

STAFF SUMMARY SHEET
(MBTA PROCEDURES NO. 1)

TO	FOR	FROM:		
1	GM	Approval Signature	Dept.: Budget	Author: Mary Runkel
2	BD	Vote Info	Subject: FY2014 Operating Budget	Tel. No. 617-222-3285 Date: April 3, 2013

Implications: (The implications checked below are involved in this action, are discussed below or in a separate enclosure, and have been considered in the final recommendation.)

Capital Budget
 Operating Budget
 Legal
 Other

PURPOSE

To request that the Board of Directors approve the Authority's budget of current operating expenses and debt service costs for the twelve-month period of fiscal year 2014 (July 1, 2013 through June 30, 2014) and to direct the General Manager to submit the approved budget to the MBTA Advisory Board.

DISCUSSION

At the March 13th Board meeting, the Authority presented a preliminary budget for fiscal year 2014 which contained a deficit of \$118.1 million. Down from an initial deficit of \$140 million, the preliminary budget represented yet another year in a series of recent MBTA budget deficits which have been increasingly impossible to fix without resorting to major fare increases, service cuts, and additional financial assistance from the Commonwealth.

For example, the FY 2013 budget formation began with a \$185 million deficit, which required one-time infusion of funds from the state as well as a fare increase and modest service reductions in order to have a balanced budget. The FY 2012 budget had a \$127 million gap which required a parking garage lease, parking revenue securitization, and a debt restructuring to close the gap. The Authority faced a \$73 million deficit in the FY 2011 budget and ultimately balanced the budget with a \$67.9 million debt restructuring. The FY 2010 budget required for the first time additional Commonwealth contract assistance of \$160, which has required recurring, annual appropriations.

After the Board vote on March 13th, the Authority met twice more with the Board Standing Committee on Finance and Audit and on March 28th presented a recommendation to balance the budget deficit of \$118.1 million with additional state assistance currently under consideration by the Massachusetts legislature in the Governor's *Way Forward: A 21st-Century Transportation Plan*. The budget proposal incorporates that recommendation to close the gap in order to have a statutorily required balanced budget.

The Authority also presented the Finance Committee with a plan in the event that there was no Way Forward funding by July 1st. The Authority laid out \$77.7 million in one-time contingency gap funding as follows: federal preventive maintenance funds (\$48.1 million), projected FY 2013 operating budget surplus (\$12.9 million), capital program elimination (\$9.5 million), deferring a contribution to OPEB (Other Post Employment Benefits) liability (\$5.0 million), and placing a freeze on administrative positions (\$2.2

million). The Authority's one time gap funding would have a detrimental impact to the Authority's capital program by diverting \$48.1 million in federal preventive maintenance funds to the operating budget and eliminating \$9.5 million of capital maintenance funding by using those funds on the operating budget. The use of the FY 2013 projected \$12.9 million operating budget surplus would necessitate more bond funding to support the capital program thus increasing an already overburdened debt structure.

With an adjusted budget deficit of \$40.4 million after gap funding, the Authority would have no recourse than to plan for fare and or service changes after July 1st with a likely implementation around December 2013 or January 2014. While the Authority remains hopeful that it will not have to initiate gap funding and service and fare changes, it is planning for this contingency in the event that the FY 2014 budget cannot be balanced as proposed in the FY 2014 Statement of Revenue and Expenses (see Tab B).

In addition, and pursuant to Section 11 of Chapter 161A of Massachusetts General Laws and the reporting requirements contained therein, the Authority has established a target net operating investment per passenger mile ratio that it expects to achieve in FY 2014: 43.2 cents, in conjunction with the preparation of this operating budget request. This is a target and not legislatively mandated.¹ The legislation stipulates that beginning in FY 2006, the Authority shall seek to achieve and maintain a target ratio of not more than 20 cents for any fiscal year. This target is not achievable in FY 2014 given the cost escalation in operating expenses.

