

**FINAL REPORT
TO THE MBTA ADVISORY BOARD
MBTA FISCAL YEAR 2007 BUDGET REQUEST**

Submitted by the
MBTA Advisory Board Finance Committee

May 30, 2006

FINAL REPORT
TO THE MBTA ADVISORY BOARD
MBTA FISCAL YEAR 2007 BUDGET REQUEST

Submitted by the
MBTA Advisory Board Finance Committee

May 30, 2006

FINANCE COMMITTEE MEMBERS

Mr. Vineet Gupta
Boston

Mr. Joseph Melican
Dover

Ms. Jane O'Hern
Newton

Mr. George Bailey
Sharon

Ms. Sharon Wason
Walpole

Ms. Marcia Crowley
Wayland

Ms. Geraldine R. Scoll
Weston

Mr. Robert Guttman
Beverly

Mr. John Buckley
Abington

Mr. Richard Leary
Brookline

ADVISORY BOARD STAFF

Mr. Paul Regan
Executive Director

Ms. Ulla Hester
Budget and Policy Analyst

Ms. Deborah Gaul
Executive Assistant

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 has provided invaluable budget analysis for the Committee.

**Massachusetts Bay Transportation Authority
Statement of Revenue and Expense
FY2007 Budget Request**

Moved: MBTA Advisory Board approval of the MBTA FY 2007 Budget submitted March 9, 2006 for Total Revenues of \$1,344,005,598 and Total Expenses of \$1,348,739,971 as detailed below.

REVENUE	FY2006 (After 2/02/06 Transfer) Budget	FY2007 Budget Request	Advisory Board Suggested Changes	FY2007 Approved Budget
Operating Revenues				
Rapid Transit Revenue	147,500,000	165,937,500	-	165,937,500
Commuter Rail Transit Revenue	106,500,000	119,812,500	-	119,812,500
Surface Transit Revenue	75,000,000	84,375,000	-	84,375,000
School, Senior, and Paratransit Revenue	5,000,000	5,625,000	-	5,625,000
Advertising and Concession Revenue	9,649,064	15,083,500	-	15,083,500
Revenue from Real Estate Operations	30,424,322	33,895,475	-	33,895,475
Total Operating Revenues:	374,073,386	424,728,975	0	424,728,975
Non-Operating Revenues				
Interest Income	3,579,345	2,937,709	-	2,937,709
Non-Operating Income	25,227,861	33,364,334	-	33,364,334
Funds from the Federal Government	10,884,751	8,000,000	-	8,000,000
Utility Reimbursements	1,724,201	1,583,729	-	1,583,729
Total Non-Operating Revenues:	41,416,158	45,885,772	0	45,885,772
Revenue from Dedicated Sources				
Funds from Local Governments	136,026,868	139,427,540	-	139,427,540
Revenue Receipts from Sales Tax Trust	712,585,739	733,963,311	-	733,963,311
Total Dedicated Revenues:	848,612,607	873,390,851	0	873,390,851
Total Revenues:	1,264,102,151	1,344,005,598	0	1,344,005,598
EXPENSES				
Operating Expenses				
Wages	343,313,908	354,756,887	-	354,756,887
Fringe Benefits				
Pensions	40,852,906	48,646,761	-	48,646,761
Healthcare	94,024,588	99,691,389	-	99,691,389
Group Life	1,514,616	1,614,616	-	1,614,616
Disability Insurance	66,153	63,819	-	63,819
Workers' Comp	10,431,263	10,662,999	-	10,662,999
Other Fringe Benefits	290,414	290,414	-	290,414
Total Fringe Benefits	147,179,939	160,969,998	0	160,969,998
Payroll Taxes				
FICA	26,263,514	27,138,902	-	27,138,902
Unemployment	1,055,775	1,136,612	-	1,136,612
Total Payroll Taxes	27,319,289	28,275,514	0	28,275,514
Materials, Supplies, and Services	137,786,432	145,371,819	-	145,371,819
Casualty & Liability	14,713,614	15,713,614	-	15,713,614
Purchased Commuter Rail Expenses	215,619,026	223,729,831	-	223,729,831
Purchased Local Service Expenses	50,107,891	54,771,505	-	54,771,505
Financial Service Charges	1,728,960	1,728,960	-	1,728,960
Total Operating Expenses:	937,769,060	985,318,129	0	985,318,129
Debt Service Expenses				
Interest (All)	207,697,820	235,309,978	-	235,309,978
Principal Payments (All)	111,407,268	110,297,178	-	110,297,178
Lease Payments (All)	17,695,108	17,814,686	-	17,814,686
Total Debt Service Expenses:	336,800,196	363,421,842	0	363,421,842
Total Expenses:	1,274,569,255	1,348,739,971	0	1,348,739,971
NET REVENUE/(EXPENSE)	(10,467,104)	(4,734,373)	0	(4,734,373)
TRUST ACCOUNTS				
Deficiency Fund	10,467,104	4,734,373	-	4,734,373
Capital Maintenance Fund				
Net Surplus/(Deficit)	0	0	0	0

