

Massachusetts Bay Transportation Authority

FY20 Final Itemized Operating Budget

April 8, 2019



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Agenda

1. Overview

2. Additional Proposed Investments

3. FY20 Itemized Operating Budget

4. Vote Language

5. Appendix – Budget Detail



Overview

- The Advisory Board has reviewed and provided feedback on the Preliminary Itemized Budget
- Every operating dollar saved is made available for capital improvements
 - › FMCB targeted \$150M annual transfer of operating dollars to Capital Investment Plan (CIP)
 - › Deficit spending in excess of \$37M would deprive CIP of that critical funding source
- FMCB and MBTA management will closely monitor financial performance during FY20 and make incremental investments where possible



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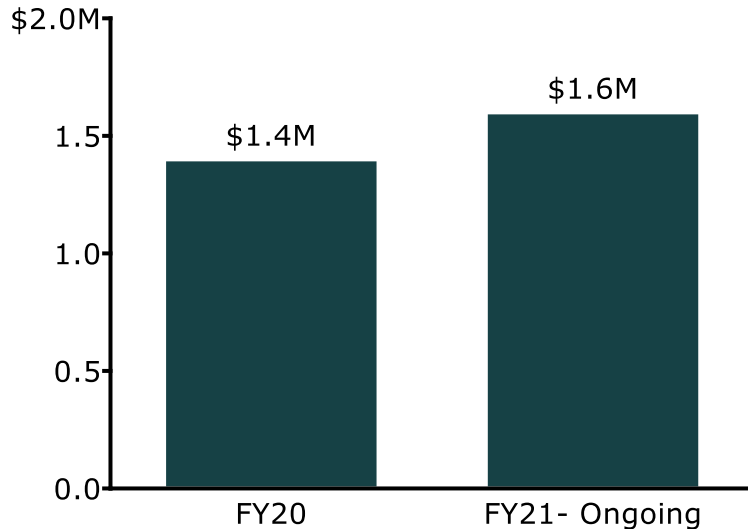
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Green Line Motorpersons: Additional motorpersons address run-time deficits caused by shortfalls in number of operators

OPERATING IMPACT

Annual Cost of Additional GL Service



Source: MBTA Internal Data

BACKGROUND

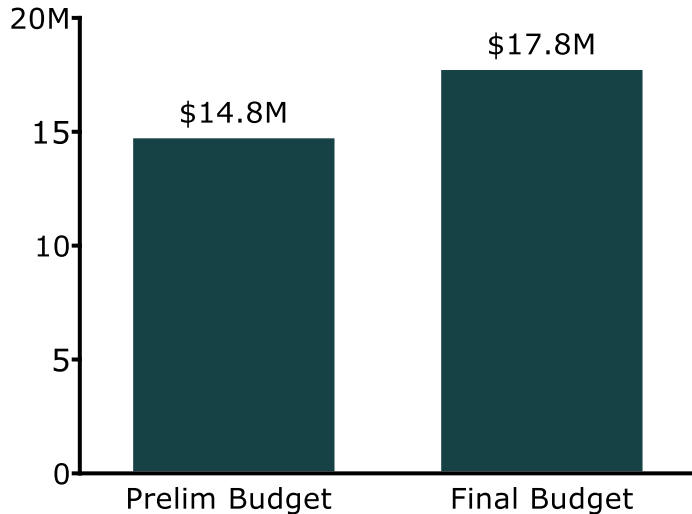
- MBTA to add six (6) motorpersons to enhance Green Line service in FY20
 - › Initiative detailed in presentation “Impact of Operations Headcount on Service Delivery” (April 1)
- Motorpersons to begin training in summer and join full-time workforce in fall
- Cost of additional service is \$1.4M in FY20 and \$1.6M thereafter
- Additional overhead included but no material increase in energy costs assumed
- Note: Additional operators are budgeted in FY20 for Orange Line Service as well as Better Bus Project (see appendix for Better Bus Project investment)



Station Services: New cleaning performance targets, audit function and facility management function

