



# Massachusetts Bay Transportation Authority

## Fixed Variable Costs

---

MBTA Audit & Finance Committee

September 15, 2022

Finance Team

# Overview

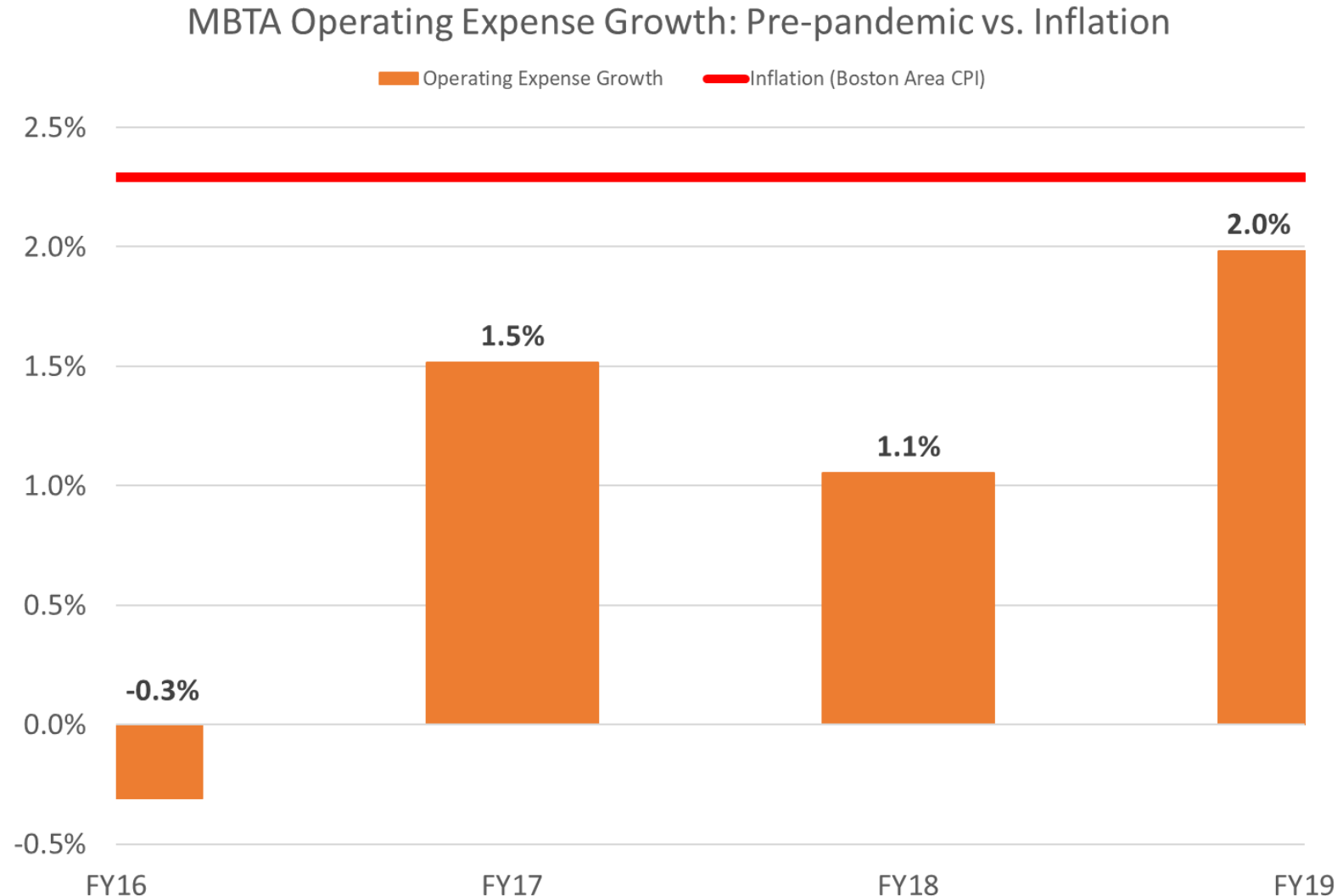
---

- **Given the composition of MBTA operating expenses and approved service level decisions, the MBTA has limited options to reduce spending or raise revenue to balance future budget gaps**
- As initially approved in the FY22 budget, the MBTA has committed to ramping up to full service as quickly and safely as possible since the COVID-19 pandemic
- 78% of the MBTA's total annual expenses are operating expenses to run service
  - The remaining portion is contractually obligated debt service payments
- 87% of the MBTA's operating expenses are directly related to service levels and system or vehicle maintenance
  - The remaining portion is for service delivery support (customer experience, HR, IT, finance, legal, etc.)



