Massachusetts Bay Transportation Authority

December 2021 Pro Forma Update

Finance & Audit Committee

Mary Ann O'Hara, CFO

Annual Pro Forma Summary

- Updating the most recent five-year Pro Forma projection from March 2021 to develop recommendations for the FY23 budget and identify future financial constraints
  - Five-year Pro Forma projection has been updated at least annually to demonstrate the long-term spending and revenue impact of approved and upcoming budgetary and operational decisions
  - Pro Forma figures are modeled based on current and historical trends as well as expected completion of major capital projects (Bus Network Redesign, Green Line Extension, South Coast Rail, Fare Transformation, etc.)
  - Modeled projection based on a range of possible ridership and fare revenue outcomes from MassDOT Planning and OPMI projections (consistent with the Commonwealth's Future of Work report July 2021)

Upcoming Presentations & Calendar

- Pro Forma development and review begins the budget process for the next fiscal year (FY23)
- Statutory deadlines highlighted: preliminary budget proposal due by May 15 and final itemized budget due by June 15 (MGL Chapter 161A Section 20)

Present Pro Forma, identify Board priorities
- **December**

Departments submit budget requests
- **December & January**

Preview FY23 budget balance for Board feedback
- **February & March**

Present preliminary budget proposal & share materials with Advisory Board

statutory deadline
- **April & May**

Present final budget proposal for approval

statutory deadline
- **June**

December Annual Pro Forma Summary

- **To balance the budget in the short-term, the MBTA is heavily reliant on one-time revenues and transfers, predominantly from one-time federal relief funds**
  - $542M in one-time revenue to balance FY22 budget, 23% of total expenses
  - $316M in one-time revenue projected to balance FY23, 13% of total expenses

- **4.3% average total expense growth above historical baseline of 3.4% due to new service and initiatives**
  - Large capital projects such as Green Line Extension (GLX), South Coast Rail (SCR), Bus Network Redesign, and Fare Transformation (AFC 2.0) increase annual expenses on a recurring basis

FY22 December Revenue Update

- Pro Forma baseline reflects an update for FY22 revenue in two revenue categories
  - First, updated sales tax revenue estimates to match figures in the adopted FY22 State budget
  - Second, accelerate claiming of one-time federal relief reimbursement on eligible operating expenses
- Impact of two updates transforms a $335M Deficiency reserve draw into a $417M reserve deposit for future year budget gaps
- No changes to FY22 operating budget expenditures

Category ($M)	FY22 Budget as of June 2021	FY22 Budget as of December 2021	Change
Sales Tax	*1,174*	*1,236*	*62*
Federal (One-time) Revenue	*270*	*960*	*690*
All Other Revenue	*575*	*575*	-
Total Revenue	**2,020**	**2,772**	**751**
Total Spending	**2,355**	**2,355**	**-**
Net Transfers (Deficiency Fund)	**335**	**(417)**	**(752)**
Net Revenue After Transfers	**-**	**-**	**-**

Maximizing One-time Revenues with Key Investments

- Budget favorability combined with proactive planning since the start of FY21 reserves one-time funds to balance FY23 and makes funds available for one-time spending
- **Pro Forma assumes potential opportunity for one-time capital support and investments up to $500M**
  - Currently under review and would incorporate budget favorability, both spending and revenue
- Spending supports critical infrastructure needs to improve system safety and advance strategic priorities

Up to $500M for Capital Support & One-time Investments

- **Accelerate Key Safety Investments**
- **Employee Recruitment and Retention Initiatives**
- **Key Shovel-Ready & Shovel-Worthy Investments**
- **Advance Key Investments in Bus**
- **Prepare for Additional Federal Formula Funding**
- **Preserve Existing Capital Program**

Revenue Assumptions: FY22-FY27

- **-2.5% total average annual revenue growth** from FY22-FY27 due to loss of one-time federal relief funds
  - Excluding federal relief funds, 4.8% average recurring revenue growth rate
- **Fare and Own Source Revenue:** Reflects ridership recovering from 38% in FY22 Budget to 89% in FY27, and does not assume any fare revenue increases
- **Sales Tax:** FY22 state budget amount plus annual growth rate consistent with 10-year pre-COVID average
- **Local Assessment:** FY22 budgeted amount plus 2.5% growth in FY23, and 1.7% annual growth rate from FY24-FY27 consistent with FY16-FY21 average
- **State Assistance:** $127M in state assistance assumed to remain level
- **Federal Assistance:** One-time federal revenues fully drawn down in FY22 based on eligible operating expenses

Revenue Source	FY22 - FY27 CAGR
Fare Revenue	22.9%
Own Source Revenue	13.4%
Sales Tax	3.2%
Local Assessments	1.9%
State Assistance	0.0%
Other Income	0.0%
Total Recurring Revenue	**4.8%**
Total Revenue Inc. Fed Assistance	**-2.5%**

