



**Massachusetts Bay
Transportation Authority**

FY18 Operating Budget and Financial Management Update

OCTOBER 2017



Agenda

- **FY18 Budget Update**
- **FY19 Structural Challenges**
- **Internal Controls and Oversight Initiatives**
- **Appendix**



FMCB goal:

Deliver a balanced MBTA operating budget

Under Section 203 of Chapter 46 of the Acts of 2015, the FMCB may:

"Establish 1- and 5-year operating budgets, beginning in fiscal year 2017, which are balanced primarily through a combination of internal cost controls and increased own-source revenues"



FY18 BUDGET BOARD VOTE: Tough decisions on initiatives to reduce operating cost and increase revenues

FMCB FY18 BUDGET – APRIL 2017

(\$ Millions)

		FULL-YEAR RUN-RATE IMPACT	TARGET DATE	ESTIMATED FY18 IMPACT
BASELINE STRUCTURAL DEFICIT		(\$42)		(\$42)
INCLUDED IN FY18 ITEMIZED BUDGET	Hybrid In-Station Customer Service Model	\$6	8/1/2017	\$6
	RFPs for 4 Smaller Garages*	\$11		
	Cabot Garage Efficiency	\$5		\$8
	Everett Bus Shop	\$5		
	Chelsea Silver Line	(\$5)	1/1/2018	(\$3)
	Strategic Operations Hires	(\$7)	7/1/2017	(\$7)
SUBTOTAL - Adjusted Structural Deficit		(\$27)		(\$38)
FY18 DEFICIT SPENDING	The RIDE	\$3	7/1/2017	\$1
	Commuter Rail	\$5		\$5
	CR Revenue Expansion and Advertising	\$4	1/1/2018	\$2
STRUCTURAL DEFICIT		(\$15)		(\$30)
TARGET PAY-GO TRANSFER AS OPEX SAVINGS ACHIEVED (\$37M – STRUCTURAL DEFICIT)		\$22		\$7

*RFPs have been revised to include only 3 of the MBTA's 9 bus garages, instead of 4 (now 28% of bus fleet instead of 36%)

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Where do we need to control expenses or increase revenue?



Pension

- After the April vote, MBTA Pension Board released 2017 update in June that increased pension contribution by 11%; projected to exceed \$90M



Hybrid In-Station Customer Service

- Signed \$4.1M annual contract with Block by Block (Jul17)
- Cost of customer service reduced from \$55/hour in-house to \$41/hour for contract
- Promotion of Transitional CSAs to motorperson positions delayed (36 out of 99 promoted since beginning contract; 20 more to be promoted in Dec17)



Bus Maintenance

- Delayed procurement timeline for RFP has not secured full \$21M in run-rate bus maintenance initiatives savings
- On track to meet \$8M in FY18 budgeted savings through Garage Efficiency initiative (Cabot) and Everett Bus Shop initiative



The RIDE

- High per-trip costs and inefficient dispatch drive high expenses
- \$13M increase over budget attributable to delay in TRAC implementation and reduced productivity expectations, increasing hours needed to provide service



Commuter Rail

- Not on track to meet \$5M in FY18 budgeted savings
- Executive Director of Commuter Rail hired in September 2017; will present plan for operating budget savings within 90 days of start



Advertising

- Alcohol advertising policy still pending



Fare Revenue

- Projected \$8M reduction in fare revenue vs. budget due to ridership and construction
- Sales & marketing board established between MBTA and Keolis to discuss creative ways to boost advertising revenue; met for the first time in Oct. 2017



