Forging Ahead: Capital Reallocation

Fiscal and Management Control Board
November 9, 2020
Samantha Silverberg
Overview: Capital Reallocation

- A short-term reallocation of capital funds to the operating budget is a key part of our strategy to preserve essential service to transit-dependent riders.

- Two capital funding changes are being proposed:
  - Flexing federal formula funds from capital projects to preventative maintenance and
  - Allocating capital employee salaries to project budgets, once authorized by legislation

- Federal formula 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, the MBTA has secured additional state capital funding and identified a limited number of projects to pause for reconsideration until the next five-year CIP.

- Under the proposed approach **over 95%** of the FY21 CIP will continue as planned

**Key Principles:**

1. **Maintain separation of capital and operating budgets**
   - The 2015 Special Panel recommended the T “Implement a ‘firewall’ between the operating and capital budgets”
   - Reallocating Federal formula funds is a **short term** solution to replace lost revenue

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
   - Aggressively pursue alternative funding sources to replace reallocated federal formula funds
Current Status

Progress since 10/5 FMCB:

✓ The Commonwealth committed an additional **$140M** in state bond cap for MBTA project expenditures in FY21

✓ Legislature enacted **capital salaries** language via FY20 closeout budget, allowing MBTA to charge costs of employees working on capital projects to Federal funds, MBTA Revenue Bonds, and State Special Obligation Bonds

✓ Staff reviewed all 500+ projects in the CIP against the framework presented to the FMCB and identified a limited portfolio of projects to **pause for reconsideration** until the next five-year CIP

✓ Based on this project list, staff prepared a draft amendment to the Transportation Improvement Program (TIP) to reallocate **$380M in federal formula funds** from capital projects to preventative maintenance over the next two years

Next Steps:

• Finalize “pause list” to limit expenditures on select projects until next CIP cycle

• Execute transfer of $140M in commonwealth bond cap via MassDOT ISA (Board vote 11/23)

• Bring TIP Amendment to Boston Region MPO (tentatively scheduled 12/3)
Impact of Capital Reallocation Proposal

- Because of COVID-related uncertainty, MassDOT and MBTA published a one-year (FY21) “maintenance of effort” CIP earlier this year.

- Next year, MassDOT/MBTA plan to issue a five-year FY22-26 CIP, reflecting updated funding sources and uses aligned with COVID scenario planning.

- The exercise to reallocate federal formula funds has minimal impact to the FY21 CIP – over 95% of projects will continue unchanged, including major programs like GLX, SCR, RL/OL, AFC, etc.

- Given new funds (state/federal), the MBTA does not anticipate a change to the $1.75B FY21 spending target set this spring.
Federal 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

• On October 5, staff recommended a 5-year target of $460M in Sec. 5307 formula fund reallocation over the five-year CIP
  • While operating and service planning are focused on FY21/22 only, it is prudent to use a longer time horizon for capital planning given the multi-year cash flows of capital investments.

• The **revised** staff recommendation maintains the $460M total over five years, but reflects two modifications:
  • Incorporating Sec. 5337 funds for fixed guideway investments in addition to Sec 5307, consistent with FTA guidance
  • Accelerating reallocation of available FFY20 balances because of additional FY21 state bond cap provided by ANF

**Recommendation:** Plan for a total of $460M in federal formula fund reallocation over the 5-year CIP, of which $380M would be targeted in the initial TIP amendment
Additional State Capital Funding

The Commonwealth has allocated an additional $140M in FY21 State Bond Cap to the MBTA

- FY21 Bond Cap must be expended this fiscal year (i.e. cannot be rolled to next year)
- Additional bond cap allows the MBTA to accelerate critical bus lane and power projects during a period of lower ridership and avoid pausing projects previously identified as possible sources for reallocation
- Using bond cap for existing projects will minimize the impact of the formula fund reallocation on the capital program and preserve MBTA debt capacity for future years

<table>
<thead>
<tr>
<th>CIP ID</th>
<th>Project Name</th>
<th>FY21 CIP Funding Source</th>
<th>Additional State Bond Cap – Anticipated Use</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>FY21 Accelerated Projects</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P0613</td>
<td>Bus Priority and Accessibility Improvements</td>
<td>MBTA Revenue Bond</td>
<td>$2,000,000</td>
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<tr>
<td>P0705</td>
<td>Power System Resiliency/Systemwide Duct Bank Replacement Program</td>
<td>Section 5337 and Pay-Go/Lockbox</td>
<td>$10,000,000</td>
</tr>
<tr>
<td></td>
<td><strong>Projects That Were Previously Identified for Possible Pause</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P0261</td>
<td>Worcester Line Track Improvements Incl. 3rd Track Feasibility</td>
<td>Federal Funds</td>
<td>$19,000,000</td>
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<tr>
<td>P0591</td>
<td>Green Line Central Tunnel Track and Signal Replacement</td>
<td>Federal Funds</td>
<td>$76,115,680</td>
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<tr>
<td>P0395</td>
<td>Worcester Union Station – Design and Construction</td>
<td>Federal Funds</td>
<td>$32,884,320*</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td></td>
<td>$140,000,000</td>
</tr>
</tbody>
</table>

