



Massachusetts Bay Transportation Authority

Pro Forma: Revenue and Debt Service Assumptions, FY19-FY24

Fiscal and Management Control Board

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Introduction

- **What is the pro forma?**
 - A 5-year financial model projecting FY20-FY24 operating budget.
 - A tool to inform priorities, help shape policy decisions and guide short- and long-term budget decisions.
 - Financial impact of initiatives and policy decisions are analyzed and incorporated into the Pro Forma
- **What is the goal of this presentation?**
 - To review revenue and debt service assumptions
 - To quantify how revenue and debt service implications impact the operating budget over the next 10 years
- **What assumptions are in this presentation?**
 - Four large capital projects will have an impact on fare revenue
 - These projects are new Red Line cars, the Orange Line Capital Improvement Plan, Green Line Extension, and South Coast Rail

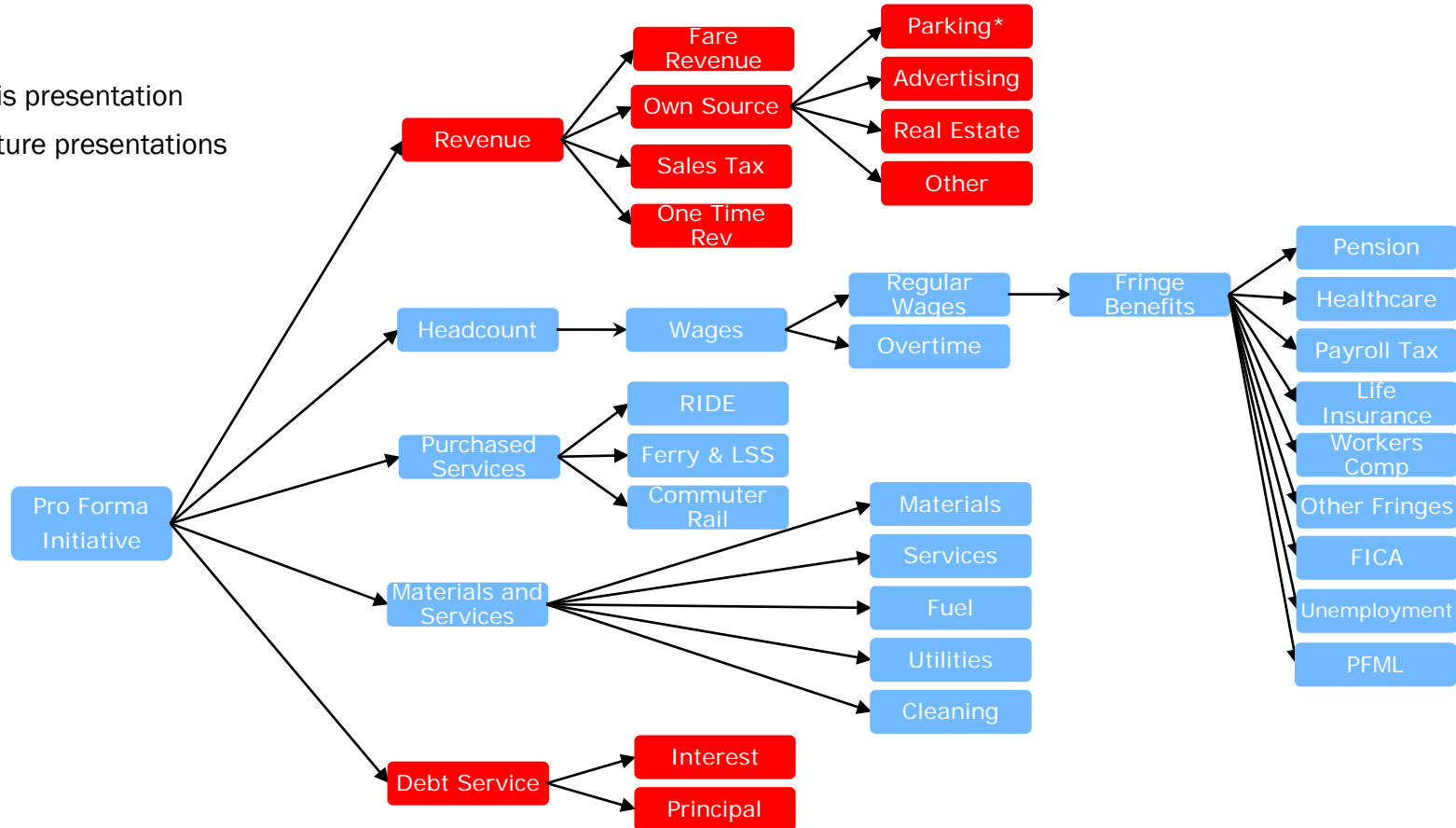


Introduction: Operating Budget Categories

Cost Driver & Expense Category Flow Chart

Each cost driver has specific expense categories that are impacted by new initiatives

