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

Marcy Crowley
1923 - 2010

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Statement of Revenue and Expense

Moved: That the Massachusetts Bay Transportation Authority's fiscal year 2011 budget of total revenues of $1,621,700,706 and total expenses of $1,621,700,706 be ratified by the MBTA Advisory Board, and that this budget be based on the statement below.

REVENUE	FY09 Actuals	FY10 Budget	FY11 Budget Request
Operating Revenues			
Revenue from Transportation	448,751,949	453,447,330	451,167,000
Other Operating Revenue	58,002,689	72,874,489	67,406,967
Total Operating Revenue	**506,754,638**	**526,321,819**	**518,573,967**
Non-Operating Revenues			
Dedicated Local Assessments	146,486,060	150,148,212	150,148,212
Dedicated Sales Tax	767,056,684	767,019,551	767,019,551
Other Dedicated Revenue	0	160,000,000	160,000,000
Other Income	26,167,562	23,261,170	25,958,976
Total Non-Operating	**939,710,306**	**1,100,428,933**	**1,103,126,739**
TOTAL REVENUES	**1,446,464,944**	**1,626,750,752**	**1,621,700,706**
EXPENSES			
Operating Expenses			
Wages	402,881,583	400,613,524	396,331,319
Fringe Benefits			
Pensions	47,724,676	53,960,414	58,507,137
Healthcare	109,528,356	115,676,142	113,734,455
Group Life	1,546,281	1,469,482	1,462,012
Disability Insurance	62,333	63,820	60,256
Workers' Comp	9,819,754	10,820,897	10,820,897
Other Fringe Benefits	212,009	290,414	290,414
Total Fringe Benefits	**168,893,409**	**182,281,169**	**184,875,171**
Payroll Taxes			
FICA	30,271,460	30,673,688	30,320,393
Unemployment	2,544,780	911,274	1,168,764
Total Payroll Taxes	**32,816,240**	**31,584,962**	**31,489,157**
Materials, Supplies and Services	172,911,308	183,805,352	187,368,831
Casualty and Liability	14,923,435	15,535,693	15,435,693
Purchased Commuter Rail Service	273,461,652	280,956,341	300,511,485
Purchased Local Service Subsidy	67,737,669	81,525,339	95,706,262
Financial Service Charges	4,368,625	5,157,569	5,157,569
Total Operating Expenses	**1,137,993,921**	**1,181,459,949**	**1,216,875,486**
Debt Service Expenses			
Interest	238,051,078	266,965,765	258,987,553
Principal Payments	84,634,312	157,325,038	128,019,218
Lease Payments	19,093,168	21,000,000	17,818,449
Total Debt Service Expenses	**341,778,558**	**445,290,803**	**404,825,220**
TOTAL EXPENSES	**1,479,772,479**	**1,626,750,752**	**1,621,700,706**
Net Revenue	**(33,307,535)**	**0**	**0**
Deficiency Fund	**16,000,000**	**0**	**0**
Capital Maintenance Fund	**17,307,535**	**0**	**0**
NET Revenue in Excess of Expenses	**0**	**0**	**0**
Fare Recovery Ratio	39.4%	38.4%	37.1%
Revenue Recovery Ratio	46.8%	46.5%	44.7%

1. BUDGET OVERVIEW

On March 3, 2010 the Massachusetts Bay Transportation Authority (MBTA) presented its fiscal year 2011 budget to the MBTA/MassDOT Board of Directors. On that date the Board approved the Budget and submitted it to the MBTA Advisory Board. The FY11 budget contains a structural imbalance of over $230 million; and only achieves balance through the restructuring of $67.9 million in debt, and receipt of $160 million in contract assistance from the Commonwealth's recent sales tax increase.

A year ago the Legislature passed and the Governor signed Chapter 25 of the Acts of 2009. Commonly known as transportation reform, this act included a series of measures intended to radically alter the way transportation services are delivered in Massachusetts and save millions annually through efficiencies. Indeed, multiple members of the Massachusetts House and Senate predicted annual savings of up to $325 million through reorganization and reform.[1] This act changed the way the MBTA's annual budget is scrutinized. Whereas in the past MBTA staff prepared the budget and submitted it to the Advisory Board months in advance for a thorough, independent review; this year the budget was submitted and approved by the new MassDOT/MBTA Board of Directors on the same day.

