Massachusetts Bay Transportation Authority

January 2024 Operating Budget 5-Year Pro Forma Update

January 19, 2024

Finance & Audit Committee

Mary Ann O'Hara, CFO

Agenda

- Overview and goals of Pro Forma
- Operating budget development calendar timeline
- Key highlights and summary
- Revenue and spending assumptions
- Five-year budget projections
- Recommendations and implications for FY25 budget development

Annual Pro Forma Summary – Method

- **Updating the most recent five-year Pro Forma projection from November 2022 to identify future year financial constraints and begin FY25 budget recommendations**
  - Updates from last year include prior year actuals, current year budget, complete analysis of growth rate assumptions, review of fund balances, and meetings with stakeholders on ongoing projects and initiatives
  - Five-year Pro Forma projection updated 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 the most recent information available today along with current and historical trends as well as the addition of new projects and initiatives (Bus Network Redesign, South Coast Rail, Fare Transformation, etc.)
  - Updated ridership and fare revenue projections are based on a range of possible outcomes
- **The FY25 budget will differ from the Pro Forma projection to incorporate new information and updates over the course of the budget development process (December 2023-June 2024)**

Upcoming Presentations & Calendar

- FY25 budget development process begins with the Pro Forma presentation
- Statutory deadlines: 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
- January

Information gathering and department conversations
- December - February

Preview FY25 budget for Board feedback
- March

Present preliminary budget information to MBTA Board & Advisory Board

**statutory deadline*
- April & May

Present final budget proposal for approval

**statutory deadline*
- June

Annual Pro Forma Findings – January 2024

- **FY25 safety & service investments will be funded by utilizing the deficiency fund, but projected budget gaps still exist**

    - Pandemic era one-time revenues have been stretched to offset nearly $300M annual fare revenue losses as well as fund safety and service expansions from FY20 through today, and are projected to be fully utilized by the end of FY25

    - $378M one-time revenues received from the state are not enough to support the full cost of FTA recommended safety needs

    - Despite reduced revenues, the MBTA has made significant investments in safety & service initiatives such as FTA recommended safety needs, Means Tested Fares, All Door Boarding, Sumner Tunnel mitigations, South Coast Rail, Green Line Extension, AFC 2.0, Bus Network Redesign and most recently the Track Improvement Program

    - Fully staffing up to meet MBTA needs, as well as FTA recommended safety standards and pre-pandemic service levels will increase existing structural budget gaps, and balancing the FY25 budget will require significant budget favorability in FY25 and a full drawdown of the deficiency fund in FY25

    - The state has enacted the Fare Share tax to support, in part, transportation initiatives. The MBTA it has received $20M for workforce retention and $189M for capital projects in the first year of this program. MBTA is working with the state to determine the long-term funding structure.

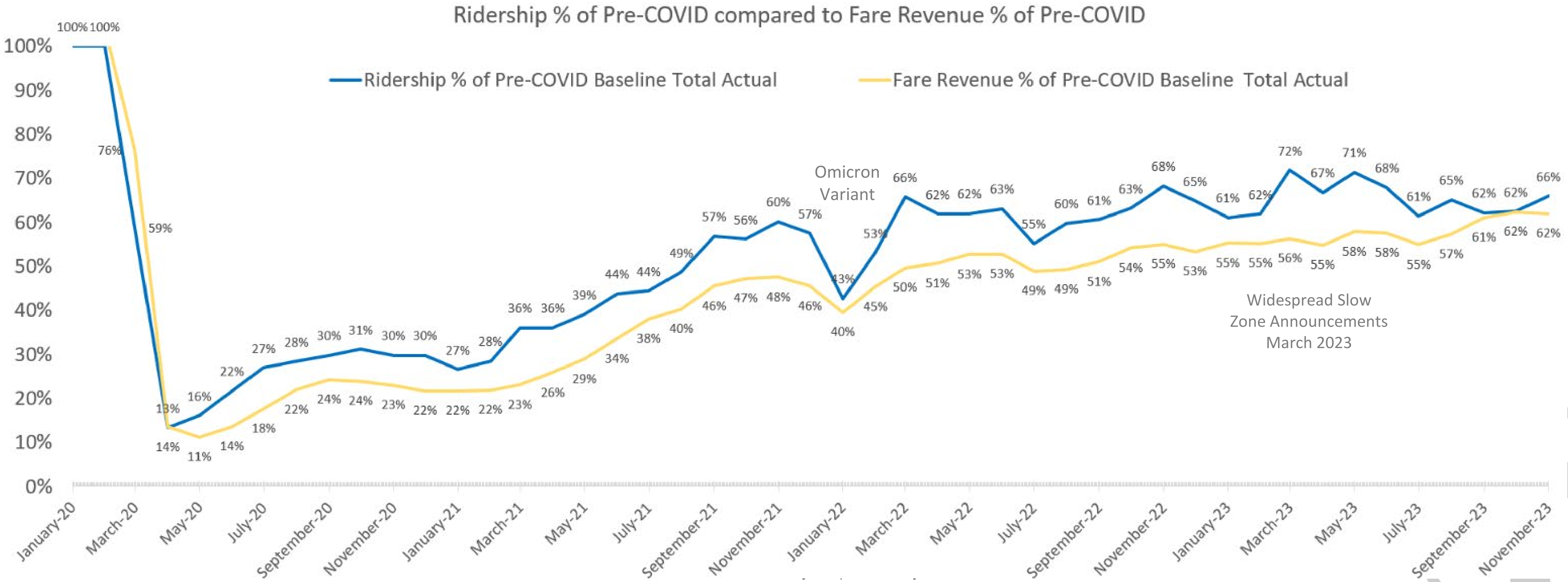
Annual Pro Forma Findings – January 2024

- **FY26 - FY29, budget gaps remain as current one-time revenues will not sustainably support recurring expenses, like new positions for safety, planned new service, and other initiatives**
  - Size of budget gaps will depend on many variables including fare revenue, the findings of the Workforce Assessment, budget favorability, decisions during FY25 budget development, and pace of safety related spending on FTA directives and new initiatives
  - ***Budget gaps in FY25 range from $567M - $652M, and grow to between $799M - $902M by FY29***
  - $60M transfer to fund Capital Salaries will not place in FY25-FY29 to help solve projected operating budget deficits. Additional debt will need to be issued to fund capital salaries, which increases debt service payments on the operating budget
  - Expenses for implementing all 12 FTA directives, excluding the Workforce Assessment, and all revenues appropriated by the state to support FTA spending are included into this pro forma projection
  - Findings from the Workforce Assessment are not included in this pro forma and could significantly impact budget gaps
    - The Workforce Assessment completion date is projected for Spring 2024
    - $378M one-time revenues received from the state are not enough to support the full cost of FTA recommended safety needs

