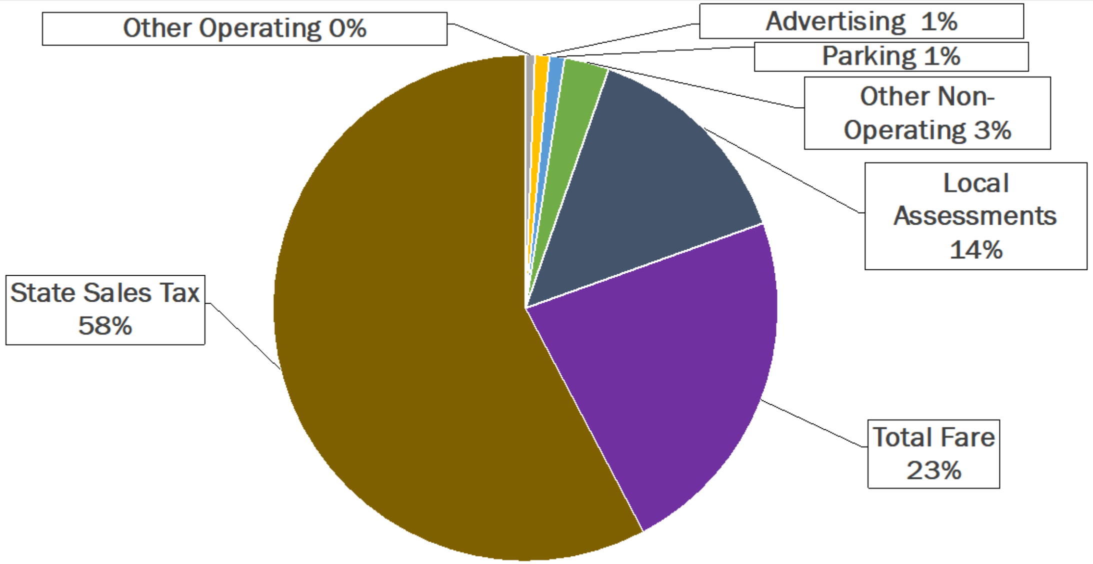
Massachusetts Bay Transportation Authority

MBTA: A History of Funding

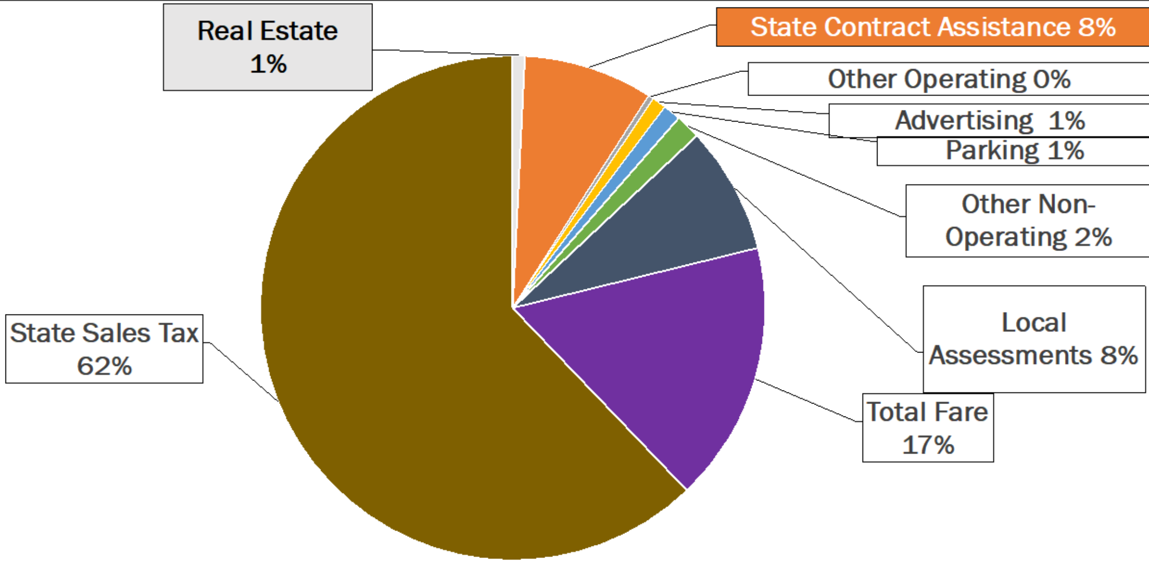
January 2024

MBTA Total Revenue by Source

2000



2023



2000: The Implementation of Forward Funding/Sales Tax & Debt

- Forward Funding was an attempt by the legislature to impose fiscal discipline on the Authority, which was perceived to be operating in an environment in which they could incur expenses and pass them along to the Commonwealth without legislative control.

