



Massachusetts Bay Transportation Authority

FY23 Budget Preview

MBTA Board of Directors

March 10, 2022

Goals & Agenda

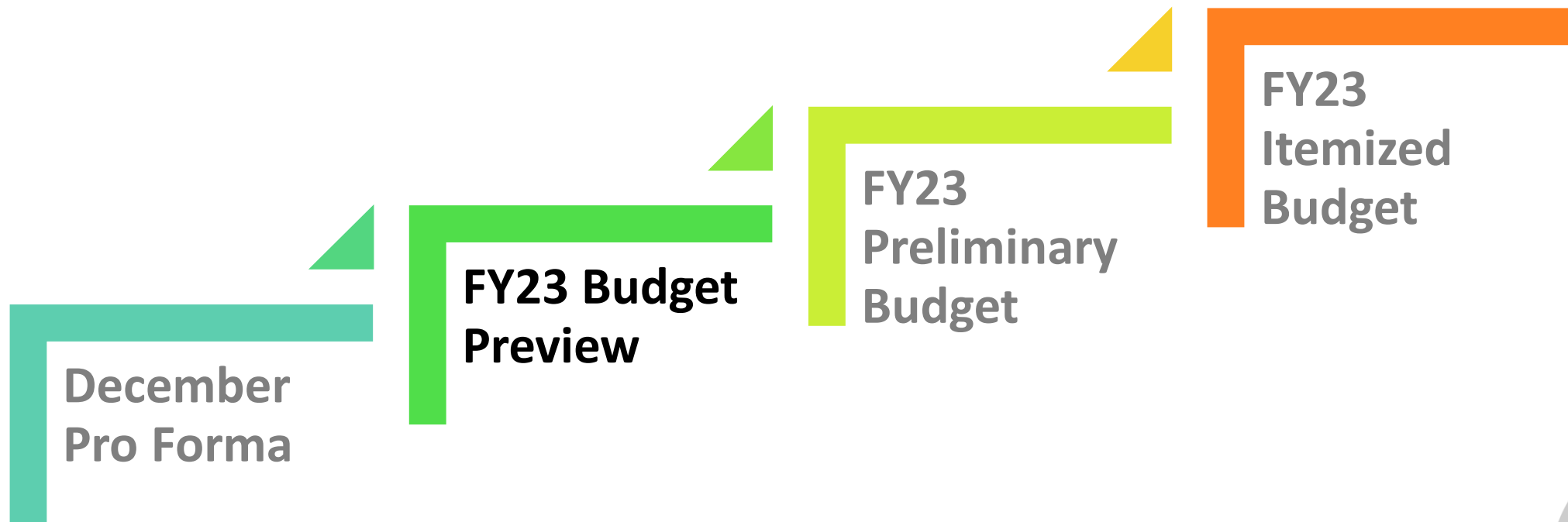
Goal: As budget estimates for next year continue to be formulated and refined, **the Budget Preview presentation**, following the framework outlined in the latest Pro Forma presentation, aims to provide a high-level summary of revenue assumptions and potential key investments to be detailed in the upcoming Preliminary Budget presentation

- The presentation contains four primary sections:
 - Budget process and improvements
 - Recap of FY22 budget investments
 - December Pro Forma review
 - Guiding principles for FY23 revenue and spending
- **Seeking Board comment and input prior to preliminary budget presentation in April**



FY23 Budget Presentations

- Beginning with the December Pro Forma, several budget presentations will be made to Board discussion prior to the approval of the FY23 budget
- Additionally, Finance has and will continue provided quarterly updates on FY22 actual spending and revenue figures and their variance to budget



Guiding Principles for FY23 Budget Development

- Invest in priorities, including major initiatives as outlined in the December Pro Forma, and manage other discretionary spending
- Allow for other non-discretionary increases (e.g., fuel pricing, contractual, capital costs operationalized, etc.)

