

MBTA Advisory Board
FY15 Massachusetts Bay Transportation Authority
Operating Budget Oversight Report

FINAL REPORT
Offered by the
Finance Committee
April 8th, 2014

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The MBTA Advisory Board is an independent statutory organization which represents the interests of the 175 cities and towns in the MBTA service district. Each year these municipalities contribute over \$160 million in subsidies to the MBTA via municipal assessments.

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**Massachusetts Bay Transportation Authority
FY15 Statement of Revenue and Expenses**

REVENUE	FY14 Budget	FY15 Budget Request	FY15 % Incr/Decr over FY14 Budget	FY15 \$ Incr/Decr over FY14 Budget	
Operating Revenues					
Revenue from Transportation	569,188,335	597,647,752	5.0%	28,459,417	
Other Operating Revenue	45,370,348	48,527,035	7.0%	3,156,687	
Total Operating Revenue	614,558,683	646,174,787	5.1%	31,616,104	
Non-Operating Revenues					
Dedicated Local Assessments	157,149,865	160,135,712	1.9%	2,985,847	
Dedicated Sales Tax	799,295,175	810,485,307	1.4%	11,190,133	
Contract Assistance	160,000,000	160,000,000	0.0%	0	
Additional Assistance	118,059,456	135,100,000	14.4%	17,040,544	
Other Income	17,492,276	30,721,416	75.6%	13,229,140	
Total Non-Operating	1,251,996,772	1,296,442,435	3.5%	44,445,664	
TOTAL REVENUES	1,866,555,455	1,942,617,223	4.1%	76,061,767	
EXPENSES					
Operating Expenses					
Wages	432,264,428	491,594,413	13.7%	59,329,985	
Fringe Benefits					
Pensions	71,047,148	76,585,293	7.8%	5,538,145	
Healthcare	109,687,835	106,779,626	-2.7%	(2,908,209)	
Group Life	702,045	584,316	-16.8%	(117,729)	
Disability Insurance	13,459	0	-100.0%	(13,459)	
Workers' Comp	10,313,118	11,170,527	8.3%	857,409	
Other Fringe Benefits	238,192	234,171	-1.7%	(4,021)	
Total Fringe Benefits	192,001,797	195,353,933	1.7%	3,352,136	
Health & Welfare Fund	0	10,436,865	#DIV/0!	10,436,865	
Payroll Taxes					
FICA	33,068,229	37,606,973	13.7%	4,538,744	
Unemployment	1,892,886	1,320,087	-30.3%	(572,799)	
Total Payroll Taxes	34,961,115	38,927,060	11.3%	3,965,945	
Materials, Supplies and Services	223,861,869	234,897,565	4.9%	11,035,696	
Casualty and Liability	15,728,736	16,566,513	5.3%	837,777	
Purchased Commuter Rail Service	387,616,249	384,346,300	-0.8%	(3,269,949)	
Purchased Local Service Subsidy	130,304,027	137,185,759	5.3%	6,881,732	
Financial Service Charges	5,990,000	5,990,000	0.0%	0	
Total Operating Expenses	1,422,728,222	1,515,298,409	6.5%	92,570,187	
Debt Service Expenses					
Interest	239,787,256	240,945,845	0.5%	1,158,589	
Principal Payments	198,982,899	178,695,803	-10.2%	(20,287,096)	
Lease Payments	5,057,079	4,296,777	-15.0%	(760,302)	
Total Debt Service Expenses	443,827,234	423,938,425	-4.5%	(19,888,809)	
TOTAL EXPENSES	1,866,555,456	1,939,236,834	3.9%	72,681,378	
Net Revenue	(0)	3,380,389	Recovery ratios	without debt service with debt service	
Transfer			Revenue	44.7%	34.9%
			Fare	39.4%	30.8%
NET Revenue in Excess of Expenses*	(0)	3,380,389	Way Forward - FY15	33.0%	

1. BUDGET OVERVIEW

The MassDOT/MBTA Board of Directors met on March 12, 2014 and voted to send their preliminary FY15 Budget to the MBTA Advisory Board for its consideration. A subcommittee of the Board of Directors, the Standing Committee on Finance and Audit met on March 25, 2014 to include additional information that was not available when the full Board of Directors met. Under the law, the MassDOT/MBTA Board of Directors must approve a budget by April 15th of the calendar year. FY15 Budget version before us is the one discussed at the March 25th meeting. That budget differs from the one approved on March 12th in a few ways: it includes a Certified Sales Tax number, it accounts of \$323,613 in Cape Flyer revenues, it included healthcare premiums for the proposed 284 positions and it includes \$5m in savings due to the new RIDE Contract.

