Agenda

1. FY21 Budget Timeline Baseline
2. Overview of Revenue and Appropriation
3. FY21 Budget Request Initiatives
4. Material Cost Drivers
5. Additional Challenges and Opportunities
FY21 Operating Budget Timeline

 Juice

February 24: Management to introduce FY21 Preliminary Budget to FMCB

March 9: FMCB vote to release FY21 Preliminary Itemized Budget to MBTA Advisory Board

April 13: FMCB vote to release the Approved Itemized Budget to MBTA Advisory Board

April 15: Statutory deadline for FMCB to approve FY21 Budget
FY21 MBTA budget request is focused on four priorities:

1. Implement Safety Review Panel Recommendations
   • MBTA leadership is addressing 34 Safety Review Panel recommendations
   • Requests support additional resources for preventive maintenance and inspections, safety investigations, and increased training requirements

2. Support Capital Program
   • Capital program achieved over $1B of investment in FY19, growing to $1.5B+ in FY21
   • Additional resources requested to support growing capital program unless restriction on use of bond funds is lifted

3. Initiatives & Service Vision
   • Pursue bus, rail, and fare transformation actions initiated at December 16th board meeting (Budget Update)
   • Additional resources requested; implementation and timing to be developed with policy, program, and operations staff

4. Maintain Fiscal Stewardship
   • Identify cost controls, business process improvements and revenue opportunities to keep pace with growth
   • Create targets for financial key performance indicators
$134.8 million in projected additional funding

- Includes $200 million total operating transfer – up $73 million from $127 million of Contract Assistance in FY20, with the increased transfer supported by a proposed higher TNC per-ride assessment supports operating costs and lockbox.

- Sales tax transfer of $1,176 million consistent with State Consensus Tax Revenue forecast ($1,136 million) supports operating expenses
  - Includes one time potential for up to $40 million from the sales tax acceleration proposal prioritize for capital

- The MBTA capital plan assumes $90M annually funded from Contract Assistance (“lockbox funding”). Capital salaries is the priority use of these funds.

- Gives the T the support it needs to address the recommendations of the Safety Review Panel without compromising capital investment needs

- An additional $50 million directed towards safety & infrastructure staffing is assumed, with $32 million included in the recently approved FY19 supplemental budget and an additional $18 million filed in a supplemental budget for FY20.
**Revenue: State Assistance to MBTA**

### Revenue Increases FY20 – FY21

- **Safety & Capital Support Staff Revenue**
  - $32M in FY20
  - $18M in FY21
- **FY21 Contract Assistance $200M Covers the Following:**
  - Operating Budget Costs
  - Increased Safety & Maintenance Positions
  - Goal of $90M Transfer
    - Capital Employee Salaries
    - Pay-Go capital projects
- **FY21 Sales Tax Consensus Revenue**
  - $41M Above BRA
    - $1,095M Base Revenue Amount
    - $1,136M Likely Amount
    - Potentially $1,176M due to $40M from one time sales tax acceleration
- **FY20 Sales Tax Consensus Revenue**
  - $32M above BRA
    - $1,063M BRA
    - $1,114M Controller Estimate as of 11/15/2019

### MBTA State Revenue Inflows FY20 & FY21

- **FY20**
  - **Controller Sales Tax Estimate 1,114**
  - **Safety & Capital Acceleration 32**
  - **Capital Project Funding 60**
  - **Contract Assistance 127**
- **FY21**
  - **Base Revenue Amount (BRA) 1,114**
  - **Additional Contract Assistance 73**
  - **Sales Tax Acceleration 40**
  - **Sales Tax Projected Growth 22**
  - **Safety & Capital Acceleration 18**

*$135M Additional State Assistance

*$60M in GO-Bonds reserved for capital not included in graph
Revenue: Sales Tax Projections

Sales Tax Base Revenue Amount (BRA) vs. Actual Collections
Revenue Projected to Exceed BRA in FY20

- Base Revenue Amount
- Projection
- Actual/Projected Collections

- July 27, 2019: Legislative Conference Committee Consensus Revenue Projection $1,099M in Sales Tax Revenue $56M Above BRA
- March 1, 2019: Certified Letter from Comptroller Projects $1,084M in Sales Tax Revenue $21M Above BRA
- November 15, 2019: Certified Letter from Comptroller Projects $1,114M in Sales Tax Revenue $51M Above BRA
- January 22nd, 2020: House 2 Projects $1,136M in Consensus Revenue FY21 $40M One Time Sales Tax Acceleration