Additional Investments

- Building on last year's investment and returning to pre-pandemic plan to provide additional safety hires and improvements
- Investing new resources for Bus Network Redesign
- Maintaining commitment to recruitment and retention efforts
- Continuing progress for Fare Transformation, including fare verification
- Ensuring funds for the Green Line Extension

Operating Budget Process Improvements

- FY23 budget development process continued efforts from last year
 - to enhance financial review and
 - incorporate recommendations included in the Safety Review Report from December 2019
- Provided departments additional time to formulate their requests
- Prioritized improved coordination and communication with each department through enhanced guidance and training
- Continued a bottom-up approach to building the FY23 budget through a collaborative approach with departments
- Engaged in inclusive dialogue with the departments directly impacted by budget decisions to maintain an appropriate level of resources
 - More than 80 meetings completed or scheduled between January-March 2022
 - Meeting with departments in two rounds to listen and understand requests with dedicated time to explain or discuss any changes or updates
 - Targeted conversations and comprehensive collection of departmental requests for additional budgeted positions to improve safety



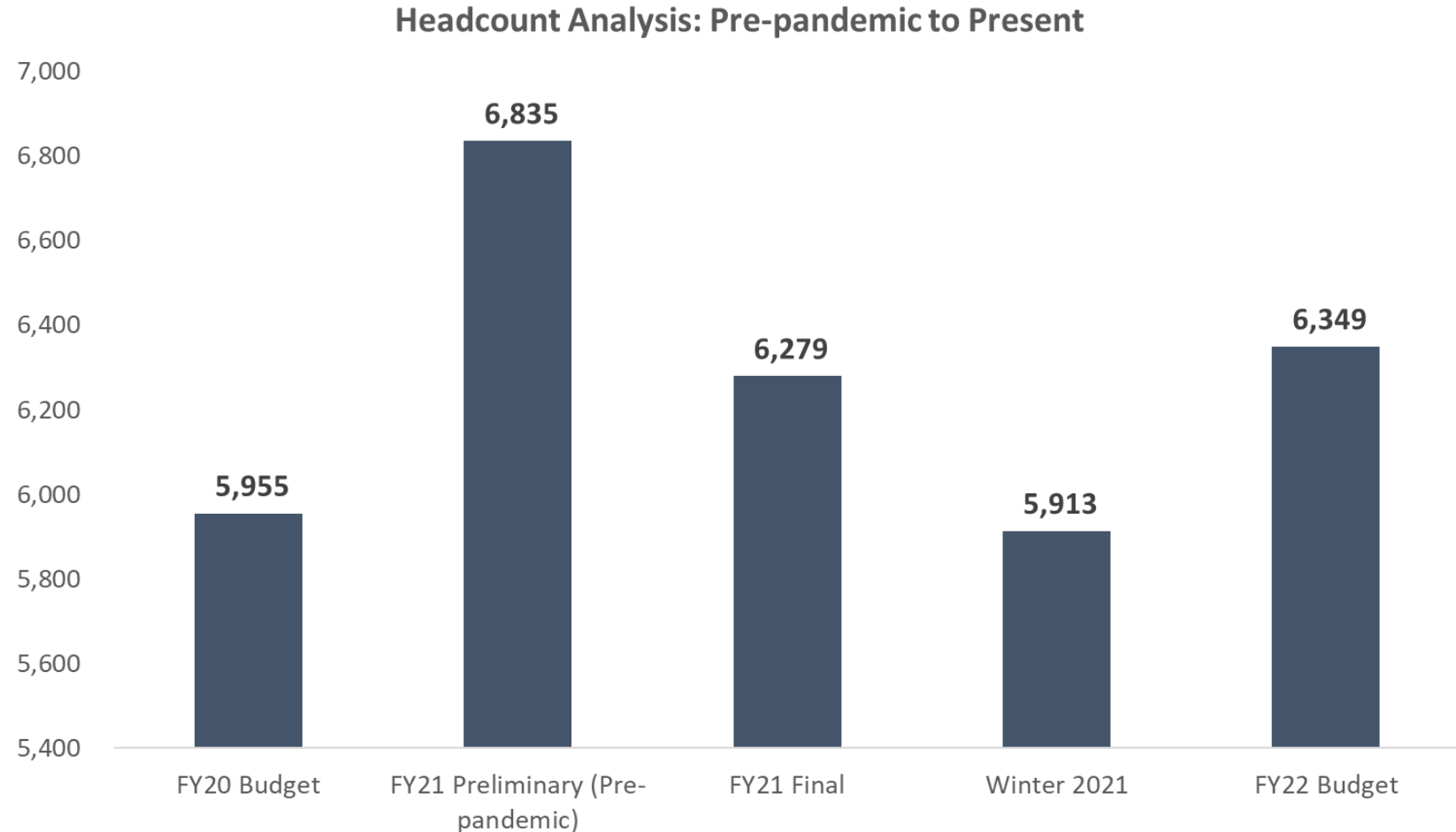
Recap of FY22 Budget Highlights