Covered in this presentation
 Covered in future presentations



*Detailed parking review will be provided in a future presentation



Revenue Categories

Revenue From Transportation – 33.5% FY20B Revenue <ul style="list-style-type: none"> All fare revenue collected from bus, ferry, and rail operations 	Revenue (\$M)	FY17A	FY18A	FY19A	FY20B	% of Budgeted Revenue	FY20 Forecast
Other Operating Revenues – 5.3% FY20B Revenue <ul style="list-style-type: none"> Referred to as “Own Source Revenue” - \$99.5M FY20P <ul style="list-style-type: none"> Parking Advertising Real Estate Other Operations 	Operating Revenues						
	Revenue from Transportation	\$659.0	\$661.1	\$671.7	\$696.8	33.5%	\$702.4
	Other Operating Revenues	\$56.6	\$88.1	\$90.2	\$111.3	5.3%	\$96.5
Fare Recovery Ratio <ul style="list-style-type: none"> Fare Revenues/Operating Expenses (Excluding Debt) 	Total Operating Revenues:	\$715.6	\$749.2	\$761.9	\$808.1	38.8%	\$798.9
Dedicated Sales Tax Revenue – 51.0% FY20B Revenue <ul style="list-style-type: none"> Base Revenue Amount (BRA) grown by the lesser of sales tax growth or inflation, not to exceed 3% 	<i>Fare Recovery Ratio</i>	43.2%	42.8%	42.7%	42.8%		41.8%
Dedicated Local Assessments – 8.4% FY20B Revenue <ul style="list-style-type: none"> Base Revenue Amount (BRA) grown by the lesser of Consumer Price Index growth, or 2.5% 	Non-Operating Revenues						
	Dedicated Sales Tax Revenue	\$992.2	\$1,006.8	\$1,053.2	\$1,063.0	51.0%	\$1,099.0
	Dedicated Local Assessments	\$164.0	\$166.5	\$170.1	\$174.4	8.4%	\$174.4
Other Income – 1.8% FY20B Revenue <ul style="list-style-type: none"> Miscellaneous smaller revenue streams <ul style="list-style-type: none"> MassDOT GLX Operating Revenue Investment Income Gas Reimbursement One Time Revenues 	Other Income	\$53.3	\$92.9	\$57.2	\$37.4	1.8%	\$40.4
	Total Non-Operating Revenues:	\$1,209.5	\$1,266.1	\$1,280.5	\$1,274.8	61.2%	\$1,313.8
	Total Revenues:	\$1,925.2	\$2,015.3	\$2,042.4	\$2,082.9	100.0%	\$2,112.7
	<i>Revenue Recovery Ratio</i>	50.4%	54.6%	52.0%	51.9%		50.1%

Fare Revenue



Fares Revenue Collections increased by ~2.8% per year from FY17-FY19

- *“Acts of 2016, Chapter 164” permit MBTA to raise fares once every 2 years at a maximum of 7% on each fare product*
- Each fare increase decision has involved a public involvement process and equity analysis
- Strong economy and investments have driven growth in previous years
- Fare Increase Effective Dates
 - July 1, 2000 -- (FY01)
 - July 1, 2004 -- (FY04)
 - July 1, 2007 -- (FY07)
 - July 1, 2012 -- (FY13)
 - July 1, 2014 -- (FY15)
 - July 1, 2016 -- (FY17)
 - July 1, 2019 -- (FY20)



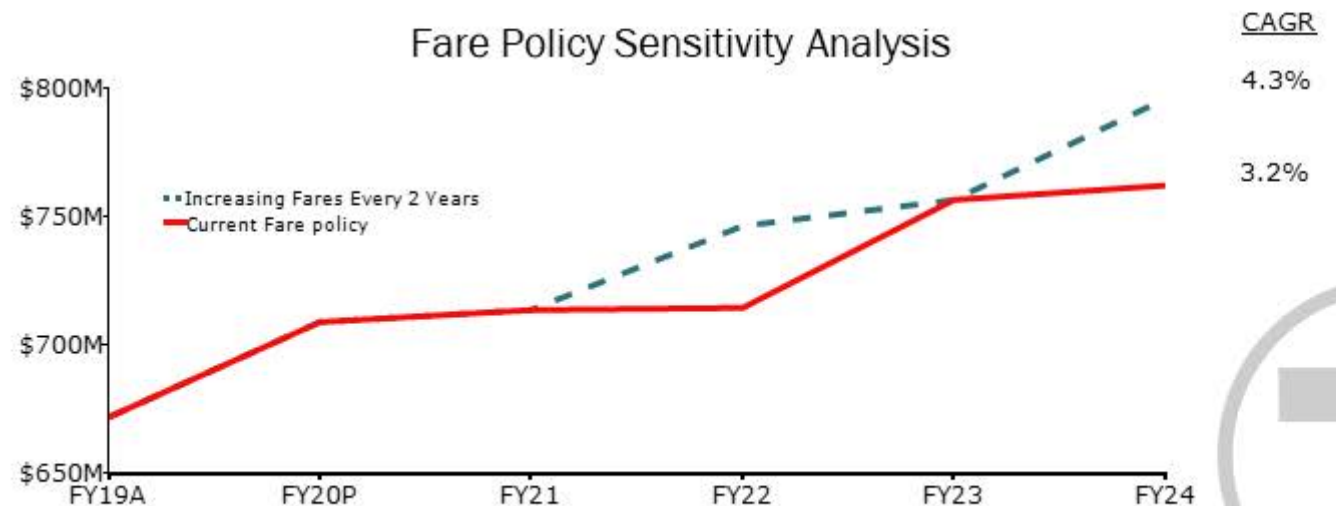
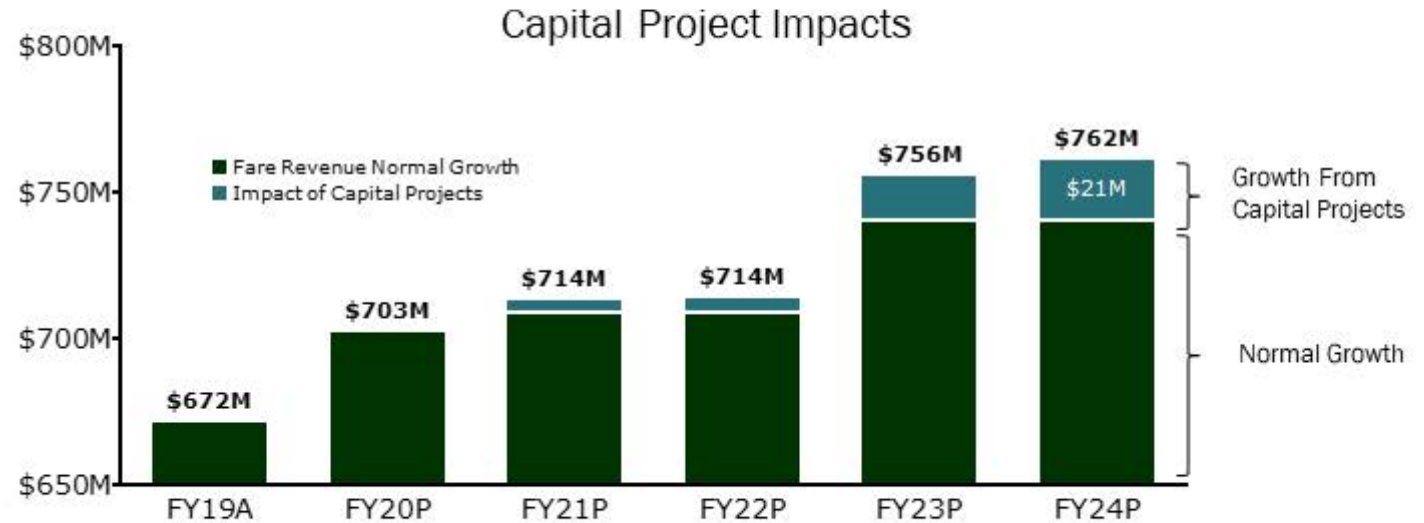
Capital Program and Fare Policy Impacts on Revenue

