



KEEPING ON TRACK

Our Second Progress Report on Reforming and Funding Transportation Since Passage of the Massachusetts Transportation Finance Act of 2013



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INTRODUCTION

IN 2000, the Legislature passed legislation known as “Forward Funding” with the goal of making the Massachusetts Bay Transportation Authority (MBTA) financially self-sufficient. To do so, Forward Funding dedicated a portion of the sales tax to the MBTA and relied on projections of increased sales tax revenue.

Unfortunately, these projections never came true. The sales tax underperformed and as a result a structural operating deficit between expenses and revenue existed for many years.

More than a year ago, the Legislature passed the Transportation Finance Act of 2013 (“the Act”) to begin to address the state transportation system’s funding gap, which has repeatedly been estimated to be over \$1 billion per year. Based on its own projections, the legislation aimed to raise an average of \$600 million per year.

The Commonwealth’s painful experience with actual receipts lagging behind Forward Funding projections strongly points to the need to

compare the projections underlying the Transportation Finance Act of 2013 to actual expenses and revenues as they come in. This report is the second in a series of Transportation for Massachusetts (T4MA) progress reports that compile the necessary information to avoid the mistakes of the past.

Keeping on Track provides you with updated information about the financial state of the Commonwealth’s transportation system, completed statutory requirements, missed deadlines, and improvements made through new transportation investments.

The Commonwealth’s previous and painful experience with receipts falling far short of projections is why we publish these progress reports on the 2013 Transportation Finance Act.

EXECUTIVE SUMMARY

FY14 PROJECTIONS VS. ACTUALS

WE NOW HAVE, for the first time, data to help us evaluate how close the revenue and spending projections match the actual revenue raised for and dollars spent on state transportation. Massachusetts has completed its first fiscal year since passage of the Transportation Finance Act of 2013.

Overall, actuals fell \$41 million short of projections, a small difference for a budget of over \$2 billion. This is as expected; the greater financial pinch will be felt in future fiscal years, when the projected funding gap grows and the uncertainties increase.

Overall, the actual FY14 budget for transportation fell \$41 million short of projections.

Below is a list of the most significant ways revenue and expense projections differed from revenue that was actually collected and spent in FY14:

- None of the gambling revenue, projected at \$25 million for FY14, became available due to the delayed implementation of the Gaming Law. While this funding is now expected to begin to flow in FY15, this new revenue source may be lagging behind the projection schedule from here on out.
- The motor vehicles sales tax, which became the transportation system's dedicated portion of the sales tax as part of the changes implemented pursuant to the Act, brought in \$32 million in FY14 more than was projected. Presumably, this is a result of an unexpected increase in car sales, a national trend since people held off purchasing cars during harder economic times. Additional revenue, although not likely at the same level, may be sustained in the future.
- The employee payroll and benefits of the Massachusetts Department of Transportation (MassDOT)

were down, while construction and maintenance, and materials, supplies, and service costs were up.

- Estimates for ice removal costs borne by MassDOT (\$44 million for last year) are much less than actual costs (\$134 million last year, and an average of \$80 million a year between FY08 and FY12). Coupled with increased costs for road salt starting in FY15, this category is a likely candidate for continued higher spending than expected in the future.
- In FY14, the MBTA brought in \$31 million more in fares than originally projected, all stemming from an increase in ridership, prior to any fare increase.
- Wages at the MBTA were up about 6.8% from projections due to back pay wage accruals as a result of arbitration, costing the transit agency an additional \$29 million.

example, a new stop on the CapeFLYER was added in Wareham and the MBTA signed a contract for the procurement of Red and Orange Line cars. MassDOT also revealed that a new commuter rail station will be built in Allston and Governor Charlie Baker made \$100 million in additional funding for local roads available. In addition, there currently are bids out for the rehabilitation of the I-91 Viaduct and for 30 diesel multiple units, which are independently powered vehicles that run on commuter rail tracks and require no separate locomotive.

Operational improvements, such as all-electronic tolling on the Tobin Bridge, service improvements at regional transit authorities (RTAs), MBTA late-night service, and new and reinstated weekend commuter rail service have also been implemented. Many planning requirements of the Transportation Finance Act of 2013, such as the Project Selection Advisory Council and the RTA comprehensive service plans, have been advanced; a few deadlines were missed.

ACHIEVEMENTS OF THE TRANSPORTATION FINANCE ACT TO DATE

Even without sufficient revenue available for additional capital projects in FY14, MassDOT and the MBTA were able to begin a number of capital improvements. These rely on the new revenue from the Transportation Finance Act of 2013 that will be available in the coming years. For



Revenue from the Transportation Finance Act enabled the addition of a new stop on the CapeFLYER, the seasonal rail service between Boston and Cape Cod.

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The Commonwealth has added a new stop on the CapeFLYER, signed a contract to get new Red and Orange Line cars, announced a new transit stop in Allston, bid out rehabilitation of the Springfield Viaduct, improved regional bus service, and started installing electronic tolling.

ON THE HORIZON

Looking ahead, there are some challenges that will have to be met. In addition to the likely higher costs of snow and ice removal, funding that was expected to be raised through the indexing of the gas tax will be missing, since this portion of the law was repealed by ballot initiative in November 2014. In FY16, the first full year of the indexing of the gas tax, this source of revenue was expected to raise \$27 million. By FY18, it could have been more than \$60 million, which now will need to be replaced as a result of the repeal.

These pressures will be balanced out in part by some of the positive developments on the revenue side, but it will take more to make future transportation budgets work. In addition to the optimistic outlook on motor vehicle sales tax receipts,

we can point to the fact that the MBTA signed favorable contracts for commuter rail and paratransit services. These contracts provide some significant savings over projections, likely allowing the MBTA to meet its own-source targets—the Act’s requirement to raise revenue through sources the MBTA controls, such as fares—in the foreseeable future. Likewise, the MBTA succeeded in procuring Red and Orange Line cars at almost \$200 million below the original estimates. As designed, (i.e., prior to any reductions in funding the transportation system has recently experienced) however, there would be insufficient resources for capital investments by FY16 to meet the state’s real transportation infrastructure needs. Considering that some important spending on transportation infrastructure improvement is already fully committed, such as the additional spending on Chapter 90, the Commonwealth can unfortunately only expect to continue to face significant operational and capital challenges in the coming years.

