

**REPORT OF THE
MBTA ADVISORY BOARD**

MBTA FISCAL YEAR 2008

TRANSFER REQUEST #2

Approved

November 6, 2008

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**REPORT
OF THE MBTA ADVISORY BOARD
FY 2008 YEAR-END TRANSFER REQUEST**

Submitted by the
MBTA Advisory Board Finance Committee

November 6, 2008

FINANCE COMMITTEE MEMBERS

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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
 FY 2008 Final Budget

Proposed November 6, 2008 by the MBTA Advisory Board: Transfers between line items as detailed below to The Massachusetts Bay Transportation Authority's fiscal year 2008 budget, as amended, for total revenues of \$1,407,753,918 and total expenses of \$1,407,054,123.

	AB Approved Original (5/24/2007)	Approved Changes	AB Approved Transfer # 1 (5/29/2008)	Approved Changes	AB Approved Transfer # 2 (11/6/2008)
Operating Revenues					
Rapid Transit	195,442,118	5,279,100	200,721,218	94,574	200,815,792
Commuter Rail	138,096,083	(943,505)	137,252,578	3,365,087	140,617,065
Surface Transit	90,824,543	(8,055,134)	84,569,409	8,414,558	92,983,967
School, Senior & Paratransit	5,936,439	1,619,538	7,555,977	(1,011,439)	6,544,538
Advertising & Concessions	11,000,000	0	11,000,000	1,981,157	12,981,157
Real Estate Operations	37,362,808	0	37,362,808	(1,508,527)	35,854,281
Total Operating Revenue	478,461,991	(1)	478,461,990	11,335,410	489,797,400
Non-Operating Revenue					
Interest Income	3,800,000	0	3,800,000	2,867,974	6,667,974
Non-Opps. Income	20,800,000	0	20,800,000	(18,739,671)	2,060,329
Funds from Federal Government	8,000,000	0	8,000,000	25,720	8,025,720
Utility Reimbursements	2,800,000	0	2,800,000	(492,946)	2,307,054
Total Non-Operating Revenue	35,400,000	0	35,400,000	(16,338,923)	19,061,077
Revenue from Dedicated Sources					
Funds from Local Governments	142,913,229	0	142,913,229	0	142,913,229
Revenue from Sales Tax Trust	755,982,210	0	755,982,210	0	755,982,210
Total Dedicated Revenues	898,895,439	0	898,895,439	0	898,895,439
TOTAL REVENUES	1,412,757,430	(1)	1,412,757,429	(5,003,513)	1,407,753,918
Operating Expenses					
Wages	358,513,203	0	358,513,203	2,995,240	361,508,443
Fringe Benefits					
Pensions	48,729,488	(2,705,568)	\$46,023,920	(218,637)	45,805,283
Healthcare	108,106,413	(8,002,305)	\$102,104,108		102,104,108
Group Life	1,714,381	(95,186)	\$1,619,195		1,619,195
Disability Insurance	63,820	(3,543)	\$60,277	(287)	59,989
Worker's Comp	10,829,028	(801,251)	\$10,227,777	(48,761)	10,179,016
Other Fringe Benefits	290,414	(16,127)	\$274,287	(1,308)	272,982
Fringe Benefits	169,733,544	(9,423,981)	160,309,563	(268,993)	160,040,570
Payroll Taxes	28,556,093	(758,433)	27,797,660	(461,224)	27,336,436
Materials, Supplies & Services	163,796,729	2,101,757	165,898,486	(3,071,934)	162,826,552
Casualty & Liability	16,235,693	0	16,235,693	(4,493)	16,231,200
Purchased Comm. Rail Services	241,819,981	5,814,287	247,434,268	(25)	247,434,243
Purchased Local Svc. Subsidy	57,537,130	2,266,369	59,803,499	810,615	60,614,114
Financial Service Charges	1,728,960	0	1,728,960	(14)	1,728,946
Total Operating Expenses	1,037,721,333	(1)	1,037,721,332	(828)	1,037,720,504
Debt Service Expenses					
Interest (All)	229,305,914	9,072,156	238,378,070	(4,142,446)	234,235,624
Principal Payments	126,200,476	(9,072,156)	117,128,320	(652,296)	116,476,024
Lease Payments	18,793,577	0	18,793,577	(171,600)	18,621,977
Total Debt Service Expenses	374,299,967	0	374,299,967	(4,966,342)	369,333,624
TOTAL EXPENSES	1,412,021,300	(1)	1,412,021,299	(4,967,170)	1,407,054,129
Surplus/(Deficit)	736,130	(0)	736,130	(36,343)	699,789

Note: The \$699,789 surplus was re-invested in the MBTA's Deficiency Fund

FY2008 TRANSFER #2 REQUEST**Recommendation**

The Finance Committee recommends approval of the MBTA's FY08 year-end transfer request among line items within the fiscal year 2008 budget, as amended, and submitted to the Advisory Board on October 10, 2008, as follows:

Uses of Funds	Approved FY2008 Budget	Requested FY2008 Year- End Transfer Budget	Increase
Wages	\$358,513,203	\$361,508,443	\$2,995,240
Purchased Local Service Expenses	\$59,803,500	\$60,614,115	\$810,615
Total Use of Funds			\$3,805,855

Sources of Funds	Approved FY2008 Budget	Requested FY2008 Year-End Transfer Budget	Decrease
Fringe Benefits	\$160,309,563	\$160,040,570	\$268,993
Payroll Taxes	\$27,797,660	\$27,336,436	\$461,224
Material, Supplies & Services	\$165,898,486	\$162,826,552	\$3,071,934
Casualty & Liability	\$16,235,693	\$16,227,496	\$3,704
Total Sources of Funds			\$3,805,855

Review of Requested Action

The Authority is seeking Advisory Board approval to transfer \$3,805,855 from the sources to the uses detailed above. This action affects wages, materials, supplies & services, purchases local services, fringe benefits, payroll taxes, and casualty & liability.

