FY21 Revised Operating Budget

Fiscal and Management Control Board
David Panagore
May 4, 2020
FY21 Operating Budget

Agenda

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2. Proposed Operating Budget Timeline
3. Revenue Scenarios
   - Ridership and Fare Analysis and Assumptions
   - Ridership and Fare Revenue Models
   - Fare Revenue Model Recommendation
4. Operating Budget Scenarios
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   - Initiative Prioritization, Headcount & Expense Detail
5. Next Steps
Overview

• Overall objective for FY21 is for budget to support return to full FY20 service levels even while assuming substantially lower ridership and fares, thus ensuring that that social distancing can be sustained.

• While prioritization decisions need to be made now and over the course of the coming fiscal year, CARES funding will allow MBTA to support FY20 service levels, although safety headcount will have to be phased in depending on revenue availability.

• No budget scenario requests any increase in fares and all support elimination of cash/Charlie Ticket surcharge (and transfers on the Fairmont Line) as part of stage 1 and 2 of fare transformation, which will help riders who are paying separately for each trip rather than using passes or stored value Charlie Cards.

• The budget scenarios and recommendation are for an initial budget, which we anticipate re-visiting quarterly and/or as events transpire.
Approach

• Revenue models are grounded in ridership activity/projection

• All budget scenarios are constrained by lower fare revenue due to substantially lower ridership projections

• State Contract Assistance FY20 funding level ($127M) assumed, will be reviewed after passage of State Budget

• Sales Tax assumed to be at Base Revenue Amount as per State Comptroller certification (3/6/2020)

• CARES Act funding replaces lost revenue and is fully expended in FY21

• No furloughs or layoffs in any budget scenario
Proposed Operating Budget Timeline

- **February 24:** Management introduces FY21 Preliminary Budget to FMCB
- **March 9:** FMCB vote to release FY21 Preliminary Itemized Budget to MBTA Advisory Board
- **March 24:** Stay at Home Order - All non-essential businesses directed to cease in person operation
- **April 27:** Management presents updated FY20 Projection
- **May 4:** FMCB meeting to review budget
  - **May 11:** FMCB vote to release the Approved Itemized Budget to MBTA Advisory Board
  - **May 12-15:** MBTA Advisory Board Meeting
  - **May 21:** Request special FMCB meeting for Final Budget Vote
  - **May 28:** FMIS Upgrade goes live
  - **June 15:** Statutory deadline for FMCB to approve FY21 Budget
  - **June/July:** Revisit FY21 Operating Budget upon adoption of State Budget
Revenue Scenarios
Revenues: April revenue ~80% below typical month across commuter rail, rapid transit, and bus
Revenues: Perq anticipated revenues for May down ~70% vs March

April projected revenue includes $4.9M in CR/Boat returns and 80% of RT/Bus cards to be credited. Actual credit amount will be evaluated for RT/Bus after April month-end.

May projected revenue projects 10% of CR/Boat to be returned and 80% of RT/Bus cards to be credited. Actual credit amount will be evaluated for RT/Bus after May month-end.
Ridership & Fare Assumptions

• Significant decline in monthly fare products
  • But notably, not as steep as single-ride products (down ~85% from a typical month)

• Ridership recovery will be influenced by variety of factors:
  • Extent to which State and Federal (CDC) guidance and/or requirements reduce capacity
  • Customer perception of safety and willingness to use transit
  • Employer decisions and telecommute behavior
  • Changing traffic patterns
  • Price competition: gas and parking

• Implementation of stage 1 and 2 benefits of fare transformation including commuter rail gates, transfers on the Fairmont line, and equalizing Charlie Card and CharlieTickets/Cash Fares

• Team currently evaluating a wide variety of program and product responses
FY21 Monthly Ridership/Fare Revenue Models

FY21 Fare Revenue Sensitivity Analysis

Inflection points depend on external medical, community, and economic factors

Model E ($401M) “steady Improvement” 10% increase in ridership every month until reaching new steady state in March

