

Massachusetts Bay Transportation Authority

FY23 Preliminary Budget

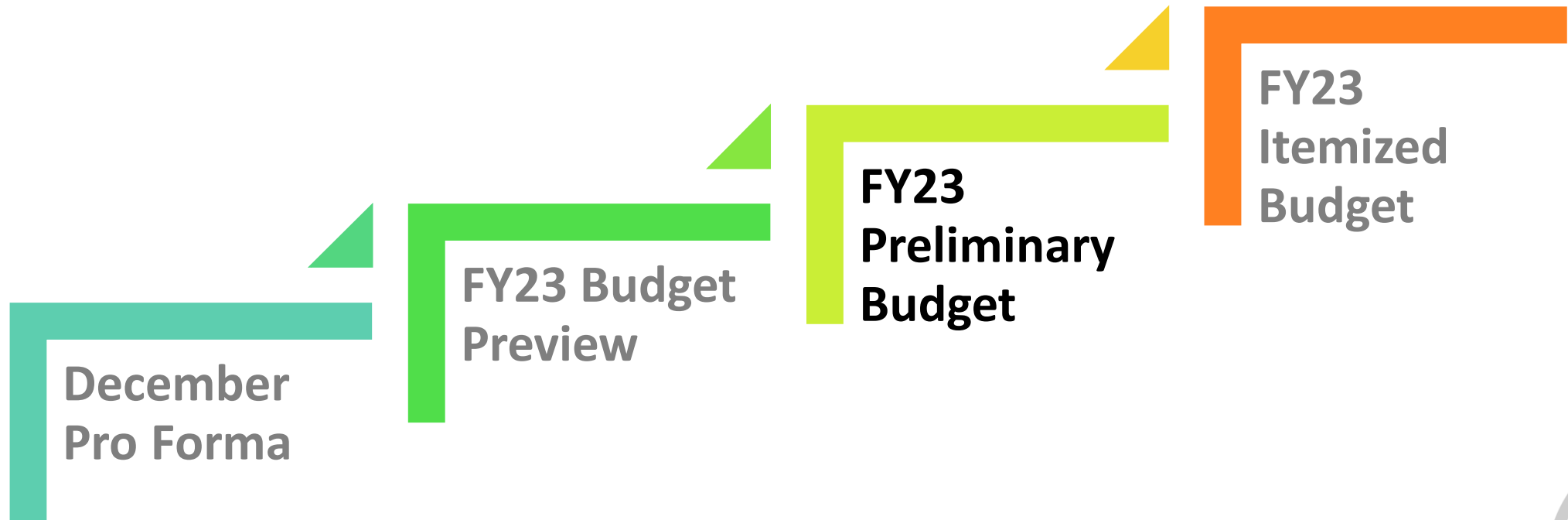
MBTA Board of Directors

Mary Ann O'Hara, Chief Financial Officer

April 28, 2022

FY23 Budget Presentations

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



FY23 Preliminary Budget Agenda

- FY23 preliminary budget major investments and highlights
- Revenue assumptions and historical detail
- Spending assumptions and historical detail
- Headcount summary
- Preliminary budget vote



FY23 Preliminary Budget Follows Guiding Principles

- FY23 preliminary budget meets all the criteria outlined in the March 2022 Budget Preview Board presentation

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
- ✓ Ensures capacity and commitment to recruitment and retention efforts
- ✓ Continuing progress for Fare Transformation
- ✓ Ensuring funds for the Green Line Extension

Revenue

- ✓ Does not assume any fare increases
- ✓ Fare revenue and own-source revenue estimates transition from Scenario 3 to Scenario 2 ridership assumptions for FY23
- ✓ Sales tax revenue estimate consistent with the Governor's FY23 H.2 recommendation
- ✓ \$187M in state assistance, with \$60M dedicated for capital, consistent with capital budget needs and planning
- ✓ Utilize, as projected, Deficiency Fund reserve transfer of \$316M as a guideline to manage FY24 budget gap

FY23 Major Investments & Highlights

- Despite the COVID-19 pandemic, the FY23 budget maximizes existing resources and makes further investments in safety, service, and priority initiatives

Safety

- **For operations safety**, including additional staff and new services spending to improve quality assurance, inspection, and safety assessment projects

Bus Network Redesign

- **For Bus Network redesign**, staffing up to initiate service enhancements and non-wage costs for additional service mileage

Hiring & Recruitment

- **For human resources hiring, recruitment, and retention efforts**, building on ongoing work and efficiencies from FY22 to ramp up staffing to support safe, reliable service

Fare Transformation

- **For continuous improvements to the fare system** to improve Charlie Cards and program availability along with piloting new technology and approaches

Maximizing Resources

- **Maintains planned Deficiency Fund reserve transfer** from latest Pro Forma without any fare increases, layoffs/furloughs, or service reductions

Revenue Summary & Assumptions

- **Fare revenue** and **Other operating revenue** (parking, advertising, real estate, etc.) increase with expected ridership return modeling Scenario 2 assumptions
- **Sales tax revenue** carried at consensus state tax estimates under the Governor's FY23 budget recommendation to the Legislature
- **State assistance** increase reflects net neutral adjustment between operating and capital funds per the Governor's FY23 budget recommendation
 - \$60M dedicated for capital, consistent with capital budget needs and planning
- **Federal revenue** reduction reflects drawing down available ARPA funds by the end of FY22 to be reserved in the Deficiency Fund for operating budget gaps in FY23 and FY24 per the latest Pro Forma projections
 - FY23 amount reflects anticipated FEMA reimbursement for cleaning and PPE expenses already incurred during calendar year 2020 and 2021
- **Net transfers** includes \$316M in one-time revenue transferred from the Deficiency Fund, as outlined in the latest Pro Forma projections (offset by transfer of additional state assistance to the capital budget)

Table compares FY22 budget to FY23 preliminary budget assumptions

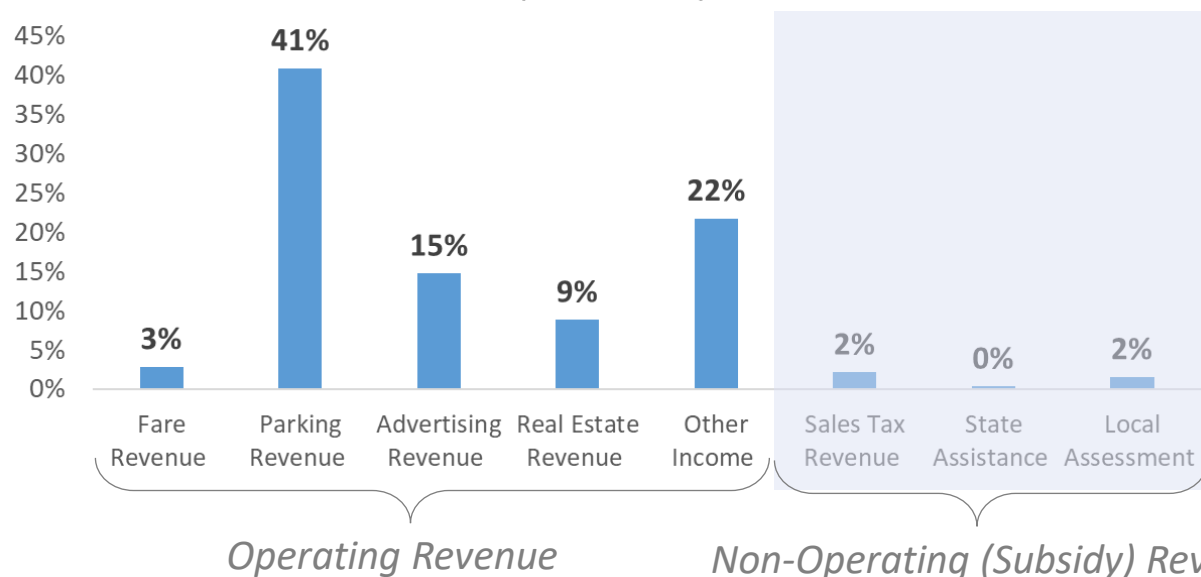
Item (Figures in millions)	FY22 Budget	FY23 Budget	\$ Change	% Change
Fare Revenue	200.2	474.3	274.1	137%
Other Operating Revenue	45.5	82.6	37.1	82%
Subtotal Operating	245.7	556.9	311.2	127%
Sales Tax	1,235.9	1,325.1	89.2	7%
Local Assessment	179.3	183.8	4.5	2%
State Assistance	127.0	187.0	60.0	47%
Other Income	24.5	13.0	(11.5)	-47%
Federal	959.2	32.0	(927.1)	-97%
Subtotal Non-operating	2,525.8	1,740.9	(784.9)	-31%
Total Revenue	2,771.5	2,297.8	(473.7)	-17%
Net Transfers	(416.2)	256.0	672.2	-162%
Total Sources	2,355.2	2,553.8	198.6	8%