FY18 operating deficit trending towards \$50M

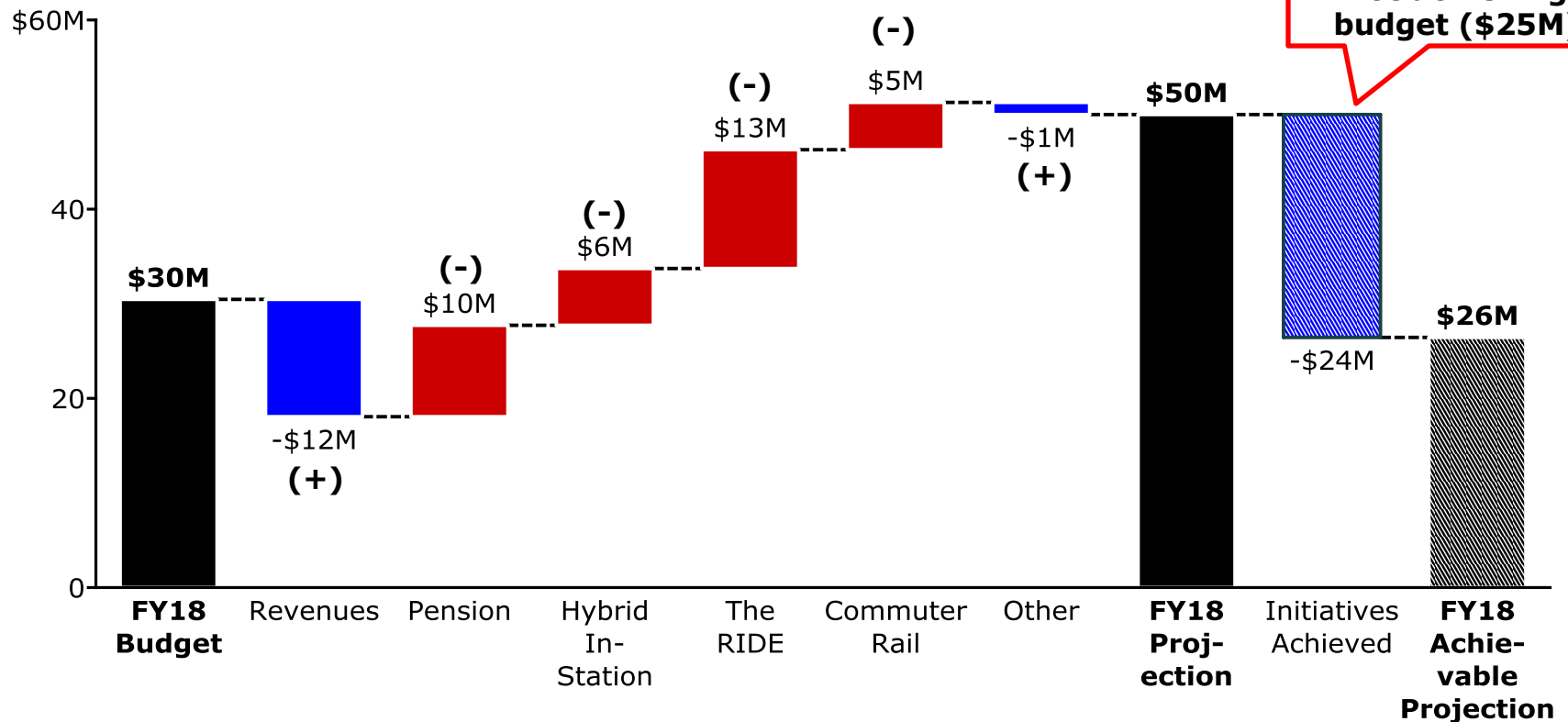
		FY18 Budget vs. FY18 Projection			
	(\$M)	FY18 BUDGET	FY18 PROJECTION	\$ VARIANCE	NOTES
REVENUES	Operating Revenues (fares and own-source)	766.2	759.1	(7.1)	+ Own-source revs - Fare revenue
	Non-Operating Revenues	1,201.0	1,220.5	19.5	+ South station, LAZ, real estate
	Total Revenues	1,967.2	1,979.6	12.4	
EXPENSES	Wages, Benefits and Payroll Taxes	762.7	774.8	(12.1)	- Pension expense - Bus maintenance RFP timing
	Non-Wage	783.8	797.7	(13.9)	- RIDE reforms - Commuter Rail
	Operating Expenses	1,546.5	1,572.4	(25.9)	
	Debt Service	451.2	457.2	(6.0)	+ Increased bonds for capital investment program
	Total Expenses	1,997.6	2,029.6	(32.0)	
Structural Deficit		-30.5	-50.0	(-19.5)	

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MBTA projects additional \$20M deficit primarily due to unachieved FY18 Budget Initiatives

FY18 Budget-to-Projection





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FY19 Structural Challenges: Operating Budget

