

Tough Choices

FY17 Structural Operating Deficit Discussion

12/14/2015

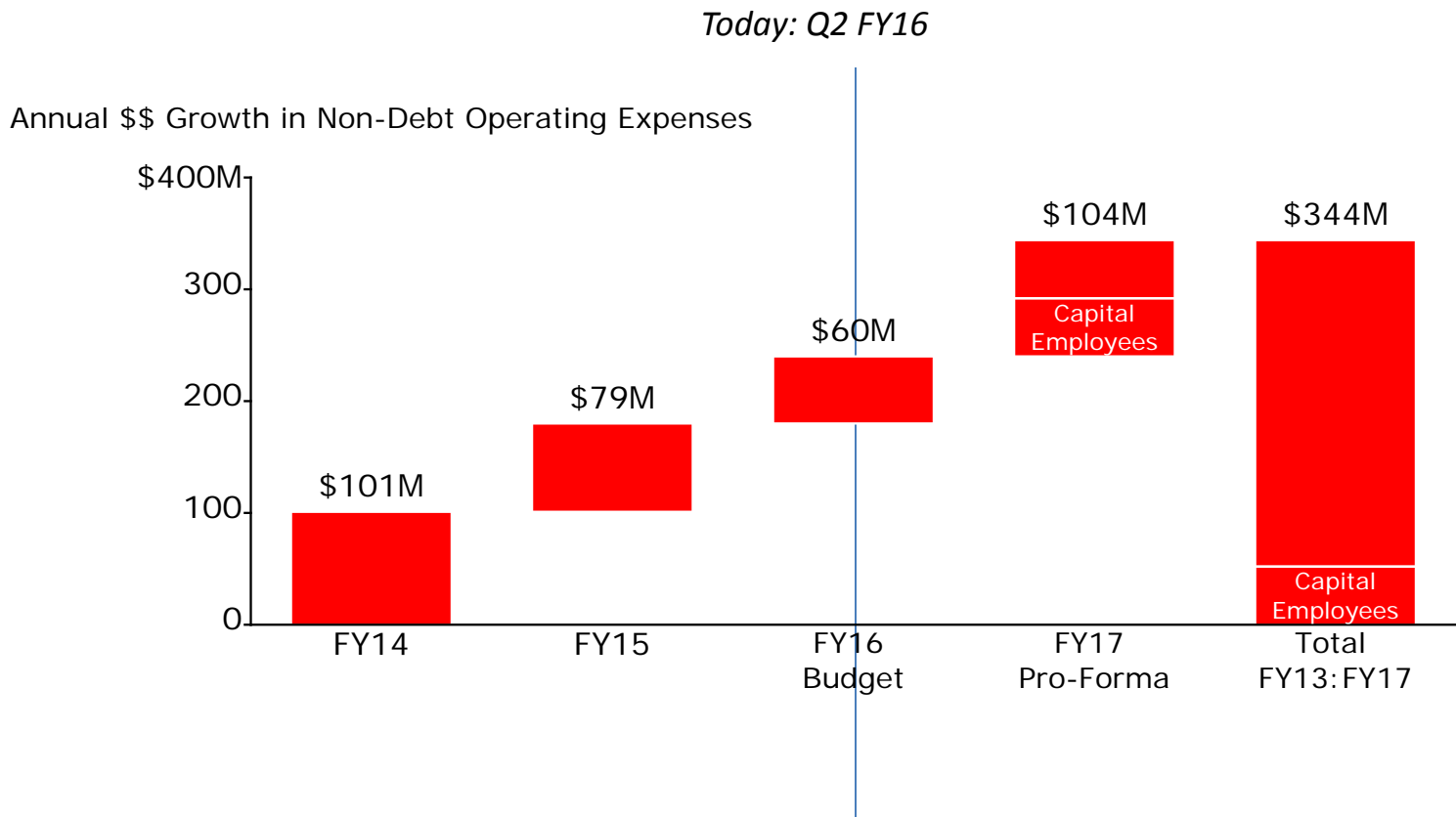
FMCB Statutory Mandate to Deliver Balanced FY17 Operating Budget

- 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”

Without immediate action, MBTA operating expenses forecast to increase by \$164M in FY16 & FY17

STATUS QUO FY17 PRO-FORMA



Without action, projected structural deficit will reach \$427M by FY20

STATUS QUO FY17 PRO FORMA

NOT INCLUDING ADDITIONAL STATE ASSISTANCE OF \$187M in FY2016B



Note: Structural deficit includes debt service and transferred capital employees annual expense (scaling from \$52M in FY17 to \$88M in FY20)

Core principles

- Consistent with the FMCB enabling legislation, propose a path to balancing the FY17 structural deficit
- Aim to maximize own-source revenues and align the future rate of operating cost growth with the rate of revenue growth
- Act immediately in the 2H of FY16 to take actions that can reset our structural deficit baseline for FY17 - the longer we wait to act decisively on a reset, the worse the problem will become
- Focus on opportunities to reduce our internal cost structure (in particular, our non-operator and corporate staffing) and operate more efficiently
- Invest operating cost savings into investment in the core system (SGR, technology, customer-facing improvements) that can significantly improve the customer experience and put the MBTA on a path to fiscal sustainability

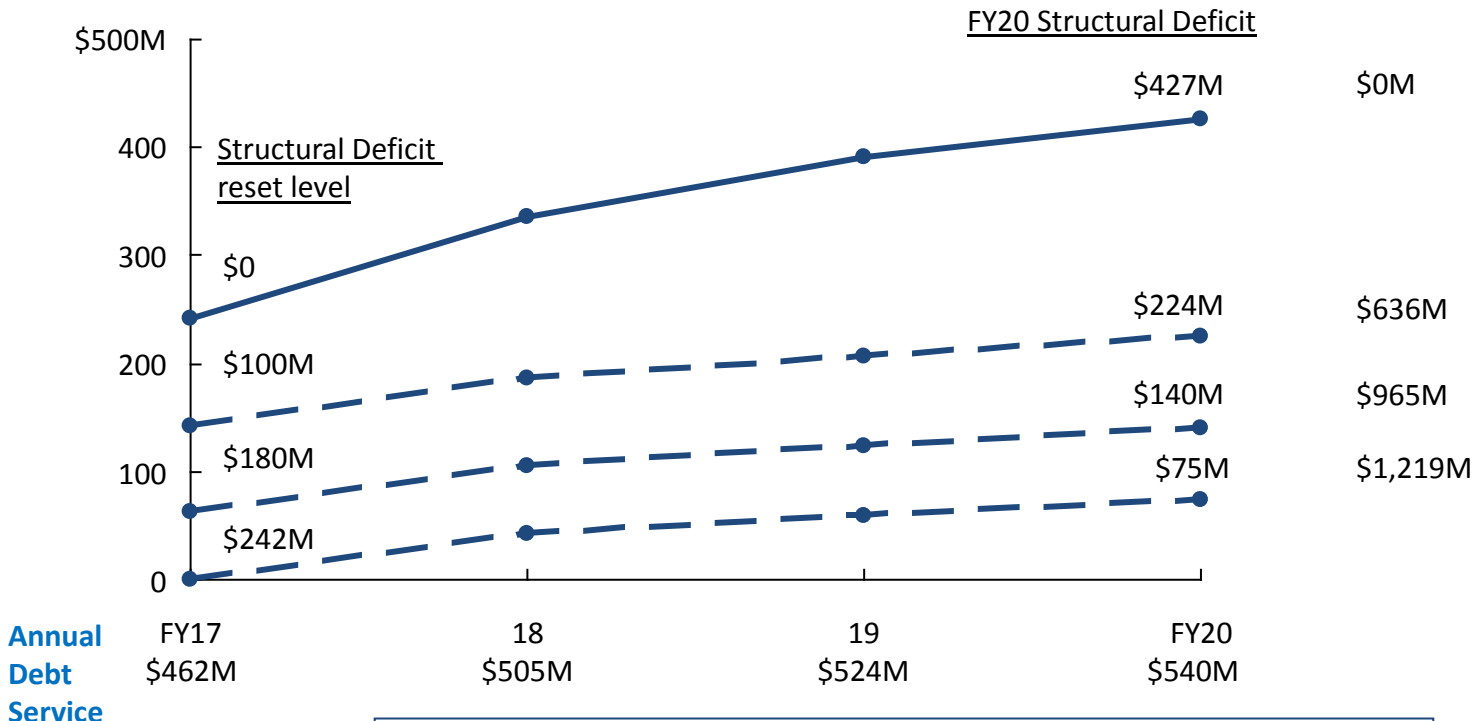
Immediate action to address structural deficit could yield \$1.2B of cumulative operating budget savings over 4 years