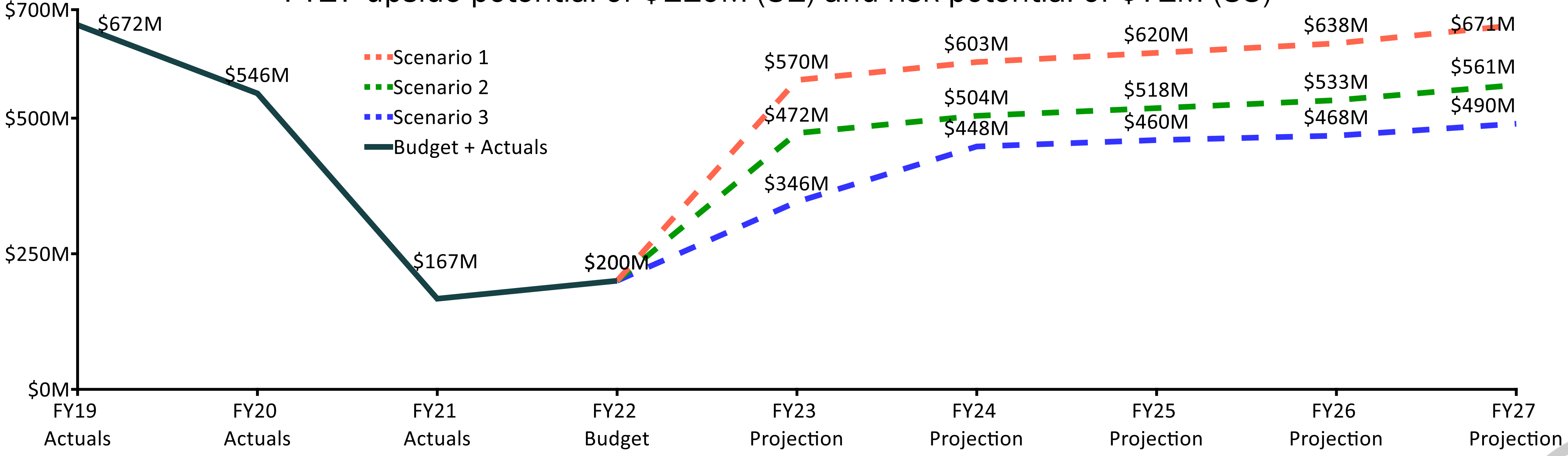
Spending Assumptions: FY22-FY27

- **4.3% average expense growth** driven by lower-than-average debt service in FY22 and additional expenses to operate new projects like Fare Transformation, South Coast Rail, Green Line Extension and Bus Network Redesign
- **Debt Service:** $590M annual bond issuance assumed from FY22-FY25, and $500M assumed in FY26 and FY27
- **Wages:** 1.4% inflationary growth rate consistent with 10-year pre-COVID-19 average with added headcount for new projects like Bus Network Redesign
- **Services:** 6.9% growth rate consistent with 10-year pre-COVID average growth
- **Pension:** Based on actuarial projections as of Fall 2021
- **COVID-19 Expenses:** $41M in COVID-19 related expenses currently not included in FY23 assumptions, subject to latest public health guidance
- **Capital Support:** As per prior slide, assumes opportunity for a one-time up to $500M transfer of operating support to the capital budget by the end of FY22
- **All other spending:** Consulted against historical 5-year and 10-year actual growth rates, adjusting for COVID-19 impacts

Expenses	FY22 - FY27 CAGR
Debt Service	6.0%
Regular Wages	3.3%
Commuter Rail	3.4%
Services	6.9%
Pension	1.5%
RIDE	5.8%
Healthcare	7.5%
Materials	4.9%
Contract Cleaning	3.5%
Overtime	2.9%
Ferry	0.3%
Fuel	0.3%
Total Expenses	**4.3%**

Fare Revenue Scenario Planning

- Current ridership and fare revenue most closely aligns with Scenario 2
- FY23 fare revenue projected between 49% - 82% of pre-COVID-19 revenues
    - FY23 upside potential of $98M (S1) and risk potential of $126M (S3)
- FY27 fare revenue projected between 68% - 93% of pre-COVID-19 revenues
    - FY27 upside potential of $110M (S1) and risk potential of $71M (S3)

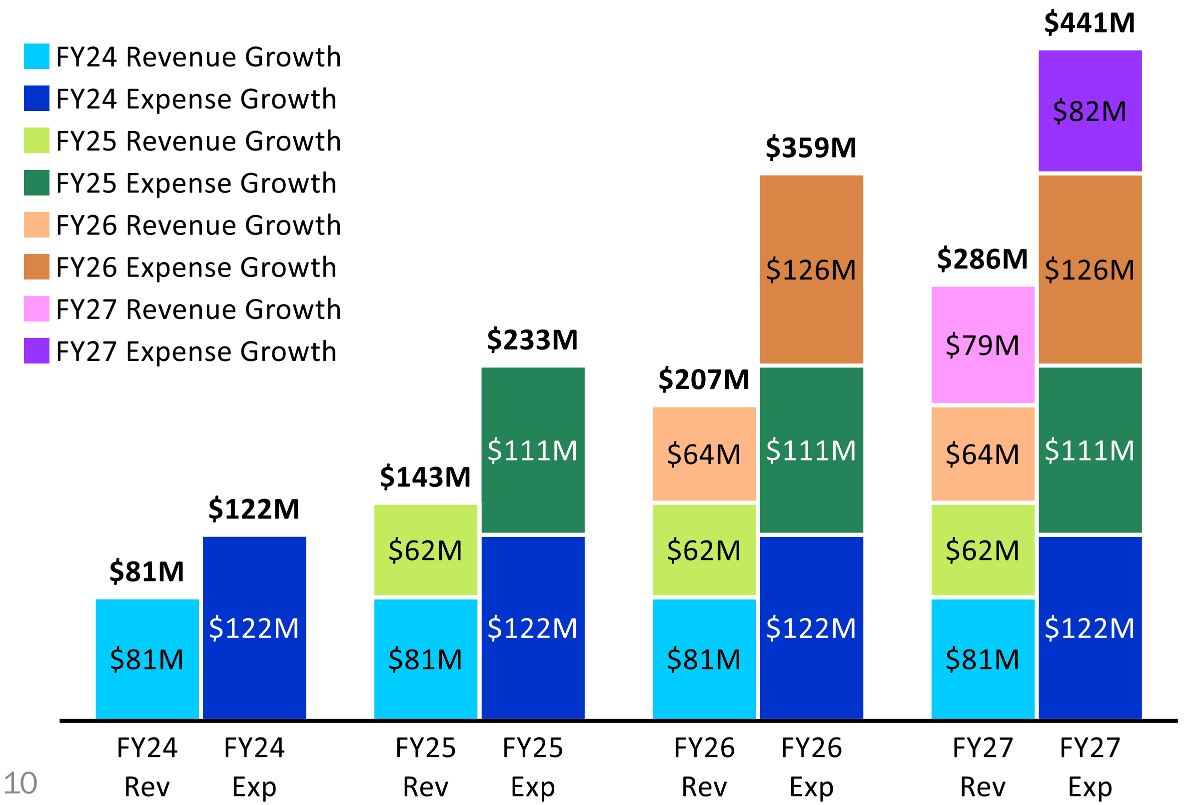


Scenario 1 %	82%	86%	88%	90%	93%
Scenario 2 %	68%	72%	74%	76%	78%
Scenario 3 %	49%	64%	65%	66%	68%

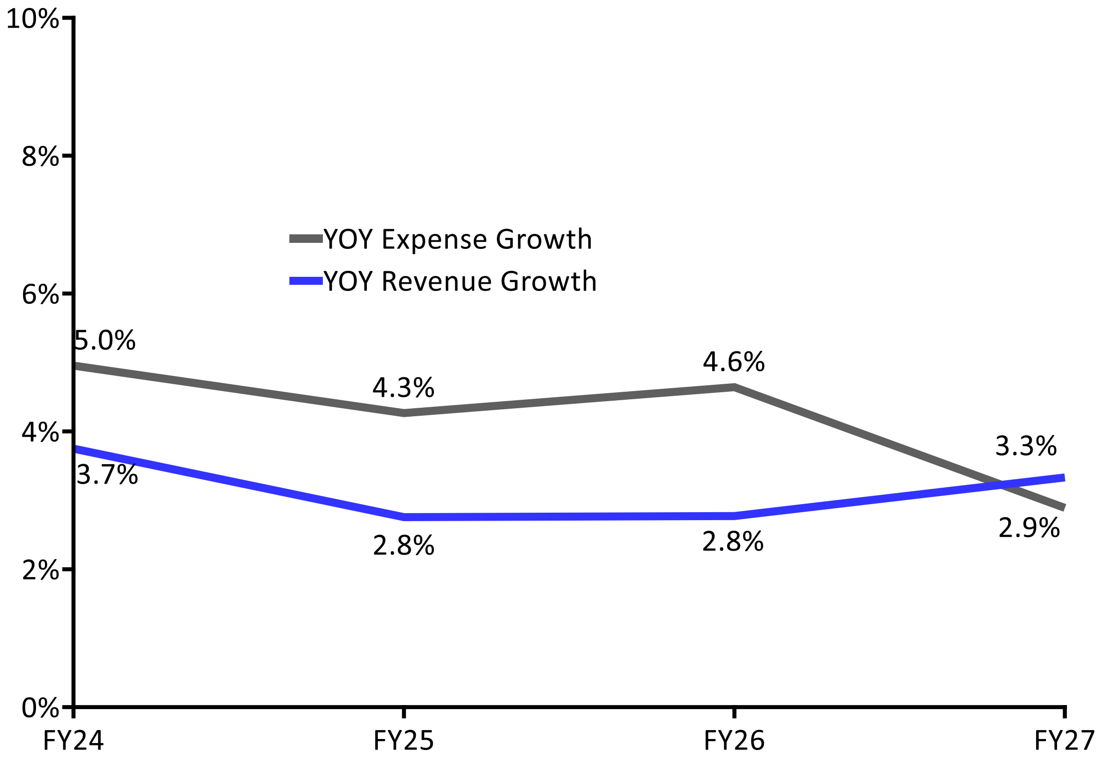
Projected Revenue & Expense Growth FY24-FY27 Excluding One-time Revenues and Transfers