Nevertheless, the MBTA Advisory Board has gone through its usual and extensive review of the annual budget. Its Finance Committee met three times with senior Authority mangers to question departmental assumptions, policies, and performances. Furthermore, Advisory Board staff have combed through the request and the myriad of backup information to ensure that some independent, public oversight takes place over this multi-billion-dollar public expenditure.

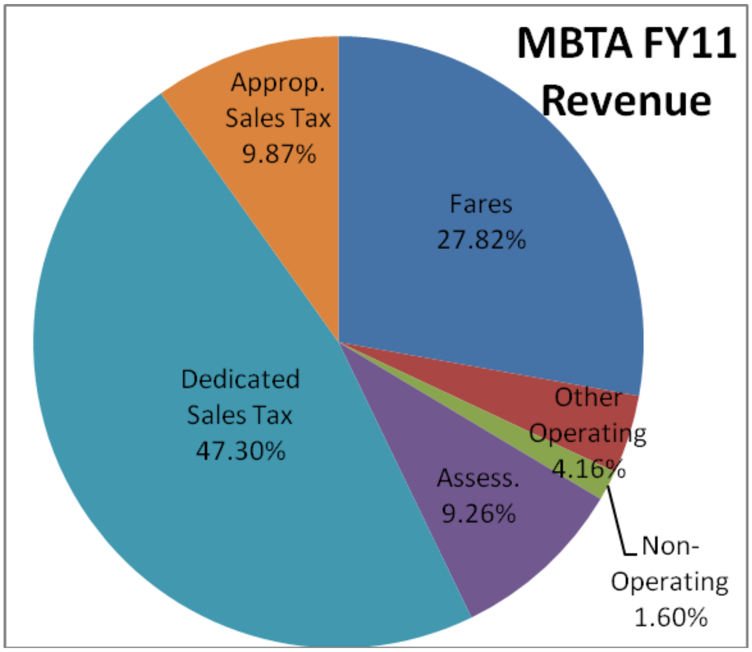
A. Revenue

REVENUE	FY10	FY11	D $	D %
Fares	453,447,330	451,167,000	-2,280,330	-0.5%
Other Operating	72,874,489	67,406,967	-5,467,522	-7.5%
Non-Operating	23,261,170	25,958,976	2,697,806	11.6%
Assessments	150,148,212	150,148,212	0	0.0%
Dedicated Sales Tax	767,019,551	767,019,551	0	0.0%
Appropriated Sales Tax	160,000,000	160,000,000	0	0.0%
TOTAL	1,626,750,752	1,621,700,706	-5,050,046	-0.3%

For the most part FY11 revenue is flat or below FY10 budget amounts. It is likely that this gap will increase when FY10's book are closed, as YTD revenue for this fiscal year is trending downward. For the first seven months of FY10 (July 1, 2009 – Jan. 31, 2010) YTD fare revenue was $10 million below projections, other operating revenues were $6.2 million below budgeted projections, and non-operating revenues were $10.5 million below projected amounts. These

[1] See: http://stanrosenberg.com/uploads/transportation_bill_summary.doc, http://www.soniachangdiaz.com/node/191, http://www.senatoreldridge.com/press-releases/200/senate-passes-transportation-reform-bill, http://willbrownsberger.com/index.php/archives/1651, http://www.stevenbaddour.com/contents/61, etc..

losses are not insurmountable, however, they do place the flat or declines in FY11 versus FY10 budgeted amounts in perspective.

