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Tough Choices

FY17 Structural Operating Deficit Discussion

11/30/2015

FMCB Statutory Mandate to Deliver Balanced FY17 Operating Budget

- Under Section 5 of Chapter 46 of the Acts of 2015, the FMCB is directed to:

  “Establish 1- and 5-year operating budgets under section 20 of chapter 161A, beginning in fiscal year 2017, which are balanced primarily through a combination of internal cost controls and increase in own-source revenues”

Operating expenses have grown at 5% for past 15 years, while ridership is nearly flat

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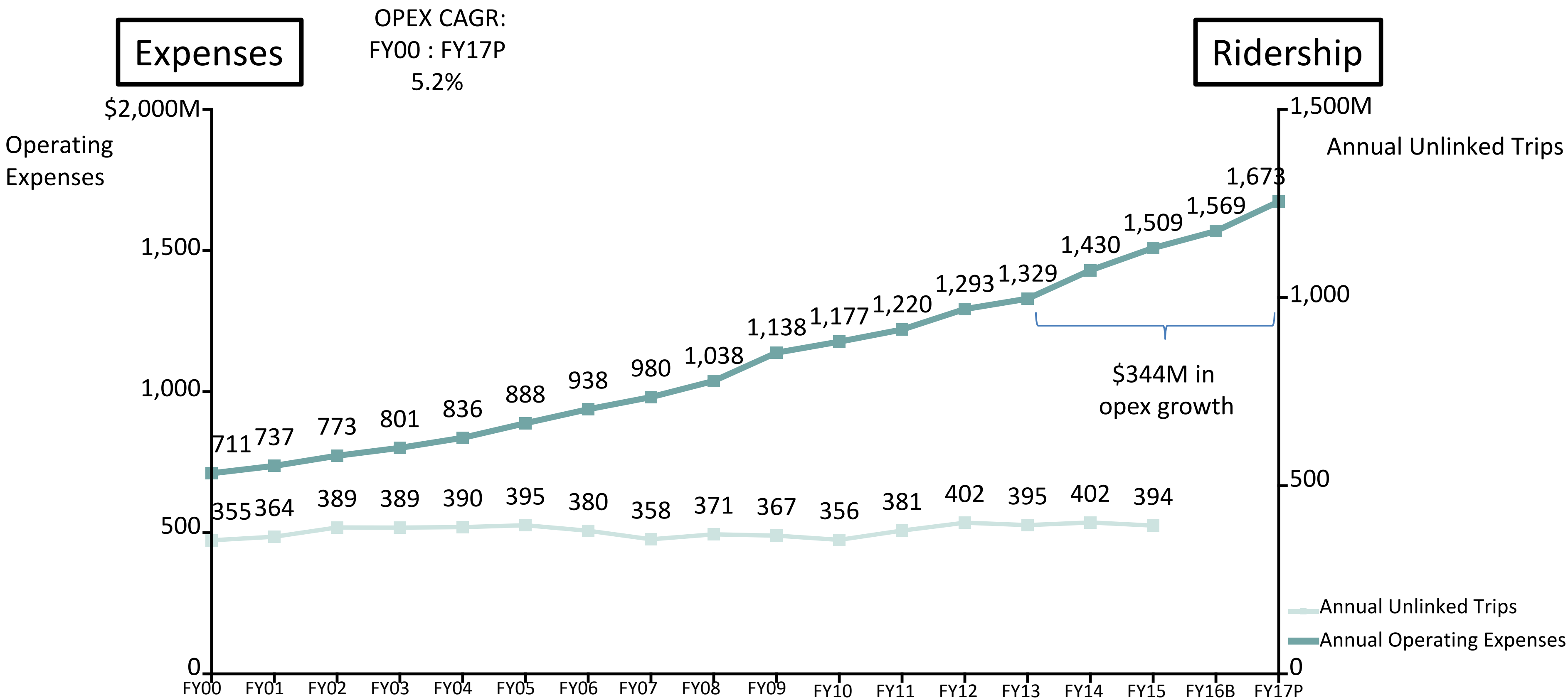

Unlinked Trips Growth Rate	2.7%	6.8%	-0.1%	0.3%	1.3%	-3.7%	-6.0%	3.7%	-0.9%	-3.0%	6.9%	5.5%	-1.6%	1.8%	-2.0%		
Opex Growth Rate	3.7%	4.9%	3.6%	4.4%	6.2%	5.6%	4.6%	5.8%	9.7%	3.4%	3.7%	6.0%	2.8%	7.6%	5.5%	4.0%	6.6%

NOTE: FY14 and FY15 unlinked trip are internal MBTA figures and subject to revision.

Without immediate action, MBTA operating expenses will increase by $164M in FY16 & FY17

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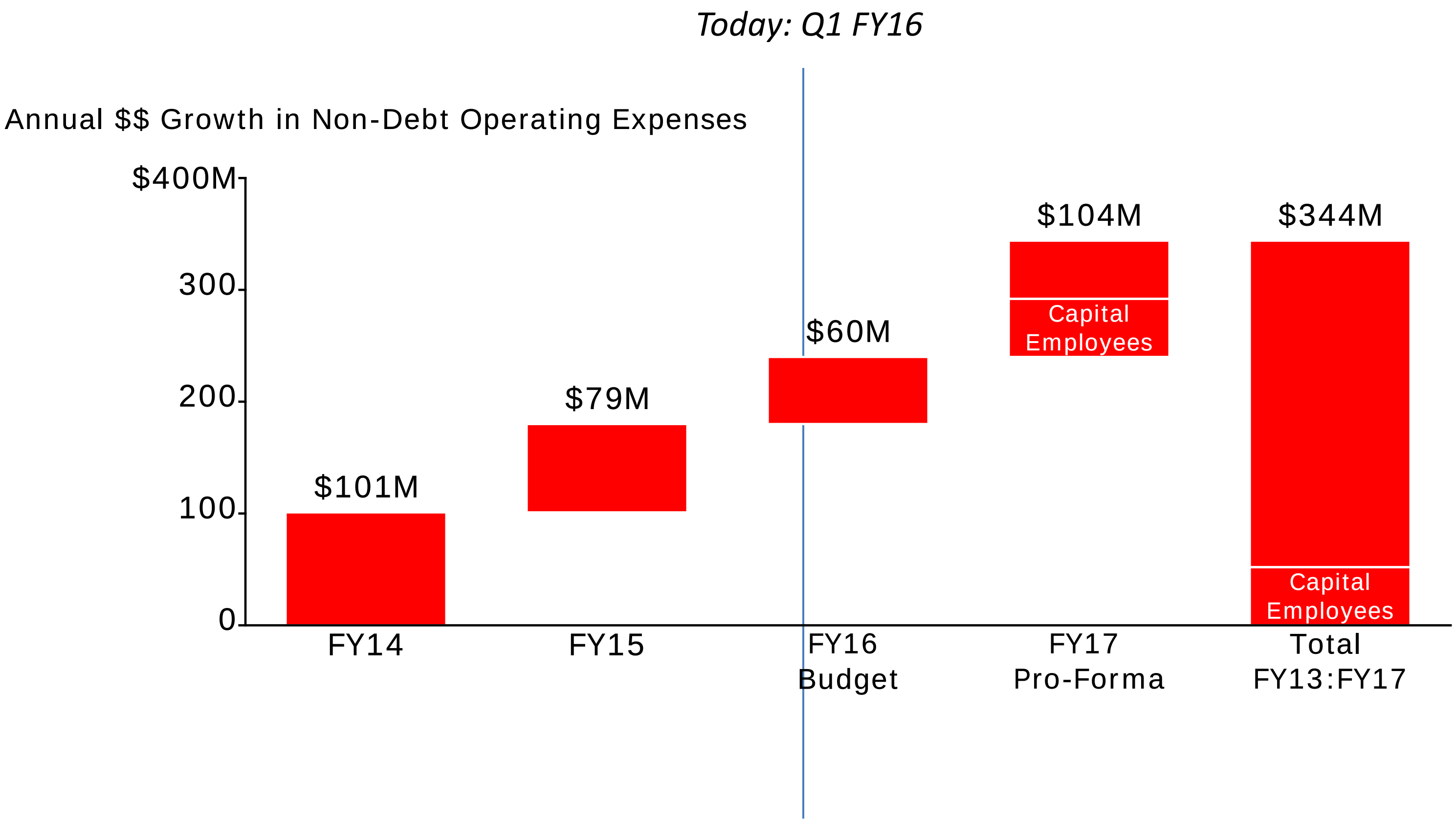
STATUS QUO FY17 PRO-FORMA



