Massachusetts Bay Transportation Authority

FY21/22 Pro Forma Budget Update

Fiscal and Management Control Board

August 24, 2020

Finance Team

Presentation

Overview

Despite significant revenue loss, the FY20 budget closed in balance due to a portion of one-time federal CARES Act funding

- $221.8M of the $827M in total one-time federal CARES Act funding offset $151.2M in fare revenue losses to close FY20 with $81.6M balancing forward from FY20 into FY21 to support operating spending, $5.5M above the FY21 budgeted amount of $76.1M
- Without one-time CARES Act funding, FY20 actuals would have resulted in a budget gap of $140.2M

Executing the FMCB-approved FY21 budget at current service levels exhausts the remaining CARES Act funds

- The FY21 budget is balanced using $720M in one-time revenue (including remaining CARES Act funds) and assuming a 60% return of fare revenue by June 2021 (14% as of June 2020)

Assuming an 80% return of fare revenue by September 2021, the August Pro Forma projects a $308M budget gap for FY22

- With one-time CARES Act funding entirely expended in FY20 and FY21 in order to maintain service levels, the August Pro Forma (actuals through June 2020) projects a $308M budget gap in FY22

In a data-driven way that prioritizes safety, equity and sustainability, and based on ridership behavior, implement a savings target with guiding principles at the start of this year to mitigate the FY22 budget gap in a fiscally responsible manner

- Decisions to increase operating budget funding or reduce spending need to be made quickly so that planning, notification, and implementation can take place in advance of any changes

Transit Agencies/Systems Face Financial Challenges in FY20 and FY21

- From American Public Transportation Assoc. (APTA), almost **one-third of public transit agencies have been forced to furlough employees or are planning future furloughs**
- Also per APTA, more than **one-third of public transit agencies have had to delay capital projects and nearly one in five agencies have shifted funds from their capital budget to their operating budget**
- **New York's MTA** is projecting a budget loss for this year of about \$3.8B (22%) and \$6.6B (38%) next year as ridership declines of over 90% may require decreased service and increased fares absent any additional federal funding
- **Philadelphia's SEPTA** is looking at upwards of \$300M in lost revenue through mid-2021 and eliminated about half of its bus and trolley routes, closed 18 subway stations, and cut service entirely on six Regional Rail lines as it now gradually adds back service (normal schedule timeline still not set)
- **San Francisco's SFMTA** is planning for a \$200M loss in the latest budget that would translate into 40 of 68 bus lines being cut, possibly permanently, after being put on hiatus at the beginning of the shelter-in-place order
- **Seattle's King County Metro** is projecting more than \$600M in lost revenues through 2022 and announced a fall service cut of 15% from pre COVID-19 levels
- **The MBTA** saw a \$151M (22%) loss in fare revenue in FY20 relative to budget with a projected \$524M (74%) fare revenue loss in FY21 with ridership down as much as 90% from last year

Pro Forma Projections

As of August 2020

Pro Forma Purpose and Highlights

- August Pro Forma assumptions include actual spending and revenue figures as of June 30, 2020
- Conducting Pro Forma projections for the operating budget now gives us time to implement the time-consuming decisions that can increase operating budget funding and manage expenses that will build a reserve and avoid harsher budget decisions next year in FY22
- Future revenue estimates are highly variable given the significant uncertainty surrounding the long-term effect of COVID-19 on public transit ridership and revenue
- FY21 is balanced using a total of $720M in one-time funding, including CARES Act funding plus other one-time sources like the ending balance from FY20
- Exhausting one-time CARES Act funding by the end of FY21 to continue running full service without the supporting fare revenue creates a budget gap in FY22
- **All assumptions and variables will be updated to incorporate new or updated information**
- **Spending, revenue, and budget gap figures will change to incorporate the best available data**

Projected FY22 Budget Gap of $308M (as of August 2020)

Numbers may change as all assumptions and variables are subject to revision as the authority receives new or updated information

- Projected budget gap of $308M in FY22 increasing to $468M in FY25
- 2.2% annual revenue growth between FY22 and FY25
- 4.0% annual spending growth between FY22 and FY25

	FY21 - FY25 Pro Forma Summary				
	FY21 Projection ($M)	FY22 Projection ($M)	FY23 Projection ($M)	FY24 Projection ($M)	FY25 Projection ($M)
Fare Revenue	188	550	596	597	625
One Time Revenue	720	-	-	-	-
Other Operating Revenue	1,465	1,523	1,544	1,565	1,586
Total Revenue	**2,373**	**2,073**	**2,139**	**2,162**	**2,211**
Operating Expenses	1,776	1,814	1,896	1,954	2,020
Debt Service	523	499	555	561	587
Capital Salaries	66	68	69	71	72
Total Expenses	**2,366**	**2,381**	**2,520**	**2,586**	**2,679**
Remaining Balance	**7**	**(308)**	**(380)**	**(424)**	**(468)**

Any Future Fare Revenue Assumption Carries Risk (as of August 2020)

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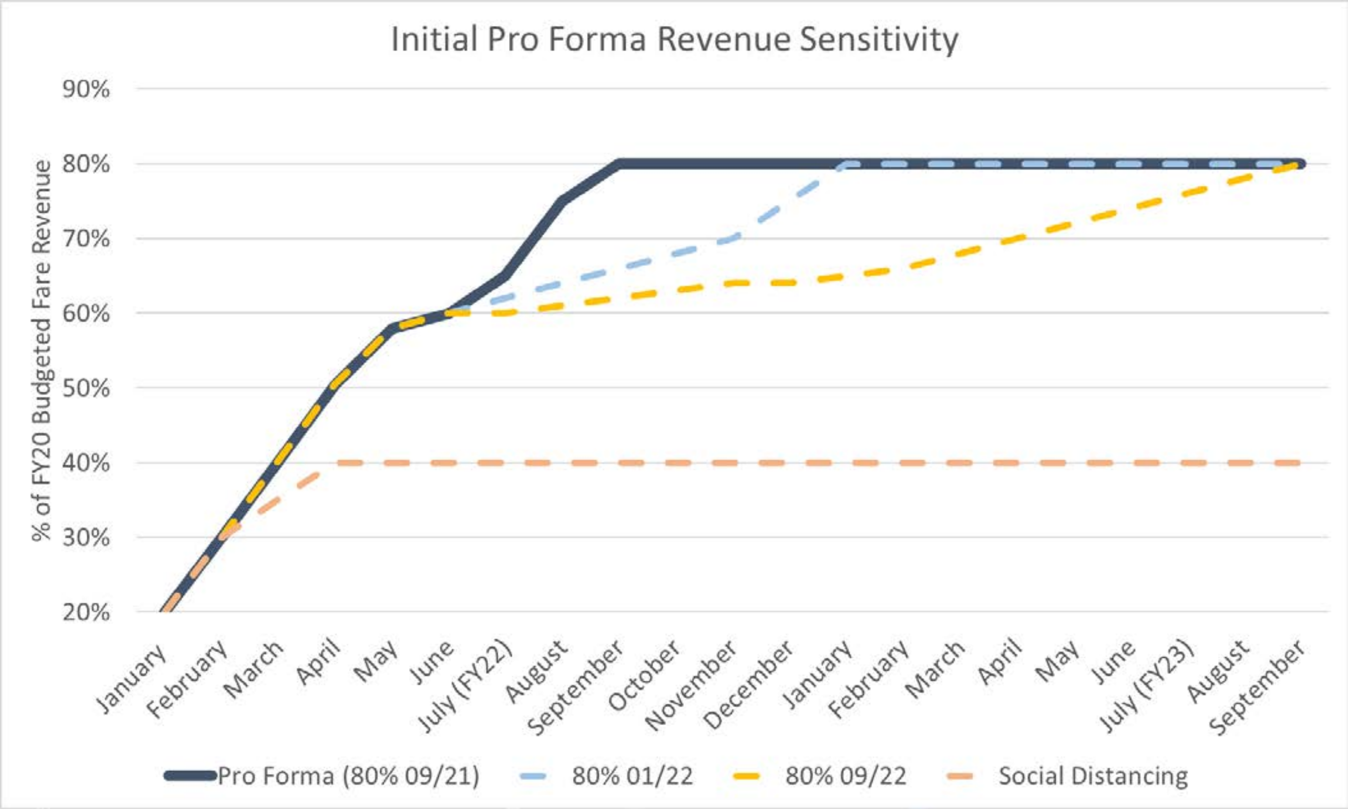
- **Pro Forma assumption**: new normal level of 80% of FY20 budgeted fare revenue by **September 2021**- 18 month timeline from March 2020 (vaccine timeline)
- The assumption focuses on two primary variables: the estimated new normal level of ridership and the month when that new level will be reached
- Vaccine development, human behavior, and extended social distancing protocols are uncertainties that will impact revenue estimates
- As a result, this potential new normal ridership level may be delayed and the budget impact can be estimated to provide a range of potential deficit outcomes
    - #1: 80% of fare revenue by **January 2022** (moderate delay from 18 months vaccine timeline)
    - #2: 80% of fare revenue by **September 2022** (significant delay from 18 month vaccine timeline)
    - **#**3: 40% of fare revenue **throughout FY22** (observed social distancing)
- If actual data shows specific modes recovering faster or slower than others, revenue modeling can be adjusted to estimate the expected budget impact

