



Massachusetts Bay Transportation Authority

FY18 Budget Update and Options Recap

Fiscal and Management Control Board

April 10, 2017

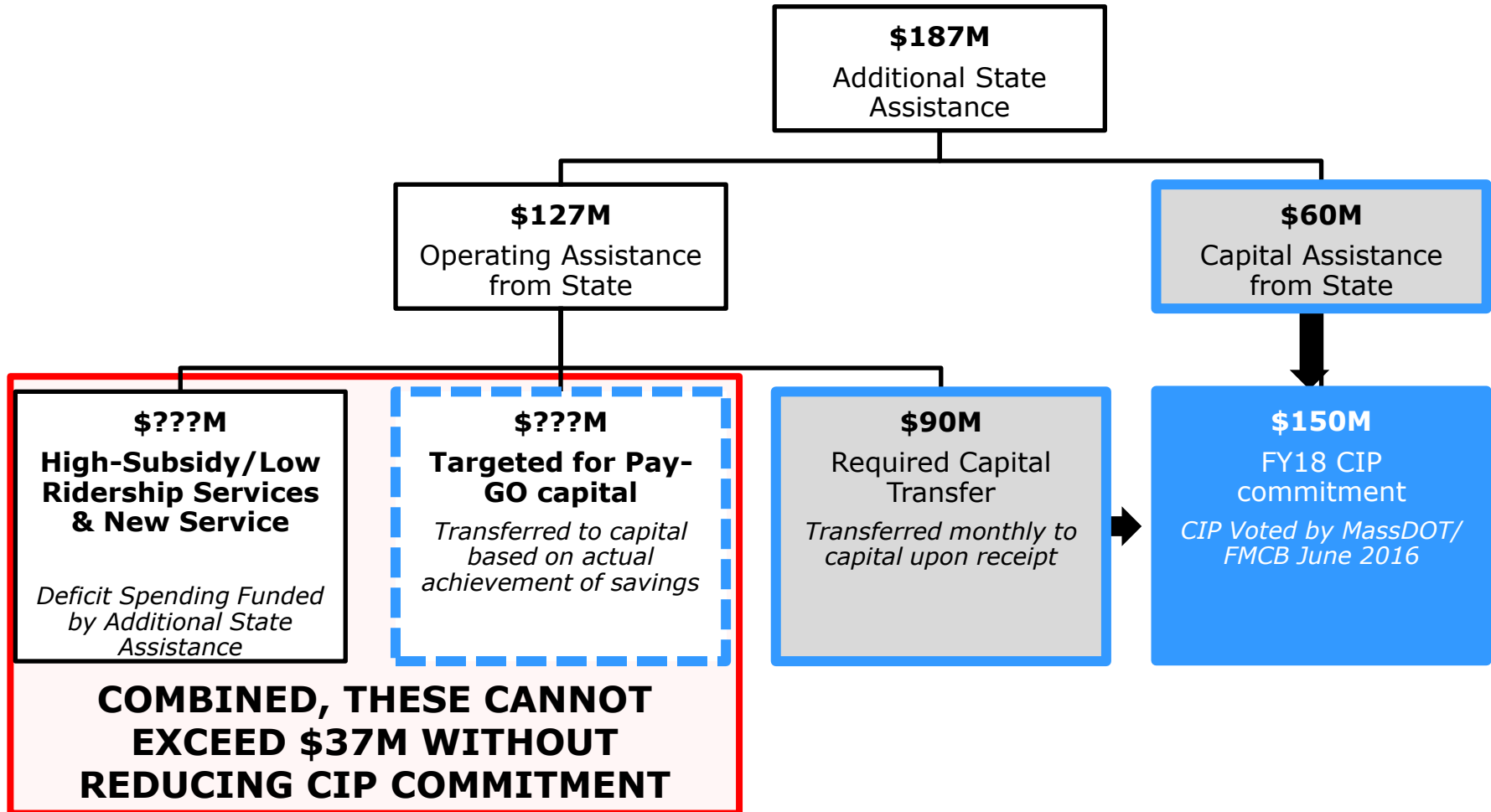


Overview

- 1. FMCB and MBTA management continues to work diligently to close the operating budget deficit**
- 2. Every operating dollar saved is invested in capital improvements**
- 3. Both of these compel MBTA to continue working to close the T's structural deficit**
 - › FMCB and MassDOT Board have approved \$150M annual transfer of operating dollars to Capital Investment Plan (CIP)
 - › Deficit spending in excess of \$37M would deprive CIP of that approved funding source



Key Financial Goals For FY18: Control operating budget to increase capital investment

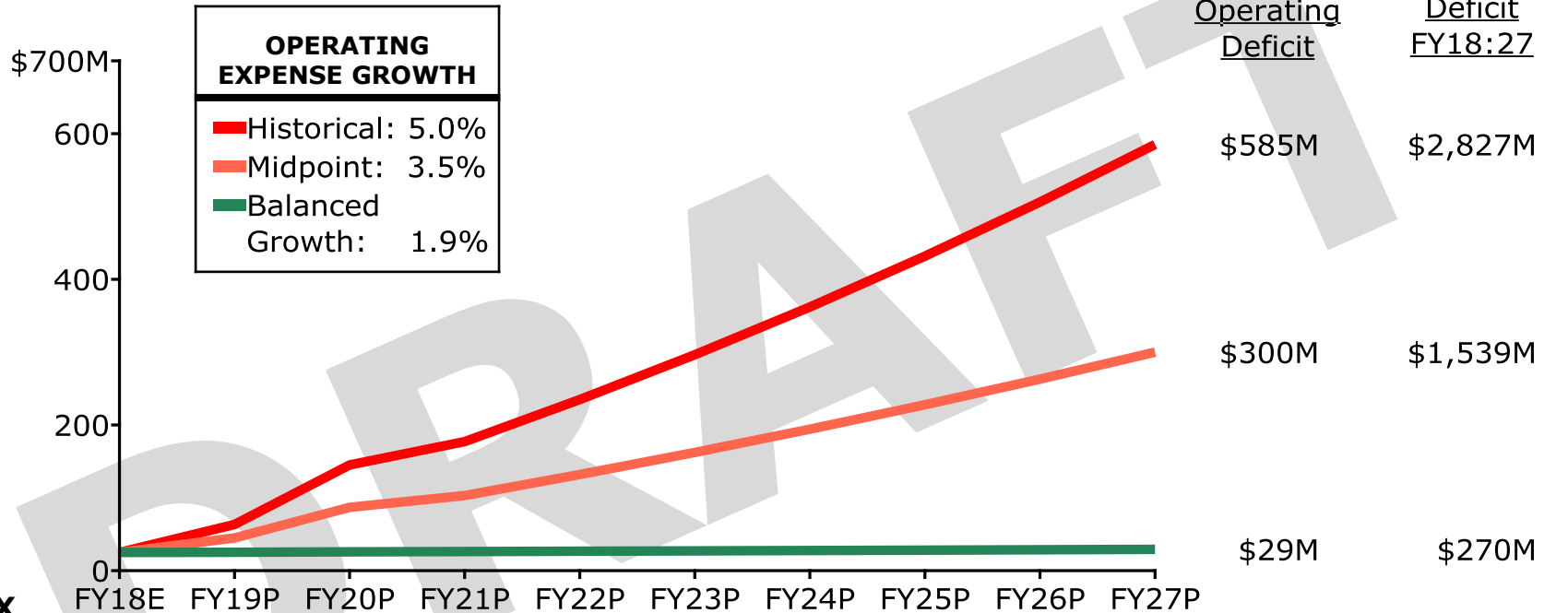




**REMINDER: Without cost control, deficit could reach \$500M
FY18E to FY27P: FY18 \$25M STRUCTURAL DEFICIT**

ILLUSTRATIVE

Projected Annual Structural Deficit (\$M)



