

# Operations Budget Stability Committee Update to FMCB

## FY2015 & July 2015 (FY16) Financial Overview

8/31/2015

The legislation creating the FMCB lays out 13 distinct areas on which the FMCB is to report on monthly and annually:

1. capital planning
2. separation of capital and operating budgets
3. own-source revenue
4. review of expansion proposals
5. procurement and contracting improvements
6. emergency preparedness
7. internal reorganization
8. customer-oriented performance management
9. best practices for workplace productivity
10. reducing employee absenteeism
11. public private partnerships
12. the sale and lease of real estate assets
13. development of performance metrics across organization

Operations Budget Stability  
Team Deliverables

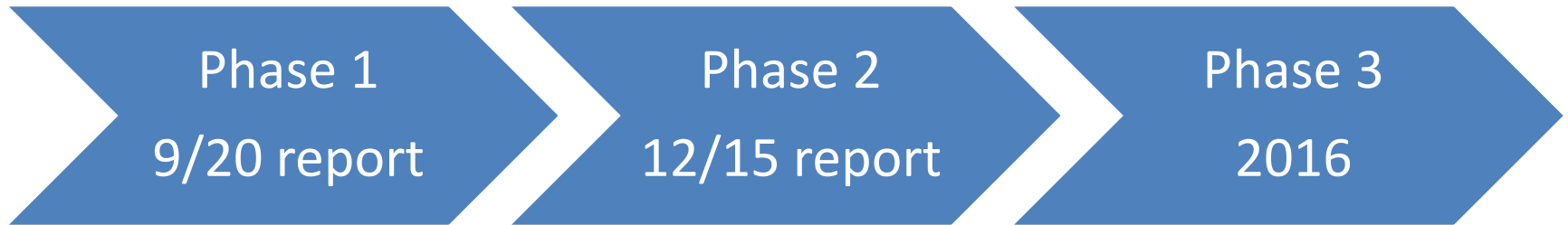
In addition, there are 6 additional powers and responsibilities of the FMCB:

1. to develop 1 and 5 year operating budget beginning with FY 2017, balanced thru own-source revenue and cost control, which will facilitate the transfer of capital employees to the operating budget
2. to establish 5 and 20 year capital plans
3. to establish a performance management system
4. to review any service contract
5. to change fares consistent with chapter 46
6. to reorganize internal structure of the MBTA (pending MassDOT board approval)

# 9/20 FMCB report deliverables

- **Strategic Sourcing Working Group**
  - Discussion on prioritization, methodology for evaluating opportunities
  - Discussion on early focus areas
- **Fare collection**
  - Highly visible to riders on green line / commuter rail
  - Critical first step re: revenue is collecting revenue from existing riders
- **Keolis**
  - Performance Improvement Plan implementation and monitoring; enhanced fare collection strategy
- **Operating budget / deficit**
  - FY15 actuals
  - FY16 forecast
  - 5 year pro-forma baseline

# Operations Budget Stability Committee Process and Timeline



- Initial diagnosis focused on FY15 performance, FY16 run-rate
  - Identification of key cost and revenue drivers
  - Review of initial baseline FY16-20 pro-forma, utilizing status-quo set of assumptions
- Identification of opportunity set on the revenue and cost side that can close the FY17 gap
  - Development of a detailed and granular financial model that enables robust scenario analysis
  - Re-cast of 5 year pro-forma
- Selection and implementation of revenue and cost initiatives that can close the FY17 gap
  - Execution of strategy to reduce forecast operating deficits in FY18-20 and stabilize fiscal outlook for MBTA



# Contents

- FY 2015 overview
  - Drivers of change from FY14A – FY15A
  - Drivers of change into the FY16B
- July 2015 (FY16) monthly update
  - Compared with July 2014 (FY15) and with budget

# A Note on Definitions

- The MBTA has 5 Sources of Revenue
  - Fares (\$603M in FY15)
  - Other Operating Revenue – Parking/Advertising/Real Estate (\$43M in FY15)
  - Dedicated Local Assessments (\$160M in FY15)
  - Dedicated Sales Tax (\$971M in FY15) - MBTA gets higher of Dedicated Sales Tax or “Base-Revenue Amount”
  - Other Income (\$19M in FY15) – Interest income, legal settlements, Federal operating assistance, MassPORT Silver line Revenue
- In addition, discretionary “Additional State Assistance” (\$125M in FY15) is provided to the MBTA to cover costs over and above sources of revenue – essentially it is the annual “plug” between revenue sources and total costs
- We define the Structural Deficit as the difference between the 5 sources of revenue listed above, and the forecast operating and debt expenses of the MBTA
  - For forecasting and analysis purposes: Structural Deficit = Additional State Assistance which the MBTA would need to request in future forecast years
- The MBTA reform legislation directs the FMCB to propose a plan for balancing the Structural Deficit in FY17 and onward, through a combination of cost control and maximization of own-source revenues

# Executive Summary

- **Fiscal Year 2015:** MBTA generated a structural deficit of \$119M
  - Total revenues of \$1.8B offset by total costs (operating and debt) of \$1.92B
  - Including the \$125M in Additional State Assistance, the MBTA finished the year with a \$6M surplus, which was transferred to the Capital Maintenance Fund on 8/28/2015
- **Fiscal Year 2016 Full-Year Forecast:** MBTA is forecast to generate a structural deficit of \$170M, an increase of approximately 40% from the FY15 structural deficit of \$119M
  - Additional State Assistance is Budgeted at \$187M for FY16



