



Massachusetts Bay Transportation Authority

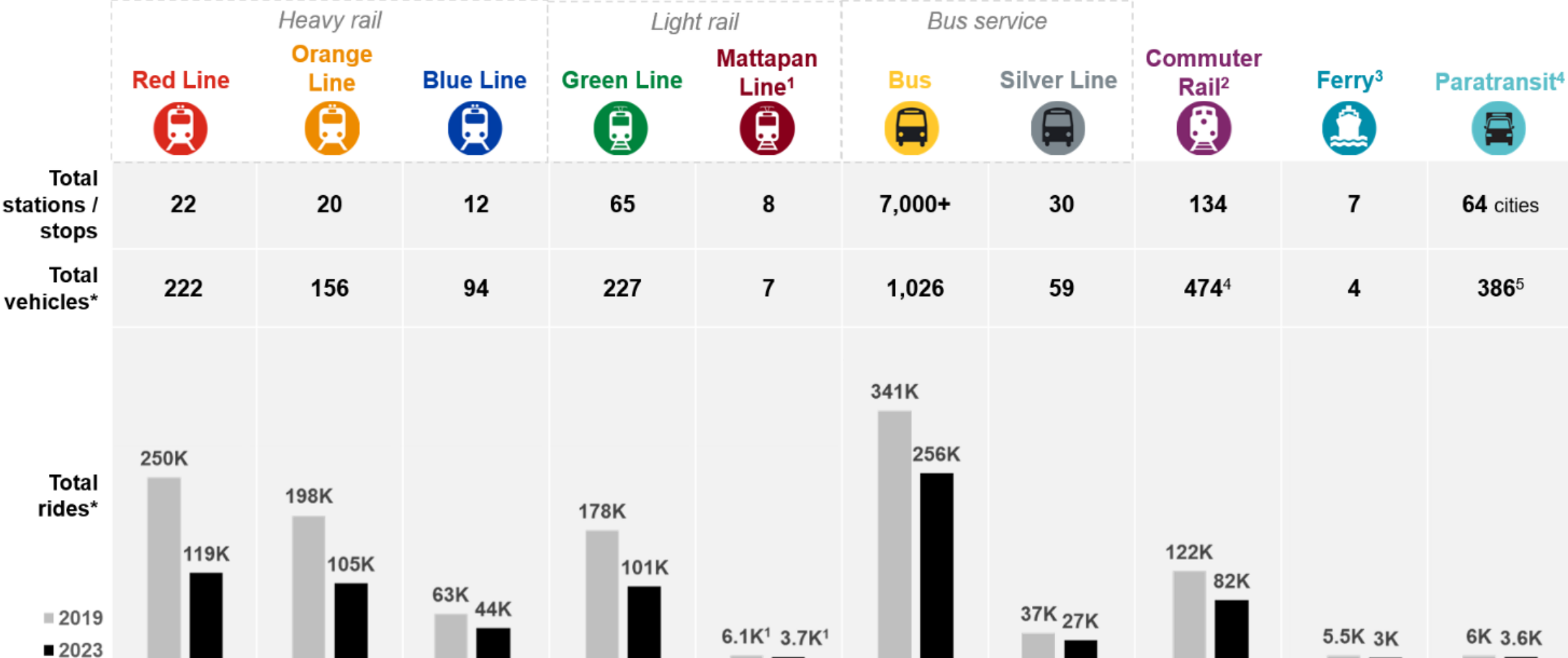
History of Funding Update

MBTA Board of Directors
August 22, 2024

Mary Ann O'Hara, CFO
Pat Landers, Treasurer

MBTA by the Numbers

The MBTA is the oldest transit system in the US and the 4th largest, operating 5 modes of travel.



*Reflects active vehicle counts as of June 2022 and average weekday unlinked trips/rides as of March 2019 and March 2023; ¹2019 Mattapan Line ridership estimated as of Fall 2018. 2023 average weekday trips on the Mattapan Line is estimated from passenger counts conducted during Spring 2023; ² Operated by Keolis; ³ Operated by Boston Harbor Cruises; ⁴ Operated by National Express Transit and Veterans Transportation Services; ⁵ 81 locomotives and 393 coaches; ⁶ 151 automobiles and 235 vans

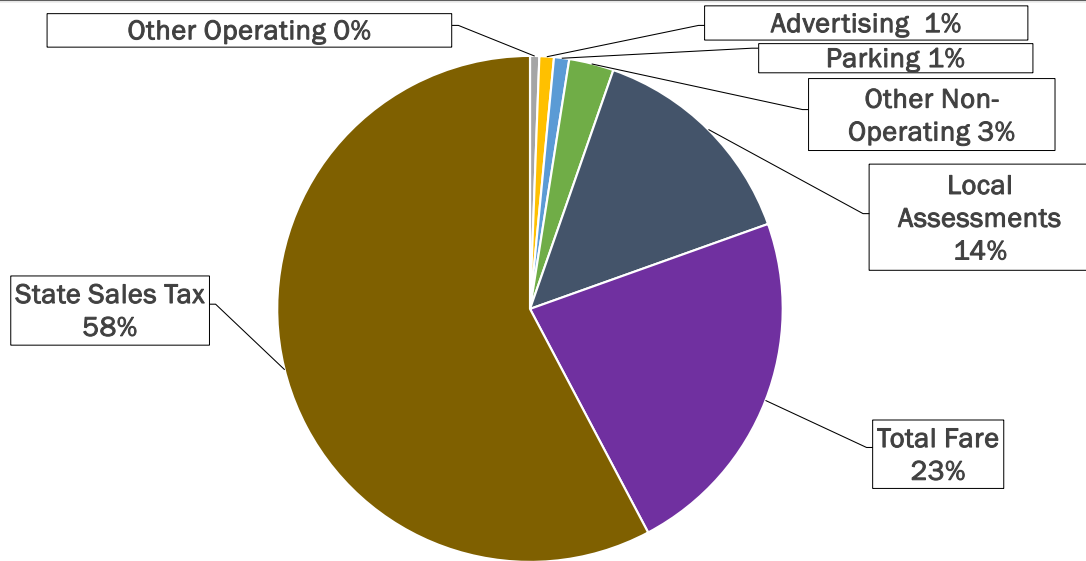
2000: Implementation of Forward Funding / Sales Tax & Debt

- Forward Funding was an attempt by the legislature to impose fiscal discipline on the Authority, which was perceived to be operating in an environment in which they could incur expenses and pass them along to the Commonwealth without legislative control.
- Forward Funding aimed to identify a dedicated source of revenue and to impose fiscal discipline on the MBTA. (Sales Tax)
- Prior to Forward Funding, MBTA's debt was supported by the full faith and credit of the Commonwealth's General Obligation pledge. This debt is commonly referred to as 'Legacy Debt.'
- With Forward Funding, the MBTA was given dedicated tax sources, however, the MBTA also took on **\$3.3 billion** of Legacy Debt associated with prior obligations of the MBTA and took on **\$0.5 billion** for a series of transit commitments in connection with the Central Artery Project, eventually Post 2000 increasing to **\$1.5B**