*Includes FY2006 February Supplement and Transfer #1

1. BUDGET OVERVIEW

The Request

On March 9th 2006, the MBTA presented its FY 2007 Budget Request to the Full Advisory Board. CFO and Deputy General Manager Jonathan Davis outlined a budget that projected total expenses of \$1,348,739,971 and revenues of \$1,344,005,598.

MBTA FY 2007 Revenues

Operating Revenues	\$ 424,728,975
Non-Operating Revenues	45,885,772
Assessments	139,427,540
Sales Tax Revenues	733,963,311
Total	\$1,344,005,598

Projected revenues are \$79.9 million higher than in FY 2006 and reflect a 25% fare increase going into effect on January 1, 2007 as well as a significant increase in non-operating income, particularly revenues from property sales. While the operating and non-operating revenue figures are projections, both the Assessments and the Sales Tax Revenue figures have been certified by the State.

The Authority is seeking a net increase of \$74,170,716 over last year's total expense budget. While Debt Service Expenses are increasing by \$26,621,646 the Operating Budget is increasing by \$47,549,069 over FY 2006. The FY 2007 Operating Budget changes are in the following areas:

MBTA FY 2007 Operating Budget Increase Request

Wages and Payroll Taxes	\$12,399,204	26.07% of the increase
Commuter Rail Expenses	8,110,805	17.06%
Pensions	7,793,855	16.39%
Materials, Supplies, Services	7,585,387	15.95%
Healthcare	5,666,801	11.92%
Local Service Expense	4,663,614	9.81%
Casualty and Liability	1,000,000	2.10%
Other Fringe Benefits	329,403	.69%
Total	47,549,069	

The Debt Service Budget shows a significant increase in interest payments, a drop in principal payments and a slight increase in lease payments.

MBTA FY 2007 Debt Service Budget Request

	FY 2006	FY 2007	Inc/(Dec)
Interest	\$207,697,820	235,309,978	27,612,158
Principal	111,407,268	110,297,178	(1,110,090)
Leases	17,695,108	17,814,686	119,578
Total	\$336,800,196	363,421,842	26,621,646

FY 2007 is the second year since forward funding in which the Authority is experiencing a budget shortfall, which the Authority proposes to cover with \$4.73 million from the Deficiency Fund. The MBTA was hoping to be able to reduce spending to reduce the FY06 shortfall, but dramatic increases in fuel and energy costs and elevator/escalator maintenance costs as well as very modest increases in dedicated revenues left them unsuccessful. The Authority received only a 1.1% increase in the Base Revenue Amount for sales tax revenue, local assessments declined by \$1.7m while revenue is showing moderate growth of 2.5% for the first half of FY06. The MBTA is committed to looking for ways to cut operating expenses further while maintaining the current level of service and continuing ongoing efforts to improve service reliability and system accessibility. Finally, the request supports the Authority's ongoing contractual and statutory obligations and funds debt service in support of the Capital Investment Program.

Note:

Unless specifically mentioned, all noted variances are based on the FY 2006 Approved Transfer/Supplemental Budget, not the original FY 2006 Approved Budget included in the March 9th, 2006 Request. Pertinent line-item data is included by section to illustrate and clarify the FY 2006 budget changes and how those changes affect the variances for FY 2007.