Supporting New Service & Initiatives

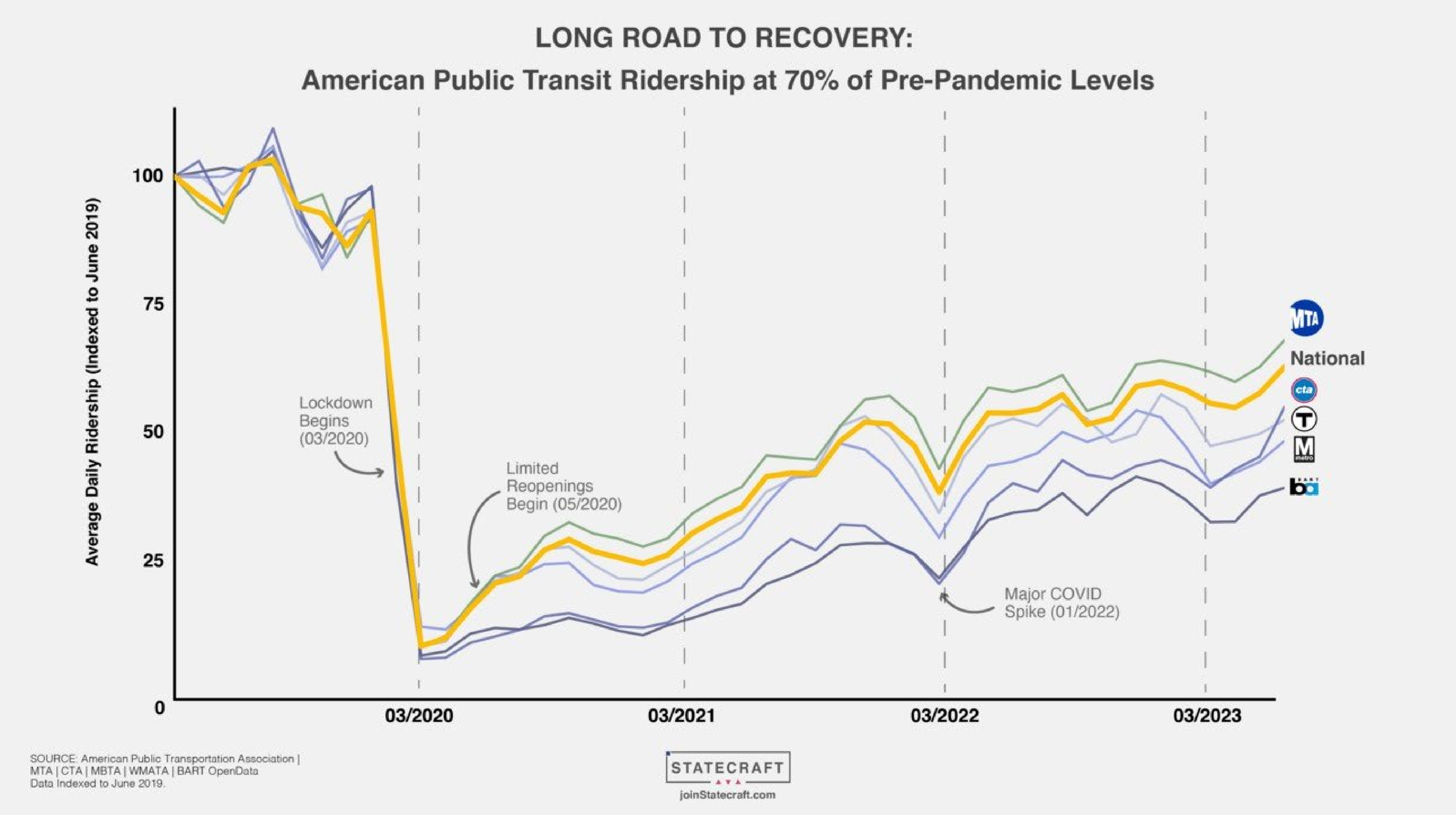
Post-Pandemic Ridership Patterns Begin to Solidify

- Ridership and fare revenue recovery has leveled off, peaking at 72% of pre-pandemic levels for ridership and 62% for fare revenue
- FY24 Q1 fare revenue averages 58%, resulting in an annual loss of $292M compared to pre-pandemic revenue if current trend continues
- Updated ridership and fare revenue projections have been generated to reflect actual trends



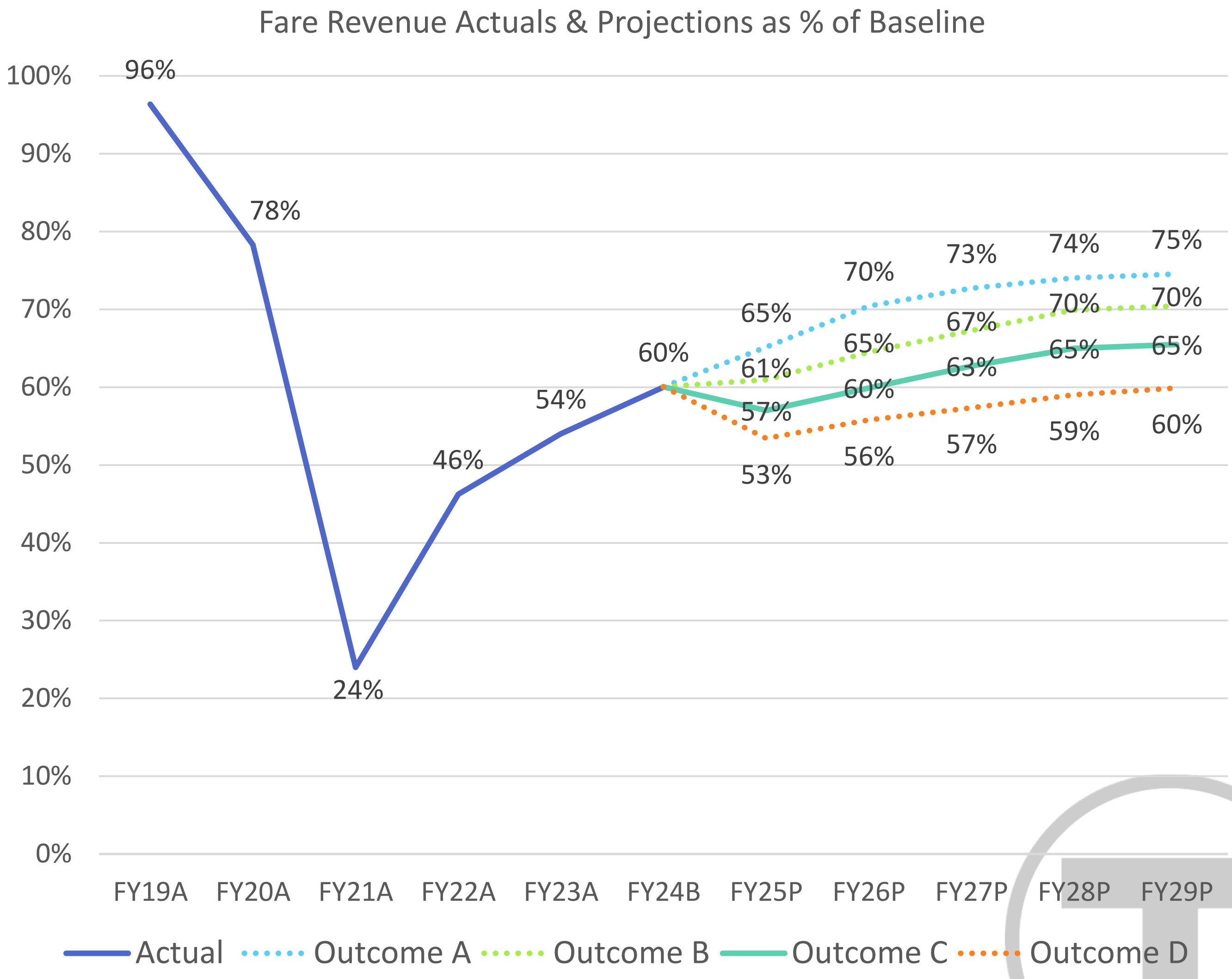
Peer Transit Agencies Show Similar Ridership Trends

