



**Massachusetts Bay  
Transportation Authority**

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## **Operating Budget Stability**

**FY17 Recast – February 13, 2017**

**Report to Fiscal and Management Control Board**



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## Overview: FY17 budget recast

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Without action, structural deficit was on track to reach \$427M by FY20

This presentation will highlight and summarize impact of the FMCB and management's actions to:

- reduce the structural deficit

- implement controls on costs

- partner with the workforce to improve productivity

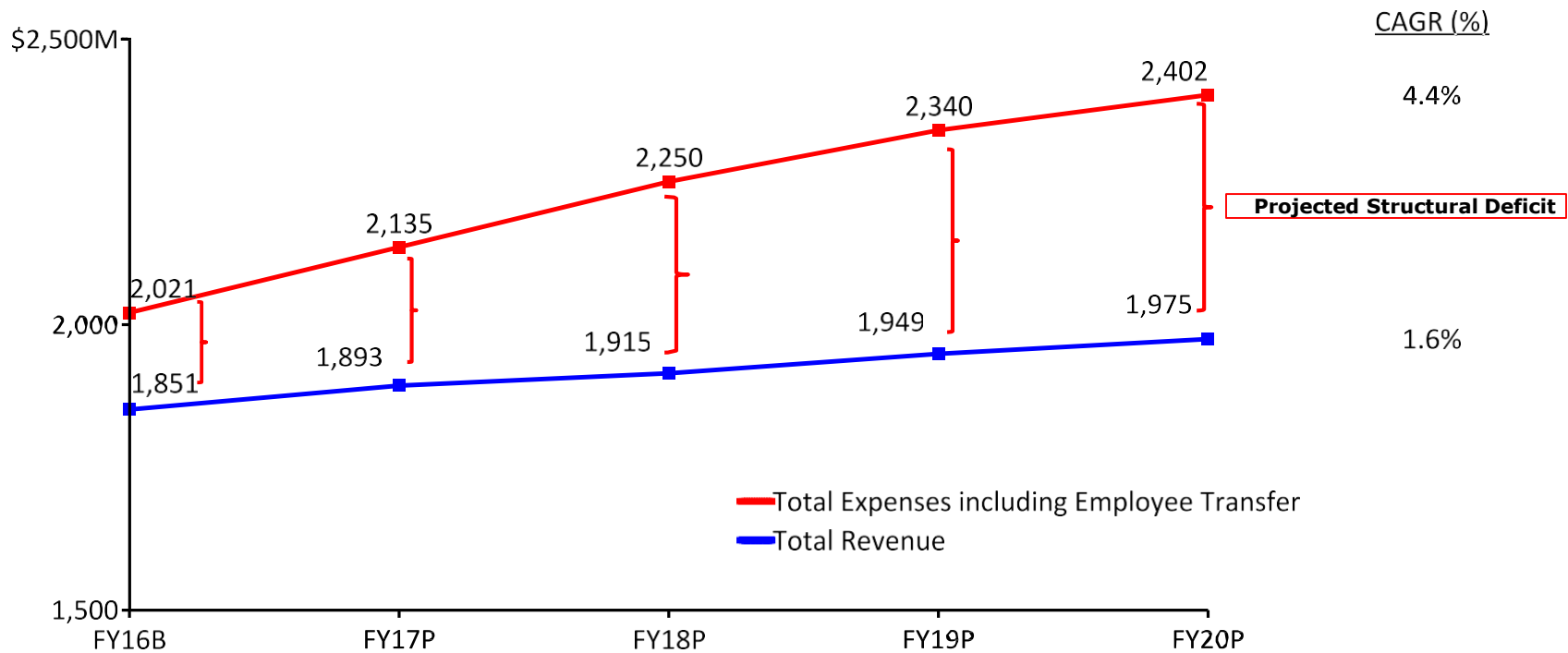
- offer reliable services to our customer at lower costs

The remaining \$50M operating deficit must be closed by the end of FY17 to put MBTA on path to fiscal stability in FY18:21.



## Without action, structural deficit was on track to reach \$427M by FY20

STATUS QUO FY17 PRO FORMA - 8.1.2015



Structural Deficit **-\$170M**  
Includes Debt Service

**-\$242M**

**-\$335M**

**-\$391M**

**-\$427M**

Note: Structural deficit includes debt service and transferred capital employees annual expense, does not include Additional State Assistance



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**FMCB statutory mandate:  
Deliver a balanced operating budget**

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**Under Section 5 of Chapter 46 of the Acts of 2015,  
the FMCB is directed to:**

*"Establish 1- and 5-year operating budgets under section 20 of chapter 161A, beginning in fiscal year 2017, which are balanced primarily through a combination of internal cost controls and increase in own-source revenues"*



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## **Tough choices: Putting MBTA on path to operating budget stability**

