MBTA FY12 Operating Budget Oversight Report

FINAL REPORT
TO THE MBTA ADVISORY BOARD

Approved by the
MBTA Advisory Board

March 30, 2011

FINAL REPORT
TO THE MBTA ADVISORY BOARD

MBTA FISCAL YEAR 2012 BUDGET

Submitted by the

MBTA Advisory Board Finance Committee

March 23, 2011

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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.

Statement of Revenue and Expense

MOVED: That the Massachusetts Bay Transportation Authority's fiscal year 2012 budget of total revenues of $1,656,143,204 and total expenses of $1,656,143,204 be ratified by the MBTA Advisory Board, and that this budget be based on the statement below.

MBTA Operating Budget	FY 2010	FY 2011	FY 2012
REVENUES	Actual	Budget	Budget
Subway Fares (Heavy & Light)	222,805,396	232,744,430	234,446,808
Commuter Rail Fares	133,495,748	136,769,158	137,769,538
Bus Fares (Motor & Trolley)	79,516,470	78,148,901	78,720,511
School, Senior & Paratransit Fares	3,504,824	3,504,511	3,530,144
Advertising	11,709,593	10,658,804	14,665,704
Parking	30,306,974	34,823,602	16,119,117
Other Real Estate	18,164,502	21,924,561	19,506,782
Interest Income	776,306	1,490,190	1,506,708
Non-Operating Income	2,728,681	9,172,482	46,650,000
Federal Formula Funds	28,836,501	12,000,000	12,000,000
Utility Reimbursements	3,622,506	3,296,304	2,099,333
Assessments	150,148,212	150,148,212	152,100,139
Dedicated Sales Tax	767,056,684	767,019,551	777,028,421
Appropriated Sales Tax	159,999,996	160,000,000	160,000,000
Total Revenues	**1,612,672,393**	**1,621,700,706**	**1,656,143,204**
EXPENSES			
Straight Salary/Wages	367,619,354	378,612,038	393,249,499
Overtime	29,120,290	17,719,281	17,689,281
Pensions	52,963,193	58,507,137	72,741,177
Healthcare	118,652,016	113,734,455	129,196,207
Group Life	1,460,282	1,462,012	1,116,451
Disability Insurance	42,690	60,256	16,851
Worker's Comp	9,409,189	10,820,897	10,376,524
Other Fringe Benefits	99,473	290,414	237,719
FICA	29,889,210	30,320,393	31,436,817
Unemployment	2,000,205	1,168,764	1,168,764
Materials, Supplies and Services	177,762,478	187,368,831	195,142,197
Casualty & Liability Insurance	15,485,704	15,435,693	15,435,693
Commuter Rail Contract	276,928,614	300,511,485	313,914,177
Ferries, RIDE, Subsidized Local Service	91,187,370	95,706,262	107,079,468
Financial Service Charges	4,344,587	5,157,569	5,157,569
Interest (All)	259,334,053	258,987,553	252,150,723
Principal Payments	157,325,042	128,019,218	100,727,107
Lease Payments	17,847,580	17,818,449	9,306,981
Total Expenses	**1,611,471,330**	**1,621,700,707**	**1,656,143,205**

1. BUDGET OVERVIEW

On March 2, 2011 the MBTA Board of Directors transmitted the provisional FY12 operating budget to the MBTA Advisory Board for consideration. The FY12 budget contains a structural imbalance of over $118 million; and only achieves balance through the restructuring of $33 million in debt, the securitization of group parking lot revenue, a one-time real estate transaction related to the North Station garage estimated to net $45 million, and other measures.

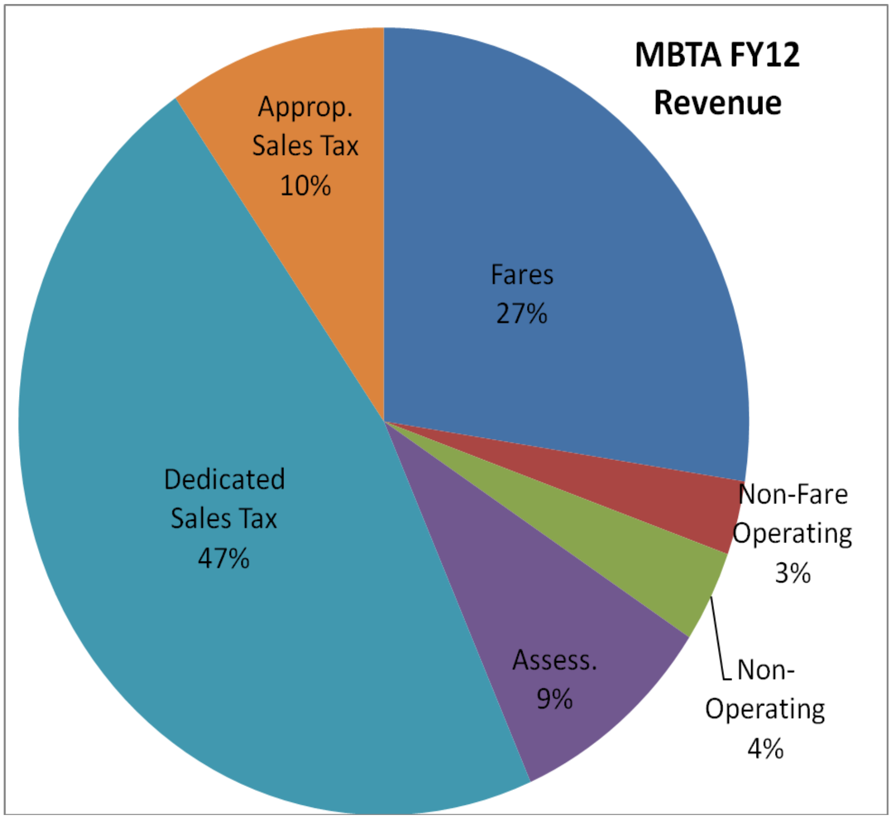
FY12 marks another year of major structural and cyclical deficits at the MBTA. The causes of this deficit are multiple, and the fault rests not with management, structure, or a lack of innovation. The fault of the MBTA's operating deficit clearly lies with past failures of public policy, and present failures to address these issues. Debt, increased costs to operate ancient equipment, overly generous compensation for some employees, expansion, and service levels out of sync with current land use and demographic patterns lie at the heart of the MBTA's multi-billion dollar, multi-year structural and cyclical operating and capital deficits.

