



Massachusetts Bay Transportation Authority

History of Funding Update

A&F Subcommittee
August 2024

Mary Ann O'Hara, CFO
Pat Landers, Treasurer

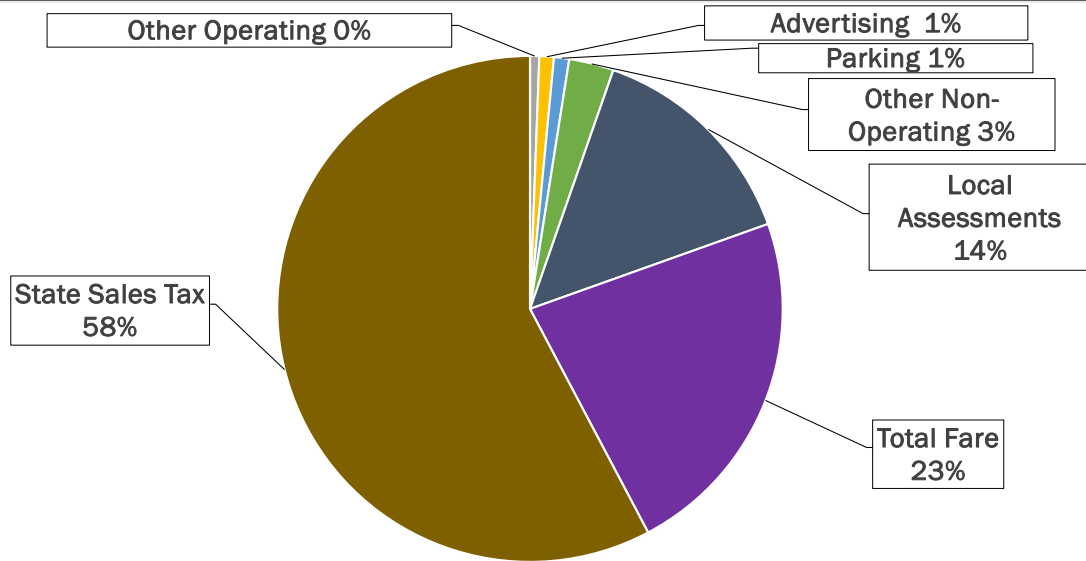
Agenda

- History of Funding: Part 1 Recap
- Establishment of Contract Assistance
- 2013 Transportation Finance Framework
- Fair Share Amendment
- The Fiscal Cliff

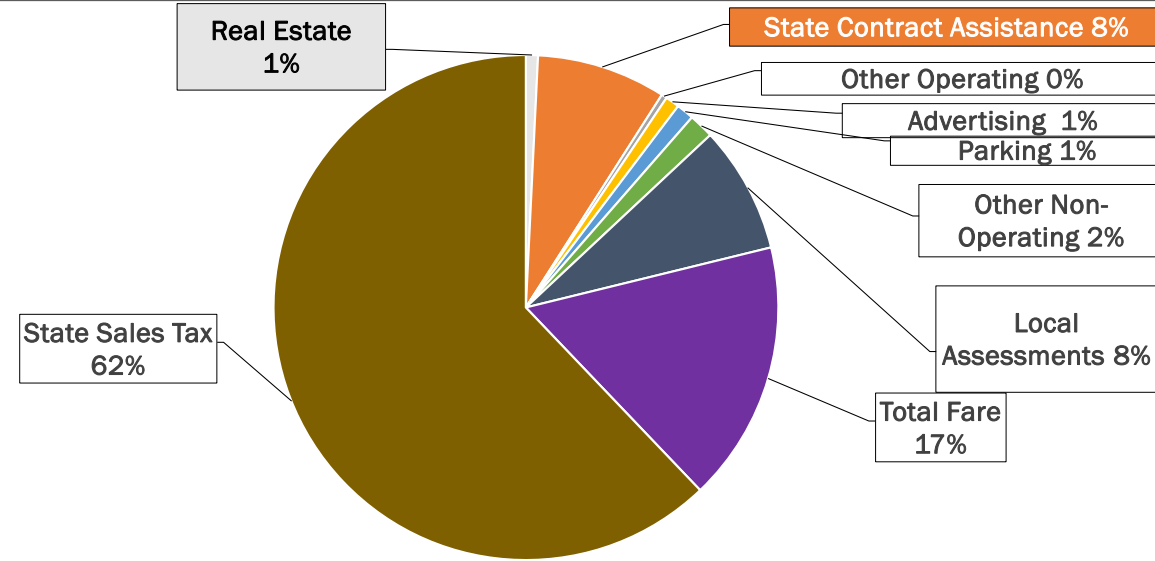


MBTA Total Revenue by Source

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**



History of Funding: Part 1 Recap

- In January 2024, we examined the expectations of Forward Funding when it was implemented in 2000 and the realities of what subsequently occurred:
 - Expectation: 6.5% to 8.5% CAGR of Sales Tax Revenue which was \$8.9-\$15.5 billion of Sales Tax underperformance
 - Transferring \$3.3 Billion of Legacy Debt and \$1.5 billion of Central Artery 3rd Harbor Tunnel Project (CA/T) Mitigation to the MBTA proved to be too heavy a burden given Sales Tax underperformance

