

WIRELESS SERVICE TECHNOLOGY IMPROVEMENT  
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# THE MBTA FY2009 BUDGET

ACCESS EFFICIENT CLEAN TECHNOLOGY SERVICE CLEAN WIRELESS IMPROVEMENT ONLINE CLEAN WIRELESS  
WI-FI TECHNOLOGY ACCESS ONLINE EFFICIENT WI-FI REALTIME SERVICE  
COMPUTER TECHNOLOGY



Massachusetts Bay Transportation Authority

*Driven by Customer Service*

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**THE COMMONWEALTH OF MASSACHUSETTS  
EXECUTIVE OFFICE OF TRANSPORTATION**



DEVAL L. PATRICK  
GOVERNOR  
TIMOTHY P. MURRAY  
LIEUTENANT GOVERNOR  
BERNARD COHEN  
SECRETARY

October 9, 2008

The Honorable David Cohen  
Chairman, MBTA Advisory Board  
177 Tremont Street  
Boston, MA 02111

Dear Mayor Cohen:

I am pleased to submit to you the MBTA's budget for Fiscal Year 2009.

The past year has been an exciting time for the MBTA, highlighted by record ridership growth across all services. In the last fiscal year, the MBTA also officially opened the Greenbush commuter rail line, added new Blue Line cars to improve service and increase train length from four cars to six, and re-opened the Mattapan Trolley with refurbished cars. The Authority implemented Wi-Fi access on the Worcester Commuter Rail Line and on MBTA Commuter Boats, providing a more convenient and connected commute to customers. And the MBTA put into service new, more energy-efficient buses that contributed to an effort to improve overall bus service.

Increased ridership is an important and welcome trend for the MBTA, but one that is not without challenges. Much of the increased demand for public transportation stems from the high cost of fuel, which also significantly impact the MBTA's budget. As more and more commuters switch to public transportation, the Authority must work to maintain a high quality of service despite the pressures on its bottom line. Attracting new riders, and then keeping them, must be a top priority for the Authority in the coming year.

Additionally, the MBTA and all of the Commonwealth's transportation agencies face a significant financial challenge for the foreseeable future. The MBTA must focus on streamlining its operations and finding cost-savings without sacrificing the service levels upon which so many commuters rely.

Governor Patrick is committed to the continued improvement of public transportation in Greater Boston and throughout Massachusetts. I look forward to continuing to work with the Board of Directors, the MBTA Advisory Board, and General Manager Grabauskas as we work to meet the challenges of the future and provide superior service to all customers.

Sincerely,

Bernard Cohen  
Secretary and Chairman



**Massachusetts Bay Transportation Authority**

Deval L. Patrick Governor Timothy P. Murray Lt. Governor Bernard Cohen Secretary and MBTA Chairman Daniel A. Grabauskas General Manager

The Honorable David Cohen  
Chair, MBTA Advisory Board  
177 Tremont Street  
Boston, MA 02111

Dear Mayor Cohen:

The Massachusetts Bay Transportation Authority is pleased to present its Fiscal Year 2009 budget. The Authority's primary focus in FY09 will be to continue efforts to improve customer service, increase customer enhancements and communication, and increase service reliability. Noting that the Authority faces one of the most fiscally challenging times in its history, it is more important than ever to continue to make these improvements in the most efficient manner possible.

Instituting improvements and reforms at the Authority remain a top priority. Because of the unprecedented fiscal issues facing the Authority, we remain committed to managing better and smarter. For example, while service has significantly increased over the last 15 years, the Authority has decreased headcount by 4.6% over the same period. Also, since 2005, overtime has been reduced by 34.5%. We also have been managing smarter. In one instance, we changed the way we manage our parking program. This reform will realize approximately \$23.2 million annually, which is a net increase of \$3.1M for this year alone.

Despite all of the efforts we have undertaken, the Authority enters FY09 with severe challenges. This budget requires restructuring debt and tapping into reserve funds in an amount of \$19.3 million. While these actions result in a balanced budget, restructuring outstanding debt increases long term costs and does not address the structural deficit in future years. Although many cost-containment initiatives have been put in place, we continue to feel the cumulative effects of unrealized sales tax growth, volatile energy prices, growing healthcare costs, and debt service costs: the last item accounting for over 26% of our total operating expenses. In addition, the new labor agreements will require a supplemental budget at the conclusion of arbitration/negotiations.

Fiscal Year 2009 will be the most fiscally challenging year to date. Yet I am confident that our commitment to customer service, service reliability, and system accessibility will make the MBTA the best transit property in the nation in spite of these challenges.

Sincerely,

Daniel A. Grabauskas  
General Manager

**Driven by Customer Service**

Massachusetts Bay Transportation Authority, Ten Park Plaza, Boston, MA 02116-3974



# MBTA BOARD OF DIRECTORS

The MBTA board is composed of business, social and industry leaders throughout the Commonwealth.



## **Bernard Cohen** Secretary of Transportation and MBTA Board of Directors Chairman Commonwealth of Massachusetts

As Secretary of Transportation, Bernard Cohen directs the Executive Office of Transportation (EOT) (EOTPW). The Secretary has direct oversight of the Massachusetts Highway Department, the Registry of Motor Vehicles, and the Massachusetts Aeronautics Commission, and serves as the Chair of the MBTA Board of Directors.

Immediately prior to being appointed Secretary, Mr. Cohen oversaw the Federal Transportation Administration's Lower Manhattan Recovery Office (LMRO) in New York City. In this capacity, he led a \$4.55 billion program to rebuild and restore transportation facilities and infrastructure in the wake of the terrorist attacks of September 11, 2001. The program's responsibilities included the construction of the permanent PATH terminal and the rebuilding of the Fulton Street Transit Center and the South Ferry Terminal Station.

Secretary Cohen has more than twenty years of experience in the field of public transportation. He has held senior management positions at the Massachusetts Bay Transportation Authority, the New York Metropolitan Transportation Authority and the Southeastern Pennsylvania Transportation Authority. Before being appointed to lead the LMRO, he served as Deputy Managing Director of the Massachusetts Bay Commuter Railroad Co., overseeing service in the Boston area.

Secretary Cohen graduated from Union College in New York. He received a Master's Degree from the Columbia University Graduate School of Journalism, and has worked as a freelance reporter for both the *Boston Globe* and *Boston Herald*. Secretary Cohen has two daughters, Celia and Abigail.



## **Willie J. Davis**

Willie J. Davis is the senior partner in the law firm of Davis, Robinson & White, and he concentrates in the area of criminal defense. He is also Chairman of the Committee for Public Counsel Services. Recently, he was voted Chairman of the Board of Trustees of Morehouse College.