The MBTA saved \$200 million on new car procurements and \$93 million per year on the new commuter rail contract.

OUR PROGRESS IN IMPLEMENTING THE NEW LAW

THIS SECTION OUTLINES the requirements of the Transportation Finance Act that have been completed and the deadlines in the Act that have been missed since the March 2014 release of the previous *Keeping on Track* progress report.

REQUIREMENTS MET

- The MassDOT **review of rights of way and proposed legislation**, as required by Section 65 of the Act, was submitted to the Legislature on December 23, 2014.
- A Central Transportation Planning Staff **analysis of the air quality impacts of the Central Artery Project** and associated transit commitments completed to date, as required by Section 73 of the Act, was submitted to the Legislature on December 17, 2014.
- The **Project Selection Criteria Advisory Council** created by the Act has met 11 times since its inception and has held public hearings as required. The council has reviewed existing statewide project evaluation criteria and prioritization processes for Massachusetts' multi-modal transportation system, learned from best practices from other states around the country, and begun to draft project selection criteria as well as a report. The report will delineate how the state should select transportation projects in the future. It was originally due on December 31, 2014. However, the council requested and was granted a six-month extension in order to ensure a product that meets the requirements and intent of the legislation and to properly address the many outstanding issues raised by the public, staff, and the council itself. The council intends to recommend changes for a more uniform, transparent, and data-driven prioritization process that



The Commonwealth's Regional Transit Authorities are in the midst of developing comprehensive service plans to help them better meet future transit needs.

reflects MassDOT's mission to provide a safe and reliable transportation system, strengthen the economy, and improve the quality of life across the Commonwealth.

- **RTA comprehensive service planning:** Two out of the state's 15 regional transit authorities (Pioneer Valley Transit Authority and Southeastern Regional Transit Authority) have completed the Regional Transit Plans required by the Transportation Finance Act. Ten RTAs have engaged a joint consultant to conduct their comprehensive service planning

The Project Selection Advisory Council will recommend transparent, data-driven criteria for selecting investment priorities in June 2015.

and are expected to complete their processes by June 30, 2015. The remaining two RTAs have hired their respective local planning agencies and are also expected to complete their plans by the end of June.

- **Station naming rights:** As required by the Act, the MBTA sought bids for station naming rights. Only a single bid was received—JetBlue expressed an interest in renaming the Blue Line—but at \$800,000 per year the airline fell significantly below the minimum bid amount of \$1.2 million. There were no bids received for acquiring the naming rights of any of the other MBTA lines, nor for any of the nine stations offered.

MISSED DEADLINES

All nine members have been appointed to the **Performance & Asset Management Advisory Council** required by the Act, and the council's first meeting was held on September 18, 2014. The council's first annual progress report was due on October 1, 2013.¹ The council was also required to develop and recommend procedures and requirements for the administration of the performance and asset management system to the MassDOT Board by November 1, 2013.² A second yearly report was due on October 1, 2014. None of these requirements have been met.

The Act required MassDOT to institute a single **integrated asset management system** to oversee and coordinate the maintenance, preservation, reconstruction and investment of all of the assets in its possession, custody and control before July 1, 2014.³ While no single integrated asset management system is in place to date, MassDOT has made significant progress on a number of initiatives that support a more thorough asset management program. By May 2014, all six highway districts were included in MassDOT's IBM Maximo Asset Management System. This system has brought all work orders under one system and allows work order histories to be reviewed on an individual asset and location basis. In addition, MassDOT has formed an Asset Management Committee (with the Federal Highway Administration) and retained consultants charged with developing a road map for improving MassDOT's asset management system.

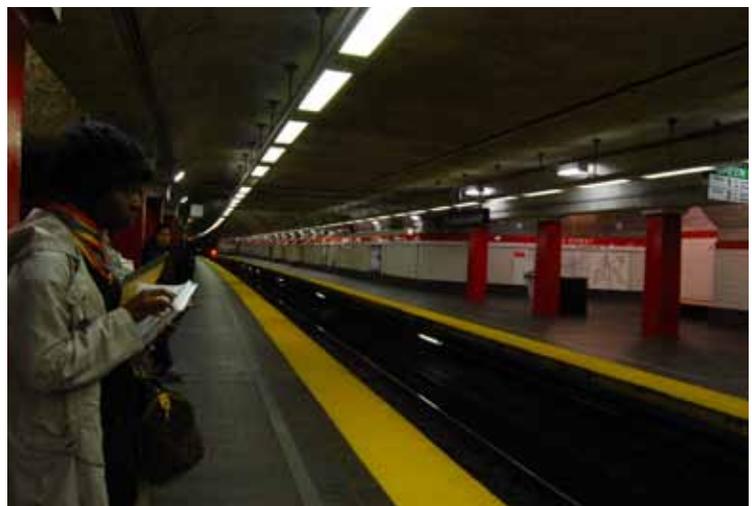
The Secretary of Transportation and the General Manager of the MBTA missed the **second of a series of semi-annual meetings regarding the fiscal status of MassDOT and the MBTA** with the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means. The meeting was required to have taken place in July 2014,⁴ but attempts to schedule it failed at the end of the formal sessions of the Legislature. The report has also not been filed.

MassDOT and MBTA **preliminary reports of savings to the operating budget** were due on Oct. 1, 2014 (Section 60, 61), but have not yet been filed.

UPCOMING DEADLINES

Since the last T4MA progress report, the **Value Capture Commission** required by the Act was formed and met for the first time in October 2014.⁵ The commission originally had a report due on March 1, 2014. Since the Commission did not meet for the first time until October 2014, the Legislature, as part of the Fall 2014 Supplemental Budget, extended the reporting deadline. The new reporting deadline is now March 2015.⁶

The **Project Selection Criteria Advisory Council** report is due on June 30, 2015.



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Long-awaited projects, such as the replacement of aging cars on the MBTA Red and Orange lines, are moving forward as a result of the Transportation Finance Act.

