



MBTA Advisory Board
FY17 Massachusetts Bay Transportation Authority
Operating Budget Oversight Report

Approved by the
MBTA Advisory Board
April 7, 2016

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The MBTA Advisory Board is an independent statutory organization which represents the interests of the 175 cities and towns in the MBTA service district. Each year these municipalities contribute over \$163.9 million in subsidies to the MBTA via municipal assessments.

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Massachusetts Bay Transportation Authority
Statement of Revenue and Expenses

	FY15 Actuals	FY16 Budget	FY16 Recast	FY17 Budget	FY17 % Incr/Decr over FY16 Recast	FY17 \$ Incr/Decr over FY16 Recast	FY17 % Incr/Decr over FY16 Budget	FY17 \$ Incr/Decr over FY16 Budget
REVENUE								
Operating Revenues								
Revenue from Transportation	602,626,507	617,848,214	615,830,806	659,240,408	7.0%	43,409,602	6.7%	41,392,194
Other Operating Revenue	43,341,533	49,659,634	53,263,957	63,418,096	19.1%	10,154,139	27.7%	13,758,462
Total Operating Revenue	645,968,040	667,507,848	669,094,763	722,658,504	8.0%	53,563,741	8.3%	55,150,656
Non-Operating Revenues								
Dedicated Local Assessments	160,158,636	162,858,019	162,858,019	163,998,025	0.7%	1,140,006	0.7%	1,140,006
Dedicated Sales Tax	970,637,173	986,274,139	986,274,139	1,027,100,000	4.1%	40,825,861	4.1%	40,825,861
Other Income	26,496,790	34,767,700	32,433,348	27,780,011	-14.3%	(4,653,336)	-20.1%	(6,987,689)
Total Non-Operating	1,157,292,599	1,183,899,858	1,181,565,506	1,218,878,036	3.2%	37,312,530	3.0%	34,978,178
TOTAL REVENUES	1,803,260,640	1,851,407,706	1,850,660,269	1,941,536,540	4.9%	90,876,271	4.9%	90,128,834
EXPENSES								
Operating Expenses								
Regular Wages	437,141,203	474,611,428	453,441,217	485,308,934	7.0%	31,867,718	2.3%	10,697,506
Overtime	52,881,550	36,502,147	48,788,617	37,410,673	-23.3%	(11,377,944)	2.5%	908,526
Total Wages	490,022,753	511,113,575	502,229,834	522,719,607	4.1%	20,489,773	2.3%	11,606,033
Fringe Benefits								
Pensions	71,577,133	82,273,069	79,013,436	92,721,718	17.3%	13,708,282	12.7%	10,448,649
Healthcare	107,681,944	108,663,780	100,780,291	104,127,564	3.3%	3,347,273	-4.2%	(4,536,216)
- Active Employees	62,197,091	64,263,759	59,601,464	61,581,042	3.3%	1,979,577	-4.2%	(2,682,718)
- Retirees <65	21,062,588	18,820,567	17,455,146	18,034,894	3.3%	579,748	-4.2%	(785,673)
- Retirees >65	24,422,265	25,579,454	23,723,681	24,511,629	3.3%	787,948	-4.2%	(1,067,825)
Group Life	527,200	600,679	653,702	671,329	2.7%	17,627	11.8%	70,650
Disability Insurance	4,449	0	0	0	0.0%	0	0.0%	0
Workers' Comp	9,811,612	11,077,679	10,682,626	12,180,494	14.0%	1,497,867	10.0%	1,102,815