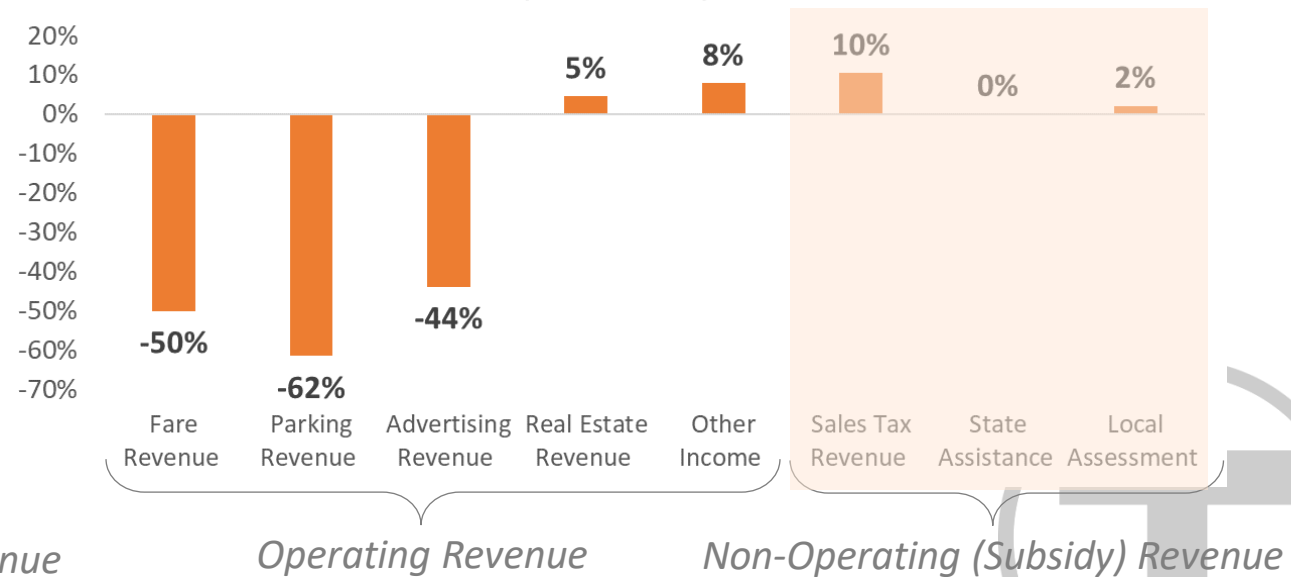
Actual Revenue Growth History

- COVID-19 has drastically hindered operating revenue growth realized prior to the pandemic, making the budget more dependent on subsidy (non-operating) revenue and one-time reserve funds
- **Operating revenue:** 4% average revenue growth pre-pandemic and -49% since
- **Non-operating (subsidy revenue):** 2% pre-pandemic and 32% since, due to one-time federal relief
- Amount of one-time federal relief since March 2020 is more than eight times pre-pandemic year over year revenue increases combined

Actual Avg. Revenue Growth by Category: Pre-pandemic (FY15-FY19)



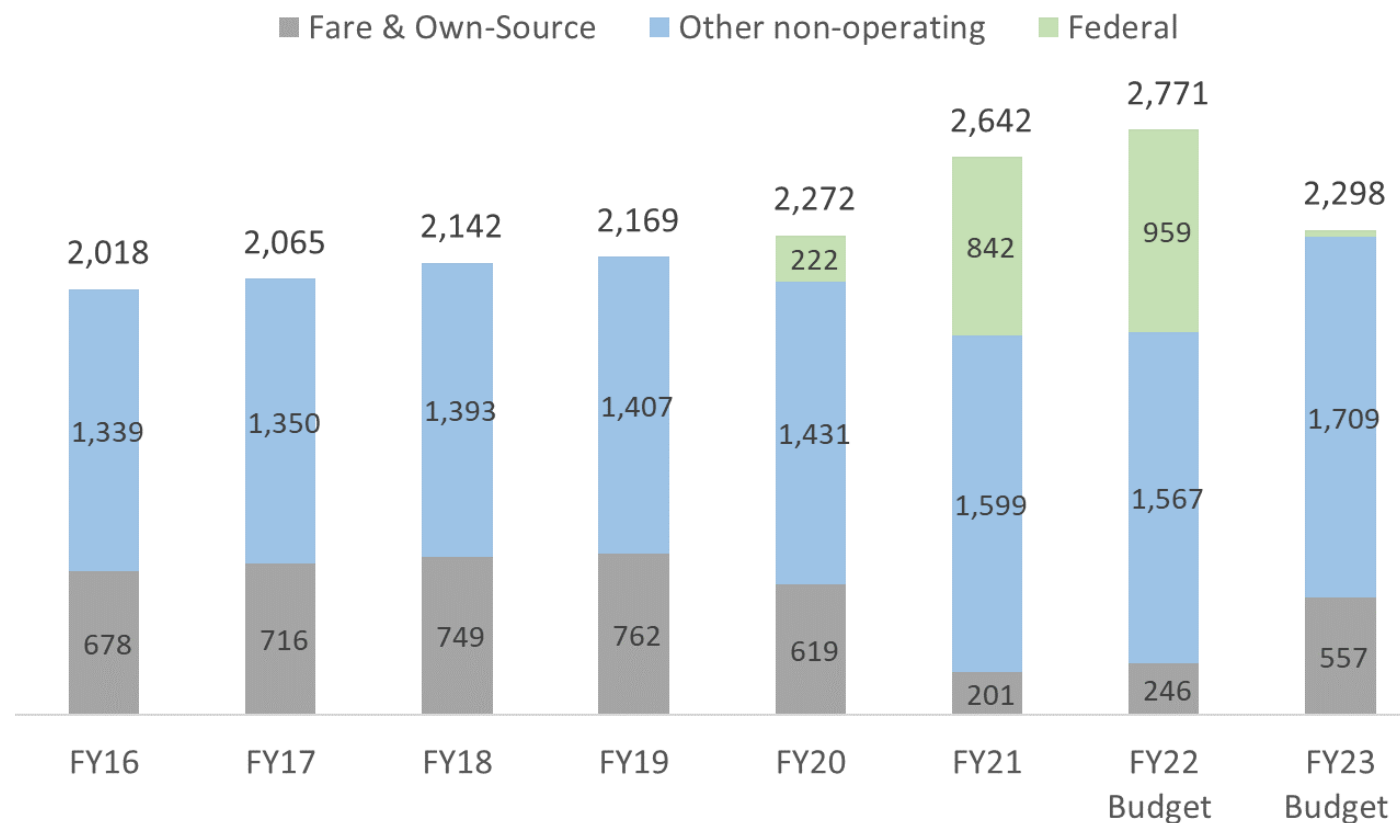
Actual Avg. Revenue Growth by Category: Since Pandemic (FY19-FY21)



Operating, Non-operating, & One-time Federal Revenues

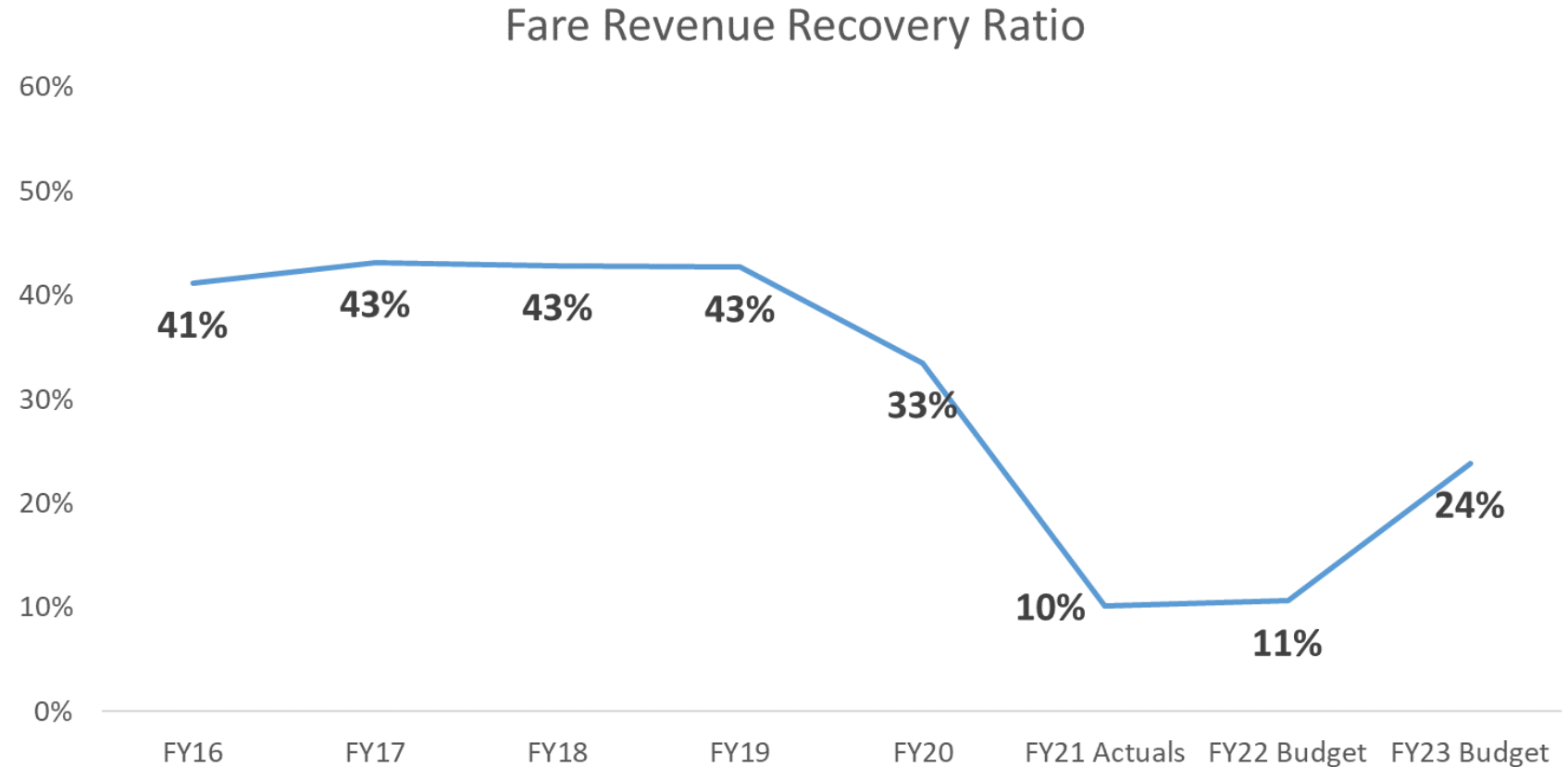
- Prior to COVID-19, non-operating revenue made up approximately 65% of annual total revenues
 - In FY23 76% of total revenues are from sources subsidizing the cost to operate the system and maintain service
- \$1,741M in non-operating (subsidy) revenue in FY23
 - \$1,709M in non-operating, recurring revenue, primarily from sales tax
 - \$32M in one-time FEMA reimbursement revenue for cleaning and PPE
- \$557M in fare and own-source (operating) revenue, down 27% from FY19 actuals of \$762M
- Including Net Transfers, total revenues for FY23 total \$2,554M, per slide 6