FY 2014 Revenue

Total revenue from all sources is projected to increase by \$100.3 million to a total of \$1.867 billion (see graphic of revenue sources in Tab D). The major revenue categories follow:

Operating Revenue

The Authority's Operating Revenues come from Revenue from Transportation (fare revenue) and Other Operating Revenue (advertising, parking, and income from real estate operations). Total Operating Revenue is projected to increase by \$35.2 million (6.1%) to a total \$614.6 million in FY 2014. The increase is due to the following:

	<u>Increase/(Decrease)</u>
• Fares	\$32.3 million
• Advertising	\$1.8 million
• Other Real Estate Operations	\$1.3 million
• Parking	<u>(\$0.2 million)</u>
 Net Increase:	 \$35.2 million

¹ See Tab C for history of the net operating investment per passenger mile ratio since the advent of forward funding.

The Authority's proposed fare revenue budget of \$569.2 million achieves a fare recovery ratio² of 40.0%—just slightly lower than the FY 2013 budgeted fare recovery ratio of 40.4%. The fare budget represents a 6.0% increase over FY 2013 and recognizes that because ridership did not fall off after the July 1, 2013 fare increase as predicted in the Potential *MBTA Fare Increase and Service Reductions in 2012: Impact Analysis*, fare revenue has exceeded budget through the first 8 months of FY 2013 by 5.8% or \$20.4 million. The FY 2014 fare budget is based on projected FY 2013 fare revenue of \$563.6 million with a 1% increase for ridership growth in FY 2014.

Advertising revenue is projected to increase by \$1.8 million (14.4%) due to the following: station and vehicle advertising (Titan and Clear Channel), on-line advertising, merchandise revenue, and digital billboard advertising.

The \$1.3 million increase in income from other real estate operations is due largely to the fact that the Authority no longer pays MassPort for Silver Line boardings—a savings of \$1.2 million with a corresponding loss in fare revenue. MassPort continues to offer free Silver Line service from Logan Airport.

The total parking budget for FY 2014 is \$15.7 million. The decrease in parking income at MBTA lots is the result of some underutilization and the fact that the MBTA no longer receives income from the Anderson Regional Transportation Center.

Non-Operating Revenue

The Authority's Non-operating Revenue currently comprises four major categories—dedicated local assessments, dedicated sales tax, contract assistance, and other income. The FY 2014 budget request adds a new category of Other State Assistance, which is the method by which the Authority is offering a balanced budget. In total Non-operating Revenue will increase by \$65.1 million (5.5%) to a total of \$1.252 billion.

Dedicated Local Assessments

The funds from local government in the MBTA district will increase by 0.8% (\$1.2 million) to a total of \$157.1 million. Assessments can increase by no more than 2.5%. The increase is based upon the Consumer Price Index, which in FY 2012 grew no more than 0.8%.

Dedicated Sales Tax

Revenue receipts from the state sales tax will increase by 1.6% (\$12.4 million) to a total of \$799.3 million. Actual sales tax receipts for CY 2012 were up 2.6% but because the guaranteed amount increases at the lower of inflation or actual sales tax receipts, the Authority received the inflationary increase.

² The FRR is calculated as fare revenue divided by operating expenses (excluding debt service).

Contract Assistance

The budget request assumes an appropriation of state contract assistance in the amount of \$160.0 million.

Other State Assistance

The amount of \$118.1 million reflects the minimum required from the Commonwealth in the MassDOT proposal for transportation funding, *The Way Forward: A 21st-Century Transportation Plan* to have a balanced budget. This assistance will avert the need to use costly, one-time gap funding in FY 2014 which would have a detrimental effect on the Authority's capital program as well as increasing the reliance on bond funding.

Other Income

The Authority's income line items are a combination of miscellaneous revenue sources, which include interest income, property sales, funds from federal government, utility reimbursements, and "other" which includes natural gas tax rebates. The Authority's budget request of \$17.5 million reflects a dramatic decrease of \$66.7 million from FY 2013 because the following items with an asterisk were one time infusion of funds to help balance the FY 2013 budget:

	<u>Increase/(Decrease)</u>
• MassDOT Motor Vehicle Inspection Trust Fund Transfer*	(\$51.0 million)
• MassDOT Snow and Ice Removal Surplus Transfer*	(\$5.0 million)
• THE RIDE Federal Reimbursements*	(\$5.0 million)
• Property Sales	(\$5.0 million)
• Other—Gas Rebates and Utility Reimbursements	<u>(\$0.5 million)</u>
Net Decrease:	(\$66.5 million)

The Authority's projected total own source revenue, i.e. all revenue except dedicated revenue including contract and other state assistance, achieves a revenue recovery ratio of 44.4%—lower than the budgeted FY 2013 revenue recovery ratio of 49.4%.