- Projected expense growth expected to exceed projected revenue growth in future years (Scenario 2)
  - Due to new services, GLX and South Coast Rail, and implementation systemic initiatives such as Bus Network Redesign and Fare Transformation
- Spending growth outpaces revenue growth by $41M to $155M between FY24-FY27

Cumulative Revenue & Expense Growth

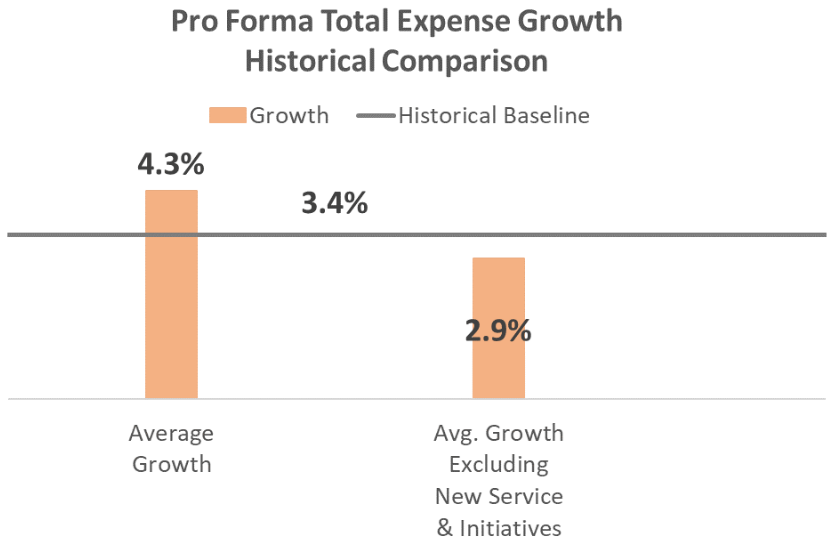


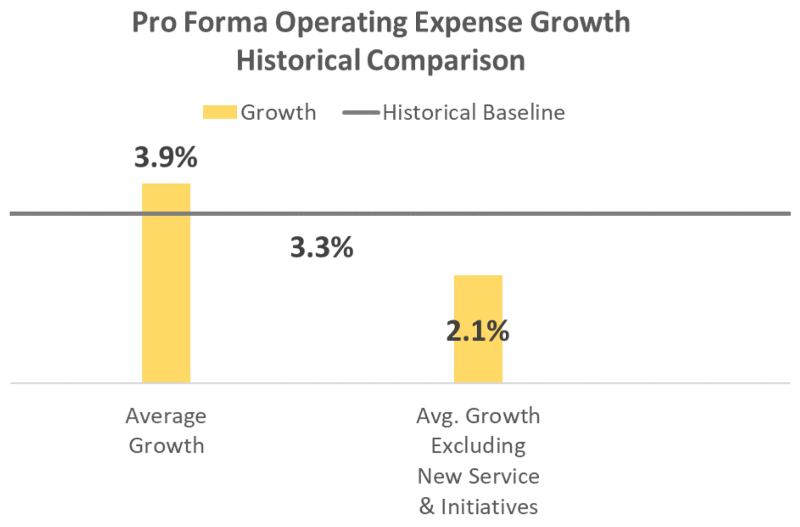
Projected YOY Revenue & Expense Growth Percentage



Pro Forma Five-Year Average Annual Spending Growth & New Service and Initiatives

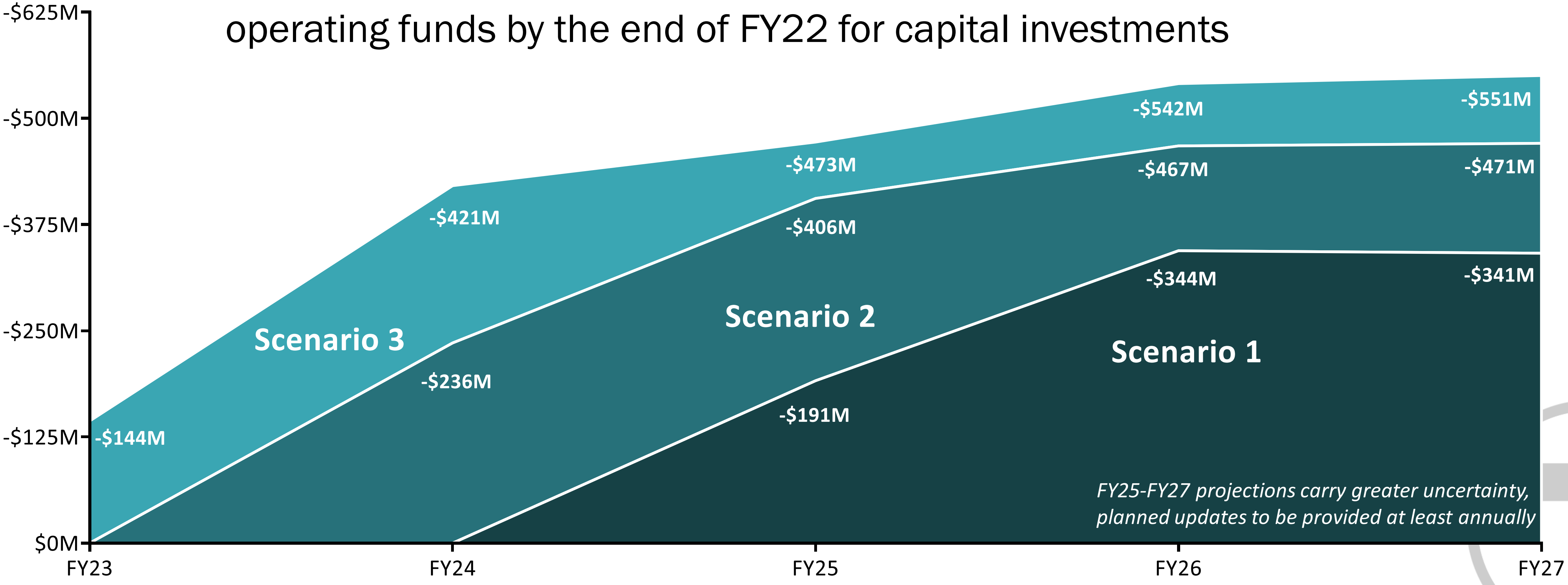
- Five-year average total expense growth exceeds historical baseline due to new service and initiatives
  - New service and initiatives include Green Line Extension, South Coast Rail, Bus Network Redesign, and Fare Transformation
  - Historical baseline is the 10-year average prior to COVID-19 impacts
- Without such system improvements, Pro Forma projections reflect 2.9% average total expense growth and 2.1% average operating expense growth
  - Operating expense growth excludes debt service costs