# Managing Pre-pandemic Operating Expense Growth

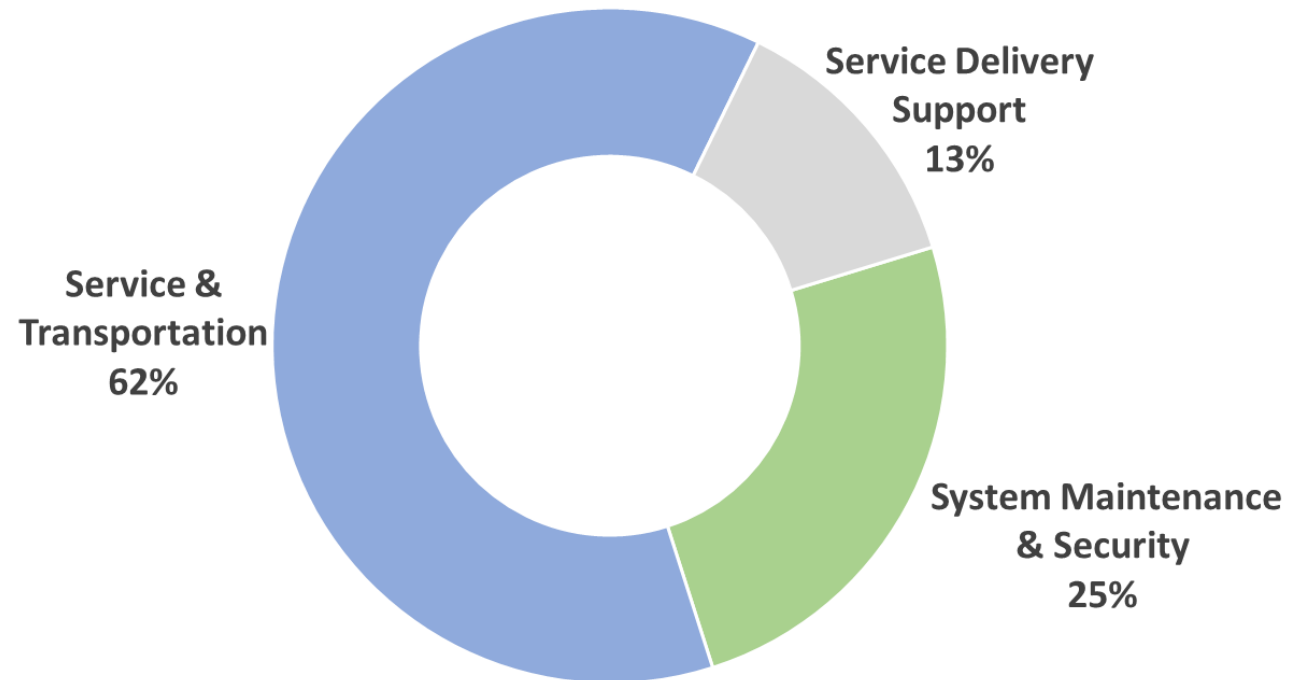
- MBTA annual operating expense growth below inflation rate for multiple years prior to the pandemic
- Operating expense growth did not exceed average annual inflation in any year during this time period
- 1.1% average annual growth in operating spending prior to the pandemic (FY15-FY19) compared to 2.3% inflation rate



# 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) for service delivery support like customer experience, HR, IT, etc.**