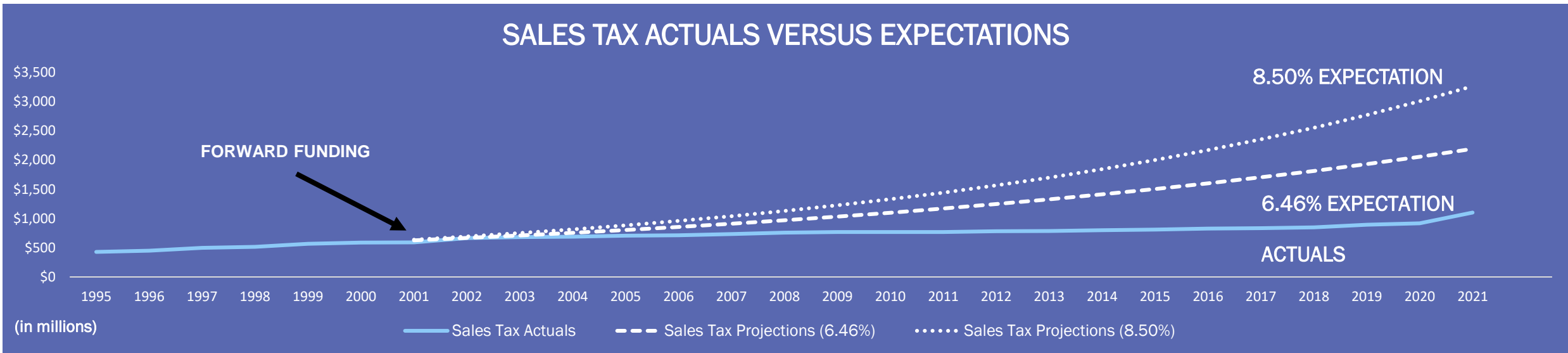


Forward Funding Sales Tax Performance

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

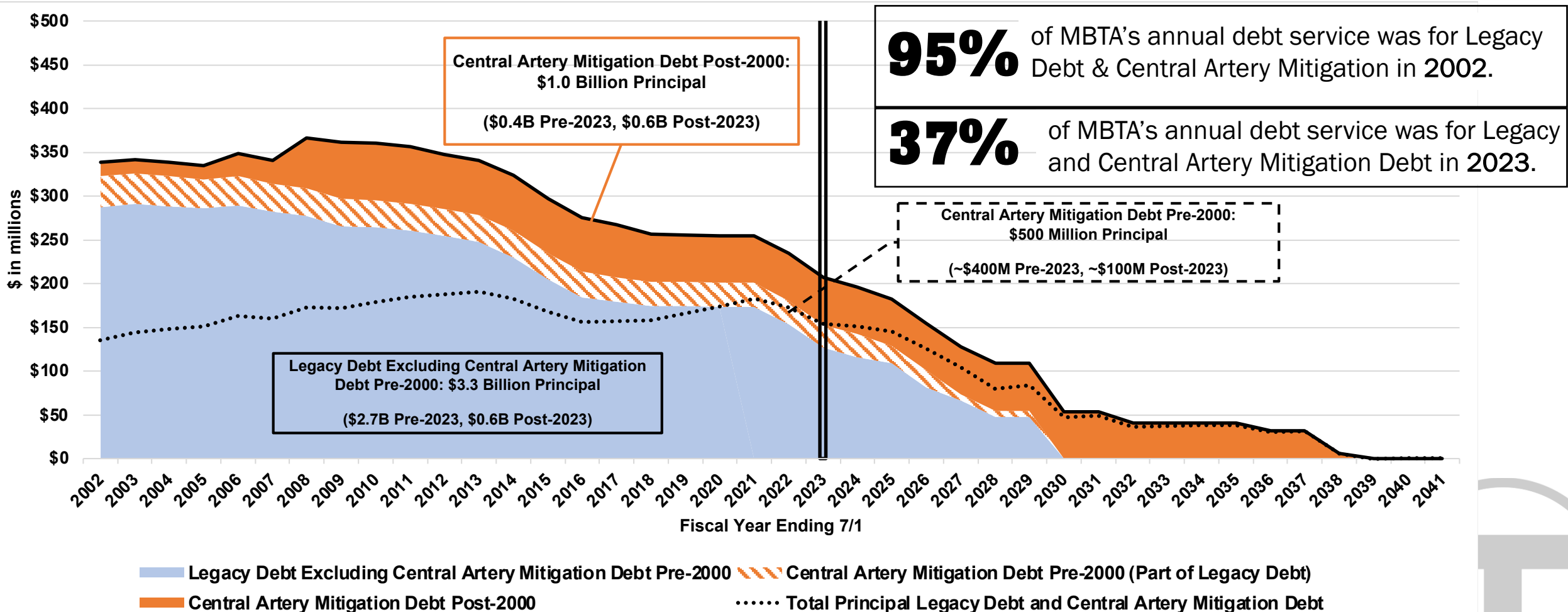
- With Forward Funding, the MBTA receives one percent of the statewide sales tax (6.25%) and local assessments that were conditioned upon payment of the debt service on these obligations.

