



MBTA FY 2024 Operating Budget Oversight Report

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MBTA Advisory Board Operating Budget Oversight Committee

Adopted and accepted by the full MBTA Advisory Board
May 16, 2023

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ADVISORY BOARD STAFF

Brian Kane
Executive Director

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The MBTA Advisory Board is a government body organized under Massachusetts General Law to oversee the finances, operations, and activities of the Massachusetts Bay Transportation Authority. The Advisory Board represents the interests of the 176 cities and towns in the MBTA service district. In FY 2024 these municipalities will contribute over \$188 million in subsidies via municipal assessments to the MBTA.

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FY2024 STATEMENT OF REVENUE & EXPENSE

(\$ in millions)

| REVENUE | FY 2022 Actuals | FY 2023 Budget | FY 2024 Budget |
|--|------------------|------------------|------------------|
| Fares, all modes | 322.3 | 474.3 | 418.5 |
| Own-Source | 60.1 | 82.6 | 82.4 |
| Total Operating Revenue | \$382.4 | \$556.9 | \$500.9 |
| Dedicated Sales Tax | 1,347.5 | 1,325.1 | 1,463.5 |
| Dedicated Local | 179.0 | 183.8 | 188.4 |
| Assessments Other | 40.0 | 13.0 | 22.9 |
| Income | 948.0 | 32.0 | 31.4 |
| Federal Funds | 127.0 | 187.0 | 441.4 |
| State Contract Assistance | \$2,641.6 | \$1,740.9 | \$2,147.4 |
| Total Non-Operating | | | |
| TOTAL REVENUES | \$3,024.0 | \$2,297.8 | \$2,648.3 |
| EXPENSES | | | |
| Regular Wages | 488.1 | 550.8 | 639.7 |
| Overtime | 50.7 | 43.2 | 44.3 |
| Total Wages | \$538.8 | \$594.0 | \$684.0 |
| Pensions | 123.9 | 152.4 | 154.3 |
| Healthcare | 102.2 | 104.1 | 107.2 |
| Health & Welfare Fund | 15.2 | 14.4 | 19.6 |
| Other Fringe | 12.8 | 15.0 | 15.5 |
| Payroll Taxes | 44.8 | 52.0 | 56.0 |
| Total Benefits & Taxes | \$298.8 | \$337.9 | \$352.7 |
| Materials | 46.1 | 66.0 | 74.0 |
| Services | 148.0 | 200.7 | 259.2 |
| Fuel | 19.0 | 23.1 | 19.6 |
| Utilities | 43.4 | 40.6 | 61.2 |
| Contract Cleaning | 32.0 | 35.1 | 40.0 |
| Materials and Services | \$288.5 | \$365.5 | \$453.9 |
| Insurance | \$19.3 | \$29.0 | \$34.3 |
| Purchased Commuter Rail Service | \$468.5 | \$503.5 | \$522.7 |
| - Fixed Price | 343.6 | 353.9 | 364.5 |
| - Extra Work & Services | 70.1 | 99.0 | 107.0 |
| - Fuel | 43.4 | 38.8 | 39.3 |
| - PRIIA (NECC) | 11.4 | 11.8 | 11.8 |
| Purchased Local Service Subsidy | \$114.4 | \$148.1 | \$152.4 |
| - THE RIDE | 96.7 | 126.2 | 127.1 |
| - Ferry Services | 14.7 | 18.7 | 21.7 |
| - Other LSS | 3.0 | 3.3 | 3.6 |
| Financial Service Charges | \$5.8 | \$9.0 | \$11.1 |
| Total Operating Expenses | \$1,734.0 | \$1,987.1 | \$2,211.2 |
| Debt Interest | 195.2 | 250.4 | 247.3 |
| Debt Principal Payments | 278.6 | 316.0 | 269.6 |
| Total Debt Service | \$473.8 | \$566.5 | \$516.9 |
| TOTAL EXPENSES | \$2,207.8 | \$2,553.5 | \$2,728.1 |
| Net Revenue/Expense | \$816.2 | \$(255.7) | \$(79.8) |
| Transfers in From Other Funds | \$- | \$316.0 | \$261.2 |
| Transfers Out to Other Funds | \$(816.2) | \$(60.0) | \$(181.0) |
| Net Rev/Exp | - | 0.3 | 0.4 |
| Fare Recovery Ratio | 18.6% | 23.9% | 18.9% |

INTRODUCTION AND EXECUTIVE SUMMARY

The MBTA Advisory Board is required by statute to review the MBTA’s operating and capital budgets, and we value the opportunity to participate in this process. The Advisory Board’s Operating Budget Oversight Committee (“Committee”) has done its best to analyze the MBTA proposed FY 2024 budget, however, we only received the full materials on April 28, 2023. Originally, the Authority planned to act on the operating budget on June 8, 2023, but then moved this date to May 25, 2023. A task of this importance requires more time than we were given. We thank our Executive Director Brian Kane and our staff member Amira Patterson for their critical contributions and assistance, without which no report would have been possible. In the future we would like to provide a more comprehensive report, with additional concrete suggestions for the MBTA management, but this would require the draft budget to be ready sooner in order to meet the necessary deadlines for adopting a final budget.