Pro Forma Monthly Fare Revenue Sensitivity (as of August 2020)

Numbers may change as all assumptions and variables are subject to revision as the authority receives new or updated information

- Pro Forma assumption: new normal level of ridership to 80% of FY20 budgeted fare revenue by September 2021
- For a sense of scale, a 1% change to monthly fare revenue assumptions impacts the monthly estimate +/- $600K

August Pro Forma Revenue Sensitivity				
Month	Pro Forma	Jan-22	Sep-22	Social Dist.
January	20%	20%	20%	20%
February	30%	30%	30%	30%
March	40%	40%	40%	35%
April	51%	51%	51%	40%
May	58%	58%	58%	40%
June	60%	60%	60%	40%
July (FY22)	65%	62%	60%	40%
August	75%	64%	61%	40%
September	**80%**	**66%**	**62%**	**40%**
October	80%	68%	63%	40%
November	80%	70%	64%	40%
December	80%	75%	64%	40%
January	80%	80%	65%	40%
February	80%	80%	66%	40%
March	80%	80%	68%	40%
April	80%	80%	70%	40%
May	80%	80%	72%	40%
June	80%	80%	74%	40%
July (FY23)	80%	80%	76%	40%
August	80%	80%	78%	40%
September	80%	80%	80%	40%



Fare Revenue Sensitivity and Budget Gap Ranges (as of August 2020)

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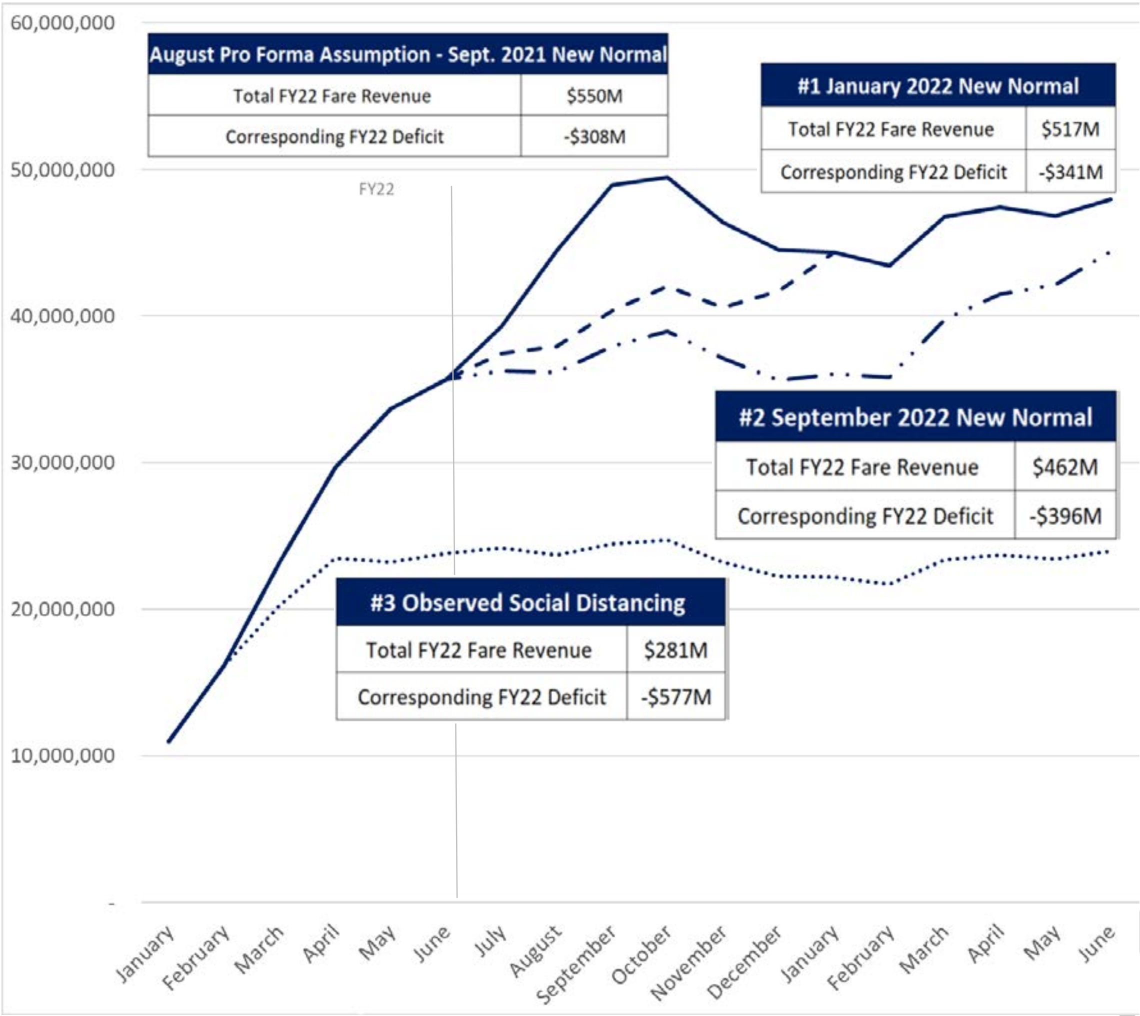
- FY22 estimate of **$308M** budget gap under Pro Forma assumption of 80% ridership by **September 2021**
- $33M deficit increase ($341M total) in FY22 with 80% ridership by **January 2022** (#1)
- $88M deficit increase ($396M total) in FY22 with 80% ridership by **September 2022** (#2)
- $269M deficit increase ($577M total) in FY22 with **40% revenue for the year** (#3)
    - 40% revenue would also negatively impact Q4 of the FY21 budget by $32M
- Current Pro Forma assumption of September 2021 corresponds to an 18 month timeline from March 2020 (vaccine timeline) and a delay would likely reduce revenue and increase the budget gap within the above range

Potential FY22 Budget Deficits Given Fare Revenue Uncertainty



Recommendations for FY21 and FY22 and Next Steps

Principles for Fiscal Strategy

Safety	Prioritize and maintain funding for safety-critical spending and positions
Equity	Prioritize and maintain funding for system accessibility and availability for customers who rely on transit the most for day-to-day travel
Sustainability	Create a sustainable foundation for recovery that includes operating revenue and spending solutions
Data Driven	Quantify fiscal impacts and use metrics, outcomes, and key performance indicators to inform decisions
Collaboration	Work closely with departments to generate ideas to resolve the budget gap
Comprehensive	Explore and review all options based on observed ridership, including service levels
Preparation and Planning	Take action at the onset of FY21 to ensure ample time to notify and reach out to departments and customers well in advance of implementation

For FMCB Discussion: *Should any principles be added, edited, or prioritized?*

Identifying Options to Resolve the Projected FY22 Budget Gap

- **Overall approach:** pursue funding reallocation, revenue enhancements, and spending reductions this year to carry forward a budget surplus into next year in order to mitigate the projected FY22 deficiency
  - Set a **combined savings target amount for this year and next year** that solves the projected gap while acknowledging the risk and uncertainty of fare revenue collections
  - **Recommend a multifaceted approach to reach the target amount**
    - **Reallocate existing federal and capital funding sources** as eligible only after conducting a collaborative, comprehensive, and methodical review of impacts to the Capital Investment Plan (CIP)
    - **Solicit and analyze departmental and programmatic ideas** with the establishment of cross-functional working groups targeting specific spending and revenue areas
  - **Affirm a mechanism and process to preserve the realized savings** to balance the budget next year and avoid deficiency
  - Based on observed ridership levels and budget constraints**, develop scenarios for service delivery** and properly engage all departments, stakeholders, and constituencies in advance of any potential changes

Recommended $400M Combined Target For FY21 and FY22

Setting a Combined $400M Target for FY21 and FY22

- Defining a specific target amount provides a baseline of savings to balance the range of FY22 budget shortfall scenarios ($308M-$577M) contemplated in the current Pro Forma
- A combined $400M target is above the minimum projected budget gap of $308M recognizing the risks and uncertainties in obtaining budget savings
- Within the combined $400M target, in FY21 we seek to achieve a minimum of $150M
  - Achieving and sequestering $150M in savings in FY21 would resolve half of the projected FY22 budget gap
  - By replicating this same approach in FY22, we would expect to resolve a projected $308M budget gap

Three-pronged Approach to Meet the $400M Combined Target For FY21 and FY22

Recommended Three-pronged Approach

1. Shift **federal formula funds** (Section 5307) from the capital budget to the operating budget for eligible preventative maintenance spending
   - Up to $80M in FY21 and up to $300M in FY22
2. Obtain legislative authorization to bond for **capital salaries** so eligible capital employees can be budgeted within the CIP
   - Up to $66M in FY21 and up to $68M in FY22
3. Challenge departments to **generate ideas and proposals** that reduce spending or increase revenue in FY21 to ensure implementation before the start of FY22
   - Proposed target of $60M on an annual basis (4% of departmental budgets)

Approach	Target Amount Over FY21 and FY22 ($M)
Federal Formula Funding Reallocation*	$ 160.0
Capital Salaries Reallocation	$ 120.0
Department & Programmatic Ideas (<5% of budget less debt)	$ 120.0
Total	**$ 400.0**

*Targeted amount scalable based on need

For FMCB Discussion:
Revise or confirm the target amount?