- Forward Funding aimed **to identify a dedicated source of revenue and to impose fiscal discipline** on the MBTA. (Sales Tax)

- Prior to Forward Funding, MBTA's debt was supported by the full faith and credit of the Commonwealth's General Obligation pledge. This debt is commonly referred to as 'Legacy Debt.'

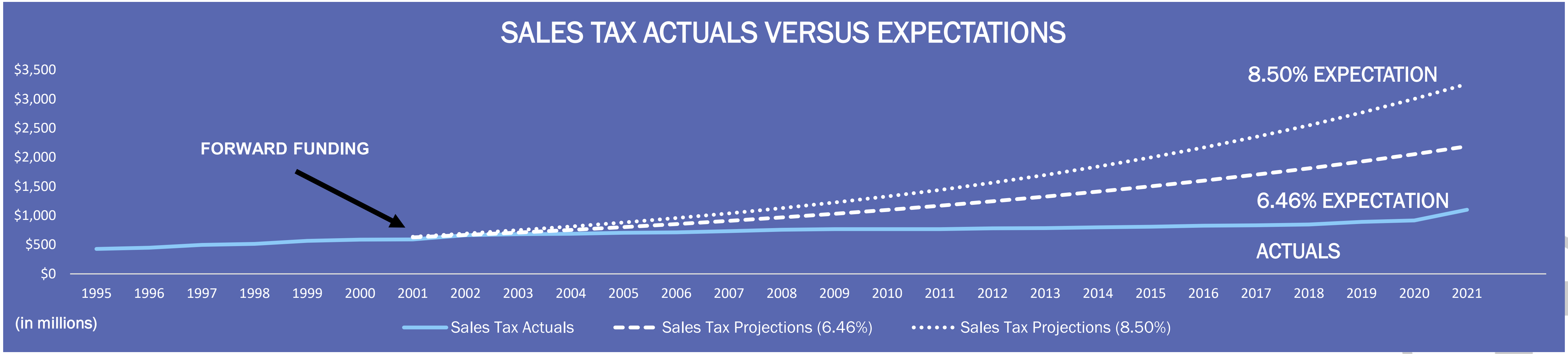
- With Forward Funding, the MBTA was given dedicated tax sources, however, the MBTA also took on **$3.3 billion** of Legacy Debt associated with prior obligations of the MBTA and took on **$0.5 billion** for a series of transit commitments in connection with the Central Artery Project, eventually Post 2000 increasing to **$1.5B**

Forward Funding Sales Tax Performance

In 2000, the Commonwealth established "Forward Funding" to fix what was perceived as ungoverned spending by the MBTA.

- With Forward Funding, the MBTA receives one percent of the statewide sales tax (6.25%) and local assessments that were conditioned upon payment of the debt service on these obligations.

Sales tax revenue grossly underperformed expectations in the first 20 years, growing at an average annual growth rate of 2.29% instead of the anticipated 6.46% - 8.50%, which resulted in **$8.9-$15.5 billion of lost revenue in nominal dollars** as compared to expectation.