The MBTA Advisory Board, as it has done since the creation of the Authority in 1964, has gone through an extensive review of the annual operating budget. The citizens of the cities and towns in the MBTA service district directly contribute 10% of all MBTA revenue through assessments, and millions more through sales tax and fare contributions. Assessments are perhaps the Authority's most stable, and consistent revenue source and the people of the cities and towns in the service district deserve a say in how their citizen's money is spent.

1A. Revenue

REVENUE	FY10 Actual	FY11 Budget	FY12 Budget	Δ $ (11-12)	Δ % (11-12)
Fares	439,322,438	451,167,000	454,467,000	3,300,000	0.7%
Non-Fare Operating	60,181,069	67,406,967	50,291,603	-17,115,364	-25.4%
Non-Operating	35,963,994	25,958,976	62,256,041	36,297,065	139.8%
Assess.	150,148,212	150,148,212	152,100,139	1,951,927	1.3%
Dedicated Sales Tax	767,056,684	767,019,551	777,028,421	10,008,870	1.3%
Approp. Sales Tax	159,999,996	160,000,000	160,000,000	0	0.0%
TOTAL	1,612,672,393	1,621,700,706	1,656,143,204	34,442,498	2.1%

Overall revenue is expected to increase 2.1% over the FY11 budgeted amount. While fares will not increase, fare revenue is expected to increase modestly over the FY11 budgeted amount. Non-fare operating revenue is expected to decrease by over 25%, as part of the parking securitization proposal. Non-operating revenue is projected to grown substantially in FY12 due to a one-time real estate transaction related to the North Station garage. Assessments will increase modestly, and sales tax revenue is expected to increase for the first time since 2009.

