

**STAFF SUMMARY SHEET  
BOARD OF DIRECTORS MEETING**

TO		FOR		FROM:		
<b>1</b>	GM	1& 2	Approval	Dept.: Budget	Author: Mary Runkel	Tel Ext.: 3285
		1	Signature			
<b>2</b>	BD	2	Vote	Subject: <b>FY2016 Operating Budget</b>		Date: April 10, 2015
			Info			

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 2016 (July 1, 2015 through June 30, 2016) and to direct the Interim General Manager to submit the approved budget to the MBTA Advisory Board.

## DISCUSSION

The fiscal 2016 budget continues to have a structural deficit with expenses exceeding revenues. It is only with the additional state assistance of \$187 million that the Authority will have the necessary resources to meet all of the budgeted expenses. In addition, the legislature, in providing additional resources to the Authority, began what has been an annual appropriation to the MBTA of \$160 million in FY 2010. In FY 2015, this annual appropriation known as contract assistance was added to the base sales tax revenue amount and included in the calculation of the dedicated sales tax revenues.

In FY 2014, the legislature appropriated \$115.2 million in additional state assistance and \$135.1 million in FY 2015. Without the additional state assistance of \$187 million in FY 2016, the MBTA would be facing a deficit of \$169.6 million.<sup>1</sup> The chart of revenue sources in Tab D shows the substantial state commitment in support of public transportation of \$1.17 billion, which represents 57.6% of all MBTA revenues. When one includes revenue generated from the communities served by the MBTA (the 175 cities and towns in the MBTA district), state and local funding rises to \$1.34 billion which comprises 65.6% of all MBTA revenues.

The total increase of \$95.3 million (4.9%) in revenues in FY 2016, which includes the additional assistance from the state, provides the Authority with the opportunity to fund for the first time a weather resiliency fund, the necessity of which became dramatically apparent during this past winter. In addition to providing \$11.7 million for this fund, the revenue

<sup>1</sup> See FY 2016 Statement of Revenue and Expenses in Tab B.

increase addresses the growing maintenance needs of an aging vehicle fleet, stations, power, signals, and fare gates. The Authority's total expenses will increase by 4.6% (\$88.1 million) with an increase of 4.0% (\$59.9 million) in operating expenses and an increase of 6.6% (\$28.2 million) in debt service expenses. Operating costs continue to rise faster than own source and dedicated revenues. This is not sustainable.

The FY 2016 budget contains several areas of cost reductions including healthcare, injuries & damages, Commuter Boat, Commuter Rail, workers' compensation, risk insurance, and interest payments. With the last of the employee groups transferring to healthcare under the Group Insurance Commission (GIC) by July 1, 2015, the Authority will finally achieve a full conversion to the GIC mandated by legislation. The GIC costs to the Authority are budgeted at \$1.5 million less than in FY 2015. Commuter Rail's savings came from the recent procurement and award of the service delivery contract to Keolis Commuter Services.

Lastly, 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 2016: 46.5 cents, in conjunction with the preparation of this operating budget request. This is a target and not legislatively mandated.<sup>2</sup> 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 2016 given the resource needs of providing the FY 2016 service levels.

More importantly, however, the Authority's budget exceeds the legislative revenue test<sup>3</sup> under the Transportation Finance Legislation. The Transportation Finance Act requires the Authority to provide for sufficient revenues in its annual budget to constitute a portion of its operating budget. The revenue benchmarks for fiscal years 2014 through 2018 are 31.5%, 33.0%, 33.25%, 32.75%, and 34.0% respectively. These benchmarks may be achieved through increasing non-fare revenues, increasing total fare revenues through ridership growth, increasing fare levels while accounting for potential loss of ridership from fare increases or from savings to the Authority's operating budget. The target the legislature established for FY 2016 is 33.25%. With debt service in the calculation, the Authority achieves a revenue recovery ratio of 34.75%.

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<sup>2</sup> See Tab C for history of the net operating investment per passenger mile ratio since the advent of forward funding.

<sup>3</sup> Section 61 (a) Revenue Test:  $(\text{Operating Revenues} + \text{Other Income}) / \text{Total Expenses}$

## **FY 2016 Revenue**

Total revenue from all sources is projected to increase by \$43.4 million (2.4%) to a total of \$1.851 billion (see graph 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 \$21.3 million (3.3%) to a total \$667.5 million in FY 2016. The increase occurs in the following categories:

	<u>Increase</u>
• Fares	\$20.2 million
• Parking	\$1.0 million
• Advertising	\$0.8 million
• Other Real Estate Operations	<u>(\$0.7) million</u>
Total:	\$21.3 million

#### **Fares**

The increase in fare revenue over the FY 2015 budget is a product of slightly stronger ridership than predicted following the five percent fare increase on July 1, 2015 and current projected ridership growth for FY 2016 of 2.1%. Fare revenue through February in this fiscal year is tracking 1.8% better than budget and 5.1% better than the same period in the previous fiscal year. The Authority's proposed fare revenue budget of \$617.8 million achieves a fare recovery ratio<sup>4</sup> of 39.4%—just slightly lower than the FY 2015 budget's fare recovery ratio of 39.6%. The fare budget represents a 3.4% increase over the FY 2015 fare budget of \$597.6 million.

#### **Parking**

The MBTA's parking system, managed by LAZ Parking under a competitively procured contract, consists of approximately 49,000 parking spaces at 98 different facilities, including nine structured garages and 89 surface lots, all of which are owned by the MBTA.

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<sup>4</sup> The fare recovery ratio is calculated as fare revenue divided by operating expenses (excluding debt service).