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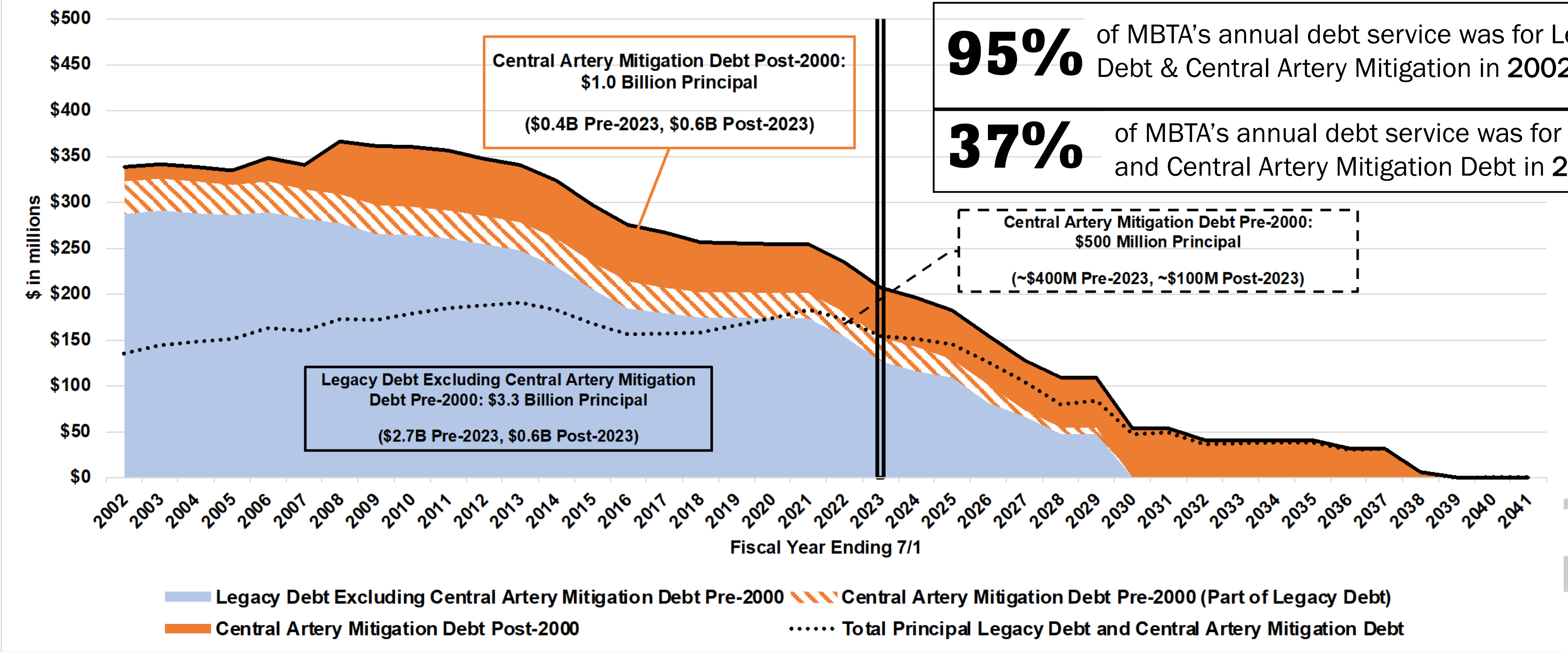
MBTA: Legacy & CA/T Debt Burden

COMBINED LEGACY & CA/T (transit related) ANNUAL DEBT SERVICE

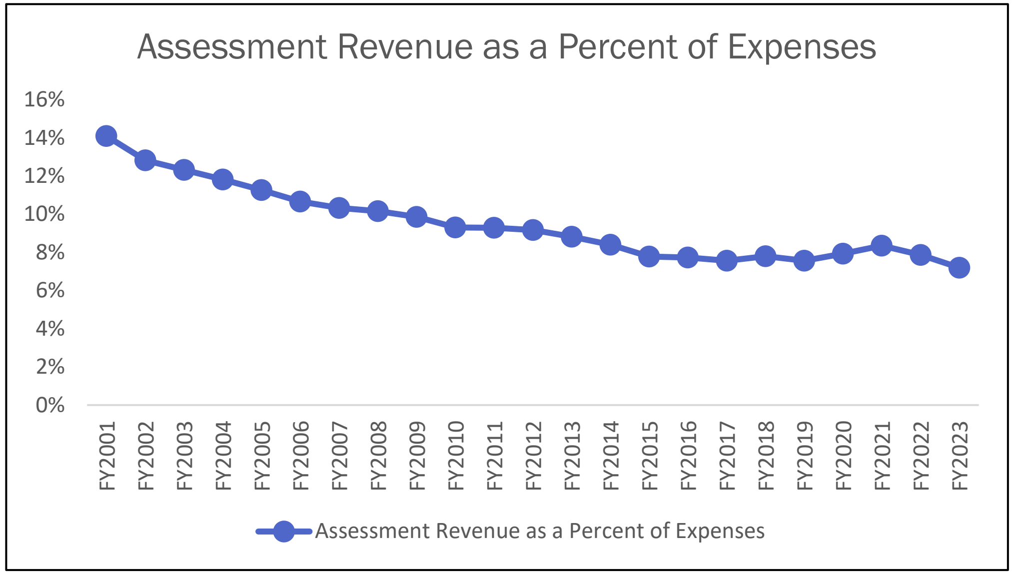
95% of MBTA's annual debt service was for Legacy Debt & Central Artery Mitigation in 2002.

