

Memorandum to the Fiscal and Management Control Board
Update on the MBTA Corporate Program
January 29, 2018

Introduction

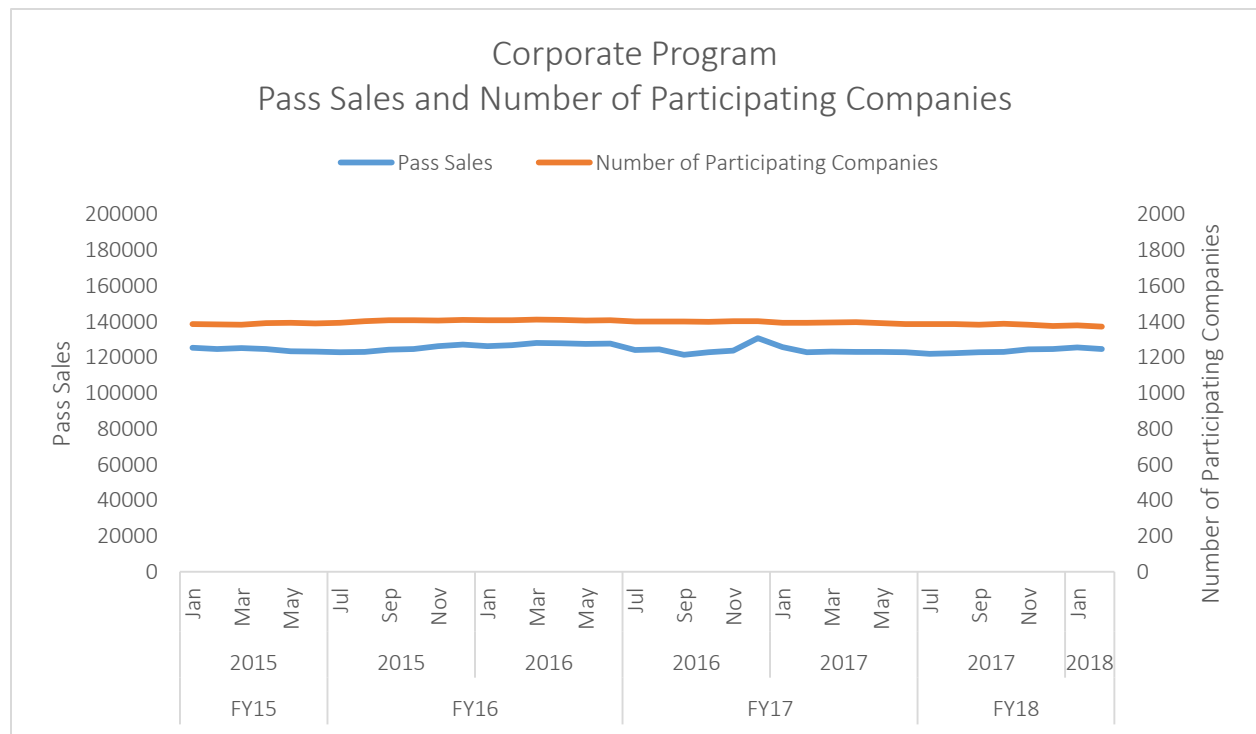
The Corporate Program is one of the key drivers of MBTA fare revenues. In FY17, \$190 million of MBTA fare revenue came through the Program – nearly 29% of the total (\$659 million). While revenues have improved over the past few years, pass unit sales and business participation have remained stagnant, and recent changes to federal tax law offer both challenges and opportunities for the Program.

This memorandum provides background and context on the current state of the Corporate Program, discusses possible impacts of federal tax reform, and outlines opportunities, challenges, and current initiatives underway by MBTA staff to drive growth in the program. Continued investments in sales, marketing, and product development initiatives are recommended.