OPERATING IMPACT

Station and Facilities Cleaning Investment



Source: MBTA Internal Data

BACKGROUND

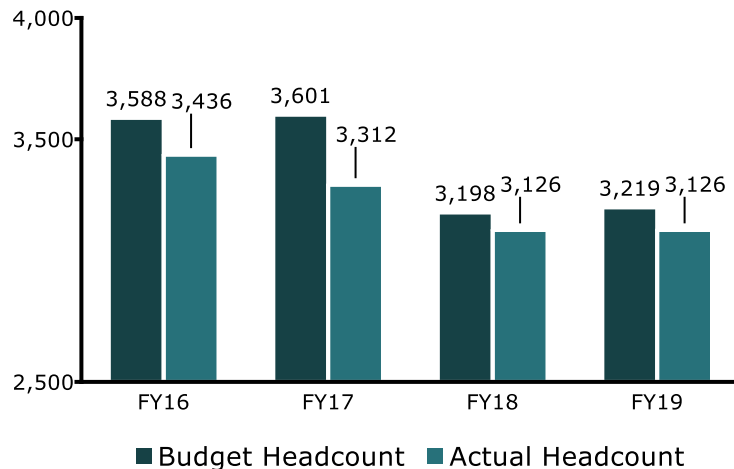
- Investment to include new facility and station cleaning contract, third party inspection services and MBTA staff
- New contract to include performance standards that were previously unspecified in MBTA cleaning agreements
 - › Performance targets likely to step up year-over-year
 - › Incentive pool may be available to vendor
 - › Rates for special services (deep clean) to be included
- In addition to the cleaning contract, the MBTA seeks:
 - › Third party inspection services to track performance
 - › Dedicated MBTA 'facility management team' to oversee contract, reporting to Joe Cheever
- All-in budget allocation to station services is approx. \$3M above preliminary budget figure
 - › Actual cleaning contract value and vendor pool is uncertain given ongoing nature of procurement



Operating Workforce and Time to Hire: Carry full list of open positions with adjustment for hiring lag

OPERATING IMPACT

Operating Positions Excluding Bus Transportation Budget vs Actual



Source: MBTA Internal Data as of February 28

BACKGROUND

- Described in preliminary budget as 'Operating Workforce Rationalization' with \$6.5M in savings
 - › Required departments to prioritize needs and postpone hiring to the second half of Fiscal 2019
- Based on board feedback and internal discussions, initiative to be modified in final budget
 - › Operating budget will carry full list of open positions
 - › Renewed focus on workforce to reduce Authority-wide vacancy rate
- Budget will carry a \$3M credit (rather than \$6.5M) to compensate for time to implement workforce planning tool and related hiring lag
- Assumes 50% reduction in open Req list by January 1 and 100% of positions filled by June 30, 2020



Summary of FY20 Initiatives

<p>Service Enhancements \$18M</p>	<ul style="list-style-type: none"> Better Bus Project (\$6.1M) FY20 Capital Workforce Expansion (\$3.5M) Customer Communications (\$1.5M) Additional Orange Line Operators (\$1M) AFC 1.0 Continued System Support (\$0.5M) Technology Investments (\$1M) Additional Green Line Service (\$1.4M)* Station Services and Cleaning (\$3M)*
<p>Other Strategic Investments \$3M</p>	<ul style="list-style-type: none"> Expand MBTA property insurance coverage (\$1M) Additional Warehouse Rent for Capital Spares (\$0.5M) Outside Counsel Resources (\$1M) Internal System Support (\$0.5M)
<p>Revenue Opportunities (\$45.5M)</p>	<ul style="list-style-type: none"> Fare Increase (\$29.5M) Reimbursement Initiatives (\$3M) Increase Income via short-term investments (\$4M) Maximize Advertising Revenue beyond digital live-boards (\$5M) Real Estate Lease/License Review (\$2M) Corporate Pass Program (\$2M)
<p>Cost Saving Initiatives (\$13M)</p>	<ul style="list-style-type: none"> Workforce Planning Adjustment (\$3M)* RIDE Uber/Lyft Pilot Changes (\$1.5M) Material and Supply Management Process (\$5M) Commuter Rail Scope Changes (\$3.5M)

*New or amended line items highlighted in Red



FY20 operating deficit is \$36.5M after additional investments

	<i>(in millions)</i>
FY20 Baseline Deficit (before Initiatives and Investments)	(\$74.0)
Revenue Opportunities	\$45.5
Cost Saving Initiatives	\$13.0
Service Enhancements	(\$18.0)
Other Strategic Investments	(\$3.0)
FY20 Operating Deficit	(\$36.5)

