

# **Massachusetts Bay Transportation Authority**

## **FY22 Final Itemized Operating Budget**

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Fiscal and Management Control Board

June 7, 2021

Mary Ann O'Hara, Chief Financial Officer

# Agenda

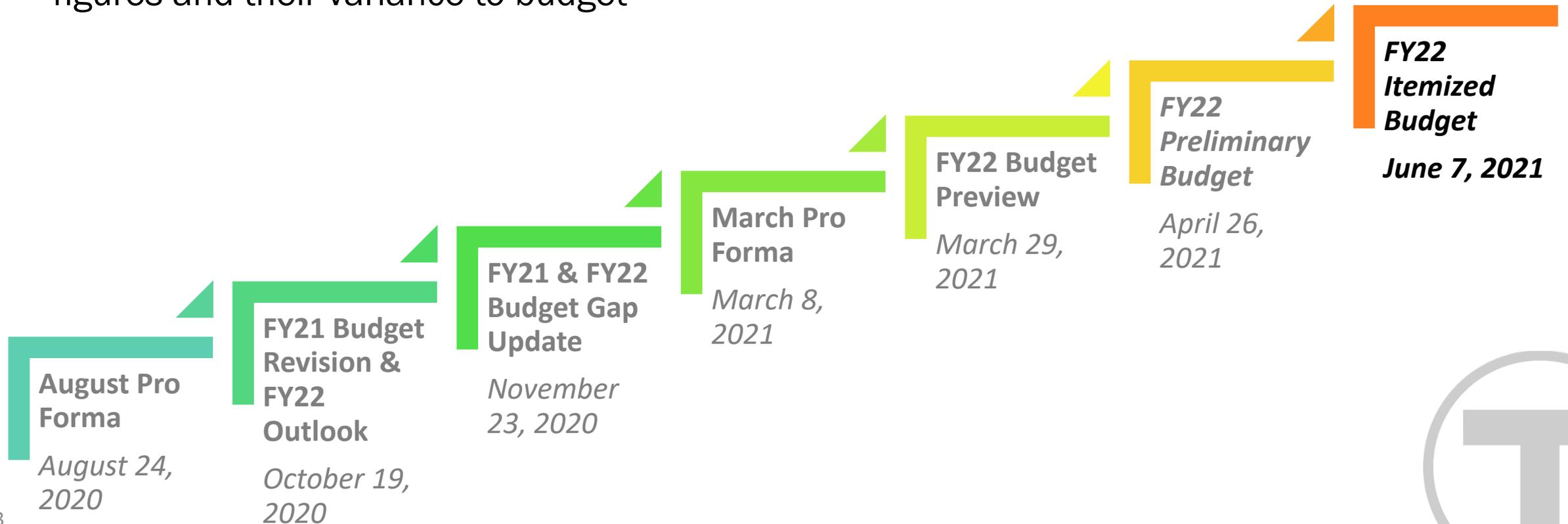
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- Recap of FY22 budget development process
- FY22 budget highlights
- Overview of operating budget headcount
- Budget balance summary
- Itemized spending and revenue
- Budget risks and opportunities
- Sustainable budget planning
- Itemized budget vote



# FY22 Budget Presentations to the FMCB

- As part of FY22 budget development, there have been seven major budget/finance presentations to the FMCB in the past nine months on the operating budget for FY22 and beyond
- Additionally, Finance provided monthly updates on FY21 actual spending and revenue figures and their variance to budget



# FY22 Operating Budget Process

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- FY22 budget development process prioritized improved coordination and communication with each department
- Proactively created a financial plan that balanced the budget in a strategic way that restores service, preserves safety-critical spending, and invests in transformational initiatives
- Formed cross-functional working groups to identify, analyze, and implement savings ideas
- Bottom up approach to building the FY22 budget through a collaborative approach with departments
- Inclusive dialogue with the departments directly impacted by budget decisions to maintain a fiscally disciplined approach
  - 84 individual budget meetings between January-February 2021
  - Meeting with departments in two rounds to listen and understand requests with dedicated follow up time to explain or discuss any changes or updates
  - Previews and recaps of FMCB budget presentations with relevant departments and divisions across the Authority to gain input and answer questions
- Plan to continue tracking, reporting, and, if necessary, revising, the FY22 budget with routine updates throughout the year as we monitor observed spending, revenue, and ridership trends



# Budget Highlights

Restoring service	Adds back bus, rapid transit, commuter rail weekend, and ferry service as soon as possible
New safety hires	Invests in new safety-critical and system-critical positions
Transforming service	Advances bus and regional rail transformation with additional resources and staff
Adding GLX service	Funds additional service and support for new Green Line Extension (GLX) service
Maximizing existing revenues	Responsibly prioritizes funds to key, targeted initiatives and <b>does not</b> rely on or include any fare increases, layoffs, or furloughs to balance the budget
Supplementing capital funds	Adds \$30M to a Near-Term Transformational Investments Fund for near-term capital opportunities that arise during the fiscal year
Sustainable budget planning	Maintains a two-year budget outlook and sets aside one-time federal relief funds to solve the budget gaps this year and next year



# Near-Term Transformational Investments Funding

- Addition of \$30M transfer of operating funds to the capital plan
- Per FMCB direction, the FY22 CIP has been updated to include a new, *Near-Term Transformational Investments* fund
  - Support near-term capital opportunities that arise during the fiscal year
- Consistent with all in-year capital project changes, requests to use these funds will be processed through the MBTA's CIP change process

## Near-Term Transformational Investments

\$30M

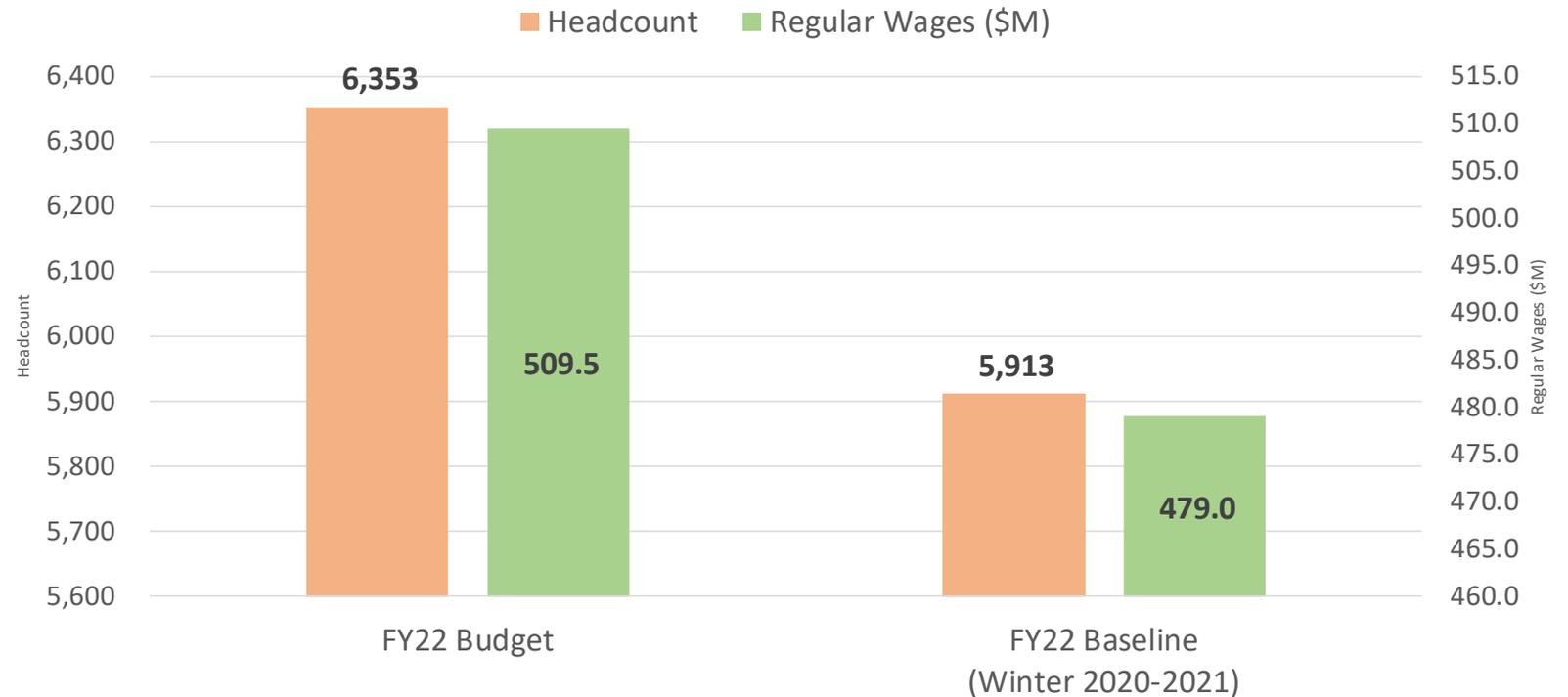
Supplement  
Capital Plan



# FY22 Headcount Overview

- Restoring service, adding GLX service, and new safety hires increase operating budget headcount
- FY22 budget includes 6,353 operating budget positions
- 440 (7%) above FY22 baseline from Winter 2020-2021
- 440 positions plus 474 backfills for attrition (FY19-FY20 average) throughout FY22 would mean at least 914 total hires, 40% higher than the average amount the last two years (651 average)
  - \$350K allocated to HR for additional support to meet demand as quickly as possible