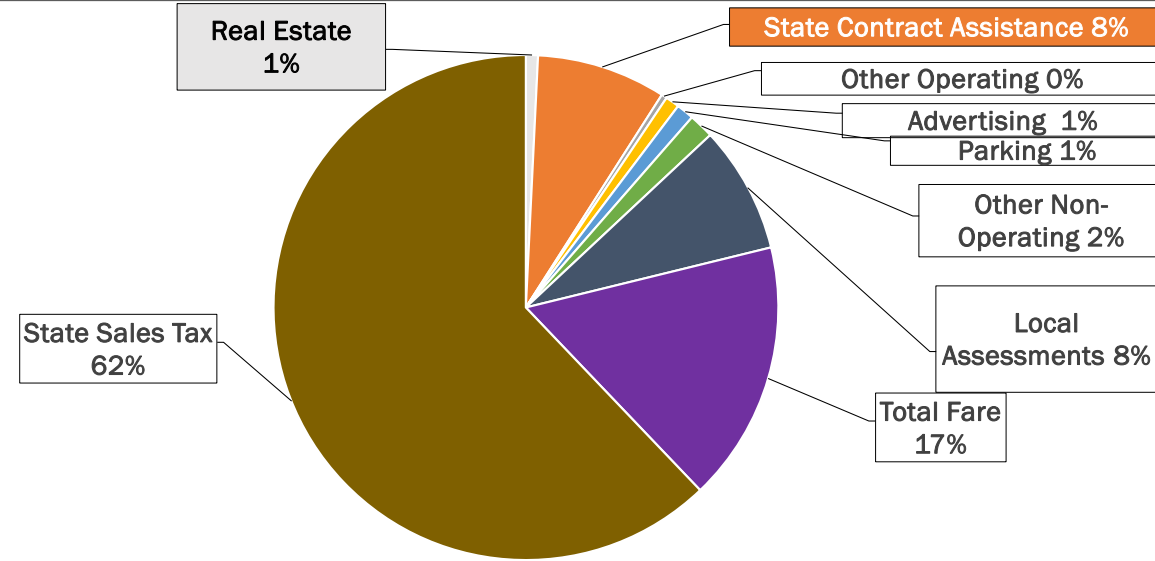


MBTA Total Revenue by Source

2000



2023

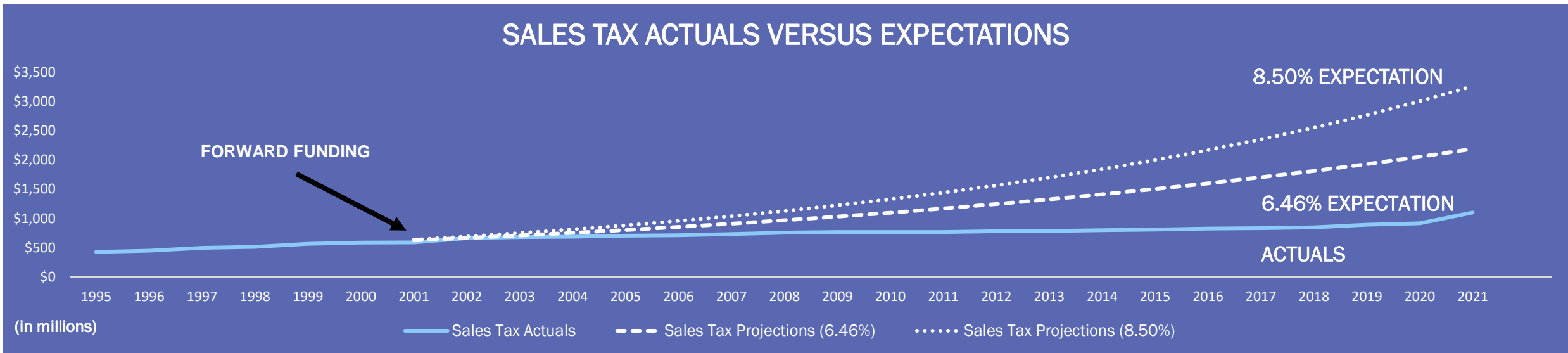


Forward Funding Sales Tax Performance

In 2000, the Commonwealth established “Forward Funding” to fix what was perceived as ungoverned spending by the MBTA.

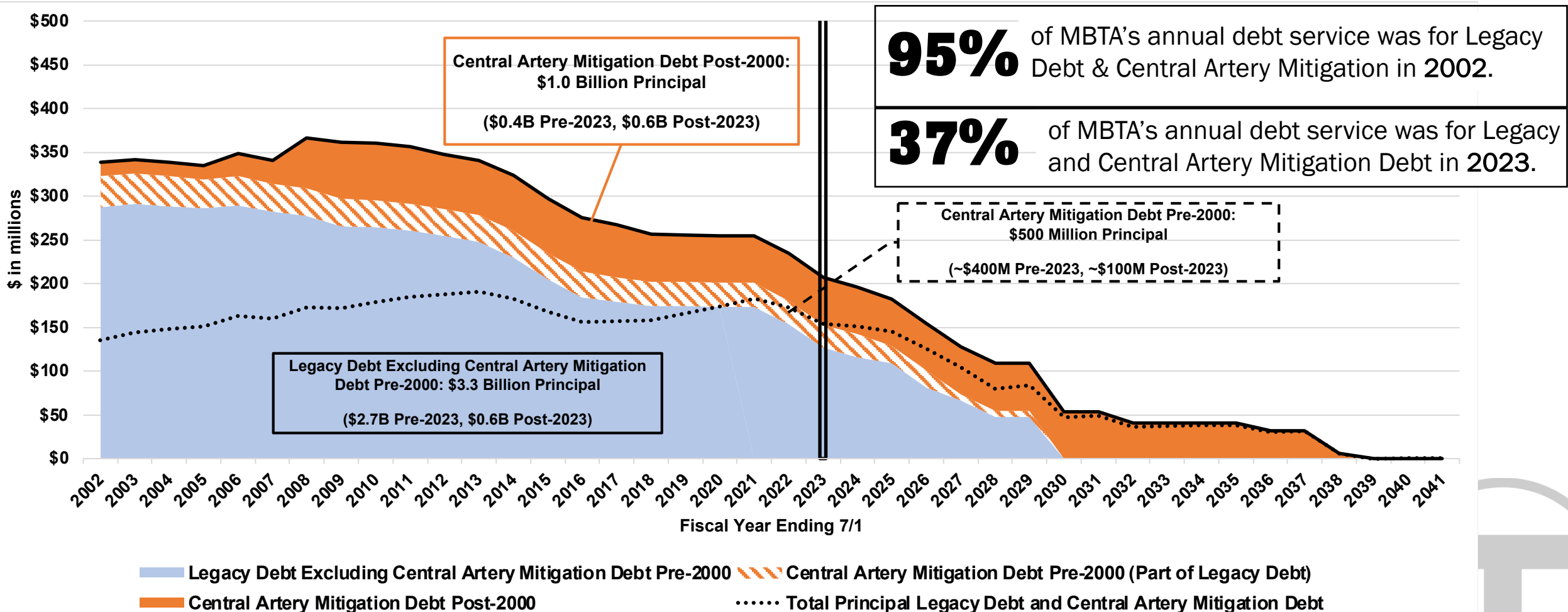
- With Forward Funding, the MBTA receives one percent of the statewide sales tax (6.25%) and local assessments that were conditioned upon payment of the debt service on these obligations.