The surface lots include large facilities with revenues collected at booths serviced by attendants and smaller facilities with self-service payment receptacles. The total parking net revenue for FY 2016 is \$17.2 million. This number takes into account gross parking revenue of \$41.7 million less operating expenses of \$9.2 million and debt service (parking securitization) of \$15.4 million. The net revenue represents an increase of 6.2% (\$1.0 million) in parking income at MBTA lots.

### **Advertising**

Advertising revenue is projected to increase by \$0.8 million (5.2%) due to the following: station and vehicle advertising, on-line advertising, merchandise revenue, and digital billboard advertising. The MBTA contracts out to Titan all advertising on rapid transit, trolley, bus, and commuter rail stations and platforms and to Clear Channel all the advertising at Airport, Courthouse, and World Trade stations. The MBTA also licenses web advertising on mbta.com to Municipal Media Solutions and merchandising sales to WardMaps for developing, managing, and marketing MBTA branded merchandise online and through third-party retailers.

### **Other Real Estate Operations**

Revenue from other real estate operations is expected to decline by \$0.7 million due to lower income from the South Station Bus Terminal (SSBT). The MBTA contracts out the operations of the SSBT and while total income is expected to increase slightly in FY 2016, operating expenses are projected to increase by approximately 6% reflecting the aging of the facility and some major areas requiring cleaning and restoration. Net income is projected to decline by 11.8% (\$162,253).

More significant, however, is the allocation of \$868,000 in net income to improve the air handling units and lighting throughout the terminal and concourse. This is a larger investment than the \$325,000 budgeted for capital and special projects in FY 2015. The effect on the bottom line is a reduction in the SSBT revenue from \$831,081 in FY 2015 to \$125,828 in FY 2016.

### **Non-Operating Revenue**

The Authority's non-operating revenue currently comprises three major categories—dedicated local assessments, dedicated sales tax, and other income. In total, non-operating revenue will increase by \$22.1 million (1.9%) to a total of \$1.184 billion.

### Dedicated Local Assessments

The Authority receives revenue from the 175 cities and towns in the MBTA territory. The funds from local government in the MBTA district will increase by 1.7% (\$2.7 million) to a total of \$162.9 million. Assessments can increase by no more than 2.5% annually. The increase is based upon the Consumer Price Index, which in FY 2014 grew at 1.7%.

### Dedicated Sales Tax

Revenue receipts from the state sales tax will increase by 1.611% (\$15.6 million) to a total of \$986.3 million. Actual gross sales tax revenues for CY 2014 were up 5.594% but because the guaranteed amount increases at the lower of inflation or actual sales tax receipts, the Authority received the inflationary increase.

### Other Income

The Authority's other income line items are a combination of miscellaneous revenue sources, which include interest income, funds from federal government, utility reimbursements, MassDOT revenue from an interagency agreement for shared services, and "other" which includes natural gas tax rebates, revenue supporting the Green Line Extension (GLX) service mitigation, and Cape Flyer revenue. The Authority's budget request of \$34.8 million reflects a \$3.7 million increase in revenue from FY 2015 as follows:

	<u>Increase</u>
• Other—natural gas rebates, GLX, and Cape Flyer	\$3.37 million
• Utility reimbursements	<u>0.35 million</u>
Total:	\$3.72 million

The Authority's projected total own source revenue (all revenue except dedicated revenue including additional state assistance) divided by operating expenses achieves a revenue recovery ratio of 44.8%—essentially equal to the budgeted FY 2015 revenue recovery ratio of 44.9%.

As mentioned in the opening discussion, the Authority must now try to achieve a legislative revenue test (Section 61 (a) which is defined as operating revenues plus other income divided by total expenses (including debt service). The target the legislature established for FY 2016 is 33.25%. With debt service in the calculation, the Authority achieves a legislative revenue test of 34.75%.

## **FY 2016 Operating Expenses**

Operating expenses will increase by 4.0% in FY 2016. The need for \$59.9 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, and they are detailed in the section entitled *Cost Reductions*.

### **Ongoing Operations and Quality of Service**

The Authority will require \$42.3 million in additional funds in FY 2016 for the following:

- \$7.6 million for traction power and utilities
- \$6.5 million for “extra work” in the contract for commuter rail services with Keolis

Extra work includes services and projects not included in the fixed price.

- \$6.0 million in wages for 99 new positions for the Green Line Extension service mitigation<sup>5</sup> costs for additional off-peak bus and Green Line service as follows:

#### Bus Transportation (31)

22 operators  
3 inspectors  
2 fuelers  
2 2<sup>nd</sup> class machinists  
1 bus transportation supervisor  
1 foreperson

#### Rail Transportation (67)

58 streetcar motor persons  
3 inspectors  
3 transportation supervisors  
2 rail repairers  
1 repair foreperson

#### Operations Control Center (OCC) & Training (1)

1 light rail dispatcher

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<sup>5</sup> The MBTA was required to develop specific plans to meet the requirement for providing an interim offset for the air quality benefits for the Green Line Extension (GLX) project due to its delay. The FY 2016 budget provides for additional off-peak bus service along existing routes serving the GLX corridor. The MBTA will improve off-peak bus service by 20% on five bus routes that service this corridor. The FY 2016 budget also provides additional off-peak Green Line service to Lechmere, increasing service by 20%.