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



Operating Budget Headcount History

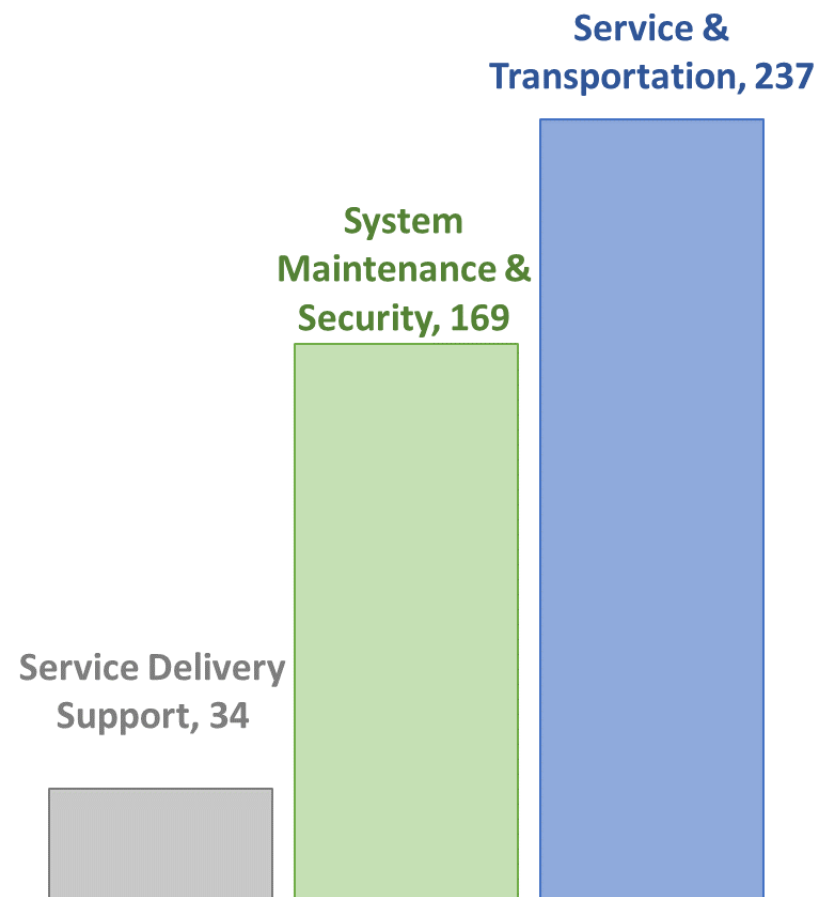
- FY23 budget plan aims to build on FY22 headcount to restore pre-pandemic goal to add new positions to improve operations safety
 - COVID-19 negative impact on fare revenues interrupted progress on investments and new positions
- The FY21 Preliminary Budget was developed in response to the Safety Panel Report
- The additional positions in FY22, and those for FY23 are rebuilding that effort while accounting for the latest operational needs and priorities for safe, reliable service



Budgeted Positions Added in FY22

- Additional budgeted positions enhance 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



Ongoing Hiring & Recruitment Initiatives

- Given the regional and nationally challenging current labor market conditions, to fill the budgeted positions Human Resources with cross-departmental support has and is taking action to improve hiring and fill vacancies

Programmed Hiring

- Created dedicated process for programmed hiring for operations/service
- Enhanced and regular collaboration with RMV
- Created bulk interview process to increase hiring throughput

Capacity & Outreach

- Doubled the size of HR department recruiting team
- Added Recruitment Process Outsourcing (RPO) to support HR staff
- Developed bonus program for bus operators and accelerated campaign to promote open positions