37% of MBTA's annual debt service was for Legacy and Central Artery Mitigation Debt in 2023.



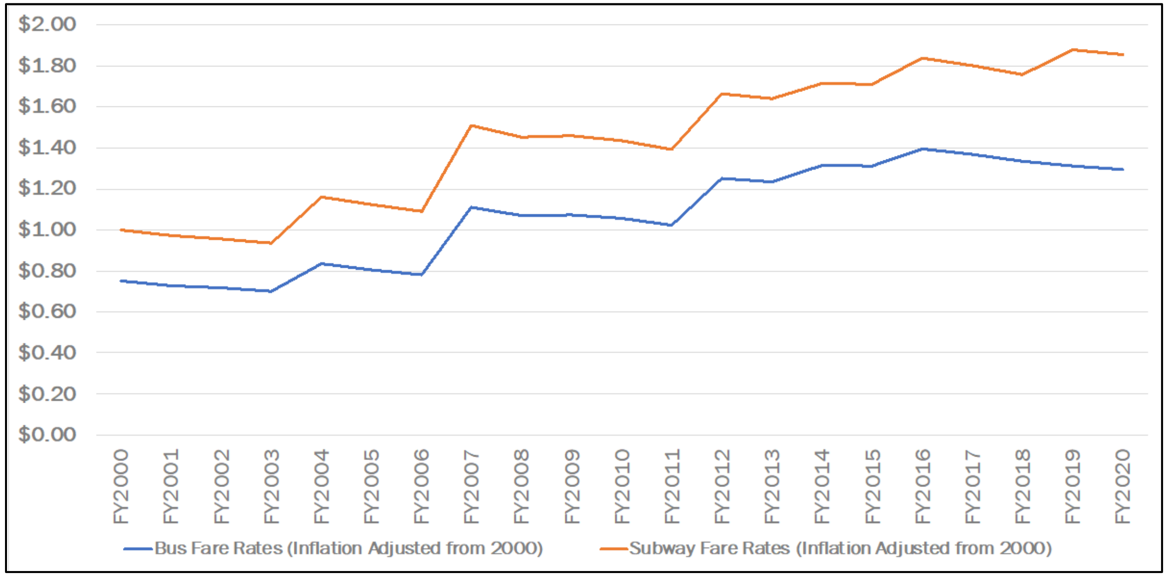
Other MBTA Revenue - Actuals

ASSESSMENT



Assessment revenue matched revenue projections in The Forward Funding Finance Plan (May 2000) (Finance Plan). **The ramp down in the first five fiscal years was in the Forward Funding Act**, with subsequent growth limited to 2 1/2 % by statute, well below inflation in some years.

FARE RATE INCREASES

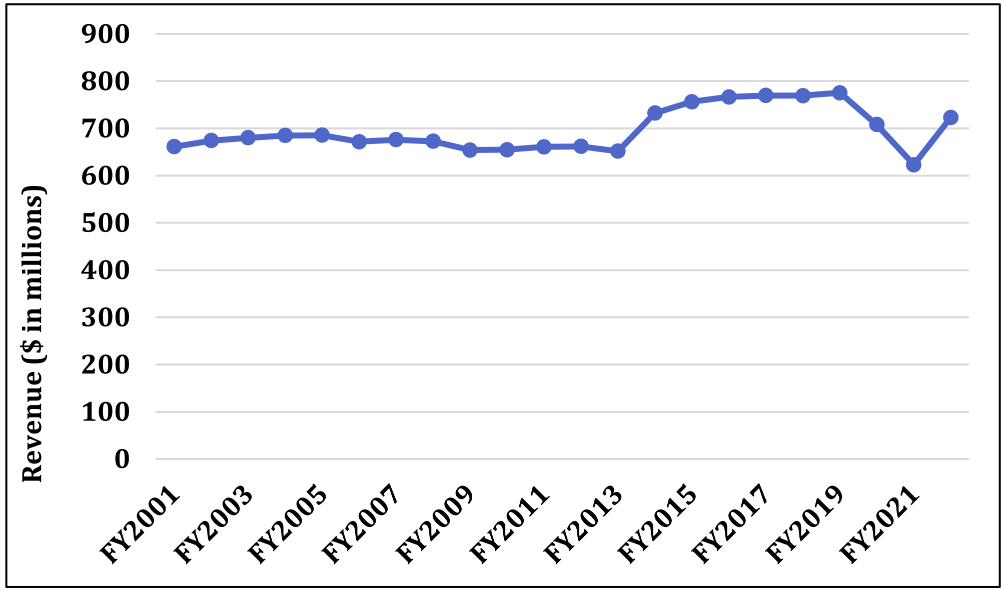


Since 2000, Fare rates have only increased by $0.54 (Bus) and $0.85 (Subway) on an inflation adjusted basis.[1]