ILLUSTRATIVE – FOR DISCUSSION PURPOSES

2.0% opex growth scenario

Structural deficit (including debt service expense)

Cumulative operating savings



- Assuming:**
- FY17-20 1.6% per annum growth for all revenue (including own-source, fare, sales tax, and state assistance)
 - FY17-20 2.0% per annum growth for non-debt opex
 - Contractual debt service payments grow as projected in pro-forma from \$462M in FY17 to \$540M in FY20 (\$78M total increase over 4 years)

Immediate actions can impact the 2H of FY16 and bend the cost curve:

Initial list of revenue/cost options

● Budget recasting ● Own-source revenue ● Cost control ● Service adjustments ● Fare revenue

	Initiative	Range of impact (low-high) ¹ \$M	
Reducing FY2016 2H deficit, and resetting FY2017 baseline \$80-106M	1 Budget recast: Elimination of non-essential spending increases in status-quo pro forma	35.7	35.7
	2 Budget recast: Department head-specified reductions in materials, services, supplies	3.7	14.8
	3 Budget recast: Department head-specified elimination of unfilled / vacant positions	15.5	15.5
	4 Discontinue late night bus and subway service Pilot (12am-2am Friday and Sat Nights)	10.0	14.8
	5 Advertising full potential: allow alcohol ads	1.5	2.0
	6 Advertising full potential: aggressive growth target for urban panels, station and line sponsorship	4.8	8.3
	7 Real estate full potential: aggressive growth target for concessions, telecom, land rentals, billboards (excludes long term leases/sales)	3.1	4.0
	8 RIDE reform: Eliminate non-ADA premium trips outside of ADA required service areas	5.2	10.4
	TOTAL	79.5	105.5
Changes impacting FY2017 \$37-70M ²	9 Target full potential to optimize parking revenue (with assistance of outside firms with experience optimizing revs)	6.7	9.9
	10 Aggressively market corporate pass (RFI in process to find a sales/marketing partner to promote corporate pass)	0.0	1.0
	11 Negotiate work rule adjustment to collective bargaining agreement for overtime / spread-time rules	3.8	7.5
	12 Freeze wages for non-union workforce (included in status-quo pro forma)	0.0	0.0
	13 Negotiate a one-time deferral of 1.0% collectively bargained FY17 wage increase	2.6	5.2
	14 Negotiate a one-time deferral of 1.5% collectively bargained FY17 wage increase (incremental increase to #13)	1.3	2.7
	15 Negotiate a one-time deferral of 2.5% of collectively bargained FY17 wage increase (incremental increase to #13, #14)	1.5	3.0
	16 Modernize Charlie Card store, focus store on senior population, transition all card exchanges to mail-in	0.6	0.7
	17 RIDE reform: shift 30% of Ride participants to taxis, ride-sharing and fixed route	12.8	25.5
	18 Adjust weekend commuter rail service (requires Keolis contract adjustment , scope change, and public comment period)	7.8	14.4
	19 Increase fares (beyond the 5% included in FY17 status-quo pro-forma) and increase link pass multiple	TBD	TBD
	20 RIDE reform: Increase fare for ADA and non-ADA rides	TBD	TBD
	21 Develop an incentive plan for retirement eligible employees in targeted departments with strict backfill limits	TBD	TBD
	22 Shift all automated revenue collection and handling operations (AFC, money-room, card sales) to AFC vender	TBD	TBD
	23 Modernize procurement operations, leveraging outside parties to help optimize materials management	TBD	TBD
	CUMULATIVE TOTAL²	116.6	175.4
Policy options	24 Adjust service on lowest ridership, highest cost per-trip bus routes	TBD	TBD
	25 Bus maintenance reform: 10% cost reduction (outside firm currently working on recommendations)	TBD	TBD
	26 Bus maintenance reform: 20% cost reduction (outside firm currently working on recommendations) (incremental to #25)	TBD	TBD
	27 Bus maintenance reform: 30% cost reduction (outside firm currently working on recommendations) (incremental to #25, #26)	TBD	TBD



1 Run-rate annualized operating budget impact when the initiative is fully implemented. 2 One-time wage deferrals #13, #14, and #15 are cumulative.

Action on initiatives 1-8 forecast to reduce FY17 structural deficit by \$80M to \$106M