Committed Future Model Assumptions

- +4.5% fare increases assumed in FY23, FY25, and FY27 in line with current FMCB policy
- Assumes capital projects completed according to current projected schedules
- Fare policy decisions will be a key driver

Sensitivity Analysis

- All scenarios assume fare increases of 4.5%, but at different frequencies
- Fare increases every 2 years (FY22, FY24)
 - Cumulative additional revenues vs. current projection (FY21-FY24): **\$65.7M**



Capital Project Fare Revenue Impact Assumptions

Fare Recovery Ratio By Project - First Full Year of Operation

First Full Year of Revenue/Expenses

Red Line Cars

Fiscal Year	FY23
Revenue	7,108,765
Expenses	3,000,601
<i>Fare Recovery</i>	<i>236.9%</i>

Orange Line Cars

Fiscal Year	FY24
Revenue	4,300,669
Expenses	1,665,201
<i>Fare Recovery</i>	<i>258.3%</i>

Green Line Extension

Fiscal Year	FY23
Revenue	1,025,463
Expenses	44,631,437
<i>Fare Recovery</i>	<i>2.3%</i>

South Coast Rail

Fiscal Year	FY23
Revenue	9,441,493
Expenses	18,767,590
<i>Fare Recovery</i>	<i>50.3%</i>

Cumulative Project Totals

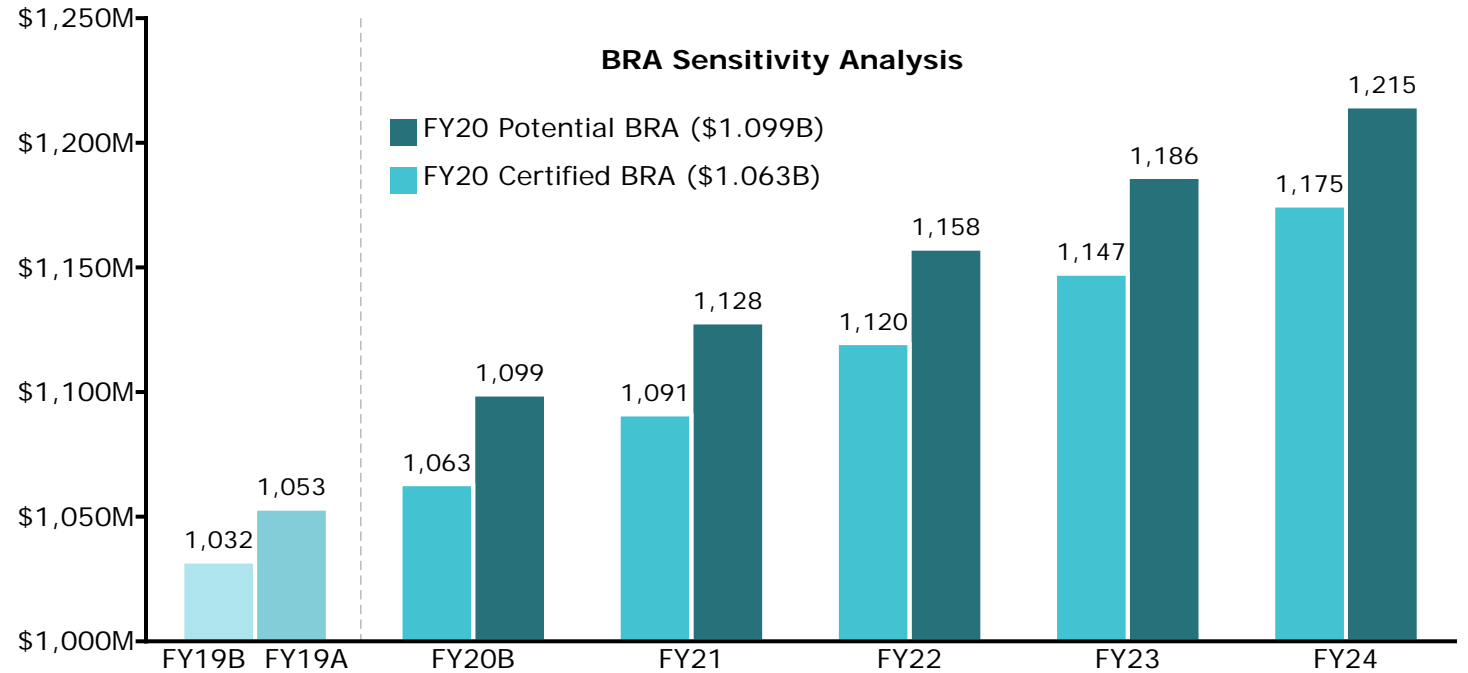
Fiscal Year	FY23-FY24
Revenue	21,876,391
Expenses	68,064,830
<i>Fare Recovery</i>	<i>32.1%</i>

- The Fare Recovery Ratio of Capital Projects measures the percent of operating expenses which will be covered by fare revenues
 - $\text{New Revenues} / \text{Operating Expenses} = \text{Fare Recovery Ratio}$
 - A low ratio indicates that new expenses are much greater than new revenue
- New Red & Orange Line Cars have high fare recovery ratios because only small changes to our existing maintenance & transportation operations are required
- GLX has a low recovery ratios because a large amount of new infrastructure is required for operation
- Cumulatively, new projects will drag down our current fare recovery ratio
- Debt impact not reflected in numbers