Mr. Davis is a graduate of Morehouse College in Atlanta, Georgia, where he received his Bachelor of Arts degree in Political Science in 1956. He received his Juris Doctor degree from the New England School of Law in 1963.

Mr. Davis has served as Assistant Attorney General of the Commonwealth of Massachusetts, where he was assigned to the Criminal Bureau from 1964 to 1969. In 1969, he was appointed an Assistant United States Attorney for the District of Massachusetts. In 1971, he was appointed United States Magistrate Judge for the District of Massachusetts. He served in this position until 1976.

Since 1976, Mr. Davis has practiced law in the Commonwealth, handling, for the most part, criminal cases both at the trial and appellate levels.



## **Baron H. Martin**

The Honorable Baron H. Martin (Ret.) is an Arbitrator for Commonwealth Mediation and formerly for the Commonwealth of Massachusetts Appeals Court.

Judge Martin began his career in 1952 at the Metropolitan Transit Authority (MTA), now known as the MBTA. He was appointed a Special Justice of the Roxbury District Court in 1972 by then-Governor Francis Sargent and became a full-time Justice of the Trial Court of the Commonwealth upon his retirement from the MTA in 1976 as First Assistant General Counsel. In 1987, Judge Martin was appointed First Justice of the Wareham District Court where he served until his retirement in 1996. He also served as the First Justice of the Appellate Division of the District Court Southern Division. During his tenure as a judge, he served as Adjunct Professor of Law at Southern New England Law School.

Judge Martin has received numerous awards and citations for his outstanding service to the people of Plymouth County and the Commonwealth of Massachusetts, including The Brass Gavel Award by the Plymouth Bar Association and a citation issued by the City of Boston for Outstanding Contributions to the Black Presence in Boston, and Honorary Doctorates for Outstanding Community Service from William Penn University, Saints College and Bridgewater State College. He has devoted over 55 years to the service of the people of the Commonwealth of Massachusetts.

Judge Martin attended Boston University, Howard University and Suffolk University Law School.



### Joseph M. Trolla

Joseph M. Trolla is Chief Operating Officer for Ryan Development LLC. Ryan develops commercial/industrial properties in the Westford/Metro West area. Prior to Ryan he was Vice President of Construction with Fafard Real Estate Development, Inc., of Ashland.

Mr. Trolla began his career in the field as a Superintendent with Flatley Construction in 1971, overseeing major projects in Randolph, Framingham and Bridgewater. Before joining Fafard Real Estate Development in 1978, Mr. Trolla held positions with the Marlborough Planning/Community Development Department and Stanmar, Inc.

Over the years, Mr. Trolla has developed/constructed more than 2.5 million square feet of industrial property and one million square feet of commercial property, in addition to renovating historic school buildings into condominiums, and building approximately 3,500 condominium units and 1,500 single-family homes.

Mr. Trolla is a member of the Marlborough Citizens Scholarship Foundation and the Bolton Street Association.

Mr. Trolla graduated from Wentworth Institute, in Boston, Massachusetts.



### Janice Loux

An activist and organizer from an early age, Janice Loux was elected President of Local 26 in April 1997, serving as the first female President in the union's 111-year history. Prior to her presidency, she served as Vice President and Benefits Officer of Local 26. She is currently the Treasurer of the Greater Boston Hotel Employees Local 26 Trust Funds.

Ms. Loux developed the Local 26 benefits package, which is one of the most progressive in the country. Ms. Loux directed the union's successful 18-month lobbying effort to amend the Taft-Hartley federal labor law. The amendment was signed into law on April 18, 1990, allowing unions to bargain for housing benefits.

In 2001, Ms. Loux was elected to the Executive Board of the Hotel Employees and Restaurant Employees International Union as Vice President.



### Frank F. Chin

Frank F. Chin is currently the chairman of the Chinese Community of New England, Inc. He is also a member of the Empowerment Zone Board.

Mr. Chin was the Purchasing Agent for the City of Boston for over 22 years. He is from the Chinatown area and has been very involved in civic duties and events. Mr. Chin has served on numerous boards and commissions, such as Chinatown Main Street, Chinatown/South Cove Neighborhood Council, Urban Renewal Committee, the South Cove YMCA, the Chinatown Grievance Task Force, New England Aquarium Trustee, Overseers of the Museum of Fine Arts, and the Real Property Commission of the City of Boston.

Mr. Chin is a Veteran of the Korean Conflict.

Mr. Chin attended Merrimack College.



### Grace S. Shepard

Grace S. Shepard has served her community and the region as a volunteer in several diverse roles. She has been active at the Metropolitan Area Planning Council for 30 years, serving on the Executive Committee, as President of the Council and presently as Treasurer.

Mrs. Shepard was an active volunteer at the Museum of Fine Arts from 1973 to 2006, serving as a Gallery Instructor, as President of the Gallery Instructor Associates and as an MFA Overseer. She has served on various boards in her community of Sherborn for over 30 years, including 9 as Selectman and 6 as a member of the Advisory (Finance) Committee.

Mrs. Shepard is married, with 3 sons and 6 grandchildren. She is a graduate of Vassar College and has a Masters degree from Harvard.



### Darnell L. Williams

A well-respected community leader, Darnell Williams is President and CEO of the Urban League of Eastern Massachusetts, a nonprofit organization providing services and programs in education, career and personal development and employment for African-Americans and other residents of color. Mr. Williams is well-known to and often assists other culturally diverse organizations beyond African Americans. Prior to joining the Urban League, Mr. Williams was Manager of Management Recruitment and Development at Massachusetts General Hospital (MGH) as well as a Diversity Consultant in private practice.

Mr. Williams was President of the Springfield Branch of the National Association for the Advancement of Colored People (NAACP) and served as the President of the NAACP New England Area Conference from 1996 to 2001. He is the former Director for the United Way of Pioneer Valley. Mr. Williams served as trustee of Bunker Hill Community College and Beaver Country Day School. He is a former board member of the Boston Workforce Development Coalition. Mr. Williams is a current member of the Boston Study Group, Chief Executives' Club of Boston, and the MGH Multicultural Community Advisory Committee. He also serves as Trustee of the Dana Farber Cancer Institute, and the Federal Reserve Community Development Advisory Board. In February 2008, he was appointed by Governor Deval Patrick to the Board of Directors of the Massachusetts Bay Transportation Authority.

