

**FINAL REPORT  
TO THE MBTA ADVISORY BOARD  
MBTA FISCAL YEAR 2008 BUDGET REQUEST**

Submitted by the  
MBTA Advisory Board Finance Committee

May 24, 2007

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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 its efforts in responding to requests for supporting documentation and for attending committee meetings.

The committee also acknowledges the invaluable budget analysis the Advisory Board staff has provided in preparation for this report.

Massachusetts Bay Transportation Authority  
Statement of Revenue and Expense  
FY2008 Budget Request

Moved: MBTA Advisory Board approval of the MBTA FY 2008 Budget for Total Revenues of \$1,412,757,430 and Total Expenses of \$1,412,021,300 with the changes detailed below.

<u>REVENUE</u>	<u>FY2007 Approved Budget</u>	<u>FY2008 Budget Request</u>	<u>Advisory Board Suggested Changes</u>	<u>FY2008 Approved Budget</u>
<b>Operating Revenues</b>				
Rapid Transit Revenue	165,937,500	195,442,118	-	195,442,118
Commuter Rail Transit Revenue	119,812,500	138,096,083	-	138,096,083
Surface Transit Revenue	84,375,000	90,624,543	-	90,624,543
School, Senior, and Paratransit Revenue	5,625,000	5,936,439	-	5,936,439
Advertising and Concession Revenue	15,083,500	11,000,000	-	11,000,000
Revenue from Real Estate Operations	33,895,475	37,362,808	-	37,362,808
<b>Total Operating Revenues:</b>	<b>424,728,975</b>	<b>478,461,991</b>	<b>0</b>	<b>478,461,991</b>
<b>Non-Operating Revenues</b>				
Interest Income	2,937,709	3,800,000	-	3,800,000
Non-Operating Income	33,364,334	20,800,000	-	20,800,000
Funds from the Federal Government	8,000,000	8,000,000	-	8,000,000
Utility Reimbursements	1,583,729	2,800,000	-	2,800,000
<b>Total Non-Operating Revenues:</b>	<b>45,885,772</b>	<b>35,400,000</b>	<b>0</b>	<b>35,400,000</b>
<b>Revenue from Dedicated Sources</b>				
Funds from Local Governments	139,427,540	142,913,229	-	142,913,229
Revenue Receipts from Sales Tax Trust	733,963,311	755,982,210	-	755,982,210
<b>Total Dedicated Revenues:</b>	<b>873,390,851</b>	<b>898,895,439</b>	<b>0</b>	<b>898,895,439</b>
<b>Total Revenues:</b>	<b>1,344,005,598</b>	<b>1,412,757,430</b>	<b>0</b>	<b>1,412,757,430</b>
<b>EXPENSES</b>				
<b>Operating Expenses</b>				
Wages	354,756,887	360,553,683	<b>(2,040,480)</b>	358,513,203
Fringe Benefits				
<i>Pensions</i>	48,646,761	48,729,488	-	48,729,488
<i>Healthcare</i>	99,691,389	108,106,413	-	108,106,413
<i>Group Life</i>	1,614,616	1,714,381	-	1,714,381
<i>Disability Insurance</i>	63,819	63,820	-	63,820
<i>Workers' Comp</i>	10,662,999	10,829,028	-	10,829,028
<i>Other Fringe Benefits</i>	290,414	290,414	-	290,414
Total Fringe Benefits	160,969,998	169,733,543	<b>0</b>	<b>169,733,543</b>
Payroll Taxes				
FICA	27,138,902	27,578,958	<b>(156,078)</b>	27,422,880
Unemployment	1,136,612	1,133,214		1,133,214
Total Payroll Taxes	28,275,514	28,712,171		<b>28,556,094</b>
Materials, Supplies, and Services	145,371,819	164,796,729	<b>(1,000,000)</b>	163,796,729
Casualty & Liability	15,713,614	16,235,693	-	16,235,693
Purchased Commuter Rail Expenses	223,729,831	241,619,981	-	241,619,981
Purchased Local Service Expenses	54,771,505	57,537,130	-	57,537,130
Financial Service Charges	1,728,960	1,728,960	-	1,728,960
<b>Total Operating Expenses:</b>	<b>985,318,129</b>	<b>1,040,917,890</b>	<b>(3,196,558)</b>	<b>1,037,721,333</b>
<b>Debt Service Expenses</b>				
Interest (All)	235,309,978	229,305,914	-	229,305,914
Principal Payments (All)	110,297,178	126,200,476	-	126,200,476
Lease Payments (All)	17,814,686	18,793,577	-	18,793,577
<b>Total Debt Service Expenses:</b>	<b>363,421,842</b>	<b>374,299,967</b>	<b>0</b>	<b>374,299,967</b>
<b>Total Expenses:</b>	<b>1,348,739,971</b>	<b>1,415,217,857</b>	<b>(3,196,558)</b>	<b>1,412,021,300</b>
<b>NET REVENUE/(EXPENSE)</b>	<b>(4,734,373)</b>	<b>(2,460,427)</b>	<b>(3,196,558)</b>	<b>736,130</b>