Sequestering Funds to Mitigate the FY22 Budget Gap

- **Preserve the realized savings (positive net revenues) from the three-pronged approach and any budget favorability through a transfer to an Operating Budget Deficiency Fund to mitigate fare revenue uncertainty in FY21 and balance FY22**
- Positive monthly net revenues are defined as total revenues less total expenses above budget
- Transfer any FY20 savings over and above the budgeted amount to the Operating Budget Deficiency Fund to mitigate uncertainties in FY21 and the projected budget gap in FY22
- During FY21, make monthly transfers into the Operating Budget Deficiency Fund in FY21 for any month where net revenue is favorable or above budget
- Progressing through FY21, all decisions that would increase spending or reduce revenue in FY21 need to be weighed against a potential service level reduction in FY22
- Evaluate the deficiency fund balance in December 2020 and update the expected one-time revenue amount for any potential FY21 shortfall or the projected FY22 budget gap

Overview of Federal Formula Funds (Section 5307) and Funding Shift Proposal

The Urbanized Area Formula Funding program (49 U.S.C. 5307) makes federal resources available to urbanized areas for transit capital and operating assistance for transportation-related planning

Allocation Formula	Definition	Eligible Operating Spending	FY21 Opportunity	FY22 Opportunity
• The FTA provides approximately $150M in Section 5307 Urbanized Area Formula Funding to the MBTA annually	• All transit agencies are allowed to use Section 5307 funding for preventive maintenance, which is generally defined by the FTA as “all maintenance costs related to vehicles, equipment and facilities”	• Labor and non-labor costs for preventative maintenance among vehicle maintenance and engineering and maintenance departments in the FY21 operating budget are estimated at $274M with approximately $200M in wages and overtime and $70M in materials and services	• In FY21, all of the $150M has been programmed to the CIP and approximately $70M of that $150M has already been obligated, leaving approximately $80M available to fund ongoing preventative maintenance spending	• Estimating another $150M for FFY21 and FFY22, up to $300M in FY22 could be reallocated from the CIP to the operating budget to support eligible preventive maintenance activities on the operating budget

Process for Federal Funding and Capital Salaries Shift

Set overarching principles ✓

1. **Safety** –projects that address a safety need
2. **Service** – projects critical to providing core service
3. **Equity –** projects that support low-income or transit-dependent riders
4. **Sustainability** – projects with a positive ROI

Segment the CIP by status ✓

- Under contract – no flexibility
- **Under contract – some flexibility**
- **Not under contract – max flexibility**

Review projects with flexibility against principles ✓

- ☑ Safety
- ☑ Service
- ☑ Equity
- ☑ Sustainability
- ☑ Other

Develop options for consideration

Policy

- Pause new projects
- Pause new contract awards
- Defer projects with partial funding
- Scale down on-call contracts
- Prioritize modes with durable ridership

Project-specific

- Defer project A to FY23
- Reduce scope of project B

Build scenarios

- A. **Base case** – existing CIP source assumptions (net zero reprioritization)
- **B. Lockbox**– no lockbox available for project costs (Up to $450M over 5 years)
- **C. 5307**– no lockbox, FFY20-22 5307 to opex (Up to $830M over 5 years)
- **D. Austerity**– no lockbox, FFY20-22 5307 to opex, reduced debt issuance (Up to $1B+)

Financial analysis/feedback loop with operating budget

Aggressively pursue external funding and financing opportunities

Approach for Federal Funding and Capital Salaries Shift

Review spending

- Conducting a collaborative, comprehensive and methodical review of the CIP to identify opportunities for deferring or scaling down projects to enable 5307 reallocation
  - $80M Potential FY21 and $300M Potential FY22
- Stood up a cross-departmental team to review the status, flexibility, and timing of all projects to evaluate:
  - How much of the CIP is currently obligated?
  - How much flexibility exists within the unobligated segment of projects?
  - When are unobligated projects anticipated to go to contract?
- Projects identified as flexible are then reviewed against measures of safety, service, equity, and fiscal sustainability to provide a general assessment of relative benefits
- **Outcome:** Recommendations for policy-level and project level adjustments that can be made to the capital program in support of the operating budget

Increase funding and review debt structure

- Aggressively pursuing external funding and financing opportunities to replace lost revenue and reallocated formula funds
- Stood up a cross-departmental team to collaborate on "capital inflows", including federal grant and loan opportunities.
  - Recently received $3M grant for ferry overhauls
  - Submitted USDOT BUILD grant application for Blue Hill Ave Bus lane
  - Submitted FRA SGR grant application for Worcester Union Station
  - Proactively preparing for FFY21 round of discretionary grants
- Engaged USDOT Build America Bureau to discuss low-interest long term program level financing through TIFIA and RRIF programs to build on success of recent PTC/ATC loan closing
- Preparing to submit a letter to FTA to request entry of Green Line Transformation into project development for the CIG Core Capacity program
- Structure and refund debt to capture opportunities to lower costs of capital, like refunding parking securitization bonds and low interest loans
- **Outcome**: Strategy for funding/financing to minimize impact of revenue loss on long-term capital program

Departmental and Programmatic Spending and Revenue Ideas

- **Solicit ideas for enhancing revenue and controlling spending from individual departments and through the formation of cross-functional working groups targeting specific spending and revenue areas**
  - Some initial working group categories include own-source revenue, wages and hiring, overtime, and professional services
- **Enhance existing own-source revenue** and pursue new revenue channels to reduce the size and scale of spending reductions
  - Introduction of new, more flexible fare products that are informed and responsive to evolving travel patterns
  - New uses or licensing of parking facilities to new types of customers and expanding existing advertising revenue
- **Monitor and control spending** to stay on budget while taking action that could be implemented as soon as this year that would generate enough savings to solve the projected budget gap next year in FY22
  - Identify areas where lower ridership has naturally resulted in underspending and reforecast spending estimates as a way to limit the number and scale of cost controls that may be necessary
  - Closely monitor and track individual expense categories, like wages and overtime, and manage them within their approved budgeted level through a partnership with the relevant departments
  - Reprioritize discretionary or expansionary spending towards core operations in areas with identified and expected deficiencies

Next Steps & Timeline

September 14 (FMCB)

- **Budget:** Return to the board to detail July results (monthly recurrence) - budget balance, spending, revenue (by mode, product, or channel), and headcount activity
- **Service Planning:** Seek policy direction on service level tradeoffs (e.g. coverage vs. frequency)

October 5 (FMCB)

- **Budget:** Return to the board to detail August results (monthly recurrence) - budget balance, spending, revenue (by mode, product, or channel), and headcount activity
- **Service Planning:** Lay out detailed action plan with specific service scenarios, estimated budgetary savings and other impacts

October 19 (Joint Board)

- **Capital Planning:** Present recommended CIP reprioritization to accommodate shift of 5307 funds to operating and other reductions

November 2020

- **Budget:** Return to the board to revise budget projections as needed based on Q1 results
- Update on FY21 savings initiatives to achieve budget targets

December 2020

- **Service Planning:** Preliminary Board consideration of service level scenarios

July 1, 2021

- **Budget::** FY22 begins and three-pronged approach implemented

Requested Board Action

- **Requested vote:** Authorizes the transfer of surpluses, defined as total revenues less total expenses, above the amounts identified in the adopted FY21 budget, as may be amended, to the Operating Budget Deficiency Fund each month to mitigate the projected deficit in FY22 or any other current or future obligations

- **Requested Sense of the Board:** For the General Manager to develop a detailed plan, for presentation to the Fiscal and Management Control Board, to review service levels and bring expenses in line with projected revenues in accordance with the Authority's service principles

Appendix

Notable August Pro Forma Assumptions

All assumptions and variables are subject to revision as the authority receives new or updated information

Notable Revenue Assumptions

- Ridership recovery assumed through FY21 to 60% of pre-COVID-19 levels, ramping up to a "New Normal" ridership level of 80% by September 2021 (FY22 – FY25)
- Fare increases of 4.5% currently assumed in FY23 and FY25, below the 7% cap and the average 5.8% increase from July 1, 2019
- $127M in state assistance assumed each year from FY21-FY25
- Base sales tax revenue amount and local assessment collections growing at about 1.5%

Notable Spending Assumptions

- Includes Green Line Extension, South Coast Rail, AFC 2.0, Red & Orange Line Cars, and PTC/ATC impact on the current public schedule
- Limiting new staff and hires to only the major projects highlighted
- Capital salaries included in the operating budget assumptions so any legislative changes would help solve any identified budget gaps
- Debt service assumes $500M per year of new money at today's rates plus 50 basis points, increasing at 25 basis points in each year thereafter
- Wages, materials, and services increase per inflation/historical rates (2-3% generally by category)