- \$21.7<sup>6</sup> million for materials, supplies and services across all Authority operations for maintenance of an aging fleet and infrastructure, a more progressive preventive maintenance program, and numerous other support activities as follows:

Everett Main Repair Shop and Vehicle Engineering (\$5.7 million)

Materials for end of life vehicle components (e.g. truck motors, motor bearings, traction motors, air compressors, materials for the bus paint and undercoat program,<sup>7</sup> engines, CNG harnesses and manifolds, axels, transmissions, and computer hardware and software for the Vehicle Quality Assurance document control process)

Services for various contracts (e.g. armature contract for traction and auxiliary motors for the Red and Orange Lines Program for end of life vehicle component failure, steel contract, bus engine refurbishing contract for end of life component failure of engine blocks, heads, crank shafts, and cam shafts, and contract for offsite data backup and software support for Quality Assurance document control)

ITD (\$3.5 million)

Materials for updating obsolete radio and automated fare collection infrastructure and equipment

Multiple services contracts for hardware and software supporting the financial and human resources systems, the MBTA.com website, timekeeping, payroll, scheduling, and desk top computers

MassDOT/MBTA Interagency Agreement (\$3.1 million)

Payments to MassDOT for a shared services cost sharing arrangement<sup>8</sup>

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<sup>6</sup> The total budget increase for materials, services, and supplies is \$33.2 million which includes \$2.5 million in savings for compressed natural gas and diesel appearing in the cost reductions section of this staff summary, \$6.6 million increase in costs for contract cleaning which appears in the contractual and statutory obligations section, and \$7.6 million for traction power and utilities, which appears separately in the ongoing operations and quality of service section. A chart of the FY 2016 materials, supplies, and services line item by spending category appears in Tab D.

<sup>7</sup> Supports the painting and repairing body damage and deterioration to 200 buses annually

<sup>8</sup> Since the inception of Transportation Reform in 2009, MassDOT and the MBTA have been able to align certain activities of their respective agencies. The following cross-agency interests have been functionally combined and/or coordinated so that the delivery of such services is more efficiently managed within the two agencies: Communications and Public Affairs, Education and Development (MassDOT University), Employee Relations, Human Resources, IT, Law, Occupational Health Services, ODCR, Real Estate and Asset Management, and Security and Emergency Management. In lieu of some duplication in staffs, the two agencies have entered into a cost sharing arrangement.

Rail Maintenance (\$2.1 million)

Materials for end of life vehicle components for Red Line, Orange Line and Green Line cars (e.g. evaporator condenser drains, scroll signs, emergency door pulls, AC compressor motors, door locks, return air thermostats, DC overhead blower motors, spin slide controls, APS fan upgrades, Cineston fingers to improve the reliability of the propulsion and braking controller, fall protection equipment (harnesses and wiring), rubber mounts and spherical bearings for Green Line Type 8 Truck Rebuild Project, APS components for Green Line Type 8 Rebuild Project, Green Line Rail shunting yard tugs, and Green Line air compressor assemblies

Design & Construction (\$1.6 million)

Lease payments for department headquarters at 100 Summer Street

Strategic Business Initiatives & Innovation (\$1.6 million)

Consulting services with the Central Transportation Planning Staff (CTPS) for the following projects which require compliance with Federal Transit Administration (FTA) regulations: FY 2017 fare increase elasticity and equity report, on board passenger survey, university pass Title VI equity analysis, youth pass Title VI equity analysis, and youth pass program evaluation

Consulting services for advancing fare policy improvements at the direction of the MassDOT Board

Bus Maintenance (\$1.4 million)

Materials for consumables and end of life vehicle components (e.g. tires, lubricants, components to repair and replace Cummins engines, components to repair and replace NABI exhaust manifolds and engine harnesses, components to keep the bus fleet accessible by replacing straps, harnesses lifts, and wheel chair ramps, and materials for the installation of a new above ground diesel exhaust fluid tank for buses at Charlestown Garage—an Environmental Protection Agency (EPA) requirement)

Services for various contracts (e.g. motor oil, non-warranty engine parts, fuel services for fueling station and equipment, automotive brakes, fasteners, and metric nuts and bolts)

General Counsel (\$1.2 million)

Outside legal services



### IT Development (\$1.1 million)

Hardware, software and services for a variety of IT business categories: disaster recovery (business continuity); firewall consolidation (information security); financial management information system (FMIS) migration to cloud hosting (business process improvement and business continuity); inventory hand scanner rollout to garages and upgrade (business process improvement); system-wide radio upgrade (state of good repair); wide-area network foundation (SONET) (state of good repair); virtual desktop infrastructure (information security and business continuity); human resources and payroll timekeeping system (business process improvement); fiber database system (state of good repair); and data warehousing (business process improvement)

### Diversity (\$0.4 million)

Organizational diversity and civil rights (ODCR) training for employees; consulting services for MBTA Title VI (CTPS), MBTA telephonic interpreting, MassDOT/MBTA translations, and ADA transition plan reporting and public meetings; DBE compliance software—PRISM annual maintenance fee; technical and supportive services to small businesses to assist small minority and women-owned businesses doing work with MBTA and MassDOT to achieve M/W/DBE certification; and Unified Certification Program to certify DBEs in Massachusetts

- \$0.5 million for financial service charges for credit card processing fees

### **Contractual and Statutory Obligations**

The Authority will require \$38.6 million in additional funds in FY 2016 as a result of wage and payroll costs and existing contractual and statutory obligations as follows:

- \$15.6 million for collective bargaining and arbitration award adjustments for the Authority's 17 bargaining units covering 29 unions

The Authority has a number of contracts in various stages of bargaining. With the exception of the following, all contracts are current through June 30, 2016 with known increases:

#### Tentative Agreements

- The Steelworkers Executive Union contract expired on June 30, 2010. The parties have reached two tentative agreements for two terms extending to June 30, 2018.
- Lodge 264's contract expired on June 30, 2014. The parties have reached a tentative agreement for a term extending to June 30, 2018.

- Local 651's contract expires on June 30, 2015. The parties have reached a tentative agreement for a term extending to June 30, 2019.
- The Transportation Executive Association is negotiating a first contract. The parties have reached two tentative agreements for two terms extending to June 30, 2019.