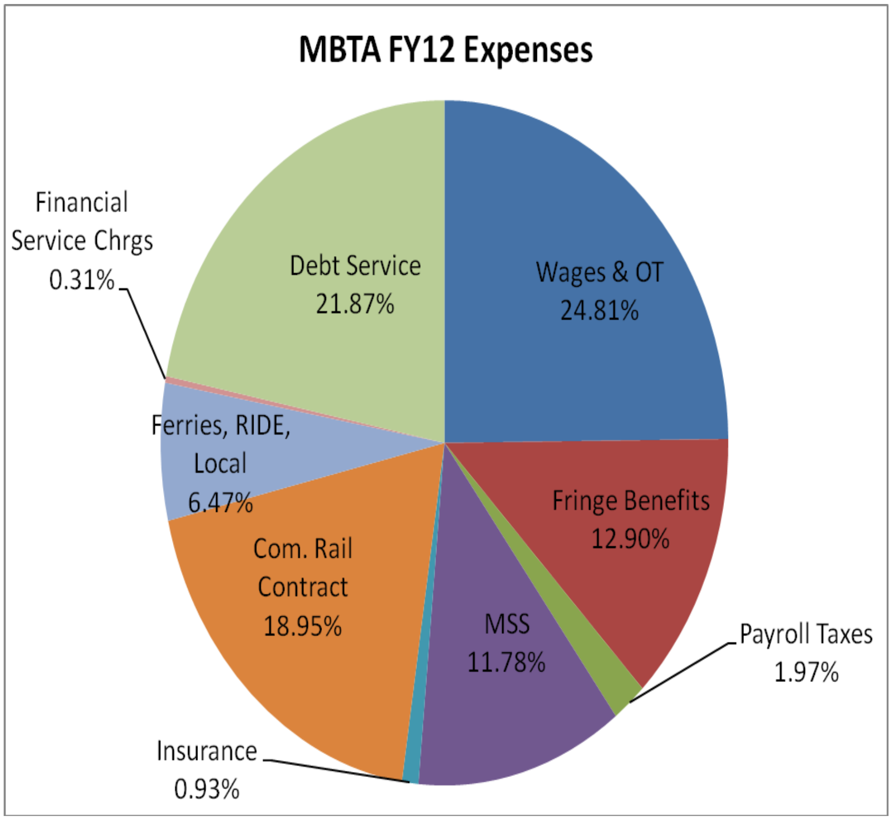


1B. Expenses

EXPENSES	FY10 Actual	FY11 Budget	FY12 Budget	Δ $ (11-12)	Δ % (11-12)
Wages & OT	396,739,644	396,331,319	410,938,780	14,607,461	3.7%
Fringe Benefits	182,626,843	184,875,171	213,684,929	28,809,758	15.6%
Payroll Taxes	31,889,415	31,489,157	32,605,581	1,116,424	3.5%
Materials, Supplies, Svc	177,762,478	187,368,831	195,142,197	7,773,366	4.1%
Insurance	15,485,704	15,435,693	15,435,693	0	0.0%
Com. Rail Contract	276,928,614	300,511,485	313,914,177	13,402,692	4.5%
Ferries, RIDE, Local	91,187,370	95,706,262	107,079,468	11,373,206	11.9%
Financial Service Chrgs	4,344,587	5,157,569	5,157,569	0	0.0%
Debt Service	434,506,675	404,825,220	362,184,811	-42,640,409	-10.5%
TOTAL	1,611,471,330	1,621,700,707	1,656,143,205	34,442,498	2.1%

Expenses are also expected to increase by $34.4 million, or 2.1%. Costs are projected to increase in nearly all categories except in debt service costs, which is projected to decrease by $42.6

million as the MBTA restructures its debt yet again. This is not a savings; restructuring of debt defers payments of principal into the future, increasing costs over time.



1C. The Review Process

The finance committee met on March 16 to consider the Authority's FY12 operating budget. Deputy General Manager and Chief Financial Officer Jonathan Davis, as well as Budget Director Mary Runkel, Operations Budget Manager Paula Beatty were present and answered questions. The Advisory Board received the budget on March 2, most materials on March 7, and scheduled its meeting for March 23 in time to respond to the MassDot Board's March 29 finance committee meeting.

2. DISCUSSION

There is no question that the MBTA's financial model is broken. Its capital and operational needs outweigh available revenues. Just as we now look up $20 and $40 million dollar deficits of recent years with nostalgia, so too will we look at this year's $118 million deficit as easy to fix, when deficits reach predicted levels well above $150 and even $200 million in years to come. The MBTA is broke in all the meanings of the word. It has reached rock bottom, and is now forced to sell major assets to balance its budget. What happens when all the assets are sold, all the revenue streams are securitized? There will still be an operating deficit, and its $3billion capital backlog of state of good repair projects. The long term financial outlook is bleak, and the short term manifest in the FY12 operating budget is no better.

Expenses must be examined to ensure that each dollar is spent wisely and effectively. It is worth noting that the MBTA continues to have the smallest ratio of administrative to operations employees among large US public transportation agencies, and that FY12 marks the 5th year in a row that non-unionized MBTA administrative employees have not had a pay raise. Unionized operations employees, however, have had no such demands placed upon them for wage concessions. 4 MBTA unions will see a 3% pay increases in FY12. The largest union, the Carmen's Union local 589 saw a 4% raise in FY10 and is currently awaiting results of its lawsuit against the transportation reform act to begin new negotiations. Granted, the migration to the GIC will take more money out of all MBTA employee pockets, but legislation pending will mandate all municipal employees to migrate to the GIC as well, and many if not most municipal employees have experienced no pay increases, and even furloughs in recent years. It seems time for the unionized MBTA workforce to join their administrative colleagues and realize that if public transportation in eastern Massachusetts is to be saved sacrifice is needed from all interests, including labor.

2A. Revenue

The MBTA, like all major American public transit systems, is financed through a combination of system generated revenues and government subsidies. In FY12 system generated revenues equal $567 million (34.24%), and government subsidies $1.089 billion (65.76%). This compares to the FY11 budgeted amounts of system generated revenues of $544.5 million (33.58%), and subsidies of $1.077 billion (66.42%). In FY12 the Authority's revenue recovery ratio is 43.82%, down from 44.75% in FY11. Recovery ratio is a measure how much of the cost of each trip is covered by subsidies, and how much by other revenues. 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%. Operating revenues include fares, 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 property sales, 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. 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.

2A-1: Operating Revenue

OPERATING	**FY11 Budget**	**FY12 Budget**	**Δ $ (11-12)**	**Δ % (11-12)**
Fares	451,167,000	454,467,000	3,300,000	0.7%
Advertising	10,658,804	14,665,704	4,006,900	37.6%
Parking	34,823,602	16,119,117	(18,704,485)	-53.7%
Concessions	17,815,911	18,533,480	717,569	4.0%
Trackage	1,183,650	95,486	(1,088,164)	-91.9%
MassPort	925,000	877,816	(47,184)	-5.1%
Other	2,000,000	0	(2,000,000)	
Total	518,573,967	504,758,603	(13,815,364)	-2.7%

Operating revenues will decrease by $13.8 million (-2.7%) against the FY11 budget. Parking, trackage, and MassPort revenues will all decrease over their FY11 budgeted amounts. Fare, advertising, and concession revenues are all expected to increase against FY11 budget amounts.

