MBTA FY 2025 Operating Budget Oversight Report

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MBTA Advisory Board Operating Budget Oversight Committee

Approved by:
MBTA Advisory Board

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The MBTA Advisory Board is a government body organized under Massachusetts General Law to oversee the finances, operations, and activities of the Massachusetts Bay Transportation Authority. The Advisory Board represents the interests of the 176 cities and towns in the MBTA service district. In FY25 these municipalities will contribute over $193 million in subsidies via municipal assessments to the MBTA.

Contents

EXECUTIVE SUMMARY

The MBTA provided the following tables of revenue and expenses as a summary of their proposed operating budget for FY25. The budget is in deficit, and only balanced by the liquidation of reserve funds. Without action, the budget deficit for the following fiscal year (13 months from now) is projected at just under $700 million. Without external support, the internal ability of the MBTA to close such a deficit is nearly non-existent. In FY21, for example, the MBTA proposed draconian service cuts to realize $142 million in savings. The FY26 deficit is projected to be nearly 5 times greater. The service cuts and lay-offs needed to close a $700 million deficit suggest an existential crisis for public transportation in Massachusetts.

FY2025 STATEMENT OF REVENUE

REVENUE	FY22 $ Actual	FY23 $ Actual	FY24 $ Budget (11/1/23)	FY25 Budget $ Request	FY25 as % of FY24 bud.
Transportation Rev.	322,290,743	376,357,270	418,470,826	403,008,741	-3.7%
Other Operating Rev.	60,091,402	69,601,296	82,423,659	79,836,019	-3.1%
Total Operating Rev.	**382,382,145**	**445,958,567**	**500,894,485**	**482,844,760**	**-3.6%**
Non-Operating Rev.					
Assessments	179,004,251	183,790,509	188,359,641	193,068,632	2.5%
Sales Tax	1,347,536,397	1,406,653,497	1,463,475,525	1,465,440,000	0.1%
Fed. Prev. Maint. Funds	948,040,053	10,288,866	31,363,665	191,000,000	509.0%
Additional State Assist	126,999,996	187,195,011	192,000,000	314,000,000	63.5%
Safety Additional Assist	-	65,528,845	249,357,358	45,000,000	-82.0%
Other Income	39,988,817	36,506,523	22,882,900	22,882,900	0.0%
Total non-operating	**2,641,569,514**	**1,889,963,251**	**2,147,439,089**	2,231,391,532	3.9%
TOTAL REVENUES	**3,023,951,659**	**2,335,921,818**	**2,648,333,575**	**2,714,236,291**	**2.5%**

FY2025 STATEMENT OF EXPENSE

EXPENSES	FY22 $ Actual	FY23 $ Actual	FY24 $ Budget (11/1/23)	FY25 $ Budget Request	FY25 as % of FY24 bud.
Regular Wages	469,792,573	472,684,909	618,824,787	723,843,605	17.0%
Collateral Wages	18,604,336	19,071,088	20,853,207	20,308,351	-2.6%
Total Regular	**488,396,908**	**491,755,996**	**639,677,994**	**744,151,957**	**16.3%**
Overtime	50,438,290	62,702,872	44,324,443	58,698,021	32.4%
Total Wages	**538,835,198**	**554,458,868**	**684,002,437**	**802,849,978**	**17.4%**
Fringe Benefits					
Pensions	123,868,445	129,324,931	154,305,319	211,384,758	37.0%
Healthcare	102,155,377	101,431,578	107,211,413	120,750,926	12.6%
Group Life	415,381	449,323	478,756	656,821	37.2%
Workers' Comp	12,244,402	12,852,758	14,708,024	13,453,078	-8.5%
Other Fringe	125,213	363,956	360,000	360,000	0.0%
Total Fringe Benefits	**238,808,818**	**244,422,547**	**277,063,513**	**346,605,582**	**25.1%**
Health & Welfare Fund	**15,161,843**	**19,915,912**	**19,602,303**	**21,160,524**	**7.9%**
Payroll Taxes					
FICA	42,143,585	42,681,149	52,326,186	61,418,023	17.4%
Unemployment/PMFL	2,642,537	3,208,934	3,712,284	5,005,544	34.8%
Total Payroll Taxes	**44,786,123**	**45,890,082**	**56,038,471**	**66,423,568**	**18.5%**
Mat., Supply & Services	**288,466,991**	**305,425,490**	**453,944,252**	**497,391,253**	**9.6%**
Casualty and Liability	**19,283,541**	**20,530,263**	**34,328,721**	**39,861,723**	**16.1%**
Commuter Rail Service	**468,474,722**	**500,650,883**	**522,701,913**	**578,346,555**	**10.6%**
Local Service Subsidy	**114,395,465**	**131,237,636**	**152,412,008**	**188,663,772**	**23.8%**
Financial Service Charges	**5,764,571**	**8,891,993**	**11,098,000**	**13,184,185**	**18.8%**
Total Operating Expenses	**1,733,977,272**	**1,831,423,674**	**2,211,191,616**	**2,554,487,139**	**15.5%**
Debt Service Expenses					
Principal Payments	278,613,607	275,503,093	269,628,483	303,275,856	12.5%
Interest	195,160,441	215,036,605	247,306,557	163,508,463	-33.9%
Lease Payments	-	-	-	-	
Total Debt Expenses	**473,774,048**	**490,539,698**	**516,935,039**	**466,784,320**	**-9.7%**
TOTAL EXPENSES	**2,207,751,320**	**2,321,963,372**	**2,728,126,656**	**3,021,271,459**	**10.7%**
Net Revenue	**816,200,339**	**13,958,446**	**(79,793,081)**	**(307,035,167)**	**284.8%**
Transfer In		**(8,871,248)**	**(261,200,000)**	**(307,035,167)**	**17.5%**
Transfer Out	**816,200,334**		**181,000,000**	**-**	
NET Rev. in Excess of Exp.	**5**	**22,829,694**	**406,919**	**-**	