The Committee would like to highlight three specific concerns/recommendations:

- Structural deficit and reliance on one-time funds,
- Risk that ridership will remain well below pre-Covid levels for at least several more years
- Information gaps in the budget submittals which impede effective review

Structural Deficit and Reliance on One-Time Funds

The MBTA’s FY 2024 operating budget is only balanced due to vacancies in hiring and the use of one-time funds. Its structural and cyclical deficit remains, and its long-term prospects the same as usual: unstable. While no fare increases or service cuts are proposed, aggregate passenger counts are still far below pre-COVID levels. More positive news is that this budget more fully represents what it costs the MBTA

to operate public transportation services in the Boston region, and it better funds a robust safety regime. Investments in safety are critically important, and so too is financial sustainability.

The FY 2024 operating budget projects revenues of \$2.65 billion and expenses of \$2.73 billion; the deficit of \$79.8 million is approximately 3% of revenue. There are two large one-time adjustments to close this gap. There was a decision to transfer \$181 million from the operating budget to the capital budget, which can be viewed as an extraordinary expense that makes the total effective deficit \$260.8 million. To cover this amount, the Authority proposes transferring \$261 million from its deficiency fund to the operating budget.

The most recent audited MBTA financial statements (June 30, 2022, p. 22) indicate that reserves (i.e., unrestricted cash and temporary cash investments) were only \$725 million. The ability to make additional large transfers from reserves in future budgets is clearly limited. This emphasizes the need to address the structural deficit.

However, similar deficits appear likely in FY2025 and even FY2026 and FY2027 because expense growth will continue to outpace revenue growth unless ridership increases very sharply relative to recent trends.¹ Committee analysis suggests that headcount vacancies will generate offsets to some degree to these deficits but the vacancies also imply less than desired levels of service.

¹ <https://cdn.mbta.com/sites/default/files/2022-11/20.%20Pro%20Forma%20Presentation%20-%20Fall%20FY23%20-%2011.16.22.pdf>

The FY 2024 budget projects revenue growth of \$350.7 million over the FY 2023 budget, or 15.3%. This growth is driven by strong sales tax receipts (\$138.4 million over FY 2023's budget), and extra state assistance in FY 2024 (\$254 million, although \$181 million of this is earmarked for capital). Operating expenses are projected to grow by \$223.9 million (11%) over the FY 2023 budgeted amount.

Ridership Forecasts

Actual ridership appears to be stuck at the level reached in fall 2021. This is an improvement over the ridership trough during Covid but there is still an enormous decline relative to pre-Covid. Higher ridership is essential for financial sustainability.

The data clearly show the general plateau in ridership. For February 2023, the most recent month, there were 22.6 million fares across all modes (subway, bus, heavy rail, light rail). For February 2022 there were 22.0 million fares. October is typically the peak fare month in the year. In October 2022 there were 28.4 million fares compared with 28.0 million fares in October 2021 (and 49.6 million fares in October 2019, the last pre-Covid October). Overall ridership seems stuck at about 60% of pre-Covid levels.

The revenue model in the FY 2024 budget assumes overall ridership will increase by 9.8%. This seems aggressive. We would like to know the contingency plan if ridership does not reach this level. Ridership is further discussed below.

Information Gaps in Submittals

The Federal Transit Administration's National Transit Database (NTD) has established a common functional classification system for operating expenses (into

vehicle operation, vehicle maintenance, facility maintenance, and general and administrative), and has provided guidance in defining and reporting expenses. NTD also requires reporting of these functions to be made by operating modes, which are also carefully defined. NTD furthermore requires reporting of basic operating quantities (vehicle-miles, vehicle-hours, passengers, passenger miles, and vehicles in maximum service) by mode. MBTA complies with these reporting requirements, so has as processes in place for reporting them. These values can be used both to assess the adequacy of the budgeted amounts in relationship to operating quantities, and to support meaningful peer comparisons with other systems.

It would also be helpful to provide forward-looking projection of these quantities and their associated costs for at least a small handful of years, like New York's MTA. When a major strategic investment (such as South Coast Rail) is coming on line, its budget effects, such as the attributable incremental operating costs, should be set out. Provision of such information on a routine annual basis will make it easier to identify underlying causes of expenditure changes, and will ultimately provide both a basis for time-series analysis and peer comparisons on a common basis.