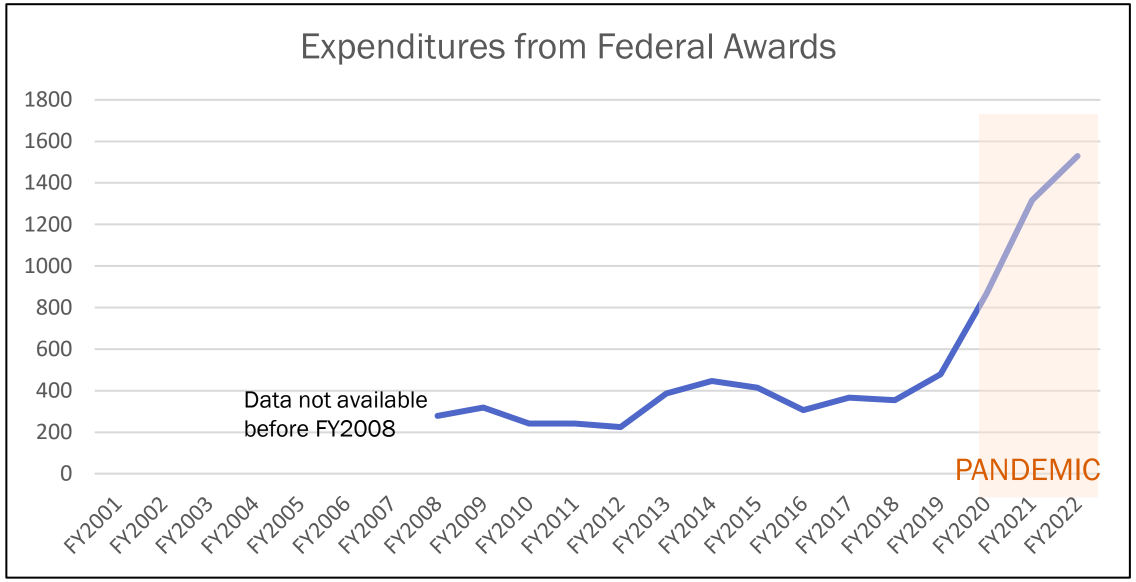
[1]*Based on Total CPI Index.*

Other MBTA Revenue - Actuals

Massachusetts Motor Fuel Sales Tax Revenue (funds Commonwealth Transportation Fund)



FEDERAL



Federal funding has provided support for the MBTA capital program. It has remained relatively flat during this period, with TEA-21 and SAFETEA-LU relying primarily on formula funding, with a shift in the MAP-21 and FAST Act reauthorizations to adding more innovative finance and competitive grant programs. Other federal awards were from special stimulus programs and special acts.

