

Massachusetts Bay Transportation Authority

February 2025 Operating Pro Forma & Budget Preview

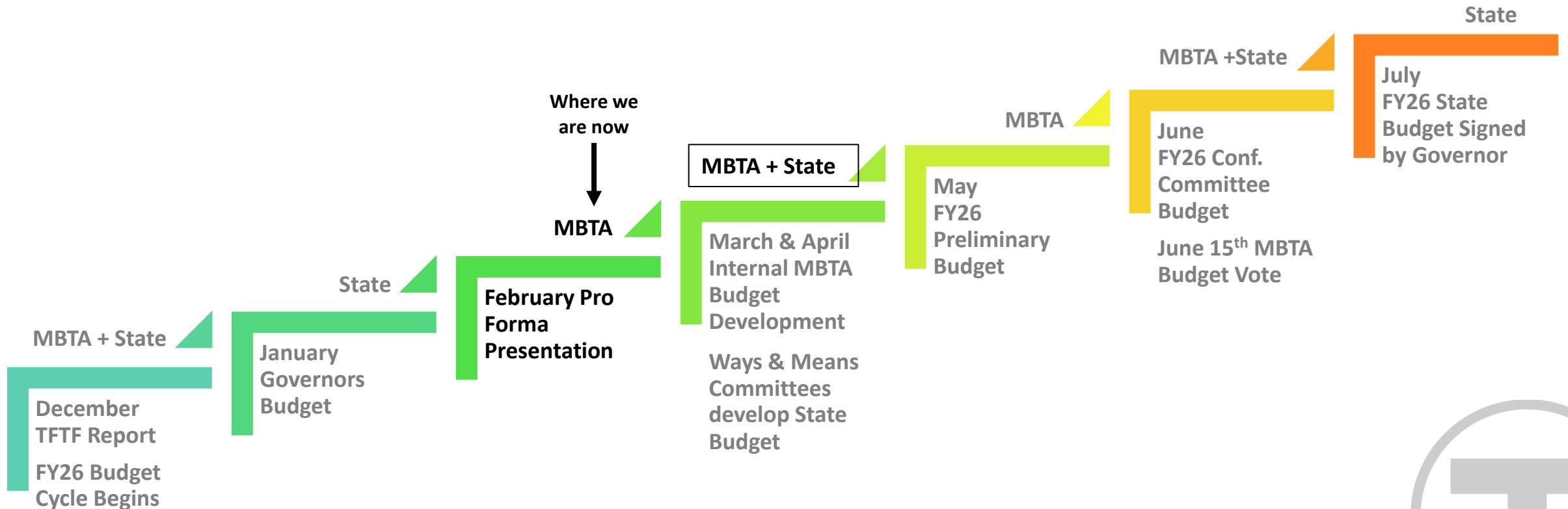
February 20th, 2025

Audit & Finance Subcommittee

Joe Regan, Senior Director of Budget

Budget Timeline & Milestones

- Beginning with the Pro Forma Presentation, several budget presentations will be made to the Board prior to the June 15th approval deadline
- The MBTA and State budget cycles overlap, and the official revenue appropriation to the MBTA will not be finalized until after the June 15th MBTA budget deadline



FY26 Pro Forma Executive Summary

The **FY26 projected deficit** of \$696M in January of 2024 has **decreased to approximately \$155M**

- **\$500M in recurring annual state assistance** proposed through FY28 in the Governors H1 budget recommendation, as well as **\$780M in one-time assistance** proposed to the FY25 Supplemental Budget to be used over multiple years
- Costs are increasing through key initiatives such as: adding positions recommended by the **Workforce Assessment** to comply with FTA Directives, increased maintenance needs and service levels on the **Commuter Rail**, and increased costs in the **RIDE** are driving higher operating costs
- Sales Tax projections have decreased by \$80M compared to the previous pro forma presentation starting in FY26

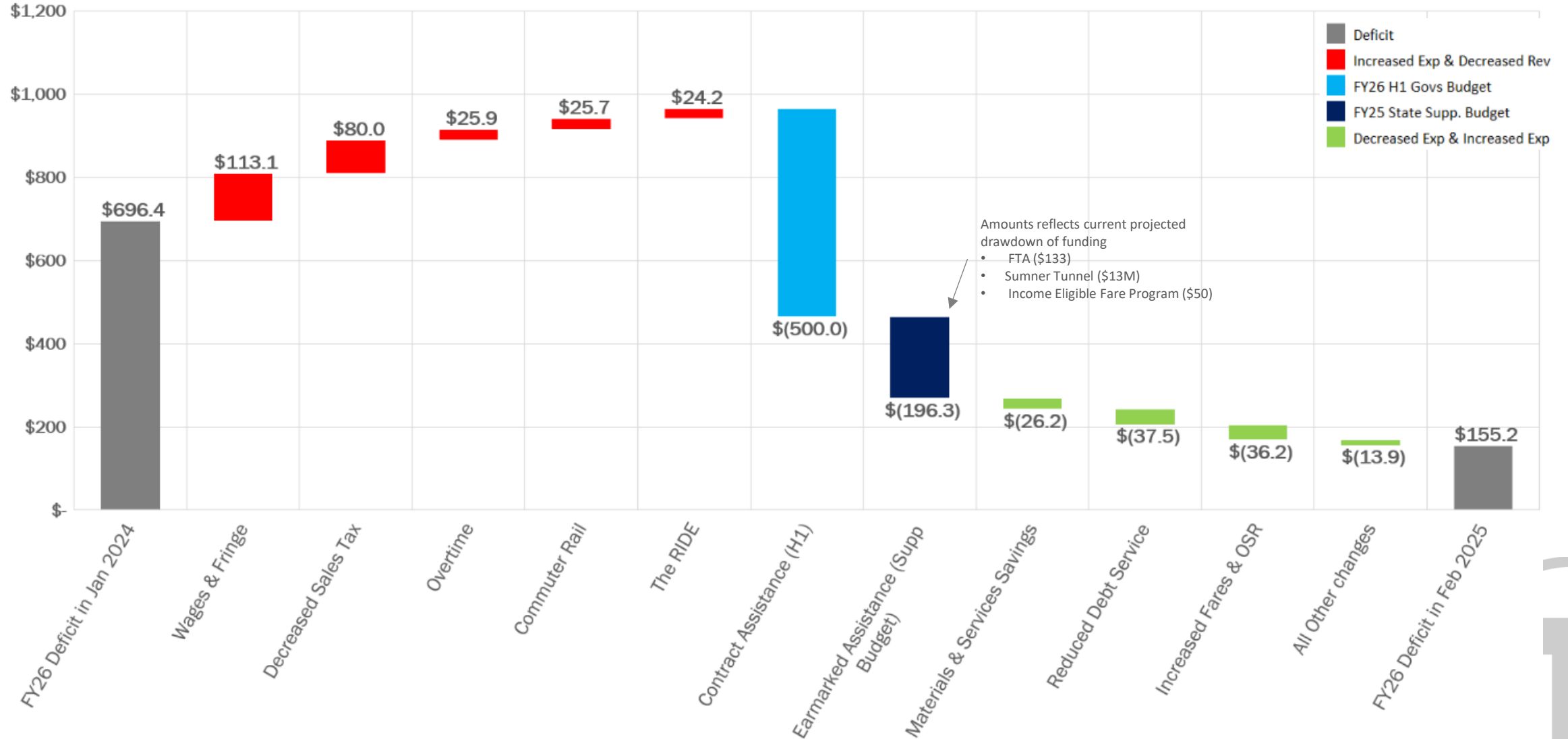
The MBTA is **currently developing the FY26 budget**, taking cost control measures, and generating additional revenue internally to further reduce the projected deficit



