



# **Massachusetts Bay Transportation Authority**

## **FY21 Operating Budget Preview**

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Fiscal and Management Control Board

February 24, 2020

David Panagore

# Agenda

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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

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**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 Budget Framework

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**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 16<sup>th</sup> 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



# MBTA Revenue Overview

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## **\$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.

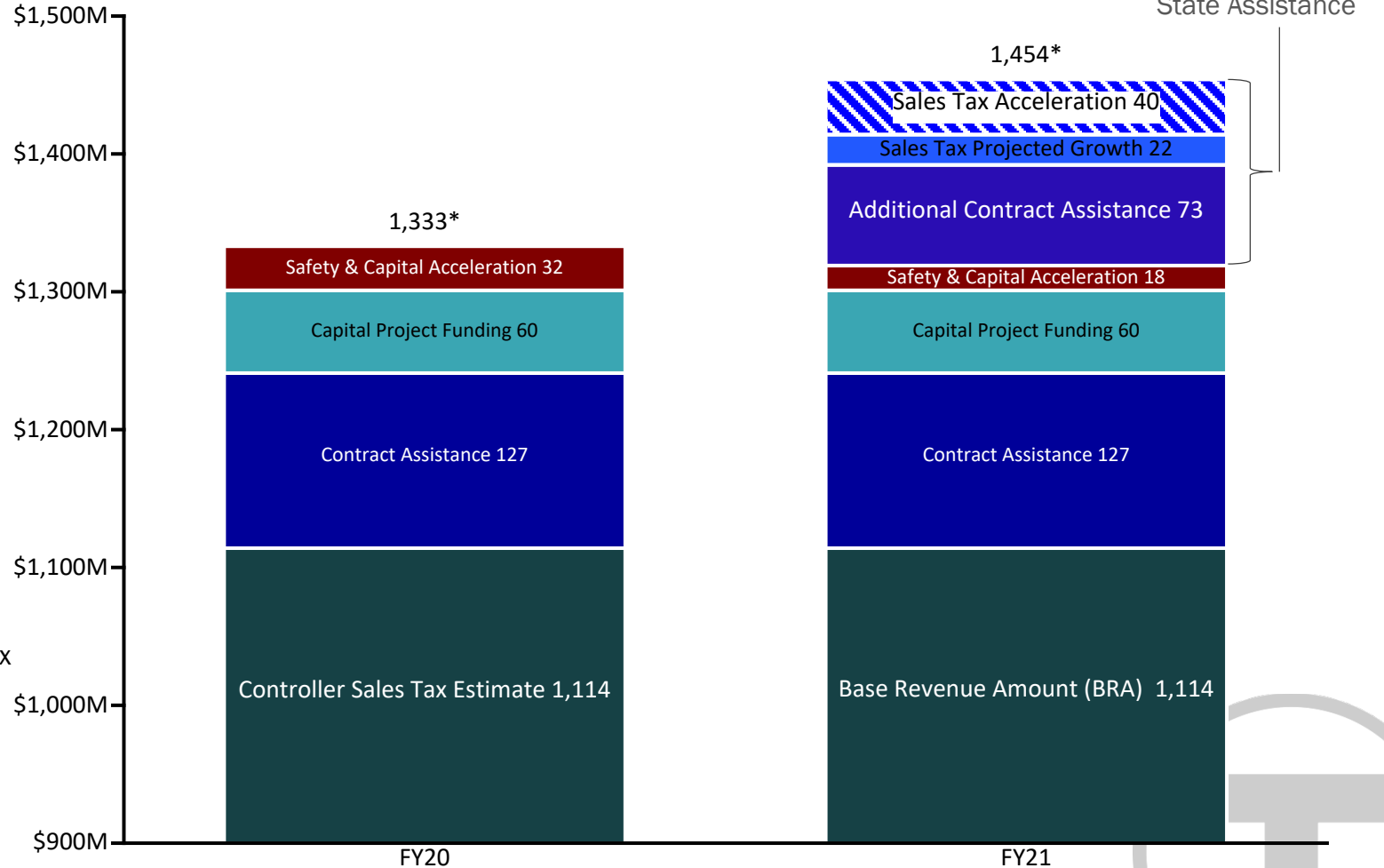


# Revenue: State Assistance to MBTA

## 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

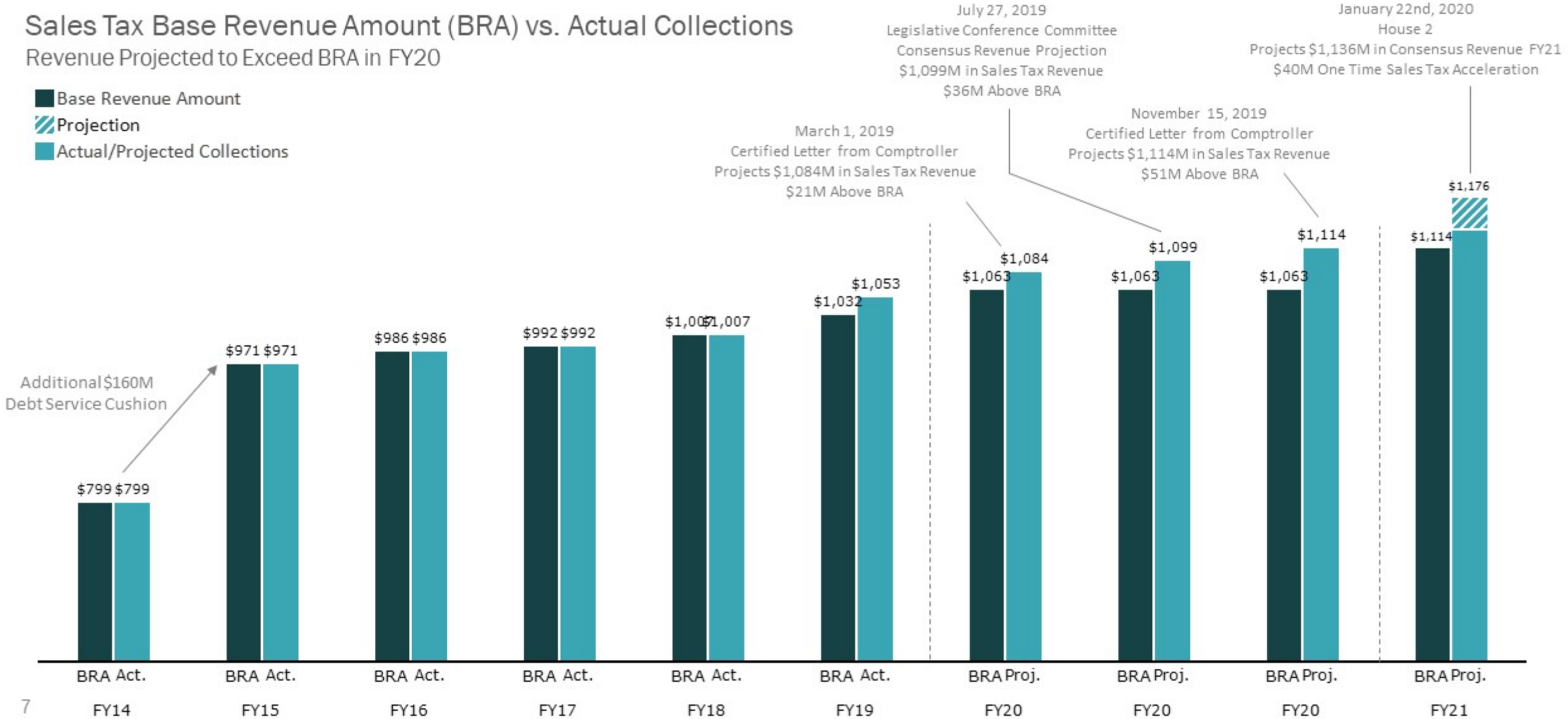


\*\$60M in GO-Bonds reserved for capital not included in graph

# 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



# Risks & Opportunities FY21 budget

Budget Item	Impact on FY21 Year-End Balance	Background
Own Source Revenue	Positive Impact ↑	Growth from different pass programs, in particular the PERQ program and other Charlie card programs