Ridership data through Spring 2023 for peer agencies



Updated Ridership & Fare Revenue Projection

- Four fare revenue projections have been generated for the FY25-FY29 Pro Forma by analyzing ridership trends by mode, analyzing peer agency research and industry publications, accounting for seasonality, and factoring in impacts from new initiatives
- Fare Revenue is projected between 53% - 65% in FY25 and grows to 60-75% by FY29 as post-pandemic ridership patterns begin to solidify
- The charts in this presentation assume **Outcome C**, most closely aligned with current Q1 results and still provides growth in future fiscal years
- The following initiatives are included in this projection
  - South Coast Rail
  - Bus Network Redesign
  - Track Improvement Program
  - Means Tested Fares
  - All Door Boarding
  - Commuter Rail Zone Smoothing
  - Ferry Service for Lynn, East Boston and Winthrop
  - TIP Revenue Losses



Revenue Assumptions: FY24-FY29

- **1.0% total average annual revenue growth** above the FY24 budget over the five-year period
- **Fare Revenue:** Reflects fare revenue growing from 57% in FY25 to 65% by FY29 while holding current fare revenue pricing levels unchanged
- **Own Source Revenue:** Includes parking, advertising, and real estate revenue growth based on historical growth, current contracts, and Low-Middle Outcome assumptions
- **Sales Tax:** FY24 approved state budget estimate of $1,464M, and FY25 approved state consensus revenue estimate of $1,465M, grown at 2.8% annually, the midpoint forecasted growth rate from Consensus Revenue Hearing excluding the 4% Surtax
- **Local Assessment:** 1.7% increase, consistent with FY13-FY23 CAGR
- **State Assistance:** $187M in state assistance assumed to remain level. No extra state assistance is assumed in the pro forma model, aside from the annual $187M Commonwealth Transportation Fund Transfer

Revenue Source	FY24-FY29 CAGR
Fare Revenue	1.9%
Own Source Revenue	0.0%
Sales Tax	2.2%
Local Assessments	1.7%
Other Income	0.4%
State Assistance	0.0%
Total Revenue	**1.0%**

**Based on Low-Middle Outcome C assumptions for ridership and revenue, does not include one-time reserve revenues*

Spending Assumptions: FY24-FY29

- **4.8% total average annual expense growth** from new initiatives such as Bus Network Redesign, Fare Transformation, South Coast Rail and FTA Directives
- **Wages & Overtime:** 5.8% budgeted headcount growth from FY25-FY29 stemming from initiatives and collective bargaining increases, based on current payroll projections and initiative headcount estimates
- **Fringe benefits:** Includes pension costs, which grow at 4.3% annually based on projected wage spending and assuming a level employer contribution rate
- **Materials & Services:** Incorporates the rising cost of utilities and insurance, new projects and initiatives, and 3-year actual inflation rate of 3%
- **Commuter rail:** Based on contractual fixed price increases and includes new South Coast Rail costs
- **The RIDE:** Assumes wage increase for drivers to improve hiring efforts and service delivery as well as increases in ridership and variable costs from Means Tested Fares
- **Ferry:** Includes operating expenses for required new ferry lines for East Boston, Winthrop and Lynn
- **Debt Service:** Includes payments on outstanding debt and obligations to support the latest Capital Investment Plan (CIP) and April 2024 bond issuance, as well as bonding $60M annually for capital salaries
- **Safety & Service Initiatives** increase total expense growth rate by 2.2%

Expenses	FY24-FY29 CAGR
Regular Wages	5.8%
Overtime	5.3%
Fringe Benefits	4.3%
Materials & Services	4.5%
Commuter Rail	2.9%
RIDE	6.9%
Ferry	8.1%
Local Service Subsidy	2.2%
Total Operating Expenses	**4.7%**
Debt Service	5.4%
Total Expense Growth Rate	**4.8%**
Safety & Service Initiatives	2.2%
Baseline Operating Expenses	**2.6%**

**Baseline Operating Expenses excludes Debt Service*
**FY24 budget as baseline*
**Safety & Service Initiatives are listed on slide 13*

FY24 – FY29 Projected Revenues & Expenses – Before Solves

(Excluding Transfers & Favorability)

Projected Revenue & Expense Growth FY25-FY29

MBTA Budget Gap Drivers

- MBTA operating budget has absorbed the financial impact of forgone revenue, while making significant service expansions and safety enhancements

Forgone Revenue

- Pandemic ridership loss *(Non-discretionary)*
- Means-tested fare program *(Non-discretionary)*
- Long-term impacts of Forward Funding *(Non-discretionary)*
- Federal revenues no longer available, excluding one final FEMA Payment *(Non-discretionary)*

Service Expansions

- Green Line Extension *(Non-discretionary)*
- South Coast Rail *(Non-discretionary)*
- Additional Ferry Routes *(Non-discretionary)*
- Bus Network Redesign *(Policy Choice)*

Safety Enhancements

- Fully funding 12 FTA safety directive responses *(Non-discretionary)*
- Additional budgeted safety positions *(Non-discretionary)*
- Track Improvement Program *(Policy Choice)*

Customer Facing Initiatives

- Sumner Tunnel Mitigations *(Non-discretionary)*
- All Door Boarding *(Policy Choice)*
- Fare Transformation (AFC 2.0) *(Policy Choice)*
- Skate Program improving bus dispatch timing intervals *(Policy Choice)*
- Pass program improvements facilitating access to the RIDE *(Policy Choice)*

Peer Transit Agencies Projected Deficits

- Peer transit agencies with significant legislative support, such as MTA, have leveraged new revenue sources such as payroll mobility taxes, fare increases, and gaming license revenue to create future year surpluses for investments in safety & service
- Agencies without legislative support, such as WMATA, are proposing up to 60% service cuts to balance their FY25 budgets
- The MBTA's FY25 Operating Budget is currently in development, and one-time revenues are not enough to support ambitious safety & service investments