A highly respected advocate and requested speaker on issues of importance pertaining to the challenges faced by communities of color and low-income families, Mr. Williams was a contributing member of Boston's successful effort to win the 2004 Democratic National Convention. For his contributions within the Black community and the City of Boston, Mayor Thomas Menino presented him with the 2003 Community Service Award. Mr. Williams received the 2005 Paul Parks Veteran's Community Service Award. Mayor Thomas Menino appointed him as Chairman of the Roxbury Strategic Master Plan Oversight Committee (RSMPOC) in 2005. In 2007, Mr. Williams was inducted into the Human Resources Alliance for African Americans (HRAAA) Hall of Fame.

A Gary, Indiana native, Mr. Williams earned his Master's degree in Education from Boston University after completing his undergraduate degree at American International College in Springfield, MA.

Darnell Williams and his wife Colleen, reside in Roxbury with their daughter, Imani.



### Ferdinand Alvaro

Ferdinand Alvaro is Partner-in-Charge of the Adorno & Yoss LLP Boston office and Co-Chair of the National Business Law Group. Mr. Alvaro has devoted most of his career to counseling businesses and to the execution of complex business and real estate transactions, both as an attorney and a businessman. Before joining Adorno & Yoss LLP, he was Vice President, Commercial and General Counsel of BOC Process Systems, \$2 billion global division of the BOC Group. In that capacity, he led a legal, financial, and technical team that closed financing transactions, acquisitions, venture capital investments, strategic alliances, and joint ventures in the U.S., Latin America, Europe, Asia, and the Pacific Rim.

From 1997 to 1999, contemporaneously with his duties at BOC, Mr. Alvaro served as Chief Executive Officer of the Cantarell Nitrogen Company ("CNC"), a consortium of U.S., U.K., Mexican, German and Japanese companies organized to develop a \$1 billion infrastructure project in Mexico. During his tenure with CNC, he opened, staffed and managed its first offices in Mexico and addressed a variety of regulatory, political and local community issues, the resolution of which permitted the successful launch of the project. He also led a multi-sponsor CNC team that completed one of the very few successful limited recourse financing transactions closed with respect to Latin American projects that year. Over the course of his career, Mr. Alvaro has served on the boards of directors of United States, Chilean, Columbian, Mexican and Venezuelan companies.

#### EXPERIENCE

- Mergers and Acquisitions
- Commercial Real Estate
- Venture Capital and Corporate Finance
- International Transactions

#### EDUCATION

- J.D., Harvard Law School (1980)
- B.B.A., Accounting and Finance, Pace University (1977)

#### INVOLVEMENT

- Named as a Massachusetts "Super Lawyer" in *Boston Magazine* (2006 and 2007)
- Member, Judicial Nominating Commission (appointed by Governor Romney in 2005; reappointed by Governor Patrick in 2006; served until 2007)
- Member, Corporate Executive Council of WGBH (public television)
- Member, Governing Council, Boston Bar Association (2003-2006)
- Member, Boston, American and Hispanic National Bar Associations
- Trustee, Boston Bar Foundation
- Director, Initiative for a New Economy (economic program initiated by Mayor Menino)



# The MBTA

- Mission Statement and Goals
- Executive Summary
- Statement of Revenue and Expenses Line Item Descriptions
- FY 2005 to FY 2009 Statement of Revenue and Expenses
- Organization Chart
- System Maps

# Mission Statement and Goals

## Mission Statement:

The MBTA is a dedicated world class transit system built upon customer service excellence, accessibility, reliability, state-of-the-art technology, and a diverse workforce that reflects our commitment to the communities we serve.

## Plan Goals:

**MBTA Service:** To provide clean, safe, and reliable public transportation, accessible to everyone, and a clean and safe environment for employees.

**MBTA Infrastructure:** To modernize the system through an aggressive State of Good Repair program while investing in cost-effective expansion projects to increase our customer base.

**MBTA Financial Condition:** To provide affordable transit for the public toward reducing the burden to taxpayers through efficient operations, innovative fare policies, and the generation of non-fare revenues, while simultaneously supporting a balanced capital program of modernization and expansion through strong project and grant management.

**MBTA Employee Development:** To recruit, train, and retain a highly professional, diverse, and committed workforce capable of improving the system in an efficient and cost-effective manner.

**MBTA Communication:** To develop direct, effective communication techniques that inform our customers, obtain valuable feedback, and develop goodwill for the organization.



Daniel A. Grabauskas  
General Manager

Massachusetts Bay Transportation Authority  
Driven by Customer Service

# Executive Summary

The FY 2009 budget reflects a severe and continued deterioration in the Authority's financial stability. Since "forward funding" took effect on July 1, 2000, the Authority has experienced a cumulative underperformance of sales tax—its primary revenue source—and now faces an upcoming fiscal year in which total revenues are projected to increase by only \$22.9 million (1.6%) and operating expenses by \$49.5 million (4.8%). The structural budget deficit caused by continued rapid growth in expenses beyond the Authority's control and lagging revenue forces the Authority to resort to debt restructuring and the use of reserve funds to balance the budget.

At the end of the Authority's budget process this year and after accounting for non-controllable cost increases in ongoing operations as well as contractual and statutory obligations, the Authority was faced with a \$75 million deficit. Several options were available to the Authority to address the structural deficit in FY 2009. Fares could have been increased<sup>1</sup> and/or service levels reduced. Both of these options were deemed to be unacceptable. Therefore, the Authority has elected to restructure its outstanding debt and use a significant portion of its "rainy day" funds, and these assumptions have been included in the proposed FY 2009 budget. While this will result in a balanced budget for 2009, restructuring outstanding debt increases long-term costs and does not address the structural deficit in future years. New sources of revenue are required to preserve quality transportation at an affordable price.

The following table illustrates the Authority's strategy to produce a balanced budget in FY 2009:

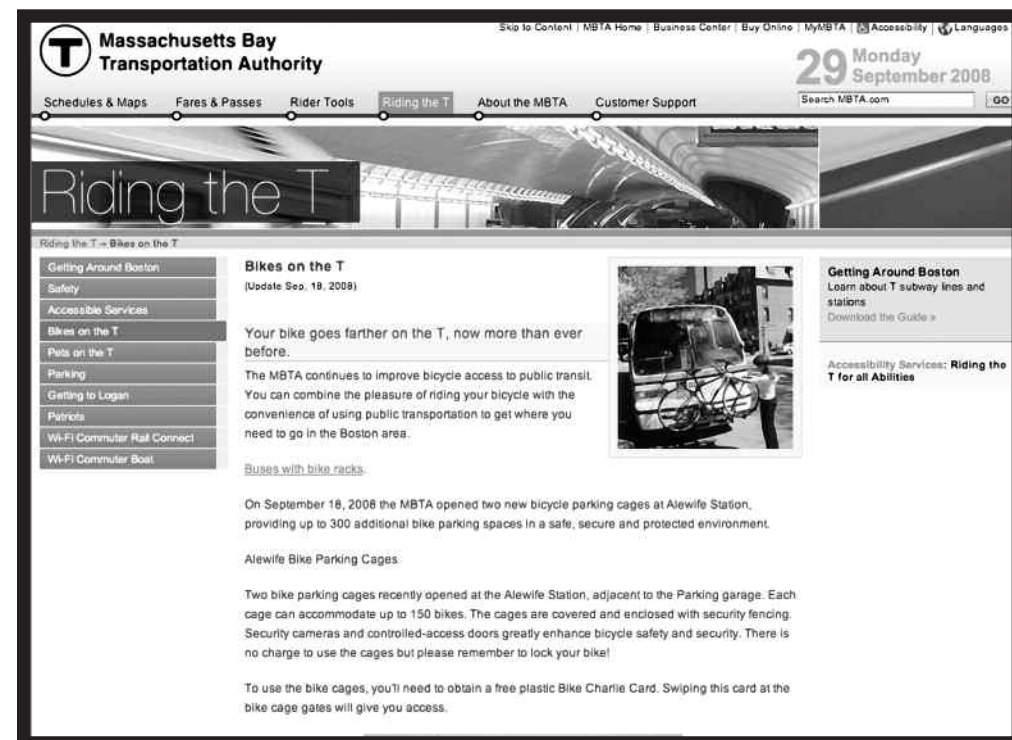
Authority's Structural Deficit in FY 2009 (\$ Millions)	
<b>FY 2009 Beginning Deficit</b>	<b>(\$74.3)</b>
<b>Debt Service Structuring</b>	
Advance synthetic fixed rate refunding—structure savings all in FY 2009	11.6
Debt restructuring—defer payment of principal	28.4
Short-term financing of the Capital Program	5.0
Current refunding of principal due in 2009	10.0
<b>Reserve Fund Draws</b>	
Deficiency Fund	15.0
Capital Maintenance Fund	4.3
<b>FY 2009 Ending Deficit</b>	<b>(\$0.0)</b>

<sup>1</sup> The last fare increase was in January 2007.



The planned debt service restructuring in FY 2009 cannot be replicated indefinitely and while the sale of high value surplus properties and leveraged lease transactions<sup>2</sup> can provide a one-time revenue source, the Authority's remaining modest reserves are not enough to compensate for future deficits as long as sales tax revenue underperforms expectations. The use of \$15 million out of the Deficiency Fund will deplete this reserve account and the use of \$4.3 million from the Capital Maintenance Fund<sup>3</sup> represents the first draw for operating budget purposes. This draw, as well as any future draws on the Capital Maintenance Fund to balance the operating budget, will compromise desperately needed funds for state of good repair projects.

The Authority faces an increase in operating expenses of \$49.5 million (4.8%). The FY 2009 budget request funds little more than increases to the Commuter Rail fixed price service contract, paratransit, energy, and healthcare costs. The Purchased Commuter Rail Service line item is increasing by \$24.6 million due largely to train fuel prices, increases in the contract price with Massachusetts Bay Commuter Railroad, right-of-way maintenance work, and a full year of Greenbush service. The Materials, Services, and Supplies line item is increasing by \$19.1 million due mainly to escalating fuel and energy costs, station cleaning contracts, maintenance-of-way and telecommunications initiatives, and system-wide accessibility initiatives. Healthcare costs are increasing by \$4.7 million. Contractual cost increases in THE RIDE and Private Carrier Bus require an additional \$4.0 million. Lastly, the Financial Services line item is increasing by \$2.6 million to pay for credit and debit card fees as the Authority continues to experience a higher usage of this payment option by our customers.



Offsetting the above cost increases are \$5.5 million in savings in other lines items: wages, pensions, social security, unemployment, and casualty and liability insurance. In total and including the debt restructuring, the Authority's requested expense budget exceeds available revenues by \$19.3 million thus requiring the use of \$15 million from the Deficiency Fund and \$4.3 million from the Capital Maintenance Fund.

In addition and pursuant to Section 11 of Chapter 161A of Massachusetts General Laws and the reporting requirements contained therein, the Authority has established, in conjunction with the preparation of this operating budget request, a target net operating investment per passenger mile ratio that it expects to achieve in FY 2009: 30.9 cents. 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 again not achievable in FY 2009 given modest revenue growth and significant cost escalation in operating expenses. This is a target and not legislatively mandated.

As with fiscal years before it, FY 2009 will be a difficult and challenging year. The Authority is currently in interest arbitration for labor agreements that expired in FY 2006 and does not know what impact, if any, an arbitration award would have on the FY 2009 budget—whether for a wage increase in FY 2009 only or wage increases retroactively for prior fiscal years.<sup>4</sup> Healthcare cost reform is also before the arbitrator while fuel and energy prices continue to be volatile. The resources requested in this budget are the minimum necessary to maintain good customer service, improved service reliability, and enhanced system accessibility.

While the Authority will continue to explore ways of maximizing revenue and containing operating expenses in order to minimize the need to draw upon the Deficiency and Capital Maintenance Funds, the probability of the Authority solving its structural deficit in FY 2009 and beyond will be difficult, if not impossible, without additional revenue sources or debt relief.

## FY 2009 Revenue

Total revenue from all sources is projected to increase by \$22.9 million (1.6%) to \$1.435 billion. The major categories follow:

### Operating Revenue

Total Operating Revenue is projected to increase by \$13.4 million<sup>5</sup> (2.8%) to \$491.9 million<sup>6</sup> in FY 2009. The increase is due to \$7.4 million in additional fare revenue, \$2.5 million in additional advertising revenues, and \$3.5 million in additional revenue from real estate operations. The Authority's projected fare revenue budget of \$437.5 million creates a fare recovery ratio of 40.2%—just slightly under the FY 2008 fare recovery ratio of 41.4%.

<sup>2</sup> Legislation now prohibits these transactions.

<sup>3</sup> The Capital Maintenance Fund currently has \$40.2 million.

<sup>4</sup> It is important to note that the FY 2009 budget request has no funding for arbitrated wage increases.

<sup>5</sup> \$4.5 million in rapid transit revenue, \$1.4 million in commuter rail revenue, \$1.3 million in surface transit revenue, and \$0.2 million in school, seniors and paratransit revenue

<sup>6</sup> The two largest components of the increase are \$1.5 million in parking revenue from parking lots and garages and \$1.5 million from Transit Realty Associates' real estate activities on behalf of the Authority. The balance is composed of other assorted smaller sources.