Without action, projected structural deficit will reach $427M by FY20

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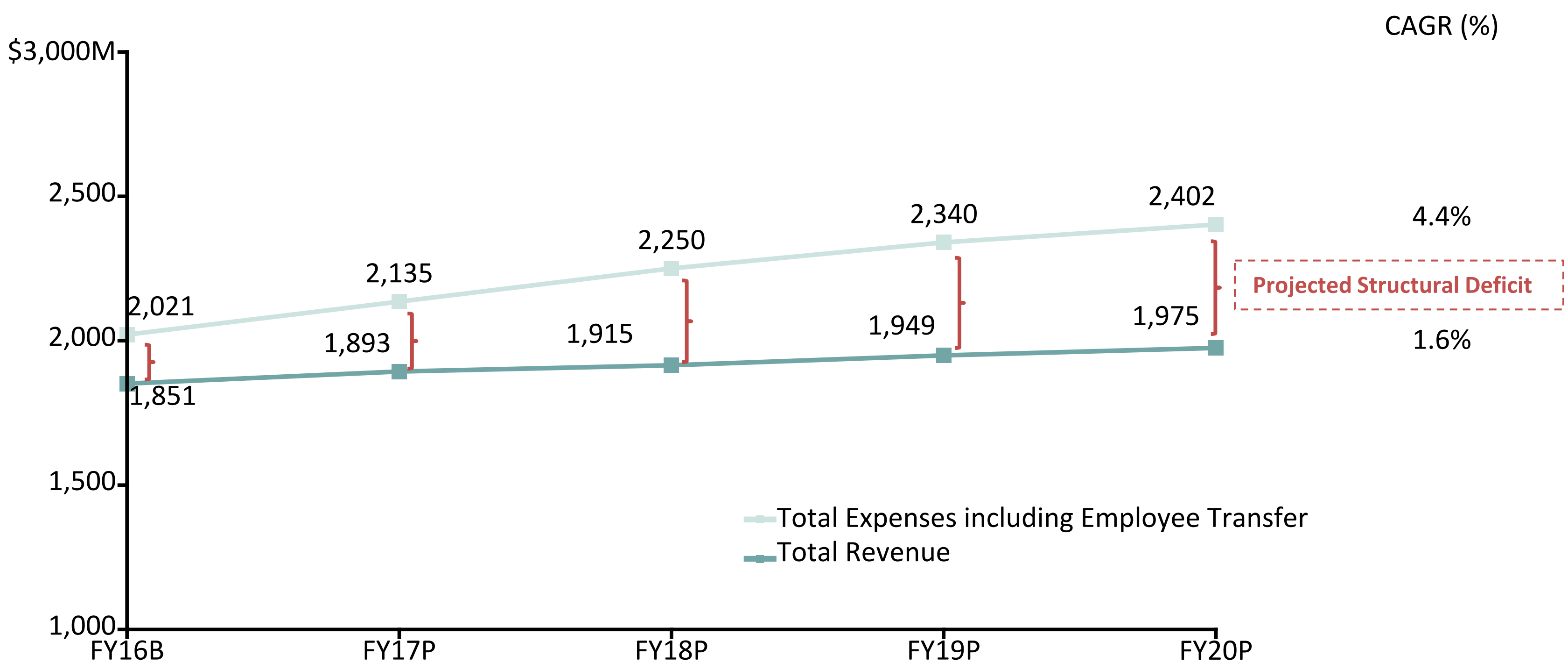
STATUS QUO FY17 PRO FORMA

NOT INCLUDING ADDITIONAL STATE ASSISTANCE OF $187M in FY2016B



Structural Deficit Includes Debt Service	FY16B	FY17P	FY18P	FY19P	FY20P
	-$170M	**-$242M**	**-$335M**	**-$391M**	**-$427M**

Note: Structural deficit includes debt service and transferred capital employees annual expense (scaling from $52M in FY17 to $88M in FY20

FOR DISCUSSION

Core principles

- Consistent with the FMCB enabling legislation, propose a path to balancing the FY17 structural deficit
- Aim to maximize own-source revenues and align the future rate of operating cost growth with the rate of revenue growth
- Act immediately in the 2H of FY16 to take actions that can reset our structural deficit baseline for FY17 - the longer we wait to act decisively on a reset, the worse the problem will become
- Focus on opportunities to reduce our internal cost structure (in particular, our non-operator and corporate staffing) and operate more efficiently
- Invest operating cost savings into investment in the core system (SGR, technology, customer-facing improvements) that can significantly improve the customer experience and put the MBTA on a path to fiscal sustainability

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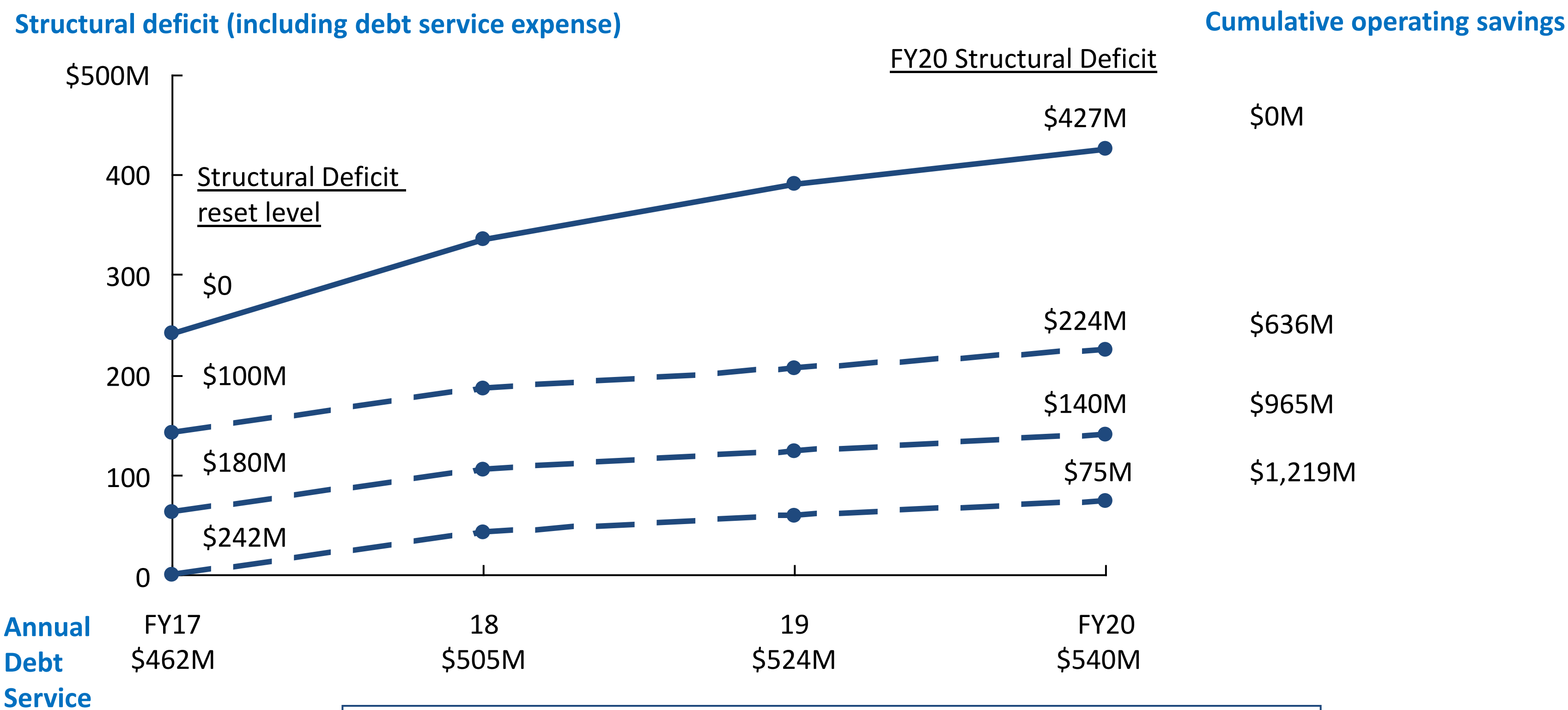
Immediate action to address structural deficit could yield $1.2B of cumulative operating budget savings over 4 years