FY23 Breakdown of Operating Expenses

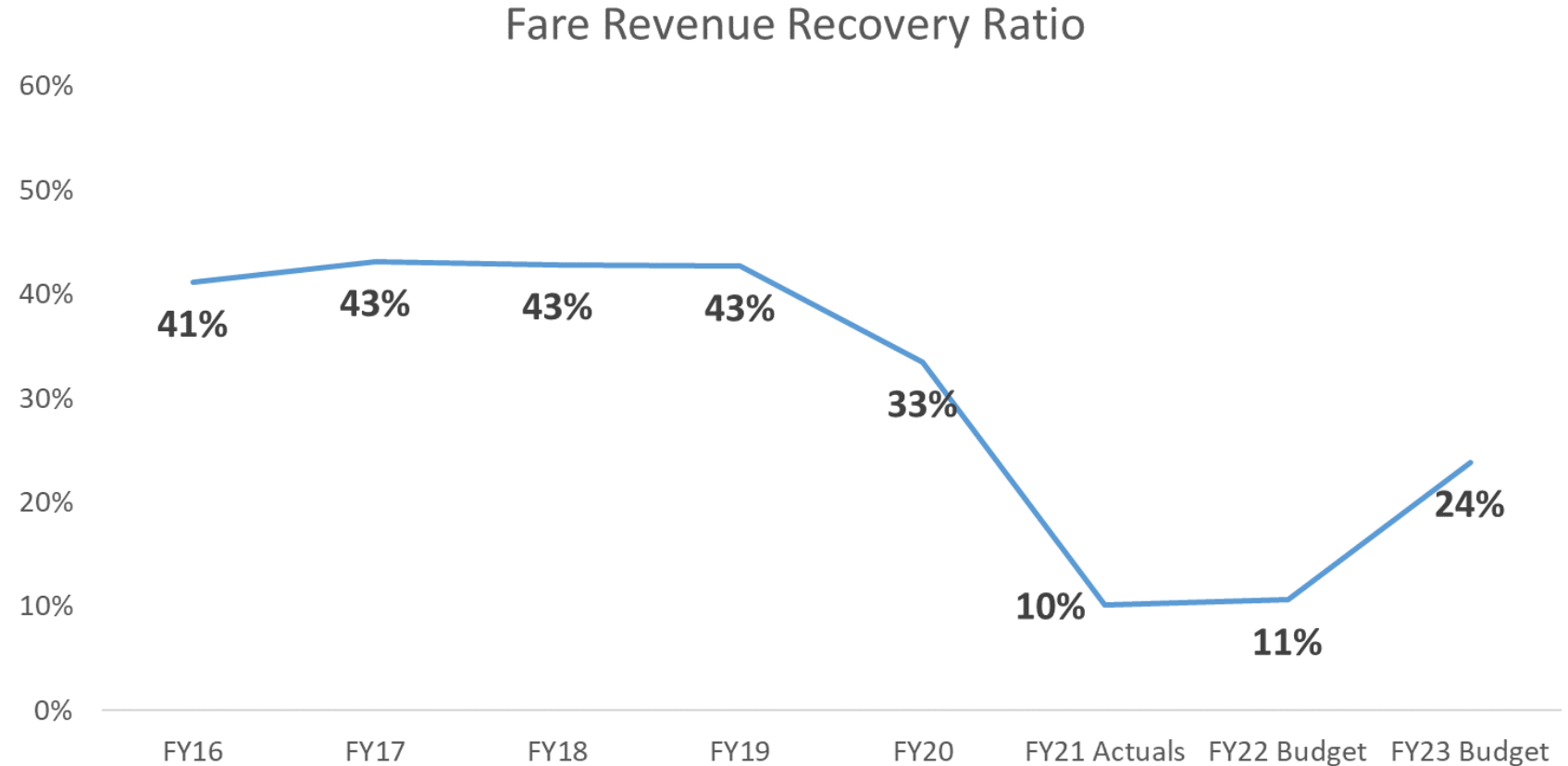


*Operating expenses do not include debt service payments. Total expenses are operating expenses plus debt service payments.*



# Fare Revenue Recovery Ratio

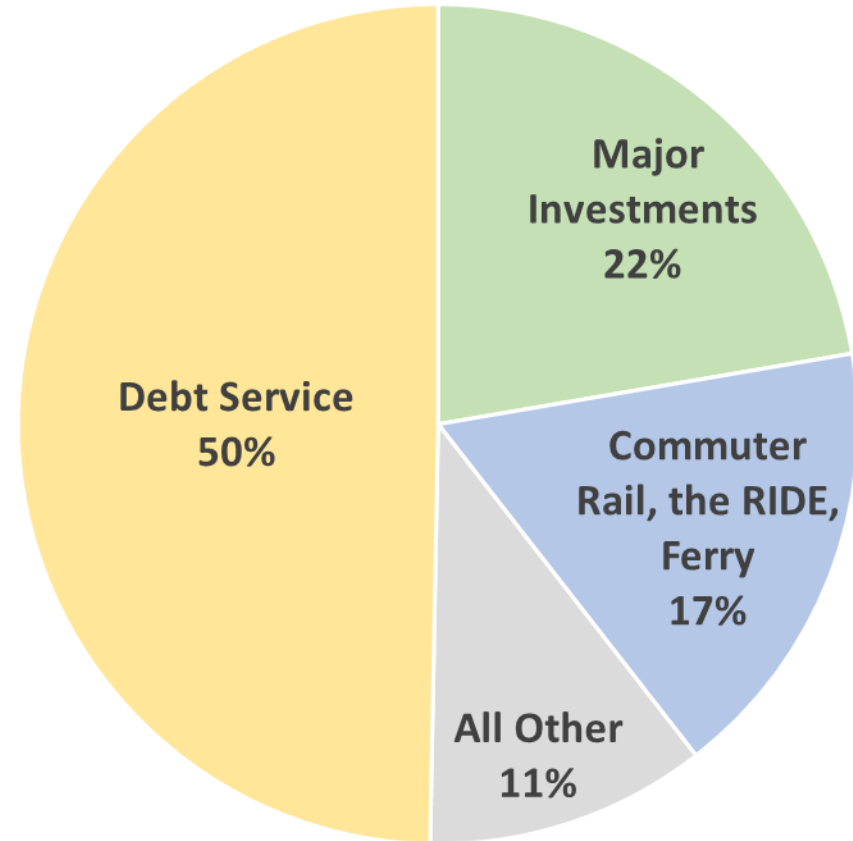
- Fare revenue recovery ratio trends show that fares only cover a fraction of operating expenses
- Fare revenue recovery ratio increases in FY23, but remains well below pre-COVID-19 levels
- Fare revenue assumed to support only 24% of operating expenses
  - One-time federal relief funding supports a notable portion of operating expenses
  - Prior to COVID-19, fare revenue recovery ratio had stabilized at 43% by FY19



