

REPORT OF THE  
MBTA ADVISORY BOARD

**MBTA FISCAL YEAR 2009**  
**Supplemental Budget Request**

Approved

November 6, 2008

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**REPORT  
TO THE MBTA ADVISORY BOARD  
SUPPLEMENTAL BUDGET REQUEST**

Submitted by the  
MBTA Advisory Board Finance Committee

November 6, 2008

**FINANCE COMMITTEE MEMBERS**

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Executive Director

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Executive Assistant

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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 2009 Supplemental Budget

Proposed November 6, 2008 by the MBTA Advisory Board: Supplement to the Massachusetts Bay Transportation Authority's fiscal year 2009 budget as detailed below for total revenues of \$1,470,737,464 and total expenses of \$ 1,512,826,476 with the expected shortfall of \$42,089,013 to be made up from the Authority's deficiency fund (\$16,000,000) and capital maintenance fund (\$26,089,013).

	MBTA Requested FY 08 Budget (3/18/2008)	Changes	AB Approved FY 08 Original (5/29/2008)	Changes	AB Approved FY 08 Sup. Budget (11/6/2008)
<b>Operating Revenues</b>					
Rapid Transit	205,237,445	-	205,237,445	0	205,237,445
Commuter Rail	138,625,103	-	138,625,103	3,398,739	142,023,842
Surface Transit	85,837,950	-	85,837,950	8,075,859	93,913,809
School, Senior & Paratransit	7,782,656	-	7,782,656	-	7,782,656
Advertising / Concessions	13,500,000	-	13,500,000	-	13,500,000
Real Estate Operations	40,904,119	-	40,904,119	13,156,639	54,060,758
<b>Total Operating Revenue</b>	<b>491,887,273</b>	<b>-</b>	<b>491,887,273</b>	<b>24,631,237</b>	<b>516,518,510</b>
<b>Non-Operating Revenue</b>					
Interest Income	4,000,000	-	4,000,000	-	4,000,000
Non-Operating Income	15,262,344	-	15,262,344	8,400,000	23,662,344
Funds from Federal Government	8,000,000	-	8,000,000	2,000,000	10,000,000
Utility Reimbursements	3,051,000	-	3,051,000	-	3,051,000
<b>Total Non-Operating Revenue</b>	<b>30,313,344</b>	<b>-</b>	<b>30,313,344</b>	<b>10,400,000</b>	<b>40,713,344</b>
<b>Revenue from Dedicated Sources</b>					
Funds from Local Governments	146,486,059	-	146,486,059	-	146,486,059
Revenue from Sales Tax Trust	767,019,551	-	767,019,551	-	767,019,551
<b>Total Dedicated Revenues</b>	<b>913,505,610</b>	<b>-</b>	<b>913,505,610</b>	<b>0</b>	<b>913,505,610</b>
<b>TOTAL REVENUES</b>	<b>1,435,706,227</b>	<b>0</b>	<b>1,435,706,227</b>	<b>35,031,237</b>	<b>1,470,737,464</b>
<b>Operating Expenses</b>					
Wages	357,722,598	-	357,722,598	53,819,820	411,542,418
<b>Fringe Benefits</b>	<b>170,528,391</b>	<b>-</b>	<b>170,528,391</b>	<b>(2,851,465)</b>	<b>167,676,926</b>
Pensions	44,853,979	-	44,853,979	2,811,028	\$47,665,007
Healthcare	112,776,771	-	112,776,771	(5,892,493)	\$107,084,278
Group Life	1,714,381	-	1,714,381	-	\$1,714,381
Disability Insurance	63,819	-	63,819	-	\$63,819
Worker's Comp	10,829,027	-	10,829,027	-	\$10,829,027
Other Fringe Benefits	290,414	-	290,414	-	\$290,414
Payroll Taxes	28,270,594	-	28,270,594	2,404,801	30,675,395
Materials, Supplies and Services	182,943,232	-	182,943,232	-	182,943,232
Casualty & Liability	15,735,693	-	15,735,693	(200,000)	15,535,693
Purchased Commuter Rail Services	266,176,063	-	266,176,063	4,662,345	270,838,408
Purchased Local Service Subsidy	61,531,256	-	61,531,256	-	61,531,256
Financial Service Charges	4,328,960	-	4,328,960	-	4,328,960
<b>Total Operating Expenses</b>	<b>1,087,236,787</b>	<b>-</b>	<b>1,087,236,787</b>	<b>57,805,502</b>	<b>1,145,042,288</b>
<b>Debt Service Expenses</b>					
Interest (All)	245,716,876	-	245,716,876	-	245,716,876
Principal Payments	102,567,312	-	102,567,312	-	102,567,312
Lease Payments	19,500,000	-	19,500,000	-	19,500,000
<b>Total Debt Service Expenses</b>	<b>367,784,188</b>	<b>-</b>	<b>367,784,188</b>	<b>0</b>	<b>367,784,188</b>
<b>TOTAL EXPENSES</b>	<b>1,455,020,975</b>	<b>0</b>	<b>1,455,020,975</b>	<b>57,805,502</b>	<b>1,512,826,476</b>
Surplus/(Deficit)	(19,314,748)	-	(19,314,748)	(22,774,265)	(42,089,013)
<b>Funds from Cash Reserves</b>					
Deficiency Fund	15,000,000	-	15,000,000	1,000,000	16,000,000
Capital Maintenance Fund	4,314,748	-	4,314,748	21,774,265	26,089,013
<b>TOTAL CASH</b>	<b>19,314,748</b>	<b>0</b>	<b>19,314,748</b>	<b>22,774,265</b>	<b>42,089,013</b>
Surplus/(Deficit)	0	0	0	0	0