Crisis Averted (NY MTA)

FY25 Crisis Likely Averted (BART)

Legend
Deficit
Surplus

	WMATA	NY MTA	BART	CTA	La Metro	MBTA	NJ Transit	SEPTA	Average
Dedicated Sources	0%	37%	35%	57%	80%	59%	26%	44%	42%
State/Local Subsidies	53%	6%	3%	1%	14%	20%	4%	10%	14%
Anticipated Deficit When Federal COVID Deficit is Exhausted ($ in M)									
FY2025	-$750	+$1,600	+$100		-$400	-$182	-$100		-$300*
FY2026	-$830	+$2,000	-$300	-$700	-$1,000	-$620	-$900	-$60	-$627*

From WMATA Future Financial Planning FY2025-2035 presentation June 22, 2023. SEPTA Federal Relief depletes in FY2024.SEPTA using Stabilisation Fund for FY2025 and FY2026
CTA amount for entire Chicago -RTA region. MBTA Deficits Updated with January 2024 Pro Forma Projection (Outcome C). Based on publicly available sources as Month/Year
**MTA outlier suprlus values excluded from deficits in the 'Average' column*

*Original slide From WMATA Future Financial Planning FY2025-2035 presentation June 22, 2023, updated with most recent MBTA values

Updates to Pro Forma Significantly increase Baseline Budget Gap in FY25

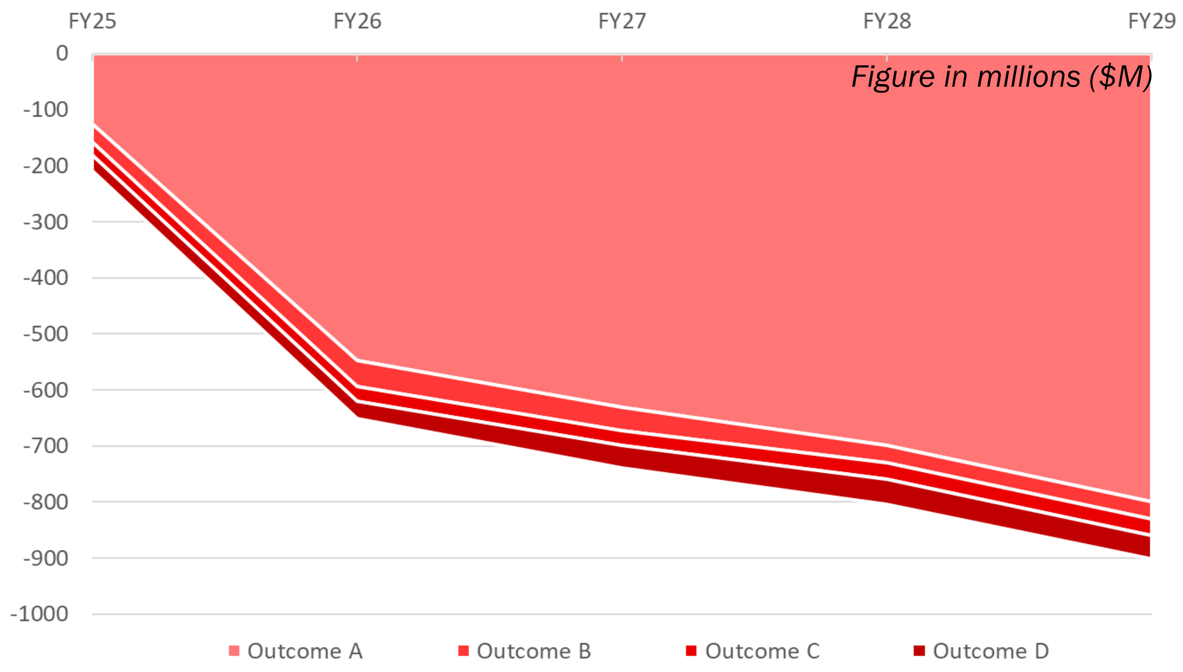
FY25 Projected Deficit does not included deficiency fund transfer or favorability

- Significantly increased the size of the baseline FY25 operating budget gap from the last Pro Forma presentation (November 2022) after updating for current FTA directive expenses, collective bargaining increases, and updated ridership projections
- Regular wage spending increase updated for actual growth and collective bargaining increases while materials and services increase accounts for inflationary pressures, especially for fuel, utilities, and insurance
- **Current projected FY25 baseline budget gap not projected to be fully resolved after accounting for one-time reserve revenues and deficiency fund transfers**

FY25 – FY29 Budget Projections – Including Solves

Including all FTA directive spending and one-time revenues

- One-time reserve revenues are projected to be exhausted by the end of FY25
- Actual budget gaps depend on fare revenue, hiring, actual spending
- FY25-FY29 projections will be updated at least annually in future Pro Forma presentations



65% - 75% of baseline fare revenue	61% - 70% of baseline fare revenue	57% - 65% of baseline fare revenue	53% - 60% of baseline fare revenue

	FY25	FY26	FY27	FY28	FY29
Outcome A	(126)	(548)	(631)	(699)	(799)
Outcome B	(158)	(593)	(673)	(730)	(831)
Outcome C	(182)	(620)	(699)	(759)	(859)
Outcome D	(209)	(651)	(740)	(804)	(901)

Figure in millions ($M)

Operating Budget Risks and Opportunities

- The MBTA is tracking risks and opportunities on both the capital and operating budget
- Net impact by the end of FY24 will depend on numerous factors, such as the timing of the Track Improvement Program, Ridership in Q3 and Q4, sales tax, and hiring
- Achieving a net ending balance favorable to the FY24 budget is critical to balancing the FY25 budget

Potential Budget Risks/Exposures

- **Fare revenue and Sales Tax** as actual ridership and revenue collections lag behind FY24 budget assumptions
- **Track Improvement Program Piggyback Costs** to conduct track and station improvements in the most time efficient manner
- **Hiring** as training capacity and pace of onboarding accelerates, adding recurring costs which are supported in FY24 by one-time revenues
- **FTA** spending, which is projected to exceed $378M over the life of the program
- **Debt Service** as funding large scale capital projects will exacerbate operating budget deficits, and increase the cost to achieve the CIP

Potential Budget Opportunities/ Favorability

- **FEMA reimbursement** as delayed timeline for receiving funds has pushed expected revenue collections from FY23 into FY24
- **Building internal capacity** will decrease CIP costs and improve construction and engineering methods
- **Utilization of Fare Share Revenue** to fund safety & service initiatives

Recommendations for FY25 Budget Development

- Following the recommended priorities and guidelines would maintain the current Pro Forma trajectory

Determining priorities and guidelines for FY25 budget development

Recommend utilizing Outcome C fare revenue assumptions for time being

Continue hiring to budget to support safety & service investments

Continue to refine projections throughout the development process based on latest updates and information