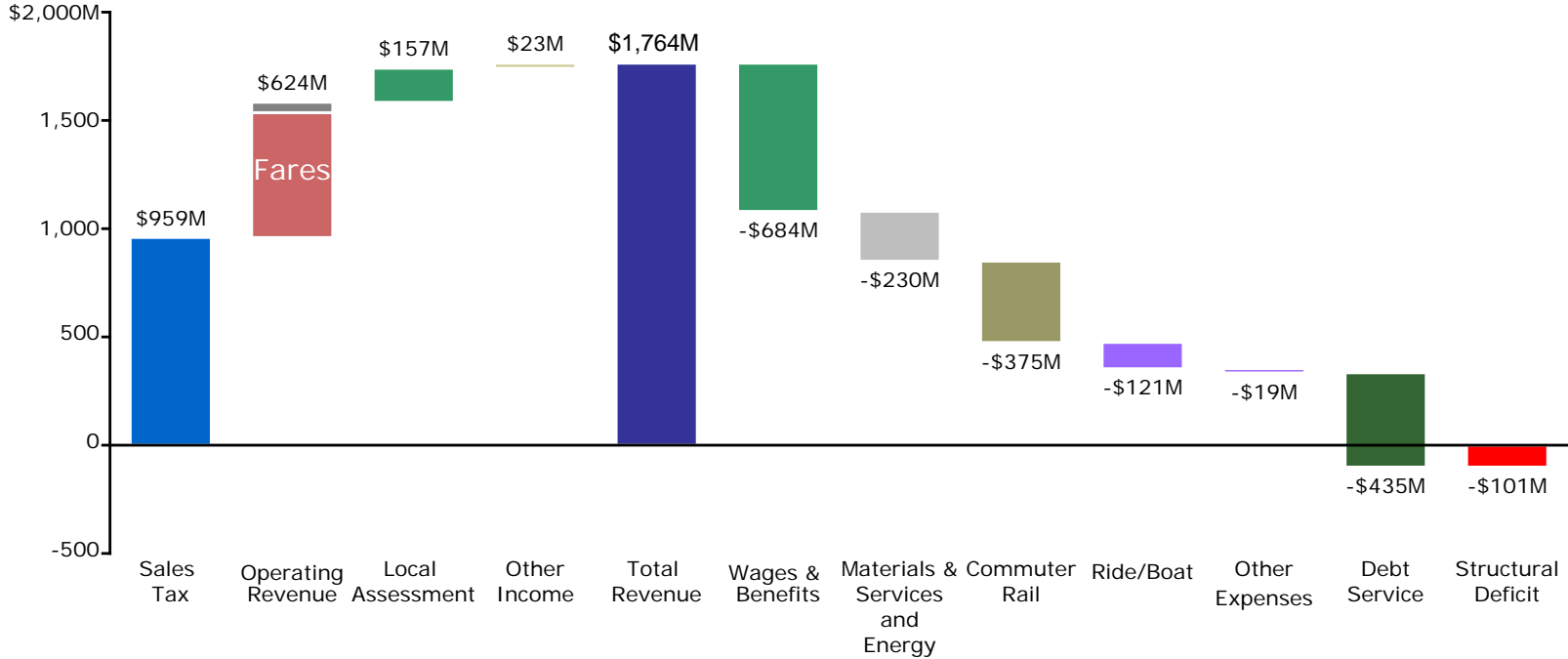


# In FY14, the MBTA structural deficit was \$101M on \$1.76B in total revenues

## FY14A FINANCIALS

EXCLUDING ADDITIONAL STATE ASSISTANCE OF \$115M

Millions (\$)