### Non-Operating Revenue

Non-operating Revenue will decrease by \$5.1 million to \$30.3 million. The Authority anticipates lower property sales in FY 2009 (\$9.3 million vs. \$10.2 million in the FY 2008 budget) and fewer projected new non-operating income initiatives (\$6.0 million vs. \$10.6 million in the FY 2008 budget). This \$5.5 million decrease in non-operating income will be partially offset by a \$200,000 increase in interest income and a \$251,000 increase in utility reimbursements.

### Revenue from Dedicated Sources

Revenue from Dedicated Sources is projected to increase by \$14.6 million (1.6%) to \$913.5 million in FY 2009. Consistent with the “forward funding” legislation, assessments (Funds from Local Government) will increase by \$3.6 million (2.5%) to \$146.5 million. Revenue Receipts from Sales Tax will increase by \$11.0 million (1.5%) to \$767.0 million.

At the onset of “forward funding,” the estimate<sup>7</sup> of sales tax for FY 2009 was \$817 million and was predicated on a growth assumption of a minimum of 3% per year. In fact, sales tax has increased an average of only 1.6% per year through FY 2008—leaving a gap in expected funding of \$49 million in FY 2009 and a cumulative gap in funding of \$199 million since FY 2001.

## FY 2009 Operating Expenses

The need for additional resources in FY 2009 falls into two categories: (1) ongoing operations and quality of service, and (2) contractual and statutory obligations. The Authority has generated savings related to ongoing operations, which have helped minimize the overall operating expense increase.

### Ongoing Operations and Quality of Service

The Authority will require \$36.9 million in additional funds in FY 2009 for the following, largely non-controllable, costs:

- \$8.8 million for increased train fuel costs for Commuter Rail
- \$8.3 million for power and utilities
- \$3.3 million for increased fuel costs for diesel, compressed natural gas, gasoline, and jet fuel primarily for Bus Operations
- \$3.8 million for Commuter Rail for right-of-way maintenance work
- \$2.6 million for financial service charges (credit/debit card fees for Charlie fare media purchases)<sup>8</sup>
- \$2.2 million for security and safety telecommunications maintenance and repair for closed circuit television (CCTV) (\$1.0 million), the wide area network (WAN) (\$0.4 million), fire alarms (\$0.6 million), and radios (\$0.2 million)

- \$1.7 million for maintenance-of-way initiatives under the track realignment program which includes rail grinding (\$1.0 million), optical rail testing (\$0.5 million), and track geometry testing (\$0.2 million) to improve service reliability and service quality
- \$1.4 million for miscellaneous Commuter Rail expenses including contract scope changes (\$0.5 million), penalties (\$0.5 million), and amortization of mobilization costs (\$0.4 million)
- \$1.1 million for Seimens warranty contract for public address video messaging system (PAVMS) on buses and maintenance of hand scanners
- \$1.0 million for contract cleaning of stations, vehicles, and facilities
- \$1.0 million for Commuter Rail right-of-way improvement projects required under the Attleboro Line Agreement
- \$0.7 million for system-wide accessibility initiatives including wayfinding directional signage and updating the Design Guide for Access (both Boston Center for Independent Living commitments)
- \$0.5 million for expenses related to the corporate pass program and automated fare collection intellectual property legal support
- \$0.5 million for IT standard hardware and software maintenance agreements

### Contractual and Statutory Obligations

The Authority will require \$18.1 million in additional funds in FY 2009 as a result of higher healthcare costs and existing contractual and statutory obligations as follows:

- \$6.5 million for the contractual fixed price contract increase with Massachusetts Bay Commuter Railroad
- \$4.7 million for increased healthcare expenses—a 4.3% increase over the FY 2008 budget
- \$4.0 million to fund contract rate increases, fuel costs and higher ridership in Purchased Local Service Subsidy programs: THE RIDE (\$3.9 million), Commuter Boat and Private Carrier Bus services (\$0.1 million)
- \$2.9 million for a full year of Greenbush Commuter Rail service

### Cost Reductions

Offsetting the requested budget increases associated with ongoing operations and quality of service and contractual and statutory obligations are cost reductions which total \$5.5 million:

- \$3.9 million in pension savings due to a reduction in the Authority's contribution rate to the MBTA Retirement Fund
- \$0.8 million in wage cost reductions due to the elimination of non-service related positions
- \$0.5 million in risk insurance (excess liability insurance) costs
- \$0.2 million in lower unemployment utilization
- \$0.1 million in social security due to a reduction in overall wage costs

<sup>7</sup> Finance Plan Base Revenue Amount (BRA)

<sup>8</sup> Although credit/debit card fees were not budgeted as an expense in FY 2008, the Authority has elected to record these as an expense in FY 2009. In prior years, the charges were applied as a reduction to revenue.

## FY 2009 Debt Service

Currently, no dedicated funding source exists to pay for the Authority's portion of the Capital Investment Program. Historically, the MBTA has issued debt in order to fund this major portion of costs associated with its capital projects. The Authority's five-year Capital Investment Program is funded by five sources: revenue bonds, pay-as-you-go capital, federal grants, state infrastructure funds, and grant anticipation notes. In FY 2009, 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.

Since the implementation of "forward funding" in FY 2001, the Authority has issued three series of assessment bonds (\$1.3 billion), four series of sales tax bonds (\$894 million), and one series of grant anticipation notes (\$82 million) to fund the Authority's share of the Capital Investment Program. Debt issued since "forward funding" along with debt that was issued prior to FY 2001 now totals \$5.0 billion. Debt service costs consume 26% of the Authority's FY 2009 operating revenues.

Since FY 2001, the MBTA has attempted to implement a "pay-as-you-go" capital funding structure, but that has been difficult with the limited growth in sales tax revenues. The Authority continues to rely on the issuance of revenue bonds to fund its share of the Capital Investment Program. The Authority has implemented a number of debt reduction strategies in order to reduce debt service costs in FY 2009. These initiatives include an advance synthetic fixed rate refunding (\$11.6 million) and a debt restructuring (\$28.4 million). The Authority will also delay the issuance of new money by using commercial paper to fund capital projects, which is projected to save \$5.0 million. A current refunding is also planned for FY 2009 that will reduce debt service costs by up to \$10.0 million in FY 2009, but will increase debt service costs overall in the long-term. These four debt management initiatives reduced the FY 2009 debt service costs by \$55.0 million from \$422.8 million to \$367.8 million, but will increase costs in future years.