Sales Tax – Base Revenue Amount Revenue Driver

Sensitivity Analysis	
➤ Underlying Model Assumptions	
➤ FY20 BRA at certified amount: \$1.063B	
➤ 2.2% CAGR (FY20-FY24)	
➤ Legislative authorization allows for potential statutory transfer of up to \$1.099B (\$36M above certified amount)	
➤ 2.9% CAGR from baseline results in cumulative <u>additional revenue of \$189M</u> between FY20-FY24	
➤ Additional revenue would be prioritized for Flex Force and Capital Acceleration spending	



Potential YOY Growth ⁽¹⁾	4.2%	2.6%	2.6%	2.4%	2.3%
Certified BRA YOY Growth	0.9%	2.6%	2.6%	2.5%	2.4%
Annual Difference	\$36M	\$37M	\$38M	\$39M	\$40M

(1) Jan 2019 CPI Index assumed for FY21- FY24

Own Source Revenue



Own Source Revenue Detail

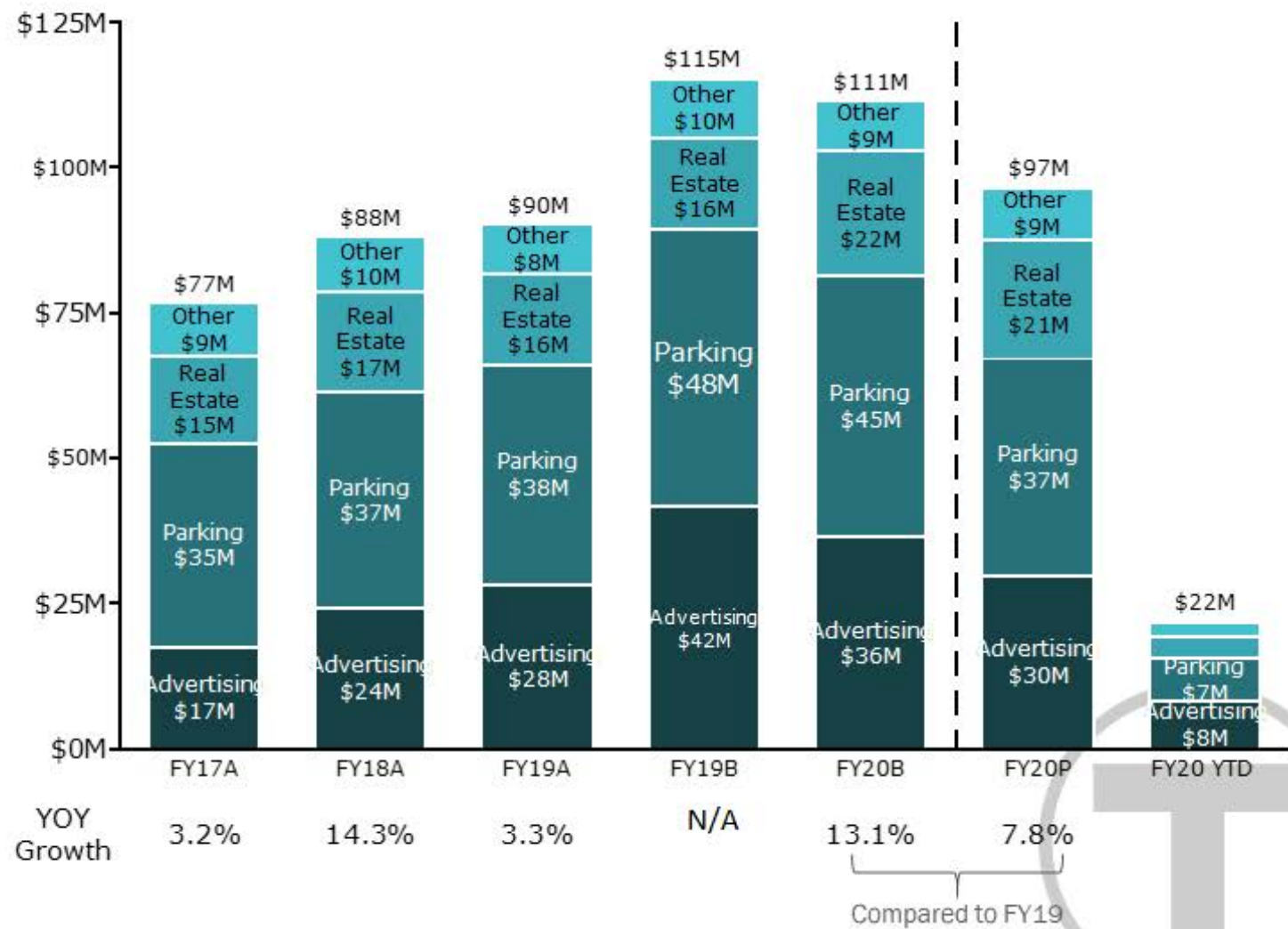
Own Source Revenue Drivers

- Parking securitization bond expenses are excluded in this graph

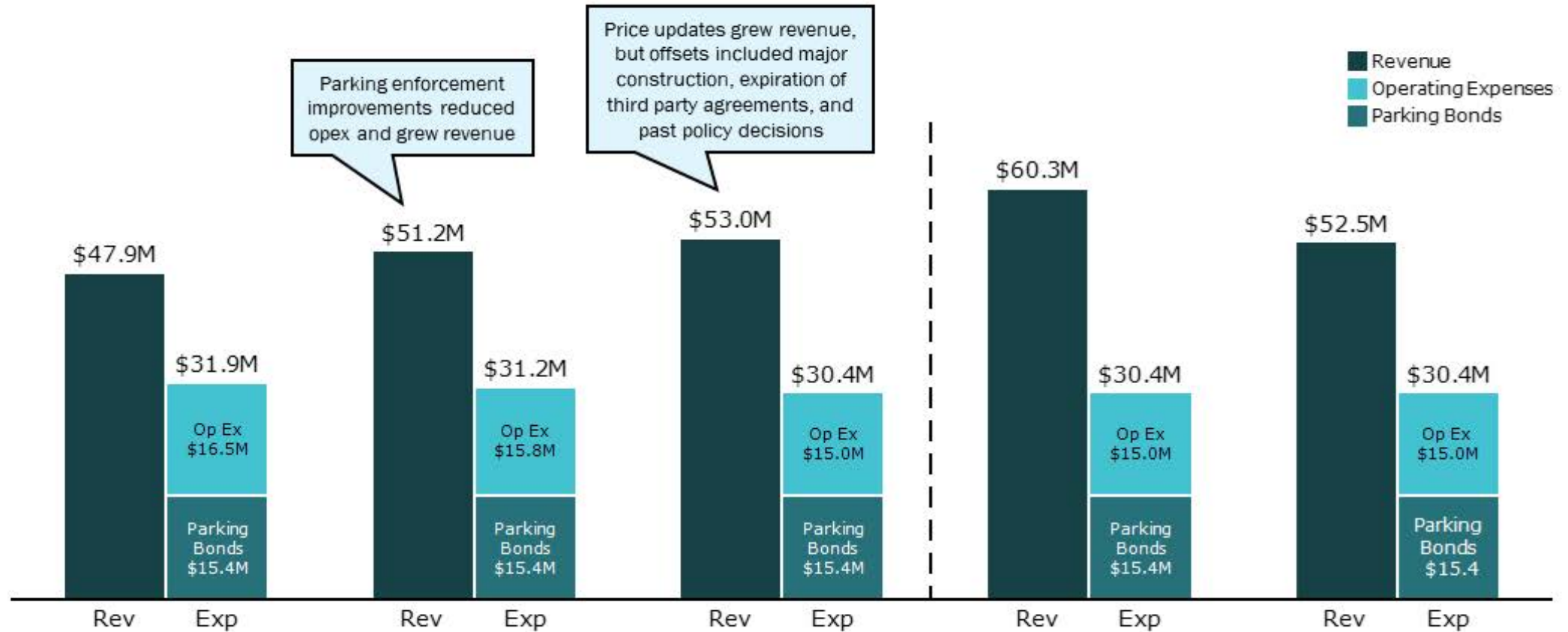
Own Source Revenue Drivers by Category
% of Revenue by Category – FY20B

- **Parking**
 - Facilities Revenue (Garages, Lots) 81%
 - Enforcement 17%
 - Town Facilities 2%