Accelerated Sales Tax Remittance	Positive Impact ↑	Section 94 of Chapter 47 of the Acts of 2017 directs the DOR to effectuate accelerated sales tax remittance. Currently in House 1. One time revenue.
FY20 Procurements In-Process	Negative Impact ↓	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.
Capital Investment Plan	Negative Impact ↓	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.
Pension Contribution	Negative Impact ↓	Changes in the assumed rate of return may impact FY21 contribution. Assessment expected in April 2020.



# 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, ➡ .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

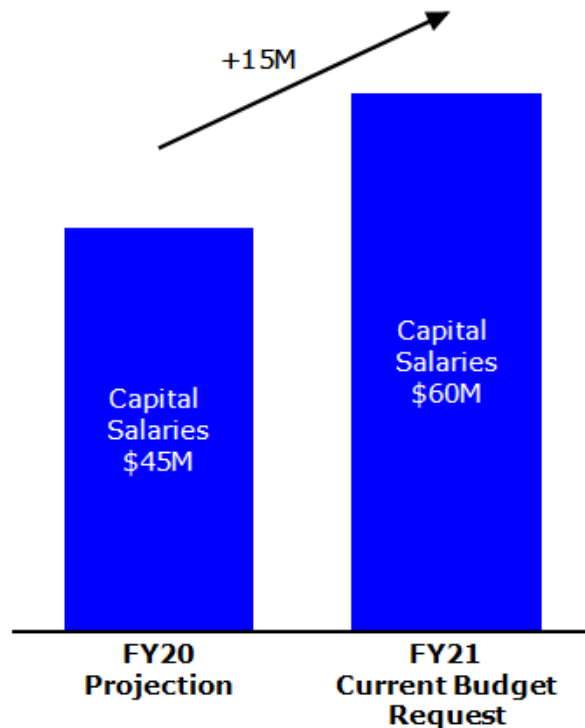
- Priorities given demand and under-funding over multiple years exceed available funding
- Operational constraints on hiring speed and expenditure capacity
  - Both are significantly improving, reducing budget lag, but remain a constraint
- Debt Service
  - MBTA has a level of flexibility in structuring 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

	(\$M)	FY19 Actuals	FY20 Projection	Current FY21 Request	Variance Description / Notes
Revenue	Revenues from Operations, Sales tax, Assessments, Other	2,042.4	2,167.3	2,176.6	Sales Tax Revenue in FY21 Request is \$22M above FY20 Projection. Other Income in FY21 Request \$12M below Projection (Smaller Safety & Infrastructure Support Payment in FY21)