Additional $160M Debt Service Cushion

<table>
<thead>
<tr>
<th>Year</th>
<th>BRA Act.</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY20</th>
<th>FY20</th>
<th>BRA Proj.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>$971</td>
<td>$971</td>
<td>$985</td>
<td>$985</td>
<td>$992</td>
<td>$1,007</td>
<td>$1,053</td>
<td>$1,063</td>
<td>$1,114</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$799</td>
<td>$799</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,176</td>
</tr>
</tbody>
</table>

FY14 FY15 FY16 FY17 FY18 FY19 FY20 FY20 FY20 FY21
## Risks & Opportunities FY21 budget

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Impact on FY21 Year-End Balance</th>
<th>Background</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own Source Revenue</td>
<td>Positive Impact</td>
<td>Growth from different pass programs, in particular the PERQ program and other Charlie card programs</td>
</tr>
<tr>
<td>FY20 Procurements In-Process</td>
<td>Negative Impact</td>
<td>RIDE contract renewal, cleaning contract, property insurance policy, and call center contract are currently being procured and considered part of normal year on year growth.</td>
</tr>
<tr>
<td>Capital Investment Plan</td>
<td>Negative Impact</td>
<td>CIP published after operating budget is approved. Capital projects priorities may affect revenue collection. Increased and/or Accelerated spend may impact projected debt service in later years.</td>
</tr>
<tr>
<td>Pension Contribution</td>
<td>Negative Impact</td>
<td>Changes in the assumed rate of return may impact FY21 contribution. Assessment expected in April 2020.</td>
</tr>
</tbody>
</table>
Structural vs. Budget Challenges

**Structural Challenges**

- Operating Expense excluding debt service CAGR 4.2% increasing faster than Revenue CAGR, 3.7% over last 25 years, \( \Rightarrow \) .5% gap
- Restraints on fare increases
- Pension Expenses is dependent on rate of return, employer contribution rate, and headcount
- Headcount Related Structural Issues
  - Bus Operator Turnover & Overtime
  - Police Hiring through Civil Service
  - Training period required for several front line E&M positions
- An economic downturn could lead to lower sales tax yield, creating funding gap in FY21 and beyond

**Budget Challenges**

- Priorities given demand and under-funding over multiple years exceed available funding
- Operational constraints on hiring speed and expenditure capacity
  - Both are significantly improving, reducing budget lag, but remain a constraint
- Debt Service
  - MBTA has a level of flexibility in structuring debt payments
- Fuel & Utility Price Fluctuations
  - Fuel Hedge currently @ 50%, expires June 2020, researching extending hedge to 75% for FY21
- An economic downturn in the global economy may impact revenue & certain materials
- Capacity to fund $60M of capital projects costs to swap for capital salaries
- Overtime costs running significantly over budget in FY20 due to lag in hiring; expect lower OT levels when at full levels of staffing
- New state-wide PFML benefit begins 1/1/2021; impact on service unknown
## Current Budget Requests vs. FY20 Projection

<table>
<thead>
<tr>
<th>Revenue</th>
<th>FY19 Actuals</th>
<th>FY20 Projection</th>
<th>Current FY21 Request</th>
<th>Variance Description / Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues from Operations, Sales tax, Assessments, Other</td>
<td>2,042.4</td>
<td>2,167.3</td>
<td>2,176.6</td>
<td>Sales Tax Revenue in FY21 Request is $22M above FY20 Projection. Other Income in FY21 Request $12M below Projection (Smaller Safety &amp; Infrastructure Support Payment in FY21)</td>
</tr>
<tr>
<td>Contract Assistance</td>
<td>127.0</td>
<td>127.0</td>
<td>200.0</td>
<td>Additional State Assistance Proposed in H2 for FY21</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>2,169.4</strong></td>
<td><strong>2,294.3</strong></td>
<td><strong>2,376.6</strong></td>
<td>Additional Revenues prioritized for Safety Initiatives &amp; Capital Support</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENSES</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Wages &amp; Fringe</td>
<td>752.5</td>
<td>825.9</td>
<td>941.1</td>
<td>New heads requested for FY21 including safety, Infrastructure &amp; Safety Support (Flex Force), Bus &amp; Service Expansion Initiatives and Reliability Improvements. The E&amp;M vehicle for broadly addressing “safety” is through Preventative Maintenance Inspections (PMI). $8M specialized bi-annual inspections across the authority</td>
</tr>
<tr>
<td>Non-Wage</td>
<td>821.3</td>
<td>874.8</td>
<td>926.0</td>
<td>Commuter Rail contractual increase of $17M, $9.4M requested for safety related initiatives. $7M for customer facing technology &amp; service contracts.</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td><strong>1,573.8</strong></td>
<td><strong>1,700.7</strong></td>
<td><strong>1,867.1</strong></td>
<td>Around a 6% expense reduction needed in Budget Request to achieve expense projection</td>
</tr>
<tr>
<td>Debt Service</td>
<td>486.9</td>
<td>502.7</td>
<td>512.6</td>
<td>Based on 400M Bond Issuance for FY21</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>2,063.4</strong></td>
<td><strong>2,203.4</strong></td>
<td><strong>2,379.7</strong></td>
<td>Fully funding current budget request would increase total expenses by $176.3M compared to FY20P</td>
</tr>
</tbody>
</table>