## 1. BUDGET OVERVIEW

### The Request

On April 3<sup>rd</sup> 2007, the MBTA presented its Fiscal Year 2008 budget request to the Full Advisory Board. CFO and Deputy General Manager Jonathan Davis outlined a budget that projected total expenses of \$1,415,217,857 and revenues of \$1,412,757,430. The FY 2008 budget request is 4.9% higher than the FY 2007 approved budget.

#### **MBTA FY 2008 Revenues**

Operating Revenues	\$ 478,461,991
Non-Operating Revenues	35,400,000
Assessments	142,913,229
<u>Sales Tax Revenues</u>	<u>755,982,210</u>
<b>Total</b>	<b>\$1,412,757,430</b>

Projected operating revenues are \$53.7 million higher than budgeted in FY 2007 and reflect the full year impact of the fare increase that went into effect on January 1, 2007. Non-operating revenues are projected to be \$10.5 million lower than budgeted for FY07. Assessment revenues will increase by \$3.5 million while Sales Tax Receipts will be \$22 million higher than in FY07. Both the Assessments and the Sales Tax Revenue figures have been certified by the State.

The Authority is seeking a net increase of \$66,477,886 over last year's total expense budget. This includes an increase in Debt Service Expenses by \$10,878,125 and an Operating Budget increase by \$55,599,761 over FY 2007. The FY 2008 Operating Budget changes are in the following areas:

#### **MBTA FY 2008 Operating Budget Increase Request**

Materials, Supplies, Services	19,424,910	34.9% of total increase
Commuter Rail Expenses	17,890,150	32.2%
Healthcare	8,415,024	15.1%
Wages and Payroll Taxes	6,233,453	11.2%
Local Service Expense	2,765,625	5.0%
Casualty and Liability	522,079	0.9%
Other Fringe Benefits	265,795	0.5%
<u>Pensions</u>	<u>82,727</u>	<u>0.1%</u>
<b>Total</b>	<b>55,599,763</b>	

The Debt Service Budget grows by a total of \$10.9 million.

#### **MBTA FY 2008 Debt Service Budget Request**

	<b>FY 2007</b>	<b>FY 2008</b>	<b>Inc/(Dec)</b>
Interest	235,309,978	229,305,914	(6,004,064)
Principal	110,297,178	126,200,476	15,903,298
<u>Leases</u>	<u>17,814,686</u>	<u>18,793,577</u>	<u>978,891</u>
<b>Total</b>	<b>363,421,842</b>	<b>374,299,967</b>	<b>10,878,125</b>

FY 2008 is the third year since forward funding in which the Authority is budgeting a deficit, which the Authority proposes to cover with \$2.46 million from the Deficiency Fund.

**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 2008 revenues are projected to exceed FY 2007 budgeted revenues by a total of \$68.8 million or 5.1%. Operating revenues represent \$53.7 million of that increase, with farebox revenue increasing by \$54.3 million and other operating revenues decreasing by \$616,167. \$35 million of the increase in farebox revenues is due to the fare increase that went into effect in the middle of Fiscal Year 2007, \$6.5 million is the expected fare revenue from the Greenbush line, which will start service in September of 2007, and \$12.8 million are expected to result from curtailed fare leakage and ridership growth. The revenue recovery ratio (calculated as operating and non-operating income divided by operating expenses) will reach 49.4%, the closest it has ever been to the Blue Ribbon Commission's recommendation of 50%. That calculation does not take into account debt service costs.

