

MBTA Advisory Board
FY14 Massachusetts Bay Transportation Authority
Operating Budget Oversight Report

FINAL REPORT
TO THE MBTA ADVISORY BOARD

Offered by the
Finance Committee
March 29, 2013

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The MBTA Advisory Board is an independent statutory organization which represents the interests of the 175 cities and towns in the MBTA service district. Each year these municipalities contribute over \$155 million in subsidies to the MBTA via municipal assessments.

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MBTA FY14 Operating Budget						
			Δ \$	FY14 Budget	Δ %	Δ \$
REVENUE	FY12 Actual	FY13 Budget	FY12-FY13	Proposal	FY14-FY13	FY14-FY13
Operating Revenues						
Revenue from Transportation	465,755,373	536,860,339	71,104,966	570,175,579	6.2%	33,315,240
Other Operating Revenue	47,433,748	42,482,930	(4,950,818)	45,370,348	6.8%	2,887,418
Total Operating Revenue	513,189,121	579,343,269	66,154,148	615,545,927	6.2%	36,202,658
Non-Operating Revenues						
Dedicated Local Assessments	152,125,176	155,902,644	3,777,468	157,149,865	0.8%	1,247,221
Dedicated Sales Tax	781,072,865	786,866,938	5,794,073	799,295,175	1.6%	12,428,237
Contract Assistance	160,000,004	160,000,000	(4)	160,000,000	0.0%	0
Other Income	50,958,509	84,150,554	33,192,045	17,492,276	-79.2%	(66,658,278)
Total Non-Operating	1,144,156,554	1,186,920,136	42,763,582	1,133,937,316	-4.5%	(52,982,820)
TOTAL REVENUES	1,657,345,675	1,766,263,405	108,917,730	1,749,483,243	-1.0%	(16,780,162)
EXPENSES						
Operating Expenses						
Wages	410,179,988	415,212,218	5,032,230	432,027,270	4.0%	16,815,052
Fringe Benefits						
Pensions	61,663,982	65,326,526	3,662,544	70,120,826	7.3%	4,794,300
Healthcare	123,472,363	121,472,448	(1,999,915)	109,687,835	-9.7%	(11,784,613)
Group Life	1,046,683	807,539	(239,144)	702,045	-13.1%	(105,494)
Disability Insurance	53,682	46,048	(7,634)	13,459	-70.8%	(32,589)
Workers' Comp	9,704,584	10,352,124	647,540	10,313,118	-0.4%	(39,006)
Other Fringe Benefits	122,595	225,479	102,884	238,192	5.6%	12,713
Total Fringe Benefits	196,063,889	198,230,164	2,166,275	191,075,475	-3.6%	(7,154,689)
Payroll Taxes						
FICA	31,405,752	31,763,735	357,983	33,813,655	6.5%	2,049,920
Unemployment	2,019,832	1,915,645	(104,187)	1,892,886	-1.2%	(22,759)
Total Payroll Taxes	33,425,584	33,679,380	253,796	35,706,541	6.0%	2,027,161
Materials, Supplies and Services	194,469,689	202,060,879	7,591,190	226,042,330	11.9%	23,981,451
Casualty and Liability	16,453,326	11,435,693	(5,017,633)	15,728,736	37.5%	4,293,043
Purchased Commuter Rail Service	318,286,891	337,333,564	19,046,673	387,616,249	14.9%	50,282,685
Purchased Local Service Subsidy	118,198,408	125,727,144	7,528,736	130,304,026	3.6%	4,576,882
Financial Service Charges	5,498,809	5,560,000	61,191	5,990,000	7.7%	430,000
Total Operating Expenses	1,292,576,584	1,329,239,042	36,662,458	1,424,490,627	7.2%	95,251,585
Debt Service Expenses						
Interest	238,971,442	244,149,663	5,178,221	239,787,256	-1.8%	(4,362,407)
Principal Payments	113,383,407	187,281,197	73,897,790	198,982,899	6.2%	11,701,702
Lease Payments	10,251,400	5,593,504	(4,657,896)	5,057,079	-9.6%	(536,425)
Total Debt Service Expenses	362,606,249	437,024,364	74,418,115	443,827,234	1.6%	6,802,870
TOTAL EXPENSES	1,655,182,833	1,766,263,406	111,080,573	1,868,317,861	5.8%	102,054,455
Net Revenue	2,162,842	(1)		(118,834,618)		
Net Revenue in Excess of Expenses	(2,162,842)	1		(118,834,618)		
Revenue Recovery Ratio	43.6%	49.9%		44.4%		
Fare Recovery Ratio	36.0%	40.4%		40.0%		