- **Advertising**
 - System-wide Advertising 75%
 - Out-of-Home + Bus Shelters 25%
- **Real Estate**
 - Telecom 39%
 - Long-Term Leases 26%
 - Rental/Land Building 14%
 - Concessions 13%
 - Utilities 6%
 - Licenses & Other Receipts 3%
- **Other Operating**
 - South Station 68%
 - Massport Airport Shuttle 32%

Parking, Advertising, Real Estate & Other



Parking Historical



	FY17	FY18	FY19	FY20B	FY20P
Net Revenue	\$16M	\$20M	\$23M	\$30M	\$22M
YOY % Growth	3.6%	6.7%	3.6%	13.7%	-0.1%

*Revenues Shown as Gross Collection Amounts



Parking Revenue Sensitivity Analysis

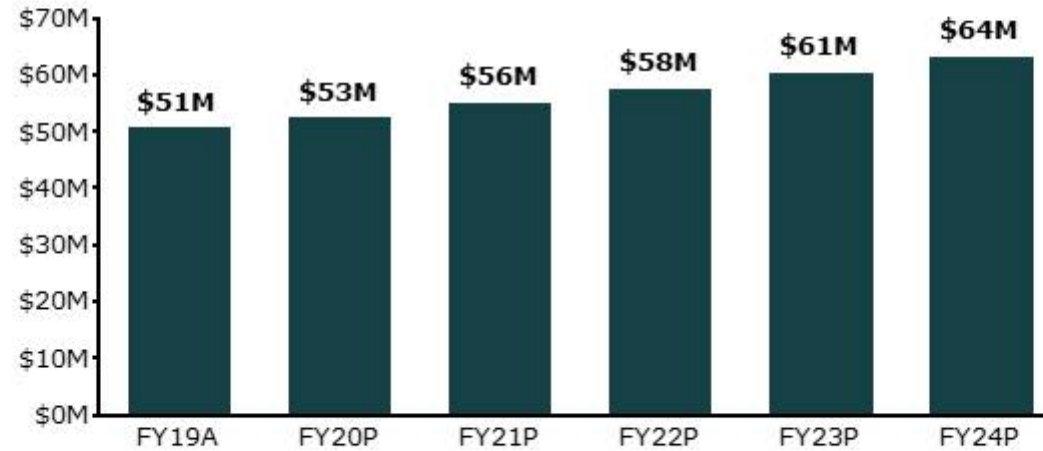
Committed Future Model Assumptions

- Capital Projects examined in the Pro Forma not expected to have a major impact on own source revenue

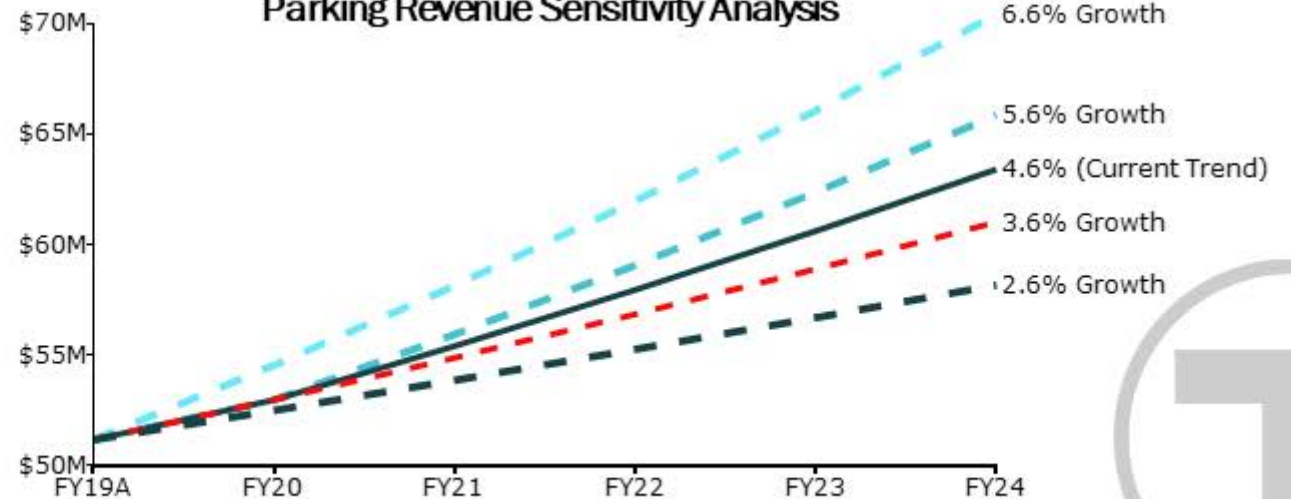
Sensitivity Analysis

- Average YOY Growth from FY17-FY19 was 4.6%
- An increase of 1%, to 5.6% YOY Growth through FY24 will result in a **\$5.9M cumulative increase in revenue**
- A decrease of 1%, to 3.6% YOY Growth through FY24 will result in a **\$5.8M decrease in cumulative revenues**