Model A ($322M)Gradual Ridership return in Fall 2020 followed by sharp ridership buildup to new steady state in Winter 2020

Model D ($188M)
Social Distancing protocols relaxed in Spring, Small Summer uptick, concern about possible COVID-19 re-emergence in Fall/Winter keeps fares flat before gradually building up to new steady state

Model B ($292M)
Social Distancing extended into Winter 2020 followed by gradual buildup to new steady state

Model C ($136M) “Extended” Long term Social Distancing protocols leading to reduced ridership and economic activity
Range of FY21 Revenue Models

- Revenue assumptions are as of 4/28 are between $502.9M - $760.6M lower than March 9th FY21 Budget Presentation
- *Staff recommends Model D*

<table>
<thead>
<tr>
<th>Revenue Category</th>
<th>FY21 Prelim. Budget</th>
<th>Model A</th>
<th>Model B</th>
<th>Model C</th>
<th>Model D</th>
<th>Model E</th>
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Revenue Loss Compared to FY21 Prelim. Budget

- ($535.7)  
- ($592.2)  
- ($760.6)  
- ($716.0)  
- ($502.9)
FY21 Updated Ridership/Revenue Assumptions

- Percentages reflect a conservative ridership model based upon how much of the original FY21 budgeted amount will be collected.
- Budgeted operating costs in FY21 will need to be adjusted to align with available revenues.
- State Contract Assistance FY20 funding level assumed, review MBTA Operating Budget after passage of State Budget.
- Sales Tax assumed to be at BRA as per comptroller certification (3/6/2020).

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<td>BRA BRA BRA</td>
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| Total          | 68% |

- March 9th Budgeted Revenue
- Current Budgeted Revenue
- Variance
**Historical Fare Revenue vs. Projected Fare Revenue**

- **FY18 Total Revenue**: $661M
- **FY19 Total Revenue**: $872M
- **FY20 Projected Revenue**: $540M
- **FY21 Projected Revenue**: $188M

**Key Points**:
- Social Distancing Begins March 14th
- Full revenue impact of Social Distancing begins
- Gradual buildup to new steady state beginning in Winter 2020/Spring 2021
- Flat due to concern about potential reemergence of COVID-19
- Brief increase in ridership during summer

**Actual vs. Projected Fare Revenue**
- **FY18 Actuals**
- **FY19 Actuals**
- **FY20 Projected**
- **FY21 Projected**
Operating Budget Scenarios
FY21 Operating Budget

Service Level Assumptions

Each FY21 budget scenario supports a full return to FY20 regular service levels.

• Future ridership demands and patterns remain uncertain but MBTA needs to provide full capacity to safely serve smaller ridership while enabling social distancing

• In order to support a safe and successful transition to full service as a phased reopening of the economy occurs, the Authority has:
  • Begun developing emergency service level policies that will guide future schedules balanced with workforce availability
  • Service level planning will focus on Operational flexibility while maintaining a core level of service to meet variable ridership patterns
  • Key areas of focus will be balancing social distancing (vehicle crowding standards) with peak ridership demands
  • COVID-19 cleaning, safety, and PPE protocols to continue
Pay-Go/Lockbox Assumptions

• CIP funding sources previously presented to the FMCB assumed a continuation of $150M in annual lockbox deposits - $60M in state bond cap and $90M in operating assistance.
  - Lockbox funds are programmed to specific projects as well as salary costs for bond-funded projects

• Given the current statutory restriction on use of bond funds for capital salaries, lockbox funds are the only available source to pay personnel costs for projects funded by State and MBTA bond proceeds.
  - Capital salary costs estimated ~$66M for FY21; $40M for bond-funded projects and $26M for lockbox-funded projects

• All budget scenarios assume full $127 million of additional contract assistance is dedicated to the operating budget, with no funds available for the capital program projects via the lockbox.