1. BUDGET OVERVIEW

The MassDOT/MBTA Board of Directors met on March 13, 2013 to approve the preliminary FY2014 Budget and sent it to the MBTA Advisory Board for consideration. The FY14 budget increased overall spending at the MBTA 5.8% over FY13, with the majority of the additional spending coming in the Commuter Rail and the Materials, Supplies and Services line items. These two line items increase totaled \$74.3m. Wages also increased by \$16.8m (the pattern bargaining estimate) so these three items represent \$91 million out of the total \$102,054,457 increase in FY14 over FY13.

EXPENSES	FY12 Actual	FY13 Budget	FY14 Budget Proposal	Δ % FY14-FY13	Δ \$ FY14-FY13
Wages	410,179,988	415,212,218	432,027,270	4.0%	16,815,052
Materials, Supplies and Services	194,469,689	202,060,879	226,042,330	11.9%	23,981,451
Purchased Commuter Rail Service	318,286,891	337,333,564	387,616,249	14.9%	50,282,685
TOTAL EXPENSES	922,936,568	954,606,661	1,045,685,849	9.5%	91,079,188

The FY14 budget also reflects an expected drop of \$16.8m in revenues. The total shortfall expected in FY14 at the time of the Board's preliminary approval was \$118.8m.

REVENUE	FY12 Actual	FY13 Budget	FY14 Budget Proposal	Δ % FY14-FY13	Δ \$ FY14-FY13
TOTAL REVENUES	1,657,345,675	1,766,263,405	1,749,483,243	-1.0%	(16,780,162)
TOTAL EXPENSES	1,655,182,833	1,766,263,406	1,868,317,861	5.8%	102,054,455
			(118,834,618)		

The \$118.8m number was a marked improvement over the original estimate. The MBTA had found an additional \$20.3 in savings over last year's estimated of the FY14 budget deficit,

reducing the number from \$139.1m to \$118.8m. Some of that was due to the fact that the fare increase implemented last year did not decrease ridership to the extent expected. The MBTA also found savings in major line items, decreasing the original estimated increases in Wages, Materials Supplies and Services, and the Purchased Local Service Subsidy line items totaling \$37.7m. Mitigating these savings was, as in previous years, the poor performance of the Sales tax, which serves as the largest revenue stream supporting the MBTA.

Original Budget Deficit	139,093,357
Revenue Initiatives and Adjustments	5,215,775
Labor and Benefits Cost Containment	7,029,985
Other Cost Containment Initiatives	9,742,132
	21,987,892
Adjusted Budget Deficit	117,105,465

The MassDOT/ MBTA Board of Directors approved the FY14 budget at their meeting, acknowledging that the budget was \$118,834,618 out of balance and that they would be required to balance the budget with the tools they have in hand should the Legislature choose not to act on the MBTA's budget crisis. The MassDOT Board's Finance and Audit Committee met on March 5th and March 19th to discuss their options for a balanced budget. They are scheduled to meet one more time on March 28th before the full MassDOT Board meets in April to approve the final budget. The MBTA Advisory Board believes that the budget must be actually balanced; an estimated bailout based on action not yet approved by the Legislature cannot and should not be used to balance a budget on paper. The MassDOT Board seems to agree, and has hosted presentations on the options they control to balance the FY2014 budget. Members should know that the Finance committee's review is based on the document approved by the full MassDOT/MBTA Board of Directors, not on any of the discussions that took place in the MassDOT Board's Subcommittee.