ILLUSTRATIVE – FOR DISCUSSION PURPOSES

2.0% opex growth scenario



Assuming:

- FY17-20 1.6% per annum growth for all revenue (including own-source, fare, sales tax, and state assistance)
- FY17-20 2.0% per annum growth for non-debt opex
- Contractual debt service payments grow as projected in pro-forma from $462M in FY17 to $540M in FY20 ($78M total increase over 4 years)

Operating budget savings could be re-invested in pay-go capital or other critical uses

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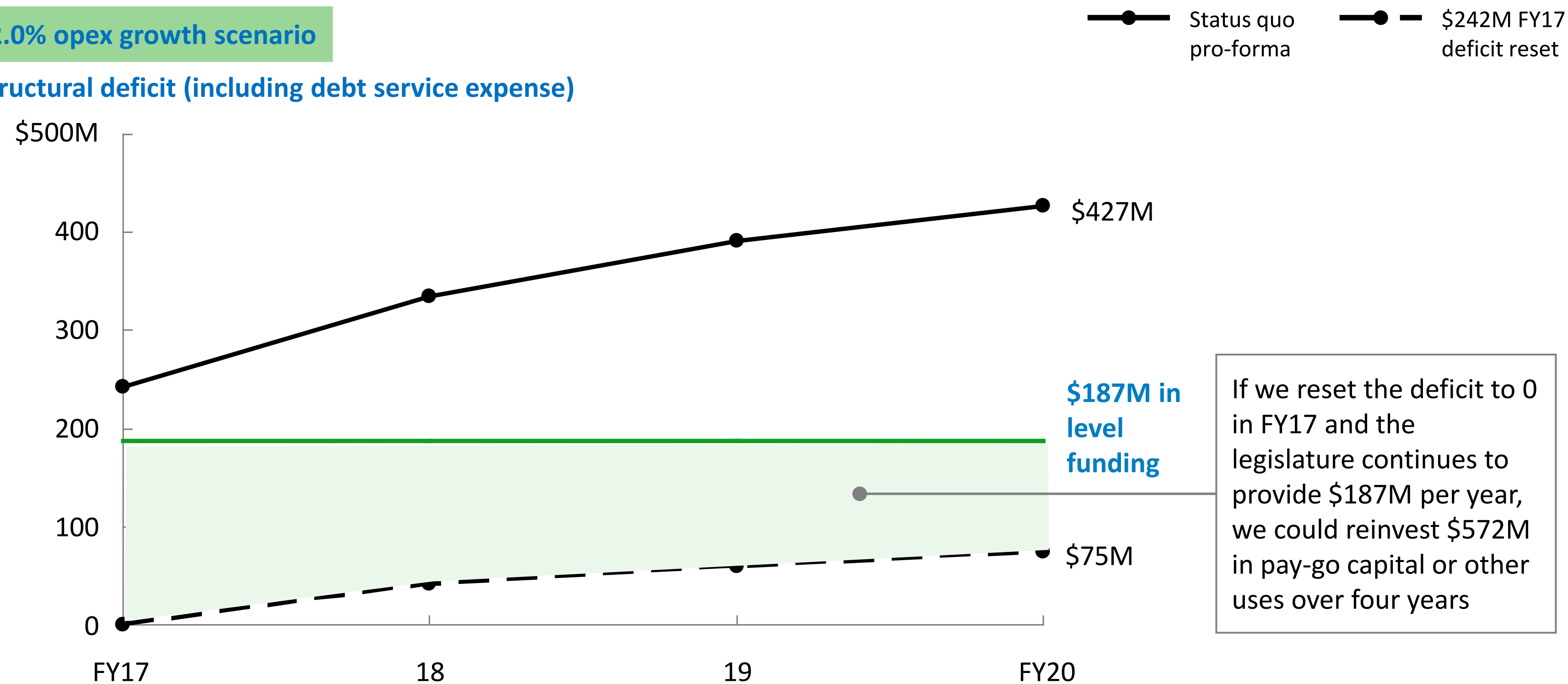
ILLUSTRATIVE – FOR DISCUSSION PURPOSES

2.0% opex growth scenario

Structural deficit (including debt service expense)



If we reset the deficit to 0 in FY17 and the legislature continues to provide $187M per year, we could reinvest $572M in pay-go capital or other uses over four years

	FY17	18	19	FY20
Annual Debt Service	$462M	$505M	$524M	$540M

Assuming:

- FY17-20 1.6% per annum growth for all revenue (including own-source, fare, sales tax, and state assistance)
- FY17-20 2.0% per annum growth for non-debt opex
- Contractual debt service payments grow as projected in pro-forma from $462M in FY17 to $540M in FY20 ($78M total increase over 4 years)

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FY17 operating budget analysis Part 1: Opportunities to increase own-source revenues