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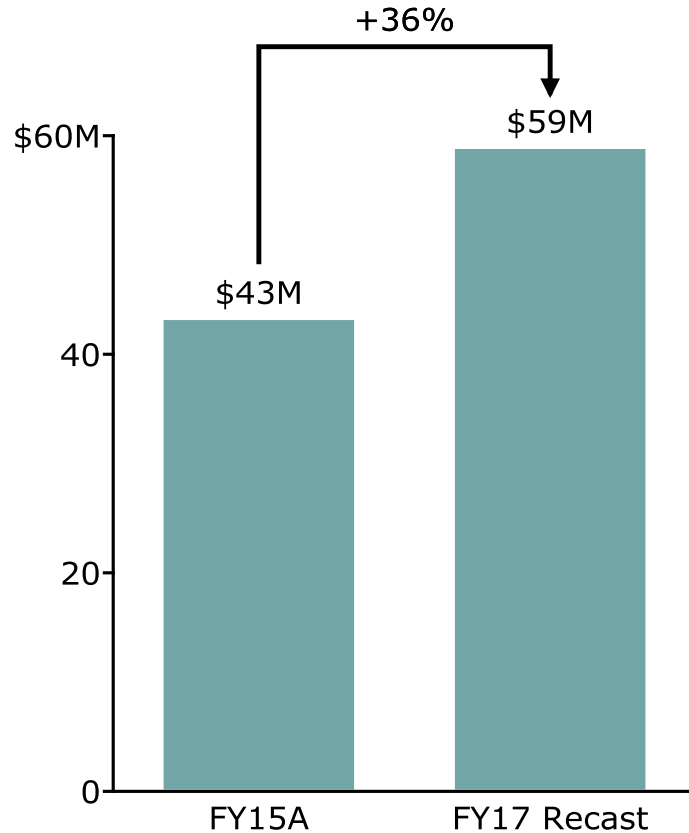
### **Management/FMCB Actions: August 2015 – January 2017**

- ✓ **Contracted-out cash handling and warehouse / logistics operations**
- ✓ **Streamlined corporate/admin headcount through first work-force action since 1991**
- ✓ **Raised system-wide fares by an average of 9.3% and rebid parking/advertising contracts**
- ✓ **Re-negotiated L589 Carmen's Union contract to reduce wage expense / drive productivity**
- ✓ **Revamped and enforced overtime policies, hired TPA to manage FMLA/ADA**
- ✓ **Launched first-in-nation Uber/Lyft pilot for RIDE customers, consolidated dispatch ops**
- ✓ **Ended late night service pilot due to declining ridership and high subsidy per trip**
- ✓ **Locked in long-term electricity rates and hedged other commodity exposure**
- ✓ **Refinanced and restructured all available long-term debt thru competitive process**



## Early results positive: Own-source revenues on track for 36% growth over FY15

### MBTA Own-Source Revenue



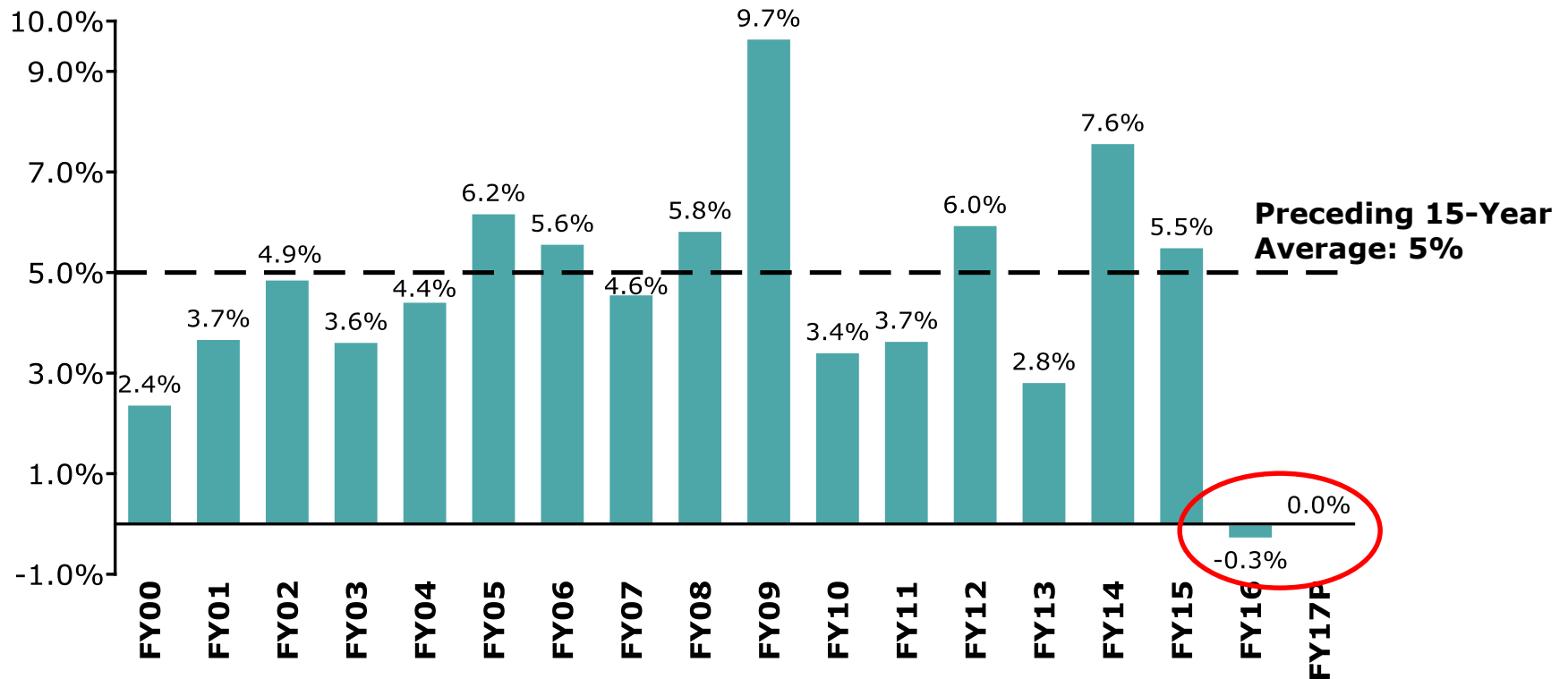
Competitive rebid process  
drove best value for MBTA