The reduction in advertising revenues reflects market conditions. The MBTA expects to off-set this decrease with an increase in real estate operations, largely due to increased parking fees in certain locations.

	<b>FY2007</b>	<b>FY2008</b>	<b>Variance</b>	<b>% Variance</b>
Farebox Revenue	375,750,000	430,099,183	54,349,183	14.46%
Advertising Revenue	15,083,500	11,000,000	(4,083,500)	-27.07%
<u>Real Estate Operations</u>	<u>33,895,475</u>	<u>37,362,808</u>	<u>3,467,333</u>	<u>10.23%</u>
<i>Total Operating Revenue</i>	<i>424,728,975</i>	<i>478,461,991</i>	<i>53,733,016</i>	<i>12.65%</i>

Total non-operating revenues are \$10.5 million lower than budgeted in FY 2007. Although interest income is expected to be higher and utility reimbursements are higher due to higher market rates, property sales are expected to be significantly lower than budgeted in FY 2007. At the time this report is being written, it is unclear how close the Authority will get to reaching its property sales goal for FY 2007, as the Bulfinch parcel has not and may not close. The result of such failure could seriously jeopardize the Non-Operating Income and hence Total Revenues for FY 2007.

	<b>FY2007</b>	<b>FY2008</b>	<b>Variance</b>	<b>% Variance</b>
Interest Income	2,937,709	3,800,000	862,291	29.35%
Non-Operating Income	33,364,334	20,800,000	(12,564,334)	-37.66%
Federal Funds	8,000,000	8,000,000	0	0.00%
Utility Reimbursements	1,583,729	2,800,000	1,216,271	76.80%
<u>Total Non-Operating Revenue</u>	<u>45,885,772</u>	<u>35,400,000</u>	<u>(10,485,772)</u>	<u>-22.85%</u>

Dedicated Revenues will increase by \$25.5 million, which includes a 2.5% (\$3.5 million) increase in Local Assessments plus a 3% increase in Sales Tax Revenue receipts (\$22 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. It is calculated by deducting the MBTA's own-source revenue (fare and non-fare revenue) from its operating expenses and dividing the resulting net investment by the number of passenger miles). 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. From FY 2002 to FY 2006 however, NOIPPM has been getting farther away from that goal by increasing steadily from \$0.239 in FY02 to \$0.298 in FY06. FY 2007 shows the first drop to a projected \$0.271 and both FY08 and FY09 are estimated to be at similar levels. The recent decrease in NOIPPM is a reflection of increased fare revenue resulting from the FY07 fare increase and curtailed fare leakage as well as stable ridership levels.

**Operating Expense**

*Fringe Benefits and Pensions*

The MBTA is expecting an increase in Fringe Benefits of \$8.8 million or 5.44%, most of which is attributable to Healthcare expenses rising by 8.44% or \$8.4 million.

	<b>FY2007</b>	<b>FY2008</b>	<b>Variance</b>	<b>% Variance</b>
Pensions	48,646,761	48,729,488	82,727	0.17%
Healthcare	99,691,389	108,106,413	8,415,024	8.44%
Group Life	1,614,616	1,714,381	99,765	6.18%
Disability Insurance	63,819	63,820	1	0.00%
Workers' Comp	10,662,999	10,829,028	166,029	1.56%
Other Fringe Benefits	290,414	290,414	0	0.00%
<i>Total Fringe Benefits</i>	<i>160,969,998</i>	<i>169,733,543</i>	<i>8,763,545</i>	<i>5.44%</i>

The MBTA's contribution to the main pension fund will be almost unchanged from FY 2007. While the number of retirees eligible to receive pension increased (from 5,626 at the end of Calendar Year 2005 to 5,867 in CY 2006), the number of active employees paying into the retirement fund increased as well (from 5,893 at the end of CY 2005 to 6,039 in CY 2006). The MBTA's total 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. The pension fund's stock market performance has recovered steadily from its low in 2002, leading to a stabilization of pension expenses for the MBTA.