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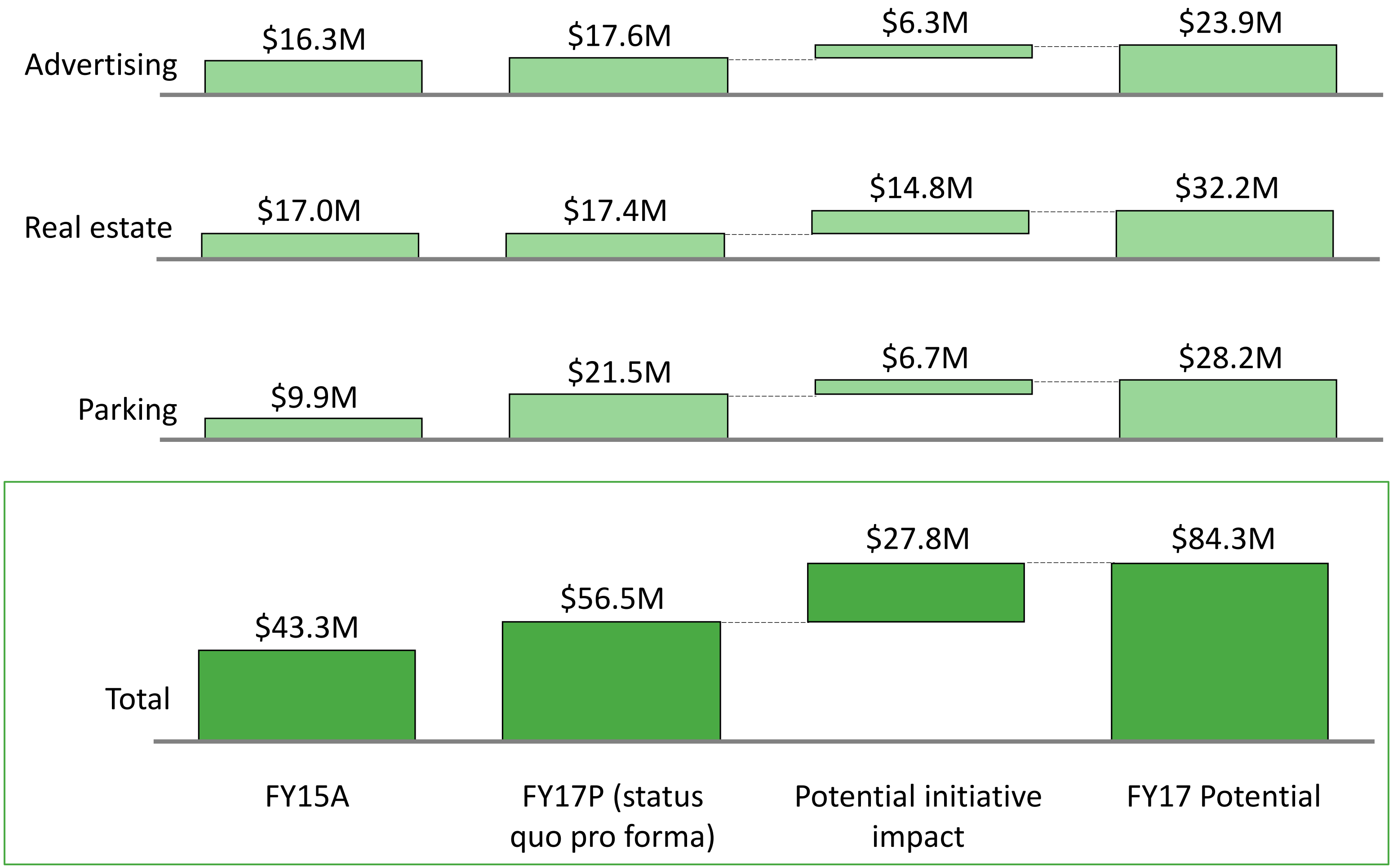

Notes: See "Initial list of revenue and cost options" for full details (slide 14) – the "Potential initiative impact" above represent the low end of the range on slide 14. FY15 and FY17P Real estate revenues are recurring revenues from advertising, concessions, telecomm and land rental. $14.8M real estate "potential initiative impact" includes $12M revenue from initial payment of South Station lease

FY17 operating budget analysis Part 2: Focus on reducing internal operating costs

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- We started early on a process to fully recast the FY17 operating budget and are working with the team to review every dollar of projected cost growth in the status-quo FY17 pro forma, with a focus on identifying non-essential operating cost growth across the 43 budgeted MBTA departments

- We have hosted more than 60 internal meetings over the past two months and through an iterative, collaborative process, each department head has proposed ideas to control cost growth in their FY17 budgets

- So far we have identified approx $50-60M of non-essential cost growth across materials/services, third party transport and unfilled positions/vacancies, the reduction of which will be integrated into the recast FY17 operating budget

- In addition, we are engaging an outside firm to perform a top-to-bottom review of our corporate organizational structure, with a focus on improving the efficiency and reducing the cost of our corporate/HQ services

- This review is also focused on identifying HQ services unrelated to our core operating mission that could be better and more efficiently performed by outside providers

Outsourced Transport Contracts (Commuter Rail, The Ride and Ferry/Buses) are largest segment of operating expense

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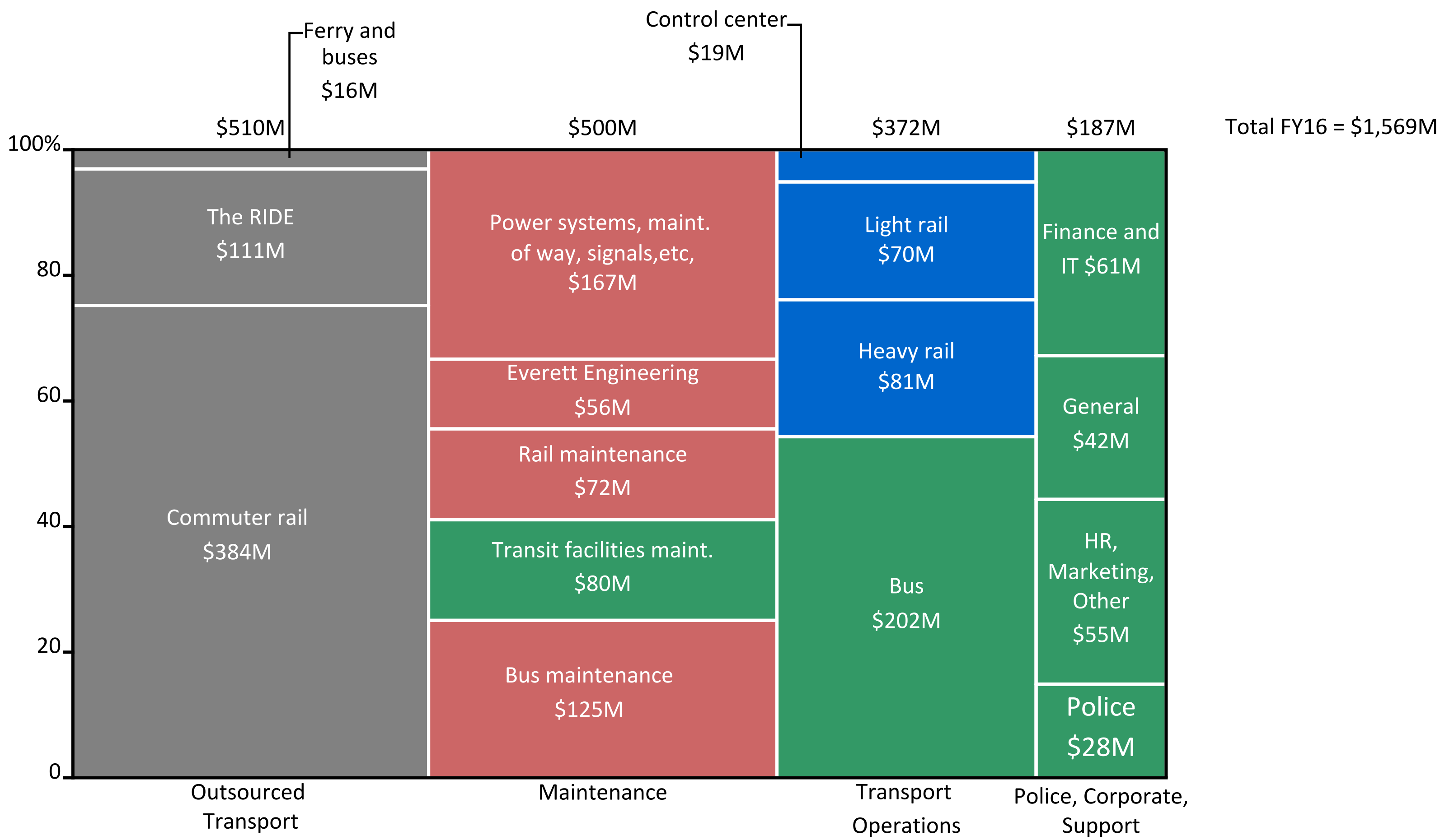
FY16 budgeted operating costs – not including debt service



NOTE: Some bus and rail maintenance costs (e.g. Vehicle engineering at Everett) are not contained under the bus and rail maintenance depts.

