

**Massachusetts Bay
Transportation Authority**

FY20 Preliminary Operating Budget

March 4, 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, our representatives 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 Challenges, uncertainties and factors, including, but not limited to those described in disclosures. Should one or more of these Challenges 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. Introduction to Preliminary Operating Budget

2. Path to FY20 Proposed Deficit

3. Description of FY20 Budget Initiatives

4. Appendix – FY20 Operating Budget Detail



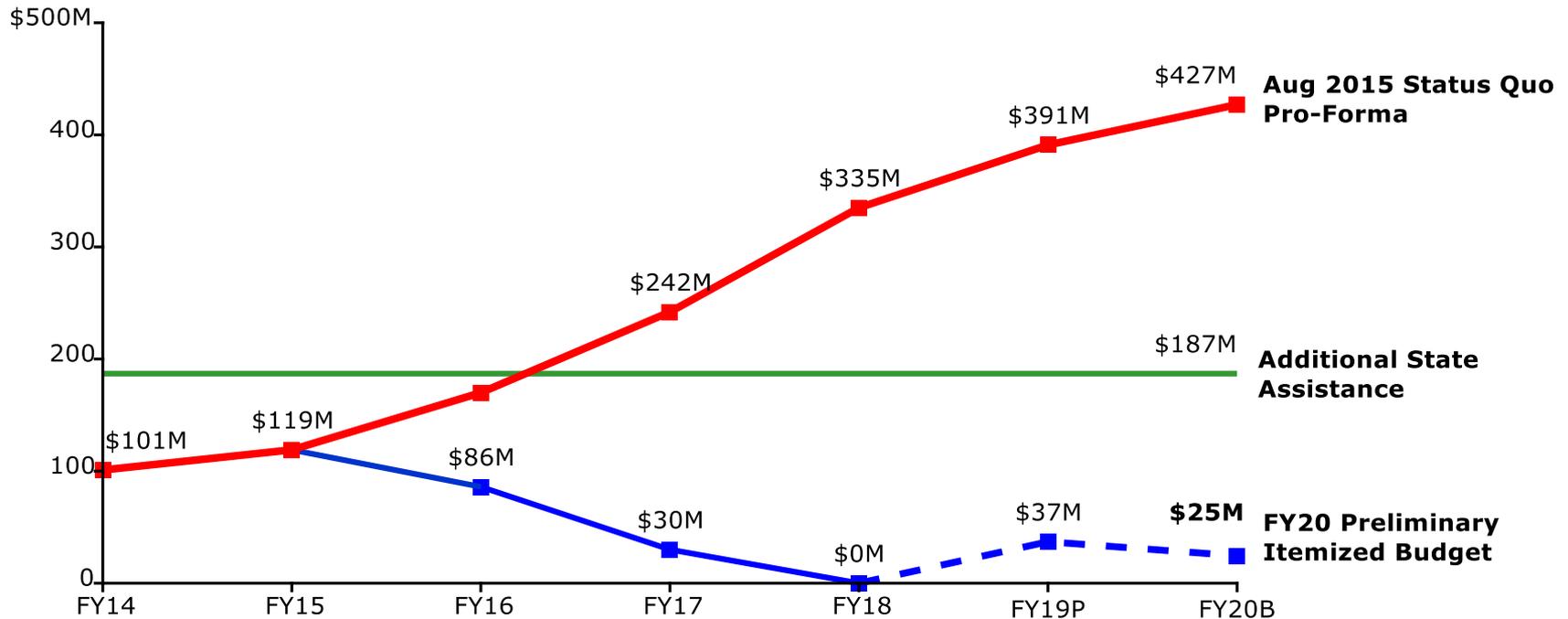
Operating Budget Timeline

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



FY19 deficit \$354M less than projections; FY20 proposed deficit below that of current year (\$37M)