Volatility in world oil markets may drive more commuters to the MBTA in FY12, as was the case in 2008. This suggests that the Authority may reach its fare revenue targets in FY12. This is tempered, however, by the fact that many MBTA vehicles also run on oil-based fuels, this cost of which will also increase if volatility continues. It is worth noting that as of February 2011 the FY11 fare revenue received by the T is over $4.7 million under its budgeted amount for this point in time. This suggests that the Authority will find it difficult to achieve its FY11 fare revenue target number, Advertising is projected to grow by over 37% in FY12 over FY11. The FY10 budget called for advertising revenue of $12.25 million, yet only $11.7 was actually received. The FY11 advertising projected $10.7 million in revenue, yet year-to-date (as of February 2011) this category is trending below its target by over $1 million. Nevertheless, the Authority's plan for new advertising and new types of advertising hold promise for additional non-fare revenue.

The MBTA plans to securitize its parking revenues. Under this scenario, the Authority will issue new bonds secured by revenue it receives from parking fees at its group lots. With a planned 2:1 coverage ratio, the Authority will forgo between $15 and $20 million annually, out of revenue between $30 and $40 million annually for 30 years in order to realize an upfront payment of about $300million. This suggests they are giving up $450 million in long-term revenue for $300 million in short term revenue. They plan on placing this $300 million in escrow, and paying down debt principal over the next 5 years, after paying principal and interest on this new parking debt.

Similarly, the T plans to either lease or sell the North Station garage under the Boston Garden. This garage, which is not used by commuters, is expected to net $45million in one-time revenue which will be applied to the FY12 operating deficit. This garage is one of the only MBTA owned parking facilities that charges market rate, and has consistently generated about $5million annually over the past decade and more. The Authority had not made a final decision about what to do about North Station as of the time of this report.

The MBTA's in-house real estate agency, Transit Realty Associates predicts a revenue increase of 22.8% in FY12 over FY11. While it seems clear that the real estate industry is recovering from the Great Recession, the committee doubts that the free form real estate markets of 2007 or 2008 are likely to return in 2012. It is likely that this target will not be reached by the end of FY12.

MBTA maintains a complex relationship with MassPort, especially relating to certain operations around Logan Airport. Special operating conditions related to operating within the MBTA's Transitway tunnel, and the Ted Williams Tunnel, and at the Airport itself require special buses that operate on both diesel fuel, and electricity from catenary wires. In 2004/2005 as part of

Phase II of the Silver Line project the MBTA procured a fleet of 32 such dual-mode, diesel electric buses. These vehicles are 60 feet long, articulated, and many have special luggage racks for use servicing the airport. Of these 32 special buses MassPort paid for 8.[1] Each year MassPort pays the MBTA $2 million towards the operation and maintenance of dual-mode Silver Line buses. In return, the MBTA remits all fare revenue received from passengers boarding Silver Line buses at Logan Airport. In FY12 the MBTA expects to remit $1,122,184 to MassPort under this deal, netting $877,816 in total revenue.

2A-2: Non-Operating Revenue

Non-Operating Rev.	FY11 Budget	FY12 Budget	Δ $ (11-12)	Δ % (11-12)
Interest Income	1,490,190	1,506,708	16,518	1.11%
Non-Operating Income	9,172,482	46,650,000	37,477,518	408.59%
Federal Formula Funds	12,000,000	12,000,000	0	0.00%
Utility Reimbursements	3,296,304	2,099,333	(1,196,971)	-36.31%
Total Non-Operating Revenue	25,958,976	62,256,041	36,297,065	139.82%

Non-operating revenues are budgeted to increase by $36.3 million (139.8%) over FY11 amounts. Proceeds from North Station garage real estate transaction are booked as non-operating income under this category and account for the increase. This is a one-time windfall.

2A-3: Subsidies

SUBSIDIES	FY11 Budget	FY12 Budget	Δ $ (11-12)	Δ % (11-12)
Assessments	150,148,212	152,100,139	1,951,927	1.3%
Dedicated Sales Tax	767,019,551	777,028,421	10,008,870	1.3%
Appropriated Sales Tax	160,000,000	160,000,000	0	0.0%
Total	1,077,167,763	1,089,128,560	11,960,797	1.1%

Dedicated sales tax is expected to grow for the first time since 2009. Assessments are also projected to grow by 1/3% over FY11 amounts. The $160 in appropriated sales tax is also level funded. It is included in all versions of the Massachusetts FY12 budget. Sales tax and assessment figures have been certified by the Commonwealth.