The Finance Committee met three times with MBTA staff to discuss the budget. The Committee wishes to thank Jonathan Davis, Mary Runkel and the MBTA staff for their cooperation and help with this review.

1A. Revenue

REVENUE		FY12 Actual	FY13 Budget	FY14 Budget Proposal	Δ % FY14-FY13	Δ \$ FY14-FY13
	Revenue from Transportation	465,755,373	536,860,339	570,175,579	6.2%	33,315,240
	Other Operating Revenue	47,433,748	42,482,930	45,370,348	6.8%	2,887,418
	Dedicated Local Assessments	152,125,176	155,902,644	157,149,865	0.8%	1,247,221
	Dedicated Sales Tax	781,072,865	786,866,938	799,295,175	1.6%	12,428,237
	Contract Assistance	160,000,004	160,000,000	160,000,000	0.0%	0
	Other Income	50,958,509	84,150,554	17,492,276	-79.2%	(66,658,278)
TOTAL REVENUES		1,657,345,675	1,766,263,405	1,749,483,243	-1.0%	(16,780,162)

Overall revenue is expected to decrease by 1% over the FY13 budgeted amount. The major decrease comes from other income and is due to the fact that the MBTA Budget writers do not yet know what amount of additional assistance, if any, they can count on through the Legislative process.

1B. Expenses

EXPENSES		FY12 Actual	FY13 Budget	FY14 Budget Proposal	Δ % FY14-FY13	Δ \$ FY14-FY13
	Wages	410,179,988	415,212,218	432,027,270	4.0%	16,815,052
	Fringe Benefits	196,063,889	198,230,164	191,075,475	-3.6%	(7,154,689)
	Payroll Taxes	33,425,584	33,679,380	35,706,541	6.0%	2,027,162
	Materials, Supplies and Services	194,469,689	202,060,879	226,042,330	11.9%	23,981,451
	Casualty and Liability	16,453,326	11,435,693	15,728,736	37.5%	4,293,043
	Purchased Commuter Rail Service	318,286,891	337,333,564	387,616,249	14.9%	50,282,685
	Purchased Local Service Subsidy	118,198,408	125,727,144	130,304,026	3.6%	4,576,882
	Financial Service Charges	5,498,809	5,560,000	5,990,000	7.7%	430,000
	Debt Service Expenses	362,606,249	437,024,364	443,827,234	1.6%	6,802,870
TOTAL EXPENSES		1,655,182,833	1,766,263,406	1,868,317,861	5.8%	102,054,456

Expenses are also expected to increase by \$102 million, or 5.8%. Costs are projected to increase in nearly all categories except in fringe benefits, which is projected to decrease by \$71 million or 3.6%. The biggest increases come from Wages, Materials, and Commuter Rail Service line items. The patterning bargaining agreements, an increase in the operational costs of keeping older revenue vehicles in service and contracted increases in the Commuter Rail contract are the reasons for these increases.

2. DISCUSSION

2A. Revenue

2A-1: Operating Revenue

REVENUE	FY12 Actual	FY13 Budget	FY14 Budget Proposal	Δ % FY14-FY13	Δ \$ FY14-FY13
Operating Revenues					
Revenue from Transportation	465,755,373	536,860,339	570,175,579	6.2%	33,315,240
Other Operating Revenue	47,433,748	42,482,930	45,370,348	6.8%	2,887,418
Total Operating Revenue	513,189,121	579,343,269	615,545,927	6.2%	36,202,658

Operating revenues will increase by \$36.2 million (6.2%) against the FY13 budget. The increase in Transportation revenues is a combination of the fare increase from last year combined with a less than expected drop in Ridership. The trend from last year bucks the conventional wisdom that fare increases of a certain size result in Ridership drops of a certain percentage. The proposal assumes continued modest growth in MBTA riders.