*Match for Federal Grant Award
### 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

<table>
<thead>
<tr>
<th></th>
<th>Safety/ Maintenance</th>
<th>Accessibility</th>
<th>Capacity/ Amenities</th>
<th>Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Higher ridership</strong></td>
<td>Continue or accelerate projects</td>
<td>Continue projects, based on impact</td>
<td>Continue select projects, consistent with demand</td>
<td>Advance planning/design, if resources allow</td>
</tr>
<tr>
<td>(current or propensity)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Lower ridership</strong></td>
<td>Focus on safety-critical elements</td>
<td>Consider scaling down, based on impact</td>
<td>Pause or scale down, consistent with demand</td>
<td>Pause or defer investments</td>
</tr>
<tr>
<td>(current or propensity)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Outcomes of reallocation exercise

1. **Continue over 95% of FY21 CIP with no changes.** No impact to in-flight major programs, including Green Line Extension, South Coast Rail, Positive Train Control, Red Line/Orange program, Fare Transformation, bridge program, bus lanes, and others.

2. Pause further investment in **expansion and capacity** projects

3. Pause some **station upgrade** projects (including wayfinding) or scale down to critical safety investments
   - *Worcester Union Station advancing due to recently awarded FRA grant and matching state funds*

4. Pause or scale down some **Commuter Rail** vehicle, facility, and capacity projects

5. Pause or scale down lower-priority projects with **partial funding** or alternative delivery mechanisms

6. Revisit scope, timeline, and expectations for major **transformation** programs

7. Focus on delivering existing projects while building an appropriately sized design **pipeline** for future opportunities
The summary of FY21 projects proposed to pause includes expansion/capacity projects and station upgrade projects, with a total authorized amount of $2.29B, or 97%, of projects in the FY21 CIP continuing unchanged.

<table>
<thead>
<tr>
<th>CIP ID</th>
<th>Project</th>
<th>FY21 CIP</th>
<th>Total Authorized</th>
<th>Est. Reallocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>P0867</td>
<td>Green Line Extension to Mystic Valley Parkway</td>
<td>$1M</td>
<td>$9M</td>
<td>$9M</td>
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<tr>
<td>P0179</td>
<td>Winchester Station Improvements</td>
<td>$15.0M</td>
<td>$49.9M</td>
<td>$42.8M</td>
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<tr>
<td>P0178</td>
<td>South Attleboro Station Improvements</td>
<td>$1.8M</td>
<td>$48.6M</td>
<td>$41.6M</td>
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<tr>
<td>P0170</td>
<td>Newton Commuter Rail Stations Design</td>
<td>$2.8M</td>
<td>$20.6M</td>
<td>$15.1M</td>
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<tr>
<td>Multiple</td>
<td>Other Station Upgrade Projects (4 total)</td>
<td>$16.2M</td>
<td>$220.55</td>
<td>$39.3M</td>
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</tbody>
</table>
## FY21 CIP Projects to Pause for Reconsideration

- $2.29B, or 97%, of projects in the FY21 CIP will continue unchanged

<table>
<thead>
<tr>
<th>CIP ID</th>
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<th>FY21 CIP</th>
<th>Total Authorized</th>
<th>Est. Reallocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commuter Rail Projects</td>
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<td></td>
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<tr>
<td>P0652</td>
<td>Procurement of 181 Bi-Level Commuter Rail Coaches</td>
<td>$0.2M</td>
<td>$639.8M</td>
<td>$596.0M</td>
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<tr>
<td>P0882</td>
<td>CR Coach Refurbishment</td>
<td>$7.0M</td>
<td>$33.0M</td>
<td>$10.0M</td>
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<tr>
<td>P0640</td>
<td>Commuter Rail Vision - Early Action Items</td>
<td>$1.5M</td>
<td>$20.0M</td>
<td>$10.0M</td>
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<tr>
<td>P0214</td>
<td>Franklin Double Track and Signal</td>
<td>$13.1M</td>
<td>$50.0M</td>
<td>$10.0M</td>
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<tr>
<td>Multiple</td>
<td>Other Commuter Rail Projects (2 total)</td>
<td>$2.0M</td>
<td>$30.0M</td>
<td>$25.0M</td>
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<tr>
<td>Partially Funded and New Projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiple</td>
<td>Partially Funded and New Projects (4 total)</td>
<td>$1.3M</td>
<td>$7.00M</td>
<td>$7.00M</td>
</tr>
</tbody>
</table>
The MBTA plans to present an amendment to the Transportation Improvement Program (TIP) that allocates an initial $380M of available and anticipated federal formula funds to preventative maintenance.