FY26 Projected Deficit Improves from \$696M to \$155M

State funding proposals offset higher wages and decreased sales tax

FY26 Projected Deficit



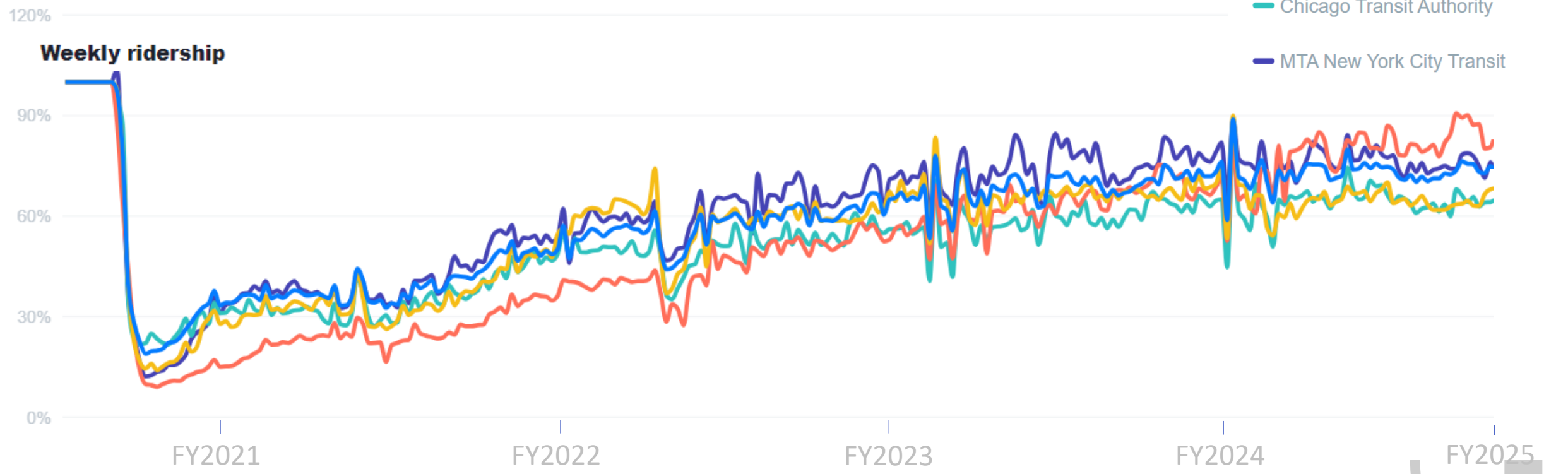
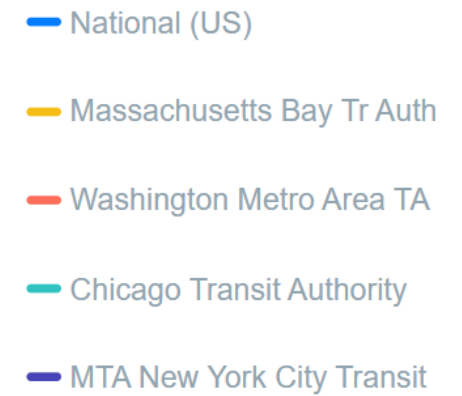
FY25 - FY28 Financials