#### In Negotiations/Arbitration

- The Police Association, the Sergeants' Association, and Superior Officers' Association contracts expired on June 30, 2014. The Police Association and Sergeants' Association contracts continue to bargain. The Superior Officers' contract is moving to arbitration.
- Local 69, Local 453, and the Building and Construction Trades have contracts expiring on June 30, 2015. The parties are currently in bargaining.

The Authority has assumed in the FY 2016 budget request that these unions will settle for the pattern established by Local 589 which includes a 2.5% wage increase on July 1, 2015 as well as any back pay due for earlier time periods reflecting Local 589's pattern.

- \$6.6 million for contract cleaning of stations, vehicles and facilities
- \$5.6 million for THE RIDE which is a contracted service providing door-to-door, shared ride transportation to eligible people who cannot use fixed-route transit all or some of the time because of a physical or cognitive disability
- \$5.4 million for pension costs for employer contributions to retirement funds: the MBTA Retirement Fund, the MBTA Police Association Retirement Plan, the Deferred Compensation Plans, and the Deferred Compensation Savings Plan (401a).

With the exception of the Savings Plan, which is a defined contribution plan, the Authority's contributions to the MBTA Retirement Fund and the Police Association Plan are determined through actuarial valuations. There have been no assumed changes in benefits in these two plans. The MBTA Retirement Fund agreement expires on June 30, 2018. The MBTA Police Association Retirement Plan expired on June 30, 2010.

- \$3.3 million for second year fixed price increase in the contract for commuter rail services with Keolis
- \$1.1 million for FICA

The cost increase for FICA is related to the increase in wages.

- \$1.0 million for a health and welfare fund awarded by the Local 589 arbitrator to fund benefits not covered under the Group Insurance Commission (GIC) plans

These include dental insurance, life insurance, vision insurance, and Medicare Part B. The trust expenses are expected to increase from \$10.4 million in FY 2015 to \$11.5 million in FY 2016.

## Cost Reductions

Offsetting the requested budget increases associated with ongoing operations and quality of service and contractual and statutory obligations are cost reductions in the FY 2016 budget, which collectively total \$21.0 million:

- \$8.7 million in train fuel for commuter rail operations
- \$3.9 million less in wage costs for assorted elements of compensation which partially offset the cost increases for new positions and collective bargaining increases
- \$2.5 million in energy savings for compressed natural gas and diesel
- \$1.5 million in savings for healthcare covered by the Group Insurance Commission (GIC)

Authority employees and retirees became participants of the Group Insurance Commission upon the passage of *Transportation Reform* legislation in 2009. The transfer from the Authority's healthcare plans began on January 1, 2010 with non-union employees and continued since with the final unions transferring into the GIC this July. The delay in the participation of all MBTA employees was caused by lengthy contract negotiations and interest arbitration with Local 589. During this time, the Authority's healthcare costs peaked in FY 2012 at \$123.5 million. With full participation in FY 2016, the Authority's cost will drop from \$110.2 million in FY 2015 to \$108.7 million—a 1.4% decrease.

- \$1.5 million in savings from Casualty and Liability

This line item consists of risk insurance and injuries & damages. Pursuant to the Transportation Reform legislation enacted in 2009 and subsequent amendments, the MBTA is no longer liable for punitive damages or any interest pre-judgment or post-judgment and its liability is capped at \$100,000 except for serious bodily injury. Risk insurance and injuries & damages peaked in cost at \$17.5 million in FY 2013. The FY 2016 budget request of \$15.1 million is an 8.8% decrease over the FY 2015 budget of \$16.8 million.

- \$1.4 million reduction in the fixed price scope changes and allowances in the contract for commuter rail services with Keolis
- \$1.2 million in savings from Water Transportation<sup>9</sup> contracts per contractual price per trip for Hingham, Hull/Quincy, and Inner Harbor services

The Quincy service was recently relocated to Hingham. Because the Hingham and Quincy schedules had some redundancy, the single operation out of Hingham has lowered the number of trips required. The MBTA expects to save \$1.2 million annually as the contract cost is based upon the number of trips.

- \$0.2 million in miscellaneous reductions in third party claims in the contract for commuter rail services with Keolis
- \$0.1 million for workers' compensation due to decreases in claims, medical costs for medical exams, and legal fees for MBTA outside counsel and plaintiff's attorneys' fees

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<sup>9</sup> The MBTA's ferry services are provided by a contract operator and governed by operating agreements administered by the MBTA Railroad Operations & Water Transportation Department. The services comprise three routes and seven docks categorized into two service types: Inner Harbor Ferry (Charlestown Navy Yard to Long Wharf) and Commuter Boats serving Hingham, Rowes Wharf, Long Wharf, Hull, and Logan Airport).

## **FY 2016 Debt Service**

### **Interest and Principal Expenses**

The FY 2016 debt service budget, representing a \$28.2 million increase over FY 2015, continues to reflect the substantial principal and interest payments as the bill on the Authority's \$5.38 billion<sup>10</sup> in outstanding debt comes due. This \$5.38 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, local assessments, additional assistance from the Commonwealth, 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, capital maintenance funds, Federal Transit Administration grants, state funds, and Homeland Security funds. In FY 2016, 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 2016 is \$452.1 million, which represents an increase of approximately \$28.2 million over the FY 2015 debt service budget due to the principal amortization schedule. No debt restructuring is included in the FY 2016 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 to fifteen years, but those savings opportunities are limited. Total debt service expenses of \$452.1 million in FY 2016 represent 22.2% of all revenues.

In addition, *Transportation Finance Legislation* has provided significant additional funding for the Capital Investment Program. This is in two areas: unlocking economic growth in Massachusetts for the expansion of transit services and investments in the MBTA's State of Good Repair program. These investments will significantly mitigate the need for revenue bond financing over the next ten years and help stem the growth in the level of debt carried by the Authority. Although these investments do not address all of the needs of the Authority, they do make a substantial contribution in addressing the State of Good Repair needs.