## Early results positive: Operating expenses on track for lowest growth lowest in 15 years

Annual operating expense growth rate  
(excluding debt)



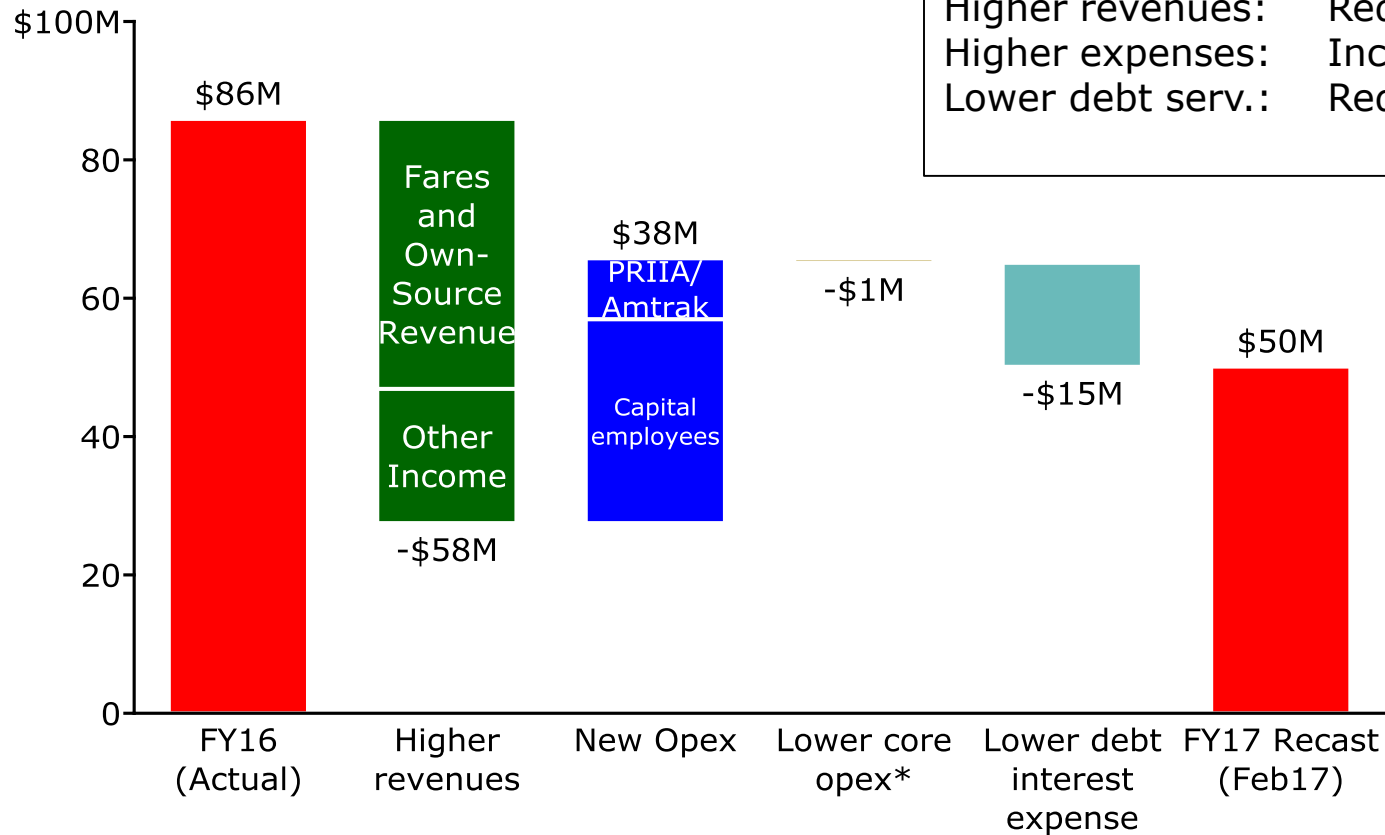
Note: For comparative purposes, FY17 core operating expenses do not include new Amtrak/PRIAA expenses or capital employees transferred in FY17

Note: Energy costs forecast to be \$8M less in FY17 than in FY16



## FY17 compared to FY16: Revenues, core operating expenses and interest expenses - favorable

MBTA Operating Deficit



Operating Deficit Impacts

Higher revenues: Reduce deficit  
Higher expenses: Increase deficit  
Lower debt serv.: Reduce deficit

Fare recovery ratio: 41%

43%

\*Core opex does not include Amtrak/PRIAA expenses or capital employee transfers for FY17  
Note: Energy costs forecast to be \$8M less in FY17 than in FY16





## FY17 compared to FY16: Operating deficit forecast to decrease by 40%

### YTD FY17 PERFORMANCE AGAINST FY17 BUDGET

(\$M)