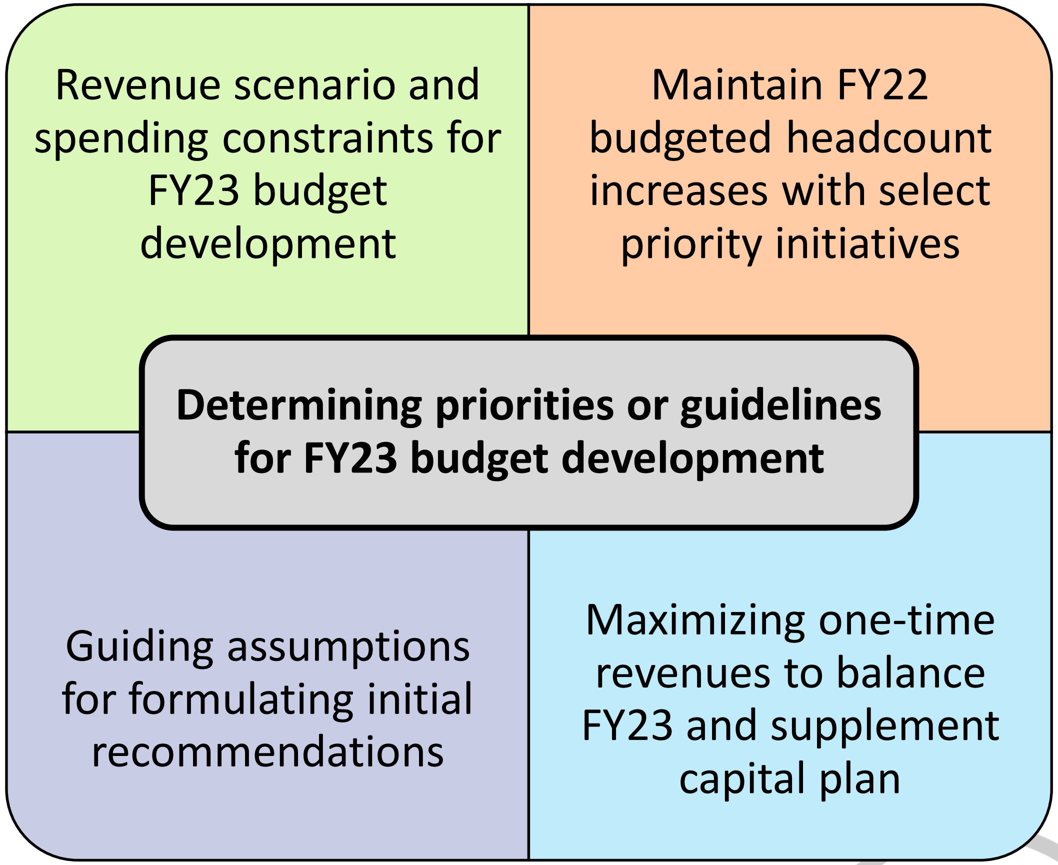
FY23 – FY27 Projected Ending Balances by Scenario Including One-Time Revenue and Transfers

- One-time revenues and transfers balance FY23 budget in Scenarios 1 and 2
- FY24 budget gap up to $421M
- FY25 budget gap up to $473M
- All scenarios incorporate impact of a potential one time $500M transfer of operating funds by the end of FY22 for capital investments



FY23 Budget Development Policy Decisions Based on Pro Forma

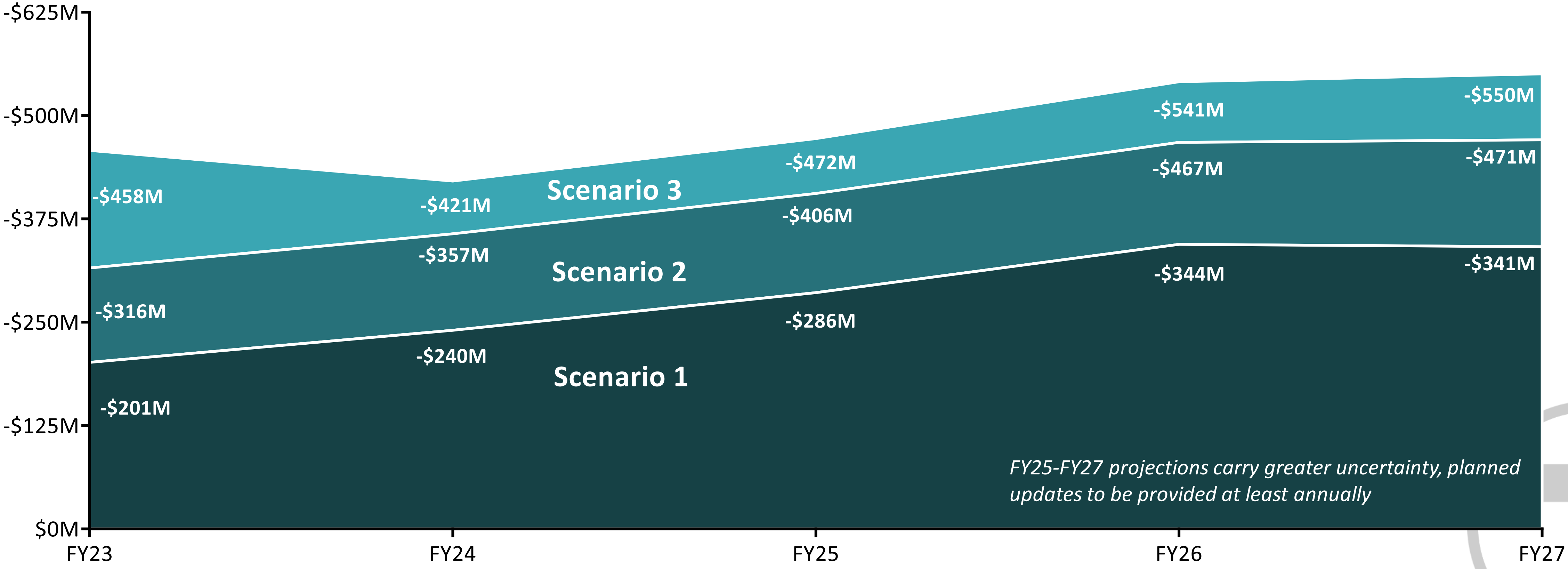
- **Recommended approach for FY23 budget development to maintain Pro Forma projections framework**
- **Recommendations would align with current projected Pro Forma financial path for spending, revenue, and budget gaps**
  - Base revenue projections using Scenario 2 fare revenue estimates to determine universe of eligible funds
  - Up to $500M one-time transfer of operating funds, currently under review, to be programmed in the capital budget
  - Maintain headcount increases from FY22, with additional targeted increases for safety, operations, or other priority initiatives