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: Legacy & CA/T Debt Burden

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

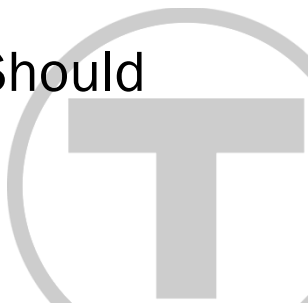


Establishment of Contract Assistance



Increased Sales Tax in 2009

- In 2000, Forward Funding established that the MBTA would receive a 1% statewide Sales Tax, excluding meals, with the establishment of the MBTA State and Local Contribution Fund (Section 35T of Chapter 10).
 - 20% of the then current 5% statewide Sales Tax
 - This amount is known as the Dedicated Sales Tax Revenue Amount (“DSTRA”).
- In 2009, the Commonwealth raised the statewide Sales Tax from 5% to 6.25%.
 - The justification for the increase was to make investments in transportation and education and other pressing public needs.
- During implementation of the tax increase, a question arose as to what effect the additional 1.25% of Sales Taxes would have on the MBTA’s DSTRA disbursements: Should the MBTA receive 20% of the 1.25% increase?



Establishment of Contract Assistance

- It was determined that the MBTA would not receive 20% of the 1.25% increase as it would have required an amendment to the original language which specifies 1% of collections rather than 20% of total collections

Enabling Act, Title 12, Chapter 161A of the General Laws, Section 35T

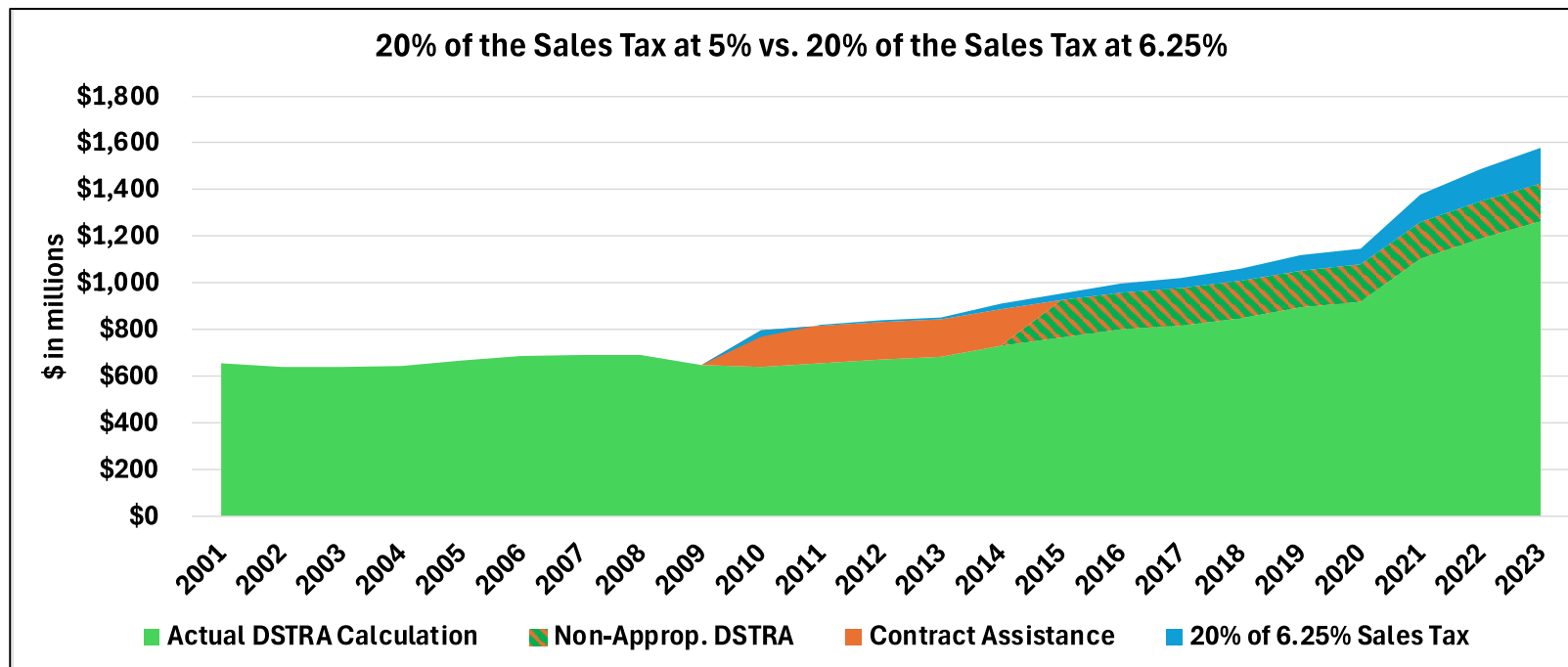
*"Dedicated sales tax revenue amount", all monies received by the commonwealth equal to **1 per cent of the gross receipts of a sale** as defined in chapter 64H and **1 per cent of the sales price of a purchase** as defined by chapter 64I from that portion of the taxes imposed under said chapters...."*

- In recognition of that one of the stated goals of the revenue increase was to assist the MBTA, the State created a **\$160 million Contract Assistance payment** which was annually appropriated.