• In order to minimize disruption to the capital program and continue in-flight projects:
  - MBTA requests enactment of legislative proposal to lift the restriction on the use of bond funds for capital salaries
  - Projects currently funded by lockbox would be shifted to alternative funding sources

• Anticipated FY21 capital spending goals are achievable without the lockbox as a source of project funding
Budget Scenario Assumptions

- **Model D “Current Model”** revenue assumption is the same across all scenarios
- COVID-19 related expenses for Materials & Services are included
- Utilization of available Capital Maintenance Funds for specialized inspections (third party)
- Safety & Infrastructure funds to be utilized for maintenance and PMI related activities
- All scenarios retain FY20 hires already made as approved in December 2019 by the FMCB in the following areas:
  - Safety & Infrastructure Support
  - Safety Panel Recommendations
  - Fare Transformation
  - Rail Transformation
  - Bus Transformation
- All scenarios stagger hiring to maximize wage & fringe savings
- Revised state funding levels are included in Total Revenue
FY21 Operating Budget

Scenario 1: Recommended Initial Operating Budget
- Safety initiative is funded at 50% (151)
- All other Initiatives delayed until FY22
- Some separated positions eligible for backfill (204 out of 498)

Scenario 2:
- Safety Initiative is fully funded (303).
- All other Initiatives delayed until FY22
- Some separated positions eligible for backfill (204 out of 498)

Scenario 3:
- Fully funding budget priorities established in Prelim Budget (March 9) through a rigorously controlled hiring plan (see next slide)
  - Safety Panel Recommendations (303)
  - Peak Bus Expansion (80)
  - Other Operational Initiatives (31)
  - Light/Heavy Rail (38)
- Some separated positions eligible for backfill (204 out of 498)

Scenario 3A:
- Contingent on/triggered by legislative relief from Capital Salaries
- Headcount, budget priorities, and policy choices made same as Scenario 4

FY21 Budget Scenarios

<table>
<thead>
<tr>
<th>Prelim. Budget</th>
<th>Scen. 1</th>
<th>Scen. 2</th>
<th>Scen. 3</th>
<th>Scen. 3a</th>
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<td>1,653.1</td>
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Policy Priorities

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Policy Choices Made

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Policy Choices to be Made

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Initiatives Grand Total

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<td>Net Revenue/Expenditures</td>
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<td>(24.9)</td>
<td>(47.0)</td>
<td>(63.5)</td>
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FY21 Initiative Prioritization Sequence

• Initiative prioritization based upon decisions made in March 9\textsuperscript{th} preliminary budget
• Additional hires from March 9\textsuperscript{th} preliminary budget to be funded in order appearing in table
• Hiring is staggered across the months to align with implementation
• All initiative hiring to be rigorously controlled to stay within budget constraints
• Request guidance for prioritization for Policy Choices to be Made
• If additional revenue is realized, should the initiatives previously included in March 9\textsuperscript{th} preliminary budget be re-sequenced?
  • Should all safety funding be included or should it be spread out over a longer period of time?
  • Should peak bus expansion be prioritized in order to address potential social distancing issues on buses?
  • What is relative importance of each other initiative?
FY21 Initiative Prioritization Sequence (Scenario 1)

- As fare revenue improves, available funding will be dedicated to restoring initiative headcount up to March 9\textsuperscript{th} proposed levels

- 151 Safety Panel Recommendation positions are included in Scenario 1

- As fare revenue improves, first $22.2M of additional revenue will be prioritized for remaining Safety Panel Recommendations

- After Safety Panel Recommendation funding needs are fulfilled, next $5.1M in available revenue prioritized to Other Operational Initiatives

- After Other Operational Initiative funding needs are fulfilled, next $1.6M in available revenue prioritized to PFML

- After Budget Priority funding levels are restored to proposed levels from March 9\textsuperscript{th}, subsequent revenues allocated to Policy Choices Made and Policy Choices to be Made