Parking Revenue Expected Growth

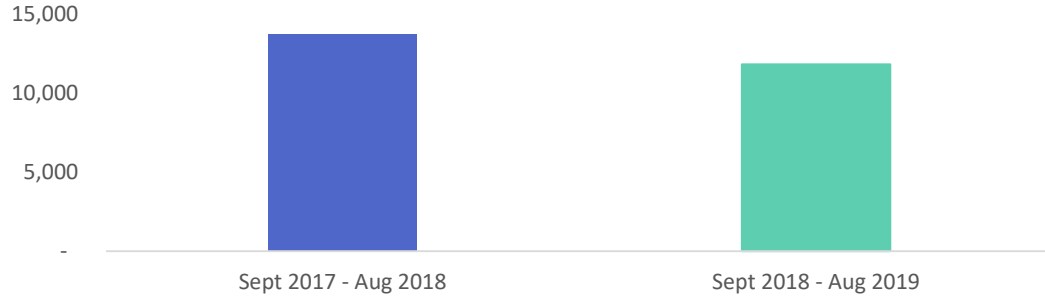


Parking Revenue Sensitivity Analysis



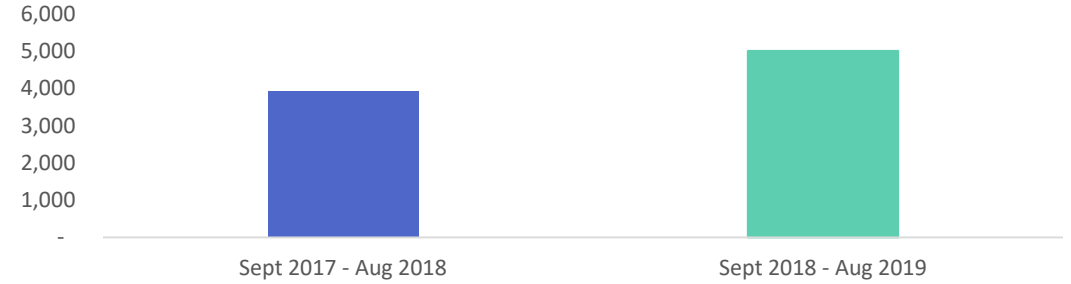
Summary of Parking Price Changes

Facilities with **Price Increases** (33)
 Total Average Weekday **Occupancy Decreased** at 27 Facilities



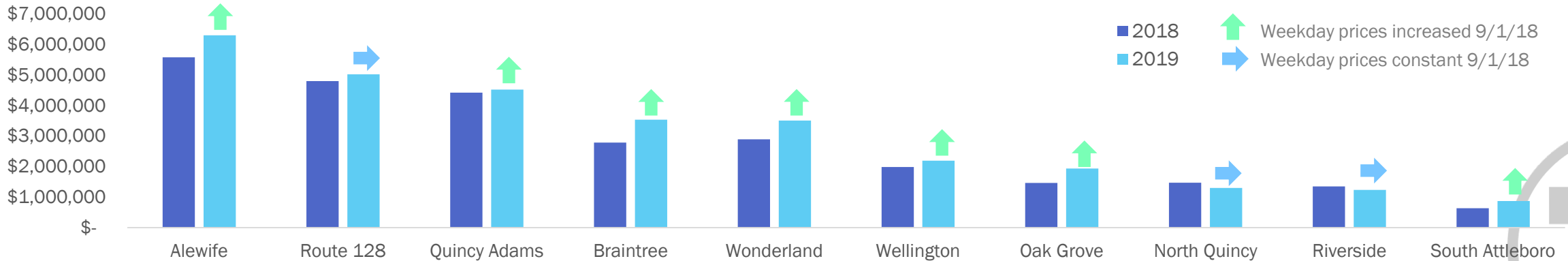
Average monthly occupancy **decreased 14%** from 2017 to 2018, a decrease of ~1,900 parking sessions per day across the 32 facilities

Facilities with **Price Decreases** (22)
 Total Average Weekday **Occupancy Increased** at 17 Facilities



- Average weekday occupancy increased 28% in the 12 months post price change, an increase of ~1,000 parking sessions per day across the 22 facilities
- Suggests that people are taking advantage of a better deal

Total Revenue - 12 Months Before and After Price Change
 Revenue is up 11% YOY at top 10 Facilities