Excluding Commuter Rail and The Ride, MBTA Opex is $1.06B (of which $765M - 72% - is wages & benefits)

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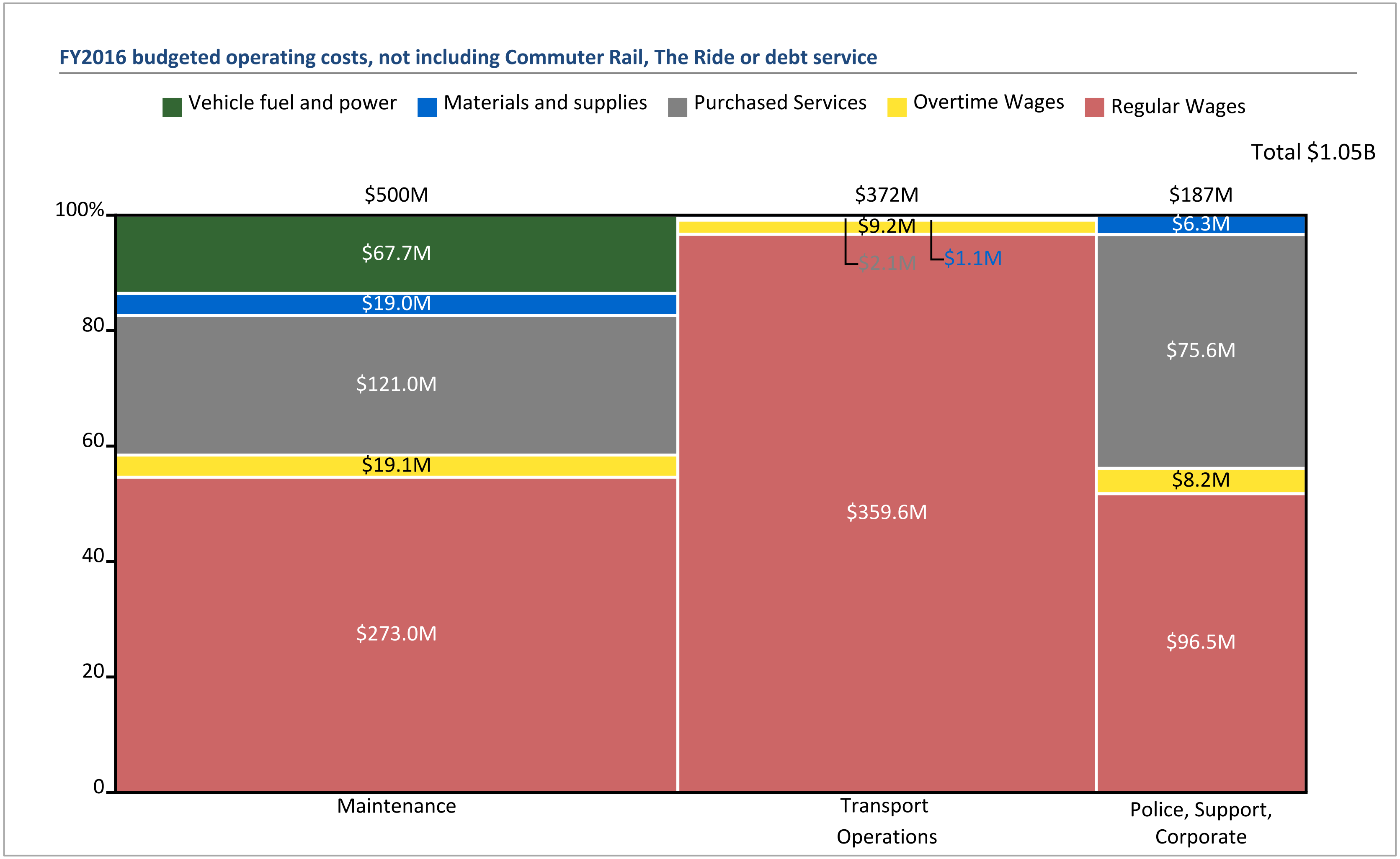
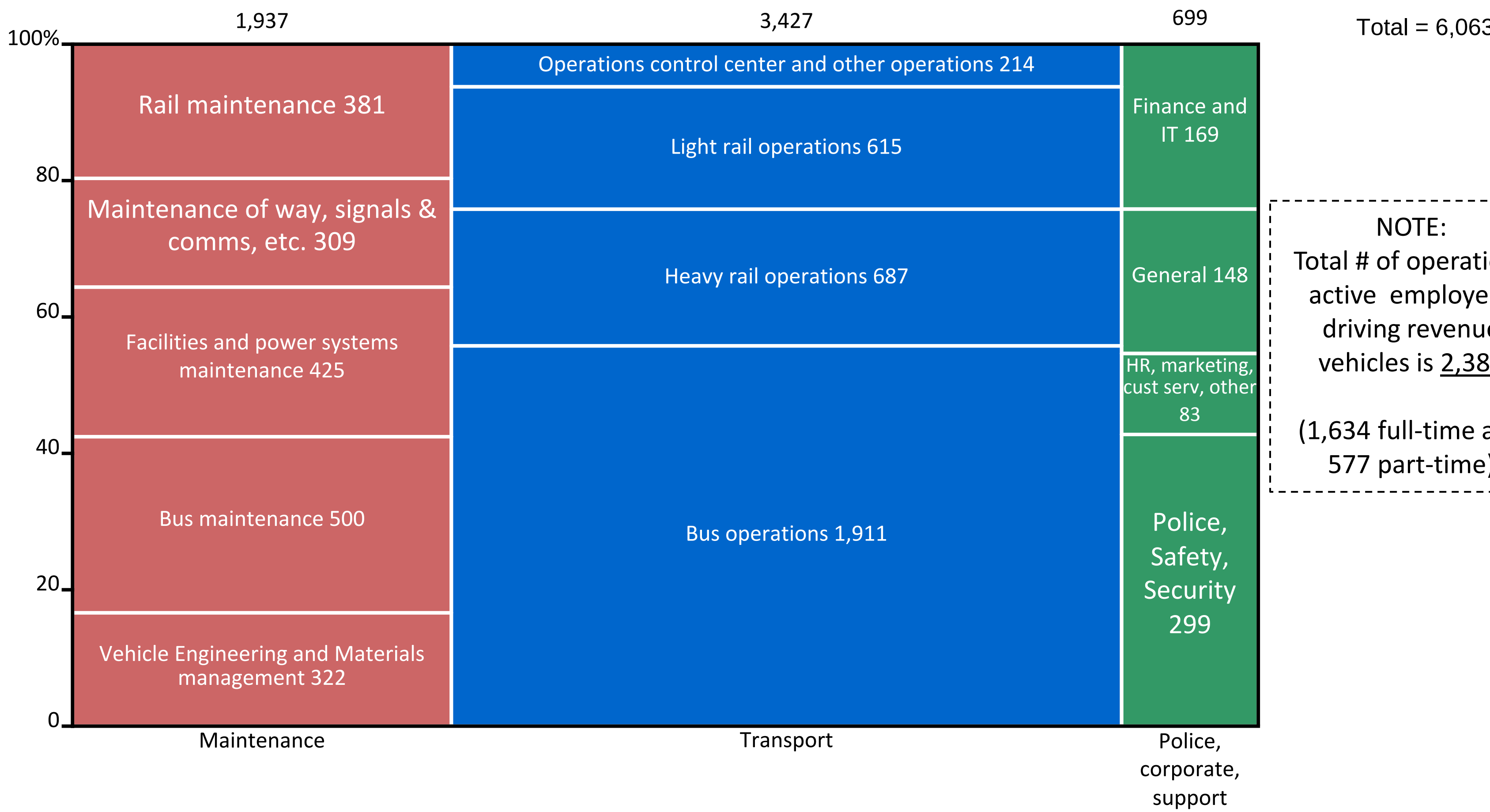


NOTE: Benefits and payroll taxes are allocated according to regular wages

55% of MBTA active headcount is in Transport Operations and 2,389 ops employees (40% of total MBTA headcount) drive revenue vehicles

Part time and full time employees on the MBTA operating budget



NOTE:
Total # of operations active employees driving revenue vehicles is 2,389

(1,634 full-time and 577 part-time)