DRAFT

Reducing
FY2016 2H
deficit, and
resetting
FY2017
baseline
\$80-106M

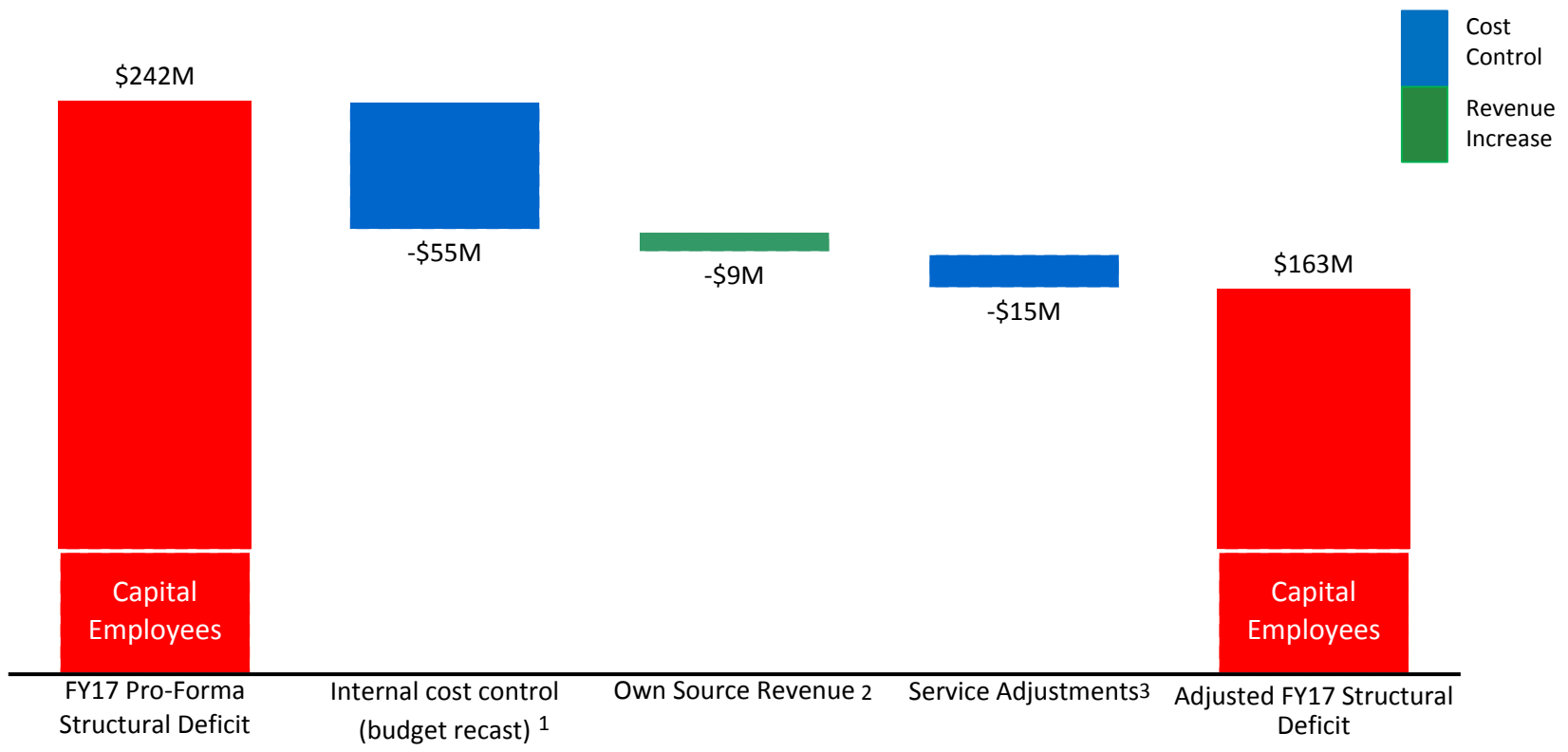
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8 RIDE reform: Eliminate non-ADA premium trips outside of ADA required service areas ²	5.2	10.4
Total	79.5	105.5

 Cost Control
 Revenue Increase

1 Run-rate annualized operating budget impact when the initiative is fully implemented. 2 The Ride currently provides service to Dover, Medfield, Middleton, and Topsfield despite being under no ADA obligation to provide service. The Ride also provides full geographic service to 10 towns where ADA requirements cover less than 25% of the town's area. These 10 towns are: Concord and Sharon (both 2% coverage), Cohasset (7%), Lynnfield (9%), Wellesley and Wilmington (both 10%), Wenham (15%), Weston (16%), Lincoln (17%), and Westwood (23%)



Immediate action on initiatives #1-#8 would bend the cost curve in 2HFY16 and could reduce the FY17 structural deficit from \$242M to \$163M



1 Initiatives #1, #2, #3.
 2 Initiatives #5, #6, #7.
 3 Initiatives #4, #8.

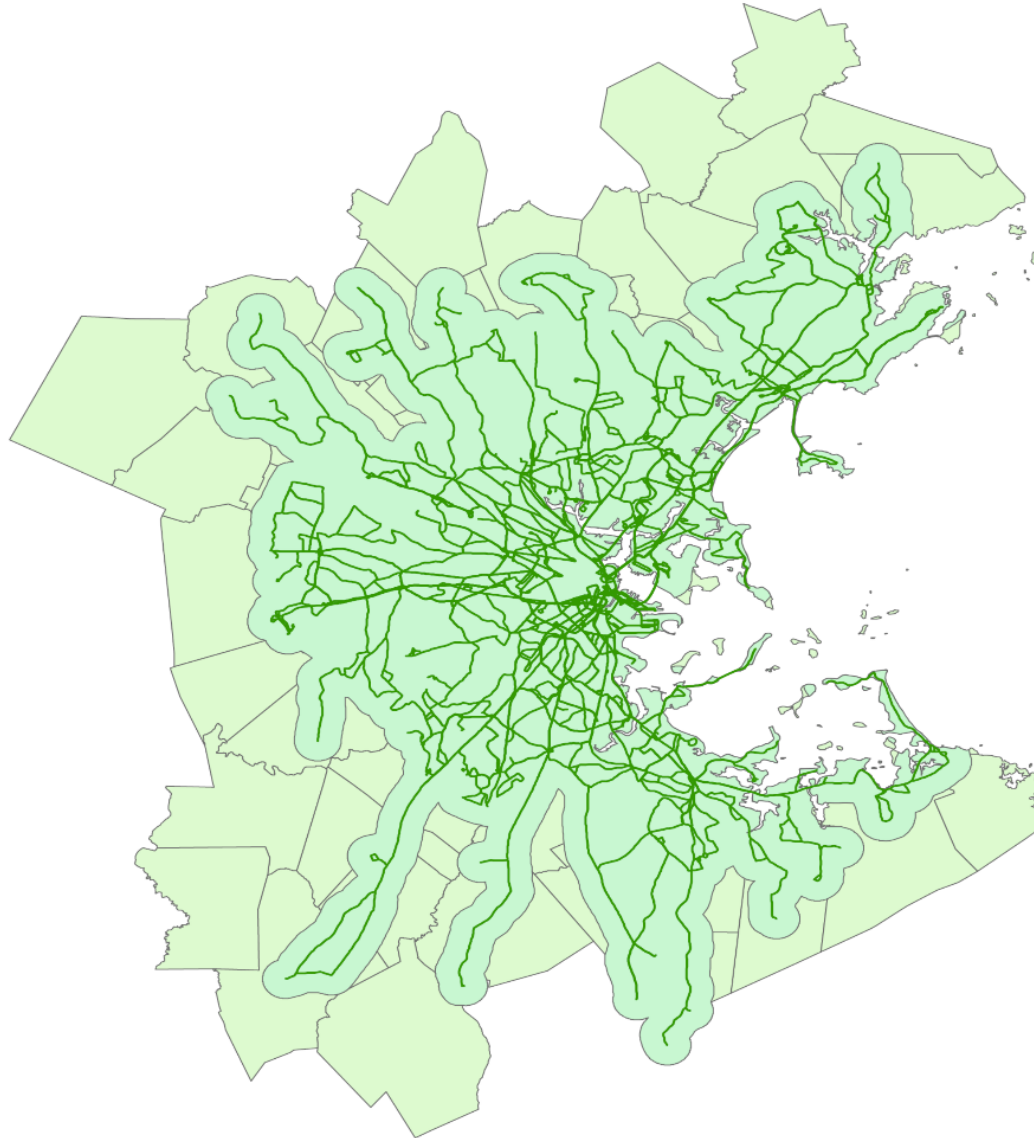
Analysis assumes we achieve the lower end of forecast cost/revenue opportunities on slide 8 (\$79.5M)

Backup

Realigning to the ADA-mandated service area

- The RIDE currently provides service outside of the ADA-mandated geographic area
- 210,000 trips annually are outside the mandated geographic area, with another 40,000 same-day premium trips annually
- The RIDE currently provides service to Dover, Medfield, Middleton, and Topsfield, despite being **under no ADA obligation to provide service**
 - There are a further 10 towns where ADA requirements cover less than 25% of the town's area, yet the RIDE provides service to the entire town¹