***FY2009 SUPPLEMENTAL BUDGET #1***

**Recommendation**

The Finance Committee recommends approval of the MBTA’s FY2009 supplemental budget request #1 as submitted to the Advisory Board on October 10, 2008 as follows:

**REVENUE (\$)**

**Fare Revenue**

<u>FY2009 Budget</u>	<u>Supplemental Request</u>	<u>FY2009 Adjusted Budget</u>
437,483,154	11,474,598	448,957,752

**Revenue From Real Estate Operations**

<u>FY2009 Budget</u>	<u>Supplemental Request</u>	<u>FY2009 Adjusted Budget</u>
40,904,119	13,156,639	54,060,785

**Non-Operating Income**

<u>FY2009 Budget</u>	<u>Supplemental Request</u>	<u>FY2009 Adjusted Budget</u>
15,262,344	8,400,000	23,662,344

**Funds from Federal Government**

<u>FY2009 Budget</u>	<u>Supplemental Request</u>	<u>FY2009 Adjusted Budget</u>
8,000,000	2,000,000	10,000,000

**EXPENSES (\$)**

**Wages**

<u>FY2009 Budget</u>	<u>Supplemental Request</u>	<u>FY2009 Adjusted Budget</u>
357,722,598	53,819,820	411,542,418

**Fringe Benefits**

<u>FY2009 Budget</u>	<u>Supplemental Request</u>	<u>FY2009 Adjusted Budget</u>
170,528,392	(2,881,464)	167,646,928

**Payroll Taxes**

<u>FY2009 Budget</u>	<u>Supplemental Request</u>	<u>FY2009 Adjusted Budget</u>
28,270,593	2,404,801	30,675,394

**Casualty & Liability**

<u>FY2009 Budget</u>	<u>Supplemental Request</u>	<u>FY2009 Adjusted Budget</u>
15,735,693	(200,000)	15,535,693

**Purchased Commuter Rail Services**

<u>FY2009 Budget</u>	<u>Supplemental Request</u>	<u>FY2009 Adjusted Budget</u>
266,176,063	4,662,345	270,838,408

**Review of Requested Action**

The Authority is seeking Advisory Board approval to increase the size of the FY2009 budget by \$57,805,502. In order to balance these additional expenses the supplemental budget includes additional revenues of \$35,031,237. The remainder of the increased expenses will come from the Authority’s cash reserves which will be all but depleted by this action. The request affects the following line items: fare revenue, revenue from real estate operations, non-operating revenue, funds from federal government, wages, fringe benefits, payroll taxes, and casualty & liability, and purchased commuter rail service. In addition the MBTA’s deficiency fund and capital maintenance fund will be affected.

The driver of this action is the MBTA’s requirement to fund pay increases for the bulk of its unionized workforce. This pay increase was mandated for the MBTA’s largest union, the Carmen’s Local 589, in the binding arbitration award published July 7, 2008. It is expected that most of the Authority’s other labor unions will followed the pattern set by this agreement. Under the terms of the arbitration award, unionized employees will receive 3% retroactive pay increases for FYs 2007 and 2008, an additional 3% increase in FY 2009 and a 4% increase in FY 2010.

