



**Massachusetts Bay
Transportation Authority**

FY19 Final Itemized Operating Budget

April 9, 2018



Disclaimer: Forward-looking Statements

The materials provided in this presentation contain statements related to our future business and financial performance and future events or developments involving the MBTA that may constitute forward-looking statements. These statements may be identified by words such as "expect," "look forward to," "anticipate" "intend," "plan," "believe," "seek," "estimate," "will," "project" or words of similar meaning. We may also make forward-looking statements in other reports, in presentations, in material delivered to bondholders and in press releases. In addition, MBTA management may from time to time make oral forward-looking statements. Such statements are based on the current expectations and certain assumptions of MBTA management, of which many are beyond MBTA control. These are subject to a number of risks, uncertainties and factors, including, but not limited to those described in disclosures. Should one or more of these risks or uncertainties materialize, or should underlying expectations not occur or assumptions prove incorrect, actual results, performance or achievements of MBTA may (negatively or positively) vary materially from those described explicitly or implicitly in the relevant forward-looking statement. MBTA neither intends, nor assumes any obligation, to update or revise these forward-looking statements in light of developments which differ from those anticipated.



Agenda

1. Overview

2. FY19 Itemized Operating Budget

3. Vote Language

4. Appendix – Additional Budget Details



Overview

- FMCB and MBTA management continue to work diligently to close the operating budget deficit
- The Advisory Board has reviewed and approved the Preliminary Itemized Budget
- No material changes have been made to the budget since it was last presented to the FMCB
- Every operating dollar saved is invested in capital improvements
 - › FMCB targeted \$150M annual transfer of operating dollars to Capital Investment Plan (CIP)
 - › Deficit spending in excess of \$37M would deprive CIP of that critical funding source



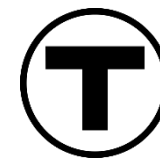
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FY19 Summarized Operating Budget

	(\$M)	FY18 BUDGET RECAST	FY19 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE
REVENUES	Operating Revenues	\$755.9	\$773.0	\$17.1	2.3%
	Non-Operating Revenues	\$1,221.1	\$1,247.8	\$26.7	2.2%
	Total Revenues	\$1,977.0	\$2,020.8	\$43.8	2.2%
EXPENSES	Wages, Benefits and Payroll Taxes	\$764.0	\$771.8	\$7.8	1.0%
	Non-Wage	\$781.5	\$789.7	\$8.2	1.0%
	Operating Expenses	\$1,545.5	\$1,561.5	\$15.0	1.0%
	Debt Service	\$462.7	\$495.9	\$33.2	7.2%
	Total Expenses	\$2,008.2	\$2,057.4	\$49.2	2.5%
	Structural Deficit	(\$31.2)	(\$36.5)	\$5.3	17.0%

*Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures



Potential Risks to FY19 Operating Budget

Capital Employee Transfer

- Should the MBTA not receive legislative relief, \$27M of capital employees will be transferred to operating budget

Pension Costs

- Reduction in the assumed rate of return increases the MBTA required contribution
- Investment returns less than the assumed rate of return also increase the MBTA required contribution

Weather

- Prolonged inclement weather translates to increased spending across wages (overtime), materials and services
- A more significant weather event could lead to higher insurance premiums