In FY 2008, the employer contribution rate is budgeted at 10.3961% of payroll, which is the same as in FY 2007 but higher than in previous years when the fund performed better in the stock market. Employee contributions is budgeted at 4% as negotiated as part of the collectively bargained pension agreement. The \$48.7 million budgeted for pension expenses also include contributions to the Police Pension Plan, the Executive Deferred Compensation plan and an annual Medicare supplement.

*Wages and Headcount*

The Authority has not included a wage increase in this year's wage line item, as collective bargaining is still ongoing. This follows a pattern established in previous years when a new contract is being negotiated. Thus, the wage line item may be understating the true costs of wages in FY 2008.

Additionally the MBTA is requesting an increase in headcount of 116 positions in the following departments:

- 38 in Systemwide Modernization/Automated Fare Collection (AFC) (25 AFC Technicians, 13 Transfers from Capital)
- 34 in Transit Police (Chief's Deployment plan for additional staffing of geographically based Transit Police Service Areas)
- 34 in Subway (28 Inspectors for Green Line surface fare enforcement and Blue Line single train operator supervision, 6 part-time motorpersons for schedule adjustments)
- 6 in Occupational Health Services (2 medical assistants, 1 nurse, 1 admin. assistant, 1 trainer/auditor, 1 employee assistance program rep)
- 2 in the Office of Transportation Access (2 Paratransit coordinators)
- 2 net increase in all other departments

The wage impact of these additional positions is expected to be \$5.8 million, of which \$2.2 million will cover the additional police officers. The Advisory Board Finance Committee understands the need for additional AFC technicians, who will ensure that fare vending machines, gates and other equipment function properly. Similarly the Committee recognizes the need for additional personnel to effectively enforce fare payment, particularly on the Green Line, where fare collection has changed significantly from the old system. The requested increase in the Police headcount, however, appears to be higher than necessary in order to staff the department according to the established standards, and difficult to justify in light of the MBTA's current financial situation and known difficulties in the years ahead. The Committee supports an increase of 24 additional positions, a 9.3% increase in the uniformed police force, with the understanding that this will help the department contain overtime costs and to enforce fare payment systemwide, both critical to the Authority's financial health.

### *Overtime*

The Authority is attempting to curb overtime which had grown dramatically since FY 2001 in terms of total numbers as well as percentage of total wages. In FY 2007 overtime expenses as a percentage of total wages are expected to drop to 8.86%, however, that number is still significantly higher than the 3.56% budgeted for FY 2007. For FY 2008 the Authority is budgeting \$15 million in overtime, or 4.18% of the entire wage budget. Below is a comparison of Overtime Wages as part of Total Wages for the last 7 years. The FY 2007 number is a projection as of 4/20/07. The budgeted overtime amount for FY 2008 appears to be at odds with actual overtime expenditures for the period of FY 2005 – FY 2007 and illustrates the precarious balance achieved in the budget request.

	<i>FY2001</i>	<i>FY2002</i>	<i>FY2003</i>	<i>FY2004</i>	<i>FY2005</i>	<i>FY2006</i>	<i>FY2007*</i>	<i>FY2008**</i>
<i>Overtime</i>	15,175,426	17,707,752	17,601,405	25,135,290	36,888,940	34,384,528	31,444,752	15,064,837
<i>% of total Wages</i>	5.21%	5.75%	5.65%	7.87%	10.94%	9.88%	8.86%	4.18%

*\*projected      \*\*budgeted*

Several factors have fueled the increase in overtime, including a conscious choice that was made during several years to cover additional work with overtime rather than hiring new employees. One important contributor to overtime has been the high level of absenteeism at the MBTA.

### *Absenteeism*

The MBTA Advisory Board has closely tracked the MBTA's trends in absenteeism throughout the years. Trends in recent years have been positive, with average days absent dropping from a height of 21.62 a year in 2003 to 15.76 in 2005, levels comparable to those in 1997 to 1999 before absenteeism increased significantly. Data available for CY 2006 show an increase in average days absent to 17.48

days per year. The Authority suspects that this increase is a reflection of a change in reporting of absences rather than an increase in absenteeism. The new system records a wider variety of absence types and is thought to more accurately reflect actual absences.

