Massachusetts Bay
Transportation Authority

FY17 Preliminary Itemized Budget

Summary for vote to release to MBTA Advisory Board

March 16, 2016

Statutory preliminary itemized budget voting requirement for release to MBTA Advisory Board

REQUIRED VOTE

That the Fiscal and Management Control Board approves the Authority's preliminary itemized budget of current operating expenses and debt service costs for a one year period—July 1, 2016 through June 30, 2017—in the amount of $2,021,884,129 in the form submitted at this meeting; and

That the General Manager and Chief Administrator are hereby authorized and directed to submit the preliminary itemized budget, in the name and on behalf of the Authority, to the MBTA Advisory Board; and

That following the Advisory Board review, a final itemized budget will be submitted to the Fiscal and Management Control Board no later than April 15, 2016 in accordance with Section 20 of Chapter 161A of the Massachusetts General Laws.

Executive Summary: FY17 Budget Comparison to FY16 Recast

Revenue

- Base revenue will be derived from dedicated sales tax for the first time since forward funding (FY01)
- Own-Source revenue increase of $10M, driven primarily by advertising
- Fare increase of 9.3% adds $43M in additional fare revenue, all of which will be dedicated to the “Performance and Reliability Capital Maintenance Fund”
- Additional Assistance from Commonwealth of $187M consistent with FY16

Expenses

- $48M in employee costs (Engineering & Maintenance, Rail Maintenance and Vehicle Engineering) transferred from capital to operating budget
- Wage expense assumes no vacancies for active headcount and $15M in wage reduction from implementation of a “Payroll Reduction Plan” (PRP)
- Overtime costs projected to drop 23% to $37M in FY17 from $49M in FY16 recast budget
- $13M in wage increases under collective bargaining agreements (CBA)
- FY16 and FY17 recommended MBTA TMAP (merit increase for non-union employees) set at 0.0%
- Pension expense up by $14M ($10M for the Main Fund, $0.2M for the Police Fund, remainder to capital employee credits and other small programs)

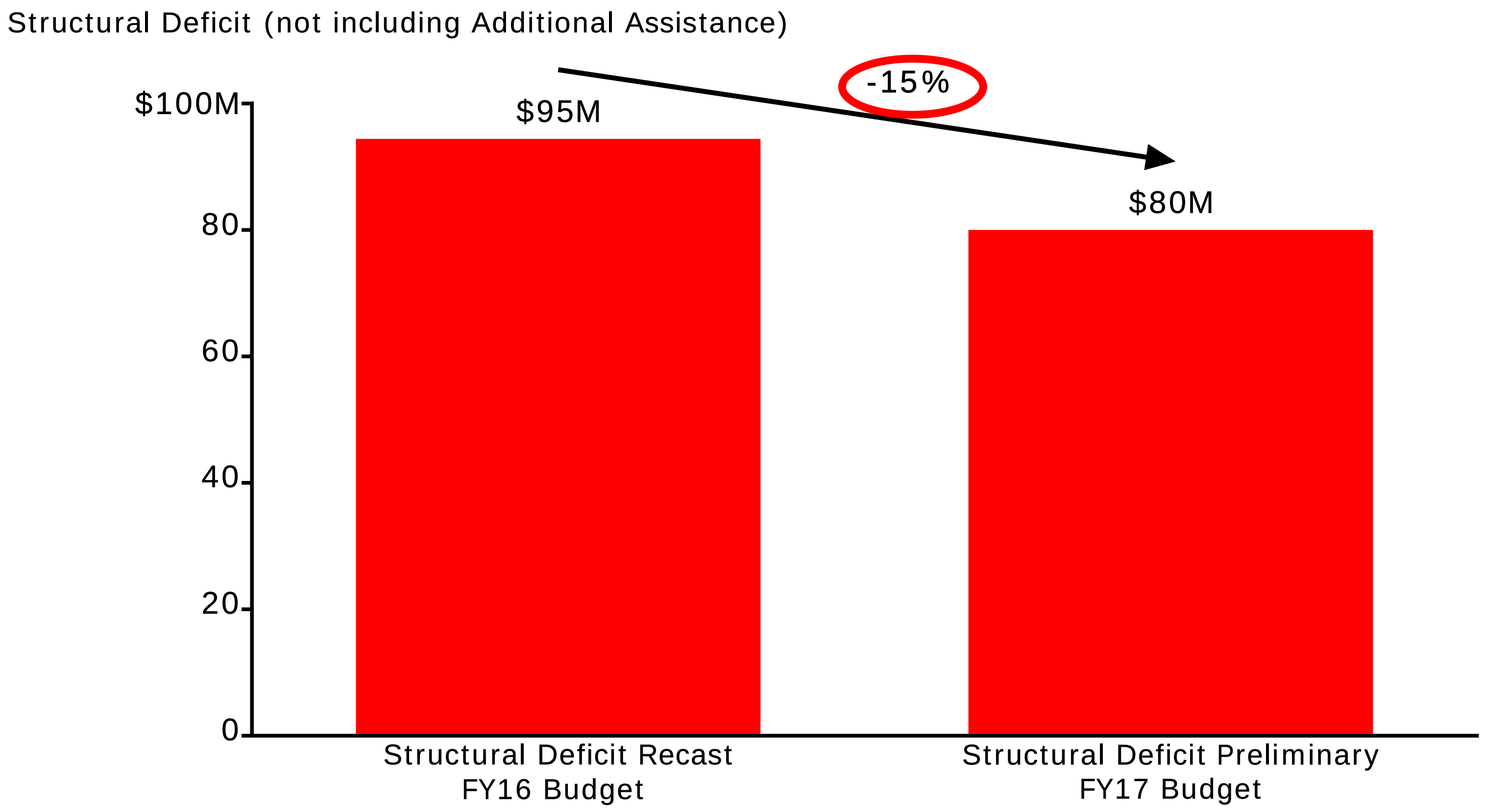
“Pay-go” Capital Transfer Target

- Assumes transfer of $100M (“Pay-go” capital and maintenance initiatives) into newly created “Performance and Reliability Capital Maintenance Fund”