2A-2: Non-Operating Revenue

REVENUE	FY12 Actual	FY13 Budget	FY14 Budget Proposal	Δ % FY14-FY13	Δ \$ FY14-FY13
Non-Operating Revenues					
Dedicated Local Assessments	152,125,176	155,902,644	157,149,865	0.8%	1,247,221
Dedicated Sales Tax	781,072,865	786,866,938	799,295,175	1.6%	12,428,237
Contract Assistance	160,000,004	160,000,000	160,000,000	0.0%	0
Other Income	50,958,509	84,150,554	17,492,276	-79.2%	(66,658,278)
Total Non-Operating	1,144,156,554	1,186,920,136	1,133,937,316	-4.5%	(52,982,820)

Non-operating revenues are budgeted to decrease by \$52.9 million (4.5 %) over FY13 amounts. Sales tax revenues will increase by only 1.6% instead of the expected 3% and Assessments will increase 0.8% instead of by 2.5% as in past years.

2B. Operating Expenses

2B-1: Wages

EXPENSES	FY12 Actual	FY13 Budget	FY14 Budget Proposal	Δ % FY14-FY13	Δ \$ FY14-FY13
Operating Expenses					
Wages	410,179,988	415,212,218	432,027,270	4.0%	16,815,052

Wages are budgeted to increase by 4% over FY13 amounts. 4 unions recently settled their contracts for 0%, 3%, 2%, and 2% increases per year, retroactive to FY11.

2B1-2: Headcount

HEADCOUNT	FY13 Budget	FY14 Proposal	Δ % FY14-FY13	Δ \$ FY14-FY13
Department				
Operating	5,590	5,876	5.1%	286
Operating	5,243	5,373	2.5%	130
Capital	347	503	45.0%	156
Administrative	489	517	5.7%	28
Operating	489	517	5.7%	28
Capital	0	0	0.0%	0
Design and Construction	178	221	24.2%	43
Operating	3	3	0.0%	0
Capital	175	218	24.6%	43
Total Headcount	6,257	6,614	5.7%	357

The FY14 budgeted headcount is 6,614. While this is more than FY13's actual amount, it is only a 5.7% increase. As the graph above shows, almost all of the increases are in operations. We are told that almost all are related to the need to keep older revenue vehicles in service.

2B-3: Fringe Benefits

EXPENSES	FY12 Actual	FY13 Budget	FY14 Budget Proposal	Δ % FY14-FY13	Δ \$ FY14-FY13
Operating Expenses					
Fringe Benefits					
Pensions	61,663,982	65,326,526	70,120,826	7.3%	4,794,300
Healthcare	123,472,363	121,472,448	109,687,835	-9.7%	(11,784,613)
Group Life	1,046,683	807,539	702,045	-13.1%	(105,494)
Disability Insurance	53,682	46,048	13,459	-70.8%	(32,589)
Workers' Comp	9,704,584	10,352,124	10,313,118	-0.4%	(39,006)
Other Fringe Benefits	122,595	225,479	238,192	5.6%	12,713
Total Fringe Benefits	196,063,889	198,230,164	191,075,475	-3.6%	(7,154,689)

Fringe benefit costs are projected to decrease by \$7.1 million in FY14 over FY13. Group life insurance and disability insurance costs have been decreasing over the years.

2B3-1: Health Insurance

Health insurance costs continue to decline from the MBTA due to the greater purchasing power of the GIC (Group Insurance Commission). The budget assumed that all Authority employees will have transitioned to the GIC by October 1, 2013.

2B3-2: Pensions

The MBTA makes contributions to the independent MBTA Retirement Fund which pays the pensions of MBTA retirees. The MBTA's operating budget does not pay retirees directly. The amount paid by the Authority as the employer contribution, and the amount employees pay is set

by union contracts. Under the formula set in this contract, the amount paid will increase in FY14 by 7.3%.