*FY20 Operating Deficit in Preliminary Budget was \$28.7M



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FY20 Summarized Operating Budget

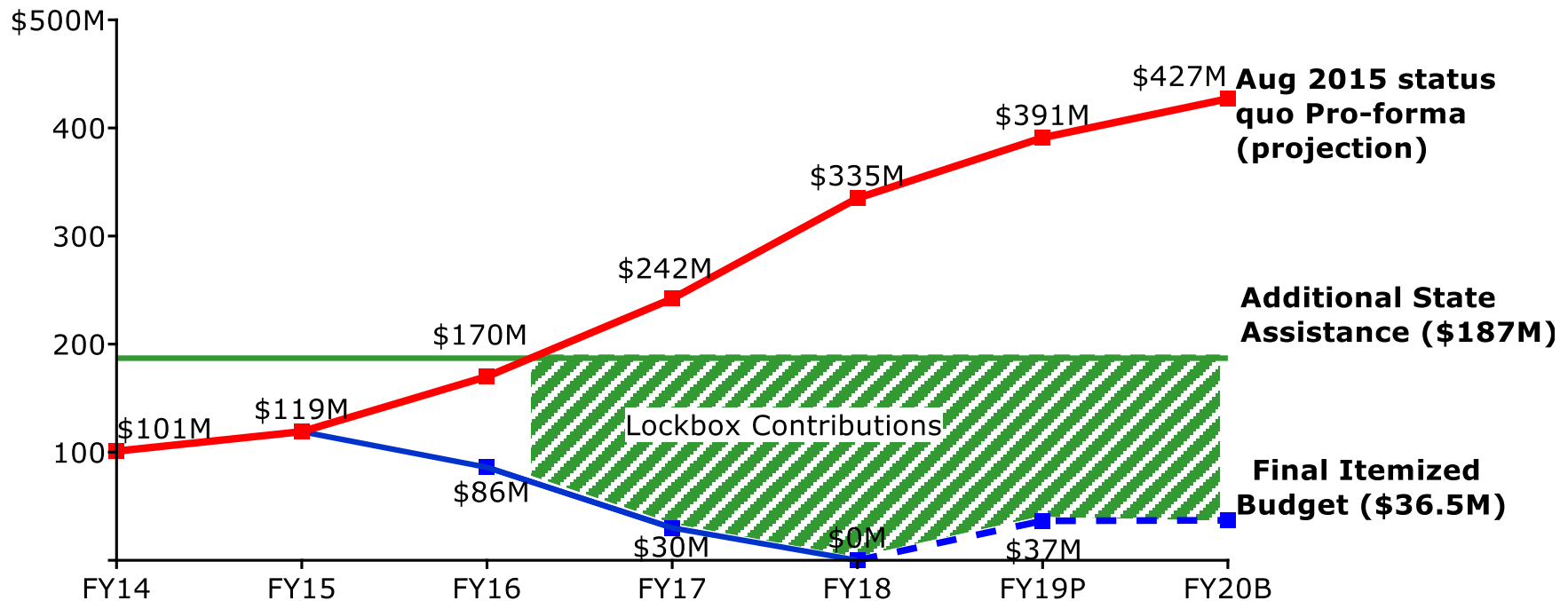
	(\$M)	FY19 BUDGET RECAST	FY20 BUDGET	\$ VARIANCE	% VARIANCE
REVENUES	Operating Revenues	\$758.4	\$808.1	\$49.7	6.6%
	Non-Operating Revenues	\$1,275.1	\$1,274.8	(\$0.3)	0.0%
	Total Revenues	\$2,033.5	\$2,082.9	\$49.4	2.4%
EXPENSES	Wages, Benefits and Payroll Taxes	\$770.5	\$795.3	\$24.8	3.2%
	Non-Wage	\$817.4	\$833.2	\$15.8	1.9%
	Operating Expenses	\$1,587.9	\$1,628.5	\$40.6	2.6%
	Debt Service	\$482.0	\$490.9	\$8.9	1.8%
	Total Expenses	\$2,069.9	\$2,119.4	\$49.5	2.4%
Structural Deficit		(\$36.5)	(\$36.5)	\$0.0	0.0%

*Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures



FY19 deficit \$314M below projections; FY20 budget allows for \$150M transfer to Capital Maintenance Lockbox

Structural deficit



Note: Operating Deficit does not include Additional State Assistance received in FY16 (\$155M), FY17 (\$140.25M), FY18 (\$127M) or FY19 Projections \$127M)



Potential Risks and Opportunities to FY20 Operating Budget

Pension Costs

- Reduction in the assumed rate of return or changes to experience study may increase the MBTA required contribution

Weather

- Prolonged inclement weather translates to increased spending across wages (overtime), materials and services

Financial Market Variables

- While the MBTA has hedges in place, a material increase in interest rates, higher energy prices and widening credit spreads impact the operating budget

Procurements in Process

- Several high value procurements are in progress, including station and facility cleaning, RIDE vendors, etc.