In FY 2009, the Authority will fund capital projects by utilizing its \$250 million Commercial Paper Program and then retire the notes with the issuance of a series of revenue bonds later in FY 2009. This strategy allows the MBTA to finance capital projects by borrowing funds in a short-term interest rate environment and achieve a lower cost of capital. In addition to the debt service expenses resulting from the issuance of revenue bonds, the Authority also pays debt on:

- General Transportation System (GTS) bonds, secured by the Commonwealth Guarantee (Legacy Debt)
- Short-Term Notes (Commercial Paper Program), used to provide intermediate capital funds

Total principal and interest expenses are projected to decrease by \$7.2 million (2.0%) in FY 2009. Principal payments are projected to decrease by \$23.6 million (18.7%) due to the planned debt restructuring. Interest costs are projected to increase by \$16.4 million (7.2%) in FY 2009, which is due to a new bond issue to fund capital projects, the use of commercial paper, and a significant reduction in the amount of income received from prior derivative transactions that provide a direct offset to interest expense.

The following table summarizes the FY 2009 principal payments and interest expense:

Bond Issue	Principal Payment	Interest Expense
Prior Obligations	\$110.9 million	\$70.0 million
Revenue Bonds	46.7 million	166.1 million
New Revenue Bonds		6.4 million
Commercial Paper		4.2 million
Derivative Income		(1.0) million
Advance Synthetic Refunding	(11.6) million	
Debt Restructuring	(28.4) million	
Delay in New Money Bond Issue	(5.0) million	
Current Refunding in Fiscal 2009	(10.0) million	
<b>Total</b>	<b>\$102.6 million</b>	<b>\$245.7 million</b>

### Lease Payments

Lease payments will increase by \$0.7 million to \$19.5 million. This is a result of arranging additional tax-exempt vehicle leases for THE RIDE program, the MBTA Police Department and the Systemwide Maintenance Improvements Department.

### Debt Management

The MBTA refunded over \$2.0 billion in debt during FY 2005, FY 2006 and FY 2007 in order to achieve economic savings and reduce debt service costs. Debt management also includes defeasance of debt and hedge agreements in order to manage financing costs and volatility in an uncertain economic environment. The Authority will continue to actively manage its debt portfolio with the objective of minimizing its cost of capital and providing sufficient funds for the capital program during these difficult economic times.

Perhaps the greatest challenge facing the Authority is the expected rise in debt service costs (principal and interest) over the next several years. With the continuing slow growth in sales tax revenue, debt service costs will consume an ever increasing amount of revenue each year. Unless corrected or mitigated, this will compromise the Authority's ability to continue to provide the anticipated service levels included in the FY 2009 budget in future years. The Authority could decide to curtail the Capital Investment Program. However, since the majority of the debt has been issued this would provide very little relief in the short term. In addition, disinvestment in the system's infrastructure and modernization would result in a deterioration of service reliability, non-compliance with legal commitments, slower progress in making the system more accessible and maybe most importantly, loss of ridership. The Authority therefore has made a commitment to spend a minimum of \$470 million annually and to allocate at least 90% of the Capital Investment Program toward State of Good Repair projects.

# Statement of Revenue and Expenses

## SUMMARY

The FY 2009 budget request of \$1.455 billion reflects a 3% overall increase over the FY 2008 budget and was achieved, in addition to debt restructuring, by reductions to a number of departments' budgets and transfer of resources among departments. The savings and reallocations have allowed the Authority to focus scarce resources on maintaining assets including the fleet and rights-of-way, paying for contractual cost increases for Commuter Rail and THE RIDE, and maintaining core service levels.

Despite having a number of departments and line items level funded or reduced from their FY 2008 budget levels, the ongoing transportation and maintenance costs including fuel and energy, the contractual obligations of collective bargaining agreements with Authority employees and retirees, and the contracts with providers of purchased transportation services, require tapping into reserve funds to avoid service reductions.



## OPERATING REVENUES

Operating revenues consist of fare revenue, advertising revenue, and revenue from real estate transit operations.

The MBTA receives fare revenue from several sources: the rapid transit or subway system; the commuter rail system; the surface transit system, which includes all local and express buses; and from schools, seniors, and the paratransit system known as THE RIDE.

Advertising revenue is generated from all advertising in MBTA stations and vehicles.

Revenue from real estate transit operations covers income earned by the Authority from a variety of non-fare sources including parking, tenant, and other project-related revenue.

## Non-Operating Revenues

Non-operating revenues include interest income, non-operating income, funds from the federal government, and utility reimbursements.

Interest income is generated from the investment of MBTA operating cash on hand, which is derived from fare revenue, state sales tax receipts, and assessments on the cities and towns in the MBTA service district.

Non-operating income is derived from miscellaneous non-transportation sources such as property sales, safety training, service fees, vendor discounts, and insurance claims.

Funds from the federal government are received as reimbursement for programs and services provided through the operating budget. Such programs include, but are not limited to, Job Access Reverse Commute, Preventative Maintenance, and Transit Security Grant Programs.

Utility reimbursements are income resulting from the sale of electricity to vendors who lease space on MBTA property.

## Revenue from Dedicated Sources

Revenue from dedicated sources is composed of funds from local governments, which consist of assessments on the 175 cities and towns in the MBTA service district, and revenue receipts from state sources, which reflect 20% of state sales tax receipts.

## OPERATING EXPENSES

### Wages

Wages are paid to approximately 6,100 employees of the Authority who provide transportation services or perform support functions.

Over 95% of the Authority's employees belong to one of the 29 unions. Because most of the Authority's workforce is unionized, most elements of compensation and working conditions are collectively bargained. Nonetheless, management initiatives to improve flexibility in personnel deployment have allowed the increasingly cost-effective use of every wage dollar.

## FRINGE BENEFITS

The MBTA provides a number of fringe benefits to its employees. They are reflected in this line item and are described below.

### MBTA Pensions

The MBTA offers three independent pension plans for its employees, each of which is funded by employee payroll deductions that are matched by contributions made by the Authority. The largest of these plans is the MBTA Retirement Fund, to which the majority of employees belong.

The two other pension plans are the MBTA Police Retirement Fund, available only to police officers, and the Deferred Compensation Savings Plan for eligible executive and unaffiliated employees.

### Health Care Insurance

The MBTA's health care benefits package for employees and retirees includes five healthcare plan choices: Blue Cross/Blue Shield's Blue Care Elect Preferred Plan (PPO), Blue Cross/Blue Shield's Blue Choice Point of Service Plan (POS), Harvard/Pilgrim Health Plan, Blue Cross/Blue Shield's Network Blue, and Tufts Associated Health Plan. Most active unionized employees contribute a 15% co-insurance premium. The executive employee co-insurance premiums are two-tiered: those hired before July 1, 2003 contribute a 20% co-insurance premium, while those hired after July 1, 2003 contribute 25%. Full healthcare benefits are provided at no cost to MBTA retirees. The Authority provides dental benefits through the Delta Dental Plan. Eligible employees who elect to participate contribute a 43% premium.