- **State has proposed \$2.328B in operating budget support** through the Governors FY26 H1 Budget Proposal and the FY25 Supplemental Budget
- **5.6% Revenue Growth Rate** projected from FY25 – FY28, primarily driven by increased State Assistance and moderate fare revenue increases
 - Sales Tax revenues projected to decrease in FY26, per stated sales tax transfer in H1 Governors Budget Proposal
- **7.1% Operating Expense Growth Rate** projected from FY25- FY28, primarily driven by increased hiring of 450-500 positions per year, collective bargaining increases, AFC 2.0, South Coast Rail, and Fairmont Line Electrification in FY28
 - Achieving savings targets of between \$78M - \$105M/year will allow the MBTA to balance FY26 an FY27 Budgets
- FY25 Deficiency Fund balance is \$468M, with \$300M replenishment proposed by the state after funding FY25 projected net revenue

| Revenue | FY25 Projection | FY26 (\$M) | FY27 (\$M) | FY28 (\$M) | FY25 - FY28 CAGR |
|--|-----------------|----------------|----------------|----------------|------------------|
| Fare Revenue | 427.8 | 446.4 | 465.7 | 482.1 | 4.1% |
| Own Source Revenue | 88.0 | 88.6 | 89.6 | 92.4 | 1.6% |
| Sales Tax | 1,472.3 | 1,425.3 | 1,464.5 | 1,504.8 | 0.7% |
| Local Assessments | 193.1 | 196.6 | 200.2 | 203.9 | 1.8% |
| Other Income | 36.6 | 35.4 | 36.1 | 36.8 | 0.2% |
| State Contract Assistance | 314.3 | 687.0 | 687.0 | 687.0 | 29.8% |
| Addtl. State + Fed Assistance | 134.9 | 196.3 | 150.3 | 133.3 | -0.4% |
| Total Revenue | 2,667.0 | 3,075.6 | 3,093.4 | 3,140.3 | 5.6% |
| <i>Fare Recovery Ratio</i> | <i>17%</i> | <i>17%</i> | <i>16%</i> | <i>16%</i> | |
| Expenses | | | | | |
| Regular Wages & Fringe Benefits | 1,137.2 | 1,252.6 | 1,366.3 | 1,485.8 | 9.3% |
| Overtime | 74.1 | 75.1 | 60.8 | 62.9 | -5.3% |
| Materials, Services, Fuel, Utilites | 505.5 | 547.7 | 571.7 | 605.7 | 6.2% |
| Commuter Rail, Ferry, RIDE | 765.5 | 805.6 | 830.6 | 891.5 | 5.2% |
| Total Operating Expenses | 2,482.4 | 2,681.0 | 2,829.4 | 3,045.9 | 7.1% |
| Debt Service | 481.9 | 549.8 | 567.6 | 588.9 | 6.9% |
| Total Expenses | 2,964.3 | 3,230.8 | 3,397.0 | 3,634.8 | 7.0% |
| Net Revenue | (297) | (155) | (304) | (495) | 18.5% |
| <i>Cost Savings Target</i> | | <i>78</i> | <i>88</i> | <i>105</i> | |
| Net Revenue Inc. Savings Target | (297) | (77) | (216) | (390) | |

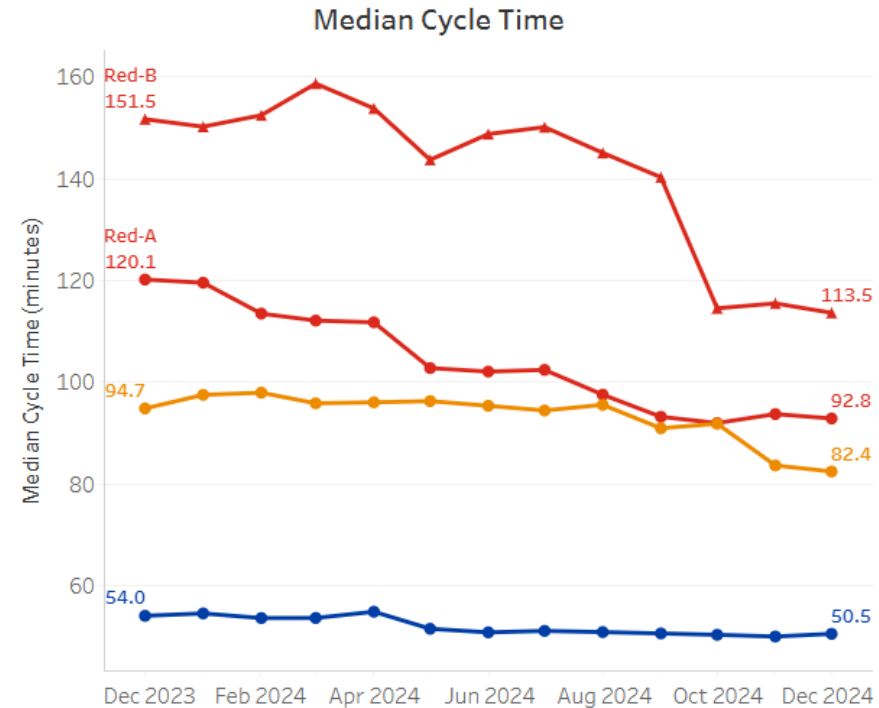
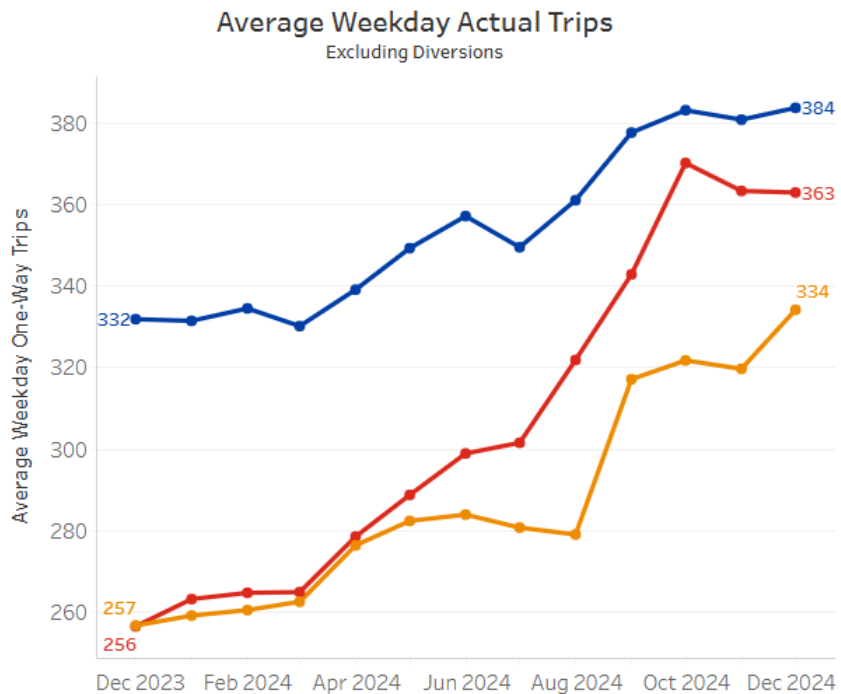
MBTA Ridership Trends Mirror Peer Agencies

