



**Massachusetts Bay
Transportation Authority**

Operating Budget Stability

Fiscal Year 2018 – Financial Review

Report to Fiscal and Management Control Board



Agenda

- **Executive Summary**
- **FY17 Actual Results vs. FY18 Actual Results**
- **FY18 Budget vs. FY18 Actual Results**
- **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”



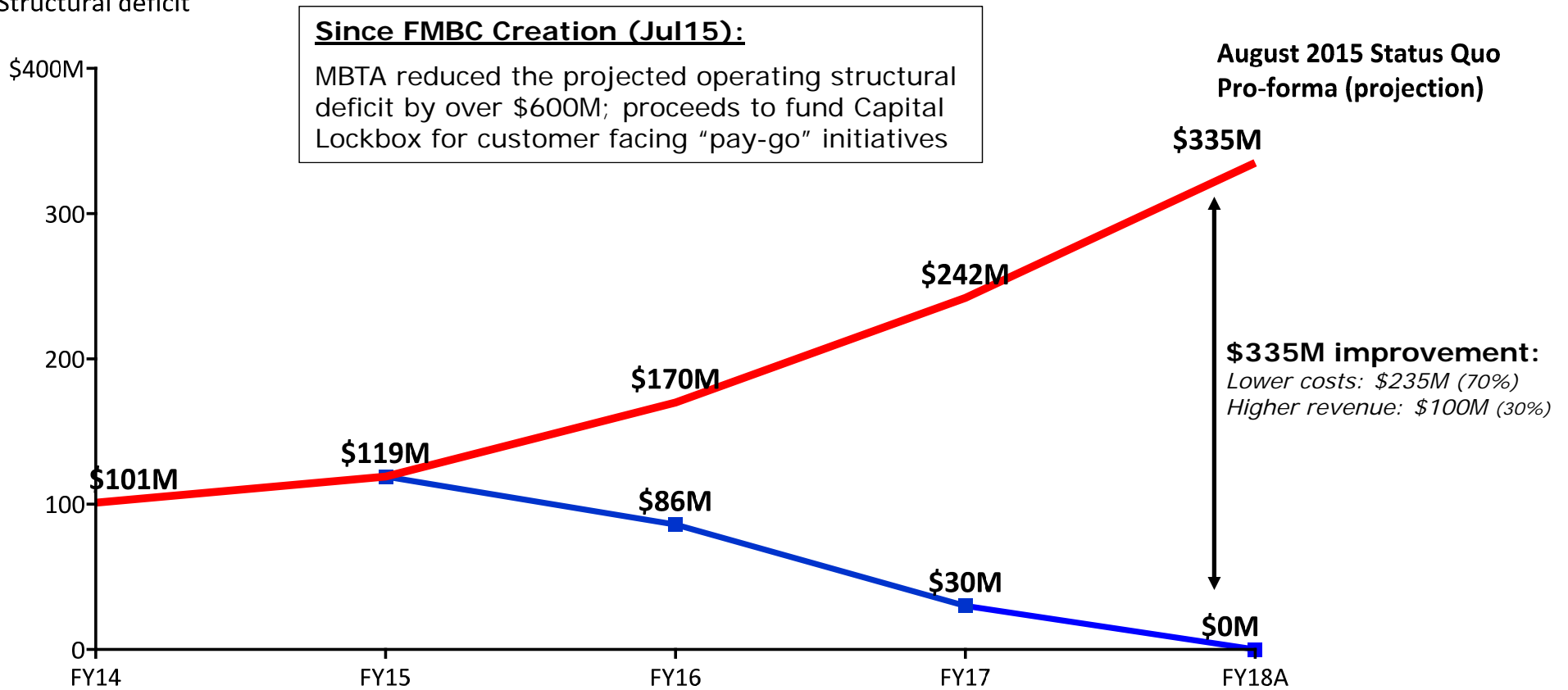
Executive Summary

- **First balanced operating budget since FY08**
 - FY18 achieved FMCB goal that total revenues cover total operating expenses (including debt service)
 - 30% achieved through revenue growth and 70% through cost controls
 - Enables entire \$127M in Additional State Assistance to be used for “Pay-Go” Capital (total Additional Assistance including capital transfer is \$187M)
- **Increased own-source revenues primary driver of revenue growth**
 - Total revenue increased 5% (\$90M) over last year and 12% (\$212M) since FY15
 - Own-source operating income (advertising, parking, real-estate) more than doubled from FY15 to \$88M in FY18 primarily due to contract transitions
- **Core operating expense growth held flat for third straight year**
 - Operating expenses controlled by active management of materials & services, favorable CBA terms & renegotiation of existing vendor contracts
- *Results are draft pending audit by KPMG; no material adjustments expected*



FMBC Goal Achieved: Total revenues cover operating expenses including debt service

Structural deficit



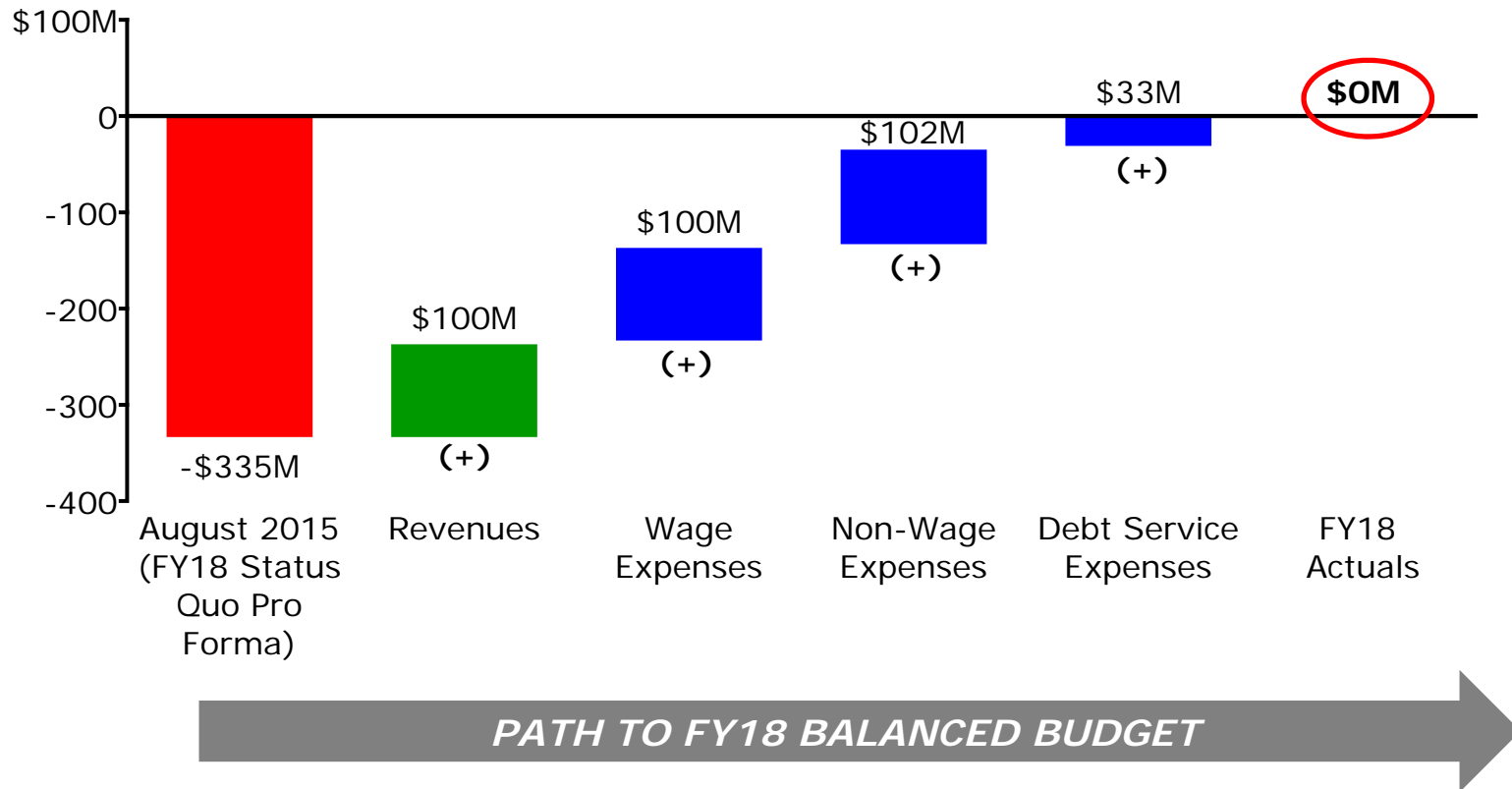
Source: MBTA Internal Data

Note: Structural Deficit does not include Additional State Assistance of \$156M in FY16, \$140M in FY17, or \$127M in FY18



FY18 path to balanced operating budget paves way for long-term fiscal sustainability

MBTA Operating Structural Deficit (Status Quo Pro Forma vs. FY18 Actuals)





FMCB/Management actions FY16 - FY18: How We Did it

Driving revenue growth:

- ✓ Rebid system-wide parking and advertising contracts with a digital focus
- ✓ Raised system-wide fares average 9.3%, reduced cash bus fare (FY17)
- ✓ Enforced third-party contract terms (revenue and cost)
- ✓ Aggressively negotiated new commercial banking contracts resulting in increased investment income without additional risk
- ✓ Introduced a revenue sharing initiative with Keolis to better align financial interests
- ✓ Expanded MASSPort/Silverline service & recovered prior period unbilled revenues



FMCB/Management actions FY16 - FY18: How We Did it (continued)

Bending the cost curve:

- ✓ Set monthly financial targets / zero-based budgeting
- ✓ Streamlined workforce, 30% reduction in corporate / administration positions
- ✓ Partnered with private sector to contract cash handling operations, warehouse/logistics, call center, police dispatch and in-station customer service
- ✓ Re-negotiated Carmen & Machinists union contract wage rates and work-rules
- ✓ Restructured and refinanced debt portfolio and issued first public sustainability bond
- ✓ Executed Voluntary Retirement Incentive Plan; 380 net reduction in headcount



FMCB/Management actions FY16 - FY18: How We Did it (continued)

Accelerating Capital Investment

- ✓ FY16-FY18 operating budget savings resulted in over \$500M of Additional State Assistance being available for “pay-go” capital projects
- ✓ Invested over \$100M in winter resiliency infrastructure
- ✓ Executed plan to replace entire Red Line fleet with 266 new cars
- ✓ Replaced one-third of bus fleet with 375 new hybrid and CNG buses
- ✓ Reset GLX project with new team & \$600M in value engineering