Unfavorable To Budget (Uses of Funds)*Wages*

The unfavorability in the wages line item was driven by binding arbitration award announced July 7, 2008. Prior to this announcement, the wage line item was under budget by \$5.6 million. The award granted back pay to the Authority's largest union. It is expected that most of the T's other unions will follow the pattern set by this award. The arbitration award grants retroactive back pay as follows: 3% for FY07, 3% for FY08, as well as a 3% increase in FY09 and a 4% increase in FY10 to the majority of the Authority's unionized work force.

This transfer action requests an increase in the wage line item to cover some of the costs of the back pay associated with FYs 2007 and 2008- about \$8.6 million. \$5.6 million of this is available due to under spending in this line item over the course of the fiscal year. The balance is \$2,995,240 which is the amount of the transfer.

Purchased Local Service Expenses

The purchased local service expenses line item is unfavorable due to higher than expected cost in the RIDE program [\$809,435] and slight overspending in the private carrier, suburban bus and commuter boat line items [\$1,180 aggregate]. Despite the fact that the budget for The RIDE was increased in the first FY08 budget transfer, the popularity of this service necessitates a further budget increase. The original approved budget for this line item was \$57,537,130. With this action its final amount is \$60,614,115, a 5.3% increase. By comparison the final FY06 amount of this line item was \$50,107,891.

Favorable to Budget (Source of Funds)*Fringe Benefits*

Aggressive management of headcount and other HR functions resulted in pre-arbitration award savings to wages and related fringe benefit costs. The savings from unfilled positions yielded savings to the pension, life insurance, disability, worker's companion and other fringe benefit sub-line items totaling \$268,993. These savings will be applied to the overage in the purchased local services line item.

Payroll Taxes

Similar to the fringe benefits line item the lower headcount yielded associated savings in payroll taxes (FICA) totaling \$461,224. These savings will also be applied to the overage in the Purchased Local Services line item.

Materials, Supplies & Services

The original FY08 budget amount for the materials, supplies & services line item was \$163,796,729. This was increased in the first FY 08 transfer to \$165,898,486 mainly to offset the expected impact high fuel costs for the bus fleet. This action requests a decrease in this item of \$3,071,934 to \$162,826,552. Although the cost of bus fuel was higher than expected, other sub-line items came in under budget resulting in the under-spending. \$2,995,240 of the \$3,071,934 will be applied to the wage line item and the remaining \$76,694 will be applied to the purchased local services line item.

Casualty & Liability

The casualty & liability line item was favorable by \$4,493 because of favorable risk insurance renewals by the Authority's insurers. \$3,704 will be applied to the overage in the purchased local services line item.

The remaining \$789 is surplus. This plus the \$25 surplus in commuter rail expenses and the \$14 surplus in the financial service charges line items constitute a total surplus of \$828 among operating cost line items. Any surplus will be applied to the deficiency fund.

Analysis

Operating Revenue

Strong ridership at the end of FY 08 resulted in increased operating revenue in rapid transit, commuter rail and surface transit (bus). These three transportation services exceed budget projections by \$11,874,219. Advertising revenue exceeded projections by \$1,981,157. These increases were offset by less than expected revenue (\$2,519,966) in the school, senior and paratransit and revenue from real estate operations line items. Total operating revenues exceeded expectations by \$11,335,410. It should be noted that FY08 was the first full fiscal year in which the 2006 fare increase associated with the Charlie Card was in effect.

Non Operating Revenue

Of the expected \$35.4 million in the non-operating revenue category, only \$19.1 million was realized. This dramatic \$16.3 million deficit is almost entirely attributable to the collapse of land sales as revenue tool. The non-operating income line item, where land sales revenue is counted, was projected at \$20,800,000 in the original FY08 budget. The actual revenue received in this line item was only \$2,060,329, a difference of \$18,739,671 or 90.1%.

Final Notes

The MBTA should be lauded for aggressive management of its headcount, overtime and fringe benefit costs. Throughout FY08 it maintained an average vacancy rate of 200 positions each month. In addition, its rigorous management of overtime resulted in nearly \$5.6 million in savings to budget in its wage line item prior to this action.

The pace of the increase in the cost of The RIDE is troubling from a budget perspective. The purchased local service expenses line item has grown 23.59% (\$49,042,971 vs. \$60,614,115) between the budget presented at the start of FY 06 and the final budget for FY08 (as presented in this document). Comparatively, total operating expenses (including The Ride) grew at 12.55% (\$992,016,842 vs. \$1,037,720,504) over the same time frame. What is clear is that

the cost of providing The RIDE is growing at an alarming rate compared to core MBTA transportation services. Authority management must undertake a thorough review of RIDE policy vis-à-vis state and federal legal requirements as well as service levels to understand why the cost of providing this service has escalated so quickly.

At the end of the first FY08 transfer report the Advisory Board noted that the MBTA was stuck in a structural deficit that it could not manage its way out of. The collapse of non-operating revenue coupled with the poor performance of the sales tax makes it clear that this is even truer today. The MBTA cannot manage its way out of this, nor are there sufficient efficiencies that can be found between and among transportation agencies. For many years the Advisory Board has called for debt relief for the MBTA. Once again we call upon the MBTA Board of Directors, the Governor and the Legislature to address the MBTA's structural deficit.

Note: the delegates of the towns of Cohasset and Whitman opposed the motion approving this action in the vote taken during the MBTA Advisory Board's 11/6/08 meeting in the Boston Redevelopment Authority Conference Room, 9th Floor, Boston City Hall, Boston, MA.