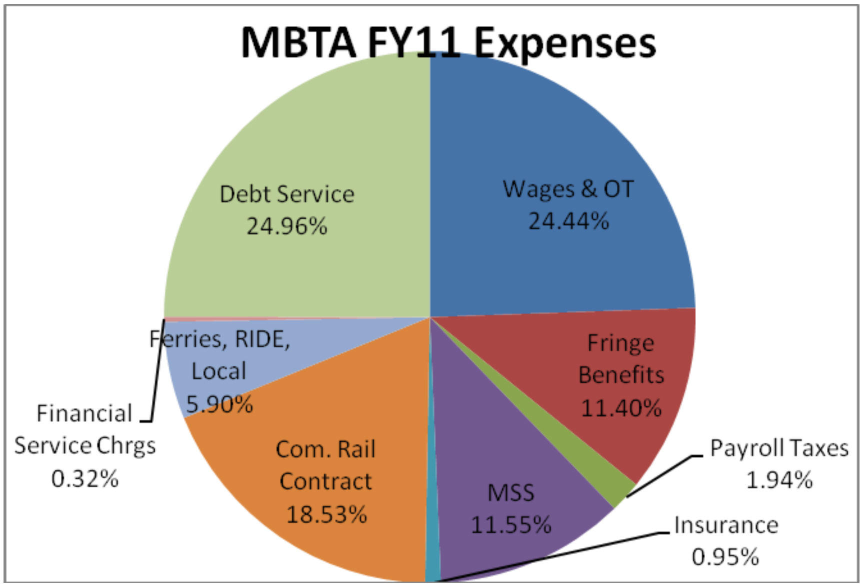


Government subsidies (assessments, dedicated sales tax, and appropriated sales tax) make up roughly two-thirds of all Authority revenue while system generated revenues (fares, operating and non-operating) account for the remaining third. The one area of growth in revenue is in non-operating revenue, due to an increase in federal formula funds available for operating. However, this increase in federal operating assistance must be offset by an equal decline in federal capital assistance.

B. Expenses

EXPENSES	FY10	FY11	Δ $	Δ %
Wages & OT	400,613,524	396,331,319	-4,282,205	-1.1%
Fringe Benefits	182,281,169	184,875,171	2,594,002	1.4%
Payroll Taxes	31,584,962	31,489,157	-95,805	-0.3%
MSS	183,805,352	187,368,831	3,563,479	1.9%
Insurance	15,535,693	15,435,693	-100,000	-0.6%
Com. Rail Contract	280,956,341	300,511,485	19,555,144	7.0%
Ferries, RIDE, Local	81,525,339	95,706,262	14,180,923	17.4%
Financial Service Chrgs	5,157,569	5,157,569	0	0.0%
Debt Service	445,290,803	404,825,220	-40,465,583	-9.1%
TOTAL	**1,626,750,752**	**1,621,700,707**	**-5,050,045**	**-0.3%**

Most increases in the FY11 budget are from contractually obligated items such as the fixed commuter rail and RIDE contracts. The slight increase in Material, Supplies and Services (MSS) is driven by contractual utility increases of less than 3%. The biggest decrease in costs is, once again in debt services (-9.1%). However, while some of these reductions are due to refinancing that will result in savings due to lower interest rates; the majority is from a restructuring that will increase the life of the loan. Anyone with a mortgage knows that the longer the loan the greater the long-term expense.



C. The Review Process

The finance committee met three times to consider the Authority's FY11 budget. Staff of the MBTA, including the CFO, deputy budget director and numerous department heads met with the committee to present their departmental budgets 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

American public transportation is in crisis. Its infrastructure is aging, and has not been maintained adequately for at least the past 20 years. The great recession has constrained tax collections at all government levels, choking off subsidies for public transportation. While revenues decline, fixed expenses for labor, fringe benefits, utilities, and other costs continue to rise- despite revenue pressures. A survey of American public transportation provided conducted by the American Public Transportation Association (APTA) in early 2010 found that 84% of providers had recently cut service or raised fares or were preparing to do so. [2] The United States faces a national crisis in this sector without a national solution.

Suprisingly, the MBTA is faring well compared to its peers, although this is largely due to its ability to mask its budget woes through debt restructurings. In the FY10 State budget, the Legislature appropriated a supplementary subsidy for the Authority's out of the increased statewide sales tax. At the same time, parallel reform legislation has realized some savings in

[2] http://www.apta.com/resources/reportsandpublications/Documents/Impacts_of_Recession_March_2010.pdf

MBTA operations ($2 million because of the partial transfer to the GIC). Nevertheless, the MBTA faces a structural deficit of at least $67 million in FY11 which is once again is solving by elongating its debt loans- resulting in greater costs for the next generation in exchange for a balanced budget now.

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 FY11 system generated revenues will account for 33.58% of all MBTA revenues and government subsidies 66.42%.

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 and by the cities in towns within the MBTA service district. Under 2000 Forward Funding legislation the Authority receives 20% of all sales tax receipts collected state wide (1¢ of the 5¢/$1.00 tax). Under the Commonwealth's FY10 budget, it also receives a flat $160m in expected annual appropriations through the annual budget. These funds are derived from a 1.5¢/$1 increase in the state-wide sales tax. The FY11 dedicated and appropriated sales tax amounts are equal to the FY10 amounts.

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. For the first time in many years the overall assessments subsidy the Authority receives from cities and towns is level funded. Total revenue is budgeted to decrease by 0.31% over FY10 budgeted amounts, a reduction of $5,050,046.