Spending Assumptions & Growth Rates

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Line Item	FY22 Growth Rate	Description/Justification
Regular Wages	2.0%	10 year average growth rate is 2%. Collective Bargaining Increases and fluctuations in headcount care the primary driver. Headcount assumed to remain consistent with FY21 budget levels, with incremental adds for major capital projects
Overtime Wages	2.0%	Tied to Regular Wages
Pension	4.1%	Based on expected rate of return on assets (7.5% anticipated return) and employer contribution rate (26.6%)
Healthcare	2.4%	Congressional Budget Office FY20-23 CMS Personal Health Care Growth Rate
Other Fringes	2.4%	Congressional Budget Office PCE Excluding food and energy Inflation Projection
Materials	2.1%	Materials is primarily replacement parts, tracks, hardware, and raw materials. Congressional Budget Office PCE Excluding food and energy Inflation Projection
Services	2.1%	All third party contracts and services, such as specialized inspections, legal and financial services, and engineering consulting Congressional Budget Office PCE Excluding food and energy Inflation Projection
Uniforms	2.0%	Uniforms fluctuate proportionally with headcount regular wages Congressional Budget Office PCE Excluding food and energy Inflation Projection
Fuel	1.1%	Fuel prices fluctuate based on service levels. Pro Forma assumes FY21 service levels with additional expenses layered on top for new heavy rail cars, GLX and South Coast Rail. EIA Transportation Diesel Price Projection
Utilities	-1.7%	Congressional Budget Office EIA Transportation Electricity Price Projection
Contract Cleaning	2.1%	Congressional Budget Office PCE Excluding food and energy

Five-Year Pro Forma Projection (as of August 2020)

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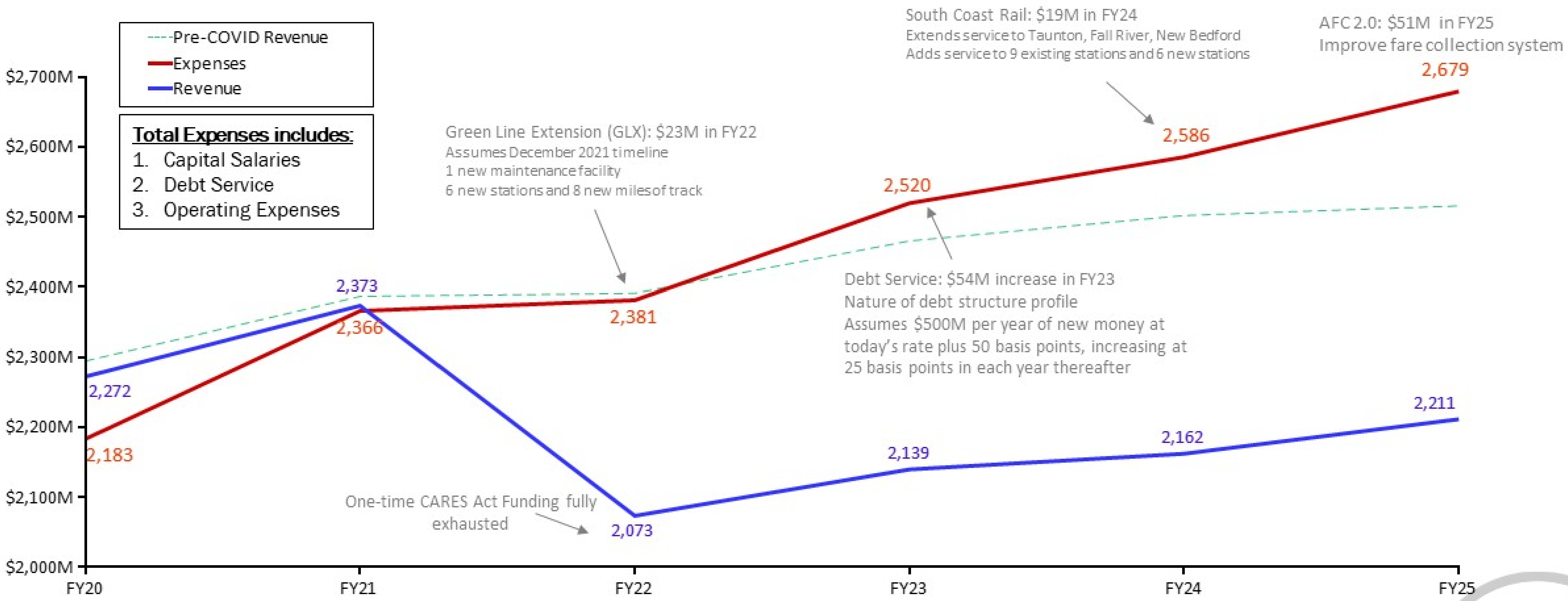

$89M	$7M	-$308M	-$380M	-$424M	-$468M

Available Balance (Capital Salaries Included) – Negative Balance Indicates Funding Gap to Run Normal Operations and Support Capital Salaries

Overall Ridership Trends (August 14 Update)

- Ridership across all modes remained stable compared to last week
- Bus ridership continues to average 153k riders per weekday (63% decrease below February 2020 baseline)
  - Ridership remains lower than earlier this summer, corresponding to levels recorded in late June
- Subway gates recorded about 103k taps per weekday this week, which is on par with last Monday through Thursday (77% decrease below February 2020 baseline)
- Commuter Rail is at roughly 7% of normal ridership
- The RIDE continues to average about 2,100 trips per weekday (60% decrease below February 2020 baseline)

Ridership Recovery Trends Add to Fare Revenue Uncertainty (as of August 2020)

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- In order to determine the estimated budget gap in FY22 and future years, the Pro Forma focuses on fare revenue, which is driven by ridership and fare product sales
- Consistent with past practice, total estimated fare revenue is allocated by mode according to a methodology that considers the product type, its location/point of sale, and rider tendencies
  - Allocation: Heavy Rail: 35%, Commuter Rail: 33%, Bus 17%, Light Rail 13%, Ferry: 2%, The RIDE: 1%
- Going forward, if actual data shows specific modes recovering faster or slower than others, revenue modeling can be adjusted to estimate the expected budget impact, for example:
  - If bus revenue were to recover to 40% by January 2021 but remain level until the end of FY22, the estimated exposure would be less than $5M in FY21 relative to budget and $45M in FY22 relative to Pro Forma assumptions
  - If commuter rail revenue were to be at 10% and not recover, the estimated exposure would be more than $40M in FY21 relative to budget and $160M in FY22 relative to Pro Forma assumptions
  - If light and heavy rail revenue only increased to 60% instead of the assumed 80%, the exposure to fare revenue relative to Pro Forma assumptions is about $45M in FY22

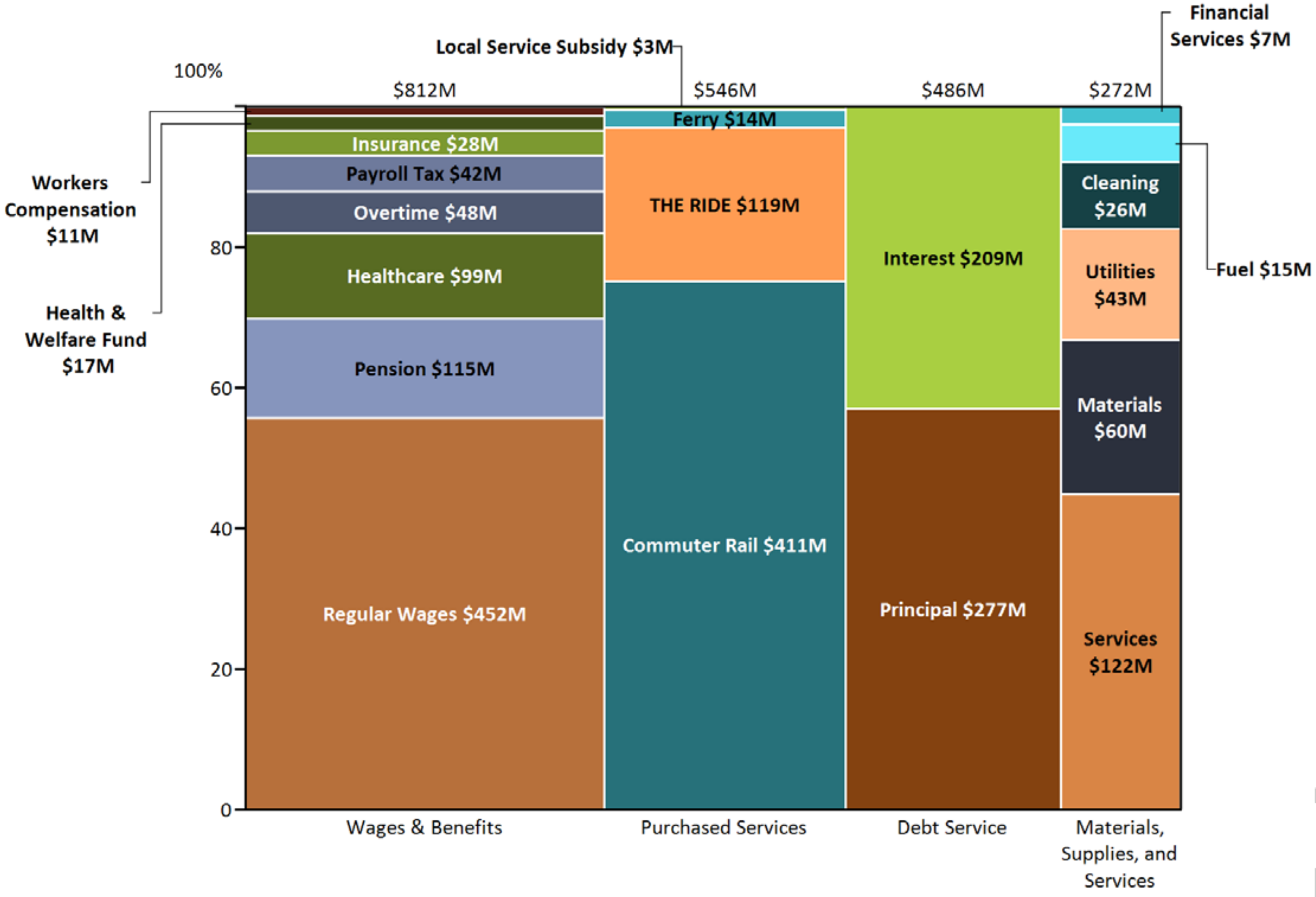
FY20 and FY21 Revised Revenue Projections by Month

