

**PRELIMINARY REPORT
TO THE MBTA ADVISORY BOARD**

MBTA FISCAL YEAR 2006

SUPPLEMENTAL BUDGET REQUEST #1

AND

**BUDGET TRANSFER
REQUEST#1**

Submitted by the

MBTA Advisory Board Finance Committee

February 17, 2006

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PREFACE

The MBTA Advisory Board Finance Committee transmits the enclosed report for your consideration.

The committee wishes to thank the MBTA for their efforts in responding to requests for supporting documentation and attending committee meetings.

The committee also acknowledges the work of the Advisory Board staff who have provided invaluable budget analysis for the Committee.

FY2006 SUPPLEMENTAL BUDGET #1

Recommendation

The Finance Committee recommends approval of the MBTA's FY2006 Supplemental Budget Request #1 as submitted to the Advisory Board on February 2, 2006 as follows:

Materials, Supplies and Services Line Item Expansion:

| <u>FY2006 Budget</u> | <u>Supplemental Request</u> | <u>FY2006 Adjusted Budget</u> |
|----------------------|-----------------------------|-------------------------------|
| \$128,666,020 | \$7,534,920 | \$136,200,940 |

Review of Requested Action

The supplemental is requested for the Materials, Supplies and Services line item to help cover higher than expected expenses in fuel (\$7.7m), utilities (\$3.9m) and elevator/escalator maintenance (\$1.8m). Despite underspending in miscellaneous materials purchases of \$4.3m, a line item transfer of \$1.6m (discussed in the following section) and the requested line item expansion of \$7.5m are necessary to cover the expenses.

The steep increase in the cost of fuel and electricity, which is largely out of the MBTA's control, is the main reason for the increased expenditure in this line item. While the Authority has a fixed price electricity contract in place for the majority of its demand, some loads throughout the system were not large enough to be covered by this contract and are purchased at retail price, which ran 40% higher than budgeted as of December 2005.

The MBTA periodically uses fuel and natural gas hedges to protect itself from large fluctuations and try to lock in a low price. Despite these efforts, the fuel and gas costs have been significantly higher than could be expected during the FY2006 budget preparations (natural gas costs currently run 60% higher than budgeted).

The MBTA projects an increase in non-operating revenue that is sufficient to cover the cost of the supplemental budget. The added revenue is projected to come in from higher than anticipated property sales, an additional \$2m of federal maintenance funds that were not used in the last fiscal year and more than \$800k in FEMA funding assistance received during this fiscal year for the January 2005 snow storm. The Authority assured the Finance Committee that these funds would be available. As a result of the expected increase there will be no change in the projected budget deficit of \$10.5m.

FY2006 BUDGET TRANSFER REQUEST #1

Recommendation

The Finance Committee recommends approval of the MBTA's FY2006 Budget Transfer Request #1 among the line items within the Fiscal Year 2006 Budget, as submitted to the Advisory Board on February 2, 2006 as follows (see Appendix A):

| Uses of Funds | Supplemental FY2006 Budget | Requested FY2006 Transfer #1 Budget | Variance |
|----------------------------------|---|--|---------------------|
| Fringe Benefits | \$145,301,558 | \$147,179,940 | \$1,878,381 |
| Materials, Supplies, Services | \$136,200,940 | \$137,786,432 | \$1,585,492 |
| Commuter Rail | \$211,770,719 | \$215,619,026 | \$3,848,307 |
| Local Service | \$49,042,971 | \$50,107,891 | \$1,064,920 |
| Debt Service Principal | \$108,303,186 | \$111,407,268 | \$3,104,082 |
| Debt Service Lease Payments | \$17,089,013 | \$17,695,108 | \$606,095 |
| TOTAL Use of Funds | | | \$12,087,277 |

| Sources of Funds | Supplemental FY2006 Budget | Requested FY2006 Transfer #1 Budget | Variance |
|-----------------------------------|---|--|----------------------|
| Payroll Taxes | \$27,407,052 | \$27,319,289 | -\$87,763 |
| Financial Service Charges | \$1,801,000 | \$1,728,960 | -\$72,040 |
| Debt Service Interest | \$219,625,294 | \$207,697,820 | -\$11,927,474 |
| TOTAL Sources of Funds | | | -\$12,087,277 |

Review of Requested Action

The MBTA is seeking Advisory Board approval to transfer \$12,087,277 from the source line items to the uses lines listed above.

Sources of Funds

The \$11.9m in interest expense savings are due to several factors listed below with the associated savings:

- Refunding of \$833.5m in bonds at lower interest rate -\$8.7m
- Paying off \$9.6m in 1998 series C bonds -\$1.0m
- Lower interest cost for commercial paper program -\$0.8m
- Lower interest rate for 1999 variable rate bond -\$1.4m

Payroll taxes are projected to be lower than budgeted due to a decrease in unemployment expenses and financial service charges will come in slightly lower due to newly negotiated contracts on the Authority's 1999 and 2000 variable rate bonds and \$200m commercial paper program.

Uses of Funds

Purchased Commuter Rail Expenses increased by \$3,848,307 primarily due to higher fuel costs than budgeted.

Purchased Local Services require an additional \$1,064,920 due to revenue shortfalls and operating expense increases on Commuter Boat (\$630,195), higher fuel costs and higher ridership affecting THE RIDE (\$283,978) and a contract increase with Paul Revere Transit for provision local bus service in Winthrop (\$150,747). The price increase in the contract with Paul Revere Transit is largely due to the steep increases in fuel costs.

Materials, Supplies and Services require funds beyond the supplemental \$7.5m to cover higher than budgeted elevator/escalator maintenance costs as well as higher electricity and traction power costs.

Fringe Benefits increased by \$1,878,381 as a result of the Authority's contribution rate to the Main Retirement Fund increasing from 9.8% to 10.4% effective July 1, 2005. The MBTA's contribution fluctuates based on a 5-year rolling average of the market valuation of the fund's assets and the poor market performance during the last few years is responsible for the increase in the MBTA's share. The employee share remains stable at the 4% negotiated through the collective bargaining process.

Debt Service Principal Payments are projected to be \$3,104,082 than budgeted due to the aforementioned refundings as well as a new assessment bond issue over \$425m to fund the capital program.

Debt Service Lease Payments increased by \$606,095 following the closing of a ten-year lease for three Kawasaki commuter rail cars.

Final Note

The need for the supplement as well as a large portion of the line item increases are due to unexpectedly high fuel and energy costs during this fiscal year as well as an increase in the MBTA's contribution rate to the Main Retirement Fund. Both expenses are largely out of the Authority's control, particularly in the short run, as they fluctuate with market conditions.

The MBTA creatively took advantage of refunding and leasing opportunities to ameliorate the impact of the increased expenditures. Additionally there are signs of improvement in the latest absenteeism numbers, signaling a commitment to cutting operating costs wherever possible.