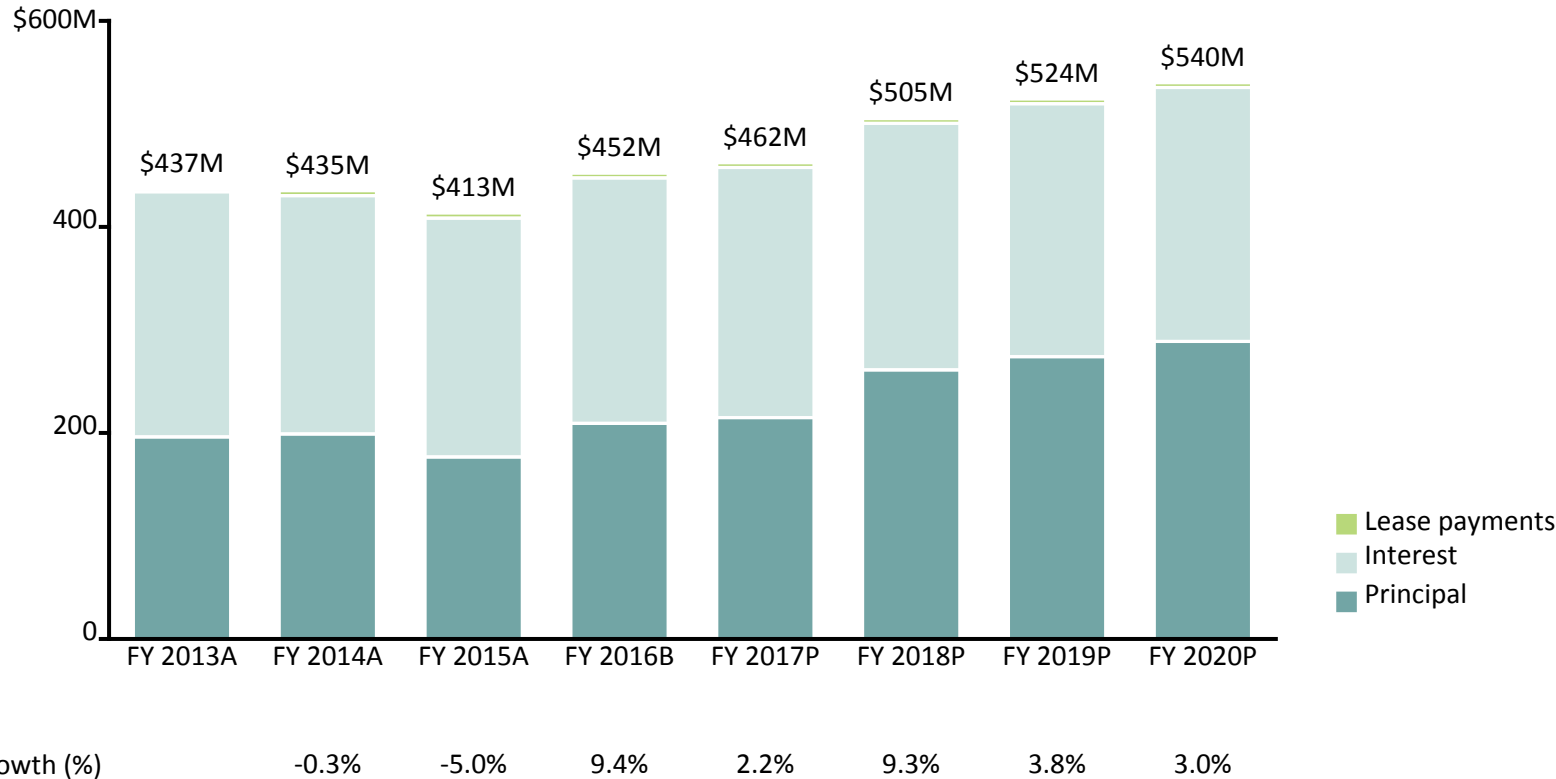
¹ These 10 towns are: Concord and Sharon (both 2% coverage), Cohasset (7%), Lynnfield (9%), Wellesley and Wilmington (both 10%), Wenham (15%), Weston (16%), Lincoln (17%), and Westwood (23%)



Required ADA service area at peak service

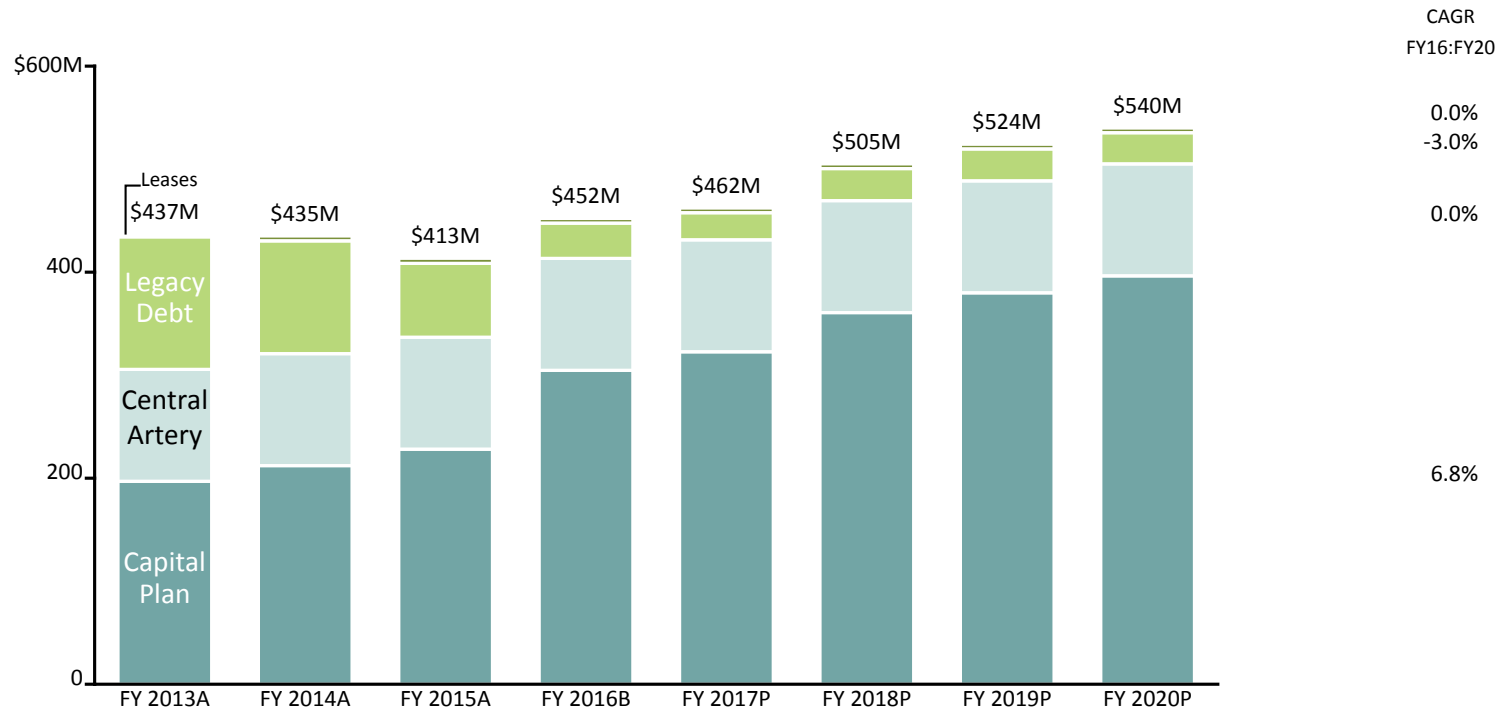
Debt Service Payments are Split Roughly Evenly Between Principal and Interest