Structural deficit

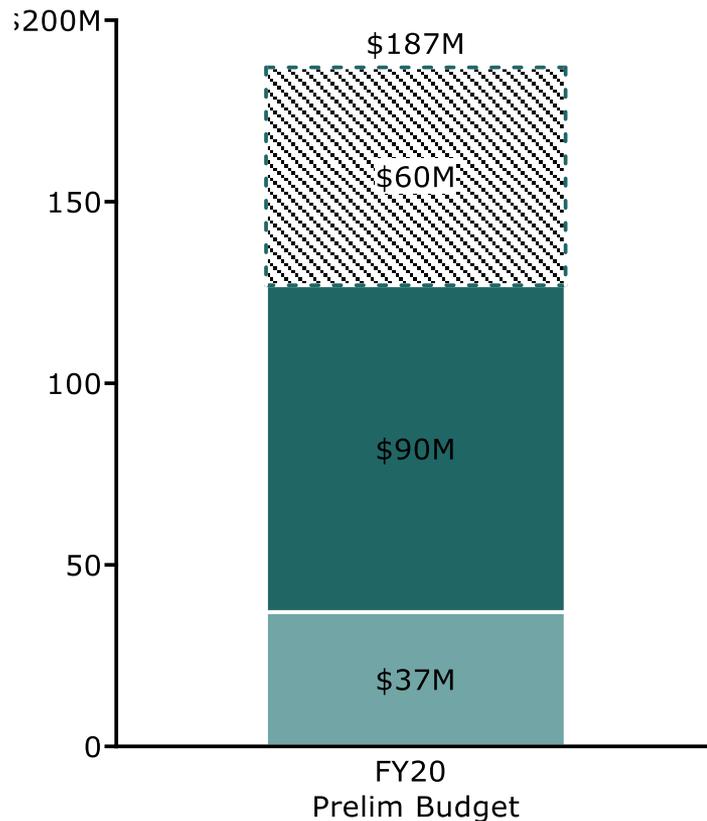


*Structural Deficit does not include Additional State Assistance in FY16 (\$155M), FY17 (\$140.25M), FY18 (\$127M) or FY19 Projection (\$127M).



Goal in FY20 is to transfer at least \$90M of Additional Contract Assistance to Capital Maintenance Lockbox

Additional Contract Assistance



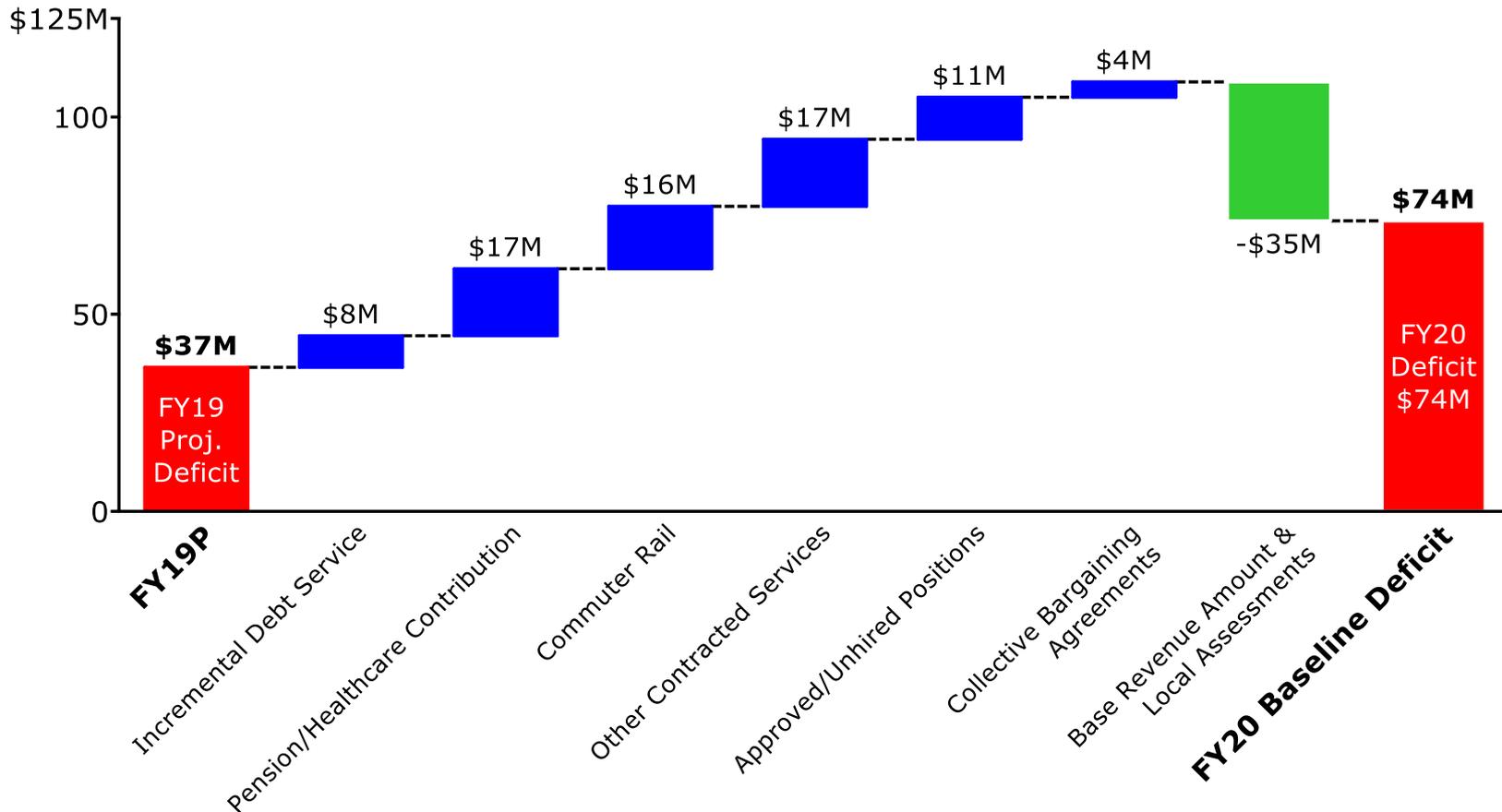
- Governor’s budget recommends MBTA receive a total of \$187M in FY20 Additional Contract Assistance
- \$187M matches the total commitment in FY16, FY17, FY18 and FY19
- MBTA will receive the \$187M in two segments:
 - \$127M in direct assistance to the operating budget to cover structural deficit
 - \$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 transfer at least \$90M of operating funds to Capital Maintenance Lockbox**
 - **Implies a Structural Deficit of no more than \$37M**