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



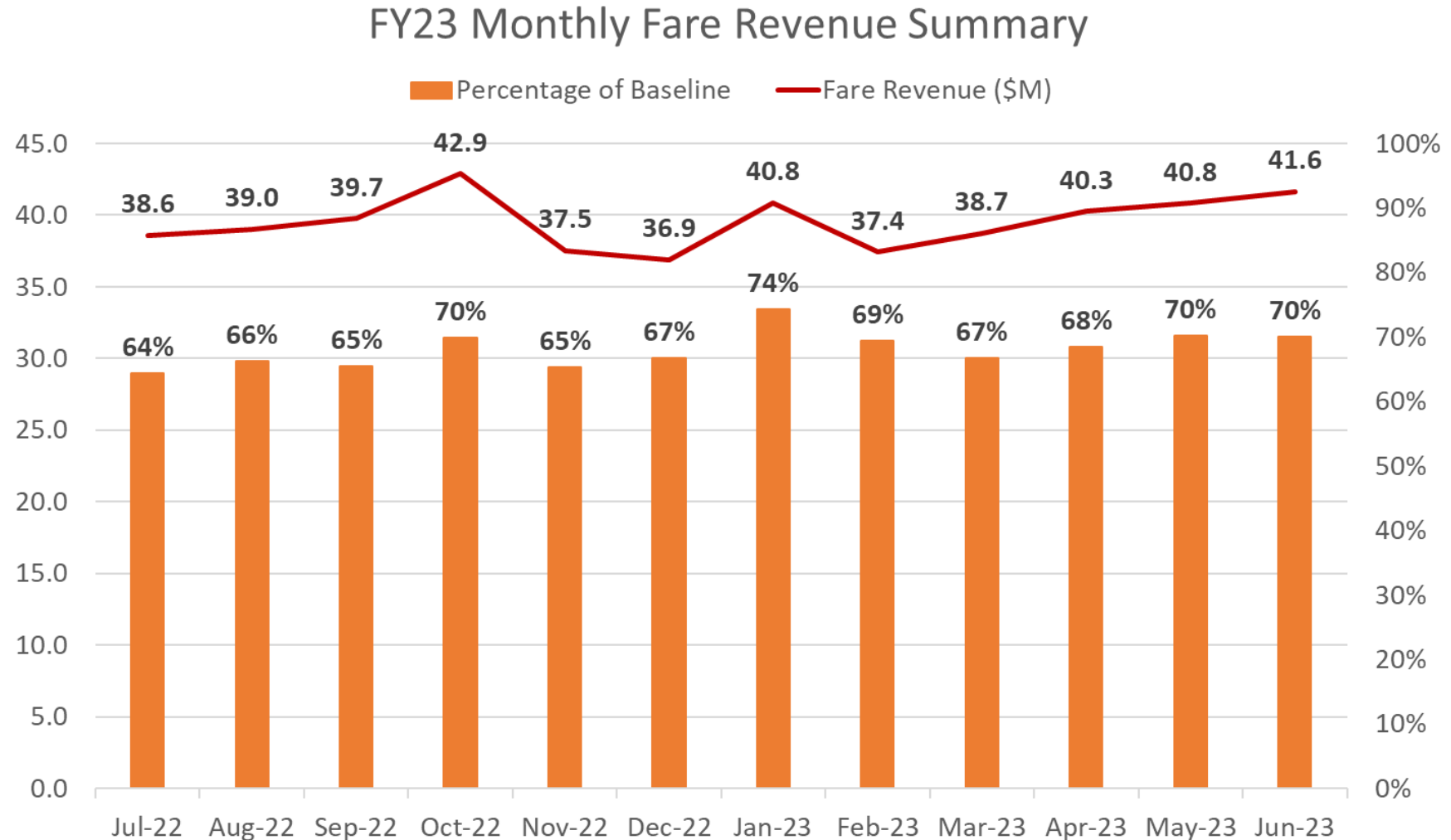
Fare Revenue Recovery Ratio

- Relying on Scenario 2 assumptions, fare revenue recovery ratio increases in FY23, but remains well below pre-COVID-19 levels
- Fare revenue assumed to support only 24% of operating expenses
 - One-time federal relief funding supports a notable portion of operating expenses
 - Prior to COVID-19, fare revenue recovery ratio had stabilized at 43% by FY19



FY23 Monthly Fare Revenue Estimates

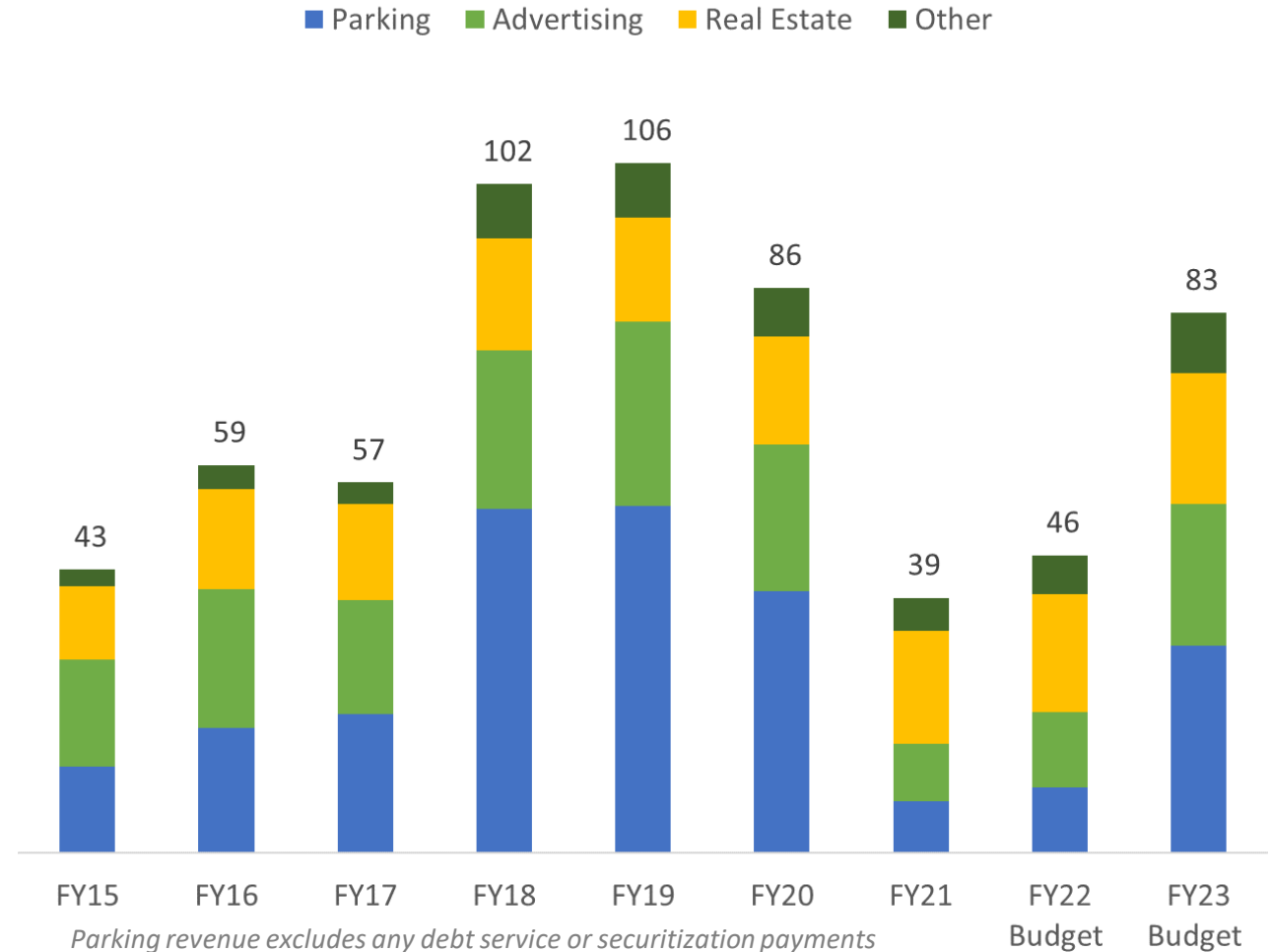
- **FY23 fare revenue assumption of \$474M, 68% of pre-pandemic baseline**
 - FY23 monthly fare revenue estimates follow Scenario 2 ridership assumptions
 - Recent actual ridership data most closely aligns with Scenario 2
 - FY23 fare revenue more than double the FY22 budget assumption
- **Although recovering, FY23 fare revenue assumed to remain \$222M lower than pre-pandemic baseline**
 - \$15M-\$20M less fare revenue each month as compared to pre-pandemic baseline