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Available for Lockbox</td>
<td><strong>108.7</strong></td>
<td><strong>90.9</strong></td>
<td><strong>(3.1)</strong></td>
<td></td>
</tr>
<tr>
<td>Lockbox Transfer Goal</td>
<td>90.0</td>
<td>90.0</td>
<td>90.0</td>
<td>$90M to fully fund CIP; Pro-Forma indicates target of $76M</td>
</tr>
<tr>
<td>Remaining</td>
<td><strong>18.7</strong></td>
<td><strong>0.9</strong></td>
<td><strong>(93.1)</strong></td>
<td></td>
</tr>
</tbody>
</table>
Lockbox - Capital Salaries

Capital Salary Expense

- Capital budget has dedicated employees to carry out CIP
- Capital salary expense projected to increase as CIP Scope evolves and as headcount increases
- Legislative change in FY19 restricts use of bond funds for cap wages
- Capital salaries have since been supported through lockbox funding
- Remaining available operating funds used to support capital salaries and infrastructure projects
## Significant Program Initiatives

### Requests

<table>
<thead>
<tr>
<th>Requests</th>
<th>Total FY21 Request ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>Safety Panel Recommendations</td>
<td>42.2</td>
</tr>
<tr>
<td>Safety &amp; Infrastructure Workforce Support (Flex Force)</td>
<td>25.8</td>
</tr>
<tr>
<td>Fare Transformation (AFC, CTD, CEX – Charlie Card Store, Revenue Group)</td>
<td>3.5</td>
</tr>
<tr>
<td>Peak Expansion</td>
<td>7.2</td>
</tr>
<tr>
<td>Bus Transformation (Transformation, Network Redesign, weekend &amp; other pilots)</td>
<td>8.9</td>
</tr>
<tr>
<td>New/Other Initiatives (Customer Experience and other departments)</td>
<td>12.9</td>
</tr>
<tr>
<td>Rail &amp; Capital Project Operating Costs</td>
<td>3.8</td>
</tr>
<tr>
<td>Service Reliability (PFML, REL)</td>
<td>16.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>120.5</td>
</tr>
</tbody>
</table>

### Legend
- Safety & Contracted Commitments GREEN
- Ongoing Initiatives GREY
FY19 Fixed/Variable/Semi-Variable Costs

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Definition</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td>Department expenses (i.e. rent) that are constant whatever the quantity of goods or services produced</td>
<td>Debt service, regular wages, rent/leases</td>
</tr>
<tr>
<td>Semi-Variable</td>
<td>Costs composed of a mixture of both fixed and variable components, also known as semi-fixed costs or mixed costs. Costs are fixed for a set level of expense and become variable after this level is exceeded.</td>
<td>Snow and fuel, other utilities, maintenance service contracts (cleaning contracts/snow removal)</td>
</tr>
<tr>
<td>Variable</td>
<td>Costs that vary with the level of output</td>
<td>Overtime, repair and maintenance supplies</td>
</tr>
</tbody>
</table>
### Fixed/Semi-Variable/Variable Total Cost & Percentage Fiscal Year (FY15 – FY19)

**Fixed Cost is the main driver with 84% of the Total Cost**

<table>
<thead>
<tr>
<th>Cost $</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td>$1,610,355,145</td>
<td>$1,661,788,688</td>
<td>$1,662,024,728</td>
<td>$1,701,216,239</td>
<td>$1,750,420,862</td>
<td>$1,677,161,132</td>
</tr>
<tr>
<td>Semi - Variable</td>
<td>$192,029,290</td>
<td>$177,060,873</td>
<td>$181,115,908</td>
<td>$206,023,415</td>
<td>$210,394,499</td>
<td>$193,324,797</td>
</tr>
<tr>
<td>Variable</td>
<td>$128,737,436</td>
<td>$115,569,888</td>
<td>$118,346,845</td>
<td>$115,335,424</td>
<td>$112,327,597</td>
<td>$118,063,438</td>
</tr>
</tbody>
</table>

| Total Cost      | $1,931,121,872        | $1,954,419,449        | $1,961,487,481        | $2,022,575,077        | $2,073,142,957        | $1,988,549,367       |

