



**Massachusetts Bay
Transportation Authority**

Fiscal 2019 Operating Budget Challenges

February 12, 2018



Agenda

- 1. Presentation Summary**
- 2. Budget Timeline**
- 3. Overview of FY18 Budget Status**
- 4. Overview of FY19 Revenue**
- 5. Material FY19 Factors Increasing Deficit**



FY19 Budget Timeline

- TODAY:** Budget challenges presented by material increases projected to FY18 baseline deficit
- MARCH 5:** Budget Choices, including potential additional savings and investment
- MARCH 15:** Preliminary Budget due to MBTA Advisory Board
- APRIL 15:** Statutory deadline for FMCB to approve FY19 Budget



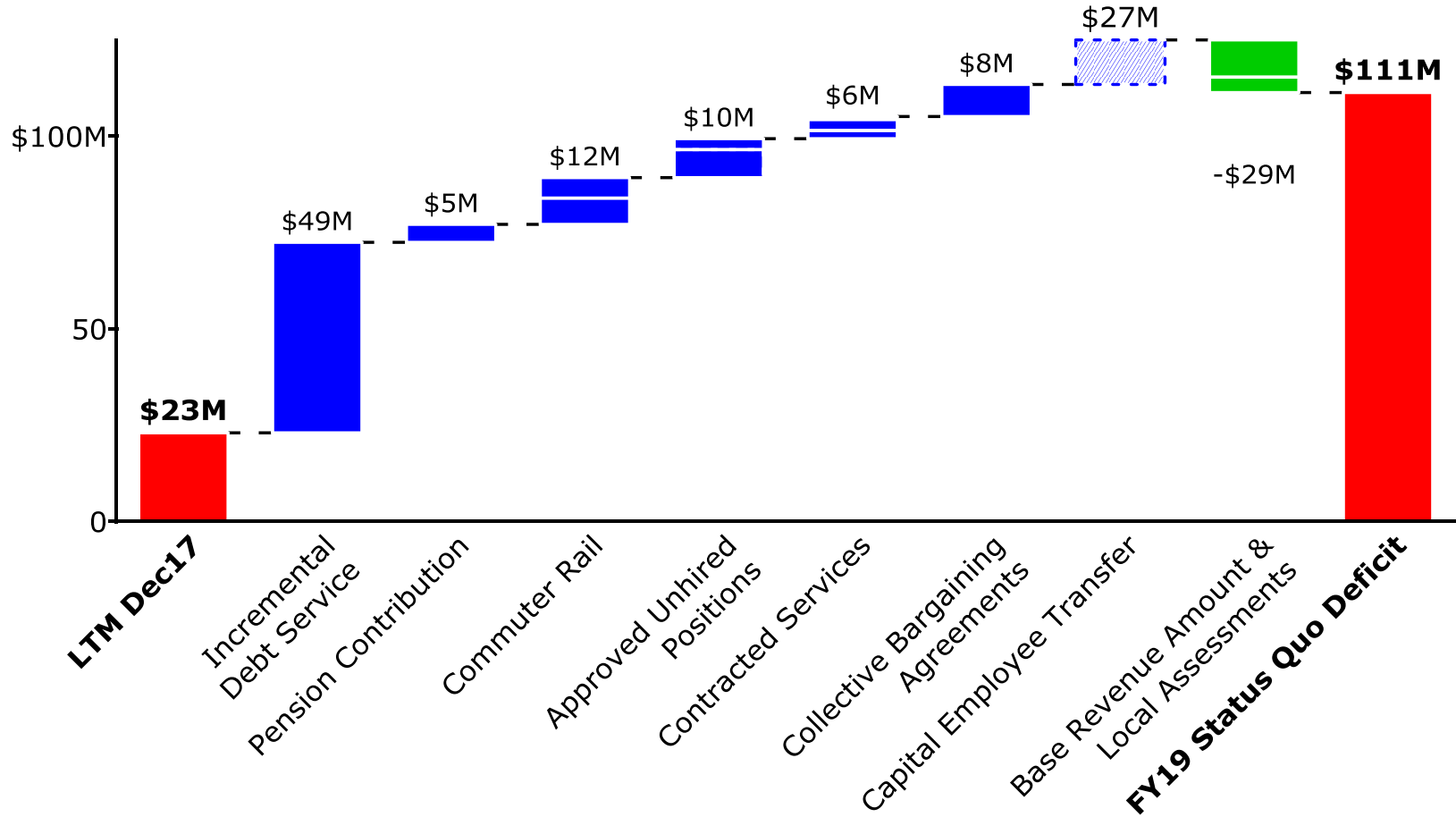
Overview of FY18 Status

- \$23M structural deficit over the last twelve months ended December (calendar year 2017)
 - › Compared to FY18 budget deficit of \$30M, favorable \$7M performance
- No fare increase or parking fee increase during the period presented
- 0% wage increase for L589 and L264 due to new collective bargaining agreements in FY18
- Actively managing controllable headcount
- Includes one-time revenue transactions (e.g., LAZ settlement of \$4.5M & Lechmere \$6M)



FY19 structural deficit increases \$88M, net of \$29M increase in Dedicated Revenues (i.e., Base Revenue Amount & Local Assessments)

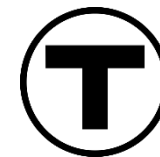
Structural Deficit Bridge
(LTM Dec17 to FY19 Baseline Deficit)





Overview of FY19 Revenue

- Annual Base Revenue Amount and Local Assessments increase by \$29M
- Governor's budget proposes \$127M in Additional State Assistance
