



**Massachusetts Bay
Transportation Authority**

FY20 Operating Budget Preview

Presentation to Fiscal and Management Control Board



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Presentation Topics

- 1. FY20 Budget Timeline and Baseline**
- 2. Overview of Dedicated Revenue and Appropriations**
- 3. Material Cost Drivers**
- 4. Additional Challenges and Opportunities**



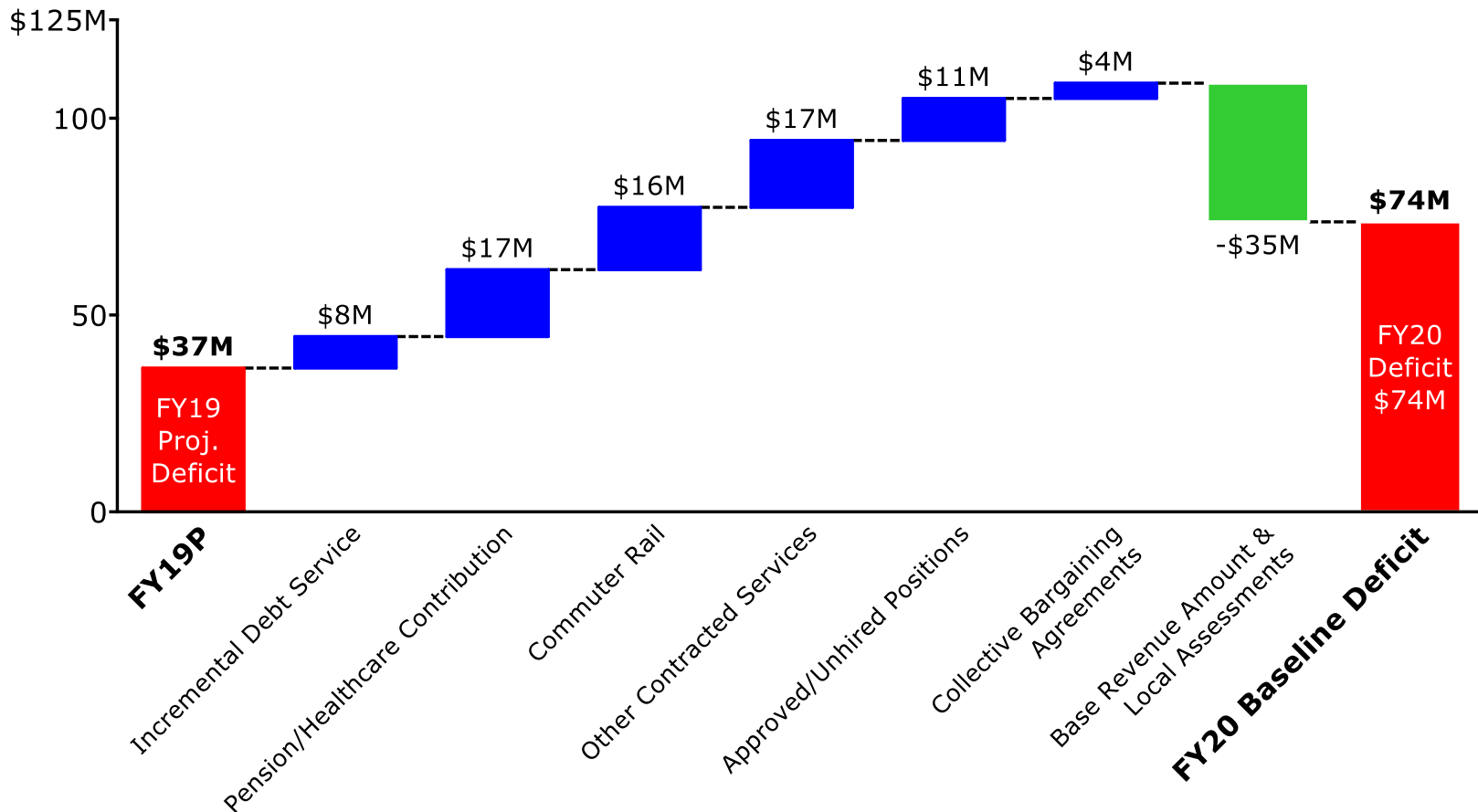
FY20 Operating Budget Timeline

- MARCH 4:** Management to introduce FY20 Preliminary Itemized Budget to FMCB
- MARCH 11:** FMCB vote to release FY20 Preliminary Itemized Budget to MBTA Advisory Board
- APRIL 8:** FMCB vote to release the Approved Itemized Budget to MBTA Advisory Board
- APRIL 15:** Statutory deadline for FMCB to approve FY20 Budget



FY20 baseline deficit increases \$37M, net of \$35M increase in Revenue (i.e., Sales Tax Revenue & Local Assessments)

Structural Deficit Bridge





Overview of FY20 Dedicated Revenue and Appropriations

- MBTA receives state assistance in two forms:
 - The higher of either a guaranteed Base Revenue Amount or an amount based on a proportion of the sales tax
 - Additional contract assistance of \$127 million (same as FY19)