Appendix

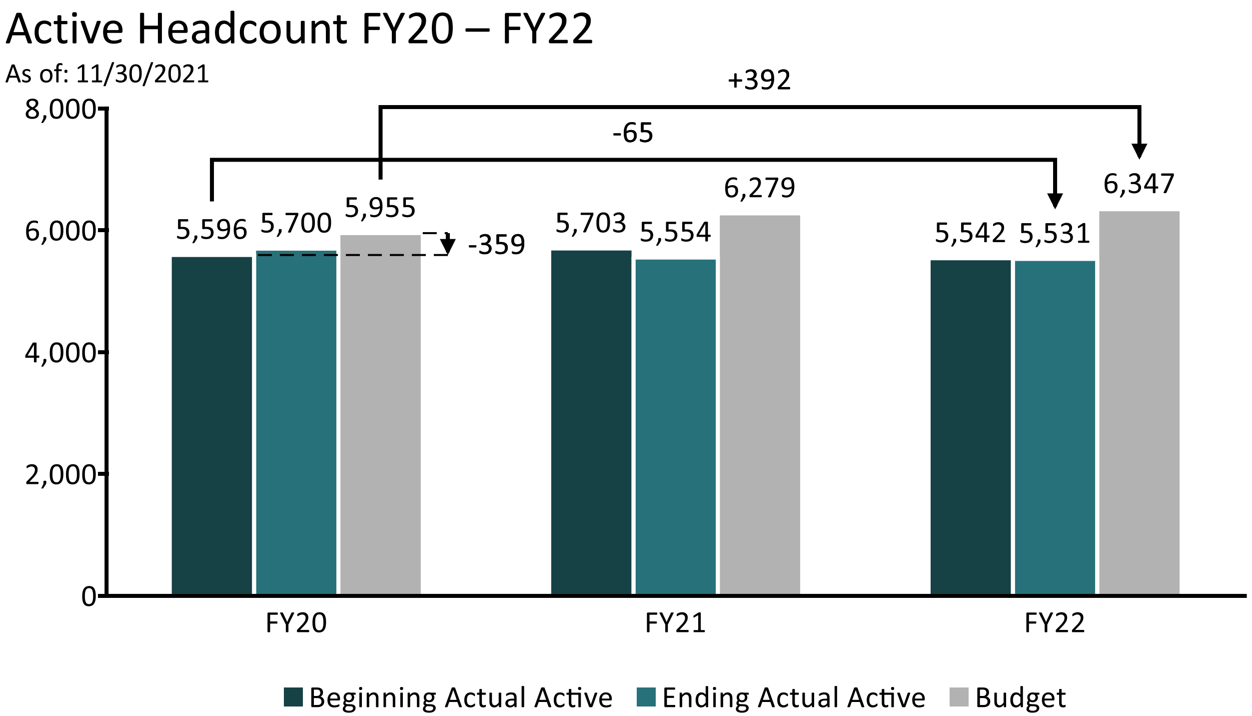
FY23 – FY27 Projected Ending Balances by Scenario Excluding One-Time Revenue and Transfers

- Before one-time revenues and transfers, significant budget gaps continue into FY23 and beyond
  - FY23 budget gaps between $201M - $458M
  - FY24 budget gaps between $240M - $421M
  - FY27 budget gaps between $341M - $550M



Operating Headcount

- FY20 started with 359 vacancies and ended with 255 as hiring outpaced attrition
- Between FY20 and FY22 392 budgeted positions were added primarily due to safety panel recommendations and green line extension
- During the same period, headcount declined by 65 or 1% as hiring slowed due to challenges related to COVID and attrition persisted
- During FY22, headcount has remained nearly flat as hiring efforts have been increased in response to an exceedingly tight labor market



Bus Network Redesign Overview

1 More frequent routes

2 Better connections to local & regional destinations (including non-downtown centers)

High frequency corridors

But also:

3 Better midday/evening service

4 Better weekend service

5 Improved service and connections for low-income populations & people of color

6 Simpler and easier to use

The entire network

Ridership Scenario Planning and Assumptions

- Three scenarios developed by MassDOT planning & OPMI contemplating ridership growth, the current public health pandemic, and employer operations
  - Scenarios 1 and 2 assume a "boost" in ridership in Fall 2021; while Scenario 3 sees a longer span of growth
- Modeled projections consistent with McKinsey & Company Future of Work report from July 2021 and APTA report by EBP US, Inc. from January 2021 on vehicle miles traveled (VMT)
- Initial modeling completed in October 2020 with an update in February 2021
- Actuals observed since March 2021 have remained within the projected scenario ranges
- FMCB approved FY22 budget based on Scenario 3 projections given actual ridership and fare revenue at the time of budget development (January/February 2021)

Scenario 1

Economic, demographic, and mobility patterns gradually return to mostly pre-COVID-19 conditions with slight increases in the number of teleworkers

Scenario 2

Travel patterns diverge as consumers and employees adopt to a new normal, especially in light of new and emerging remote meeting and e-commerce technologies