Note: FY 2014 sales tax includes \$160M state contract assistance

Source: MBTA Internal Data

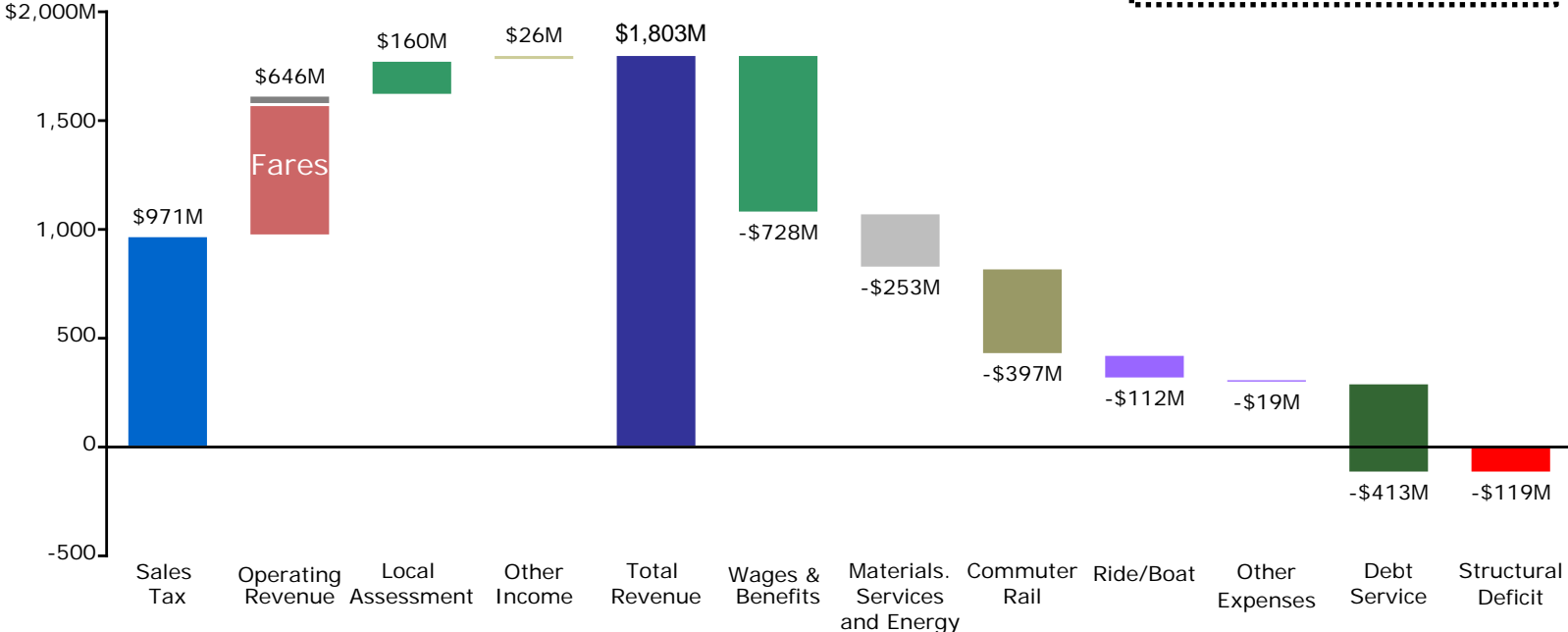


# In FY15, the MBTA structural deficit was \$119M on \$1.80B of total revenues

## FY15A FINANCIALS

Millions (\$)