FY17 budget targets core operating expense growth to 1%

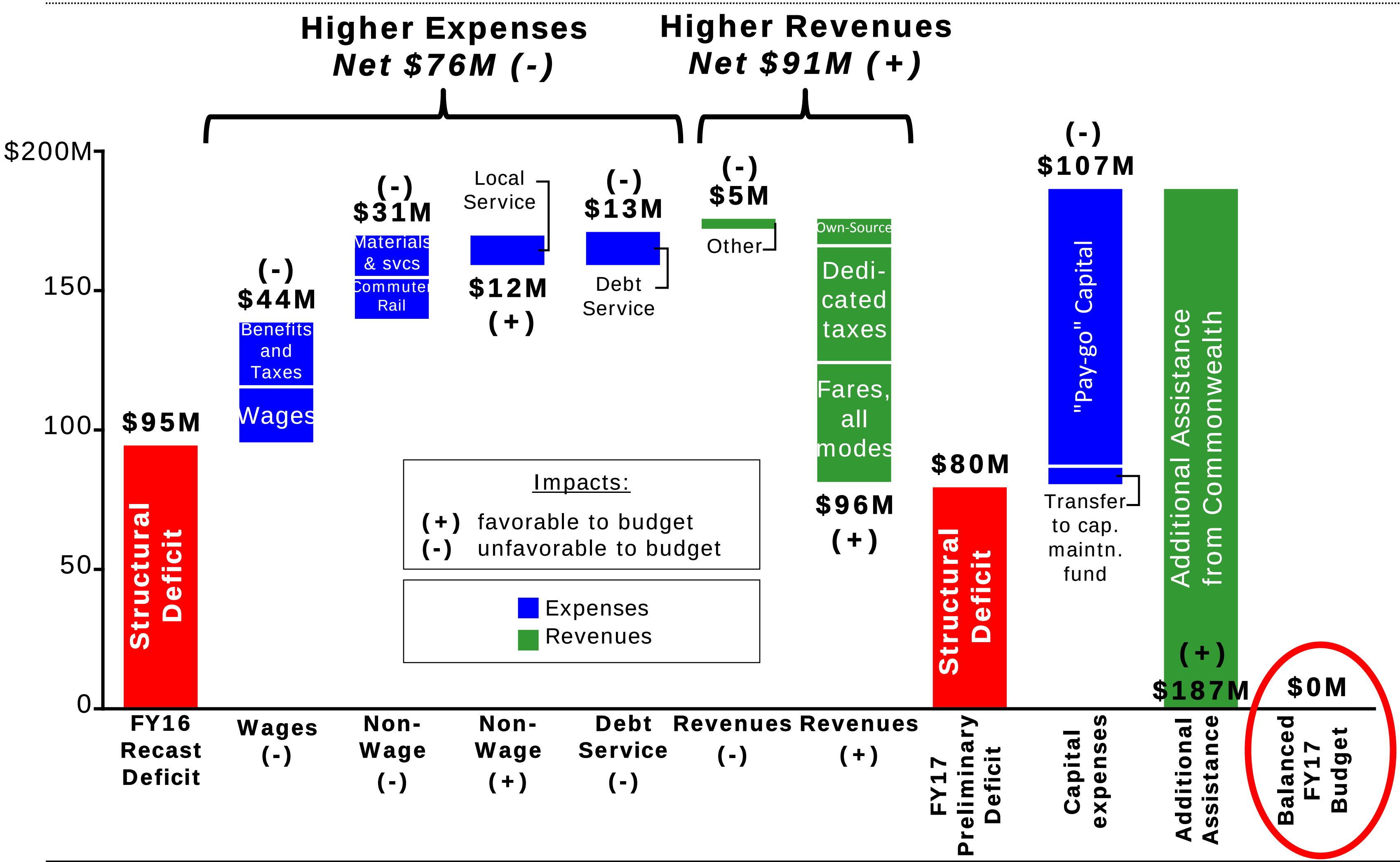
	($M)	FY16 BUDGET RECAST	FY17 BUDGET PRELIM.	$ VARIANCE	% VARIANCE
REVENUES	**Operating Revenues**	**$669.1**	**$722.7**	**$53.6**	**8%**
	Non-Operating Revenues	**$1,181.6**	**$1,218.9**	**$37.3**	**3%**
	Total Revenues	**$1,850.7**	**$1,941.5**	**$90.9**	**5%**
EXPENSES	Wages, Benefits and Payroll Taxes	$740.1	$784.2	$44.0	6%
	Non-Wage	$760.1	$779.6	$19.5	3%
	Operating Expenses	**$1,500.3**	**$1,563.7**	**$63.5**	**4%**
	Core Operating Expenses (excludes transferred capital employees)	*$1,500.3*	*$1,515.7*	*$15.4*	*1%*
	Debt Service	**$445.1**	**$458.1**	**$13.0**	**3%**
	Total Expenses	**$1,945.4**	**$2,021.9**	**$76.5**	**4%**
	Structural Deficit	**$94.7**	**$80.3**	**($14.4)**	**-15%**

15% reduction in structural deficit*, not including Additional Assistance



***Structural Deficit = Revenues (not including Additional Assistance) – Operating Expenses and Debt Service**

Balanced budget with Additional Assistance from Commonwealth



Budget is balanced only with infusion of Additional Assistance from Commonwealth; Structural deficit remains

Remaining $80M structural deficit must be closed by the end of FY17 in order to avoid ballooning deficits in FY18 and beyond. Five strategies have been identified thus far:

- **Wages & Benefits**: 74% of MBTA non-debt operating expenses (excluding Keolis/RIDE). MBTA operator wage rates highest in the U.S. To create a sustainable cost structure, we need to evaluate all aspects of wage structure including rates, progression, work rules, overtime triggers and pension contribution rates.
- **Flexible contracting**: In process. Short-term focus on corporate services including automated fare collection/cash management, warehouse management/logistics, human resources, marketing services. Medium-term focus on developing strategy for maintenance and operations.
- **Vendor review**: MBTA spends $280M annually on services, supplies and materials. Target reduction through a rapid process of engaging vendors (large and small) to provide discounts that can help close the FY17 deficit.
- **Low ridership services**: High subsidy, low ridership service lines (weekend commuter rail - $23.52 per trip; low ridership bus - $5.45 per trip) will be re-evaluated for adjustment, elimination or third party provisioning.
- **Parking Strategy**: While advertising / real estate revenues forecast to grow 25% in FY17, parking revenue growth lags. Develop growth strategy to accelerate revenues, public-private partnership potential.