- Historically the Base Revenue Amount has exceeded the sales tax amount every year since 2000 so this is the conservative amount to budget even though for FY20 the sales tax could yield an amount in excess of the Base Revenue Amount
- Of the \$127M in additional assistance, CIP currently assumes \$90M as a capital source (combined with \$60M in state-provided capital funding for a total of \$150M in capital funding)
- Additional Sales Tax Transfers are also included in House 1 budget



Statutory increases to Base Revenue Amount & Local Assessments will offset expense growth by \$35M in FY20

(\$M)	<u>FY19 Amount</u>	<u>FY20 (Est) Amount</u>	<u>\$ VARIANCE</u>	<u>% VARIANCE</u>
Base Revenue Amount	\$1,032	\$1,063	\$31	3%
Local Assessments	\$170	\$174	\$4	2%
Total Dedicated Revenues	\$1,202	\$1,237	\$35	2%

BASE REVENUE AMOUNT

- Dedicated Sales Tax consists of the greater of the Base Revenue Amount ("BRA") or the Dedicated Sales Tax
 - The BRA is adjusted by a percentage change in inflation, as measured by the Boston Consumer Price Index for the prior year
 - Dedicated Sales Tax is equal to the amount raised by a 1% statewide sales tax
- MBTA budgets using Base Revenue Amount rather than expected sales tax collections