The Review Process

The Finance Committee met four times to consider the Authority's budget request. Staff of the MBTA, including the CFO, Budget Director and Chief Operating Officer met with the Committee to present their departmental needs and answer questions. As in past years, the Finance Committee was provided all of the requested budget review materials and additional information, and would like to thank the Authority for the timeliness and quality of those items.

2. DISCUSSION

Revenue

FY 2007 Revenues are projected to exceed FY 2006 Revenues by approximately \$80 million, or 6.8%. Operating Revenues are expected to increase by \$50.7 million. The majority of that increase is due to a mid-year fare increase and additional revenue collected through automated fare collection yielding a total of \$41.7 million as well as increases in advertising revenue of \$5.4 million and revenue from real estate operations of \$3.5 million. The revenue model used to calculate the total revenue obtained from the fare increase takes into account a slight ridership decrease due to higher fares. The revenue recovery ratio after the fare increase will be 48%, closer than ever to the national median of 55% and the Blue Ribbon Commission's recommendation of 50%. The MBTA Advisory Board will prepare a more detailed analysis of the proposed fare increase separately from the FY 2007 budget review.

Advertising revenue is coming in lower than initially expected in FY 2006 as the proposed video advertising in subway trains turned out to be infeasible. The MBTA is continuing to actively seek out new advertising opportunities to achieve the FY 2007 revenue goal.

	FY 2006	FY 2007	Variance	% Variance
Pre-Supplement Farebox Revenue	330,140,901	375,750,000	45,609,099	13.82%
FY 2006 Approved Supplement	3,859,099	-	-	
Post-Supplement Farebox Revenue	334,000,000	375,750,000	41,750,000	12.50%
Pre-Supplement Advertising Revenue	15,063,500	15,083,500	20,000	0.13%
FY 2006 Approved Supplement	(5,414,436)	-	-	
Post-Supplement Advertising Revenue	9,649,064	15,083,500	5,434,436	56.32%
Pre-Supplement Real Estate Operations	33,475,675	33,895,475	419,800	1.25%
FY 2006 Approved Supplement	(3,051,353)	-	-	
Post-Supplement Real Estate Operations	30,424,322	33,895,475	3,471,153	11.41%

Total non-operating revenues are increasing by \$4.5 million, mainly due to \$15 million from the sale of the Bulfinch Triangle property parcels (included in the non-operating income line item) and the programming of \$8 million in federal operating assistance. Interest income will be lower than in FY 2006 when it included \$2 million from a Kawasaki coach lease that is no longer active.

	FY2006	FY2007	Variance	% Variance
Pre-Supplement Interest Income	4,166,458	2,937,709	(1,228,749)	-29.49%
FY2006 Approved Supplement	(587,113)	-	-	
Post-Supplement Interest Income	3,579,345	2,937,709	(641,636)	-17.93%
Pre-Supplement Non-Operating Income	16,308,089	33,364,334	17,056,245	104.59%
FY2006 Approved Supplement	8,919,772	-	-	
Post-Supplement Non-operating Income	25,227,861	33,364,334	8,136,473	32.25%

Pre-Supplement Federal Funds	8,000,000	8,000,000	0	0.00%
FY 2006 Approved Supplement	2,884,751		-	
Post-Supplement Federal Funds	10,884,751	8,000,000	(2,884,751)	-26.50%
Pre-Supplement Utility Reimbursements	800,000	1,583,729	783,729	97.97%
FY 2006 Approved Supplement	924,201		-	
Post-Supplement Utility Reimbursements	1,724,201	1,583,729	(140,472)	-8.15%

Dedicated Revenues will increase by \$24.8 million, which includes a 2.5% (\$3.4 million) increase in Local Assessments plus a 3% increase in Sales Tax Revenue receipts (\$21.4 million).