Modernizing Systems & Innovation

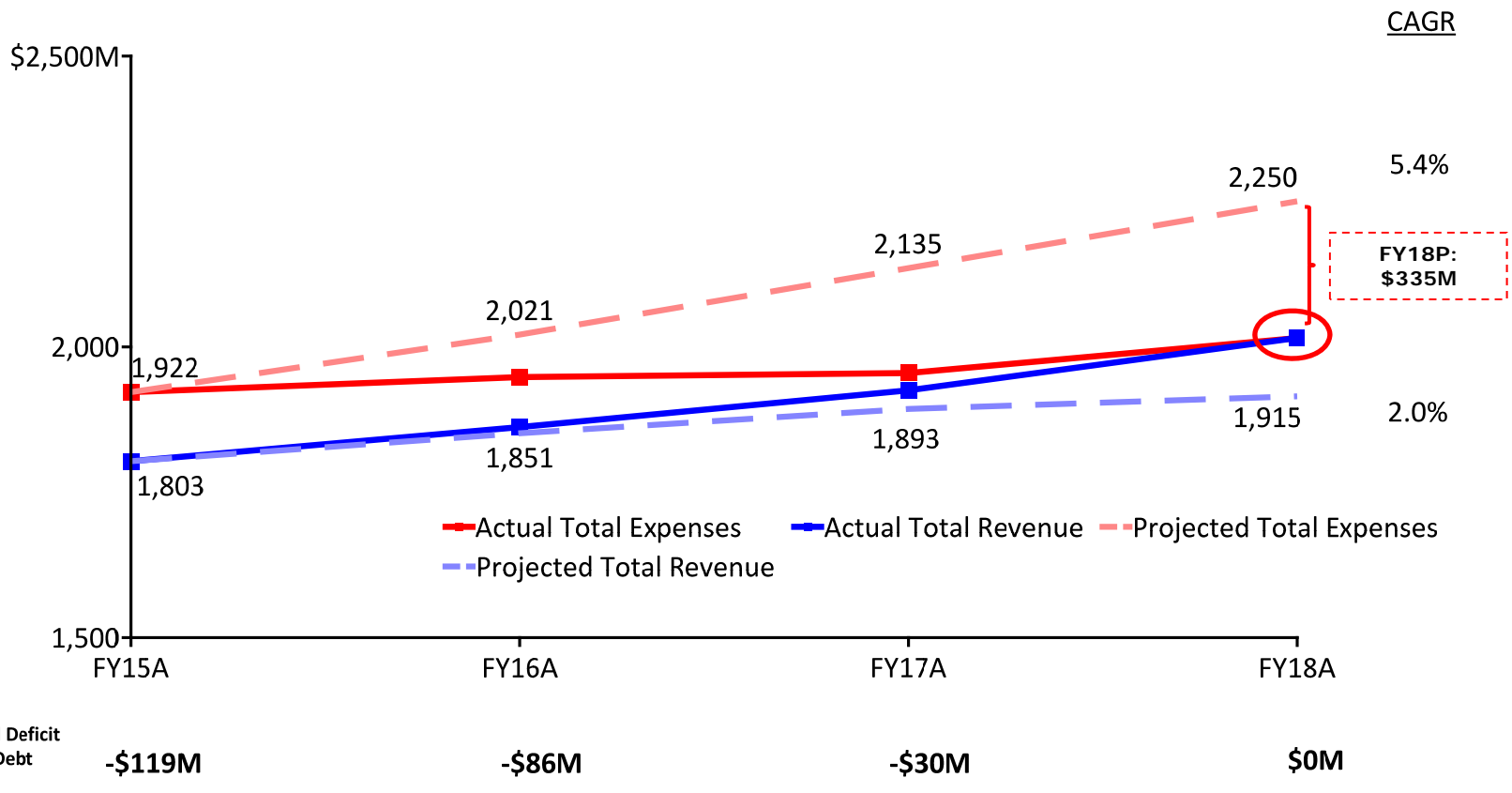
- ✓ Shifted MBTA onto Commonwealth payroll (HR-CMS) platform
- ✓ Transitioned off of “cash-vouchers” to electronic purchase orders
- ✓ Implemented digital platform to create visibility on open requisitions
- ✓ Partnered with TPA for leave management programs (FMLA/ADA)
- ✓ Implementing HASTUS electronic roster-picking for operators
- ✓ Executed Private/Public Partnership (3P) to replace fare collection system – AFC 2.0
- ✓ Implemented Uber & Lyft Pilots for The Ride



Balanced budget achieved by effective cost control and revenue growth beginning with the inception of the FMCB

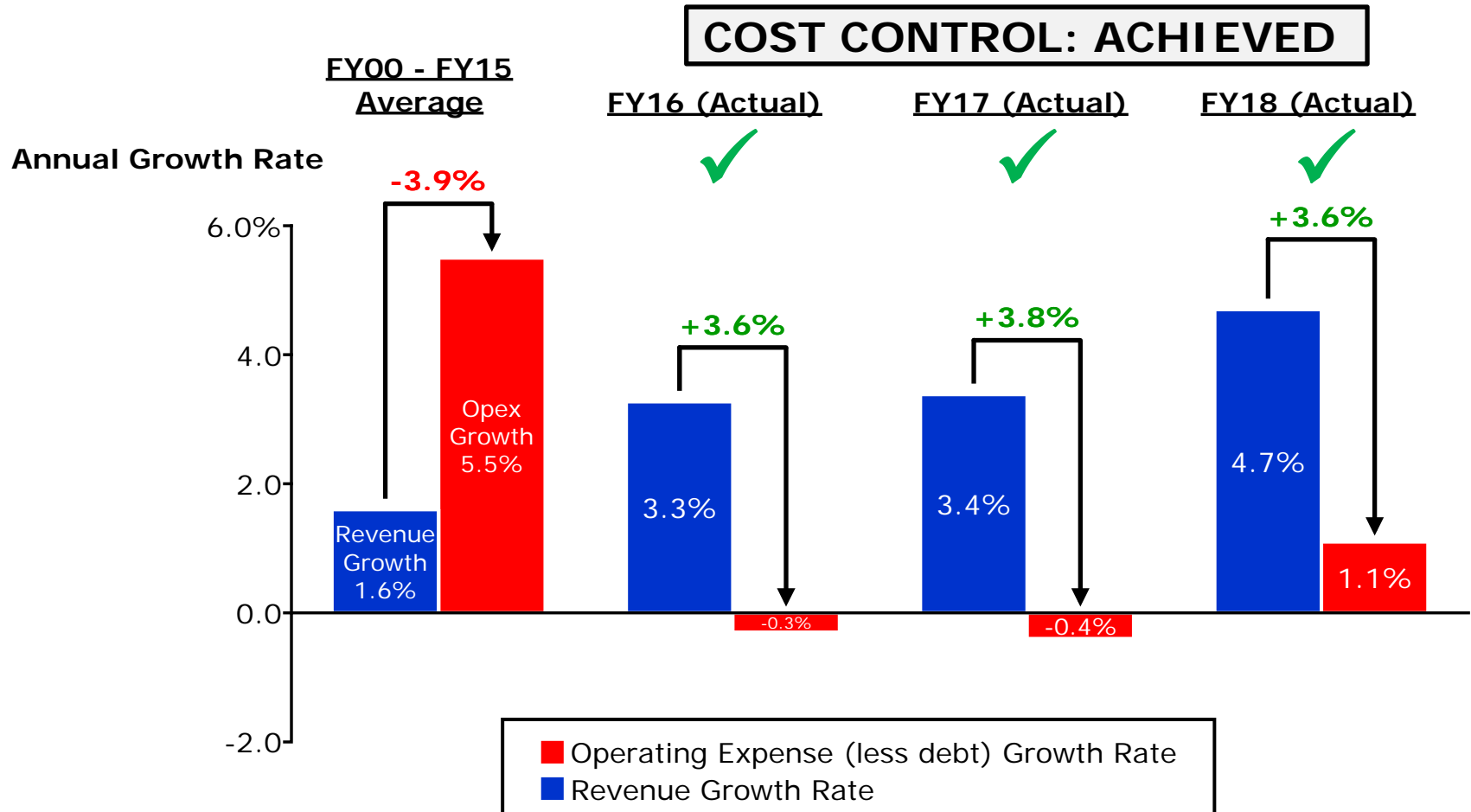
STATUS QUO FY17: 20 PRO FORMA
August 2015

Balanced Budget: Achieved ✓





**Path to Balanced Budget:
Annual operating expense growth less than revenue growth**

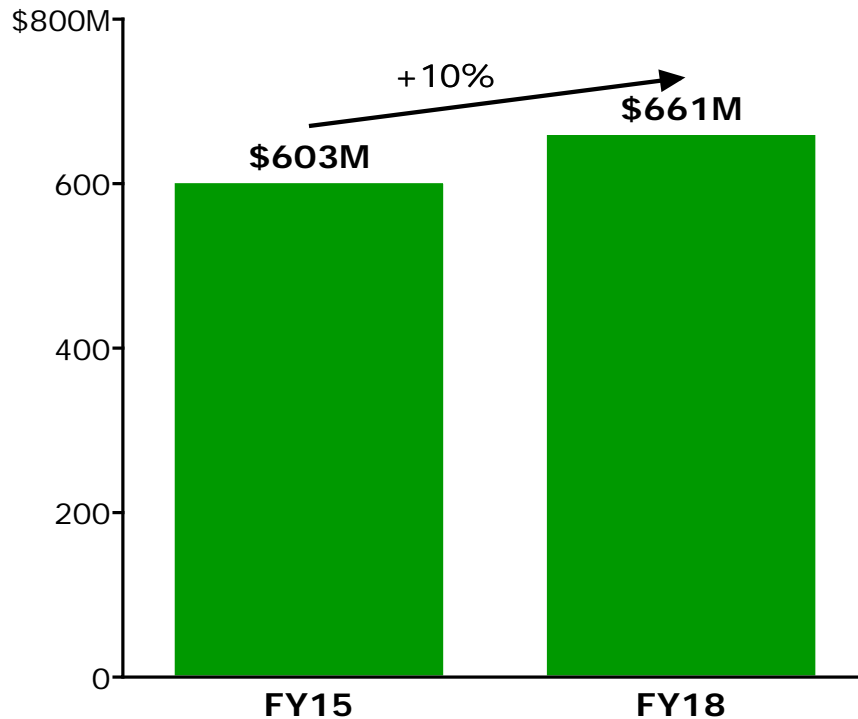




Fare Revenue: Growth of 10% from FY16 through FY18

FARE FINANCIAL PERFORMANCE

MBTA Fare Revenue
(FY15 - FY18, \$M)



KEY ACHIEVEMENTS AND PROJECTS

Key Achievements:

- Fare increase at beginning of FY17 contributed to revenue increase
- Corporate Pass Program: unit sales steady, revenue +10% FY15-18
- Commuter Rail revenue is strong (+25% FY15-18), especially mTicket
- Non-subscription sales show less growth