Other Fringe Benefits	2,666,814	237,069	77,468	369,919	377.5%	292,451	56.0%	132,850
Total Fringe Benefits	192,269,152	202,852,276	191,207,524	210,071,025	9.9%	18,863,501	3.6%	7,218,749
Health & Welfare Fund	7,765,436	11,474,924	9,680,010	10,261,598	6.0%	581,588	-10.6%	(1,213,326)
Payroll Taxes								
FICA	36,186,592	38,895,488	35,938,981	39,727,762	10.5%	3,788,781	2.1%	832,274
Unemployment	1,330,811	1,339,665	1,081,909	1,368,011	26.4%	286,102	2.1%	28,346
Total Payroll Taxes	37,517,403	40,235,153	37,020,890	41,095,773	11.0%	4,074,883	2.1%	860,620
Materials, Supplies and Services	252,975,400	271,119,563	245,680,935	261,396,571	6.4%	15,715,636	-3.6%	(9,722,991)
Casualty and Liability	13,361,012	15,110,409	14,660,680	14,722,228	0.4%	61,548	-2.6%	(388,181)
Purchased Commuter Rail Service	397,389,805	383,946,449	373,781,640	389,122,053	4.1%	15,340,412	1.3%	5,175,603
- Fixed Price	291,921,741	307,430,720	307,430,721	314,743,193	2.4%	7,312,472	2.4%	7,312,473
- Extra Work & Services	67,995,373	36,510,217	35,414,798	46,059,993	30.1%	10,645,195	26.2%	9,549,776
- Fuel	37,472,691	40,005,512	30,936,121	28,318,867	-8.5%	(2,617,255)	-29.2%	(11,686,646)
Purchased Local Service Subsidy	111,925,476	126,512,940	119,602,273	107,862,572	-9.8%	(11,739,700)	-14.7%	(18,650,368)
- THE RIDE	96,966,216	110,936,812	104,302,154	91,960,155	-11.8%	(12,341,998)	-17.1%	(18,976,665)
- Ferry Services	12,704,268	13,072,639	12,927,230	13,370,732	3.4%	443,502	2.3%	298,093
- Other LSS	2,254,992	2,503,490	2,372,889	2,531,685	6.7%	158,796	1.1%	28,196
Financial Service Charges	5,594,426	6,490,000	6,390,000	6,490,000	1.6%	100,000	0.0%	0
Total Operating Expenses	1,508,820,863	1,568,855,289	1,500,253,786	1,563,741,427	4.2%	63,487,641	-0.3%	(5,113,862)
Debt Service Expenses								
Interest	231,814,198	238,256,615	232,320,113	237,045,416	2.0%	4,725,303	-0.5%	(1,211,199)
Principal Payments	176,675,976	209,277,065	208,117,584	214,986,181	3.3%	6,868,597	2.7%	5,709,116
Lease Payments	4,949,537	4,575,488	4,679,326	6,111,106	30.6%	1,431,780	33.6%	1,535,618
Total Debt Service Expenses	413,439,711	452,109,168	445,117,023	458,142,702	2.9%	13,025,680	1.3%	6,033,534
TOTAL EXPENSES	1,922,260,573	2,020,964,457	1,945,370,808	2,021,884,129	3.9%	76,513,321	0.0%	919,672
Net Revenue	(118,999,934)	(169,556,751)	(94,710,539)	(80,347,589)				
Additional Assistance	125,352,620	187,000,000	187,000,000	187,000,000				
Net Revenue	6,352,686	17,443,249	92,289,461	106,652,411				
Weather Resiliency Fund		(11,697,586)	(11,697,586)					
Transfer to Capital Maintenance Fund	(6,352,687)		(74,846,214)	(57,287,319)				
Fare Increase Fund for Capital Projects				(43,409,602)				
NET Revenue in Excess of Expenses*	(1)	5,745,663	5,745,661	5,955,490				