### Group Life Insurance

The Authority currently provides basic life insurance coverage for all active employees, ranging from \$6,000 to two-and-one-half times an employee's salary, depending on employment status and union affiliation. For some affiliations, supplemental life insurance is also available. Group life insurance is continued at reduced coverage levels upon retirement.

### Disability Insurance

The MBTA has several policies that cover employees in the event of accidents or sickness. Accidental death and dismemberment pays benefits if an employee dies or suffers certain severe injuries as a result of an accident whether on or off the job. In addition, the MBTA has a group long-term disability program for executive employees, which provides up to 40% of salary continuation in the event of a long-term disability. The policy provides an option for executive employees to purchase 20% additional coverage.

### Workers' Compensation

Any employee who is injured on the job or suffers from an illness that is job-related is eligible to apply for and receive Workers' Compensation from the MBTA.

### Other Fringe Benefits

The MBTA also provides child care and tuition reimbursement.

## PAYROLL TAXES

### FICA

The cost of the Authority's Social Security tax contribution on behalf of all MBTA employees is reflected here.

The MBTA's contribution to the Federal Social Security System is calculated using an effective rate of 6.2% for Old Age and Disability Insurance (OADS) and 1.45% for Hospital Insurance, for a combined rate of 7.65%.

### Unemployment Insurance

The MBTA, as a self-insurer, is responsible for paying all unemployment compensation provided to employees in accordance with state and federal regulations.

## MATERIALS, SUPPLIES AND SERVICES

This line item includes funding for purchases necessary for the provision of safe, reliable and efficient transportation services. The principal components of this line are materials, fuel, traction and non-traction power, utilities, and uniforms. Rental costs, contract cleaning, and postage are additional operating expenses found in this line item.

## CASUALTY AND LIABILITY

This line item funds the cost of litigation related judgments and settlements resulting from personal injury and property damage claims against the MBTA, as well as related claims resolved before litigation. Also included are the costs of premiums for property and casualty insurance coverage and bonding the officials.

## PURCHASED COMMUTER RAIL EXPENSES

This line item represents the subsidy figure for the operation of Commuter Rail service through a contract with a third party. The contractor, Massachusetts Bay Commuter Railroad Company, began operating and maintaining MBTA-owned rolling stock and Rights-of-Way on July 1, 2003. Railroad Operations manages this contractual relationship through four divisions: Transportation, Mechanical, Engineering, and Finance & Administration.

## PURCHASED LOCAL SERVICE EXPENSES

The MBTA currently subsidizes four separate programs in which private contractors deliver important public transportation services—THE RIDE, Commuter Boat, Private Carrier Bus, and Suburban Bus.



## FINANCIAL SERVICE CHARGES

Financial service charges include various fees paid to financial institutions and brokerage firms. The majority of these charges are for refunding initiatives, prospectus preparation, and other legal and fiscal services.

## TOTAL OPERATING EXPENSES

The total of all operating expenses, including the direct and indirect costs of providing transportation services, is summarized in this line item. Total operating expenses for FY 2009 are projected at \$1,087.0 billion.

## DEBT SERVICE EXPENSES

Debt Service costs are a combination of three components: principal and interest costs on debt as well as payments on operating leases for rolling stock equipment. The MBTA issues debt based on the Authority's Capital Investment Program. Spending projections on the MBTA's capital projects determine the amount and date of debt issuance required to support the capital program.

The MBTA receives 20% of the Commonwealth's sales tax collections as well as assessments from 175 communities in the Commonwealth. The Authority issues both sales tax bonds and assessment bonds. Sales tax bonds are secured by dedicated sales tax receipts from the Commonwealth, while assessment bonds are supported by assessments from the communities.

The Sales Tax Trust Agreement requires certification by April 1st of each year that the Authority has provided for payment of its General Obligation bonds in its upcoming fiscal year budget. If the MBTA is unable to make this certification, the Authority is required to deposit sufficient funds from the dedicated sales tax to pay prior obligations.

The MBTA continues to explore and monitor a variety of financing options and market conditions with the goal of minimizing debt costs while completing all the projects in its capital plan.

Net Revenue/(Expense) is the net of Total Revenues and Total Expenses.

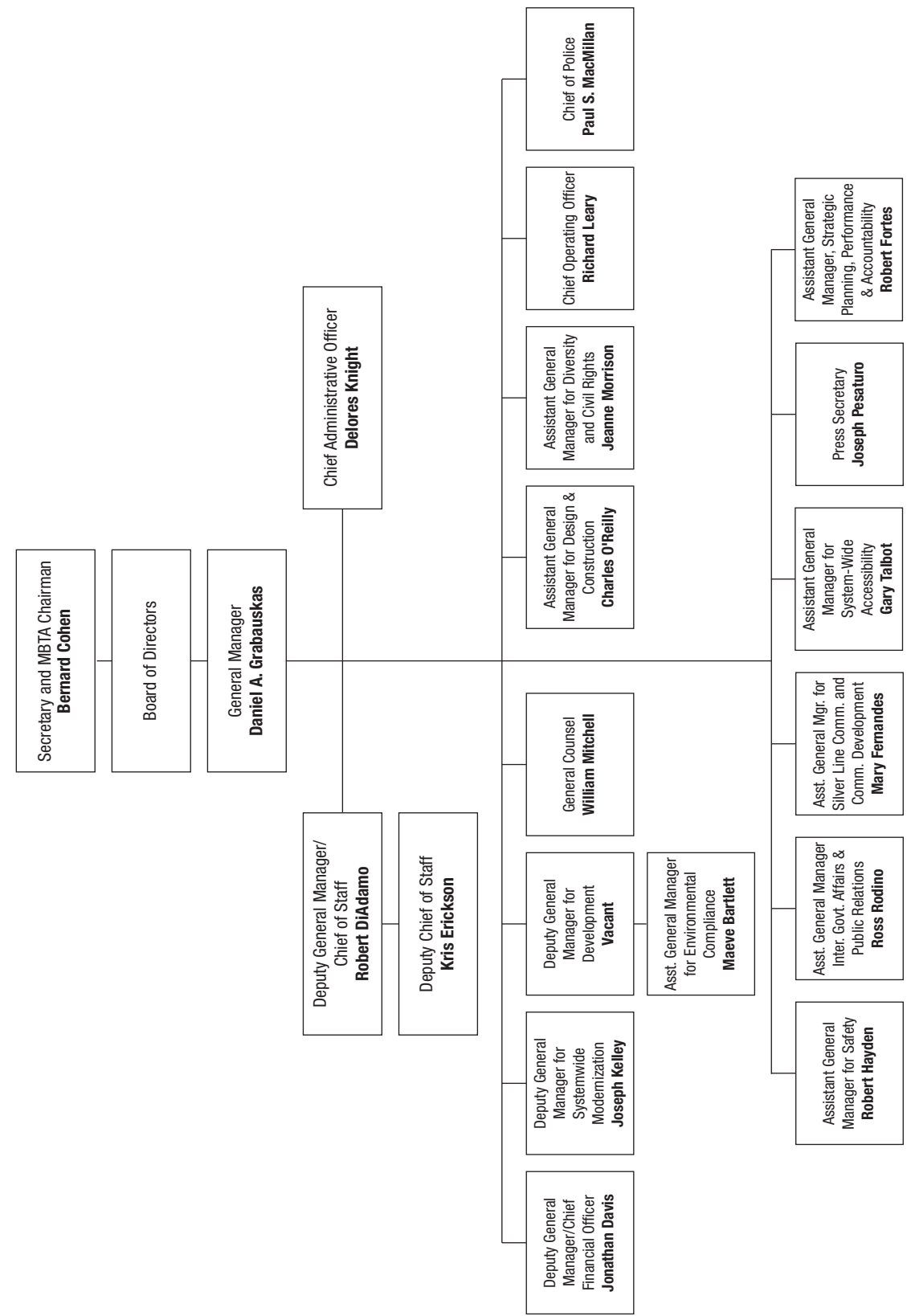
The Deficiency Fund and the Capital Maintenance Fund are both funded by the operating budget net revenue and are held by the Authority.