Impact of a Flat \$160 Million Payment

- The gross MA sales tax collections (ex-meals) more than doubled between 2010 and 2023 from \$3.85 billion to \$7.90 billion
- If the MBTA had received 20% of the 2009 Sales Tax Increase, the Agency would have received an additional ~\$725 million (More than half of which would have been received from 2021 to 2023)



2013 Transportation Finance Framework



2013 Transportation Finance Framework (“TFF”)

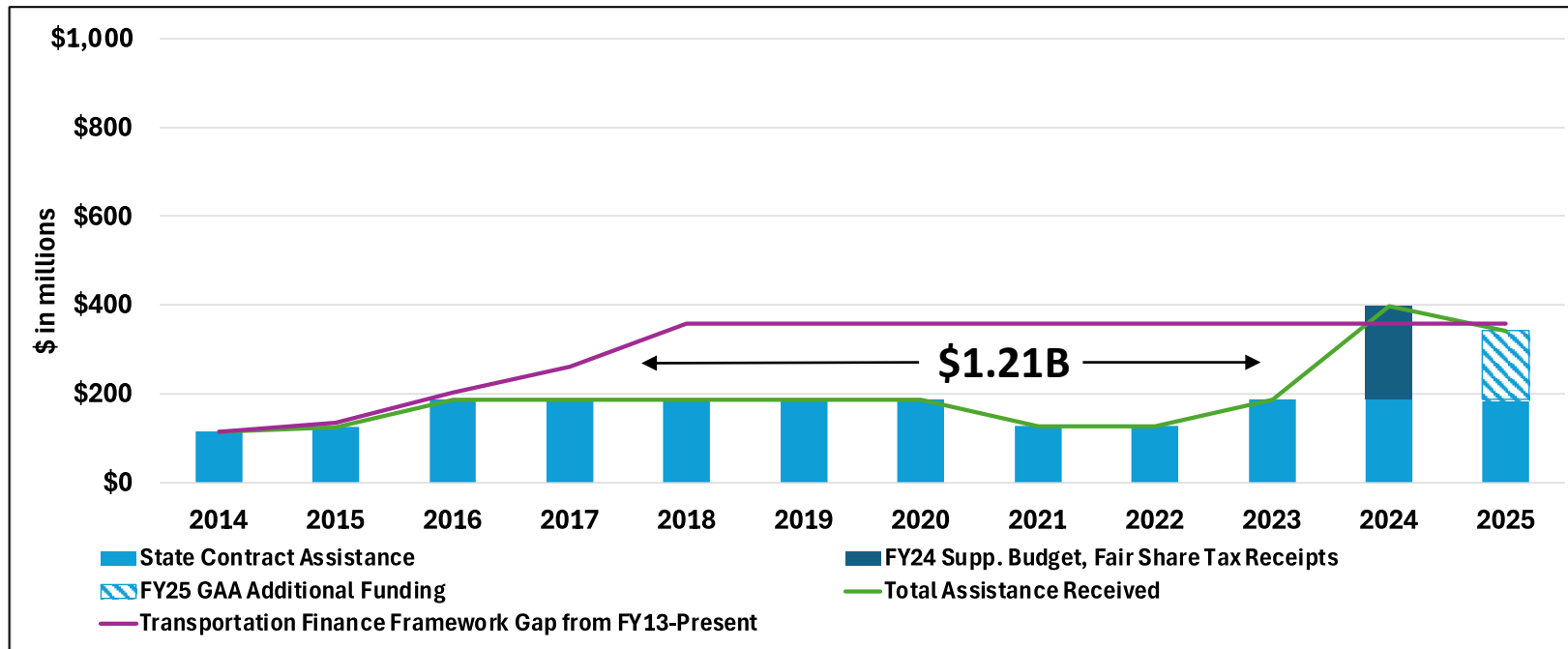
- In April 2013, the legislature agreed on the “TFF” which formed a ‘common financial ground’ between the House and the Senate as they enacted transportation reform.
- Newly proposed taxes would generate ~\$500M in annual sustainable revenue:
 - \$165M in sales taxes on computer systems
 - \$165M on increased tobacco taxes
 - \$110M 3 cent increase in the gas tax (the gas tax indexing to inflation was repealed in Nov. 2014)
 - \$83M in changes to utility tax classification
- One of the preeminent TFF goals was to generate new sustainable revenues that do not disproportionately affect any one area of the state.
 - Transportation, and the MBTA in particular, had been identified as a clear need for these additional revenues. The table below details the projected operating gaps for the MBTA from 2013:

	FY14	FY15	FY16	FY17	FY18
MBTA Starting Gap	\$ (115.2)	\$ (135.1)	\$ (202.4)	\$ (260.5)	\$ (357.2)



Actual Contract Assistance Following TFF

Since the new TFF revenue sources were implemented, MBTA Contract Assistance received* has been **\$1.21 billion** less than the projected operating budget gap detailed in the “TFF” totals



Fair Share Amendment

- Fair Share Tax Increase was passed by voters in 2022, effective in 2023, was created to generate support for transportation and public education.
- Distributions to the MBTA to Date:
 - \$211 million distribution is in FY24 budget
 - Future distributions from this source is still uncertain.



Outcomes of Recent Revenue Initiatives

- **Sales Tax Increase in 2009**
 - \$160 million of recurring annual Contract Assistance
- **Transportation Finance Framework of \$500M in New Revenue from 4 Sources in 2013**
 - \$187 million of recurring annual Contract Assistance (more years than not)
- **Fair Share Tax Increase Effective 2023**
 - \$211 million distribution is in FY 2024 budget
 - Future recurring annual Contract Assistance from this source is still uncertain.

The initial proposals expressed in 2009 and 2013 resulted in less actual recurring annual support to the MBTA than needed.