INTRODUCTION

Fiscal Year (FY) 2025 is balanced only through the transfer of $307 million from cash reserves and $93 million in internal savings. The total revenue projection for FY25 of $2,714,236,292 represents low single growth of 2.49%. This level of revenue growth does not support the fast-growing expense budget driven by headcount growth. This revenue issue is made even more concerning because the actual operating revenue line item, reflective of ridership/fares, is declining 3.60%.

Total expense projections are exploding with double digit percentage increases in several expense line items. Wages are up 17.38% which is not unexpected with the planned hiring program. Likewise, fringe benefits are up 25.10%. The Advisory Board recommends that the Authority look carefully at headcount and perhaps consider looking reallocation of existing headcount vs. solely adding employees. There is a clear need for frontline workers and safety-focused staff, however, there may be other areas that can be trimmed. The MBTA should also carefully look at fringe benefits because 25% growth is not sustainable.

As we warned in our report last year, the operating budget has a heavy reliance on reserves. We now underscore that virtually all of the remaining financial reserve is used in FY25, leaving no reserves for future fiscal years.

The MBTA's funding model is broken, and we see no source of one-time infusions of cash to balance future operating budgets. The underperformance of the sales tax for the past 25 years, coupled with the fact that the MBTA must repay its debt obligations, undertaken to make needed capital investments along with prior obligations and state-mandated expansion, from its operating budget, miring it in a persistent structural deficit.

Following FY25, projected deficits are: **$696 million, $740 million, $728 million, and $863 million** respectively for FYs 26-29. In FY21, the MBTA proposed draconian service cuts to realize $142 million in savings. The deficit for FY26 is projected to be 4.9 times greater than the FY21 deficit. Deficits for FYs27 – 29 are projected to be 5.2, 5.1, and 6.1 times larger, respectively. To help close the FY21 deficit, the Authority proposed draconian service cuts on the region, including:

- Bus: End service at midnight, 5%-20% frequency reduction, consolidate 14 routes, shorten 5 routes, eliminate 25 bus routes
- Heavy/Light Rail: End service at midnight, 20% frequency reduction, end E branch at Brigham Circle.
- Commuter Rail: End service at 9PM, end weekend service, frequency reductions, close 6 stations, shorter trainsets, and close the Needham layover facility.
- Ferry: End all service
- The RIDE: End service for some or all customers in 33 communities.

There are no service cuts 4.9 to 6.1 times greater than those in FY21 possible without basically ending all public transportation service outside of short windows on weekdays. The MBTA cannot solve these deficits internally.