- No US transit agency has recovered to pre-pandemic ridership levels according to NTD and APTA Data
- National Average weekly ridership as of January 27th is 68%
- MBTA ridership is expected to increase with the completion of TIP, however ridership is not projected to achieve pre-pandemic levels



Additional Workforce **Support** Accelerates Service Improvements

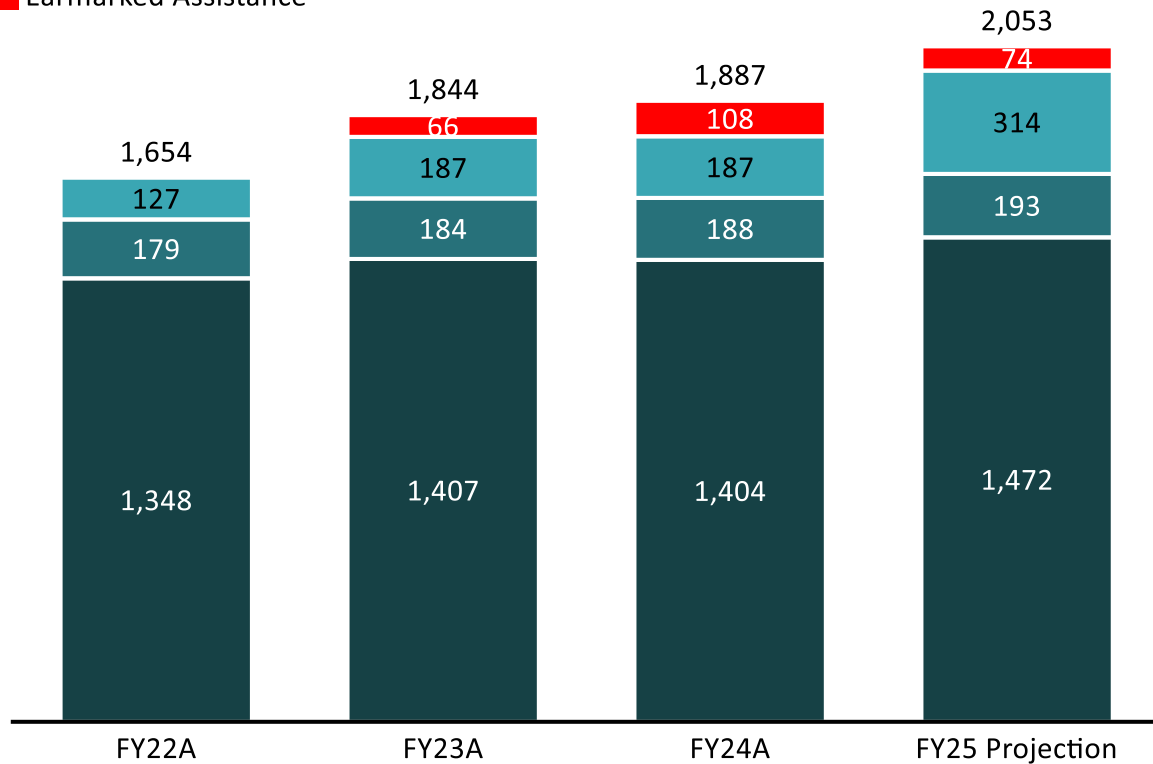
- **Heavy Rail** delivered service has increased on all lines, driven by decreased cycle times from removing speed restrictions and the delivery of new train cars
- **Light Rail** delivered service will be increasing due to decreased cycle times from removing speed restrictions and increased hiring
- **Bus** reliability & service delivered began to improve in FY24 as dropped trips decreased due to historic L589 CBA agreement & increased hiring
- Through FY25, service delivered is expected to continue improving on all modes



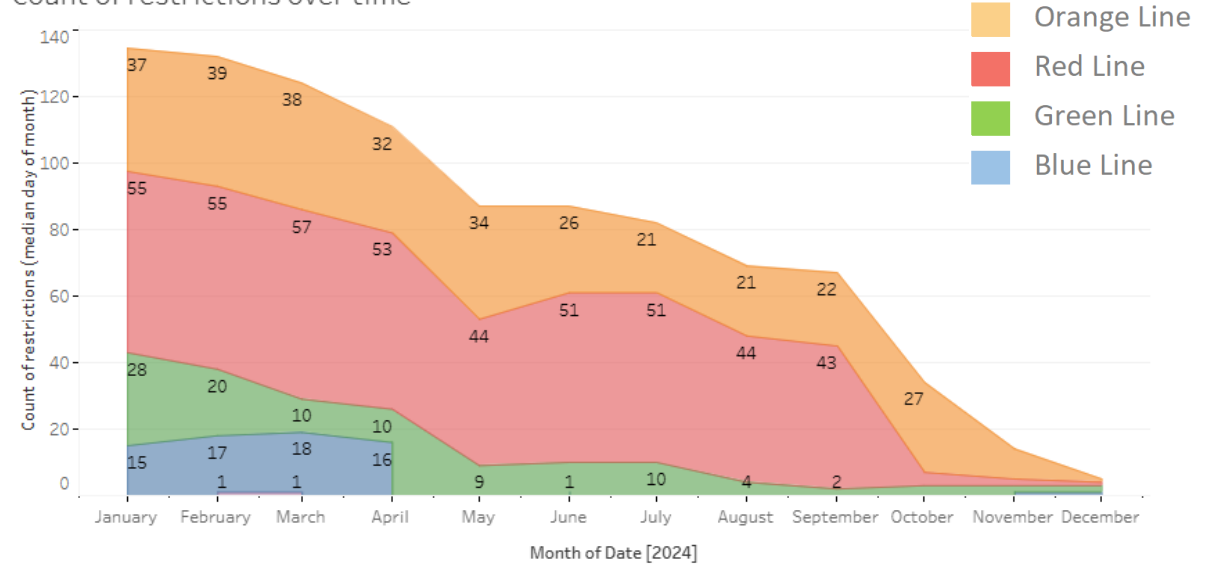
Increased State Funding, including Sales Tax, has allowed slow zones to be eliminated via the Track Improvement Program