As part of the agreement the MBTA secured the elimination of several arcane work rules, an increase in the healthcare premium amount paid by employees who retire after 7/7/08 from 0% to 10%, and increases in the amount of co-pays and deductibles for active employees and some retirees. These changes will save the Authority an estimated \$17.5 million over the course of the 4 year contract as well as long-term savings over time.

The secondary driver of this supplemental budget is the increased cost to the Authority of the providing commuter rail service via its contractor- the Massachusetts Bay Commuter Rail Company.

The Finance Committee met with the MBTA’s chief financial officer, budget director and other staff to discuss this supplemental request on October 23, 2008 at the Advisory Board’s office in Boston.

**REVENUE**

The MBTA proposes \$35,031,237 in additional revenue which will increase the total revenue budget from \$1,435,706,228 to \$1,470,737,465. \$24,631,237 of the increase will be in the operating revenue line with the remaining \$10.4 million in the non operating revenue line.

### Fare Revenue

Fare revenue is projected to increase by \$11,474,598; \$3,398,739 in surface transit and \$8,075,859 in commuter rail. In recent months the MTA has attracted many new riders. FY 08 ended with fare revenues \$10.9 million higher than projected. Additionally, strong ridership in the first quarter of the MBTA FY09 fiscal year (CY Q3) has led to strong fare revenue receipts over this time frame. This \$11.47 million increase changes the average monthly fare revenue projection to \$37,413,146. In July fare revenue exceeded the original FY09 budget by \$39,335,202 and August did so by \$38,612,172.

### Revenue From Real Estate Operations

Revenue in this line item is generated principally from parking fees. Of the \$13,156,639 increase in this line item, \$11,793,836 will come from this increase.

At the October 10, 2008 meeting of the MBTA Board of Directors the daily parking rate at MBTA commuter parking facilities was increased by \$2.00 with affect from November 15, 2008. On an annual basis this increase will net an additional \$18.9 million. For the period 11/15/08 through the end of FY09 (6/30/09) the projected revenue increase is \$11,793,836.

The additional \$1.36 million will accrue from changes to cost sharing agreements between the MBTA, Massport and MassHighway, which will accept more of the cost of providing certain joint services.

- Silver Line: Massport will increase its contribution to the cost of operating the Silver Line to Logan airport. This will save the MBTA \$1.5 million annually, of which \$981,469 is projected this FY.
- Airport Station: Massport will share the cost of certain maintenance and operating costs for the Airport Station on the Blue Line. This cost-sharing will yield \$175,000 in savings annually of which \$116,667 is projected this FY.
- Anderson: The Anderson Regional Transportation Center in Woburn is a joint venture of the MBTA, Massport and MassHighway. The MBTA will assume the total control Anderson. With the increased parking rate this will yield an additional \$264,667 this FY.

### Non-Operating Income

At its October 21, 2008 meeting the Massport Board of Directors agreed to purchase a parcel of land near Wood Island Station from the MBTA. Massport currently leases this land. Assuming the MBTA Board of Directors vote to ratify this sale, the revenue increase will be \$6 million. In addition, the MBTA will receive a \$2.4 million natural gas rebate from the federal government as part of the alternative fuel federal tax credit. These initiatives will yield one-time additional revenue of \$8.4 million.