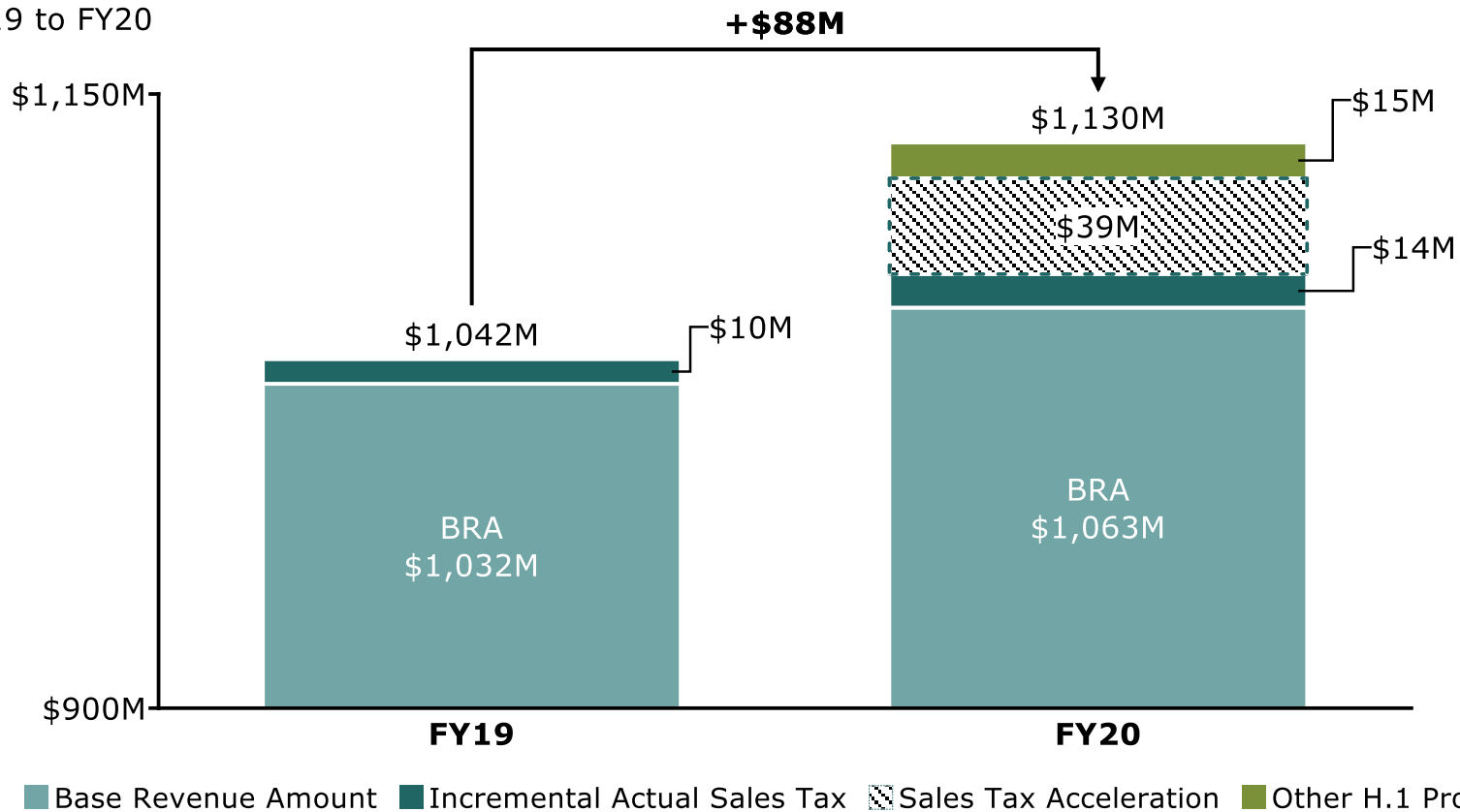
LOCAL ASSESSMENTS

- Local Assessments are adjusted annually for inflation
 - Cannot rise by more than 2.5% a year
 - A revenue "floor" prevents revenue from falling below \$136 million
- Local Assessments are expected to increase by \$4M in FY20



In addition to step up in Base Revenue Amount, Governor's House 1 Budget includes other one-time Sales Tax Transfers