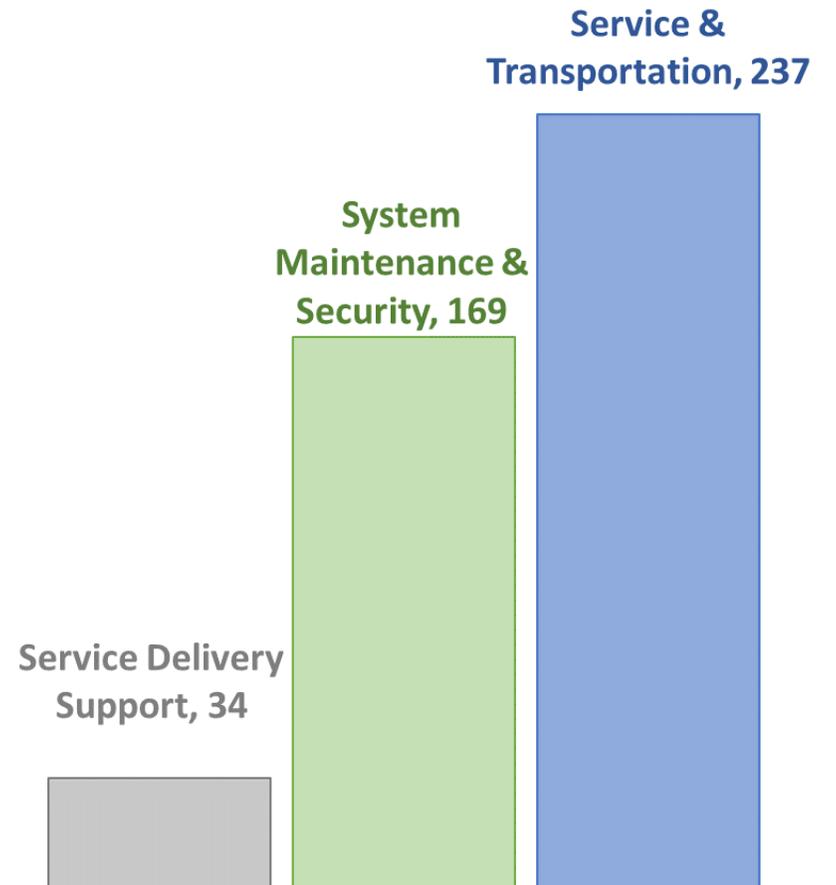
**Total Headcount & Regular Wages Detail**



# FY22 Headcount Detail

- New hires add service and support system maintenance, security, and service delivery
- 6,353 operating budget positions, 440 (7%) above FY22 baseline from Winter 2020-2021
- **237 positions directly for service & transportation**
  - 97 positions to restore bus service and 33 positions among the other modes
  - 71 transportation-related positions to operate GLX
  - 36 positions for operations planning, training, and engineering
- **169 positions for system maintenance & security**
  - 98 positions for system and facilities maintenance
  - 43 positions for vehicle maintenance for the bus and rail system
  - 28 positions among security, health & safety, and transit police
- 34 positions for service delivery support among 18 other departments

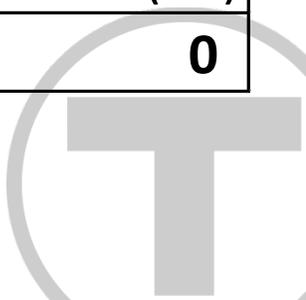
## FY22 Headcount Increases Above Baseline



# FY22 Budget Balance Overview

- One-time revenue has balanced the \$604M budget gap in FY22
- \$335M net revenue deficiency after \$270M in FY22 federal relief revenue
  - Combination of ARP, CRRSAA, and FEMA reimbursement
- Balance FY22 budget with \$365M deficiency fund transfer
  - Includes a \$30M transfer to capital from remaining balances to fund the Near-term Transformational Investments Fund

Description	Amount (\$M)
Recurring Revenues	1,751
Total Expenses	2,355
<b>FY22 Budget Gap</b>	<b>(604)</b>
American Rescue Plan Relief	170
CRRSAA Relief Funds	65
FEMA Reimbursement	34
<b>Net Revenue (before transfers)</b>	<b>(335)</b>
Deficiency Fund Transfer	365
Transformational Investment Fund Transfer	(30)
<b>Projected FY22 Budget Deficit</b>	<b>0</b>



# Itemized Revenue Summary & Assumptions

- **Fare revenue and Other operating revenue** (parking, advertising, real estate, etc.) increase with projected ridership levels
- **Sales tax revenue** carried at FY22 state estimate, \$91M above the FY21 budget and \$78M above the FY22 certified base revenue amount of \$1,096M
  - Up to \$78M in budget risk in FY22 if state sales tax collections do not meet benchmarks (currently low risk)
  - Base revenue amount of \$1,083M in FY21 budget as adopted but FY21 projections fully incorporate \$92M upside from the state estimate of \$1,175M
- **Other income** reduction reflects the loss of Green Line Extension (GLX) mitigation revenue and one-time state supplemental operating assistance
- **One-time revenue** of \$605M in FY22 captured through two revenue categories, federal revenue and transfers
  - **Federal revenue** includes \$170M in American Rescue Plan (ARP), \$65M in Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA), and \$34M in FEMA reimbursement for COVID-19 expenses
  - **Transfers** in FY22 reflect \$365M one-time Deficiency Fund transfer into the operating budget and \$30M transfer out of the operating revenues to the Near-Term Transformational Investments Fund

Table compares FY21 budget as adopted to FY22 preliminary budget assumptions

Item (Figures in millions)	FY21 Budget	FY22 Budget	\$ Change	% Change
Fare Revenue	144	200	57	39%
Other Operating Revenue	27	45	18	68%
<b>Subtotal Operating</b>	<b>171</b>	<b>246</b>	<b>75</b>	<b>44%</b>
Sales Tax	1,083	1,174	91	8%
Local Assessment	178	179	1	1%
State Assistance	127	127	-	0%
Other Income	57	24	(32)	-57%
Federal (One-time revenue)	605	270	(336)	-55%
<b>Subtotal Non-operating</b>	<b>2,050</b>	<b>1,775</b>	<b>(275)</b>	<b>-13%</b>
<b>Total Revenue</b>	<b>2,220</b>	<b>2,020</b>	<b>(200)</b>	<b>-9%</b>
Transfers	20	335	315	1601%
<b>Total Sources</b>	<b>2,240</b>	<b>2,355</b>	<b>115</b>	<b>5%</b>
<b>Subtotal One-time Sources</b>	<b>625</b>	<b>605</b>	<b>(20)</b>	<b>-3%</b>



# Itemized Spending Summary & Assumptions

Table compares FY21 budget as adopted to FY22 preliminary budget assumptions

- **Wages and benefits** increases account for additional headcount for GLX operation, new safety hires, ratified collective bargaining agreements, overtime, and pension costs
  - 6,353 operating budget positions, 440 (7%) above FY22 baseline from Winter 2020-2021
  - Pension costs budgeted for 10% growth in FY22, consistent with five-year average growth
- **Service level** funding in accordance with service restoration plans as presented
- **Other operating expenses** include insurance policies increasing as premium costs trend higher following COVID-19 uncertainty
- **The RIDE** projected to be consistent with average ridership demand of 64% of baseline
  - Higher observed ridership will increase costs and result in a potential budget risk while lower ridership will decrease costs resulting in potential budget favorability
- **Debt service payment** reduction resulting from parking bond refunding savings
  - \$562M debt service payment in FY23 per March 2021 Pro Forma FMCB presentation, a \$95M (20%) increase above FY22