<table>
<thead>
<tr>
<th>Initiative Description (ordered in terms of priority)</th>
<th>FY20 Hires Included in All Scenarios</th>
<th>Scenario 1 Additional Hires in FY21</th>
<th>Initiative Expense</th>
<th>Prelim. Budget Additional Hires in FY21</th>
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<td>Policy Choices to be Made</td>
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<tr>
<td>Bus Transformation</td>
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<td>Service Enhancements</td>
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<td>Bus/Network Redesign</td>
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<td>Weekend Pilots</td>
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<tr>
<td>Policy Choices to be Made Total</td>
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<tr>
<td>Initiatives Total Headcount</td>
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<td>151</td>
<td>$44.7</td>
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Next Steps

- **February 24:** Management introduces FY21 Preliminary Budget to FMCB
- **March 9:** FMCB vote to release FY21 Preliminary Itemized Budget to MBTA Advisory Board
- **March 24:** Stay at Home Order - All non-essential businesses directed to cease in person operation
- **April 27:** Management presents updated FY20 Projection
- **May 4:** FMCB meeting to review budget
- **May 11:** FMCB vote to release the Approved Itemized Budget to MBTA Advisory Board
- **May 12-15:** MBTA Advisory Board Meeting
- **May 21:** Request special FMCB meeting for Final Budget Vote
- **May 28:** FMIS Upgrade goes live
- **June 15:** Statutory deadline for FMCB to approve FY21 Budget
- **June/July:** Revisit FY21 Operating Budget upon adoption of State Budget
FY21 Operating Budget

CARES Act Refresher – Provisions of Federal Stimulus

- Feds passed the CARES (Coronavirus Aid, Relief and Economic Security) Act with $25 billion in emergency grants available to mass transit agencies

- FTA is required to apportion the funds within 7 days of enactment - $884M anticipated for Boston region
- MBTA estimated to receive $827M for FY20 and FY21 COVID Impacts

- Statute covers loss of revenue and operating expenses including but not limited to:
  - Operating costs to maintain service
  - Lost revenue due to the coronavirus public health emergency
  - Purchase of personal protective equipment
  - Paying administrative leave of operations personnel due to reductions in service and payroll costs for staff staying home on administrative leave

- Grants are eligible for a 100% federal cost share; no local match required, timing receipt of grant funds 60+ days
FY21 Initiative Prioritization Sequence (Scenario 2)

- As fare revenue improves, available funding will be dedicated to restoring initiative headcount up to March 9th proposed levels.
- 303 Safety Panel Recommendation positions are included in Scenario 3.
- Including 303 safety positions results in a $20M deficit by FY21 year end.
- After Safety Panel Recommendation funding needs are fulfilled, next $5.1M in available revenue dedicated to Other Operational Initiatives.
- After Other Operational Initiative funding needs are fulfilled, next $1.6M in available revenue dedicated to PFML.
- After Budget Priority funding levels are restored to proposed levels from March 9th, next revenue sources allocated to Policy Choices Made and Policy Choices to be Made.
FY21 Initiative Prioritization Sequence (Scenario 3)

- As fare revenue improves, available funding will be dedicated to restoring initiative headcount up to March 9th proposed levels.

- 303 Safety Panel Recommendation, 31 Other Operational Initiative, 80 Peak Bus, and 38 Light/Heavy Rail positions are included in Scenario 4.

- Including these positions results in a $36.5M deficit by FY21 year end.

- After Budget Priority funding levels are restored to proposed levels from March 9th, next revenue sources allocated to Policy Choices to be Made.
FY21 Initiative Prioritization Sequence (Scenario 3a)

- Legislative relief from restriction on Capital Salaries would allow operating funds to be expended on proposed initiatives.

- As revenue situation improves, available funding will be dedicated to restoring initiative headcount up to March 9th proposed levels.

- 303 Safety Panel Recommendation, 31 Other Operational Initiative, 80 Peak Bus, and 38 Light/Heavy Rail positions are included in Scenario 4a.

- After Budget Priority funding levels are restored to proposed levels from March 9th, next revenue sources allocated to Policy Choices to be Made.