THE FINANCIAL STATE OF OUR TRANSPORTATION SYSTEM

AS OF JULY 1, 2014, the Commonwealth completed its first fiscal year since passage of the Act. As a result, this report can provide the first comparison between revenue/expense projections and actual receipts/costs for a completed year. Since the Act was passed at the end of July 2013, however, the first year was not a full year of collections of new revenue. This explains part, but not all, of the variance between projections and actuals. Overall, actuals fell \$41 million short of projections, a small difference for a budget of over \$2 billion.

Transportation Finance Act were very similar to actual revenues received in FY14. The total projections, excluding the new revenue sources, were \$2.005 billion, while the total actual receipts were \$2.008 billion, a remarkably accurate forecast. The revenue raised from new sources (\$260 million) outperformed the projection (\$249 million) by \$11 million.

Although some of the new revenue sources were only collected during a portion of the year (3-cent gas tax increase, new Western Turnpike tolls) and other revenue sources were not collected at all (gaming), a higher-than-expected income from the motor vehicle sales tax, which is now dedicated to the transportation sector, more than balanced out the unfavorable variances. Revenue from indexing the gas tax to the Consumer Price Index was not scheduled to begin until January 1, 2015. The repeal of this provision by ballot initiative therefore did not affect the FY14 actuals, but will have a negative impact on revenue beginning with FY15.

COMPARISON OF ACTUAL REVENUES AND EXPENSES TO PROJECTIONS FOR MASSDOT

Actual receipts of revenue compared to projections for FY14: Last year's revenue projections in advance of the

Table 1 below shows the projections, actual receipts, and variance for revenue sources that existed prior to passage of the Transportation Finance Act of 2013.

The passage of Question 1, which repealed a provision that linked the gas tax to inflation, did not affect the FY14 actuals, but will have a negative impact on revenue starting in FY15.

Table 1. Projected vs. Actual Revenues for Funding Sources that Existed Prior to the Transportation Finance Act

Revenue Source	Projection for FY14	Actual Receipts in FY14 ⁷	Variance Favorable Unfavorable
Gas Tax Revenue (from 21 cent rate)	\$667 million	\$640 million	\$27 million
Old Sales Tax Revenue	\$330 million	\$340 million ⁸	\$10 million
RMV Fees	\$535 million	\$514 million	\$21 million
Motor Vehicle Inspection Fees	\$17 million	\$32 million	\$15 million
Metropolitan Highway System Toll Revenue	\$218 million	\$226 million	\$8 million
Western Turnpike Toll Revenue	\$119 million	\$122 million	\$3 million
MHS and WT Non-toll revenue	\$52 million	\$64 million	\$12 million
Highway Revenue ⁹	\$24 million	\$15 million	\$9 million
Merit Rating Board Assessments	\$9 million	\$9 million	\$0
Federal Grants	\$34 million	\$46 million ¹⁰	\$12 million
Total	\$2.005 billion	\$2.008 billion	\$3 million

Table 2. Projected vs. Actual Revenues from New Revenue Sources Created by Transportation Finance Act

New Revenue Source	Projection for FY14	Actual Receipts in FY14 ¹¹	Variance Favorable Unfavorable
Gas Tax Revenue (from additional 3 cents)	\$95 million	\$91 million	<i>\$4 million</i>
Indexing of the Gas Tax	\$0	\$0	\$0
Additional Amount from New Sales Tax Revenue (Motor Vehicles Sales Tax)	\$129 million	\$161 million	\$32 million
New Western Turnpike Tolls	\$0	\$8 million*	\$8 million
Gaming	\$25 million	\$0	<i>\$25 million</i>
Total New Revenue	\$249 million	\$260 million	\$11 million

* (based on 8.5 months of collections in FY14)

Table 2 above shows the projections, actual receipts, and variance for each revenue source **that was passed by** the Transportation Finance Act of 2013.

Gas Tax: The revenue from the 3-cent increase in the gas tax is lower than last year’s projection for FY14 in part because the Act was passed at the end of July and because tax collections lag by one month. As a result, FY14 only includes new gas tax revenue collections for 10 months. However, last year’s estimate for the gas tax also turns out to have been a little optimistic, with actual gas tax receipts for FY14 (based on the 21-cent rate) coming in about 2 percent below projections.

Motor Vehicles Sales Tax: The Act changed the portion of the sales tax that serves as a revenue source for the transportation sector. Instead of 0.385% of the general sales tax, the

transportation sector now receives all receipts from the sales tax on motor vehicles. The Joint Ways and Means Committee last year projected that this would increase the amount of sales tax revenue available to transportation by \$129 million in FY14. The actual increase in revenue exceeded this projection by \$32 million. Our best guess is that this is a result of a significant increase in car sales, a national trend since people held off purchasing cars during harder economic times. This surge in sales, however, can probably not be expected to last. Nevertheless, it appears that the projection for the motor vehicle sales tax was based on a conservative assumption for car sales (closest to those seen in FY11). Based on motor vehicle sales tax collections so far in FY15, it is likely that receipts will end up in a similar range. Therefore additional revenue may be sustained in the future, although not likely at the same level.

New Western Turnpike Tolls: The tolls on the first six interchanges of the Massachusetts Turnpike in the western part of the state were reinstated on October 15, 2013. As a result, collections took place only during 8.5 months in FY14 and yielded \$8 million. Based on a full year of tolls, we can anticipate the total revenue to be closer to \$12 million in FY15. The Joint Ways and Means Committee expected that this additional revenue would not begin until FY15, so the \$8 million is a net gain.

Gaming Revenue: The projected \$25 million in gambling revenue did not materialize in FY14 due to a revised schedule for awarding of casino licenses.

ACTUAL SPENDING COMPARED TO PROJECTIONS FOR FY14

Actual spending for FY14 was \$55 million higher than projections. This amount is partly mitigated by the \$11 million surplus on the revenue side (see above). The difference between projections and actuals stems from the fact that \$90 million more was spent on ice and snow removal than anticipated by the Joint Ways and Means Committee (the cost for snow removal is spread over different expense categories in Table 3 below).