Management will be held accountable against targets for savings from all of these strategies

Revenue from all sources up 5%

	($M)	FY16 BUDGET RECAST	FY17 BUDGET PRELIM.	$ VARIANCE	% VARIANCE	EXPLANATION
OPERATING	Fares, all modes	$615.8	$659.2	$43.4	7%	• Fare increase
	Own-Source	$53.3	$63.4	$10.2	19%	• Advertising up $6.0M • Real estate up $3.2M
	Operating	**$669.1**	**$722.7**	**$53.6**	**8%**	
NON-OPERATING	Dedicated Sales Tax	$986.3	$1,027.1	$40.8	4%	• Based on MA sales tax growth
	Dedicated Local Assessment	$162.9	$164.0	$1.1	1%	• Inflation adjustment per statute
	Other	$32.4	$27.8	($4.7)	-14%	• Federal assistance decrease of $4.0M
	Non-Operating	**$1,181.6**	**$1,218.9**	**$37.3**	**3%**	
	Total Revenues	**$1,850.7**	**$1,941.5**	**$90.9**	**5%**	
	Fare recovery ratio	***41%***	***42%***			

Base revenue will be derived from dedicated sales tax for the first time since forward funding

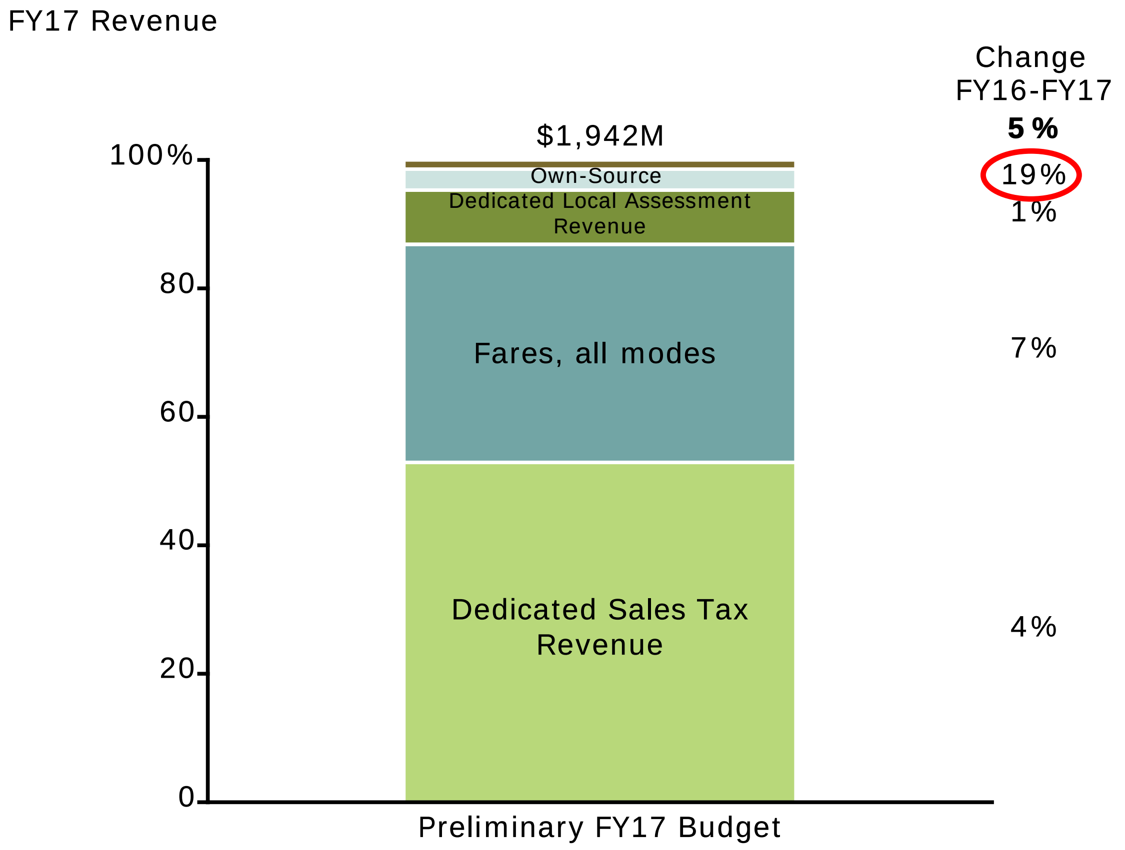
Calculation of FY17 Dedicated Revenue

		FY17
FY17 Projected Dedicated Sales Tax Revenue ***(Sales Tax-Derived Revenue)***		**$1,027M** (A)
Calculation	Projected Sales and Use Tax Collections, Excluding Meals Tax	$5,419M
	Percentage due to MBTA	x 16%
		$867M
	Additional dedicated revenue	+ $160M
		$1,027M
FY17 Base Tax Revenue **(*Minimum Dedicated Revenue*)**		**$992M** (B)

MBTA receives the larger of A or B, resulting in an additional $35M this year

Future Dedicated Revenue based on sales tax is subject to economic conditions

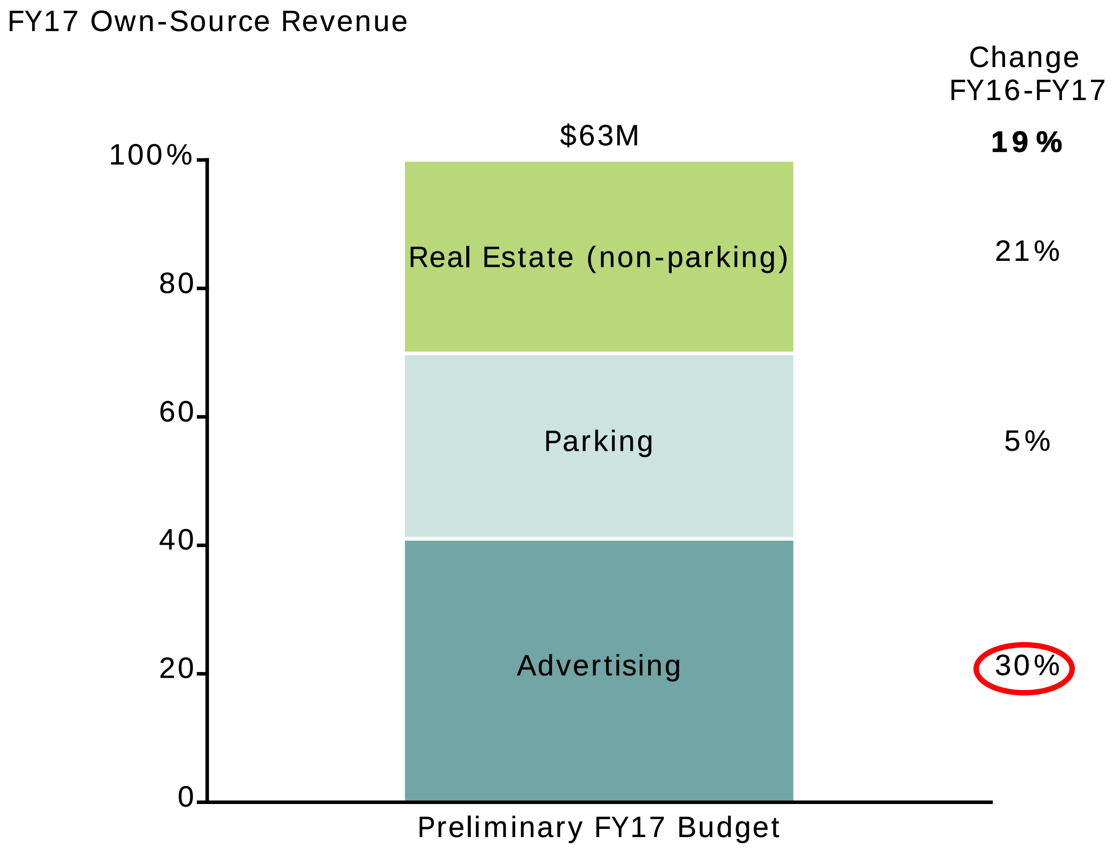
Growth in revenue is driven by own-source initiatives, fare increase and moderate growth in dedicated sales tax