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<sup>10</sup> \$8.3 billion, inclusive of interest

## **Lease Payments**

Lease payments for revenue and non-revenue vehicles will increase by \$0.3 million to \$4.6 million. These payments provide funding for tax-exempt, non-revenue vehicle leases that support vehicle purchases for THE RIDE program, the MBTA's police department, and system-wide maintenance, and service delivery.

## **NET DEFICIT**

The Authority's total expenses less total revenues for FY 2016 leave a \$169.6 million deficit. In the proposed budget, the Authority anticipates receiving \$187.0 million in additional state assistance from the Commonwealth. This is an increase of \$51.9 million (38.4%) over the FY 2015 budgeted amount of \$135.1 million. Unlike the \$160 million in contract assistance, which the legislature first gave the MBTA in FY 2010 and then built into the base revenue amount for dedicated sales tax calculations in FY 2015, the additional assistance from the state will depend upon an appropriation in the state's FY 2016 budget. The \$187 million was included in the Governor's House I budget.

## **SUMMARY**

Through the commitment of the governor in providing \$187 million in additional state assistance in the fiscal 2016 House I budget, the Authority is able to offer a budget which covers the agency's short-term needs, preserving some ability to fund additional service including late night service, and provides revenues in excess of expenses of \$17.4 million—of which \$11.7 million will go into a weather resiliency fund. The \$187 million in additional state assistance, which is supported by the Governor's Special Panel to review the MBTA, is still subject to legislative action to appropriate the funds. Should a lesser amount be provided, the Authority would submit a revised budget to the Board for consideration.

It should be noted that the Authority continues to have a structural deficit and again in fiscal 2016 expenses are growing faster than revenues.

## **RECOMMENDATION**

It is recommended that the Board of Directors approve the proposed FY 2016 annual operating budget and authorize the General Manager to submit the budget to the MBTA Advisory Board.

## **ATTACHMENTS**

Tab A          Recommended Vote

- Tab B            Statement of Revenue and Expenses
- Tab C            Net Operating Investment per Passenger Mile: FY 2001—FY 2016
- Tab D            Chart of FY 2016 Budget Revenues
- Chart of FY 2016 Budget Non-Operating Revenues
- Chart of FY 2016 Budget Operating Expenses
- Chart of FY 2016 Budget Materials, Supplies and Services Expenses
- Chart of FY 2016 Budget Total Expenses—Operating Expenses and Debt Service

**RECOMMEND APPROVAL**

Mary E. Runkel, Director of Budget

Jonathan R. Davis, Deputy General Manager Finance & Administration/Executive Chief Financial Officer

General Counsel

Frank DePaola, Interim General Manager

**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, 2015 through June 30, 2016—in the amount of \$2,020,964,459 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, 2015 in accordance with Section 20 of Chapter 161A of the Massachusetts General Laws.

**TAB B**

**MBTA FY16 Statement of Revenue & Expenses**

REVENUE	FY15 Budget	FY16 Budget	FY16 % Incr/Decr over FY15 Budget	FY16 \$ Incr/Decr over FY15 Budget
<b>Operating Revenues</b>				
Revenue from Transportation	597,647,752	617,848,214	3.4%	20,200,462
Other Operating Revenue	48,527,035	49,659,634	2.3%	1,132,599
<b>Total Operating Revenue</b>	<b>646,174,787</b>	<b>667,507,848</b>	<b>3.3%</b>	<b>21,333,061</b>
<b>Non-Operating Revenues</b>				
Dedicated Local Assessments	160,135,712	162,858,019	1.7%	2,722,307
Dedicated Sales Tax	970,637,174	986,274,139	1.6%	15,636,965
Other Income	31,045,029	34,767,700	12.0%	3,722,671
<b>Total Non-Operating</b>	<b>1,161,817,915</b>	<b>1,183,899,858</b>	<b>1.9%</b>	<b>22,081,943</b>
<b>TOTAL REVENUES</b>	<b>1,807,992,703</b>	<b>1,851,407,706</b>	<b>2.4%</b>	<b>43,415,004</b>
<b>EXPENSES</b>				
<b>Operating Expenses</b>				
Wages	493,470,467	511,113,576	3.6%	17,643,110
Fringe Benefits				
Pensions	76,874,711	82,273,069	7.0%	5,398,358
Healthcare	110,187,626	108,663,780	-1.4%	(1,523,846)
Group Life	584,316	600,679	2.8%	16,363
Disability Insurance	0	0	0.0%	0
Workers' Comp	11,170,527	11,077,679	-0.8%	(92,848)
Other Fringe Benefits	234,171	237,069	1.2%	2,898
<b>Total Fringe Benefits</b>	<b>199,051,351</b>	<b>202,852,276</b>	<b>1.9%</b>	<b>3,800,925</b>
Health & Welfare Fund	10,436,865	11,474,924	9.9%	1,038,059
Payroll Taxes	37,750,491	38,895,488	3.0%	1,144,997
FICA	1,320,087	1,339,665	1.5%	19,578
Unemployment	39,070,578	40,235,153	3.0%	1,164,575
<b>Total Payroll Taxes</b>	<b>237,872,565</b>	<b>271,119,563</b>	<b>14.0%</b>	<b>33,246,998</b>
Materials, Supplies and Services	16,566,513	15,110,409	-8.8%	(1,456,104)
Casualty and Liability	384,346,300	383,946,449	-0.1%	(399,851)
Purchased Commuter Rail Service	122,116,771	126,512,940	3.6%	4,396,169
Purchased Local Service Subsidy	5,990,000	6,490,000	8.3%	500,000
Financial Service Charges	1,508,921,410	1,568,855,291	4.0%	59,933,881
<b>Total Operating Expenses</b>	<b>240,945,845</b>	<b>238,256,615</b>	<b>-1.1%</b>	<b>(2,689,230)</b>
<b>Debt Service Expenses</b>	<b>178,695,803</b>	<b>209,277,065</b>	<b>17.1%</b>	<b>30,581,262</b>
Interest	4,296,777	4,575,488	6.5%	278,711
Principal Payments	423,938,425	452,109,168	6.6%	28,170,743
Lease Payments	1,932,859,835	2,020,964,459	4.6%	88,104,624
<b>Total Debt Service Expenses</b>	<b>(124,867,132)</b>	<b>(169,556,753)</b>	<b>35.8%</b>	<b>(44,689,621)</b>
<b>TOTAL EXPENSES</b>	<b>135,100,000</b>	<b>187,000,000</b>	<b>38.4%</b>	<b>51,900,000</b>
<b>Additional Assistance</b>	<b>10,232,868</b>	<b>17,443,247</b>	<b>70.5%</b>	<b>7,210,379</b>
<b>NET Revenue after Additional Assistance Transfer (Weather Resiliency Fund)</b>	<b>0</b>	<b>(11,697,586)</b>	<b>-</b>	<b>(11,697,586)</b>
<b>NET Revenue in Excess of Expenses</b>	<b>10,232,868</b>	<b>5,745,661</b>	<b>-43.9%</b>	<b>(4,487,207)</b>