Table 3 below shows the projections, actual spending, and variance for each expense in FY14:

Table 3. Projected vs. Actual Spending, FY14

Expense	Projection for FY14 ¹²	Actual Spending in FY14 ¹³	Variance Favorable Unfavorable
Employee Payroll and Benefits	\$267 million	\$229 million	\$38 million
Materials, Supplies, Services	\$89 million	\$133 million	\$44 million
Construction and Maintenance	\$170 million	\$237 million	\$67 million
Office and Administrative Expenses	\$100 million	\$79 million	\$21 million
Transfers, Grants, Subsidies, and Contract Assistance	\$438 million ¹⁴	\$445 million ¹⁵	\$7 million
Debt Service Expenses	\$1.206 billion	\$1.202 billion	\$4 million
Total	\$2.270 billion	\$2.325 billion	\$55 million

Snow and Ice Removal: The Joint Ways and Means Committee's projection for the cost of snow and ice removal for FY14 was \$44 million. The actual cost of snow and ice removal in FY14 was \$134 million. This \$90 million difference is single-handedly responsible for the spending over projections in FY14. This variance also points to a systemic problem going forward. The Joint Ways and Means Committee projections for snow and ice expenditures between FY15 and FY18 were an average of about \$51 million per year. However, the five year average snow and ice removal for FY08 through FY12 was over \$80 million per year, and spending in the last two winters was \$99 million (FY13) and \$134 million (FY14). Expenditures in this category are therefore likely to

be significantly higher in coming years than projected.

In addition, starting in FY15, the cost of road salt for MassDOT will be 25 percent to 30 percent higher due to increased demand for salt from municipalities in Massachusetts and around the country in response to more erratic weather patterns. Higher salt prices and unrealistically low estimates for snow and ice removal will continue to be a problem for MassDOT budgets in years to come.

Transportation Funding Gap Before and After Passage of Transportation Finance Act: Prior to passage of the Transportation Finance Act, the Joint Ways and Means Committee projected an operating budget gap of \$265 million for FY14. With the additional revenue raised by the Act, the Committee predicted a balanced operating budget.¹⁶ If one excluded the new revenue from the Act, the gap would be \$317 million, \$52 million more than predicted by the Committee. Even with the new revenue, the remaining gap is \$57 million. This left no revenue in FY14 for additional capital projects and must have made it difficult to balance the operations budget.

MassDOT



Costs for snow and ice removal have been higher than projected and are likely to continue to strain transportation budgets in the years to come.

Table 4. Projected and Actual Funding Gap With and Without Transportation Finance Act Revenues

Gap	Projection FY14 Favorable Unfavorable	Actual Gap in FY14 Favorable Unfavorable	Variance Favorable Unfavorable
Without Transportation Finance Act Revenues	\$265 million	\$317 million	\$52 million
With Transportation Finance Act Revenues	\$16 million ¹⁶	\$57 million	\$41 million

In FY14, \$41 million less was available for transportation than projected by the architects of the 2013 Act.

projected also include important items such as fringe benefits, payroll taxes, and debt service. The most striking difference between projections and actuals for FY14 on the revenue side is that the MBTA brought in \$31 million more in fares than projected as a result of an increase in ridership. This increase in ridership was prior to a fare increase that went into effect at the beginning of FY15 (on July 1, 2014). This additional revenue, however, was needed to make up for underestimations of some costs. Most significantly, MBTA wages went up \$29 million.

COMPARISON OF ACTUAL REVENUES AND EXPENSES TO PROJECTIONS FOR THE MBTA¹⁸

Most of the projections made for the MBTA during the deliberations prior to passage of the Transportation Finance Act of 2013 for FY14 were very accurate. Revenue sources that came close to projections include non-fare operating revenues (such as advertising, rent, and parking revenues), dedicated sales tax revenue, and dedicated local assessments revenue (i.e., payments from municipalities). The costs accurately

The additional cost in wages are mostly: 1) back pay wage accruals as a result of an arbitrator’s award; 2) overtime pay for emergency repairs and storms; and, 3) coverage for vacancies (this was balanced out in part by savings due to unfilled vacancies).

The underestimation of both revenues and expenses essentially cancel each other out. With the help of \$115 million from the Transportation Finance Act of 2013, the MBTA was able to balance its budget.

Table 5 below shows the revenue and expense items with the greatest variance in the FY14 MBTA actuals as compared to projections:

Table 5. Projected vs. Actual Revenues for the MBTA, FY14

Revenue Source/Expense	Projection for FY14	Actual Receipts/ Expenses in FY14	Variance Favorable Unfavorable
Fares	\$546 million	\$577 million	\$31 million
Other Non-Operating Income	\$12 million	\$22 million	\$10 million
Wages	\$426 million	\$455 million	\$29 million

Table 6. Anticipated Changes in Revenues and Costs

Revenue Cost	Increased Revenue or Cost Savings/ Additional Cost
New RMV Fees	\$55-\$63 million per year
New MBTA Fares	\$18-\$24.5 million per year
New Commuter Rail Contract	\$93 million per year
New Paratransit Contracts	\$21 million per year
New MBTA Janitorial Contracts	\$3.1-\$10.5 million per year
MBTA Labor Arbitration Awards	\$19 million per year
Total	\$157.5 - \$172.4 million per year

UPCOMING CHANGES IN REVENUES AND COSTS

MassDOT and the MBTA have increased fees and fares, and reduced costs in order to meet own-source targets—the Act’s requirement to raise revenue through sources MassDOT and the MBTA control, such as tolls, fees, and fares. With the signing of favorable new commuter rail and paratransit contracts, the MBTA is on target to exceed its own-source targets for FY15.

RMV fee increases: On July 1, 2014, the Registry of Motor Vehicles raised a number of its fees. Non-commercial vehicle registration fees for motor vehicles increased from \$50 to \$60. There was no change to commercial registration fees. The price of annual motor vehicle inspections, which had not changed since 1999, increased from \$29 to \$35. One dollar of the increase will be retained by the inspection station that conducts the inspection. The road test fee increased from \$20 to \$35. MassDOT anticipates the new fee structure will generate approximately \$55 million to \$63 million in FY2015 and will allow the department to meet its own-source targets.

MBTA fare increase: On July 1, 2014, the MBTA increased its fares. The overall price increase across all modes and fare/pass categories was 5 percent, the maximum increase permitted by the Act. The Ride fares were not

increased and the 7-day student pass is now being offered at the same price as the 5-day student pass, which went up in price by \$1. Using two different methodologies, the Central Transportation Planning Staff (CTPS) estimated that the fare increase as implemented would be expected to increase the MBTA’s revenue by \$18 million to \$24.5 million per year,¹⁹ \$2.5 million to \$9 million less than the \$27 million revenue estimate in *The Way Forward*.²⁰ This fare increase will help the agency meet its own-source targets as required by the Transportation Finance Act of 2013.