Sales tax revenue grossly underperformed expectations in the first 20 years, growing at an average annual growth rate of 2.29% instead of the anticipated 6.46% - 8.50%, which resulted in **\$8.9-\$15.5 billion of lost revenue in nominal dollars** as compared to expectation.



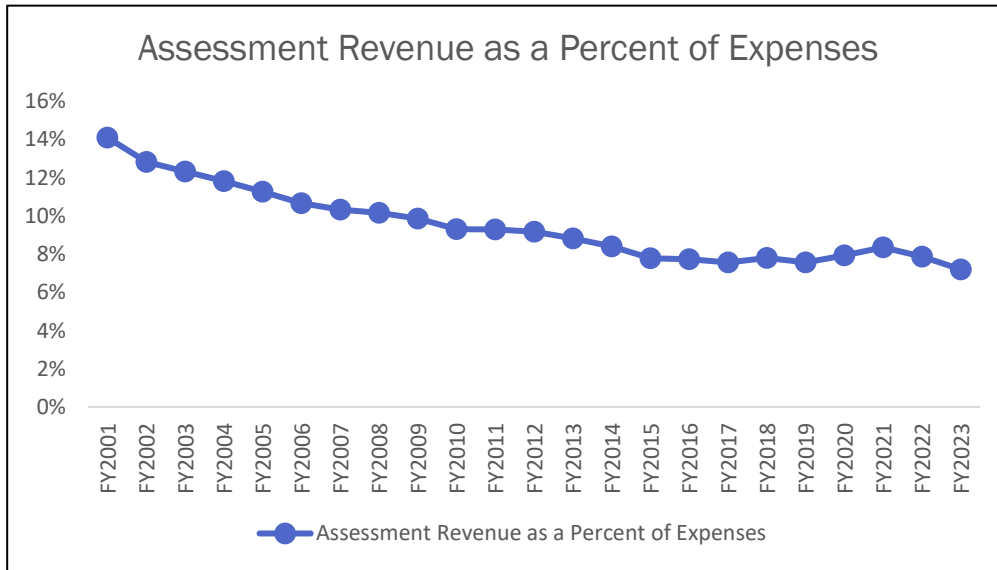
MBTA: Legacy & CA/T Debt Burden

COMBINED LEGACY & CA/T (transit related) ANNUAL DEBT SERVICE



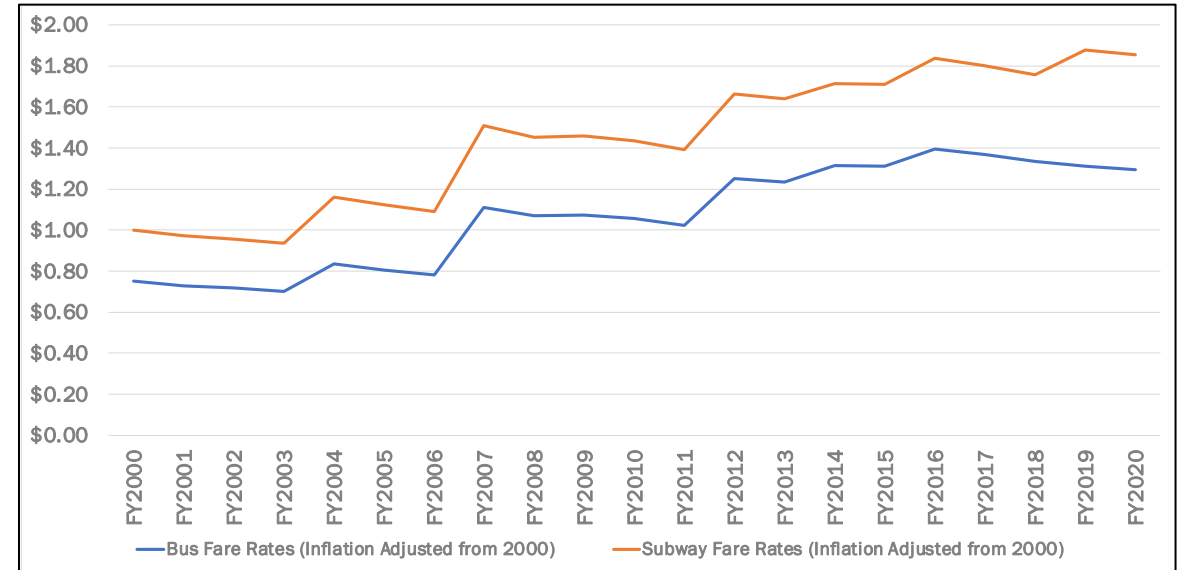
Other MBTA Revenue - Actuals

ASSESSMENT



Assessment revenue matched revenue projections in The Forward Funding Finance Plan (May 2000) (Finance Plan). **The ramp down in the first five fiscal years was in the Forward Funding Act**, with subsequent growth limited to 2 1/2 % by statute, well below inflation in some years.

FARE RATE INCREASES

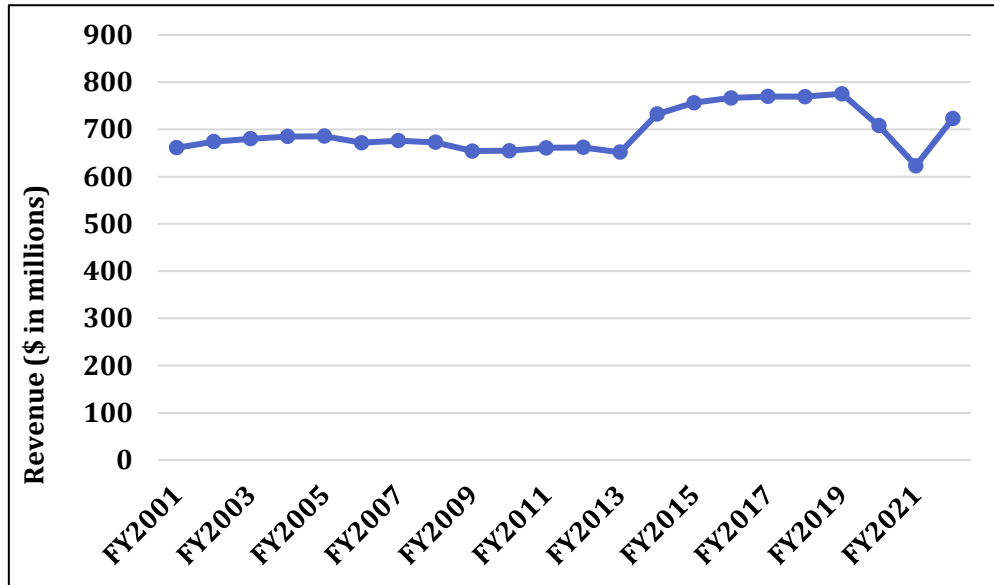


Since 2000, Fare rates have only increased by \$0.54 (Bus) and \$0.85 (Subway) on an inflation adjusted basis.¹