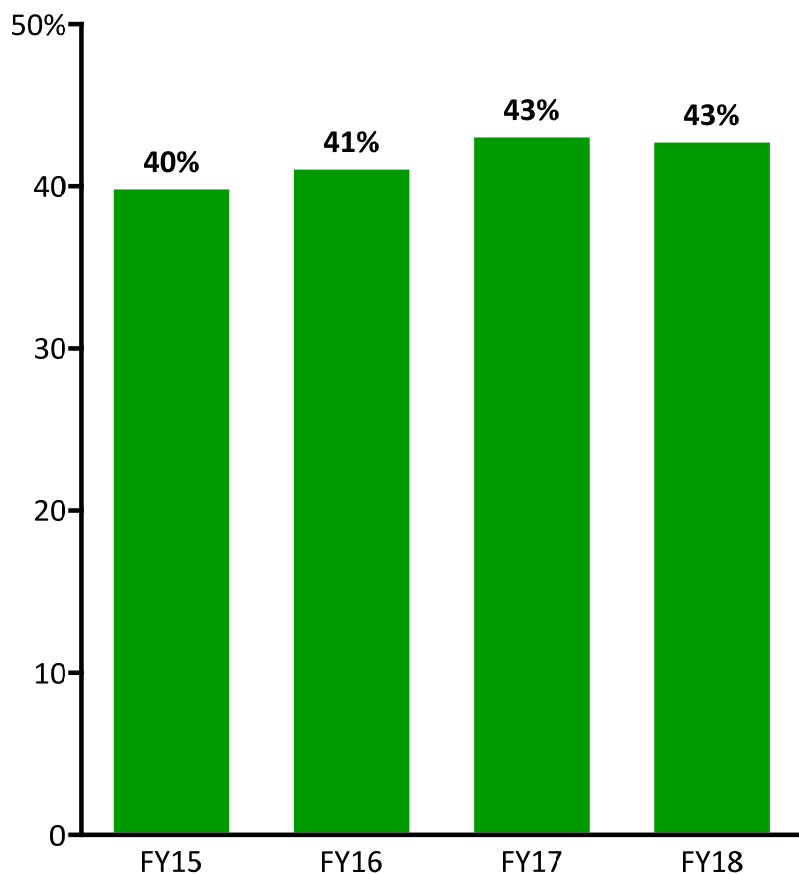
What's Next:

- Staff exploring ways to market and further improve the Corporate Pass program
- Staff examining new fare products and sales channels as we look towards AFC2
- Continued commitment to State of Good Repair investment in order to improve service



Stronger Fare Recovery Ratio = Improved Operating Efficiency

MBTA Fare Recovery Ratio



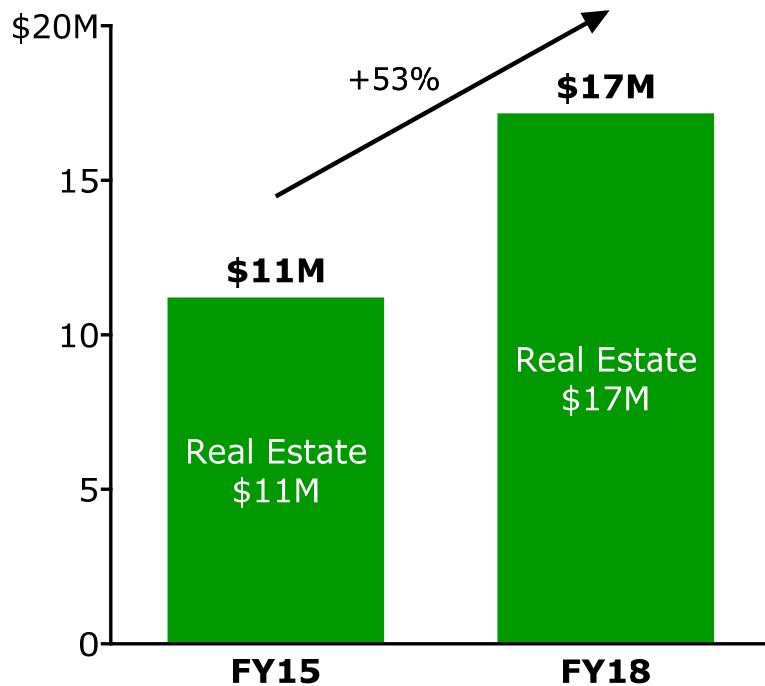
- “Fare recovery ratio” (FRR) measures transit system operating efficiency
- Calculation: total fare revenue / non-debt operating expense
- FRR shows what total % of system operating expense (not including debt) are covered by riders
- Systems with higher FRR require less taxpayer subsidy



Real Estate: Revenue growth of 53% from FY16 through FY18

REAL ESTATE FINANCIAL PERFORMANCE

MBTA Real Estate Revenue
(FY15 - FY18, \$M)



KEY ACHIEVEMENTS AND PROJECTS

Key Achievements:

- South Station Amended and Restated lease generating additional \$1M per year
- Increasing existing tenant rents to market rate generates an additional \$250K per year
- Approximately \$500K collected through audit and reconciliation of existing portfolio
- Increased short term licensing revenue by \$300K

What's Next:

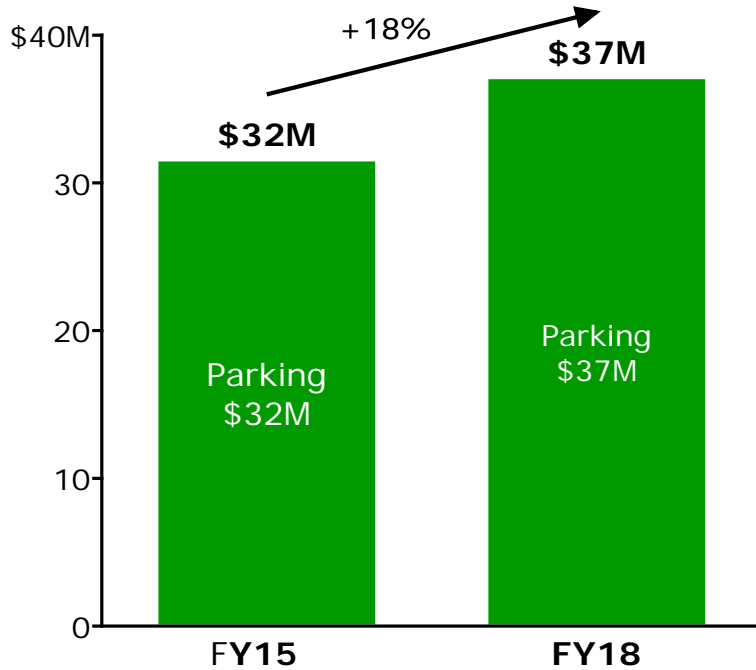
- Government Center Green & Blue line retail concession leases generating \$160K per year once fully implemented
- Seven new Bank of America ATM's generating \$195K per year once fully implemented



Parking: Revenue growth of 18% from FY16 through FY18

PARKING FINANCIAL PERFORMANCE

MBTA Parking Revenue
(FY15 - FY18, \$M)



Note: \$4M recovered from LAZ parking settlement not included in FY18 Actual results

KEY ACHIEVEMENTS AND PROJECTS

Key Achievements:

- New parking vendor contract implemented in FY17 with Republic Parking
- Revenues at record highs, and FY18 Republic expenses remained on budget
- Completed three surface lot facility reconstructions in Fall 2017

What's Next:

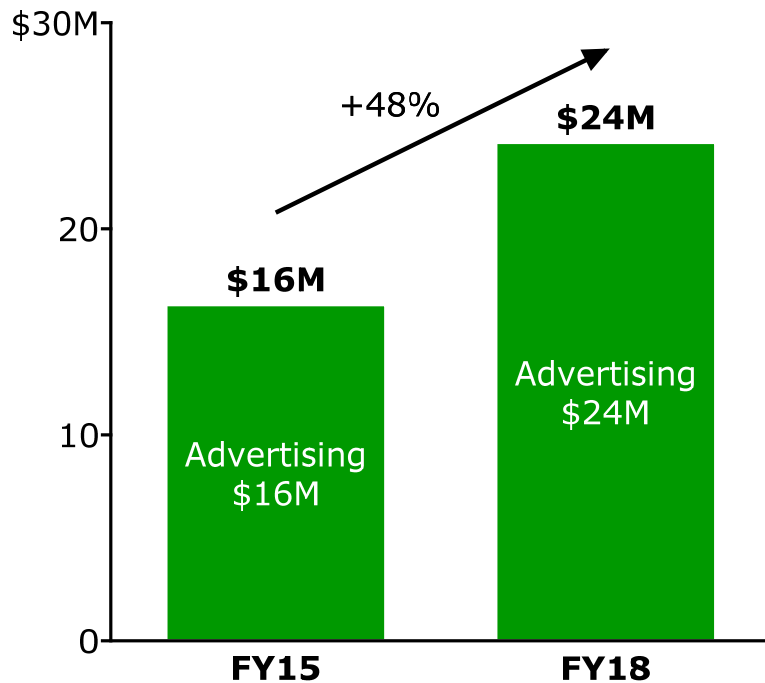
- Greater facility automation and technology implementation (IT, collection, etc.)
- Repricing for first time in over a decade
- Continue with capital improvements to transform the customer experience
 - Quincy Adams and Braintree (South Shore Garages)
 - Alewife (immediate actions and long-term planning)
 - Continued surface facility reconstructions



Advertising: Revenues growth of 48% from FY16 through FY18

ADVERTISING FINANCIAL PERFORMANCE

MBTA Advertising Revenue
(FY15 - FY18, \$M)



KEY ACHIEVEMENTS AND PROJECTS

Key Achievements:

- FY18 monthly revenues at historic peaks
- New advertising contract implemented in 2016 with Outfront Media
 - › One of the highest transit advertising revenue shares in the country
 - › Focus on digital media, with 700 panels to be installed by Dec 2018 (~\$10M+ in capital at no cost to MBTA)
 - › 450 digital panels (in-station and urban) installed to date at no cost to MBTA
 - › Digital currently accounts for over 30% of revenue and growing
 - › New analog formats like Ultra Super King (bus and train wraps) introduced

What's Next:

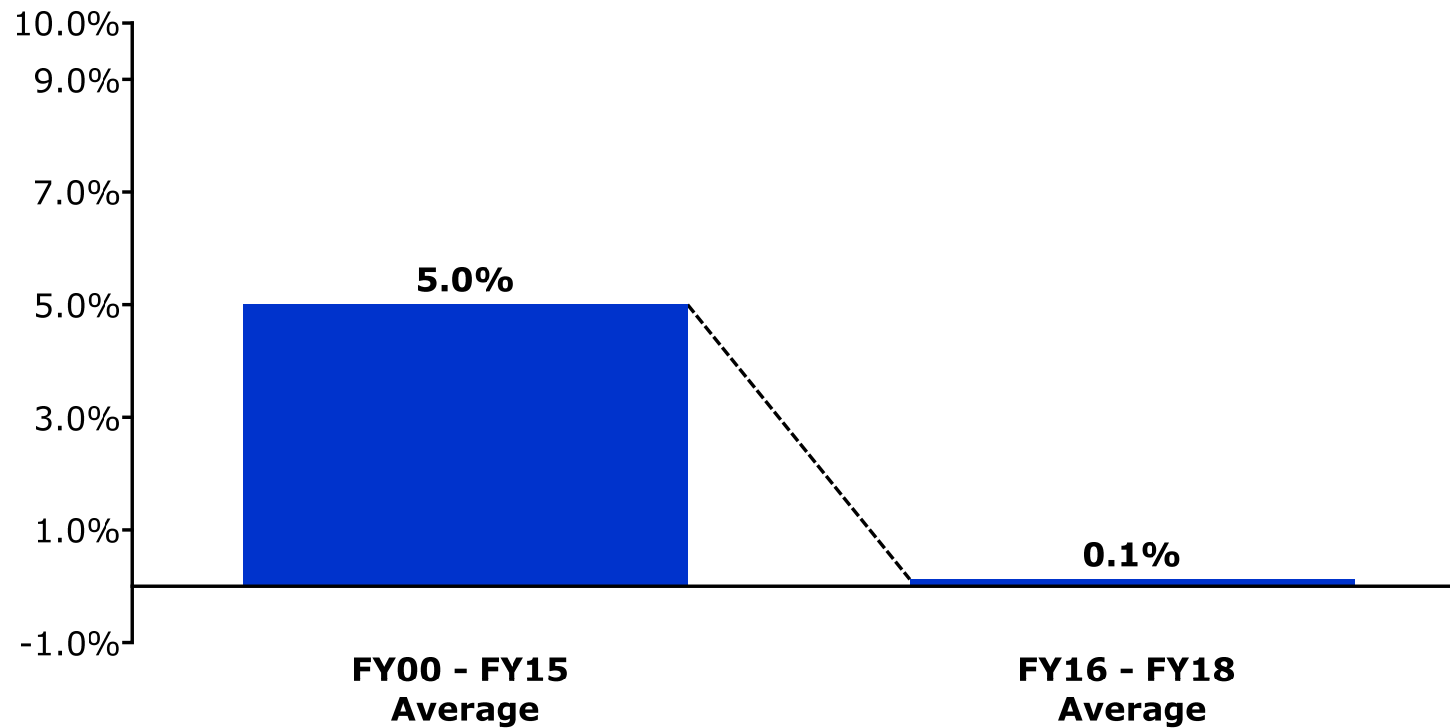
- › Implementation of revised advertising policy (out in market)
- › Continue build-out of digital advertising network
- › Aggressively pursue market-leading terms for other advertising programs (billboards, bus shelters)



Since FMCB, operating expense growth % has been flat

Annual Operating Expense Growth Rate
(Excluding Debt Service)

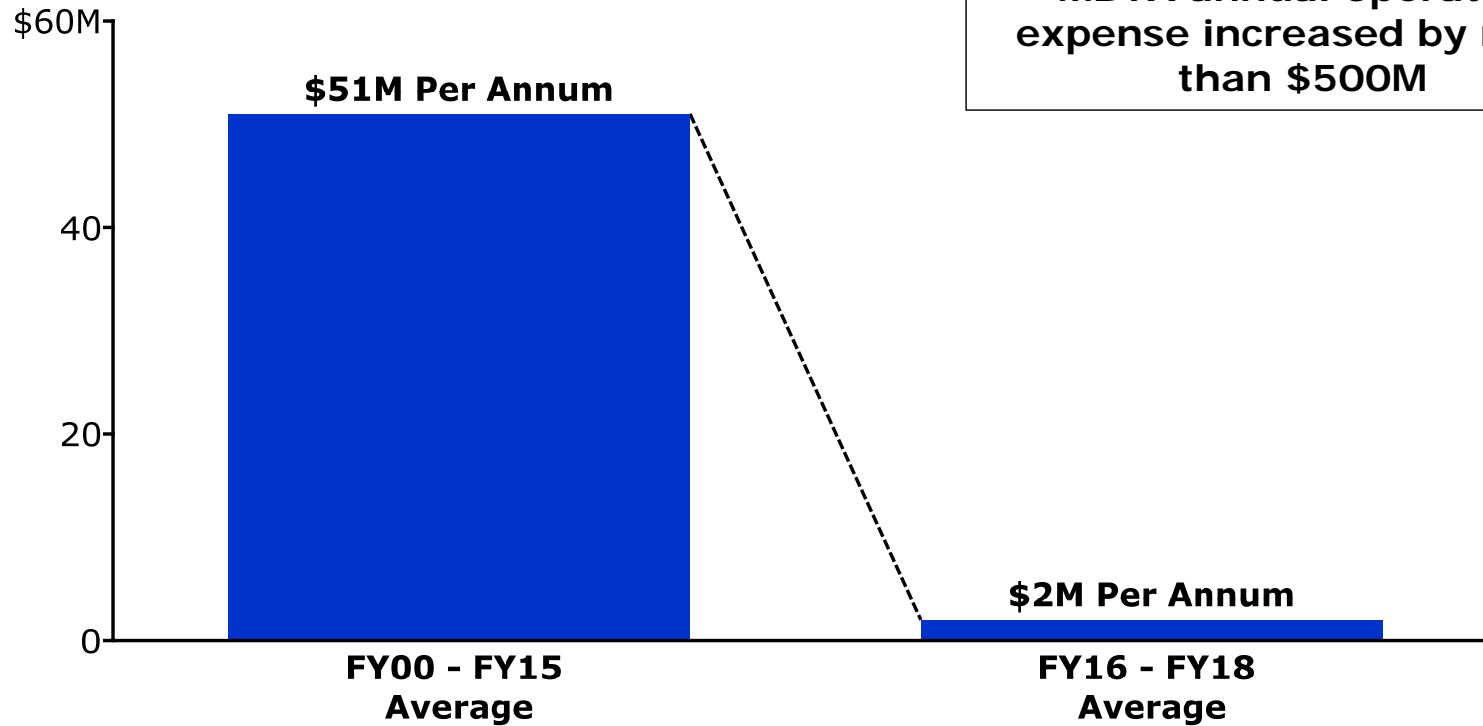
FMCB Goal: Fiscal Sustainability ✓





Since FMCB, reduced average expense growth to \$2M annually

Annual Operating Expense Growth \$
(Excluding Debt Service)



Over the period FY08 – FY15,
MBTA annual operating
expense increased by more
than \$500M



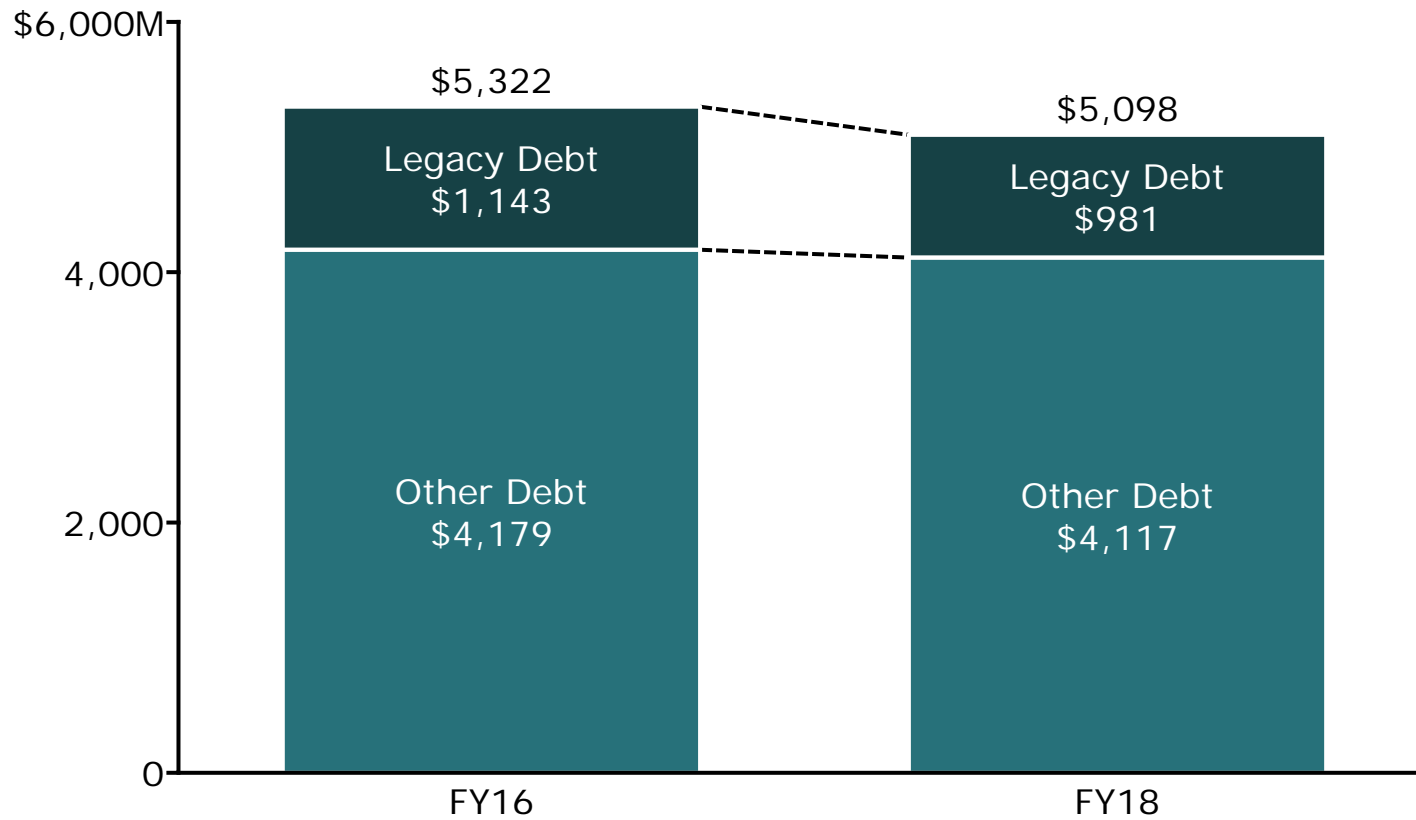
Debt management generated long term savings, improved borrowing terms and set market precedents

- Secured **federally subsidized funding** through \$400M TIFIA / RRIF loans
- Achieved **\$110M** in present value savings through two bond refundings in FY16
 - **Lowest borrowing cost in MBTA history**
- Issued first ever tax-exempt sustainability bond, demonstrating **MBTA's commitment to Environmental and Social responsibility**
 - Set important market precedent and was selected as the Bond Buyer Deal of the Year – Northeast Region Award winner
- Introduced a **new credit** to the market, which provides better borrowing terms at virtually no cost to the MBTA
- Terminated or amended 7 interest rate swaps generating \$8M savings of market values that enabled further restructuring of debt
 - MBTA is **no longer making swap payments at above market rates**
- Refreshed MBTA's 20 year old **Investment Policy** to reflect the current market environment
- Improved clarity and budgeting of future debt service by developing **detailed financial models**