	Contract Assistance	127.0	127.0	200.0	Additional State Assistance Proposed in H2 for FY21
	<b>Total Revenue</b>	<b>2,169.4</b>	<b>2,294.3</b>	<b>2,376.6</b>	Additional Revenues prioritized for Safety Initiatives & Capital Support
EXPENSES	Total Wages & Fringe	752.5	825.9	941.1	New heads requested for FY21 including safety, Infrastructure & Safety Support (Flex Force), Bus & Service Expansion Initiatives and Reliability Improvements. The E&M vehicle for broadly addressing "safety" is through Preventative Maintenance Inspections (PMI). \$8M specialized bi-annual inspections across the authority
	Non-Wage	821.3	874.8	926.0	Commuter Rail contractual increase of \$17M. \$9.4M requested for safety related initiatives. \$7M for customer facing technology & service contracts.
	<b>Operating Expenses</b>	<b>1,573.8</b>	<b>1,700.7</b>	<b>1,867.1</b>	Around a 6% expense reduction needed in Budget Request to achieve expense projection
	Debt Service	486.9	502.7	512.6	Based on 400M Bond Issuance for FY21
	<b>Total Expenses</b>	<b>2,063.4</b>	<b>2,203.4</b>	<b>2,379.7</b>	Fully funding current budget request would increase total expenses by \$176.3M compared to FY20P
	<b>Available for Lockbox</b>	<b>108.7</b>	<b>90.9</b>	<b>(3.1)</b>	
	Lockbox Transfer Goal	90.0	90.0	90.0	<b>\$90M to fully fund CIP; Pro-Forma indicates target of \$76M</b>
	<b>Remaining</b>	<b>18.7</b>	<b>0.9</b>	<b>(93.1)</b>	