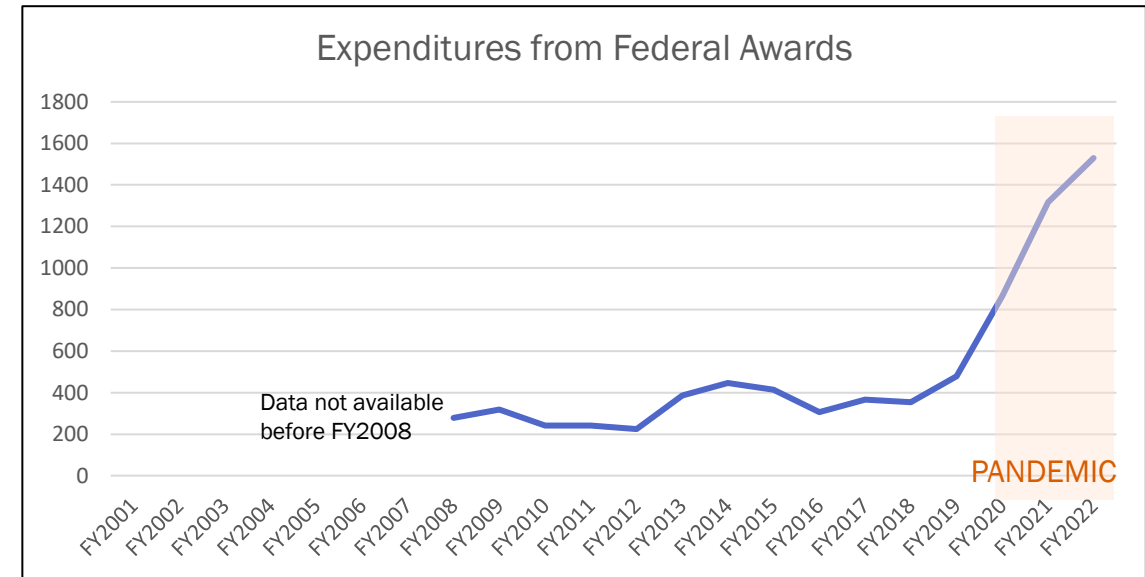


Other MBTA Revenue - Actuals

Massachusetts Motor Fuel Sales Tax Revenue (funds Commonwealth Transportation Fund)



FEDERAL



Federal funding has provided support for the MBTA capital program. It has remained relatively flat during this period, with TEA-21 and SAFETEA-LU relying primarily on formula funding, with a shift in the MAP-21 and FAST Act reauthorizations to adding more innovative finance and competitive grant programs. Other federal awards were from special stimulus programs and special acts.



System Expansion Increases Operating Expenses

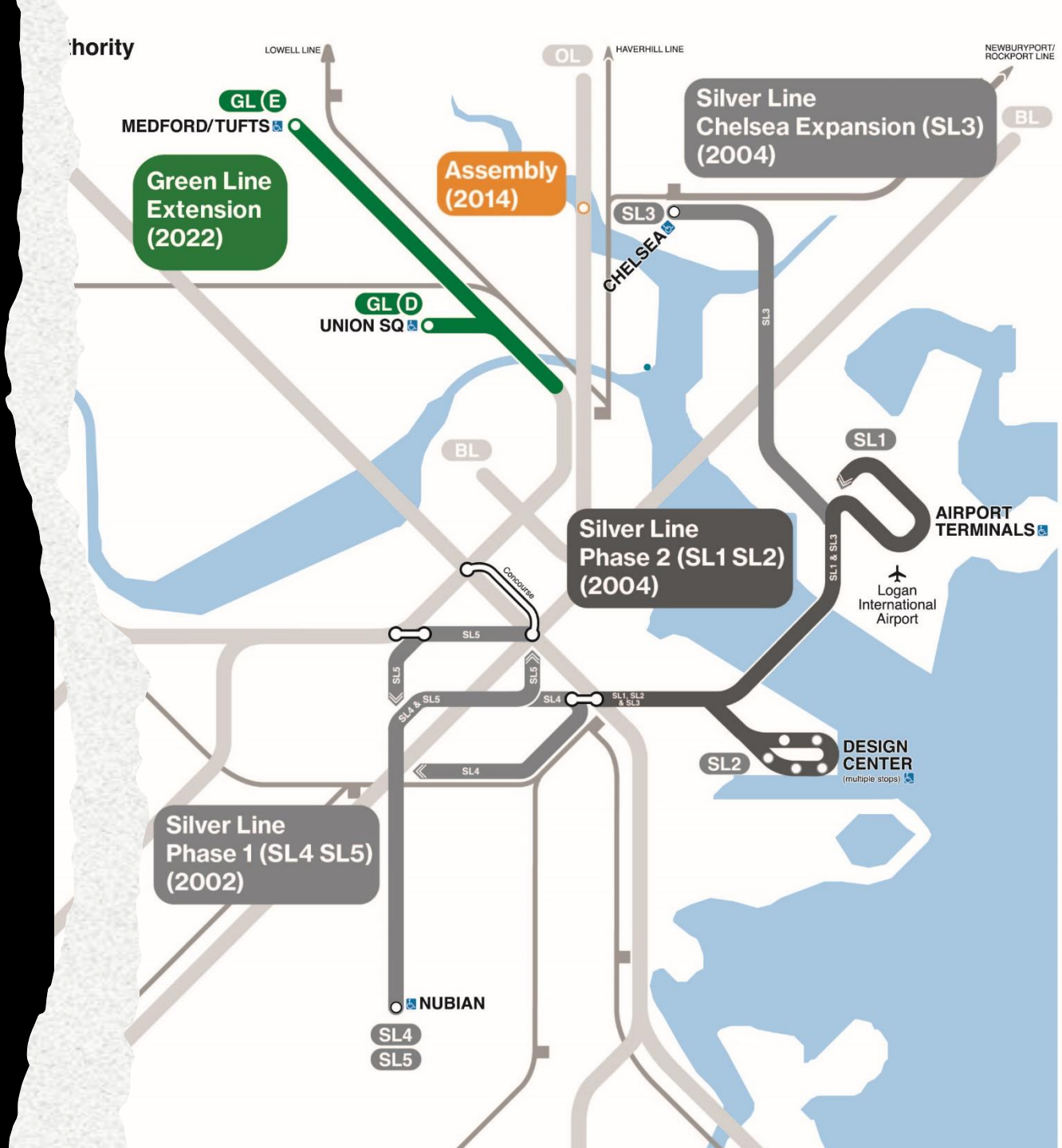
- When you expand a subsidized system, it requires more subsidy to operate the system.
- Pre-Pandemic fare recovery ratio was 41%, so 59% of operating expenses were absorbed by MBTA's operating budget.
- Post-Pandemic fare recovery ratio has dropped to roughly 19%, leaving about 81% of operating expenses absorbed by the operating budget.