MBTA paid off more than \$160M of “Legacy” Debt since FY16

Debt Outstanding





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Balanced Budget: Structural deficit eliminated in FY18

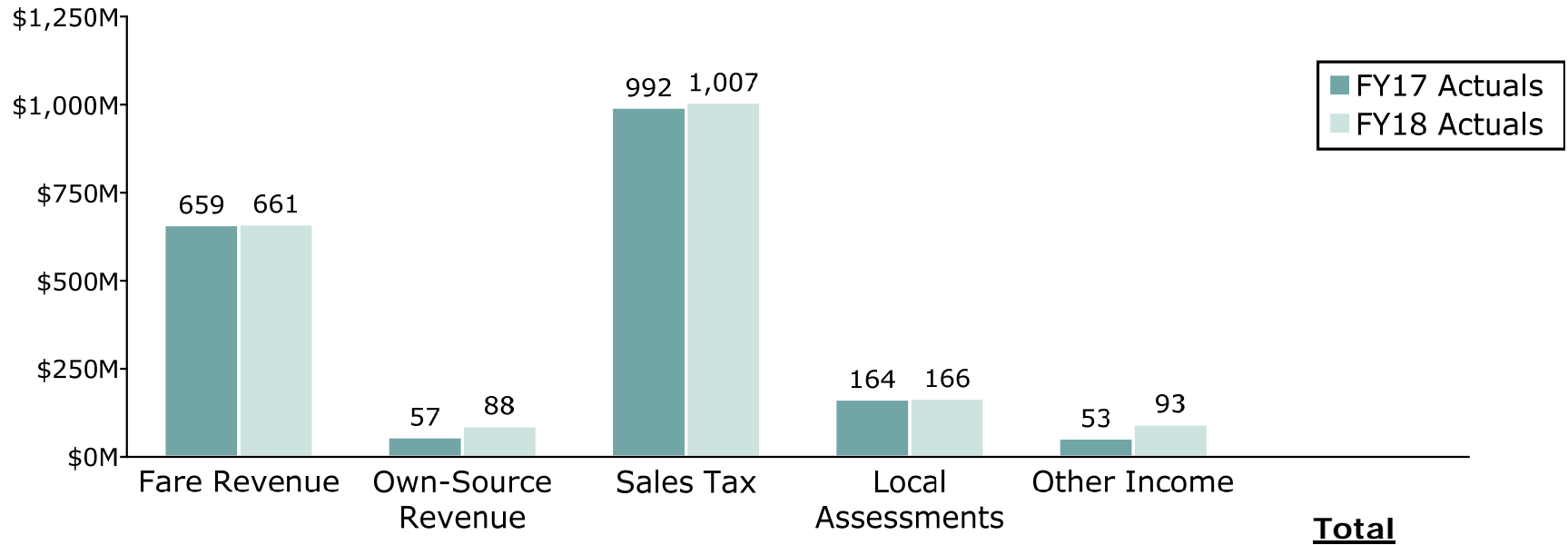
		FY17 Actual Results vs. FY18 Actual Results			
(\$M)		FY17 ACTUAL	FY18 ACTUAL	\$ VARIANCE	NOTES
REVENUES	Operating Revenues	\$715.6	\$749.2	\$33.5	Favorable own-source revenues
	Non-Operating Revenues	\$1,209.5	\$1,266.1	\$56.6	One-time FY18 revenues and recognition of deferred gains
	Total Revenues	\$1,925.2	\$2,015.3	\$90.1	
EXPENSES	Wages, Benefits and Payroll Taxes	\$771.8	\$762.1	(\$9.7)	Active headcount management offset by higher pension contributions
	Non-Wage	\$755.3	\$781.1	\$25.8	CRail increases and higher materials spend
	Operating Expenses	\$1,527.1	\$1,543.2	\$16.1	
	Debt Service	\$427.9	\$472.0	\$44.1	Consistent with debt policy requiring increased debt service payments
	Total Expenses	\$1,955.1	\$2,015.2	\$60.1	
Structural Deficit		(\$29.9)	\$0.0	\$30.0	
<i>Fare Recovery Ratio</i>		43.2%	42.8%		
<i>Revenue Recovery Ratio</i>		50.4%	54.6%		

*Due to rounding, numbers presented throughout this slide may not add up precisely to the totals provided



Total revenues increased 5% (\$90M) over same period last year

Total Revenue - FY17 Actuals vs. FY18 Actuals



\$ Variance	\$2.1M	\$31.5M	\$14.6M	\$2.5M	\$39.5M	\$90.1M
% Variance	0.3%	55.6%	1.5%	1.5%	74.1%	4.7%

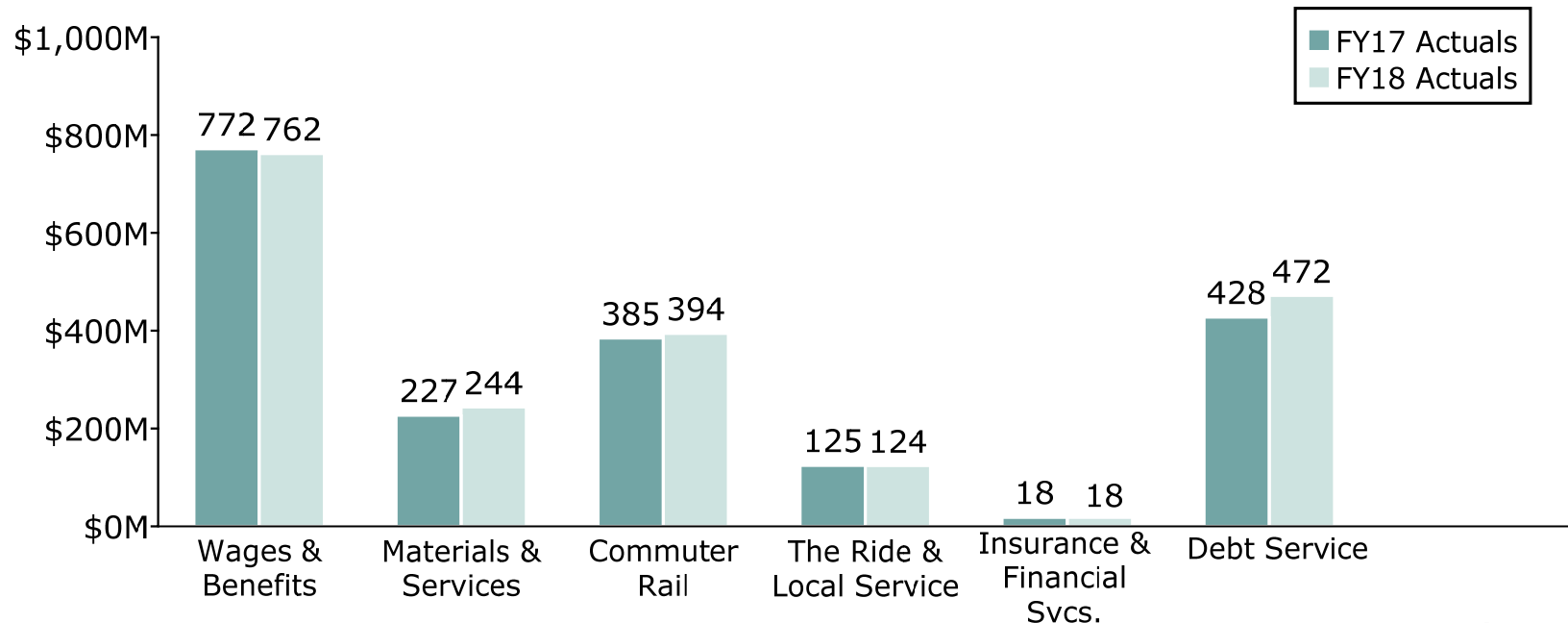
Source: MBTA Internal Data

Note: Other income material items are penalties from Keolis (\$10m), recognition of deferred income from prior period sale of Haul Road and Tenneco Pipeline (\$10M), Lechmere transaction (\$7M), Green Line extension (\$4M) and Blue Cross Blue Shield insurance rebate (\$3M)



Debt service increase consistent with FMCB approved debt policy requiring additional payments in FY18

Total Expenses (Including Debt Service) - FY17 Actuals vs. FY18 Actuals



	Wages & Benefits	Materials & Services	Commuter Rail	The Ride & Local Service	Insurance & Financial Svcs.	Debt Service	Total
\$ Change	-\$9.7M	\$16.9M	\$9.3M	-\$0.3M	-\$0.2M	\$44.1M	\$60.1M
% Change	-1.3%	7.5%	2.4%	-0.3%	-0.8%	10.3%	3.1%

Source: MBTA Internal Data

Note: Debt service increase over FY17 is compliant with FMCB approved policy requiring additional debt service payments in FY18



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Structural deficit 100% below budget (\$31M) in FY18

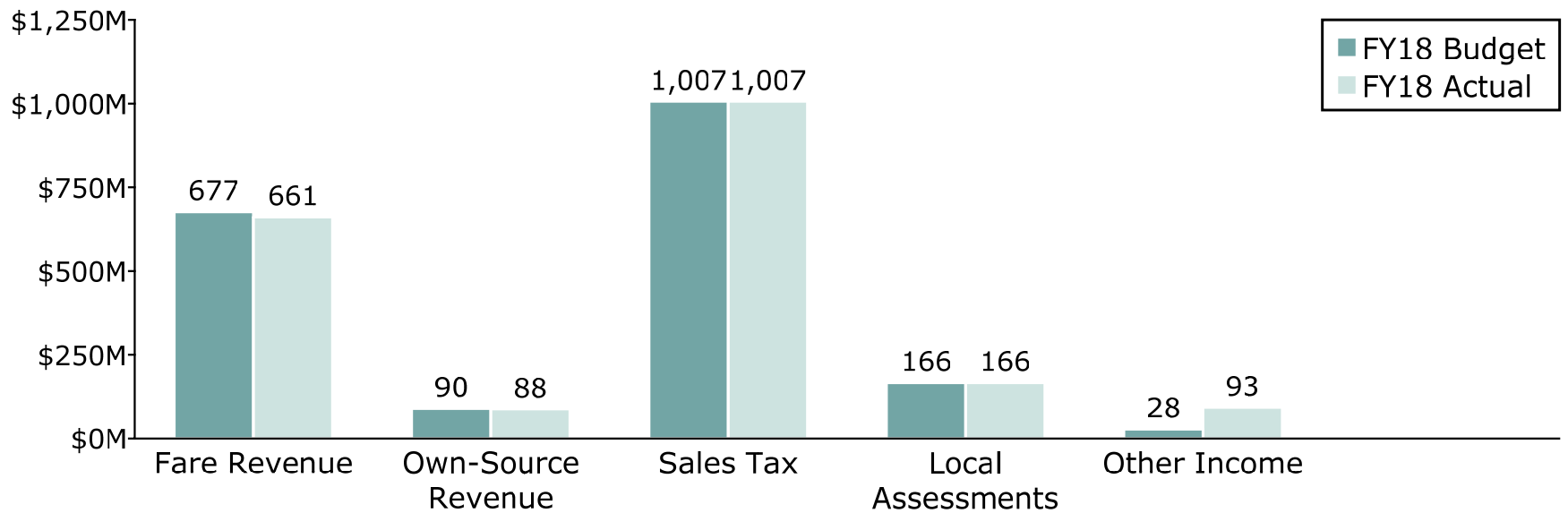
		FY18 Budget vs. FY18 Actual Results			
(\$M)		FY18 BUDGET	FY18 ACTUAL	\$ VARIANCE	NOTES
REVENUES	Operating Revenues	\$766.2	\$749.2	(\$17.0)	Fare revenue below budget estimates
	Non-Operating Revenues	\$1,201.0	\$1,266.1	\$65.2	One-time FY18 revenues and recognition of deferred gains
	Total Revenues	\$1,967.2	\$2,015.3	\$48.1	
EXPENSES	Wages, Benefits and Payroll Taxes	\$762.7	\$762.1	(\$0.6)	Active management of headcount despite vacancy challenges
	Non-Wage	\$783.6	\$781.1	(\$2.5)	Continued cost controls offset by higher RIDE costs
	Operating Expenses	\$1,546.3	\$1,543.2	(\$3.1)	
	Debt Service	\$451.4	\$472.0	\$20.6	Pulled debt service payments forward and new issuance
	Total Expenses	\$1,997.6	\$2,015.2	\$17.5	
	Structural Deficit	(\$30.5)	\$0.0	\$30.6	
	<i>Fare Recovery Ratio</i>	44%	43%		
	<i>Revenue Recovery Ratio</i>	51%	55%		