Net Operating Investment Per Passenger Mile (NOIPPM)

Massachusetts General Law set the net operating investment per passenger mile ratio as a measure of the efficiency of Authority operations by evaluating the proportion of operating expenses covered by system revenues. The goal set by the legislation is a ratio of not more than \$.20 for any fiscal year beginning in FY 2006 without reducing service levels or raising fares. Since FY2002 however, NOIPPM has been increasing instead of decreasing:

FY 2002	\$0.239
FY 2003	\$0.250
FY 2004	\$0.256
FY 2005	\$0.292
FY 2006 (Estimated)	\$0.294
FY 2007 (Estimated)	\$0.295 ¹

The increase is primarily due to very limited ridership and operating revenue growth in FY06 following several years of flat or declining fare revenues that began in the Fall of 2001, minimal growth in dedicated revenues due to the weak economy and large increases in operating expenses and debt service. It is important to note that NOIPPM continues to rise despite the substantial fare increase.

Operating Expense

Headcount, Wages, Fringe Benefits, Pensions

The Authority is requesting an additional \$26.2 million over the FY 2006 budget to cover increases in wage and fringe benefits costs. Healthcare costs are rising by 6% over the FY 2006 post-transfer budget, an increase of \$5.7 million, and the first single-digit healthcare cost increase in several years. The MBTA will try to address health insurance expenses in union negotiations as well as in other ways, such as investigating a prescription drug plan that could save the Authority money while maintaining the same benefits levels for employees and retirees.

¹ Source: MBTA Estimates based on National Transit Database Report/Methodology

	FY 2006	FY 2007	Variance	% Variance
Pre-Transfer Fringe Benefits	145,301,558	160,969,998	15,668,440	10.78%
FY 2006 Approved Transfer	1,878,382	-	-	
Post-Transfer Fringe Benefits	147,179,940	160,969,998	13,790,058	9.37%
Pre-Transfer Payroll Taxes	27,407,052	28,275,514	868,462	3.17%
FY 2006 Approved Transfer	(87,763)	-	-	
Post-Transfer Payroll Taxes	27,319,289	28,275,514	956,225	3.50%

Pension obligations on the other hand will grow by \$7.8 million from the post-transfer FY 2006 budget, a 19.1% increase. The increase is due to a rising number of retirees eligible to receive pension (from 5,604 in FY 2005 to 5,846 in FY 2006) and relatively poor stock market performance of the pension plan's assets. The MBTA's pension liability is determined through actuarial valuation, which calculates the pension fund's market value based on a 5-year moving average. The difference between total pension liability and the asset's actuarial valuation determines the MBTA's contribution rate for the coming year. In FY 2007, the employer contribution rate will be 10.3961% of payroll compared to 9.8261% in FY 2006 and 5.9161% in FY 2005. Employee contributions will remain at 4% as negotiated as part of the collectively bargained pension agreement. Because the pension fund's valuation is based on a 5-year average, the MBTA's pension liabilities are likely to continue to grow in the future, as several years of excellent stock market performance are necessary to decrease the MBTA's contribution rate (see below).

31-Dec	Market Value
2004	\$1,670,314,233
2003	\$1,595,166,573
2002	\$1,431,483,029
2001	\$1,781,792,722
2000	\$1,978,324,284

An additional \$.9 million will be required for payroll taxes for statutory Social Security and unemployment costs and \$1 million are necessary to fund the 4% collectively bargained wage increase for the Building and Trade unions due on July 1, 2006.

The remainder of the requested increase in Wages (\$10.4 million) covers 183 additional positions. Total Wages assume no wage increases for FY 2007. After decreasing the headcount in FY 2006 the MBTA requests the following increases in FY 2007: 66 positions for Systemwide Modernization/Automated Fare Collection (AFC) to facilitate the successful implementation and operation of the new fare collection system, 36 positions in bus operations to reduce currently high overtime levels, 29 positions in Subway in large part to cover more frequent Green Line service from Government Center to Lechmere, 9 positions for the new Customer Care Center, 6 positions for Operations Support, 5 in Systemwide Maintenance and Improvements, and 3 for the Chief Operating Officer Staff.

The Authority is attempting to curb overtime which has grown dramatically over the last 5 years in terms of total numbers as well as percentage of total wages. The attempt has led to a 6% reduction

YTD for FY 2006 from FY 2005, however, the total numbers are still significantly higher than budgeted. Below is a comparison of Overtime Wages as part of Total Wages for the last 6 years. The FY 2006 number is a projection as of 2/17/06.