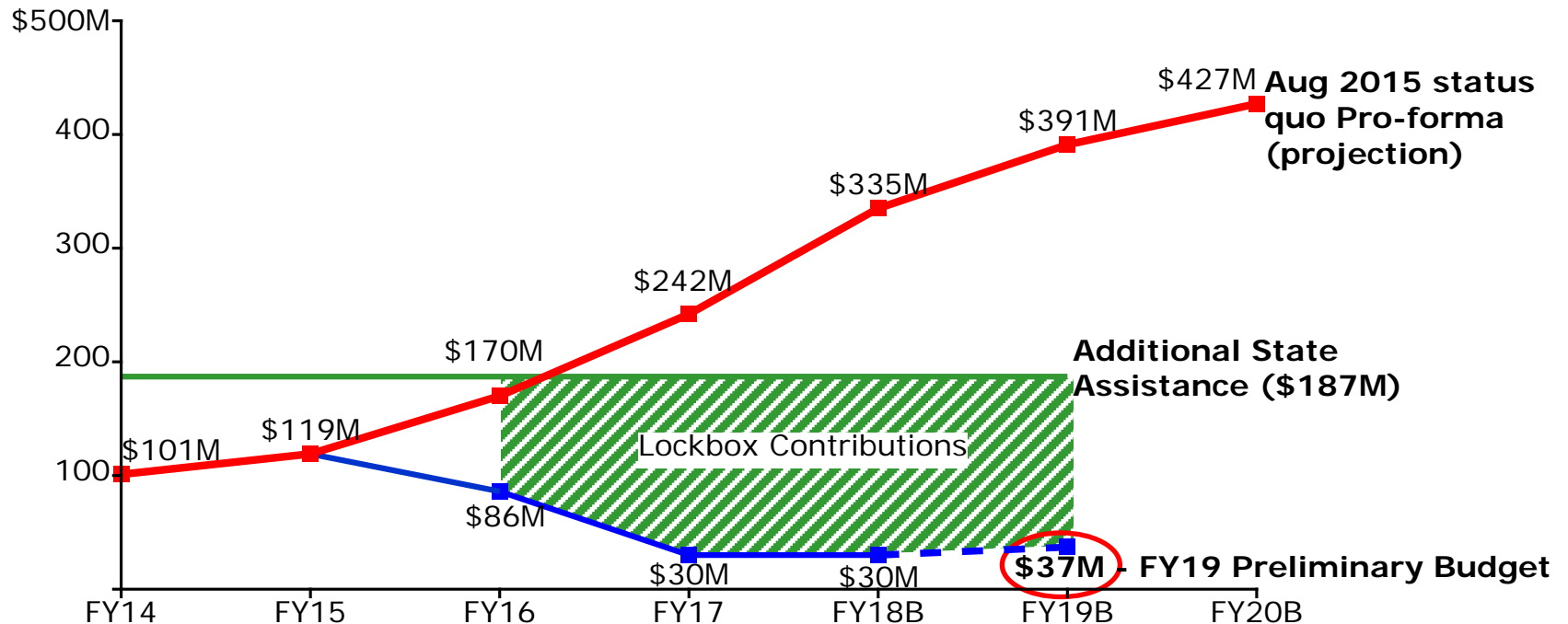
Financial Market Variables

- While the MBTA has hedges in place, a material increase in interest rates, higher energy prices and widening credit spreads impact the operating budget



FY18 deficit \$305M below projections; \$600M of cumulative savings since creation of FMCB

Structural deficit



MBTA management in process of recasting FY18-FY20.

Operating Deficit does not include Additional State Assistance received in FY16 (\$155M), FY17 (\$140.25M) or FY18 Projections (\$127M)



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Vote to Approve FY19 Itemized Budget

REQUIRED VOTE

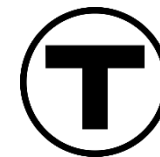
That the Fiscal and Management Control Board approves the Authority's itemized budget of current operating expenses and debt service costs for a one year period—July 1, 2018 through June 30, 2019—in the amount of \$2,057,316,471 in the form submitted at this meeting (April 9, 2018); and

That the General Manager is hereby authorized and directed to submit the approved itemized budget, in the name and on behalf of the Authority, to the MBTA Advisory Board no later than April 15, 2017 in accordance with Section 20 of Chapter 161A of the Massachusetts General Laws.



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1. Overview
2. FY19 Budget Initiatives
3. FY19 Itemized Operating Budget
4. Appendix – Additional Budget Details

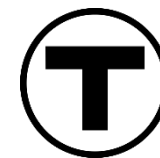


FY19 revenue from all sources up 2.2% over FY18P

	(\$M)	FY18 BUDGET PROJ	FY19 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE	EXPLANATION
OPERATING	Fares, all modes	\$667.4	\$671.4	\$4.1	0.6%	• Corp Pass up \$8M
	Own-Source	\$88.6	\$101.6	\$13.0	14.7%	• Advertising & Parking Increases
	Operating	\$755.9	\$773.0	\$17.1	2.3%	
NON-OPERATING	Dedicated Sales Tax	\$1,003.0	\$1,032.1	\$29.1	2.9%	• Inflation adjustment per statute
	Dedicated Local Assessment	\$166.5	\$170.1	\$3.6	2.2%	• Inflation adjustment per statute
	Other	\$51.7	\$45.7	(\$6.0)	-11.6%	• Exclude FY18 one- time revenues
	Non-Operating	\$1,221.1	\$1,247.8	\$26.7	2.2%	
Total Revenues		\$1,977.0	\$2,020.8	\$43.8	2.2%	

* FY18P comprised of 7 months (Jul17 – Jan18) actual results and 5 months (Feb18 – Jun18) projected results

Draft for Discussion & Policy Purposes Only



Wages and Benefits

	(\$M)	FY18 BUDGET PROJ	FY19 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE	EXPLANATION
WAGES	Regular Wages	\$454.0	\$459.1	(\$5.1)	-1.2%	• Lean Productivity Programs
	Overtime	\$48.9	\$46.9	\$2.0	4.7%	• Continued management focus
	Wages	\$502.9	\$506.0	(\$3.1)	-0.6%	
BENEFITS AND TAXES	Pension ^ *	\$92.7	\$96.9	(\$4.3)	-4.8%	• Forecast ARC
	Health	\$104.6	\$104.6	\$0.0	0.0%	• Average GIC growth of 3.8%, offset by lower headcount
	<i>Retiree Health</i>	<i>\$44.0</i>	<i>\$44.0</i>	<i>\$0.0</i>	<i>0.0%</i>	• Average GIC growth of 3.8%
	Health & Welfare Fund	\$10.9	\$10.9	\$0.0	-0.2%	
	Other Fringes	\$13.1	\$13.1	(\$0.0)	0.0%	• Driven by regular wages
	Payroll Taxes	\$39.9	\$40.2	(\$0.3)	-0.7%	• Driven by regular wages
	Benefits and taxes	\$261.1	\$265.7	(\$4.6)	-1.7%	
Total Wages, Benefits and Taxes		\$764.0	\$771.8	(\$7.7)	-1.0%	

^FY18 pension expense is an estimate and will not be finalized until MBTRF and its actuaries complete their 12/2017 investment valuation.