Major Capital Commitments related to Central Artery Mitigation Plan:

Central Artery Project	Estimated Spend as Part of MBTA Central Artery Debt (\$ in millions) ¹
Greenbush	\$518.0
Red Line Rolling Stock	\$156.5
Old Colony Extension to Middleboro and Plymouth	\$120.4
South Boston Piers Electric Bus Service (Silver Line)	\$120.0
Blue Line Lengthening and Modernization	\$118.2
Commuter Rail Extension to Worcester	\$99.9
Commuter Rail Extension to Newburyport	\$91.2
Green Line Extension (GLX)	\$38.0



Rapid Transit System Expansion since 2000



Commuter Rail System Expansion since 2000

Since 2015, MassDOT has assisted with funding certain expansion projects



Expanded or New Commuter Rail Lines

Customer Communications & Travel Info
617-222-3200, 800-392-6100,
TTY 617-222-5146, www.mbta.com

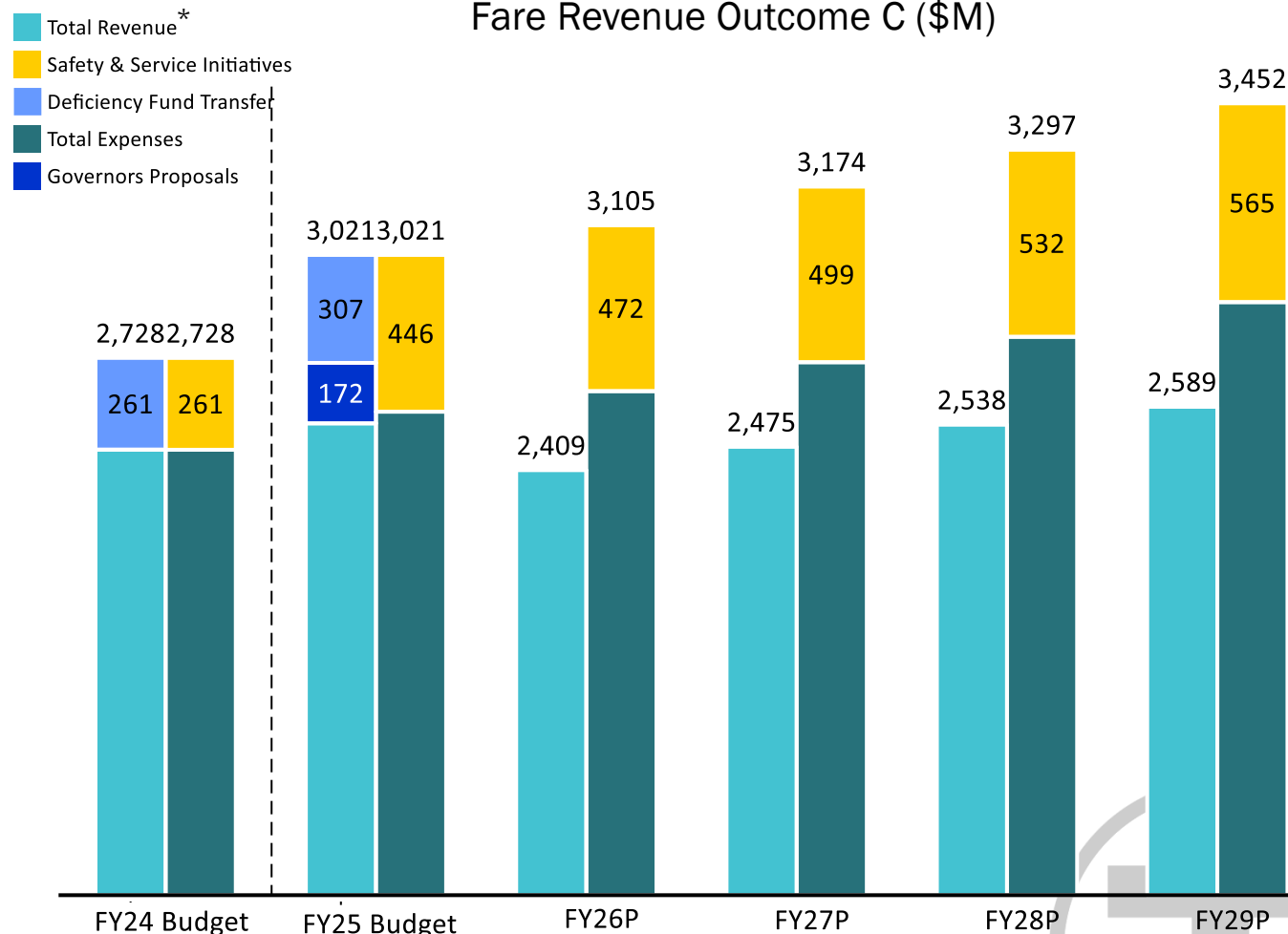
MBTA Transit Police: 911

FY24 – FY29 Pro Forma Recap

(Presented in Final Operating Budget Presentation in June 2024)

- The FY25 Operating Budget utilizes the deficiency fund and relies on additional state appropriations to balance
- After implementation of FY25 budget, the MBTA will introduce a **~\$93M savings target** to accrue over the course of the fiscal year (July 1, 2024 – June 30, 2025). The savings will be deposited into the deficiency fund to help offset the projected budget gap in FY26. The following actions will be taken to achieve this target:
 - Review of professional services and consulting contracts to see where reductions can be made
 - Identifying efficiencies between departments
- As the MBTA continues to hire front line workers, accelerate maintenance, and build back to pre-pandemic service levels, ***identifying ~\$93M in savings becomes harder to accomplish***
- Deficiency fund balance and cash reserves available in FY25 will depend on numerous factors including fare revenue, FY24 potential favorability, and hiring and attrition rates.
- Looking ahead to FY26 and beyond, structural budget gaps of \$696M - \$863M are projected as expense growth outpaces revenue growth, creating the need for a long-term funding solution

FY24 – FY29 Projected Revenues & Expenses
Fare Revenue Outcome C (\$M)