# Lockbox - Capital Salaries

## Capital Salary Expense



## Key Drivers

- Capital budget has dedicated employees to carryout 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	Total FY21 Request (\$M)	
	Low	High
Safety Panel Recommendations	42.2	56.3
Safety & Infrastructure Workforce Support (Flex Force)	25.8	34.4
Fare Transformation (AFC, CTD, CEX – Charlie Card Store, Revenue Group)	3.5	4.7
Peak Expansion	7.2	9.6
Bus Transformation (Transformation, Network Redesign, weekend & other pilots)	8.9	11.9
New/Other Initiatives (Customer Experience and other departments)	12.9	17.2
Rail & Capital Project Operating Costs	3.8	5.1
Service Reliability (PFML, REL)	16.2	21.5
<b>Total</b>	<b>120.5</b>	<b>160.7</b>

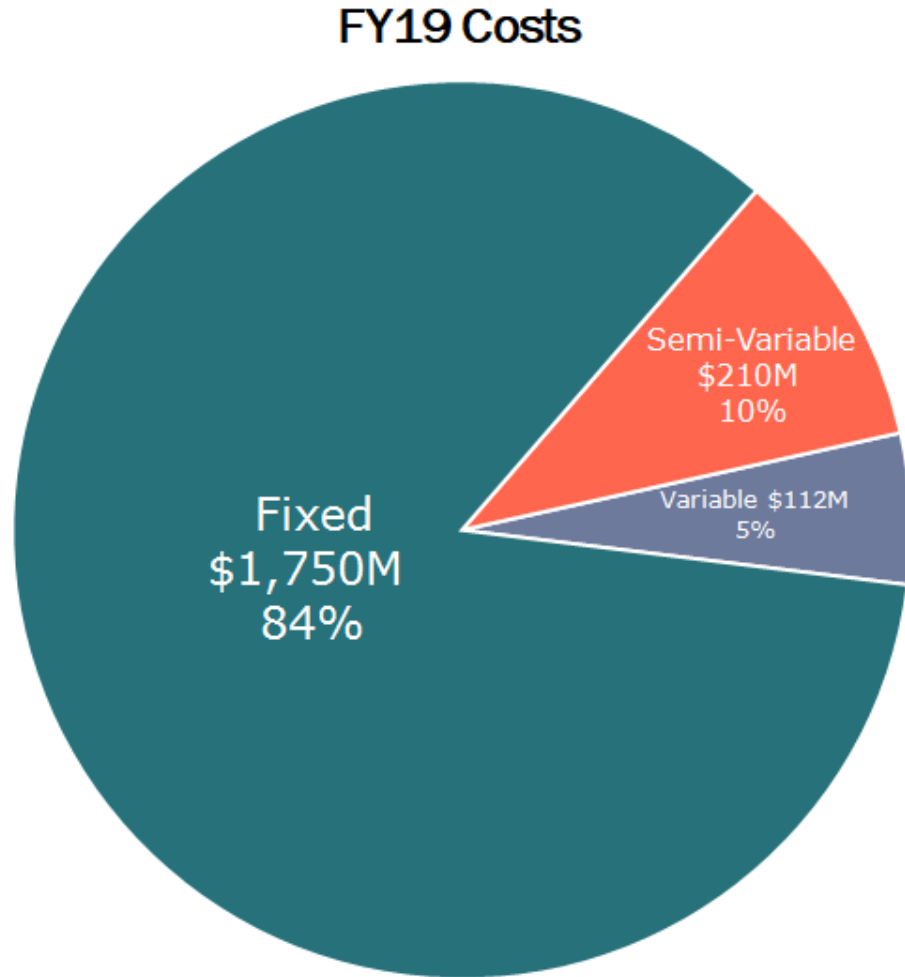
## Legend

Safety & Contracted Commitments GREEN

Ongoing Initiatives GREY



# FY19 Fixed/Variable/Semi-Variable Costs



Cost Category	Definition	Examples
<b>Fixed</b>	Department expenses (i.e. rent) that are constant whatever the quantity of goods or services produced	Debt service, regular wages, rent/leases
