MBTA Advisory Board
FY18 Massachusetts Bay Transportation Authority Operating Budget Oversight Report

REPORT
Offered by the
Finance Committee
April 7, 2017

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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 $163.9 million in subsidies to the MBTA via municipal assessments.

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BUDGET OVERVIEW

The MBTA brought its FY18 Budget Proposal to the Fiscal Management and Control Board on March 13, 2017. Originally the FMCB planned to vote out the budget on April 10th, however the date for final action by the FMCB was moved to April 13th. The FMCB voted to release the budget on a contingency basis because there was considerable concern among the members regarding some of the deficit reduction tools recommended by MBTA staff.

Revenues

The MBTA expects to receive revenues totaling $1,950,038,656. The breakdown is as follows:

SOURCE	AMOUNT	%OF THE BUDGET
REVENUE FROM TRANSPORTATION	670,886,828	34%
OTHER OPERATING REVENUES	73,574,731	3%
DEDICATED SALES TAX REVENUE	1,006,806,769	51.6%
LOCAL ASSESSMENTS	166,457,995	8.5%
OTHER INCOME	32,312,333	1.6%
TOTAL	$1,950,038,656	

About 60% of all revenues come from sales tax revenues and assessments. The balance is from fare box revenues, parking, contracts and advertising. The year-to-year growth of total revenues is 1.5% or $29,537,581. Operating revenues are expected to grow by $27m and Sales Tax revenues by $14.6m, but this growth is offset by a decline in Other Income of $14.5m. The MBTA is barred from a fare increase this fiscal year under state law, so growth in MBTA's own source revenues is in the areas of additional advertising revenue and a crackdown on fare evasion.

Finally, the MBTA expects that the State Budget will include additional assistance of $187m that management would like to dedicate entirely to capital spending in the form of the MBTA Lock-box.

Operating Expenses

The proposal that the MBTA presented to the FMCB looked to reduce the budget deficit completely by holding the line on spending and reducing costs by $42m. Before we begin the discussion of the value and the impact of those proposals to reduce costs, let us remember that it has been several years since we have been this close to balance in a year that did not include a large fare increase. In fact, there are no significant increases in any of the revenue streams. The MBTA's leadership ability to get this year's deficit down to $42m is a significant accomplishment. The MBTA discipline around spending was aided this year and next by the valuable cooperation from the Carmen's Union. Their agreement to an affordable contract went a long way to making a balanced budget achievable.

The Operating Budget shows a significant decline from the FY17 approved budget. Overall spending declined $37.3m from the approved FT17 budget, but reflects the recast FY17 budget very closely, which indicates that the savings found in the implementation of the FY17 Budget are being carried into the FY18 budget. Total operating expenses indicate a 4% decline from the approved FY17 budget. These savings are offset by a scheduled increase in Debt Service Principal Payments of $22.5 million; a decrease in interest and lease payments of $8.9 million but an increase in principal payments of $31.4 million.

	FY 17 Budget	FY17 Recast	FY18 Preliminary Budget	$ Variance	% Variance
Operating Expenses					
Wages					
Regular Wages	466,645,780	449,321,531	432,662,610	(16,658,921)	-3.7%
Collateral Wages	18,663,156	18,663,156	18,663,156	-	0.0%
Overtime	37,410,671	42,151,456	42,151,456	0	0.0%
Wages Subtotal	522,719,607	510,136,143	493,477,221	(16,658,922)	-3.3%
% of Total Revenue	*26.9%*	*26.6%*	*25.3%*		
Fringe Benefits					
Pensions	92,721,718	89,436,761	85,851,992	(3,584,769)	-4.0%
Healthcare	104,127,564	104,312,182	102,759,730	(1,552,452)	-1.5%
Life Insurance	671,329	693,981	624,049	(69,932)	-10.1%
Disability	-	-	-	-	#DIV/0!
Workers Comp	12,180,494	12,016,349	11,543,582	(472,767)	-3.9%
Other Fringes	369,919	286,079	270,588	(15,491)	-5.4%
Fringe Benefits Subtotal	210,071,024	206,745,352	201,049,941	(5,695,411)	-2.8%
% of Total Revenue	*10.8%*	*10.8%*	*10.3%*		
Health & Welfare Fund	10,261,597	9,919,510	10,261,757	342,247	3.5%
% of Total Revenue	*0.5%*	*0.5%*	*0.5%*		
Payroll Taxes					
FICA	39,727,763	38,669,872	37,751,007	(918,865)	-2.4%
Unemployment	1,368,011	1,514,478	1,566,466	51,988	3.4%
Payroll Taxes Subtotal	41,095,774	40,184,350	39,317,474	(866,876)	-2.2%
% of Total Revenue	*2.1%*	*2.1%*	*2.0%*		
Total Wages & Benefits	**784,148,002**	**766,985,355**	**744,016,393**	**(22,878,962)**	**-3.0%**
% of Total Revenue	*40.4%*	*39.9%*	*38.2%*		
Materials, Supplies & Services					
Materials	68,076,697	59,981,941	35,078,301	(24,903,640)	-41.5%
Services	98,222,859	103,805,004	129,504,021	25,699,017	24.8%
Utilities	48,731,890	38,036,018	38,036,018	0	0.0%
Fuel	19,638,637	17,625,513	17,846,434	220,921	1.3%
Contract Cleaning	24,509,729	23,799,892	23,799,892	0	0.0%
Uniforms	2,216,759	2,174,023	2,174,023	0	0.0%
Materials, Supplies & Services	**261,396,571**	**245,422,391**	**246,438,689**	**1,016,298**	**0.4%**
% of Total Revenue	*13.5%*	*12.8%*	*12.6%*		

