



**Massachusetts Bay
Transportation Authority**

Forging Ahead: Capital Projects

Fiscal Management Control Board

October 5, 2020

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Overview

- Ridership and revenue loss due to COVID-19 results in an estimated \$308-577M budget gap for the fiscal year beginning July 1, 2021.
- A short-term reallocation of capital funds to the operating budget is a key part of our strategy to mitigate this shortfall and preserve essential service to transit-dependent riders.
- The MBTA receives over \$150M in annual “Sec. 5307” federal formula funds; these funds have traditionally been used for capital investment, but can be applied to certain eligible preventative maintenance expenses on the operating budget.
- In order to shift funding from the capital to operating budget, we must identify an equivalent amount of currently funded capital projects to stop, slow, or scale down.
- MBTA staff are currently reviewing all 500+ projects in the CIP to develop proposals for leadership and the FMCB, consistent with other Forging Ahead planning and analysis
- Since almost 75% of the FY21 CIP is fully encumbered on active contracts, with new commitments in the pipeline, immediate action is needed to reallocate funds to preventative maintenance and minimize potential service reductions.



Transit agencies are turning to capital to address budget gaps

Based on a recent policy brief published by the American Public Transportation Association (APTA):

- The majority of the \$25B in emergency funding provided by the CARES Act has been obligated, leaving transit agencies across the country with ongoing budget gaps
- These gaps have forced agencies to consider service cuts, staff furloughs, and changes to ongoing or planned capital projects
- According to APTA, 56% of large agencies have already been forced to delay, defer, or cancel capital projects to close budget gaps.
- Additionally, 8 in 10 large transit agencies are *considering* delaying, deferring, or cancelling capital projects if the Federal Government does not provide additional emergency funding

Peer Agency Actions:

- SEPTA may be forced to delay or cancel up to \$250M in capital projects due to a shortfall in Pennsylvania Turnpike Funds caused by the Coronavirus pandemic
- WMATA staff has proposed \$30M in FY21 Capital Program deferrals, along with \$139M in service adjustments and \$42M in management actions, to close a projected FY 21 shortfall of \$212M
- The MTA has put an indefinite hold on all capital projects as the agency faces a \$10.3B budget gap over the next two years



MBTA Capital Program Strategy – Managing Uncertainty

Short-term focus: Capital reallocation

- Continue active construction projects to maintain momentum and take advantage of low ridership
- Identify projects or scope to **pause** until conditions improve or additional funding is secured
- Aggressively pursue external funding and financing opportunities
- Align capital program strategy with Forging Ahead service planning framework
- Focus on “no regrets” decisions that make sense in the most possible futures
- Structure near-term investments to preserve maximum flexibility in an uncertain world

Medium-term focus: Rebaselined CIP

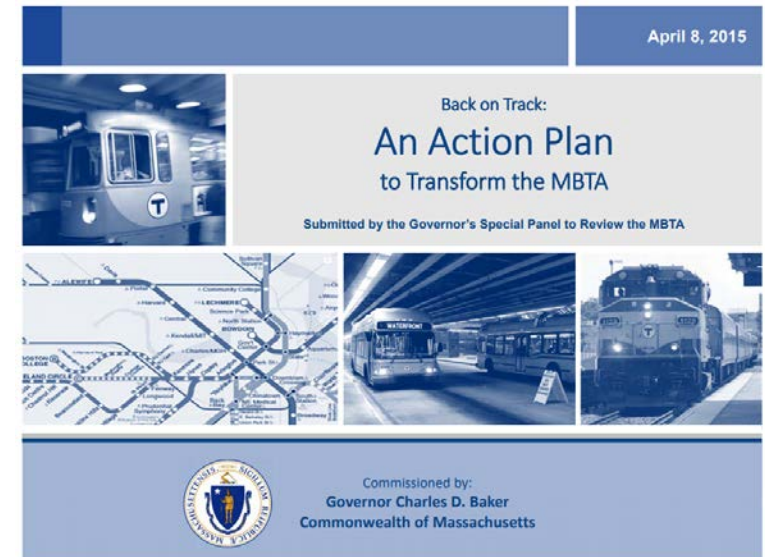
- Update and reconcile capital program funding sources
- Use outputs of scenario planning to revisit CIP prioritization and project selection framework
- Reassess fleet size and other capital needs through the lens of updated service levels
- Finalize decisions on paused projects/scope



