



MBTA Advisory Board  
FY20 Massachusetts Bay Transportation Authority  
Operating Budget Oversight Report

REPORT  
Offered by the  
Finance Committee  
April 2, 2019

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177 TREMONT STREET, 4TH FLOOR BOSTON MASSACHUSETTS 02111

PH617.426.6054 FAX617.451.2054

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[www.MBTAADVISORYBOARD.org](http://www.MBTAADVISORYBOARD.org) [pregan@mbtaadvisoryboard.org](mailto:pregan@mbtaadvisoryboard.org)

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**ADVISORY BOARD STAFF**

Paul Regan  
Executive Director

Deborah Gaul  
Executive Assistant

The MBTA Advisory Board is an independent statutory organization which represents the interests of the 176 cities and towns in the MBTA service district. Each year these municipalities contribute over \$170.1 million in subsidies to the MBTA via municipal assessments.

MBTA Advisory Board  
177 Tremont Street, 4<sup>th</sup> Floor  
Boston, MA 02111  
Phone: 617-426-6054  
Fax: 617-451-2054

Email: [info@mbtaadvisoryboard.org](mailto:info@mbtaadvisoryboard.org)  
Website: [www.mbtaadvisoryboard.org](http://www.mbtaadvisoryboard.org)

**Massachusetts Bay Transportation Authority  
FY20 Itemized Budget**

<b>REVENUES</b>	<b>FY18 Actual</b>	<b>FY19 Projection</b>	<b>FY20 Itemized Budget (\$M)</b>
<b>Operating Revenues</b> Fares, all modes	\$ 661.1	\$ 664.7	\$ 693.9
Other Operating Revenue	\$ 88.1	\$ 93.6	113.8
- Advertising	24.2	27.4	36.4
- Parking	37.1	37.9	44.5
- Real Estate	17.2	17.9	21.6
<b>Total Operating Revenue</b>	<b>749.2</b>	<b>758.4</b>	<b>807.7</b>
<b>Non-Operating Revenues</b> Dedicated Sales Tax			
Dedicated Local Assessments	1,006.8	1,032.1	1,063.0
Other	166.5	170.1	174.4
<b>Total Non-Operating</b>	<b>1,266.1</b>	<b>1,275.1</b>	<b>1,274.8</b>
<b>TOTAL REVENUES</b>	<b>\$ 2,015.3</b>	<b>\$ 2,033.4</b>	<b>\$ 2,082.5</b>
<b>EXPENSES</b>			
<b>Operating Expenses</b> Regular Wages			
Overtime	\$ 449.0	\$ 451.7	\$ 474.1
<b>Total Wages</b>	<b>503.1</b>	<b>499.1</b>	<b>508.1</b>
Pensions	93.8	102.9	117.5
Healthcare	101.0	103.8	104.6
- Employee Health	61.6	60.5	61.0
- Retiree Health	39.4	43.3	43.4
Health & Welfare Fund	11.7	11.8	12.0
Other Fringe	12.2	12.7	12.7
Payroll Taxes	40.2	40.2	41.7
<b>Total Benefits &amp; Taxes</b>	<b>258.9</b>	<b>271.4</b>	<b>288.4</b>
Materials	48.8	47.2	45.5
Services	109.3	119.6	123.8
Fuel	14.4	16.6	14.7
Utilities	46.6	41.8	41.2
Contract Cleaning	25.0	25.7	30.0
<b>Materials and Services</b>	<b>244.2</b>	<b>250.9</b>	<b>255.2</b>
<b>Insurance and Damages</b>	<b>10.6</b>	<b>13.1</b>	<b>14.3</b>
<b>Purchased Commuter Rail Service</b>	<b>394.3</b>	<b>411.4</b>	<b>418.9</b>
- Fixed Price + PRIIA	327.2	336.6	344.4
- Extra Work & Services	39.6	45.4	45.1
- Fuel	27.6	29.4	29.4
<b>Purchased Local Service Subsidy</b>	<b>124.4</b>	<b>134.2</b>	<b>134.9</b>
- THE RIDE	108.6	116.3	115.2
- Ferry Services	13.4	14.9	16.5
- Other LSS	2.4	3.0	3.2
<b>Financial Service Charges</b>	<b>7.7</b>	<b>7.8</b>	<b>8.1</b>
<b>Total Operating Expenses</b>	<b>\$ 1,543.3</b>	<b>\$ 1,587.9</b>	<b>\$ 1,628.1</b>
<b>Debt Service</b>			
Interest	\$ 228.4	\$ 215.8	\$ 214.1
Principal Payments	243.6	266.2	276.9
Lease Payments	0.0	0.0	0.0
<b>Total Debt Service</b>	<b>\$ 472.0</b>	<b>\$ 482.0</b>	<b>\$ 490.9</b>
<b>TOTAL EXPENSES</b>	<b>\$ 2,015.3</b>	<b>\$ 2,069.9</b>	<b>\$ 2,119.0</b>
<b>Structural Deficit</b>	<b>\$ 0.0</b>	<b>\$ (36.5)</b>	<b>\$ (36.5)</b>
<b>Fare Recovery Ratio</b>	<b>42.8%</b>	<b>41.9%</b>	<b>42.6%</b>