FY		Operating	Capital	Total
FY15 Budget	6,046	532	532	6,578
FY16 Request	6,145	532	532	6,677
Headcount inc/(dec)	99	0	0	99
% Headcount inc/(dec)	1.6%	0.0%	0.0%	1.5%

Recovery Ratios	With Debt Included
Revenue	34.75%
Fare	30.57%
FY 16 MassDOT Funded Projects	33.25%

**TAB C**

**Massachusetts Bay Transportation Authority**  
**Net Operating Investment Per Passenger Mile**  
**FY 2000 - FY 2016 (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 13	1,329,645,863	583,283,968	43,015,977	703,345,918	1,805,869,060	0.389
FY 14	1,430,423,586	593,989,088	37,876,919	798,557,579	1,847,715,947	0.432
FY 15 (Budget)	1,509,361,477	614,269,440	47,359,295	847,732,742	1,831,151,227	0.463
FY 16 (Request)	1,569,295,358	635,466,902	51,922,818	881,905,638	1,896,243,065	0.465

\* Fare Revenue includes Parking Lot Proceeds.

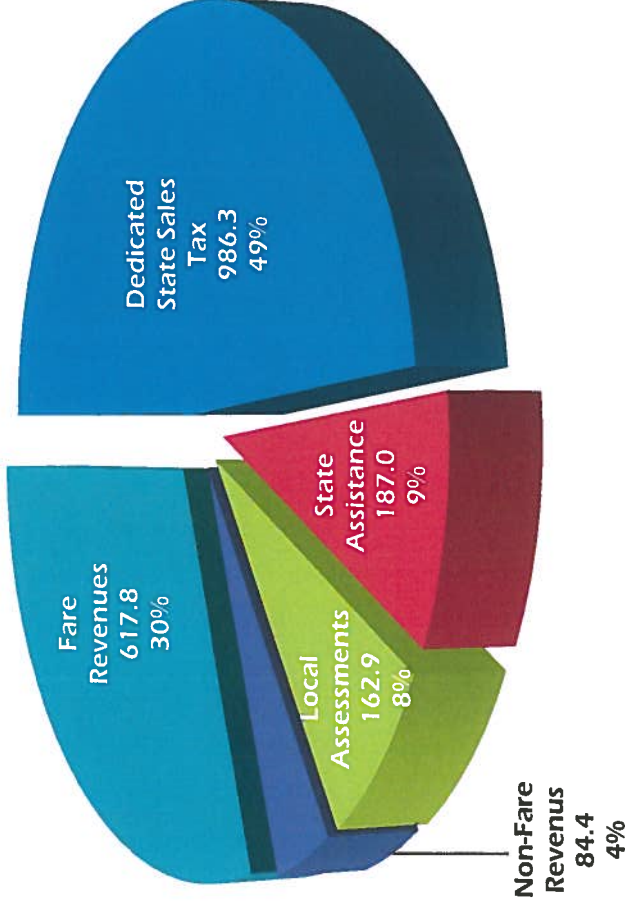
Note: Section 11 of Chapter 161A of Massachusetts General Laws stipulates that beginning in FY2006, the Authority should seek to achieve and maintain a target ratio of not more than 20 cents for any fiscal year. The legislation instructs the Authority to calculate the ratio using for the values of the 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**



# FY 2016 Revenue Overview

**State & Local Funding = \$1.34 Billion**  
**Total Revenue = \$2.04 Billion**



## Dedicated Sales Tax Revenue

Pursuant to MBTA's enabling act, Dedicated Sales Tax receipts to MBTA are the greater of the base revenue amount (BRA) or the dedicated sales tax revenue amount, which is 16% of statewide sales tax excluding the meals tax. An additional \$160 million (previously a separate appropriation) was added to the BRA (\$810,637,174) commencing in FY2015 and resetting the BRA to the amount of \$970,637,174.

## State Assistance

Additional assistance projected to be provided by the Commonwealth from Transportation Finance legislation.

## Local Assessments

Revenue generated from the communities served by the MBTA. All communities associated with the Authority must contribute to the MBTA.

## Non-fare Revenues

Revenue generated from advertising, parking and income from real estate operations.