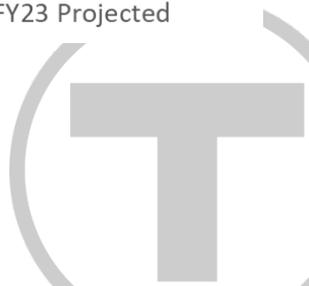
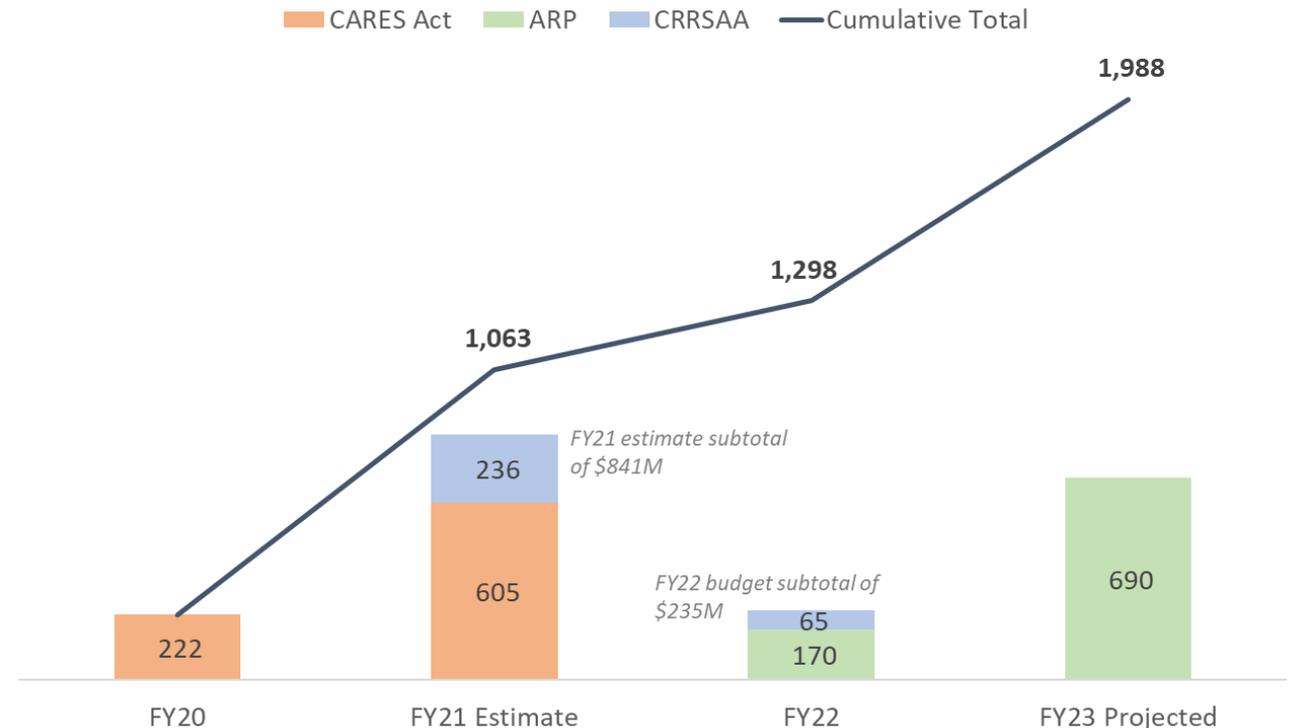
Item (Figures in millions)	FY21 Budget	FY22 Budget	\$ Change	% Change
Wages & Benefits	831	899	68	8%
Materials, Supplies, & Services	317	337	20	6%
Other Operating Expenses	25	33	8	33%
Commuter Rail	449	481	32	7%
The RIDE	129	115	(14)	-11%
Ferry	17	18	1	3%
Other Local Service Subsidy	3	3	0	1%
<b>Subtotal Operating</b>	<b>1,771</b>	<b>1,887</b>	<b>116</b>	<b>7%</b>
<b>Debt Service</b>	<b>523</b>	<b>468</b>	<b>(56)</b>	<b>-11%</b>
<b>Total Expenses</b>	<b>2,295</b>	<b>2,355</b>	<b>60</b>	<b>3%</b>



# Application of Federal Relief Funds to the Operating Budget

- \$1,298M or 66% of estimated federal relief funds applied to the operating budget by the end of FY22
  - \$1,063M or 54% by the end of this month (June 2021)
- Estimates assume a total of \$1,988M in one-time federal relief
  - \$827M from CARES Act
  - \$301M from CRRSAA
  - \$860M from ARP, an updated estimate (previously \$845M)
- Remaining \$690M in one-time ARP funds applied to FY23
  - ARP funds need to be obligated by 9/30/2024 and fully expended by 9/30/2029
- \$503M projected budget gap in FY23 as of March 29 FMCB presentation
  - Assumes approximately 4% spending growth and 12% revenue growth per the March Pro Forma analysis
  - \$187M remaining for any potential cost overruns, revenue shortfalls, future priority projects/initiatives, and future projected budget deficits

Application of Federal Relief Funds to the Operating Budget (\$M)



# Budget Risks & Opportunities

- Actual spending and revenue figures in FY22 will vary from budget as it does every year
  - Lower revenue or additional/unexpected spending will create a budget risk that will need to be managed, solved, and offset
  - Higher revenue or lower spending will create budget favorability that can be saved for future year budget gaps or one-time spending priorities/investments
- Budget risks and opportunities will continue to be tracked and reported similar to the approach in FY21

## Initial potential risks or unfavorability to budget in FY22

<p><b>Sales tax revenue</b></p> <p>FY22 estimate is above the base revenue amount, traditionally used for budget assumptions</p>	<p><b>Fuel pricing and inflation</b></p> <p>4.2% increase in consumer prices in April was the largest 12-month increase since 4.9% in September 2008, per BLS</p>	<p><b>New priorities and initiatives</b></p> <p>Additional expenses or lost/reduced revenue for unbudgeted priorities or initiatives/events as ridership begins to return to projected levels</p>
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## Initial potential opportunities or favorability to budget in FY22

<p><b>Regular wages &amp; fringe benefits</b></p> <p>New hiring and backfilling vacancies ramps up to add back service and increase operations safety</p>	<p><b>Fare revenue</b></p> <p>The economy and ridership continues to recover from COVID-19</p>	<p><b>Federal relief and FEMA reimbursement revenue</b></p> <p>Federal guidance and apportionments become finalized</p>
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# Sustainable Budget Planning

- **Voting to sequester funds to the Deficiency Fund in FY21 has improved fiscal discipline and near-term financial sustainability**
- Protected against budget risks and ensured future budget gaps were addressed first prior to committing to new spending
- Deficiency Fund transfer helped balance FY22, leaving a positive remaining balance for FY23 and mitigating the need to cut spending or raise revenue to cover deficits
- Continuing to transfer favorable budget results in FY22 into the Deficiency Fund (as was done in FY21) safeguards budget balance in the long-run and creates a dedicated, realized funding source for new or unbudgeted investments/initiatives

## Maintaining Deficiency Fund Transfers Policy



- Safeguards budget balance in the long-run
- Protects against potential budget risks
- Funding source for new/unbudgeted initiatives and priorities
- Mitigates need for any potential spending cuts
- Limits dependency on raising new revenue



# Request of the Fiscal and Management Control Board

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- **It is VOTED:**
- To approve the Authority's itemized budget of current operating expenses and debt service costs, for a one-year period from July 1, 2021 through June 30, 2022, in the amount of \$2,354,730,793, as presented at the June 7, 2021 meeting of the FMCB; and
- That the General Manager is hereby authorized and directed to submit the approved itemized budget, in the name and on behalf of the Authority, to the MBTA Advisory Board no later than June 15, 2021 in accordance with Section 20 of Chapter 161A of the Massachusetts General Laws; and
- To authorize the transfer of surpluses, defined as total revenues less total expenses, above the amounts identified in the adopted FY22 budget, as may be amended, to the Operating Budget Deficiency Fund to mitigate the projected deficit in FY23 or FY24 and any other current or future obligations.



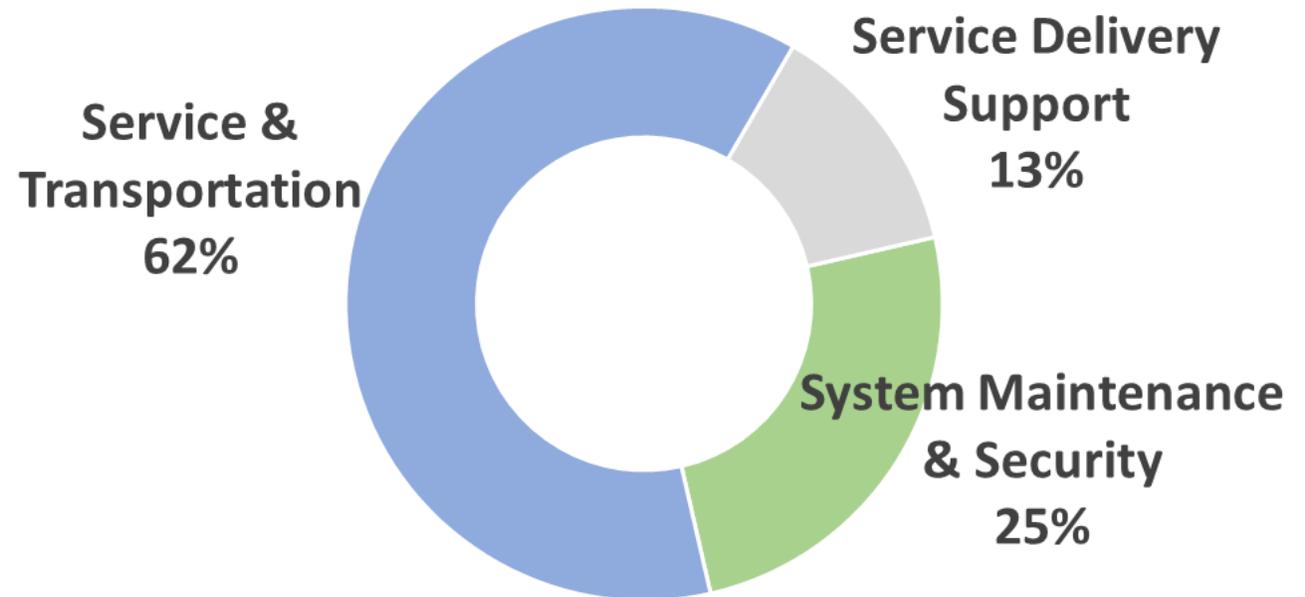
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# Appendix

# Operating Expense Breakdown

- 87% of operating expenses directly tied to service transportation and system maintenance
  - 62% directly supports all service and transportation including adding back service from COVID-19 and new service like GLX
  - 25% for system and vehicle maintenance, safety, and security
- 13% to support service delivery and the customer experience