MBTA Annual Debt Service



Debt Service Payments Split Between Debt for Capital Plan, Legacy Debt and Central Artery Debt

MBTA Annual Debt Service



Legacy Debt	129	109	72	34	26	31	31	30
Central Artery	109	109	109	109	109	109	109	109
Capital Plan	197	212	228	305	323	361	380	396

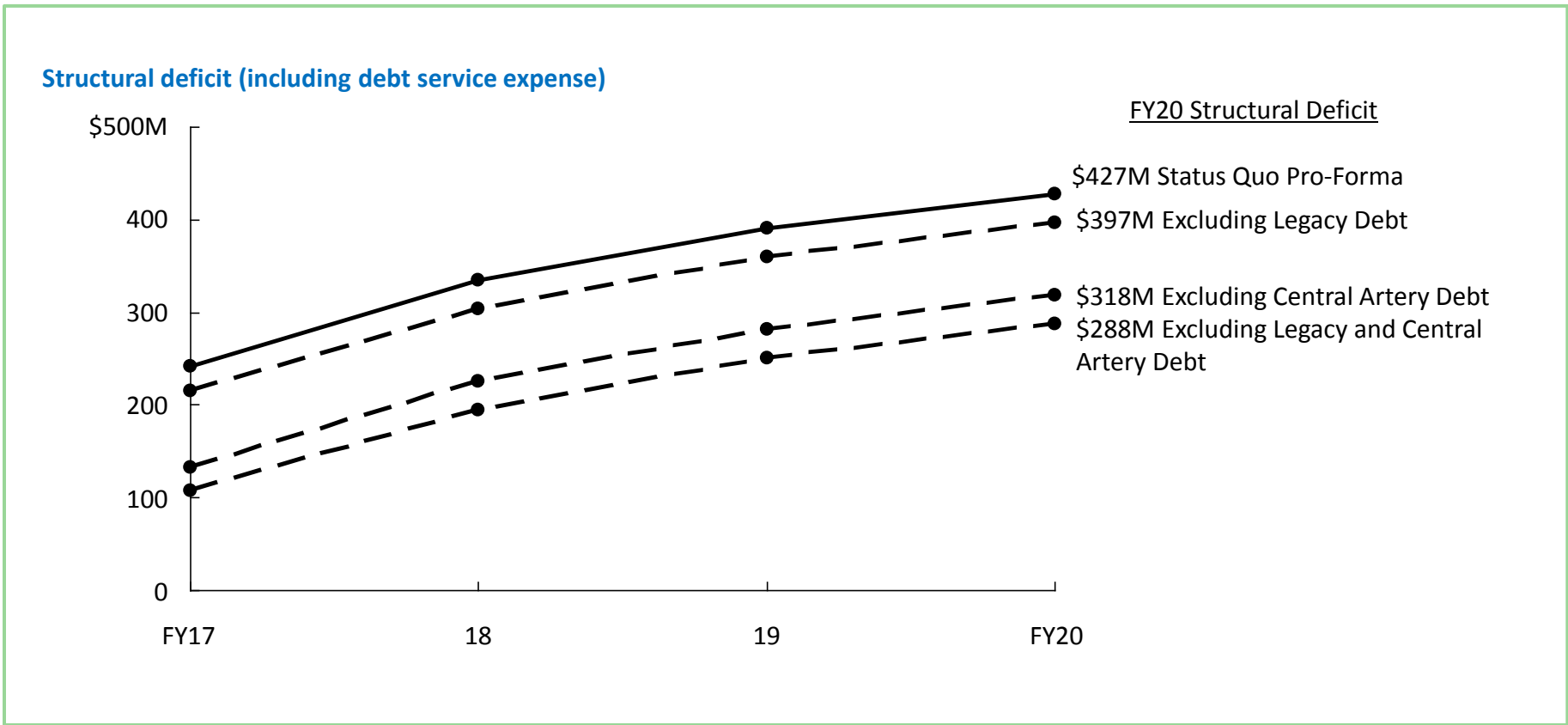
Note: Central Artery Debt refers to Financing Related to the Big Dig Project. Legacy Debt refers to debt inherited at the start of Forward Funding.

Source: MBTA Internal Data



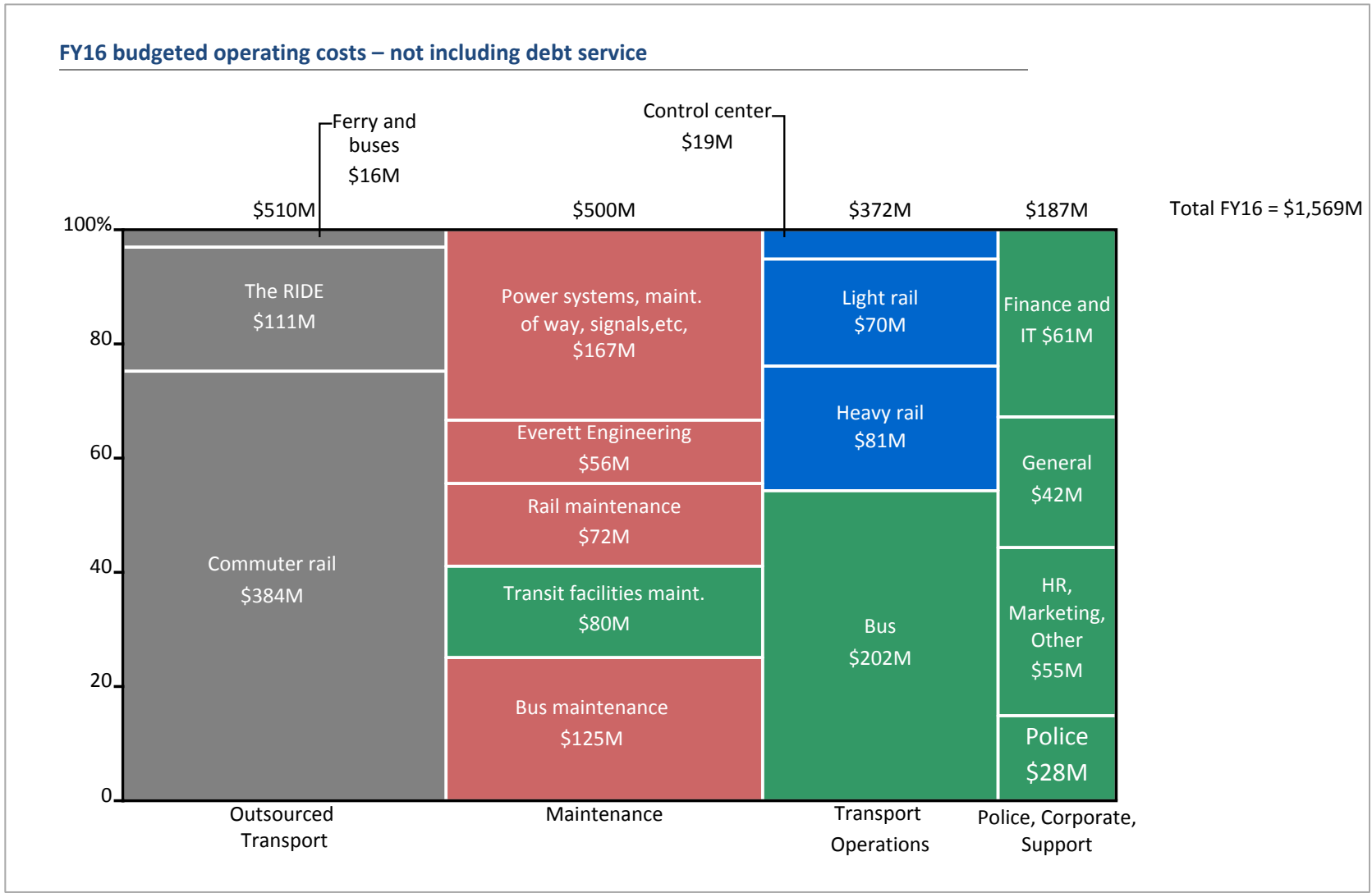
FY20 structural deficit if legacy debt, central artery debt, or both legacy and central artery debt are excluded