Source: MBTA Preliminary Itemized Budget - Statement of Revenues and Expenses  
(Amounts may not foot due to rounding)

## Budget Overview

This is an unusual budget year in that the MBTA proposed a 6% fare increase to help balance the budget that met with remarkable resistance from the riding public, elected officials and even some members of the MBTA governance structure. The fare proposal presented to the Fiscal and Management Control Board (FMCB) and underlying the original assumptions of the FY2020 Budget proposal were altered and the budget presentation was resubmitted to the FMCB for further discussion. Even today, there are still outstanding questions that need to be answered before the final vote. We will not know the final FY20 Budget until the vote on April 8.

### Revenues

On the Authority's Statement of Revenues and Expenses, the Authority chooses to carry the appropriated Additional Assistance under total expenses. The MBTA carries \$127m, which after the \$36.5m shortfall represents \$90.4m that will go to the MBTA Capital Spending Lockbox. Non-operating revenues are

NON-Operating Revenues	FY18 Actuals	FY19 Budget	FY20 Request	INC (DEC)
Assessments	166,480,960	170,066,009	174,373,072	4,307,063
Sales Tax	1,006,806,769	1,032,067,551	1,063,029,578	30,962,027
Other Income	92,855,096	31,980,189	37,362,665	5,382,476
<b>TOTAL</b>	<b>1,266,142,825</b>	<b>1,234,113,749</b>	<b>1,274,765,315</b>	<b>61,683,758</b>

With the exception of Other Income, the Non-operating Revenues are set in law and escalate according to a set formula. These revenue sources represent the bulk of the revenue that the MBTA receives. The numbers look like this:

Operating Revenue	FY18 Actuals	FY19 Budget	FY20 Request	INC (DEC)
Fare Revenue	661,055,110	671,501,296	693,900,000	22,398,704
Other Operating Revenue	88,104,672	115,177,004	113,809,197	(1,367,808)
<b>TOTAL</b>	<b>749,159,782</b>	<b>786,678,300</b>	<b>807,709,197</b>	<b>21,030,896</b>

### Expenses

As in past years the MBTA expects to be short in FY20 by \$36.5 million and that shortfall will be drawn from a special appropriation of \$127m that the MBTA anticipates that the Legislation will provide. The balance of that funds are intended for the Capital Spending lockbox. The Expenses look like this:

<b>TOTAL REVENUES</b>	<b>2,015.3\$</b>	<b>2,033.4\$</b>	<b>2,082.5\$</b>
<b>EXPENSES</b>			
<b>Operating Expenses</b>			
Regular Wages	449.0\$	451.7\$	474.1\$
Overtime	54.2	47.4	34.1
<b>Total Wages</b>	<b>503.1</b>	<b>499.1</b>	<b>508.1</b>
Pensions	93.8	102.9	117.5
Healthcare	101.0	103.8	104.6
- <i>Employee Health</i>	<i>61.6</i>	<i>60.5</i>	<i>61.0</i>
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<b>Purchased Commuter Rail Service</b>	<b>394.3</b>	<b>411.4</b>	<b>418.9</b>
- <i>Fixed Price + PRIIA</i>	<i>327.2</i>	<i>336.6</i>	<i>344.4</i>
- <i>Extra Work &amp; Services</i>	<i>39.6</i>	<i>45.4</i>	<i>45.1</i>
- <i>Fuel</i>	<i>27.6</i>	<i>29.4</i>	<i>29.4</i>
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- <i>Other LSS</i>	<i>2.4</i>	<i>3.0</i>	<i>3.2</i>
<b>Financial Service Charges</b>	<b>7.7</b>	<b>7.8</b>	<b>8.1</b>
<b>Operating Expenses</b>	<b>\$1,543.3</b>	<b>\$1,587.9</b>	<b>\$1,628.1</b>

The Authority continues to impose order and structure on its spending. They began the budget process with an expected deficit of \$74m and reduced that number through revenue opportunities like the fare increase, efforts to increase ad revenue and investment income Real Estate and the Corporate Pass program. Cost savings would be found in open positions, Commuter Rail extra work and Materials Supplies and Services, and the Uber/Lyft project. The FMCB pushback in the fare increase/budget discussion led to increase spending on bus and the Green Line pushing the deficit to \$36.5m.