2B-4: Payroll Taxes

EXPENSES	FY12 Actual	FY13 Budget	FY14 Budget Proposal	Δ % FY14-FY13	Δ \$ FY14-FY13
Payroll Taxes					
FICA	31,405,752	31,763,735	33,813,655	6.5%	2,049,920
Unemployment	2,019,832	1,915,645	1,892,886	-1.2%	(22,759)
Total Payroll Taxes	33,425,584	33,679,380	35,706,541	6.0%	2,027,161

Payroll taxes will increase due to the expected increase in wages.

2B-5: Other Operating Costs

EXPENSES	FY12 Actual	FY13 Budget	FY14 Budget Proposal	Δ % FY14-FY13	Δ \$ FY14-FY13
Materials, Supplies and Services	194,469,689	202,060,879	226,042,330	11.9%	23,981,451
Casualty and Liability	16,453,326	11,435,693	15,728,736	37.5%	4,293,043
Purchased Commuter Rail Service	318,286,891	337,333,564	387,616,249	14.9%	50,282,685
Purchased Local Service Subsidy	118,198,408	125,727,144	130,304,026	3.6%	4,576,882
Financial Service Charges	5,498,809	5,560,000	5,990,000	7.7%	430,000
TOTAL EXPENSES	652,907,123	682,117,280	765,681,341	12.3%	83,564,061

Spending in this category is projected to rise by 12.3% over FY13 amounts, driven by contracted increases to provide commuter rail, and paratransit service.

2B5-1: Materials, Supplies, and Services (MSS)

This line item includes costs for postage, copier rental and supplies, utilities for MBTA property, contract cleaning, GreenDOT initiatives, rent for 10 Park Plaza, uniforms plus gasoline, diesel, CNG, traction electricity, and jet fuel for all MBTA revenue vehicles it directly operates. This cost is certain to rise in the coming years as the fleet continues to age and no new vehicles are on order.

2B5-2: Casualty & Liability Insurance

The Authority's insurance products are competitively bid via an RFP process. The amount is projected to increase in FY14, but is still lower than FY12. Tort cap savings included in FY13 budget are not realized here.

2B5-3: Purchased Commuter Rail Services

The \$50.3 million increase is due to the following conditions: \$18 million for 4.95% increase in fixed price for contract extension; \$15.6 million for track maintenance on the Worcester Line; \$9 million for mobilization costs for the new contract; \$4.6 million for fuel; and \$3 million for all other expenses.

2B5-4: RIDE

There is an increase of \$6.1 million based upon a 10% increase in ridership and RIDE vendor contract prices.

2C. Debt Service

EXPENSES	FY12 Actual	FY13 Budget	FY14 Budget Proposal	Δ % FY14-FY13	Δ \$ FY14-FY13
Debt Service Expenses					
Interest	238,971,442	244,149,663	239,787,256	-1.8%	(4,362,407)
Principal Payments	113,383,407	187,281,197	198,982,899	6.2%	11,701,702
Lease Payments	10,251,400	5,593,504	5,057,079	-9.6%	(536,425)
Total Debt Service Expenses	362,606,249	437,024,364	443,827,234	1.6%	6,802,870

Debt service increases a nominal amount this year with all of the increase going to increased principal payments. It is good to have a relative one-year reprieve from the spiral of increasing debt costs; however this is just a blip in the overall debt service cost structure. 25% of your available resources continue to be too high a percentage for total debt service. The decision that the MBTA can only use its bonding authority to match annual federal grants slows the growth of the MBTA indebtedness but it also increases the MBTA's State of Good Repair backlog. The heavy debt burden the MBTA carries continues to handcuff the Authority.

3. PROPOSED GAP FUNDING

The MassDOT Board's budget has a number plugged into it that assumes action by the Massachusetts Legislature. The \$118m assumption is a hope that the Governor's proposal will pass and that the options that are truly available to the MBTA, budget cuts, service reductions and fare increases, will not be necessary. The MassDOT Board's Subcommittee on Audit and Finance has met since the Board approved the FY14 budget to discuss some of these options and here how they could be implemented. While additional savings can be found in the FY14 proposal, they are not without a long term cost. The "low hanging fruit" in budget reductions are long gone.