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

Presented January 28, 2019

Structural Deficit Bridge





Baseline assumptions for FY20 Operating Budget (\$74M deficit)

FY20 Baseline Assumptions

<p>Baseline Revenue</p>	<ul style="list-style-type: none"> • Statutory increases in Sales Tax (BRA) and Local Assessments • No change to fare structure assumed in Baseline Deficit • Growth in own-source revenue, consistent with three-year trend • Income earned from short-term investments to be modestly higher (no additional Fed hikes expected) • No extraordinary one-time income items (e.g. Accelerated Sales Tax Remittance, property dispositions, legal settlements, etc.)
<p>Baseline Expenses</p>	<ul style="list-style-type: none"> • Headcount held flat in FY20 compared to FY19 (one-in/one-out) except for FMCB approved strategic positions • Only incremental spend related to contractual expenses that automatically escalate (i.e. commuter rail base contract) • Other materials, services, and supplies spend level funded • Utility and commodity expenses derived from current futures prices
<p>Baseline Debt Service</p>	<ul style="list-style-type: none"> • Debt service to increase by modestly; consistent with FMCB policy • Procurement of RRIF loan for ATC project and short-term issuance • Long-term issuance expected in July to support FY20 capital plan



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Path to FY20 Budget incorporates Service Enhancements

	<i>(in millions)</i>
FY20 Deficit (Baseline before Trade-Offs)	(\$74.0)
Cost Saving Initiatives	
Rationalization of Existing Open Positions	\$6.5
Commuter Rail Extra Work	\$3.5
Other Cost Saving (Materials Mgmt, Uber/Lyft)	\$6.5
Subtotal Cost Saving Initiatives	\$16.5
Service Enhancements	
Better Bus Project	(\$4.5)
Capital Workforce Expansion	(\$3.5)
Other Enhancements (Customer Communications, RL/OL, etc.)	(\$4.0)
Other Strategic Investments	(\$3.0)
Subtotal Enhancements and Investments	(\$15.0)
Revenue Opportunities	
Proposed Fare Increase	\$32.0
Advertising Initiative	\$5.0
Investment Income	\$4.0
Other Revenue (Reimbursement, Corp Pass, Real Estate)	\$7.0
Subtotal Revenue Initiatives	\$48.0
FY20 Preliminary Budget	(\$24.5)