FY27 Operating Deficit	Cumulative 10 Year Operating Deficit FY18:27
\$585M	\$2,827M
\$300M	\$1,539M
\$29M	\$270M

OPEX GROWTH

STRUCTURAL DEFICIT (\$M)

5.0%	25	63	145	177	235	296	362	432	506	585
3.5%	25	45	87	103	132	162	194	228	263	300
1.9%	25	25	26	26	27	27	28	28	29	29

Note: Structural deficit does not include Additional State Assistance; Projection excludes impact of any proposed expansion

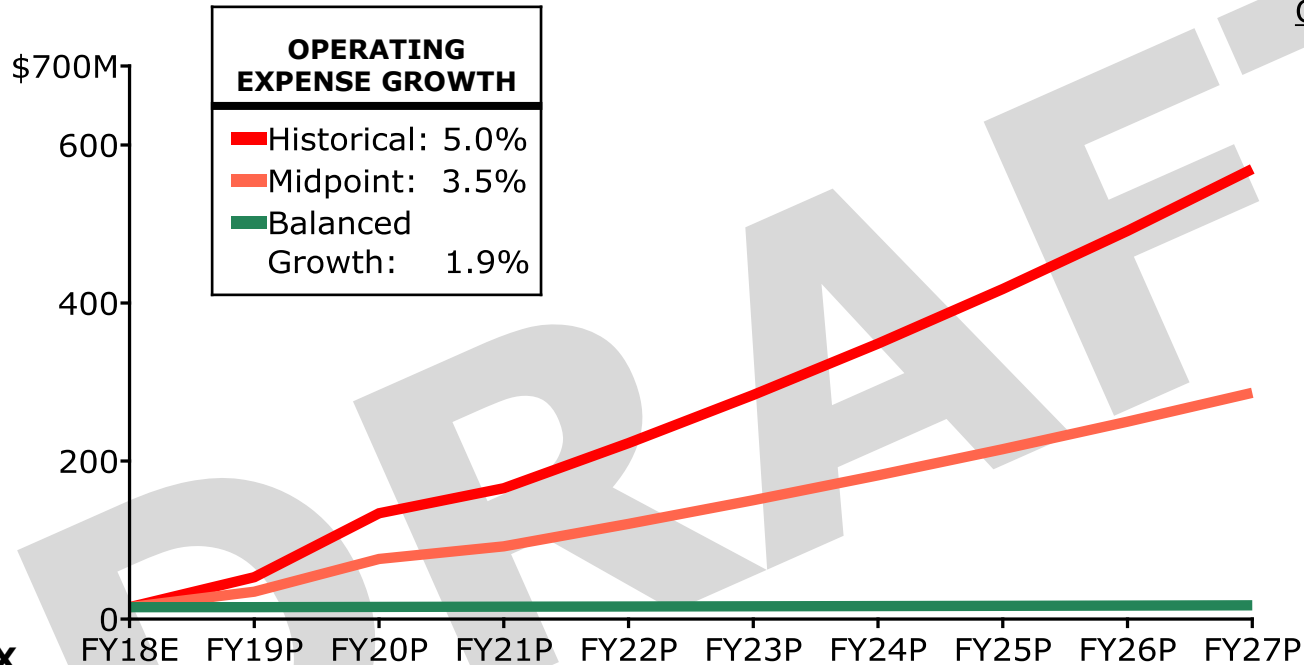
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**REMINDER: Without cost control, deficit could reach \$500M
FY18E to FY27P: FY18 \$15M STRUCTURAL DEFICIT**

ILLUSTRATIVE

Projected Annual Structural Deficit (\$M)



FY27 Operating Deficit	Cumulative 10 Year Operating Deficit FY18:27
\$570M	\$2,701M
\$286M	\$1,422M
\$17M	\$161M

OPEX GROWTH

STRUCTURAL DEFICIT (\$M)

5.0%	15	53	134	166	223	284	349	418	491	570
3.5%	15	35	76	92	120	150	182	215	250	286
1.9%	15	15	15	16	16	16	16	17	17	17

Note: Structural deficit does not include Additional State Assistance; Projection excludes impact of any proposed expansion



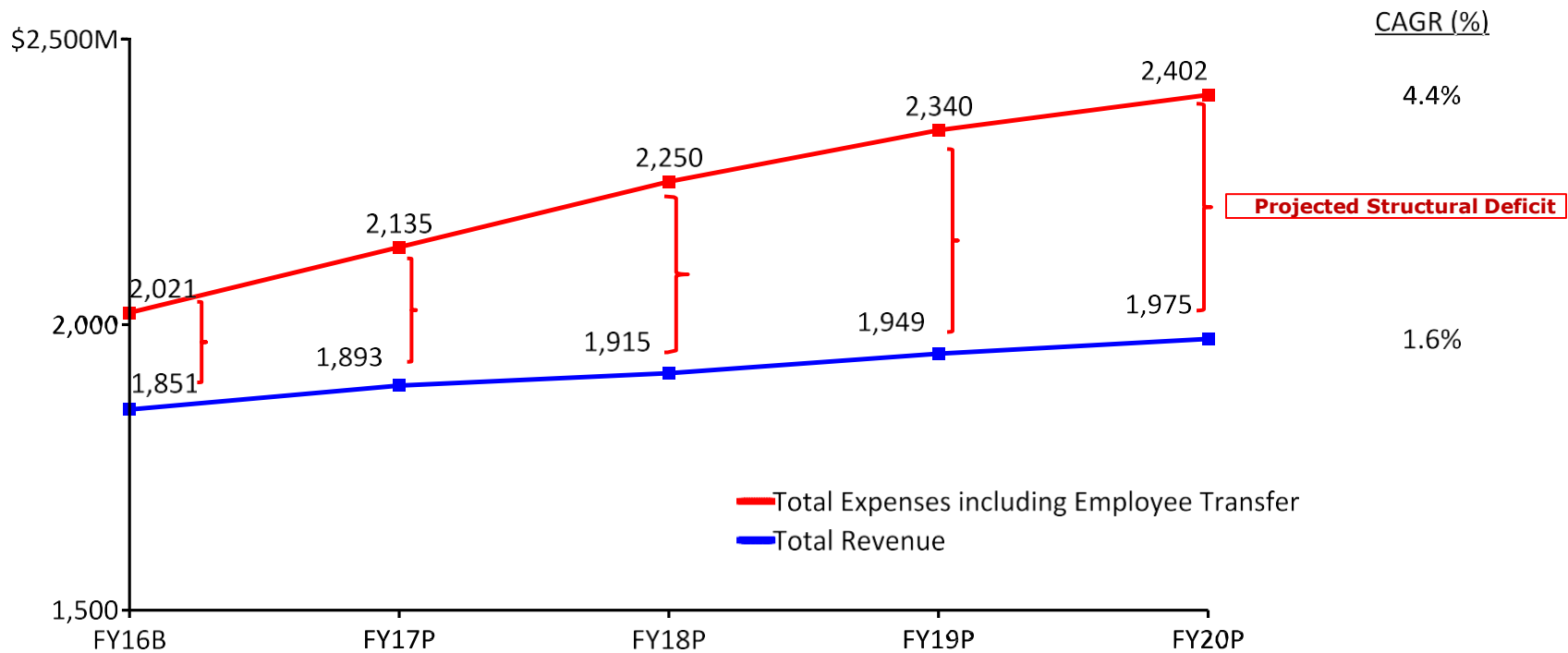
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- **Recap: FY16-17 Management/FMCB Actions**
- **FY18 Budget Options**



Without action, structural deficit was on track to reach \$427M by FY20

STATUS QUO FY17 PRO FORMA – 8.1.2015



Structural Deficit **-\$170M**
Includes Debt Service

-\$242M

-\$335M

-\$391M

-\$427M

Note: Structural deficit includes debt service and transferred capital employees annual expense; does not include Additional State Assistance