ILLUSTRATIVE – FOR DISCUSSION PURPOSES



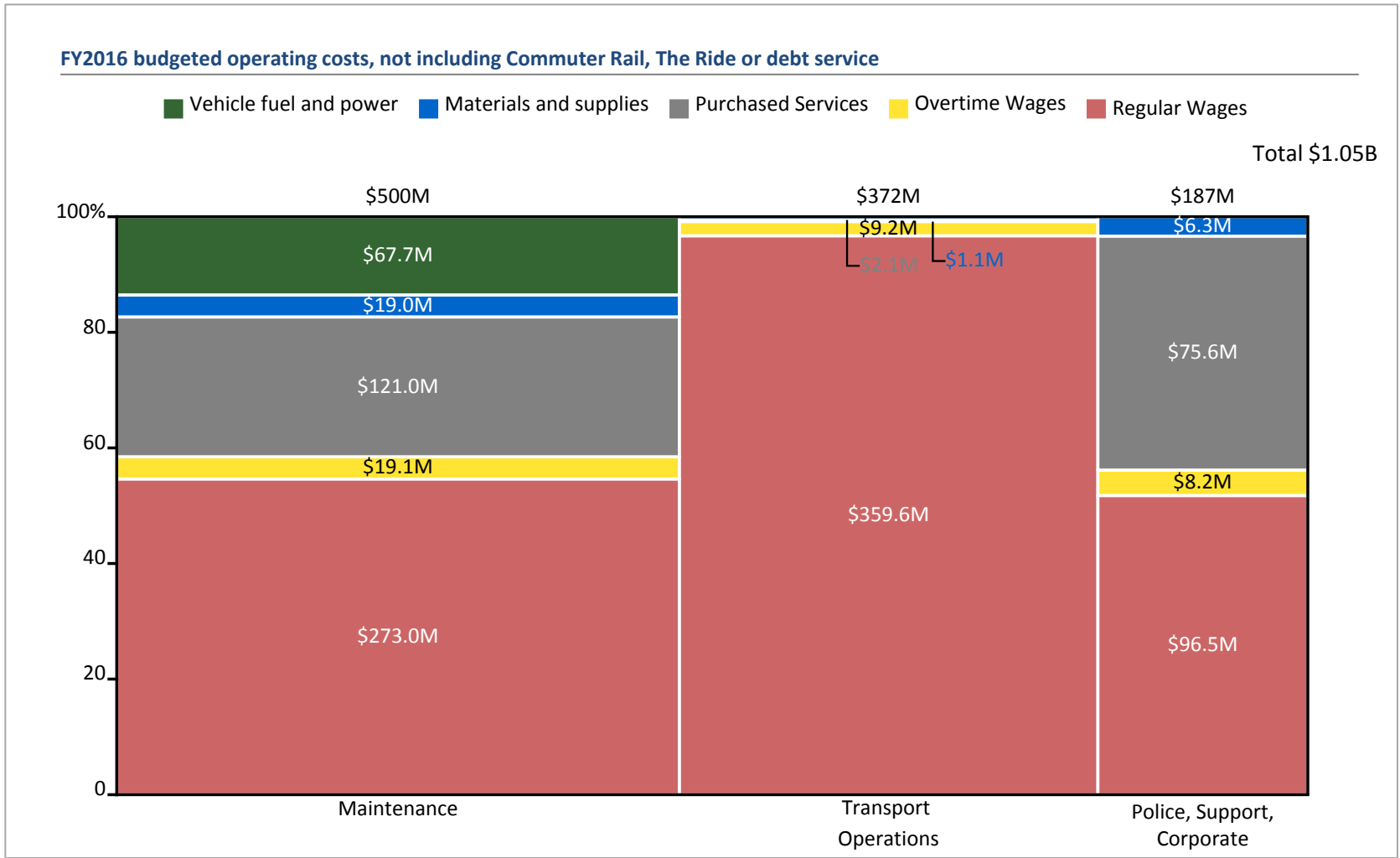
Note: Central Artery Debt refers to Financing Related to the Big Dig Project. Legacy Debt refers to debt inherited at the start of Forward Funding. FY20 Structural Deficit totals in above slide based on assumptions in the status-quo pro-forma

Outsourced Transport Contracts (Commuter Rail, The Ride and Ferry/Buses) are largest segment of operating expense



NOTE: Some bus and rail maintenance costs (e.g. Vehicle engineering at Everett) are not contained under the bus and rail maintenance depts.