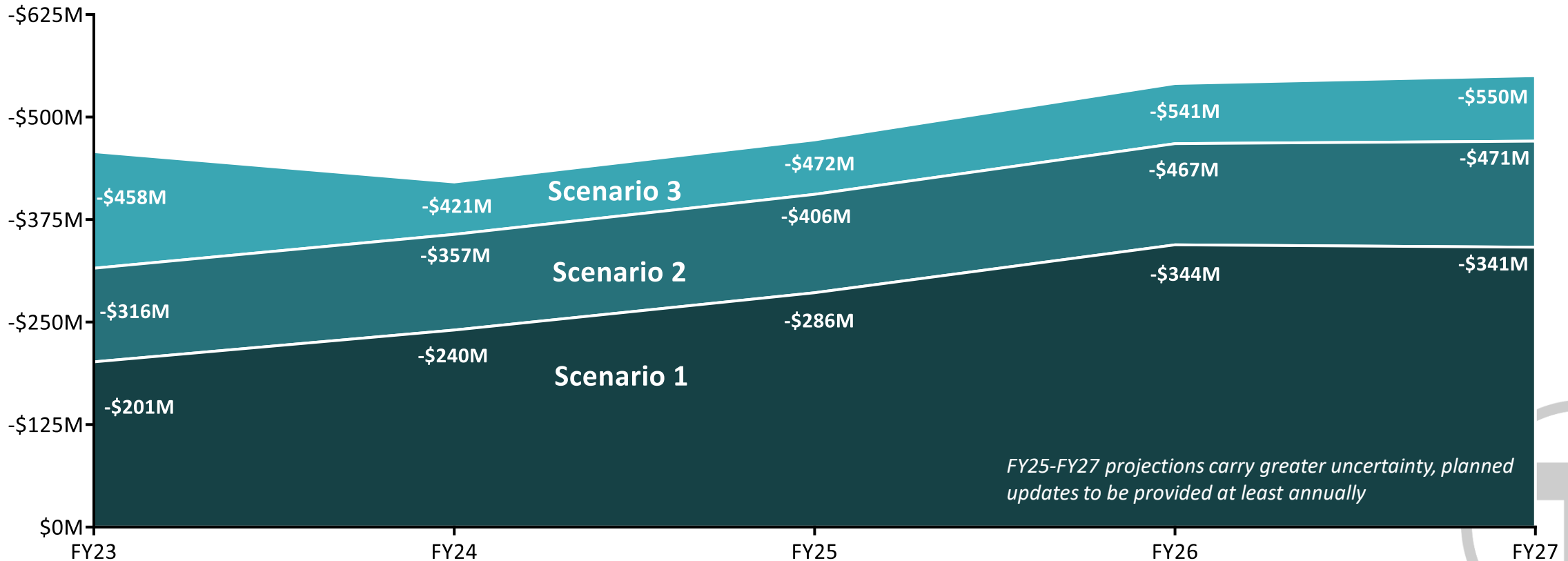
Process Improvements

- Streamlined backfill process.
- Developed controls and key performance indicators (KPIs)
- Reconfigured training to be cross-functional to reduce risk of single-point of failure