*Due to rounding, numbers presented throughout this slide may not add up precisely to the totals provided



Revenue over budget by \$48M
Fare revenue shortfall offset by higher other income

Total Revenues - FY18 Budget vs. FY18 Actuals



	Fare Revenue	Own-Source Revenue	Sales Tax	Local Assessments	Other Income	Total
\$ Variance	-\$15.6M	-\$1.4M	\$0.0M	\$0.0M	\$65.1M	\$48.1M
% Variance	-2.3%	-1.6%	0.0%	0.0%	234.9%	2.4%

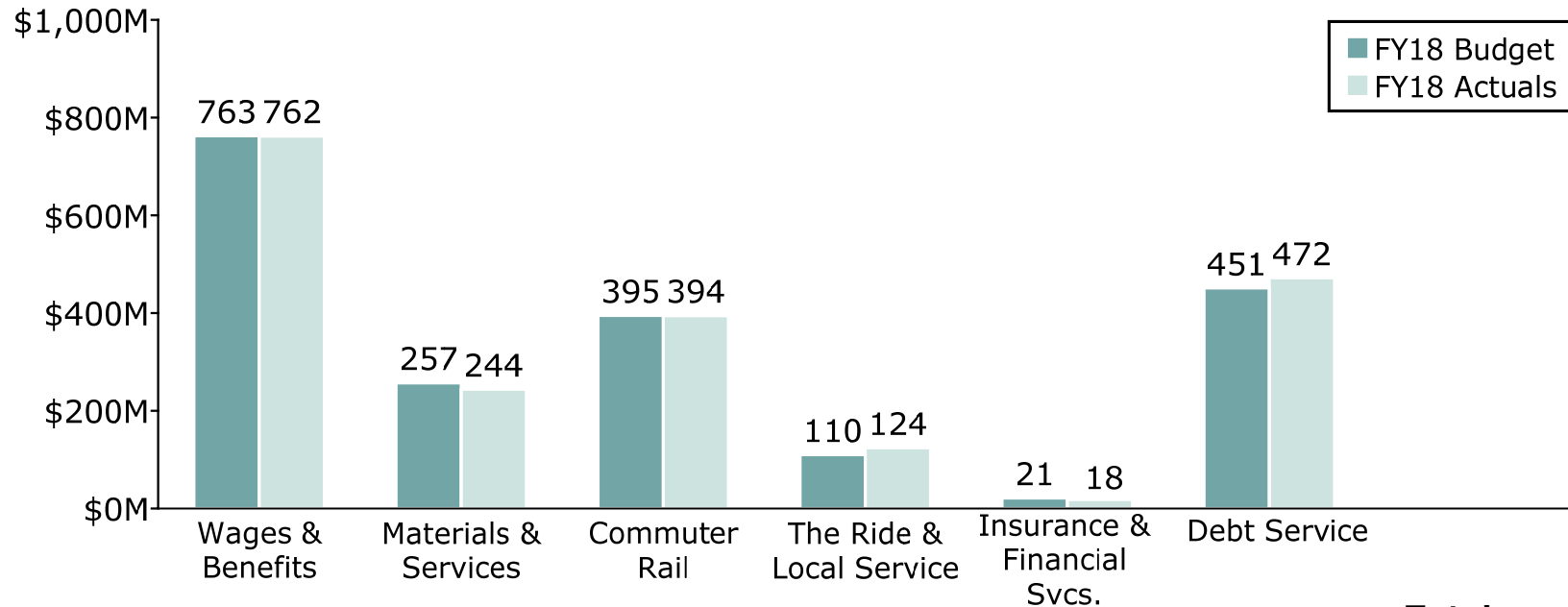
Source: MBTA Internal Data

Note: Other income material items are penalties from Keolis (\$10m), recognition of deferred income from prior period sale of Haul Road and Tenneco Pipeline (\$10M), Lechmere transaction (\$7M), Green Line extension (\$4M) and Blue Cross Blue Shield insurance rebate (\$3M)



Total Expenses (Including Debt Service) up \$17.5M

Total Expenses (Including Debt Service) - FY18 Budget vs. FY18 Actuals



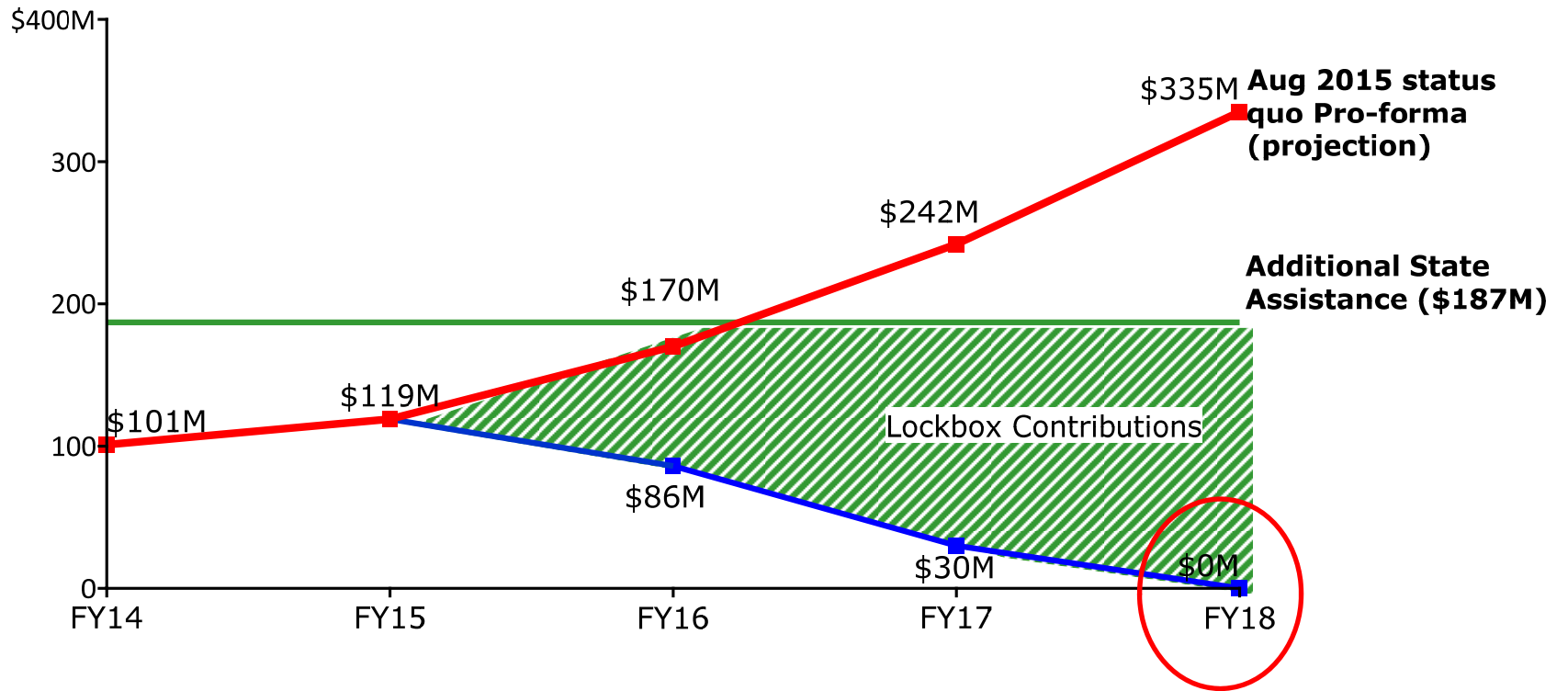
	Wages & Benefits	Materials & Services	Commuter Rail	The Ride & Local Service	Insurance & Financial Svcs.	Debt Service	Total
\$ Change	-\$0.6M	-\$12.9M	-\$0.7M	\$14.3M	-\$3.1M	\$20.6M	\$17.5M
% Change	-0.1%	-5.0%	-0.2%	13.0%	-14.6%	4.6%	0.9%

Source: MBTA Internal Data



FY18 Deficit \$335M below projections; \$630M of cumulative savings since creation of FMCB

Structural Deficit



Structural Deficit does not include Additional State Assistance received in FY16 (\$155M), FY17 (\$140.25M) and FY18 Actuals (\$127M)



FY16-FY18 operating budget savings resulted in over \$500M of Additional State Assistance being available for “pay-go” capital projects

PAY-GO CAPITAL EXAMPLES

Red Line No. 3 Cars



Lynn Parking Garage



Worcester Line Rail Replacement





MBTA Remains in a Turnaround

FY16-FY18 Priorities

- ✓ Establish strong Fiscal & Management Control Board
- ✓ Stabilize Operating Budget
- ✓ Recruit and Hire Top Tier Talent
- ✓ Establish Accelerated Capital Investment Trajectory
- ✓ Execute Accelerated Capital Delivery Plan (eliminate project delivery bottleneck)

Ongoing Initiatives

- Maintain Financial Discipline
- Achieve Own-Source Revenue Goal of \$100M
- Execute on Business Process Redesign & Implement Technology Upgrades
- Continued Focus on Customer Experience