PROCESS OVERVIEW

The MBTA Board of Directors approved the submittal of the FY 2024 draft operating budget to the MBTA Advisory Board at its April 18 meeting. At that time, the Board of Director's plan was to hold a special meeting on June 8 to receive the Advisory Board's comments and act on the budget in advance of the June 15 statutory deadline. Advisory Board staff scheduled May 16 as the date for the Authority to formally present the operating budget to the full Advisory Board, and then 3

subsequent meetings of the Committee to review and edit this report. The original plan included a full MBTA Advisory Board meeting on June 5 to receive this report and debate it. This report was meant to be submitted and presented to the Board of Directors on June 8. However, on April 21 the Governor appointed 3 new members to the MBTA board of directors. With this, the Authority decided to not host a special meeting in June, and instead to act on the proposed budget on May 25.

To adjust to this new timeline, on April 28 MBTA Chief Financial Officer, Ms. Mary Ann O'Hara presented the draft FY 2024 budget to the Committee. Acting on behalf of the full Advisory Board, the Committee scheduled two additional meetings on May 10 and May 12 to consider this report, edit it, and prepare it for presentation to the full Advisory Board at its meeting on May 16. The committee laments the short period of time available to thoroughly review the \$2.7 billion MBTA operating budget.

REVENUE

The FY 2024 budget projects total revenue of \$2.65 billion. \$556.9 million of this is projected from fares and other operating revenues, with the remaining \$2.15 billion from subsidies. The fare recovery ratio is projected to be 18.7%, with the revenue recovery ratio at 22.7%.² Pre-pandemic, the fare recovery ratio was 42.8% in FY 2018 and 42.7% in FY 2019, with revenue recovery ratios at 48.5% and 48.4% respectively. This means that the MBTA is more reliant on its subsidy sources than

² Fare recovery ratio measures the percentage of passenger trips covered by passenger fares. Revenue recovery ratio measures the same percentage of passenger trips covered by fares plus other operating-related revenue such as parking fees and advertising

before the pandemic. Figure 1 below charts fare recovery ratio at the MBTA from FY 2010 to FY 2024. Note that the percentages shown for FYs 2010 to 2022 are actuals, while those for FY 2023 and FY 2024 are budgeted amounts.

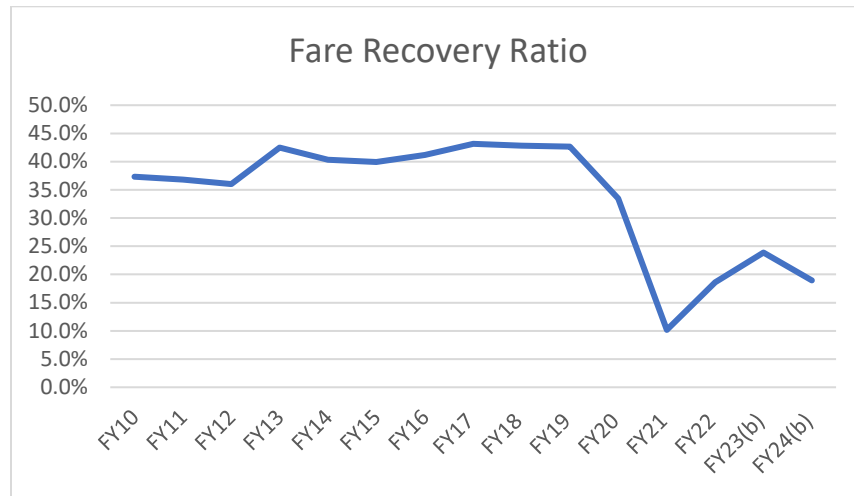


Figure 1: MBTA Fare Recovery Ratio FY 2010 - 2024

Fare Revenue

FY 2024 fare revenue is budgeted at \$418.5 million, a decrease of \$55.8 million compared to the \$474.3 million budgeted in FY 2023. Total actual fare revenue collected was \$243.7 million as of the end of February 2023. Perhaps FY24's projected fare revenue is too optimistic? Table 1 below charts ridership by month for all modes from July 2018 through February 2023. While ridership has increased relative to the start of the pandemic, it is uncertain when pre-pandemic ridership levels will be reached, especially given ongoing issues with reliability. Had the trend in the first half of 2021 continued, ridership levels would be back to pre-COVID levels by now. However, ridership has plateaued as of fall 2021.