B. Operating Expenses

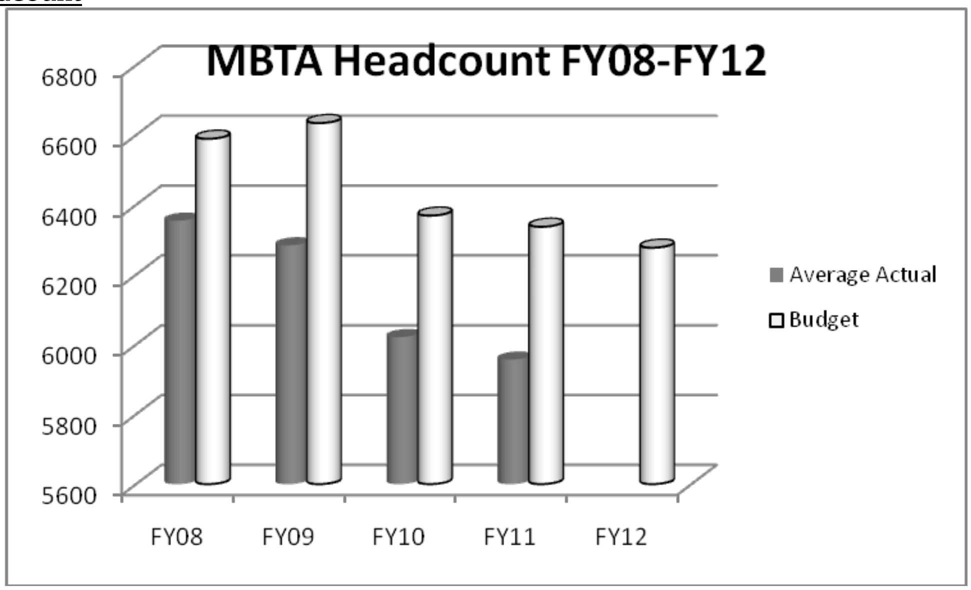
B-1: Wages

[1] MBTA Capital Investment Program FY12-16 page 68

WAGES	FY11 Budget	FY12 Budget	Δ $ (11-12)	Δ % (11-12)
Straight Time	378,612,038	393,249,499	14,637,461	3.87%
Overtime	17,719,281	17,689,281	(30,000)	-0.17%
Total	396,331,319	410,938,780	14,607,461	3.69%

Wages are budgeted to increase by 3.69% over FY11 amounts. 4 unions recently settled their contracts for 0%, 3%, 2%, and 2% increases per year, retroactive to FY11. The bulk of the straight time increase in FY12 relates to this 3% increase for these 4 unions. The Authority hopes this contract sets the pattern for its other unions to follow. Overtime is expected to drop by $30,000.

B1-1: Headcount



The FY11 budgeted headcount is 6,337, yet on average through February 2011 the actual headcount is 5,956. In FY12 the budgeted headcount is 6,227. While this is less than last year's budgeted amount, it is still 271 positions greater than the FY11 YTD average. Nevertheless, the trend both on the budget and actual sides is a reduction in overall headcount.

B2: Fringe Benefits

FB	FY11 Budget	FY12 Budget	Δ $ (11-12)	Δ % (11-12)
Pensions	58,507,137	72,741,177	14,234,040	24.33%
Healthcare	113,734,455	129,196,207	15,461,752	13.59%
Group Life	1,462,012	1,116,451	(345,561)	-23.64%
Disability Insurance	60,256	16,851	(43,405)	-72.03%
Worker's Comp	10,820,897	10,376,524	(444,373)	-4.11%

Other Fringe Benefits	290,414	237,719	(52,695)	-18.14%
Total	184,875,171	213,684,929	28,809,758	15.58%

Fringe benefit costs are projected to rise by $28.8 million in FY12 over FY11 due to increases in health insurance and pension costs. Group life insurance, disability insurance, worker's compensation insurance, and other fringe benefit costs are projected to decline relative to their FY11 budgeted amounts.

B2-1: Health Insurance

While more MBTA employees, including those in unions who signed contracts in this year, have shifted into the GIC, the majority of the Authority's workforce has not.

B2-2: Pensions

The MBTA makes contributions to the independent MBTA Retirement Fund which pays the pensions of MBTA retirees. The MBTA's operating budget does not pay retirees directly. The amount paid by the Authority as the employer contribution, and the amount employees pay is set by union contracts. Under the formula set in this contract, the amount paid will increase in FY12 by 24.33%. During the height of the economic downturn the assets held by the retirement fund lost some value as world markets suffered losses. This payments marks the start of a long-term process to rebuild the fund's assets to an actuarially determined level of sufficiency.

B3: Payroll Taxes

PATROLL TAXES	FY11 Budget	FY12 Budget	Δ $ (11-12)	Δ % (11-12)
FICA	30,320,393	31,436,817	1,116,424	3.68%
Unemployment	1,168,764	1,168,764	-	0.00%
Total	31,489,157	32,605,581	1,116,424	3.55%

B4: Other Operating Costs

OTHER OPERATING	FY11 Budget	FY12 Budget	Δ $ (11-12)	Δ % (11-12)
Materials, Supplies and Services	187,368,831	195,142,197	7,773,366	4.15%
Casualty & Liability Insurance	15,435,693	15,435,693	-	0.00%
Commuter Rail Contract	300,511,485	313,914,177	13,402,692	4.46%
Ferries	4,123,820	4,123,820	-	0.00%
RIDE	89,498,454	100,815,333	11,316,879	12.64%
Subsidized Local	2,083,988	2,083,988	-	0.00%
Financial Service Charges	5,157,569	5,157,569	-	0.00%
Total	604,179,840	636,672,777	32,492,937	5.38%

Spending in this category is projected to rise by 5.38% over FY11 amounts, driven by contracted increases to provide commuter rail, and paratransit service.