NOT INCLUDING ADDITIONAL STATE ASSISTANCE OF \$125M



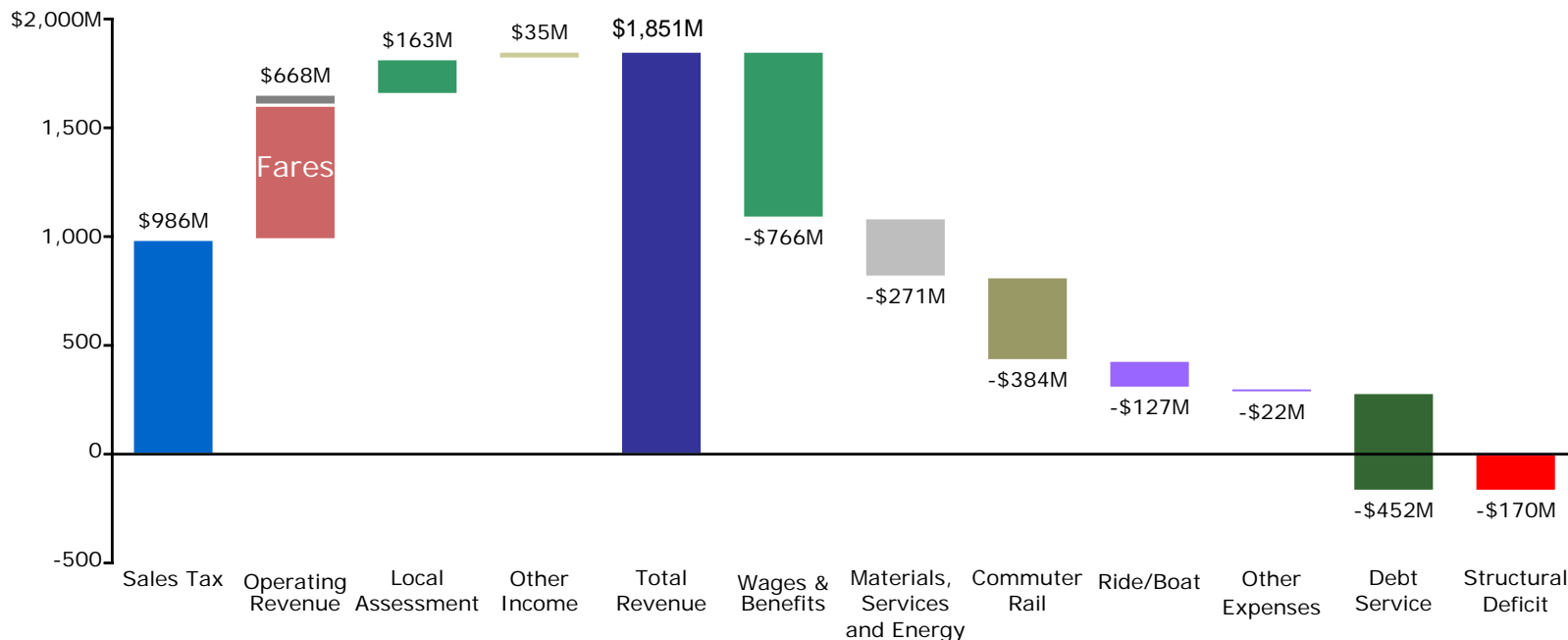
Source: MBTA Internal Data



# In FY16, the MBTA forecasts structural deficit of \$170M on \$1.85B of total revenues

## FY16B FINANCIALS

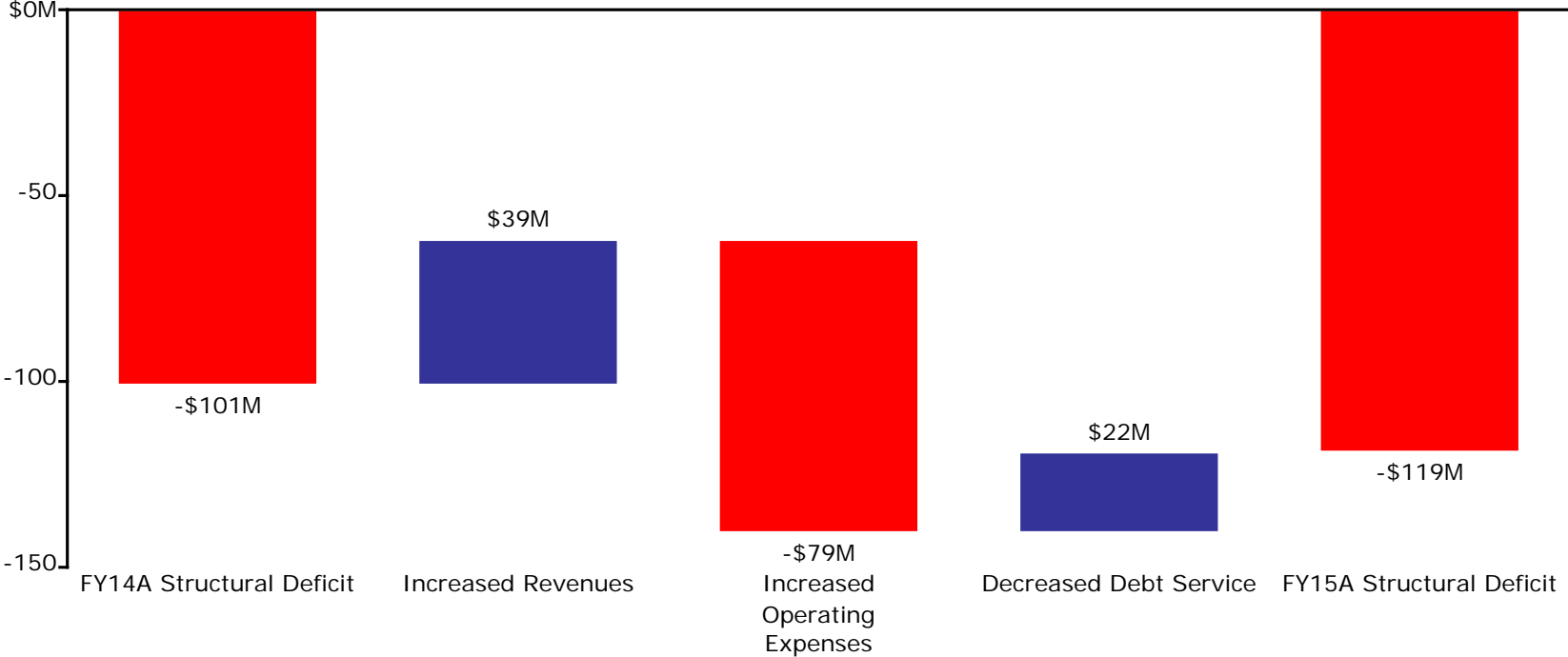
NOT INCLUDING BUDGETED ADDITIONAL  
STATE ASSISTANCE  
OF \$187M



# In FY15, operating expense growth exceeded revenue growth

## BRIDGE FROM FY14 TO FY15 STRUCTURAL DEFICIT

NOT INCLUDING ADDITIONAL  
STATE ASSISTANCE  
Of \$125M

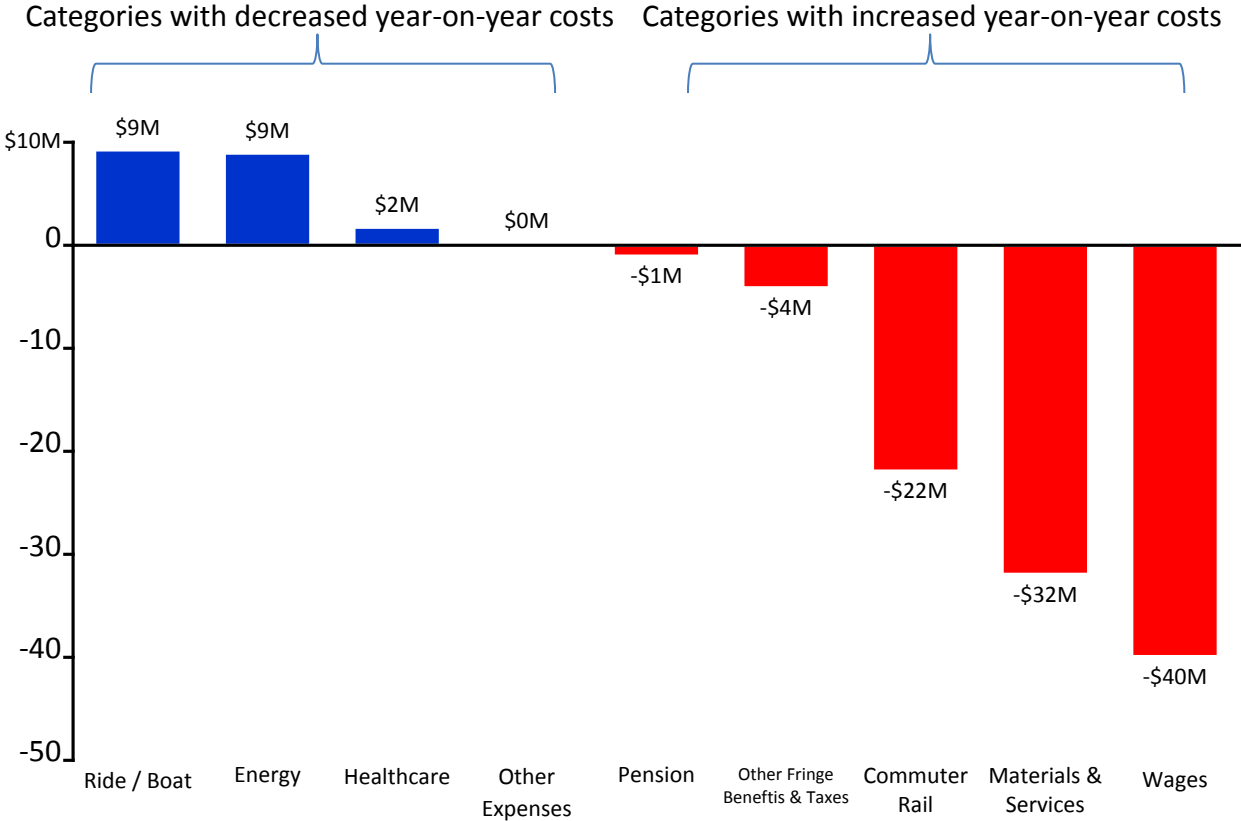


Source: MBTA Internal Data