FY22 – FY25 State Funding

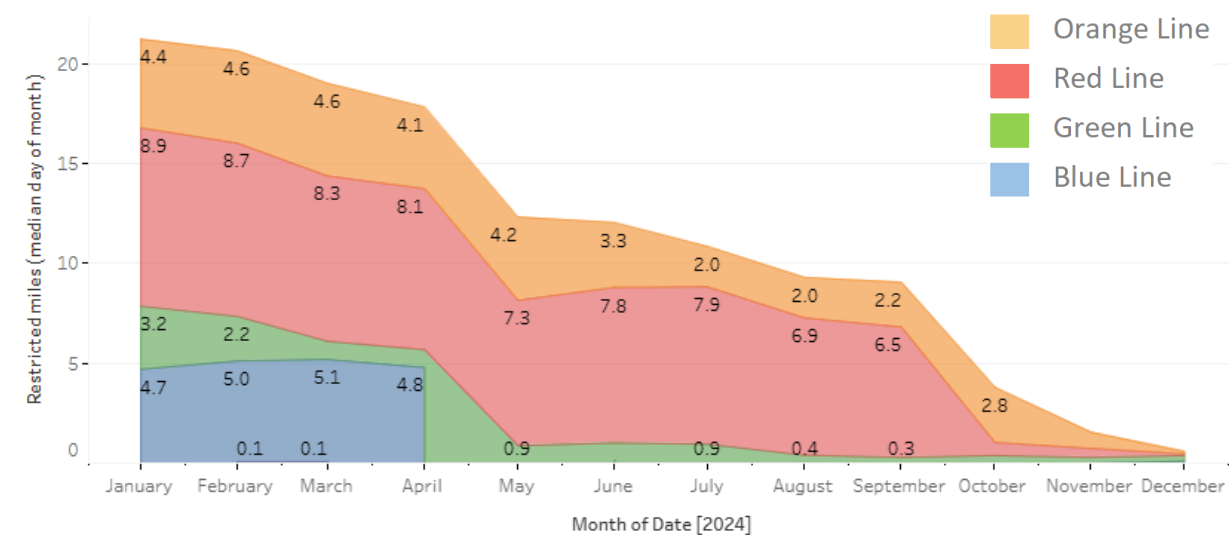
- Sales Tax
- Contract State Assistance
- Local Assessments
- Earmarked Assistance



Count of restrictions over time



Restricted distance over time



Conclusion & Next Steps

- Thank you to the Governor and the Transportation Funding Task Force for \$8B in funding over the next 10 years in support of **Transportation of the Future**
- MBTA is developing the **FY26 Budget** and will return to the board in **April/May 2025** for the **Preliminary Budget Presentation**
- Balancing the FY26 budget is dependent upon passing the **FY26 H1 Governors Recommendation** and the **FY25 Supplemental Budget Request**
- **House Ways and Means** and **Senate Ways and Means** will release their versions of the FY26 State Budget in the Spring, where funding levels proposed in the H1 Governors Recommendation may vary
- MBTA will continue pursuing **cost savings** and **revenue generation activities**, but many MBTA costs are fixed and tied to service levels, making cost savings difficult to achieve