Actions to date have freed up dollars to invest in system improvements

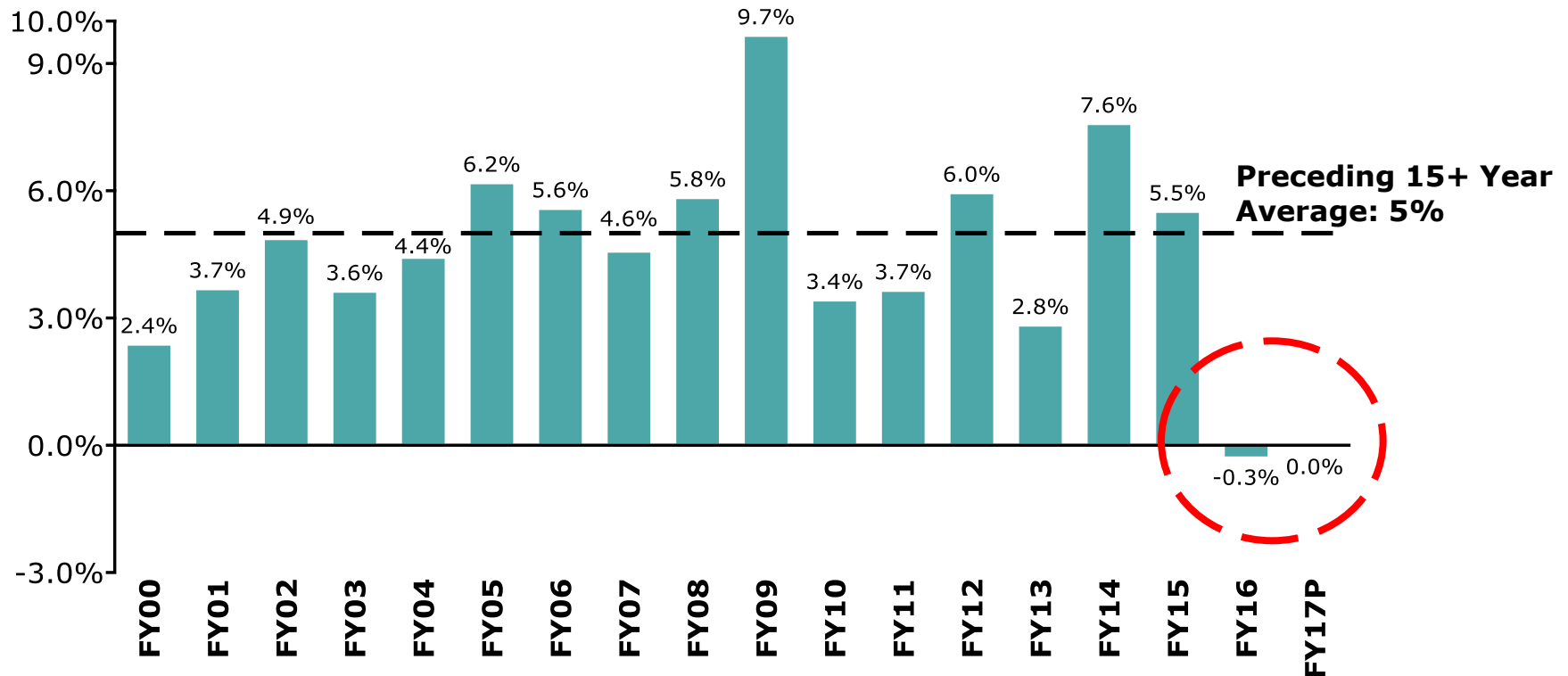
FMCB/MBTA Management actions – first 18 months

- ✓ Moved MBTA onto statewide contracts and payroll system
- ✓ Streamlined corporate HQ/administrative positions; 30% reduction
- ✓ Strengthened and enforced overtime and attendance policies
- ✓ Modernized cash handling and warehouse through contracting
- ✓ Restructured Carmen's Union contract work-rules and wage rates
- ✓ Launched Uber/Lyft and taxi paratransit pilots
- ✓ Locked electricity rates; invested in generating capacity
- ✓ Restructured and refinanced debt portfolio
- ✓ Rebid parking/advertising and raised system-wide fares
- ✓ \$100M in winter resiliency projects / \$140M in the capital lock box



Positive results: Operating expenses on track for lowest growth in more than 15 years

Annual operating expense growth rate
(excluding debt)



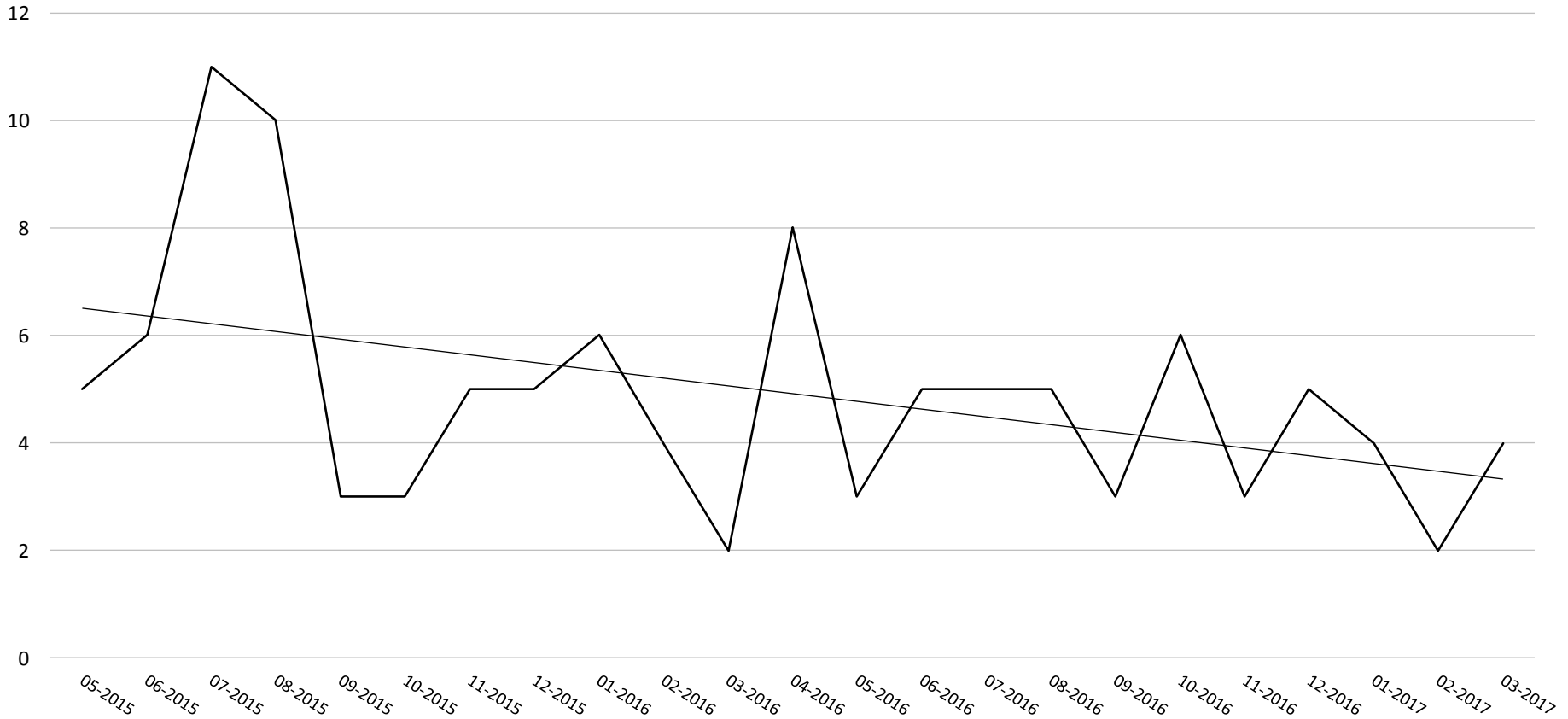
Note: For comparative purposes, FY17 Recast core operating expenses do not include new Amtrak/PRIAA expenses or capital employees transferred in FY17

