

**PRELIMINARY REPORT
TO THE MBTA ADVISORY BOARD**

MBTA FISCAL YEAR 2008

TRANSFER REQUEST

Submitted by the

MBTA Advisory Board Finance Committee

May 29, 2008

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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.

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FY2008 YEAR-END TRANSFER REQUEST

Recommendation

Approved by the MBTA Advisory Board on May 29, 2008: The Massachusetts Bay Transportation Authority's May 1, 2008 transfer request among line items within the fiscal year 2008 budget as follows:

Uses of Funds	Approved FY2008 Budget	Requested FY2008 Year-End Transfer Budget	Increase
Materials, Supplies & Services	\$163,796,729	\$165,898,486	\$2,101,757
Purchased Commuter Rail Expenses	\$241,619,981	\$247,343,268	\$5,814,287
Purchased Local Service Expenses	\$57,537,130	\$59,803,500	\$2,266,370
Debt Service: Interest	\$229,305,914	\$238,378,070	\$9,072,156
Total Use of Funds	\$692,259,754	\$711,423,324	\$19,254,570

Sources of Funds	Approved FY2008 Budget	Requested FY2008 Year-End Transfer Budget	Decrease
Fringe Benefits	\$169,733,542	\$160,309,564	\$9,423,978
Payroll Taxes	\$28,556,095	\$27,797,659	\$758,436
Debt Service: Principal	\$126,200,476	\$117,128,320	\$9,072,156
Total Sources of Funds	\$324,490,113	\$305,235,543	\$19,254,570

Review of Requested Action

The Authority is seeking Advisory Board approval to transfer \$19,254,570 from the sources identified above to the uses detailed above. The bulk of the request affects Purchased Commuter Rail Expenses, Purchased Local Service Expenses, Fringe Benefits, Payroll Taxes, Debt Service Interest, and Debt Service Principal.

Unfavorable To Budget (Uses of Funds)

Materials, Supplies, and Services

The unfavorability in the Materials, Supplies, and Services line item was driven primarily by the higher than expected cost of bus fuel. Compressed natural gas and ultra low sulfur diesel experienced all time highs over the course of FY08 and this trend is expected to continue.

Purchased Commuter Rail Services

The Purchased Commuter Rail Services line item is unfavorable to budget due to the volatility of the price of diesel fuel for locomotives. The MBTA is responsible for the cost of fueling locomotives.

Purchased Local Service Expenses

The Purchased Local Service Expenses line item is unfavorable due to higher than expected cost in the RIDE program. More and more people are using The RIDE, and the cost of fuel for these vehicles is at an all time high. The convenience and ease-of-access to The RIDE is very appealing to its client base. Ridership on the RIDE has increased almost 10% from last year and this trend of double-digit ridership increases is expected to continue.

Debt Service: Interest

The Debt Service: Interest line item is unfavorable to budget by \$9.1 million due to a decision by the Authority to restructure certain principal payments and push those payments out into the future.

Favorable to Budget (Source of Funds)

Fringe Benefits

The Fringe Benefits line item is favorable to budget in the amount of \$9,423,978 due to lower than expected growth in the line items that constitute the category. The trend in recent years for health care costs and other associated fringe benefit costs to grow was not realized in FY08, leading to the surplus. In addition, pension payments to the MBTA Retirement Board are also favorable due to the investment strategies of the Retirement Board and the performance of its portfolio. The other components of the overall Fringe Benefit line item that are favorable are: Workers Compensation, Other Fringe Benefits, Life Insurance and Disability Insurance.

Payroll Taxes

The Payroll Taxes line item is favorable to budget by \$758,436 due to lower than expected wage spending. Overall headcount is down making the Authority's overall payroll tax obligation lower than budgeted.

Debt Service: Principal

Conversely to the Debt Service: Interest line item, the Debt Service: Principal line item is favorable to budget due to lower payments on the principal of capital debt owed by the Authority. Principal payments were deferred to offset unrealized savings in interest expenses.

FINAL NOTE

This Board warned in the FY08 budget report of the fundamental problem with the way the MBTA is funded. It has a structural deficit that the Authority itself cannot fix. Sales tax revenue has not performed as it was forecast in 2001 and the Authority's debt service, especially its legacy debt service, is too high.

A year's worth of volatile fuel prices further complicates the financial outlook of the Authority for the future. It is very unlikely that fuel costs will decrease, yet the Authority must run its buses, trains and light-rail vehicles for the people of eastern Massachusetts. These costs will only increase.

Given the tight budget that this Board gave to the MBTA at the start of FY08, the fact that there are funds available to transfer this late in the FY is testimony to the remarkable performance of staying on the path of fiscal responsibility set by this Board for the Authority.

However, no organization, be it public or private, can maintain this level of financial juggling for any significant time period. Declining sales tax revenue and increasing fuel costs are a recipe for financial pitfall. This Board called for debt relief last year from the legislature. It is time for the Commonwealth to accept those debts on the MBTA's books that are truly their debts and relieve the Authority of some of its crippling debt burden.