New commuter rail contract: The MBTA signed a new commuter rail contract, which went into effect on July 1, 2014. The new contract includes some significant savings as compared to the amount budgeted in *The Way Forward* and the assumptions made by the Joint Ways and Means Committee that informed the Act. Under the new contract, Keolis will provide MBTA commuter rail services for a base period of eight years with a possibility of up to a four-year extension in an amount not to exceed \$4,258,131,062 in total, with an initial base contract of \$2,686,344,294.²¹ Over the first eight years, the purchased commuter rail service will cost an average of \$335 million per year.

While the MBTA *pro forma* used for the development of the Act budgeted \$397 million for the cost of purchased commuter rail service in FY15, for example, the new contract with Keolis will only cost \$304 million, a

difference of \$93 million. Last year, the MBTA paid Massachusetts Bay Commuter Railroad Company (MBCR) \$316 million for base operations. In FY18 the *pro forma* estimated a cost of almost \$471 million. That year, Keolis will be paid just under \$333 million, a difference of \$138 million. These differences will help defray other possible MBTA costs that exceed projections and help the transit agency meet its own-source targets.

In addition, unlike the MBTA's previous commuter rail contract with MBCR, the new contract sets a "no excuses" expectation that the operator will run trains on time. There are no incentive payments and if performance standards are not met there are penalties instead. The previous contract was limited to \$3 million for such disincentives. Now, performance failure payments are greater, e.g., the operator may incur a penalty ranging from \$250 to \$5,000 per train based on lateness, and the new cap is much higher—\$12 million per year.

New paratransit contracts: The MBTA's three existing contracts for The Ride paratransit services expired on June 30, 2014. These contracts allowed the MBTA to provide services as required by the Americans with Disabilities Act (ADA), as well as non-ADA paratransit service. The previous contracts combined cost the MBTA \$506 million over five years (an average of just over \$101 million per year).²² The three current service providers—Greater Lynn Senior Services (GLSS), Veterans Transportation (VT), and National Express Transit Corporation (NE)—

reapplied and were selected again in a procurement process.

The MBTA secured three new five-year contracts (FY15-FY19) for a total of \$602 million (an average of \$120 million/year) with two-year options for an additional total of \$314 million (an average of \$157 million/year).²³ The three contracts combined will cost \$333 million over the next three years (FY15-FY17), which is \$64 million lower than the \$397 million that was budgeted in the MBTA *pro forma* used in the development of the Transportation Finance Act of 2013 for those years. As in the case of the commuter rail contract, this difference will help defray any of the MBTA's other actual costs and help the transit agency meet its own-source targets.

MBTA janitorial contracts: Last year, the MBTA signed a package of new MBTA cleaning contracts with two companies, ABM Industries and S.J. Services. The three-year cleaning contracts, which have an option for a two-year extension, will cost the MBTA \$61.8 million over five years. A cost estimate based on the projected costs of the prior contracts was \$76.9 million for the five-year period and an independent cost estimate was \$69.5 million, indicating a savings of between \$7.7 and \$15.1 million. These contracts required staffing to stay the same for at least one year. After that, however, the contractors were permitted to trim the janitorial staff. As a result, a cut of the total number of janitorial workers by 29 percent in September 2014 was originally expected, which would have reduced the hours of service performed at stations across the system by 25 percent. Union

representatives say this will result in overworked janitorial staff and dirty stations. As of now, the janitorial staffing levels have not been reduced, which is expected to cost the MBTA an additional \$18.2 million over the remaining four years of the contracts.

Labor arbitration awards: Under a new agreement between the MBTA and the Boston Carmen's Union, the union will receive a 10% raise over four years, ending in 2017, at an estimated cost of \$93.9 million. Pursuant to the same agreement, the public will have access to MBTA pension payment data.

RTA Forward Funding: The *pro forma* underlying the Transportation Finance Act of 2013 included sufficient funding to fully forward fund state assistance to RTAs starting in FY14, as had been required for years by the 2009 Transportation Reform law. Prior to FY2014, RTAs had been receiving state funding, as well as local and federal assistance, on a reimbursement basis, meaning that they had to borrow money at the onset of the year to cover their budgets. Forward funding provides a more secure financial footing for the RTAs by eliminating the need to borrow for state operating costs and it eliminates interest payments. As planned, in FY14, \$80 million was provided to the RTAs to cover forward funding, the previous year's state assistance, and a portion

of the debt service RTAs have incurred through this short-term borrowing. As of FY15, the RTAs are now fully forward funded for state assistance.

However, the contribution paid by local communities may still be delayed. Auditors from the Office of the State Auditor found delays of more than \$60 million for fiscal years 2012 and 2013 combined, in a report dated December 3, 2014.²⁴ Local reimbursements, which may cover as much as 50 percent of an RTA's net cost of service, are currently being paid up to 24 months in arrears. As a result, RTAs must fund their operations by borrowing money, thereby incurring thousands of dollars in unnecessary interest. The Office of the State Auditor recommended that MassDOT, in collaboration with the RTAs, work to reform the funding process so that RTAs receive local reimbursements in a timelier manner.

Regional Transit Authorities received \$80 million, which eliminated the need for the agencies to borrow for operating costs. But, a challenge remains because some payments to the agencies from local communities are coming in late.



NEW TRANSPORTATION INVESTMENTS

SINCE THE RELEASE of the last progress report, the Legislature passed and the Governor Deval Patrick signed a five-year transportation bond bill (“the Transportation Bond Bill”). In addition, Governor Patrick released the FY15-FY19 Commonwealth Capital Investment Plan in July. These documents provide varying levels of insight into how the Commonwealth intends to spend its transportation capital dollars over the next five years.

