April 12, 2009

The Honorable William F. Welch  
Clerk of the Senate  
State House Room 335  
Boston, MA 02113

Re: Massachusetts Bay Transportation Authority's Efforts to Maximize Non-Transportation Revenue

Dear Mr. Welch:

Pursuant to section 11 of chapter 161A and the reporting requirements contained therein, the Massachusetts Bay Transportation Authority (MBTA or Authority) is pleased to provide an update on the Authority's efforts to maximize non-transportation revenue.

The Authority experienced a decrease of $11.4 million or 14% in non-transportation revenues in FY 2008 compared to FY 2007, as the Authority realized virtually no income from property sales due to the ongoing distress in the capital markets. This has resulted in several major projects delaying closing pending funding. In addition to property sales, the other components of the Authority's non-transportation revenue include advertising and concession revenue, revenue from real estate operations, and other non-operating income.

Advertising revenue totaled $12.9 million in FY 2008, an increase of 9% over FY 2007. Over the same period, revenue from real estate operations increased by 8% to $35.9 million. Unfortunately, the advertising market has contracted substantially over the past several months with transits across the country experiencing significant declines in advertising revenue. The MBTA is working with its advertising contractor to minimize the impact to revenues, but the prospects for an increase in advertising revenues over the near term are slim and a decrease below the minimum annual guarantee is a distinct possibility in FY 2009. Conversely, revenue from real estate operations, which includes parking but excludes property sales, is projected to increase 48% to $53 million in FY 2009, largely due to the increase in parking rates which went into effect in November 2008.

Although the uncertain economic climate had an adverse impact on advertising in general during FY 2008, the Authority was able to realize a $1.7 million increase above the vendor’s contractually guaranteed minimum revenue requirement. These revenue increases were initially expected to take place over a number of years, but the MBTA and its advertising vendor were successful in accelerating program expansion during FY 2007 and FY 2008. This growth will drive customer service.

Driven by Customer Service

Massachusetts Bay Transportation Authority, Ten Park Plaza, Boston, MA 02116-3974
not continue into FY 2009 due to the economic slowdown which is impacting the advertising industry particularly hard.

Although revenues from real estate operations were slightly higher in FY 2008 as compared to FY 2007, property sales were $12 million below FY 2007 levels. The market timing of several real estate projects resulted in lower real estate revenues for FY 2008. Continued poor market conditions for real estate development/land sales and long term leases are expected in FY 2009; however several valuable development projects are being prepared for sale or long term lease in order to be ready as soon as economic conditions improve. In addition, focus has been sharpened on other real estate opportunities such as the lease of new billboard locations and expansion of the bus shelter program, as well as ATM and telecommunications licenses. In addition, the Authority will continue to expand its overall effort to supplement fare revenue with non-fare revenues, as outlined below.

**Marketing**

The Authority received $12.9 million through its advertising contract with Titan Outdoor, Inc in FY 2008, the third year of this advertising contract. Although the contract with Titan Outdoor called for a $10.75 million minimally guaranteed payment in FY 2008, the Authority exceeded that amount. The contract’s minimum guarantee increases by $750,000 each year to a maximum of $16 million in FY 2015. More importantly, the Authority receives the greater of the minimum guarantee or 65% of net billings in each year. The Authority does not expect net billings to exceed the minimum guarantee during FY 2009. However, over the contract period there is still potential to exceed the minimum guarantee given the new initiatives and expansion opportunities available. The Authority continues to explore the installation of digital screens at subway stations which could result in significant new revenues. In addition to the contract with Titan Outdoor, the MBTA also receives guaranteed advertising revenue from Real Estate operations on its outdoor billboard contract with Clear Channel Outdoor Inc., sponsorship agreements with Van Wagner Outdoor, Clear Channel, and Westwood Development LLC, advertising on bus shelters with CEMUSA, Inc., and advertising at the North Station Parking Garage. The MBTA and its vendors have identified new locations to further expand the revenue base of that program by as much as $6 million annually.

The Authority also packaged three Silver Line stations (Airport, Courthouse, and World Trade Center) in a separate advertising contract focusing on new, high-end advertisements. This contract included a $5.6 million minimum guarantee and a similar split of revenue above the minimum.

**Real Estate and Parking**

The Authority generated $35.8 million in real estate operations revenues in FY 2008. The Authority anticipates generating $53 million in gross revenue in FY2009 from real estate operations and parking. Non-transportation revenue generated by the use of MBTA-owned real estate includes: sale, lease, and grant of easements of surplus parcels; leasing of land and buildings such as concession/vendor space, advertising, abutter uses, and telecommunication facilities; curing of encroachments, and licensing for the use of land and buildings such as outdoor advertising (billboards) and underground utilities/fiber optics.
Real Estate:

- Non-transportation revenue generated by the sale, lease, or licensing of MBTA-owned real estate has averaged over $18.8 million per year since forward funding was enacted (FY 2001 through FY 2008).