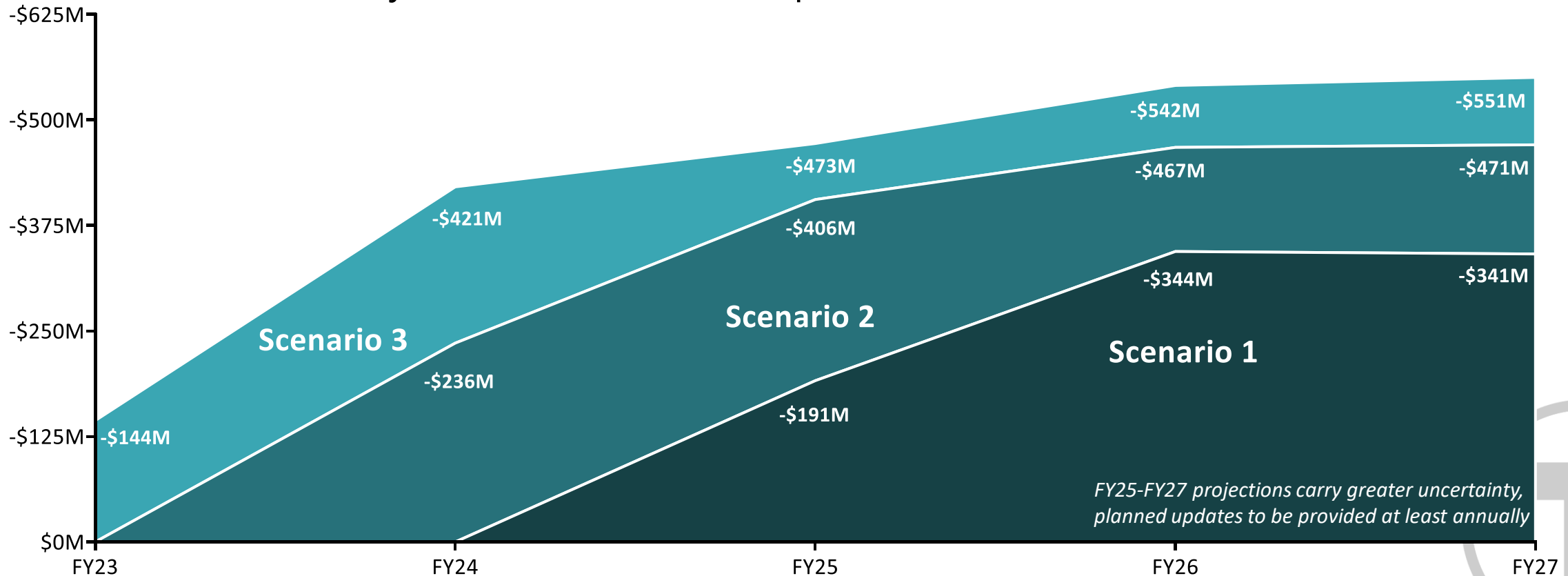
The Long-Range Challenge without One-time Revenues

- Before one-time revenues and transfers, budget gaps continue into FY23 and beyond
- FY23 budget gap of \$316M in Scenario 2 before one-time revenues



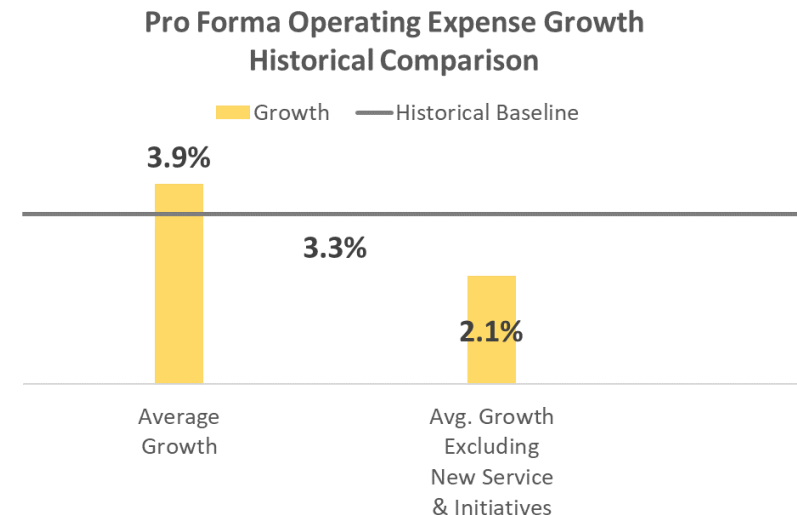
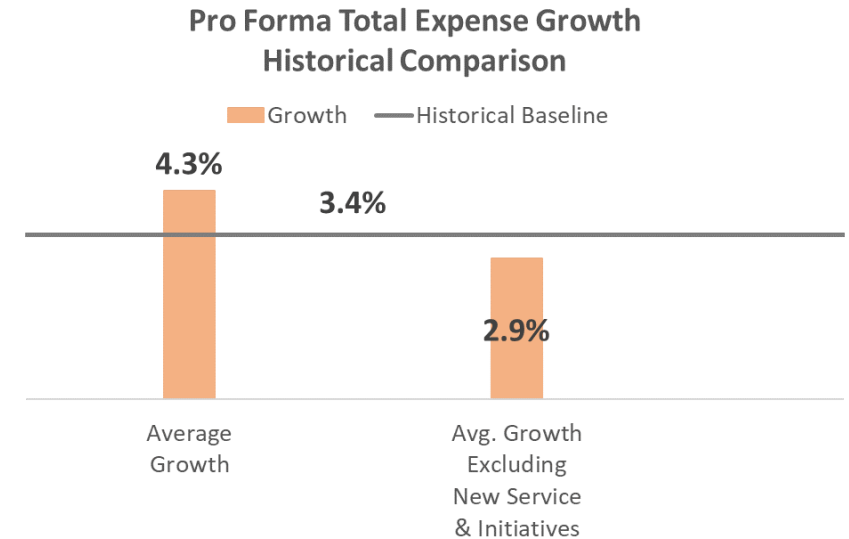
Budget Challenge with One-time Revenues