## FY22 Breakdown of Operating Expenses



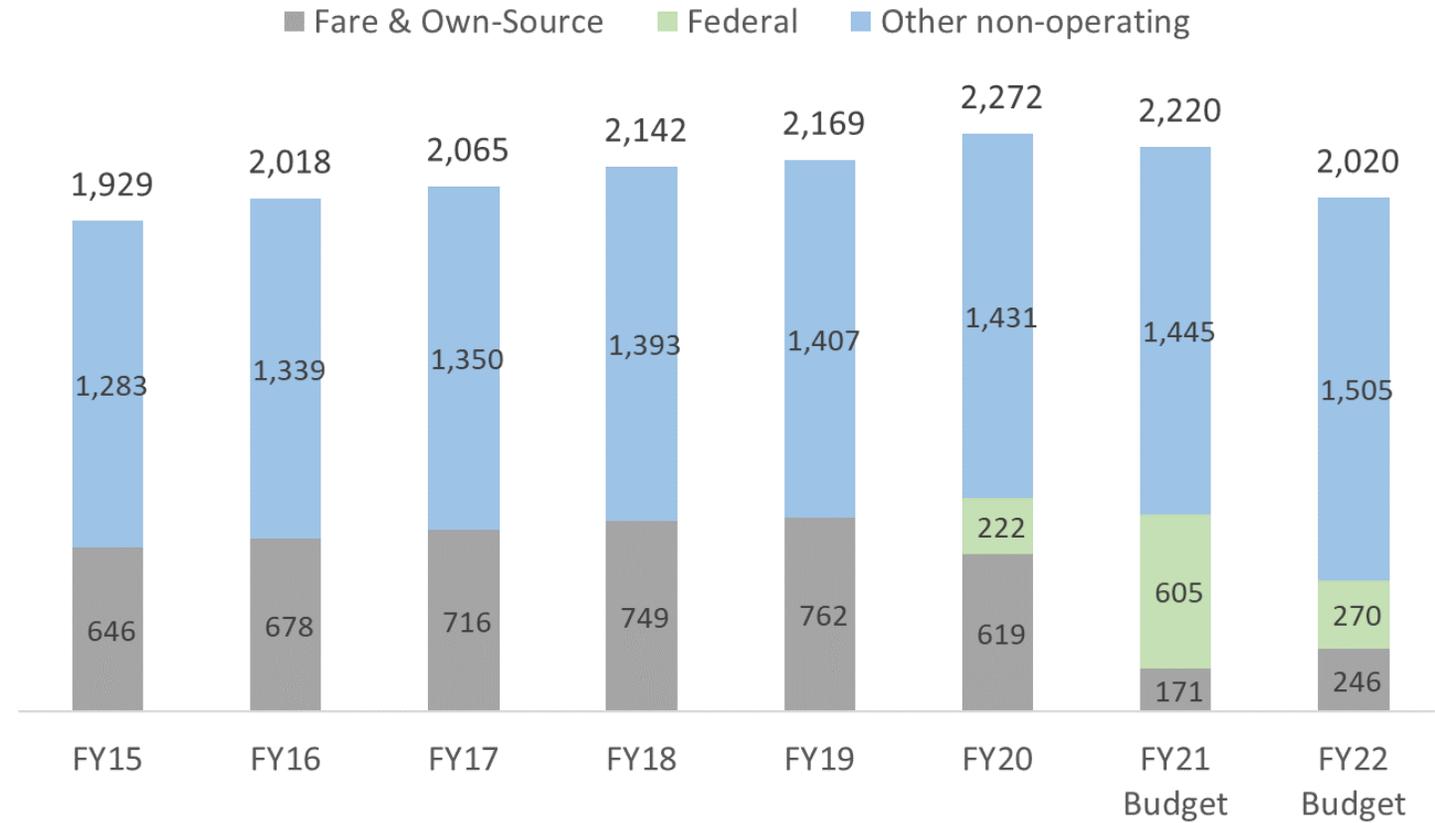
*Operating expenses do not include debt service payments. Total expenses in the FY22 budget are operating expenses plus debt service payments.*



# Operating & Non-operating Revenues

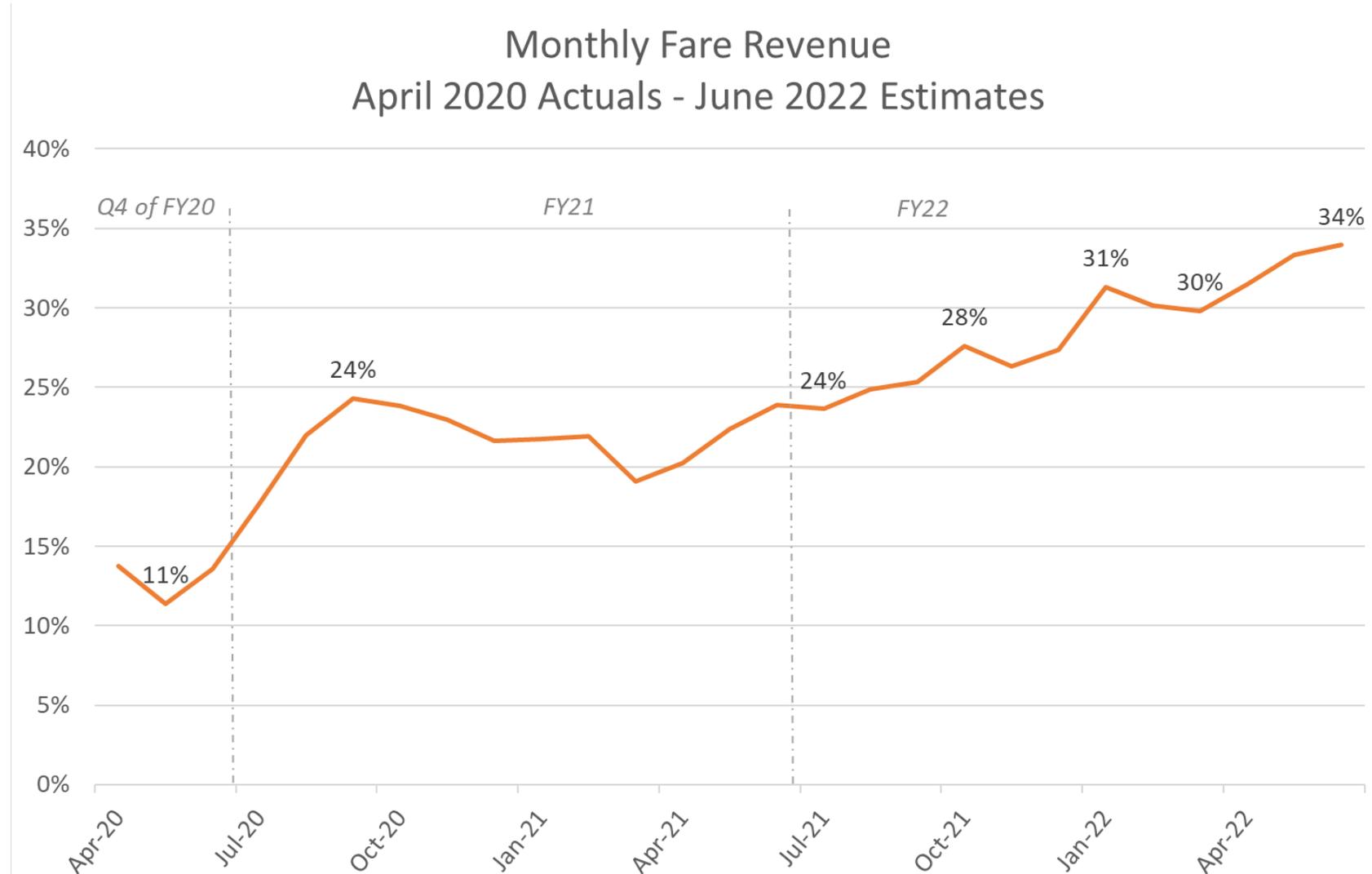
- \$1,775M in non-operating (subsidy) revenue in FY22
  - \$270M in one-time federal revenues
  - \$1,505M in other non-operating, recurring revenue, primarily from sales tax
- 88% of total revenues are from sources subsidizing the cost to operate the system and maintain service
  - Prior to COVID-19, non-operating revenue made up approximately 65% of annual total revenues
- \$246M in fare and own-source (operating) revenue, down 68% from FY19
  - FY19 actuals of \$762M
- Transfers are not included as operating or non-operating revenues in FY22
  - Inclusive of transfers, total sources in FY22 are \$2,355M, a 5% increase above the FY21 budget

Breakdown of Operating & Non-operating Revenue History (\$M)