FY 2014 Operating Expenses

Operating expenses will increase by 7.0% in FY 2014. The need for \$93.5 million in additional resources falls into two categories: (1) ongoing operations and quality of service and (2) contractual and statutory obligations. The Authority has generated significant cost reductions, which have helped minimize the overall operating expense increase.

Ongoing Operations and Quality of Service

The Authority will require \$50.8 million in additional funds in FY 2014 for the following, largely non-controllable, costs:

- \$18.7 million for materials, services and supplies across all Authority operations for maintenance of an aging fleet and a more progressive preventive maintenance program
- \$16.7 million for Purchased Commuter Rail Service which includes the following: \$9.0 million for mobilization costs associated with a new operating agreement; \$4.6 million for train fuel; \$3.6 million for MBCR right-of-way capital maintenance; and \$2.0 million for other expenses. Offsetting these increases is a reduction in payments to CSX for \$2.5 million.
- \$8.2 million in wages to account for increased vehicle and infrastructure maintenance
- \$4.3 million for casualty and liability: \$4.0 million for injuries and damages, which is an add-back from last year's budget because tort reform didn't receive legislative approval, and \$0.3 million for risk insurance
- \$1.3 million for gasoline and diesel fuel in Bus Operations
- \$0.6 million for additional staffing in the Safety and Diversity departments to address federal oversight requirements
- \$0.6 million for utilities and power
- \$0.4 million for Authority financial service charges

Contractual and Statutory Obligations

The Authority will require \$56.7 million in additional funds in FY 2014 as a result of wage and payroll costs and existing contractual and statutory obligations as follows:

- \$33.6 million for the Commuter Rail contractual fixed price contract increase with MBCR (includes base contract, Greenbush, and scope changes for the CSX/Worcester right-of-way maintenance costs)
- \$8.3 million for 2% pattern bargaining wage increases
- \$5.7 million for pension costs for employer contributions to the MBTA Retirement Fund and the MBTA Police Association Retirement Plan

- \$4.4 million for Water Transportation contracts, largely associated with the MBTA retention of fare revenue and its reclassification to fare revenue and not a direct offset to the Local Service Subsidy line item
- \$2.8 million for State Transportation Building rent, which had been excused in FY 2013 as part of the Authority's FY 2013 balanced budget solution
- \$1.3 million for FICA
- \$0.6 million for Private Carrier Bus

Cost Reductions

Offsetting the requested budget increases associated with ongoing operations and quality of service and contractual and statutory obligations are cost reductions largely attributable to Transportation Reform, which collectively total \$14.0 million:

- \$11.8 million for decreased healthcare expenses as a result of the remaining unionized employees and unionized retirees transferring to the Group Insurance Commission (GIC) by October 2013³
- \$1.7 million in contract cleaning savings from the new contract
- \$0.4 million in THE RIDE due to lower projected ridership
- \$0.1 million for decreased group life insurance expenses as a result of the remaining unionized employees and unionized retirees transferring to the Group Insurance Commission (GIC)
- \$39 thousand in workers' compensation savings
- \$33 thousand for decreased disability insurance expenses as a result of the remaining unionized employees and unionized retirees transferring to the Group Insurance Commission (GIC)
- \$22 thousand for lower unemployment claims

³ The remaining unionized employees and unionized retirees will go into the GIC as soon as they have successor collective bargaining agreements to the ones which have expired. The expectation in the budget request is that the remaining four unions with expired contracts will enter the GIC by October 1, 2013.

FY 2014 Debt Service

Interest and Principal Expenses

The FY 2014 budget continues to reflect increases in principal and interest payments as the bill on the Authority's \$5.45 billion⁴ in outstanding debt comes due. This \$5.45 billion in outstanding MBTA debt originates directly from three sources: "prior obligation debt" inherited by the MBTA at the onset of Forward Funding in 2000, projects required to be built and funded by MBTA as transit legal commitments associated with the Central Artery project permitting process, and the Authority's commitment to act as a good steward of the system and direct the majority of the Capital Investment Program to State of Good Repair projects. The Authority's share of this capital investment continues to be drawn from bond funds due to the persistent lack of growth in sales tax revenues and the corresponding scarcity of available pay-as-you-go capital.