- June actual revenue was 68% of total revenue, which is above the projected 62%
- Fare revenue collections totaled $8.1M in June, which is 14% of the total budgeted amount for the period due to reduced ridership attributed to COVID-19 impacts
- The 14% collected is above the 5% projection, which equates to $5.0M more revenue than projected for June

Revenue Source	FY 2020			FY 2021												
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Blended
Actual Fare Revenue Collections	▲ 14%	▲ 11%	▲ 14%													
Modeled Fare Revenue Collections	*5%*	*5%*	*5%*	*10%*	*15%*	*10%*	*10%*	*10%*	*10%*	*20%*	*30%*	*40%*	*45%*	*55%*	*60%*	*27%*
Actual Sales Taxes	▼ 93%	▼ 88%	▼ 96%													
Modeled Sales Taxes	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*
Actual Own Source Revenue Collections	▼ 34%	▼ 21%	▲ 49%													
Modeled Own Source Revenue Collections	*42%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*	*35%*	*40%*	*45%*	*50%*	*60%*	*70%*	*37%*
Actual Local Assessments	▲ 100%	▲ 100%	▲ 100%													
Modeled Local Assessments	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Actual Investment Income Collections	▲ 59%	▲ 120%	▲ 255%													
Modeled Investment Income Collections	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*70%*	*70%*	*70%*	*70%*	*70%*	*75%*	*60%*
Actual TOTAL	▲ **64%**	▼ **61%**	▲ **68%**													
Modeled TOTAL	**63%**	**63%**	**62%**	**64%**	**66%**	**63%**	**62%**	**64%**	**65%**	**68%**	**72%**	**75%**	**76%**	**80%**	**73%**	**75%**

Overview of FY20 Spending by Category and Expense

- 36% of operating budget expenses are wages, materials, supplies, and services
  - Regular wages $452M
  - Services $122M
  - Materials $60M
- 26% of operating budget expenses are contracted purchased services
  - Commuter rail $411M
  - The RIDE $119M
  - Ferry service $14M
- 23% ($486M) of operating budget expenses are debt service payments
- 5% ($115M) of the operating budget expenses are pension costs, a focus for long-run savings beyond FY22



Initiated or Ongoing Activities to Review Targeted Spending and Revenue Areas to Keep FY21 Balanced

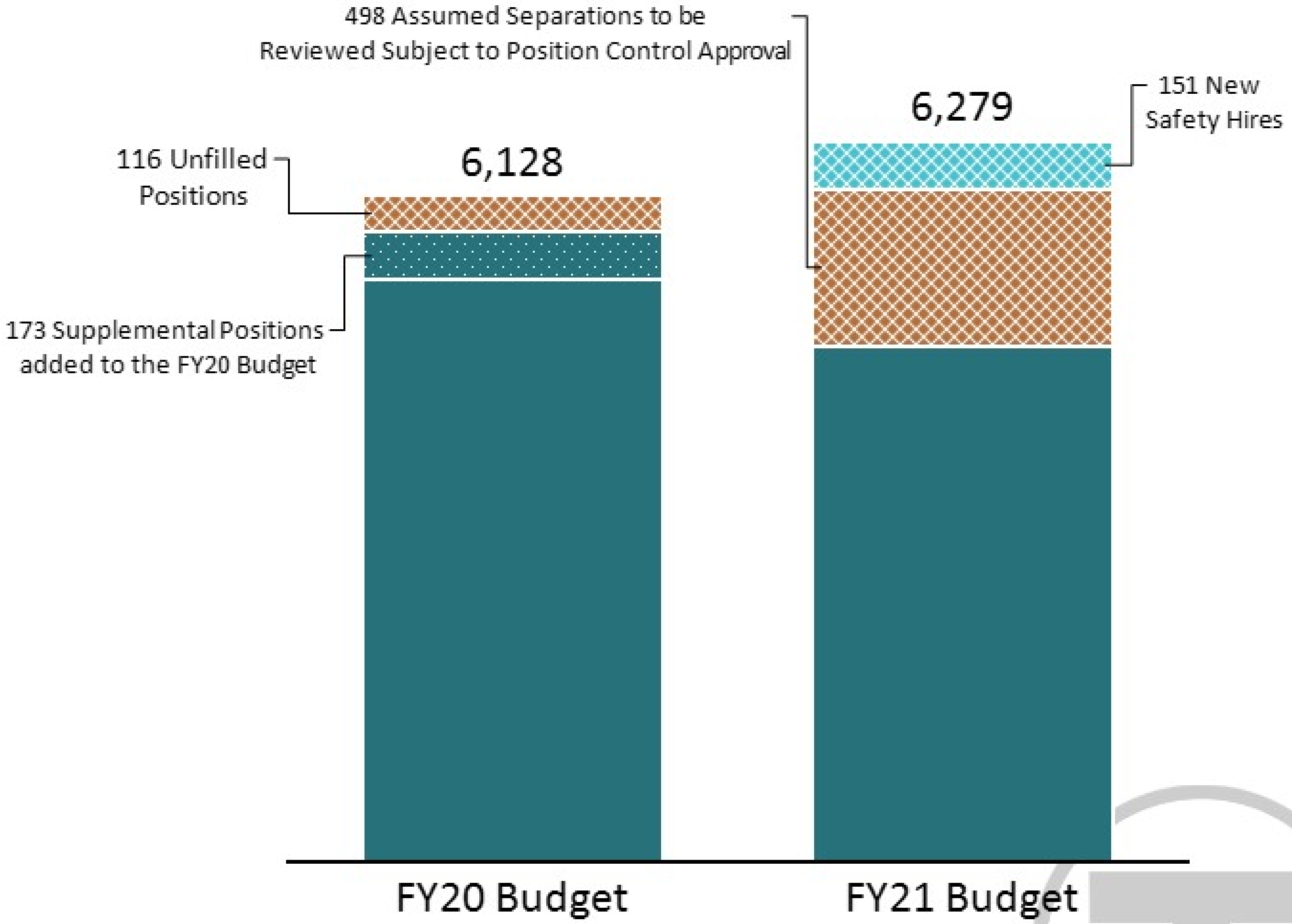
- Established a cross-departmental team to collaborate on inflows or sources for the capital budget, including federal grant and loan opportunities
- Implemented a new Professional Services Committee to approve all temporary employee and consultant engagements
- Structure debt to shape our obligations to provide a more continuous debt service profile and create a stable foundation for future issuance
- Develop a long-term strategy across departments to centralize and find efficiencies in IT spending
- Review hires and promotions through the Position Control Process

Position Control Process to Manage Wages and Headcount

- To ensure that hiring plans and turnover/attrition savings incorporated in the adopted FY21 budget are realized, all positions will require approval from Position Control
- Position Control is a panel, led by the Chief of Staff, of Finance, Human Resources and Labor Relations staff that considers all staffing promotion, new hire, backfill, and intern requests directly from department staff on a weekly or semi-weekly schedule based on volume
- Position control will review all positions (operating and capital) based on budgeted funds, position types, and labor relations criteria
- Safety hires are top-priority positions
- Position Control has worked with departments and has made them aware that they have the flexibility and autonomy to prioritize their entire employee roster in a way that stays within budget and allows it to best achieve its goals and mission