# Wages and Materials & Services were leading drivers of operating expense growth in FY15

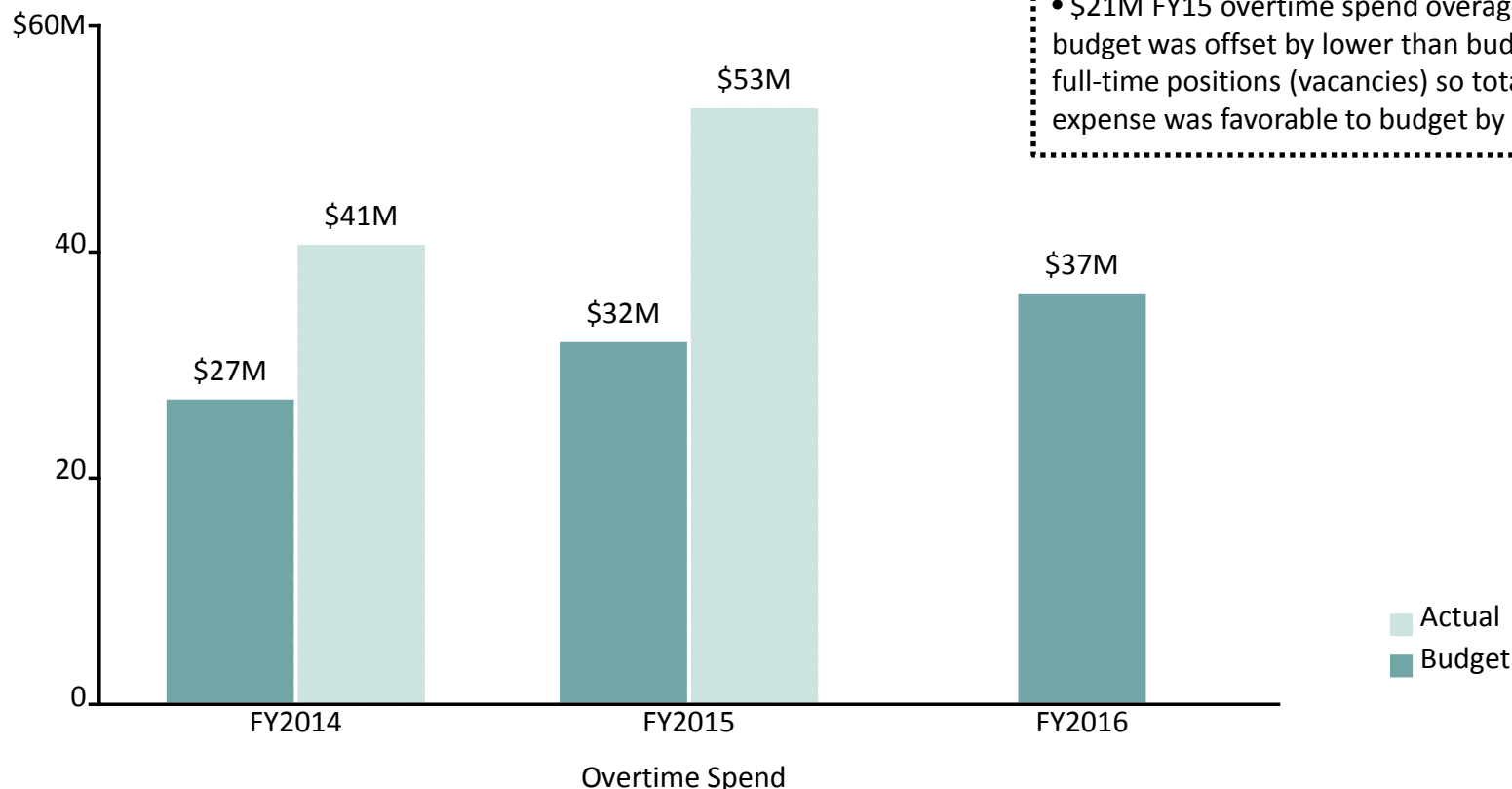
## BREAKOUT OF COMPONENTS OF \$79M FY15 OPERATING COST INCREASE





# Total overtime expense grew 29% in FY15 to \$53M

## FY15 OVERTIME EXPENSE ANALYSIS



**Notes on Overtime:**

- Mgmt estimates that \$10M of FY15 overtime was related to winter emergency
- \$21M FY15 overtime spend overage against budget was offset by lower than budgeted full-time positions (vacancies) so total wage expense was favorable to budget by \$3M