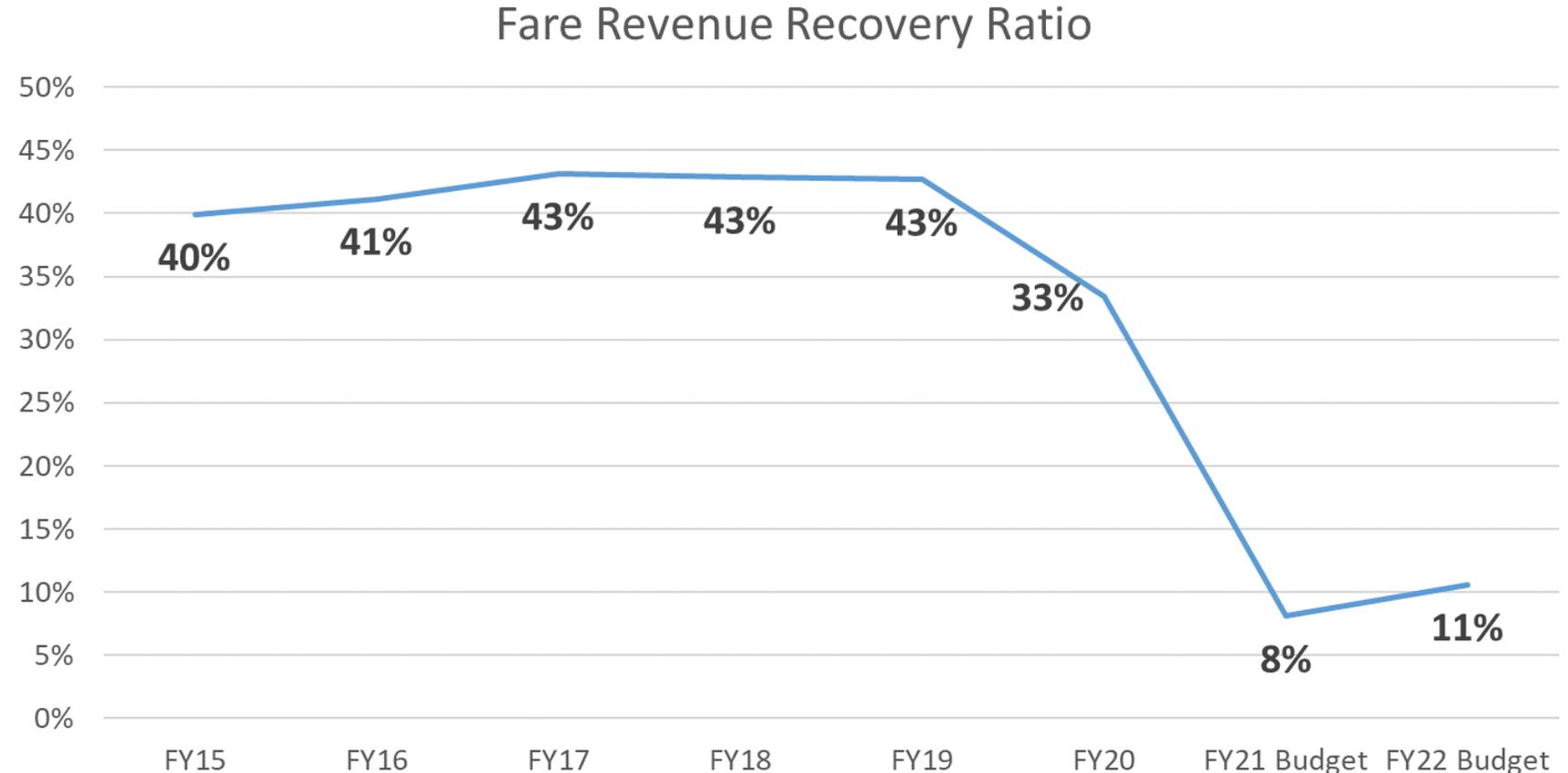
# Fare Revenue Growth by Month Since COVID-19 Impacts

- FY22 Fare revenue estimate of \$200.2M
  - 39% increase above the FY21 budget
- FY22 increases from a low of 11% of baseline in May 2020 (\$6.6M) to 34% of baseline in June 2022 (\$20.2M)
- 29% average of the pre-COVID-19 baseline for the year in FY22
- April 2021 actuals, 26% of baseline (\$15.2M)



# Fare Revenue Recovery Ratio

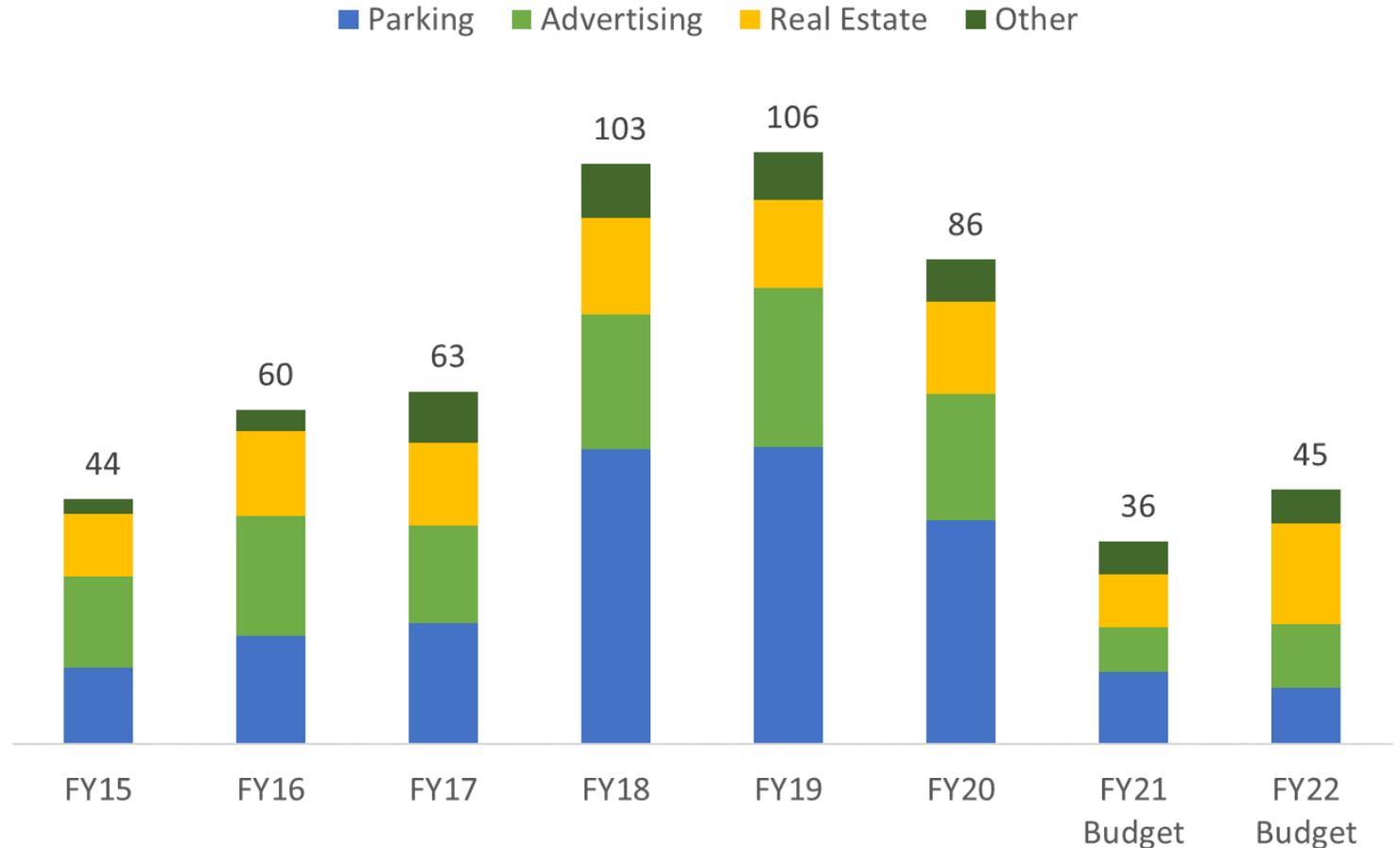
- Although fare revenue estimates increase in FY22, the fare revenue recovery ratio has decreased significantly from pre-COVID-19 levels
  - Non-operating subsidy revenue like one-time federal relief funding and planned savings from FY21 support a greater percentage of FY22 operating expenses
- 11% fare revenue recovery ratio in FY22 means that fare revenue supports only 11% of operating expenses
- Prior to COVID-19, fare revenue recovery ratio increased to 43% from FY15-FY19



# Own-Source Operating Revenue

- Own-source revenue correlates with fare revenue assumptions as COVID-19 impacts have reduced parking and advertising revenue, while real estate revenues have remained more stable
- \$45M in own-source operating revenue in FY22, a 57% decrease below FY19 actuals
  - \$10M in parking revenue, a 81% decrease from FY19
  - \$12M in advertising revenue, a 59% decrease from FY19
  - \$18M in real estate revenue, a 14% increase from FY19
- Prior to COVID-19, own-source operating revenue realized 25% average annual growth from FY15-FY19
  - 41% increase in parking revenue
  - 15% increase in advertising revenue
  - 9% increase in real estate revenue

Own Source Revenue History by Category (\$M)