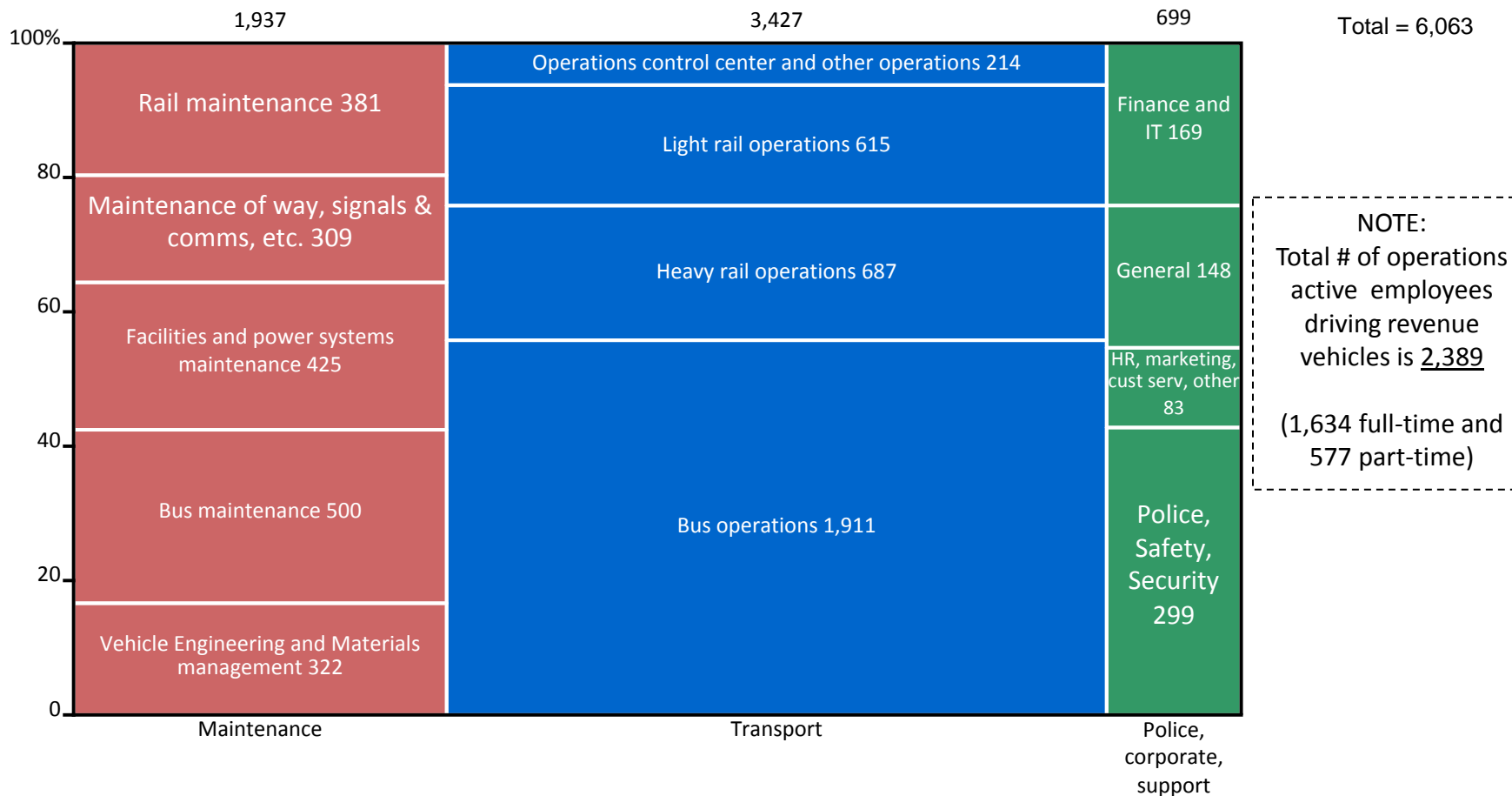
Excluding Commuter Rail and The Ride, MBTA Opex is \$1.06B (of which \$765M - 72% - is wages & benefits)



NOTE: Benefits and payroll taxes are allocated according to regular wages

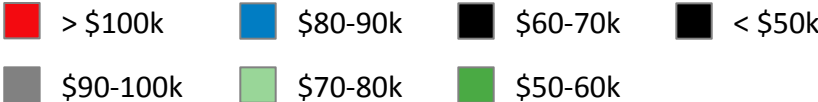
55% of MBTA active headcount is in Transport Operations and 2,389 ops employees (40% of total MBTA headcount) drive revenue vehicles

Part time and full time employees on the MBTA operating budget

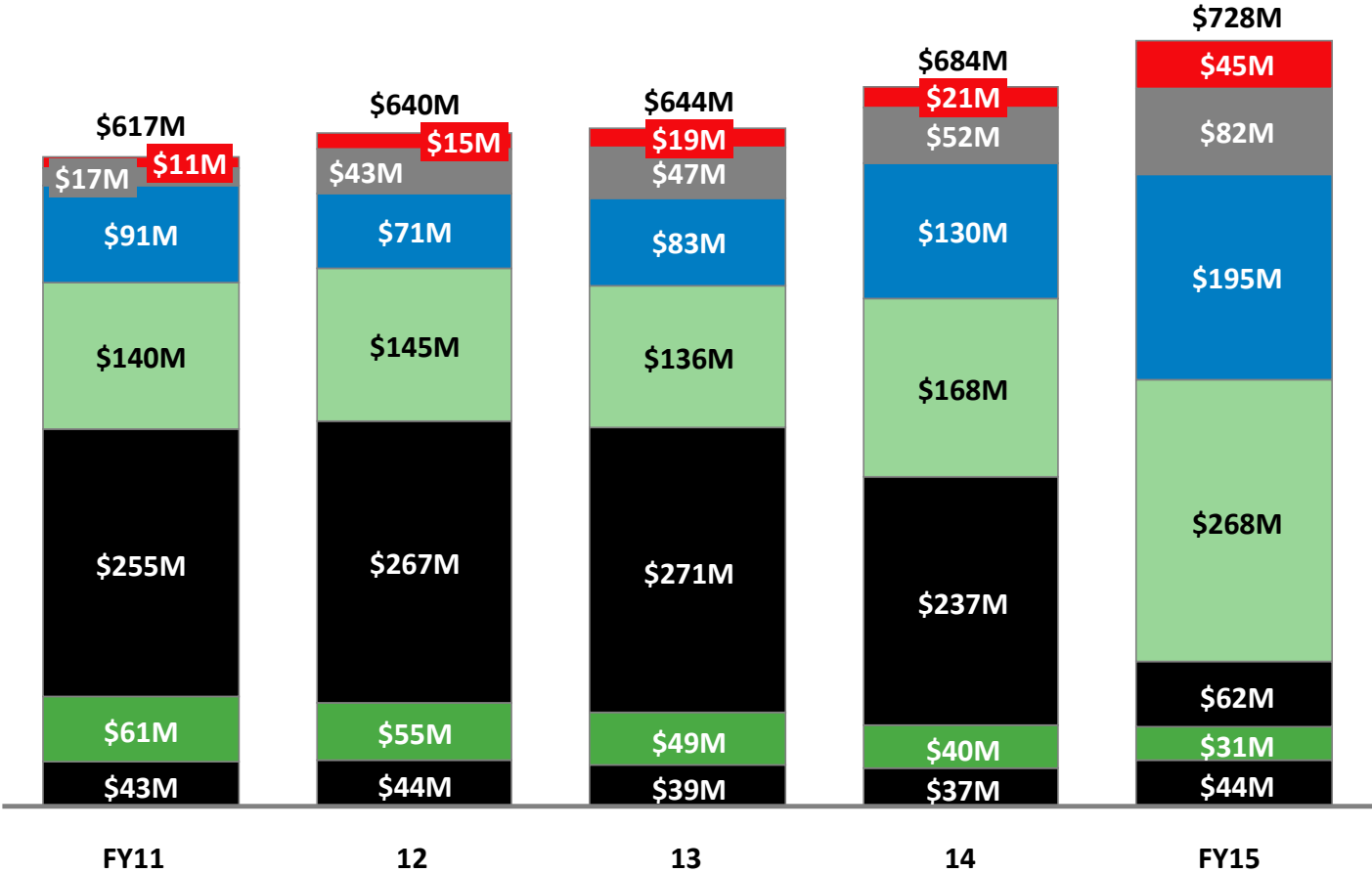


Note: this chart includes all operating budget MBTA employees (capital employees excluded)