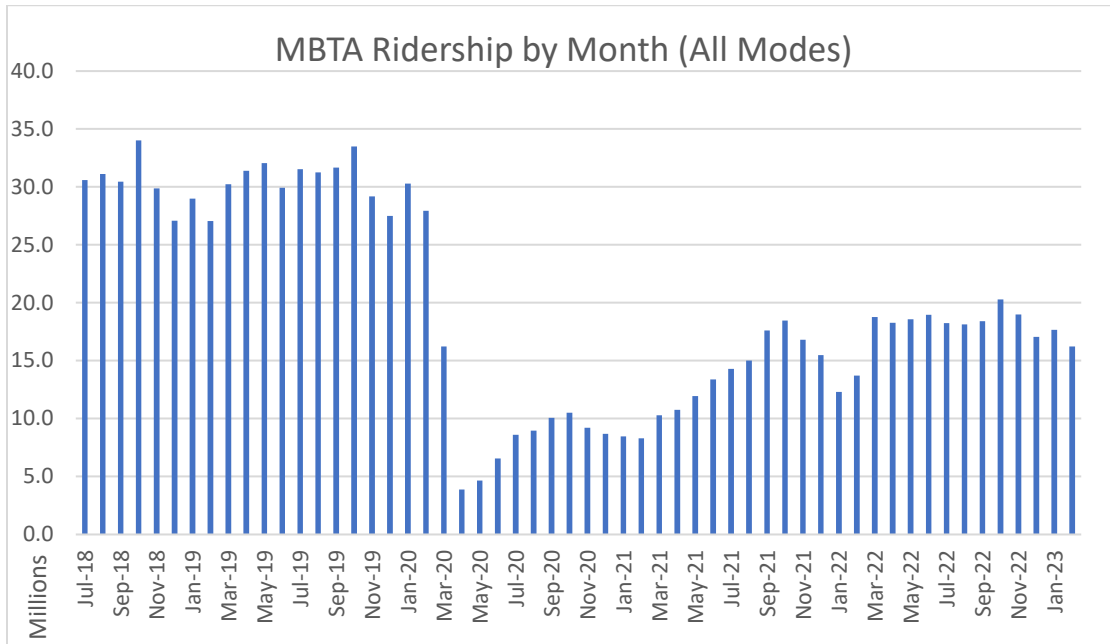


Table 1: Ridership on all modes by month July 201– - Feb. 2023

Furthermore, the Committee wonders if the revenue projections included in this budget consider the likely extent of continuing failures (*e.g.*, continued slow zones, early ends of rail service for early construction access, increased shuttle busing, etc.) There would seem to be some risk here over and above the recovery not lining up with estimates. The Authority must act with vigor to recruit riders by attraction by making public transit the quickest, most frequent, more cost-effective mean of travel in and around the region.

Other Operating Revenues:

Other non-fare operating revenue consists of advertising, parking, real estate concessions (leases on Authority property), and other such revenues. As fewer riders use MBTA stations, revenue from these areas is also projected to decline compared to pre-pandemic levels. \$82.4 million is budgeted as other operating revenue in FY 2024, an amount that is nearly identical to the amount budgeted in

FY 2023. As with fare revenue, the actual amount of other operating revenue collected through February 2023, or 66% of the fiscal year is \$45.5. It is difficult to see how the Authority will realize the remaining \$36.9 in revenue with 4 months remaining in the fiscal year.

Sales Tax:

Under Massachusetts law the MBTA receives a dedicated portion of the 6.25% state-wide sales tax, or the base revenue amount (i.e., the previous year’s amount), whichever is greater. Sales tax revenue to the MBTA for FY 2024 is budgeted at \$1.46 billion, an increase of \$138.4 million over the FY 2023 amount. The sales tax revenue amount is the consensus estimate available to the MBTA in FY 2024, and represents 55.3% of revenue.

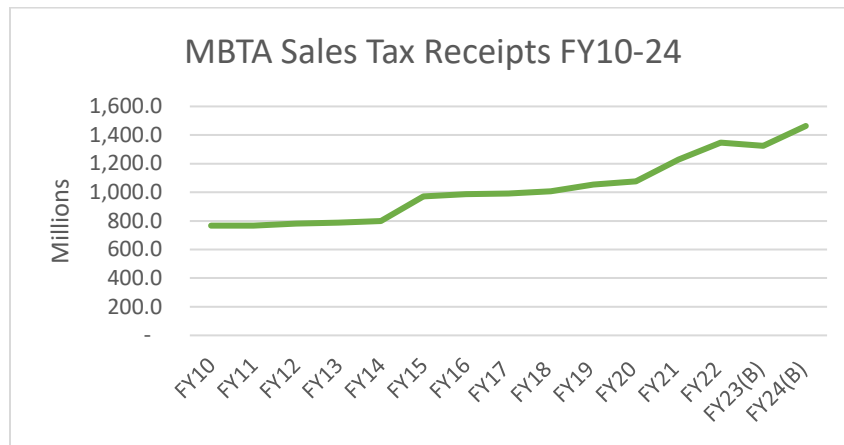


Figure 2: MBTA Sales Tax Receipts FY 2010 - 2024

As Figure 2 above details, unlike in the previous decade, sales tax revenue has steadily increased since FY20. Figure 3 below charts the growth or decline of sales tax year-over-year since 1978.