One-Time Revenue Items

- Accelerated Sales Tax Remittance, if realized, would represent an additional month of sales tax receipts
- Other H.1 proposals



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Vote to Approve FY20 Itemized Budget

REQUIRED VOTE

That the Fiscal and Management Control Board approves the Authority's itemized budget of current operating expenses and debt service costs for a one year period—July 1, 2019 through June 30, 2020—in the amount of \$2,119,425,374 in the form submitted at this meeting (April 8, 2019); and

That the General Manager is hereby authorized and directed to submit the approved itemized budget, in the name and on behalf of the Authority, to the MBTA Advisory Board no later than April 15, 2019 in accordance with Section 20 of Chapter 161A of the Massachusetts General Laws.



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FY20 revenue from all sources up 2.4%, driven by additional fare revenue

	(\$M)	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
OPERATING	Fares, all modes	\$664.7	\$693.9	\$29.2	4.4%	• Fare Increase
	Own-Source Revenue	\$83.2	\$102.4	\$19.2	23.1%	• Advertising and Real Estate initiatives
	Other Operating	\$10.4	\$11.8	\$1.3	12.5%	
	Operating	\$758.4	\$808.1	\$49.7	6.6%	
NON-OPERATING	Dedicated Sales Tax	\$1,032.1	\$1,063.0	\$30.9	3.0%	• Adjustment per statute
	Dedicated Local Assessment	\$170.1	\$174.4	\$4.3	2.5%	• Adjustment per statute
	Other	\$72.9	\$37.4	(\$35.5)	(48.7%)	• Exclude FY19 one-time revenues
	Non-Operating	\$1,275.1	\$1,274.8	(\$0.3)	0.0%	
Total Revenues		\$2,033.5	\$2,082.9	\$49.4	2.4%	

*FY19P represents year-end projections for Fiscal 2019

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FY20 wages and benefits increase modestly due to CBA and pension contribution

	(\$M)	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
WAGES	Regular Wages	\$451.7	\$472.9	\$21.2	4.7%	• CBA impact, focused investment on bus, RL/OL/GL
	Overtime	\$47.4	\$34.1	(\$13.3)	(28.1%)	• Continued management focus
	Wages	\$499.1	\$507.0	\$7.9	1.6%	
BENEFITS AND TAXES	Pension ^{^*}	\$102.9	\$118.2	\$15.3	14.9%	• Forecast ARC
	Health	\$103.8	\$104.6	\$0.8	0.8%	• Average GIC growth of 3%, and headcount growth
	<i>Retiree Health</i>	<i>\$43.6</i>	<i>\$47.0</i>	<i>\$3.4</i>	<i>7.8%</i>	
	Health & Welfare Fund	\$11.8	\$12.0	\$0.2	1.7%	
	Other Fringes	\$12.7	\$12.4	(\$0.3)	(2.4%)	
	Payroll Taxes	\$40.2	\$41.1	\$0.9	2.2%	• Driven by regular wages
	Benefits and taxes	\$271.4	\$288.3	\$16.9	6.2%	
Total Wages, Benefits and Taxes		\$770.5	\$795.3	\$24.8	3.2%	

[^]FY20 pension expense is an estimate and will not be finalized until MBTRF and its actuaries complete their 12/2018 investment valuation.