- CIP currently assumes \$90M of this as a capital source (combined with \$60M in state-provided capital funding for a total of \$150M)
- Therefore, use of more than \$37M for operating budget reduces available source for capital investment



Statutory increases to Annual Base Revenue Amount & Local Assessments will offset expense growth by \$29M in FY19

(\$M)	<u>FY18 Amount</u>	<u>FY19 (Est) Amount</u>	<u>\$ VARIANCE</u>	<u>% VARIANCE</u>
Base Revenue Amount	\$1,007	\$1,032	\$25	2%
Local Assessments	\$166	\$170	\$4	2%
Total Dedicated Revenues	\$1,173	\$1,202	\$29	2%

BASE REVENUE AMOUNT

- Dedicated Sales Tax consists of the greater of the Base Revenue Amount (“BRA”) or the Dedicated Sales Tax
 - The BRA is adjusted by a percentage change in inflation, as measured by the Boston Consumer Price Index for the prior year
 - Dedicated Sales Tax is equal to the amount raised by a 1% statewide sales tax
- MBTA budgets using Base Revenue Amount rather than expected sales tax collections

LOCAL ASSESSMENTS

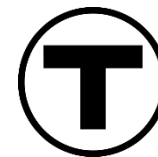
- Local Assessments are adjusted annually for inflation
 - Cannot rise by more than 2.5% a year
 - A revenue “floor” prevents revenue from falling below \$136 million
- Local Assessments are expected to increase by \$4M in FY19



Material Increases Projected to FY19 Status Quo Deficit

Structural challenges include:

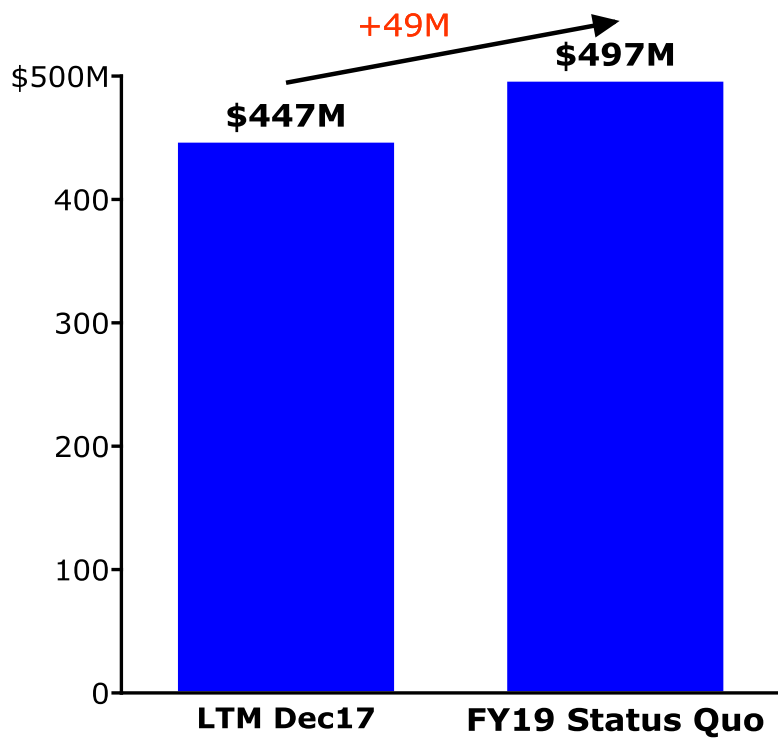
- › Debt Service
- › Pension Contribution
- › Collective Bargaining Increases and Approved Hires
- › Contracted Services and Commuter Rail
- › Capital Employee Transfers