Revenue and cost saving initiatives to impact deficit

Options for Closing \$74M Budget Gap

<p>Cost Saving Initiatives (\$16.5M)</p>	<ul style="list-style-type: none"> • Rationalization of Existing Open Positions (\$6.5M) • RIDE Uber/Lyft Pilot Changes (\$1.5M) • Inventory / Material Management Process (\$5M) • Commuter Rail Scope Changes (\$3.5M)
<p>Service Enhancements \$12M</p>	<ul style="list-style-type: none"> • Better Bus Project (\$4.5M) • FY20 Projected Capital Hiring – Operating Impact (\$3.5M) • Customer Communications Contract (\$1.5M) • Additional Orange Line / Red Line Operators (\$1M) • AFC 1.0 Continued System Support (\$0.5M) • Technology Investments (\$1M)
<p>Other Strategic Investments \$3M</p>	<ul style="list-style-type: none"> • Expand MBTA property insurance coverage (\$1M) • Additional Warehouse Rent for Capital Spares (\$0.5M) • Outside Counsel Resources (\$1M) • Internal System Support (\$0.5M)
<p>Revenue Opportunities (\$48M)</p>	<ul style="list-style-type: none"> • Proposed Fare Increase (\$32M) • Reimbursement Initiatives (\$3M) • Increase Income via short-term investments (\$4M) • Maximize Advertising Revenue beyond digital live-boards (\$5M) • Real Estate Lease/License Review (\$2M) • Corporate Pass Program (\$2M)



FY20 Preliminary Itemized Operating Budget

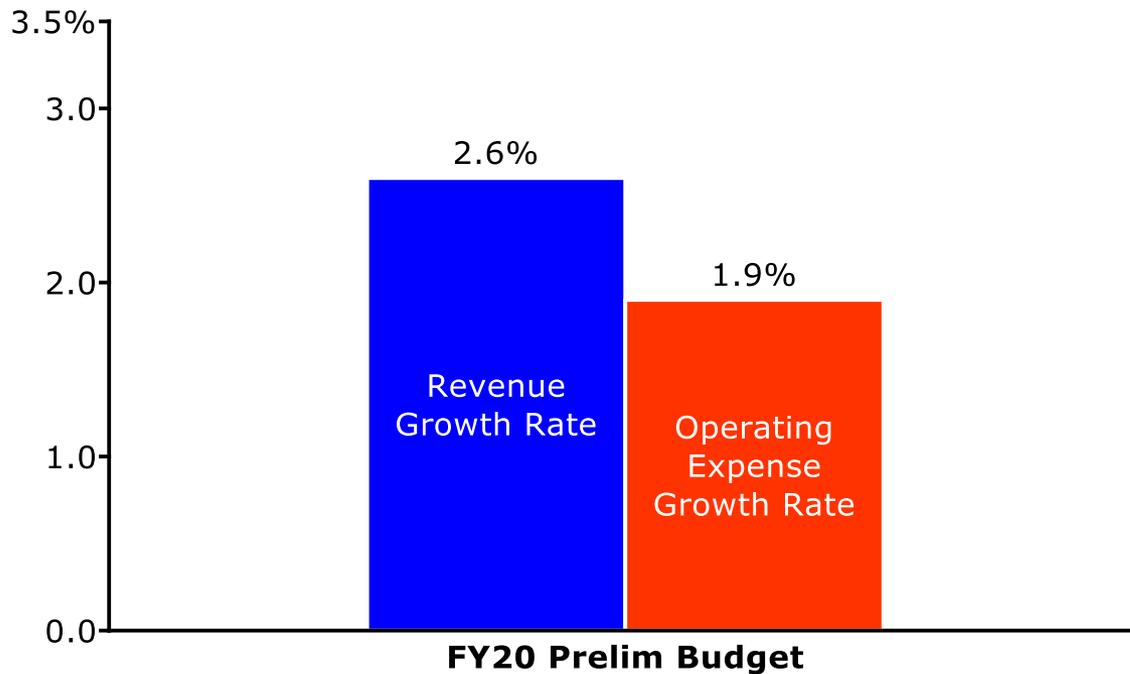
	(\$M)	FY19 BUDGET RECAST	FY20 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE
REVENUES	Operating Revenues	\$771.4	\$814.3	\$42.9	5.6%
	Non-Operating Revenues	\$1,262.1	\$1,270.7	\$8.6	0.7%
	Total Revenues	\$2,033.4	\$2,085.0	\$51.6	2.6%
EXPENSES	Wages, Benefits and Payroll Taxes	\$770.5	\$789.7	\$19.2	2.5%
	Non-Wage	\$817.4	\$828.9	\$11.5	1.4%
	Operating Expenses	\$1,587.9	\$1,618.6	\$30.7	1.9%
	Debt Service	\$482.0	\$490.9	\$8.9	1.9%
	Total Expenses	\$2,069.2	\$2,109.5	\$40.3	1.9%
Structural Deficit		(\$36.5)	(\$24.5)	(\$12.0)	-32.9%