Major changes in the governance of the MBTA have taken place since the last Finance Committee report. Major decisions, including setting the MBTA Budget and Capital plan priorities fall to the Fiscal and Management Control Board (FMCB). The FMCB has taken a significantly different approach to managing the MBTA and the result of those changes has been a significant. The FMCB is on target to close FY16 \$68.6m lower than the approved budget, transferring those funds into the Capital Maintenance Fund. MBTA management controlled overtime and growth in the fringe benefit line item while reducing absenteeism and improving on time performance. In the documents approved you the FMCB, they often refer to the *Recast FY16 Budget* to differentiate between the approved FY16 budget and the amounts that the MBTA management expects to see after the actions they have taken.

REVENUES

Revenues grew significantly over FY16 for two main reasons. First, after almost 15 years, the Massachusetts Sales Tax grew at a rate that exceeded the Base Revenue amount. That means an additional \$40.8m in the sales tax income line item. This is significant for a number of reasons, but the most important is that this revenue source represents 53% of all the revenue that the MBTA receives. This is only the 2nd time that the MBTA has received funds over the base revenue amount since the beginning of Forward Funding and this anticipated revenue growth was the premise of a fiscally sound MBTA. We know now that things did not work out for the concept. The base revenue amount for FY17 is \$992m, but additional growth in sales tax revenues increases that amount by \$35m so the FY17 sales tax total to \$1,027m. The FMCB and MBTA management warns repeatedly in its budget presentation that we must not count on this level of continued growth in future years, for it is dependent on conditions well outside of the control of the MBTA. Given the performance history of this revenue source, that is wise advice.

	<i>FY16 (Recast)</i>	<i>FY17</i>	<i>Variance \$</i>	<i>Variance %</i>	<i>Explanation</i>
<i>Fares</i>	615.8	659.2	43.4	7%	Fare Increase
<i>Own-Source</i>	53.3	63.4	10.2	19%	Ads and Real Estate
<i>Sales Tax</i>	986.3	1,027.1	40.8	4%	Sales Tax Growth
<i>Assessments</i>	162.9	164.0	1.1	1%	By law
<i>Other</i>	32.4	27.8	(4.7)	-14%	Decline in Federal Assistance
<i>Total</i>	\$1,850.7	\$1,941.5	\$90.9	5%	

The second source of significant new revenue and the largest source of new revenue in the FY17 Budget is the fare increase approved by the Control Board on March 7th 2016. 48% of the \$90.9m in increased revenues is from this source. While the fare increase is significant, there was a serious effort by the MBTA to hold the most vulnerable customers relatively harmless.

Fares Effective July 1, 2016

Fare Type	Current Fare	Effective July 1, 2016
Rapid Transit fare on a CharlieCard	\$2.10	\$2.25
Rapid Transit fare on a CharlieTicket or Cash	\$2.65	\$2.75
Local Bus fare on a CharlieCard	\$1.60	\$1.70
Local Bus fare on a CharlieTicket or Cash	\$2.10	\$2.00
Local Bus Monthly Pass	\$50	\$55
LinkPass Monthly	\$75	\$84.50
7-Day Link Pass	\$19	\$21.25
Senior/TAP Monthly Pass	\$29	\$30
Student Monthly Pass	\$26	\$30

Source: MBTA

Single ride cash fares for bus increased ten cents, for subway fifteen cents. Changes for the commuter rail and ferries are as follows:

	Old Fare	New Fare	Difference
Commuter Rail Zone 1A (equal to LinkPass)	75.00	84.50	9.50
Commuter Rail Zone 1	182.00	200.25	18.25
Commuter Rail Zone 2	198.00	217.75	19.75
Commuter Rail Zone 3	222.00	244.25	22.25
Commuter Rail Zone 4	239.00	263.00	24.00
Commuter Rail Zone 5	265.00	291.50	26.50
Commuter Rail Zone 6	289.00	318.00	29.00
Commuter Rail Zone 7	306.00	336.50	30.50
Commuter Rail Zone 8	330.00	363.00	33.00
Commuter Rail Zone 9	345.00	379.50	34.50
Commuter Rail Zone 10	362.00	398.25	36.25
Commuter Rail Interzone 1	86.00	90.25	4.25
Commuter Rail Interzone 2	105.00	110.25	5.25
Commuter Rail Interzone 3	114.00	119.75	5.75
Commuter Rail Interzone 4	124.00	130.25	6.25
Commuter Rail Interzone 5	141.00	148.00	7.00
Commuter Rail Interzone 6	159.00	167.00	8.00
Commuter Rail Interzone 7	175.00	183.75	8.75
Commuter Rail Interzone 8	193.00	202.75	9.75
Commuter Rail Interzone 9	211.00	221.50	10.50
Commuter Rail Interzone 10	229.00	240.50	11.50
Commuter Boat	275.00	308.00	33.00
Inner Harbor Ferry (equal to LinkPass)	75.00	84.50	9.50

The MBTA is also launching a major effort to reduce the use of cash in the system. Less cash will result in budget savings from cash handling as well as faster boarding and reduced dwell times on buses.