B4-1: Materials, Supplies, and Services (MSS)

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 for all MBTA revenue vehicles it directly operates. All MBTA revenue vehicle fuel costs are hedged at $2.07 per gallon through June 30, 2011. Increases in this line item come from an additional $4.3 million in escalator and elevator maintenance and installation costs, as well as $1.2 million extra in maintenance costs for the MBTA's ageing fleet. This cost is certain to rise in the coming years as the fleet continues to age and no new vehicles are on order.

B4-2: Casualty & Liability Insurance

The Authority's insurance products are competitively bid via an RFP process. The contract for FY12 came in equal to the FY11 amount, which was down compared to the FY10 amount.

B4-3: Purchased Commuter Rail Services

The contact with MBCR expires on June 30, 2013 at the end of FY13. The 4.46% increase over the FY11 amount is the contracted increase to provide this service.

B4-4: Ferries and Local Services

The budget for private carriers (Winthrop, Canton, Medford, & Hull) is level funded at its FY10 and FY11 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 also level funded at its FY11 amounts.

B4-5: RIDE

The cost of providing paratransit service is the fastest growing expense at the MBTA. The 12.64% increase over FY11 is based on contractual increases in the service provider contracts, as well as increased ridership. February 2011 marked the busiest month of RIDE ridership in its history, and February is the shortest month of the year.

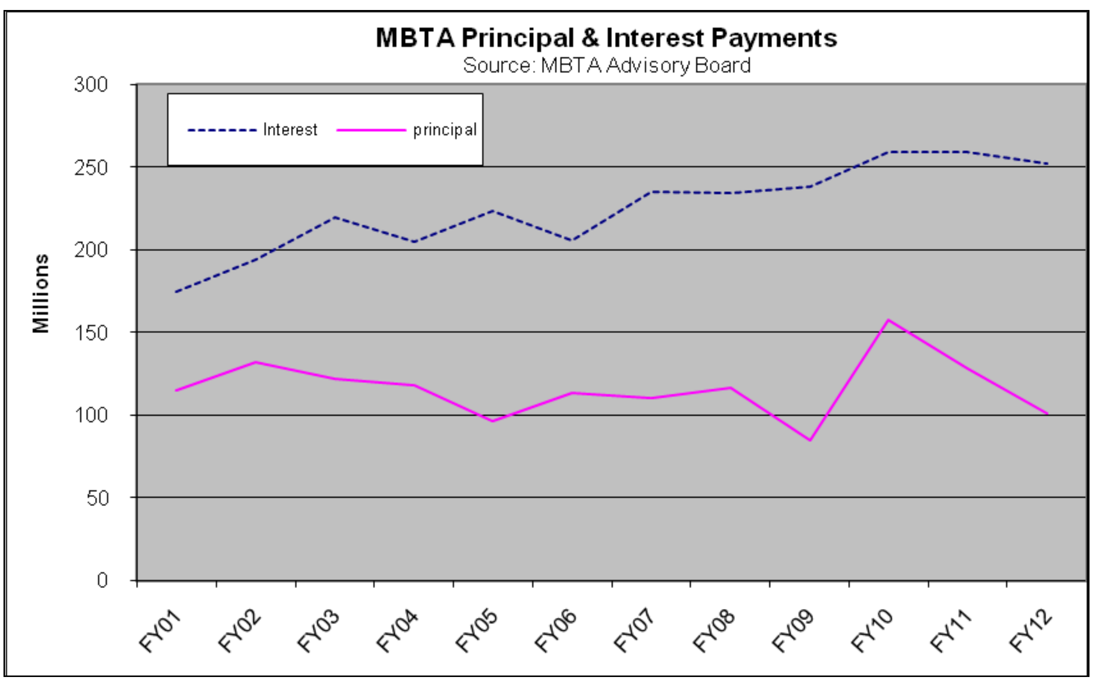
B4-6: Financial Service Charges

This 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. It is funded at the same amount as in FY10 and FY11.

C. Debt Service

DEBT SERVICE	FY11 Budget	FY12 Budget	Δ $ (11-12)	Δ % (11-12)
Interest (All)	258,987,553	252,150,723	(6,836,830)	-2.64%
Principal Payments	128,019,218	100,727,107	(27,292,111)	-21.32%
Lease Payments	17,818,449	9,306,981	(8,511,468)	-47.77%
Total	404,825,220	362,184,811	(42,640,409)	-10.53%

Debt service is projected to be $42.6 million less (10.53%) than it was in FY11. This is driven by a $27.3 million reduction in principal payments, and an $8.5 million deduction in lease payments. Lease payments are contractually structured, and so this decrease was expected. The decline in principal payments, however, was not. The Authority had expected to pay $187,087,962 in principal in FY12, a difference of $86,360,855. Of this $33,160,619 relates to the debt restructuring, and $53,200,236 comes from payments related to the parking securitization deal.