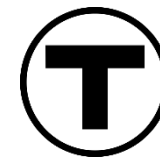
*Pension includes Main Fund, Police, Deferred Compensation Supplement, 401(a) MBTA Match



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

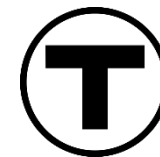
	(\$M)	FY18 BUDGET PROJ	FY19 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE	EXPLANATION
MATERIALS AND SERVICES	Materials	\$49.3	\$43.3	\$6.0	13.0%	• LEAN Productivity Programs
	Services	\$115.9	\$108.5	\$7.4	5.8%	• Flexible contracts
	Utilities	\$43.6	\$43.6	\$0.0	0.0%	• Level-funded due to long term contracts
	Fuel	\$16.6	\$16.8	\$0.0	0.0%	• Level-funded due to long term contracts
	Contract Cleaning	\$21.9	\$23.9	(\$2.0)	-8.4%	• Contractual
	Uniform	\$1.7	\$1.7	\$0.0	0.0%	• Stable headcount and prices
	Materials and Services	\$249.0	\$237.6	\$11.4	4.6%	
INSURANCE	Insurance	\$11.1	\$11.1	\$0.30	0.0%	

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

	(\$M)	FY18 BUDGET PROJ	FY19 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE	EXPLANATION
COMMUTER RAIL	Fixed Price	\$320.5	\$327.3	(\$6.8)	-2.1%	• Annual contract escalation
	Extra Work and Services	\$37.0	\$44.0	(\$7.0)	-18.9%	• Capital work allocated to capital budget
	Fuel	\$26.4	\$26.4	\$0.0	0.0%	
	PRIAA	\$16.0	\$9.3	\$6.7	71.5%	• New contractual expense
	Commuter Rail	\$399.9	\$407.0	(\$7.2)	-1.8%	
LOCAL SERVICE	THE RIDE	\$97.8	\$110.1	(\$12.4)	-13.3%	• Call/dispatch center and pilots
	Ferry	\$14.0	\$14.0	\$0.0	0.0%	
	LSS Other	\$2.4	\$2.4	\$0.0	0.0%	
	Local Service	\$114.2	\$126.6	(\$12.4)	-10.8%	
OTHER	Financial Service Charges	\$7.3	\$7.3	\$0.0	0.0%	
Non-Wage Expenses:		\$781.5	\$789.7	(\$8.1)	-1.0%	



Debt service to increase in Fiscal 2019

DEBT SERVICE	(\$M)	FY18 BUDGET PROJ	FY19 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE	EXPLANATION
	Interest	\$216.6	\$230.0	(\$13.3)	-6.4%	• Variable interest rates increasing
	Principal	\$244.8	\$265.9	(\$21.1)	-8.8%	• Per Amortization Scheduled
	Lease	\$1.2	\$0.0	\$1.2	42.3%	• All leases pre-paid
	Debt Service	\$462.7	\$495.9	(\$33.2)	-7.2%	

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Additional Details on Budget Items

Rationalized Initiatives

Revenue Opportunities (\$25.0M)	<ul style="list-style-type: none"> • Maximize Corporate Pass revenue (\$8M) • Maximize Parking revenue through occupancy-based pricing, increase in citation fees and event / premium rates (\$7M) • Maximize Advertising revenue via expanded digital rollout (\$6M) • Maximize investment income via short-term investments (\$4M)
Cost Saving Strategies (\$36.0M)	<ul style="list-style-type: none"> • Lean Program Implementation (\$30M) • RIDE Uber/Lyft Pilot Changes (\$1M) • Additional Wage Savings (\$5M) • <i>Capital Employee Transfer (\$27M) – included in baseline</i>
Service Enhancements (\$26.2M)	<ul style="list-style-type: none"> • Chelsea Sliver Line Gateway (\$2M incremental in FY19, \$5M annual) • Early Morning Service Pilot (\$1.5M) • Foxborough Commuter Rail Pilot (\$1M) • Bus Service Project (\$0.3M) • Customer Experience / Communications Resources (\$6.1M) • OSHA Program Implementation (\$6.5M) • Late Night Bus Service (\$2M) • Commuter Rail Locomotive Lease (\$1M) • Additional Bus Operators (\$3.6M) • E&M Investments (\$2.2M)