Overarching Principles for Capital Reallocation

Principle 1: Maintain separation of capital and operating budgets

- Back on Track: An Action Plan to Transform the MBTA
 - In 2015 the Governor's Special Panel to Review the MBTA found that despite significant maintenance and modernization needs to reach a state of good repair, the MBTA regularly used funds intended for the capital program for operating expenses.
 - To address the MBTA's operational deficits and capital needs, and to prevent their recurrence, the panel recommended *clear separation* between operating and capital budgets.
- To the extent feasible, minimize the use of capital for operating costs and avoid creating a structural dependence on capital funds to balance the operating budget
- Reallocating Federal formula funds is a **short term** solution to replace lost revenue



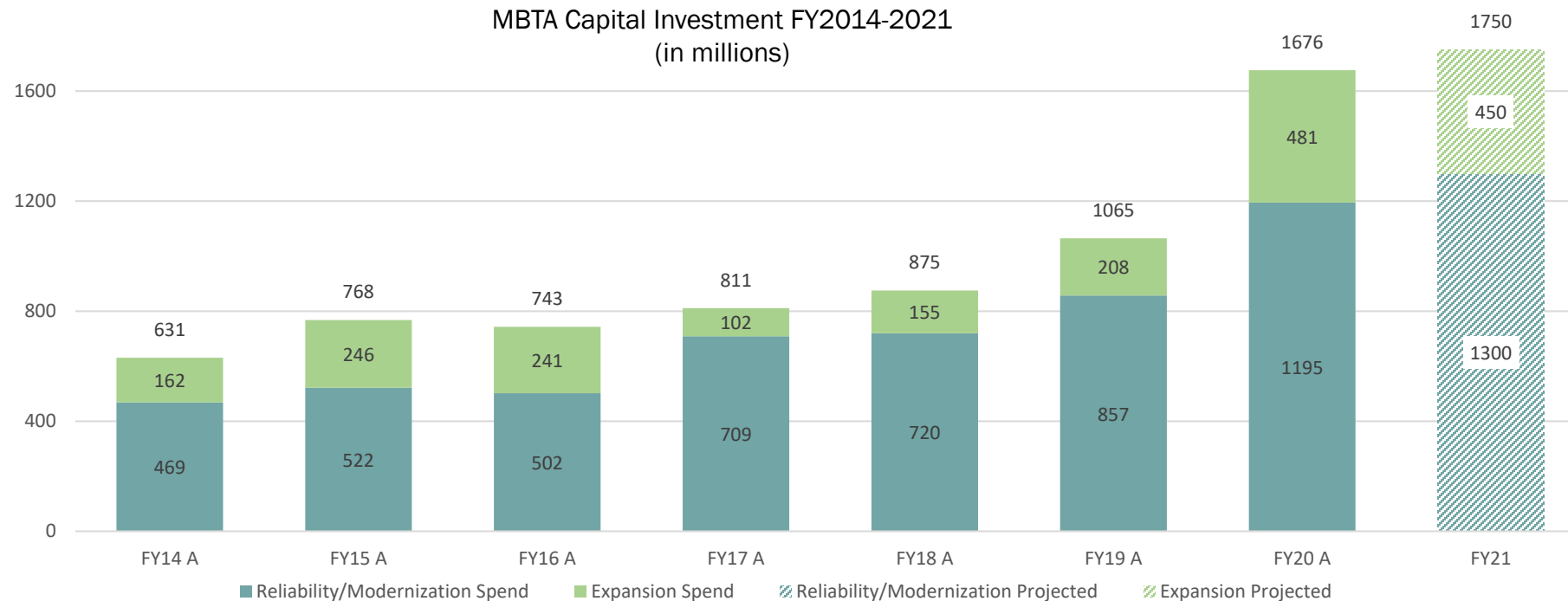
"Implement a 'firewall' between the operating and capital budgets"



Overarching Principles for Capital Reallocation

Principle 2: Continue the upward trajectory of capital investment to achieve system safety, reliability, and modernization goals

- Maintain momentum by prioritizing projects that address the most pressing capital needs and identifying alternative funding sources to replace reallocated federal formula funds



Parallel processes to reallocate funds and seek new sources

Review Capital Program

- Conduct a collaborative, comprehensive and methodical review of the CIP to identify opportunities for deferring or scaling down projects.
- 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 (no contract flexibility)?
 - How much flexibility exists within the unobligated segment of projects (projects not currently under contract)?
- Developed a range of policy streams and channels of analysis to help shape and frame trade-offs and the decision-making process.
- **Outcome:** Recommendations for policy-level and project level adjustments that can be made to the capital program in support of the operating budget.

