Report to Secretary of Administration and Finance and House and Senate Committees on Ways and Means regarding Revenue Projections and Changes to Fare and Fee Structure of the Massachusetts Bay Transportation Authority

December 15, 2013

Pursuant to Chapter 46 of the Acts of 2015, Section 78, the MBTA submits the first semi-annual report due to the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means regarding revenue projections and any changes to fee and fare structure of the Massachusetts Bay Transportation Authority. The report is organized as follows:

Section I
Year-to-date revenues collected and projected revenues and expenditures for the current fiscal year

Section II
Projected revenues and expenditures for the next 5 years

Section III
Changes in revenue and expenditure projections from the previous semi-annual report. This Section will be incorporated into the July, 2014 report as this report is the initial report submitted pursuant to this legislation.

Section IV
Reasons for any changes from previous projections. This Section will also be incorporated into the July, 2014 report as this report is the initial report submitted pursuant to this legislation.

Section V
Progress made toward achieving revenue and savings targets set for fiscal year 2017 and 2018

Section VI
Plan detailing how the Authority will meet targets established in Section 61 of the legislation, which provides for the amount of funds that shall be contributed by the Authority's own source revenues as a percentage of its operating budget. This Section will be included in the report submitted July 15, 2015, as specified in the legislation.

Section I

YEAR-TO-DATE REVENUES COLLECTED, AND PROJECTED REVENUES AND EXPENDITURES FOR THE CURRENT FISCAL YEAR.

Please refer to the attached *MBTA Statement of Revenue and Expenses—Period Ending September 30, 2013*.

- **Statement of Revenue and Expenses: Actual vs. Budget for Period Ending September 30, 2013**

The attached Statement of Revenue and Expenses for the period ending September 30, 2013 details line item variances in revenue and expense categories, which have resulted in a surplus of $12.3 million. As September year-to-date was budgeted with a $48.2 million deficit, revenue and expenses have performed better than budget by $60.5 million. It is important to note, however, that $33.4 million of the $60.5 million positive variance was due to timing of receipt of sales tax and local assessment revenue, which was received earlier than anticipated in the budget. This variance will correct over the remaining months of the fiscal year.

The Authority's total operating revenues including fares, parking, and tenant revenue performed better than budget by $2.5 million (1.6%). Operating expenses were favorable to budget by $27.5 million (7.4%) due to a combination of timing and under spending in healthcare; materials, supplies, and services; injuries and damages payments; commuter rail expenses; and RIDE expenses. Debt service expenses have performed in line with budget expectations were favorable to budget by $1.4 million (1.2%) for the 1st quarter. Combined, total expenses were favorable to budget by $28.9 million (6.0%). While the first quarter results are positive, one cannot assume that this is a trend because of aforementioned timing and the uncertainty of full transition of MBTA employees into the Group Insurance Commission.

- **Trends and Projections**

Please refer to attached *FY14 Year End Projection—Statement of Revenue and Expenses*. The Authority's first quarter projection presents an acute challenge to ending the year with a balanced budget. On August 26, 2013, the arbitrator in a labor contract dispute between the MBTA and Local 589 issued an award with a four year cost for Local 589 alone of $62.2 million—$24.6 million higher than what the cost would have been had the arbitrator awarded the same wage and benefit terms and conditions (also referred to as the "pattern") accepted by other MBTA unions.

In addition, there are six unions which have not settled collective bargaining agreements with the Authority. Pending the outcome of the Authority's appeal of the arbitrator's award, the Authority could potentially incur settlements with these unions along the line of Local 589's rather than the pattern. The four year cost for those unions at the arbitration percentages is $26.3 million versus $15.9 million for the pattern. In combination, the contracts for Local 589 and the remaining six unions could cost $35.0 million over the planned and budgeted pattern.

Four Year Cost Comparison between Arbitration Award and Pattern

	Pattern	Arbitration Award	Cost Difference
Local 589	$37.6M	$62.2M	$24.6M
Other Unions	$15.9M	$26.3M	$10.4M
Total	$53.5M	$88.5M	**$35.0M**

The attached first quarter projection shows that expenses will be in excess of revenue by $24 million reflecting a higher arbitration award accrual, overtime, and unbudgeted costs for staff for late night service and Commuter Rail mobilization for the new Commuter Rail contract commencing July 1, 2014. Higher-than-budgeted pensions and FICA are the result of the arbitrated wage costs assumed in the projection. The projection does show some savings in healthcare ($1.5 million), unemployment ($1.6 million), and THE RIDE ($5.1 million) but bottom line total expenses at this juncture are projected to be $31.5 million over budget. It is important to note that the impact of the arbitration award is included in the FY2014 projection, but is currently under appeal.

Revenue is projected to be $7.5 million better than budget but it is partially predicated on the MBTA receiving income in the form of sponsorships ($4.4 million) to pay for the implementation of late night service on March 22, 2013. The estimated cost of the service through June 30, 2013 is $4.4 million. Additionally, the MBTA budgeted the receipt of $118 million in funding from the legislature, but the actual amount appropriated was $115.2 million. Fare revenue was projected based on first quarter actuals and depending on ridership, will grow or decrease. Parking revenue is projected to exceed budget by $1.9 million (4.2%) because of higher than budgeted parking utilization. It is anticipated that the MassDOT Board will approve a reduction in THE RIDE fare from $4.00 to $3.00. The effect on revenue and the corresponding increase in ridership has not yet been factored in to the projection. Better forecasted revenue in total leaves a projected bottom line deficit of $24.0 million. However, the MBTA continues to look for opportunities to contain operating costs, and has not yet completed its review of other cost-saving measures for FY 2014 and beyond.