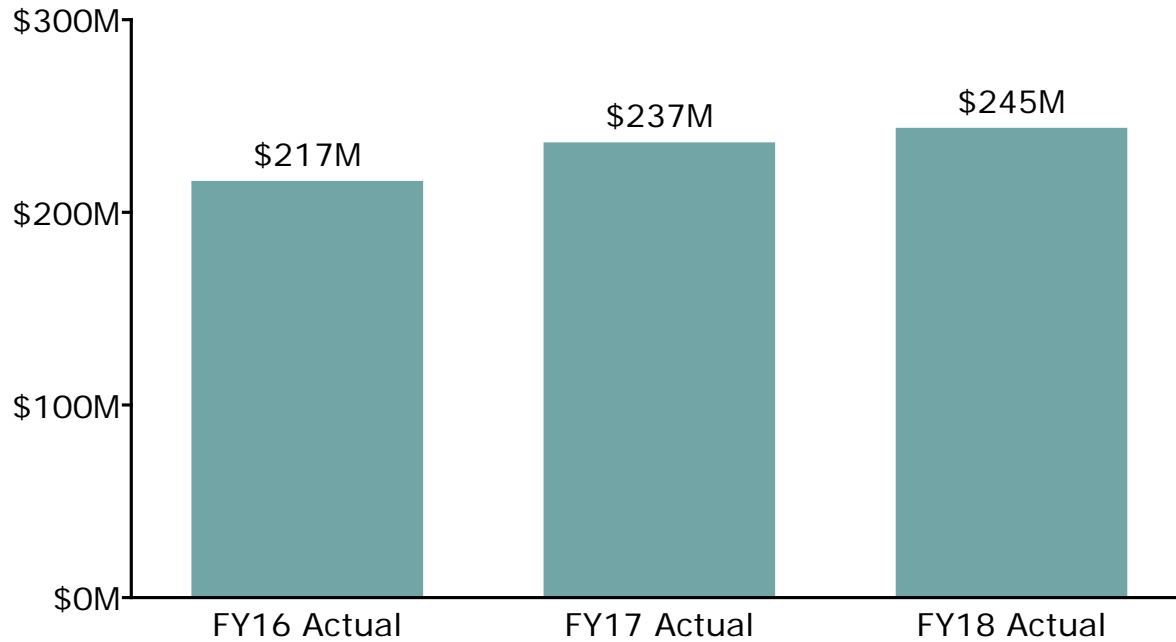
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FY18 Commuter rail revenue up 3.2% over FY17, and up 12.7% over FY16

Commuter Rail Fare Revenue
(Unallocated) - 12 Months



Commuter Rail Revenue Growth	
FY18 / FY17:	3.2%
FY18 / FY16:	12.7%

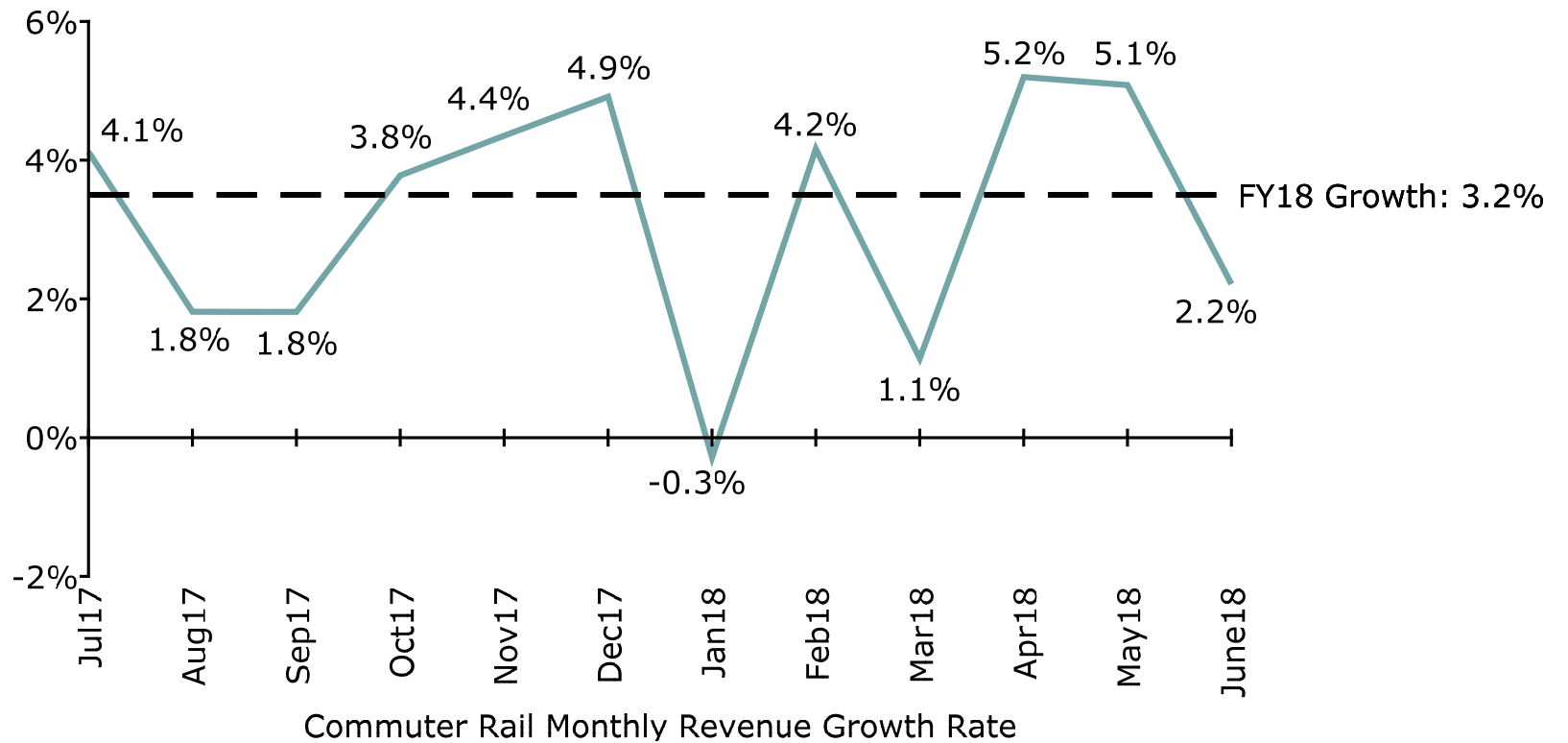
Note: Chart above shows “unallocated” commuter rail revenue, prior to CTPS allocation for linked trips to other modes.

Source: MBTA Internal Data



Commuter rail revenue up 3.2% for FY18

Commuter Rail Fare Revenue (Unallocated)
Monthly Revenue Growth Rate over FY17



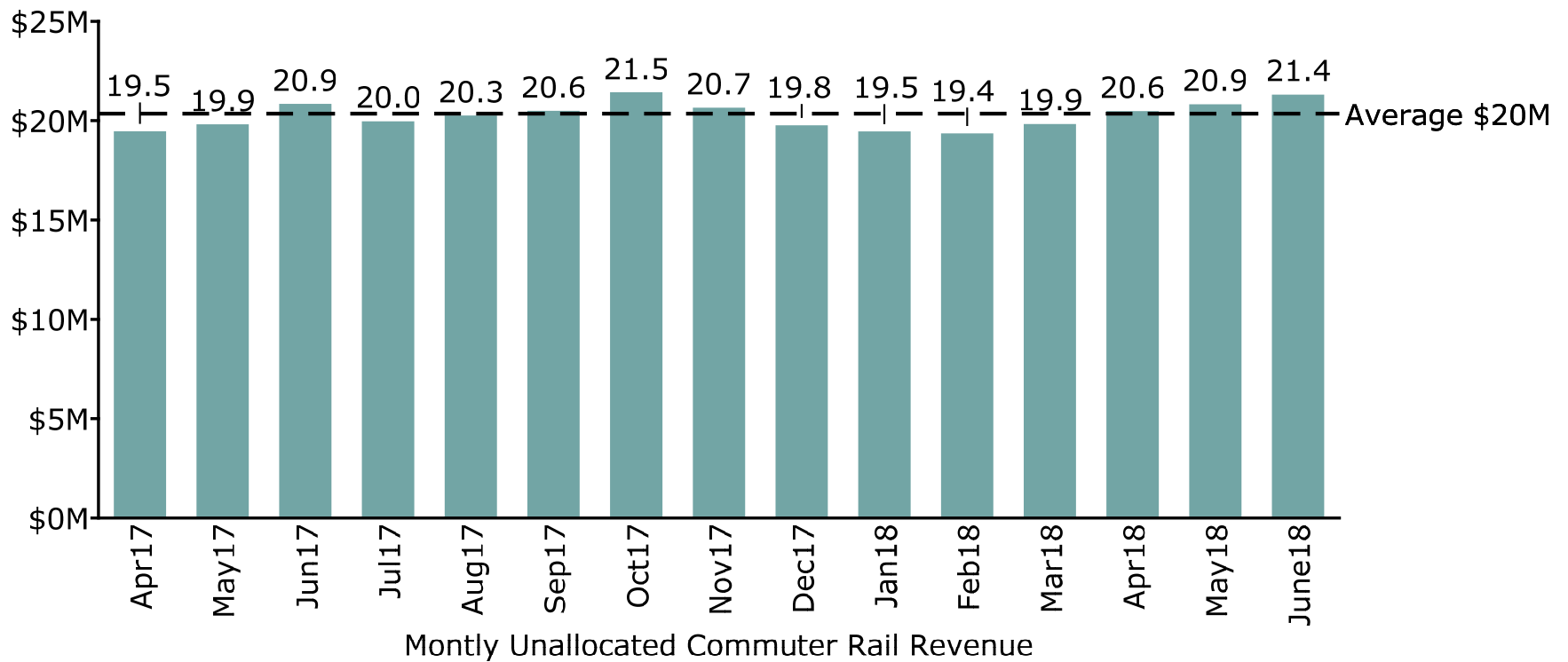
Note: Chart above shows "unallocated" commuter rail revenue, prior to CTPS allocation for linked trips to other modes
Source: MBTA Internal Data



**Commuter rail revenue:
Growth of 3.2% in FY18 - June monthly revenue up 2.2% year-on-year**

FY18/FY17 Growth: 3.2%

Monthly MBTA Commuter Rail Revenue (unallocated)



Year-over-Year Growth by Month: 4.1% 1.8% 1.8% 3.8% 4.4% 4.9% -0.3% 4.2% 1.1% 5.2% 5.1% 2.2%

Note: Chart above shows “unallocated” commuter rail revenue, prior to CTPS allocation for linked trips to other model