Advertising Historical

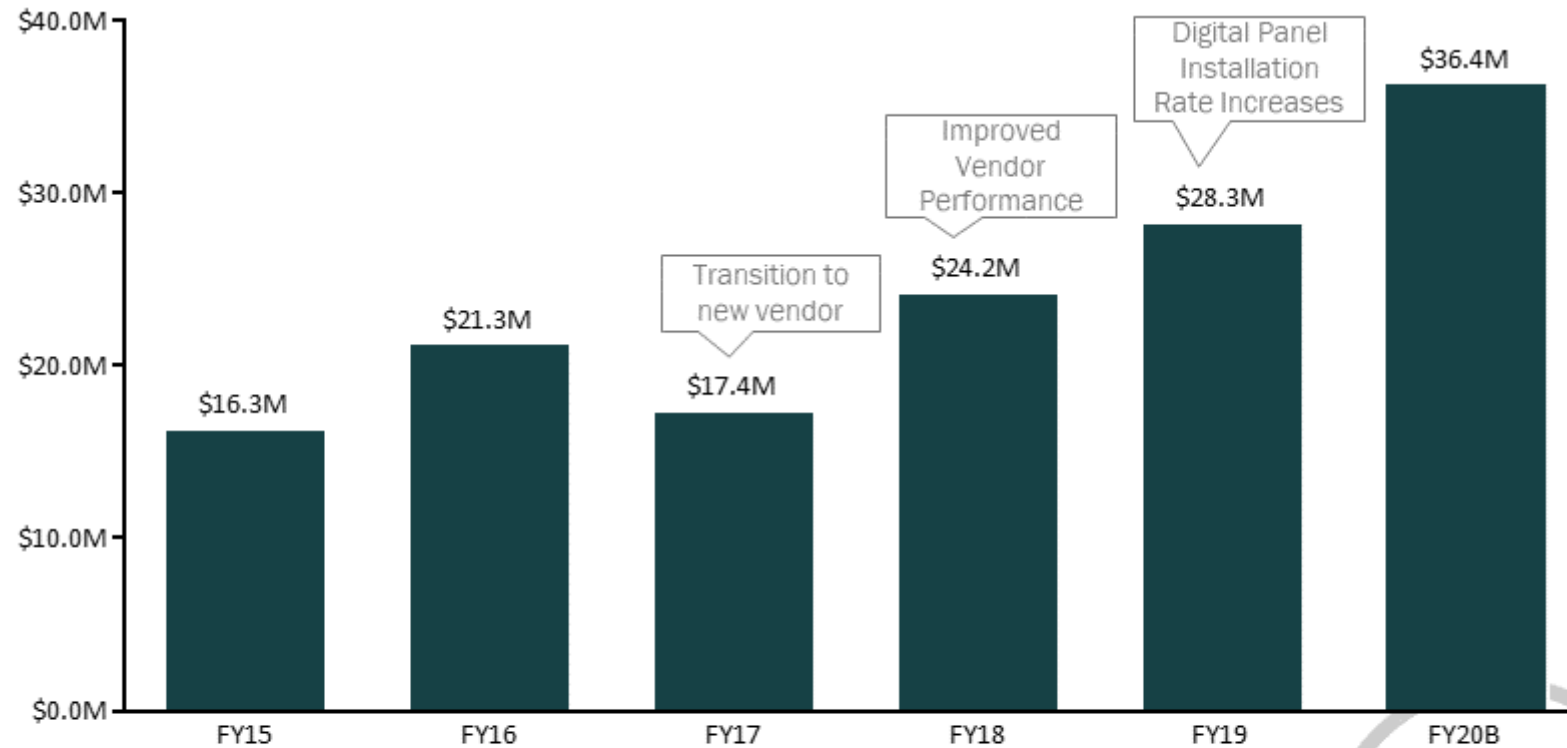
Advertising Revenue Drivers

System-wide Advertising Accounts for 75% of Revenue

Description	FY20B	% of Total
System-wide	\$27,201,157	75%
Billboard	\$8,900,000	24%
Bus Shelters	\$223,752	1%
Merchandise	\$40,000	0%
Total	\$36,364,909	100%

Historical Advertising Revenue

FY20 Budgeted Revenue is \$8M Higher than FY19A



Debt Service



Debt Portfolio Update

	Debt Portfolio as of 10/1/2019	
	PRINCIPAL	RATE (WACC)
Sales Tax	\$4,326,970,000	5.12%
Assessments	\$271,095,000	4.87%
Prior Obligations	\$160,680,000	4.76%
Commercial Paper	\$50,000,000	1.43%
Total	\$4,648,065,000	4.96%

Background

- Portfolio weighted average maturity term is 9.25 years
- New long term debt issued in 2017
- Issued commercial paper in May 2019 to fund short term needs \$50M
- Sales Tax lien continues to hold **strong credit ratings**, Aa2 (Moody's)/AA (S&P)

Current Outlook

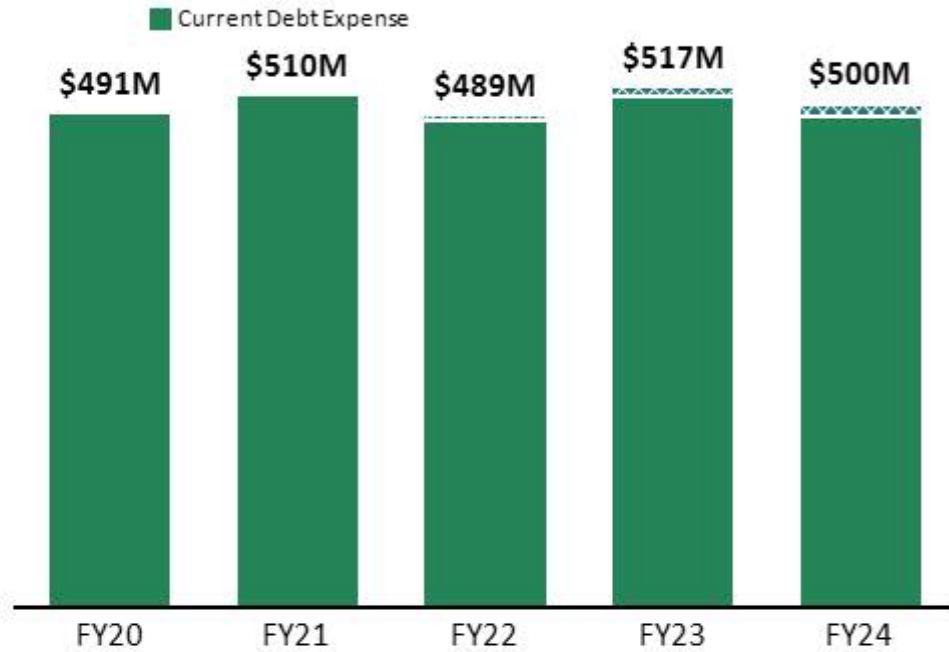
- Borrowing costs are **attractive**, estimated new borrowing cost approximately 3.00% - 3.25% for fixed-rate, thirty year sales tax
- MBTA estimates cash flow needs require a capital infusion in early 2020



