

FINAL REPORT

MBTA FISCAL YEAR 2006

**YEAR-END BUDGET TRANSFER
REQUEST**

Submitted by the

MBTA Advisory Board Finance Committee

October 23, 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.

Massachusetts Bay Transportation Authority
Statement of Revenue and Expense
FY2006 Year-End Transfer

Moved: MBTA Advisory Board approval of the FY2006 MBTA Budget Transfer Request submitted on October 5, 2006, for Total Revenues of \$1,267,038,333 and Total Expenses of \$1,274,245,676 as detailed below.

<u>REVENUE</u>	FY2006 Approved Budget*	FY2006 Actual	Variance over Pre-YE transfer (Unfavorable)	MBTA FY2006 Transfer Request #2	MBTA FY2006 Revised Requested Budget
Operating Revenues					
Rapid Transit Revenue	147,500,000	148,240,221	740,220		147,500,000
Commuter Rail Transit Revenue	106,500,000	104,286,465	(2,213,535)		106,500,000
Surface Transit Revenue	75,000,000	75,700,371	700,371		75,000,000
School, Senior, and Paratransit Revenue	5,000,000	4,868,914	(131,086)		5,000,000
Advertising and Concession Revenue	9,649,064	9,727,091	78,027		9,649,064
Revenue from Real Estate Operations	30,424,322	37,486,904	7,062,581		30,424,322
Total Operating Revenues:	374,073,387	380,309,966	6,236,579	0	374,073,387
Non-Operating Revenues					
Interest Income	3,579,345	3,447,601	(131,744)		3,579,345
Non-Operating Income	25,227,861	23,076,729	(2,151,132)		25,227,861
Funds from the Federal Government	10,884,751	10,884,751	0		10,884,751
Utility Reimbursements	1,724,200	2,206,452	482,252		1,724,201
Total Non-Operating Revenues:	41,416,157	39,615,533	(1,800,624)	0	41,416,158
Revenue from Dedicated Sources					
Funds from Local Governments	136,026,868	136,026,829	(39)		136,026,868
Revenue Receipts from Sales Tax Trust	712,585,739	711,086,005	(1,499,734)		712,585,739
Total Dedicated Revenues:	848,612,607	847,112,834	(1,499,773)	0	848,612,607
Total Revenues:	1,264,102,151	1,267,038,333	2,936,183	0	1,264,102,151
EXPENSES					
Operating Expenses					
Wages	343,313,908	347,845,647	(4,531,739)	4,531,739	347,845,647
Fringe Benefits	147,179,939	146,386,154	793,785	(793,785)	146,386,154
Payroll Taxes	27,319,289	27,455,974	(136,685)	136,685	27,455,974
Materials, Supplies, and Services	137,786,433	134,304,402	3,482,031	(3,291,056)	134,304,402
Casualty & Liability	14,713,614	14,191,662	521,952	(521,952)	14,191,662
Purchased Commuter Rail Expenses	215,619,026	216,249,789	(630,763)	630,763	216,249,789
Purchased Local Service Expenses	50,107,891	49,520,599	587,291	(587,291)	49,520,599
Financial Service Charges	1,728,960	1,623,857	105,103	(105,103)	1,623,857
Total Operating Expenses:	937,769,060	937,578,084	190,976	0	937,578,084
Debt Service Expenses					
Interest (All)	207,697,819	205,292,656	2,405,163	(\$2,272,561)	205,425,258
Principal Payments (All)	111,407,268	113,104,925	(1,697,657)	1,697,657	113,104,925
Lease Payments (All)	17,695,108	18,270,012	(574,904)	574,904	18,270,012
Total Debt Service Expenses:	336,800,195	336,667,593	132,602	0	336,800,195
Total Expenses:	1,274,569,255	1,274,245,676	323,578	0	1,274,245,676
NET REVENUE/(EXPENSE)	(10,467,104)	(7,207,343)	3,259,761	0	3,259,761

*MBTA Advisory Board Approved Budget after Transfer #1 & Supplemental #1 in February of 2006

FY2006 SUPPLEMENTAL BUDGET #2

Recommendation

The Finance Committee recommends approval of the MBTA's Year-End Request among line items within the Fiscal Year 2006 Budget, as submitted to the Advisory Board on October 5th, 2006, as follows:

Uses of Funds	Approved FY2006 Budget*	Requested FY2006 YE Transfer Budget	Variance	Transfer Request
Wages	\$343,313,908	\$347,845,647	\$4,531,739	\$4,531,739
Payroll Taxes	\$27,319,289	\$27,455,974	\$136,685	\$136,685
Purchased Commuter Rail Expenses	\$215,619,026	\$216,249,789	\$630,763	\$630,763
Principal Payments	\$111,407,268	\$113,104,925	\$1,697,657	\$1,697,657
Lease Payments	\$17,695,108	\$18,270,012	\$574,904	\$574,904
				\$7,571,748

Sources of Funds	Approved FY2006 Budget*	Requested FY2006 YE Transfer Budget	Variance	Transfer Request
Fringe Benefits	\$147,179,939	\$146,386,154	(\$793,785)	-\$793,785
Materials, Supplies & Services	\$137,786,433	134,304,402	(\$3,482,031)	-\$3,291,056
Casualty & Liability	\$14,713,614	\$14,191,662	(\$521,952)	-\$521,952
Purchased Local Service Expenses	\$50,107,891	\$49,520,599	(\$587,291)	-\$587,291
Financial Service Charges	\$1,728,960	\$1,623,857	(\$105,103)	-\$105,103
Interest	\$207,697,819	\$205,292,656	(\$2,405,163)	-\$2,272,561
				-\$7,571,748

*Revised Supplemental and Transfer Budget approved by the MBTA Advisory Board on February 2, 2006.