Currently, no dedicated funding source exists to pay for the Authority's portion of the Capital Investment Program. As a result, sales tax, assessment, and the Authority's own source revenues must cover both operating and capital expenses. The Authority's five-year Capital Investment Program is funded by five sources: revenue bonds, federal grants, state infrastructure funds, grant anticipation notes, and pay-as-you-go capital. In FY 2014, as in past years, the MBTA's non-federal portion of the capital program will be funded primarily by the issuance of new revenue bonds which will only further contribute to the unsustainable pattern of escalating principal and interest costs.

Total debt service in FY 2014 is \$443.8 million, which represents an increase of approximately \$6.8 million over the FY 2013 debt service budget. No debt restructuring is included in the FY 2014 budget. Principal and interest will continue to remain high over the next several years. Much of the current debt has been refinanced at a lower cost over the past ten years, but those savings opportunities no longer exist.

Lease Payments

Lease payments for revenue and non-revenue vehicles will decrease due to expiring leases by \$0.5 million to \$5.1 million. These payments provide funding for tax-exempt vehicle leases that support vehicle purchases for THE RIDE program, the MBTA's police department, system-wide maintenance, and service delivery.

RECOMMENDATION

It is recommended that the Board of Directors approve the proposed FY 2014 annual operating budget and authorize the General Manager to submit the budget to the MBTA Advisory Board.

⁴ \$8.8 billion, inclusive of interest

ATTACHMENTS

- Tab A Recommended Vote
- Tab B Statement of Revenue and Expenses
- Tab C Net Operating Investment per Passenger Mile: FY 2001—FY 2014
- Tab D Chart of FY 2014 Budget Revenues
 Chart of FY 2014 Budget Total Expenses—Operating Expenses and Debt Service

RECOMMEND APPROVAL

Mary E. Runkel, Director of Budget

Jonathan R. Davis, Deputy General Manager and Chief Financial Officer

Rachael Rollins, General Counsel

Beverly A. Scott, Ph.D., General Manager and Rail & Transit Administrator

TAB A

RECOMMENDED VOTE

That the Board of Directors approve the Authority's budget of current operating expenses and debt service costs for a one year period—July 1, 2013 through June 30, 2014—in the amount of \$1,866,555,455 in the form submitted at this Meeting; and

That the General Manager is hereby authorized and directed to submit the budget, in the name and on behalf of the Authority, to the MBTA Advisory Board no later than April 15, 2013 in accordance with Section 20 of Chapter 161A of the Massachusetts General Laws.

TAB B

Massachusetts Bay Transportation Authority
Fiscal Year 2014 Statement of Revenue and Expenses