Potential Sales Tax Transfers
FY19 to FY20

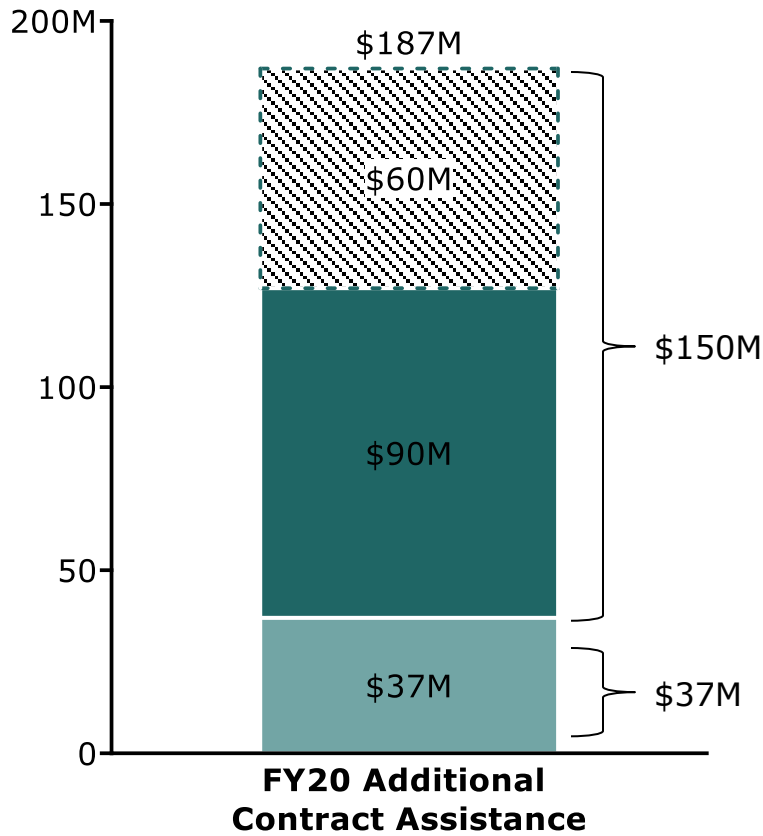


Accelerated Sales Tax Remittance and Other H.1 Proposals are subject to legislative approval and one-time items. Can only be programmed for one-time uses.



Additional Contract Assistance Will Be Used to Support Capital Investment

Additional Contract Assistance



- Potential FY20 commitment of \$187M:
 - \$127M in direct assistance to the operating budget to cover structural deficit
 - \$60M for FY20 state capital budget for the Capital Maintenance Lock Box
- MBTA management believes the \$127M in operating fund assistance will be sufficient to cover any operating budget deficit in FY20
- MBTA goal in FY20 is to dedicate \$90M of operating funds to capital projects
 - **Implies a Structural Deficit of no more than \$37M**



Overview of Material Cost Drivers

Structural challenges include:

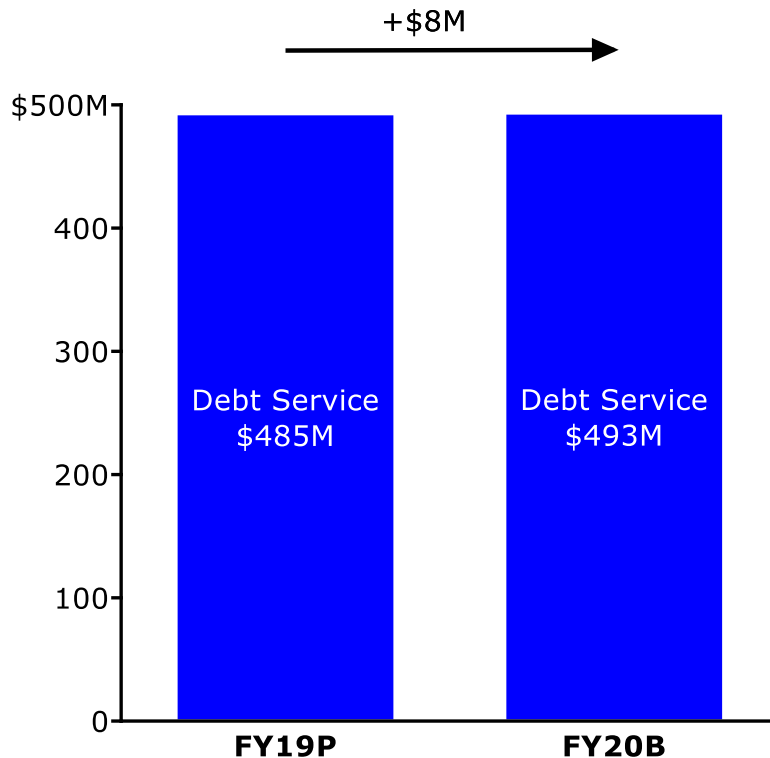
- Debt Service
- Pension and Healthcare Contributions
- Commuter Rail
- Other Contracted Services (RIDE, Ferry, etc.)
- Collective Bargaining Agreements and Unfilled Positions



Incremental Debt Service: Marginal debt service repayment increase consistent with FMCB approved debt policy and amortization tables

INCREMENTAL DEBT SERVICE

Debt Service
(FY19P to FY20B)