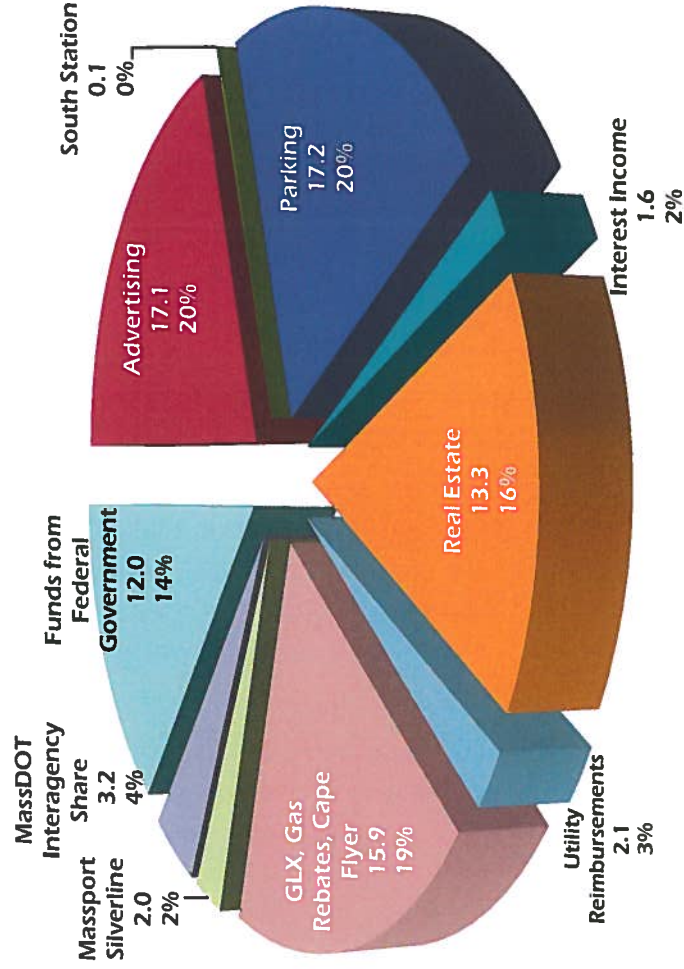
## Fare Revenues

Revenue generated from transportation services provided by the Authority.

**State Contribution**  
**\$ Amount**      **% of Revenue**  
**\$1.2 Billion**      **58%**

# FY 2016 Other Revenue

**Total Non-Operating Revenue**  
**\$84.4 Million**



Revenue Type	FY 12 Actual	FY13 Actual	FY14 Actual	FY15 Budget	FY16 Budget
Advertising	\$11.4	\$13.5	\$14.9	\$16.2	\$17.1
Parking*	\$15.3	\$17.2	\$16.4	\$16.2	\$17.2
Real Estate	\$14.2	\$16.1	\$13.6	\$13.3	\$13.3
All Other	\$57.4	\$80.2	\$25.9	\$33.9	\$36.9

Operating Revenue\* \$31.1 \$32.6 \$31.8 \$31.6 \$32.6  
 Parking Securitization (\$15.8) (\$15.4) (\$15.4) (\$15.4) (\$15.4)  
**Parking Net Revenue \$15.3 \$17.2 \$16.4 \$16.2 \$17.2**

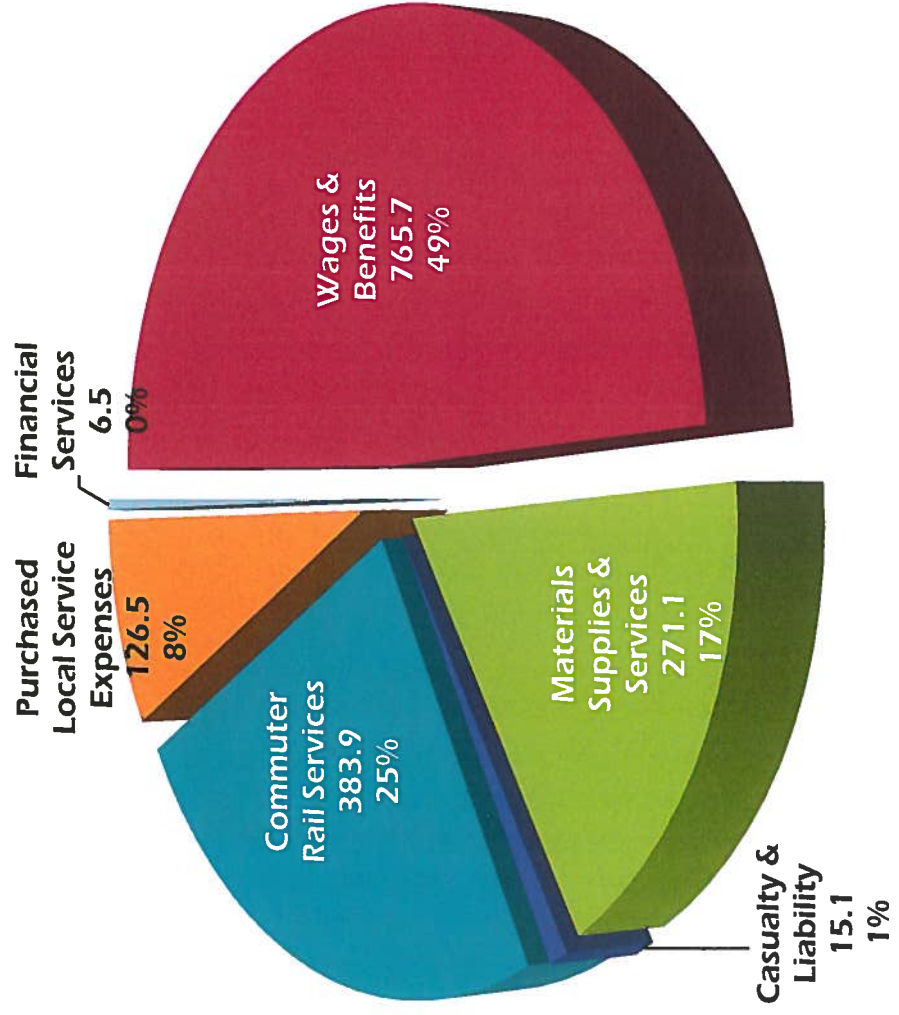
\*Note: Operating Revenue is net of Operating Costs