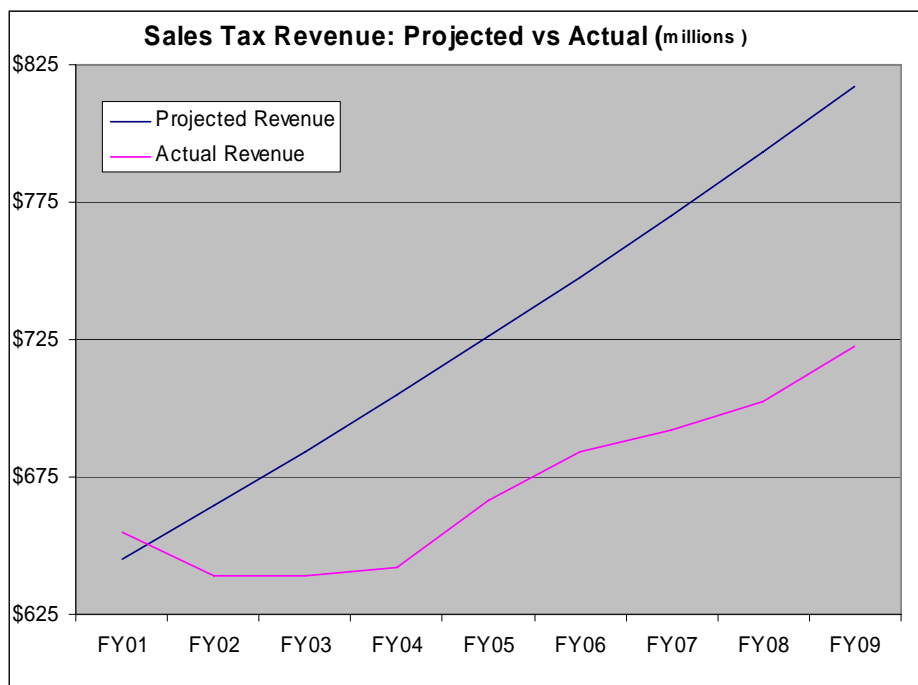
The non-operating income line item is comprised of two sub-line-items: property sales and "other". In the original FY09 budget the Authority projected land sales of \$9.3 million. With this action this sub-line item will increase to \$15.3 million, of which only the \$6 million for Wood Island is in process. The "other" sub-line item is used for unexpected revenue. It is unclear how successful the Authority will be in funding this line item this FY.

**Funds From Federal Government**

Under this action this line item will increase from \$8 million to \$10 million and all of these funds will be spent on operating expenses rather than on preventative maintenance as was originally intended. The MBTA has received permission from the federal government to do this. Consequently preventative maintenance spending will be decreases proportionally.

**Dedicated Revenue: Revenue Receipts from the Sales Tax Trust:**

Although no action on this line item or category is included in this action, the MBTA Advisory Board notes that the principal mechanism through which MBTA operations are financed has woefully underperformed. The Authority receives 20% of all sales taxes paid in Massachusetts. When enacted all parties assumed a 3% annual growth rate in sales tax revenue for the Authority. Between FY2001 and FY2009 the actual revenue received from the sales tax trust has averaged 1.8% growth annually.



**EXPENSES**

The wage, payroll tax, and purchased commuter rail expenses line items will increase as a result of this action. The fringe benefit line item will decrease despite increases in certain sub-line items. The arbitration award granted pay increases for most employees as well as new work rules and cost-sharing provisions which will save the Authority money over time. It should also be noted that the local 589 requested the arbitrator to award a 24% increase over 4 years which would have cost the MBTA \$290 under pattern bargaining, as opposed to \$154 million.

**Wages**

The arbitration award granted pay increases of 3% (FY07), 3% (FY08), 3% (FY09) and 4% (FY10) to the members of local 589. These increases are consistent with past precedent. It is expected that most of the Authority’s other unions will follow this pattern. Traditionally non-

unionized MBTA employees also follow this pattern, however employees earning greater than \$70,000 are excluded. Once applied the total pattern cost for all eligible employees will be \$150 million over 4 years (FY07-FY10). The rough breakdown of the wage costs (net) per contract year is: FY07- \$22 million, FY08- \$22, million, FY09- \$44million, FY10, \$66 million. The back pay portions for FY’s 07 and 08 as well as the increase for FY09 must be paid from this year’s budget.

Total Wage line item increase:	65.9
FY08 accrual and transfer:	(8.6)
<u>Exclusion of MBTA employees earning &gt;\$70,000/year</u>	<u>(3.4)</u>
Total Liability	53.9m

The exact amount that the wage line item must increase to cover the cost of the arbitration award once all deductions and other actions are taken into account is \$53,819,820.

Fringe Benefits

Under the terms of the award co-pay, deductible and premium cost share amounts will increase for most MBTA employees and some retirees. These savings will generate \$5,692,493 in savings to the fringe benefit line item in this year’s budget. Offsetting these savings is an increase in pension contribution costs of \$2,811,028 tied to the wage increase. The net result in the fringe benefit line item is (\$2,881,464).

Payroll Taxes

As a result of the wage increase the MBTA’s social security liability will also increase. By utilizing offsets and accruals associated with the T’s overall lower headcount and other actions the total charge to the line item is \$2,404,801.

Casualty and Liability

As a result of recent statutory action the MBTA’s insurance risk costs will decline by about \$200,000. This change exempts the T from certain taxes and fees associated with the purchase of some types of insurance. The net result in the line item is (\$200,000).