Note: this chart includes all operating budget MBTA employees (capital employees excluded)

Immediate actions can impact the 2H of FY16 and bend the cost curve: Initial list of revenue/cost options

PRELIMINARY LIST OF IDEAS

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Budget recasting | Own-source revenue | Cost control | Service adjustments | Fare revenue

		Initiative	Range of impact (low-high)[1] $M	
Immediate policy decisions which will reduce 2H FY16 structural deficit and reset FY17 baseline — $91-121M	1	Budget recast: Elimination of non-essential spending increases in status-quo pro forma	35.7	35.7
	2	Budget recast: Department head-specified reductions in materials, services, supplies	3.7	14.8
	3	Budget recast: Department head-specified elimination of unfilled / vacant positions	15.5	15.5
	4	Discontinue late night bus and subway service Pilot (12am-2am Friday and Sat Nights)	10.0	14.8
	5	Advertising full potential: allow alcohol ads	1.5	2.0
	6	Advertising full potential: aggressive growth target for station digital panels, station and line sponsorship	4.8	8.3
	7	Real estate full potential: aggressive growth target for concessions, telecom, property lease deals, billboards)	14.8	20.1
	8	RIDE reform: Eliminate non-ADA premium trips outside of ADA required service areas	5.2	10.4
		TOTAL	**91.2**	**121.6**
Policy decisions which, if enacted, would come online throughout FY17 (and, in some cases, would require negotiation / agreement with third parties) — $37-70M[2]	9	Target full potential to optimize parking revenue (with assistance of outside firms with experience optimizing revs)	6.7	9.9
	10	Aggressively market corporate pass (RFI in process to find a sales/marketing partner to promote corporate pass	0.0	1.0
	11	Negotiate work rule adjustment to collective bargaining agreement for overtime / spread-time rules	3.8	7.5
	12	Freeze wages for non-union workforce (included in status-quo pro forma)	0.0	0.0
	13	Negotiate a one-time deferral of 1.0% collectively bargained FY17 wage increase	2.6	5.2
	14	Negotiate a one-time deferral of 1.5% collectively bargained FY17 wage increase (incremental increase to #13)	1.3	2.7
	15	Negotiate a one-time deferral of 2.5% of collectively bargained FY17 wage increase (incremental increase to #13, #14)	1.5	3.0
	16	Modernize Charlie Card store, focus store on senior population, transition all card exchanges to mail-in	0.6	0.7
	17	RIDE reform: shift 30% of Ride participants to taxis, ride-sharing and fixed route	12.8	25.5
	18	Adjust weekend commuter rail service (requires Keolis contract adjustment , scope change, and public comment period)	7.8	14.4
	19	Increase fares (beyond the 5% included in FY17 status-quo pro-forma) and increase link pass multiple	TBD	TBD
	20	RIDE reform: Increase fare for ADA and non-ADA rides	TBD	TBD
	21	Develop an incentive plan for retirement eligible employees in targeted departments with strict backfill limits	TBD	TBD
	22	Shift all automated revenue collection and handling operations (AFC, money-room, card sales) to AFC vender	TBD	TBD
	23	Modernize procurement operations, leveraging outside parties to help optimize materials management	TBD	TBD
		TOTAL[2]	**128.3**	**191.5**
Policy decisions feasibility / implementation timeline TBD	24	Adjust service on lowest ridership, highest cost per-trip bus routes	TBD	TBD
	25	Bus maintenance reform: 10% cost reduction (outside firm currently working on recommendations)	TBD	TBD
	26	Bus maintenance reform: 20% cost reduction (outside firm currently working on recommendations) (incremental to #25)	TBD	TBD
	27	Bus maintenance reform: 30% cost reduction (outside firm currently working on recommendations) (incremental to #25, #26)	TBD	TBD

Draft for Policy & Policy Purposes Only

1 Run-rate annualized operating budget impact when the initiative is fully implemented. 2 One-time wage deferrals #13, #14, and #15 are cumulative.

Backup

Debt Service Payments are Split Roughly Evenly Between Principal and Interest

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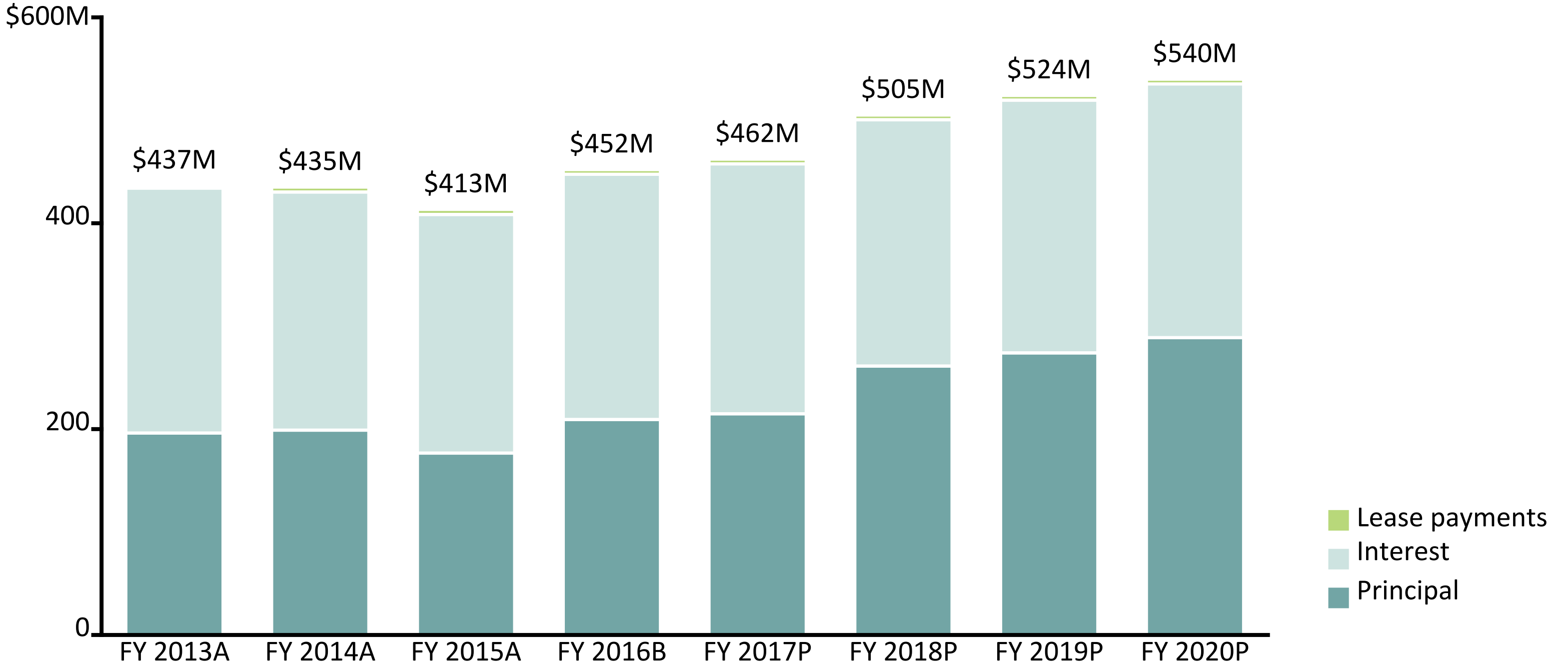
MBTA Annual Debt Service