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FY20 preliminary budget maintains required operating expense ratio (OER) with revenue growth exceeding expense growth

Operating Expense Ratio

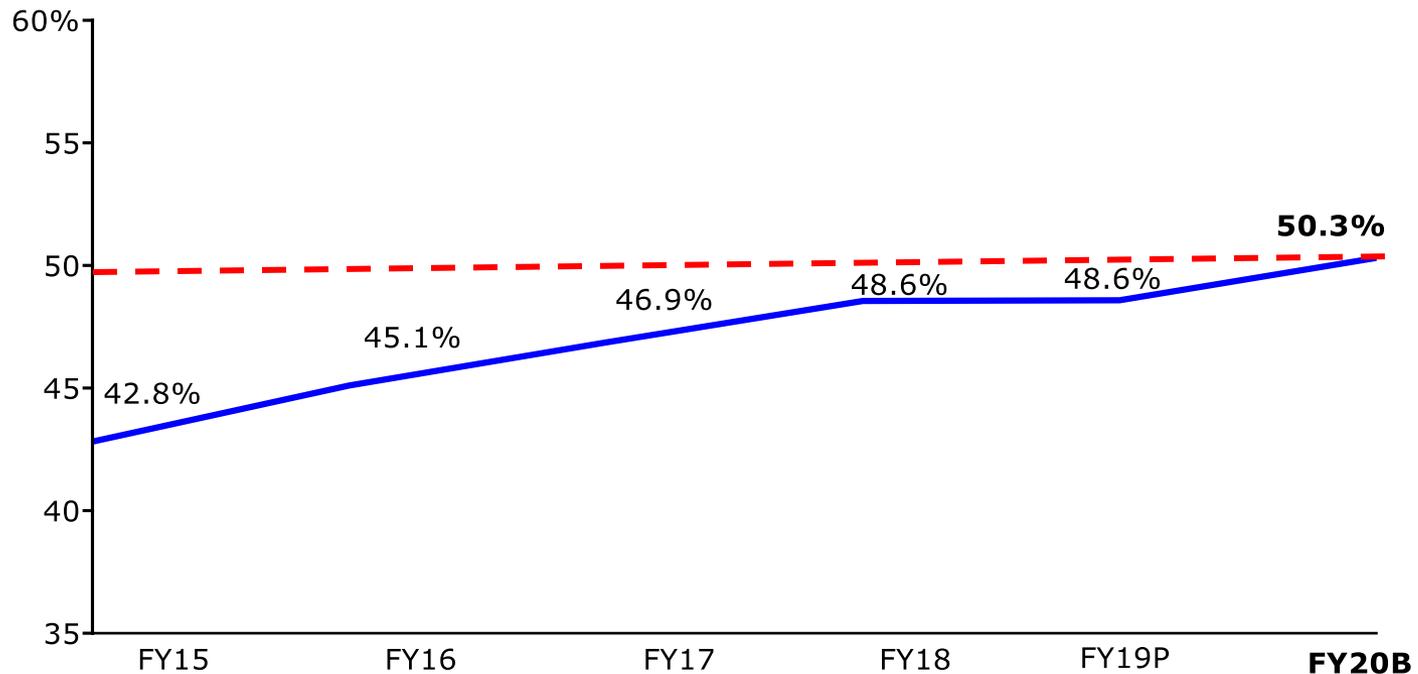


Note: Operating Expense Ratio (OER) is the ratio between the projected FY20 Operating Expense Growth Rate and Revenue Growth Rate. Operating expense growth does not include incremental debt service. FMCB has been tasked with ensuring Revenue Growth exceeds Operating Expense Growth.



FY20 preliminary budget pushes revenue recovery ratio above 50% for first time

Revenue Recovery Ratio



*Revenue recovery ratio is the sum of Fare Revenue and Own Source Revenue, divided by Total Operating Expenses. Ratio has increased each year since FMCB inception.