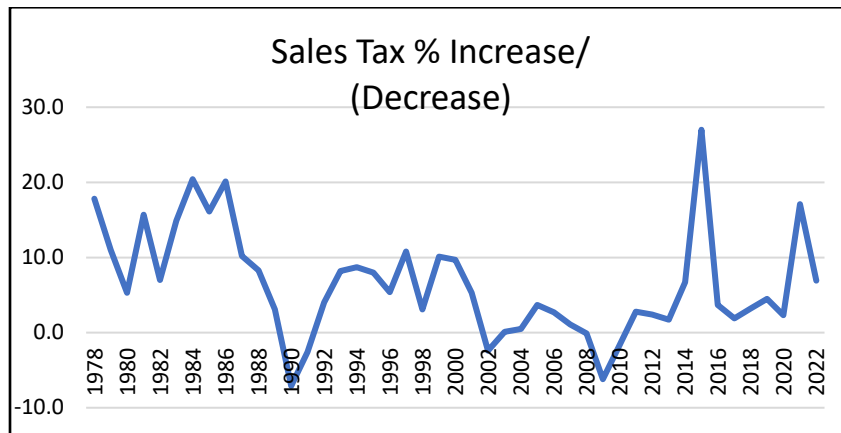


Figure 3: Massachusetts sales tax % change year-over-year 1978-2022.

Source: MBTA Subordinated Sales Tax Bonds Variable Rate Demand Obligations 2022 Series A (10/13/22) p. 33

Assessments:

As authorized under its enabling legislation, the MBTA assesses a fee on the 176 cities and towns that comprise the MBTA Service District. These Massachusetts municipalities each either host an MBTA station or abut a community that does. The total assessments charged to our cities and towns in FY 2024 is budgeted at \$188.4 million, an increase of \$4.6 million over the total assessment amount in FY 2023. This 2.5% increase is the maximum allowed under the state law commonly known as proposition two-and-a-half. The assessment totals are certified by the Executive Office of Administration and Finance.

Federal Funds:

In FY 2024 the MBTA expects to use just over \$31.4 million in one-time FEMA (Federal Emergency Management Agency) reimbursements as part of the operating budget. This amount is just below the \$32 million budgeted in such funds in FY 2023. It is understood that this \$31.4 million represents the last of the federal COVID-19 reimbursements for pandemic related costs borne by the Authority.

State Funding:

The FY 2024 operating budget includes \$441.4 million in gross state assistance. The net amount supporting the operating budget, however, is \$260 million. Of this, the net increase over last year is \$73 million. Each year for the past several years, the state budgets have appropriated \$187 million to the MBTA. In addition to this \$187 million, the FY 2024 amount also includes \$181 million in state funds earmarked for capital programs, \$68 million of previously appropriated state funds to support FTA directives related to safety, and \$5 million in state funds to implement a means tested fare program. This \$5 million is included in the proposed Governor’s, House of Representatives’, and State Senate’s budgets.

OPERATING EXPENSES

Total FY 2024 operating expenses are projected at \$2.21 billion, an increase of \$223.9 million over the FY 2023 budgeted amount. Figure 4 below describes the increase in MBTA operating expenses since FY 2010. The FY 2024 operating expenses are 46% larger than those of a decade ago in FY 2014.

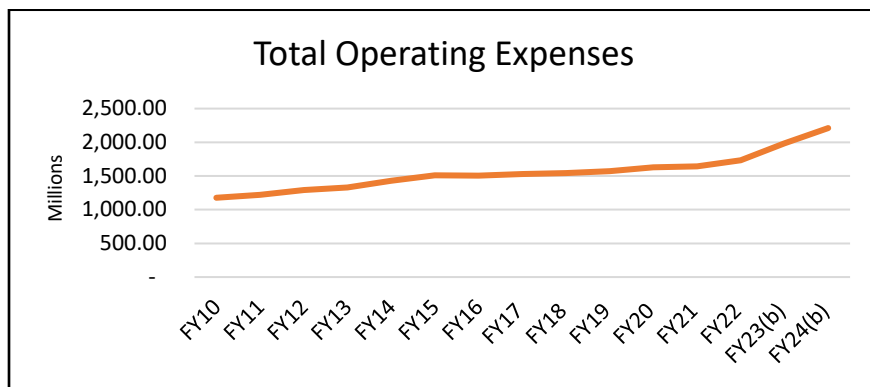


Figure 4: MBTA Operating Expenses FY10-24

Figure 5 below breaks out the proposed expenses by category. Employee costs (wages, overtime, fringe benefits, payroll taxes, and health & welfare fund