# Breakdown of New Budgeted Spending in FY23

- Today, 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 to ramp up to full service as ridership recovers from the pandemic
  - **Debt service obligations** for the cost of borrowing for capital programs and projects inflated by planned savings/lower spending in FY22

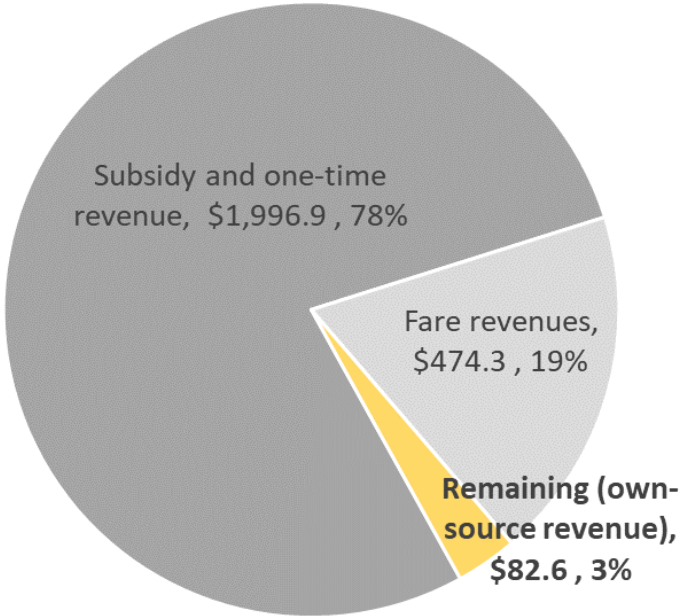
Breakdown of Total New Spending in FY23



# Limited MBTA Options for Long Range Budget Challenge

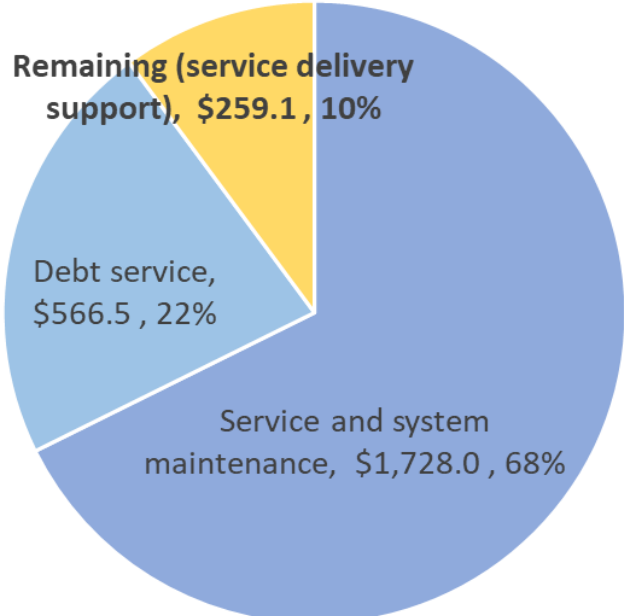
- Increasing revenues and/or reducing spending are the two ways to resolve projected operating budget gaps
- After excluding service changes and fare increases, the MBTA operating budget has limited options to balance the budget
- The resulting size and scale of MBTA-controlled spending and revenue categories cannot balance future projected budget gaps independently
- Remaining options account for only 3% (\$83M) of FY23 budgeted sources and 10% (\$259M) of FY23 budgeted uses

FY23 Budget Total Sources Overview



Figures in millions (\$M)

FY23 Budget Total Uses Overview



Figures in millions (\$M)



# Managing & Avoiding Adverse Impacts

---

- **Associated savings from service level adjustments were significantly reduced from initial proposal during the Forging Ahead initiative in 2020**
  - In 2020, after 11 public meetings with more than 2,000 attendees and 7,000 public comments, service reduction packages were reduced from \$255M (annualized) to an estimated \$21M (Q3 & Q4 without lay-offs) as implemented and subsequently restored as quickly as possible in the subsequent fiscal year
- **Fare increases have not been proposed due to rider impact, and limited revenue gain and since the pandemic, raising fares would only further disincentivize rider recovery**
  - Previous versions of Pro Forma projections estimated only \$15M-\$20M in FY25 from a 4.5% fare increase depending on the fare revenue scenario modeled
  - The last fare increase in July 2020 was 5.8% with less than \$32M in revenue estimated, with pre-pandemic ridership levels
  - State law allows the MBTA to raise fares at regular, modest increments, limiting increases to once every 2 years and a cap of no more than 7% for each increase