REVENUE	FY12 Actuals	FY13 Budget	FY14 Budget	FY14 % Incr/Decr over FY13 Budget	FY14 \$ Incr/Decr over FY13 Budget
Operating Revenues					
Revenue from Transportation	465,755,373	536,860,339	569,188,335	6.0%	32,327,996
Other Operating Revenue	47,433,748	42,482,930	45,370,348	6.8%	2,887,418
Total Operating Revenue	513,189,122	579,343,269	614,558,683	6.1%	35,215,414
Non-Operating Revenues					
Dedicated Local Assessments	152,125,176	155,902,644	157,149,865	0.8%	1,247,221
Dedicated Sales Tax	781,072,865	786,866,938	799,295,175	1.6%	12,428,237
Contract Assistance	160,000,004	160,000,000	160,000,000	0.0%	0
Other State Assistance			118,059,456		118,059,456
Other Income	50,958,509	84,150,554	17,492,276	-79.2%	(66,658,278)
Total Non-Operating	1,144,156,554	1,186,920,136	1,251,996,772	5.5%	65,076,636
TOTAL REVENUES	1,657,345,676	1,766,263,405	1,866,555,455	5.7%	100,292,050
EXPENSES					
Operating Expenses					
Wages	410,179,988	415,212,217	432,264,427	4.1%	17,052,210
Fringe Benefits					
Pensions	61,663,982	65,326,526	71,047,148	8.8%	5,720,622
Healthcare	123,472,363	121,472,448	109,687,835	-9.7%	(11,784,613)
Group Life	1,046,683	807,539	702,045	-13.1%	(105,493)
Disability Insurance	53,682	46,048	13,459	-70.8%	(32,589)
Workers' Comp	9,704,584	10,352,124	10,313,118	-0.4%	(39,006)
Other Fringe Benefits	122,595	225,479	238,192	5.6%	12,713
Total Fringe Benefits	196,063,889	198,230,163	192,001,798	-3.1%	(6,228,365)
Payroll Taxes					
FICA	31,405,752	31,763,735	33,068,229	4.1%	1,304,494
Unemployment	2,019,832	1,915,645	1,892,886	-1.2%	(22,759)
Total Payroll Taxes	33,425,584	33,679,380	34,961,115	3.8%	1,281,735
Materials, Supplies and Services	194,469,689	202,060,879	223,861,870	10.8%	21,800,991
Casualty and Liability	16,453,326	11,435,693	15,728,736	37.5%	4,293,043
Purchased Commuter Rail Service	318,286,891	337,333,564	387,616,249	14.9%	50,282,685
Purchased Local Service Subsidy	118,198,408	125,727,144	130,304,027	3.6%	4,576,882
Financial Service Charges	5,498,809	5,560,000	5,990,000	7.7%	430,000
Total Operating Expenses	1,292,576,584	1,329,239,040	1,422,728,221	7.0%	93,489,182
Debt Service Expenses					
Interest	238,971,442	244,149,664	239,787,256	-1.8%	(4,362,408)
Principal Payments	113,383,407	187,281,197	198,982,899	6.2%	11,701,702
Lease Payments	10,251,400	5,593,504	5,057,079	-9.6%	(536,425)
Total Debt Service Expenses	362,606,249	437,024,365	443,827,234	1.6%	6,802,869
TOTAL EXPENSES	1,655,182,833	1,766,263,405	1,866,555,455	5.7%	100,292,051
Net Revenue	2,162,843	0	0		
Transfer	(2,162,843)				
NET Revenue in Excess of Expenses*	0	0	0		

Revenue Recovery	43.6%	49.9%	44.4%
Fare Recovery	36.0%	40.4%	40.0%

TAB C

Massachusetts Bay Transportation Authority
Net Operating Investment Per Passenger Mile
 FY 2000 - FY 2014 (Estimate)