Incremental Debt Service: Required principal repayment increases consistent with FMCB approved debt policy and amortization tables

INCREMENTAL DEBT SERVICE

Debt Service
(LTM Dec17 to FY19 Status Quo)



KEY DRIVERS

FY19 Challenges:

- Amortization Tables require increased debt service payments totaling \$49M in FY19
- Increases compliant with FMCB approved Debt Policy (Jun16):
 - › *Requires level repayment of principal consistent with useful life of capital investments*
 - › *No deferring obligations to future periods*

Other Challenges:

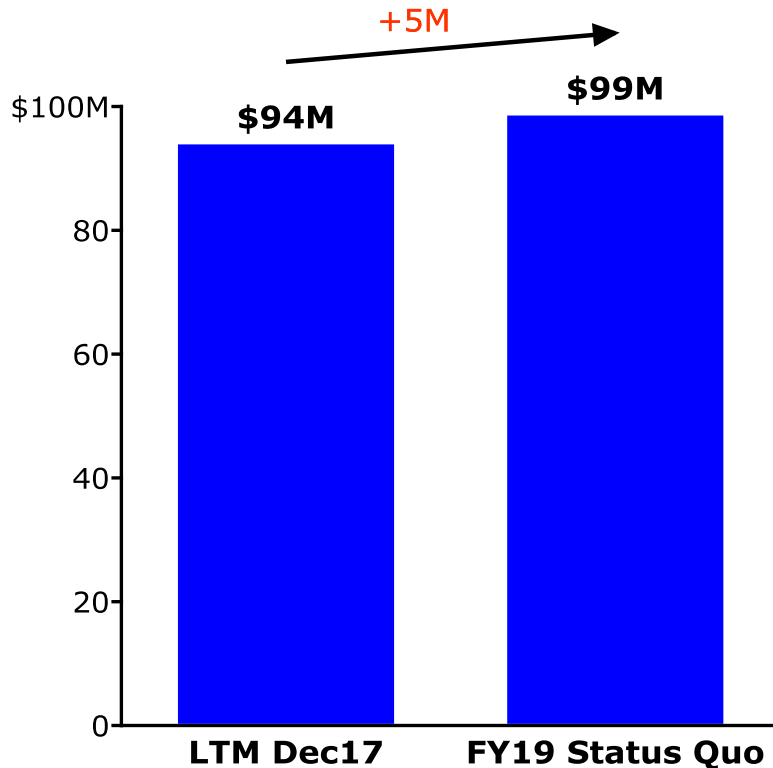
- Increasing short-term interest rates
 - › Increases over the past six quarters



Pension Contributions: MBTA “Annual Required Contribution” calculated annually by Actuarial Valuation

PENSION CONTRIBUTIONS

Pension Contributions
(LTM Dec17 to FY19 Status Quo)



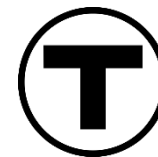
KEY DRIVERS

FY19 Challenges:

- “Annual Required Contribution” calculated annually by Actuarially Valuation
- MBTA contribution to pension funds projected to be almost 21% of payroll in FY19 compared to 20% in FY18
 - › Assumes no change to long-term expected return rate assumption of 7.75%

Other Challenges:

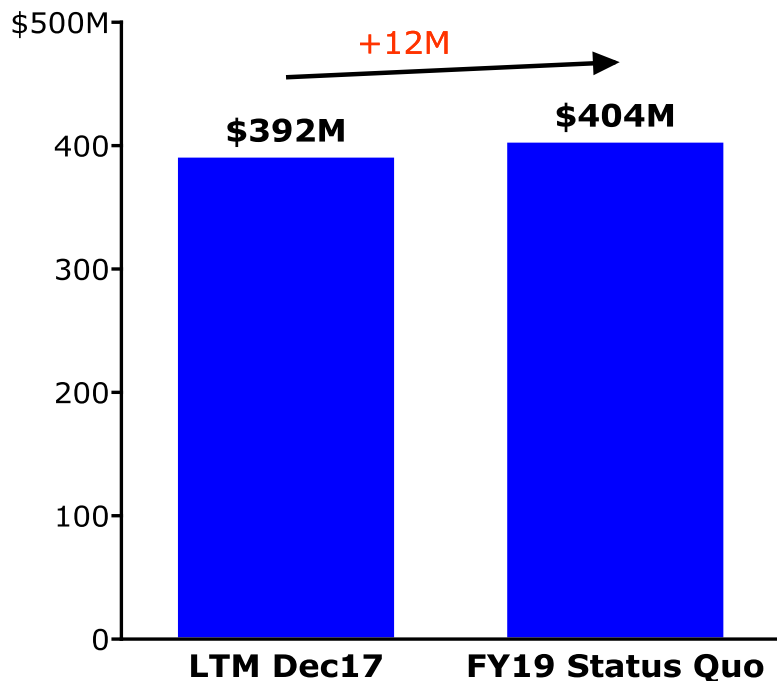
- Independent MBTA Retirement Fund Board
 - › Changes in actuarial assumptions approved by MBTARF; not MBTA management or FMCB
 - › Assumption changes could positively or negatively impact future MBTA funding requirements



Commuter Rail: Keolis annual fixed-fee contract escalators and executed scope changes increase commuter rail costs by \$12M

COMMUTER RAIL

Commuter Rail
(LTM Dec17 to FY19 Status Quo)



KEY DRIVERS

FY19 Challenges:

- Keolis base fixed-fee contract to increase by \$7M in FY19
- FMCB approved scope changes will require an additional \$5M in FY19:
 - › Foxboro Service
 - › Schedule Changes
 - › Drug and Alcohol Law Changes
 - › Additional Property Oversight (e.g., Westminster, Boston Landing and South Acton)

Other Challenges:

- Unbudgeted future scopes changes

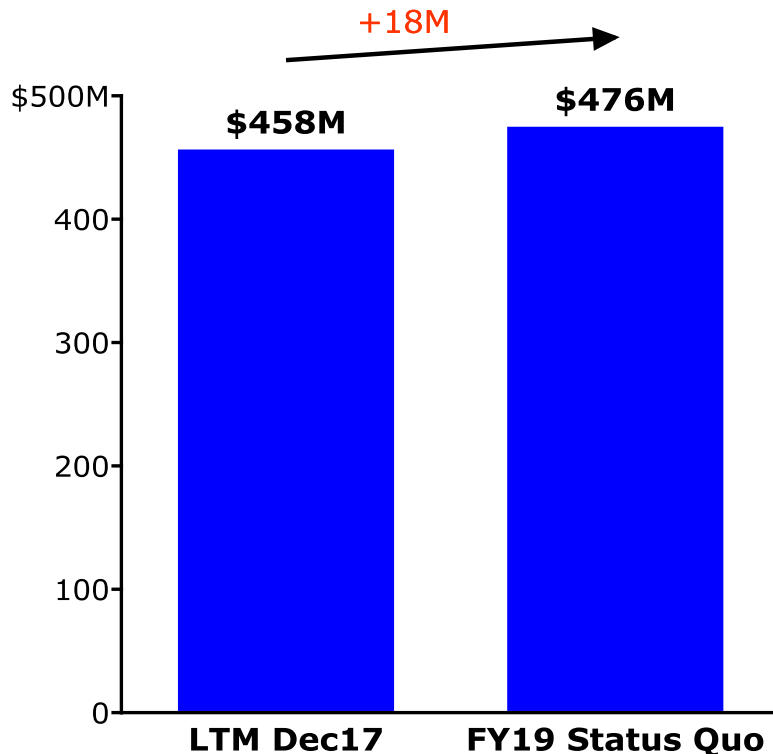


Regular Wages: Contractual wage increases and unfilled approved positions from FY18 will have an \$18M impact on FY19