KEY DRIVERS

FY20 Challenges:

- Amortization Tables require increased debt service payments totaling \$8M in FY20
- Increases compliant with FMCB approved Debt Policy (Jun16):
 - › Requires level repayment of principal consistent with useful life of capital investments
 - › No deferring obligations to future periods

Other Challenges:

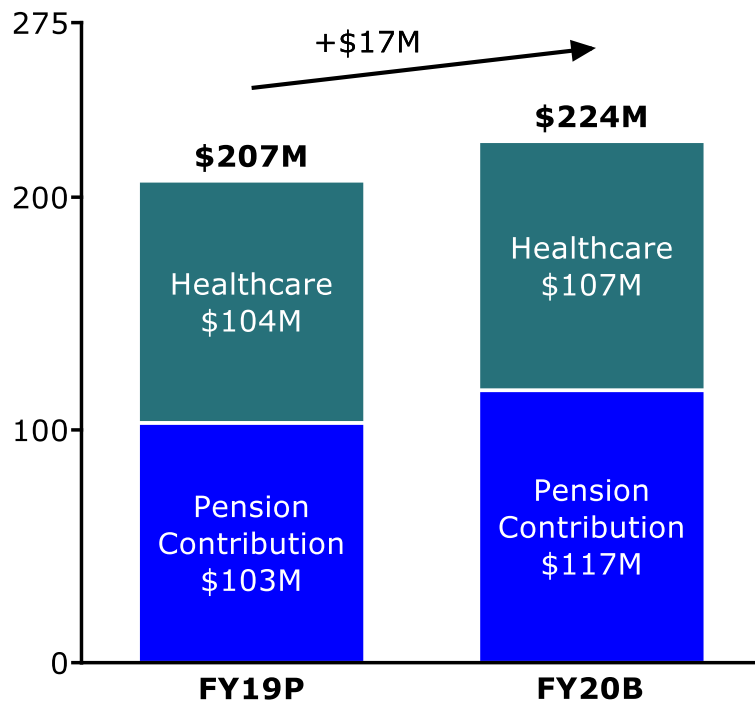
- Short-term interest rates may increase



Pension and Healthcare Contributions: MBTA Pension “Annual Required Contribution” calculated each year by Actuarial Valuation

PENSION AND HEALTHCARE CONTRIBUTIONS

Pension and Healthcare
Contribution
(FY19P to FY20B)



KEY DRIVERS

FY20 Challenges:

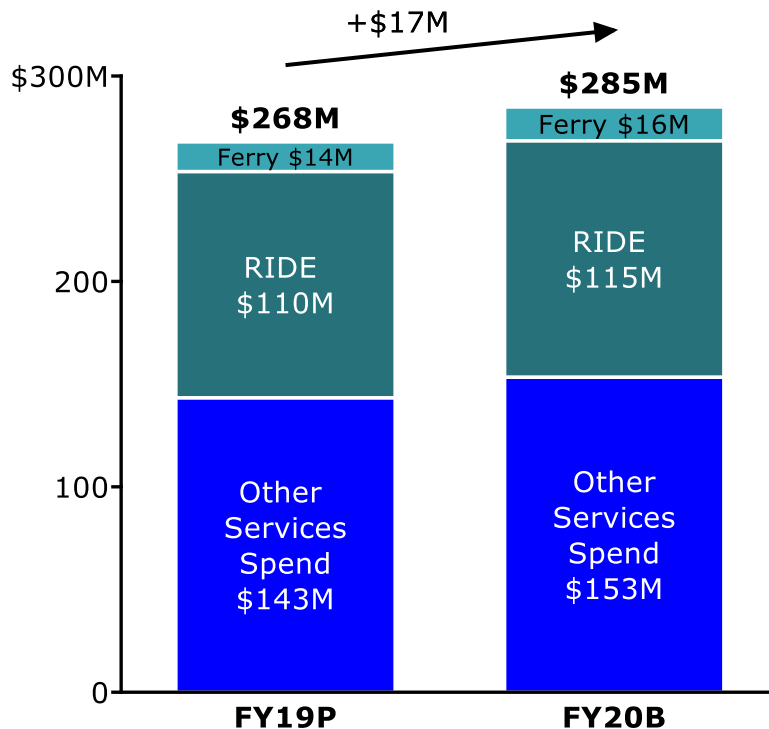
- FY20 retirement fund contribution likely to increase from FY19
 - › FY18 Contribution Rate of 20.01%
 - › FY19 Contribution Rate of 22.68%
- Fund assumes long-term expected return rate of 7.50% vs. 7.75% in FY18
- MBTA Retirement Fund Actuary yet to calculate FY20 Contribution Rate or provide estimate
- Healthcare contributions are expected to increase by approximately \$3M