Seek Additional Funding

- Aggressively pursue 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.
 - Awarded \$3M grant for ferry overhauls
 - Received \$20M in FHWA redistribution funds for bus lanes
 - Submitted FHWA ATCMTD grant application for bus dispatching
 - Proactively preparing for FFY21 round of discretionary grants
- Engaged USDOT Build America Bureau to discuss low-interest 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
- **Outcome:** Strategy for external funding/financing to minimize impact of revenue loss on the long-term capital program

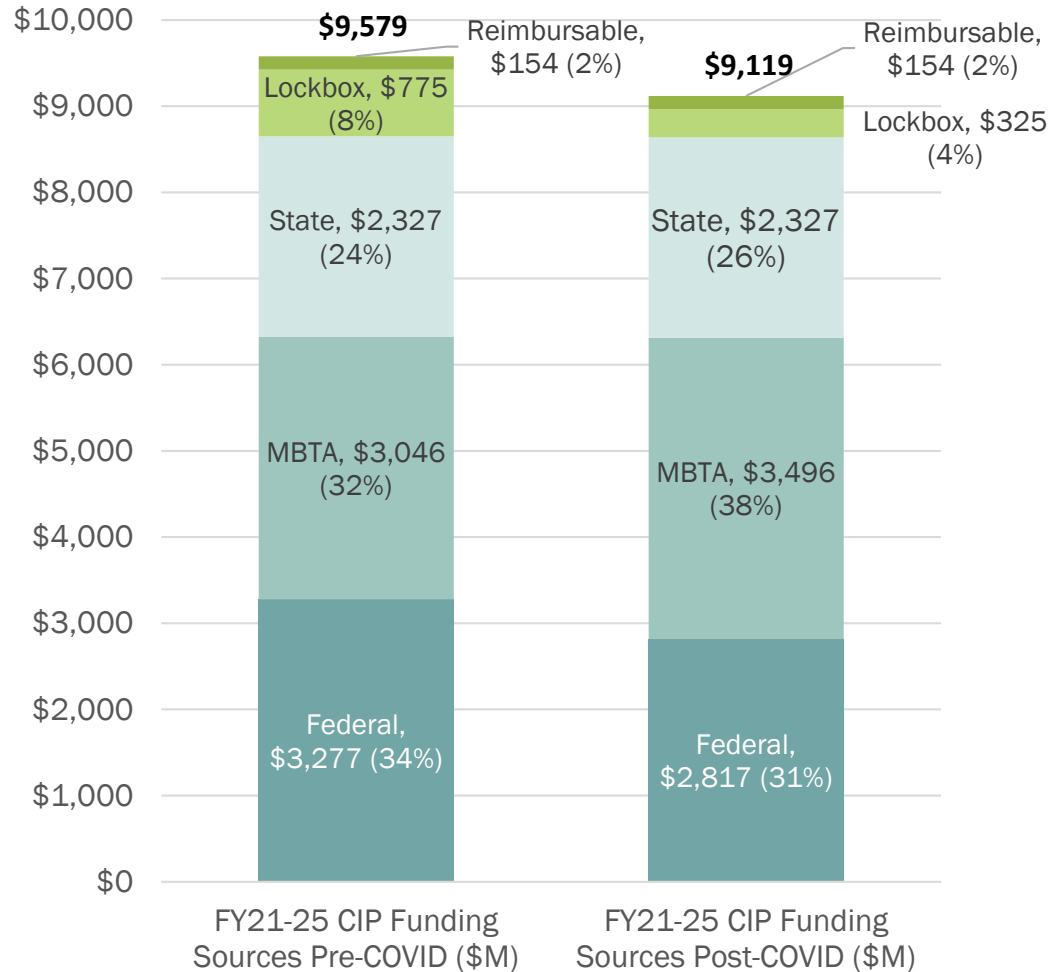
Financial Scenario – Formula Fund Reallocation