# FY 2016 Operating Expenses

**Total Operating Expenses**  
**\$1.569 Billion**



Wages & Benefits	FY 16 Budget	% of Total Operating Expenses
Wages	\$511.1M	33%
Healthcare	\$108.7M	7%
Pensions	\$82.2M	5%
Payroll Taxes	\$38.8M	2%
Health & Welfare Fund	\$11.5M	0.7%
Workers Comp	\$11.1M	0.7%
Group Life Insurance	\$0.6M	.04%
<b>Total</b>	<b>\$765.7M</b>	<b>49%</b>

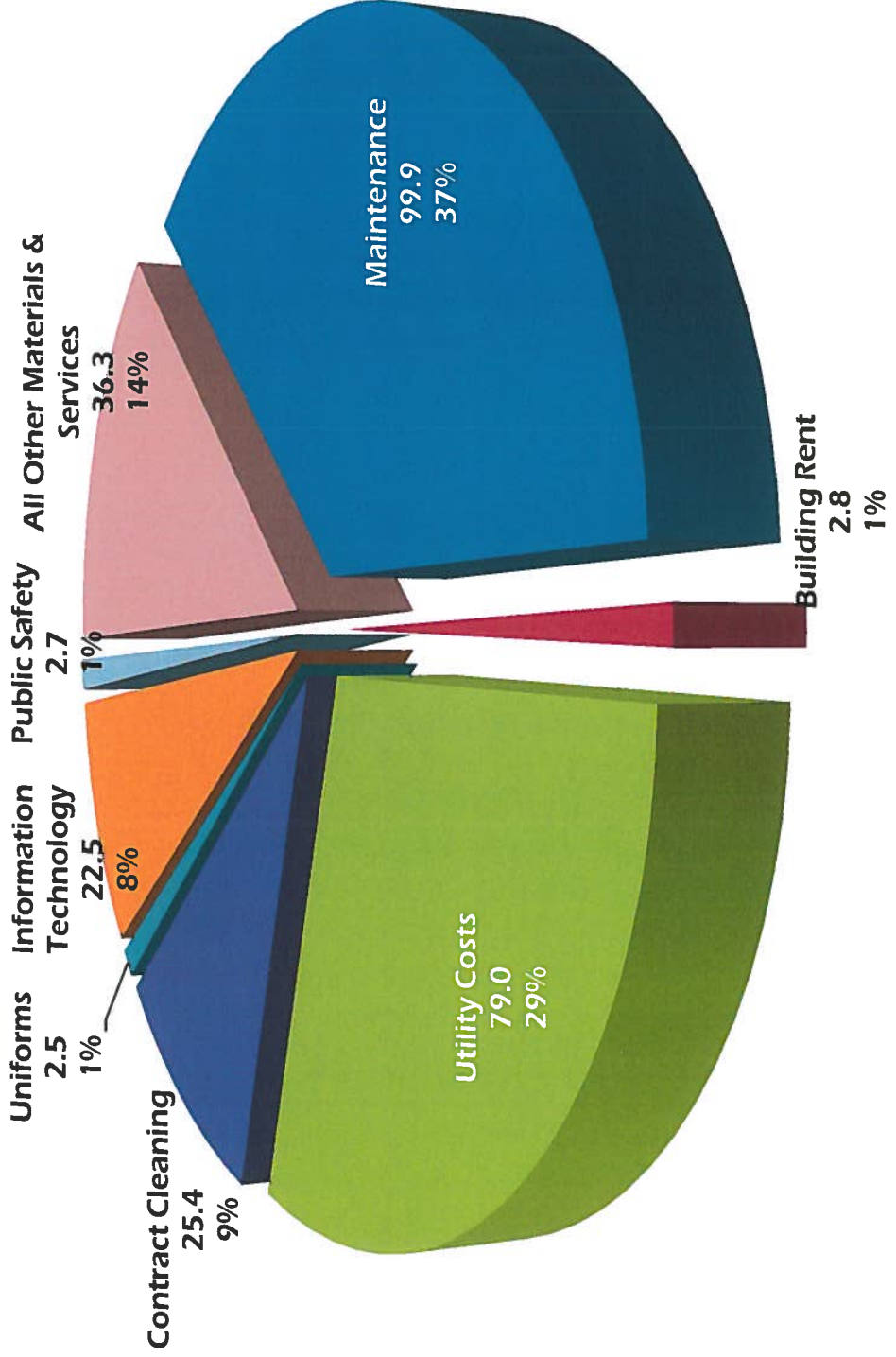
Health & Welfare Fund	FY 16 Budget	Description
Medicare Part B	\$5.8 M	Arbitrator's Award
Dental	\$2.9M	Status Quo
Vision	\$1.1M	Status Quo
Life Insurance	\$1.6M	Status Quo
<b>Total</b>	<b>\$11.5M</b>	

**Medical:** Group Insurance Commission  
**Pensions:** Grandfathered 23 years  
 New Hires 25 years , Age 55

# FY 2016 Materials & Services

## By Spending Category

**Total Materials & Services Expenses**  
**\$271.1 Million**



# FY 2016 Total Expenses

Total Operating & Debt Expenses  
**\$2.021 Billion**