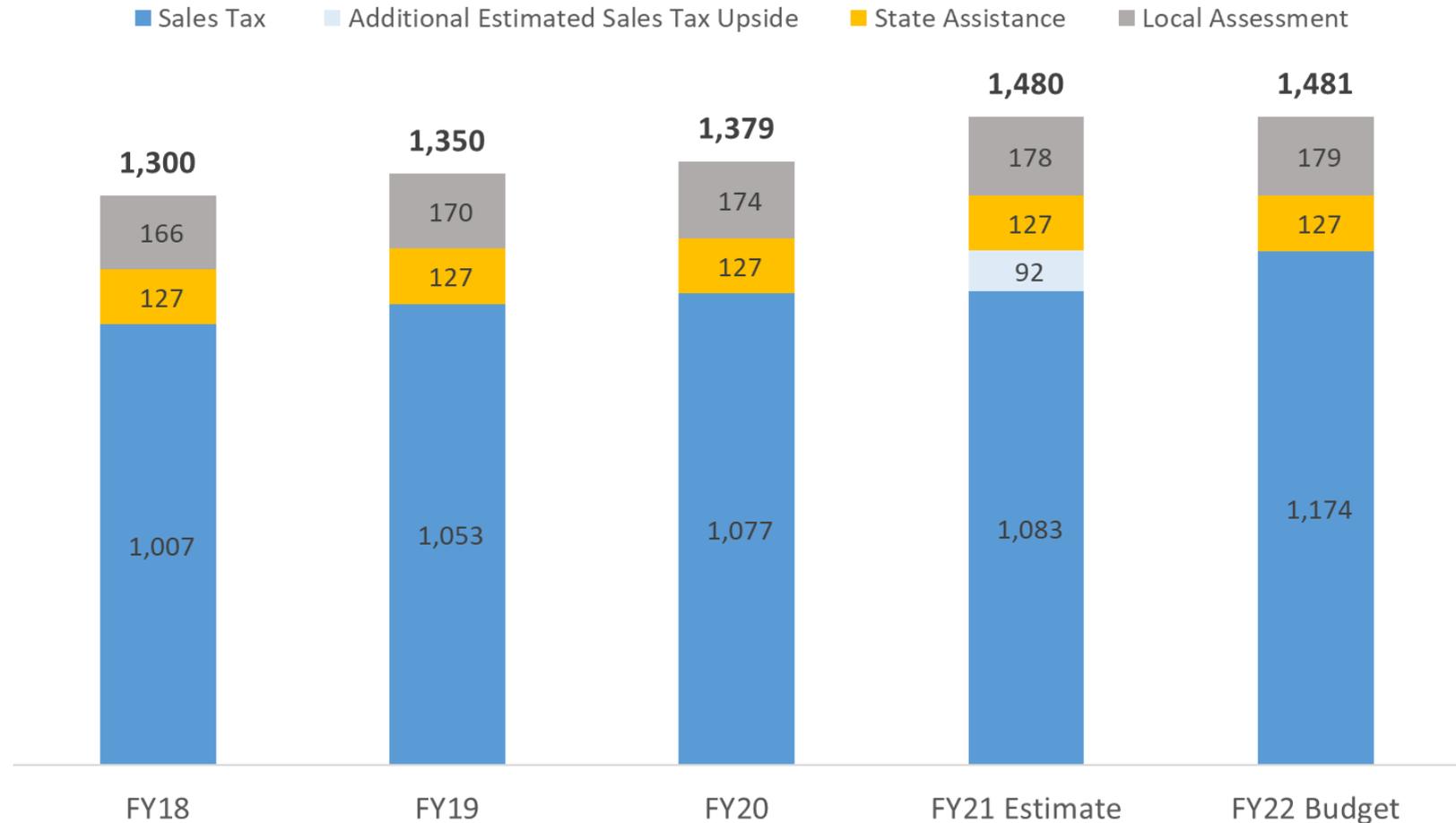


*Parking revenue reflects gross collections and excludes any debt service or securitization payments*

# State and Local Operating Revenue Sources

- \$1,481M estimate for FY22 in state and local revenue, largely level to FY21 estimates
- FY21 sales tax estimate of \$1,175M is \$92M above the base revenue (floor) amount, but consistent with state budget revenue benchmark estimates, including \$40M in one-time sales tax acceleration revenue
  - Estimated state sales tax revenue growth in FY22 largely offset by loss of one-time acceleration revenue
- Sales tax revenue supports 50% of expenses
- State assistance supports 5% and local assessments support 8% of expenses

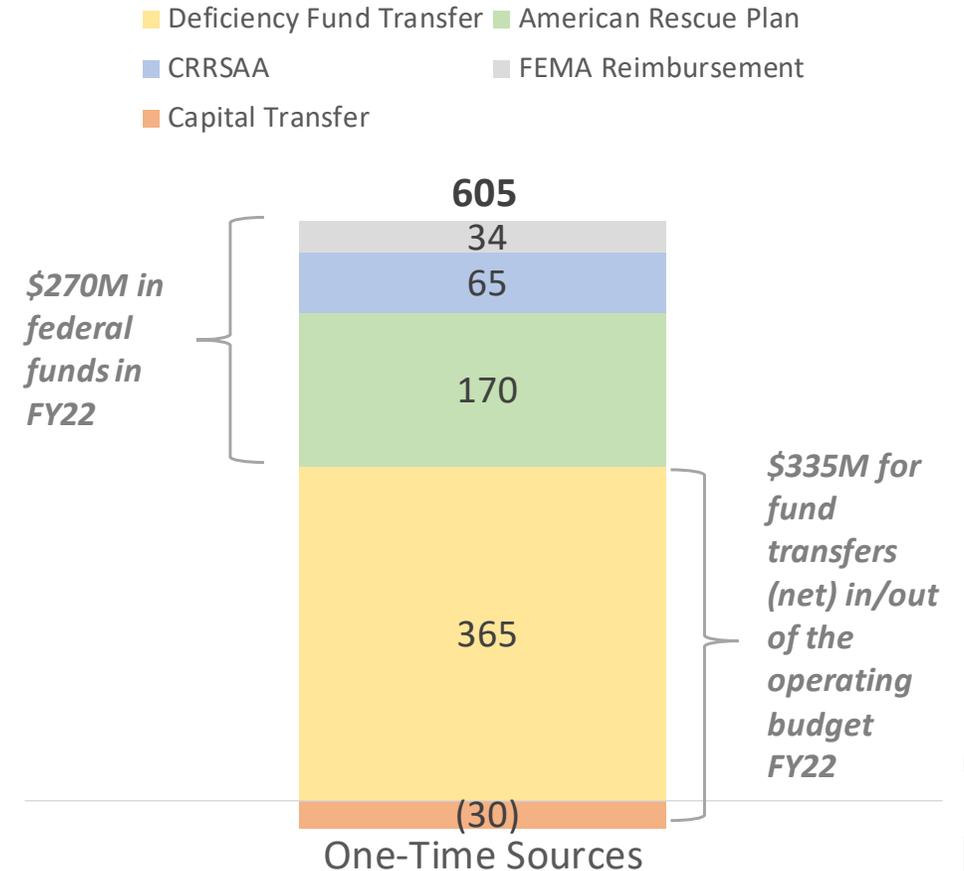
State & Local Operating Revenue Sources (\$M)



# One-Time Sources in FY22

- **\$605M in one-time sources create a path to balance in FY22**
  - 26% of FY22 total expenses supported through one-time revenues
- **\$270M in federal funding through COVID-19 relief/reimbursement**
  - \$170M from the American Rescue Plan with the remaining \$690M (\$860M updated estimate) available to be applied to the projected operating budget in FY23 to address long-term COVID-19 impacts
  - \$65M of the \$301M estimated in CRRSAA federal relief funds in FY22 (remaining included in Deficiency Fund transfer)
  - \$34M in FEMA reimbursement for COVID-19 eligible expenses following a Presidential executive order in January 2021 increasing the reimbursement rate from 75% to 100%
    - Monitoring latest guidance to maximize potential reimbursement
- **\$365M Deficiency Fund Transfer of FY21 savings**
  - Combination of FY21 cost savings, revenue upside, and federal relief (including all other CRRSAA funds)
- **\$30M Transformation Investment Fund transfer**
  - Support near-term capital opportunities that arise during the fiscal year