- Reallocating Federal formula funds for preventative maintenance costs is a short term solution to replace lost revenue
 - We assume the MBTA can either recover enough ridership or make sufficient structural budget changes to begin restoring formula funds to the capital budget in FY23
 - Maximizing the total amount available for operating would materially diminish the MBTA’s ability to address capital needs
- “Low” and “Medium” scenarios reflect the FY21 & FY22 operating budget savings scenarios presented to the FMCB; “High” scenario targets \$460M in federal formula fund reallocation, given the longer planning horizon for capital projects
 - Targeting a higher reallocation amount now would help the MBTA prepare for the many unknowns that could arise as projects are scaled down, paused or stopped (including hidden costs or inaccurate estimates) and offer room for any new items/needs that may develop.
- It is beneficial to pause projects before major commitments are made; paused or delayed projects can be re-started, scaled up, or accelerated as additional funds become available

Section 5307 Funds (when available)				
Fiscal Year	Currently Programmed	High Scenario	Medium Scenario	Low Scenario
2020	\$134M	\$80M	\$80M	\$80M
2021	\$151M	\$150M	\$150M	\$80M
2022	\$153M	\$150M	\$50M	\$0
2023	\$156M	\$80M	\$0	\$0
2024	\$159M	\$0	\$0	\$0
2025	\$161M	\$0	\$0	\$0
Total	\$913M	\$460M	\$280M	\$160M

Recommendation: Plan to the “high” scenario to provide maximum operating budget flexibility as ridership and revenue recovers and restore full capital sources by FY 2024.

FY 2021- 2025 Sources Pre-COVID vs Post-COVID

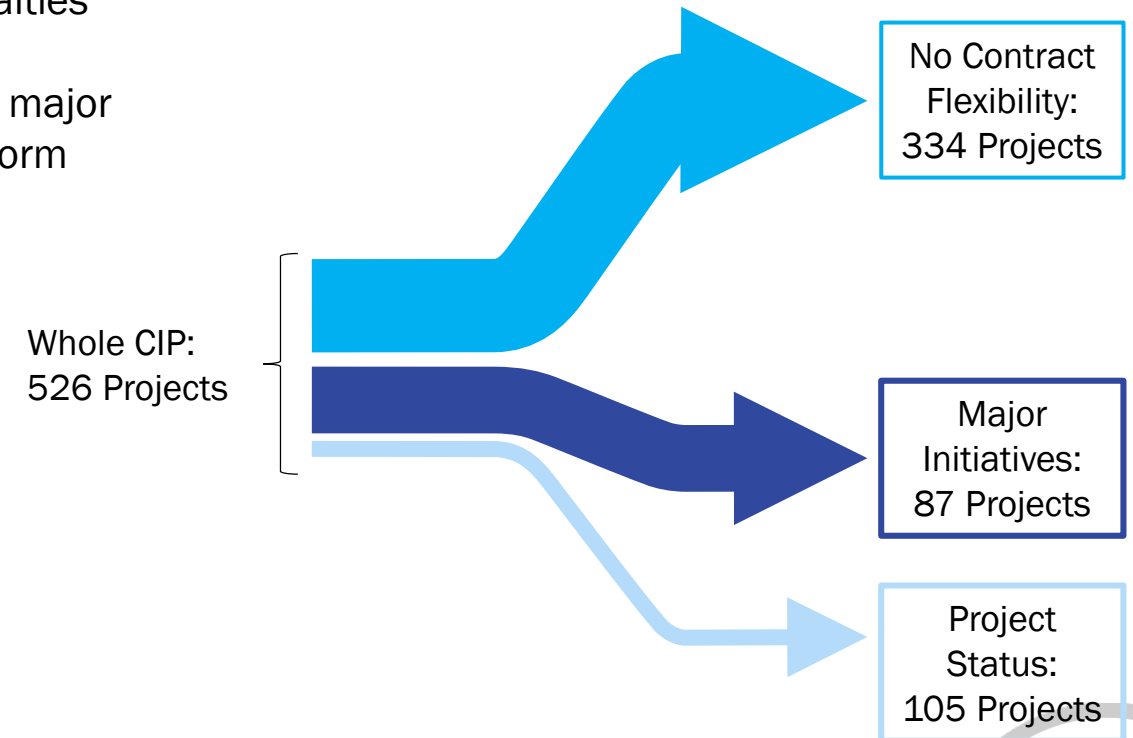


Several source assumptions have changed during the course of the COVID-19 pandemic.