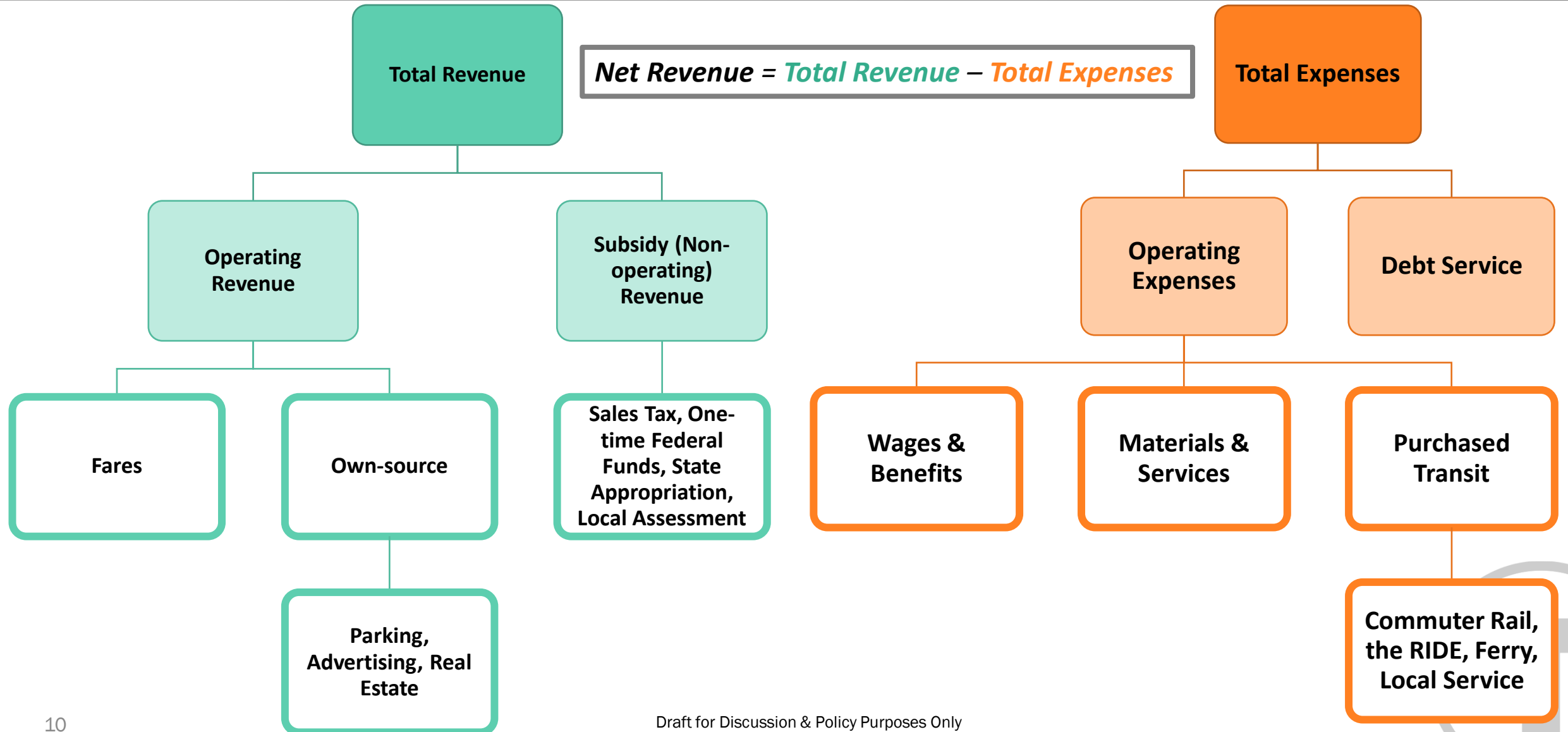


---

# Appendix

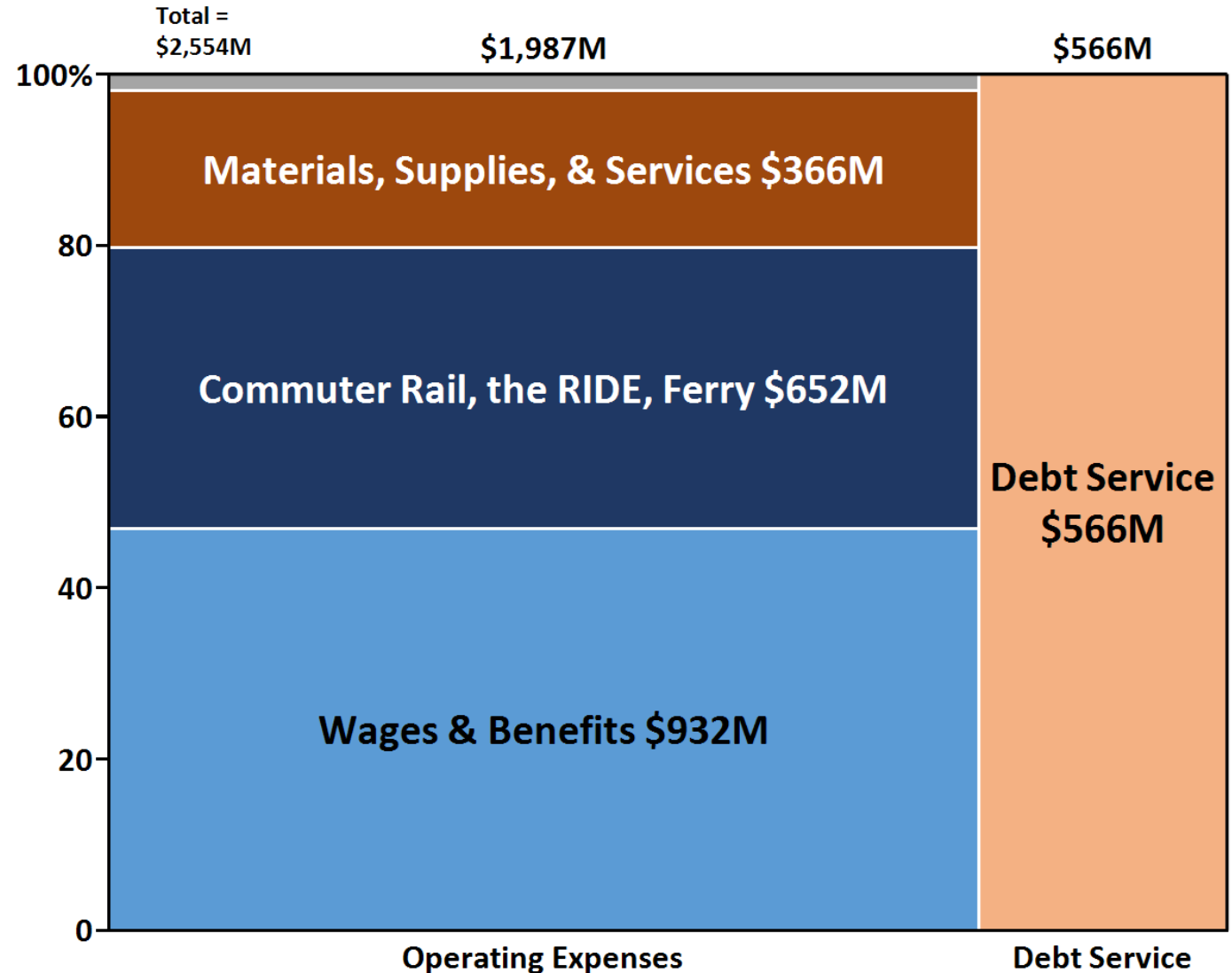


# Categorization of Revenue & Expenses



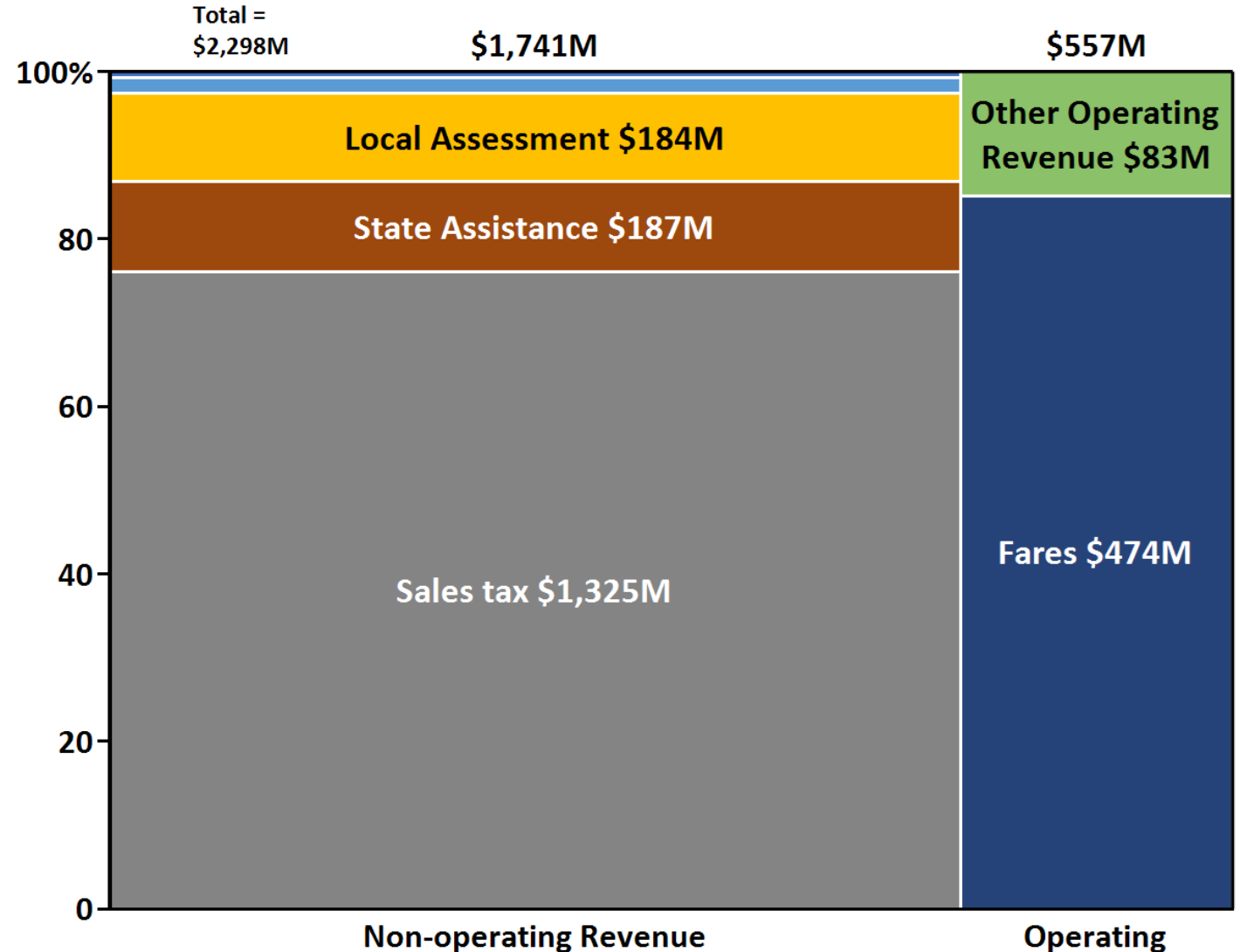
# FY23 Spending Budget Overview

- 78% of FY23 budget spending is operating expenses
  - 36% for wages and benefits to operate and support current service levels systemwide
  - 26% for purchased transit to run commuter rail, RIDE, ferry, and other local service
  - 14% for materials, supplies, and services, including fuel, cleaning, and utilities
  - 2% for all other remaining expenses
- Remaining 22% for debt service and the cost of borrowing for capital improvements and maintenance
- FY23 budget provides fiscal capacity for increased service levels subject to labor market challenges