REGULAR WAGES

KEY DRIVERS

Regular Wage Expense
(LTM Dec17 to FY19 Status Quo)



FY19 Challenges:

- \$8M impact of required CBA wage increases for current workforce in FY19
 - › New collective bargaining agreements for L589 and L264 in FY18 include 1.5% wage increase in FY19 compared to 0% in prior period for both unions
- FY18 strategic and other pre-approved hires remain unfilled
 - › Management expects these positions to be hired and on-boarded prior to the start of FY19

Other Challenges:

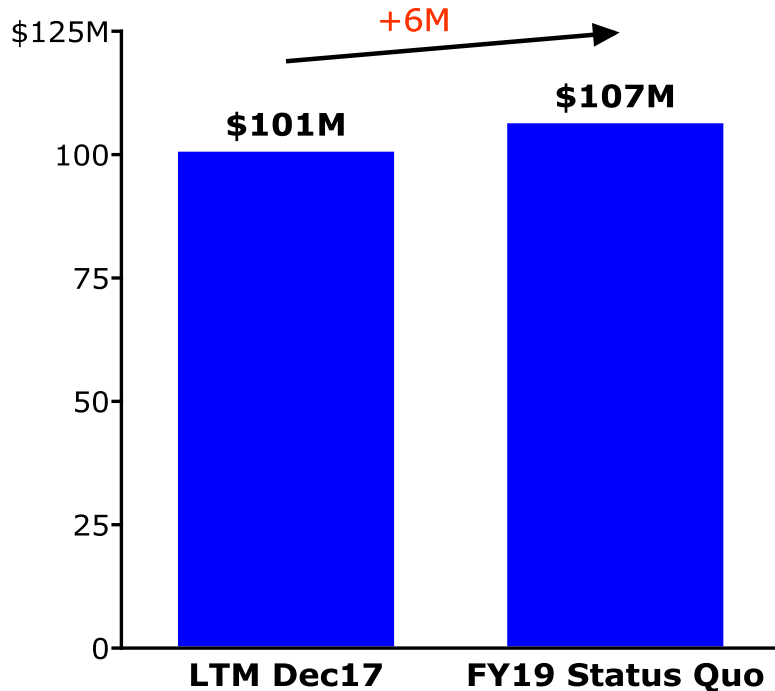
- Continuous demand on management and FMCB to recruit and retain key talent across the Authority



Contracted Services: \$6M increase in FY19 due to annual contract escalators with key customer facing vendors

CONTRACTED SERVICES

Contracted Service
(LTM Dec17 to FY19 Status Quo)



KEY DRIVERS

FY19 Challenges:

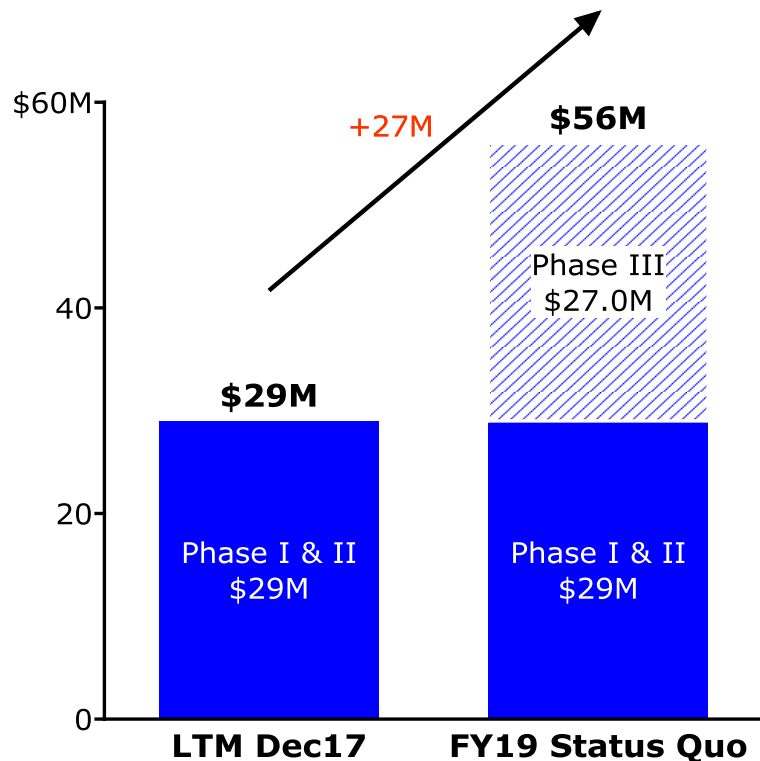
- MBTA has numerous contracts that escalate on an annual basis
 - › Cleaning Contract
 - › Ferry Services
 - › Maintenance Services
 - › Technology Contracts (various)