Contracted Services: \$17M increase in FY20 due to annual contract escalators with key customer facing vendors

CONTRACTED SERVICES

Contracted Service
(FY19P to FY20B)



KEY DRIVERS

FY20 Challenges:

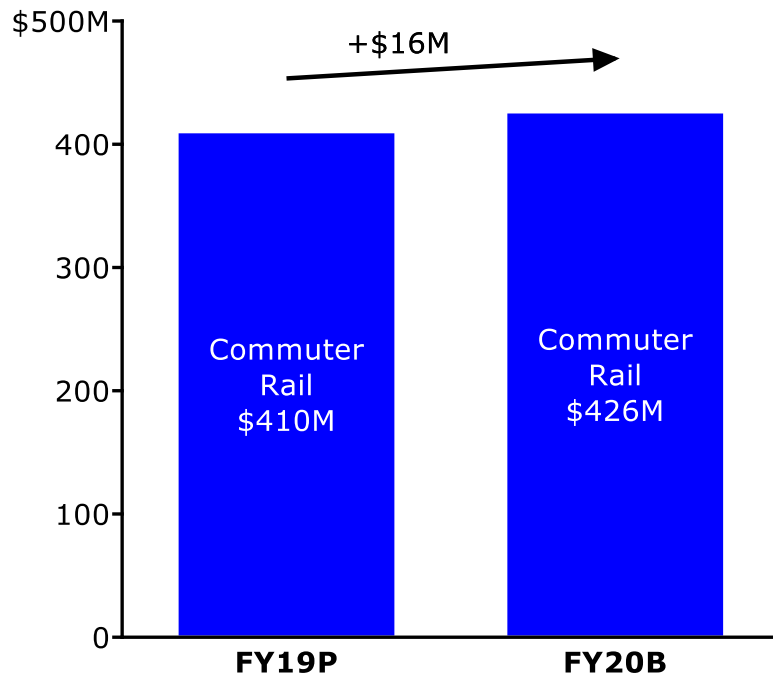
- MBTA has numerous contracts that escalate on an annual basis
 - › Ferry Services (\$2M)
 - › RIDE Service (\$5M)
 - › Other Services (\$8M)
 - » Snow (OSR), technology, etc.
 - » Smaller contracts that also have escalators include fire safety, elevator & escalator, trash and environmental, tree and vegetation removal, security and monitoring, etc.



Commuter Rail: Keolis annual fixed-free contract escalators and executed scope changes increase commuter rail costs by \$16M

COMMUTER RAIL

Commuter Rail
(FY19P to FY20B)



KEY DRIVERS

FY20 Challenges:

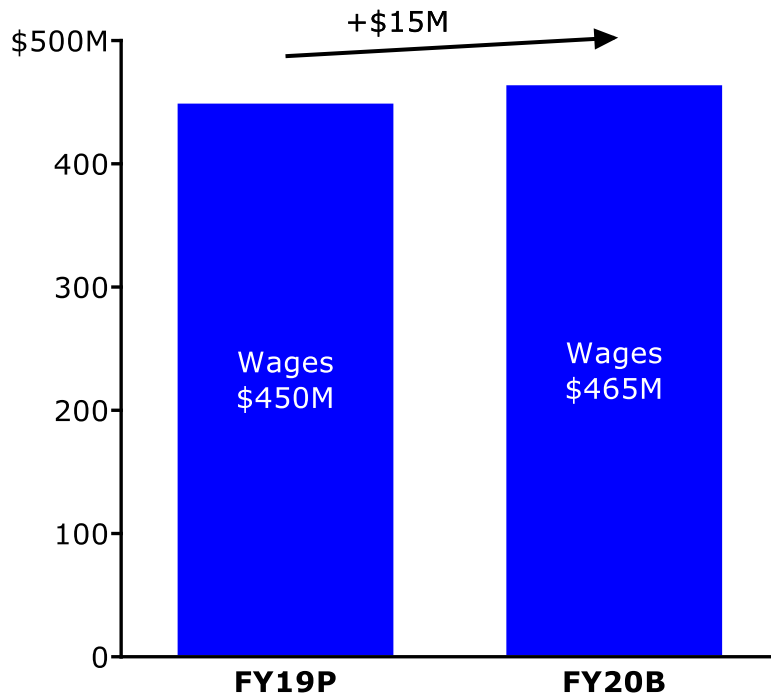
- Keolis base fixed-free contract to increase by \$8M in FY20
- FMCB approved scope changes will require an additional \$8M in FY20
 - › Service Changes (e.g. Foxboro)
 - › Regulatory changes (e.g. drug and alcohol law)
 - › Contractual escalation in previous scope changes (e.g. increased fleet size and expanded maintenance requirements)



Regular Wages: Contractual wage increases and unfilled approved positions from FY19 will have an \$15M impact on FY20

REGULAR WAGES

Regular Wage Expense
(FY19P to FY20B)



KEY DRIVERS

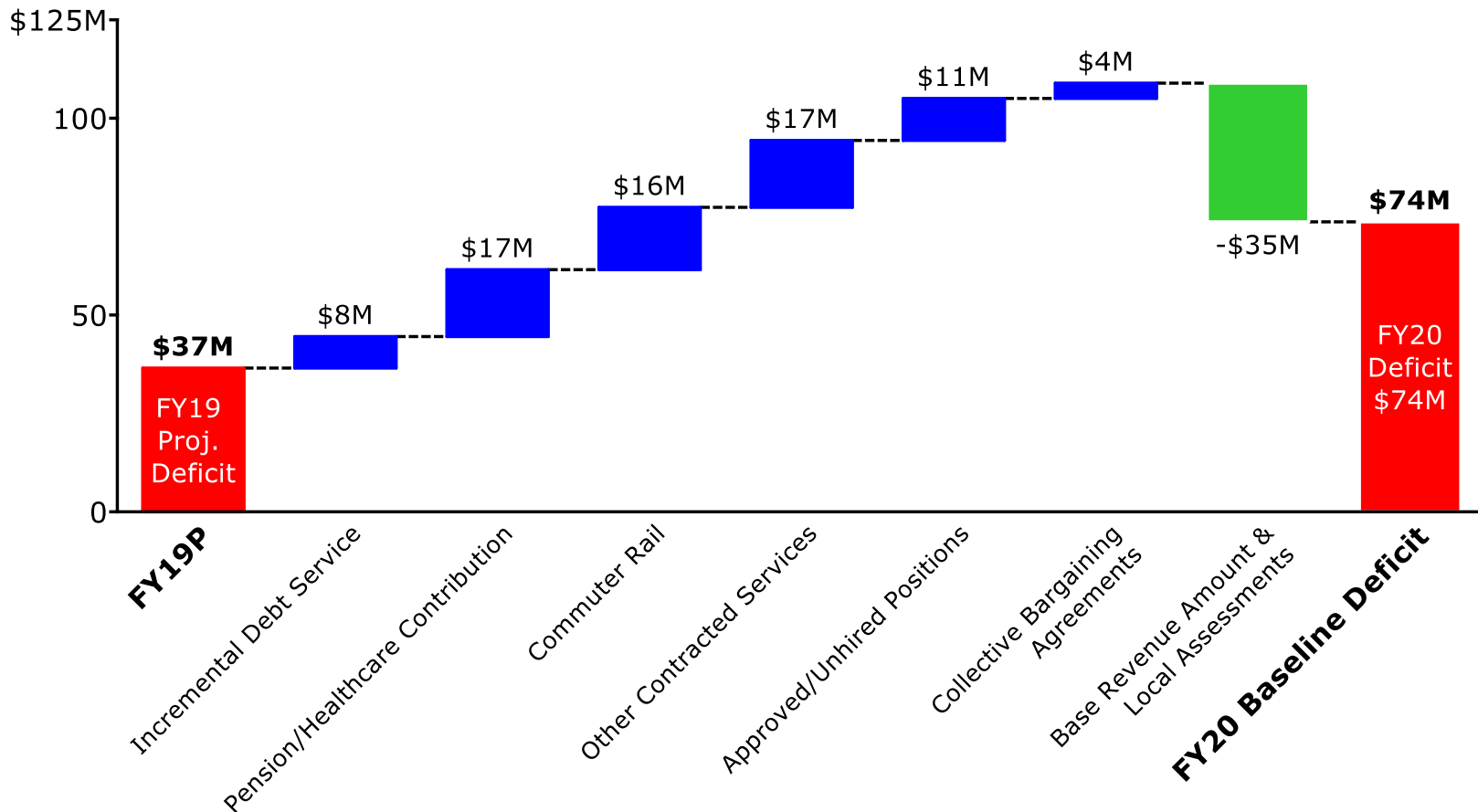
FY20 Challenges:

- CBA step up in FY20 which creates an incremental cost of \$4M
 - › 1.5% increases for Local 589 and Local 264
- Significant number of backfills and open positions from FY19 (133 total as of Jan 23rd)
 - › Estimated cost to fill all positions is \$11M
 - › 77% of positions have been assigned to a recruiter and are in selection process
- Positions expected to be filled by June 30 for budget purposes









FY20 baseline (\$74M) deficit is twice FY19 target (\$37M) due to existing commitments alone

Structural Deficit Bridge





Other Challenges and Opportunities that may impact FY20 budget

Budget Item	Impact on FY20 Deficit	Background
Fare Increase		Authority may increase fares biennially, ensuring no individual fare increases by more than 7%.
Accelerated Sales Tax Remittance		Section 94 of Chapter 47 of the Acts of 2017 directs the DOR to effectuate accelerated sales tax remittance. Currently in House 1.
Additional Sales Tax Receipts		House 1 inclusion of additional sales tax provisions. Specifically related to collection of taxes from cannabis distribution facilities.
FY19 Procurements In-Process		Cleaning contract, property insurance policy, and call center contract are currently being procured.
Capital Investment Plan		CIP published after operating budget is approved. Capital projects may affect revenue collection. Additional spend may impact debt service.
Pension Contribution		Modification of current terms (i.e. assumed rate of return) may impact FY20 contribution.



Appendix



Strategic Priorities

- **Provide safe and reliable service for employees and riders**
 - › Adoption of OSHA requirements
 - › Implementation of Positive Train Control (PTC) for Commuter Rail
 - › Continued investment in subway and bus safety initiatives/station refresh initiatives
- **Execute on delivering the Capital Program**
 - › Rollout \$8 billion in capital funding over the next five years
 - › Focus on achieving a State of Good Repair (15yrs)
 - › Green Line Extension, RIDE and Bus Maintenance Facilities
- **Transform MBTA business processes with investment in people, process and technology**
 - › Implement AFC 2.0 with expanded flexible fare options
 - › Update the Financial Management Information System (FMIS) – General Ledger
 - › Implement Project Management Information System (PMIS) - Capital Delivery
 - › Continue to improve HR, scheduling and timekeeping processes
- **Maintain a sense of fiscal discipline**
 - › Create opportunities to make additional capital investments with customer facing impacts