<b>Semi-Variable</b>	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.	Snow and fuel, other utilities, maintenance service contracts (cleaning contracts/snow removal)
<b>Variable</b>	Costs that vary with the level of output	Overtime, repair and maintenance supplies



# Fixed/Semi-Variable/Variable Total Cost & Percentage Fiscal Year (FY15 – FY19)

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

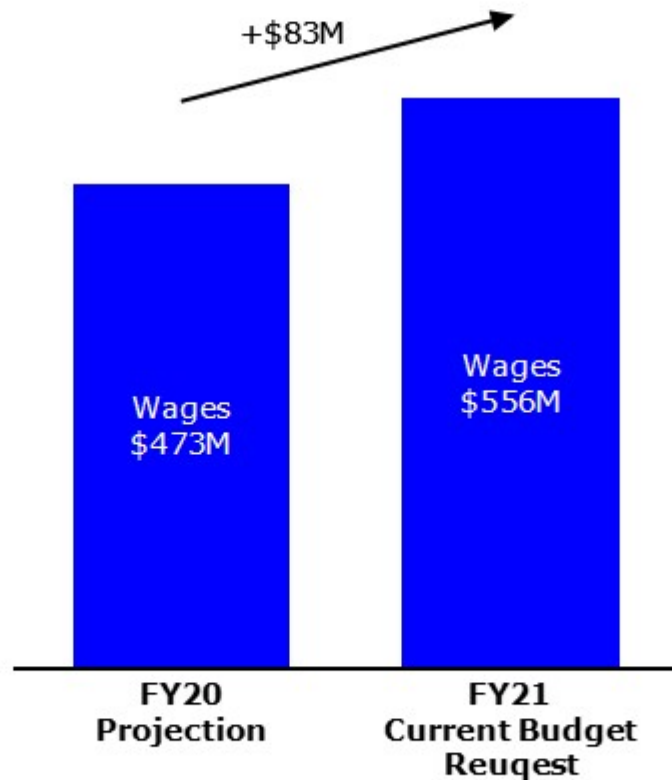
Cost \$	FY15	FY16	FY17	FY18	FY19	Average
Fixed	\$1,610,355,145	\$1,661,788,688	\$1,662,024,728	\$1,701,216,239	\$1,750,420,862	\$1,677,161,132
Semi - Variable	\$192,029,290	\$177,060,873	\$181,115,908	\$206,023,415	\$210,394,499	\$193,324,797
Variable	\$128,737,436	\$115,569,888	\$118,346,845	\$115,335,424	\$112,327,597	\$118,063,438
<b>Total Cost</b>	<b>\$1,931,121,872</b>	<b>\$1,954,419,449</b>	<b>\$1,961,487,481</b>	<b>\$2,022,575,077</b>	<b>\$2,073,142,957</b>	<b>\$1,988,549,367</b>