Budget targets 20-30% growth in advertising and recurring real estate revenue

	($M)	FY16 BUDGET RECAST	FY17 BUDGET PRELIM.	$ VARIANCE	% VARIANCE	EXPLANATION
OWN-SOURCE REVENEUE	Advertising	$20.0	$26.0	$6.0	30%	• Aggressive target for digital
	Parking	$17.4	$18.3	$0.9	5%	• Development of parking strategy in-process
	Recurring Real Estate (non-parking) *[see appendix for detail]*	$15.8	$19.1	$3.3	21%	• Adjusted to market rates for new leases • Improved collection on existing tenants
	Own-Source revenue	**$53.3**	**$63.4**	**$10.2**	**19%**	

Advertising and real estate growth drives 19% overall gain

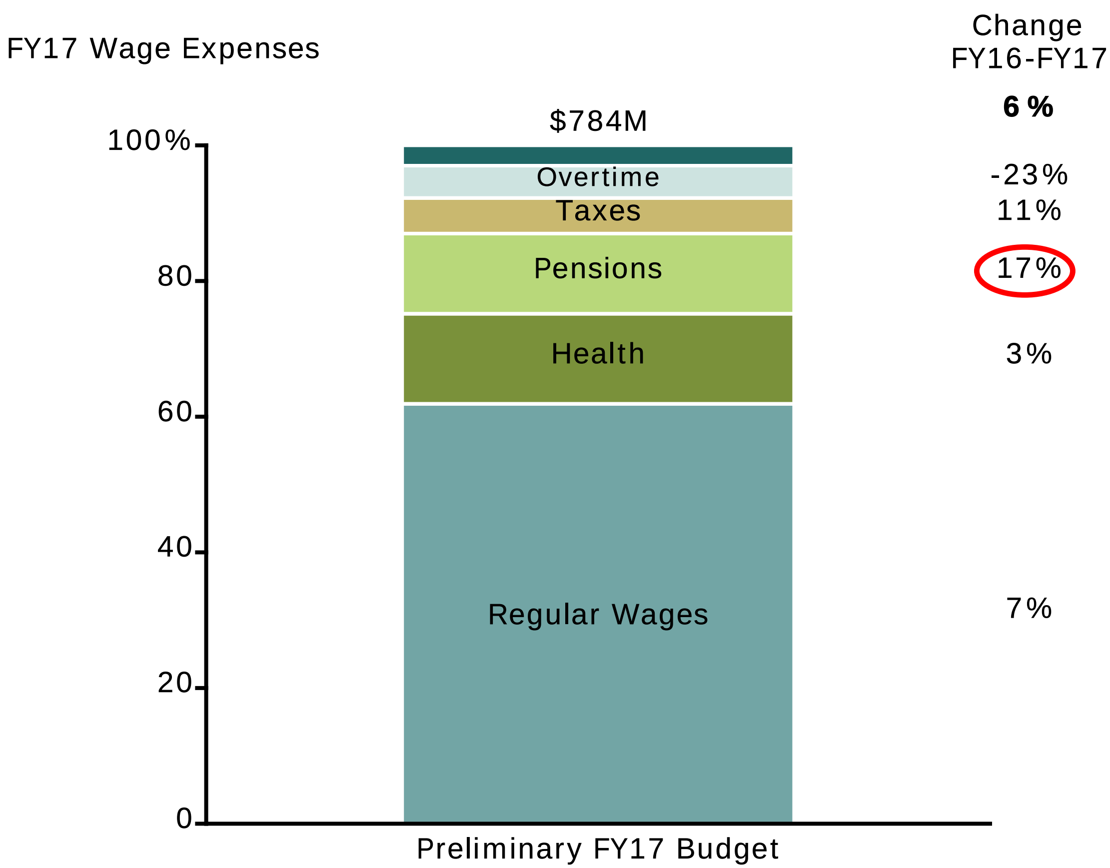


Labor cost forecast to increase 6%, driven by wages and MBTA employer pension contributions

	($M)	FY16 BUDGET RECAST	FY17 BUDGET PRELIM.	$ VARIANCE	% VARIANCE	EXPLANATION
WAGES	Regular Wages	$453.4	$485.3	$31.9	7%	• Capital employees and CBA increases; offset by end of late night service and PRP *[see appendix for PRP detail]*
	Overtime	$48.8	$37.4	($11.4)	-23%	• Management initiatives
	Wages	**$502.2**	**$522.7**	**$20.5**	**4%**	
BENEFITS AND TAXES	Pension^*	$79.0	$92.7	$13.7	17%	• Actuarial assumption change and CBA
	Health	$100.8	$104.1	$3.4	3%	• GIC average growth rate of 3.3% for MBTA
	Retiree Health	*$41.2*	*$42.5*	*$1.3*	*3%*	• *Same as above*
	Health & Welfare Fund	$9.7	$10.3	$0.6	6%	• 63% of expense relates to Medicare Part B reimbursement for retirees
	Other Fringe	$11.4	$13.2	$1.8	16%	• Driven by regular wages
	Payroll Taxes	$37.0	$41.1	$4.1	11%	• Driven by regular wages
	Benefits and Taxes	**$237.9**	**$261.4**	**$23.5**	**10%**	
	Total Wages, Benefits and Taxes	**$740.1**	**$784.2**	**$44.0**	**6%**	