## Discussion

In 1999 the Governor and the Legislature created a new MBTA and estimated how much it would need to continue to provide the service promised. They provided a revenue stream that they believed was adequate for its needs. That revenue was not adequate. After 10 years of budget deficits offset by fare increases, land sales, service reductions and parking increases, the Legislature and the Governor approved a set of reforms of operations and governance that were to address the problem. Those reforms did not address the problem. 10 years later, after a historic winter meltdown, special legislation and new governance to finally fix the MBTA, we have a \$37m deficit and we provide less bus service than we did in 1999. The Legislature is expected to appropriate, as they have for the last 4 years, \$127m to offset this year's operating budget deficiency with the balance going into the Capital Spending Lockbox.

The Authority operates all of the service it can afford to. It listens to its customers and fits in additional service where it can, like the Silverline to Chelsea. The MBTA has, to its credit, focused very heavily on State of Good Repair (SGR) spending under the Fiscal and Management Control Board. They have worked extremely hard to find the revenues and create the capacity to address long standing issues regarding the MBTA and its rolling stock. In fact, when faced with a request from the Advisory Board that the MBTA spend more of the \$127m in legislative appropriation on expanding service, the Authority proved to us that expansion of service, especially bus, is contingent on successful implementation of the Capital Program. They showed their willingness to improve service as much as they can with the vehicles they have, but real, noticeable improvements for the customers will depend on upgrading the fleet and breaking the cycle of operating deficits to pay for its operation.

The situation at the MBTA illustrates how difficult it is to fight a battle on two fronts. On the one hand, the MBTA has a critical modernization problem that needs to be addressed. The leadership at the MBTA and the FMCB have spent considerable energy and effort to increase spending on the capital projects side and have hopes to completely modernize both heavy and light rail by 2023. Their plan is to spend \$8 billion of Federal, State and MBTA funds over the next 5 years. If they are successful, the core services at the MBTA will be state of the art and ready for the coming century.

On the other hand the MBTA will not be able to afford to operate this system in 5 years. There is a strong argument that the MBTA cannot afford to operate the system now. It is not a coincidence, bad management or bad karma that has led the MBTA to experience a budget deficit almost every year of its existence since 2001. Some of it was structural: the MBTA inherited both the existing debt service of the pre-1999 MBTA as well as some of the capital expansion obligations outlined in the Central Artery Agreement. (The best illustration of this is the Greenbush Commuter Rail expansion project paid for entirely by the MBTA without Federal or State help to the tune of \$500m) But most of the problem is and has been that the dedicated revenue has not grown at a pace that would allow the MBTA to continue providing service levels that customers expect.

People have said and will say that the shortfall is caused by waste or bad management or inefficiency or high labor costs. People have focused on management structure or the power of the managers or the ability to outsource services or a host of other issues. But after twenty years of trying everything else, it is time to look at the obvious cause: the MBTA does not have enough revenue to operate the service its customers desperately need and deserve. We cannot manage our way out of this problem. We cannot modernize our way out of this problem. The MBTA needs more revenue, to provide the scheduled service, especially in bus operations. Nationally, we have the 5<sup>th</sup> largest ridership and the 8<sup>th</sup> largest fleet. And growing the bus fleet to service the actual ridership is not just a Capital spending problem, it is much more of an Operating spending issue. We need drivers, fuelers, mechanics and all of the other staff that will ensure that service is efficiently provided. The same argument can be made for the Green Line, which is in the process of expanding the fleet, and for the Red and Orange Lines which will have larger fleets as well. The needs of the Commuter Rail also cannot be ignored.

Metro area Boston has been found to have some of the worst congestion in America, and yet we are losing ridership on the MBTA because of the quality of the service. The region is enjoying record, sustained growth but our transit services cannot keep up. The MBTA asks advocates, the business community and the riders themselves what they want and need, but must know that they cannot afford to deliver the service without additional revenues.