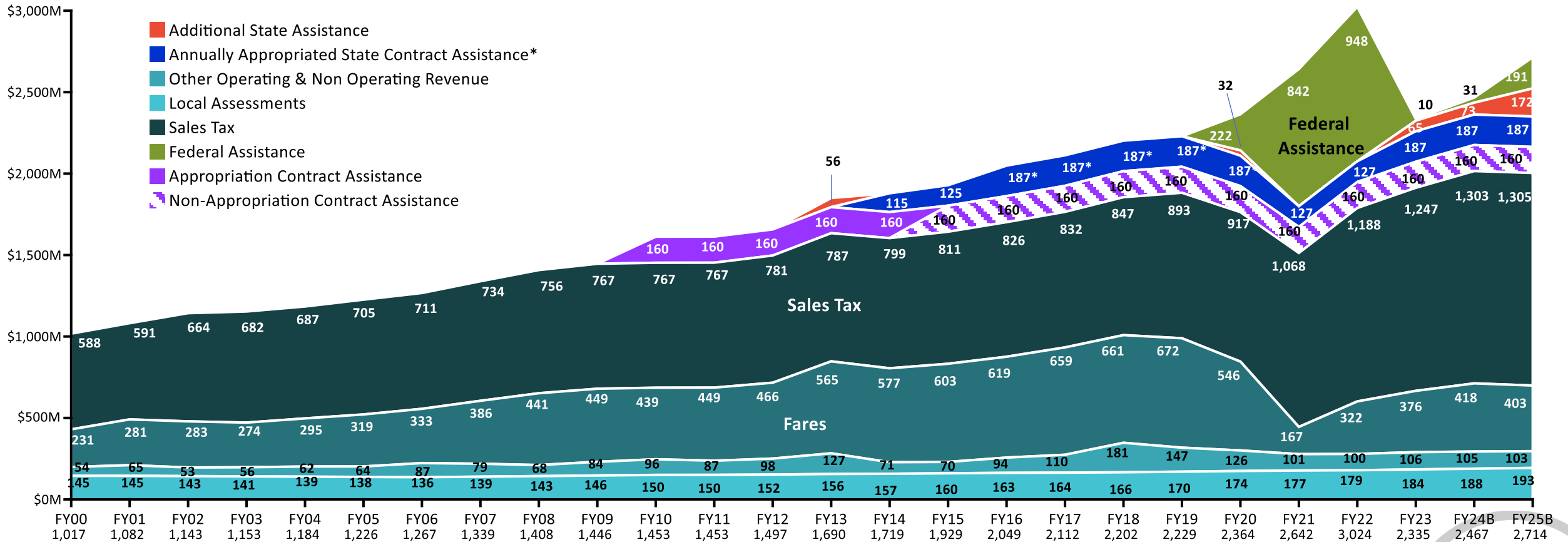


The Fiscal Cliff



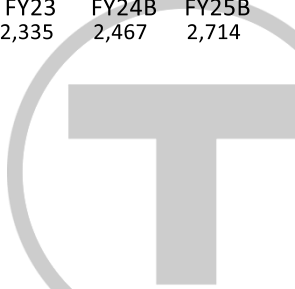
MBTA Revenue History

Total Revenue Received Before Transfers, Updated 7/15/2024



Source: MBTA FMIS Data, CC-H_REV Report adjusted to reflect total state revenue received by fiscal year on the operating budget

*State Contract Assistance Transfer of \$187M from FY16 – FY20 had \$60M Transferred to the Capital Budget



The Fiscal Cliff

- The MBTA faces a ~\$700M deficit in FY26 per the most recent pro forma*
- The MBTA has faced critical operating budget gaps before
- Previous initiatives have resulted in less recurring annual support to the MBTA than needed
- History shows the importance of:
 - A recurring non-appropriation type revenue source
 - A revenue source with a reliable growth trajectory
- The MBTA FY26 budget planning begins in December 2024
- With the Transportation Funding Task Force report not due until December 2024, the MBTA faces fiscal uncertainty heading into the FY26 budgeting process



Appendix



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*)
- Low Income Fare Program (*Policy Choice – Governor Proposal to Fund*)
- 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*)