# FY23 Revenue Budget Overview

- 76% of FY23 budget revenue is subsidy (non-operating) revenue
  - Sales tax revenue is nearly 60% of total
  - State assistance is 8% of total revenue
  - Local assessment is 8% of total revenue
- Fare revenue accounts for 21% of total revenue
- Other operating (own-source) revenue accounts for remaining 3%



# 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 state operating and capital funds
- **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

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%
<b>Subtotal Operating</b>	<b>245.7</b>	<b>556.9</b>	<b>311.2</b>	<b>127%</b>
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%
<b>Subtotal Non-operating</b>	<b>2,525.8</b>	<b>1,740.9</b>	<b>(784.9)</b>	<b>-31%</b>
<b>Total Revenue</b>	<b>2,771.5</b>	<b>2,297.8</b>	<b>(473.7)</b>	<b>-17%</b>
Net Transfers	(416.2)	256.0	672.2	-162%
<b>Total Sources</b>	<b>2,355.2</b>	<b>2,553.8</b>	<b>198.6</b>	<b>8%</b>



# 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

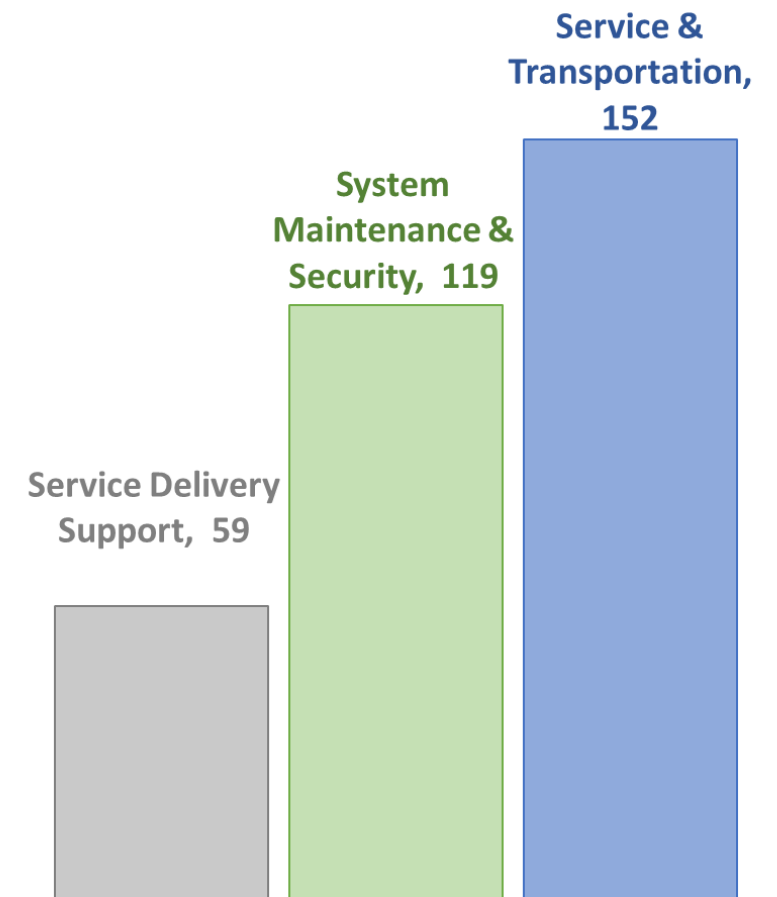
Item (Figures in millions)	FY22 Budget	FY23 Budget	\$ Change	% Change
Wages & Benefits	899.2	931.9	32.7	4%
Materials, Supplies, & Services	337.5	365.6	28.1	8%
Other Operating Expenses	32.8	37.9	5.1	15%
Commuter Rail	481.3	503.5	22.2	5%
The RIDE	114.9	126.2	11.3	10%
Ferry	18.1	18.7	0.6	3%
Other Local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