Continue conversations with the state about MBTA sustainability

Appendix

Transit Funding Opportunities

- All funding opportunities that will have a substantial impact on the sustainability of the MBTA will require legislative support as increases in fares and own source revenue are not sufficient to solve budgetary issues

	NEW YORK	WASHINGTON	PHILADELPHIA	CHICAGO	LOS ANGELES	SEATTLE	PORTLAND	LONDON	VANCOUVER	TORONTO
Sales Tax			✓	✓	✓	✓				
Payroll Tax	✓						✓			
Vehicle Sales Tax			✓				✓			
Vehicle Rental Tax	✓		✓			✓				
For-Hire Vehicle Surcharge	✓			✓						
Vehicle License Fees	✓		✓			✓		✓		
Gas Tax	✓								✓	✓
Tolls	✓		✓		✓				✓	
Congestion Charges								✓		
Traffic Violations			✓					✓		
Jurisdictional Charges		✓								
Real Estate Transaction Tax	✓			✓						
Property Tax						✓			✓	✓

MTA Case Analysis

- The Metropolitan Transportation Authority's (MTA) July 2023 **Financial Plan projects the budget for all five years through 2027 will be balanced**. This outcome is a remarkable change from the dire state of the MTA's fiscal affairs at the start of the year, which began with $600 million in unidentified resources needed to balance the 2023 budget and budget gaps that exceeded $1 billion beginning in 2024.
- Substantial new funding from **actions in the Enacted State Budget has stabilized the MTA's finances**. The MTA anticipates more than $1 billion per year from **an increase to the payroll mobility tax (PMT)** on **employers in New York City**. This increase is the main contributor to the closure of future budget gaps. Additional revenues come from a **one-time infusion of State appropriated funds in 2023, a larger share of paratransit costs to be paid for by New York City and casino revenues from licensing and gaming in and around New York City**. Changes to the **State corporate tax surcharge** will also benefit the Authority's revenue picture, partially offsetting weakness in real estate transaction taxes, a concern raised by the Office of the State Comptroller (OSC) last year. Balancing the budget in the outer years also **assumes fare and toll increases in 2025 and 2027**.

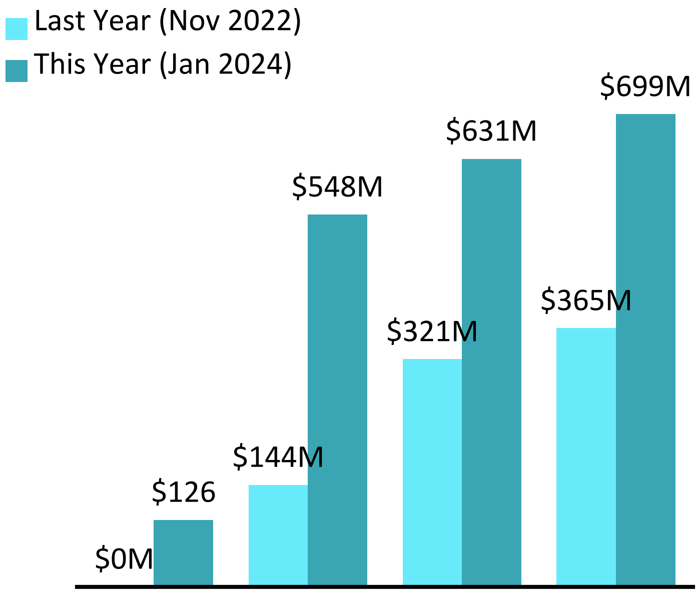
MTA Budget Changes in July Plan Since the February 2023 Financial Plan
(in millions)

	2023	2024	2025	2026	2027
February Cash Surplus/(Deficit)	**$ (600)**	**$ (1,188)**	**$ (1,242)**	**$ (1,623)**	**$ (1,882)**
Enacted State Budget Revenue Actions	799	1,277	1,323	1,869	1,914
Enacted State Budget Expense Actions	(75)	(150)	(135)	(135)	(135)
Additional Labor Expense - TWU Pattern	(235)	(140)	(230)	(270)	(275)
Real Estate Related Taxes	(393)	(219)	(210)	(161)	(154)
Other Dedicated Taxes & Subsidies	82	344	387	423	281
Fare and Toll Revenue	106	270	281	283	302
Non-Payroll Labor Expenses	83	36	(78)	(124)	(221)
Non-Labor Expenses	116	81	74	106	81
Higher Savings Target	- - -	- - -	100	102	104
Pension Prepayment	- - -	(500)	515	- - -	- - -
Other Changes	117	189	(785)	(470)	(15)
Total Changes	**600**	**1,188**	**1,242**	**1,623**	**1,882**
Deficit Before Gap-Closing Actions	**$ - - -**	**$ - - -**	**$ - - -**	**$ - - -**	**$ - - -**

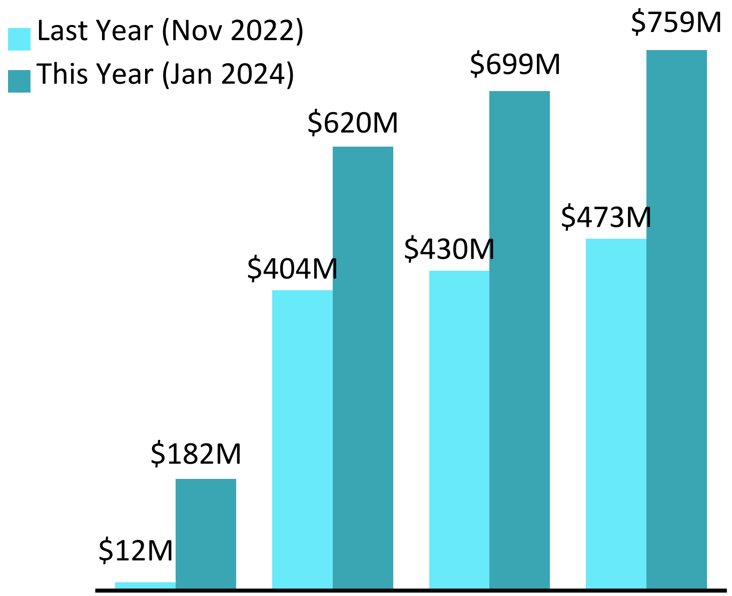
Sources:
Financial Outlook for the Metropolitan Transportation Authority
www.osc.state.ny.us/files/reports/pdf/report-9-2024.pdf