Casualty & Liability Risk Insurance Injuries & Damage	 7,346,800 7,375,433	 6,467,110 7,375,433	 7,179,252 7,000,000	 712,142 (375,433)	 11.0% -5.1%
Casual & Liability Subtotal *% of Total Revenue*	**14,722,233** *0.8%*	**13,842,543** *0.7%*	**14,179,252** *0.7%*	**336,709**	**2.4%**
Purchased Commuter Rail Expenses Fixed Price Extra Work & Services Fuel PRIIA	 314,743,193 46,059,993 28,318,867 -	 314,743,191 54,172,471 24,063,127 -	 308,636,912 37,842,052 28,186,863 9,300,000	 (6,106,279) (16,330,419) 4,123,736 9,300,000	 -1.9% -30.1% 17.1% #DIV/0!
Commuter Rail Subtotal *% of Total Revenue*	**389,122,053** *20.0%*	**392,978,789** *20.5%*	**383,965,828** *19.7%*	**(9,012,961)**	**-2.3%**
Purchased Local Service Expenses THE RIDE Ferry LSS Other	91,960,155 13,370,733 2,531,685	99,822,513 13,342,561 2,472,436	86,832,960 14,039,270 2,613,800	(12,989,553) 696,709 141,364	-13.0% 5.2% 5.7%
Purchased Local Service Expenses *% of Total Revenue*	**107,862,573** *5.6%*	**115,637,510** *6.0%*	**103,486,030** *5.3%*	**(12,151,480)**	**-10.5%**
Financial Service Charges *% of Total Revenue*	**6,490,000** *0.3%*	**7,015,625** *0.4%*	**6,710,000** *0.3%*	**(305,625)**	**-4.4%**
TOTAL OPERATING EXPENSES *% of Total Revenue*	**1,563,741,432** *80.5%*	**1,541,882,213** *80.3%*	**1,498,886,191** *76.9%*	**(42,996,022)**	**-2.8%**
Debt Service Interest Principal Payments Lease Payments	 237,045,416 214,986,180 6,111,106	 215,393,721 208,636,622 4,645,081	 208,256,671 239,995,000 2,900,793	 (7,137,050) 31,358,378 (1,744,288)	 -3.3% 15.0% -37.6%
Total Debt Service Expenses *% of Total Revenue*	**458,142,702** *23.6%*	**428,675,424** *22.3%*	**451,152,465** *23.1%*	**22,477,041**	**5.2%**
TOTAL EXPENSES *% of Total Revenue*	**2,021,884,134** *104.1%*	**1,970,557,637** *102.6%*	**1,950,038,656** *100.0%*	**(20,518,981)**	**-1.0%**

Discussion

The MBTA estimates a $42M structural deficit for FY2018 that they propose to fill through a combination of privatizing bus operations, cuts to commuter rail weekend service, and cuts to The Ride premium service. The MBTA has $187M from the Legislature that they could use to close the deficit, but would prefer to spend that money on MBTA capital needs. There has been significant pushback by Advisory Board members, legislative leaders, the customers and by the Governor. I think it is safe to say that cutting weekend commuter rail service is a very unpopular option and is likely off the table. Equally unpopular is the effort to limit the service area of the RIDE. Customers of the RIDE and their legislative representatives have strongly protested these efforts, even on a temporary basis. The MBTA Advisory

Board has historically opposed cutting service to balance budgets and we remain strongly opposed to the proposed cuts in commuter rail and the RIDE.

We do not have a $42M revenue proposal; however, we have some ideas that can reduce the overall size of the gap.

RIDE

The current administration at the MBTA has been innovative in finding was to partner with the private sector to both improve service for RIDE customers and reduce costs to the T. The current pilot involving Uber and Lyft providing service to RIDE customers has been a limited success and the MBTA should continue to work with customers to approve access to this flexible and cost saving option. In addition, the MBTA should prioritize finding ways that The Ride, like every other paratransit service in Massachusetts, can be reimbursed for medically necessary trips through Medicare. The MBTA has not and cannot ask for the purpose of a trip under federal law. However, the MBTA can, perhaps, incentivize its Ride customers to provide that information. If other RTA's can be reimbursed for the expenses incurred by providing medically necessary transportation, the MBTA should be able to participate as well. RIDE users can be incentivized to provide the purpose of their trip in exchange for waiving their fare. This is consistent with the MBTA's approach to get those RIDE customers who can use regular service to use that service by providing free Charlie Cards. This would probably need federal approval, but the potential savings of this, combined with the potential savings of the Lyft/Uber partnership for paratransit could represent a match of the proposed $7m goal for savings on the RIDE line item.