Overview of Budgeted Operating Headcount Detail

- Actual headcount as of June 30 totals 5,992, which includes 173 supplemental positions, mainly for safety and infrastructure, after the approval of the FY20 budget
- FY21 budgeted headcount of 6,279 positions with spending on regular wages totaling $489.3M, which includes expected turnover or attrition savings
- The FY21 budget assumes 498 separations (approximately 42 per month) backfilling will be prioritized by departments and reviewed under the established Position Control process
- 498 separations is below the five-year, average annual attrition level of 587 employees
- With the exception of major capital initiatives already underway, the Pro Forma does not assume any new additional hires beyond the FY21 budget level



Capital Salaries Language Change Pending Before the Legislature

- In 2014 a state law restricted the MBTA's ability to use any bond funds to pay for capital salaries
- The restriction resulted in an inability for the MBTA to classify an employee to the capital budget, even if the employee is supporting a capital transportation project
- A revision to the language, supported by the Baker-Polito administration, via the Transportation Bond Bill is now pending before the legislature
- The revision strikes language referring to "bond funds" and specifically replaces it with Commonwealth General Obligation Bonds
- This revision allows the MBTA to use certain bond funds, such as MBTA revenue bonds, for capital employees working on capital projects in accordance with federal funding requirements, government accounting standards, and applicable state finance and federal laws
- The two versions of the bond bill (H4547 and S2836) are currently in a conference committee and this language was included with initial approval in both the House and Senate versions of the bond bill

Section 20 of Chapter 161A: *The itemized budget shall properly classify operating expenditures. Subject to a written policy approved by the board, the authority may classify an employee on a capital budget if the employee is supporting a capital transportation project; provided, however, that such classification shall be in accordance with federal funding requirements, government accounting standards and applicable state finance and federal laws. The policy shall: (i) define the employee positions eligible for classification on a capital budget, consistent with this section; (**ii) specify that no bond funds shall be used to fund an employee's salary; and** (iii) require an annual review by an independent third-party auditor of the authority's practices related to classifying employees on a capital budget*

FY20 Budget Summary

FY20 Year End Overview – Actuals vs. April 27 Projections and FY20 Budget

- FY20 actual net revenue (total revenues less total expenses and before transfers) is $155.4M, which is $12.9M (9%) more favorable than the FY20 projection from April 27 and $64.9M (72%) more favorable than the approved FY20 budget due to $228.1M in Federal CARES Act funding
- After the approved capital salaries ($66.4M) and capital maintenance fund transfers ($7.4M), $81.6M balances forward from FY20 into FY21 to support operating spending, $5.5M above the FY21 budgeted amount of $76.1M

FY20 Operating Budget Balance

Category ($M)	FY20 Actuals	FY20 Projection (as of 4/27)	Variance	% Variance	FY20 Budget	Variance	% Variance
Revenue From Transportation	545.7	531.7	14.0	3%	696.8	(151.2)	-22%
Own Source Revenue	73.8	73.8	(0.0)	0%	111.3	(37.5)	-34%
Non-operating Revenue	1,652.7	1,683.0	(30.3)	-2%	1,401.7	251.0	18%
Total Revenue	**2,272.1**	**2,288.5**	**(16.4)**	**-1%**	**2,209.9**	**62.3**	**3%**
Operating Expenses	1,630.3	1,657.7	(27.4)	-2%	1,628.5	1.8	0%
Debt Service	486.4	488.3	(1.9)	0%	490.9	(4.5)	-1%
Total Expenses	**2,116.7**	**2,146.0**	**(29.3)**	**-1%**	**2,119.4**	**(2.7)**	**0%**
Net Revenue (before transfers)	**155.4**	**142.5**	**12.9**	**9%**	**90.5**	**64.9**	**72%**
Capital Budget Transfer	66.4	66.4	-	0%	90.5	(24.1)	-27%
Ending Balance	**89.0**	**76.1**	**12.9**	**17%**	**-**	**89.0**	
Net Revenue Absent State Assistance	*28.4*	*15.5*	*12.9*	*83%*	*(36.5)*	*64.9*	*-178%*
Fare Recovery Ratio	*33%*	*32%*	0.0	4%	*43%*	(0.1)	-22%

FY20 actual revenue collections down $16.4M (1%) relative to projection, mainly due to $221.8M drawdown of Federal CARES Act funds

FY20 Operating Budget Revenue Detail

Category ($M)	FY20 Actuals	FY20 Projection (as of 4/27)	$ Variance	% Variance	FY20 Budget	$ Variance	% Variance
Revenue From Transportation	545.7	531.7	14.0	3%	696.8	(151.2)	-22%
Own Source Revenue	73.8	73.8	(0.0)	0%	111.3	(37.5)	-34%
Sales Tax	1,077.3	1,088.0	(10.7)	-1%	1,063.0	14.3	1%
Local Assessments	174.4	174.4	(0.0)	0%	174.4	0.0	0%
Other Income	52.2	43.6	8.6	20%	37.4	14.8	40%
State Contract Assistance	127.0	127.0	0.0	0%	127.0	0.0	0%
CARES ACT	221.8	250.0	(28.2)	-11%	-	221.8	
Operating Revenue subtotal	*619.4*	*605.5*	13.9	2%	*808.1*	(188.7)	-23%
Non-operating Revenue subtotal	*1,652.7*	*1,683.0*	(30.3)	-2%	*1,401.7*	251.0	18%
Total Revenue	**2,272.1**	**2,288.5**	**(16.4)**	**-1%**	**2,209.9**	**62.3**	**3%**

FY20 actual spending down $29.3M (1%) relative to projection, mainly due to wages and purchased transit service underspending

FY20 Operating Budget Spending Detail

Category ($M)	FY20 Actuals	FY20 Projection (as of 4/27)	$ Variance	% Variance	FY20 Budget	$ Variance	% Variance
Regular Wages	452.3	461.3	(9.0)	-2%	472.9	(20.6)	-4%
Overtime	48.1	47.1	1.0	2%	34.1	14.0	41%
Fringe, Payroll Tax, Benefits & Insurance	283.9	287.5	(3.6)	-1%	302.6	(18.8)	-6%
Materials & Services	299.9	299.9	0.0	0%	265.0	34.9	13%
Commuter Rail	410.6	420.5	(9.9)	-2%	418.9	(8.3)	-2%
RIDE	118.8	122.0	(3.2)	-3%	115.2	3.6	3%
LSS	2.8	2.9	(0.1)	-4%	3.2	(0.4)	-12%
Ferry	14.0	16.5	(2.5)	-15%	16.5	(2.5)	-15%
Debt Service	486.4	488.3	(1.9)	0%	490.9	(4.5)	-1%
Operating expenses subtotal	*1,630.3*	*1,657.7*	*(27.4)*	*-2%*	*1,628.5*	*1.8*	*0%*
Total expenses	**2,116.7**	**2,146.0**	**(29.3)**	**-1%**	**2,119.4**	**(2.7)**	**0%**

Proposed FY20 Ending Balance Transfers

- Transfer the $155.4M ending balance of operating funds in FY20 consistent with FY21 approved budget assumptions
  - $66.4M for capital salaries*, matching the amount in the FY21 Capital Investment Plan (CIP)
  - $7.4M for the capital maintenance fund, matching the amount in the FY21 CIP
- Transfer and sequester any remaining balance in the Operating Budget Deficiency Fund to support uncertain fare revenue collections
  - $81.6M balancing forward from FY20 into FY21, $5.5M above the FY21 budgeted amount of $76.1M, mitigating identified exposures and risks in FY21 and FY22

Fund ($M)	Operating net revenue	Tranfers of net revenue
Operating	155.4	(155.4)
*Capital Maintenance Lockbox	-	66.4
Operating Budget Deficiency Fund	-	81.6
Capital Maintenance	-	7.4

**Intended to fund investment in pay-as-you-go capital improvements that will deliver near term performance and reliability improvements to the riding public*

*$6M or 10% of the budgeted amount reserved as contingency for unexpected needs

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Statement of Revenue and Expense Summary

Actual YTD net revenue/remaining balance is $142.3M, which is up $72.5M compared to budget

- Compared to budget, total revenues YTD are favorable $64.0M and May revenues were up $94.9M
- May favorability due to $159M in CARES Act funding
- Compared to budget, total expenses YTD are down $8.5M and May expenses were down $9.7M
- Spending below budget in May driven by reductions in both wage and non-wage operating expenses