^FY17 pension expense is an estimate and will not be finalized until MBTRF and its actuaries complete their 2015 investment valuation.
*Pension includes Main Fund, Police, Deferred Compensation Supplement, 401(a) MBTA Match

Pension expense is fastest growing component of wage expense



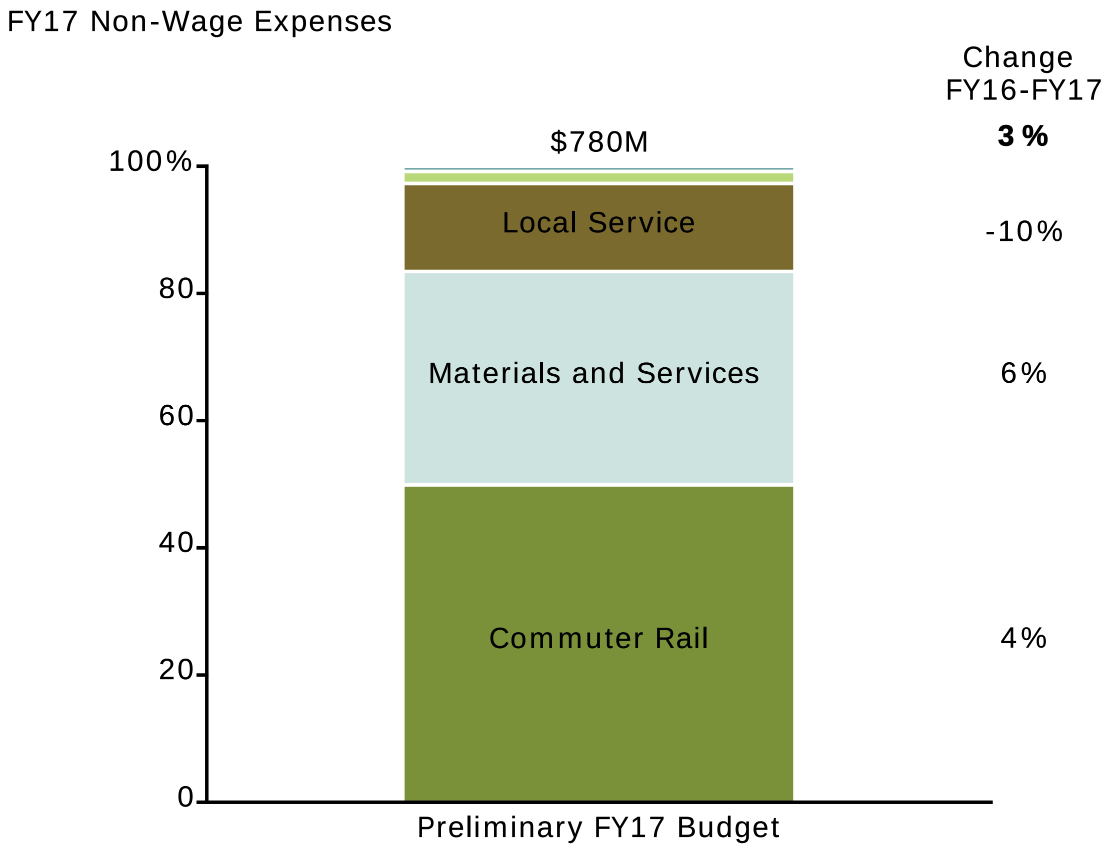
Non-Wage Operating Expenses (pp. 1/2)

	($M)	FY16 BUDGET RECAST	FY17 BUDGET PRELIM.	$ VARIANCE	% VARIANCE	EXPLANATION
MATERIALS AND SERVICES	Materials	$70.7	$70.5	($0.3)	0%	• Budget held constant
	Services	$87.0	$96.9	$10.0	11%	• Increased costs for customer-facing technology, software and IT
	Fuel	$20.3	$19.2	($1.1)	-5%	• 75% of est. usage hedged at $1.79/gallon
	Utilities *[see appendix for detail]*	$42.2	$50.2	$8.0	19%	• Increased transmission costs
	Contract Cleaning	$25.5	$24.5	($1.0)	-4%	• Contract enforcement and performance-based contracts
	Materials and Services	**$245.7**	**$261.4**	**$15.7**	**6%**	
INSURANCE	**Insurance**	**$14.7**	**$14.7**	**$0.1**	**0%**	• Consistent with prior year

Non-Wage Operating Expenses (pp. 2/2)

	($M)	FY16 BUDGET RECAST	FY17 BUDGET PRELIM.	$ VARIANCE	% VARIANCE	EXPLANATION
COMMUTER RAIL	Fixed Price	$307.4	$314.7	$7.3	2%	• Contractual
	Extra Work and Services	$35.4	$46.1	$10.7	30%	• Equipment and maintenance initiatives
	Fuel	$30.9	$28.3	($2.6)	-8%	• 75% of est. usage hedged at $1.79/gallon
	Commuter Rail	**$373.7**	**$389.1**	**$15.4**	**4%**	
LOCAL SERVICE	THE RIDE	$104.3	$92.0	($12.3)	-12%	• Stakeholder collaboration target
	Ferry	$12.9	$13.4	$0.4	3%	• Contractual
	LSS Other	$2.4	$2.5	$0.2	7%	• Contractual
	Local Service	**$119.6**	**$107.9**	**($11.7)**	**-10%**	
OTHER	**Financial Service Charges**	**$6.4**	**$6.5**	**$0.1**	**2%**	
	Non-Wage Expenses:	**$760.1**	**$779.6**	**$19.5**	**3%**	