FY14A:FY15A  
CAGR (%)

29.6%



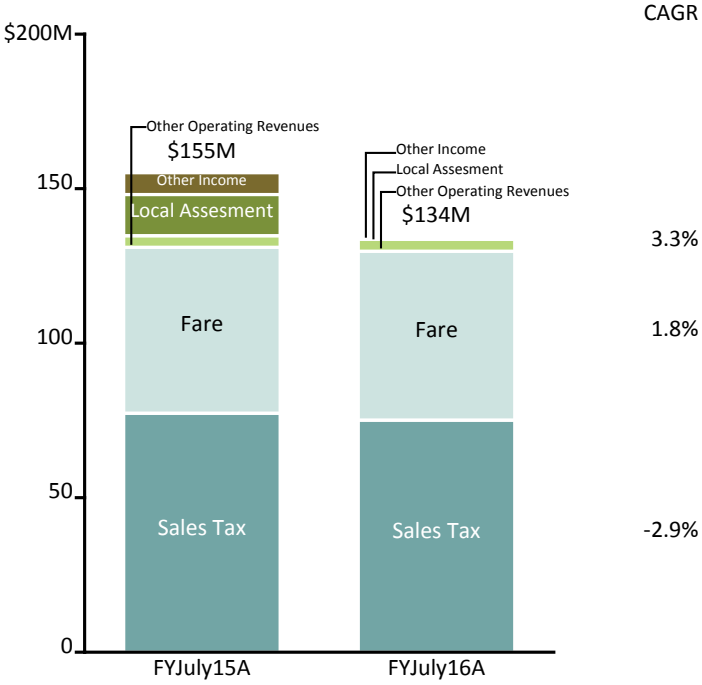
# Contents

- FY 2015 overview
  - Drivers of change from FY14A – FY15A
  - Drivers of change into FY16B
- July 2015 (FY16) monthly update
  - Compared with July 2014 (FY15) and with budget

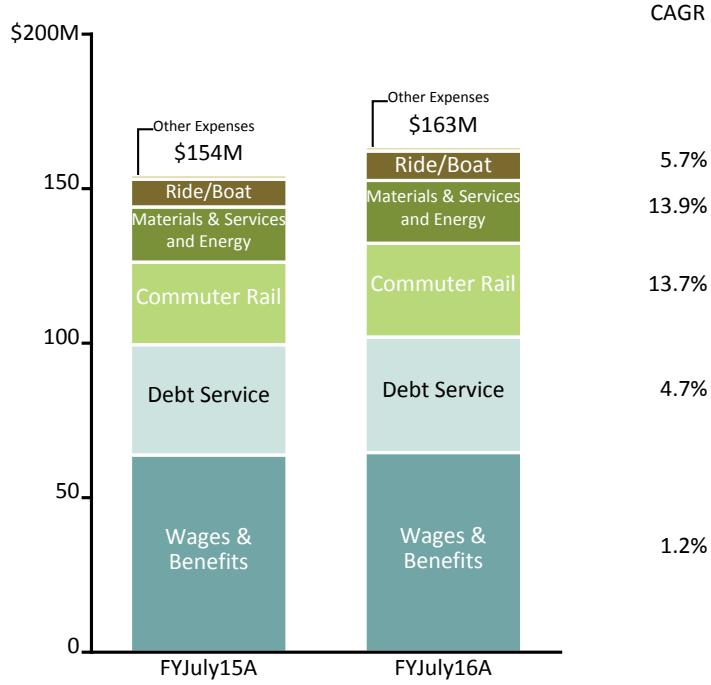
# Year-on-year fares up slightly, sales tax receipts decreased while operating and debt service expenses increased

## YEAR ON YEAR PERFORMANCE FOR THE MONTH

- Month of July year-on-year trends:
- Total Revenue fell by \$21M (Cash accounting)
    - Local assessments distributed quarterly
  - Operating Expenses increased by \$7M
  - Debt Service costs increased by \$2M