Gap Funding: One Time	
Preventive Maintenance Funds (Eliminates T-GAPS)	45,000,000
Projected FY13 Operating Budget Surplus	12,904,796
Defer Contribution of OPEB Liability	5,000,000
Deferred North Station Income	5,000,000
Property Sales	4,500,000
Legal Settlement	3,100,000
	75,504,796
Budget Deficit	117,105,465
Adjusted Budget Deficit after Gap Funding	41,600,669

Source: MBTA

The graph above represents a possible set of further reductions that MBTA could pursue. It is the choice of desperation; it effectively reduces critical capital spending by \$45m, sells off property, and pushes payments into future years. It makes next year's budget deficit worse and puts us further behind in the efforts to catch up with our State of Good Repair capital needs. It is all the proof an observer should need that the only real solution is a Legislative one.

4. CONCLUSIONS

In the past when the MBTA has proposed to close a budget deficit with a fare increase, the Advisory Board had required them to reduce the proposed line item budget, implement the fare increase and submit a Supplemental Budget after the increase had gone into effect. We felt that this was an approach that reflected the difficulty of getting a fare increase as proposed through the entire process. It also gave a clear indication of what would happen to the service if a fare increase was not implemented. Since that time, many things have changed. The Authority has proposed and implemented many fare increases successfully. The Advisory Board has lost the final approval power over the MBTA's budget, eliminating a key public oversight. But at least

the public knew for sure what was coming. Under this proposal, they do not.

The MassDOT Board should approve a budget that has, as a contingency, the schedule for bring a fare increase and/or service reductions sufficient to close their budget deficit. That schedule should include all of the major milestones to conclude the process by mid to late autumn. The lack of this contingency increases the time necessary to go through the public process and implement the changes should they become necessary. Significant delays lead directly to larger fares increases and greater service cuts. The MBTA must act before too much of the new fiscal year passes.

The Advisory Board has come up with solid revenue reductions proposals in the past and we again call for certain costs that the MBTA now absorbs to be moved to Agencies that are more appropriate. We continue to request that the MassDOT Board of Directors support the transfer of the MBTA Transit Police into the State Police. The MBTA service area is half of the Commonwealth's Communities. The efficiency of protection over such a large area being provided by a single entity is a significant benefit to all of the people of the Commonwealth. We projected to savings to the MBTA over a ten year period at \$453,252,316. Having said that, we believe that the State Police would then have access to transportation based federal grants for Homeland Security.

We called for the transfer of Private Carrier, Suburban Bus costs and Ferries to another more appropriate MassDOT entity. The MBTA is at its best when it is focused on traditional transit operations. Over the last ten years, these services have been constantly threatened by fiscal problems at the MBTA. Public reaction to the proposed changes of these services, especially

ferries, has generated a great deal of public outcry. But the fact remains that they don't compare with the core operations of the MBTA in terms of scope or usage. We propose that the rail and transit division of MassDOT, and not the MBTA be responsible for these functions. It would have the added benefit of giving other coastal communities that are seeking federal or other funding for ferries an office at MassDOT to work with whose scope is broader than the MBTA.

The Advisory Board has called for other beneficiaries of transit services to share the burdens as well as the benefits. These options should be looked at not just because there is a funding crisis, but because it is fair.

We all hope that the Legislature implements that long awaited fix to the MBTA finances. We hope that fare increase and service cuts two years in a row will not be necessary. We hope that the MBTA will not cannibalize its budget for the future to solve a problem in the present. Most of all, we want to finally, after a decade of crisis, make real progress towards a modern, reliable and affordable MBTA that can truly serve the needs of the almost two thirds of Massachusetts citizens who live in its service area.