	<b>FY16 ACTUAL</b>	<b>FY17 RECAST 2/2017</b>	<b>\$ VARIANCE</b>	<b>% VARIANCE</b>
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REVENUES

Operating Revenues	\$678.5	\$717.4	\$38.9	5.7%
Non-Operating Revenues	\$1,183.7	\$1,203.1	\$19.4	1.6%
<b>Total Revenues</b>	<b>\$1,862.1</b>	<b>\$1,921.5</b>	<b>\$58.4</b>	<b>3.1%</b>

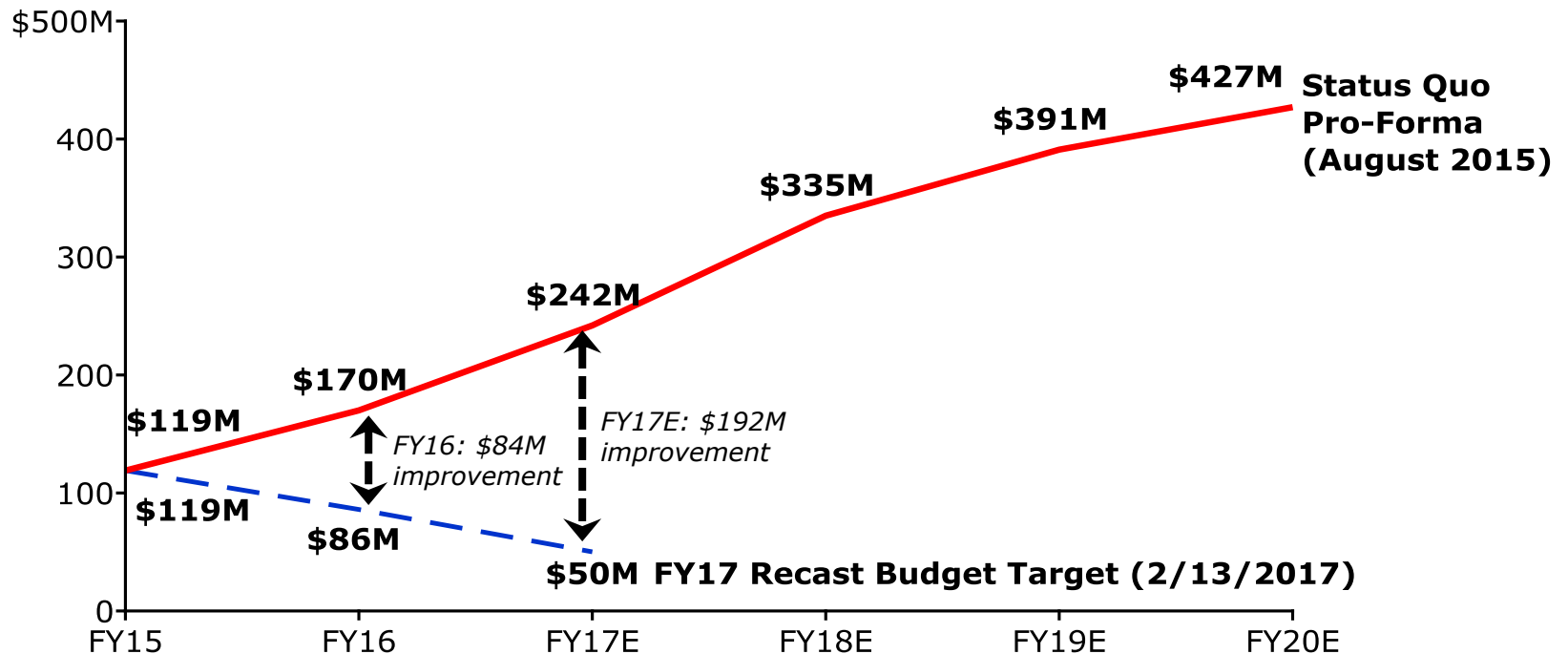
EXPENSES

Core Wages, Benefits and Payroll Taxes	\$735.7	\$737.5	\$1.8	0.2%
Non-Wage	\$768.6	\$766.1	(\$2.5)	-0.3%
<b>Core Operating Expenses</b>	<b>\$1,504.3</b>	<b>\$1,503.6</b>	<b>(\$0.7)</b>	<b>0.0%</b>
Capital Transfer Employees	-	\$29.5	\$29.5	-
PRIIA/Amtrak	-	\$8.8	\$8.8	-
<b>New Operating Expenses</b>	<b>-</b>	<b>\$38.3</b>	<b>\$38.3</b>	<b>-</b>
<b>Total Operating Expenses</b>	<b>\$1,504.3</b>	<b>\$1,541.9</b>	<b>\$37.6</b>	<b>2.5%</b>
<b>Debt Service</b>	<b>\$443.7</b>	<b>\$428.7</b>	<b>(\$15.0)</b>	<b>-3.4%</b>
<b>Total Expenses</b>	<b>\$1,948.0</b>	<b>\$1,970.6</b>	<b>\$22.6</b>	<b>1.2%</b>
<b>Structural Deficit</b>	<b>(\$85.9)</b>	<b>(\$50.1)</b>	<b>\$35.8</b>	<b>-41.7%</b>