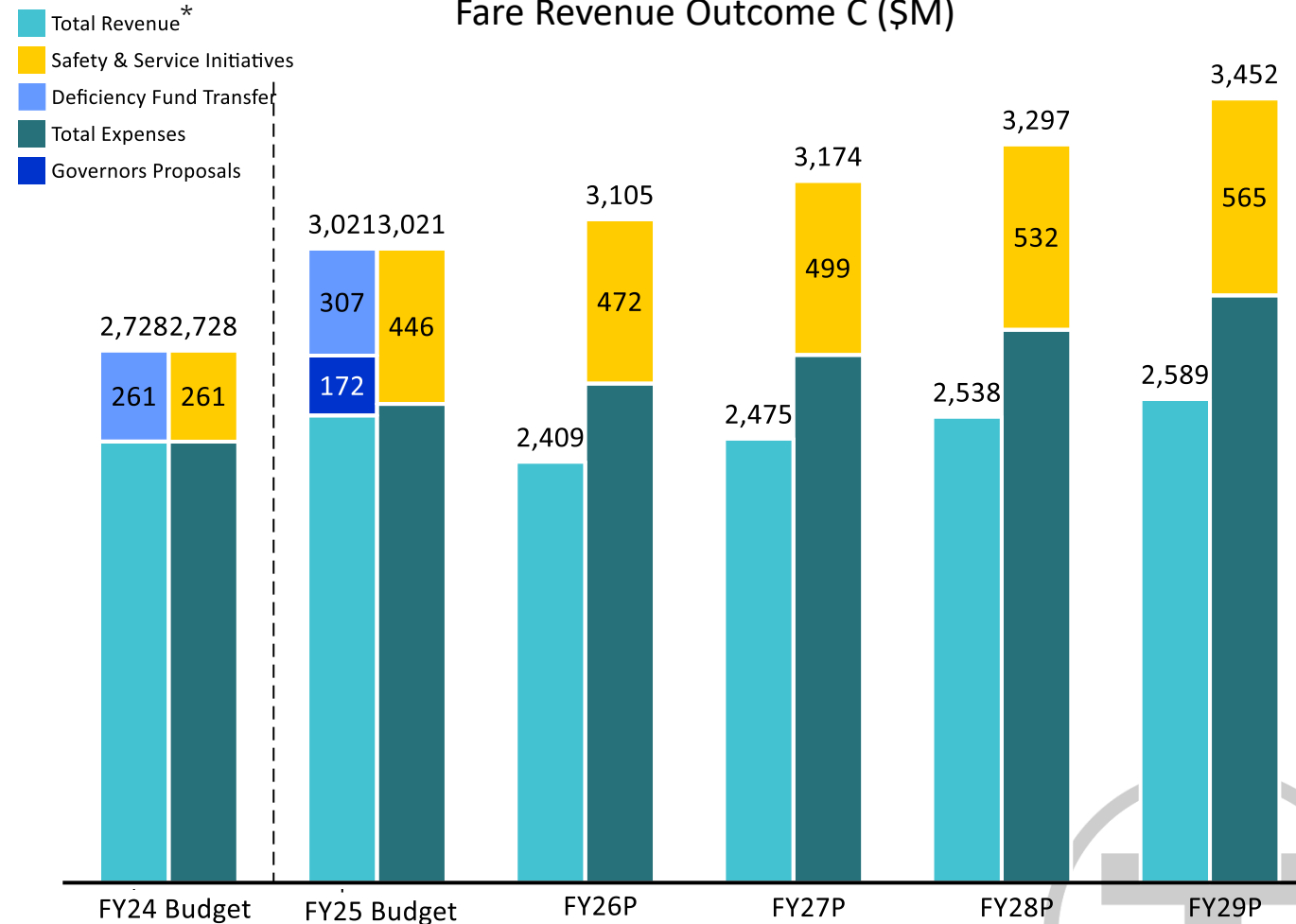


FY24 – FY29 Pro Forma Recap

(Presented in Final Operating Budget Presentation in June 2024)

- The FY25 Operating Budget utilizes the deficiency fund and relies on additional state appropriations to balance
- After implementation of FY25 budget, the MBTA will introduce a **~\$93M savings target** to accrue over the course of the fiscal year (July 1, 2024 – June 30, 2025). The savings will be deposited into the deficiency fund to help offset the projected budget gap in FY26. The following actions will be taken to achieve this target:
 - Review of professional services and consulting contracts to see where reductions can be made
 - Identifying efficiencies between departments
- As the MBTA continues to hire front line workers, accelerate maintenance, and build back to pre-pandemic service levels, ***identifying ~\$93M in savings becomes harder to accomplish***
- Deficiency fund balance and cash reserves available in FY25 will depend on numerous factors including fare revenue, FY24 potential favorability, and hiring and attrition rates.
- Looking ahead to FY26 and beyond, structural budget gaps of \$696M - \$863M are projected as expense growth outpaces revenue growth, creating the need for a long-term funding solution

FY24 – FY29 Projected Revenues & Expenses
Fare Revenue Outcome C (\$M)

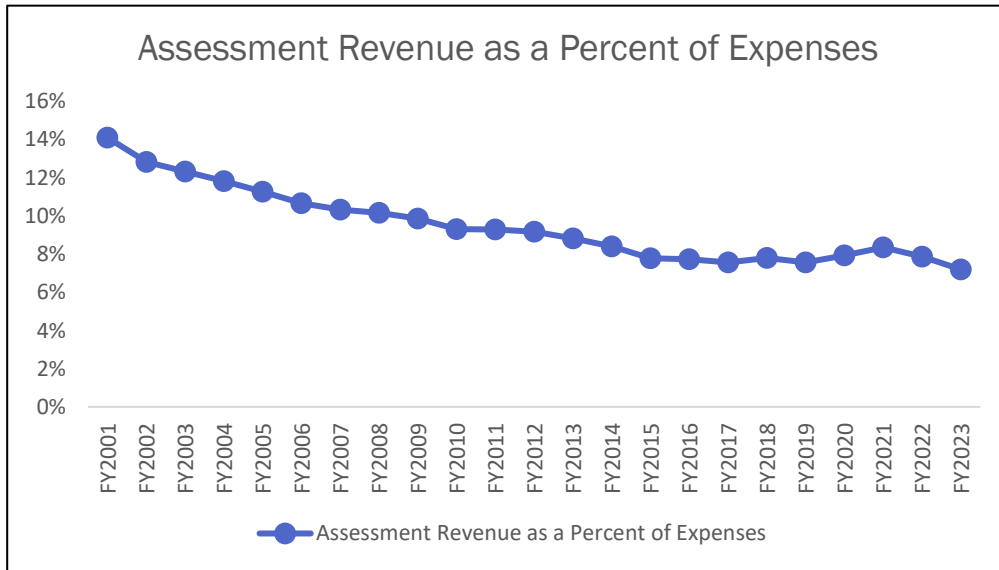


Budget Deficit	FY24 Budget	FY25 Budget	FY26P	FY27P	FY28P	FY29P
	\$0M	\$0M	-\$696M	-\$740M	-\$782M	-\$863M