Cost %	FY15	FY16	FY17	FY18	FY19	Average
Fixed	83%	85%	85%	84%	84%	84%
Semi - Variable	10%	9%	9%	10%	10%	10%
Variable	7%	6%	6%	6%	5%	6%
<b>Total %</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



# Fixed Costs - Regular Wages: Contractual wage increases, requests from FY20 and FY21 have an \$83M impact

## Regular Wages



## Key Drivers

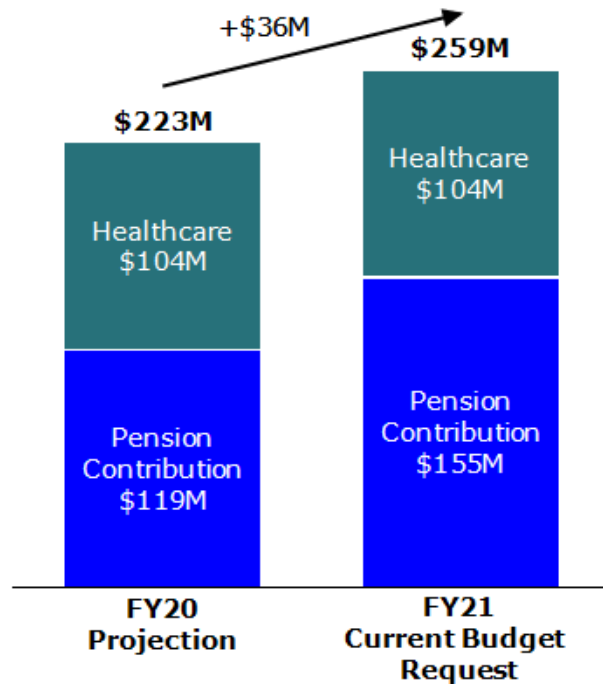
### FY21 Challenges:

- CBA step up in FY21 which creates an incremental cost of \$10.4M
- Streamlined hiring processes and aggressive hiring targets projected will put pressure on wage line item, reducing budget savings and increase headcount related expenses
- Safety Panel recommendation and Safety & Infrastructure support expansion and increased other requests for headcount
- 1,124 new positions requested for FY21 would increase wages by 24.1%



# Fixed Costs - Pension and Healthcare Contributions: MBTA Pension “Annual Required Contribution” calculated each year

## Pension and Healthcare Contributions



## Key Drivers

### FY21 Challenges:

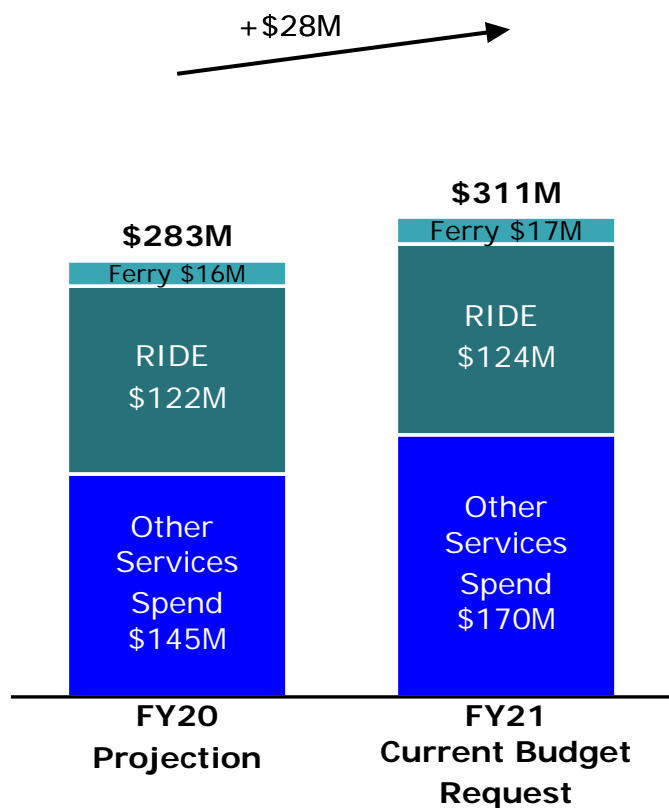
- FY21 will increase by .5%\* over FY20
- FY18 Contribution Rate of 20.01%
- FY19 Contribution Rate of 22.68%
- FY20 Contribution Rate of 26.1%
- FY21 Contribution Rate of 26.6%
- Fund assumes long-term expected return rate of 7.50% vs. 7.75% in FY18