<u>Operating Revenue</u>

Operating Rev.	FY10 Budget	FY11 Budget	Δ $	Δ %
Fares	453,447,330	451,167,000	(2,280,330)	-0.5%
Advertising	12,250,000	10,658,804	(1,591,196)	-13.0%
Parking	41,177,368	34,823,602	(6,353,766)	-15.4%
Concessions/TRA	15,598,984	17,815,911	2,216,927	14.2%
Trackage	1,226,137	1,183,650	(42,487)	-3.5%
MassPort/Mobility	2,622,000	925,000	(1,697,000)	-64.7%
Other	0	2,000,000	2,000,000	
Total	526,321,819	518,573,967	(7,747,852)	-1.5%

Operating revenues will decrease by $7.75 million (-1.50%) against the FY10 budget. Of this amount parking will experience the largest decrease. In FY10 a parking rate increase took effect, whereby the price to park at all MBTA lots increased by $2. It appears that this increase was too much, and many commuters have chosen to park elsewhere. Coupled with this, as unemployment remains stubbornly high, the number of commuters with jobs to commute to appears to have decreased. Nevertheless, it is apparent that the MBTA must re-asses its parking policy and perhaps re-align its pricing and adjust its pricing structure to fit local conditions and needs, rather than applying one blanket pricing structure across the entire service district. Such a strategy may increase the number of cars using its lots, thereby increasing revenue even if the amount of money per car is lower. Furthermore, the T must move update its current parking payment method to a more 21st Century method with some form of electronic payment- ideally via the CharlieCard, Fastlane Transponder or other method.

The hoped-for savings through efficiencies promised by Transportation Reform have yet to have significant effect. Indeed the Mass Mobility budget line item is zeroed out in the FY11 budget, a decline of $1.575 million.

Non-Operating Revenue

NON-OPERATING	FY10 Bud	FY11 Bud	Δ $	Δ %
Interest Income	3,016,320	1,490,190	(1,526,130)	-50.6%
Property Sales	4,641,300	4,400,000	(241,300)	-5.2%
Federal Formula Funds	10,000,000	12,000,000	2,000,000	20.0%
Utility Reimbursements	3,203,550	3,296,304	92,754	2.9%
Rebates, structured leases, etc.	2,400,000	4,772,482	2,372,482	98.9%
TOTAL	23,261,170	25,958,976	2,697,806	11.6%

Non-operating revenues are budgeted to increase by $2.7 million (11.6%). The bulk of this increase is due to an increase in federal formula funds available for operations. However, it must be noted that this use of federal funds for operating is offset by an equal decrease in federal funds for capital costs. Revenue from gas rebates, structured lease income and other similar enterprises will also increase by over $2.3 million in FY11 (98.9%). However, these increases are tempered by a decrease in interest income (-$1.53m) brought about by low interest rates nationwide.

Subsidies

SUBSIDIES	FY10 Budget	FY11 Budget	Δ $	Δ %
Assessments	150,148,212	150,148,212	0	0.0%
Dedicated Sales Tax	767,019,551	767,019,551	0	0.0%
Appropriated Sales Tax	160,000,000	160,000,000	0	0.0%
TOTAL	1,077,167,763	1,077,167,763	0	0.0%

State and local government subsidies are level funded. Assessment and dedicated sales tax amounts have been certified by the Commonwealth. The dedicated sales tax amount is included in the Massachusetts FY11 budget in all versions (House, Senate and Governor), and is expected to pass intact.

B. Measures of Efficiency

Efficiency Measures	FY10 Budget	FY1 Budget
Fare Recovery Ratio	38.4%	37.1%
Revenue Recovery Ratio	46.5%	44.7%
NOIPM	$0.341	$0.364

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 policy for fare recovery ratio target. Under this budget the Authority's fare recovery ratio is 37.1%, down from 38.4% in FY10.

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 revenue 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 Authority's revenue recovery ratio is 44.7%, down from 46.5% in FY10.

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. However, the MBTA budget documents suggest that in FY11 it plans to provide 1,870,943,800 passenger miles. This suggests a NOIPM score of $0.364, compared to an FY10 score of $0.341 for the same number of passenger miles.