Note: FY18 Energy costs forecast to be consistent with FY17 Recast



While MBTA continues to actively control operating cost, steady performance improvement remains primary goal

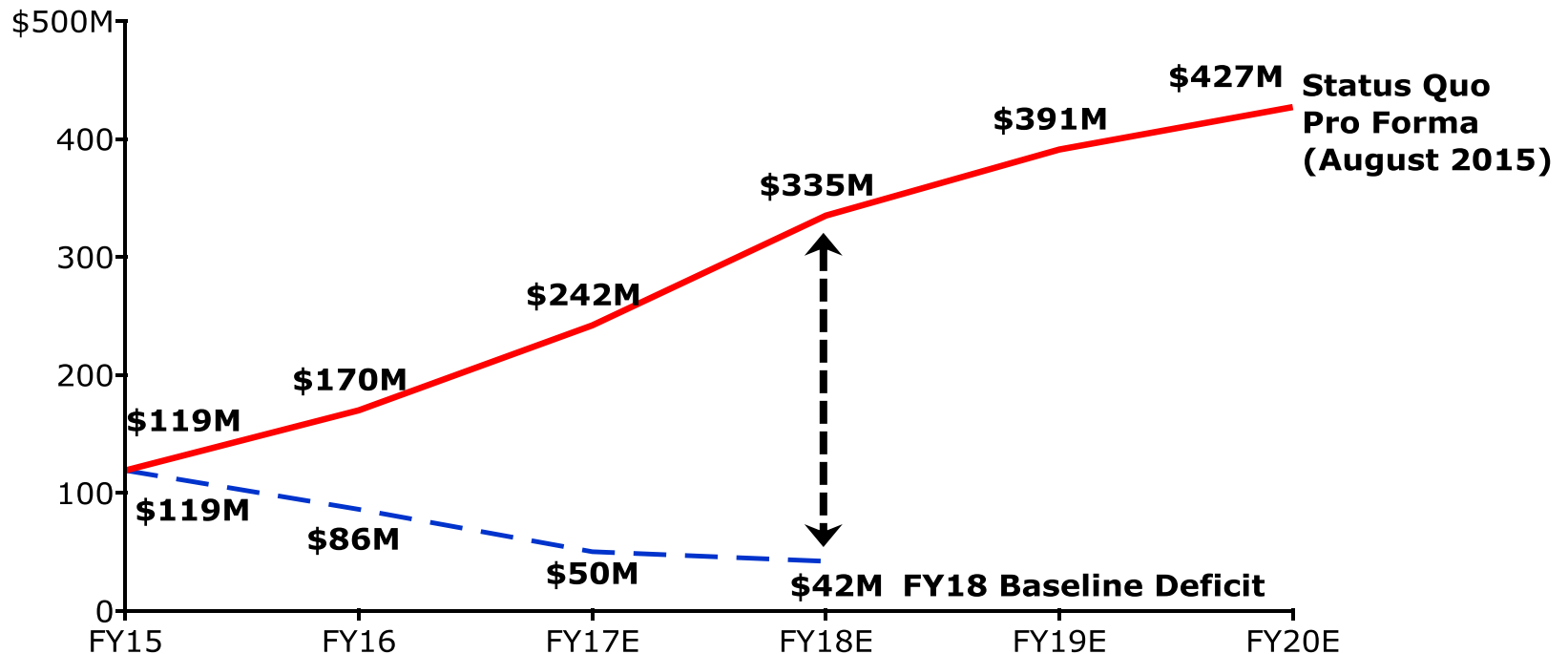
Severe Service Disruptions: Summer 2015 - Spring 2017





Positive results: Operating deficit continues to decrease; FY18 budget remains \$42M in deficit

Structural Operating Deficit



Note: MBTA Management in process of recasting the pro forma. Operating Deficit does not include Additional State Assistance of \$155M in FY16, \$187M in FY17 Recast, and \$187M in FY18 (Note \$60M will be directly deposited in "Capital Maintenance Lockbox")



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- **Recap: FY16-17 Management/FMCB Actions**
- **FY18 Budget Options**



FY18 baseline status quo budget before options

KEY REVENUE ASSUMPTIONS

- ✓ Sales tax revenues conservatively budgeted at the Base Revenue Amount: \$1.007 billion
- ✓ Own-source revenue increase of \$15M, driven by growth in parking and advertising revenues
- ✓ No fare increases
- ✓ Additional State Assistance of \$187M fully committed to CIP and “Pay-GO” capital
 - \$60M in Capital Dollars
 - \$127M Operating Dollars:
 - \$90M already committed to CIP obligations
 - Leaves \$37M: Can fund additional “Pay-GO” capital or deficit spending



The Baseline Budget, incorporating above assumptions, forecasts an operating deficit of \$42M



FY18 baseline status quo budget before options

KEY EXPENSE ASSUMPTIONS

- ✓ Wage expenses:
 - Flat Headcount (i.e., one-in/one-out) across the MBTA, eliminate vacant positions
 - 30% reduction in Corporate HQ/Administrative positions (complete as of 5/1/17)
 - Boston Carmen’s Union (L589) 12/19 agreement in effect for first full fiscal year
 - Across the board increases of 2.5% next year with all unions other than L589, naturally increasing wage expenses by \$6M, or 1.2%
 - Overtime costs projected to be level with FY17 run-rate at \$42M (i.e., \$11M below FY15)
- ✓ Pension budgeted at Actuarially Required Contribution Rate from FY17
- ✓ RIDE savings:
 - Consolidated RIDE call center fully operational
 - RIDE Uber/Lyft pilot utilized by 15% of customers for 10% of total trips
- ✓ Warehouse/Cash Collection/Call Center/Police Dispatch fully implemented
- ✓ Materials/Services/Supplies expense built from the bottom up based on executed contracts and purchase orders
- ✓ Total debt service is \$451M; including \$240M of principal pay down per amortization schedule (up \$30M from FY17)
 - Interest expense \$31M less than originally projected in 2015 pro-forma