	<i>FY2001</i>	<i>FY2002</i>	<i>FY2003</i>	<i>FY2004</i>	<i>FY2005</i>	<i>FY2006</i>
<i>Overtime</i>	15,175,426	17,707,752	17,601,405	25,135,290	36,888,940	34,606,137
<i>% of total Wages</i>	5.21%	5.75%	5.65%	8.54%	10.94%	10.08%

Absenteeism

The MBTA has made measurable progress in reducing absenteeism during calendar years 2005 and 2004 compared to prior years. Average days absent (for any reason, paid & unpaid) decreased from a high of 21.62 in CY 2003 to 15.76 in CY 2005. Despite this progress, in CY 2005, 13.8% of the workforce has been absent for more than 30 days and 35.6% of the workforce falls into the category of excessive absenteeism, defined as absent for 9 days or more a year by the MBTA. Like any average the average number of absences listed above is skewed by legitimate cases of long-term absenteeism due to severe illness or maternity leave, for example. However, the high percentage of employees absent for more than 30 days suggests that some abuse might be taking place as well.

In April of 2005, the MBTA introduced a new attendance policy which contained few major changes, but signaled a renewed commitment to enforcing existing policies. Based on feedback from union officials, employees, supervisors and managers, the policy was refined again in order to effectively target attendance abusers. During the last year the Authority has also introduced hand scanners for attendance tracking and educated managers and frontline employees. The new policy, which is described in detail in the MBTA Advisory Board's most recent Absenteeism report dated March 2, 2006, went into effect on 01/09/06.

A study by Watson Wyatt conducted in 2001 suggested that the Authority could incur direct and indirect cost savings of \$2.5 million by implementing an absence management program. Although the Authority did not hire an outside consultant, the study provides a useful benchmark in what magnitude of savings should be possible for the MBTA to achieve by reducing its absenteeism levels significantly.

Year	Average days absent
1997	15.95
1998	15.24
1999	15.42
2000	16.47
2001	20.50
2002	21.44
2003	21.62
2004	17.35
2005	15.76

While the Advisory Board acknowledges the MBTA's recent successes in addressing absenteeism, the numbers above suggest that additional savings are not only possible, but necessary. It is difficult to quantify the savings without a more in-depth study, but in times of budget shortfalls a reduction in absenteeism and the related costs should be a priority for the Authority. After creating a universally accepted policy, the MBTA must place the utmost importance on enforcement and continuous monitoring at all management levels.

Materials, Supplies, and Services

While fuel, power and energy costs make up over one third of the pre-supplemental budget increase, the new card stock for the automated fare collection system is responsible for the largest increase (\$6 million). Other increases include \$3 million for the elevator/escalator maintenance contract and an additional \$1 million in tires. If fuel costs continue to rise beyond current levels, it is possible that the budgeted amount will not be sufficient to cover actual costs. In order to address that, the Authority is working with its energy advisors to determine whether it makes sense to lock in prices.

	FY 2006	FY 2007	Variance	% Variance
Pre-Supplement Materials, Supplies, Services	128,666,020	145,371,819	16,705,799	12.98%
FY 2006 Approved Supplement	7,534,920	-	-	
FY 2006 Approved Transfer	1,585,492	-	-	
Post-Supplement & Transfer Materials, Supplies, Services	137,786,432	145,371,819	7,585,387	5.51%

Purchased Commuter Rail Expenses

The requested FY 2007 commuter rail budget is \$8.1m or 3.8% higher than the FY 2006 post-transfer budget. The increases are due to a \$6.4 million contractual fixed price increase as well as higher fuel costs.

	FY 2006	FY 2007	Variance	% Variance
Pre-Transfer Purchased Commuter Rail	211,770,719	223,729,831	11,959,112	5.65%
FY 2006 Approved Transfer	3,848,307	-	-	
Post-Transfer Purchased Commuter Rail	215,619,026	223,729,831	8,110,805	3.76%

MCBR's on-time performance has improved slightly compared to FY2005 increasing from 91.83% to 91.92%. The goal is 95% and MBCR is fined for each late train due to preventable delays (\$100 during rush hour, \$50 off-peak). Revenue has been running higher than budgeted Year-to-date for FY 2006. While quarterly counts show some ridership increases, the revenue increase also reflects that MBCR is doing a better job collecting fares on the trains. Mean Miles Between Failure show a positive trend (above 8400 since 2005), but still fall short of the goal of 10,700.