Own-Source Operating Revenue

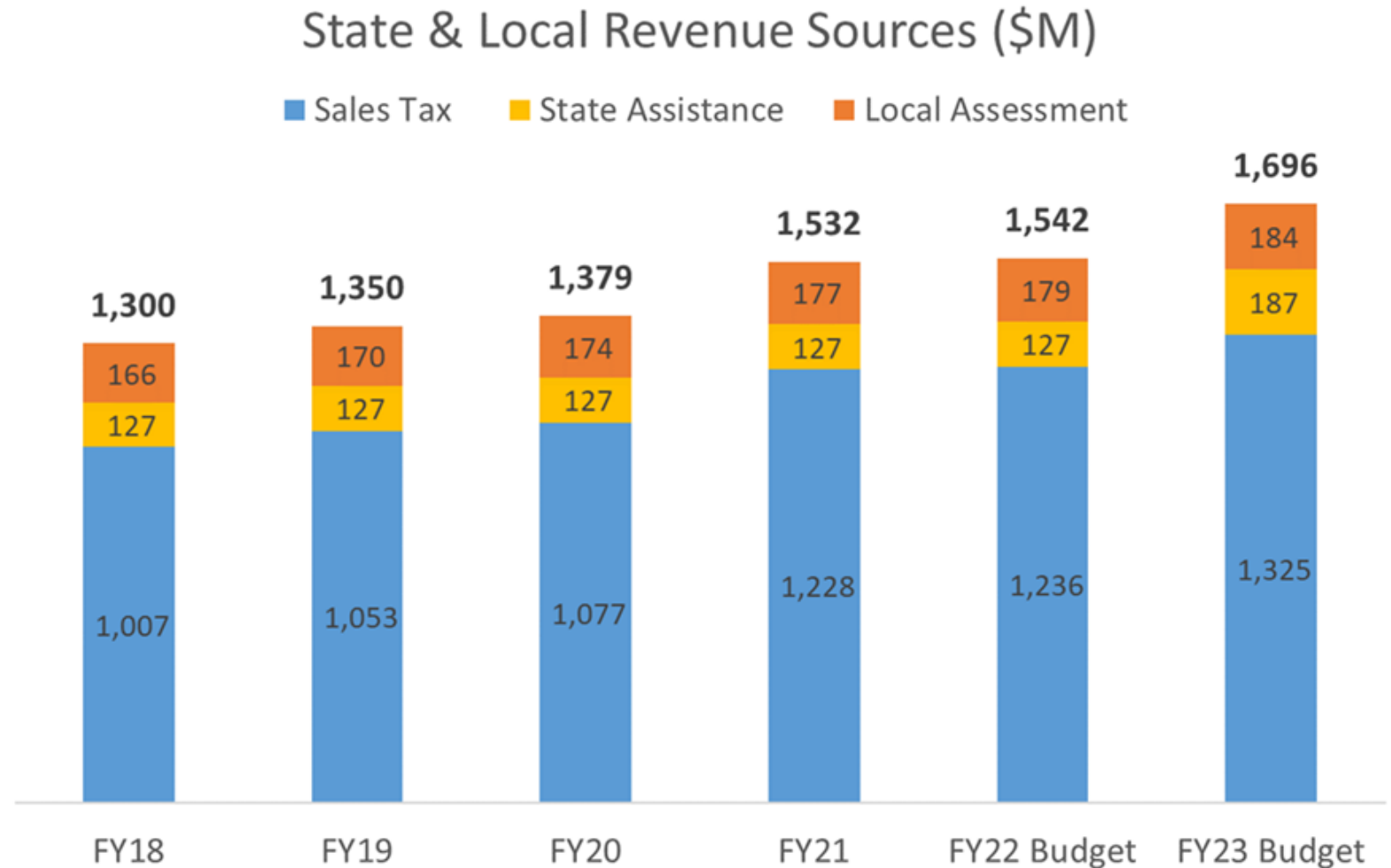
- **FY23 own-source revenue assumptions are 78% of pre-pandemic actuals (FY19)**
 - Own-source revenue correlates with fare revenue assumptions as COVID-19 impacts have reduced parking and advertising revenue, while real estate revenues have remained more stable
- **Prior to COVID-19, own-source operating revenue realized 25% average annual growth from FY15-FY19**
 - 42% increase in parking revenue
 - 15% increase in advertising revenue
 - 9% increase in real estate revenue
- Past initiatives to increase revenues include:
 - Reprocured advertising contracts with industry-leading commercial terms
 - Installed network of digital advertising and customer information panels which drove incremental advertising
 - Updated parking pricing across network

Own Source Revenue History by Category (\$M)



State and Local Revenue Sources

- State and local funds make up a portion of the MBTA's overall annual revenue
 - Sales tax funds 58% of FY23 budgeted expenses
 - State assistance funds 8% of FY23 budgeted expenses
 - Local assessment funds 8% of FY23 budgeted expenses
- \$1,325M sales tax revenue estimate per Governor's budget recommendation, \$89M (7%) above FY22 budget
- \$187M in state assistance, with \$60M dedicated for capital, consistent with capital budget needs and planning



Spending Summary & Assumptions

- **Wages and benefits** increase accounts for additional headcount for new safety positions, Bus Network Redesign, and ratified collective bargaining agreements
 - 6,679 operating budget positions, 330 (5%) above FY22 budget
- **Materials, Supplies, & Services** increases for new services for safety, hiring/recruitment, Fare Transformation and IT, along with fuel pricing projections and \$5.5M in new safety services spending to improve quality assurance, inspection, and safety assessment projects
- **The RIDE** increase reflects ridership demand growing to 86% of pre-pandemic levels
- **Commuter rail** budget allows flexibility for peak ridership service expansion and budgeted return of the Foxboro Pilot
- **Debt service** consistent with obligations associated with capital borrowing costs, as previewed in FY22 budget presentation to FMCB in April 2021
 - Percentage increase partially inflated by planned savings/lower spending in FY22 as FY22 debt service was lowest since FY17

Table compares FY22 budget to FY23 preliminary budget assumptions

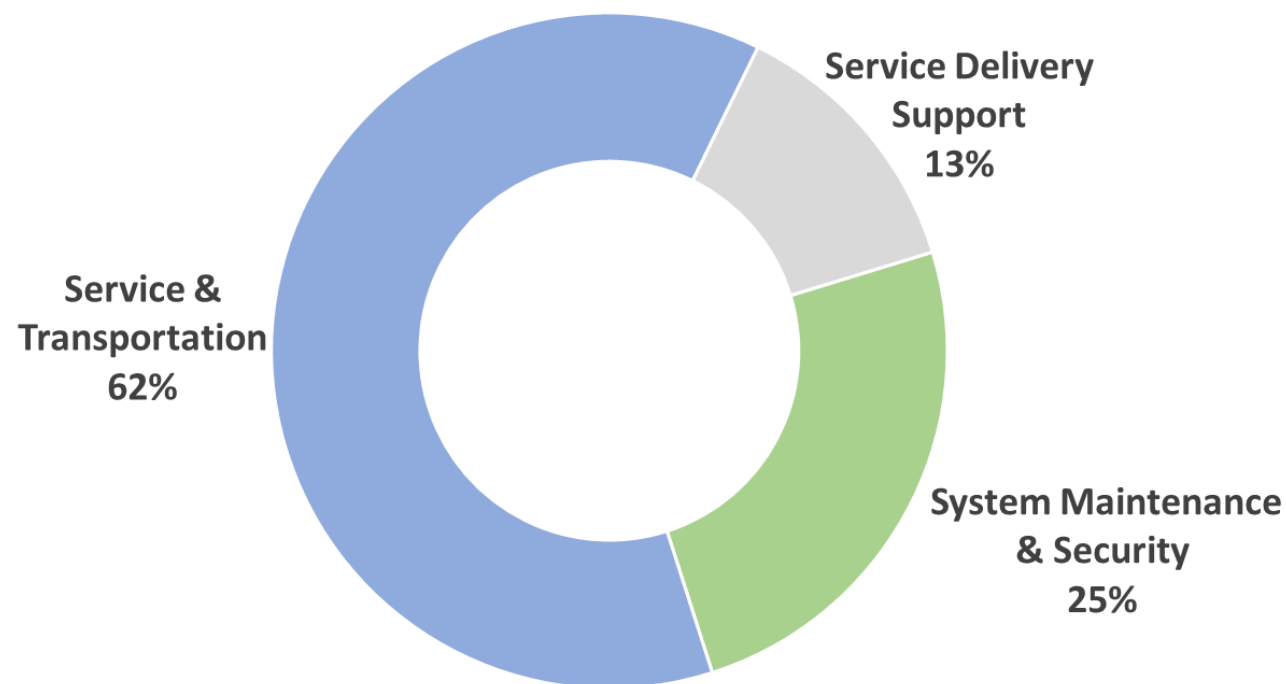
Item (Figures in millions)	FY22 Budget	FY23 Budget	\$ Change	% Change
Wages & Benefits	899.2	931.9	32.7	4%
Materials, Supplies, & Services	337.5	365.6	28.1	8%
Other Operating Expenses	32.8	37.9	5.1	15%
Commuter Rail	481.3	503.5	22.2	5%
The RIDE	114.9	126.2	11.3	10%
Ferry	18.1	18.7	0.6	3%
Other Local Service Subsidy	3.2	3.3	0.0	2%
Subtotal Operating	1,887.0	1,987.1	100.1	5%
Debt Service	467.8	566.5	98.7	21%
Total Expenses	2,354.7	2,553.5	198.8	8%



Operating Expense Breakdown

- **87% (\$1,728M) of operating expenses directly tied to service transportation and system maintenance**
 - 62% (\$1,235M) directly supports all service and transportation including adding back service from COVID-19 and new service like Bus Network Redesign and GLX
 - 25% (\$493M) for system and vehicle maintenance, safety, and security
- 13% (\$260M) to support service delivery and the customer experience