Overall Non-Wage Expenses expected to grow 3%

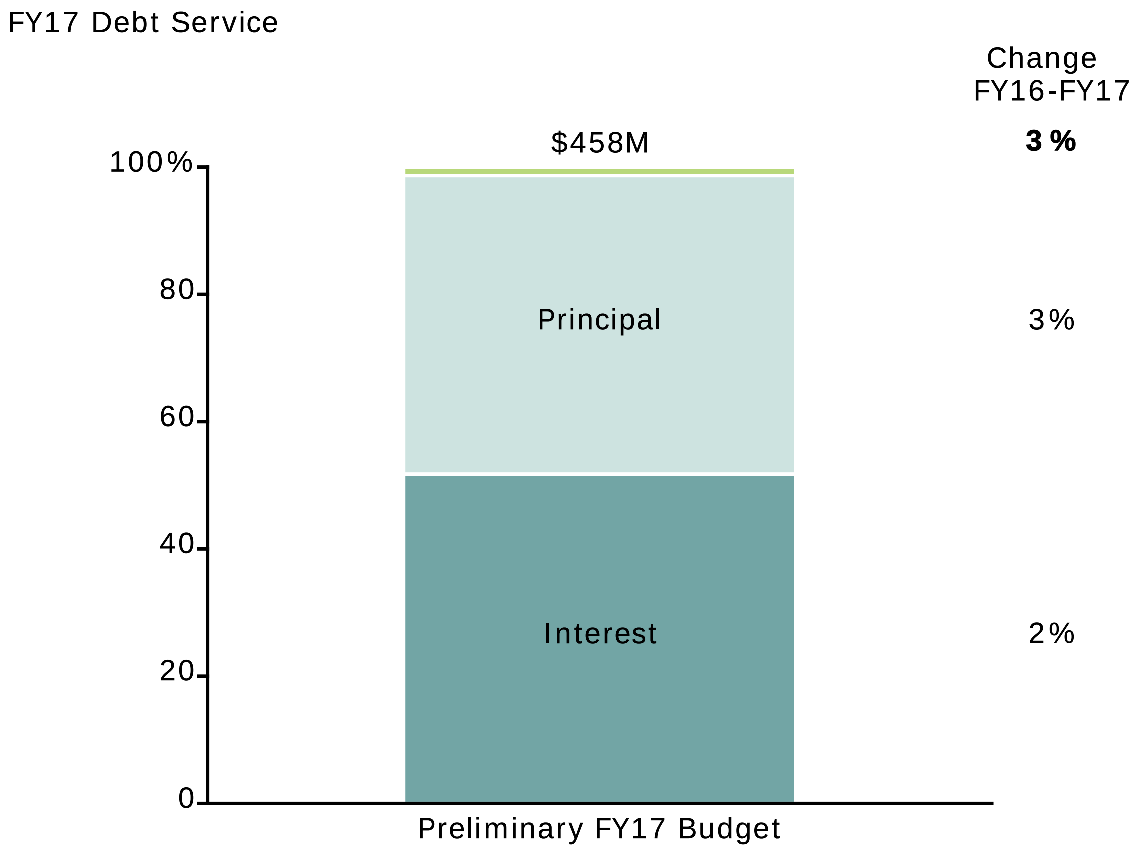


Debt service forecast to grow by $13M

DEBT SERVICE

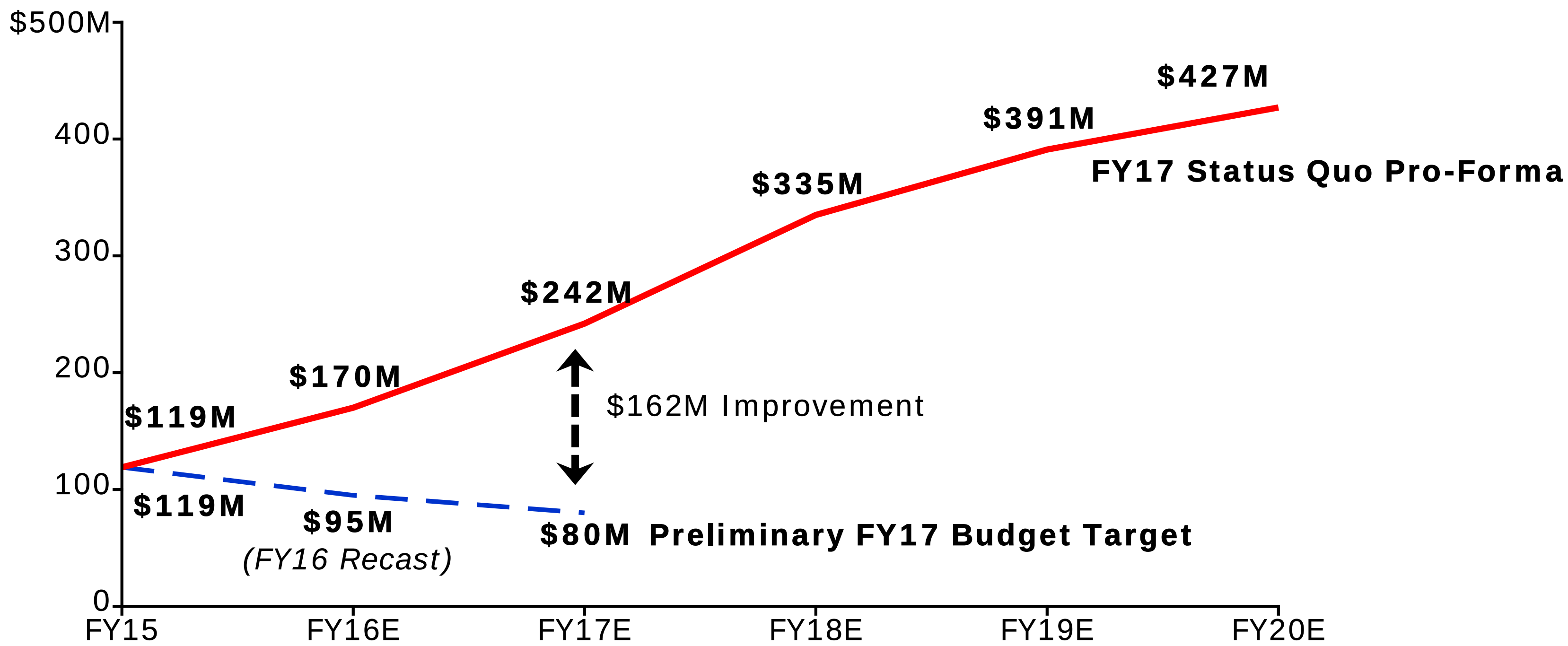
($M)	FY16 BUDGET RECAST	FY17 BUDGET PRELIM.	$ VARIANCE	% VARIANCE	EXPLANATION
Interest	$232.3	$237.0	$4.7	2%	• Per amortization schedule
Principal	$208.1	$215.0	$6.9	3%	• Per amortization schedule
Lease	$4.7	$6.1	$1.4	31%	• 23 new police vehicles
Debt Service	**$445.1**	**$458.1**	**$13.0**	**3%**	

Debt service growing at expected rates



Structural deficit curve is bending, but more work remains

Structural deficit



Corporate Services the focus of initial flexible contracting initiatives

- Cash Handling and Automated Fare Collection Technology and Maintenance
- Materials Management and Warehouse Logistics
- Third Party Administration for Leave and Deferred Compensation; exploring additional services
- Station and Facility Cleaning Contracts (currently outsourced, rebid in process)
- Transit Police Dispatch (third-party management of call center, redeploy officers to the street)
- RIDE centralized call-center for dispatch, scheduling and customer care
- Charlie Store retail operations, Marketing and Web Services, Customer Call Center
- Telecom Spend Management (land-line and wireless)

FY17 budget is not business-as-usual – requires active management to achieve

Wage Reduction Strategy: 74% of non-debt operating expenses (excluding Keolis/RIDE) is wages/benefits

- Goal is to reduce fully loaded wages by $36M annually through a payroll reduction plan, rationalization, reorganization/outsourcing, performance management
- FY17 budget forecast is to achieve 50% ($18M) of this savings in FY17

Sustainability of MBTA Pension: Is MBTA pension sustainable at current benefit levels?