- Scenario 2 budget balanced in FY23 using \$316M in one-time revenues
- Scenario 2 budget gap in FY24 of \$236M, even after one-time revenues
- All scenarios incorporate impact of one-time transfer of operating funds up to \$500M by the end of FY22 for capital and other investments



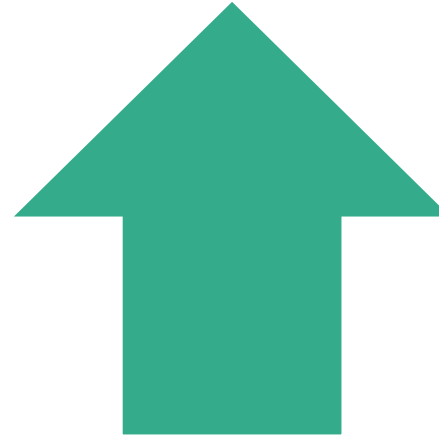
Pro Forma Five-Year Average Annual Spending Growth & New Service and Initiatives

- 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
- Items potentially driving FY23 budget growth above Pro Forma average
 - Significant safety investments
 - COVID-19 related spending continues, subject to latest public health guidance
 - Fuel prices, inflation, and supply chain issues

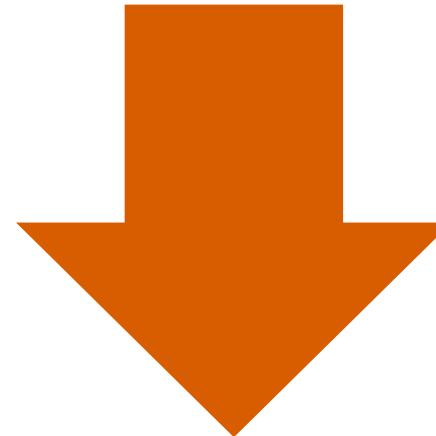


Options for Long Range Budget Challenge

- Increasing revenues and/or reducing spending are the two ways to resolve projected operating budget gaps
- Own-source revenue options being explored for future presentation
 - Fares and own-source revenues account for \$245M (9%) of FY22 budgeted revenues
 - Subsidy (non-operating) revenue accounts for 91%
- Spending options outside of service are limited
 - Service levels and system maintenance account for nearly 90% of operating expenses in FY22 budget
- Reducing non-operations spending and enhancing own-source revenues cannot fully resolve the projected scale of future budget gaps



Increase
Revenues



Reduce
Spending



Guiding Revenue Principles for FY23 Budget Development

- **Maintain commitment to revenue framework as outlined in the December Pro Forma**
 - Pro Forma projected FY23 Deficiency Fund reserve transfer of \$316M
- Allow for any updates (both positive and negative) based on the latest available data and new information

Revenue

- Does not assume any fare increases
- Dedicate up to \$500M of operating funds for one-time capital support and investments
- Fare revenue and own-source revenue estimates under Scenario 2 ridership assumptions
- Sales tax revenue estimate consistent with the Governor's FY23 H.2 recommendation
- \$127M in state assistance for the operating budget and \$60M in state assistance for the capital budget
- Utilize, as projected, Deficiency Fund reserve transfer of \$316M as a guideline to manage FY24 budget gap