Purchased Local Service Expenses

Purchased Local Service Expenses are increasing by \$4.7 millions from the post-transfer FY 2006 budget. With a budget of \$49,933,023, The RIDE accounts for most of the Purchased Local Services Expenses as well as the majority of the increase (\$4.2 million or 9.1% more than the projected FY 2006 numbers). The increase has several reasons including higher fuel, wages and insurance costs, an increase in ridership and an annual adjustment of the contract amount for inflation.

	FY 2006	FY 2007	Variance	% Variance
Pre-Transfer Purchased Local Services	49,042,971	54,771,505	5,728,534	11.68%
FY 2006 Approved Transfer	1,064,920	-	-	
Post-Transfer Purchased Local Services	50,107,891	54,771,505	4,663,614	9.31%

All RIDE vehicles are now GPS equipped to allow for vehicle tracking and real-time data access. The investments have paid off as complaints are down by 12 – 15% from last year.

The MBTA continues to evaluate and introduce programs to move riders from The RIDE to the regular system. Travel training is currently offered and the Authority hopes to be able to implement a pass program later this year.

Debt Service

The MBTA currently carries approximately \$8.1 billion of total debt, including \$5.2 billion in principal and \$2.9 billion in interest. In FY 2007 that translates into budgeted debt service expenses of \$363,421,842, almost \$27m more than in FY 2006. While principal payments are expected to decrease slightly, interest payments increase significantly by 13.3% from the post-transfer FY 2006 budget or 7% from the pre-transfer budget.

The Authority plans on issuing \$280 million of new bonds this year. The budget proposal assumes the bond issue in January with a swap currently in place to lock in the interest rate. MBTA staff is currently evaluating whether it would be advantageous to issue the bonds sooner than that and what the potential impact on the FY 2007 budget would be.

	FY 2006	FY 2007	Variance	% Variance
Pre-Transfer Interest	219,625,294	235,309,978	15,684,684	7.14%
FY 2006 Approved Transfer	(11,927,474)	-	-	
Post-Transfer Interest	207,697,820	235,309,978	27,612,158	13.29%
Pre-Transfer Principal Payments	108,303,186	110,297,178	1,993,992	1.84%
FY 2006 Approved Transfer	3,104,082	-	-	
Post-Transfer Principal Payments	111,407,268	110,297,178	(1,110,090)	-1.00%
Pre-Transfer Lease Payments	17,089,013	17,814,686	725,673	4.25%
FY 2006 Approved Transfer	606,095	-	-	
Post-Transfer Lease Payments	17,695,108	17,814,686	119,578	0.68%

The MBTA constantly re-evaluates its debt portfolio in search of ways to decrease overall debt service expenses. The financing plan adopted after the passage of forward funding sought to reduce the debt load and its impact on the annual budget by building a “Pay As You Go” Capital Maintenance fund. Excess revenues would be used to reduce dependence on bond funds and ultimately reduce the total debt load. However, the Authority has not been able to execute its plan to contribute a percentage of net revenue to the Capital Maintenance Fund due to slower than expected revenue growth under forward funding. Consequently, it has not been able to decrease its debt burden and continues to carry debt service expenses of 27% of its operating budget.

3. Recommendations

The Committee examined the budget submission very closely. With the Authority facing a significant deficit and a fare increase, the Finance Committee wanted to make a strong statement that the Authority needed to live within its means. As Debt Service expenses, Materials, Supplies & Services, Fringe Benefits and Purchased Service expenses are largely governed by potent market forces that are out of the Authority's control or contractual arrangements that cannot be changed in the near-term, the Finance Committee focused on the potential of savings in the wage line item. We hoped that there could be a way to find savings in the personnel costs associated with Automated Fare Collection (AFC), but a seamless and smooth roll out of AFC is absolutely critical to maximizing the impact of the fare increase. Implementing a new fare system with new fare media and equipment has the potential to be a confusing and expensive experience. AFC, which the Advisory Board has actively supported for years, needs to be a success and the Authority needs the tools and personnel to make it successful. The Authority needs to quickly and smoothly familiarize the transit riding public with the new system if all are to reap the benefits of AFC. The issues raised at the MBTA's fare increase workshops indicate that the riding public has questions about the new system and the Authority needs to give their customers the information necessary to ensure the success of AFC.