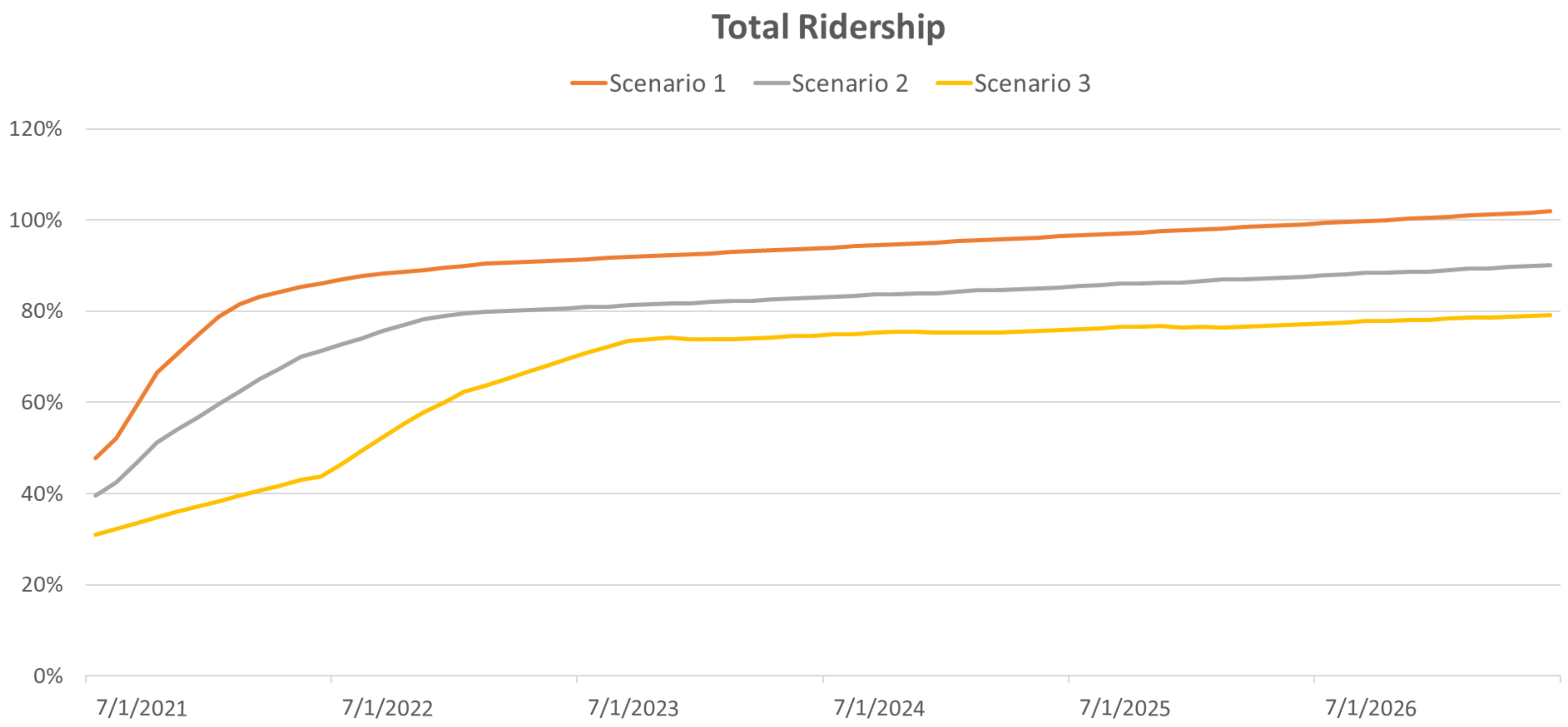
Scenario 3

The economic impacts of COVID-19 have depressed travel and mobility, especially on the MBTA, and telecommuting is standard practice

**Fare revenue scenario projections to be updated as needed if actual observed ridership consistently deviates outside the projected range*

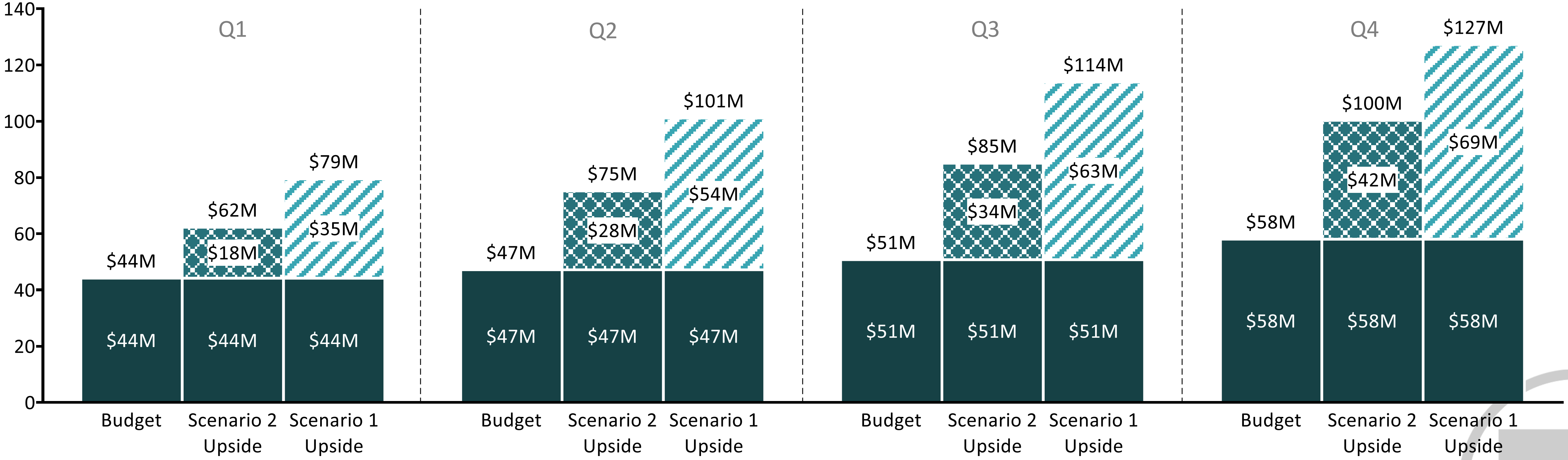
Baseline Ridership Projections

- FY23 ridership projections model Scenario 2, increasing from 73% to 81% of pre-pandemic levels between July 2022-June 2023
  - 51% ridership as of October 2021
- FY23 ridership projections by June 2023 range from 69%-81% of pre-pandemic levels
- December 2021 Pro Forma presentation will display fiscal outlook in all three scenarios



FY22 Quarterly Fare Revenue Upside

- FY22 Q1 actual upside was $30M, future quarters range from $28M-$69M
- Total Scenario 1 upside is $221M (90% of baseline) above budget ($421M total fare revenue)
- Total Scenario 2 upside is $123M (61% of baseline) above budget ($322M total fare revenue)
- Total FY22 budgeted fare revenue is $200M (29% baseline)