Total Existing Debt Service Costs

- Amortization Tables require additional debt service payments totaling \$50M in FY19 over FY18 Budget
 - *Increase in principal: \$41M*
 - *Increase in interest expense: \$9M*
 - *Net estimated increase to structural deficit: \$50M*
- Compliant with FMCB approved Debt Policy (Jun16)
 - *Requires level repayment of principal consistent with useful life of capital investments*

Transfer of Capital Employees to Operating Budget

- Legislative mandate to transfer final phase of the capital employees to Operating Budget in FY19
 - *220 budgeted headcount relating to legacy Design & Construction*
 - *Net estimated increase to structural deficit: \$27M*

Pension Expense

- Actuarially determined Annual Required Contribution ("ARC") to increase by \$10M in FY19 over FY18 Budget
 - *Based on current Actuary Valuation*
 - *Net estimated increase to structural deficit: \$10M*

FMCB Approved Pilots

- Foxborough Commuter Rail Service
 - *Net estimated increase to structural deficit: \$500k*
- Early Morning Bus Service (i.e., Sunrise Service)
 - *Net estimated increase to structural deficit: \$1M*



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Department-Level Monthly Reporting Package (MRP):

Includes sections on Financials, Headcount, Operations, and Safety

MONTHLY REPORTING PACKAGE: SEPTEMBER 2017 (FY2018)

Department Name Procurement and Logistics
Department Code 400000
Department Head Nick Easley
Department Budget Will Buntrock

FINANCIAL UPDATE

OPERATING BUDGET

YEAR-TO-DATE FINANCIAL OVERVIEW: Please discuss the financial performance of your department on a year-to-date basis.

Through the first quarter we stayed well under budget. This is in part due to invoices which have not arrived yet for services rendered, as well as a few personnel vacancies. The actuals should come much closer to the budget once all payments have been processed.

CHALLENGES/RISKS TO OPERATING BUDGET IN COMING QUARTERS: Please discuss operating challenges/risks your department will face this year related to the operating budget. This is an opportunity to highlight potential situations where budgets will be exceeded.

I don't anticipate risks to our operating budget at this time, especially since we all already 26 percent under budget.

	FYTD18	FYTD18 versus Budget YTD		
	Budget YTD	\$ Change	% Change	
Wages				
Wages	\$978,968	\$1,152,940	(\$173,973)	-15.1%
Overtime	\$2,252	\$45,000	(\$42,748)	-95.0%
Wages Total	\$981,220	\$1,197,940	(\$216,720)	-18.1%
Materials and Services				
Materials	\$6,026	\$14,723	(\$8,697)	-59.1%
Uniforms	\$0	\$439	(\$439)	-100.0%
Services	\$272,997	\$493,091	(\$220,093)	-44.6%
Fuel				
Utilities				
Contract Cleaning				
M&S Total	\$279,023	\$508,253	(\$229,230)	-45.1%
Total	\$1,260,243	\$1,706,193	(\$445,950)	-26.1%

	FYTD18	FYTD17	\$ Change	% Change
Wages				
Wages	\$978,968	\$1,465,149	(\$486,182)	-33.2%
Overtime	\$2,252	\$36,419	(\$34,167)	-93.8%
Wages Total	\$981,220	\$1,501,569	(\$520,348)	-34.7%
Materials and Services				
Materials	\$6,026	\$23,392	(\$17,367)	-74.2%
Uniforms	\$0	\$540	(\$540)	-100.0%
Services	\$272,997	\$1,532,393	(\$1,259,396)	-82.2%
Fuel				
Utilities	\$0	\$1,127	(\$1,127)	-100.0%
Contract Cleaning				
M&S Total	\$279,023	\$1,557,452	(\$1,278,429)	-82.1%
Total	\$1,260,243	\$3,059,020	(\$1,798,777)	-58.8%

	FYTD18	FYTD18 versus Full-Year Budget		
	Budget	\$ Gap	% Gap	
Wages				
Wages	\$978,968	\$4,611,761	(\$3,632,793)	21%
Overtime	\$2,252	\$180,000	(\$177,748)	1%
Wages Total	\$981,220	\$4,791,761	(\$3,810,541)	20%
Materials and Services				
Materials	\$6,026	\$58,892	(\$52,867)	10%
Uniforms	\$0	\$1,757	(\$1,757)	
Services	\$272,997	\$1,972,363	(\$1,699,365)	14%
Fuel				
Utilities				
Contract Cleaning				
M&S Total	\$279,023	\$2,033,012	(\$1,753,989)	14%
Total	\$1,260,243	\$6,824,773	(\$5,564,530)	18%

HEADCOUNT

HEADCOUNT UPDATE: Please discuss headcount in your department, highlighting trends vs. budget or YTD, and discussing key hires or vacancies that will be filled.