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FY20 Cost Savings Initiatives

TYPE	OPTION	DESCRIPTION	Deficit Impact
Pending FMCB Discussion (Savings) \$16.5M	RIDE On-Demand Pilot Uber/Lyft	Pilot amendments should include: 1) Increase cost per trip; 2) Require ridesharing to match RIDE practices; 3) Simplify and increase pilot trips. (\$1.5M)	↓
	Rationalization of Existing Open Positions	Authority has 156 open positions as of February 25. Average Req has been open for more than 100 days. Prioritize current hire list, eliminate approx. 20% of existing open positions and discount for hiring lag. (\$6.5M)	↓
	Materials/Inventory Management	Improving cycle counts, utilizing new capacity and accounting for lag time in delivery of materials. (\$5M)	↓
	Commuter Rail Extra Work	Rationalize extra work (reduce on-call mechanical and engineering support) and scope changes. (\$3.5M)	↓



FY20 Service Enhancements

TYPE	OPTION	DESCRIPTION	Deficit Impact
Committed (Costs) \$2M	Customer Experience / Communications	Advertising and media for paid external media campaigns and other customer communications. (\$1.5M)	↑
	AFC 1.0 Support	Support existing fare system. Spare parts and end of life costs increasing for hardware and software. (\$0.5M)	↑
Pending FMCB Discussion (Expense) \$10M	Better Bus Project	Additional operators and maintenance staff to support enhanced service on forty key bus routes. (\$4.5M)	↑
	Capital Hiring Initiative	Operating (fringe) cost associated with a substantial (80 employee) increase to capital workforce. (\$3.5M)	↑
	RL/OL Operators	Additional operators to support orange line and red line service upon receipt of new cars. (\$1M)	↑
	Various Technology Investments	Tablets and WiFi for bus operations/scheduling, HASTUS maintenance/upgrades, and enhancements to customer systems including M-Ticket, Smart Bus, Transit Master & Pay-by-Phone etc. (\$1M)	↑



FY20 Other Strategic Investments

TYPE	OPTION	DESCRIPTION	Deficit Impact
Committed (Costs) \$1.5M	Property Insurance Policy	Expanding property policy to address gaps and enhance coverage. (\$1M)	↑
	Rent for Additional Warehouse Space	New warehouse space required for capital spares associated with MBTA vehicle procurements. (\$0.5M)	↑
Pending FMCB Discussion (Expense) \$1.5M	Outside Counsel	Additional resources to support complex MBTA projects, contract disputes and labor relations negotiations. (\$1M)	↑
	Internal Systems Support	Additional system administrators, help desk specialists and support for intranet. (\$0.5M)	↑



FY20 Revenue Initiatives

TYPE	OPTION	DESCRIPTION	Deficit Impact
<p>Committed (Revenue)</p> <p>\$11M</p>	Reimbursement Initiative	Deployment of a risk management system to ensure timely submission, tracking and receipt of insurance payments. Formalization of warranty reimbursements across maintenance divisions. Expansion of prompt pay program in receivables group. (\$3M)	↓
	Investment Income	Maximize investment income while remaining in compliance with MBTA Investment Policy. (\$4M)	↓
	Real Estate	Review portfolio of licenses and leases, and increase rates where possible. Scrub TOD pipeline. (\$2M)	↓
	Corporate Pass	Maximize corporate pass revenue, net of cannibalization from fare vending machines. Full year of re-branded Perq. (\$2M)	↓
<p>Pending FMCB Discussion (Revenue)</p> <p>\$37M</p>	Fare Increase Proposal	Average of 6.3% across all fares. If adopted the increase would take effect July 1, 2019. State law allows the MBTA to raise fares at regular, modest increments, limiting increases to once every 2 years and a cap of no more than 7% for each increase. (\$32M)	↓
	Advertising Initiative	Maximize advertising revenue beyond digital live boards, using existing and new space across the MBTA footprint. (\$5M)	↓



Path to FY20 Budget incorporates Service Enhancements

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FY20 Preliminary Itemized Operating Budget

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FY20 revenue from all sources up 2.6%, driven by additional fare revenue