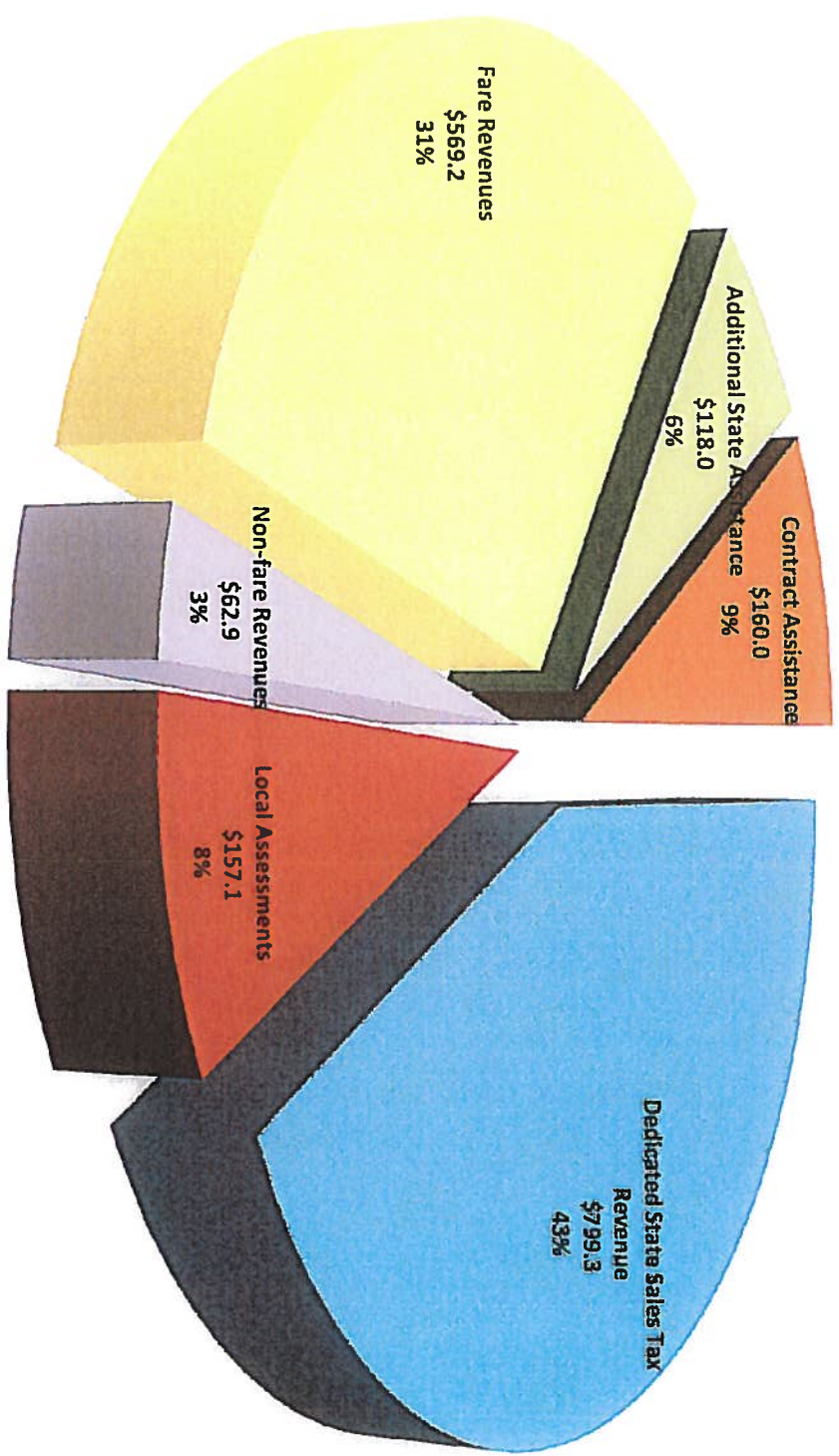
	Operating Expenses	Fare Revenue*	Nontransportation Income	Net Investment	Passenger Miles	Investment Ratio
FY 00	\$710,709,000	\$250,311,546	\$30,018,357	\$430,379,097	1,677,781,807	\$0.257
FY 01	743,142,996	304,111,591	45,281,818	393,749,587	1,818,140,290	0.217
FY 02	777,599,108	306,055,452	35,091,440	436,452,216	1,823,179,910	0.239
FY 03	807,022,088	301,573,334	36,245,793	469,202,961	1,874,755,722	0.250
FY 04	841,426,948	324,495,868	40,868,642	476,062,438	1,862,072,081	0.256
FY 05	893,131,388	346,616,883	38,626,474	507,888,031	1,738,697,937	0.292
FY 06	944,126,332	365,981,713	51,831,571	526,313,048	1,767,605,772	0.298
FY 07	987,148,623	421,216,492	45,924,913	520,007,218	1,734,986,303	0.300
FY 08	1,045,213,616	474,555,710	32,976,932	537,680,974	1,808,234,000	0.297
FY 09	1,143,483,506	488,787,278	41,425,192	613,271,036	1,880,345,528	0.326
FY 10	1,179,805,066	481,684,788	31,338,787	666,781,491	1,704,706,344	0.391
FY 11	1,222,769,952	491,567,973	37,231,177	693,970,802	1,826,691,501	0.380
FY 12	1,295,890,428	\$492,781,896	\$71,753,567	\$731,354,965	1,845,573,805	0.396
FY 2013 (Budget)	1,330,346,640	559,836,481	28,014,942	742,495,217	1,845,573,805	0.402
FY 2014 (Estimate)	1,423,999,057	589,391,977	29,353,087	805,253,993	1,864,029,543	0.432

* Fare Revenue includes Parking Lot Proceeds.

Note: Section 11 of Chapter 161A of Massachusetts General Laws stipulates that beginning in FY2006, the Authority should seek to achieve and maintain a target ratio of not more than 20 cents for any fiscal year. The legislation instructs the Authority to calculate the ratio using for the values of the variables the data reported each year to the Federal Transit Administration for the National Transit Database. As such, the data in the above chart differs slightly from the Authority's Statement of Revenue and Expenses.

TAB D

Massachusetts Bay Transportation Authority
Fiscal Year 2014 Budget
Revenues



State and Local Funding = \$1.234 Billion
Total Revenue = \$1.866 Billion

Massachusetts Bay Transportation Authority
 Fiscal Year 2014 Budget
Operating Expenses and Debt Service