EXPENSES	FY14 BUDGET	FY15 BUDGET REQUEST	FY15 % OVER/ UNDER FY14	FY15 \$ OVER/ UNDER FY14
WAGES	432,264,428	491,594,413	13.7%	\$59,329,985
Fringe Benefits	192,001,797	195,353,933	1.7%	3,352,136
Total payroll Taxes	34,961,115	38,927,060	11.3%	3,965,945
MATERIAL SUPPLIES AND SERVICES	223,861,869	234,897,565	4.9%	11,035,696
Casualty and Liability	15,728,736	16,566,513	5.3%	837,777
Commuter Rail	387,616,249	384,346,300	-0.8%	(3,269,949)
Local Service Subsidy	130,304,027	137,185,759	5.3%	6,881,732
Financial Service Charges	5,990,000	4,296,777	-15%	(760,302)
DEBT SERVICE	443,827,234	423,938,425	-4.5%	-19,888,809
TOTAL EXPENSES	1,866,555,455	1,939,236,834	3.9%	72,681,378

The Wage line item increase represents a combination of negotiated wage increases and an overall increase in headcount. The \$59.3 million increase in this line item is 81.6% of the overall increase over the FY14 Budget. Other increases include the creation of a Health and Welfare Fund and other benefit increases totaling \$13,789,001. The Health and Welfare Fund was part of the Arbitration Award. In addition to the Headcount increase, the Authority budgeted more flexibility in maintaining its fleet and other equipment by increasing Materials, Supplies and Services by \$11,035,696. The hope is that the new approach to fleet and equipment maintenance thru increase spending on

maintenance personnel, materials and services will result in greater availability of vehicles for revenue service. The total increase in spending in FY15 over FY14 is \$72,681,378.

Materials Supplies and Services

The increase in this line item reflects the Authority’s intension to move more of the maintenance of revenue vehicles in house as part of the yearly operating budget and out of the capital budget, where such items appeared under the category of mid-life overhauls. With the increased in headcount discussed below, the MBTA is adding addition funds in the service category to fund these enhanced maintenance programs.

Materials Supplies and Services FY13-FY15	FY13 Actual	FY14Budget	FY15Budget
Services			
Postage	191,745	162,487	162,487
Copiers	467,499	375,000	275,000
Utilities-all	46,035,412	47,171,121	46,033,082
Cleaning Contracts	21,150,317	19,829,379	18,784,733
Building Rent	264,575	2,813,894	2,813,894
All Other Services	47,734,873	69,028,528	77,683,353
Materials			
Fuel-all	25,486,662	28,268,499	27,788,921
Jet Fuel	246,785	700,000	450,000
Uniforms	1,706,122	2,206,590	2,330,069
All Other Materials and Supplies	57,971,423	53,306,372	58,576,025
Total	201,255,413	223,861,870	234,897,565

The FY15 Budget also reflects 4.1% increase in total revenues. Both the dedicated sales tax and the Assessments from Cities and Towns are increasing, however they are well below the 2.5% predicted growth. Assessments will rise 1.9% over the previous year to \$160,135,712. Dedicated sales tax will increase 1.4% to \$810,485,307. The main sources of this increase are in the Revenue from Transportation line item due to the proposed 5% increase in fares and the appropriation of \$135,100,000 in “Additional Assistance”. A 5% increase in fares is expected to bring in an additional \$28,459,417. The Additional Assistance commitment was included in the recent Transportation Funding Bill. This commitment, combined with the \$160,000,000 in Contract Assistance means that the Legislature is appropriating \$295,100,000 or 15% of the total MBTA budget as part of the annual State Budget.