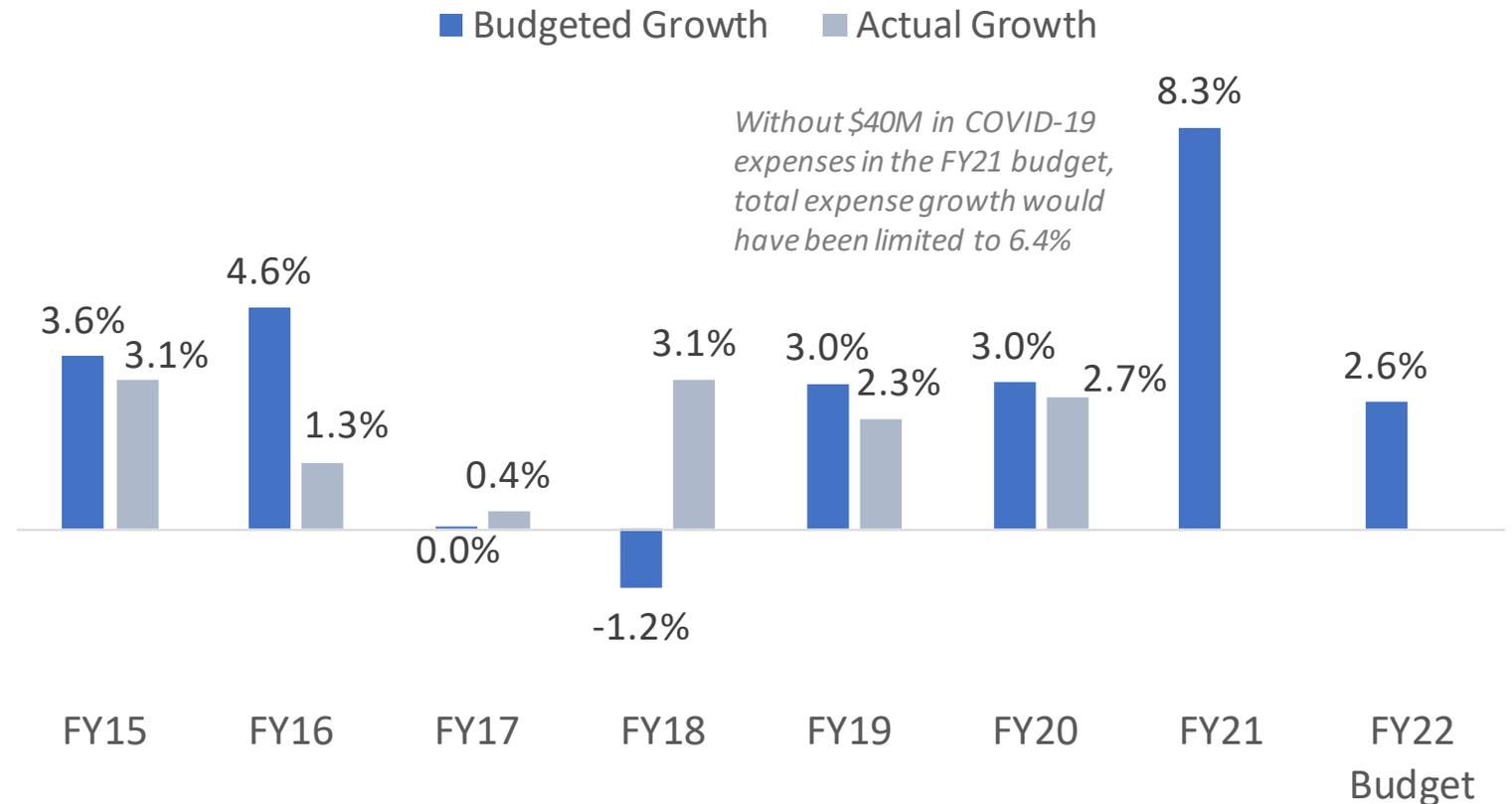
FY22 One-Time Sources & Transfers (\$M)



# Spending Growth History: Actuals and Budget

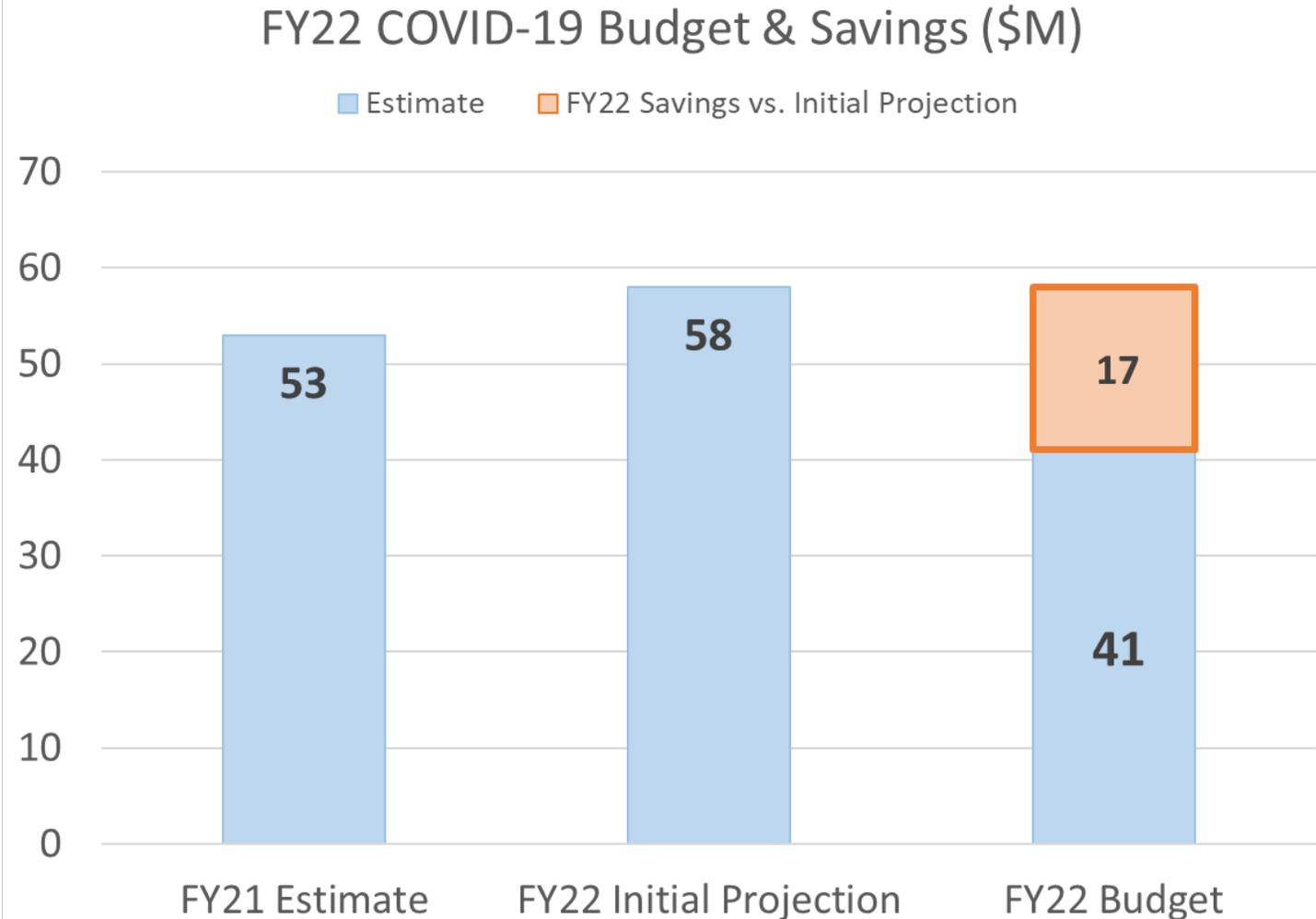
- 2.6% budgeted total expense growth in the FY22 budget
- Below budgeted expense growth since FY19 and aligned with actual expense growth from FY18-FY20
  - FY22 growth limited by \$56M (11%) decrease in debt service expense payments
- FY21 budget increase driven by COVID-19 expenses, debt service payments, and commuter rail contract extension

Budgeted and Actual Spending Growth History



# COVID-19 Spending & Savings Summary

- \$41M in COVID-19 related spending in FY22 to continue cleaning protocols consistent with the latest public health guidance
- \$17M, 29% savings from initial FY22 projection of \$58M from November 2020 budget update presentation
  - \$12M, 23% savings from FY21 estimate of \$53M that includes \$40M budgeted and \$13M in deficiency/risk
- Savings from initial projections resulting from renegotiated contracts considering increased market competition and maximizing MBTA PPE inventory
- FY22 actuals will vary to budget with any updates to public health guidance for operator and rider safety



# Green Line Extension & Headcount

- 166 headcount increase for Green Line Extension Service
- 89 system and vehicle maintenance positions including rail repairers and wirepersons
- 71 transportation positions and operators to run the additional service
- 6 operations planning and training positions
- Additional revenue for GLX limited due to projected light rail ridership levels and riders currently using available bus service

## Green Line Extension

166 positions

\$14M in annual wages

# Operations Safety & Headcount

- 125 headcount increase for operations safety positions
- 78 positions for system and vehicle maintenance, including system repairers and technicians
- 32 positions for transportation safety, including rapid transit motorpersons and bus supervisors
- 10 positions for operations planning and training, including dispatchers and supervisors
- 5 positions for security, including system administrators
- To date, despite the hiring challenges of COVID-19 and headcount controls, approved and recruited for over 100 safety-critical positions and filled over 80 of those positions, including 12 employees in the Safety department
- Additional positions improve transportation and system safety and reliability with the added benefit of reducing overtime