*Assumes \$187M in annual contract assistance and sales tax revenue growing at ~2.2% (\$1.463b sales tax revenue assumed in FY24 Budget)

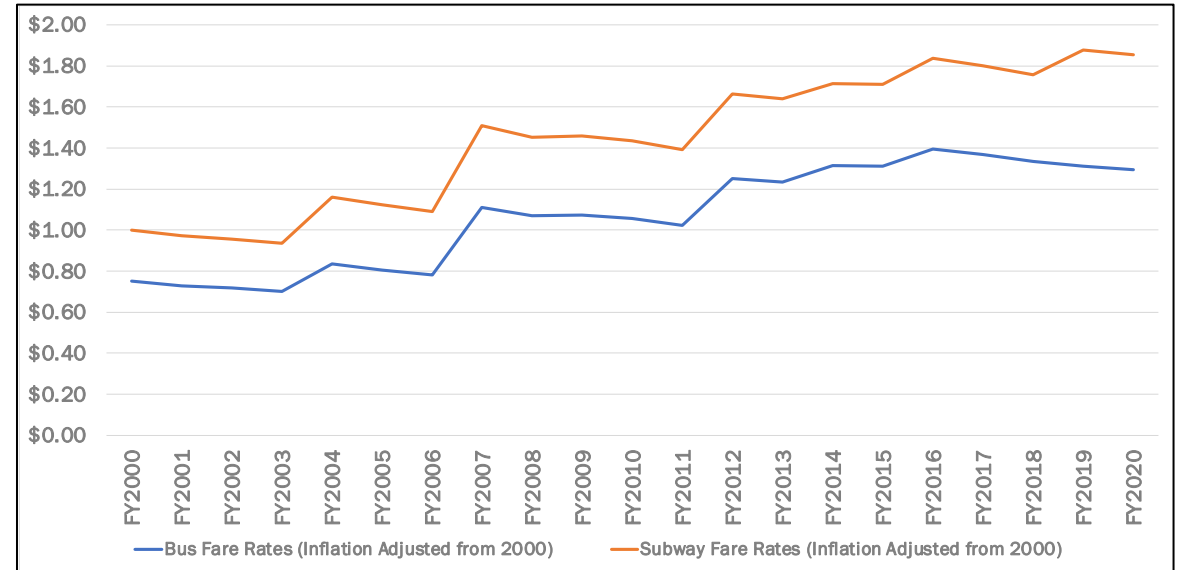
Other MBTA Revenue - Actuals

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

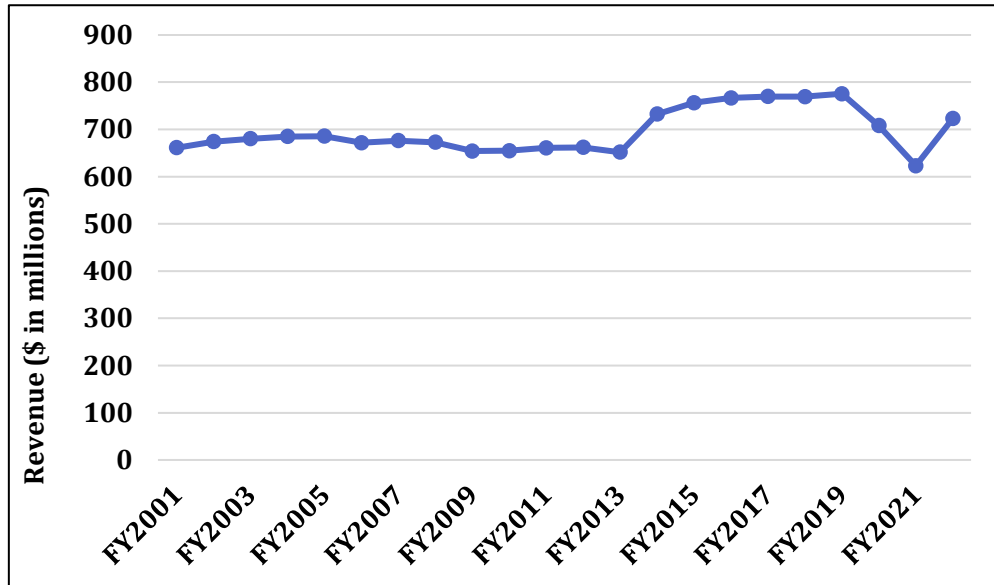


Since 2000, Fare rates have only increased by \$0.54 (Bus) and \$0.85 (Subway) on an inflation adjusted basis.¹