	($M)	Budget	Actuals	Variance	Budget	Actual	Variance		Full Year
REVENUE	**Fare Revenues**	58.1	6.6	-51.5	637.3	537.6	-99.8	UNFAV	696.8
	Own Source Revenue	9.4	1.6	-7.8	95.6	70.0	-25.6	UNFAV	111.3
	Non-Operating Revenues	106.3	260.5	154.2	1164.7	1354.1	189.4	FAV	1274.8
	State Assistance	10.6	10.6	0.0	116.4	116.4	0.0	FAV	127.0
	Total Revenues	**184.4**	**279.2**	**94.9**	**2014.1**	**2078.1**	**64.0**	FAV	2209.9
	Fare Recovery Ratio	*0.1*	*0.0*	-0.1	*0.4*	*0.4*	*-0.1*	*UNFAV*	
	Revenue Recovery Ratio				*0.5*	*0.5*	*0.0*	*FAV*	
EXPENSES	Wages, Benefits and Payroll Taxes	64.2	60.5	3.7	728.8	717.6	11.2	FAV	795.3
	Non-Wage	66.2	62.0	4.3	765.4	771.3	-5.9	UNFAV	833.2
	Operating Expenses	**130.5**	**122.5**	**8.0**	**1494.2**	**1489.0**	**5.3**	FAV	**1628.5**
	Debt Service	**40.9**	**39.1**	**1.8**	**450.0**	**446.8**	**3.2**	FAV	**490.9**
	Total Expenses	**171.4**	**161.7**	**9.7**	**1944.2**	**1935.8**	**8.5**	FAV	**2119.4**
	Remaining Balance Before Transfers	**13.0**	**117.6**	**104.6**	**69.8**	**142.3**	**72.5**	FAV	**90.5**

Total Revenue Detail

Total revenues YTD are up $64.0M and May revenues were up $94.9M due to CARES Act funding

- Compared to budget, total revenues YTD are up $64.0M and May revenues were up $94.9M
  - Non-operating revenues are up $189.4M or 16% YTD due to $159M in CARES Act funding
  - Own source revenues are down $25.6M or -27% YTD largely due to parking revenue
  - Fare revenues are down $99.8M or -16% YTD due to reduced ridership attributed to COVID-19 impacts

Revenues ($M)	May Budget	May Actuals	Monthly Variance	FY20 YTD Budget	FY20 YTD Actual	$ Variance		FY20 Full Year Budget
Fare Revenues	**58.1**	**6.6**	**-51.5**	**637.3**	**537.6**	**-99.8**	UNFAV	696.8
Own Source Revenue	**9.4**	**1.6**	**-7.8**	**95.6**	**70.0**	**-25.6**	UNFAV	111.3
Advertising	3.1	0.5	-2.6	28.1	22.0	-6.1	UNFAV	36.4
Parking	4.0	0.0	-4.0	40.9	27.3	-13.6	UNFAV	44.5
Other	0.7	0.4	-0.3	8.2	7.0	-1.2	UNFAV	8.9
Real Estate	1.6	0.6	-1.0	18.4	13.7	-4.7	UNFAV	21.6
Total Operating Revenues:	**67.5**	**8.2**	**-59.3**	**732.9**	**607.6**	**-125.3**	UNFAV	**808.1**
Non-Operating Revenues								
State Sales Tax Revenue	**88.6**	**80.8**	**-7.8**	974.4	989.1	14.6	FAV	1063.0
Local Assessments Revenue	**14.5**	**14.5**	**0.0**	159.8	159.9	0.0	FAV	174.4
Other Income	**3.2**	**165.1**	**162.0**	30.4	205.2	174.7	FAV	37.4
Total Non-Operating Revenues:	**106.3**	**260.5**	**154.2**	**1164.7**	**1354.1**	**189.4**	FAV	**1274.8**
State Assistance	**10.6**	**10.6**	**0.0**	**116.4**	**116.4**	**0.0**	FAV	**127.0**
Total Revenues:	**184.4**	**279.2**	**94.9**	**2014.1**	**2078.1**	**64.0**	FAV	**2209.9**

FY20 Revised Revenue Projections by Month

Actual revenue in May was 61% of total revenue, which is below the projected 63%

- May actual revenue was 61% of total revenue, which is below the projected 63% due to sales tax collections
- Fare revenue collections totaled $6.6M in May, which is 11% of the total budgeted amount for the period due to reduced ridership attributed to COVID-19 impacts
- 75% of all fare revenue was from monthly pass sales and 80% of those sales came through the Perq channel
- Four of the top five customers were hospitals which made up more than 65% of the revenue total
- The 11% collected is above the 5% projection, which equates to $3.7M more revenue than projected for May
- Actual collections above projections in March and April have outweighed lower collections in May resulting in YTD revenue figures above projections

Revenue Source	FY 2020			FY 2021												
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Blended
Actual Fare Revenue Collections	▲ 14%	▲ 11%														
Modeled Fare Revenue Collections	*5%*	*5%*	*5%*	*10%*	*15%*	*10%*	*10%*	*10%*	*10%*	*20%*	*30%*	*40%*	*45%*	*55%*	*60%*	*27%*
Actual Sales Taxes	▼ 93%	▼ 88%														
Modeled Sales Taxes	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*	*BRA*
Actual Own Source Revenue Collections	▼ 34%	▼ 21%														
Modeled Own Source Revenue Collections	*42%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*	*35%*	*40%*	*45%*	*50%*	*60%*	*70%*	*37%*
Actual Local Assessments	▲ 100%	▲ 100%														
Modeled Local Assessments	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Actual Investment Income Collections	▲ 59%	▲ 120%														
Modeled Investment Income Collections	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*70%*	*70%*	*70%*	*70%*	*70%*	*75%*	*60%*
Actual TOTAL	▲ **64%**	▼ **61%**														
Modeled TOTAL	**63%**	**63%**	**62%**	**64%**	**66%**	**63%**	**62%**	**64%**	**65%**	**68%**	**72%**	**75%**	**76%**	**80%**	**73%**	**75%**

Total Operating Expense Detail

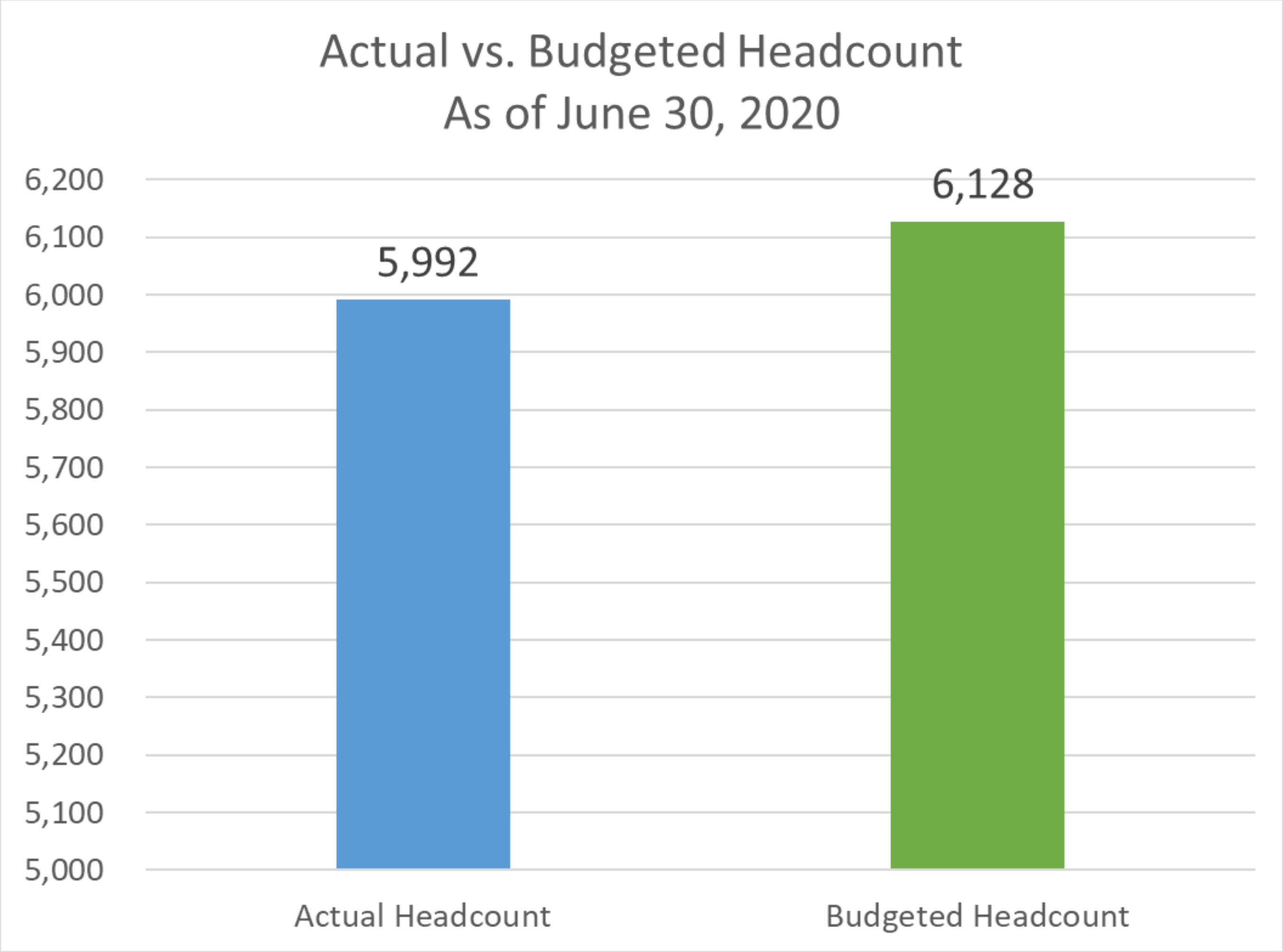
Compared to budget, total expenses YTD are down $8.5M, less than 1%