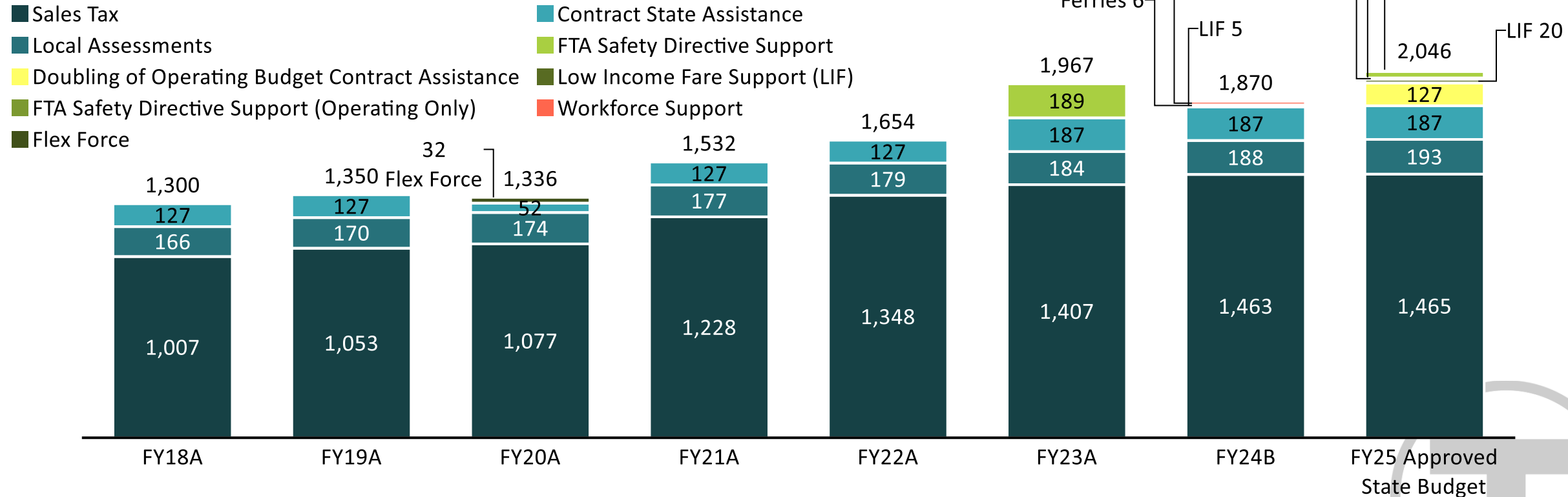
Budget Deficit	FY24 Budget	FY25 Budget	FY26P	FY27P	FY28P	FY29P
	\$0M	\$0M	-\$696M	-\$740M	-\$782M	-\$863M

*Assumes \$187M in annual contract assistance and sales tax revenue growing at ~2.2% (\$1.463b sales tax revenue assumed in FY24 Budget)

Recap of State Support for the MBTA

- Additional state support has directly contributed to improvements in the MBTA's hiring capabilities, accelerating the completion of FTA Safety Directives, service delivery and maintenance goals, and preparing the MBTA to expand service via South Coast Rail, Bus Network Redesign and additional ferry routes

Operating State Support

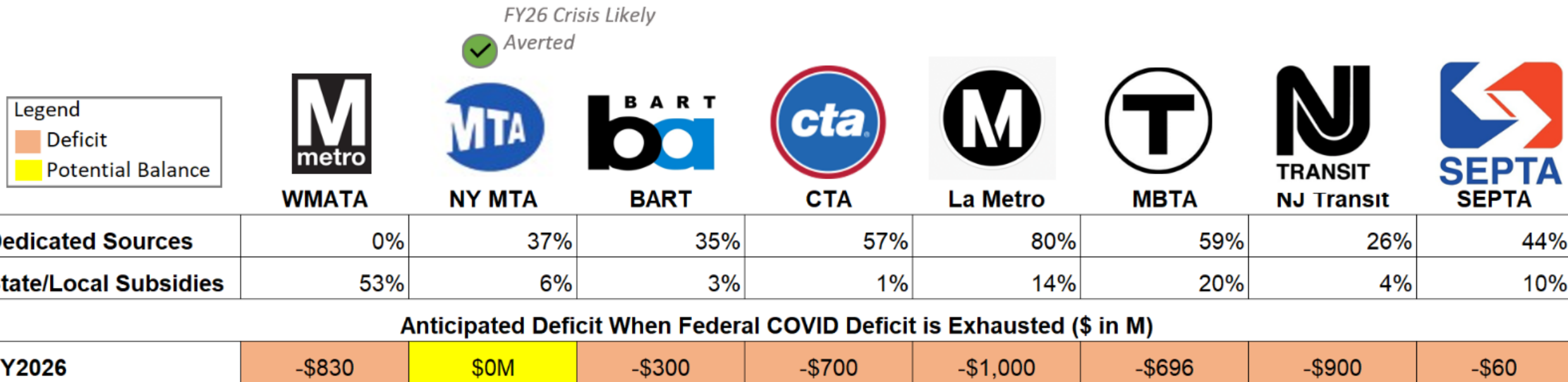


Note: State capital support is excluded from this chart. \$189M in FY23 is only the operating portion of the \$378M FTA Safety Directive Support

Peer Transit Agencies Projected Deficits

(Presented 1/18/24)

- Peer transit agencies with significant legislative support, such as MTA, have leveraged new revenue sources such as payroll mobility taxes, fare increases, and gaming license revenue to create future year surpluses for investments in safety & service
- Agencies without legislative support, such as WMATA, originally proposed up to 60% service cuts to balance their FY25 budgets
- The MBTA's FY25 recently passed with support from the Governor and Legislature, which is a huge step in the right direction to help support ambitious safety & service investments



From WMATA Future Financial Planning FY2025-2035 presentation June 22, 2023. SEPTA Federal Relief depletes in FY2024. SEPTA using Stabilisation Fund for FY2025 and FY2026 CTA amount for entire Chicago -RTA region. MBTA Deficits Updated with January 2024 Pro Forma Projection (Outcome C). Based on publicly available sources as Month/Year

Service has expanded while revenues have decreased, supplemented by state assistance

Service & Expenses Up

- South Coast Rail
- Green Line Extension
- Expansion of Ferry routes
 - Lynn, Winthrop, East Boston
- Income Eligible Reduced Fares
- Bus Network Redesign
- Tap to Ride/AFC 2.0 Fare transformation
- 1000 + New Hires
 - More hires necessary per Workforce Assessment
- Track Improvement Program
- Central Artery & Legacy Debt

MBTA Revenue Down

- Federal COVID Relief funds backstopping structural decrease in fare revenue no longer available
- The year over year ridership recovery has slowed, despite some recent gains on the commuter rail, compound the structural deficit
- Sales Tax revenue growth is flat and has not kept pace with Forward Funding projections
- Gas Tax revenue not keeping pace with inflation

State & Fed Assistance Up

- Sales Tax 5% to 6.25%, led to \$160M annually recurring Contract Assistance (2009)
- Transportation Finance Framework, \$500M of new tax revenue. Led to \$187M of annually recurring Contract Assistance (2014)
- Federal Assistance \$2B (2020 - 2023)
- Fair Share \$211M (2024)

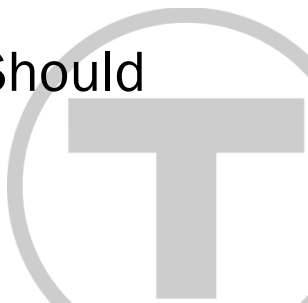


Establishment of Contract Assistance



Increased Sales Tax in 2009

- In 2000, Forward Funding established that the MBTA would receive a 1% statewide Sales Tax, excluding meals, with the establishment of the MBTA State and Local Contribution Fund (Section 35T of Chapter 10).
 - 20% of the then current 5% statewide Sales Tax
 - This amount is known as the Dedicated Sales Tax Revenue Amount (“DSTRA”).
- In 2009, the Commonwealth raised the statewide Sales Tax from 5% to 6.25%.
 - The justification for the increase was to make investments in transportation and education and other pressing public needs.
- During implementation of the tax increase, a question arose as to what effect the additional 1.25% of Sales Taxes would have on the MBTA’s DSTRA disbursements: Should the MBTA receive 20% of the 1.25% increase?