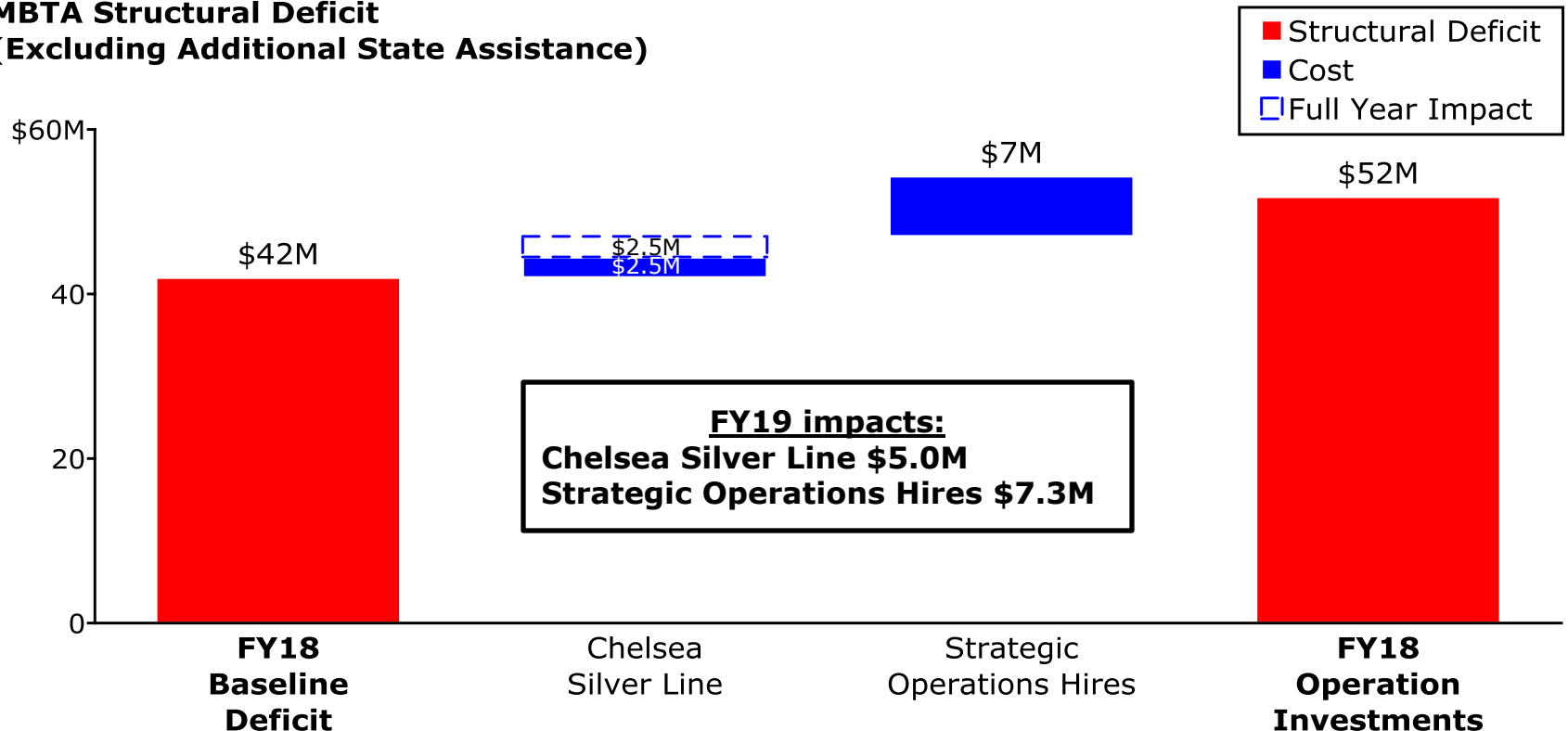


The Baseline Budget, incorporating above assumptions, forecasts an operating deficit of \$42M



Operations investments in new services and strategic hires increase FY18 structural deficit by \$10M

MBTA Structural Deficit (Excluding Additional State Assistance)



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*Figures are full-year run rate, so MBTA would not achieve all savings in FY18. Full savings of these initiatives would be realized in subsequent years
Note: Operating budget costs only, does not include non-cash fringe



FMCB could exercise options to reduce structural deficit

MBTA can reduce the structural deficit by \$27M with the following actions:

- A. Hybrid in-station customer experience model: RFP for “ambassadors” to provide Customer Service Agent role in stations across system (target \$6M or 30% savings)
- B. RFP for Four (Focus40) garages: Partner with third party to outsource management and operation of Focus40 garages (structural target \$11M or 33% savings)
- C. Cabot Garage Pilot: Execute internal reforms to legacy model to save \$5M (40% savings) or contract out if internal efforts fail to deliver savings
- D. Everett heavy maintenance: Back shop work (engine rebuilds, transmissions) shifted to RFP partners from Focus 40 garages (structural target \$5M or 27% savings)

Additional options can reduce the deficit by \$14M

- E. The RIDE Premium Service: Without suspending service, MBTA can achieve ~\$2-7M in savings
- F. Weekend Commuter Rail: Management to identify up to \$6M in savings
- G. Ad Revenue Expansion: \$3M from maximizing real-time information screens
- H. Keolis/MBTA Revenue Growth Strategy: Potential \$1M from revenue share



When timing of options is considered, FY18 deficit increases by ~\$9M

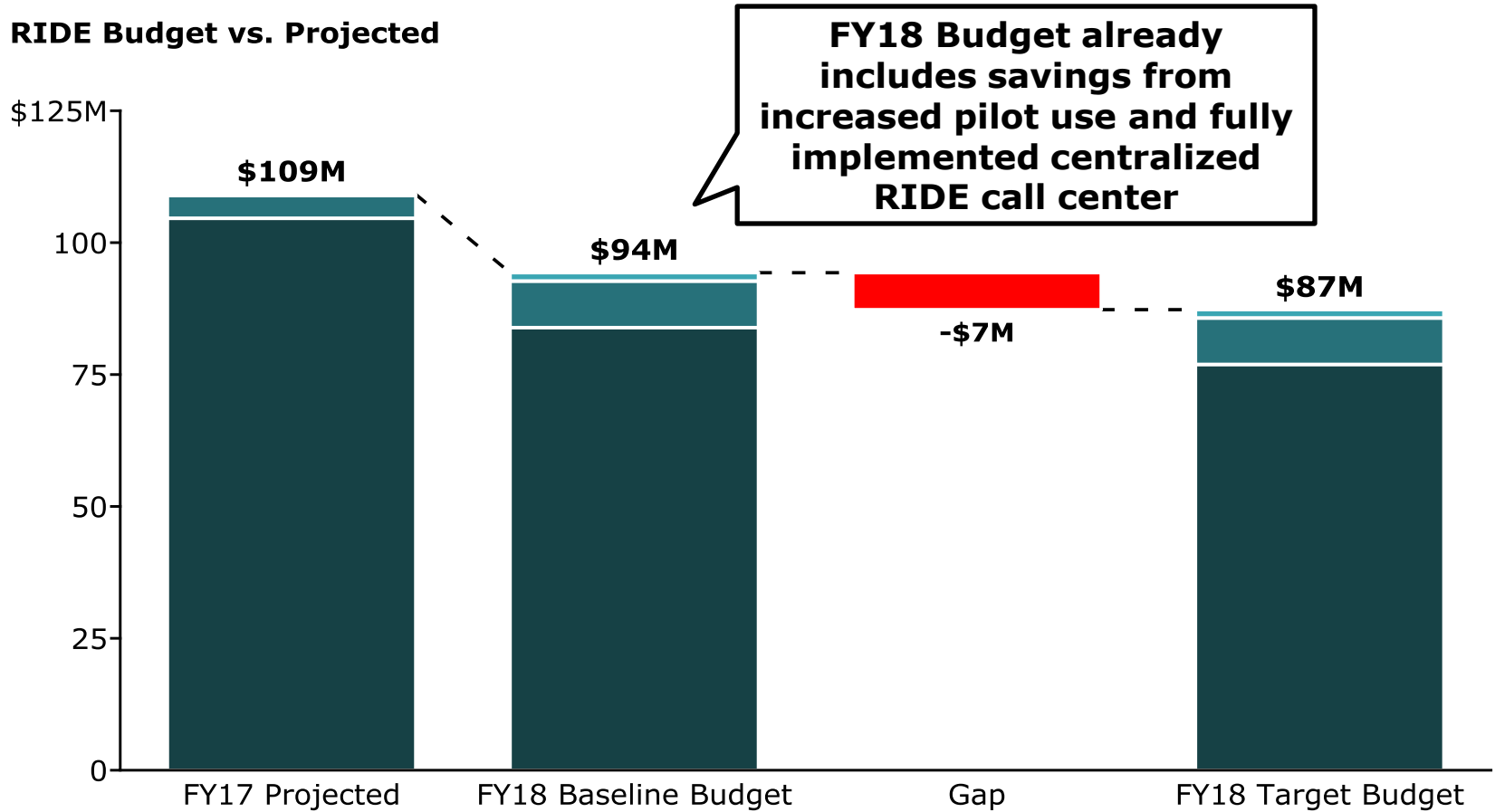
		FULL-YEAR RUN-RATE IMPACT	TARGET DATE	ESTIMATED FY18 IMPACT
BASELINE STRUCTURAL DEFICIT (1)		\$42.0		\$42.0
NEW SERVICE AND INVESTMENTS	Chelsea Silver Line	\$5.0	1/1/2018	\$2.5
	Strategic Operations Hires	\$7.3	7/1/2017	\$7.3
CUSTOMER EXPERIENCE	A. Hybrid In-Station CX Model	(\$6.3)	8/1/2017	(\$5.8)
	B. Four (Focus40) Garage RFPs	(\$11.1)	1/1/2018	(\$5.5)
BUS MAINTENANCE OPTIONS	C. Cabot Garage Efficiency	(\$5.3)	7/1/2017	(\$5.3)
	D. Everett Bus Shop	(\$4.9)	1/1/2018	(\$2.4)
	E. The RIDE Premium Service	(\$4.0)	7/1/2017	(\$4.0)
ADDITIONAL OPTIONS	F. Weekend Commuter Rail	(\$6.0)	10/1/2017	(\$4.5)
	G/H. CR Revenue Expansion and Advertising	(\$4.0)	1/1/2018	(\$2.0)
NET SAVINGS (2)		(\$29.3)		(\$19.8)
STRUCTURAL DEFICIT (3) <i>(3) = (1) + (2)</i>		\$12.7		\$22.2
"PAY-GO" TRANSFER (4) <i>(4) = \$37M - (3)</i>		\$24.3		\$14.8