Capital Employee Transfer: Pending legislative modification, MBTA to complete Phase III transfer of capital employees in FY19

CAPITAL EMPLOYEE TRANSFER

Capital Employee Transfer
(LTM Dec17 to FY19 Status Quo Expense)



KEY DRIVERS

FY19 Challenges:

- Legislative mandate to transfer all capital employee wage costs to operating budget by FY19
- Management identified and transferred 312 capital employees to operating budget in FY17 (i.e., Phase I & II)
 - › Phase I & II employees work focused on operating activities (i.e., maintaining MBTA assets)
- Phase III employees work focuses on capital delivery (i.e., building or extending the life of MBTA assets)
 - › Outside Section in House 2 FY19 would permit MBTA to keep Phase III employees on the capital budget, if passed
 - › \$27M negative impact to operating budget, if not passed



FY19 Status Quo Budget Assumptions

- Sale Tax Revenues conservative at the Base Revenue Amount (BRA)
- No fare increase; or expansion of other fare revenue initiatives (e.g., Corporate Pass & KCS Rev Share)
- No increase to parking fees; or the introduction of “dynamic pricing”
- Own-Source Revenues flat (conservative)



Appendix



REMINDER: FY19 Management Strategic Priorities & Budget Guiding Principles

FY19 STRATEGIC PRIORITIES

- Provide safe and reliable service for employees and riders
- Invest in MBTA infrastructure and accessibility
- Transform MBTA business processes with investment in people, process and technology

FY19 GUIDING PRINCIPLES

- Maintain fiscal discipline established with creation of FMCB (Jul15)
- Continue to grow own-source revenues
- Optimize balance between Operating and Capital Budgets

Discussed with FMCB on January 22, 2018



Strategic Priorities

- **Provide safe and reliable service for employees and riders**
 - › Adoption of OSHA requirements
 - › Focus on Customer Experience
 - › Implementation of Positive Train Control (PTC) for Commuter Rail
 - › Optimize Green Line interventions
 - › Continued investment in subway and bus safety initiatives/station refresh initiatives

- **Invest in MBTA infrastructure and accessibility**
 - › Expand capital delivery with a focus on achieving a State of Good Repair (15yrs)
 - › Focus on accessibility, asset management and life-cycle maintenance
 - › Green Line Extension, RIDE and Bus Maintenance Facilities

- **Transform MBTA business processes with investment in people, process and technology**
 - › Implement a new fare collection system (i.e., AFC 2.0) with expanded flexible fare options
 - › Update the Financial Management Information System (FMIS) – General Ledger
 - › Implement Project Management Information System (PMIS) - Capital Delivery
 - › Continue to improve HR, scheduling and timekeeping processes