Establishment of Contract Assistance

- It was determined that the MBTA would not receive 20% of the 1.25% increase as it would have required an amendment to the original language which specifies 1% of collections rather than 20% of total collections

Enabling Act, Title 12, Chapter 161A of the General Laws, Section 35T

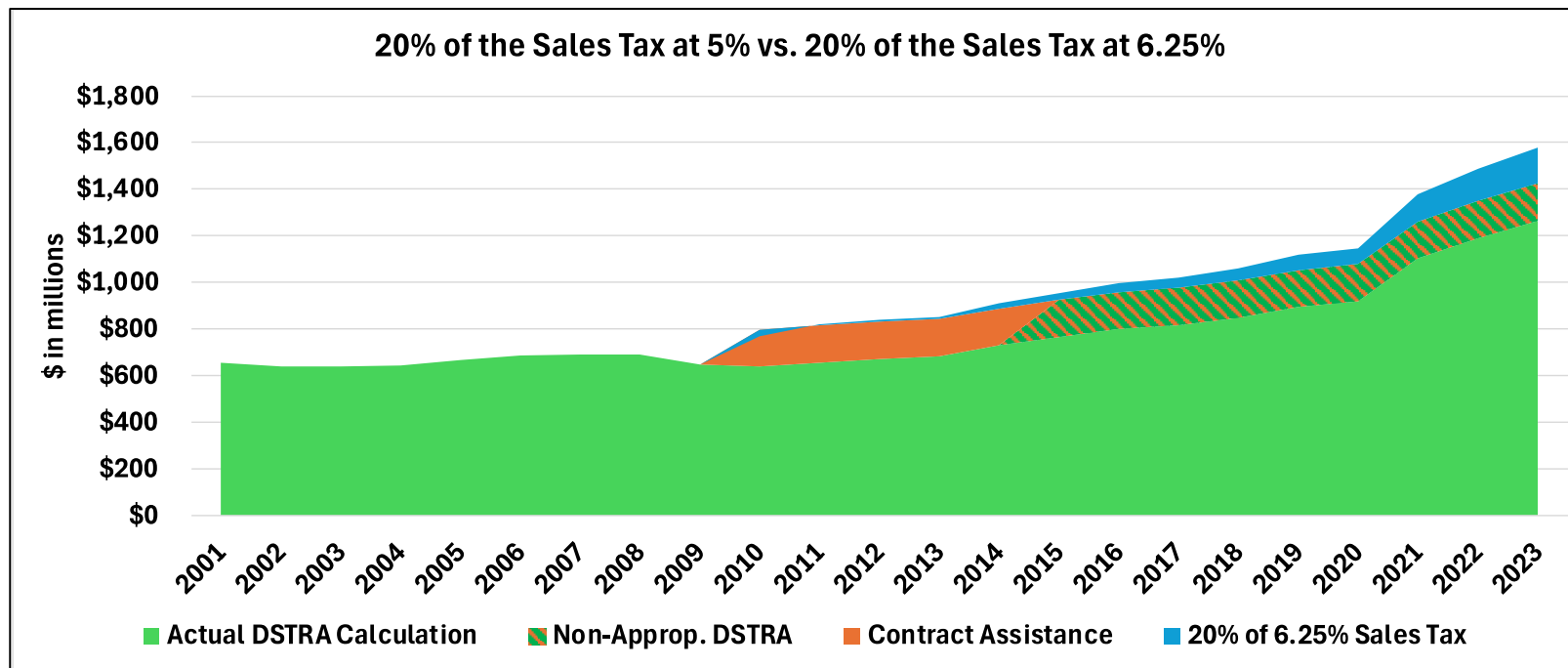
*"Dedicated sales tax revenue amount", all monies received by the commonwealth equal to **1 per cent of the gross receipts of a sale** as defined in chapter 64H and **1 per cent of the sales price of a purchase** as defined by chapter 64I from that portion of the taxes imposed under said chapters...."*

- In recognition of that one of the stated goals of the revenue increase was to assist the MBTA, the State created a **\$160 million Contract Assistance payment** which was annually appropriated.



Impact of a Flat \$160 Million Payment

- The gross MA sales tax collections (ex-meals) more than doubled between 2010 and 2023 from \$3.85 billion to \$7.90 billion
- If the MBTA had received 20% of the 2009 Sales Tax Increase, the Agency would have received an additional ~\$725 million (More than half of which would have been received from 2021 to 2023)



2013 Transportation Finance Framework



2013 Transportation Finance Framework (“TFF”)

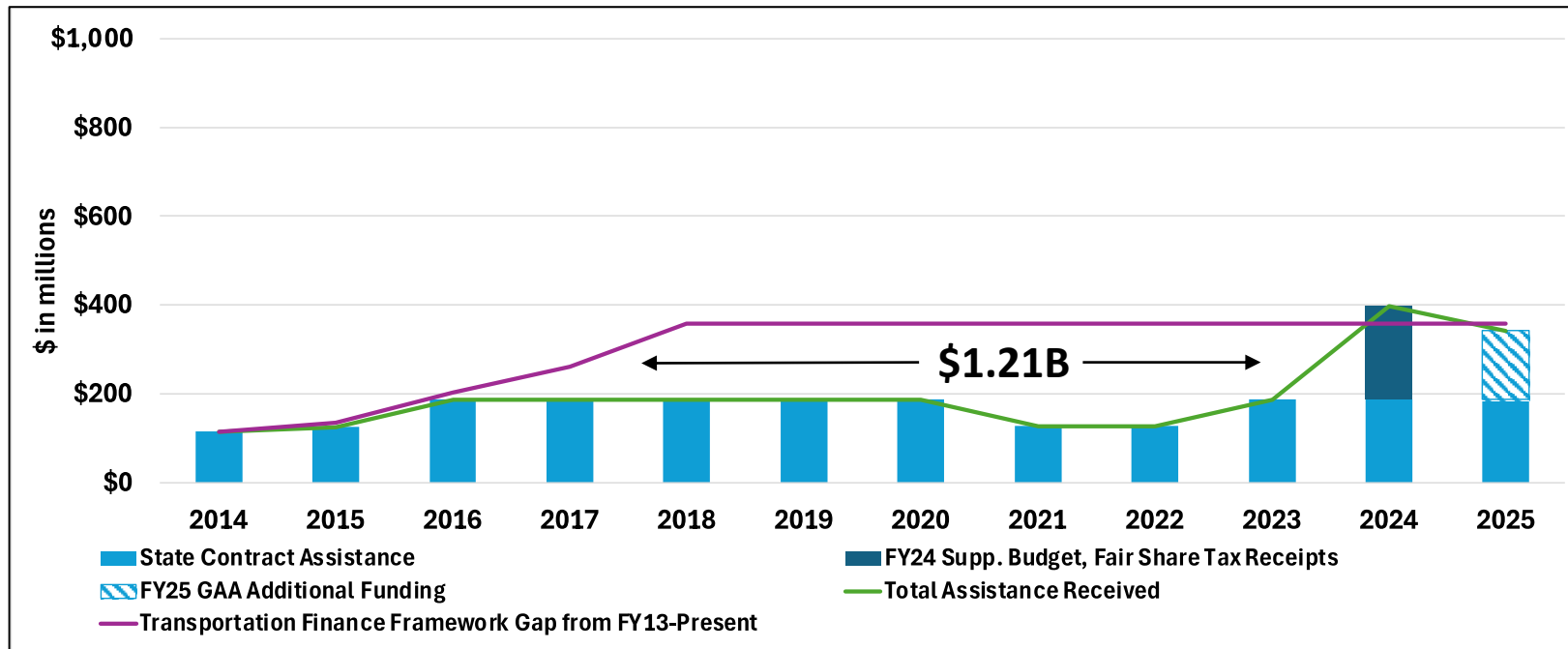
- In April 2013, the legislature agreed on the “TFF” which formed a ‘common financial ground’ between the House and the Senate as they enacted transportation reform.
- Newly proposed taxes would generate ~\$500M in annual sustainable revenue:
 - \$165M in sales taxes on computer systems
 - \$165M on increased tobacco taxes
 - \$110M 3 cent increase in the gas tax (the gas tax indexing to inflation was repealed in Nov. 2014)
 - \$83M in changes to utility tax classification
- One of the preeminent TFF goals was to generate new sustainable revenues that do not disproportionately affect any one area of the state.
 - Transportation, and the MBTA in particular, had been identified as a clear need for these additional revenues. The table below details the projected operating gaps for the MBTA from 2013:

	FY14	FY15	FY16	FY17	FY18
MBTA Starting Gap	\$ (115.2)	\$ (135.1)	\$ (202.4)	\$ (260.5)	\$ (357.2)



Actual Contract Assistance Following TFF

Since the new TFF revenue sources were implemented, MBTA Contract Assistance received* has been **\$1.21 billion** less than the projected operating budget gap detailed in the “TFF” totals



Fair Share Amendment

- Fair Share Tax Increase was passed by voters in 2022, effective in 2023, was created to generate support for transportation and public education.
- Distributions to the MBTA to Date:
 - \$211 million distribution is in FY24 budget (Education & Transportation Fund)
 - \$260.5M* appropriated direct to MBTA in FY25 State Budget (Education & Transportation Fund)
 - Future distributions beyond FY25 from this source are not known

***Note:** \$260.5M is the total direct appropriation of Fair Share revenue to the MBTA (\$10M MBTA Academy, \$36M Workforce, \$60M Capital, \$20M Income Eligible Reduced Fares, \$7.5M Ferries, \$127M doubling of contract assistance). Other fair share revenues not noted on this slide have been appropriated to Mass DOT and various state trust funds.



Outcomes of Recent Revenue Initiatives

- **Sales Tax Increase in 2009**
 - \$160 million of recurring annual Contract Assistance
- **Transportation Finance Framework of \$500M in New Revenue from 4 Sources in 2013**
 - \$187 million of recurring annual Contract Assistance (more years than not)
- **Fair Share Tax Increase Effective 2023**
 - \$211 million distribution is in FY 24 budget; \$260 million appropriated for FY 25
 - Future recurring annual Contract Assistance from this source is still uncertain

The initial proposals expressed in 2009 and 2013 resulted in less actual recurring annual support to the MBTA than needed.

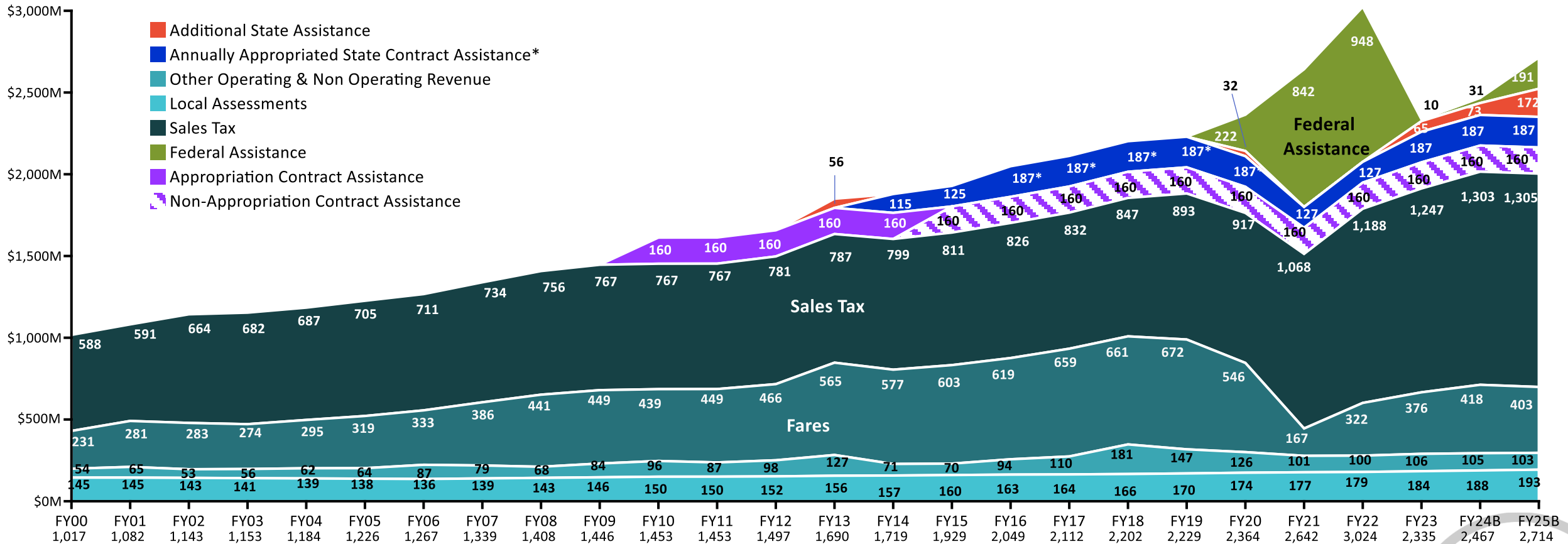


The Fiscal Cliff



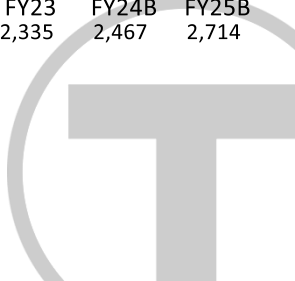
MBTA Revenue History

Total Revenue Received Before Transfers, Updated 7/15/2024



Source: MBTA FMIS Data, CC-H_REV Report adjusted to reflect total state revenue received by fiscal year on the operating budget

*State Contract Assistance Transfer of \$187M from FY16 – FY20 had \$60M Transferred to the Capital Budget



The Fiscal Cliff

- The MBTA faces a ~\$700M deficit in FY26 per the most recent pro forma*
- The MBTA has faced critical operating budget gaps before
- Previous initiatives have resulted in less recurring annual support to the MBTA than needed
- History shows the importance of:
 - A recurring non-appropriation type revenue source
 - A revenue source with a reliable growth trajectory
- The MBTA FY26 budget planning begins in December 2024
- With the Transportation Funding Task Force report not due until December 2024, the MBTA faces fiscal uncertainty heading into the FY26 budgeting process