# FY23 Headcount Detail

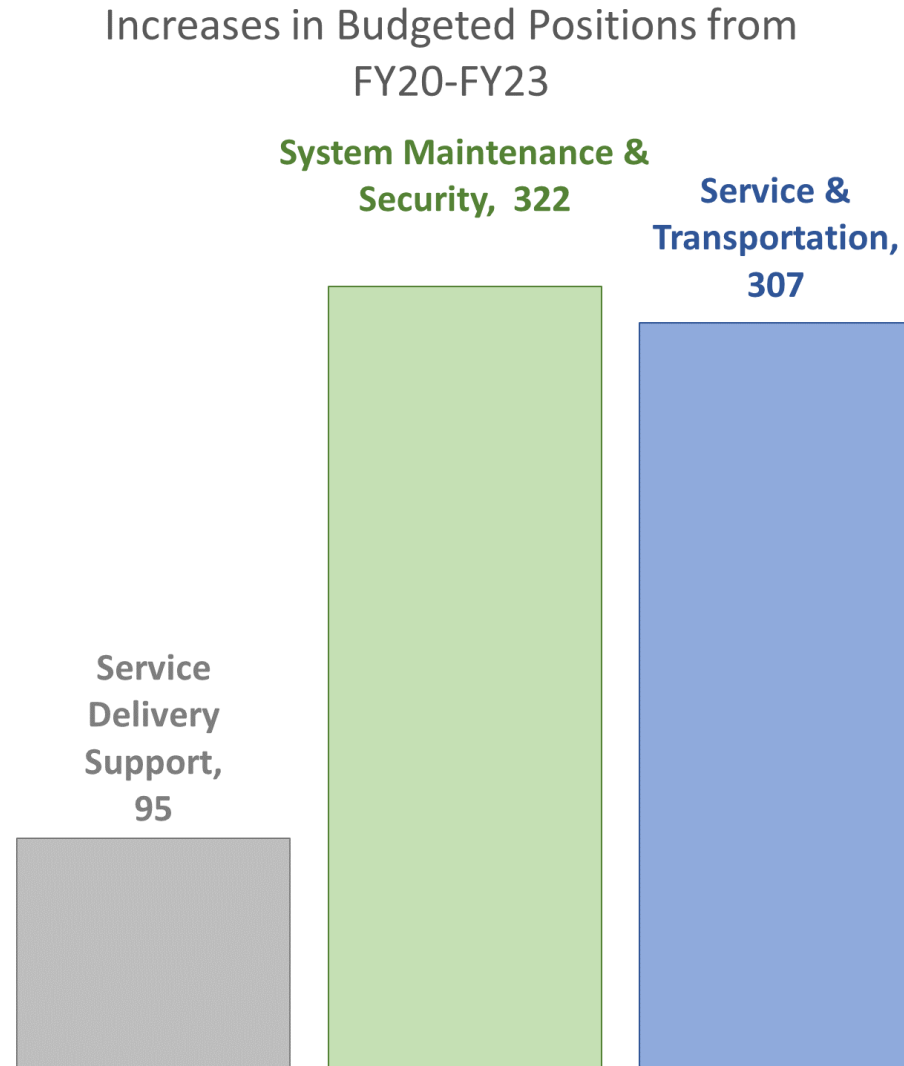
- New budgeted positions in FY23 further build on last year's progress to resource and enhance safety, system maintenance, and service
- 6,679 operating budget positions, 330 (5%) above FY22 budget
- **152 positions directly for service & transportation**
  - 76 bus transportation positions for Bus Network 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, 18 positions for human resources and 17 positions for Fare Transformation and farebox maintenance accounting for approximately 60%

## FY23 Headcount Increases Above Baseline



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

- \$236M projected budget gap in FY24 under Scenario 2 assumptions as of December 2021 Pro Forma
- Projected budget gap grows to \$406M in FY24 under the same scenario, approaching \$500M within the next five years
- Updated Pro Forma projections in progress and to be presented in Fall 2022
- Projections do not include any costs associated with FTA directives issued in June 2022