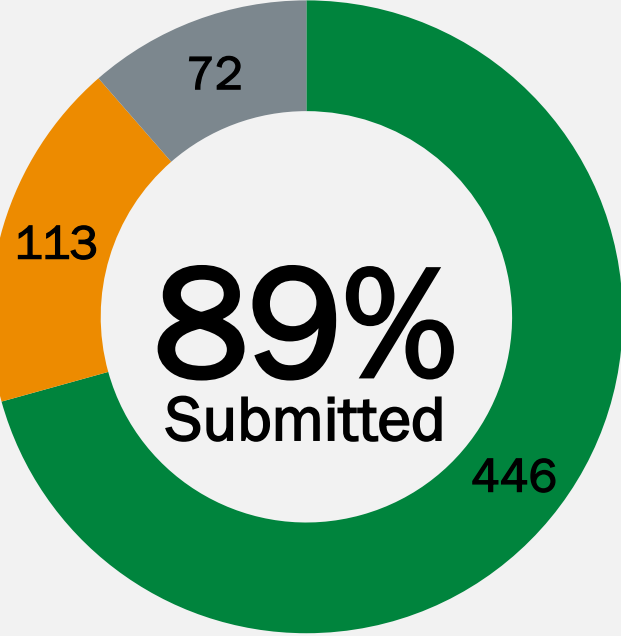


Appendix

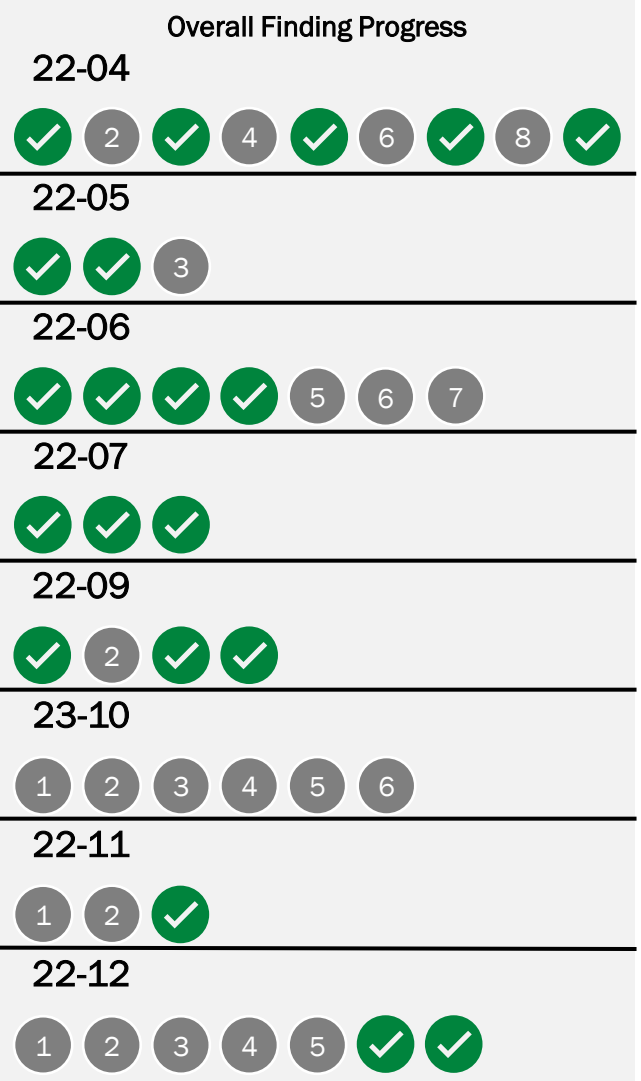
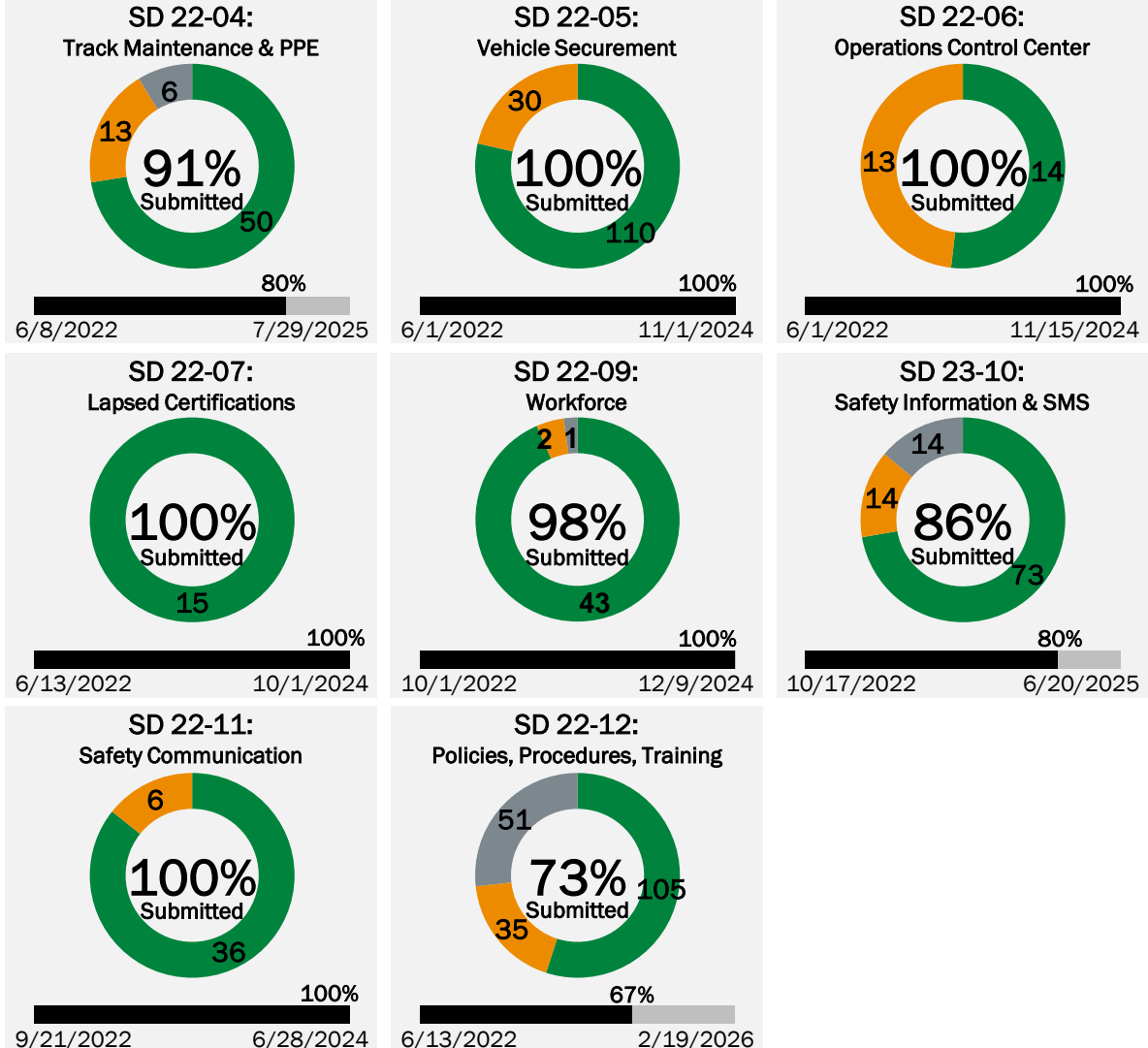