## Early results positive: Operating deficit continues to decrease

### Structural Operating Deficit

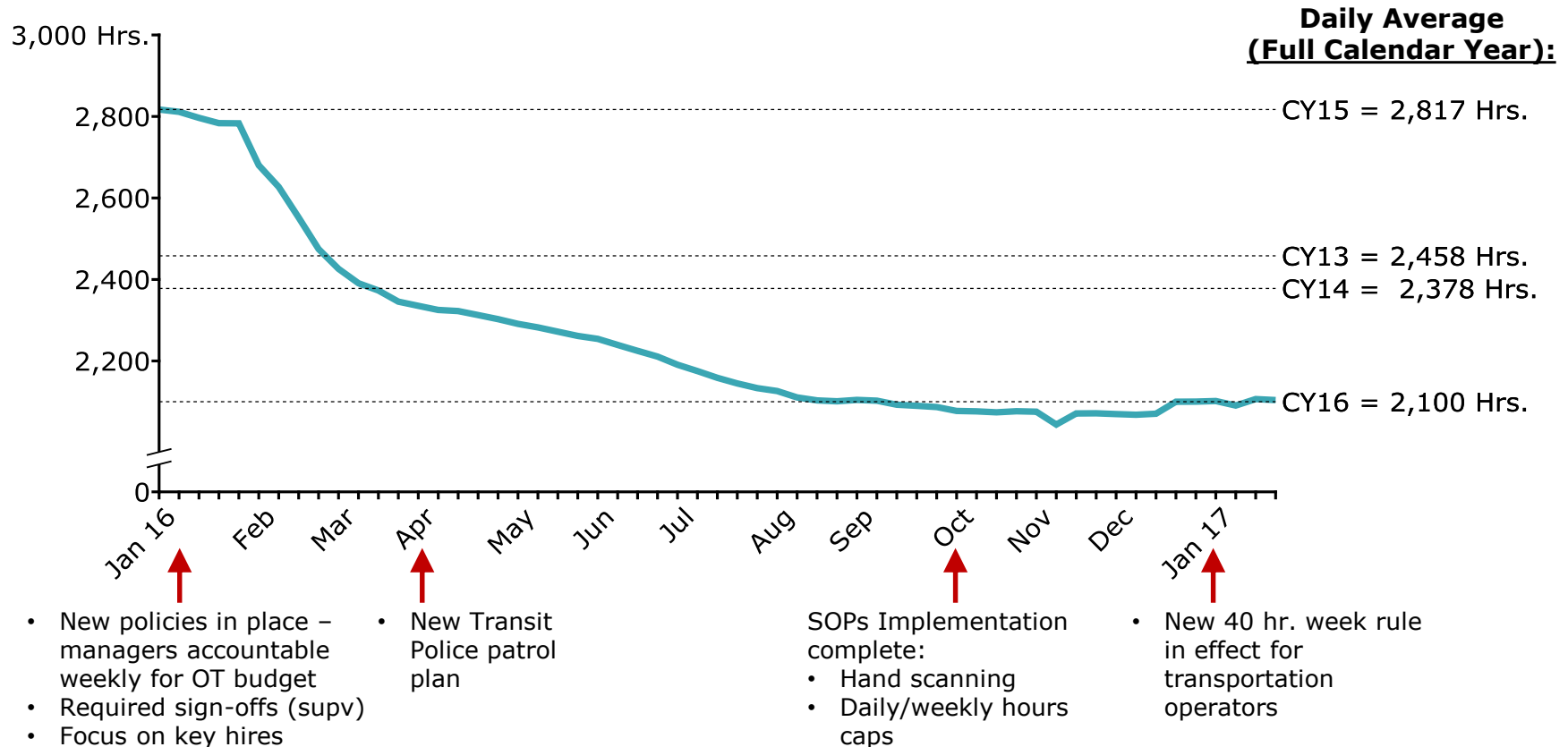


Note: MBTA management in process of recasting FY18-FY20. Operating Deficit does not include Additional State Assistance (operating) of \$155M in FY16 and \$187M in FY17



## Early results positive: Daily operating overtime hours running below 2013 and 2014 levels

Average Operating OT Hours per Day (TTM\*)