The management at the Authority also intends to raise other non-fare revenues in advertising and real estate. Advertising will be expanded through the use of electronic signs at the stations and the MBTA expects that better management and market rate rent increases will produce addition revenue. These efforts are expected to net \$10.2m in additional revenue over last year. It is important to include the fact that the MBTA hopes to also receive as revenue an additional \$185m included in the Governor's budget to make up the projected deficit and cover the costs of moving MBTA employees off of the Capital budget and onto the Operating budget. These funds will be discussed below.

EXPENSES

	FY15 Actuals	FY16 Budget	FY16 Recast	FY17 Budget	% Difference from Recast	\$
EXPENSES						
Operating Expenses						
Regular Wages	437,141,203	474,611,428	453,441,217	485,308,934	7.0%	31,867,718
Overtime	52,881,550	36,502,147	48,788,617	37,410,673	-23.3%	(11,377,944)
Total Wages	490,022,753	511,113,575	502,229,834	522,719,607	4.1%	20,489,773
Fringe Benefits						
Pensions	71,577,133	82,273,069	79,013,436	92,721,718	17.3%	13,708,282
Healthcare	107,681,944	108,663,780	100,780,291	104,127,564	3.3%	3,347,273
- Active Employees	62,197,091	64,263,759	59,601,464	61,581,042	3.3%	1,979,577
- Retirees <65	21,062,588	18,820,567	17,455,146	18,034,894	3.3%	579,748
- Retirees >65	24,422,265	25,579,454	23,723,681	24,511,629	3.3%	787,948
Group Life	527,200	600,679	653,702	671,329	2.7%	17,627
Disability Insurance	4,449	0	0	0	0.0%	0
Workers' Comp	9,811,612	11,077,679	10,682,626	12,180,494	14.0%	1,497,867
Other Fringe Benefits	2,666,814	237,069	77,468	369,919	377.5%	292,451
Total Fringe Benefits	192,269,152	202,852,276	191,207,524	210,071,025	9.9%	18,863,501
Health & Welfare Fund	7,765,436	11,474,924	9,680,010	10,261,598	6.0%	581,588
Payroll Taxes						
FICA	36,186,592	38,895,488	35,938,981	39,727,762	10.5%	3,788,781
Unemployment	1,330,811	1,339,665	1,081,909	1,368,011	26.4%	286,102
Total Payroll Taxes	37,517,403	40,235,153	37,020,890	41,095,773	11.0%	4,074,883
Materials, Supplies and Services	252,975,400	271,119,563	245,680,935	261,396,571	6.4%	15,715,636
Casualty and Liability	13,361,012	15,110,409	14,660,680	14,722,228	0.4%	61,548
Purchased Commuter Rail Service	397,389,805	383,946,449	373,781,640	389,122,053	4.1%	15,340,412
- Fixed Price	291,921,741	307,430,720	307,430,721	314,743,193	2.4%	7,312,472
- Extra Work & Services	67,995,373	36,510,217	35,414,798	46,059,993	30.1%	10,645,195
- Fuel	37,472,691	40,005,512	30,936,121	28,318,867	-8.5%	(2,617,255)
Purchased Local Service Subsidy	111,925,476	126,512,940	119,602,273	107,862,572	-9.8%	(11,739,700)
- THE RIDE	96,966,216	110,936,812	104,302,154	91,960,155	-11.8%	(12,341,998)
- Ferry Services	12,704,268	13,072,639	12,927,230	13,370,732	3.4%	443,502
- Other LSS	2,254,992	2,503,490	2,372,889	2,531,685	6.7%	158,796
Financial Service Charges	5,594,426	6,490,000	6,390,000	6,490,000	1.6%	100,000
Total Operating Expenses	1,508,820,863	1,568,855,289	1,500,253,786	1,563,741,427	4.2%	63,487,641