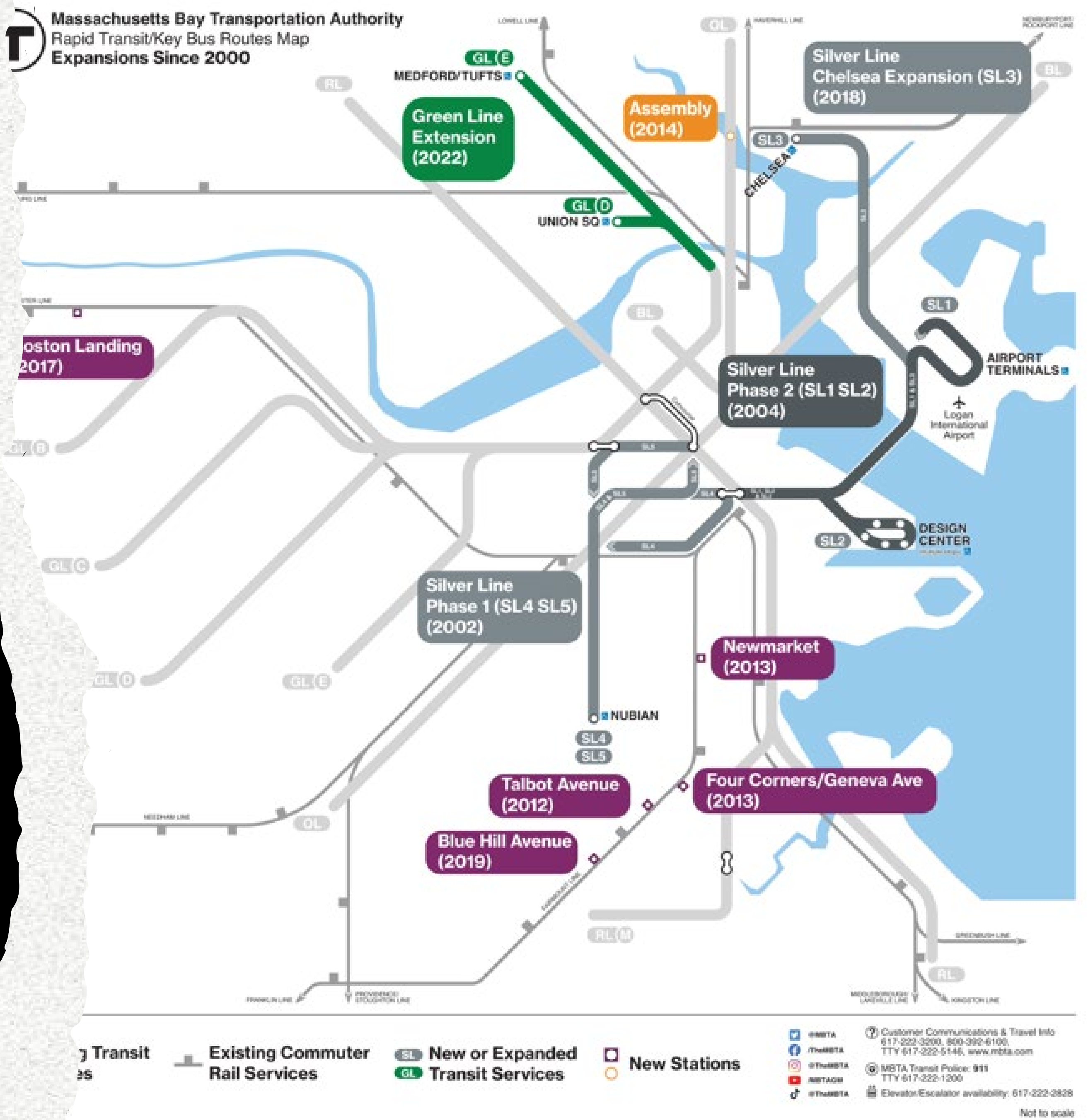
System Expansion Increases Operating Expenses

- When you expand a subsidized system, it requires ***more subsidy*** to operate the system.
- Pre-Pandemic fare recovery ratio was 41%, so 59% of operating expenses were absorbed by MBTA's operating budget.
- Post-Pandemic fare recovery ratio has dropped to roughly 19%, leaving about 81% of operating expenses absorbed by the operating budget.

Major Capital Commitments related to Central Artery Mitigation Plan:

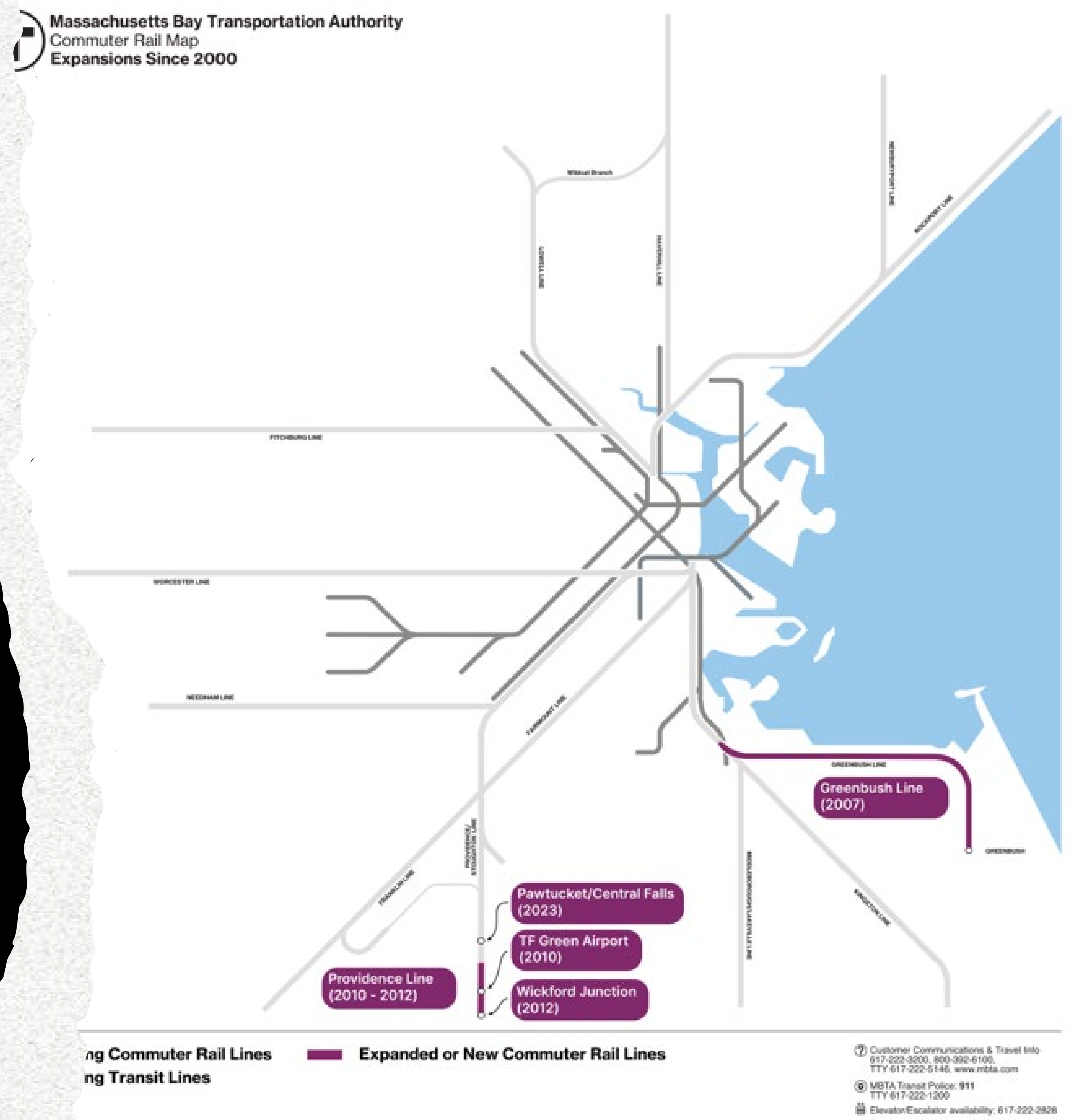
Central Artery Project	Estimated Spend as Part of MBTA Central Artery Debt ($ in millions)[1]
Greenbush	$518.0
Red Line Rolling Stock	$156.5
Old Colony Extension to Middleboro and Plymouth	$120.4
South Boston Piers Electric Bus Service (Silver Line)	$120.0
Blue Line Lengthening and Modernization	$118.2
Commuter Rail Extension to Worcester	$99.9
Commuter Rail Extension to Newburyport	$91.2
Green Line Extension (GLX)	$38.0

Rapid Transit System Expansion since 2000



Commuter Rail System Expansion since 2000

[1]Since 2015, MassDOT has assisted with funding certain expansion projects. Represents initial cost estimates.



Conclusion

- A compounding series of events have led to our current predicament:
  - Sales Tax revenue did not materialize as initially projected.
    - The Forward Funding reform counted on expectation of sales tax growth between **6.5 and 8.5 percent.** Actual revenues significantly underperformed these projections.
    - The total of underperformance cost the system was **$8.9 billion-$15.5 billion to-date.**
    - Without such debt, the MBTA could have issued bonds to generate $4.63 billion in bond proceeds for capital projects in the early 2000's, significantly advancing investment in the State of Good Repair.
  - Since inception to the final amortization of Legacy & Central Artery Debt, the MBTA will pay $8.03 billion in debt service (principal and interest).
  - The concurrence of these two factors (legacy debt and underperformance) has led to constrained operating budgets and capital efforts to maintain a state of good repair, resulting in the projected operating deficits for the next five years and beyond.