Despite these actions the divergence between principal and interest paid continues to be headed in the wrong direction. Any homeowner knows that only principal payments remove debt over time. Yet, as the chart above details, the amount paid to interest continues to rise, while the amount going to principal continues to trend downward. When the MBTA restructures debt, it changes the amount of principal it pays, but not the interest which is fixed. If this trend continues it is not our grandchildren, but their children who will be forced to pay off our debts.

4. ALTERNATIVE

The FY12 budget asks the citizens of this Commonwealth to accept the sale or long-term lease of capital assets to fund operations, the forgoing of long-term parking revenue for short term gain, and the restructuring of debt yet again. Any one of these things in and of themselves is unpalatable, yet in combination are particularly odious. A healthy organization would never resort to such tactics. And yet no good choices exist, as the proverbial low hanging fruit has long-since been picked.

While the committee generally opposes the sale of capital assets to fund operating costs, instead favoring that their proceeds go towards the Authority's $3 billion unfunded state-of-good-repair capital backlog, given the magnitude of the FY12 deficit, and the constraints caused by a commitment to no fare increases or service reductions, this action seems to be the least obnoxious available choice. Furthermore, the North Station garage is not a commuting asset, and few, if any MBTA commuters park there to access public transportation. For this reason the committee reluctantly endorses this action, although it cautions that the FY13 operating deficit is currently projected at over $180 million, and next year this action will not be available.

The committee then must choose which is more harmful- parking securitization or continued debt restructuring. Parking securitization is another example of the illness pervading the MBTA as an organization. No healthy public enterprise, with the MBTA's predicted future operating and capital deficits would willingly forgo $450 million in long term revenue for $300 million in the short term. MassDOT's own Transportation Advisory Committee, a body created to advise the Secretary and Board of Directors, has publically expressed "grave reservations regarding the plans to securitize the parking revenues”[1]. In FY12 the parking securitization deal will see the MBTA forgo $18.7 million in parking revenue, to realize $52 million in debt payments, a swing of $33.3 million.

And yet debt restructuring is no less harmful, especially in light of the $67.9 million in restructuring built into the FY11 budget. To close the FY12 deficit, after selling North Station, and after the parking securitization deal, the T still plans to restructure $33 million in debt principal. Last year the Advisory Board called upon the Authority and all of MassDOT to stop restructuring debt, and adding to the negative legacy we are leaving our children, grandchildren, and now great grandchildren. Our addiction to debt must stop somewhere. The Board understands the constraints under which MBTA staff were asked to craft this budget (no fare increase, no service cuts) led them to these harmful choices, yet the committee believes it is possible to achieve balance without further debt restructuring, while accepting the sale of North Station and the securitization deal, albeit with great reluctance. The way the committee proposes to do this is through further implementation of the spirit of the Transportation Reform Act of 2009 by more holistically integrating the State’s surface transportation function.

Step 1: Merge the MBTA Transit Police into the Massachusetts State Police (MSP), and integrate the security of the Commonwealth’s surface transportation assets under one organization, the State Police. This action will shift $36.6 million in costs from the MBTA to the Commonwealth’s Executive Office of Public Safety. Two MassDOT agencies, the Highway Division Turnpike branch, and MassPort Logan airport branch already use State Police for security. These entities pay the State Police an annual fee for service, and in return are provided with their own Troop to manage security. MSP Troop E provides security along the Massachusetts TurnPike under the supervision of the MassDOT Highway Division, as it did when the TurnPike Authority existed. Troop F provides security at Logan Airport and at other MassPort property. The committee proposes that the MassDOT Board work with the Secretary of Transportation, Secretary of Public Saftey, MSP Colonel, and the Governor to create MSP Troop T. The members of State Police Troop T would provide security at MBTA property and at all rolling stock within the inner core. Security on commuter rail outside the inner core, and at

[1] Statement of MassDOT Transportation Advisory Committee(MassTAC) regarding the MBTA Parking Revenue Securitization and North Station Parking Garage Proposals: Letter to Secretary Mullen March 15, 2011

suburban train stations would become the responsibility of existing State Police troops based on geography. The MSP will be asked to absorb the bulk of the MBTA Transit Police force, as they were in the early 1990's when the Capital Police, MDC Police, and Registry Police were merged into the MSP. As the safety and security of the traveling public is at the heart of the MassDOT mission, the committee believes that the MassDOT budget, and not the MBTA budget, should cover whatever annual payment the MSP require for security, just as the MassDOT budget currently does for TurnPike security.