Federal Relief Funding Update

- Three major federal relief packages totaling **\$1,988M** in expected reimbursement for operating expenses to make up for lost fare revenues
 - Coronavirus Aid, Relief, and Economic Security (CARES) Act
 - Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA)
 - American Rescue Plan Act of 2021 (ARPA)
- All funds expected to be fully claimed by June 2022 to mitigate current and future year budget gaps
 - All \$827M in CARES Act funding fully claimed for reimbursement between FY20 and FY21
 - All \$301M in CRRSAA funding fully claimed for reimbursement between FY21 and FY22
 - All \$860M in ARPA expected to be fully claimed by the end of June 2022

Federal Relief Fund
Allocation \$1,988M

\$827M
from
CARES Act

\$301M
from
CRRSAA

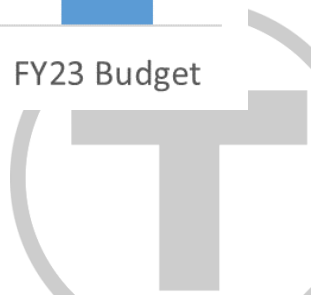
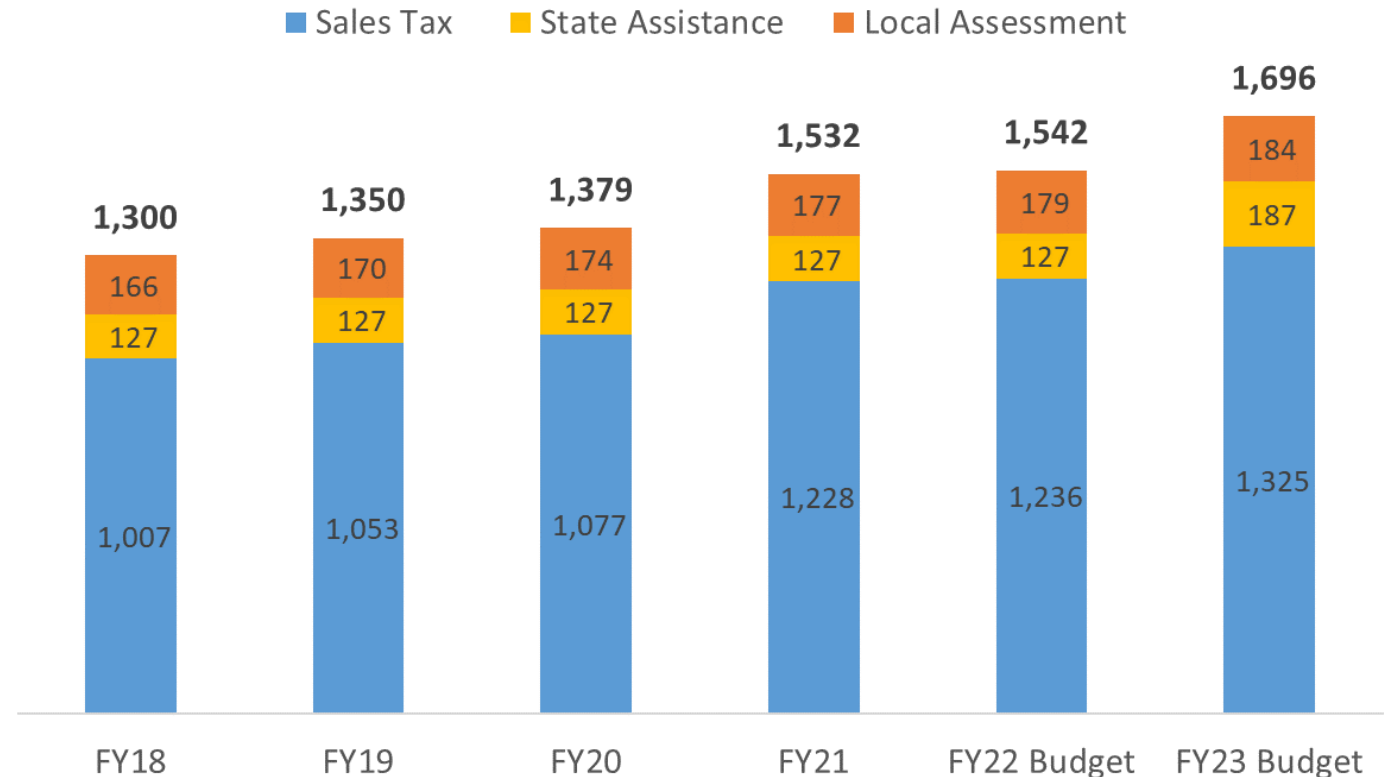
\$860M
from
ARPA