C. Operating Expenses

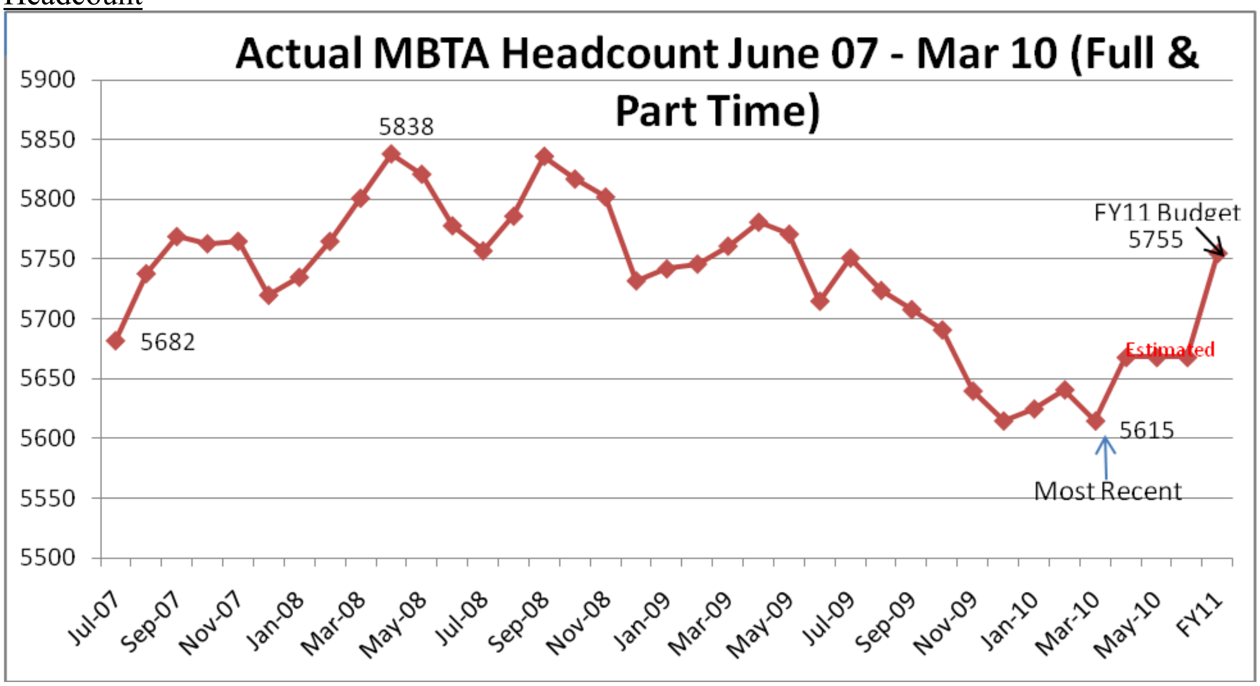
Wages

WAGES	FY10	FY11	Δ $	Δ %
Straight Time	382,870,166	378,612,038	(4,258,128)	-1.11%
Overtime	17,743,358	17,719,282	(24,076)	-0.14%
Total Wages	400,613,524	396,331,320	(4,282,204)	-1.07%

In total wages are budgeted to decrease by $4.28 million (-1.07%). Firstly, there are almost no wage increases built into this budget. The MBTA's largest union, Local 589's contract expires at the end of FY10 and it is not known when a new agreement will be forthcoming. When agreement is reached, as the MBTA experienced in 2009, the cost of any retroactive pay increase for FY11 must be born in a future budget. This budget does include $2.3m for contractually obligated and negotiated pay increases for several unions. For the 5th year in a row non-unionized MBTA employees will not receive any pay increases.

Once again the committee applauds the Authority's budget office for its continued efforts to shift employees from the capital to the operating budget. The long term benefits of this are self-evident.

Headcount



The Authority's wage line-item savings are due to reductions in its headcount. It projects $6.6m in wage savings from the elimination of 111 positions due to a shift to single-person train operation on the orange line, a decrease in the number of inspectors on the blue line, and a reduction in the number of customer service agents (CSA) staffing subway stations at off-peak times. However, it also notes that as of March 2010 the MBTA's non-capital, full and part time headcount is near its all time low, at 5615. Even with the 111 position reduction, the FY11 budgeted headcount figure will increase to 5755, an increase of 140 positions. The committee would have preferred a more aggressive strategy to not-fill these slots. Had only half of these positions been budgeted (70), the FY11 wage savings would have increased by an additional $4.3m, for a total FY11 savings (including the 111) of over $10 million.[3]

Overtime

The FY11 overtime budget will decrease by $24,076 (-0.14%). The committee notes a large overtime budget decreases in the Systemwide Modernization (AFC) department, as well as a small decrease in the money room. Small overtime increases are included in the budget for the Operations Support and System Maintenance (SMI) departments. The committee notes and applauds the absence of any increase in the overtime budgets for the bus, subway, or police budgets.