The Transportation Bond Bill authorizes the Governor to spend capital dollars through the issuance of bonds as well as other sources over the next five years totaling \$12.7 billion in investments. The actual revenue available for transportation under existing funding sources, including those from the Transportation Finance Act of 2013 and the state’s self-imposed debt-ceiling, however, does not allow the Governor to issue bonds anywhere close to this amount, which is why bond bills are often referred to as a wish list. In contrast, MassDOT’s Capital Investment Plan for FY14-FY18 included only \$6.3 billion over five years, less than half the amount of the Transportation Bond Bill for roughly the same period.²⁵ Accordingly, only about half of the projects, or amounts, listed in the bond bill will be funded. Nevertheless, what has been included or excluded in the Transportation Bond Bill provides information about the state’s goals for transportation projects, which far outpace what is possible with the available funding.

Bond bills have been called wish lists.

The actual revenue available for transportation does not allow the governor to issue bonds for many projects included in the bond bill.

The bond bill in a few instances authorized less funding than the cost estimated for projects in *The Way Forward*. For example, *The Way Forward* had estimated that the Commonwealth would need to spend about \$680 million on the South Station Expansion between FY15 and FY19, but the bond bill delineates only \$325 million for the same time period. Likewise, it appears, that the Inland Route and Berkshires-to-NYC rail projects have been funded at lower levels in the bond bill (\$175 million for these two projects plus Rail to Cape Cod) than the need identified in *The Way Forward* for FY15 to FY19 (\$238 million). The difference could theoretically be made up with federal funding for these projects, but none has been identified so far.

When the last T4MA progress report was released in March of 2014, the Transportation Bond Bill had not yet passed. MassDOT therefore lacked authority to initiate many capital projects. Further, the April passage of the Transportation Bond Bill was months later than was anticipated. As a result, a number of projects, such as the early action items on South Coast Rail, will likely be delayed. Based at least in part on the lack of authorization, it appears that South Coast Rail will see almost \$48 million less spending in FY15 than originally planned (\$4 million instead of \$52 million).

TRANSPORTATION FINANCE ACT OF 2013 CAPITAL PROJECTS

1. Openings

CapeFLYER/Wareham Village Station:

As promised, the MBTA added a stop in Wareham to the CapeFLYER route in June of 2014. The new commuter rail station at Wareham Village provides a stress free connection to the Cape and easy access for visitors to Wareham.

2. Construction

Early action items for the **Green Line Extension** and **South Coast Rail** are under construction.

3. Operational Improvements

All-Electronic Tolling System: A few months later than originally planned, all-electronic tolling has been successfully implemented on the Tobin Bridge. As of July 21, 2014, tolls are only being collected electronically on the bridge. The toll is automatically deducted for drivers who have an E-ZPass transponder. Drivers without the devices are being identified by their license plate and are sent an invoice in the mail. MassDOT's plan is to implement this system next on the Massachusetts Turnpike. Conversion of the Tobin Bridge to all-electronic tolling has increased interest in E-ZPass transponders significantly. MassDOT has



All-electronic tolling has begun on the Tobin Bridge and could soon come to the Massachusetts Turnpike.

previously estimated that all-electronic tolling will save the Commonwealth more than \$50 million per year starting in FY16. Installing all-electronic tolling systems is also expected to reduce traffic congestion, increase safety, and decrease air pollution.

RTA Service Improvements: The following additional services have been added to the RTAs as a result of the funding provided by the 2013 Transportation Finance Act:

- The Brockton Area RTA added Sunday service to the Ashmont MBTA Station, extended its evening hours and added paratransit service to Hanson.
- The Berkshire RTA added a new route on the Route 7 corridor between Pittsfield and Williamston,

tested WiFi service on certain routes to be added, which improved WiFi reception generally in the region, and implemented a new dispatch system to coordinate and improve service delivery.

- The Cape Cod RTA expanded evening service hours on three core routes.
- The Greater Taunton Attleboro RTA increased the frequency on existing routes in Taunton and added tri-town service in Foxboro, Wrentham and Norfolk.
- The Lowell RTA has implemented a Saturday service upgrade, extended weekday service hours, added Saturday service to the Route 129 route, and added paratransit service for Saturdays and weekdays.
- The Merrimack Valley RTA added Sunday service throughout the system for the first time since 1959, added a circulator route in Lawrence, and added holiday service on a fixed route and Boston commuter routes.
- The MetroWest RTA made improvements to its last-mile shuttle service frequency and its building, maintenance and operating facility, and created an employment CDL training program for low-income and veteran residents.
- The Nantucket RTA increased the frequency of its summer service.
- The Pioneer Valley RTA increased the frequency on all routes

(weekdays, weekends and holidays) and added seven routes.

- The Southeastern RTA restored night and Sunday service, increased service to UMass Dartmouth, provided demand response service to Freetown, served unmet needs in high employment areas, and increased frequency on existing routes.
- The Worcester RTA extended fixed routes into Westborough, Northbridge, Southbridge, Charlton and Dudley; extended fixed route service until midnight on select routes; implemented downtown Worcester trolley service; and implemented community service initiatives in Northborough, Paxton and Grafton.

Weekend Commuter Rail Service:

Hourly weekend service was added to the Fairmount Line in November 2014. On December 27, 2014, weekend commuter rail service was also restored to points south of Boston. Riders will now again be able to travel between South Station and stops on the Plymouth/Kingston, and Greenbush Lines on the weekend. Saturday service on the Needham Line was also restored. The trains are set to run on timetables similar to schedules that were cut in 2012.

Late Night MBTA Service: The late night service pilot has attracted healthy ridership and at \$12.9 million it looks like it will come in more than \$7 million under the costs originally projected. Over the first 19 weekends



Funding from the Transportation Finance Act has supported improvements to transit service across the Commonwealth, including at the Worcester RTA.

of the program, between March and early August, over 400,000 employees and patrons of late-night businesses took advantage of this new service. That is an average of more than 21,000 riders per weekend who now use the MBTA between the hours of 1:00 a.m. and approximately 2:30 a.m. At the beginning of January 2015, cumulative late night ridership had reached nearly 830,000. The MBTA will have to make a decision by March 2015 on whether to continue this service. While not required, we expect a report on the late night service pilot to be issued, which should provide the data needed to make that decision. An increase in financial support, which has been lower than expected, and ridership by riders who pay for individual fares will likely be necessary to sustain this service beyond the pilot.