Preliminary discussions with the Board Finance and Audit Committee in relation to the projected deficit have centered on one solution. There is currently $26.2 million in the Deficiency Fund and management's suggestion is that this balance could be used to close the deficit and end the year with a balanced budget. This would, however, completely deplete the Deficiency Fund.

Section II

PROJECTED REVENUES AND EXPENDITURES FOR THE NEXT 5 YEARS

Please refer to the attached *Massachusetts Bay Transportation Authority Pro Forma FY15-FY19*.

The MBTA has made certain assumptions on the amount of additional contract assistance that would be provided to the Authority to balance the budget over the 5 year time frame. The amount ranges from $115.2 million appropriated in FY 2014 to $40.9 million projected in FY 2019. The attached 5 year Pro Forma assumes that the MBTA will receive the annual amounts identified in the schedule at the time the pro forma was developed. The MBTA was not anticipating initiatives to provide late night service and increased core bus service (including improvements to off-peak service). It is anticipated that implementing these services will require additional assistance over the levels currently provided, particularly in FY 2015, unless resources become available from sponsorships and/or MassDOT.

Also, the MBTA projects dedicated local assessments and state sales tax receipts based on broad economic factors. In actuality, from year to year these revenue sources can and do fluctuate from the amount initially projected when the fiscal year budget is finalized. For example, in the attached pro forma, dedicated local assessments are projected at a 2.5% increase per year beginning in FY 2015, and the actual amount that will be received in FY 2015 was recently confirmed to be a 1.9% over FY 2014. This results in a difference of approximately $1 million.

The pro forma includes a 5% fare increase in FY 2015, 2017 and 2019 in conformance with the Way Forward Transportation Finance Plan.

There are two significant unknowns that will affect operating expenses. On June 30, 2014, operating contracts for THE RIDE and commuter rail service will expire. Both contracts are currently undergoing a procurement process. While the pro forma assumes some increase to the costs of providing these services in FY 2015 and beyond, the impact is unknown until such time that a new contract is signed and executed. As a practical matter the costs associated with both of these contracts in the future could be less, or possibly significantly more, than what is projected.

Regarding capital expenses, the MBTA is anticipating that funding for Way Forward initiatives will be provided by the Commonwealth. However, the MBTA plans to maximize the amount of federal funds that can be made available, as well as to issue debt to fund its own portion. The MBTA's funded portion of the capital investment program targets over 95% of available funding toward state-of-good repair projects. While there are no additional operating expenses incurred as of yet for any of the Way Forward initiatives, it is assumed that for the Green Line Extension and South Coast Rail projects the net operating costs will be provided as subsidy to the MBTA from the Commonwealth.

<u>Section III</u>

CHANGES IN REVENUE AND EXPENDITURE PROJECTIONS FROM THE PREVIOUS SEMI-ANNUAL REPORT

This Section will be incorporated into the July, 2014 report as this report is the initial report submitted pursuant to this legislation.

Section IV

REASONS FOR ANY CHANGES FROM PREVIOUS PROJECTIONS

This Section will also be incorporated into the July, 2014 report as this report is the initial report submitted pursuant to this legislation.

Section V

PROGRESS MADE TOWARD ACHIEVING REVENUE AND SAVINGS TARGETS SET FOR FISCAL YEAR 2017 AND 2018

Although the MBTA is required to manage closely to an annually approved budget that must be balanced, for prudent financial planning purposes, the MBTA manages its overall finances over a five year period, reflected in its 5 year Pro Forma, which is frequently reviewed, updated and evaluated throughout the fiscal year.

As a part of this process, MBTA projects any actual as well as expected increases and/or decreases in its various revenue sources and expense categories over a five-year period. The MBTA is currently working to incorporate the revenue and savings targets included in the legislation set for Fiscal Years 2017 and 2018. This includes plans for raising fares and parking fees and expanding opportunities for advertising revenues. It also includes managing the MBTA's real estate assets to generate funds for leasing activities, sponsorships, and periodic sale of real property. Additionally, the MBTA works to maintain its high credit ratings, which allows it to issue debt at low interest rates and minimize its costs for debt service. To this effect, the MBTA is currently responsible for submitting a Non-Fare Revenue Report annually in the spring to the legislature detailing its annual progress in maximizing such revenues. These efforts will be incorporated into, and expanded within the MBTA's overall plan to achieve the revenue and savings targets that have now been established in the legislation.

The Authority continues to look for ways to decrease operating expenses while improving service delivery. Over the next year, the MBTA will engage a firm to conduct a comprehensive review of our fundamental business practices in order to develop and implement processes to increase cost efficiency. We will also continue to look for ways to increase our own-source revenue.

Section VI

PLAN DETAILING HOW THE AUTHORITY WILL MEET TARGETS ESTABLISHED IN SECTION 61 OF THE LEGISLATION WHICH PROVIDES FOR THE AMOUNT OF FUNDS THAT SHALL BE CONTRIBUTED BY THE AUTHORITY'S OWN SOURCE REVENUES AS A PERCENTAGE OF ITS OPERATING BUDGET

This Section will be included in the report submitted July 15, 2015, as specified in the legislation.