PROCESS OVERVIEW

Massachusetts General Law Chapter 161a, Section 20 provides for the MBTA Advisory Board to conduct its independent analysis and oversight review of the MBTA's proposed annual operating budget. Authority staff presented a first draft of the FY25 operating budget to the MBTA's Board of Director's Audit and Finance Committee on May 9. On May 14 the Authority formally presented the Draft FY25 Operating Budget to the full MBTA Advisory Board. At this meeting, the full

Advisory Board voted to refer the FY25 operating budget to the Operating Budget Oversight Committee with a charge to review it, report back, and make a recommendation for the full Advisory Board's consideration. The Operating Budget Oversight Committee met on May 21, May 30, and June 4 to provide direction to Advisory Board staff on drafts of this report, and approve its final version. The committee voted to recommend acceptance of this report to the full board at its June 4 meeting. The Advisory Board received the report from its committee at its June 6, 2024 meeting. The full MBTA Advisory Board unanimously accepted this report, and authorized its transmission to the MBTA Board of Directors.

The Operating Budget Oversight Committee had just 20 days to complete its work. There is little meaningful analysis or assumption testing that can be done in this time. Budgets are fundamentally a statement of priorities and policy, and so this time-constrained analysis focuses in these areas.

Structural Deficit and Reliance on One-Time Funds

The MBTA's FY25 operating budget is only balanced due to vacancies in hiring and the use of one-time funds. Its structural and cyclical deficit remains, and its long-term prospects the same as usual: unstable. Although no fare increases or service cuts are proposed, aggregate passenger counts are still far below pre-COVID levels. The FY25 operating budget projects revenues of $2.71 billion and expenses of $3.02 billion; the deficit of $307 million is approximately 11% of revenue. To cover this deficit, the Authority proposes transferring $307 million from its deficiency fund to the operating budget. This will leave the deficiency fund with basically a $0 balance.

As discussed above, similar deficits are projected annually through FY29, because expense growth will continue to outpace revenue growth unless ridership increases very sharply relative to recent trends. In the past, headcount vacancies generated offsets to assist in solving deficits, however as the MBTA continues planned hiring, the number of vacancies is decreasing, contributing further to the deficits.

The FY25 budget projects revenue growth of $65.9 million over the FY24 budget, or 2.5%. This growth is the result of a policy choice to use certain federal funds for the operating budget as opposed to the capital budget ($159.6 million more than the FY24 budget, and an increase in state support ($122 million more than the FY24 budget.) The January 2024 Governor's budget allocates $314 million plus an additional $45 million for low-income fares ($359 million total). The House of Representatives budget appropriates $315 million in operating assistance, $20 million for low-income fares, and an extra $40 million to establish an MBTA Academy for trades ($375 total). As of the time of drafting this report, the final Senate budget was not published. However, in the Senate Ways & Means Committee budget $314 million is appropriated for MBTA operating assistance, $23 million for low-income fares, and an additional $24.5 million for commuter rail infrastructure ($361.5 million total). The MBTA does not expect to return to pre-pandemic ridership levels before 2029 despite expansion projects such as South Coast Rail and Ferry expansion to East Boston and Winthrop as well as fare programs such as the low-income fare initiative.

Overall expenses are projected to increase by $293.1 million, or 10.75% compared to the FY24 budget. Employee costs such as wages, overtime, fringe benefits, and related payroll taxes are projected to increase by $200.3 million, or 19.2% compared to the FY24 budget.

FARE RECOVERY RATIO

Fare recovery ratio measures the percentage of operating expenses covered by passenger fares. Revenue recovery ratio measures the same percentage operating expenses covered by fares plus other operating-related revenue such as parking fees and advertising.