Total Revenue by Category



Total Expense by Category

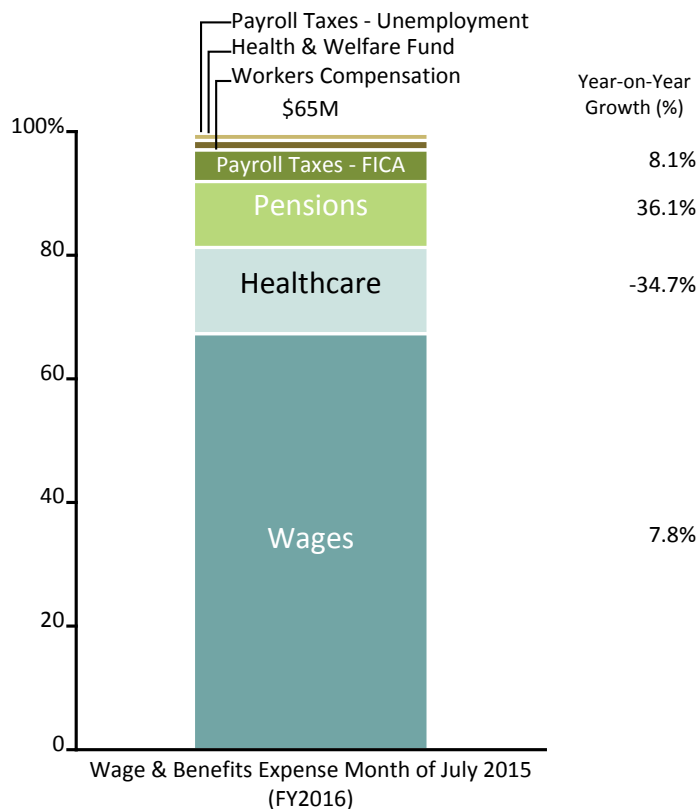
Note: For purposes of display July FY15A sales tax has been revised to include the pro rata portion of \$160M of contract assistance provided in FY15





# For the month of July 2015 (FY16), wage expense grew 7.8% and healthcare expense decreased 34%, compared with the same month last year

## BREAKOUT OF COMPONENTS OF MONTHLY \$65M WAGES AND BENEFITS EXPENSE



### Notes on year-on-year trends

**Pensions:** Increase driven by lower than normal headcount and straight time hours worked in July 2014 (FY 2015) compared to more regular staffing levels in July 2015 (FY 2016). July 14 pension cost were also \$1M below annual monthly average pension expense for FY 2015.

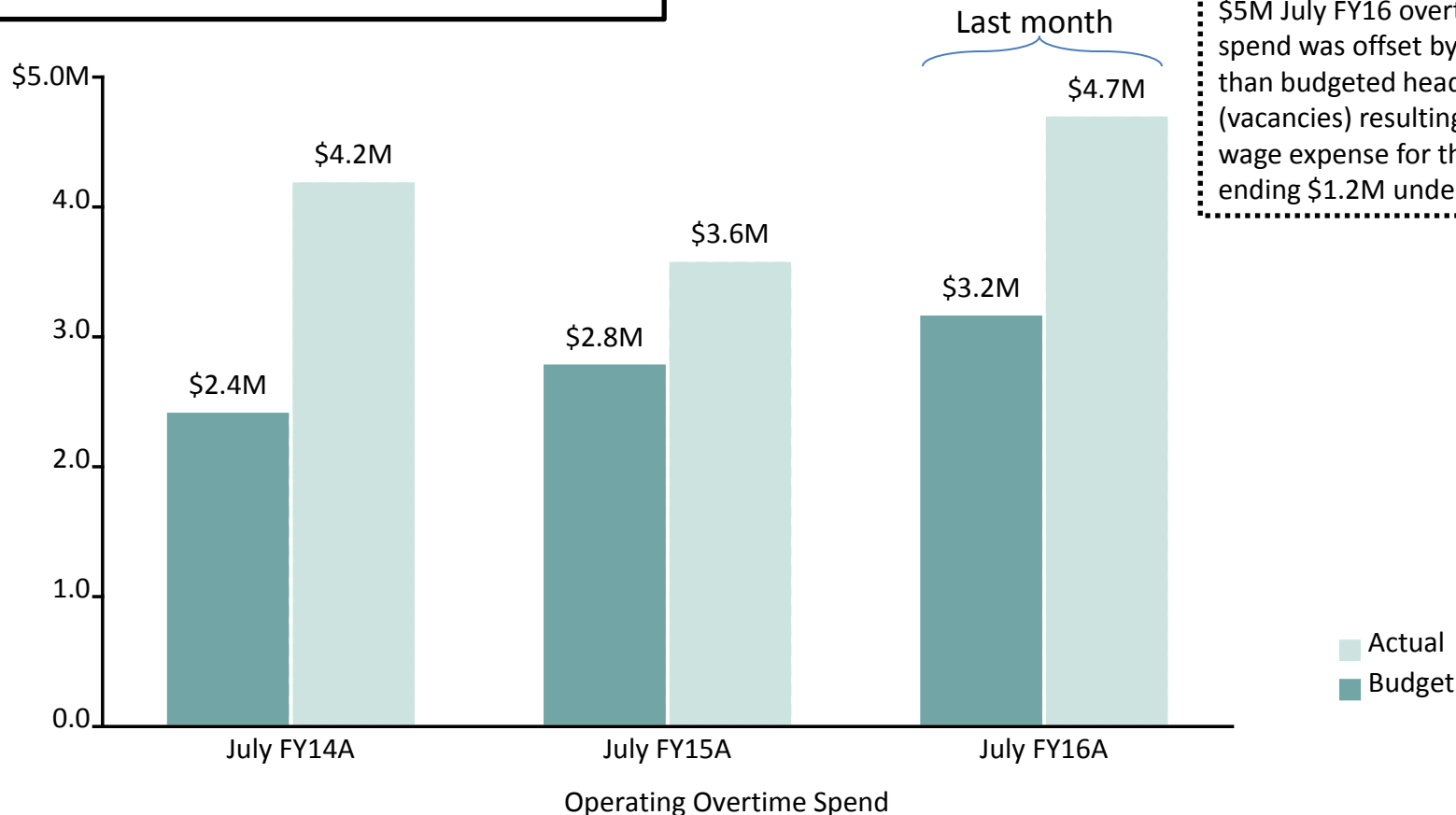
**Healthcare:** July 2014 (FY 2015) was most expensive month in all of FY 2015 and nearly \$5M above average and included run out liabilities associated with the MBTA's old health plan. New GIC plan is more cost-effective to MBTA.