Making several key hires. Director of Procurement will be involved in filling the other vacancies.

	9/30/2017	7/1/2017	Var	Explanation
Headcount vs. Beginning of Year	51	49	2	Filled new management positions
Headcount vs. Budget	51	49	2	Budget request wasn't translated to HR headcount
FTE Equivalence	51	Total Hours	FTE Equiv.	Var
				Provide explanation here

OPERATIONS UPDATE

OPERATIONS SUMMARY

SEPTEMBER OPERATIONS PERFORMANCE OVERVIEW: Please provide an overview of your department's operations performance from the previous month. Please do not discuss operating financial performance in this section.

Created 990 POs totalling \$166MM. Moved forward with Cherry Road projects including PO workflow, electronic signature and request for voucher.

CHALLENGES/RISKS TO OPERATIONS IN COMING QUARTERS: Please discuss operating challenges/risks your department will face this year.

Potential learning curve with PO workflow changes. There will be changes to the inventory request process, these were not anticipated in our contract or transition plan.

KEY PROJECT/INITIATIVE OVERVIEW

Please discuss ongoing initiatives in your department below. List as many initiatives as you see appropriate.

Name	Description	Start Date	End Date (est)	Status	Updates: Key Achievements, Roadblocks, Issues, Opportunities
PO Workflow				On Track	Go-live next week
Contract Management/CLX				On Track	Designing fields/views
PO Consolidation/Strategic Sourcing				On Track	Working with Xerox and Readyrefresh to reduce po counts
Requisitioner Overhaul				Completed	Received updated requisitioners from departments
MBTA Approval Website				On Track	Site is live and contains info about approvals, procurement and budget
FairMarket implementation				On Track	Buyers and analysts working with fairmarket to improve the system
Vendor Performance Monitoring				On Track	Researching public organization methods of managing vendors
Contract Risk Assessment				On Track	TBD
Intake Form Improvement				On Track	TBD
				Cancelled	Type your Updates here

SAFETY



To improve efficiency, transparency, and accountability in procurement processes, we

Completed Access Review of Financial System

- Conducted full review of every department's FMIS user list
- Revised pre-approved user list for requestors and approvers
- Eliminated "cross-user access" (users requesting on behalf of other users/budgets)

Are Launching New Electronic Purchase Order Approval Process

- Improves oversight and auditability across purchasing cycle
- Decreases procure to pay time by nearly 40%
- Eliminates more than 90,000 pieces of paper each year

Are Launching New E-bidding Platform

- Dramatically increases buyer and manager productivity
- Increases transparency, accountability, and auditability for Small Purchases
- Increases competition, expands vendor pool, and captures and stores quote data
- Future opportunities to target businesses and run reverse auctions

Are Launching New Contract Lifecycle Management System

- Helps solidify process differences between simple and complex purchases
- Decreases time to contract and increases control over signature authority
- Improves contract revision and change order process
- Provides management with tools to monitor contracts



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Structural Deficit projected to exceed FY17 Actuals by \$20M

	FY17 Actual vs. FY18 Projection			
(\$M)	FY17 ACTUAL	FY18 PROJECTION	\$ VARIANCE	NOTES
g Revenues	715.6	759.1	43.5	Own-source revenue growth
rating Revenues	1,209.5	1,220.5	11.0	One-time legal & real estate transactions
venues	1,925.2	1,979.6	54.4	
Benefits and Taxes	771.8	774.8	(3.0)	Lower payroll offset by CBA, pension & fringe
ge	755.3	797.7	(42.4)	Materials & services spend increased
g Expenses	1,527.1	1,572.4	(45.3)	
vice	427.9	457.2	(29.3)	Scheduled amortization (including new debt)
enses	1955.1	2,029.6	(74.5)	
I Deficit	-29.9	-50.0	(20.1)	