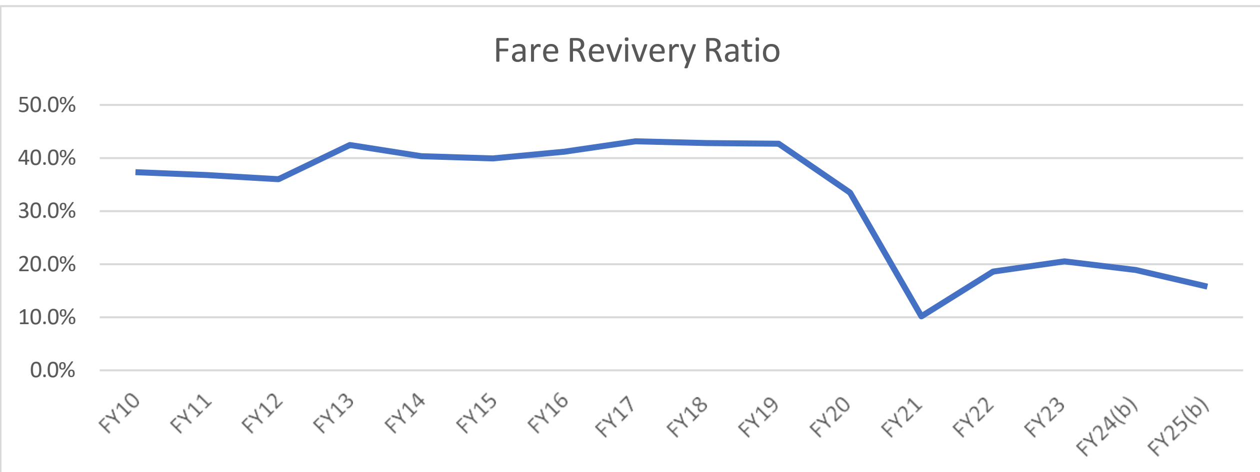

Table 1: Fare Recovery Ratio FY10-FY25

Fare recovery ratio has steadily declined since the pandemic. The pandemic low in FY21 was 10.2%. Just before the pandemic, for instance, FY19's fare recovery ratio was 42.7%. FY25 projects the second lowest fare recovery ratio since at least FY10 (and likely long before that) at 15.8%. Total actual fare revenue collected was $376.4 million as of the end of FY23.

RIDERSHIP FORECASTS

Total actual ridership (combined rapid transit, commuter rail, bus) remains at the post-Covid plateau reached in fall 2021. This is a critical issue because more ridership is essential for financial sustainability. Ridership is still depressed by about 40% relative to pre-Covid.

We understand that ridership generally remains substantially lower for all public transit authorities relative to pre-Covid. Nonetheless, the MBTA has recovered less than the national average. It would be highly useful for the T to undertake surveys or some other marketing effort to try to identify strategies to increase ridership and to identify factors that may be deterring potential users.

NON-OPERATING REVENUE

Other Operating Revenues:

Other non-fare operating revenue consists of advertising, parking, real estate concessions (leases on Authority property), and other such revenues. As fewer riders use MBTA stations, revenue from these areas is also projected to decline compared to pre-pandemic levels. $79.8 million is budgeted as other operating revenue in FY25, an amount $2.5 million less than the amount budgeted in FY24.

Sales Tax:

Under Massachusetts law the MBTA receives a dedicated portion of the 6.25% state-wide sales tax, or the base revenue amount, whichever is greater. Sales tax revenue to the MBTA for FY25 is budgeted at $1.465 billion, an amount nearly identical to the FY24 budgeted amount. The projected sales tax revenue amount is the consensus estimate available to the MBTA in FY25, and represents 54.0% of total revenue.

Assessments:

As authorized under its enabling legislation, the MBTA assesses a fee on the 176 cities and towns that comprise the MBTA Service District. These Massachusetts municipalities each either host an MBTA station or abut a community that does. The total assessments charged to our cities and towns in FY25 is budgeted at $193.1 million, an increase of $4.7 million over the total assessment amount in FY24. This 2.5% increase is the maximum allowed under the state law commonly known as proposition two-and-a-half. The assessment totals are certified by the Executive Office of Administration and Finance.

Federal Funds:

In FY25 the MBTA expects to use all preventative maintenance funds available to it to flex into the operating budget. These funds, known as 5307 and 5337 funds, can either be used for preventive capital maintenance for infrastructure, or for an agency's operating budget. The Authority plans to use $191 million in such funds to support the operating budget.

OPERATING EXPENSES

Total FY25 operating expenses are budgeted at $2.55 billion, an increase of $343.3 million over the FY24 budgeted amount. Figure 1 below breaks out the proposed expenses by category. Employee costs (wages, overtime, fringe benefits, payroll taxes, and health & welfare fund contributions) represent the largest category of budgeted spending, at over 38% of spending or $1.04 billion. After MBTA employee costs, the next most expensive spending category is the cost to provide commuter rail service, including costs for Keolis personnel, which is expected to be $522.7 million, or 19% of all expenses. Debt costs will consume $516.9 million, or 18.9% of expenses. The cost of materials, supplies, consultants, insurance, finance charges and other related costs are projected to cost $499.3 million, or 18.3% of the budget. Finally, the cost to provide The RIDE (the MBTA's mandated parallel paratransit service), ferry service, and subsidized local private bus services consumes 5.6% of costs or $152.4 million. Figure 1, below details the relative sizes of these expense categories in the FY25 budget.