($M)	May Budget	May Actuals	Monthly Variance	FY20 YTD Budget	FY20 YTD Actual	$ Variance		FY20 Full Year Budget
Total Revenues:	184.4	279.2	-94.9	2014.1	2078.1	-64.0	UNFAV	2209.9
Expenses								
Operating Expenses								
Wages								
Regular Wages	38.0	36.4	-1.6	433.3	414.4	-18.9	FAV	472.9
Overtime	2.7	2.1	-0.6	31.4	45.1	13.7	UNFAV	34.1
Wages Total	**40.7**	**38.5**	**-2.2**	**464.6**	**459.5**	**-5.1**	**FAV**	**507.0**
Fringe Benefits								
Pensions	9.5	9.3	-0.2	108.2	105.0	-3.2	FAV	118.2
Health	8.8	7.9	-0.9	95.9	89.6	-6.3	FAV	104.6
Other Fringes	5.3	4.8	-0.5	60.1	63.5	3.4	UNFAV	65.5
Fringes Total	**23.5**	**22.0**	**-1.5**	**264.1**	**258.1**	**-6.1**	FAV	**288.3**
Materials & Services								
Services	9.5	9.4	-0.2	113.5	103.8	-9.8	FAV	124.2
Materials	3.9	1.6	-2.4	46.0	53.2	7.2	UNFAV	49.5
Utilities	2.8	3.0	0.2	37.7	38.8	1.1	UNFAV	40.6
Contract Cleaning	1.2	2.1	0.9	26.2	23.4	-2.8	FAV	28.2
Fuel	1.4	1.0	-0.4	13.3	13.1	-0.2	FAV	14.5
M&S Total	**18.9**	**17.0**	**-1.9**	**236.7**	**232.3**	**-4.4**	**FAV**	**257.0**
Casualty & Liability								
Risk Insurance	0.7	0.8	0.1	7.2	10.6	3.4	UNFAV	7.8
Injuries & Damages	0.5	0.9	0.4	6.0	16.6	10.6	UNFAV	6.5
C&L Total	**1.2**	**1.7**	**0.5**	**13.1**	**27.2**	**14.0**	UNFAV	**14.3**
Purchased Services								
Commuter Rail	33.9	33.4	-0.5	384.9	380.6	-4.3	FAV	418.9
RIDE	10.0	8.3	-1.7	105.3	107.6	2.3	UNFAV	115.2
LSS & Ferry	1.5	1.3	-0.3	18.0	17.2	-0.8	FAV	19.7
Purchased Total	**45.5**	**42.9**	**-2.5**	**508.2**	**505.4**	**-2.8**	**FAV**	**553.8**
Financial Service Charge	0.7	0.3	-0.4	7.4	6.5	-0.9	FAV	8.1
Total Operating Expenses	**130.5**	**122.5**	**-8.0**	**1494.2**	**1489.0**	**-5.3**	**FAV**	**1628.5**
Debt Service	40.9	39.1	-1.8	450.0	446.8	-3.2	FAV	490.9
Total Expenses	**171.4**	**161.7**	**-9.7**	**1944.2**	**1935.8**	**-8.5**	**FAV**	**2119.4**

- Compared to budget, total expenses YTD are down $8.5M and May expenses were down $9.7M
  - Regular wages are down $18.9M or -4% YTD and down $1.6M in May
  - Overtime is up $13.7M or 44% YTD and down $600K in May
  - Fringe benefits are down $6.1M or -2% YTD and down $1.5M in May
  - Materials and Services are down $4.4M or -2% YTD and down $1.9M in May
  - C&L is up $14M or 107% YTD due to one time settlements
  - Commuter Rail is down $4.3M or -1% YTD and down $500K in May
  - The RIDE is up $2.3M or 2% YTD but down $1.7M in May
  - Debt service is down $3.2M or 1% YTD and down $1.8M in May
- COVID-19 spending in May totaled $13.4M, a 1% decrease below the April total of $13.5M

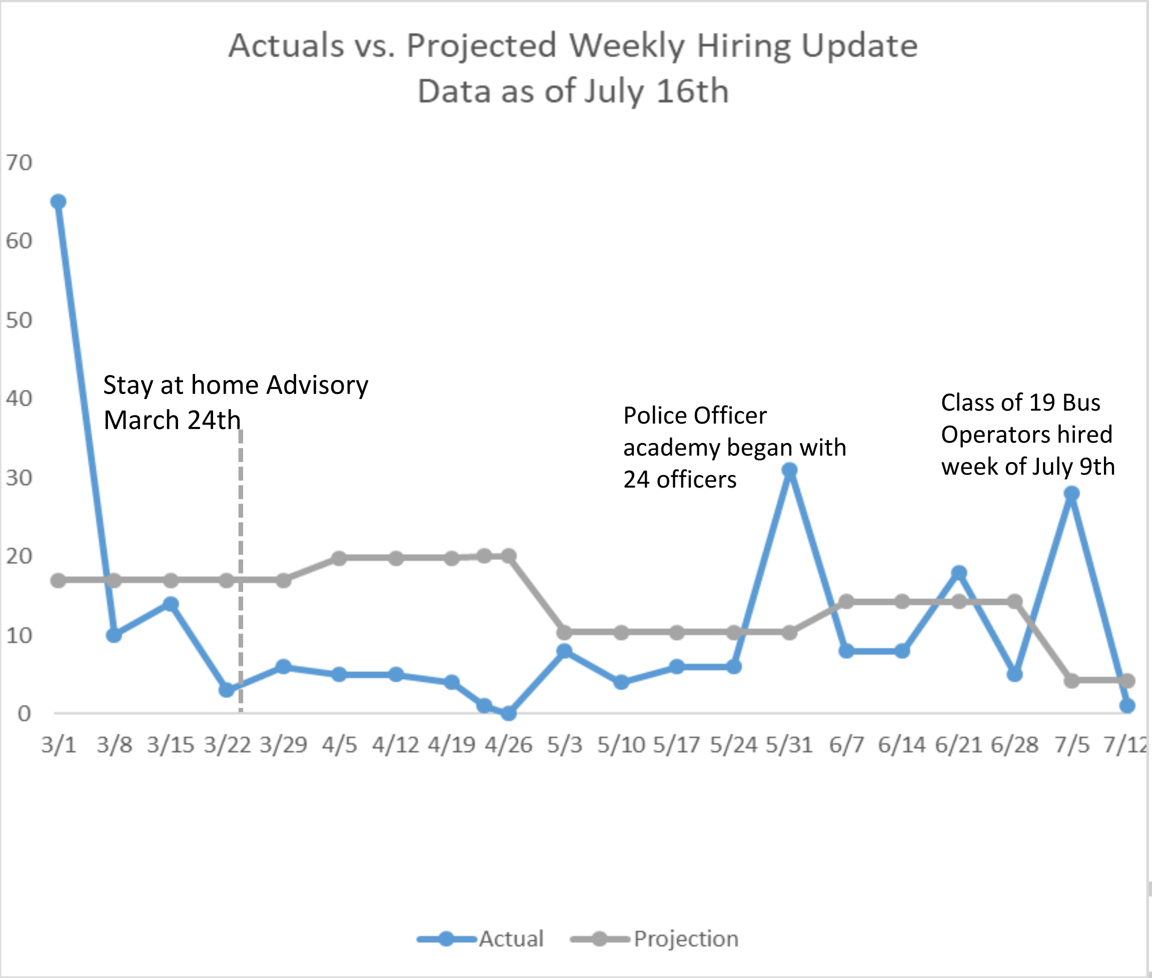
Operating Budget Headcount Update

- Actual headcount as of June 30 totals 5,992, which includes 173 supplemental positions added after the approval of the FY20 budget
- Relative to the targeted/budgeted amount of 6,128 positions, the MBTA has 116 unfilled or vacant positions



Weekly Hiring Trend as of 7/16

- 1 new hire for the week of (7/12)
    - 1 hire in capital delivery (project Manager of Red/Orange transformation)*
- 29 hires in July were 12 (71%) above the projected amount which is mostly driven by the onboarding of 19 bus operators
- The projected amount assumes an equally distributed amount of hires in a given month
- There were 39 hires in June, which is 16 hires (29%) below the 55 in May
- 55 new hires in May were above the 15 total hires in April but below the 98 total hires in March



* Position went before position control

Weekly Attrition Trend as of 7/16

- No separations for the week of 7/12
- MTD separations in July total 11, which is 9 (45%) employees below the projected amount of 20
- There were 22 separations in June which is 2 more than the 20 that separated in May
- 20 new separations in May were above the 18 total separations in April but below the 40 total separations in March
- FY21 budget assumes 40-42 employees leaving service monthly (498 total) and projects an equally distributed amount of separations for each month