Annual Growth (%)		-0.3%	-5.0%	9.4%	2.2%	9.3%	3.8%	3.0%

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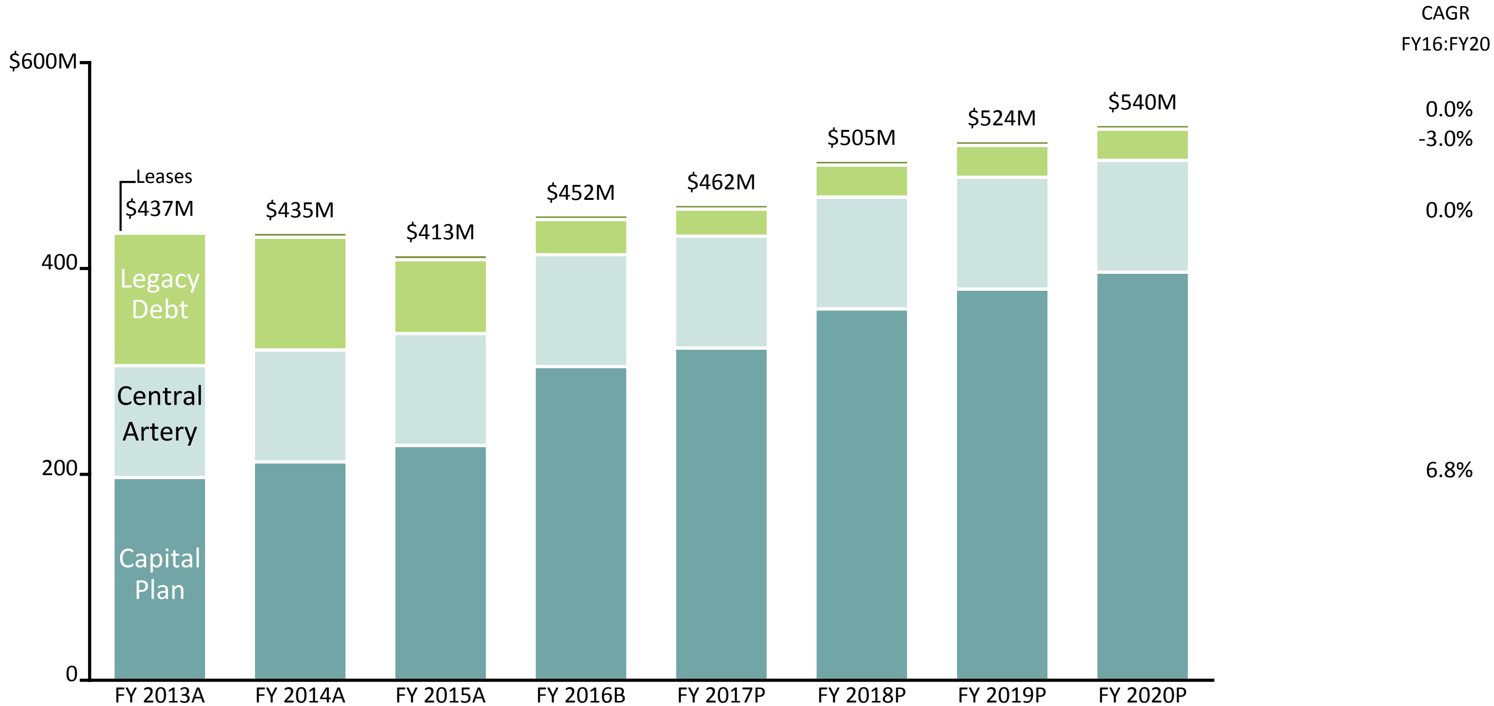
Debt Service Payments Split Between Debt for Capital Plan, Legacy Debt and Central Artery Debt

MBTA Annual Debt Service



	FY 2013A	FY 2014A	FY 2015A	FY 2016B	FY 2017P	FY 2018P	FY 2019P	FY 2020P
Legacy Debt	129	109	72	34	26	31	31	30
Central Artery	109	109	109	109	109	109	109	109
Capital Plan	197	212	228	305	323	361	380	396

Note: Central Artery Debt refers to Financing Related to the Big Dig Project. Legacy Debt refers to debt inherited at the start of Forward Funding.
Source: MBTA Internal Data

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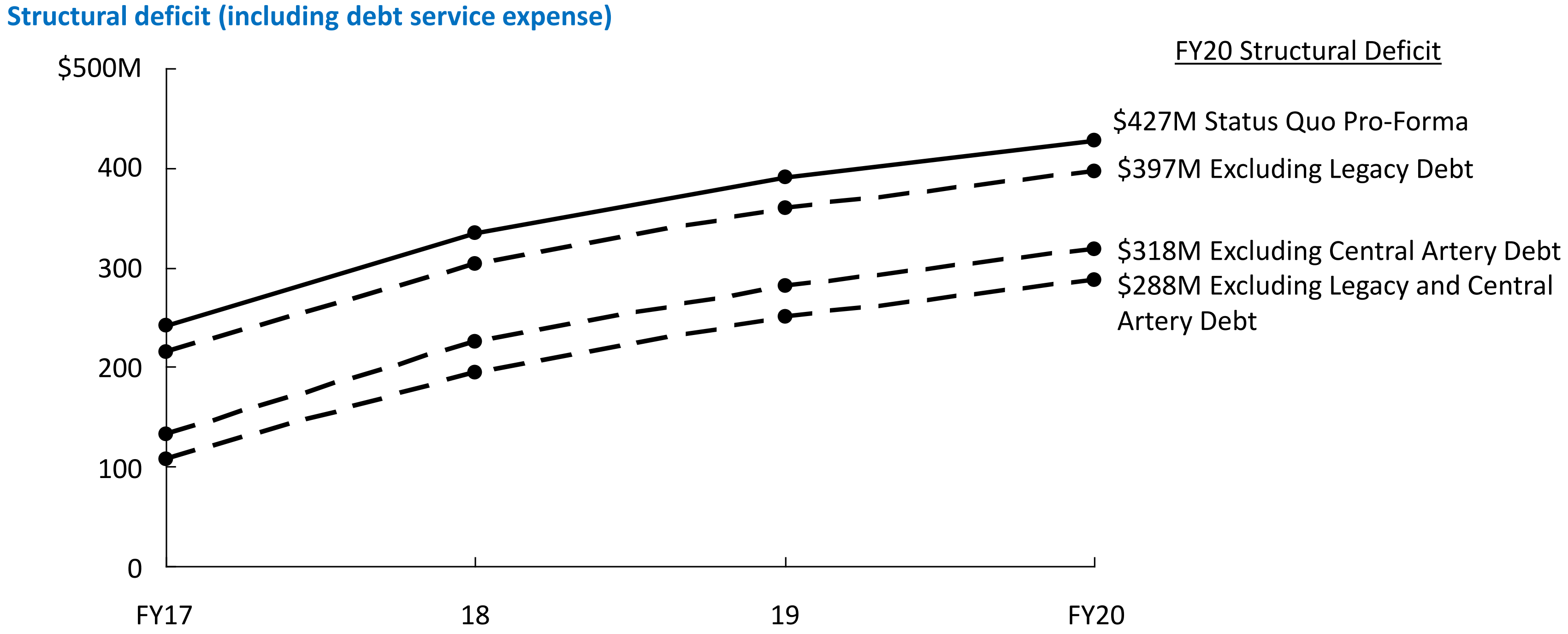
FY20 structural deficit if legacy debt, central artery debt, or both legacy and central artery debt are excluded

ILLUSTRATIVE – FOR DISCUSSION PURPOSES



Note: Central Artery Debt refers to Financing Related to the Big Dig Project. Legacy Debt refers to debt inherited at the start of Forward Funding. FY20 Structural Deficit totals in above slide based on assumptions in the status-quo pro-forma