FY19 Budget Guiding Principles

- **Maintain fiscal discipline established with creation of FMCB (Jul15)**
 - › Continue to reduce reliance on annual appropriation
 - › Implement LEAN initiatives with a focus on productivity and efficiency
 - › Invest operating efficiencies/savings in “Pay-Go” Capital
- **Continue to grow own-source revenues**
 - › Optimize new parking and advertising partnerships
 - » Advertising: Outfront Media
 - » Parking: Republic Parking System
 - › Invest in Transit Oriented Development Projects
 - › Explore and expand current fare products including “Corporate Pass”
- **Optimize balance between Operating and Capital Budgets**
 - › Increase capital investment to reduce operating costs/maintenance
 - › Utilize CIP to project and prioritize State of Good Repair Spending
 - › Utilize technology and process investments to improve operating budget efficiencies



Governor's Budget (House 2 FY19): Two key MBTA budget items included

1 ADDITIONAL STATE ASSISTANCE

- › \$127 million in operating budget support, in combination with \$60 million in capital funding that will be included in the FY19 capital budget
- › *Consistent with current budget year (FY18)*

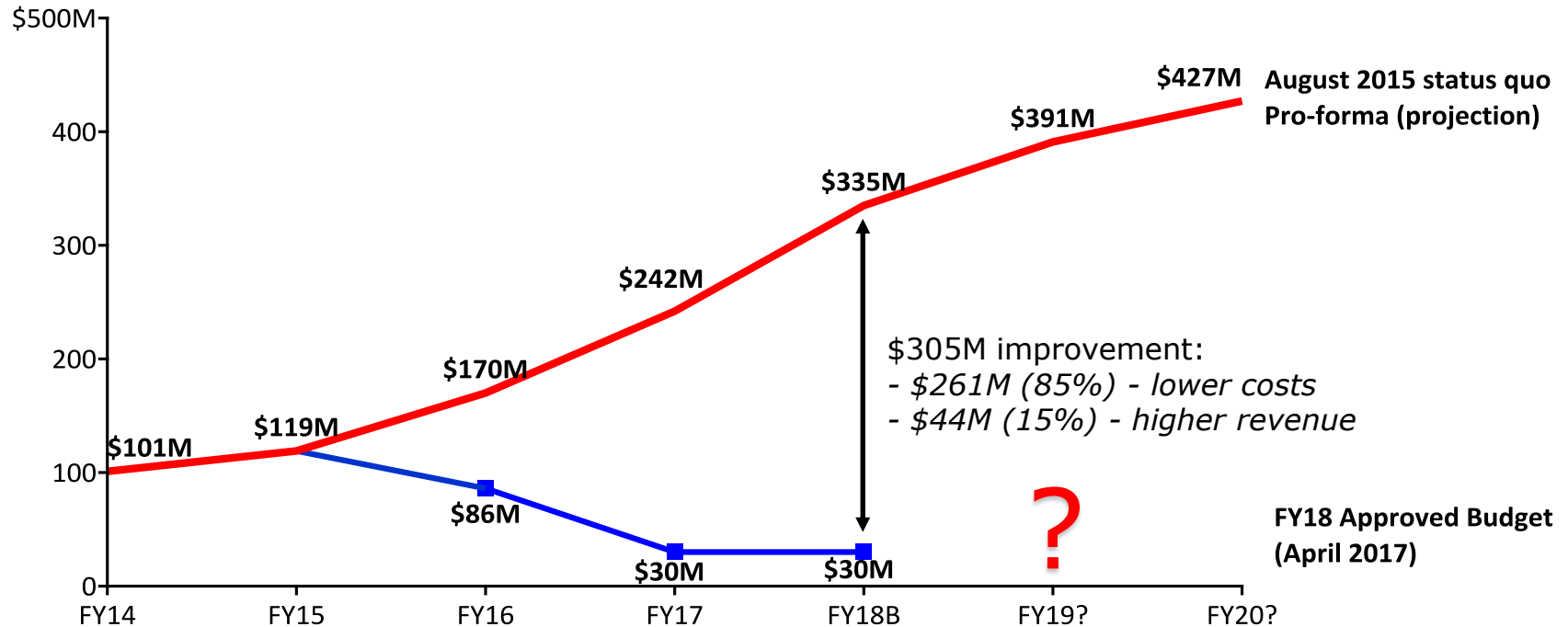
2 OUTSIDE SECTION ON CAPITAL EMPLOYEE TRANSFER

- › MBTA permitted to keep the costs of employees who work on the design and construction of capital projects on the capital budget
- › *Consistent with government accounting standards and with federal reporting requirements for capital labor*
- › *Final transfer of remaining capital employees (~\$27M annual spend) to operating budget not required for FY19*