contributions) represent the largest category of budgeted spending, at over 38% of spending or \$1.04 billion. After employee costs, the next most expensive spending category is the cost to provide commuter rail service, which is expected to cost \$522.7 million, or 19% of all expenses. Debt costs will consume \$516.9 million, or 18.9% of expenses. The cost of materials, supplies, consultants, insurance, finance charges and other related costs are projected to cost \$499.3 million, or 18.3% of the budget. Finally, the cost to provide The RIDE (the MBTA’s mandated parallel paratransit service), ferry service, and subsidized local private bus services consumes 5.6% of costs or \$152.4 million.

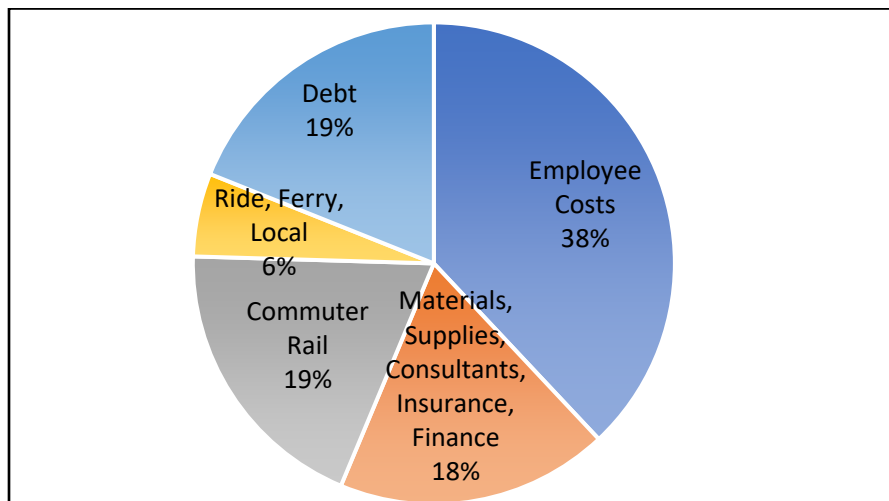


Figure 5: FY 2024 budgeted expenses by category

Employee Costs:

Employee costs (wages, overtime, fringe benefits, payroll taxes, and health & welfare fund contributions) account for over \$1 billion in budgeted expenses in the FY 2024 budget. The budget proposes to support 7,643 positions, 964 more positions than the FY 2023 budget, which itself was 330 positions more than the FY22 budget. Figure 6 below shows the growth in MBTA headcount since FY 2012. It should be noted that as of the end of March 2023, the total number of active

employees was 6,496, a number 1,147 below the FY 2024 budgeted headcount (a 15% vacancy rate). The total number of employees at the same date in 2022 was 6,344, meaning that year-over-year, the actual increase in headcount was only 152. If this hiring trend continues, it would take the MBTA almost 8 years to meet its 2024 headcount target, and likely more as this calculation assumes no retirements, or other separations during that time.