FTA SMI Response Progress Summary

Overall CAP Progress¹



| Overall Findings | Total | 42 |
|------------------|---------|----|
| | Closed | 20 |
| | Ongoing | 22 |



✓ Finding Closed

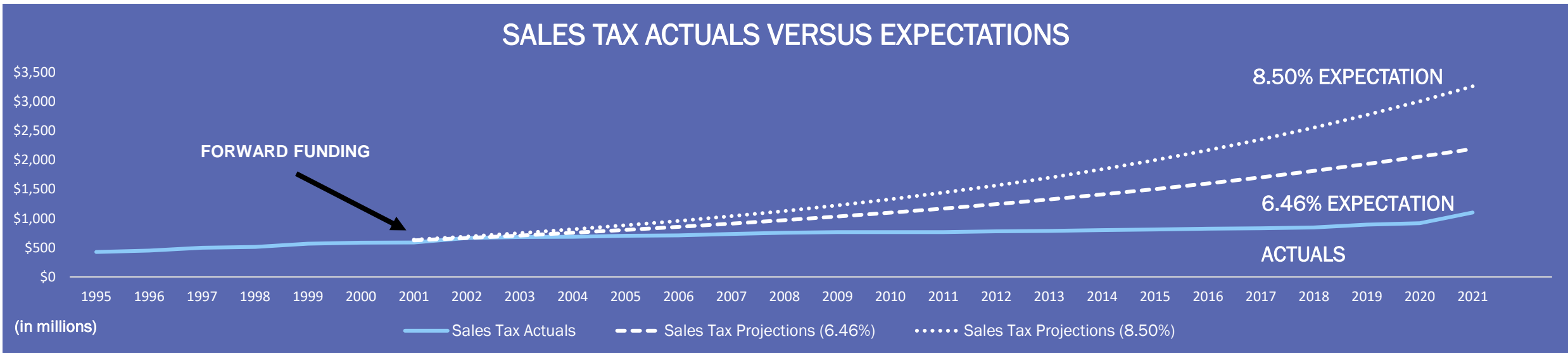
1. Total of 631 actionable items; inclusive of updated 23-10 & 23-12 CAPs, does not include IAL items

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.

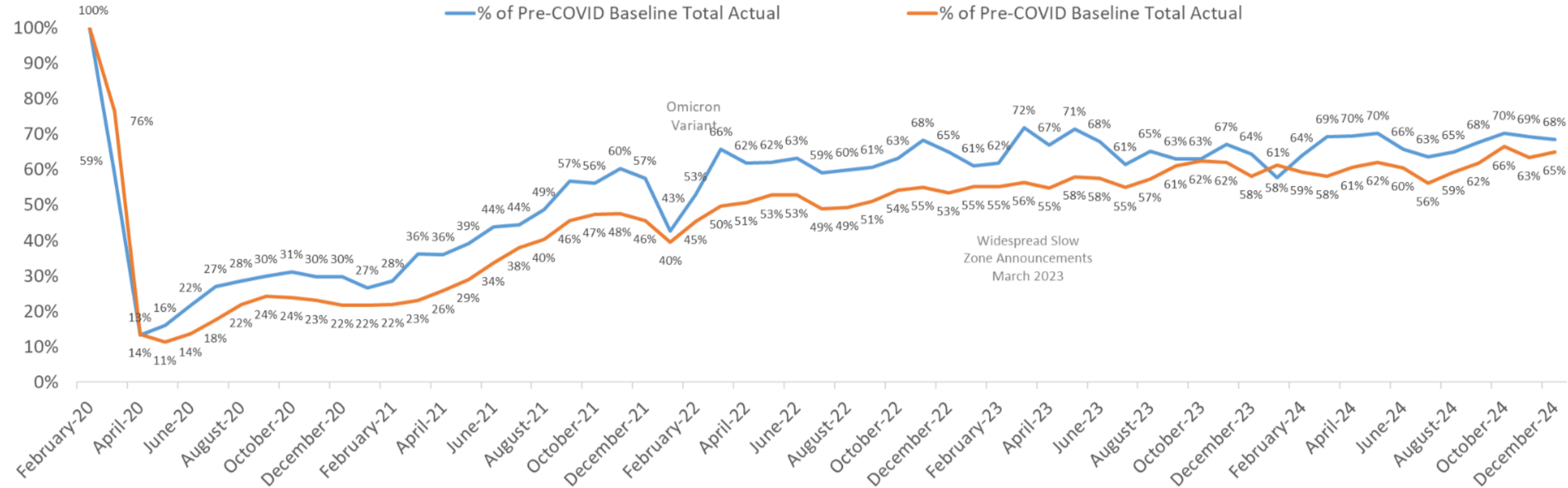
Sales tax revenue grossly underperformed expectations in the first 20 years, growing at an average annual growth rate of 2.29% instead of the anticipated 6.5% - 8.50%, which resulted in **\$9-\$16 billion of lost revenue in nominal dollars** as compared to expectation.