E. The RIDE

While improved over FY17, FY18 RIDE costs remain \$7M over target budget

RIDE Budget vs. Projected





E. The RIDE

MBTA management and taskforce have reviewed options to reach target budget

OPTION	DESCRIPTION	FY18 SAVINGS PROJECTION	OPTION 1	OPTION 2	OPTION 3
Book Trips with HST	Use brokerage to bid out premium area trips (HST model)	\$1M to \$3.4M	✓	✓	
Work with RTAs	Provide a portion of premium area trips via RTAs with overlapping service areas	-\$75K ¹ to \$1.1M			✓
Change Service Hours	Run premium area trips from 7am-8pm (vs. current 5am-1am)	\$380K to \$1.5M		✓	✓
Change Same Day	No longer provide non-required same-day service; continue no-strand policy	\$1.9M to \$4.3M	✓	✓	✓
Grandfather Service	"Grandfather" existing customers into premium service, no new customers	\$0.6M to \$0.7M (Long term: \$7.5M) ²			
			\$2.9-6.7M	\$3.3-7.1M	\$2.2-5.9M
<div style="border: 1px solid black; padding: 5px; display: inline-block;"> TARGET SAVINGS OF \$7.5M EQUAL TO PREMIUM SERVICE COSTS </div>					

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¹ Potential for added cost (negative savings) can occur depending on how the deal is structured

² Limited initial savings that will ramp up over time (would eventually be equal to full cost of premium service)



H. Advertising

Maximize advertising revenue with new advertising partner

**UP TO \$3M IN
POTENTIAL
REVENUE**



PROMOTING RESPONSIBLE OPTIONS

Significant Opportunity:

- \$1.5 to \$3 million per year in annual revenue
- Ability to daypart (with digital), restricted geography (specific stations) or formats

Peer Agencies Accepting Include:

- New York MTA
- Chicago CTA
- Washington Metro
- Seattle Sound Transit
- San Francisco BART
- Atlanta MARTA
- Philadelphia SEPTA
- New Jersey Transit
- Phoenix Valley Metro
- Pittsburgh Port Authority
- Dallas DART
- Miami-Dade Transit
- Charlotte CATS
- Minneapolis / St. Paul Metro Transit



Rendering of Kenmore station



DC Metro – Responsibility Advertisement

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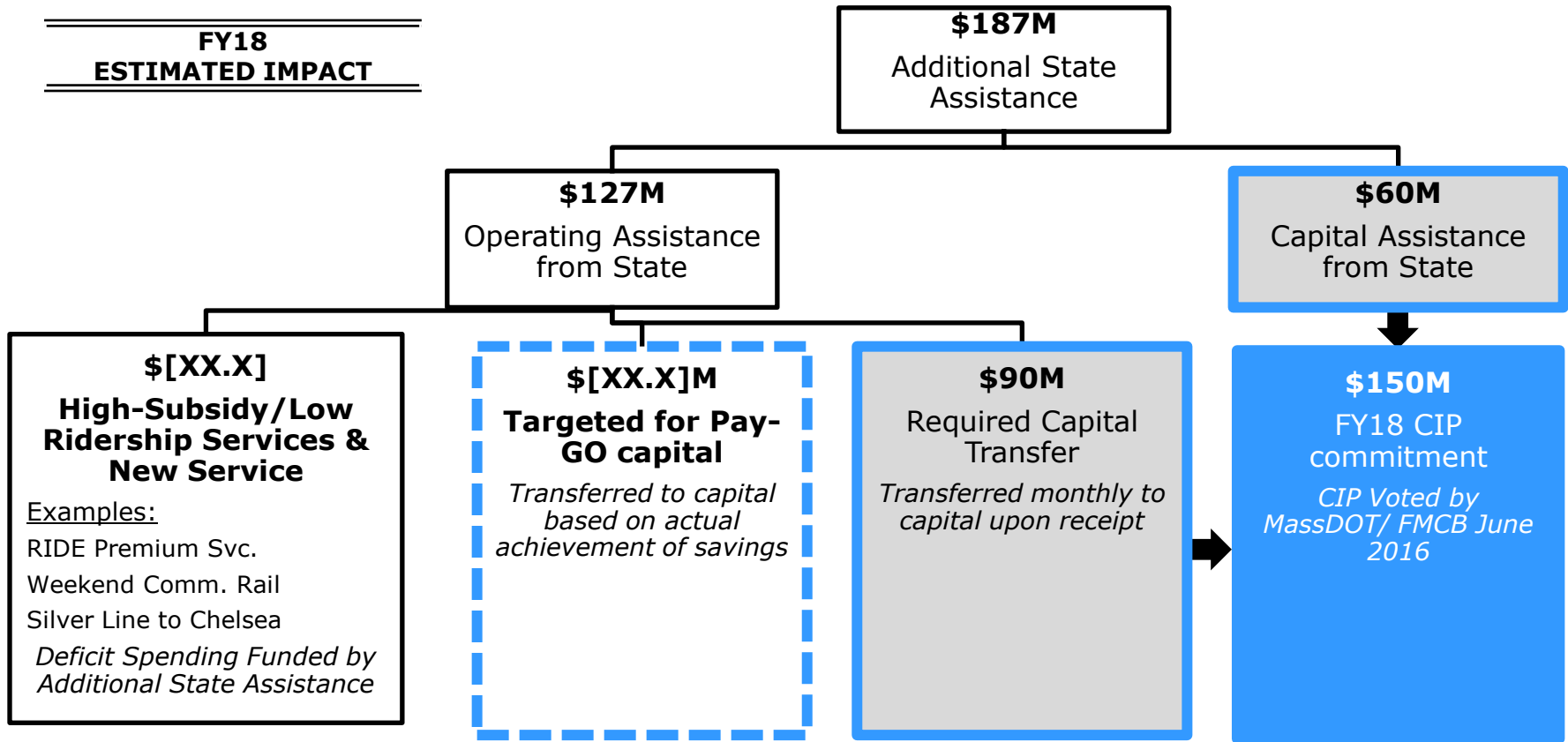


REVIEW: OPTIONS FOR DISCUSSION

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FY18 separation of operating and capital budgets If all additional policy decisions executed...