- 2015*: Main Fund paid out $187M^ in retiree benefits and received $98M^ in contributions
- This is a NET OUTFLOW of $89M^ (total pension assets are approximately $1.6B^)

Economic Cycle: As MBTA revenues from sales tax, advertising and real estate grow, so does exposure to the economic cycle – macro conditions (i.e., the next recession) impact structural deficit

RIDE: RIDE stakeholders/MBTA/FMCB collaborated on a target reduction of FY17 RIDE expense of $10M (from $102M to $92M); goal to move RIDE users to fixed route services, taxi voucher, Uber/Lyft

Weather: Winter 2015: 100 inches of snow. Winter 2016: 25 inches of snow. Snow reserves critical for responsible future planning

*MBTA Pension Fund operates on fiscal calendar year
^Figure is an estimate and will not be finalized until MBTRF and its actuaries finalize complete their 2015 investment valuation.

$100M in "Pay-go" capital made available by Fare Increase and Additional Assistance

"Pay-go" capital fund is derived from Fare Increase and Additional Assistance:

			Notes:
Structural deficit (including positive impact of $43M in revenues from fare increase)		($80M)	Structural deficit would be $123M without fare increase
Net revenue in excess of expenses (per statute)	+	($7M)	Targeted to be transferred to capital maintenance fund
Net deficit prior to Additional Assistance		**($87M)**	
Additional Assistance from Commonwealth	**+**	**$187M**	
Transfer to "Pay-go" capital fund		**$100M**	

Of this $100M, **~$43M will be transferred as fares are collected on a quarterly basis**; remaining $57M will be distributed at discretion of FMCB as the FY17 budget targets are achieved

Appropriation requires that Additional Assistance funds legacy debt, "Pay-go" capital, and movement of costs from capital to operating budget

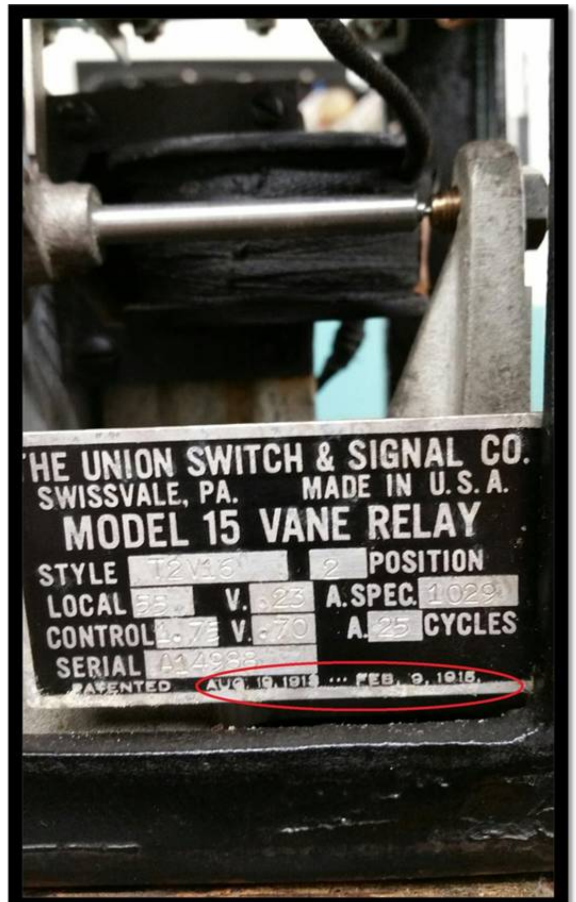
Additional Assistance from Commonwealth is restricted in use:

"Funding shall be used solely for repayment of debt encumbered prior to 2001 and debt associated with mitigation commitments related to the Central Artery Tunnel Project, the movement of costs from the capital to operating budget, pay-as-you-go capital programs, or debt service for new borrowing related to improving the system's state of good repair…"

Build-up to Additional Assistance from Commonwealth

Capital employees transfer to operating budget	$48M
"Pay-go" created through cost control transfer to "Performance and Reliability Capital Maintenance Fund" quarterly	$57M
Transfer to legacy capital maintenance fund	$7M
Central Artery/Legacy Debt Repayment	+ $75M
Additional Assistance from Commonwealth	**$187M**

Pay-go funds can address major issues: Upgrade pre-WWI technology



Old technology = unreliable service

NOW is the time to upgrade **1915** – era Green Line relay

Smart capital spending drives improvements

Completed in December 2015, Winter Resiliency Phase 1 investing $90M in critical upgrades, including:

- Remove and install more than 13 miles of third rail
- Install 32,757 LF (linear feet) of heater element and 2,470 LF of snow fences
- Procure emergency vehicles
- Improve interagency coordination and customer communications

Pay-go capital could help complete Winter Resiliency work

Phase 2 is a $26M program to complete improvements across the system

Project	Costs
Third rail procurement	$3.5M
Third rail installation	$4.9M
Track replacement	$4.9M
Third rail heaters	$4.8M
Signal trough	$4.0M
Van Hilleran Yard & Building	$2.0M
Contingency and other costs	$2.0M
Total cost	**$26.0M**

Appendix

With Additional Assistance from Commonwealth of $187M, MBTA able to achieve FY17 balanced budget

Balance operating budget by FY17:

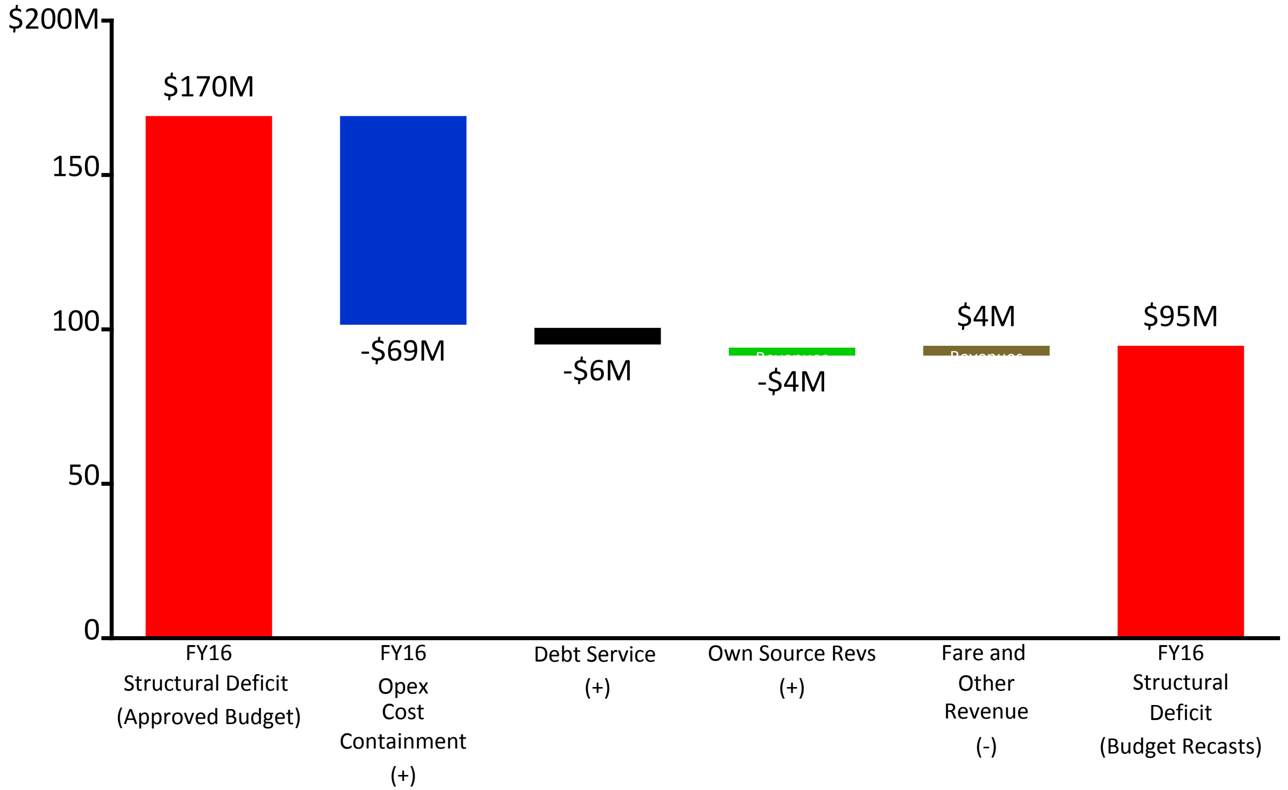
"Establish 1- and 5-year operating budgets under section 20 of chapter 161A, beginning in fiscal year 2017, which are balanced primarily through a combination of internal cost controls and increase in own-source revenues"

(Section 5 of Chapter 46 of the Acts of 2015)

Line item		Description
Structural deficit	**($80M)**	FY17 Preliminary Itemized Budget shortfall between revenues and expenses
"Pay-go" capital generated from fare increase	*($43M)*	
"Pay-go" generated from cost containment	*($57M)*	
Total "Pay-go" capital	**($100M)**	
Transfer to legacy capital maintenance fund	**($7M)**	Required by statute
Net deficit prior to Additional Assistance from Commonwealth	**($187M)**	
Additional Assistance from Commonwealth	**$187M**	
Net Revenue in Excess of Expenses	**$0M**	**With Additional Assistance, MBTA reaches a balanced budget**

Budget discipline is driving major savings in FY16 — deficit down from $170M to $95M

FY16 Recast Structural Deficit



Impacts:

(+) favorable to budget
(-) unfavorable to budget

Note: Recast forecasts favorable $4M own-source revenue; $2M unfavorable on fare revenue and $2M unfavorable on other income for a net impact of zero. For the 1H of FY16 (6 month period) lower energy costs contributed $12.5M positive variance against budget ($4.0M CR fuel; $2.4M bus fuel; $6.1M power)
Source: MBTA Internal Data. Analysis above excludes revenue from additional state assistance payments

Payroll Reduction Plan to reduce wage expense by $25M

Payroll Reduction Plan Assumptions

- In order to reduce overall wage expense, MBTA plans to implement a "Payroll Reduction Plan" (PRP)
  - $36M fully loaded annual target wage reduction
    - Wage target of $25M
    - Associated fringe target of $11M
  - Savings estimates are based on full execution of the program

- MBTA plans to implement Phase I of PRP during FY17
  - Phase I target wage reduction of $15M during FY17

Utilities budget increased by $8.0M due to large growth in transmission costs

- Cost for traction power (for electrified rail network) expected to rise dramatically for FY17 and FY18 due to rising electricity transmission costs in New England
  - › **Traction costs increased $7.2M, from $29.4M to $36.6M**, FY16 Recast Budget to FY17 Preliminary Itemized Budget
- To establish the cost of future electricity loads, the regional electricity supplier forecasts electricity demand charges three years in advance
- **Utility based demand charges have increased** due to high number of power generators coming off-line in New England
  - › Forward contracts for guaranteed power transmission 3 years into the future **increased from $3/kW up to $15/kW**
- Given the MBTA's very high level of demand, large increases hit hard
  - › Demand charges will go up by $4-to-5 million from FY16 to FY17

Recurring Real Estate Revenue up 21%

RECURRING REAL ESTATE REVENEUE

($M)	FY16 BUDGET RECAST	FY17 BUDGET PRELIM.	$ VARIANCE	% VARIANCE	EXPLANATION
Massport (airport) shuttle	$2.0	$2.0	$0.0	0%	
Land Rental	$2.6	$3.6	$1.0	38%	• South Station renegotiation
Utilities	$1.2	$1.6	$0.4	33%	• Renegotiated contracts
Telecom	$7.3	$7.9	$0.6	8%	• Renegotiated contracts
Concessions	$2.5	$2.9	$0.4	16%	• ATM leases signed and Concession ITBs
Advertising	$5.0	$5.5	$0.5	10%	• Clear Channel rolling out new initiatives
MRG fees and expenses	($4.8)	($4.4)	$0.4	8%	• Improved contract management
Net MRG (Mass Realty Group) Revenue	$13.8	$17.1	$3.3	24%	
Recurring Real Estate Revenue	**$15.8**	**$19.1**	**$3.3**	**21%**	