Post-Pandemic Ridership Recovery Stagnates

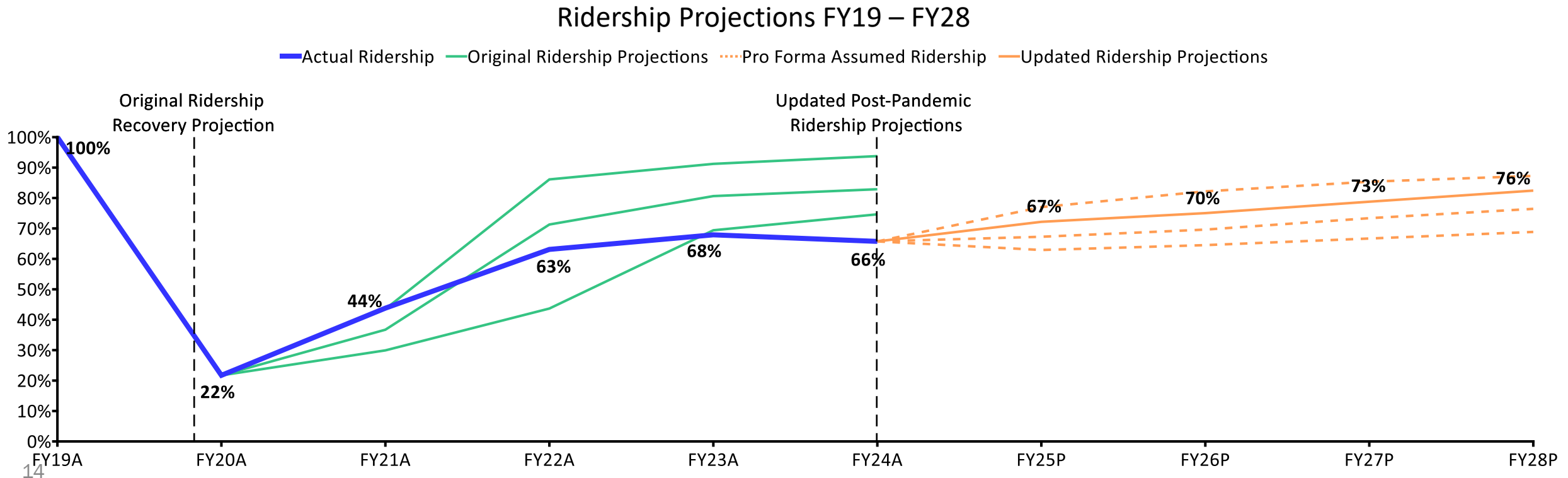
- Ridership and fare revenue recovery has leveled, peaking at 72% of pre-pandemic levels for ridership and 62% for fare revenue

Ridership % of Pre-COVID compared to Fare Revenue % of Pre-COVID

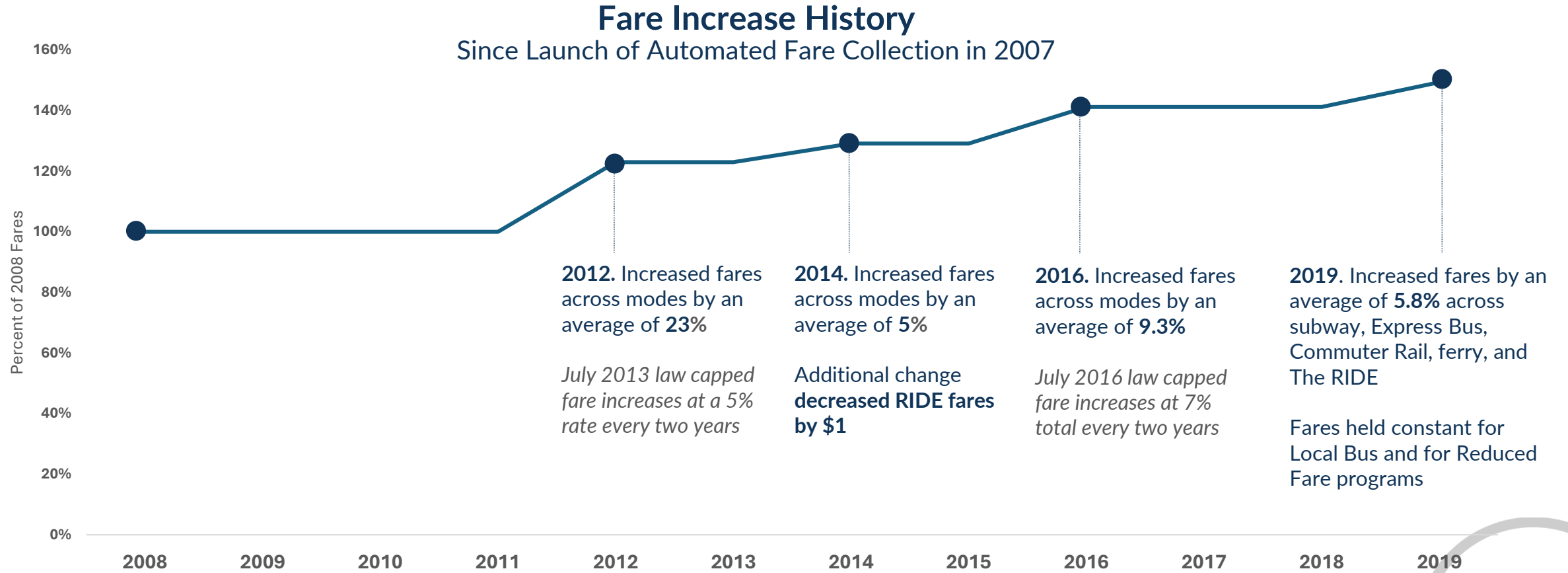


Muted Ridership Growth Projected in FY26 and Beyond

- Original Ridership Projections were created in 2020 and were utilized through FY23
- As part of the FY24 Budget & Pro Forma cycle, an updated ridership projection was created to reflect actual FY20-FY23 Trends
- Despite strong ridership on Commuter Rail, Ferry and The RIDE, total ridership growth is projected to remain within current scenarios
- It is possible that total ridership could improve to a higher scenario in future fiscal years, but ridership behavior is uncertain













What was the trend of MBTA fare changes before COVID?



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 | | | | | | ✓ | | | ✓ | ✓ |



Service Expansions drive personnel increases, leading to significant expense growth in future fiscal years

- All years with expense growth greater than 5% result from service expansions, headcount increases to support maintenance, or collective bargaining increases and pension arbitrations
- Significant headcount increases are projected from FY25 – FY28 to remain in compliance with FTA directives (Workforce Assessment), support service expansions for South Coast Rail and the Better Bus Project, and achieve climate goals through Commuter Rail Electrification