Operating expenses are projected to rise by \$63.4m. Of those increases, the lion's share of the increases are in Wages and Fringe, totaling \$44m. The increase in the Wage line item is a function of pay increases through the current labor agreement offset somewhat by a reduction in expected overtime in FY17. After the reduction of overtime offset, the wages increase in FY17 by \$20.5 million. The increase in Fringe Benefits is largely in Pensions, with an increase of \$13.7m over the FY16 contribution. The other increase in the Fringe line item are driven by the increase in wage levels, except for the GIC health insurance, which is set to rise by 3.3% or \$3.4m.

Materials, Supplies and Services increasing by \$15.7m. The Control Board has made customer communication and better communications technology a priority and has invested in personnel and purchased services to make this priority a reality. The MBTA is rolling out some of the new technology and the information it generates in the form of daily performance reports and soon a new webpage. These efforts are expected to cost \$10m in FY17. The lack of power generation in Southern New England has led to an increase in electrical transmission costs. Since the MBTA is the largest consumer of electricity in the Commonwealth, this cost means an increase of \$8m in FY17. These two increases are offset by the MBTA's fuel hedge and a reduction in cleaning costs.

Commuter Rail increasing by \$15.3m. The contractual payment will increase by \$7.3m, while extra work and services will increase by \$10.7m. The budget notes refer to equipment and maintenance initiatives, which we believe refer to continued signal and track upgrades in addition to the Capital Program. These increases are offset somewhat by the continuing positive effects of the fuel hedge, which the Authority believes will reduce the overall fuel expense by \$2.6m.

The Authority also expects to see \$12.3m in savings in the RIDE line item. These savings are contingent on the successful roll out of a taxi/UBER voucher system that will allow both savings for the MBTA and greater mobility and flexibility for a segment of the RIDE eligible population. This 12% reduction in costs at the RIDE represents the first significant reduction in this fast rising line item and it is dependent on the cooperation of the current RIDE users. It also assumes no significant increase in new RIDE customers, which seems to defy current demographic trends. The Advisory Board hopes that this initiative meets with success, not just for the savings but because we believe that this approach is better for the customers as well. The challenge is in reversing a stubborn trend in paratransit costs.

DEBT SERVICE

	FY16 Recast	FY Budget	\$ Variance	% Variance
Interest	232.3m	237m	4.7m	2%
Principal	208.1m	215m	6.9m	3%
Lease	4.7m	6.1m	1.4m	31%
Total	\$445.1m	\$458.1m	\$13m	3%

There is not a great deal to say about debt service this year. Payments in principle and interest are according to the current amortization schedule and there have been no discussions regarding any refinancing or other actions.

DISCUSSION

Close observers of the MBTA cannot help but notice the significant changes in the organization. For several years we have focused on the growing deficits and the deteriorating service at the Authority. There is a concerted and coordinated effort to address both of these issues and there is some success so far. The estimate of the deficit for FY17 just two years ago was \$242m. The current estimate of the FY17 deficit is \$80m. The Authority had to raise fares over 9%, but much of the balance of the reduction in the deficit is tied to better management and a focus on service. In FY16, the Authority saved \$9m in wages and \$17m in other employee costs while hiring 90 drivers. They were fortunate to reduce Materials, Supplies and Services by \$25m in fuel price savings, saved \$10m in Commuter Rail, \$7m at the RIDE and \$1m in financial services. The FY16 deficit was reduced from \$170m to \$95m, which laid the groundwork for the continued reduction in FY17. After a disastrous year that saw over 100 inches of snow and terrible service performance, on time performance is rising and dropped trips are declining. Real and sustained improvement is dependent on capital investment, but from an operational standpoint, day to day service is getting better. If this continues, the customers will begin to notice.