Fringe Benefits

FB	FY10	FY11	Δ $	Δ %
Pensions	53,960,414	58,507,137	4,546,723	8.43%
Healthcare	115,676,142	113,734,455	(1,941,687)	-1.68%
Group Life	1,469,482	1,462,012	(7,470)	-0.51%
Disability Insurance	63,820	60,256	(3,564)	-5.58%
Worker's Comp	10,820,897	10,820,897	0	0.00%
Other FB	290,414	290,414	0	0.00%
Total Fringe Benefits	182,281,169	184,875,171	2,594,002	1.42%

The promise of the reform legislation was major savings in this area in particular. Effective Jan 1, 2010 non-unionized MBTA employees shifted to the Massachusetts Group Insurance Commission. This shift of less than 250 employees netted savings in the FY11 budget of $1.94 million. As union contracts expire the Legislation requires, and the Authority expects to shift its entire workforce to the GIC within the next 5-7 years. Once this is complete, the Authority expects $31 million per year in savings to its healthcare line item.[4]

The GIC saves money by virtue of its size. With over 300,000 subscribers it can bring economies of scale to bear in negotiations with providers and realize incremental savings that even organizations as large as the MBTA never could. Furthermore, the GIC also shifts more costs onto its subscribers in the forms of higher co-pays and deductibles than the MBTA did, as it was required to negotiate plan changes with its unions as part of contract negotiations. This means that some of the savings come from pushing costs onto the workforce- a not uncommon practice in the private sector. However, unlike the private sector the MBTA’s unionized workforce enjoys the benefit of binding arbitration. This sets up the possible scenario where an arbitrator will seek to make the T’s union’s whole for their out-of-pocket expenses by granting large wage increases as part of its next contract. Some committee members have expressed fears of 9% wage increases being granted as part of the next contract. Such an increase ($34m extra based on the FY11 amount) would wipe out any savings from joining the GIC. Clearly such a scenario was never intended under the Transportation Reform legislation, and yet the scenario

[3] The MBTA uses an average per capita savings of $59,043 for budgetary purposes.
[4] J. Davis remarks to MBTA AB Finance Committee 5/12/10

retains enough likelihood to merit vigilance on the part of all who care about public transit in Massachusetts.

Pensions

The pension line item can be subdivide into 6 categories relating to employee retiree/compensation plans. Each sub-plan is the result of past negotiations between the Authority and various parties. The largest segment of the pension line item its contribution to the so-called “Main Fund”. This fund is privately administered, and governed by a board of directors with representation both MBTA management and labor. The Board’s by-laws dictate that at least 2 management and 2 labor votes are required to make any decision. It is the principal retirement vehicle for most MBTA employees. Every year the MBTA makes a contribution to this fund as part of its budget. The amount to be contributed is determined by the Main Fund board, based on an independent actuarial study. This study, as stipulated in the 589 contract and under applicable state and federal laws, considers the fund’s assets, number of subscribers, anticipated number of subscribers and a host of other factors. The actuary determines how much the fund requires and the MBTA is responsible for 73% of this amount, with employees being responsible for the remaining 27%. These payments represent the employer and employee contributions to the employee’s retirement, a common practice in the both the private and public sectors.

In addition to the main fund, the MBTA also makes contributions to the police plan, an executive deferred compensation savings plan, and a Medicare supplement plan. Such plan, like the main plan, are regulated by contracts between the Authority and either collective bargaining units or individual employees.

One of the reforms enacted as part of last year’s legislation was a change to the MBTA’s retirement rules. In the past the pension fund allowed any member with 23 years of service, regardless of age, to begin collecting an early pension. The legislation forbids this practice, and mandates that the minimum scenario to receive any pension by 55 years of age plus 25 years of service. This change has had not impact on this year’s operating budget, but should begin to show some savings in 15 years when those employees who were eligible to retire after 23 years will be forced to wait an additional 2 years to do so.

Payroll Taxes

PATROLL TAXES	FY10	FY11	Δ $	Δ %
FICA	30,673,688	30,320,393	(353,295)	-1.15%
Unemployment	911,274	1,168,764	257,490	28.26%
Total Payroll Taxes	31,584,962	31,489,157	(95,805)	-0.30%

MBTA employees are eligible for social security, Medicare, and Medicaid and the Authority makes FICA payments as required under state and federal law. The decrease of $353,295 is due to the reduction of 111 positions as described in the wage discussion. Unemployment costs are budgeted to increase by 257,490. The Authority’s unemployment triggers are: end of temporary employment, lay-offs, medical light duty classification, disqualification by the clinic, suspended employees not returning following their suspension, resignation for medical reasons beyond the employee's control, and/or subsequent employment. Massachusetts employees can collect for a total of 79 weeks.