FY23 Breakdown of Operating Expenses



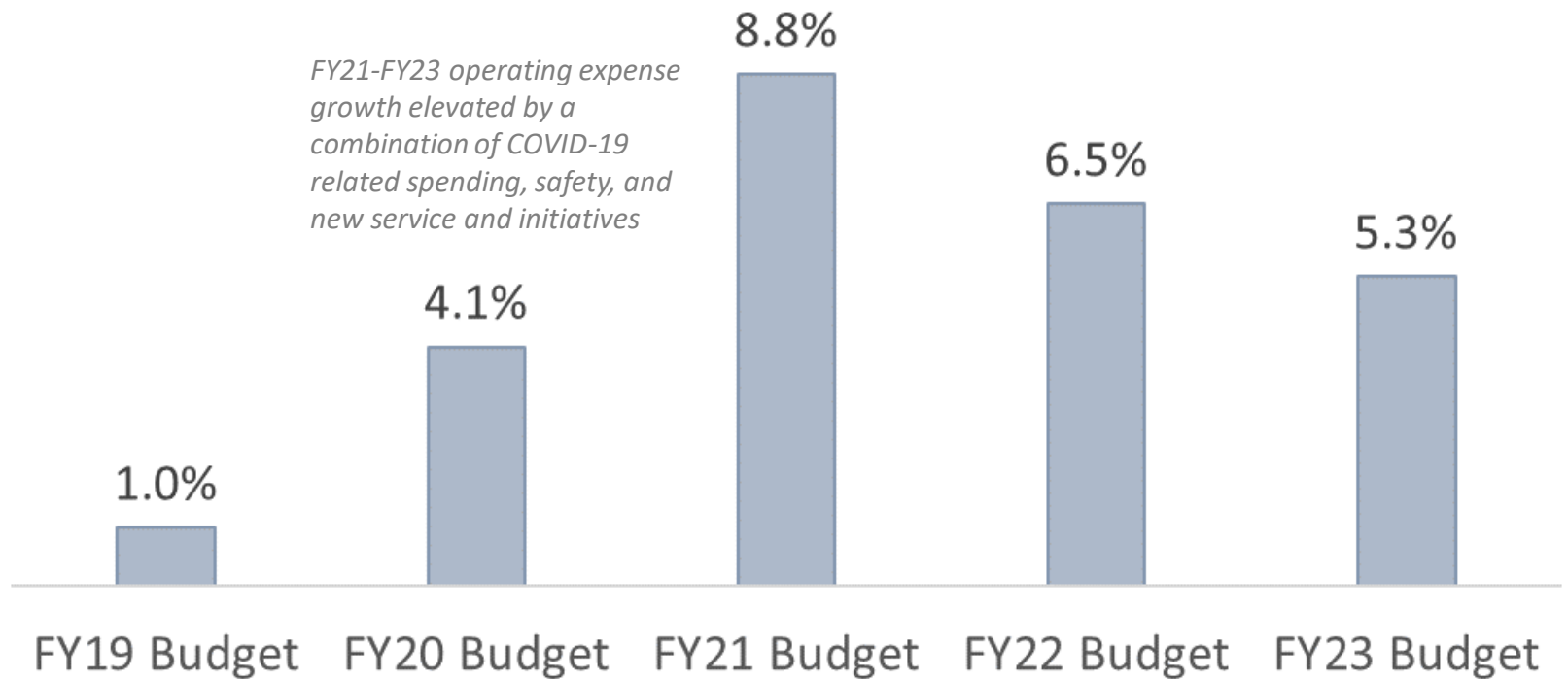
Operating expenses do not include debt service payments. Total expenses are operating expenses plus debt service payments.



Operating Budget Expense Growth

- 5.3% operating budget expense growth in FY23 driven by new investments and purchased transit services recovering from COVID-19
 - Above pre-pandemic (FY19 and FY20) approved budget levels
 - Above latest five-year Pro Forma average projection of nearly 4%
 - Below FY22 and FY21 approved budget levels
- Excluding major investments and expansions, operating budget expense growth in FY23 limited to 3%

Operating Budget Expense Growth *FY19-FY22 Approved to FY23 Preliminary*



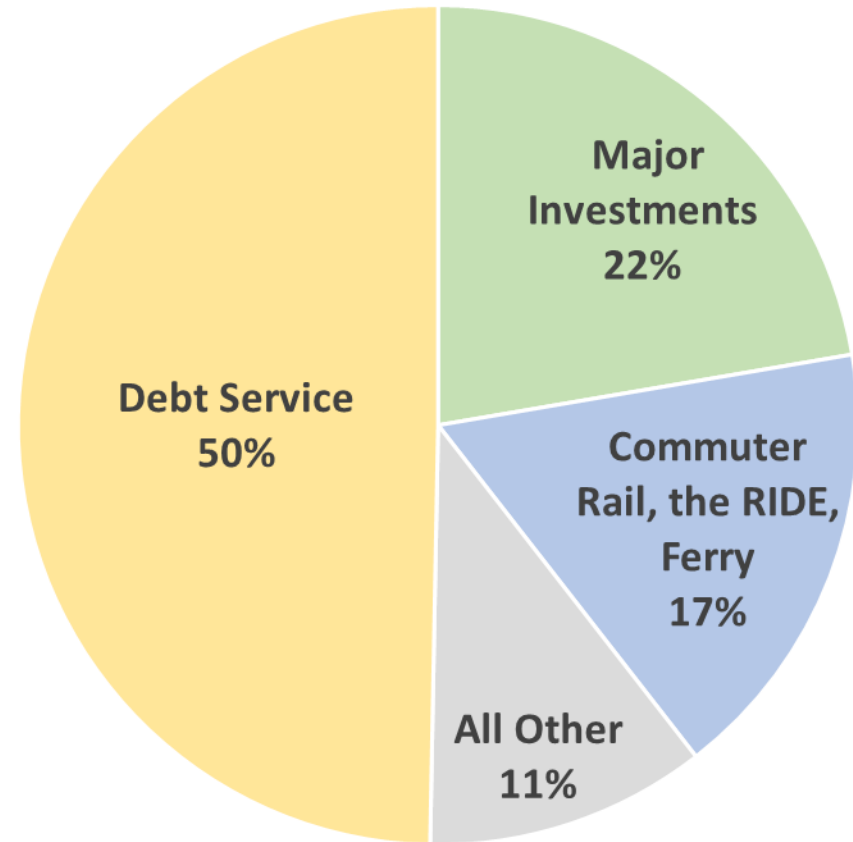
Operating expenses do not include debt service payments. Total expenses are operating expenses plus debt service payments.



Breakdown of New Budgeted Spending in FY23

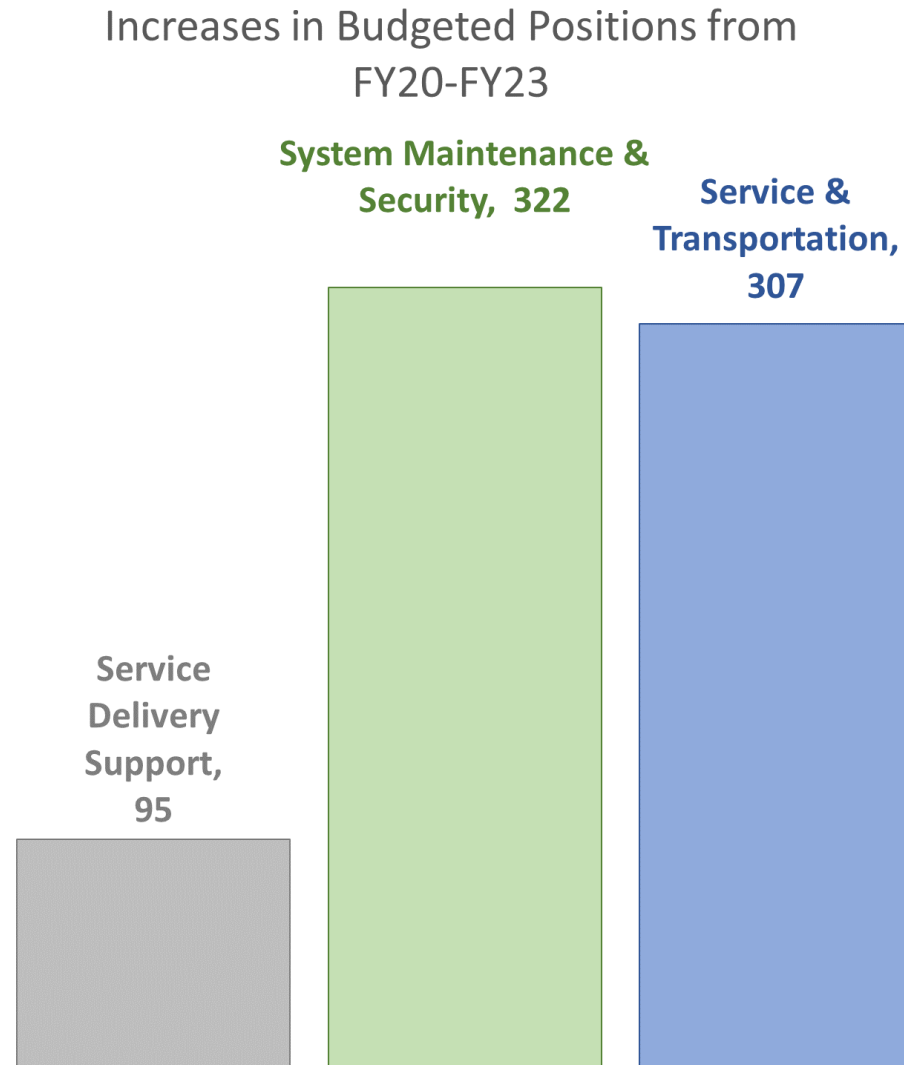
- 89% of total \$199M in new spending in FY23 goes towards three main categories:
 - **Major investments and priorities** like Safety, Bus Network Redesign, Human Resources, Fare Transformation, and GLX
 - **Purchased transit service budget flexibility** for Commuter rail, the RIDE, and Ferry anticipating ridership recovery from COVID-19
 - **Debt service obligations** for the cost of borrowing for capital programs and projects inflated by planned savings/lower spending in FY22