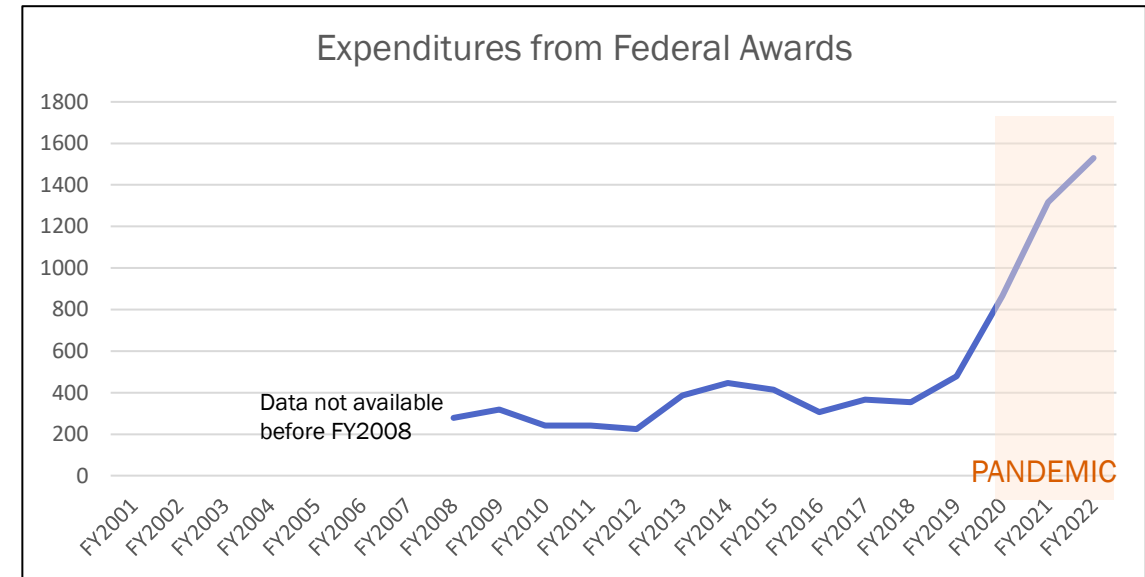


Other MBTA Revenue - Actuals

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.

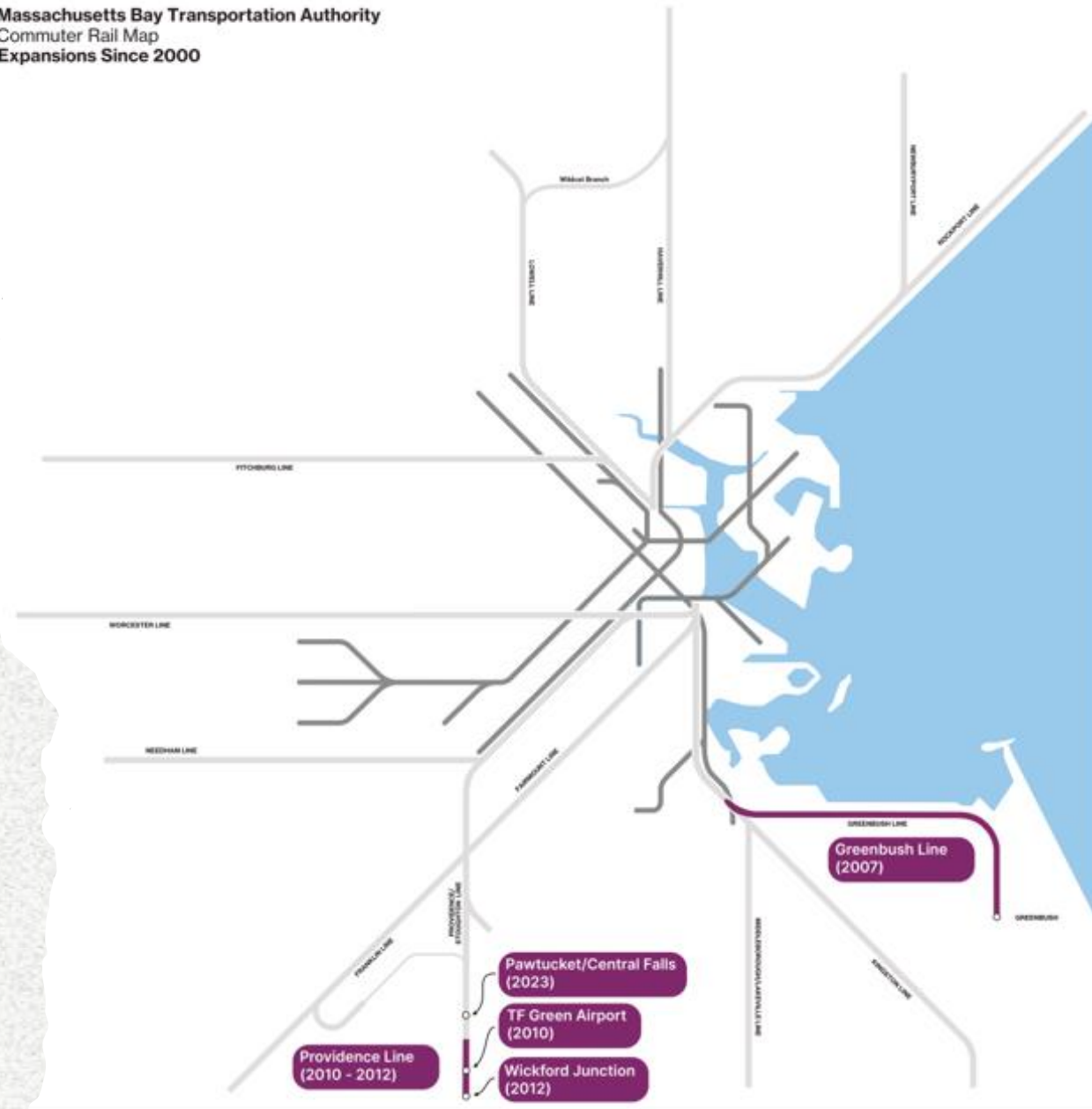
Major Capital Commitments related to Central Artery Mitigation Plan:

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



Commuter Rail System Expansion since 2000

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



Existing Commuter Rail Lines
Existing Transit Lines

Expanded or New Commuter Rail Lines