Other Operating Costs

OTHER OPERATING	FY10	FY11	Δ $	Δ %
Materials, Supplies and Services	183,805,352	187,368,831	3,563,479	1.94%
Casualty & Liability Insurance	15,535,693	15,435,693	(100,000)	-0.64%
Commuter Rail Contract	280,956,341	300,511,485	19,555,144	6.96%
Ferries, RIDE, Local Service	81,525,339	95,706,262	14,180,923	17.39%
Financial Service Charges	5,157,569	5,157,569	0	0.00%
TOTAL	566,980,294	604,179,840	37,199,546	6.56%

Materials, Supplies, and Services

This line item includes costs for postage, copier rental and supplies, utilities for MBTA property, contract cleaning, rent for 10 Park Plaza, uniforms plus gasoline, diesel, CNG, traction electricity, and jet fuel. The committee is pleased to see reductions versus FY10 for costs related to postage and photocopiers. It notes that most other costs increases are for utilities for Authority property or operations. It is the committee's hope that FY11 does not experience the volatility in fuel prices experienced in year's past.

Casualty & Liability Insurance

These costs is budgeted to decrease by $100,000 due to hard negotiations by the Authority as it took advantage of the economic downturn to seek better rates from its brokers.

Purchased Commuter Rail Services

The MBTA does not directly operate its commuter rail services, instead it contracts with a third party- Massachusetts Bay Commuter Railroad to do so for them. In January 2010 the MBCR was amended to extend the MBCR contract to July 2013. This extension also included certain increases to part of the contract for items such as wage increases for railroad personnel, and increased fuel costs. The contract also mandates that MBCR perform certain maintenance and capital construction duties on behalf of the MBTA. Such cost increases explain the $19.55m (6.96%) cost increase in this line item.

Ferries, RIDE, Local Services

This line item includes the cost to provide The RIDE, commuter boat service, private carrier bus service and local bus service. Like the commuter rail contract, third parties provide these transportation services to the MBTA under contract. The largest segment of this line item is for the RIDE- the MBTA's paratransit service. The RIDE contract was re-bid last year effective July 1, 2010 and will continue through the end of fiscal year 2013. Providing such services are very expensive and are also among the fastest growing types of trips provided by the MBTA. The RIDE contract stipulates increases annually. These increases were negotiated by the Authority and its providers as part of the completive bid process. Almost all of the increase in this line item is driven by these contractual increases for the RIDE.

The budget for private carriers (Winthrop, Canton, Medford, & Hull) is level funded at its FY10 amounts. Also level funded are the subsidy amounts for those suburban buses (Bedford, Beverly, Burlington, Dedham, Lexington, and Mission Hill). The budget for ferries is down slightly. Discussions with MBTA senior managers suggest that the Authority has no plans in the near term to eliminate ferry service.

Financial Service Charges

This level funded line item relates to the charges credit card companies charge the Authority every time a customer uses a credit-card to purchase goods or services from the MBTA. This line item also includes the fees the MBTA sometimes pays its financial advisors to advise it on its many complex debt and other financial transactions.

C. Debt Service

DEBT SERVICE	FY10	FY11	Δ $	Δ %
Interest (All)	266,965,765	258,987,553	(7,978,212)	-2.99%
Principal Payments	157,325,038	128,019,218	(29,305,820)	-18.63%
Lease Payments	21,000,000	17,818,449	(3,181,551)	-15.15%
TOTAL	445,290,803	404,825,220	(40,465,583)	-9.09%

FY11 is only balanced because $67.9m in debt principal payments were restructured. This means that the principal actually due this year (excluding leases) was $454.9m. By restructuring these debts to ensure a payment (excluding leases) to $387m the Authority was able to forgo paying this $67.9m and thus, on paper, achieve a balanced budget. **The MBTA did not save $67.9 million dollars; instead it has forgone paying this amount of money. We still owe it and must pay this money back, ultimately at a great cost in increased interest payments. For all intents and purposes the FY11 budget is balanced because we have asked our children and grandchildren to pay our loans back for us**.