Another area the Committee examined was the Authority's stated goal of reducing overtime by hiring additional staff. The Finance Committee had supported a policy of encouraging overtime as opposed to increasing staff to keep the Authority focused on its pension and health insurance expenses. This year the Authority advocated increasing staff in Bus Operations and other areas to directly address overtime. They argued that the overtime cost was excessive and the scope of the overtime was negatively affecting the productivity of the work force. The Finance Committee looked to compare the costs of staffing service with overtime and staffing the service with new hires and found them roughly equal. Experience indicates that the Authority is unlikely to fill all of the positions they requested, especially given that the MBTA is hundreds of positions under its budgeted headcount today. However, the Committee recommends that the MBTA be given the ability to hire new employees in AFC and operations so that it can attempt to reduce overtime costs and improve service reliability. At the same time the Advisory Board urges the Authority to continue to work on reducing absenteeism in order to curb overtime expenses. The MBTA Advisory Board will be monitoring the overtime reduction efforts very closely.

In order to ensure the success of the AFC implementation it is critical that the Authority plan for ways to address potential fare evasion in the new system. While statistics are not available, anecdotal evidence shows that the partial introduction of automated fare collection has unmasked a high level of fare evasion -- and resulting revenue loss -- in the old system and is preventing some of it from taking place in the future. However, people will find ways to beat the system unless fare collection is enforced and fare evaders are ticketed by MBTA police. The MBTA Advisory Board suggests that this function be specifically added to the job description of MBTA police officers and that they actively patrol the system, particularly the bus system, to deter riders from evading fares and to issue tickets to those who attempt to do so. In these critical financial times, the MBTA cannot afford to tolerate fare evasion. A concerted effort to punish fare evasion might also enhance the Authority's public image.

The proposed fare increase, necessary to generate an additional \$70 million annually to reduce the operating budget deficit will surely invoke outrage in riders and a number of state elected officials. They will demand that the Authority outline what specific benefits riders or communities will receive in return for the increased prices. They should know that there will be no expansions of hours of operations or area served. The crushing debt burden the Authority inherited with Forward Funding will absorb almost every penny of the fare increase in the form of increased debt service. The Authority will continue to face rising fuel costs, rising retirement costs, rising wages, rising fringe benefit costs without the

resources to address them, because the bond holders get paid first. If rising gasoline prices drive an increase in ridership, the Committee fears that the Authority will not have the resources to accommodate their new customers. Raising fares is merely a temporary solution that will close the budget gap in FY 2007 but will not address the problem of slow sales tax revenue growth and increasing debt service expenses that is expected to persist in the future.

Relieving the debt burden of the MBTA is beyond the purview of the MBTA Advisory Board. But we have called for the Governor and the Legislature to act on this critical issue in the past. News media report that others are taking up the call as well. Now it is not merely the fiscal watchdogs, but real estate interests, environmentalists and customers that are demanding that this issue be addressed. It is clearer to more and more people that the regional economy is dependent on a reliable transit system. As the MBTA cannot continue to fill that role while burdened by its current debt load, the first step is to acknowledge that all of the mitigation costs for the Central Artery Project, past and future, should be borne by the Commonwealth. This should include all completed projects currently funded by the MBTA as well as Greenbush. The second step must be to restructure the funding for capital projects such that going forward the percentage of debt service as part of the operating budget can be limited to 15% (compared to the 27% in the FY 2007 budget). We need to begin that process now, so that the goal of a 15% limit on debt service can be achieved before the MBTA falls further into this spiral of unsupportable debt growth. The Governor and the Legislature must act quickly before the fifth largest transit system in America becomes so starved for operating funds that it prices the most transit dependent out of the system or decreases service to the point that it no longer meets the needs of commuters.