How much money and where should it come from? Staff at the Advisory Board looked at Senate 10, filed by the Governor to create a climate change fund. The proposal seeks to capture some of the revenue generated by recent dramatic increases in Massachusetts property values and use a small percentage of the dollars generated to combat climate change.

The deed tax is paid by the seller of a property at the time of sale, and the tax rate was last raised in 1989 to fund county government.<sup>1</sup> In 2017 over \$60.2 billion worth of real estate sold in Massachusetts, and through Q3 of 2018, \$47 billion was sold. The average amount of deed tax paid in 2017 was \$1,808, which would rise to \$3,882 under this proposal. While this increase is dramatic, since most people only sell a property a handful of times throughout their lives, most people will only pay this tax a few times throughout their lives. The deed tax is already collected in Massachusetts, meaning that a tested method to collect and distribute it already exists. Such a tax has progressive (as opposed to regressive) qualities, and will not directly increase sale prices in this already expensive market.

### Proposal

The current deed tax should be increased to 1.0% statewide with revenue from the first 0.456% (0.648% in Barnstable County) continuing to be utilized as is current practice by the Commonwealth. The revenue from the increased tax rate of 0.544% (0.380% in Barnstable County) should be allocated towards fighting climate change.

According to an analysis by the MBTA Advisory Board using a dataset purchased from the Warren Group, in 2017, over \$60 billion worth of property sales were recorded across the Commonwealth's 351 cities and towns. Each of these sales was recorded in one of the state's 21 registry of deeds. At

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<sup>1</sup> Mohl, Bruce "House approves tax increase on deed transfers" *Boston Globe* May 2, 1989, p 13

the current rates, these transactions generated \$280 million in revenue in 2017.<sup>2</sup> If the tax were set at 1% in 2017, the additional revenue generated would have been \$320 million.

<b>Deed Tax</b>	<b>%</b>	<b>\$ millions</b>
Current Tax	0.46%	\$280
Climate Change	0.20%	\$120
Transportation	0.34%	\$200
<b>Total</b>	<b>1.00%</b>	<b>\$600</b>

This proposal supports the Governor’s call to raise the deed tax to fund climate change resiliency projects statewide, and also suggests that the tax rate be increased even more with the additional revenue used to fund public transportation in Massachusetts.

### New Public Transportation Revenue

The MBTA and 15 regional transit authorities provide public transportation services in 333 of the 351 municipalities in Massachusetts. 175 cities and towns, containing 75% of the state’s population, comprise the MBTA service district. As such, 75% of the new revenue for public transportation should be dedicated to the MBTA, and 25% to RTAs. This equals \$150 million to the T and \$50 million to RTAs. By way of comparison, this represents a 61% increase in RTA funding from the State, and a 10% subsidy increase in the MBTA’s operating budget.<sup>3</sup>

Raising taxes is never easy, and should not be considered lightly. Raising the deed tax represents the most efficient, least burdensome, and most progressive means to invest needed revenue in climate change resiliency. Since most people do not sell their property annually, or even often, this tax increase will not even be paid by most people each year. When it is paid, while the amount of the increase is high, the revenue from the increase will go towards hardening our state’s defenses against the impacts of climate change, and reducing greenhouse gas emissions from single occupancy vehicles by improving public transportation options statewide.

So FY20 begins with the same size deficit that FY19 had: \$36.5m. If you look back, the MBTA budget running a deficit is the rule, not the exception. We focus on everything but revenue to balance the budget until we are forced to raise fares, but more and more it feels like rearranging the deck chairs on the Titanic, because there is always a deficit. The T has sold land and property, raised its parking fees, bonded its parking revenue, brought in more advertising and looked for partnerships to raise money. They have attempted to save money through better management, better systems and modernizing the MBTA. In the end though, transit is a labor intensive business and we need vehicles and operators on the streets and the support network behind them to keep the system running. The costs of the published schedule exceed the income the MBTA currently enjoys.

When will the MBTA be fixed- when we, the people, have had enough and demand that it be fixed once and for all? The MBTA Advisory Board offers this set of suggestions as its proposal, but we

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<sup>2</sup> If the sale price is less than \$100, no tax is applied.

<sup>3</sup> “Regional Transit Authorities: New Metrics and Funding Provisions in FY19 Budget” Joint MassDOT/FMCA Boards presentation, September 2018, [https://www.mass.gov/files/documents/2018/09/18/RTA\\_Taskforce\\_091718.pdf](https://www.mass.gov/files/documents/2018/09/18/RTA_Taskforce_091718.pdf)

cannot mandate political will or action. Will this be the year?