Projected Deficits Increase Compared to Last Years Pro Forma

November 2022 Pro Forma vs. January 2024 Pro Forma



Deficit Increase:	$126M	$404M	$310M	$334M



Deficit Increase:	$170M	$216M	$269M	$286M

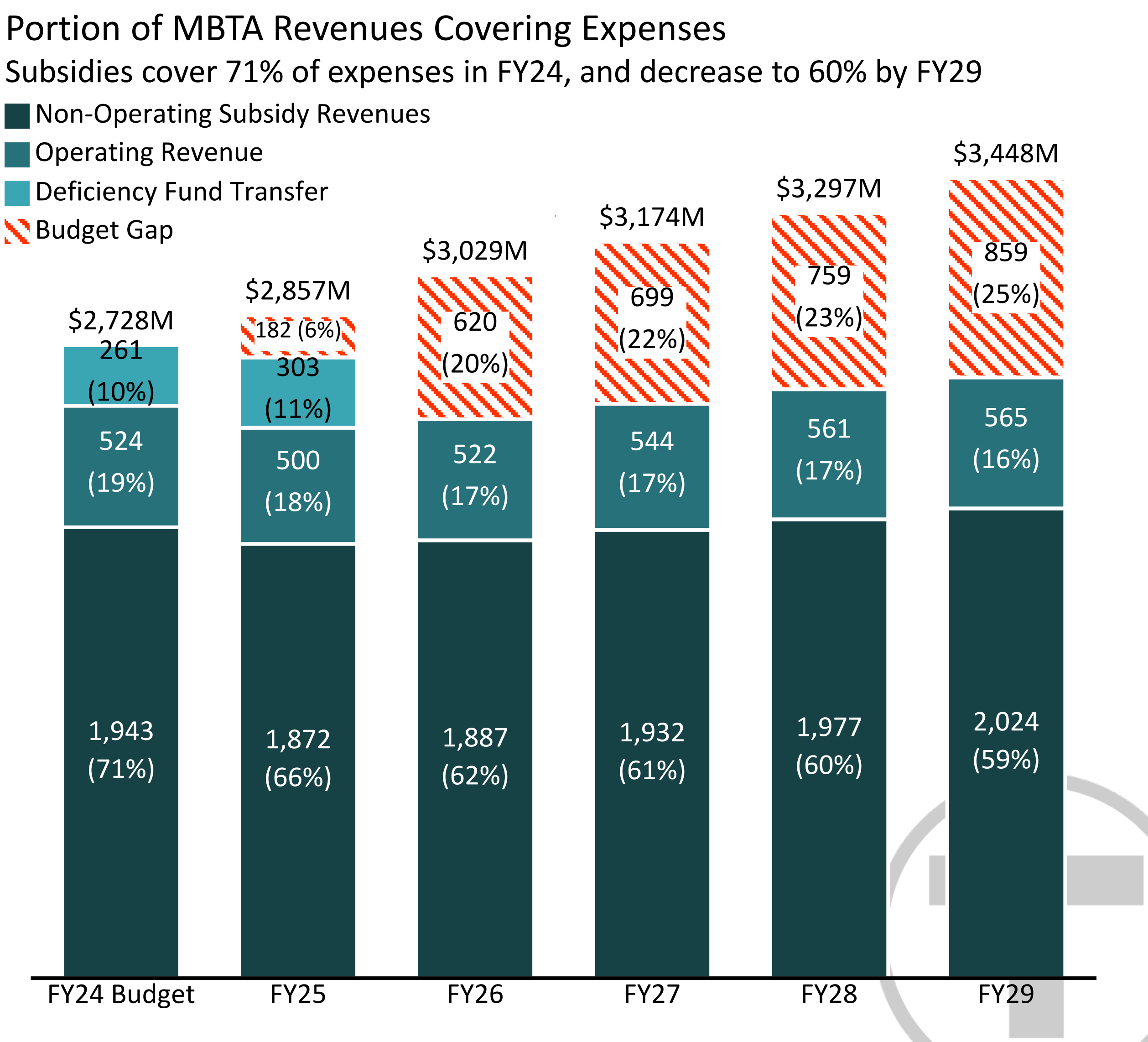
*Outcome C: Low-Middle selected for FY24 Pro-Forma middle outcome (Outcome B excluded from analysis

MBTA Revenue Sources Fall Short of Projected Expenses

- 79% of the MBTA revenues are from non-operating, subsidized sources
- Supporting Safety & Service investments will require additional funding, as increases in Fare and Own Source Revenue alone will not support ambitious hiring goals

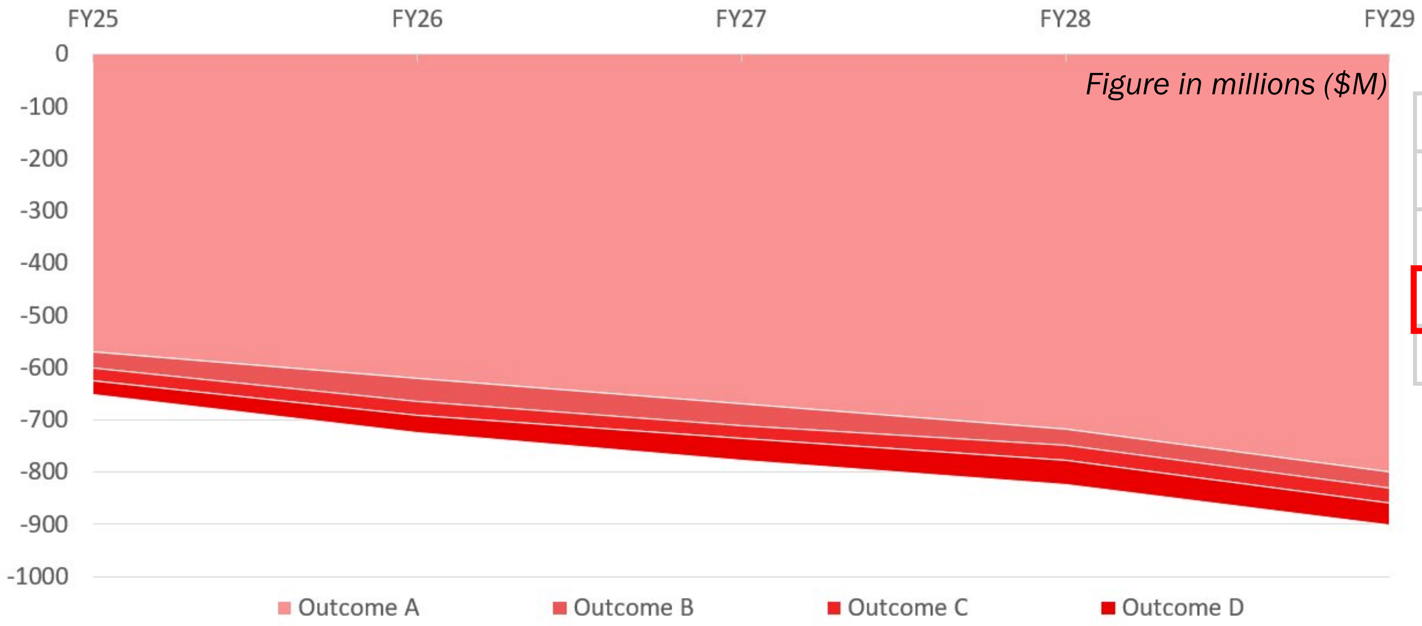
MBTA Revenue Sources

Revenue Type	Source	FY24 Budget ($M)	% of Revenue
Operating Revenues	Fare Revenue	418	17%
	Own Source Revenue	82	3%
	Other Income	23	1%
	Total Operating Revenues	**524**	**21%**
Non-Operating Revenues (Subsidy)	Sales Tax	1,463	59%
	Local Assessments	188	8%
	State Contract Assistance	187	8%
	Additional State & Federal Assistance	104	4%
	Total Non Operating Revenues	**1,943**	**79%**
	Grand Total	**2,467**	**100%**