REVENUES				
Revenue	FY14 Budget	FY15 Request	FY15 % over/under	FY15 \$ over/under
Revenue from Transportation	569,188,335	597,647,752	5%	28,459,417
Other Operating Revenue	45,307,348	48,527,035	7%	3,156,687
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Dedicated Sales Tax	799,295,175	810,485,307	1.4%	11,190,133
Contract Assistance	160,000,000	160,000,000	0	0
Additional Assistance	118,059,456	135,100,000	14.4%	17,040,544
Other Income	17,492,276	30,721,416	75.6%	13,229,140
Total	1,866,492,455	1,942,617,222		76,061,768

Recent Legislation changes to the law limit the fare increases to the MBTA to 2.5% a year. The MBTA has moved to 5% fare increases every two years. The idea of small, regular fare increases is an idea whose time has come. The MBTA has included this revenue in its budget proposal, however they have not yet begun the required public process to make the fare change a reality. The Advisory Board believes that the Authority will follow through on the intended increase. The study of the proposal by the Central Transportation Planning Staff (CTPS) is complete and the public process is scheduled. This approach has been recommended by a variety of transit advocates, and the Legislative intent of the fare section seems to support this approach. The Spreadsheet model prepared by CTPS projects the impact on the MBTA finances as follows:

Mode	Existing Fare Revenue	Revenue Change \$	Revenue Change %	Existing Ridership	Ridership Change	Ridership Change %
Bus	\$105,816,930	\$5,692,577	5.4%	117,087,612	-1,167,676	-1.0
Heavy Rail	185,661,914	8,623,282	4.6	162,113,109	-1,573,044	-1.0
Light Rail	73,156,619	3,323,908	4.5	78,532,906	-831,085	-1.1
Commuter Rail	183,512,995	7,674,689	4.2	35,323,276	-247,526	-0.7
Ferry	8,504,104	390,059	4.6	1,256,705	-19,701	-1.6
THE RIDE	6,997,234	-1,002,010	-14.3	1,936,098	119,219	6.2
Parking	39,109,795	-202,923	-0.5	7,166,047	-35,818	-0.5
Total	602,759,591	24,499,582	4.1%	403,415,753	-3,755,632	-0.9%

Source: Potential MBTA Fare Changes in SFY 2015: Impact Analysis by CTPS

Discussion

The MBTA is in the best financial shape since the early years of Forward Funding. The Massachusetts Legislature recognized that the tools available to the MBTA to remedy their financial situation (i.e. service cuts, significant fare increases, selling off assets and capitalizing revenue streams, as the MBTA did with some parking revenues) would never bring the transit system to financial stability. The Legislature endorsed the concept that the Commonwealth would be financially responsible for both the physical expansion of the transit system and for the financial stability of MBTA operations. The State added funding to the MBTA with only minor strings attached; the MBTA cannot raise fares more than 2.5% a year, the MBTA must achieve revenue recovery ratios greater than 33%, and it must aggressively pursue other revenues in advertising, partnership with business sponsorships. These requirements are not new ideas; they have been recommended many times in the past from sources like the Transportation Finance Commission, the Blue Ribbon Report and previous MBTA Advisory Board Reports. With that, MBTA will receive \$135.1m in additional funding this year and a commitment from the Legislature for additional funds for the next 5 years.

With the hole in its financial model filled, the Authority now has the breathing space to pursue additional partnership opportunities. As most Advisory Board members know, these agreements rarely result in significant money to the MBTA. The effort to find additional finance opportunities, provide additional service like the Cape Flyer and the Night Owl, and to pursue greater efficiency in operations with the resources available will be a challenge. Providing regular service will also be a challenge because the budget crisis of the last several years slowed investment in critical infrastructure, especially on the heavy rail lines, where performance and reliability has suffered. The Authority has focused on rider amenities like countdown clocks, better communication and support for cell phone and tablet application that keep riders informed. Real, tangible, measurable improvement in rush hour performance is years away. The good news is that the process for purchasing new Red Line cars, a new Orange Line fleet, a significant number of new buses and additional Green Line cars for the Somerville expansion has begun. The bad news is that these assets take years to construct and critical problems with signals, communications and power still await funding. Things may well get worse before they get better. Having said that, we can expect improvements in Commuter Rail, as the new locomotives and coaches are brought into service this year and next. While awaiting this capital investment, the MBTA is looking to increased headcount to bolster service and reliability.