- Since forward funding was enacted, over 800 new leases and licenses have been granted bringing the current total annual rental income to almost $13 million. The disposition of Authority property, either by sale, long term lease, or easement, has generated an average of over $7.8 million in non-fare revenue annually.

- In January 2008, the MBTA expanded the ATM leasing program by adding 19 additional locations. Three different banks were awarded contracts as the highest bidder for assorted locations. The Authority will receive $426,400 annually in lease payments in the first year of the agreement, escalating by 2.5% per year for the duration of the five year term. The MBTA also receives $200,000 from ten ATM locations leased under existing agreements, bringing the total for the entire ATM leasing program to over $626,000. Additional ATM locations are currently being scouted in order to expand the program in FY2010.

- The MBTA has expanded its contract with Cemusa, Inc. for a bus shelter-advertising program. As part of this contract, approximately 400 bus shelters and bicycle racks will be installed and maintained by the end of CY 2009 with a value of $6 million at no cost to the MBTA. To date over 200 shelters have been installed. MBTA is also receiving 45% of gross advertising revenues from the bus shelter-advertising program for the MBTA-owned shelter sites and 22.5% of such revenue for the municipally owned shelter sites. This program adds to the MBTA’s bus shelter inventory, provides a needed amenity to the ridership, and helps the MBTA meet its Title VI obligations, while bringing additional revenue to the Authority.

- The MBTA recently awarded a license to Insight Wireless to implement a subway wireless system in its transit network. This service will build the technology to allow the use of wireless devices in tunnels, improving customer service and the safety and security of the system. This program produced a revenue stream of approximately $200,000 per year for phase one, which includes the four downtown stations. Phase two will roll out the service to the rest of the underground transit stations over the coming year and generate approximately $300,000.

- The Authority and its outdoor advertising contractor, Clear Channel, produce $1.2 million in revenue from existing outdoor advertising locations. The Authority and Clear Channel have also identified eight new locations which are currently under construction and will generate an additional $625,000 per year.

- A new sponsorship program on certain Authority owned real estate, such as parking garages, is contributing $1.53 million annually to non-fare revenue.

- In 2007, the Authority entered into a five year contract with Transit Realty Associates (TRA). This contract comprises leasing, licensing, sales, asset management and maintaining a GIS based property inventory database. Compensation is based on a fixed
base management fee plus transaction related commissions. Fees are paid net of real estate revenues and therefore do not affect MBTA overhead expenses.

To further maximize non-transportation revenue from the Authority’s real estate assets, additional efforts are planned in FY2009 and beyond. Those efforts include:

- Identifying new property sale and leasing opportunities including air rights over existing facilities and rights of way

- Working closely with other state agencies (MassHousing, MassDevelopment, MassHighway) to cultivate transit oriented development (TOD) projects

Parking:

The Authority entered into new parking contracts in FY 2008, changing the fundamental structure of the agreements. Under the prior structure, the vast majority of the Authority’s parking revenue was comprised of the annual fixed fee received from the parking vendor. Under the new structure, the Authority will pay the parking vendors a fixed management fee plus certain expenses and receive the parking revenue directly. The cumulative total cost of the six three-year contracts is $17.8 million, an annual expenditure of $5.9 million. Compensation is based on a fixed annual management fee and is paid from revenues generated by MBTA parking facilities.

In fiscal year 2008, parking facilities generated $20.1 million in gross receipts, not including expenses. This does not include the $4.8 million collected at the North Station garage which is managed under a separate agreement and has revenues driven by arena events as opposed to commuter parking. Parking revenues are expected to continue to grow during FY 2009, reflecting a parking rate increase put in place in November 2008, although a persistent economic slowdown could also adversely affect these revenues. Under the new parking management structure, the Authority will also be able to improve customer service by deploying technology advancements where appropriate across the parking system, such as the park-and-pay-by-phone pilot program currently underway on the Kingston commuter rail line. Over the long term, this should result in further increases in parking revenues collected.

Fiscal Efficiencies:

- Despite the unprecedented upheaval in the capital markets, the MBTA’s conservative financial management and resulting high credit ratings have allowed the Authority uninterrupted access to the capital markets to fund the capital program at relatively low interest rates. The Authority continues to actively manage its debt portfolio. Debt management includes defeasance of debt, refunding or restructuring prior debt and deploying hedge agreements used to manage certain financial uncertainties, such as the purchase of fuel.

- Credit rating agencies have continued to rate MBTA’s credit as one of the highest among transit properties in the country and the best in the Commonwealth (excluding the pooled loans). Underlying the high ratings are the Authority’s efforts in management efficiencies, including cost containment and savings on new contractual obligations.
High credit ratings are instrumental in obtaining lower borrowing costs and therefore reducing future debt service expenses.

In conclusion, the Authority will continue to explore every opportunity to achieve growth in non-transportation revenues. With the continued support from the MBTA Board of Directors, we expect to achieve the Authority’s goals and objectives for non-transportation revenues.

Sincerely,

Jonathan R. Davis
Deputy General Manager and
Chief Financial Officer