FY25 – FY29 Budget Projections –Without Solves

- One-time reserve revenues are projected to be exhausted by the end of FY25
- Actual budget gaps depend on fare revenue, hiring, actual spending
- FY25-FY29 projections will be updated at least annually in future Pro Forma presentations



65% - 75% of baseline fare revenue

61% - 70% of baseline fare revenue

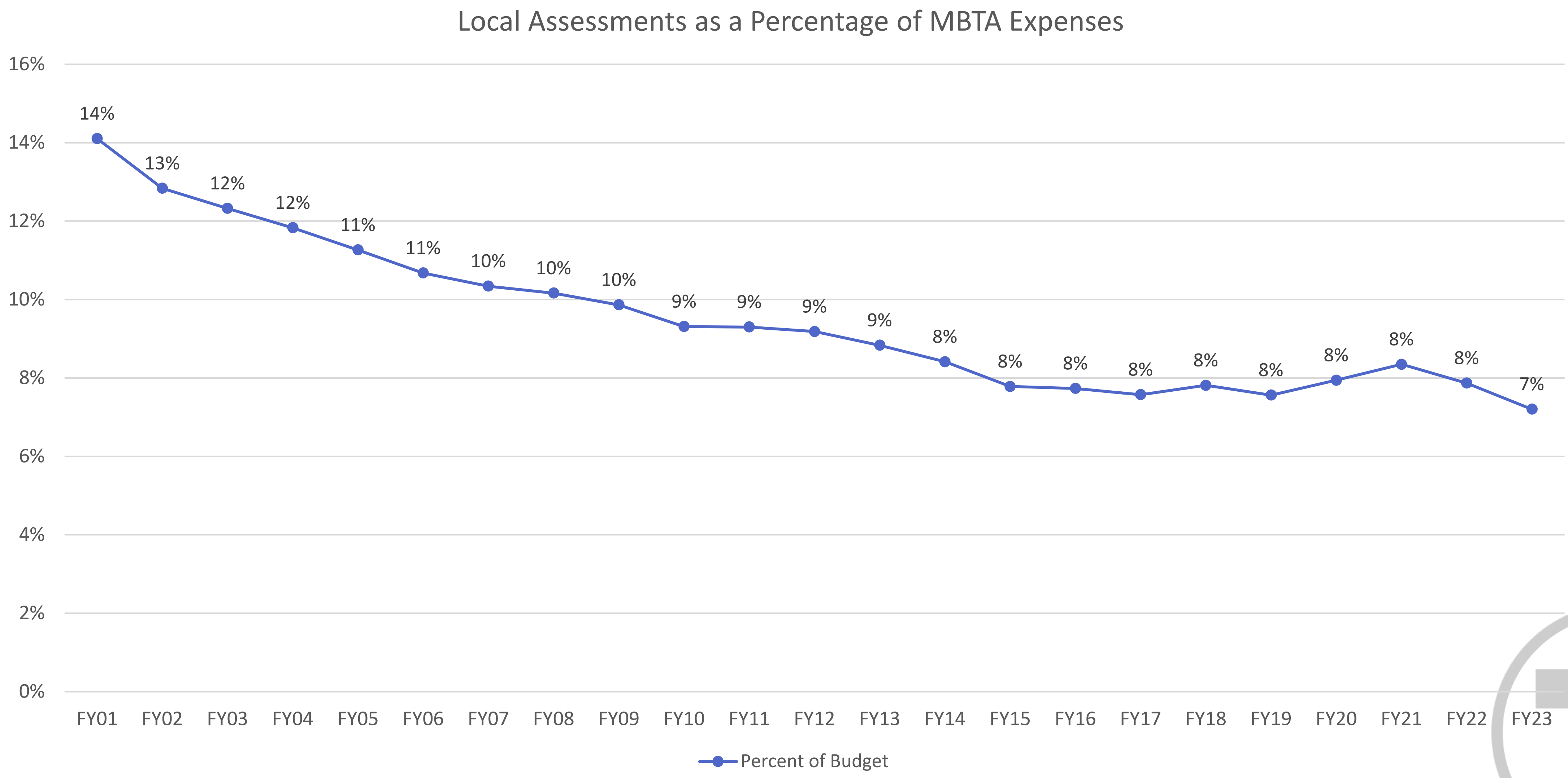
57% - 65% of baseline fare revenue

53% - 60% of baseline fare revenue

	FY25	FY26	FY27	FY28	FY29
Outcome A	(569)	(621)	(669)	(718)	(799)
Outcome B	(601)	(666)	(710)	(750)	(831)
Outcome C	(624)	(692)	(736)	(778)	(859)
Outcome D	(652)	(724)	(777)	(823)	(901)

Figure in millions ($M)

Local Assessments as a Percentage of MBTA Expenses



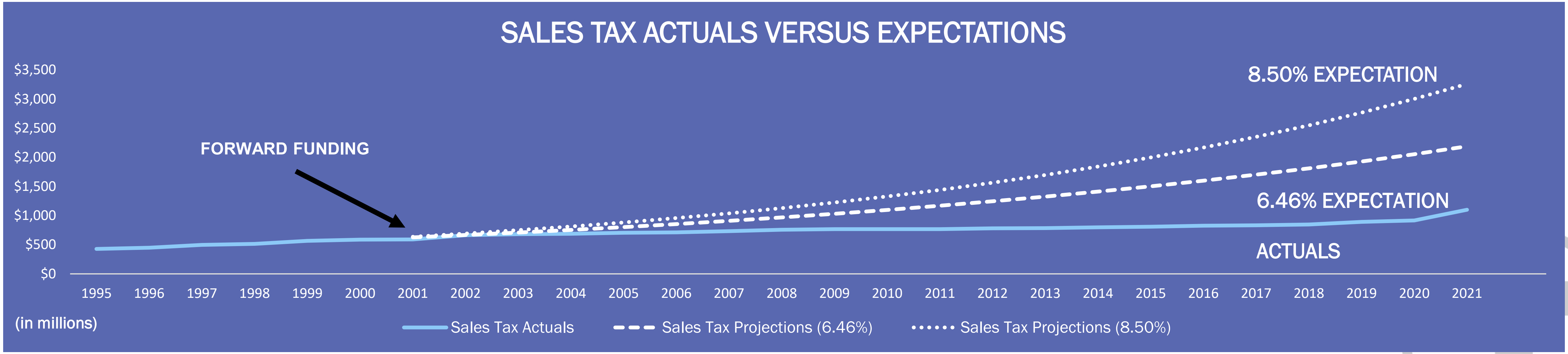
Draft for Discussion & Policy Purposes Only

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.