The Authority revised its attendance policy in January of 2006, designed a new system to monitor attendance, trained supervisors and told the Advisory Board that it is imposing discipline. Due to the changes in the reporting of attendance data, it is hard to tell whether the Authority's efforts have actually led to a decrease of absenteeism. However, given that there are still over 1,000 employees with absenteeism levels of 30 days or more and that the average days absent were 17.48 in CY 2006, the Advisory Boards believes that improvements are not only possible, but necessary, and urges the MBTA to take any steps necessary to increase attendance. The Authority should set a goal of reaching a maximum of 15 days absent on average within one year and continue to monitor the situation to seek further improvements. In our last report on Absenteeism trends at the MBTA dated 3/2/06 we calculated that the Authority could save \$484,640 by cutting the average days absent by one day (based on an annual salary of \$50,000, 240 work days and a premium of 50% either for overtime worked or for benefits paid to additional employees hired to cover for absent employee<sup>1</sup>). The MBTA could save approximately \$1.2 million by reaching the goal of 15 days absent on average.

#### *Materials, Supplies, and Services*

The \$19.4 million increase in the Materials, Supplies and Services line item is due to increases in fuel, power and utilities, contract cleaning and a new bus fleet maintenance program. The largest cost driver is a \$7.6 million expected increase in utility costs, as the current contract expires in February 2008 and market prices are approximately double the current contract price. Fuel costs will rise again this year, by a total of \$2 million. An additional \$2.1 million are needed to cover station, vehicle and facilities cleaning and \$1.9 million are necessary to provide materials, supplies and services for the CharlieCard program. A new bus fleet maintenance program will add \$4.7 million to the Materials, Supplies and Services budget, but is expected to improve the reliability and availability of buses as well as prevent the need for more costly repairs in the future.

#### *Purchased Commuter Rail Expenses and Purchased Local Service Expenses*

The requested FY 2008 commuter rail budget is \$17.9 million or 8% higher than the FY 2007 budget and is the single largest departmental increase in the request. While \$6.3 million represent a contractual fixed price increase and \$3.5 millions are due to increased fuel costs, the majority of the increase is due to additional service: \$1.7 million for service enhancements on the Fitchburg, Worcester and Anderson/Woburn lines and \$6.5 million for the new service on the Greenbush line expected to start in September of 2007.

Massachusetts Bay Commuter Rail (MBCR) is the company providing commuter rail services under contract with the MBTA. Its on-time performance year-to-date has decreased slightly compared to FY2006 from 92.27% to 91.26%. With the exception of the Worcester line, where scheduling conflicts with CSX exist, most southern lines exceed or come close to the 95% on-time performance goal. On the North side, only Lowell currently performs well, however, the on-time performance statistics do not correct for delays due to scheduled track or other kind of maintenance work. Mean Miles Between

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<sup>1</sup> For the sake of simplification the calculation assumes that the only cost associated with absenteeism is a 50% premium paid by the MBTA in overtime or in benefits to additional employees.

Failure show a positive trend (9,341 YTD, up from 8,753 in FY06), but still fall slightly short of the goal, which was revised down from 10,700 to 9,950 in 2007.

	<b>FY2007</b>	<b>FY2008</b>	<b>Variance</b>	<b>% Variance</b>
Purchased Commuter Rail	223,729,831	241,619,981	17,890,150	8.00%
Purchased Local Services	54,771,505	57,537,130	2,765,625	5.05%
<i>Total Purchased Services</i>	<i>278,501,336</i>	<i>299,157,111</i>	<i>20,655,775</i>	<i>7.42%</i>

Purchased Local Service Expenses are increasing by \$2.8 million or 5% over last year. THE RIDE increase of \$1.7 million reflects an ongoing trend of increasing ridership with the cost per service hour and per passenger only increasing slightly. The MBTA continues to evaluate and introduce programs to move riders from The RIDE to the regular system. Commuter Boat Service Expenses are rising by almost \$1 million due to contractual increases.

### Debt Service

The MBTA currently carries more than \$8 billion in total debt, including over \$5 billion in principal and \$3 billion in interest. In FY 2008 that translates into budgeted debt service expenses of \$374,299,967, almost \$11m more than in FY 2007. While principal payments are expected to rise by almost \$16 million, interest payments will decrease by \$6 million.

Lease payments are up due to additional leasing of police cars, RIDE vehicles, non-revenue vehicles, and retail sales terminals supporting the CharlieCard program.