If the interest rate on the $67.9m in deferred payments is a conservative 3%, then in the next year alone this deal will cost the Authority an additional $2.04 million. Over the next decade this deal could end up costing over $23.4 million and this deal is only the most recent of a series of restructurings.

For far too long the MBTA has relied on debt restructuring to balance its books on paper while increasing its long term costs for all of us. The MBTA is mired in a structural deficit that will only increase until the point where it has no more principal to restructure. At that point the structural deficit will become an actual deficit- except the problem will be all that much worse because of the accrued interest the T will still be responsible for at that point due to its past restructurings.

3. CONCLUSION

The Transportation Reform legislation is still being implemented at the MBTA, and yet it has already born some savings. No one, however, can be satisfied with the pace of these reforms or the amount of savings that can be attributed to the MBTA's bottom line. Furthermore, the amount of oversight is simply unacceptable under the new system. This $1.6 billion budget, financed with over half a billion in tax payer money, was presented and approved by the new

MassDOT board on the same day without any public comments, suggestions or oversight. Furthermore, for the first time since the days of the Boston Elevated, the cities and towns that contribute substantially to the operation of public transportation in Massachusetts had no say in how their citizen's tax dollars were spent.

Many eyes make for good public policy- and millions in savings. For instance, as discussed in section 2 part B the committee believes there is scope for many millions in savings through further reductions in the FY11 headcount. It is likely that if the Advisory Board retained its approval and cutting powers, we would have cut the FY11 budget wage line item by a further $4.3 million plus related cuts to fringe benefits and payroll taxes to keep the headcount down. The MBTA can use all the savings its can get, and such savings certainly would be in keeping with the spirit of the reform legislation.

The reform legislation is threatened by the upcoming binding negotiation between the Carmen's Union and the MBTA. Undoubtedly, the union will seek retroactive wage increases for its members to cover what are sure to be out-of-pocket cost increases related to joining the GIC. Any such wage increases granted by an arbitrator potentially eliminating any savings achievable. Binding arbitration is available to certain public employees because we forbid them to strike. The objective is to insure that the parties negotiate in good faith because the outcome of arbitration is unpredictable. Recent rulings have granted the MBTA some concessions regarding health care expenses and work rules, but the financial impact of the wage award is significant. Another finding with sizeable wage awards, without additional support from the state, will lead directly to a budget crisis at the Authority. Layoffs, service reductions and large fare increases are not in anyone's interest, including the working men and women of the MBTA. Hopefully, a fair and reasonable negotiated settlement can be found.

From 2000 to 2011, the cost of the Ride increased from grew from $21.4 million to $85.9 million which translates into nearly a 13.5 percent annual rate of growth, or not quite a doubling in cost every five years. We are facing a demographic reality as a large population cohort reaches the age when Ride eligibility is growing. The T does use an assumption that ridership count (as opposed to total cost) will follow an historic trend and increase annually for the duration of the three year contract. Three facts are clear: the MBTA exceeds the Federal standard for paratransit service; the Authority has spent hundreds of millions to make the existing system more accessible and will continue along that track; and the rate of growth in the Ride is unsustainable. Even if the MBTA was fiscally healthy this growth is unsustainable. Further long term analysis is imperative.

On the revenue side, it is clear that the MBTA's got it wrong when it hiked its parking fees by $2 across the board recently. (This increase, coincidentally, was needed to pay for a binding arbitration award.) While the Authority realized more revenue from charging more, it seems to have left lots on the table by driving away so many customers by charging too much. The Advisory Board understands, perhaps better than anyone outside of 10 Park Plaza, the financial difficulties of the MBTA. But, we believe that instead of a broad brush increase across all MBTA lots, perhaps a more targeted, variable pricing structure taking into account local needs conditions, and micro-economies may yield the best of both worlds- increased revenue and increased use of MBTA parking facilities.

Finally, on debt the MBTA must stop its practice of balancing its books on the backs of the next generations. Structural deficits are unacceptable and will force the T and the State to accept the obvious- we cannot afford the system we currently operate with the financing and cost structures we have in place. If this forces fare increases or service cuts, or a new source of subsidies then so be it- at least it is this generation of citizens, those who enjoy the benefits of public transportation, who will be bearing the burden of such decisions. The way things are going now we are deciding for our kids and grandkids the burdens they must bear while enjoying the benefits. It is nor fair and must stop. The MassDOT Board should adopt a policy for all its divisions immediately abolishing the practice of debt restricting to balance budgets- this will force us to live within our means and hopefully begin addressing the myriad of problems within our transportation network that remain to be addressed.