FY18 budgeted operating deficit forecast reduced \$305M

Structural deficit



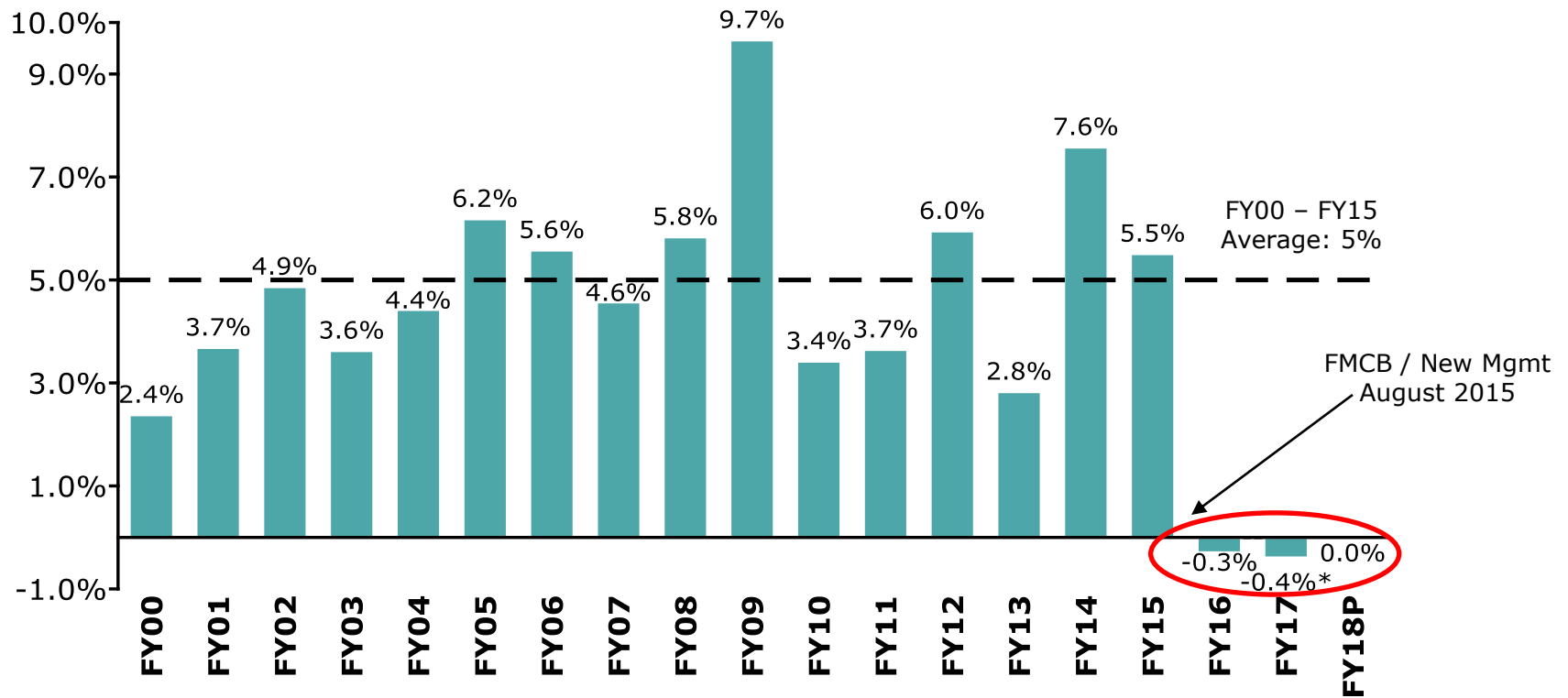
Source: MBTA management in process of recasting FY18-FY20
Operating Deficit does not include Additional State Assistance



Since FMCB, operating expense growth lowest in 15 years

Annual operating expense growth rate
(excluding debt)

Incremental operating expense FY08 – FY15: \$470M



Note: For comparative purposes, FY17 core operating expense growth excludes capital employees transferred in FY17.

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