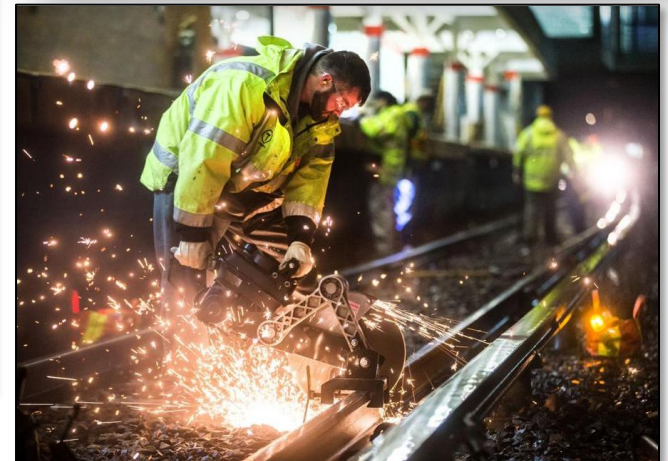
Structural Deficit of \$22.2M includes savings from The RIDE and Weekend Commuter Rail; revenue from maximized digital advertising and KCS/MBTA revenue share



APPENDIX



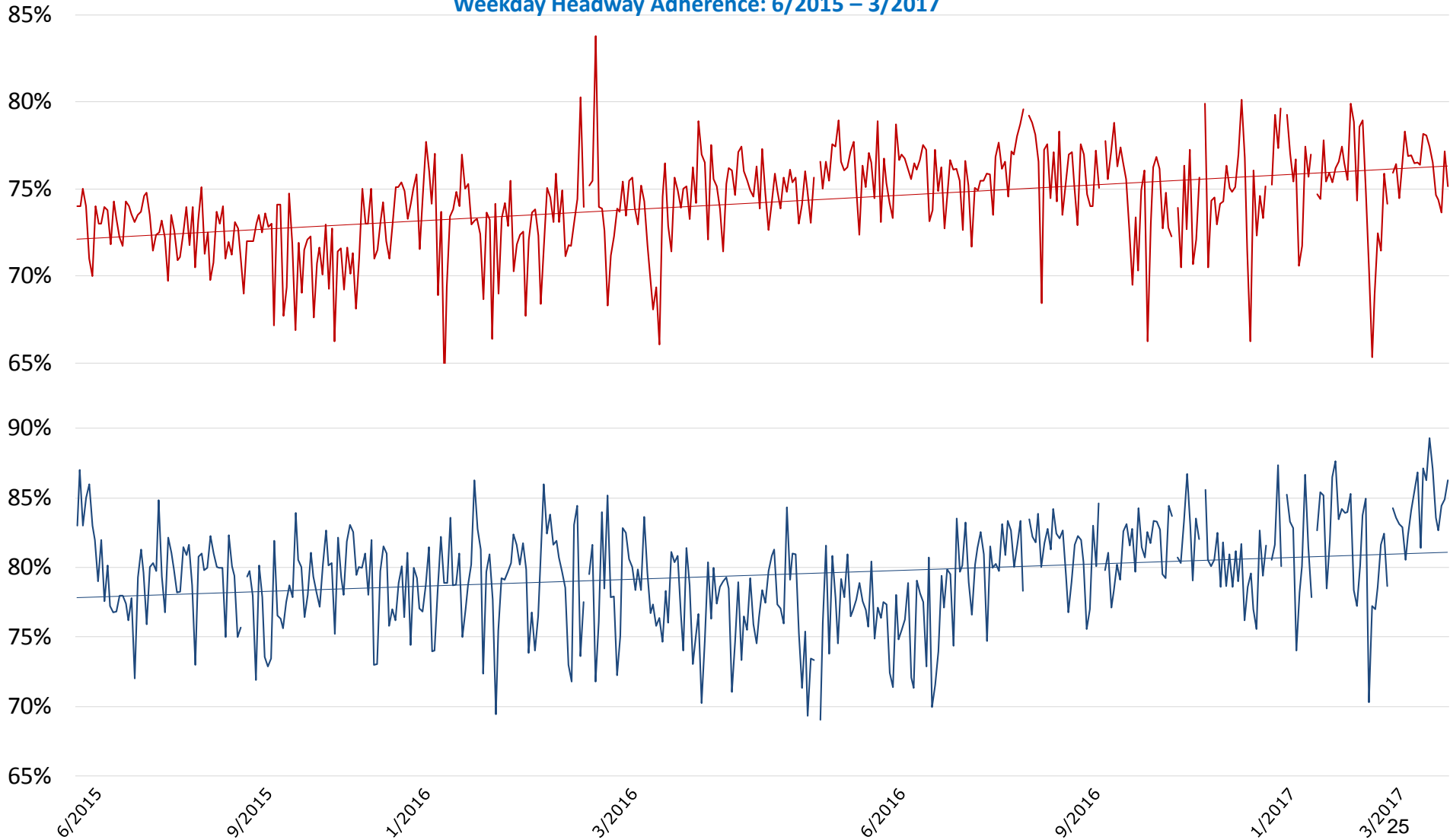
Capital investments improve customer experience and resiliency





While MBTA continues to actively control operating cost, steady performance improvement remains primary goal

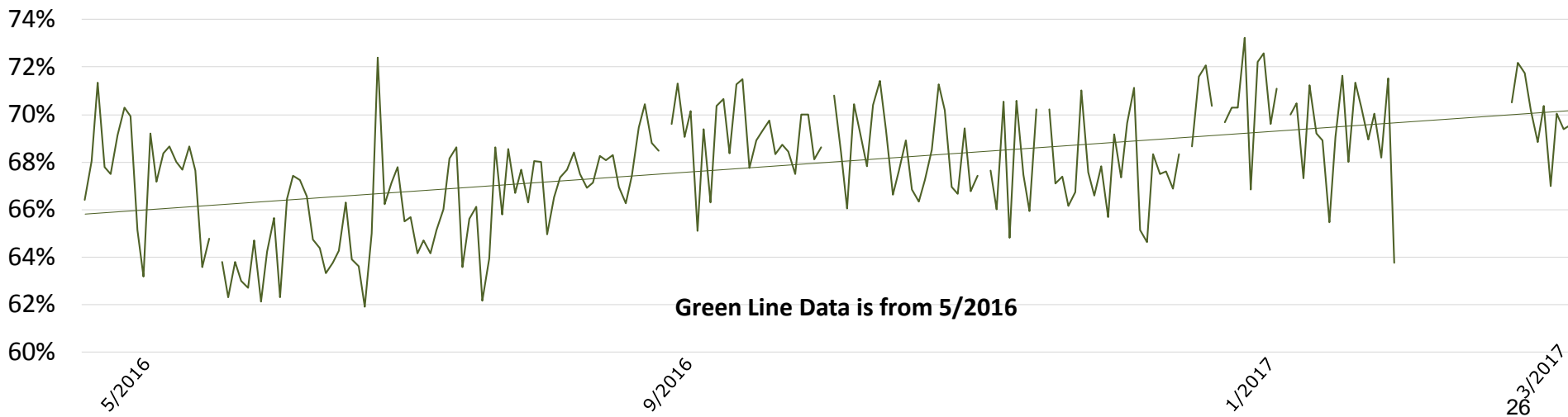
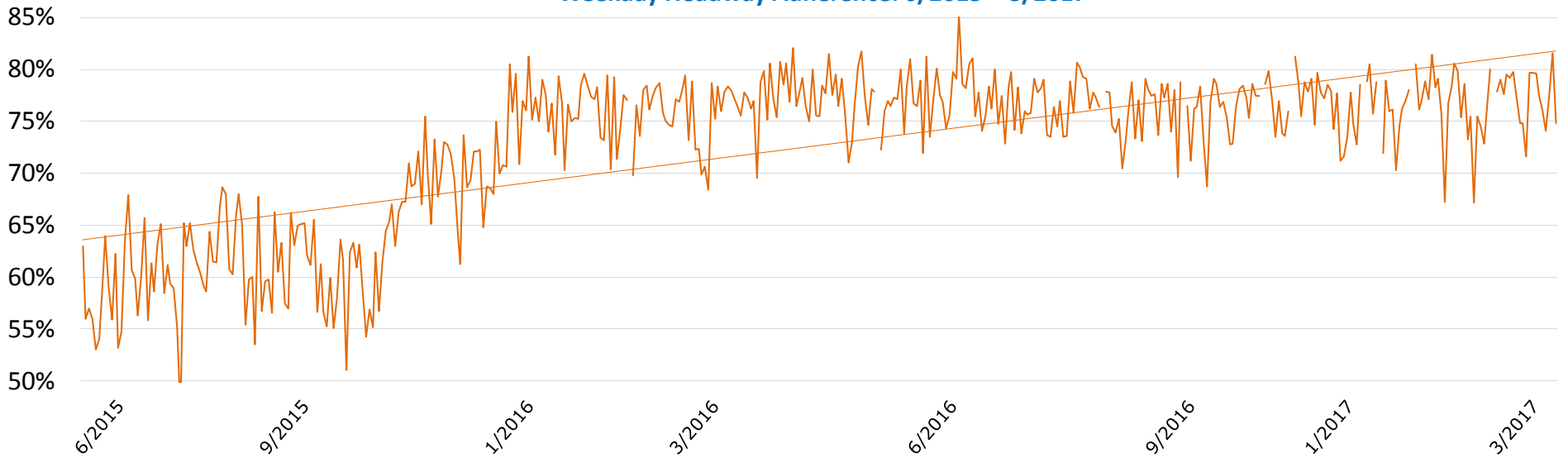
Weekday Headway Adherence: 6/2015 – 3/2017