	<b>FY2007</b>	<b>FY2008</b>	<b>Variance</b>	<b>% Variance</b>
Interest	235,309,978	229,305,914	(6,004,064)	-2.55%
Principal Payments	110,297,178	126,200,476	15,903,298	14.42%
Lease Payments	17,814,686	18,793,577	978,891	5.49%
<i>Total Debt Service</i>	<i>363,421,842</i>	<i>374,299,967</i>	<i>10,878,125</i>	<i>2.99%</i>

On April 26, 2007 the MBTA executed another refunding of \$200 million and combined the transaction with a new bond issue of \$125 million in order to take advantage of higher arbitrage rates. This refunding is resulting in \$11.7 million in savings for FY08. The new bonds are capital appreciation bonds, which means that they are sold at a discount from their face value and do not require periodic interest payments. This shifts the financial impact on debt service to the future, however, a present value analysis showed that in this case the present value cost of capital appreciation bonds were slightly favorable by \$175,000. With the \$125 million in bond funds, the MBTA should not have to issue any additional bonds in Fiscal Year 2008. The Authority expects to use the Commercial Paper program at some point in FY08, but not as early as originally planned due to the additional bond funds.

With the recent refunding and other measures, the MBTA manages to keep the debt service increase to \$10.8 million, about \$27.5 million less than forecasted. The savings include \$1.7 million from a FY 06 refunding that went into effect in February of 2007, \$11.7 million from the April 27, 2007 refunding of \$200 million and \$14.1 million in swap income.

The debt service forecast for FY 2009 will present a substantial hurdle for the MBTA. By doing the recent refunding, the increase from FY08 to FY09 will be less than the originally forecasted increase

of \$65 million, but debt service expenses will rise significantly in FY09 and beyond, and is expected to reach \$500 million a year within the next 8 years.

Revenue bond funds are the primary source of funding the local match for MBTA capital projects. Many of these projects qualify for federal funding up to 80%. In the past, the MBTA has funded some projects with bond funds only, but going forward, all projects should have a federal funding component to move forward. The goal for the capital program is to spend \$470 million on State of Good Repair projects, a number that will stabilize, but not decrease the State of Good Repair backlog.

### 3. RECOMMENDATIONS

The MBTA is headed toward a fiscal crisis with no solution in sight. The past three years have been difficult because of the lack of adequate resources. Without adequate resources, the Authority must husband what funds it has and ensure that it can wring maximum value out of each dollar. When reviewing the MBTA's Fiscal Year 2008 Budget Request the Finance Committee felt it was critically important to take into account the financial outlook for FY 2009 and beyond. FY 2009 is expected to bring a steep rise in debt service expenses, a collectively bargained wage increase, continuing possible cost increases for fuel, utilities and fringe benefits without any corresponding increases on the revenue side. The MBTA is not in a position to increase fares again in FY 2009, assessments are capped at a 2.5% increase and sales tax revenue is not projected to increase by more than 3%. Filling gaps in the operating budget with one-time revenues, such as property sales, is a problematic policy, subject to market forces beyond the MBTA's control. The delay in the revenue counted upon from the Bulfinch parcel in FY 2007 highlights the fact that the Authority cannot continue to rely on one-time revenues in the future.

The Committee recognizes that the Authority is focusing on the key issues that its customers care most about: service reliability, clear information, safety and cleanliness. While the Committee decided that it is important to approve financial support for measures that will improve service reliability and customer service, and increase ridership and revenues, it also wondered how the Authority would continue to pay in coming years for those improvements when there is no one-to-one positive revenue impact. The Authority needs to more aggressively address absenteeism and its impact on overtime and take measures to limit fare evasion to the minimum level possible. In the interest of prudence, the Finance Committee recommends the following cuts to the FY 2008 budget which will result in a slight budget surplus for FY 2008.