Background and Summary Statistics

“Corporate Pass” is something of a misnomer; there is no unique “Corporate Pass” product. In reality, the Program is a distribution channel for existing MBTA monthly pass products that target businesses. The Program offers a web interface for an HR administrator to order passes on behalf of employees, a web interface that bills employers directly for the passes, and fulfill the transit passes directly to the employer’s worksite. Distribution to the employee is managed by the employer, as are payroll deductions (if applicable).

While revenues in the Corporate Program are projected to grow 16% between FY15 and end of FY18, this revenue growth is attributable almost solely to the impact of the July 1, 2016 fare increase. Unit sales over this time have been essentially flat, as has business participation:



Given that current-dollar GDP in Massachusetts grew 4.1% between Q1 2015 and Q3 2017, and that Greater Boston has seen consistent job growth throughout this same period, this suggests that Corporate Pass market share has declined over this time period.¹

Possible Impacts of Federal Tax Reform

In exchange for a significantly reduced corporate tax rate, the final federal tax reform bill limited allowable corporate tax deductions for businesses – including qualified transportation fringe benefits. This means that businesses which chose to provide direct subsidies to pay for transit and parking costs for their employees, and could previously deduct these costs from their corporate tax liability, can no longer do so. This may lead for-profit businesses who provided subsidies to reduce such subsidies going forward, although the extent to which this will occur is obviously unknown at this point.

The impact, however, of the overall tax reform package may be less than was initially anticipated as the bill evolved.² Qualified transportation fringe benefits provided as subsidies are still exempt from payroll taxes for both employers and employees. And the pre-tax deductibility provision remains: employees may still elect to withhold pre-tax funds to pay for parking and transit. This preserves what may be interpreted as the default benefit that employers provide

Additionally, it's worth noting that many of the Boston regional institutions which provide significant subsidy programs are nonprofit or academic institutions who pay no corporate tax with or without tax reform; presumably their decisions to continue subsidies will be relatively unaffected by the tax reform legislation (although they may face other difficulties due to provisions in other components of the tax reform package).

Opportunities

The tax reform bill offers an opportunity for the MBTA to reset its relationship with the Greater Boston business community; since nearly every business in the Commonwealth will be impacted by tax reform and will need to carefully consider its employee compensation policies, there is a rare moment to work to reset how businesses think about providing transit benefits and offering a compelling value proposition moving forward.

The most obvious component of this must be an enhanced sales and marketing program. This is a recommendation that has been offered in academic and TMA papers going back several years, and has been recently revisited by a Pioneer Institute study.³ With limited-to-no resources expended on sales, marketing, and customer outreach in past years, this is an obvious area for change – and one which is already underway (see *Initiatives*, below).

Product development must also be a key consideration. Again, it is worth remembering that the Corporate Program is effectively a distribution channel, not a unique product; so efforts should be directed in two primary directions. First is improving the offerings for the distribution channel; making it

¹ Economic data from Bureau of Economic Analysis for all of Massachusetts, <https://www.bea.gov/itable>. Employment data from Bureau of Labor Statistics, https://www.bls.gov/regions/new-england/news-release/areaemployment_boston.htm

² A useful summary is provided by the Association for Commuter Transportation: http://actweb.org/wp-content/uploads/2017/12/Tax-Reform-Changes-to-the-Transit-Benefit-Myths-Realities_Conference.pdf

³ Pioneer Institute (2018), "Increasing MBTA Ridership and Revenue with Company Commuter Benefit Programs," <http://pioneerinstitute.org/download/increasing-mbta-ridership-revenue-company-commuter-benefit-programs/>. Also see Diane Kamfonik (2013), "Quantifying the current and future impacts of the MBTA Corporate Pass Program," <https://dspace.mit.edu/handle/1721.1/82837> and A Better City (2015), "Opportunities to Expand the Massachusetts Bay Transportation Authority's Corporate Pass Program," <http://www.abettercity.org/docs-new/2015.05.01%20FINAL%20Corporate%20Pass%20Program%20Report2.pdf>

easier for employers to administer and drive participation in the program for their employees. Second is developing new fare products themselves, which can be applied to the Program.