Savings will accrue by shifting the wage, fringe benefit, and materials costs from the MBTA budget to the MassDOT budget. The capital budget will be impacted as the Authority will lose some Department of Homeland Security grant funds earmarked for transit security, but this will not affect the operating budget, and the State itself may be eligible to apply. Capital savings will accrue as million in future police equipment purchases will shift to the Commonwealth which currently makes capital purchases on behalf of the MSP. No police officer positions are expected to be eliminated, although some support staff positions will probably be lost as the MSP absorbs the MBTAPD. The ten year projected savings are $453,252,316

Step 2: Transfer Ferry Subsidy Costs to the Port of Boston (MassPort)

The cost of operating the Hull, Hingham, Quincy, and Charlestown ferries is projected at $4,123,820 in FY12. These ferries operate exclusively in Boston Harbor, and seem more suited to the mission of the Port of Boston than to the MBTA. MassPort already works closely with the MBTA to coordinate shuttle bus service from its Logan Airport dock, and via its annual port operations is probably the most experienced water craft operations manager in New England. Furthermore, the proximity of the existing ferry routes to Logan Airport, and to existing MassPort property suggest that it can find synergies and efficiencies via its other operations that the MBTA simply cannot. Furthermore, as one integrated agency under MassDOT, it seems logical to shift these costs to MassPort now to further push the reform agenda forwards.

The net savings to the MBTA in FY12 are projected to be $4.2 million in FY12, assuming the cost of the operations contract, one MBTA employee and associated RIF costs. Over a decade the projected savings are estimated at $89.7 million.

Step 3: Transfer Private Carrier and Suburban Bus Costs to other, more logical MassDOT entities

The MBTA subsidizes private carriers to operate contracted shuttle buses in Winthrop, Canton, Medford, & Hull. It also subsidizes suburban bus operators to operate additional service in the towns of Bedford, Beverly, Burlington, Dedham, Lexington, and the Mission Hill section of Boston. These routes are important to the people of those communities who use them, and should be maintained if possible. However, the precarious nature of the MBTA's budget suggests that the future is not bright for these services. Yet, a simple analysis of their locations seems to indicate that more logical operators already exist to support their operations within the MassDOT family. For instance, the Winthrop service operates 2 buses running around the Winthrop peninsula connecting to the Blue Line. Given Winthrop's proximity to Logan, the preponderance of MassPort employees who live there, and MassPort's desire for good neighborly relations with this community, and its experience operating shuttle buses, it seems logical to suggest that MassPort pick up the $1.2 million FY12 cost of providing this service. Furthermore, as the Hull bus links the Pemberton Point ferry terminal, with the Nantasket commuter rail station and town of Hull, it makes sense to also suggest the MassPort pick up the $175.059 FY12 cost of this service as well once ferry operations are transferred.

MassDOT operates a successful coordination and subsidization program through its MassRIDES office to fund local Transportation Management Associations to operate shuttle bus services in the areas currently served by most of the remaining private and suburban routes. Through MassRIDES existing TMAs currently subsidized by MassDOT can be encouraged, or required to provide equal or better service than those currently offered by the MBTA under this program. For instance, the ABC TMA already operates in Boston can could pick up the Mission Hill bus, as could the North Shore TMA for Beverly, Neponset Valley TMA for Canton and Dedham, and the 128 Business Council for Burlington, and Lexington. All told shifting the cost of private and suburban bus operations to more logical hosts would save the MBTA about $2 million in FY12. Over the next ten years the projected savings are $86.4 million.

Step 4: Restructure the deal with MassPort and stop paying them for Airport use

As discussed above the MBTA pays MassPort under a formula whenever customers board the Silver Line at Logan Airport. This deal must be changed in the name of reform and under the spirit of Reform Act. MassPort benefits disproportionately from the public transportation investment. The T delivers millions of customers to the airport annually at no charge to the Port Authority, or the airlines who benefit from it. Furthermore, thousands more MassPort employees take the T to work at its facilities, reducing congestion in MassPort parking lots, and structures. The MBTA also provides service to MassPort property in the South Boston waterfront at no charge to MassPort. And yet the T pays MassPort when citizens board the Silver Line at the Airport? Eliminating the payment will save the MBTA $1.1 million in FY12, and $12.5 million over 10 years. It is also the fair thing to do.

These 4 steps to continue the MassDOT reform envisioned in the Transportation Reform Act will not only further integrate surface transportation in Massachusetts, while breaking down artificial silos to service delivery. They will also save the MBTA an estimated $44 million in FY12, and $641.8 million over the next 10 years. Furthermore, if implemented quickly by MassDOT these savings will be more than enough to close the remaining FY12 budget deficit without resorting to debt restructuring. While not enough to entirely close the deficit, the committee believes these sort of truly innovative, synergistic, and holistic approaches to savings lie at the heart of Transportation Reform. The committee and staff have many more ideas, and we look forward to working with the Board and Administration to see these and all other realistic reforms implemented.

MBTA Advisory Board Plan	
Deficit	(118,375,194)
North Station (net)	42,048,535
Parking Securitization (net)	33,306,712
Police Reallocation	36,551,078
Private Carrier Reallocation	2,083,988
Ferry Reallocation	4,199,631
MassPort Payment Restructure	1,122,184
Total	**936,934**