- **Federal Section 5307** reflects the proposed transfer of \$460 million of funds to the operating budget
 - \$80M in unobligated FFY20 funds currently available
 - \$150M in anticipated FFY21 funds, subject to appropriation
 - \$150M in anticipated FFY22 funds, subject to appropriation
 - \$80M in anticipated FFY23 funds, subject to appropriation
- **Pay-Go/Lockbox** reflects no transfer of funds from the operating budget, but assumes \$60 million per year in state assistance via bond cap plus prior year carryover
- **MBTA Bond** program has capacity to increase debt proceeds to accommodate capital salaries and project costs previously programmed to the Lockbox, as needed
 - Assumes enactment of legislative proposal on capital salaries

Segmenting the CIP by Contract Flexibility

- A cross-functional working group reviewed the entire CIP to identify how much of the current program is allocated to active contracts with “no flexibility” to scale down or terminate without financial penalties
- The remaining projects with contract flexibility were grouped by major initiatives and project status designations to help guide and inform high-level policy and project-level decision making.
- Major Initiatives with significant upcoming commitments:
 - Bus and Bus Facilities
 - Green Line Transformation
 - Stations and Wayfinding
 - Commuter Rail Capacity
- Other flexible projects grouped by status or type:
 - New projects
 - Projects in design
 - Partially funded projects
 - On-call contracts



Contract Flexibility: Preliminary Results and Analysis

	Not Flexible	Possible Flexibility	Flexible	Total FY21
FY 21 Programmed Amount	\$1,716,768,247	\$565,470,161	\$80,401,305	\$2,362,639,713

- **Most of the funding in the one-year CIP is currently committed on contracts:** 73% (or \$1.7 billion) of FY21 programmed funds are currently allocated to projects with “no flexibility” to suspend contracts
- The MBTA is planning to advertise an additional 8 construction or vehicle procurement projects before the end of the calendar year, representing up to \$307M in total funding. **Once additional major construction projects or vehicle procurements are underway, we will have less flexibility to reallocate or re-sequence the capital program.**
- The four major initiatives account for \$441M/68% of flexible and possible flexible funds in FY21, and a larger percentage of uncommitted outyear spending, often in closely intertwined projects (e.g. bus procurement and bus facility construction).

A successful scenario will likely be a combination of deferring projects that have not yet started and modifying the schedule or scope of projects already underway. This may include scaling down projects to critical elements, or pausing projects until sufficient funding becomes available.

Defining Our Essential Services

Based on three analyses:

- Where are the trips made by transit critical populations
- Where we have high ridership now or in the immediate future

	Serving high transit critical population	Serving low transit critical population
Higher ridership (current or propensity)	Preserve or enhance service / access <i>(though individual trips may still be affected)</i>	Consider trade-offs depending on budget availability
Lower ridership (current or propensity)	Consider trade-offs depending on budget availability	Most likely to reduce service levels

This process is designed to create an equitable network that preserves access and quality of service available to low-income and/or people of color riders.



Decision-Making Framework for Capital Reallocation

Key considerations for projects with flexibility:

- Safety is never compromised – safety investments may be needed even for projects targeted for reallocation
- Decisions should weigh project flexibility, placement on the framework, and anticipated benefits/outcomes to transit-dependent riders
- New projects in all categories may be paused or scaled down to focus resources on completing existing work

	Safety/ Maintenance	Accessibility	Capacity/ Amenities	Expansion
Higher ridership (current or propensity)	Continue or accelerate projects	Continue projects, based on impact	Continue select projects, consistent with demand	Advance planning/design, if resources allow
Lower ridership (current or propensity)	Focus on safety-critical elements	Consider scaling down, based on impact	Pause or scale down, consistent with demand	Pause or defer investments

Next Steps for Capital Reallocation

- **October 5:** Present financial scenario, guiding principles, and prioritization approach to the FMCB
- **October 15 (*tentative*):** Present *Forging Ahead* principles and approach to Boston Region MPO
- **November 2:** Present capital reallocation proposal consistent with scenario planning analysis to the FMCB
- **November 11:** Present summary of capital reallocation proposal to MassDOT Capital Programs Committee
- **November 19 (*tentative*):** Present Transportation Improvement Program (TIP) Amendment to MPO and release for 21-day public comment
- **December 17 (*tentative*):** Seek MPO endorsement of the TIP Amendment
- **December:** MassDOT submit revised Statewide TIP (STIP) to FHWA/FTA
- **January:** MBTA begin to submit grant applications for preventative maintenance
- **February:** Execute FTA grants, and begin draw down of funds for eligible preventative maintenance expenses



Timeline for Service, Budget, and Capital Decisions