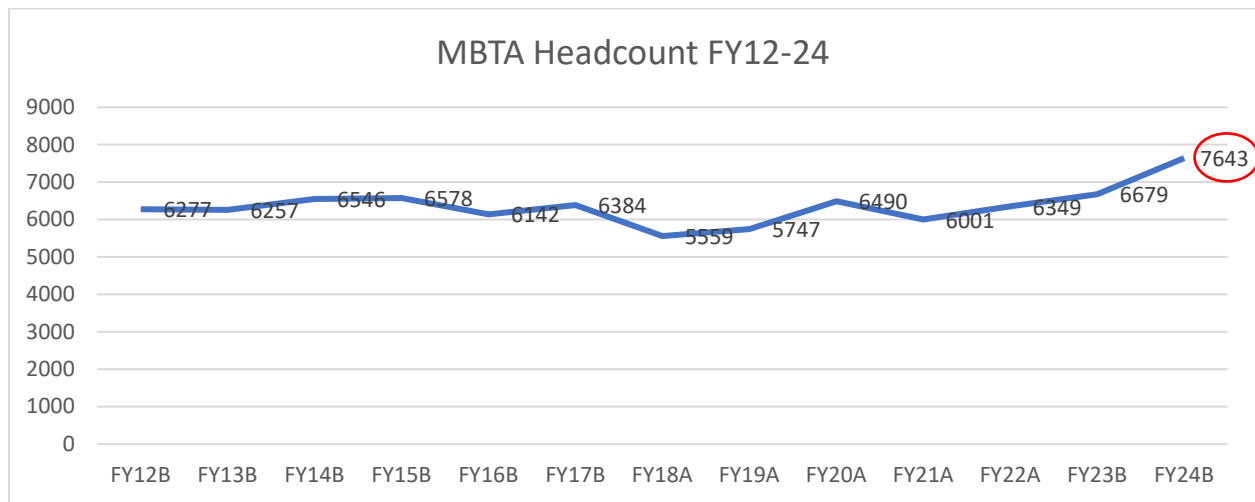


Figure 6: MBTA headcount by year FY 2012 -2023.

As the headcount grows, so too will other employee costs such as employee benefits. The budgeted cost for employee pensions, health insurance, payroll taxes and contributions to the employee health and welfare fund are all up compared to their respective FY 2023 amounts. As stated above, MBTA leadership suggests that these budgeted costs more accurately reflect the true cost to operate the MBTA in a safe, reliable, and frequent manner in 2023 and 2024. Like all those interested in the success of the MBTA, the member communities of the MBTA Advisory Board look forward to seeing, experiencing, and considering empirical evidence that 1,000 extra positions translate to better service.

Materials, Supplies & Services:

Expenses in this category include non-durable goods used on the MBTA fleet, professional services such as engineering and management consultant activities, fuel for MBTA vehicles, utility costs to operate vehicles and facilities, cleaning services for stations, vehicles, and facilities and the cost of uniforms for certain employees. In FY 2024, the cost of these items is projected to rise to \$454 million, or \$1.24 million per day; a 24.2% increase over the FY 2023 budgeted amount.

| Materials, Supplies and Services | FY 2022 Actual | FY 2023 Budget | FY 2024 Budget |
|---|-----------------------|-----------------------|-----------------------|
| Materials | 46.1 | 66.8 | 74.0 |
| Services | 148.0 | 199.5 | 259.2 |
| Fuel | 19.0 | 23.1 | 19.6 |
| Utilities | 43.4 | 40.6 | 61.2 |
| Contract Cleaning | 32.0 | 35.5 | 40.0 |
| MSS Total | 288.5 | 365.5 | 454.0 |

The Authority reports that \$24 million of the proposed \$88.5 million increase is due to an increase in professional service contracts related to the 2022 FTA safety directives. There are questions if these costs will continue forever, or if the need for such an emergency response to safety concerns may eventually end. Other increases are explained as inflation and the usual year-over-year contract increases. For analytical purposes, the costs of insurance and finance charges are also considered in this section. Insurance costs are projected to increase by 18.4% over the FY 2023 budgeted amount. Finance charges, the costs the Authority incurs to borrow money, are budgeted to increase by \$2.2 million, or 24% over the FY 2023 budgeted amount.

Commuter Rail:

The cost to operate the commuter rail contract is budgeted at \$522,600,000 in FY

2024, a 3.8% increase over the FY 2023 budgeted amount. The largest component of these expenses is the contractual fixed price. This budgeted amount is only projected to increase by 3% compared to FY 2023. Other components include extra work, fuel, and PRIIA. The extra work amount is expected to increase by 8.1% compared to FY 2023. Fuel costs are budgeted to increase by 1.3% compared to FY 2023, when they increased substantially due to a then-surge in fuel process globally. Passenger Rail Investment & Improvement Act (PRIIA) costs include payments to Amtrak for Northeast Corridor operating, maintenance, and capital costs. The Committee notes that in FY 2024 South Coast Rail service is scheduled to start, and operating costs will depend on the timing of the start of that service, and the particulars of the operating plan. The submittal did not indicate how much of the increase in costs was attributable to this new service.

| Commuter Rail Expenses | FY22 Actual | FY 2023 Budget | FY 2024 Budget |
|-------------------------------|--------------------|-----------------------|-----------------------|
| Fixed Price | 343.6 | 353.9 | 364.5 |
| Extra Work/Services | 70.1 | 99.0 | 107.0 |
| Fuel | 43.4 | 38.8 | 39.3 |
| PRIIA | 11.4 | 11.8 | 11.8 |
| Commuter Rail Total | 468.5 | 503.5 | 522.6 |

Local Service Subsidy:

Costs in this category include THE RIDE, the MBTA’s parallel paratransit service, the Authority’s ferry service, and subsidies to certain cities and towns for small, contracted bus operations. Costs in this category are projected to increase by 2.9% over the FY 2023 budgeted amount. Paratransit costs are projected to increase by only 0.7% compared to in FY 2023’s budget.