The Deficiency Fund may be used to pay debt service on bonds, notes and other obligations and expenses of the Authority. The Capital Maintenance Fund may be used to pay a portion of the ongoing schedule of maintaining the equipment and mass transportation facilities of the Authority.

# FY 2005 to FY 2009 Statement of Revenue and Expenses

REVENUE	FY2005	FY2006	FY2007	FY2008	Budget FY2009
<b>Operating Revenues</b>					
Rapid Transit Revenue	136,256,396	148,388,899	180,413,594	200,815,792	205,237,445
Commuter Rail Transit Revenue	98,790,037	104,137,787	123,020,901	140,617,665	138,625,103
Surface Transit Revenue	80,080,979	75,700,371	76,117,496	92,983,968	85,837,950
School, Senior and Paratransit Revenue	4,143,754	4,868,914	6,935,962	6,544,538	7,782,656
Advertising and Concession Revenue	21,610,945	9,727,091	11,954,182	12,981,157	13,500,000
Revenue from Real Estate Operations	26,140,563	37,486,904	33,179,436	35,854,282	40,904,119
<b>Total Operating Revenues:</b>	<b>367,022,674</b>	<b>380,309,966</b>	<b>431,621,571</b>	<b>489,797,401</b>	<b>491,887,273</b>
<b>Non-Operating Revenues</b>					
Interest Income	4,361,467	3,447,601	4,843,353	6,667,974	4,000,000
Non-Operating Income	4,194,911	23,076,729	18,836,131	2,060,329	15,262,344
Funds from Federal Government	6,614,493	10,884,751	8,035,587	8,025,720	8,000,000
Utility Reimbursements	1,534,660	2,206,452	2,451,926	2,307,054	3,051,000
<b>Total Non-Operating Revenues:</b>	<b>16,705,530</b>	<b>39,615,533</b>	<b>34,166,997</b>	<b>19,061,078</b>	<b>30,313,344</b>
<b>Revenue from Dedicated Sources</b>					
Funds from Local Governments	137,732,280	136,026,829	139,427,540	142,913,229	146,486,059
Revenue Receipts from State Sources	704,620,528	711,086,005	733,963,311	755,982,210	767,019,551
<b>Total Dedicated Revenues:</b>	<b>842,352,808</b>	<b>847,112,834</b>	<b>873,390,851</b>	<b>898,895,439</b>	<b>913,505,610</b>
<b>Total Revenues:</b>	<b>1,226,081,013</b>	<b>1,267,038,333</b>	<b>1,339,179,419</b>	<b>1,407,753,918</b>	<b>1,435,706,227</b>
<b>EXPENSES</b>					
<b>Operating Expenses</b>					
Wages	337,189,978	347,845,647	353,664,245	361,508,443	357,722,598
Fringe Benefits	125,336,543	146,386,155	158,339,840	160,040,570	170,528,392
Payroll Taxes	26,900,012	27,455,974	27,479,403	27,336,436	28,270,593
Materials, Supplies and Services	121,716,973	134,304,402	145,355,389	162,826,552	182,943,232
Casualty & Liability	14,672,240	14,191,661	15,605,917	16,231,200	15,735,693
Purchased Commuter Rail Expenses	216,403,861	216,249,789	223,729,831	247,434,243	266,176,063
Purchased Local Service Expenses	43,985,446	49,520,600	54,572,067	60,614,115	61,531,256
Financial Service Charges	1,801,021	1,623,857	1,728,409	1,728,946	4,328,960
<b>Total Operating Expenses:</b>	<b>888,006,076</b>	<b>937,578,085</b>	<b>980,475,100</b>	<b>1,037,720,505</b>	<b>1,087,236,787</b>
<b>Debt Service Expenses</b>					
Interest	223,291,802	205,292,656	229,571,436	234,235,624	245,716,876
Principal Payments	95,651,923	113,104,925	112,722,401	116,476,024	102,567,312
Lease Payments	17,577,942	18,270,012	21,110,882	18,621,977	19,500,000
<b>Total Debt Service Expenses:</b>	<b>336,521,667</b>	<b>336,667,593</b>	<b>363,404,719</b>	<b>369,333,625</b>	<b>367,784,188</b>
<b>Total Expenses:</b>	<b>1,224,527,743</b>	<b>1,274,245,678</b>	<b>1,343,879,819</b>	<b>1,407,054,129</b>	<b>1,455,020,975</b>
<b>Surplus/(Deficit)</b>	<b>1,553,270</b>	<b>(7,207,345)</b>	<b>(4,700,400)</b>	<b>699,789</b>	<b>(19,314,748)</b>
<b>Deficiency Fund</b>	<b>(1,553,270)</b>	<b>7,207,345</b>	<b>4,700,400</b>	<b>0</b>	<b>15,000,000</b>
<b>Capital Maintenance Fund</b>					<b>4,314,748</b>
<b>Net Surplus/(Deficit)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>699,789</b>	<b>0</b>

# Organization Chart



# Rapid Transit Map



# Commuter Rail Map