4. Property Acquisitions

Berkshires-to-NYC Rail Project: In July 2014, MassDOT executed an agreement to purchase the Berkshire Line from the Housatonic Railroad Company, a major step toward delivering passenger rail service between New York City and the Berkshires. The Berkshires-to-NYC Rail project will include the rehabilitation of track, signals, and structures between Pittsfield and the Massachusetts/Connecticut state line in order to support future rail service between Pittsfield and New York City. The current line is served by freight carriers and is not up to the standards necessary for a passenger rail connection. \$12.13 million will be spent to acquire the line and an estimated \$35 million will be needed for initial track improvements. The Berkshire Line extends approximately 37 miles from the Connecticut border in Sheffield through Great Barrington, Stockbridge, Lee, and Lenox to Pittsfield, where it joins the CSXT Railroad main line. A date for the beginning of passenger service is dependent upon completion of the upgrades in both states. The State of Connecticut has not yet agreed to pay for improving its section of the track.

Knowledge Corridor/Restore

Vermont Project: In August, Governor Patrick announced an agreement in principle allowing the Commonwealth to purchase the Knowledge Corridor rail line between East Northfield and Springfield from Pan Am Southern. This purchase will help restore the original route of Amtrak's Vermont between St. Albans, Vermont, and Washington, D.C., cutting out the current leg

between Palmer and Amherst. This change is expected to reduce trip times by 25 minutes. Passenger service on this line ceased in the 1980s and was rerouted southeast to Palmer, where trains reverse direction and head west to Springfield.

5. Procurements

Red and Orange Line MBTA Cars: In October 2014, the MassDOT board approved a \$566.6 million contract (a base amount of \$430.2 million and \$136.4 million in option) with CNR MA Corporation, a subsidiary of China CNR Corporation Limited and CNR Changchun Railway Vehicles Co., to build a 150,000 square-foot facility in Springfield where the Orange and Red Line MBTA cars will be assembled. This contract will produce 152 new Orange Line cars to replace the 32-year old fleet plus 74 new Red Line cars to take the place of the No. 1 cars that are over four decades old. The contract includes an option to purchase an additional 58 Red Line cars to replace the No. 2 cars. Total vehicle procurement and necessary associated infrastructure upgrades are now estimated to be \$1.3 billion. It appears that the replacement of the Red/Orange Line cars will come in almost \$200 million below the original estimate for this project in *The Way Forward*.

CNR MA plans to build a \$60 million manufacturing facility on Page Boulevard in Springfield to serve as the company's U.S. headquarters, complete with assembly and office space and a test track for the new MBTA cars.

The company estimates creating 150 new manufacturing jobs and 100 construction jobs. Work on the new plant will begin in the fall of 2015. The Orange Line cars are scheduled to be delivered starting in January 2019 with completion in 2022. The delivery of the Red Line cars is expected to begin in December 2019 and also completed in 2022. Each of these new cars requires a 500-mile operational test before it can be put into public use, which will be performed on a rolling basis as the cars are delivered. The new cars are expected to go into service at a rate of four per month.

6. Out for Bid

I-91 Viaduct/Springfield: MassDOT is currently seeking bids for the rehabilitation of the I-91 Viaduct. This project will replace the existing deck of the bridge, which is in significant disrepair. Construction is therefore now expected to begin in early 2015, rather than November of 2014. MassDOT estimates that the work will be completed in the fall of 2017.

Diesel Multiple Units: The MBTA has released a request for proposals for 30 diesel multiple units (DMUs) in January of 2015. DMUs are independently powered vehicles that run on commuter rail tracks and require no separate locomotive, as the engines are incorporated into one or more carriages. Delivery of a pilot car is expected in 2018 and all 30 cars should be ready by 2020. DMUs will first operate on the Fairmount Line.

7. Financial Commitments

Chapter 90: Governor Baker has announced that his administration will increase the annual funding available for local roads through Chapter 90 from \$200 million to \$300 million.

Complete Streets: The 2014 Transportation Bond bill authorized \$50 million in funding over five years to support municipalities that would like to invest in complete streets infrastructure and facilities. Complete streets are streets designed to allow for more trips to be taken via active transportation, such as walking and cycling. Many cities and towns in Massachusetts have already taken significant steps to implement complete street designs, but have limited resources to move this important priority forward. In late August, MassDOT announced that an initial investment of \$5 million per year for five years will be authorized. The Complete Streets Certification Program will provide funds to municipalities through a competitive process. As a result, new complete streets projects will be constructed soon.

Green Line Extension: The state has secured close to one billion dollars in federal funding to move this longstanding transit project forward. The funding is in the form of a New Starts grant from the Federal Transit Administration, which executed a full funding grant agreement with the MBTA for the design and construction of seven of the eight stations of the extension. The remaining costs for the estimated \$2.3 billion project (without contingencies and finance charges, the

Many cities and towns are preparing applications for the new \$5 million competitive grant program to improve walking and cycling.

Green Line Extension is estimated to cost \$1.3 billion) will be funded by the state. Route 16, the terminus of the Green Line Extension, was already funded with federal dollars through the Boston Metropolitan Planning Organization.

Continued Accelerated Bridge

Program: To fund the continuation of the Accelerated Bridge Program, Massachusetts Treasury officials in December 2014 sold just over \$347 million in special obligation federal highway grant anticipation notes and \$100 million in Commonwealth Transportation Fund bonds. The notes rely in part on anticipated federal highway reimbursements and are scheduled to mature each June from 2016 through 2027. The Accelerated Bridge Program has been actively reducing the number of structurally deficient bridges in the state transportation system since 2008.

I-90/Massachusetts Turnpike Allston Interchange Improvements Project:

This project was not part of *The Way Forward*, but was added to MassDOT's FY14 to FY18 Capital Improvement Plan in January 2014. Originally conceived as only a Turnpike straightening project, MassDOT has announced that this project will now include a new commuter rail stop with pedestrian and bike access which will catalyze increased development and growth opportunities in the area.

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Encouraging the use of active modes of transportation, such as bicycling, is a key goal of MassDOT's GreenDOT initiative.

GREENDOT

A number of factors drive how the dollars raised by the Transportation Finance Act of 2013 will be spent. MassDOT's discretion is limited by state and federal statutory requirements and guided by preexisting state policies. One example is the GreenDOT state policy directive, which directs MassDOT to "green our transportation system" by using transportation resources in a manner that serves existing transportation users while preserving resources for future generations. The GreenDOT policy directive is a priority for the state and will help it meet our greenhouse gas reduction goals.