But achieving the progress this budget document lays out will be difficult and there are questions. Almost 75% of the operating costs at the Authority are labor costs. Since the beginning of the Fiscal and Management Control Board's operation, there has been considerable cooperation between labor and management. In FY17, there may be pressure on that relationship. The Authority hopes to reduce "fully loaded" wages by \$36m through a payroll reduction plan, rationalization of service, reorganization and outsourcing and by better management. The Authority would like to attain \$18m of that \$36m in FY17. This is a difficult but achievable number, especially considering that the Authority has yet to take full advantage of the exemption from the Pacheco Law for the next three years. The FMCB has outlined an approach to this opportunity to contract some functions by identifying non-core, largely non-transportation functions to focus on. The issues raised to date include; management of the employee absences paperwork, operation of the Automatic Fare Collection Services, Snow and Ice Control, overhaul of the New Flyer bus fleet and other initiatives.

Improving service on an old and undercapitalized system will be difficult. New vehicles for subway are still years away. New recently purchased buses will start to arrive within the year. To address the poor quality of service directly, the Authority intends to create a \$100m pay-go capital fund from the additional assistance it will receive from the Commonwealth and the \$43m expected to be generated by the recent fare increase. The Authority will attempt to directly answer the off-stated question of "what do I get from this fare increase?" by increasing State-of-Good-Repair spending by \$100m over and above the Capital Program spending. By focusing on signals and power, they hope to noticeably improve performance.

The Authority will receive \$187m in appropriated additional assistance. Under the Governor's proposal, the uses of these funds are limited to moving have of the Capital employees to the operating budget, debt payments and improving performance reliability. These limits on the use of additional assistance keeps the pressure on the management team at the MBTA to control costs and improve efficiency. The FMCB recently reserved to itself the authority to move funds out of the pay-go account to follow closely the ways these funds are utilized. The Advisory Board will

continue to follow the Authority as they implement this long overdue program. This should not be the end of the Commonwealth's obligation to support MBTA debt service. The transfer of legacy and Central Artery debt to the MBTA did more than just burden the MBTA, the transfer caused the MBTA to delay long needed improvements and raised the cost of those improvements when they were finally undertaken. It is good that the MBTA is receiving state funds earmarked for debt service, but it does not square the debt owed to the users of the service. The Advisory Board intends to continue to advocate for additional debt relief.

The Advisory Board has raised questions and concerns regarding longstanding issues with MBTA pensions. The MBTA Advisory Board is greatly concerned about the impact of pensions, not only on the current budget, but on the long term viability of the T laboring under the possibility of massive unfunded liabilities concerning the current pension system at the T. To that end, the Advisory Board is seeking whatever information the FMCB might have relative to the unfunded liability of the system, the current assumption on the annual rate of return on investments for the system, current and long term plans to address any unfunded liability of the system and whether the FMCB will recommend additional appropriations to address said unfunded liability. It is the understanding of the Advisory Board that this information is now public and should be available for dissemination.

The Advisory Board believes addressing this issue is extremely important and we are sure the FMCB shares this concern. The Advisory Board would like to share with its constituent cities and towns as much information as possible.

Back-up information provided by the Authority outlines its intent to modernize and rationalize its real estate portfolio and other contractual activities. We were struck by the exclusion of any discussion of the contracted delivery of the Silverline service to Massport. The subsidy for this service has not changed in years, despite the increase in costs to the Authority and the growing popularity of the service. The MBTA Advisory Board has called for Massport to pay its fair share of the costs associated with Airport service. Advisory Board members want to see the Authority rightly compensated for the service Logan Airport receives. The Advisory Board has long felt that Massport could do more for transportation in the Boston region. We have asked for the Airport Silverline to serve Airport Station on the Blue Line and asked for Massport to take on the responsibility of operating the ferry system. The Advisory Board recommends that the new management at the Authority and the FMCB look hard at their relationship with Massport in an effort to get Massport to do more.