	(\$M)	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
OPERATING	Fares, all modes	\$664.7	\$696.5	\$31.8	4.8%	• Fare Increase
	Other Operating (includes Own-Source)	\$106.6	\$117.8	\$11.2	10.5%	• Increases in advertising, parking and real estate
	Operating	\$771.3	\$814.3	\$42.9	5.6%	
NON-OPERATING	Dedicated Sales Tax	\$1,032.0	\$1,063.0	\$30.9	3.0%	• Adjustment per statute
	Dedicated Local Assessment	\$170.1	\$174.4	\$4.3	2.5%	• Adjustment per statute
	Other	\$59.9	\$33.4	(\$26.6)	-44.3%	• Exclude FY19 one-time revenues
Non-Operating		\$1,262.1	\$1,270.7	\$8.7	0.7%	
Total Revenues		\$2,033.4	\$2,085.0	\$51.6	2.6%	

*FY19P represents year-end projections for Fiscal 2019

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FY20 wages and benefits increase modestly due to CBA and pension contribution

	(\$M)	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
WAGES	Regular Wages	\$451.7	\$469.7	\$18.0	4.0%	• CBA impact, continued headcount management
	Overtime	\$47.4	\$34.1	(\$13.3)	-28.1%	• Continued management focus
	Wages	\$499.1	\$503.1	(\$4.0)	0.8%	
BENEFITS AND TAXES	Pension ^{^*}	\$102.9	\$116.2	\$13.3	13.0%	• Forecast ARC
	Health	\$103.7	\$103.9	\$0.2	0.2%	• Average GIC growth of 3%, offset by lower headcount
	<i>Retiree Health</i>	<i>\$43.6</i>	<i>\$43.3</i>	<i>(\$0.3)</i>	<i>-0.5%</i>	
	Health & Welfare Fund	\$11.8	\$11.9	\$0.1	0.9%	
	Other Fringes	\$12.8	\$13.2	\$0.4	3.1%	• Driven by regular wages
	Payroll Taxes	\$40.2	\$41.4	\$1.2	2.9%	• Driven by regular wages
	Benefits and taxes	\$271.4	\$286.0	\$14.6	5.4%	
Total Wages, Benefits and Taxes		\$770.5	\$789.7	\$19.2	2.5%	

[^]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 increase slightly year-over-year

	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION	
MATERIALS AND SERVICES	Materials	\$44.6	\$43.4	(\$1.2)	-2.8%	• Inventory initiative
	Services	\$119.6	\$123.8	\$4.1	3.5%	• Flexible contracts
	Utilities	\$41.8	\$41.2	(\$0.6)	-1.4%	• Little change due to long term contracts
	Fuel	\$16.6	\$14.7	(\$1.7)	-11.5%	
	Contract Cleaning	\$25.7	\$27.4	\$1.7	6.6%	• Contract extension related
	Uniform	\$2.6	\$2.1	\$0.4	-16.9%	• Stable headcount and prices
	Materials and Services	\$250.9	\$252.6	\$1.7	0.7%	
INSURANCE						
Insurance Premiums and Damages	\$13.1	\$14.3	\$1.2	9.8%	• Property coverage	

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Non-wage operating expenses continued

	(\$M)	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
COMMUTER RAIL	Fixed Price	\$327.3	\$335.1	\$7.8	2.4%	• Annual contract escalation
	Extra Work and Services	\$45.4	\$45.1	(\$0.3)	-0.6%	• Pared back extra work
	Fuel	\$29.4	\$29.4	\$0.0	0.0%	
	PRIAA	\$9.3	\$9.3	\$0.0	0.0%	
	Commuter Rail		\$411.4	\$418.9	\$7.5	1.8%
LOCAL SERVICE	THE RIDE	\$116.3	\$115.2	(\$1.1)	-1.0%	• Software to enhance productivity
	Ferry	\$14.9	\$16.5	\$1.6	11.0%	• New contract
	LSS Other	\$3.0	\$3.2	\$0.1	4.6%	
	Local Service		\$134.2	\$134.9	\$0.7	0.5%
OTHER	Financial Service Charges	\$7.8	\$8.1	\$0.3	3.6%	
Non-Wage Expenses:		\$817.4	\$828.9	\$11.5	1.4%	

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Debt service to increase modestly in Fiscal 2020

	(\$M)	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
DEBT SERVICE	Interest	\$215.8	\$214.1	(\$1.8)	-0.8%	• Interest rates stabilizing
	Principal	\$266.2	\$276.9	\$10.7	4.0%	• Per amortization schedule
	Debt Service	\$482.0	\$491.0	\$9.0	1.9%	

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