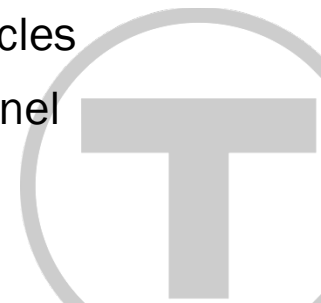
# Fixed Costs - Contracted Services: \$28M increase in FY21 due to annual contract escalators with key customer facing vendors

## Contracted Services



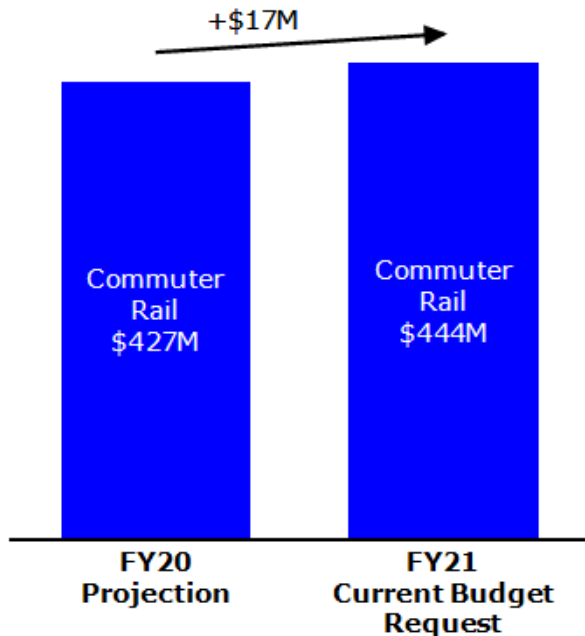
## Key Drivers

- 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



## Key Drivers

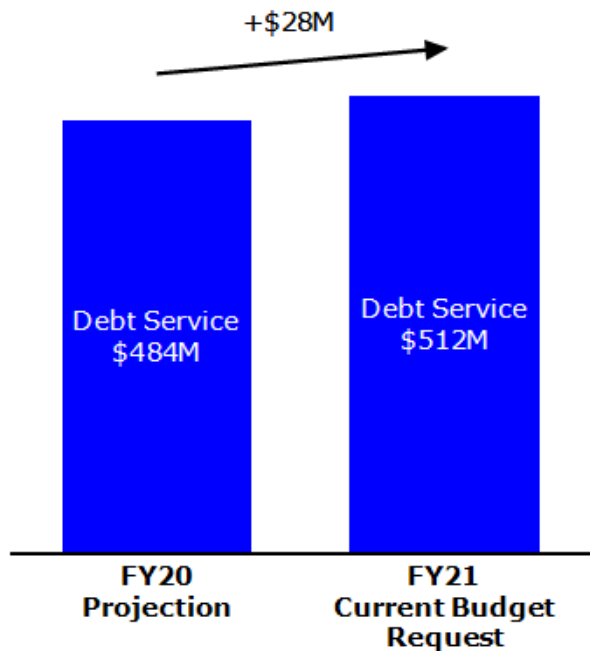
### FY21 Challenges:

- 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

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