#### ***Adjustment #1: Reduce Wages line item by \$1.5 million by cutting Overtime spending***

Since the introduction of Automated Fare Collection dramatically changed the amount of cash flowing through the system – about 50% of transactions are now credit and debt card transactions – the Finance Committee expected to see a decrease in the Money Room headcount beyond the budgeted reduction from 86 to 84. The MBTA responded that over time the personnel requirements would likely decrease. The Committee acknowledges that it takes time to change processes and decrease headcount, but does not see the need for overtime work in the Money Room if headcount essentially stays the same as before the AFC implementation. The Finance Committee recommends a cut of \$490,032 from the Wages line item -- the amount budgeted for overtime in the Money Room. The Finance Committee strongly recommends, in addition to the overtime cut, the redeployment of Money Room personnel as rapidly as possible to the AFC system.

In addition, as mentioned earlier, absenteeism is still very high leading to increased overtime spending and compromised service reliability. The Finance Committee believes that \$1,015,438 in overtime savings can be achieved by reducing absenteeism in all departments (see detailed calculation on pages 7 and 8). The total cut in the overtime budget amounts to \$1,505,470.

#### ***Adjustment #2: Reduce Materials, Supplies and Services line item by \$1 million***

A projected increase of \$7.6 million represents the largest increase in the Materials, Supplies and Services category. The requested increase is based on the need to sign a new electricity contract at higher market rates when the current one expires in February of 2008. Since electricity costs fluctuate and the actual contract rates are unknown at this point, the Finance Committee recommends that the Authority

reduce the budgeted increase by \$1 million and return to the MBTA Advisory Board with a supplemental budget request in the spring of 2008 should the negotiated contract rates turn out to be higher than the approved budget.

***Adjustment #3: Cut \$0.5 million from Police Wages budget by limiting the headcount increase to 24 additional officers***

The MBTA requested a headcount increase of 34 police officers from 258 to 292. The addition of 34 police officers to an already well functioning and effective police force – in times when the Authority is budgeting a deficit and crime statistics show a downward trend – triggered a careful examination by the Advisory Board Finance Committee. Despite recent high profile cases, crime statistics for the past years have shown a downward trend and the average size of the police force is at its highest level since the beginning of Forward Funding (it went from an average of 231 officers in FY01 to an average of 253 in FY07). In addition, the MBTA is continuing to invest in capital improvements that improve communication with municipal and state police and other emergency responders and in surveillance cameras throughout the subway system and on buses.

The Finance Committee supports an increase of 24 positions – a 9.3% increase in headcount – because it acknowledges that hiring additional officers would likely lead to a decrease in high police overtime numbers and would allow the department to step up efforts to curtail fare evasion. The Advisory Board specifically called for increased enforcement of fare payment by the MBTA Police Force in last year’s budget report, knowing that, while some fare evasion was eliminated with the implementation of the new fare equipment, riders will always find ways to beat the system. Strict enforcement is necessary for the Authority to collect fare revenue from all riders. During Finance Committee meetings the Committee was told that an average headcount of 275 would be considered adequate staffing for the police department. The Committee recommends the approval of 24 of the 34 requested position, which would bring the total police headcount up to 282 and allow for programmed hiring to achieve the average headcount of 275. Reducing the request from 34 to 24 additional officers would yield \$535,010 of savings in Wages. Given the serious fiscal situation, the Finance Committee cannot recommend 10 positions in addition to the 24 mentioned above.

The total cut in Wages and Overtime spending of \$2,040,480 results in a decrease of Payroll Tax expenses of \$156,078.

***General Recommendations***

The Finance Committee stated in its report to the full Advisory Board last year that;

*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.*

Since that report, other studies have been released that outline the dire financial situation the MBTA faces if the political leadership of the Commonwealth of Massachusetts does not address this issue. There are actions that the MBTA can take to mitigate the impact of these revenue shortfalls and the Advisory Board has advocated that the MBTA make progress on these issues. Other mitigations will

require the cooperation of the MBTA employees. But it is important to understand that what drives the fiscal crisis is the ongoing performance of the Massachusetts Sales Tax and, most importantly, the excessive levels of debt service the MBTA carries. The Authority has to live with the lackluster performance of the Sales Tax and each year try to fashion a reasonable budget within severe fiscal constraints, but it will never be a fiscally healthy entity until the debt issue is addressed and resolved.

The Finance Committee recommends operating expense cuts totaling \$3,196,558 not only because we feel they are justified, but also because we know that the Authority will need every available dollar of these reserve accounts to deal with the large increases in debt service next year and in the years to come. Without action to address the debt, we fear these reserves will not be enough.