Impact on Debt Service Expense

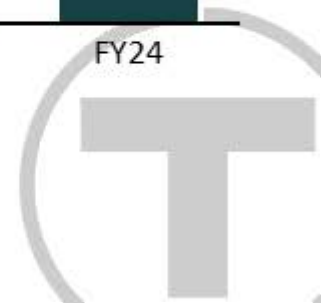
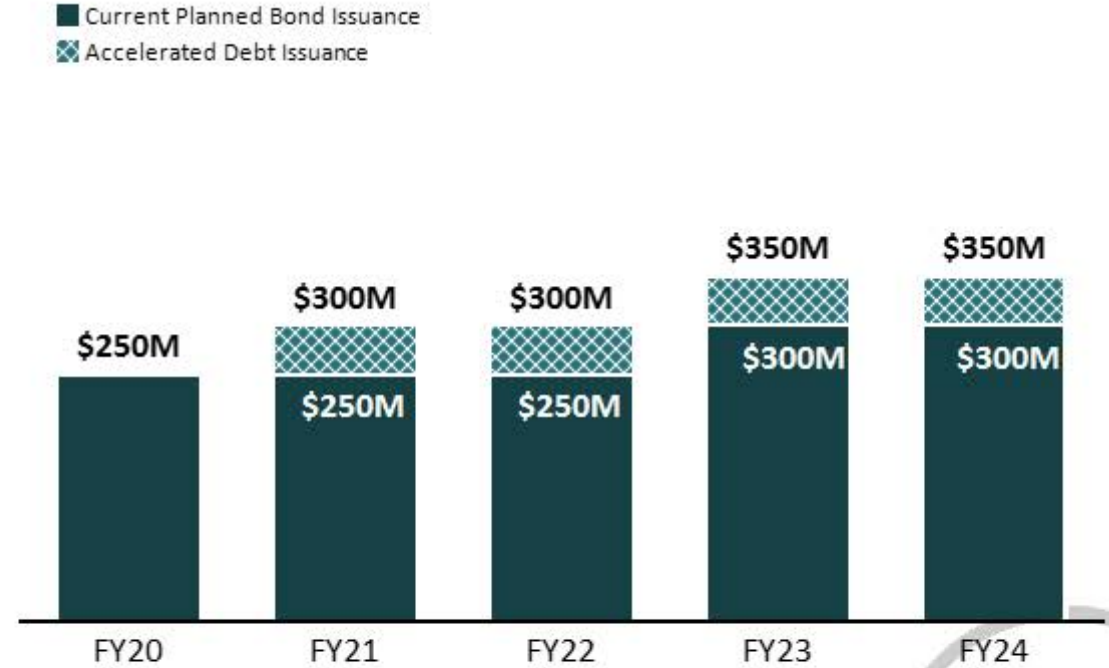
Projected Annual Debt Service Expense

Payments fluctuate in the short term but increase with accelerated debt issuance



Planned Bond Issuance

Increasing Bond Issuance by \$50M/year Increases Debt Service Expense



Next Steps

- Present pro forma assumptions for remaining factors:
 - Purchased Services and Materials & Services
- Currently refining pro forma assumptions as part of the overall FY20 & FY21 budget process
- Clarify/update staffing needs to operationalize initiatives
 - Finish developing hiring plans
 - Identify overlapping areas including Flex Force
- Explore avenues to contain costs including overtime, pension, and healthcare
- Safety Panel recommendations are forthcoming; impact TBD
- Provide pro forma update in January 2020
- Parking and advertising
 - Provide detailed parking review and recommendations in 2020
 - New advertising contracts provide new opportunities
 - Policy discussion will focus on how fast to roll out Outdoor Information Panel program
 - Each new face is worth minimum annual guarantee of \$205,000



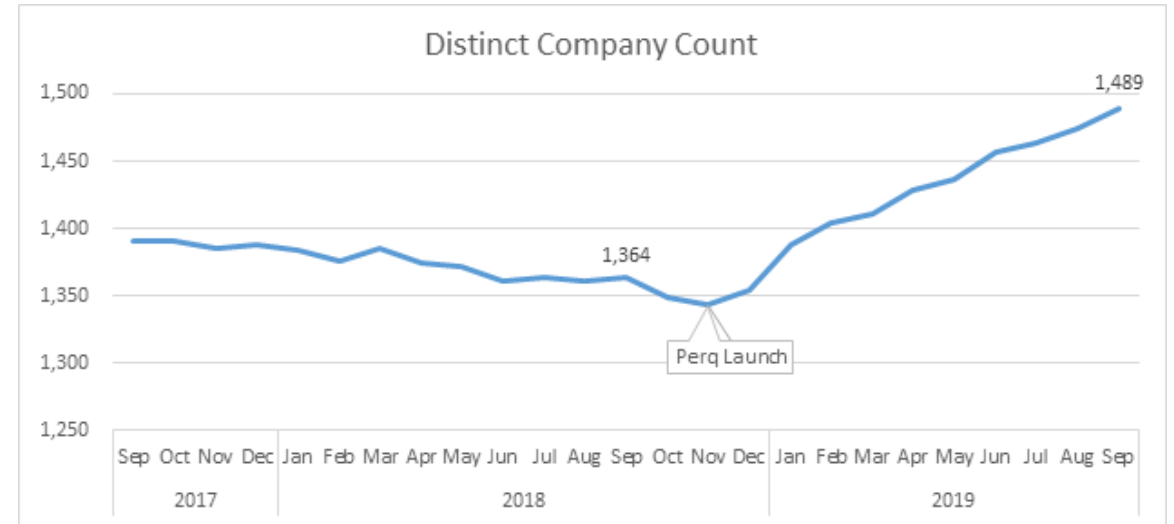
Appendix



Perq / Pass Programs: Invest to Grow

Initial investments have paid off:

- 268 new companies have joined since November launch
- \$1.3 million in directly driven revenues from new companies in first 11 months
 - This doesn't include existing companies that saw orders grow due to higher program visibility and higher level of service
 - Worth noting: Customer lifetime value is significantly higher – it adds up over time
- Revenues were up \$11 million in FY19; all other channels were up \$4 million combined



Reviewing programs to build on gains