

MBTA Advisory Board

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Dear Legislator:

Last month the MBTA Advisory Board voted to approve the MBTA's Fiscal Year 2009 budget. The Advisory Board also voted to inform you and your colleagues in the Legislature that the MBTA is in a real crisis that will affect you and your constituents as well as our economy and our way of life. Despite the balanced budget approved by the Advisory Board, changes in fuel and energy costs and findings of binding arbitration may push the MBTA as much as \$50 million out of balance in FY2009.

The MBTA's FY 2009 budget, which goes into effect on July 1, 2008, was an enormous challenge to balance. In fact, the MBTA's FY 2009 budget is only balanced because the Authority is draining its strategic reserves and pushing out debt into the future. Poor sales tax revenue and too much debt left the MBTA \$75 million short of budget projections. Sales tax revenues cover over 50% of the T's operating costs and, as you know, sales tax growth in the Commonwealth has been anemic at best this decade. When Forward Funding was enacted in 2001 all historical precedent pointed to a minimum 3.0% increase in sales tax revenue annually for the T. However, since 2001 this revenue stream has had average real growth of 1.26%. If the sales tax had performed as expected, the MBTA would have received an additional \$200 million over the past 7 years. To cover this shortfall the MBTA has acted to raise additional revenue. Fares have risen 3 times in the last 7 years but fares and other operating revenues only cover 34% of the MBTA's operating costs

The Authority has embraced the recommendations of the Transportation Finance Commission and the recent requirements of the Legislature in many ways. They are moving personnel from the capital budget to the operations budget because it is sound financial practice to do so. Recent legislation requires that future MBTA retirees must pay 15% of their health care costs. The Authority is attempting to negotiate further concessions from its unionized workforce. In the recently approved budget overtime spending is half of what it was in FY07. Pension contributions are also down by nearly 8%. Total fringe benefit costs are up by less than 1% in the FY09 budget over FY08 due to strong management and oversight.

Unfortunately, costs for transportation agencies like the MBTA are driven by two things: the cost of labor and the cost of energy. The roughly 6000 unionized employees at the MBTA have worked without a contract for over a year. It is reasonable to expect that the ruling of the Arbiter, expected later this month, will provide for some level of increase and possibly a retroactive payment covering FY2008. There are no funds budgeted for this expense and very little in the way of cash reserves. In addition, the cost of energy at

the MBTA has skyrocketed since the FY 2009 budget request was submitted. The sharp increase in the cost of fuel for the bus fleet and the commuter rail fleet will likely exceed \$25 million. Unlike the gas crisis of the 1970's, this increase is not due to an oil embargo but rather is a result of global competition. In other words, this is not a price blip, but rather they way things will be from now on.

After doing they could to balance the budget and prepare for the coming fiscal year, the outlook for the Authority is bleak. The MBTA does not have adequate cash reserves under any circumstances. Fuel costs have risen significantly and the fuel line items for bus, commuter rail and the RIDE are already millions of dollars under funded and the fiscal year has not begun yet. The wage line item, which the MBTA carefully preserved with strong controls on headcount growth, will likely grow significantly when the decision of the Arbiter between the MBTA and its unions is released. Most likely the Authority will see significant increases that it cannot afford. When a transit authority finds itself with less money than expected, often their only option is to provide less service. The longer we wait to act, the more likely that the options will be limited to significant service cuts.

It is time for the Commonwealth's elected leaders to show foresight. You did not create this crisis but you are in office at the time it must be confronted. The MBTA Advisory Board wants to work with you to craft a solution to the Authority's structural deficit and funding problems. This organization will soon contact your office to meet with you and discuss the contents of this letter as well as the ramifications of service cuts to your constituency. We want to work with responsible leaders like you to insure that public transportation will be there for your constituents. The MBTA FY09 budget and report can be found at <http://www.mbtaadvisoryboard.org/Reports/reports.htm>. Thank you and we will be in touch soon.

Sincerely,

Paul Regan
MBTA Advisory Board