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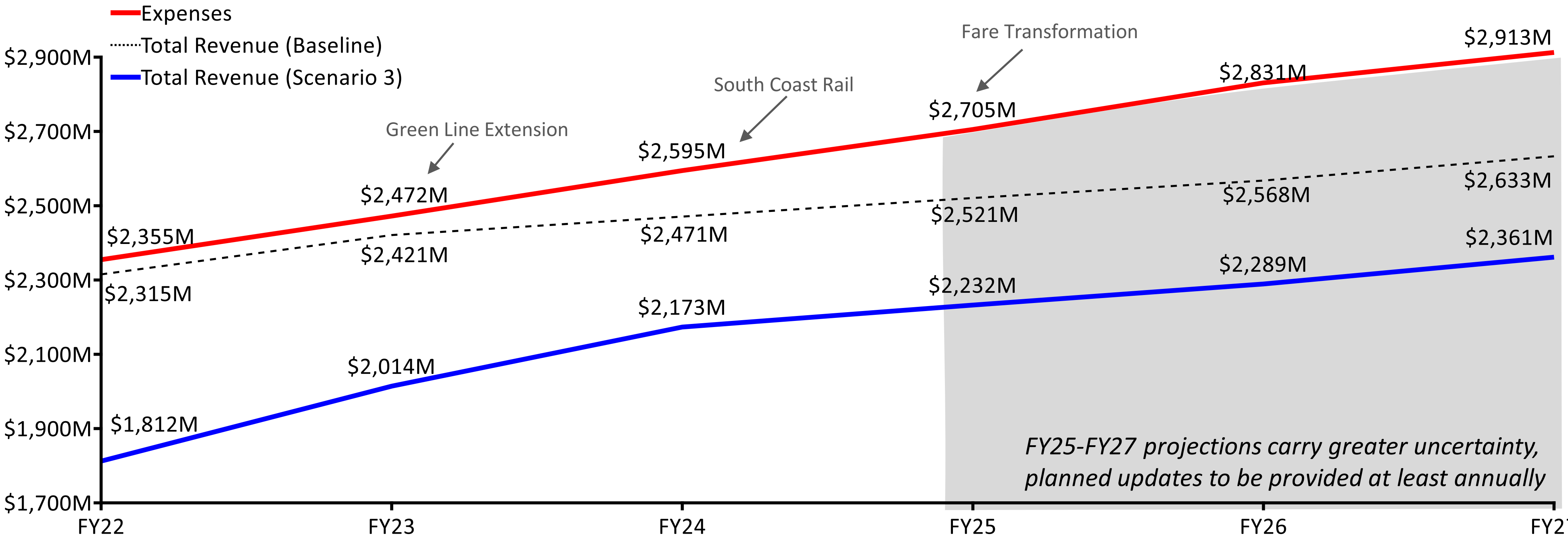
FY22-FY27 Budget Gap Outlook – Scenario 3

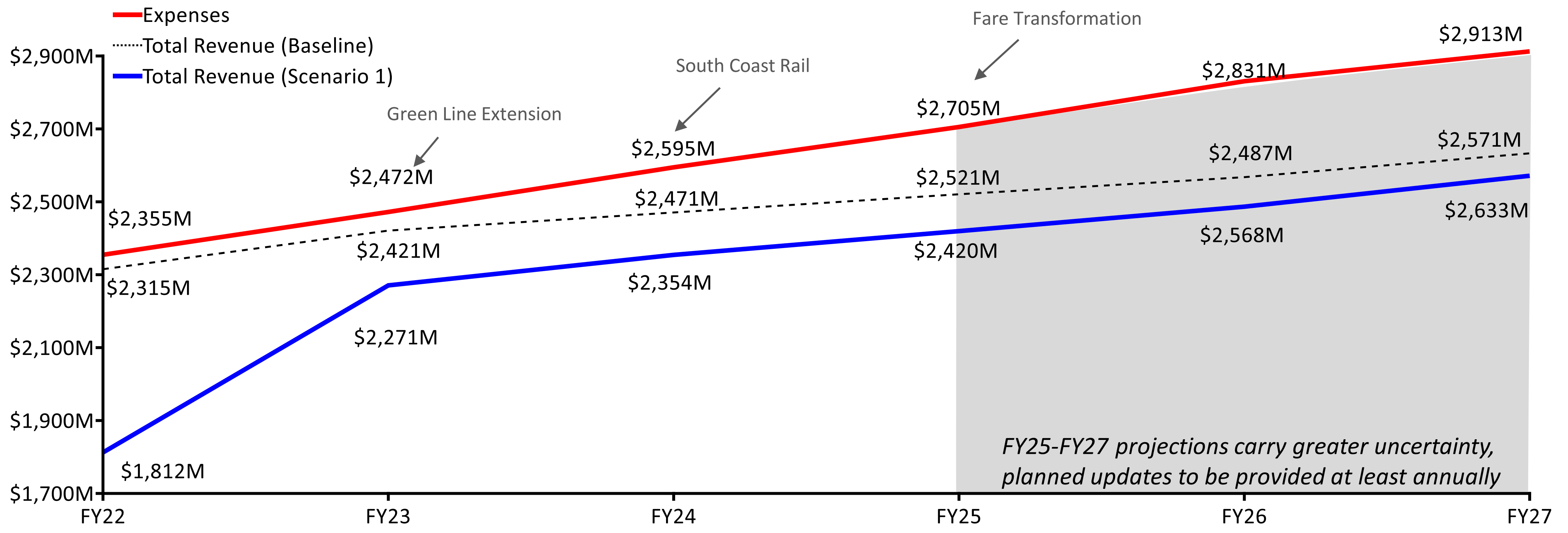
- One-time revenues and transfers only partially mitigate budget gap in FY23
- FY24 – FY27 budget gaps increase from $421M to $551M



	FY22	FY23	FY24	FY25	FY26	FY27
Fare Revenue % of Baseline	29%	49%	64%	65%	66%	68%
Budget Gap Before One-Time Revenues & Transfers	-$542M	-$458M	-$421M	-$473M	-$542M	-$551M
One-Time Revenues & Transfers	$542M	$314M				
End Balance	-	-$144M	-$421M	-$473M	-$542M	-$551M

FY22-FY27 Budget Gap Outlook – Scenario 1

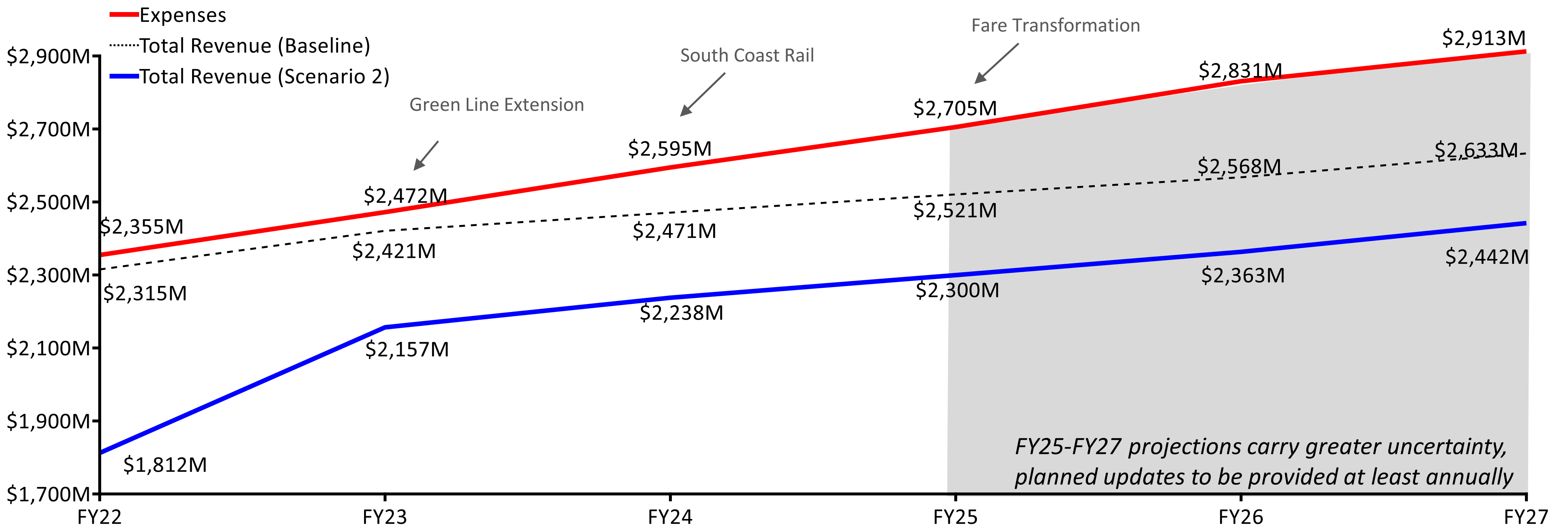
- One-time revenues and transfers mitigate budget gaps in FY23-FY25
- FY26-FY27 budget gaps reach $344M annually