<table>
<thead>
<tr>
<th>Cost %</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td>83%</td>
<td>85%</td>
<td>85%</td>
<td>84%</td>
<td>84%</td>
<td>84%</td>
</tr>
<tr>
<td>Semi - Variable</td>
<td>10%</td>
<td>9%</td>
<td>9%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Variable</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Total %</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
**Fixed Costs - Regular Wages:** Contractual wage increases, requests from FY20 and FY21 have an $83M impact

<table>
<thead>
<tr>
<th>Regular Wages</th>
<th>Key Drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages $473M</td>
<td><strong>FY21 Challenges:</strong></td>
</tr>
<tr>
<td></td>
<td>• CBA step up in FY21 which creates an incremental cost of $10.4M</td>
</tr>
<tr>
<td>Wages $556M</td>
<td>• Streamlined hiring processes and aggressive hiring targets projected will put pressure on wage line item, reducing budget savings and increase headcount related expenses</td>
</tr>
<tr>
<td>FY20 Projection</td>
<td>• Safety Panel recommendation and Safety &amp; Infrastructure support expansion and increased other requests for headcount</td>
</tr>
<tr>
<td>FY21 Current Budget Request</td>
<td>• 1.124 new positions requested for FY21 would increase wages by 24.1%</td>
</tr>
</tbody>
</table>
Fixed Costs - Pension and Healthcare Contributions: MBTA Pension

“Annual Required Contribution” calculated each year

### Pension and Healthcare Contributions

- **Healthcare**: $104M
- **Pension Contribution**: $119M
- **Total**: $223M

### FY21 Challenges:

- FY21 will increase by .5%* over FY20
- FY18 Contribution Rate of 20.01%
- FY19 Contribution Rate of 22.68%
- FY20 Contribution Rate of 26.1%
- FY21 Contribution Rate of 26.6%
- Fund assumes long-term expected return rate of 7.50% vs. 7.75% in FY18

### Key Drivers

- **Healthcare**: $104M
- **Pension Contribution**: $155M
- **Total**: $259M

+$36M
Fixed Costs - Contracted Services: $28M increase in FY21 due to annual contract escalators with key customer facing vendors

**Contracted Services**

- FY20 Projection
  - RIDE: $122M
  - Other Services: $145M
  - Total: $283M

- FY21 Current Budget Request
  - RIDE: $124M
  - Other Services: $170M
  - Total: $311M
  - Increase: $28M

**Key Drivers**

- MBTA has numerous contracts that escalate on an annual basis
- Ferry Services ($1M)
- RIDE Service ($2M)
- Other Services ($25M)
- Snow, customer facing technology, etc.
- Smaller contracts that also have escalators include fire safety, elevator & escalator, trash and environmental, tree and vegetation removal, security and monitoring, etc.
- Cleaning contracts for station and vehicles
- Specialized inspections from Safety Panel recommendations of $8M+ included
Fixed Costs - Commuter Rail: Keolis annual fixed-fee contract escalators and executed scope changes increase commuter rail costs by $17M

Commuter Rail

+ $17M

FY20 Projection

Commuter Rail $427M

FY21 Current Budget Request

Commuter Rail $444M

Key Drivers

FY21 Challenges:

- Keolis base fixed-fee contract to increase by $8M in FY21
  - Service Changes (e.g. Foxboro & Fairmont)
  - Regulatory changes (e.g. drug and alcohol law)
  - Contractual escalation in previous scope changes
    - E.g. increased fleet size and expanded maintenance requirements
- Annually T and Keolis share revenue above a certain threshold
  - Current ridership trends and key programs led by the Commercial Program & Strategies team, higher revenue share expected to rise
Fixed Costs - Incremental Debt Service: Marginal debt service repayment increase consistent with FMCB approved debt policy and amortization tables

**Incremental Debt Service**

**Key Drivers**

**FY21 Challenges:**
- Amortization Tables require increase debt service payments totaling $28M in FY21
- Increases compliant with FMCB approved Debt Policy (June 16):
  - Requires level repayment of principal consistent with useful life of capital investments
  - No deferring obligations to future periods

**Other Challenges:**
- Short-term interest rates may increase
Next Steps

February 24: Management to introduce FY21 Preliminary Budget to FMCB

March 9: FMCB vote to release FY21 Preliminary Itemized Budget to MBTA Advisory Board

April 13: FMCB vote to release the Approved Itemized Budget to MBTA Advisory Board

April 15: Statutory deadline for FMCB to approve FY21 Budget