*Pension includes Main Fund, Police, Deferred Compensation Supplement, 401(a) MBTA Match



Non-wage operating expenses increase slightly year-over-year

	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
MATERIALS AND SERVICES	Materials	\$44.6	\$44.1	(\$0.5)	(1.1)% • Inventory initiative
	Services	\$119.6	\$124.5	\$4.9	4.1% • Flexible contracts
	Utilities	\$41.8	\$41.9	\$0.1	0.2% • Little change due to long term contracts
	Fuel	\$16.6	\$14.7	(\$1.9)	(11.5%)
	Contract Cleaning	\$25.7	\$29.7	\$4.0	15.6% • New facility/station contract in process
	Uniform	\$2.6	\$2.1	(\$0.4)	(16.9%) • Stable headcount and prices
	Materials and Services	\$250.9	\$257.0	\$6.1	2.4%
INSURANCE	Insurance Premiums and Damages	\$13.1	\$14.3	\$1.2	9.2% • Property coverage

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Non-wage operating expenses continued

	(\$M)	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
COMMUTER RAIL	Fixed Price	\$327.3	\$335.1	\$7.8	2.4%	• Annual contract escalation
	Extra Work and Services	\$45.4	\$44.8	(\$0.6)	(1.3%)	• Pared back extra work
	Fuel	\$29.4	\$29.7	\$0.3	1.0%	
	PRIAA	\$9.3	\$9.3	\$0.0	0.0%	
	Commuter Rail	\$411.4	\$418.9	\$7.5	1.8%	
LOCAL SERVICE	THE RIDE	\$116.3	\$115.2	(\$1.1)	(0.9%)	• Software to enhance productivity
	Ferry	\$14.9	\$16.5	\$1.6	10.7%	• New contract
	LSS Other	\$3.0	\$3.2	\$0.2	6.7%	
	Local Service	\$134.2	\$134.9	\$0.7	0.5%	
OTHER	Financial Service Charges	\$7.8	\$8.1	\$0.3	3.8%	
Non-Wage Expenses:		\$817.4	\$833.2	\$15.8	1.9%	

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Debt service to increase modestly in Fiscal 2020 due to step up in principal repayment

	(\$M)	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
DEBT SERVICE	Interest	\$215.8	\$214.1	(\$1.7)	(0.8%)	• Interest rates stabilizing
	Principal	\$266.2	\$276.9	\$10.7	4.0%	• Per amortization schedule
	Debt Service	\$482.0	\$491.0	\$9.0	1.9%	

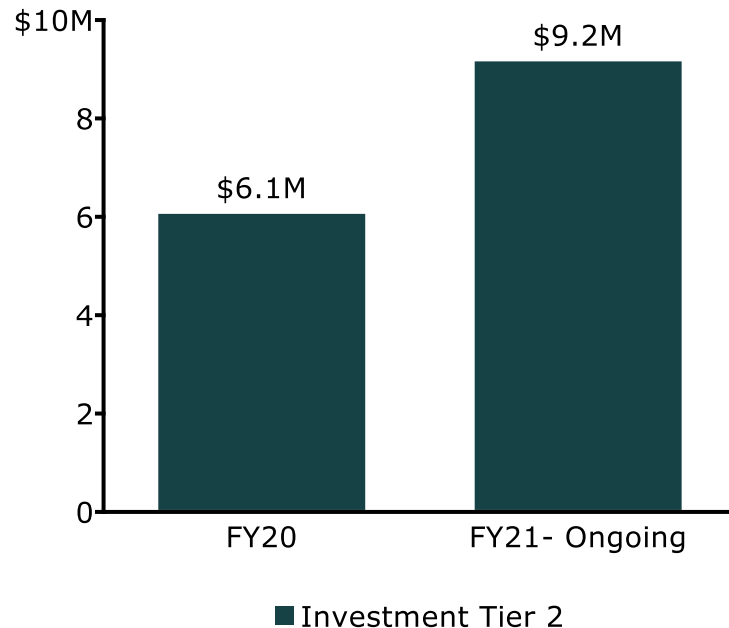
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BETTER BUS PROJECT (Updated): Investment steps up after FY20 as FTEs are fully phased into the project

BETTER BUS INVESTMENT

Annual Spend by Tier



Source: MBTA Internal Data

BACKGROUND

FY20 Budget Impact:

- Investment of \$6.1M in FY20 will be used to onboard 45 new FTEs during fall rating (Tier 1)
- Smaller 20 spend accounts for time to hire, training and phasing
- No corporate overhead or OCC overhead included

Investment Impact:

- Improved off-peak service on top forty routes / corridors (based on greatest need)
- 90% OTP, SDP frequency, SDP span of service (for 20 routes)
- Investment in FTEs to coincide with workforce modernization, trial dispatching pilot and network redesign