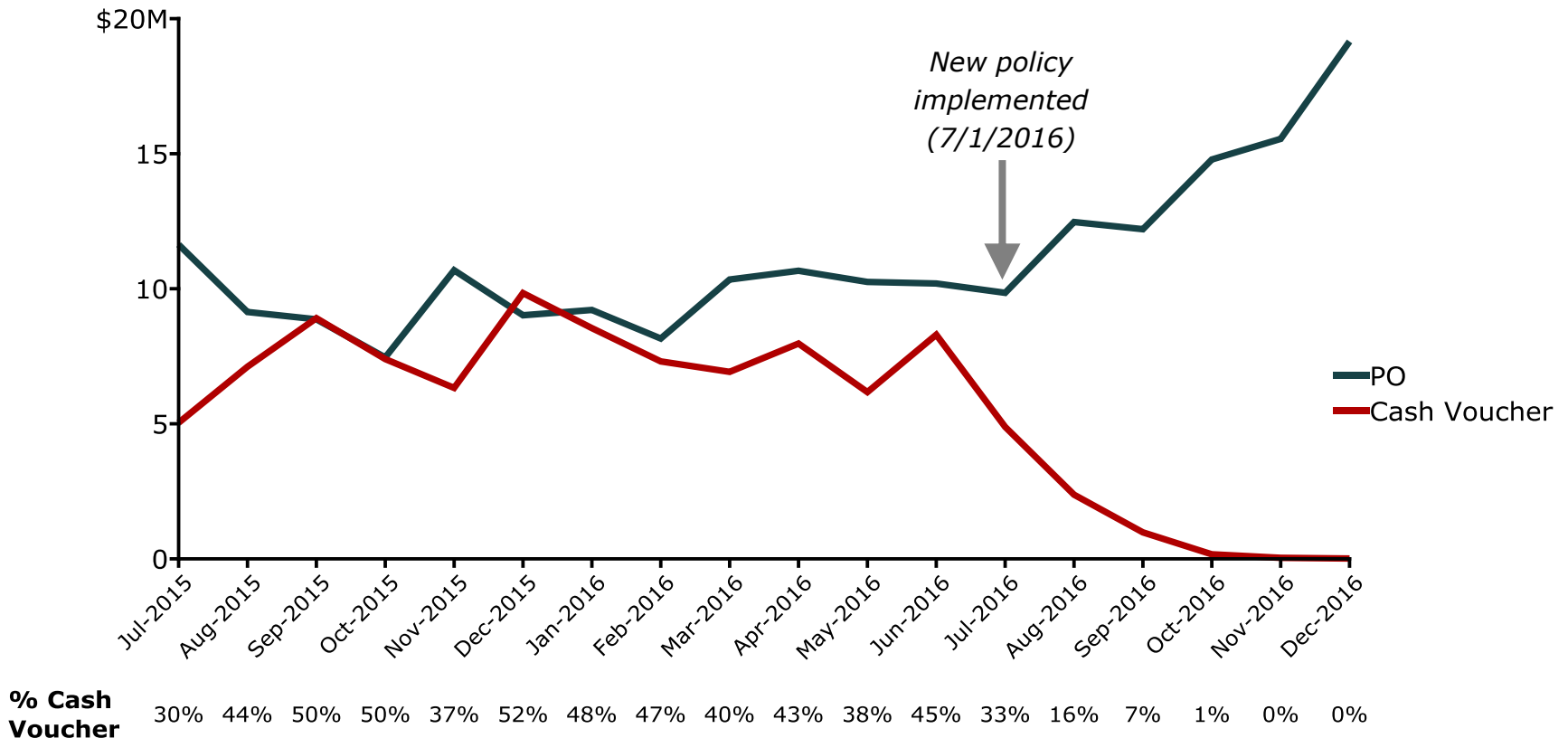


\*Trailing twelve months (TTM) computes the average for the past year from a particular point in time  
Source: MBTA Internal Data



## Early results positive: Ending use of cash vouchers drives transparency on spending

MBTA Operating Budget Materials and Services Spend

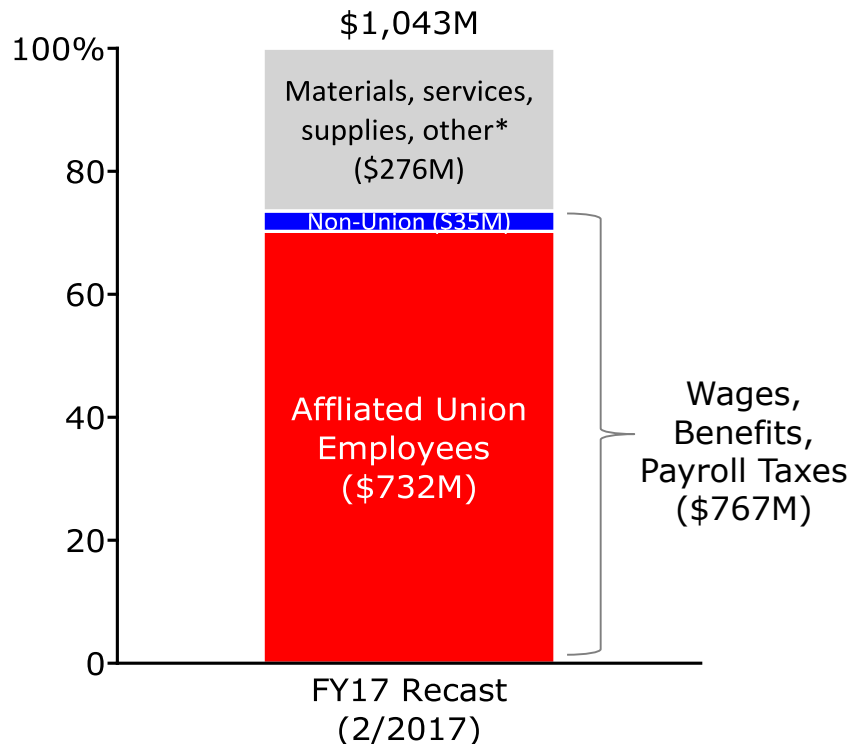


Source: MBTA Internal Data



## Delivering a balanced FY18 budget: 74% of internal operating expenses are wages/benefits

FY17 Operating Expenses  
(excluding Debt Services, Keolis and the RIDE)