Advertising

The MBTA has the opportunity to wire in live-screen advertising in the coming Red and Orange Line fleets. These new vehicles can be easily adapted to have dynamic advertising at a cost paid for by the advertisers themselves. The T can structure the advertising deal along the same lines as the kiosk electronic advertising in MBTA stations. While the full financial impact of this option will not be felt in this fiscal year, the negotiations can begin and payments can be structured in a way to help with this year's operating shortfall. The T currently estimates $3M in additional revenue for in-station kiosks. The opportunity exists ultimately to get an additional $3m in the out-years as the rail cars come on line. We believe that in-car screens can grow to be a very valuable source of revenue first throughout the Red and Orange Lines and later throughout the system as a whole.

Naming Rights

Historically, the MBTA's efforts to sell naming rights have been unsuccessful. The Advisory Board would like to point out, though, that there is one ripe opportunity at Assembly Square on the Orange Line. The station is less than a few years old and is about to become the station that supports the headquarters for Partners Health Care, Legoland, and other signature retail outlets. The MBTA has the opportunity to successfully sell naming rights to this station with minimal negative impact on wayfinding.

Privatization

It was easy to support privatization of MBTA services when we were talking about non-transportation functions. The MBTA has or is currently privatizing police dispatch, warehousing, and the money room.

None of these are core transportation functions and, therefore, were not a difficult decision for the MBTA. In the proposed FY2018 budget, the lion's share of savings the MBTA is counting on ($26M out of $42M) is from privatizing MBTA bus maintenance. The fact that the MBTA has no experience privatizing these kinds of core transportation functions raises the risk that, not only will it not receive the $26M in savings, but that it may actually cost the T more money in the long run. The MBTA has the option of using some of the $187m currently earmarked for Pay-Go Capital spending to fill gaps in the operating budget. We think that this is the safer option given the lack of experience with privatization of core functions and the vociferous opposition of the Machinists' union. When the T announced its cuts, transportation advocates immediately stated that the $187M the T received from the Legislature was allocated expressly to balance the budget and preserve service. They're not wrong; however, the overall goal is to balance the MBTA budget in a sustainable fashion. Spending the $187M from the Legislature on MBTA capital needs does two things: (i) it keeps the pressure on the T's operating budget to increase revenues and find savings throughout the organization to balance the budget within existing revenue streams; and (ii) it provides capital funds to increase efficiency throughout the system, leading to greater efficiency and savings that are sustainable long term. The Advisory Board has historically supported increased capital spending to achieve a state of good repair and has opposed service cuts in the operating budget.

This is a serious issue because accessing the supplemental funding provided by the Legislature can delay the actual achievement of a balanced budget at the MBTA. We all want the MBTA to be adequately funded and to have the ability to provide reliable service to its customers. The current leadership deserves an abundance of credit for the efficiencies they have introduced at the MBTA. Improvements in systems and management have saved millions at the T, and those savings have significantly reduced the scope of the shortfall the MBTA faces next year and in future years. The dynamic trend that led the MBTA to a $427m shortfall in FY2020 has been reversed. That may be this leadership team's greatest accomplishment, one that many thought impossible. This Administration has made great progress getting its arms around costs at the MBTA and a key accomplishment was the settlement with Chapter 589 (Carmens' Union). The Carmens' is the largest union at the T and it agreed to take 0% increase this year and next. It was this more than anything that has allowed the MBTA leadership to close the gap as much as it has. 75% of operating costs at the MBTA are wages, taxes and fringe. Next year, in addition to normal inflation in transportation, the T will face a significant increase in labor costs that it can't offset with fare increase capped at 5% Other cost are increasing as well. Pensions has long been an area of concern. Pension costs will continue to grow and it is very difficult for the MBTA to control or slow that growth. In other words, if the T doesn't balance the budget this year, the structural deficit going into FY2019 will be $42M, plus inflation, plus an increase in labor cost, minus a 5% fare increase.

Ultimately, the solution to this is additional revenue for the MBTA because MBTA expenses appear to be in line with similar transit properties around the country. The public and the Legislature may not be ready to have that conversation yet as they need to be convinced that the MBTA is as efficient as it can be. The leadership at the MBTA should be acknowledged for the tremendous progress that they have made to date. They should continue to extract value for every dollar of public funds they receive. But the customers of the MBTA, the communities served by the MBTA, and all of those in the public and private sectors who benefit from the value the MBTA provides must prepare for the day coming soon, when we must decide how to pay for the system we want.