A final opportunity comes with the introduction of the new Automated Fare Collection (AFC) system in the coming years. New products can certainly be developed and implemented within the current AFC system, but generally take more time to implement and are less flexible. The new system will allow faster product definition and implementation, allowing for more rapid cycles of innovation, testing, and delivery.

Challenges

The opportunities noted above are both considerable and attainable. However, it must be noted that there are structural regulatory and policy challenges that can limit the realization of these opportunities, or make drawing direct comparisons to other regions and transit systems somewhat misleading:

1. Imbalances in Commonwealth tax policy. Current Massachusetts law allows individuals to deduct \$250 per month in employer-provided parking benefits from state taxes, while only permitting \$130 per month in transit benefits. Increasing the transit deduction to match the parking deduction would help level the playing field between transit and driving.
2. Limited regional policy framework. Many transit authorities which see higher pass participation rates than the MBTA, like Sound Transit in Seattle, place stricter requirements on businesses to reduce single-occupancy vehicle commuter trips.⁴ Massachusetts requirements are relatively weak by comparison, and although individual municipalities such as Cambridge have strong ordinances, there is not a consistent emphasis on transit incentives across all of Greater Boston.⁵
3. Lack of transparency of third-party administrator channels. Many businesses provide benefits through third-party benefits administrator (TPA) services like Wageworks, which provide outsourced health, transit, and other fringe benefit services. Wageworks does not share its list of clients with transit agencies, and it also offers a debit card product for transit benefits. This increases the challenge in determining which businesses do and do not currently offer commuting benefits to their employees.

Initiatives and Recommendations

The MBTA has been focused on improving the Corporate Program, and we anticipate launching several improvements in the coming months. Below is a brief summary of current initiatives:

1. New Team Members: In summer 2017, the MBTA hired a Deputy Director for Fare Products and Strategy, Brendan Fogarty; his primary focus is driving improvements and innovations across MBTA pass products, with particular focus on the Corporate Program. We are considering further expanding the team in the coming months to better manage sales and marketing capabilities.
2. Marketing and Sales Efforts: There is not currently a clear brand identity for the Corporate Program. In partnership with an outside brand marketing agency, we are in the process of rebranding the Corporate Program. These efforts will include an updated brand identity, modern marketing websites that demonstrate the program's value, improved lead generation to drive additional participation, a proactive advertising campaign to drive awareness and leads, and

⁴ See, for example, this overview of the State of Washington's Commute Trip Reduction (2006) Law: <http://www.wsdot.wa.gov/Transit/CTR/overview.htm>

⁵ Massachusetts's Rideshare Regulation (310 CMR 7.00) applies only to businesses "with 1,000 or more applicable commuters," with more stringent requirements for certain firms: <https://www.mass.gov/guides/massdep-rideshare-program>

better collateral for employers and employees to use. Additionally, we are working to improve the way we conduct sales and customer support, including launching outbound sales as well as account development for existing customers.

3. Improved Business Intelligence and Tools: Current information on customers available to the MBTA is limited to business name, number of passes, and the contact information for the program administrator. We intend to develop further tools to help improve business intelligence, develop access to key decision-makers, and track the success of future outreach efforts. Additionally, we are in the process of deploying a Salesforce instance to better manage outreach to existing customers, and to provide a scalable tool for outbound sales management.
4. Customer Research and Outreach: Historically, the MBTA has not sought a direct relationship with our Corporate Program customers. That is changing. We have completed numerous customer interviews, and are conducting outreach and formal market research with customers to identify and prioritize product improvements.
5. New Product and Partnership Development: New products and partnerships – whether improving the program’s administrative web interface, or providing entirely new models of payment and pass sales – are key to driving growth for the Program.

Summary

Times of transition offer both challenges and opportunities; it is no different for the Corporate Program. While the impacts of tax reform will only play out over the coming months, the MBTA intends to vigorously develop, test, and launch new ways to improve the Program itself, and enhance outreach to our valued business partners in expanding it.