DEBT

Debt service payments in the FY 2024 budget are projected at \$516.9 million, compared to \$566.5 million in the FY 2023 budget, a decrease of \$49.6 million. The Authority’s ability to manage its considerable debt is laudable, but being good at debt management in-and-of-itself is not a net positive. The MBTA’s most recent audited financial statements show that as of June 20, 2022 it holds \$5.36 billion in debt principal (June 30, 2022, p. 35). The audited statements also indicate that if the MBTA did not borrow another dollar from the end of June 2022 until 2053, the interest on this debt would cost it an estimated \$2.26 billion in interest, for a total cost of \$7.62 billion.³ These costs must ultimately be repaid from the operating budget.

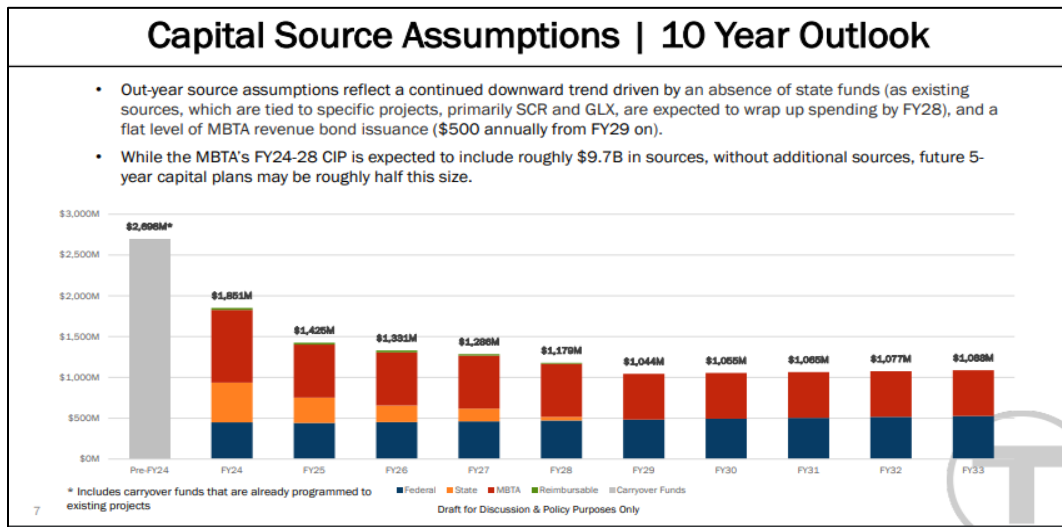


Figure 7: MBTA planned borrowing FY 2024-33. Source: MBTA

However, the MBTA does indeed plan to borrow additional funds between 2022 and 2053. The Authority’s own financial projections suggest it will borrow at least \$500 million annually from 2029 onward (see Figure 7 above). In the FY 2024 budget, debt service costs account for 19% of all spending.

³ <https://cdn.mbta.com/sites/default/files/2022-12/fy22-audited-financial-statement.pdf> p. 35

CONCLUSION

The riding public, cities and towns, and all stakeholders are faced with looming massive budget deficits once the MBTA's reserves are spent. Without a plan of action for this scenario, member communities fear that a return to pre-pandemic service levels will be impossible, and/or that a fare increase may become necessary. Fare increases reduce ridership, and the MBTA's mission must be to attract riders right now. This all is coming at a time when MBTA ridership has not returned, and our analysis suggests that it is unlikely to return anytime soon, especially given recent and well-publicized MBTA difficulties with equipment falling from station ceilings, slow zones, and escalator malfunctions.

New leadership at the MBTA is in place as of April 2023. It is unlikely that new leaders had a large role in crafting the FY 2024 Operating Budget, but they will be tasked with implementing it. MBTA Advisory Board communities hope that this new leadership and the new administration will move aggressively to return the MBTA to a safe, reliable, frequent, and accessible public transportation system capable of attracting ridership to at least pre-COVID levels. To achieve this requires not only a stronger safety-culture, but a financially stable authority.

There is still time to mitigate the worst effects of the looming deficits, but we, as a Commonwealth, must act. The members and staff of the MBTA Advisory Board believe in the mission of the MBTA and value its importance to the regional economy, to equity, to climate, and to the people and communities who depend on public transportation. To this end, we suggest a comprehensive review of the long-term capital and operational needs of the MBTA and the long-term funding



mechanisms available to create a sustain them be initiated as soon as possible. Those in municipal government know that oftentimes structural change takes crisis. The MBTA is in crisis, and while the results of any such analysis and the changes they will yield will likely be painful, but they are necessary. We have tried austerity before, perhaps it is time for a different approach?