While MBTA continues to actively control operating cost, steady performance improvement remains primary goal

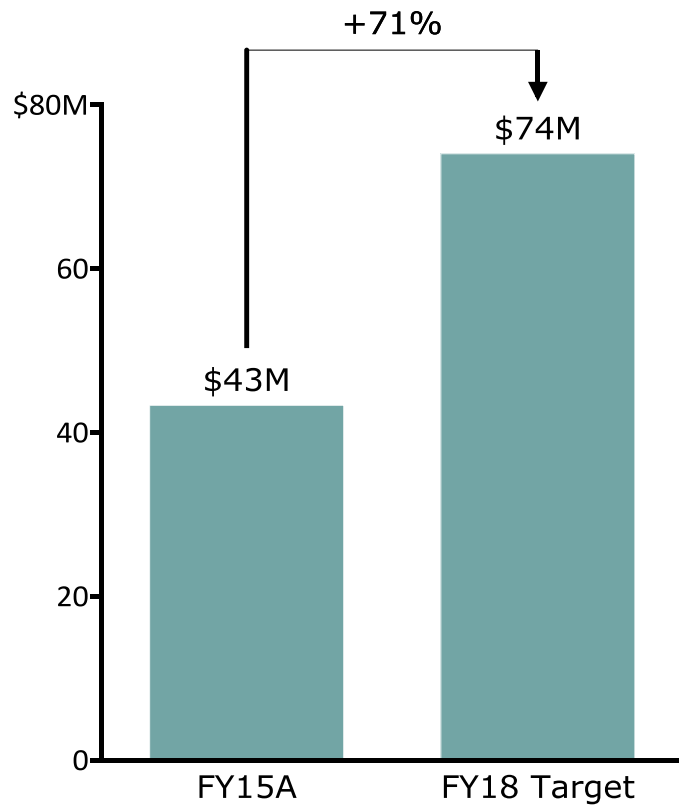
Weekday Headway Adherence: 6/2015 – 3/2017





Positive results: Targeting \$74M in own-source revenue in FY18

MBTA Own-Source Revenue



Competitive rebid process
drove best value for MBTA



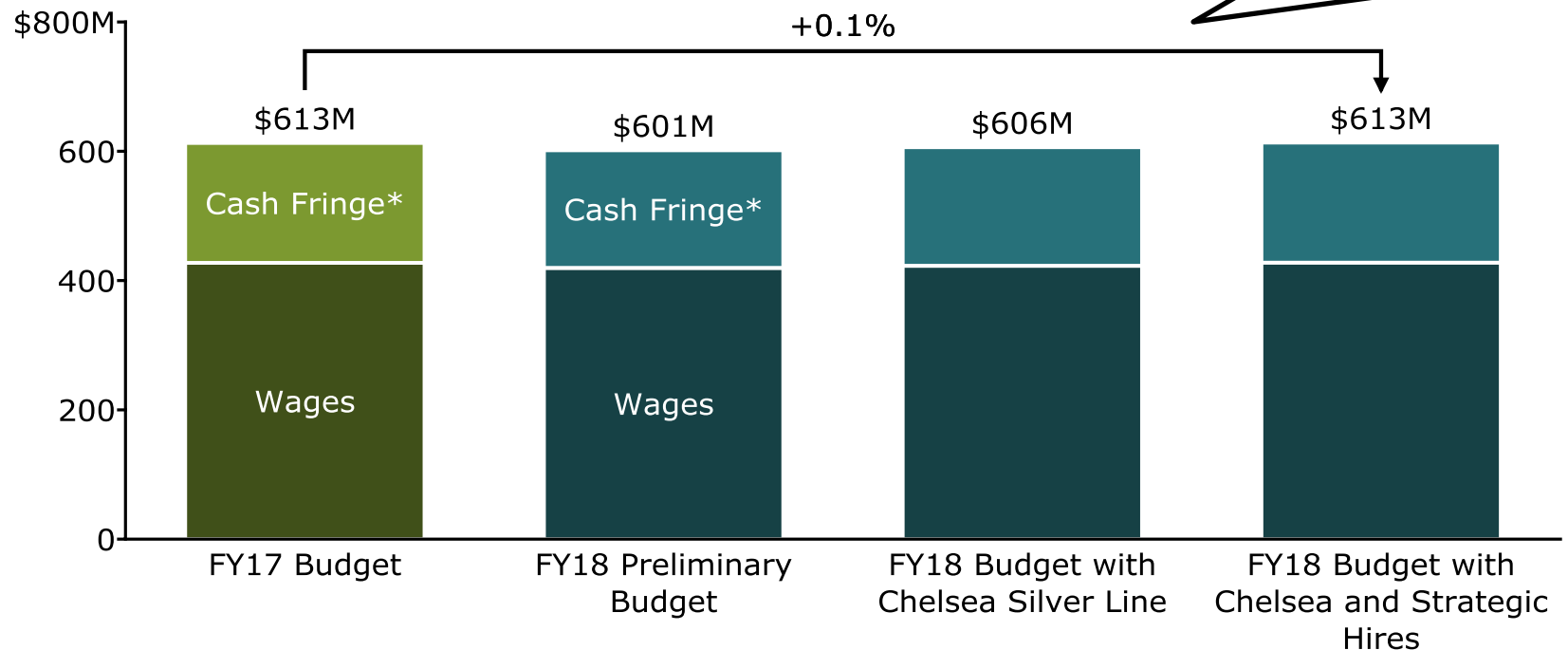


Wage Spending

FY17 efforts has controlled corporate wage spending; Operating wage spending flat

FMCB vote to level fund FY17 strategic operations positions and Silver Line

Loaded Operations Wage Spend



Operators	2,371	2,447	2,477	2,482
Non-Operators	<u>3,018</u>	<u>2,777</u>	<u>2,777</u>	<u>2,828</u>
Total	5,389	5,224	5,254	5,310

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* NOTE: Excludes Post-Retirement Fully weighted costs, including additional Pension and OPEB benefits