The FFY20 funds will be available to the MBTA upon adoption of the TIP and STIP amendments, and can be applied immediately to eligible preventative maintenance expenses.

As part of the FY22-26 CIP and TIP process, the MBTA will propose the next round of 5307/5337 reallocation, consistent with the $460M targets set by the FMCB.

<table>
<thead>
<tr>
<th>Federal Fiscal Year</th>
<th>Section 5307 Funds</th>
<th>Section 5337 Funds</th>
<th>Total</th>
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<tr>
<td>FFY20</td>
<td>$80M</td>
<td>$91M</td>
<td>$171M</td>
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<tr>
<td>FFY21</td>
<td>$51M</td>
<td>$128M</td>
<td>$179M</td>
</tr>
<tr>
<td>FFY22</td>
<td>$0M</td>
<td>$30M</td>
<td>$30M</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$131M</td>
<td>$249M</td>
<td>$380M</td>
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Next Steps for Capital Reallocation

- **October 5**: Present financial scenario, guiding principles, and prioritization approach to the FMCB
- **October 15**: Present Forging Ahead principles and approach to Boston Region MPO
- **November 9**: Present capital reallocation proposal to the FMCB
- **November 18**: Present summary of capital reallocation proposal to MassDOT Capital Programs Committee
- **November 23**: Joint MassDOT Board vote on transfer of $140M in bond cap
- **December 3 (tentative)**: Present Transportation Improvement Program (TIP) Amendment to MPO and release for 21-day public comment
- **January 7 (tentative)**: Seek MPO endorsement of the TIP Amendment
- **January**: 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
Forging Ahead Public Engagement

The engagement process for Forging Ahead will be:

• **Transparent** – we will share all information needed to provide input
• **Proactive** – we will reach out to impacted communities
• **Iterative** – we will return to communities when we have more information
• **Accessible** – we will ensure language access and access to persons with disabilities

- 11 virtual public meetings from Nov 10 - Dec 3
  - 10 meetings focused on sub-regions
  - 1 public hearing
  - 1 system-wide meeting
• Proactive, non-virtual engagement with communities
  - Targeted outreach to communities most impacted and least likely to engage in virtual meetings
• Online feedback tools at [www.mbta.com/forgingahead](http://www.mbta.com/forgingahead)
Timeline for Service, Budget, and Capital Decisions

**November 9 (FMCB)**
- **Budget**: Return to the board to detail September results and FY21/FY22 savings target progress
- **Service Planning**: Detailed service packages
- **Capital Planning**: Present recommended reprioritization to accommodate shift of Section 5307/5337 funds to operating and other reductions

**November 23 (Joint)**
- **Budget**: FY22 update based on service planning packages and capital planning recommendations
- **Service Planning**: Contingent Board decision on service level packages
- **Capital Planning**: Joint MassDOT Board vote on transfer of $140M in bond cap
- **Additional updates as needed**

**December 7**
- **Budget**: Return to the board to detail October results

**May 15, 2021**
- **Budget**: Statutory deadline for preliminary itemized FY22 budget with a preview in Spring 2021

**June 15, 2021**
- **Budget**: Statutory deadline for final itemized FY22 budget

**July 1, 2021**
- **Budget**: FY22 begins and three-pronged approach implemented
Appendix
Resolving the Budget Gap Summary

- Incorporating Scenario 3 Fare Revenue projection (as presented October 19th) FY22 budget gap projection at $579M.
- Taking steps now in FY21 to build reserves and reduce the level of spending cuts next year
- With the FY22 budget gap estimate at the upper bound of the initially projected range, altering recommendations results in direct trade-offs among the approaches
- Lowering recommendations in any one of the approaches would mean raising recommendations among the other approaches in order to achieve budget balance
- All cost saving actions are estimates and likely upon implementation will not reach full amounts listed
Projects to “pause for reconsideration”

Review of the Capital Program:

✓ Completed 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 projects to be paused to support FY21 reallocation of federal formula funds and planning for future reallocation, if needed.