Personnel costs consume 50% of the FY15 budget. The Authority and its largest labor union went to binding arbitration and the award to the union was significant. There was a retroactive award of 9% across the board and an additional 1% for the next fiscal year. All personnel are now insured through the Group Insurance Commission (GIC) and this fact results in significant saving in health care costs for the Authority. Even the creation of the Health and Welfare Fund which requires the Authority to fund types of insurance that the GIC does not offer does not impact the overall health care spending too negatively. Given the scale of the union victory with binding arbitration, the Advisory Board calls again on the Authority to better manage its workforce and pay closer attention to attendance and performance issues. Both sides should work together to keep the transit service on time and on schedule.

In the past the only real option the Authority had to control total personnel costs was to limit headcount growth. The cost of the limit on headcount was significant overtime costs. Headcount at the MBTA has been stable or declining over the past several years. Often, the number of vacancies within the budgeted headcount could be significant at different points of the year. The management of the Authority was prudent in holding these positions vacant, given that ongoing budget issues the Authority had faced in recent years. There was a price to be paid for this conservative approach. The Authority made do with fewer operators and maintenance people and the ratio of management to operations is one of the lowest, if not the lowest in the country. This impacted operations and oversight. Now that the State has committed additional funds, the Authority now seeks to add 284 positions that will allow them to:

Run the Night Owl Service Pilot program	109
Extend Off Peak Bus Service	24
Better Monitor the Commuter Rail Contract	32
10 Hour Safety Rule + Cover List	26
Compliance with Environmental and other laws	6
Vehicle and system maintenance	63
IT and Training	18
Administrative Support	6

The \$73.1m of additional wages and fringe costs in this year's budget are somewhat offset by \$2.9m in healthcare savings, \$3.2m in Commuter Rail savings and \$19.8 in reduced debt service costs. The hope is that the focus on better administration, better maintenance and operator availability will result in more reliable service. The reduction

in debt service is particularly heartening. In the Early 2000's, the Authority's debt consumed over 25% of available funds and the MBTA had no cash to offset that growth in debt. The original plan was that Forward Funding would allow the MBTA to institute PayGo capital spending, which would help reduce overall debt service spending. With care management of debt service growth and help from the Commonwealth, the Authority may finally be able to use cash for critical capital needs. The Authority intends to use net revenue to address critical accessibility issues in the system. There will be calls to use any net revenues to reduce fares or provide additional benefits for one impacted group or another. The MBTA Advisory Board supports the MBTA's use of PayGo funds for accessibility and urges the Authority to hold firm in this approach.

Additional issues that interest the MBTA Advisory Board are the return to service levels on commuter rail and legislative efforts at greater transparency in the MBTA Pension Fund. Regarding Commuter Rail, we note that several communities, including Needham and those communities served by the Old Colony Lines (including Plymouth/Kingston and the Greenbush branches) lost weekend service. At a time when the MBTA is expanding service to other communities served by commuter rail and is anticipating savings in the Commuter Rail contract, we feel it is entirely appropriate for communities that lost service due to budget reasons to be first in line when budget stability allows service expansion. Communities who lost service have organized themselves and speak with one voice on the need for service restoration. In conjunction with this issue we would ask the MBTA to revisit their policy that doubled the parking fee at the Commuter Rail parking lots and to reexamine the parking fees generally at the Commuter Rail lots. The MBTA Advisory Board is concerned that the revenue from the fee increase resulted in a minimal, if any, net gain (diminished use) and does not encourage additional commuters. This issue is not going away and the MBTA should look at this request again.

When it comes to issues that are not going away, transparency in the MBTA Pension Fund leads the list. The Attorney General, the Legislature, the Governor, both daily newspapers and a host of opinion leaders have called for greater transparency. This Administration, and especially the MassDOT Board member and the MBTA staff who sit on the Pension Fund Board, have done the right thing and voted for transparency. It is time for the other Pension Board members to read the writing on the wall and open up, before they make the Governor and Legislature, or perhaps even the courts do it for them.

We support the overall approach the MBTA has taken this fiscal year. The MBTA Advisory Board hopes that FY15 marks the beginning of a period of fiscal stability at the MBTA. We plan to continue to work with the MBTA to improve fiscal stability, on time performance and reliability for the users of the system and for the communities served by the MBTA.