Review of Requested Action

The MBTA is seeking Advisory Board approval to transfer \$7,571,748 from the source line items to the uses line items listed above.

Uses of Funds (Unfavorable to Budget)

Wages

The Wages line item performed unfavorable to budget by \$4.5m due to overtime spending in Police, Bus and Subway. The Police Department's increased overtime spending was due to heightened security and unanticipated events. Bus Operations exceeded their wage budget in an effort to improve service reliability leading to fewer dropped trips. Subway Operations had a need for unbudgeted collector and hub monitor positions to support the implementation of AFC. All of these departments, Police, Bus Operations and Subway Operations, spent increased funds on overtime to cover vacancies during the year. Combined the three departments exceeded their budgets by \$12.7m, more than \$8m of which was offset by wage underspending in other departments.

Payroll Taxes

Payroll taxes were higher than budgeted because of higher wage spending.

Purchased Commuter Rail Expenses

High fuel costs were responsible for Commuter Rail exceeding its budget by \$630,763.

Lease Payments

The MBTA used tax-exempt lease financing for assets with useful lives of less than seven years.

Principal Payments

The debt refinancing done in FY2006 to take advantage of lower interest rates led to higher than budgeted principal payments.

Sources of Funds (Favorable to Budget)

Fringe Benefits

Although pension costs were \$1m higher than budgeted, this was offset by Workers Comp expenses coming in \$1.38m favorable to budget and some underspending in health care costs, life insurance, disability and other fringe benefits. The pension line items included a \$2.2m payment to partially pay off a \$16m pension liability from FY04. Health insurance costs rose by 9% this year, a significant increase, but lower than in previous years.

Materials, Supplies and Services

The Materials, Supplies and Services line item was favorable to budget, which had been increased from \$128,666,020 to \$137,786,433 to reflect the high fuel and energy costs with the approval of the FY2006 Supplemental Budget #1 and Transfer #1. Actual expenses were favorable to the post-transfer budget by almost \$3.3m due to larger jet credits¹ and underspending of various materials and services accounts, including power and utilities, postage, copiers, contract cleaning and uniforms.

Casualty and Liability

Renewal negotiations of risk insurance led to lower than budgeted Casualty and Liability expenses by \$502,692 and settlements under Injuries and Damages were also slightly favorable to budget.

Purchased Local Services Expenses

THE RIDE performed favorable to budget by \$569,310, partially due to higher penalties assessed on ride contractors. Although complaints decreased by 14%, contractors paid higher penalties because of tougher standards and penalty clauses in current contracts. Private carriers, suburban bus and commuter boat spent slightly less than budgeted as well.

Financial Service Charges

Legal fees for bonds and other fiduciary costs were lower than budgeted.

¹ The MBTA has a contract with Boston Edison Co. for making two of its jet turbines available for power production in return for receiving New England Power Pool Credit for their capacity and output.

Interest

Interest expenses performed favorable to budget because the MBTA's new bond issue was done at an interest rate of 4.58% vs. the budgeted 6% and 3 months later in the fiscal year. Interest and premium earnings on the project fund and the debt service reserve fund also served to decrease interest expenses in FY2006.

Overall Fiscal Year 2006 Budget Performance

Overall the FY2006 deficit will be lower than budgeted (\$7.2m vs. \$10.5m). Total expenses came in \$323,578 under budget: operating expenses performed \$190,976 favorable to budget and debt service expenses were \$132,602 lower than budgeted.

Total Revenues for FY 2006 are \$2,936,183 higher than budgeted, primarily due to higher revenues from Real Estate Operations.

Final Note

Although the budget deficit was lower than approved in the initial Fiscal Year 2006 Budget, this is the first year the MBTA has to cover a deficit by tapping its deficiency fund. The Authority has worked hard to reduce the deficit by implementing departmental reductions, decreasing overtime spending by 7% from FY 2005 and managing workers' compensation claims better. At the same time fare revenues grew through a combination of reduced fare evasion following the implementation of the new fare equipment and increased ridership.

However, some of the measures taken were measures that may not be available in future years, making the outlook for Fiscal Year 2007 and beyond even less encouraging. Aggressive sale of properties and a structured commuter rail coach lease increased FY 2006 revenues by almost \$21m combined. Both are one-time opportunities of a kind that may not be available in the future. In addition the MBTA has been able to take advantage of favorable market conditions to save \$8.3m by refunding portions of its debt. Because savings through debt management depend on market conditions, we cannot rely on these types of savings to continue in future years.