**Wages:** Monthly growth driven by higher straight time costs (5.4%) due to 133 more paid employees in July 2015 (FY16) associated with GLX, Late Night Service, Commuter Rail Supervisory roles. Overtime were also 31% higher than the same period last year. Additionally, 2.5% increase in collectively bargained wage rates effective on July 1, 2015.



# July FY16 overtime was \$1.5M over budget and \$1.1M greater than last year

## FY14 – FY16 OVERTIME EXPENSE ANALYSIS



Note on Overtime:  
\$5M July FY16 overtime spend was offset by lower than budgeted head count (vacancies) resulting in total wage expense for the month ending \$1.2M under budget

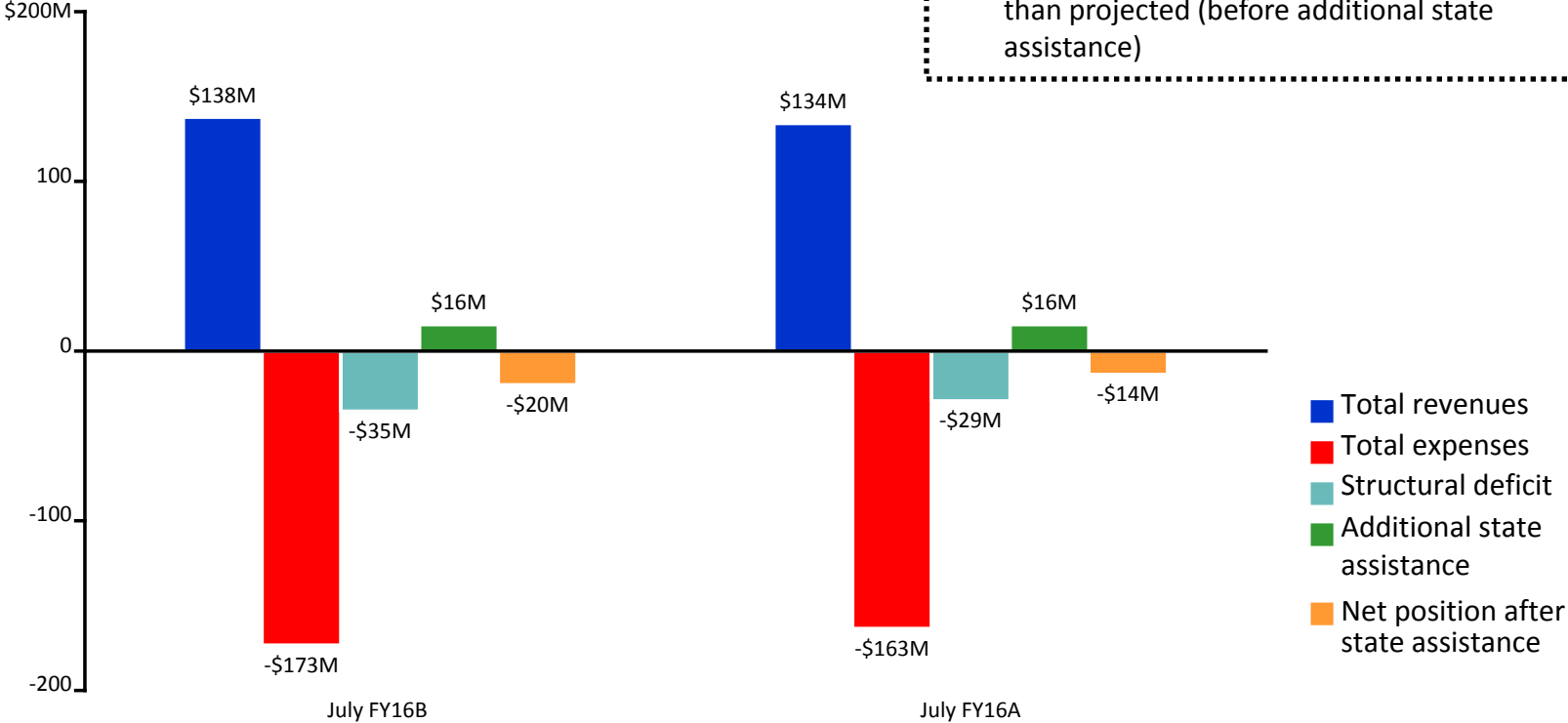


# July FY16A revenues were short of budget but offset by lower than forecast operating expenses

## BUDGET COMPARED TO ACTUAL FOR THE MONTH

July FY16B vs. FY16A Notes:

- Total Revenue fell short by \$4M as a result of lower than expected sales tax receipts
- Operating Expenses ran \$9M less than expected
- Debt Service came in under budget by \$1M
- In total, the Actual performance was \$6M better than projected (before additional state assistance)



Source: MBTA Internal Data