Breakdown of Total New Spending in FY23



Headcount for Safety, Service, & New Initiatives

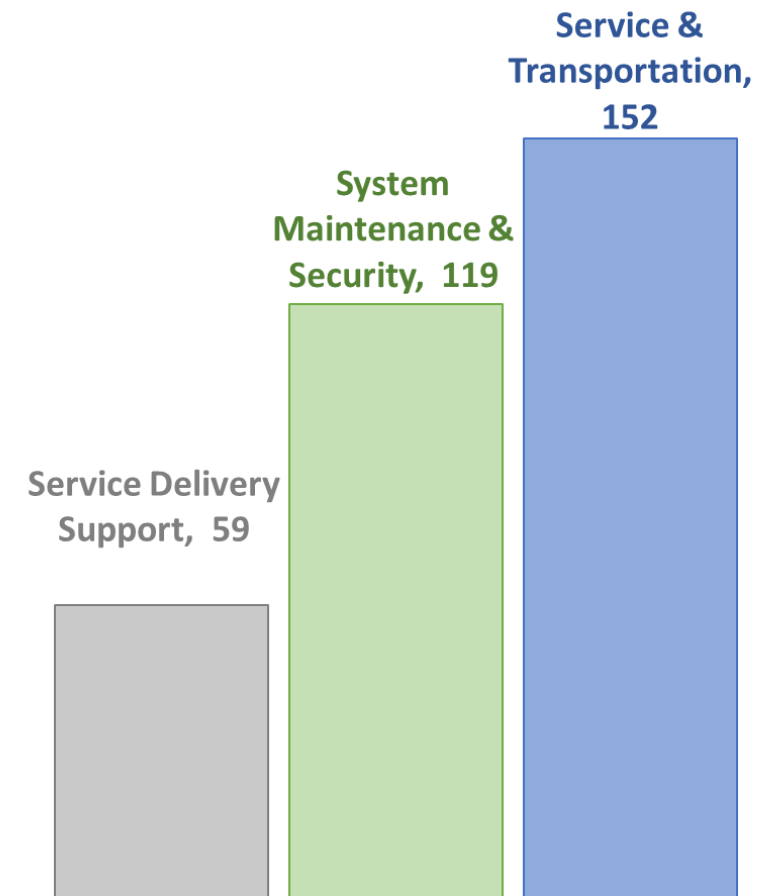
- FY23 budget includes 6,679 operating budget positions
 - 330 (5%) above the FY22 budget baseline
- 724 positions (12%) above the FY20 budget level (prior to Safety Review Report panel)
- 87% of new budgeted positions (629 total) since FY20 directly tied to service, system maintenance, and security



FY23 Headcount Detail

- New budgeted positions in FY23 further build on last year's progress to improve and enhance service, system maintenance, and safety
- 6,679 operating budget positions, 330 (5%) above FY22 budget
- **152 positions directly for service & transportation**
 - 76 bus transportation positions for Bus Network Redesign
 - 41 heavy and light rail positions to support rail yard safety and Green Line Extension revenue service
 - 35 positions for Engineering, Chief Operating Officer, and other departments to manage and improve quality on all modes
- **119 positions for system maintenance & security**
 - 64 positions for system, power, and facilities maintenance
 - 41 positions for vehicle maintenance for the bus and rail system
 - 14 positions among Safety, Security, and other departments
- **59 positions for service delivery support** among 14 departments mainly through two initiatives, 17 positions for human resources and 17 positions for Fare Transformation and farebox maintenance accounting for approximately 60

FY23 Headcount Increases Above Baseline



FY23 New Safety Positions Budgeted

- **148 new budgeted positions specifically designated for safety**
- 28 positions for transit facilities maintenance for mechanical and station inspections to avoid potential interruptions
- 26 positions for heavy rail to support rail yard safety, along with the additional training and testing of new Red and Orange Line vehicles
- 18 positions for rail maintenance for proactive inspections, implement additional QA/QC functions, improved cleanliness, tool calibration, and defective part replacements
- 15 positions for light rail yard safety and to prepare and support vehicles for revenue service for the Green Line Extension
- 11 positions for power systems maintenance to increase supervisory capacity, including vertical transportation contracts like escalators and elevators
- 10 positions for signals and communication maintenance including engineers to address the movement towards more advanced, specialized, technical nature of equipment
- 7 positions for engineering to manage and improve quality on all modes, including signal and tracks
- 5 positions for bus transportation for additional inspectors and supervisors
- Remaining 22 positions support efforts in and across multiple departments including Chief Operating Officer, Security Department, Safety Department, OCC & Training, and Maintenance of Way

**Operations
Safety**

148 positions

**\$15M in
annual wages**

FY23 New Safety Services Initiatives

- \$5.5M in new spending (slide 13) for the Quality Management System Program to establish quality control and quality assurance processes across an array of modes and assets to improve the safety and performance of service delivery

Elevator & Escalator Quality Assurance Program

- Site visits for observation, document review of existing assets, data analysis to identify issues, priorities, and opportunities

Systemwide Stair Inspections

- Establish asset management database requirements, review inspection procedure development and planning, assessment inspections, identify best practices, and prioritize repairs/replacement

Commuter Rail Safety Assessment

- Station walk-through and inspections, safety hazard review, and establishing asset management database requirements

Transit Infrastructure Inspections

- Complete visual inspections of revenue and non-revenue system, including up to 25 miles of commuter rail track, and capture issues across the system and prioritize findings

Rail and Bus Inspections

- Preventative maintenance audits on buses, light and heavy rail car data collection to capture, report, and analyze issues and trends

FY23 Preliminary Budget Balance Overview

- FY23 budget gap of \$288M offset through one-time revenues and transfers
 - \$32M in estimated one-time FEMA reimbursement revenue
 - \$60M dedicated transfer to the capital budget for capital, consistent with capital budget needs and planning
 - \$316M Deficiency Fund Reserve draw/transfer, consistent with latest Pro Forma constraints
- FY24 budget gap of \$236M, inclusive of available one-time revenues per latest annual Pro Forma, to be updated in Fall 2022

Description (\$M)	Amount (\$M)
Recurring Revenues	2,266
Total Expenses	2,554
FY23 Budget Gap	(288)
One-time federal revenue	32
Capital Transfer Per CIP	(60)
Deficiency Fund Reserve Draw/Transfer	316
Net Revenue (after transfers)	0



FY23 Preliminary Budget Vote

- That the General Manager is hereby authorized and directed to submit the Preliminary FY23 Itemized Budget, in the name and on behalf of the Authority, to the MBTA Advisory Board; and
- That following the Advisory Board review, a Final FY23 Itemized Budget will be submitted to the MBTA Board of Directors no later than June 15, 2022 in accordance with section 20 of chapter 161a of the Massachusetts General Laws as amended by chapter 56 of the acts of 2020



Appendix

FY22 Additional Safety Positions Budgeted

- **125 new budgeted positions for safety**
- 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
- These additional positions improve transportation and system safety and reliability with the added benefit of reducing overtime

Operations Safety

125 positions

\$11M in
annual wages

FY21 Additional Safety Positions Budgeted

- **151 new budgeted positions for safety**
- New positions targeting three priorities:
 - Preventative maintenance inspections
 - Includes fire suppression systems, stand pipes, bridges, switch machines, catenary wires, and tracks
 - Overnight supervision
 - Respond to emergencies, manage overnight activities, and prepare for morning service
 - Training programs
 - Increase ride reports, employee training, performance reviews, audits, and course materials
- Full breakdown of positions by department/area:
 - 80 for system maintenance
 - 20 for transportation departments
 - 20 for safety department
 - 18 for vehicle maintenance
 - 13 among all other departments

**Operations
Safety**

151 positions

**\$12M in
annual wages**

Bus Network Redesign Overview & Goals

Bus Network Redesign

Planned 25% increase of service phased in over the course of five years

- **A complete re-imagining of the MBTA's bus network to better reflect the travel needs of the region and create a better experience for current and future bus riders**
- Once-in-a-generation attempt to make bold improvements to the MBTA's bus network
- Bring back more, better, and more equitable service than pre-pandemic
- Better service for those who need it most, prioritizing equity and the needs of those who depend on frequent, reliable bus service
- FY23 budget is 15% of the 25% increase, dependent on operator hiring
- Creates more all-day service
- More service in busy neighborhoods
- Changing the network in major ways to make it better, and it will involve trade-offs
- Dependent on significant transit priority investments and integration with fleet & facilities plan

Maintaining Hiring & Recruitment Initiatives

- Given the regional and nationally challenging current labor market conditions, \$6.6M investment above the approved FY22 budget for hiring, recruitment, and retention to fill existing vacancies and new budgeted positions

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

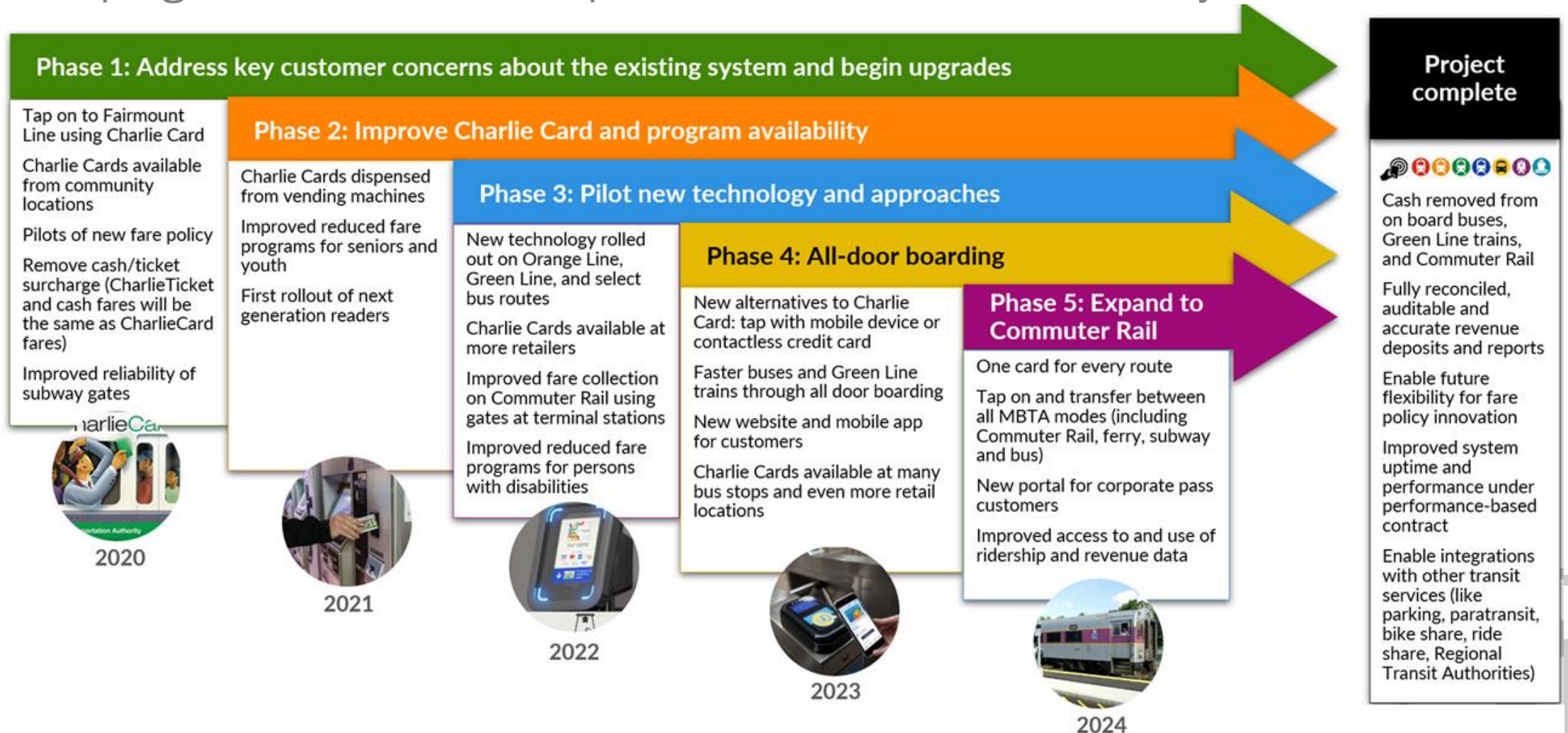
- Doubled the size of HR department recruiting team
- Added Recruitment Process Outsourcing (RPO) to support HR staff
- Developed bonus program for bus operators and accelerated campaign to promote open positions