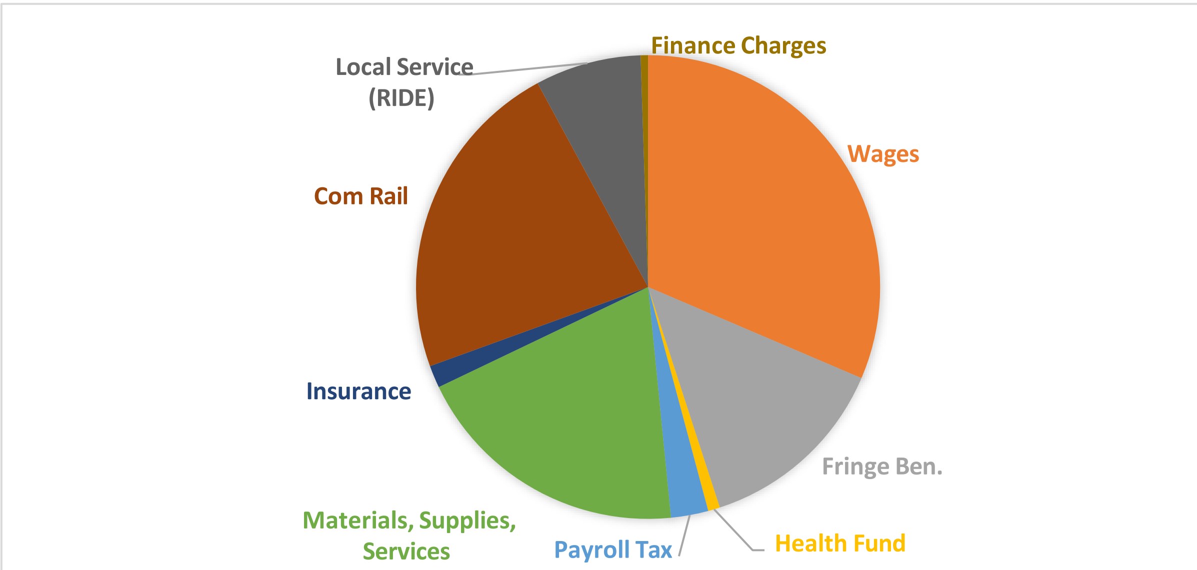

Figure 1: FY25 budgeted expenses by category

Employee Costs:

Employee costs (wages, overtime, fringe benefits, payroll taxes, and health & welfare fund contributions) account for over $1.2 billion in budgeted expenses in the FY25 budget. The budget proposes to support 8,086 positions, 1,742 more positions than were employed by the Authority in March 2023. Figure 2, below charts the growth in MBTA headcount since 2012. In a dozen years, the total number of positions supported by the MBTA operating budget has increased by over 1800 positions. There is concern that this level of headcount is not sustainable, especially given pending multi-million-dollar deficits. Although the need for more employees to safely operate the agency is clear, headcount must at some point, align with affordability.

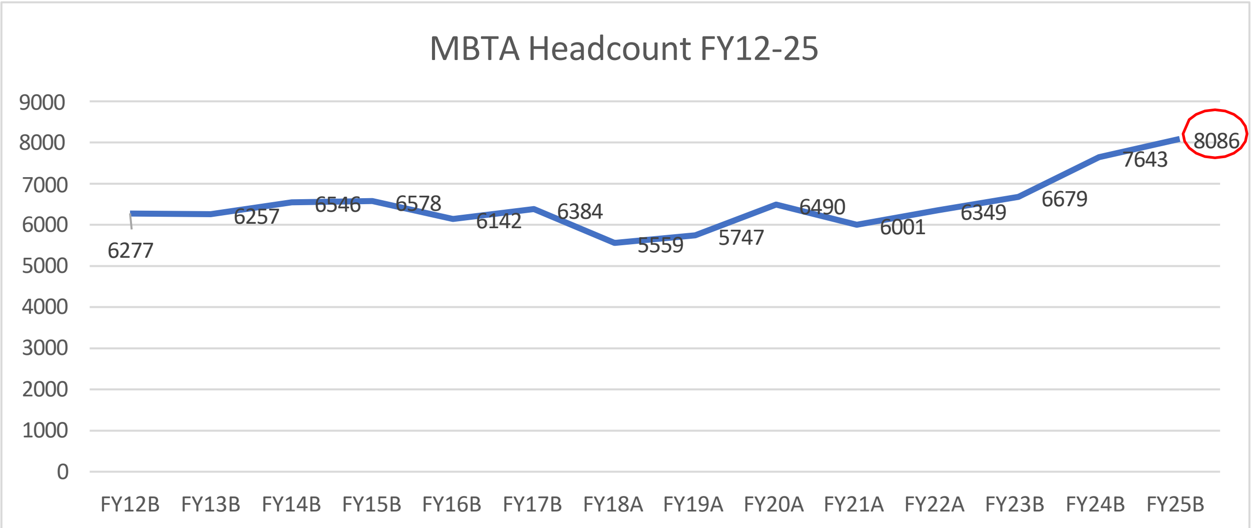

Figure 2: MBTA headcount by year FY 2012 -2023.