Source: MBTA Internal Data



Commuter rail revenue has grown \$7.5M in FY18

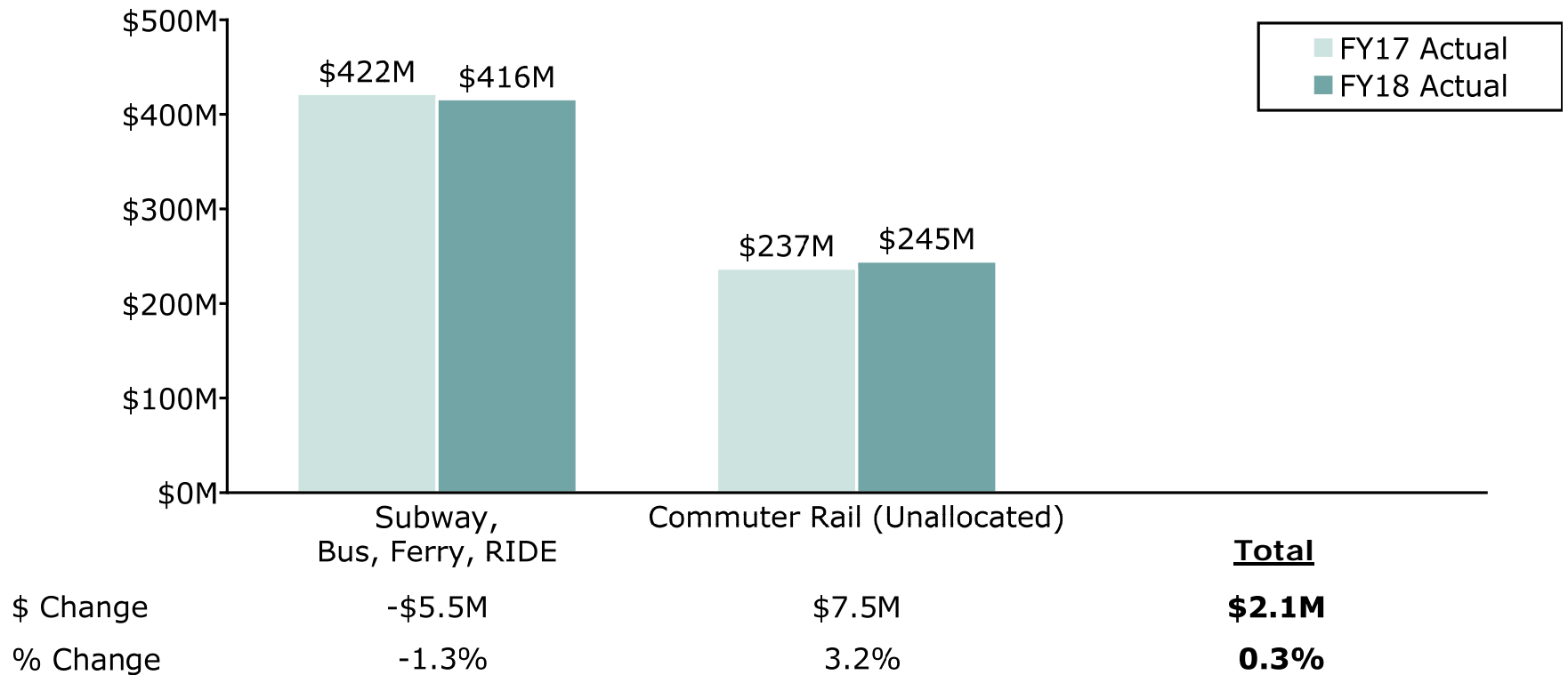
- Full year unallocated commuter rail revenue:
 - › FY14: \$196.5M
 - › FY15: \$204.7M
 - › FY16: \$217.1M
 - › FY17: \$237.2M
 - › FY18: \$244.7M

- Growth in FY17-18 is \$7.5M (3.2%)



Fare revenue is up 0.3% (\$2.1M) in FY18

Fare Revenue - FY17 vs. FY18



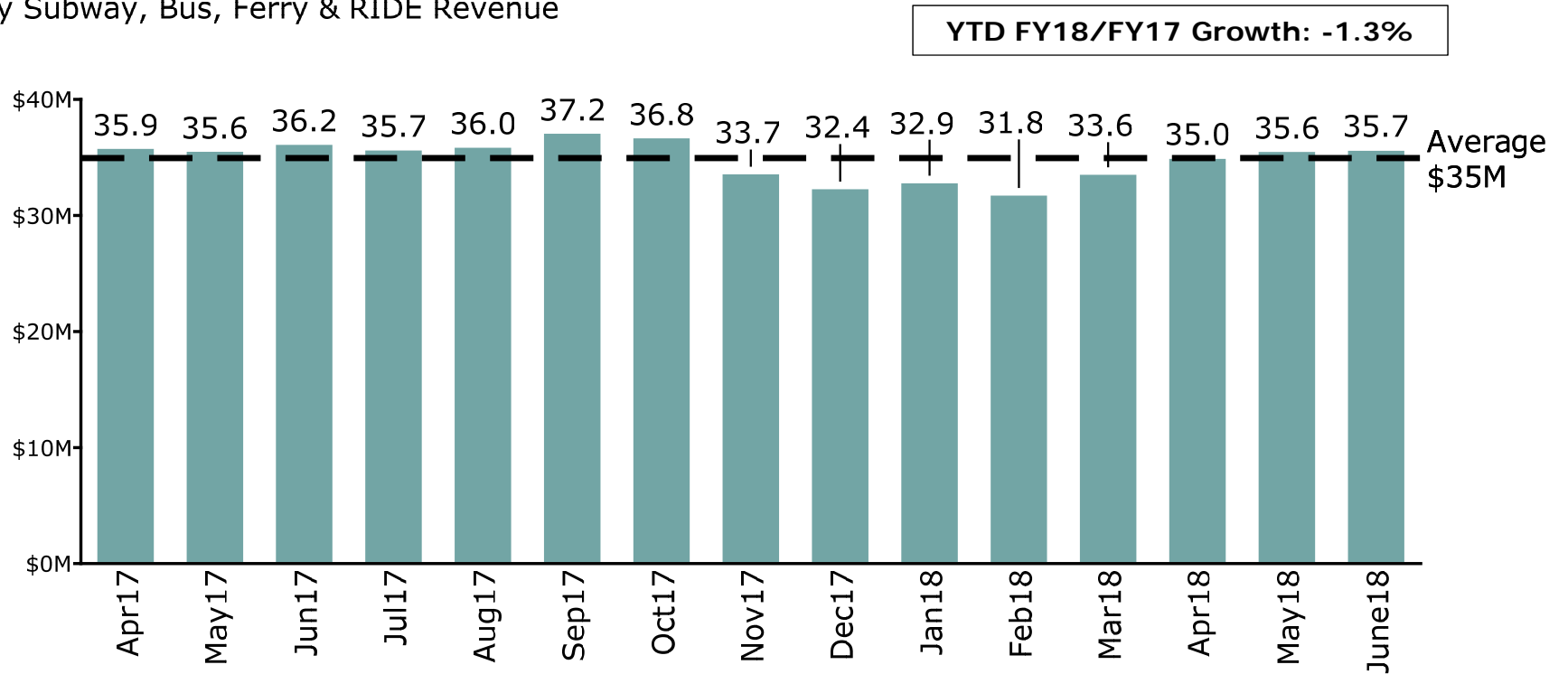
Note: Chart above shows “unallocated” commuter rail revenue, prior to CTPS allocation for linked trips to other modes; Subway, Bus, Ferry RIDE Revenue includes adjustments to total fare revenue

Source: MBTA Internal Data



Subway, Bus, Ferry & RIDE revenue is slightly lower in FY18

Monthly Subway, Bus, Ferry & RIDE Revenue



Monthly Unallocated Subway, Bus, Ferry & RIDE Revenue

Year-over-Year Growth by Month: -2.4% -0.4% 1.9% 1.2% -2.3% -6.2% -1.0% -0.9% -1.6% -2.4% 0.0% -1.4%

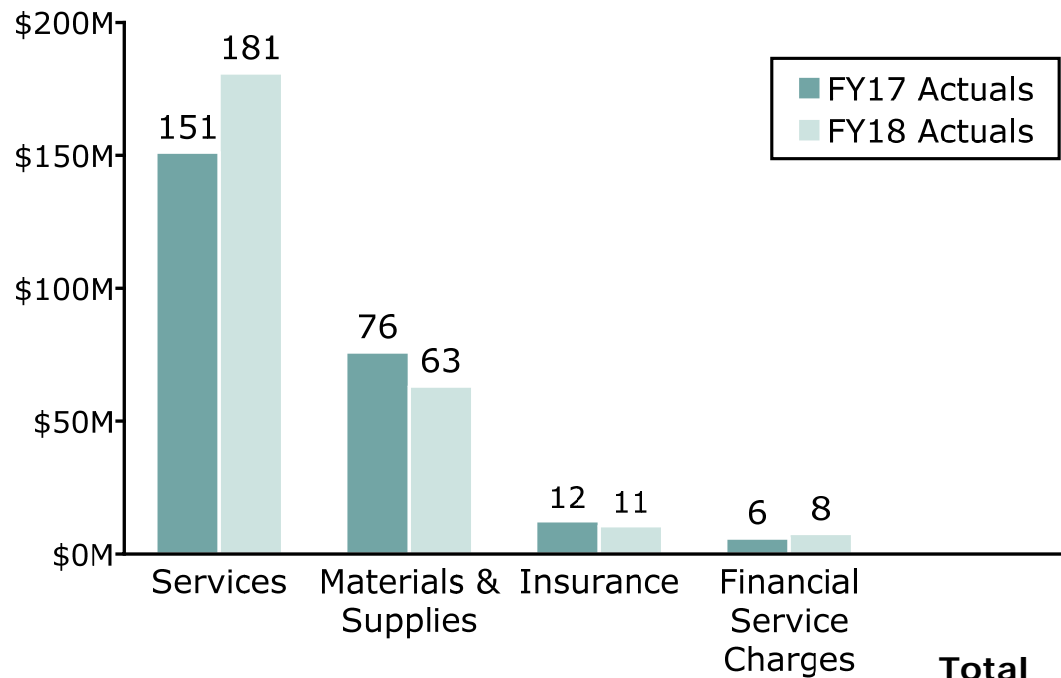
Note: Includes all adjustments to total fare revenue

Source: MBTA Internal Data



Materials, services, insurance and financial costs up 6.8% (\$16.8M)

Materials and Services - FY17 Actuals vs. FY18 Actuals



					Total
\$ Change	\$29.8M	-\$12.8M	-\$1.9M	\$1.8M	\$16.8M
% Change	19.7%	-16.9%	-15.3%	29.4%	6.8%

Change in Materials and Services	\$16.9
Services	\$29.8
Computer services	\$5.0
Contract cleaning	\$4.5
Engineering	\$0.2
Utilities	\$11.5
Temporary help	(\$2.1)
Other services	\$10.7
Materials and Supplies	(\$12.8)
Equipment components	(\$3.1)
Fuel	(\$0.6)
Inventory Adjustment	(\$0.3)
Maint. Supplies/other materials	(\$8.8)
Insurance	(\$1.9)
Financial Services	\$1.8

Source: MBTA Internal Data
Fiscal and Management Control Board