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

Fare Transformation Roadmap

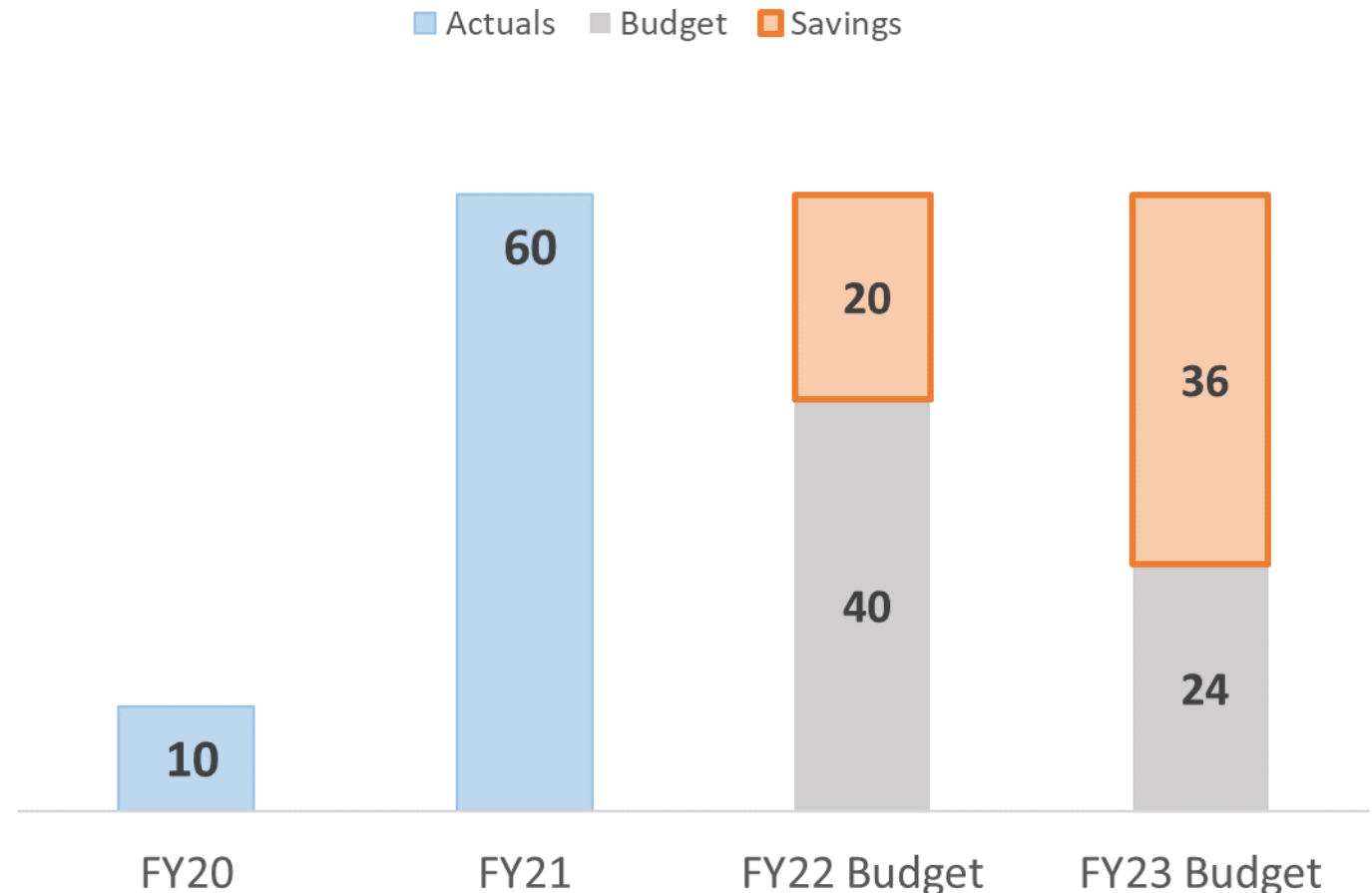
A program of continuous improvements to the MBTA's fare system



COVID-19 Spending Summary

- **\$24M in COVID-19 related budget spending in FY23**
 - Assumes current MBTA cleaning protocols, informed by the latest public health guidance
 - Savings resulting from renegotiated contracts considering increased market competition and maximizing PPE inventory
- **\$36M or 60% savings from peak levels in FY21**
- FY23 actuals will vary to budget with any updates to public health guidance, mindful of operator and rider safety

COVID-19 Budget & Spending Tracking (\$M)



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



Ridership Scenario Planning and Assumptions

- Three scenarios developed by MassDOT planning & OPMTI 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

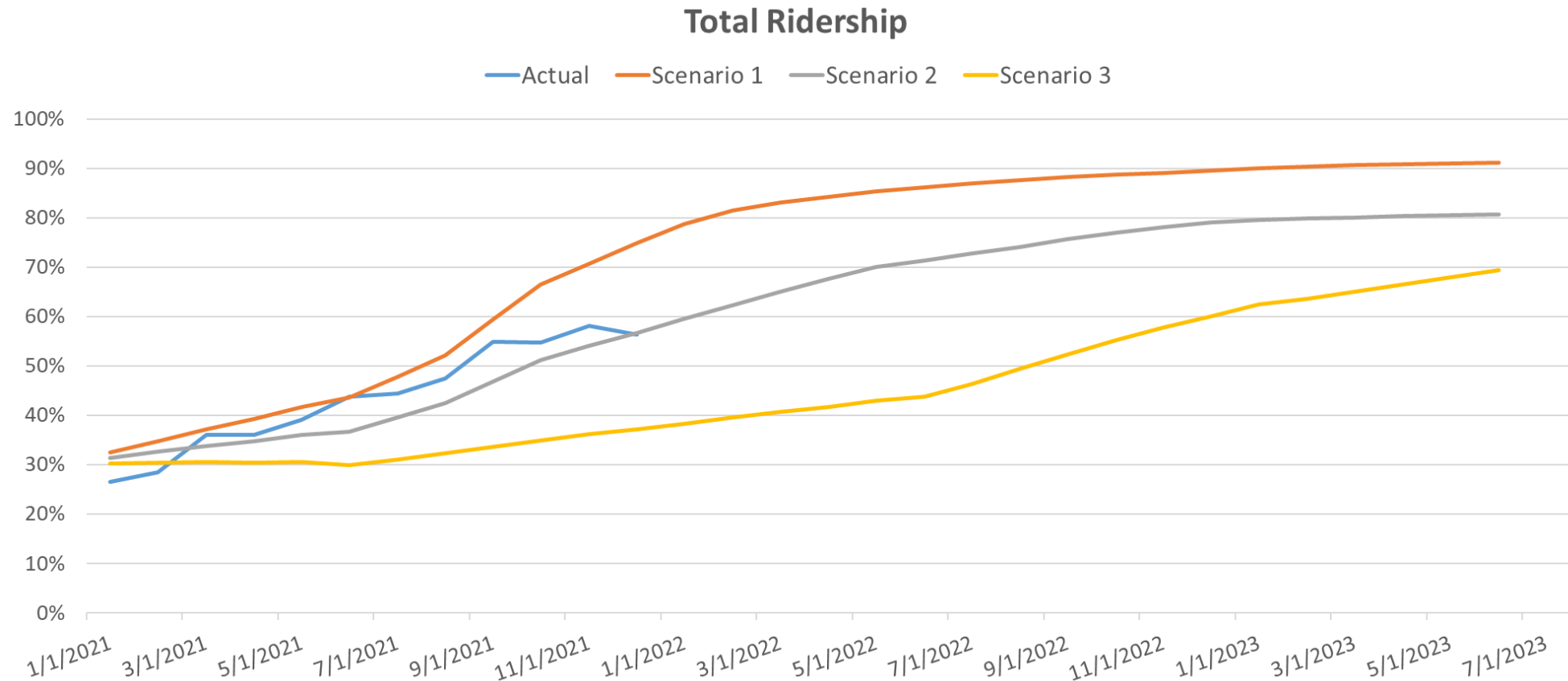
The economic impacts of COVID-19 have depressed travel and mobility, especially on the MBTA, and telecommuting is standard practice

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



Ridership Scenario Actuals and Projections

- Under Scenario 2 assumptions, 78% average ridership assumption for FY23 relative to pre-pandemic baseline
 - Actual ridership of 56% of baseline as of December 2021
- FY23 range of 59%-89% average ridership under Scenario 3 and Scenario 1 respectively