	FY22	FY23	FY24	FY25	FY26	FY27
Fare Revenue % of Baseline	29%	82%	86%	88%	90%	93%
Budget Gap Before One-Time Revenues & Transfers	-$542M	-$201M	-$240M	-$286M	-$344M	-$341M
One-Time Revenues & Transfers	$542M	$201M	$240M	$95M		
End Balance	-	-	-	-$191M	-$344M	-$341M

FY22-FY27 Budget Gap Outlook – Scenario 2

- One-time revenues and transfers balance budget gap in FY23
- FY24 – FY27 budget gaps range from $236M - $471M annually



	FY22	FY23	FY24	FY25	FY26	FY27
Fare Revenue % of Baseline	29%	68%	72%	74%	76%	78%
Budget Gap Before One-Time Revenues & Transfers	-$542M	-$316M	-$357M	-$406M	-$467M	-$471M
One-Time Revenues & Transfers	$542M	$316M	$121M			
End Balance	-	-	-$236M	-$406M	-$467M	-$471M

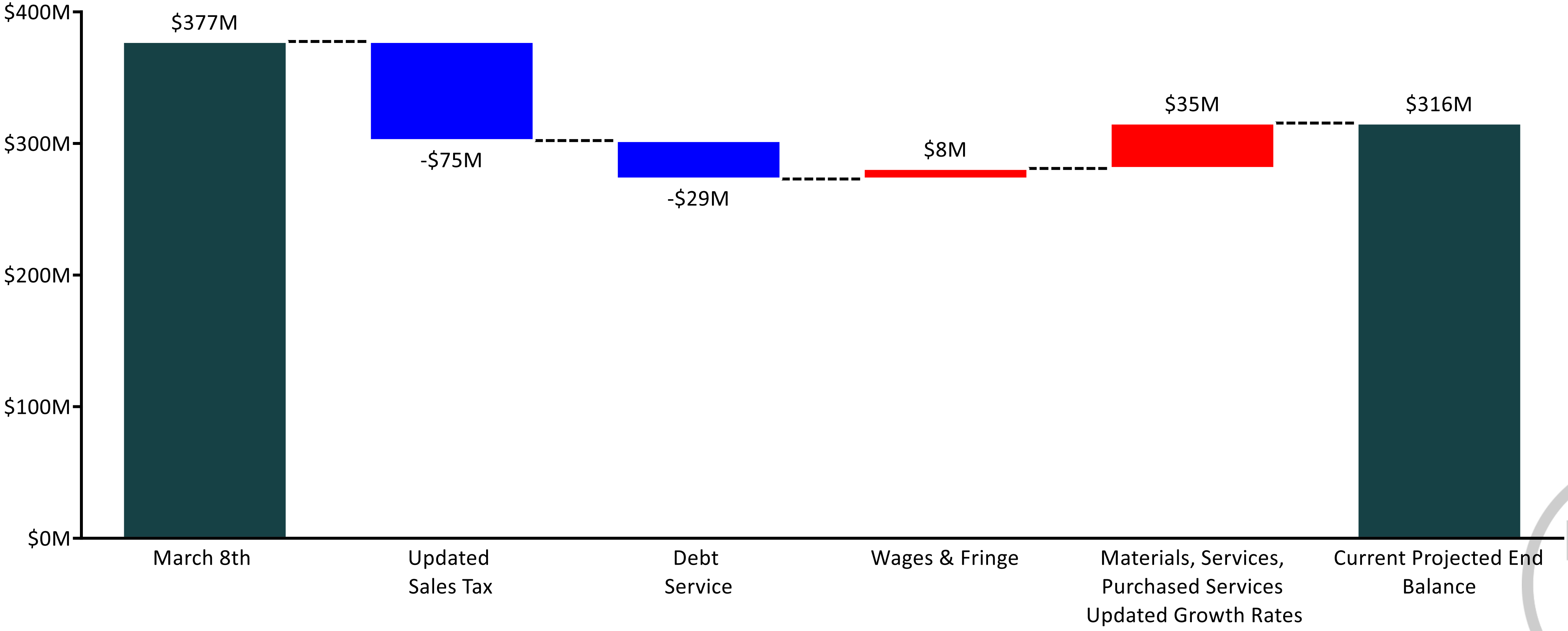
Pro Forma Updates – March 2021 to December 2021

- Pro Forma budget deficits have improved since March 2021 with updates based on actual data and new information
- **Sales tax revenue estimates** increased from 1.7% average growth to 3.2% based on 10-year pre-COVID average and incorporating FY22 state GAA budget estimate
- **Services** updated from 2.1% per CBO national estimates to 6% to reflect MBTA-specific FY09-FY19 10-year average annual growth prior to COVID-19
- **Wages & overtime** updated from 0% to 1.4% to reflect FY09-FY19 10-year average annual growth
- **Pension projections** updated with actuarial estimates as of Fall 2021
- **Potential new commuter rail contract** costs added from FY24-FY27 to mirror prior contract negotiation and mobilization costs

Projected End Balances (Excluding Federal Revenue)				
Pro Foma Description	**FY23 ($M)**	**FY24 ($M)**	**FY25 ($M)**	**FY26 ($M)**
Current Pro Forma End Balance	(316)	(357)	(406)	(467)
March 8th Pro Forma End Balance	(377)	(349)	(400)	(430)
Variance Amount	62	(8)	(6)	(37)
Variance %	16%	-2%	-2%	-9%

FY23 Pro Forma Comparison – March 2021 to December 2021

- $61M decrease in projected FY23 deficit primarily due to updated sales tax estimates
- Wages, Materials & Services increase assumes $22M in Bus Network Redesign expenses in FY23



FY24 Pro Forma Comparison – March 2021 to December 2021

- $8M increase in FY24 projected budget gap primarily from updated sales tax projections offsetting new projects and initiatives like Bus Network Redesign
- Wages, Materials & Services increase assumes $40M in total Bus Network Redesign expenses in FY24