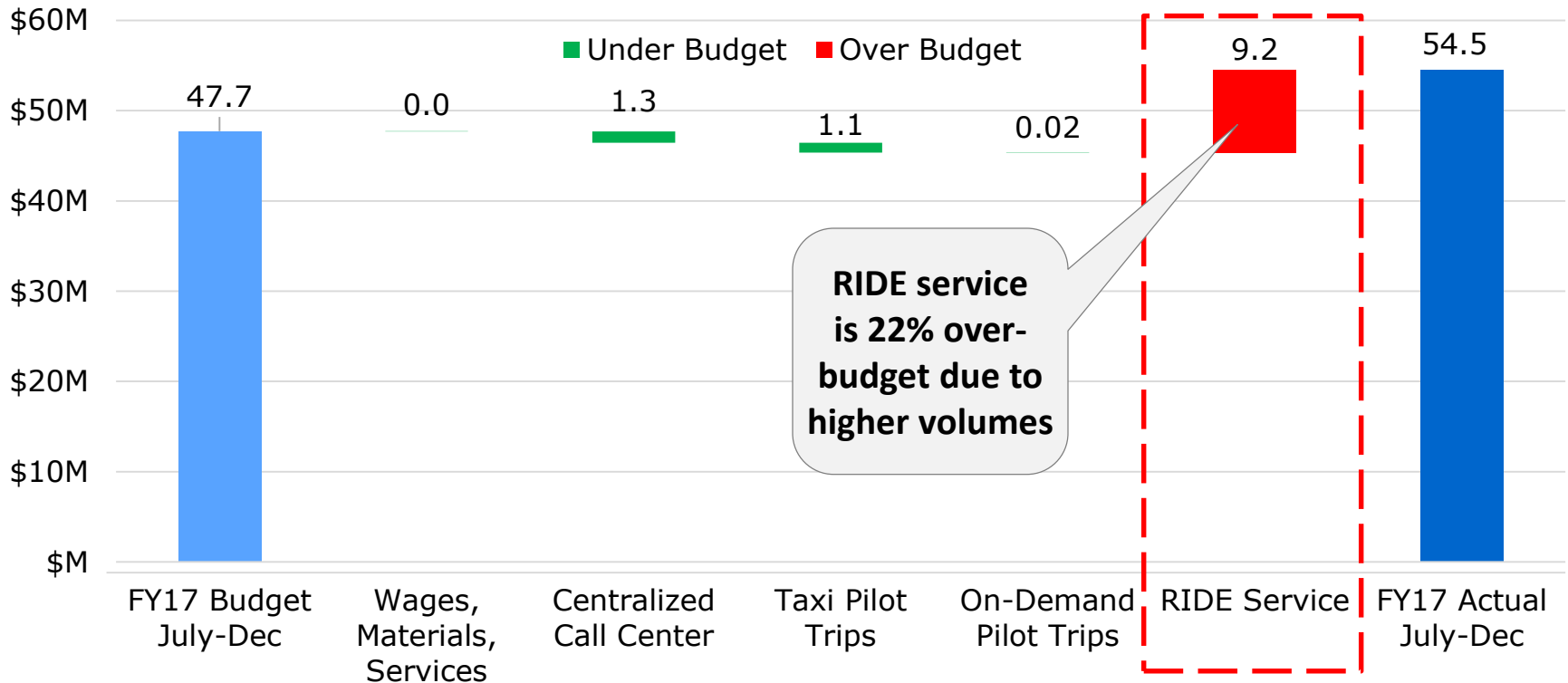
- 70% of total internal operating expenses are wages/benefits for union employees whose wages rates and work-rules are governed by CBAs
- 12/19 agreement reduced annual L589 wage expense in 4 ways:
  - 15% lower wage rate for new hires
  - 1.6% ATB (across 4.5 years)
  - 40 hour OT trigger
  - Path to elimination of 200 positions (money room / warehouse / temporary CSAs)
  - Path for MBTA to contract-out future expansion service (late night / bus expansion / diversions)
- Closing FY18 operating deficit will require more tough choices on wage/benefits
  - Lower headcount (through both productivity and flex contracting)
  - Lower wage rates for new hires
  - Work-rule reform

\*Includes financial services charges, casualty & liability expenses, and PRIAA/Amtrak  
Source: MBTA Internal Data



## Delivering a balanced FY18 budget: RIDE is on track to be more than \$10M over budget in FY17

### FY17 Budget vs. Actual



FY17 Budget by Category July-Dec	\$2.0M	\$2.8M	\$1.1M	\$0M <sup>1</sup>	\$41.7M
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<sup>1</sup>The On-Demand Paratransit Pilot did not exist at the initial time of budgeting. Under/Over budget for this pilot is based on comparison to a customer's baseline cost to provide trips. Currently, pilot is saving the MBTA \$18K.