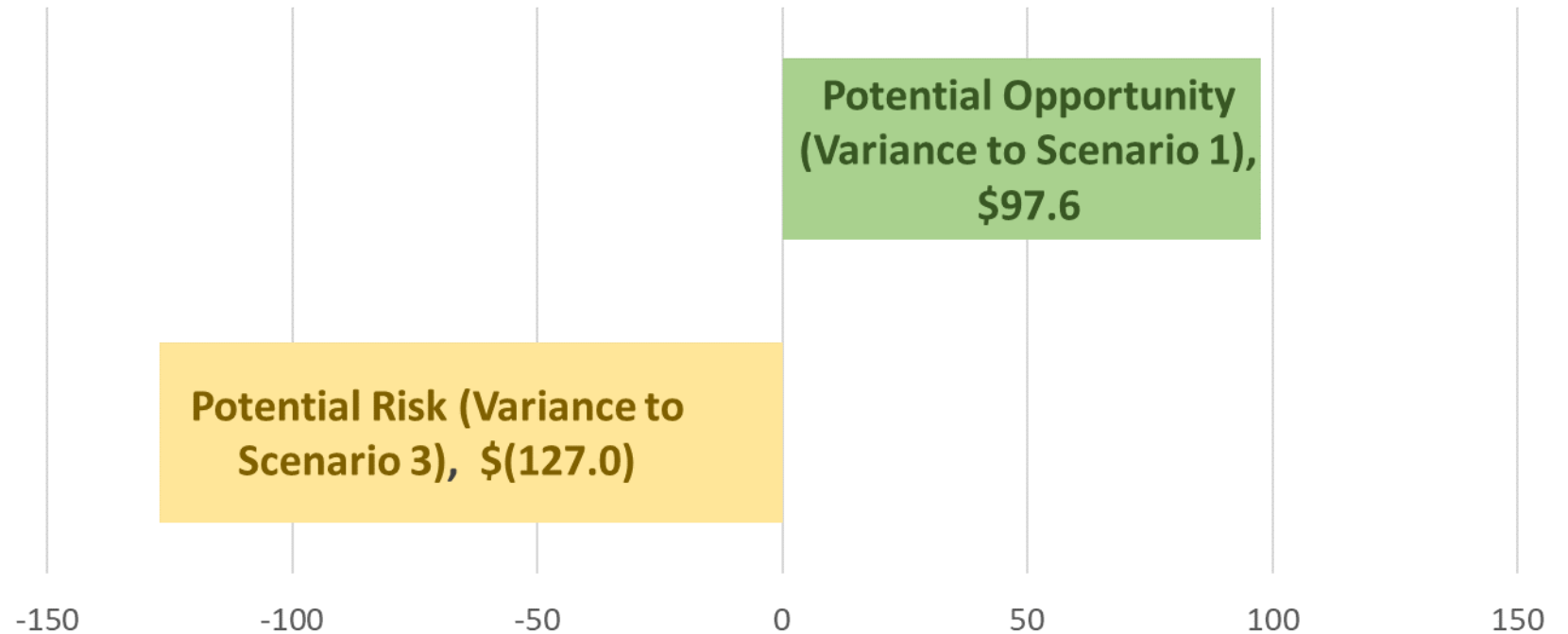


FY23 Fare Revenue Scenario Risks & Opportunities

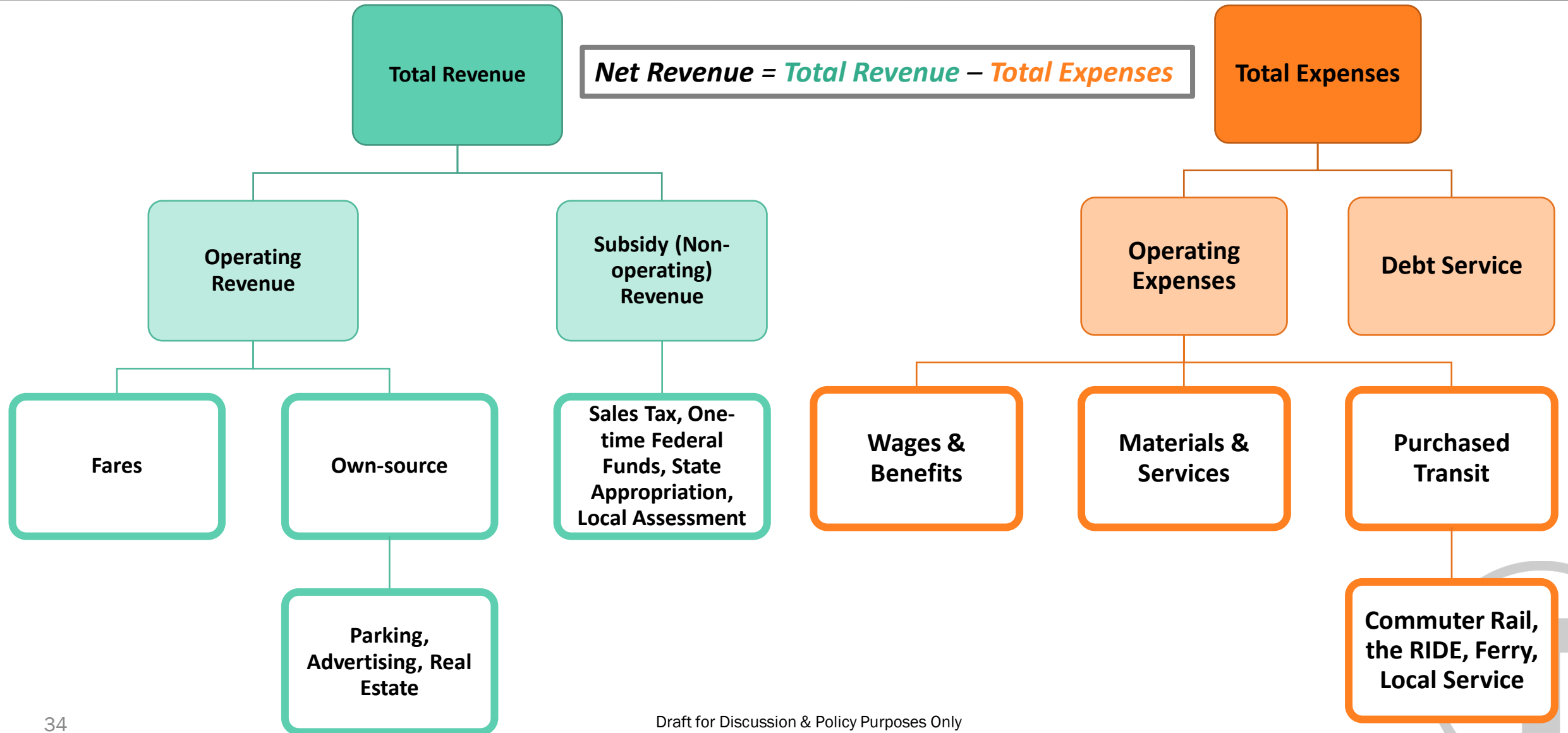
- Return of fare revenue and ridership still developing and uncertainty creates a range of potential risks or opportunities
 - **FY23 fare revenue potential risk of \$127M**, assuming Scenario 3 estimate of \$347M (50% of baseline)
 - **FY23 fare revenue potential upside of \$98M**, assuming Scenario 1 estimate of \$572M (82% of baseline)
- **FY23 fare revenue assumption of \$474M**, 68% of pre-pandemic baseline based on Scenario 2
 - Scenario 2 most closely aligns with actual observed data in recent months

Potential Fare Revenue Risks & Opportunities for FY23 (\$M)

Relative to Scenario 2 budget assumption

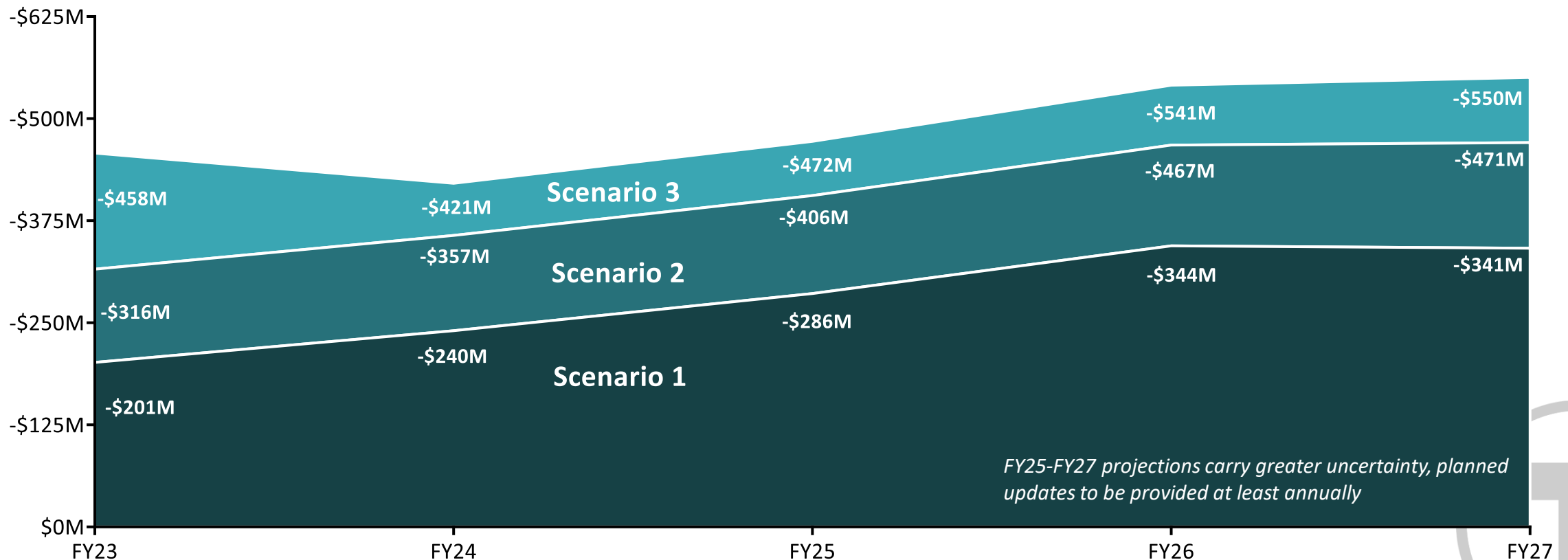


Categorization of Revenue & Expenses



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