Purchased Commuter Rail Service

The June 2008 negotiated amendment to the contract between the Authority and the Massachusetts Bay Commuter Rail Company was recently ratified by the MBTA Board of Directors and signed by all parties. This amendment necessitates an increase to the commuter rail line item of \$4,662,345 million to cover the following two items.

- \$3,362,345 for the inflation rate for the fixed price contract for the extension period of one year. The final inflation rate agreed in the negotiation was 4.5% whereas the budget assumed an inflation factor of 3%. This amount represents the difference between these two factors.
- \$1 million to cover utility costs associated with the Greenbush service.
- \$200,000 to provide personal digital assistants (PDA’s) to conductors and other appropriate commuter rail personnel.
- \$100,000 for the cost of delivering bulk locomotive fuel for use at the storage facility.

Note that the cost of additional commuter rail service to Worcester recently initiated by the Authority is not included in this action.

## **CASH RESERVES**

### Deficiency Fund

The deficiency fund began FY09 with a balance of \$16 million. When the MBTA presented its original FY09 to this Board it balanced its budget by withdrawing \$15 million it. This action calls for withdrawing the remaining \$1 million from this fund which will exhaust it.

### Capital Maintenance Fund

The capital maintenance Ffund began FY09 with a balance of about \$38.2 million. \$4,314,748 of this was used to balance the original FY09 budget. This action will further reduce this fund by an additional \$21,774,265, leaving about \$12.1 million.

## **FINAL NOTES**

When the Advisory Board approved the FY2009 budget we noted that sale tax revenues had been well below expectations for many years, that the MBTA desperately needed debt relief, and that major, unfunded expenses were looming on the horizon. They include a likely shortfall in the non-operating revenue line item of up \$13 million due to the softening of the real estate market, the binding arbitration settlement and the skyrocketing cost of energy. While the energy market has fallen significantly, the other factors have come into play even more strongly. The pay settlement is the subject of this supplemental budget action, but solving this problem by using almost all available reserves places the MBTA in a very precarious situation for the remainder of this fiscal year. Finance Committee members asked if the Authority's proposal to use its reserve funds has any negative implication on the MBTA's ability to access the capital markets. The CFO assured the Finance Committee that it did not and provided documentation to that effect.

A big piece of balancing FY2009 is additional fare revenue. The Authority forecasts that they will receive an additional \$11.5 in fare revenues above the original budget and told the Finance Committee that receipts so far this year are on track to make that target. However, the per-barrel price of oil has fallen over 40% from the high and that change is reflected at local gas stations. This reflects a serious challenge fro the MBTA. They need to retain the new riders who switched to the MBTA as a reaction to soaring gas prices, because they need the revenue. But they also need to collect all the fares.

Advisory Board members tell stories of riding the commuter rail without ever being asked to pay. Green Line and bus riders speak of the driver opening all the doors at rush hour with no effort to collect fares except at the front doors. We have seen two and three people enter the system through turnstiles at subway stations. Continued fare evasion costs the Authority money it cannot afford to lose. It also loses the confidence and respect of its customers. Pass holders fume at the sight of fare evaders and wonder aloud why they should pay when it seems that so many do not. They wonder why more effort is not made to collect fares, and so does the Advisory Board.

Our understanding is that both the MBTA Police and MBTA Inspectors have the power to ticket fare evaders, and while there has been some ticketing by the police, there is little or none by the

Inspectors/Chief Inspectors. More visibility by the police on the bus system, Green Line and at the turnstiles would discourage evasion as well. The MBTA Police, who are more than adequately staffed, are rarely seen in the stations. It was a major effort to change the law to allow for the enforcement of fare collection and the MBTA needs to show that it is determined to enforce the law. As for Commuter Rail, the solution to the fare collection problem is long overdue. The time has come for the Authority to pick a system and implement it. Despite clauses in the contracts to motivate the contractor to collect fares and a clear need for the funds, the stories of lost revenue are constant.

Until elected leaders devise and implant a plan to stabilize the MBTA, we will continue to face unbalanced budgets, unfunded maintenance, and the grim prospect of service cuts. We call, yet again, for the Governor and Legislature to act.

*Note: the delegates of the towns of Cohasset, Scituate 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, 9<sup>th</sup> Floor, Boston City Hall, Boston, MA.*