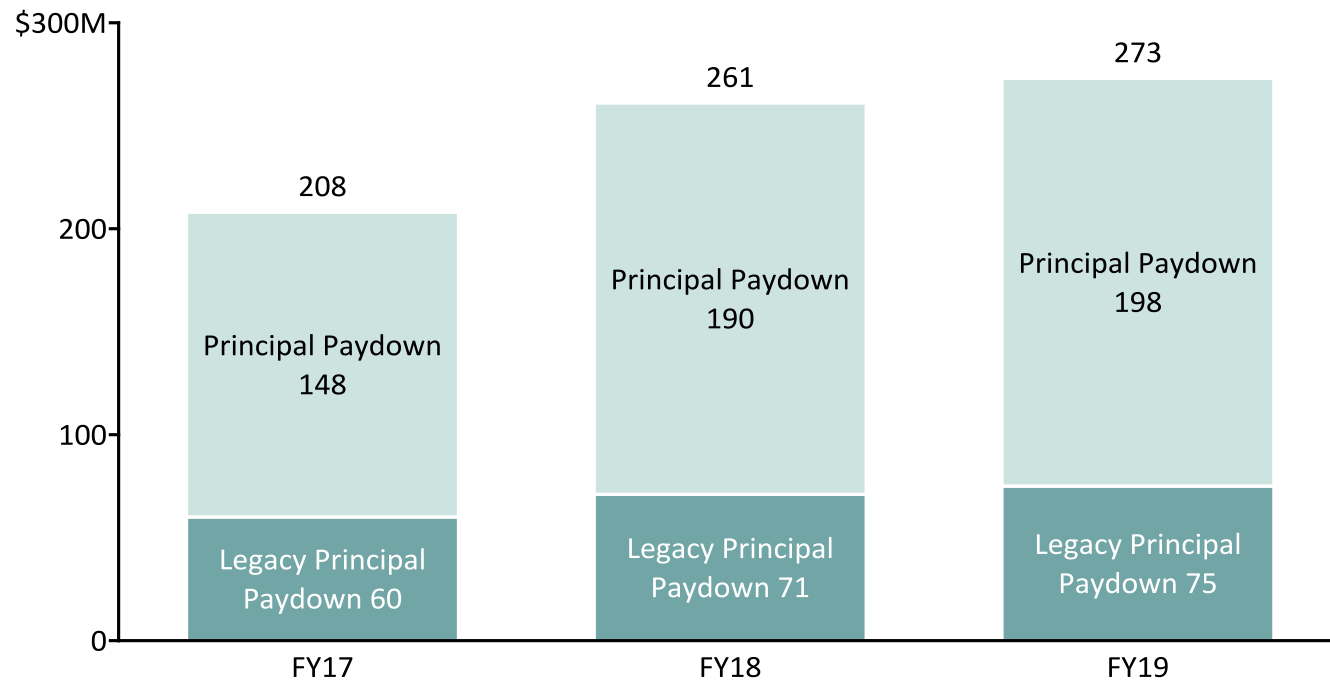


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## Challenge ahead: Scheduled debt amortization will increase \$53M in FY18

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### Debt Service



Source: MBTA Internal Data

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## Delivering a balanced FY18 budget: The path forward

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***Remaining \$50M operating deficit must be reduced or closed by the end of FY17 to put MBTA on path to fiscal stability in FY18:21. Areas of focus:***

### **Revenue**

- **Commuter Rail Revenue**: Keolis has proposed a strategy to drive revenue growth through enhanced fare collection (with KCS to put up the capital)
- **Parking**: New vendor, Republic, taking over contract in April 17. New contract will provide incentives to increase revenues through capacity optimization and pricing changes and to reduce operating expenses through technology
- **Advertising**: New Vendor, OUTFRONT Media, is in process of rolling out 700 new digital screens and will propose ideas for maximizing advertising revenues

### **Expenses**

- **Wages & Benefits**: 74% of MBTA non-debt operating expenses (excluding Keolis/RIDE) – continued focus on headcount reduction through streamlining / productivity. Encourage other MBTA unions to submit proposals
- **Flexible contracting**: Money room and warehouse contracts executed. Call center target contract by 3/15. AFC 2.0 in process (24 months). Bus maintenance, police dispatch, non-revenue fleet management and temporary CSAs in process
- **Low ridership services/High Subsidy Services**: Weekend commuter rail and non-ADA (discretionary) premium RIDE services. Low ridership bus being addressed through service planning process





## FY17 Recast compared to FY17 Budget

### YTD FY17 PERFORMANCE AGAINST FY17 BUDGET

(\$M)

**FY17 BUDGET  
APPROVED  
4/2016**

**FY17 RECAST  
2/2017**

**\$  
VARIANCE**

**DRIVERS**

**REVENUES**

Operating Revenues	\$722.7	\$717.4	(\$5.3)	Own source revenue
Non-Operating Revenues	\$1,218.9	\$1,203.1	(\$15.8)	Lower sales tax, resulting in receiving BRA
<b>Total Revenues</b>	<b>\$1,941.5</b>	<b>\$1,920.5</b>	<b>(\$21.0)</b>	

**EXPENSES**

Wages, Benefits and Payroll Taxes	\$784.1	\$767.0	(\$17.2)	Lower headcount
Non-Wage	\$779.6	\$766.1	(\$13.5)	Cost controls
PRIIA/Amtrak	-	\$8.8	\$8.8	New Agreement
<b>Operating Expenses</b>	<b>\$1,563.7</b>	<b>\$1,541.9</b>	<b>(\$21.8)</b>	
<b>Debt Service</b>	<b>\$458.1</b>	<b>\$428.7</b>	<b>(\$29.4)</b>	Debt strategy
<b>Total Expenses</b>	<b>\$2,021.9</b>	<b>\$1,970.6</b>	<b>(\$51.3)</b>	

**Structural Deficit (\$80.4) (\$50.1) \$30.3**