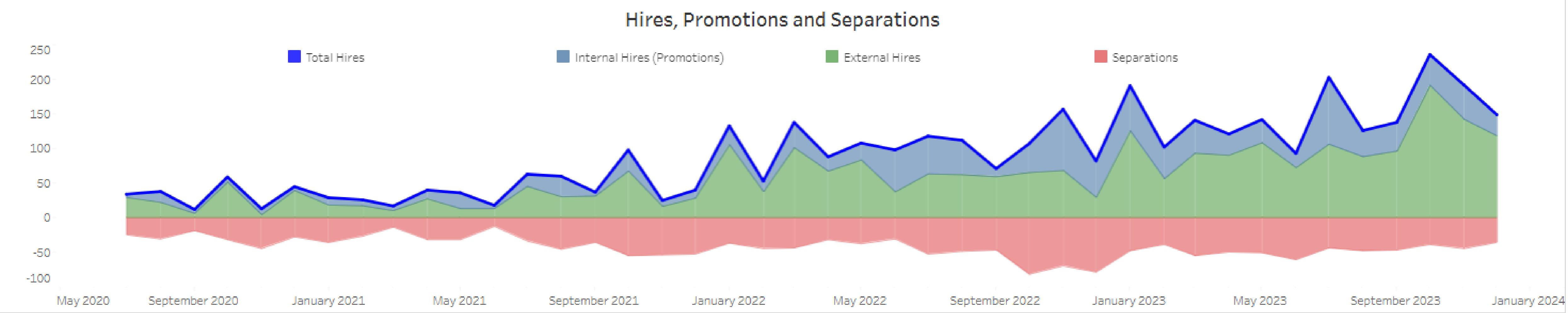
Sales tax revenue grossly underperformed expectations in the first 20 years, growing at an average annual growth rate of 2.29% instead of the anticipated 6.46% - 8.50%, which resulted in **$8.9-$15.5 billion of lost revenue in nominal dollars** as compared to expectation.



MBTA Hiring Activity Continues to Increase
(July 1, 2020 – December 31, 2023)

- Hiring program improvements include streamlined backfill process, developing key performance indicators (KPI's) and creating bulk interview processes to increase hiring throughput, and doubling the size of the recruiting team
- Improved compensation (Collective Bargaining Increases) , retention bonuses and longevity bonuses have decreased attrition and increased hiring

Total Hires	External Hires	Internal Hires (Promotions)	Separations	Net Headcount Variance
3,747	2,527	1,220	1,782	745



Separations by Month
Retirements and Resignations are Accelerating

Total MBTA (Capital & Operating) Separations Run Rate

- 860 separations in FY23 which is the highest total separations on record
- Next highest year of separations (746 in FY17) resulted from VRIP. 295 employees participated in a Voluntary Retirement Incentive Program
- Attrition rate shown in parenthesis on bar totals

FY15 - FY17
11% Average Annual Attrition

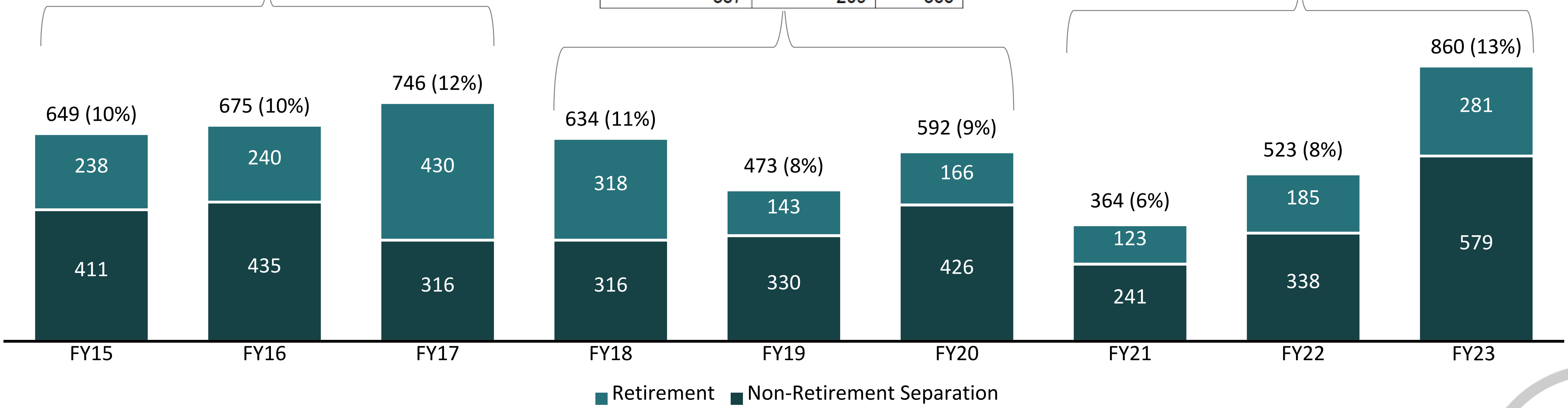
Non-Retirement	Retirement	Total
387	303	690

FY18 - FY20
9% Average Annual Attrition

Non-Retirement	Retirement	Total
357	209	566

FY21 - FY23
9% Average Annual Attrition

Non-Retirement	Retirement	Total
386	196	582



DATA NOTES:

- Data for FY20-FY23YTD pulled from weekly HRIS Hires, Promotions & Separations Report
- Data for FY15-FY19 pulled from October 29, 2019 Pro Forma Headcount Presentation
- Average Annual Attrition is calculated as the year end roster (total headcount) headcount for both capital and operating, divided by total separations
- <u>Increased programmed hiring recruiting efforts in FY23 are likely increasing non-retirement separations because prospective trainees who do not show up to training, or wash out of training, are reflected in this data.</u>

New Safety Positions Budgeted FY20-FY24

- **At least 613 budgeted safety positions added since the FY20 budget (prior to FTA directives)**
- 294 positions for system and vehicle maintenance, including system repairers and technicians
- 203 positions for transportation safety, including rapid transit motor persons ,night bus supervisors ,operator surface ,supervisors trans subway , inspectors and master yards.
- 54 positions in other transit services including dispatchers, operations planning and training instructors and Deputy Director ,security Emergency Management coordinator and security monitor positions.
- 26 positions for safety including system specialist safety ,managers and director role .
- 9 positions for Engineering ,quality management of transportation.
- 9 positions transportation access ,including analysts, administrator and planning analysis
- 18 positions among all other departments

Operations Safety

613 positions

$60.5M in annual wages