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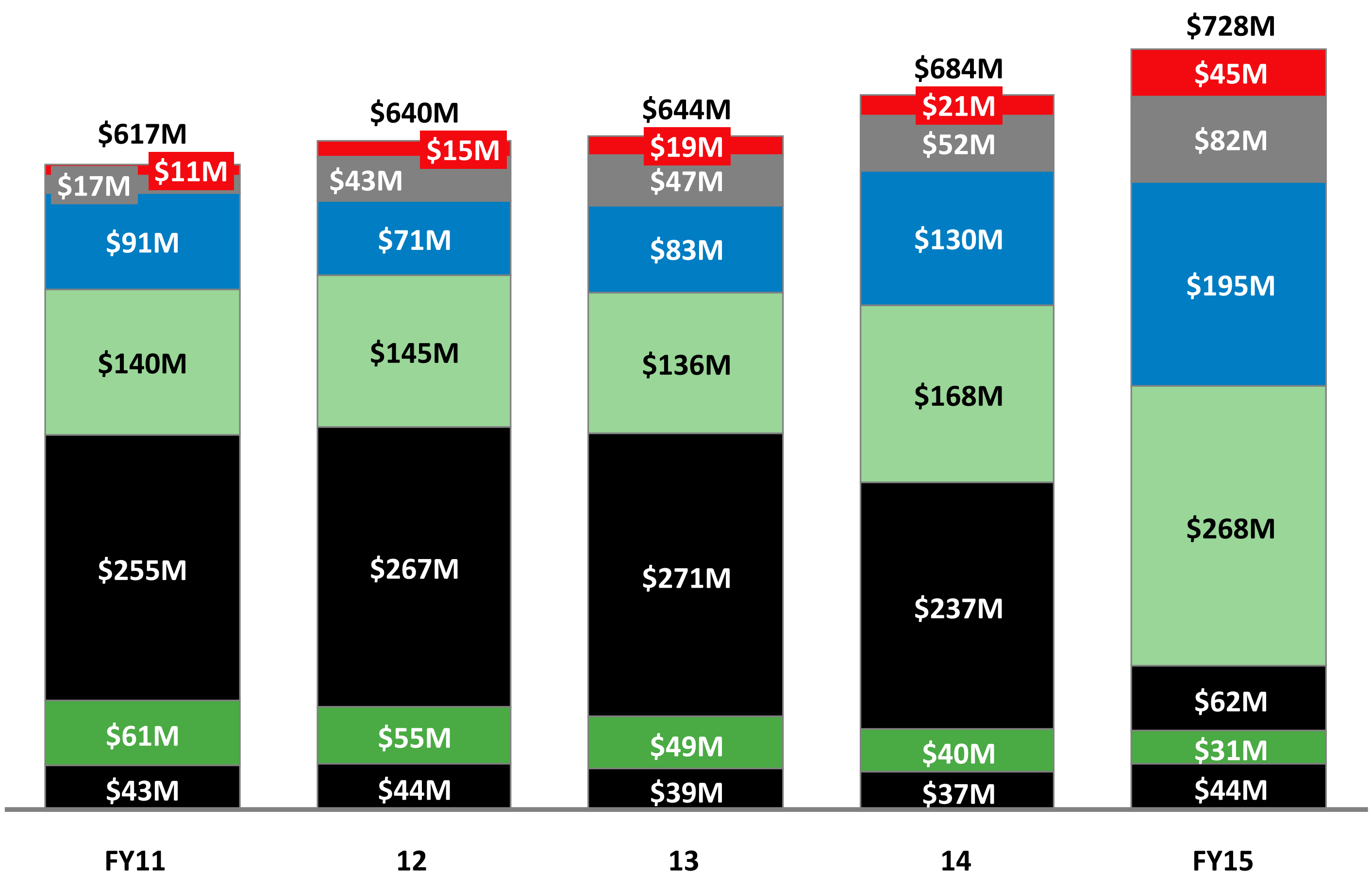
12/4/2015

Salary and benefits levels for MBTA FY11 – FY15

> $100k | $90-100k | $80-90k | $70-80k | $60-70k | $50-60k | < $50k

Wages and benefits paid by salary band[1,2]



1 Salary bands defined before benefits
2 Analysis based on salary bands each year as of July 1, as a proportion of total spending on wages and benefits reflected in the Statement of Revenue and Expenses

Revenue growth is projected at 1.8% FY15:FY20 in the status quo pro forma

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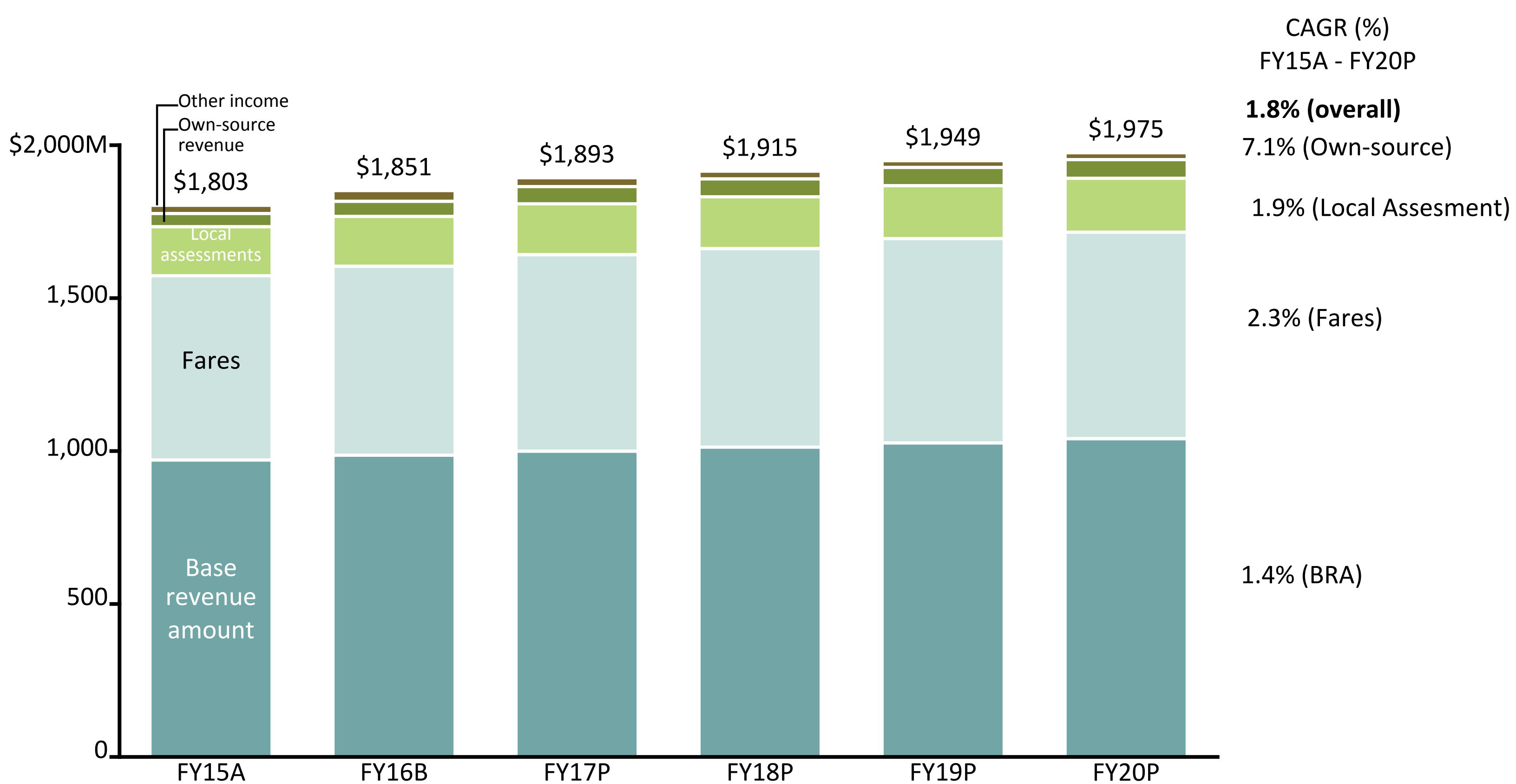

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