As the headcount grows, so will other employee costs such as employee benefits. The budgeted cost for employee pensions, health insurance, payroll taxes and contributions to the employee health and welfare fund are all up compared to their respective FY24 amounts. Over time, the share of MBTA labor hours attributable to general and administrative function versus vehicle operation, vehicle maintenance, and operational support had been growing. As stated above, MBTA leadership suggests that these budgeted costs more accurately reflect the true cost to operate the MBTA in a safe, reliable, and frequent manner in FY25. Like all those interested in the success of the MBTA, the 176 member communities of the MBTA Advisory Board look forward to experiencing substantive and empirically-grounded evidence that 1,000 extra positions do, in fact, result in to better service.

Materials, Supplies & Services:

Expenses in this category include non-durable goods used on the MBTA fleet, professional services such as engineering and management consultant activities, fuel for MBTA vehicles, utility costs to operate vehicles and facilities, cleaning services for stations, vehicles, and facilities and the cost of uniforms for certain employees. In FY25, the cost of these items is projected to rise to $497.4 million, or $1.36 million per day. This is a 9.6% increase in the amount budgeted for similar items in FY24.

Commuter Rail:

The cost to operate the commuter rail contract is budgeted at $578.3 million in FY25, a 10.65% increase over the FY24 budgeted amount. The Committee notes that in FY25 South Coast Rail service is planned to start, and operating costs will depend on the actual start date of that service, and the particulars of the operating plan. The submittal did not indicate how much of the increase in operating costs was attributable to this new service.

Local Service Subsidy:

Costs in this category include THE RIDE, the MBTA's parallel paratransit service, the Authority's ferry service, and subsidies to certain cities and towns for small, contracted bus operations. Costs in this category are projected to increase by 23.8% compared to FY24, an increase of $36.3 million.

DEBT

Debt service payments in the FY25 budget are projected at $466.8 million, compared to $516.9 million in the FY24 budget, a decrease of $50.2 million. The Authority's ability to manage its considerable debt to date is laudable, but having succeeded in the past is no assurance of future success, given the magnitude of plans and projects under development and being advocated. The Advisory Board recently issued its oversight report of the FY25-29 Capital Improvement Program and discussed MBTA debt in detail.

CONCLUSION

The riding public, cities and towns, and all stakeholders face terrible options if the

MBTA's $696 million deficit is not closed in the next 13 months. This comes at a time when MBTA ridership has not returned, and analysis suggests that it is unlikely to return anytime soon given both a flattening of growth versus general expectations for recovery. The fear is that no action will take place, and service cuts will be the only available solution if the Authority is forced to solve its deficits internally. As stated above, in FY21, the MBTA proposed draconian service cuts to realize $142 million in savings. The deficit for FY26 is projected to be 4.9 times greater.

PROPOSED FY21 SERVICE CUTS:

Bus Cuts

- End all service at midnight
- 5%-20% frequency reduction across all routes.
- Consolidate 14 routes:
- Shorten 5 routes
- Eliminate 25 bus routes

Red, Orange, Green, Blue, & Mattapan Cuts

- Stop all service at midnight
- Cease running Green Line E branch trains west of Brigham Circle
- 20% frequency reduction

Commuter Rail Cuts

- End all service at 9PM (10PM for Fairmount)
- No weekend service
- Frequency reduction on all lines
- Close 6 stations
- Shorter trainsets
- Close Needham layover facility

Ferry Elimination

- Eliminate all ferry service

The RIDE Cuts

- Change paratransit service for all or some customers from 33 communities.

Given the draconian nature of the cuts proposed in FY21, there was significant opposition from cities and towns, advocates, elected officials, and the general public. The service cuts required to close a $696 million deficit in 13 months are simply impossible to propose and still be considered a public transportation provider. To prevent these death-spiral-inducing actions, the MBTA Board urgently needs to begin discussions of financial restructuring to be able to plan rationally for the foreseeable crisis ahead.

The MBTA Advisory Board is anxious to collaborate with the MBTA Board of Directors in any way to help address these problems.