State & Local Funding Sources

- State and local funds make up a portion of the MBTA's overall revenue
 - \$1,325M sales tax revenue estimate, \$89M (7%) above FY22 budget and consistent with the Governor's FY23 H.2 budget recommendation
 - \$187M in state assistance, with \$60M dedicated for pay-go capital, consistent with capital budget planning
 - Sales tax funds 52% of FY22 budgeted expenses
 - State assistance funds 5% of FY22 budgeted expenses
 - Local assessment funds 8% of FY22 budgeted expenses

State & Local Revenue Sources (\$M)



Guiding Principles Deliver on December Pro Forma Framework

- **Major priorities and assumptions from December Pro Forma plan to be incorporated into FY23 budget planning**
 - ✓ Dedicating up to \$500M of operating funds for one-time capital support and investments
 - ✓ **Additional safety hires** and improvements to continue pre-pandemic commitment and further build on last year's investment progress
 - ✓ Investing new resources for **Bus Network Redesign**
 - ✓ Maintaining commitment to **recruitment and retention** efforts
 - ✓ Continuing progress for **Fare Transformation**, including fare verification
 - ✓ Ensuring funds for the **Green Line Extension**
 - ✓ Utilize projected Deficiency Fund reserve transfer of \$316M as a guideline to manage FY24 budget gap
 - ✓ Modeling **Scenario 2** ridership and fare revenue assumptions



Planned Analysis & Detail for Preliminary Budget Presentation for April Board meeting

Revenue Detail & Analysis

- **Revenue summary and variance analysis** to FY22 budget
- Historical revenue detail of **operating and non-operating revenue**
- **Fare revenue** estimates by month, including fare revenue recovery ratio
- **Own-source revenue** historical summary
- **State and local** historical revenue detail
- **One-time federal relief** revenue summary

Investments, Spending, and Headcount

- Key investment highlights
- Overview of **operating expenses by function**
- **Spending summary and variance analysis** to FY22 budget
- Historical actual and budgeted **spending growth**
- **COVID-19 spending** summary
- **Headcount overview** and detail by function

Appendix



Proposed Board Touchpoints

	FY23-27 CIP Development Process	FY23 Operating Budget Development Process
JANUARY	Finance and Audit Subcommittee Meeting (20 th): Asset management performance measures and preliminary source estimates MBTA Full Board (27 th): N/A	
FEBRUARY	Finance and Audit Subcommittee Meeting (10 th): FY23-27 initial program sizes and recap of existing programs/in-flight projects MBTA Full Board (24 th): N/A	
MARCH	Finance and Audit Subcommittee Meeting (10 th): Present draft FY23-27 CIP and vote to release for public comment MBTA Full Board (24 th): Present the draft FY23-27 CIP and vote to release for public comment	Finance and Audit Subcommittee Meeting (10 th): Budget Preview presentation on high-level priorities and decision points MBTA Full Board (24 th): Budget Preview presentation on high-level priorities and decision points
APRIL	Finance and Audit Subcommittee Meeting (14 th): N/A – tentative MBTA Full Board (28 th): N/A	Finance and Audit Subcommittee Meeting (14 th): Preliminary Budget Presentation on spending and revenue figures by category MBTA Full Board (28 th): Preliminary Budget Presentation on spending and revenue figures by category
MAY	Finance and Audit Subcommittee Meeting (12 th): Present the final FY23-27 CIP and vote for approval MBTA Full Board (26 th): Present the final FY23-27 CIP and vote for approval	*May require special session in recommended time frame: Finance and Audit Subcommittee Meeting (26 th -31 st): Final itemized budget presentation
JUNE	Finance and Audit Subcommittee Meeting (9 th): N/A MBTA Full Board (23 rd): N/A	*May require special session in recommended time frame: MBTA Full Board (9-14 th): Final itemized budget presentation

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 due to actual observed data at the time of FY22 budget development**

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*



Categorization of Revenue & Expenses