**Operations  
Safety**

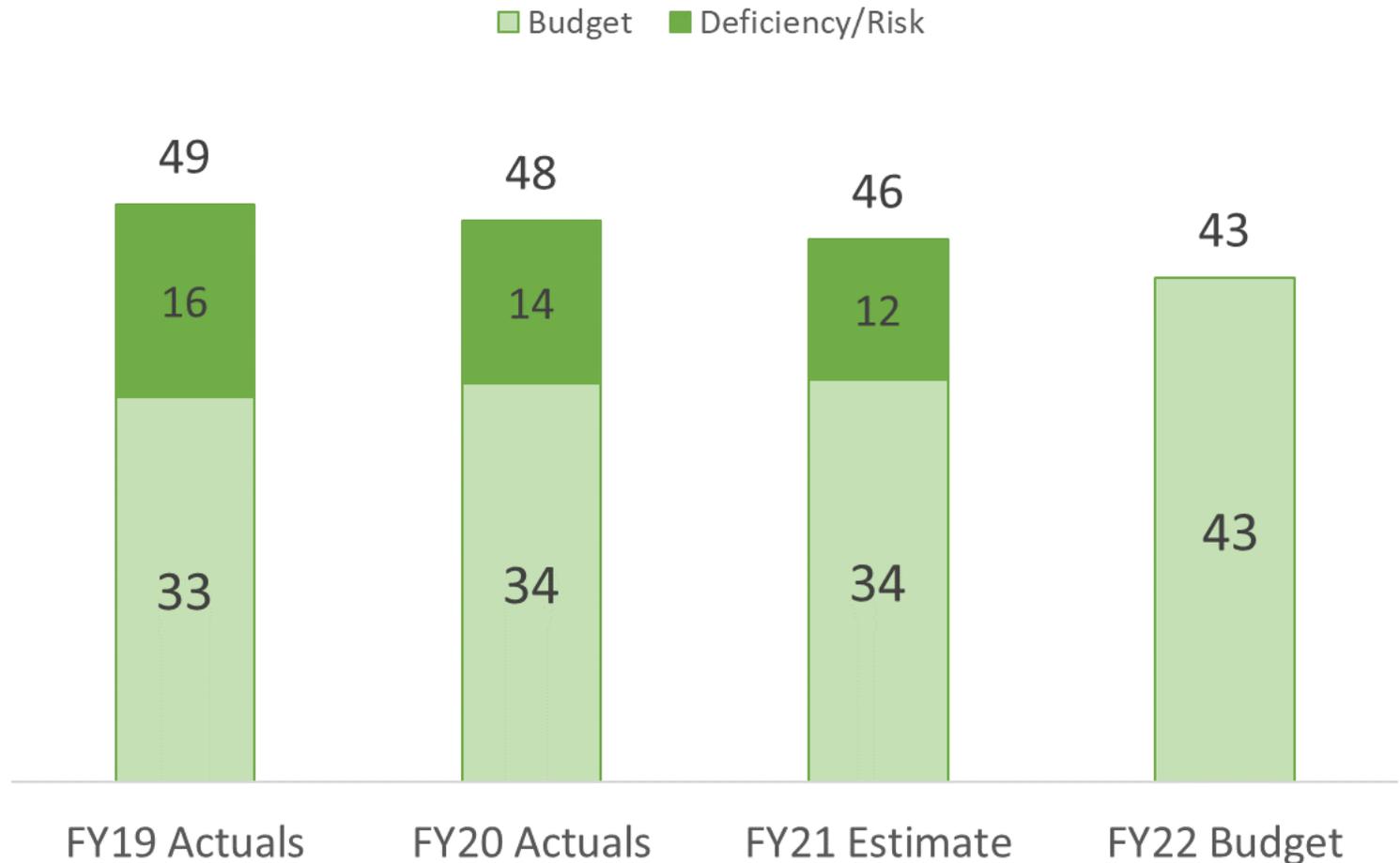
**125 positions**

**\$11M in  
annual wages**

# Overtime Spending Trend & Targeted Savings

- FY22 budget level mitigates the potential overtime budget risk/deficiency that has been realized annually
  - FY19-FY21 budget levels created \$12M-\$16M deficiency/risk each year
- \$43M overtime budget in FY22 continues downward trend of actual/projected spending since FY19
  - FY22 budget targets 10% savings in overtime spending compared to FY20 actuals of \$48M
- Overtime cost-control working group actively managing to mitigate or reduce the \$12M estimated deficiency/risk in FY21

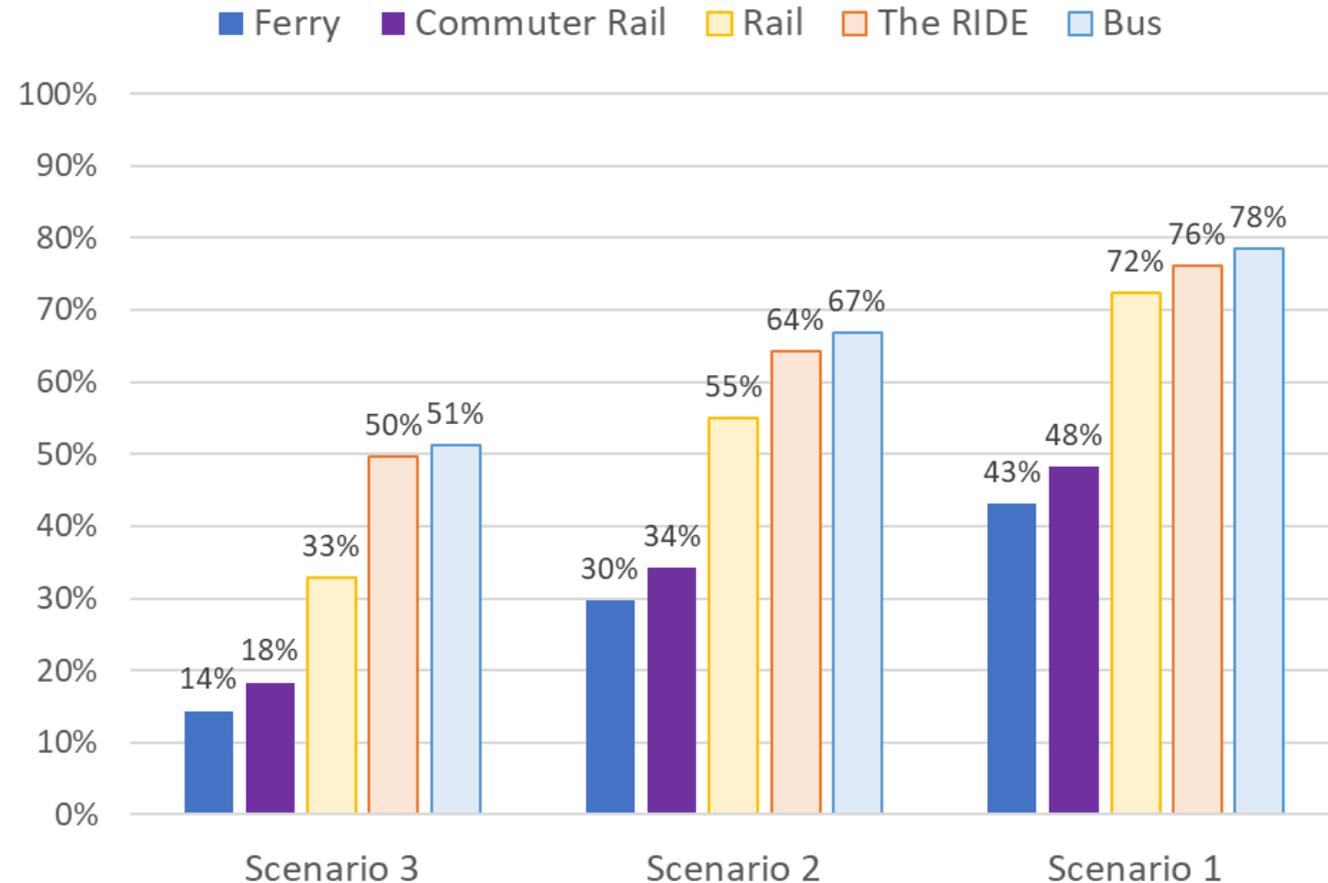
FY22 Overtime Budget Approach (\$M)



# Service Level Planning & Ridership Projection Ranges

- **Service level** funding in accordance with service restoration plans as presented, sufficient for the full range of ridership projections
- **Bus and rapid transit service funded for flexibility to add back full service as quickly as possible**, with attrition, hiring, and absences as the primary limiting factors
  - 9 additional instructors added to increase training class sizes and bring back service as quickly as possible
- **Commuter rail service** adds back weekend service as soon as possible and builds on regional rail model
  - Serves new travel demand and includes \$10M in efficiencies from maximizing crew and equipment time and resources
- **Ferry service** reintroduces Charlestown/Hingham direct service and adds back Hingham direct and additional Hingham/Hull service
- **The RIDE** projected to be consistent with average ridership demand of 64% of baseline

## FY22 Ridership by Mode and Scenario



# Transformational Initiatives

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- Build a system that will better serve our riders and leverage strategic efforts like Bus Network Redesign and Regional Rail
- Initial steps to redesigning service for 2022 and beyond – envisioning a post-pandemic system
- **15 positions for Bus Transformation between the operating and capital budgets by FY22 to achieve a better, faster, lower emissions service that is more aligned with where riders live, work, and travel**
  - Set up a Bus Transformation Office with 3 new positions, including a lead for the Bus Transformation effort and 2 additional project managers
  - Fully funds the continuation of 4 positions on the Transit Priority Team (piloted over past 2 years with support from the Barr Foundation)
  - FY21 already includes 4 positions for enhanced data analytics and operations-oriented management dashboards, increased capacity for service planning, and dedicated staff for diversion planning (creates capacity in planning and bus operations)
  - On the capital budget, 4 positions including a Bus Network Redesign manager, 2 additional staffers to support bus fleet and facilities program, and a program manager for bus & multimodal transformation
- **Create a staffed Regional Rail Transformation Office and specifically develop a Rail Transformation business case**
  - 2 new positions for a total of up to \$320K
  - One position to lead the environmental and engineering planning aspects, including electrification phasing and fleet and facilities planning
  - One position to support the commercial and financial aspects, including developing the business case for investment and maximizing available federal funds