GreenDOT is MassDOT's comprehensive environmental responsibility and sustainability initiative. Its three primary goals are to reduce greenhouse gas emissions, to promote the healthy transportation options of walking, bicycling, and public transit, and to support smart growth development. The policy directive calls for MassDOT to incorporate sustainability into all of its activities, from strategic planning to project design and construction to system operation. The initiative includes greenhouse gas reduction targets mandated under the Global Warming Solutions Act and the state's mode shift goal, which, if fully realized, will triple the share of travel in Massachusetts by bicycling, transit, and walking.

The policy directive is accompanied by a detailed implementation plan, which focuses

on sustainability practices under the direct control of MassDOT. The implementation plan outlines sustainability initiatives for all MassDOT divisions under the themes of air quality, energy consumption, material procurement, land management, transportation planning and design, waste management, and water resources.

Under these themes, the GreenDOT Implementation Plan establishes 16 broad sustainability goals to decrease resource use, minimize ecological impacts, and improve public health outcomes from MassDOT's operations and planning processes. Each goal is supported by three to five tasks to be implemented over eight years, and assigned to different divisions within MassDOT.

Following GreenDOT, MassDOT has installed 38 electric vehicle charging stations, has completed three wetland restoration projects and six rare species habitat management/enhancement projects, and is replacing hot asphalt with warm asphalt mix. The MBTA has installed lighting and mechanical energy retrofits, which have saved 19.7 kWh of electricity, 7.8 million pounds of carbon dioxide equivalent, and \$4.1 million so far. It has also included solar photovoltaics, permeable surfaces, VOC-free paint, water reclamation, green roofs, and energy efficient HVAC and lighting in station design.



CONCLUSION

In the Transportation Finance Act of 2013's first 18 months, the revenue and cost projections have been more or less on target, with a few positive and negative exceptions. In FY14, the transportation revenues came up a little bit short as compared to projections and there are some looming threats ahead, such as reduced revenue as a result of the repeal of the indexing of the gas tax, likely continued higher costs for snow and ice removal than projected, and insufficient funds for capital improvement projects. There

are, however, also some financial bright spots, such as greater revenue from the motor vehicle sales tax than anticipated. By the time of the next progress report, during the summer of 2015, we expect that the Commonwealth will have made further progress in implementation of the new law and we should have a better understanding of where the new administration, under Governor Baker's and Secretary Stephanie Pollack's leadership, is taking our transportation system.

NOTES

- 1 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 12.
- 2 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 68.
- 3 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 69.
- 4 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 78.
- 5 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 64.
- 6 See Section 33 of Chapter 359 of the Acts of 2014.
- 7 MassDOT, *Revenue and Expense Report, Fiscal Year Ended June 30, 2014* (FY2014), Legislative Report Chapter 6C, Section 28 (dated October 31, 2014).
- 8 Pursuant to the Transportation Finance Act of 2013, the Commonwealth Transportation Fund now receives the motor vehicles tax receipts rather than a portion of the general sales tax. Without that change, the Commonwealth Transportation Fund would have received \$340 million in FY14. See Commonwealth of Massachusetts, Department of Revenue, *Monthly Reports of Collections and Refunds, June 2014*, Net Collections – Table B (Since FY11, 0.385% of applicable sales and uses on a total sales tax rate of 6.25% is dedicated to funding the operations of MassDOT. As a result, 6.16% of total sales and use tax revenue or \$340 million in FY14 became available for MassDOT operations.)
- 9 This includes funds from the issuance of permits and fees for the use of the Commonwealth's highways by oversized vehicles and construction equipment, and from the sale and lease of MassDOT land.
- 10 MassDOT, *FY14 Year End Preliminary Statement of Revenue and Expenses*, September 2014.
- 11 MassDOT, *Revenue and Expense Report, Fiscal Year Ended June 30, 2014* (FY2014), Legislative Report Chapter 6C, Section 28 (dated October 31, 2014).
- 12 See Joint Ways and Means Committee Transportation Finance Framework *Pro Forma* (April 2013).
- 13 MassDOT, *Revenue and Expense Report, Fiscal Year Ended June 30, 2014* (FY2014), Legislative Report Chapter 6C, Section 28 (dated October 31, 2014), p. 5.
- 14 Includes \$160 million in MBTA contract assistance pursuant to M.G.L. c. 29, s.2ZZZ(d)(1) and \$115 million in MBTA contract assistance pursuant to Transportation Finance Act of 2013 *pro forma*.
- 15 Ibid.
- 16 Originally, this gap was expected to be closed with an additional state subsidy of \$16 million in FY14, but this assistance was never included in the legislation.
- 17 Ibid.
- 18 Based on comparison between *MBTA Pro forma as adapted by Joint Ways and Means Transportation Committee*, 2013 and MBTA, *Statement of Revenue and Expenses, Actual vs. Budget, for the Period Ending June 30, 2014*.
- 19 Central Transportation Planning Staff, *Potential MBTA Fare Changes in SFY 2015: Impact Analysis*, p. 21.
- 20 MassDOT Board of Directors, *The Way Forward: A 21st Century Transportation Plan*, January 2013 ("The Way Forward"), p. 29.
- 21 MBTA, *MBTA Staff Summary Sheet Procurement of Commuter Rail Services (RFP No. 159-12)*, Board of Directors Meeting, Dr. Beverly A. Scott, Ph.D., January 8, 2014, p.1.
- 22 Financial Analysis and Control Technology Services LLC, *The Ride Program Review—Final Report*, December, 2011, p. 9.
- 23 MBTA, *MBTA Staff Summary Sheet, MBTA Ride Contracts FY15-FY19 with option FY20-21*, Board of Directors Meeting, Michael Lambert, April 9, 2014, p.1.
- 24 Commonwealth of Massachusetts Office of the State Auditor, Suzanne M. Bump, *An Examination of the Commonwealth's Funding Structure for Regional Transit Authorities For the period July 1, 2011 through June 30, 2013*, Official Audit Report, December 3, 2014, p. 1.
- 25 Even if we assume that capital spending on transportation projects will be higher in FY19 than in FY14, the difference between these two years cannot possibly amount to an additional \$6.4 billion.



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