Salary and benefits levels for MBTA FY11 – FY15



Wages and benefits paid by salary band^{1,2}

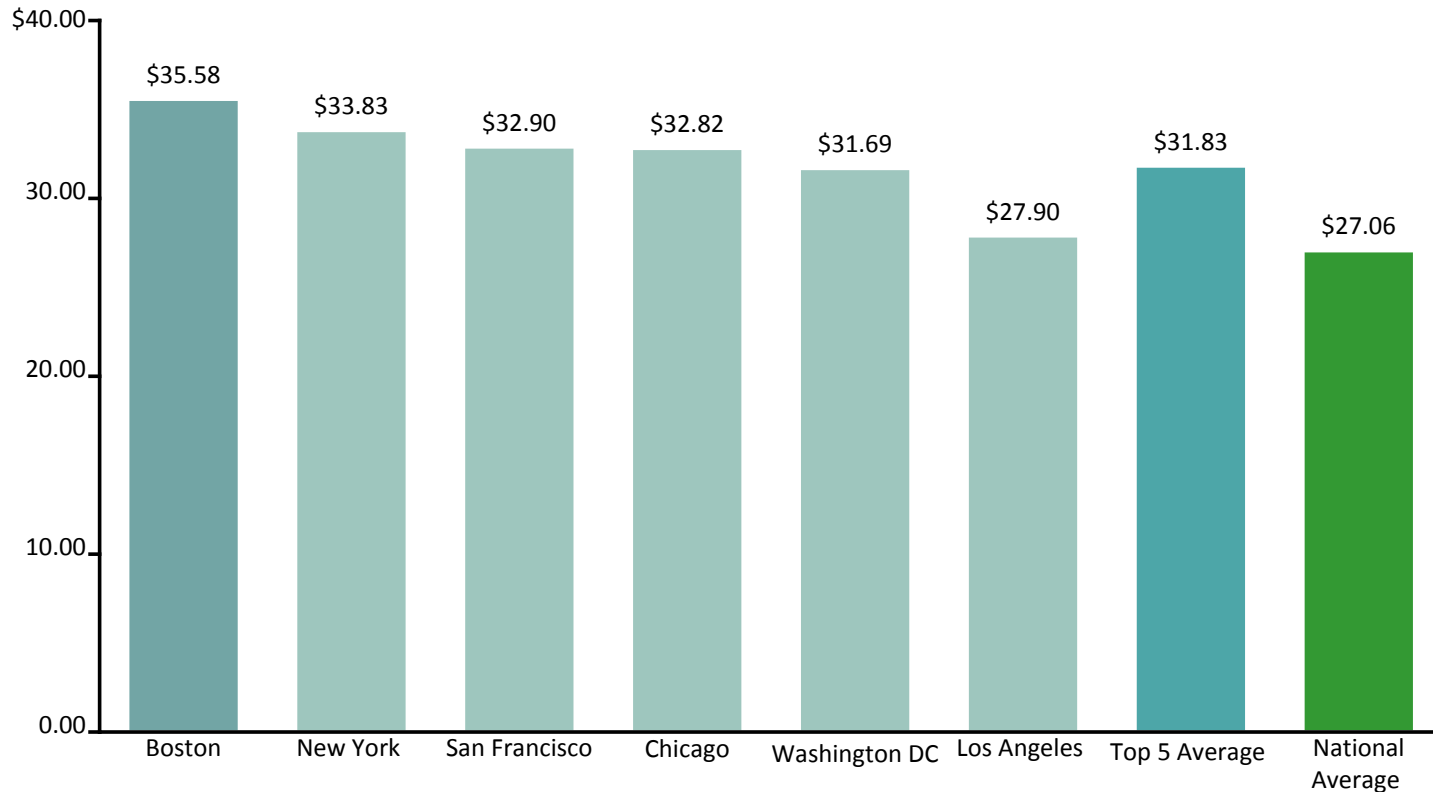


¹ Salary bands defined before benefits
² Analysis based on salary bands each year as of July 1, as a proportion of total spending on wages and benefits reflected in the Statement of Revenue and Expenses
 Draft for Discussion & Policy Purposes Only



MBTA rail operator wage rates 30% above national average

TOP 5 PEER TRANSIT AGENCY RAIL OPERATOR HOURLY WAGE COMPARISON



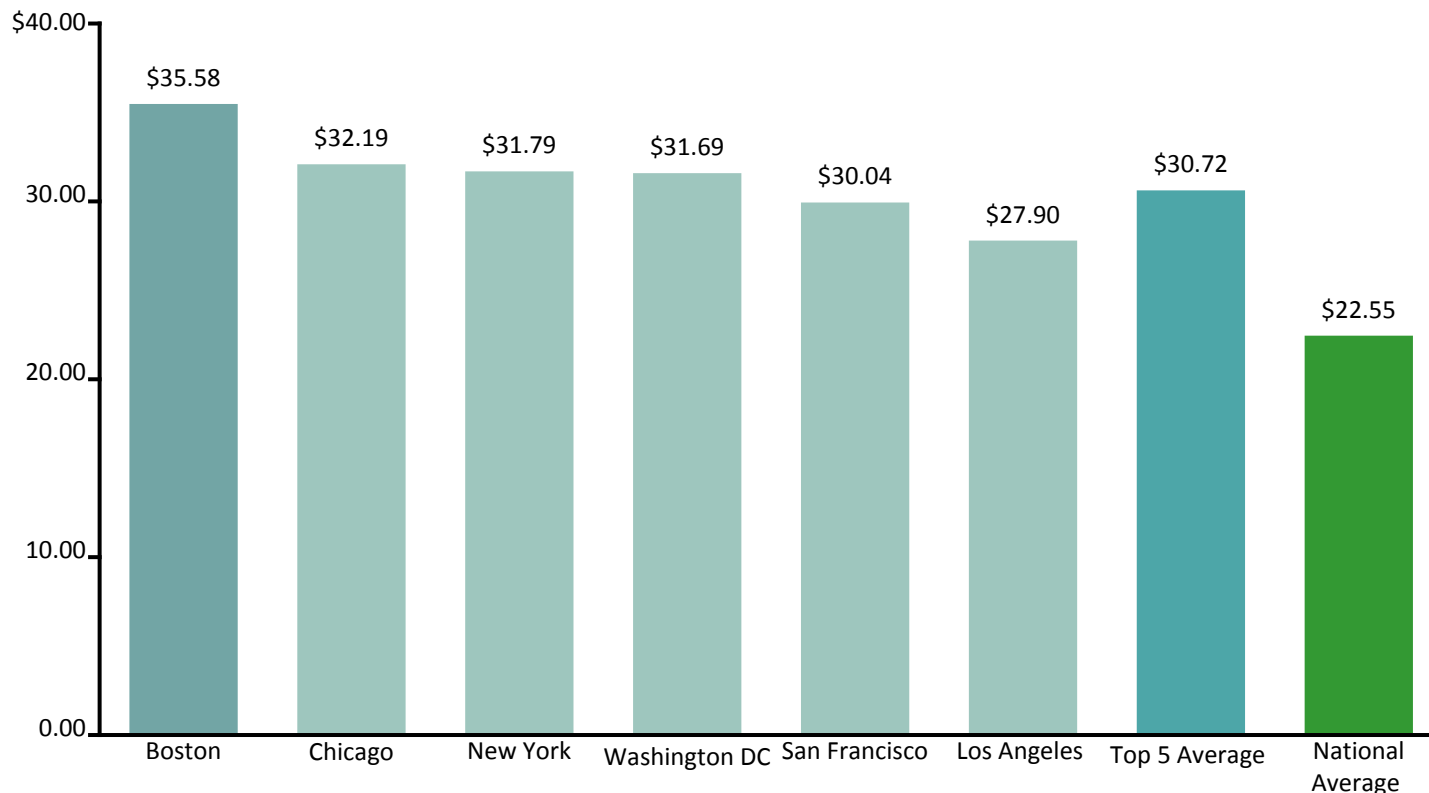
Rail Operators Top Hourly Wage Rates

Source: Source: John A. Dash & Associates, 2015 analysis of top rates for national collective bargaining agreements



MBTA bus operators wage rates are 50% above the national average

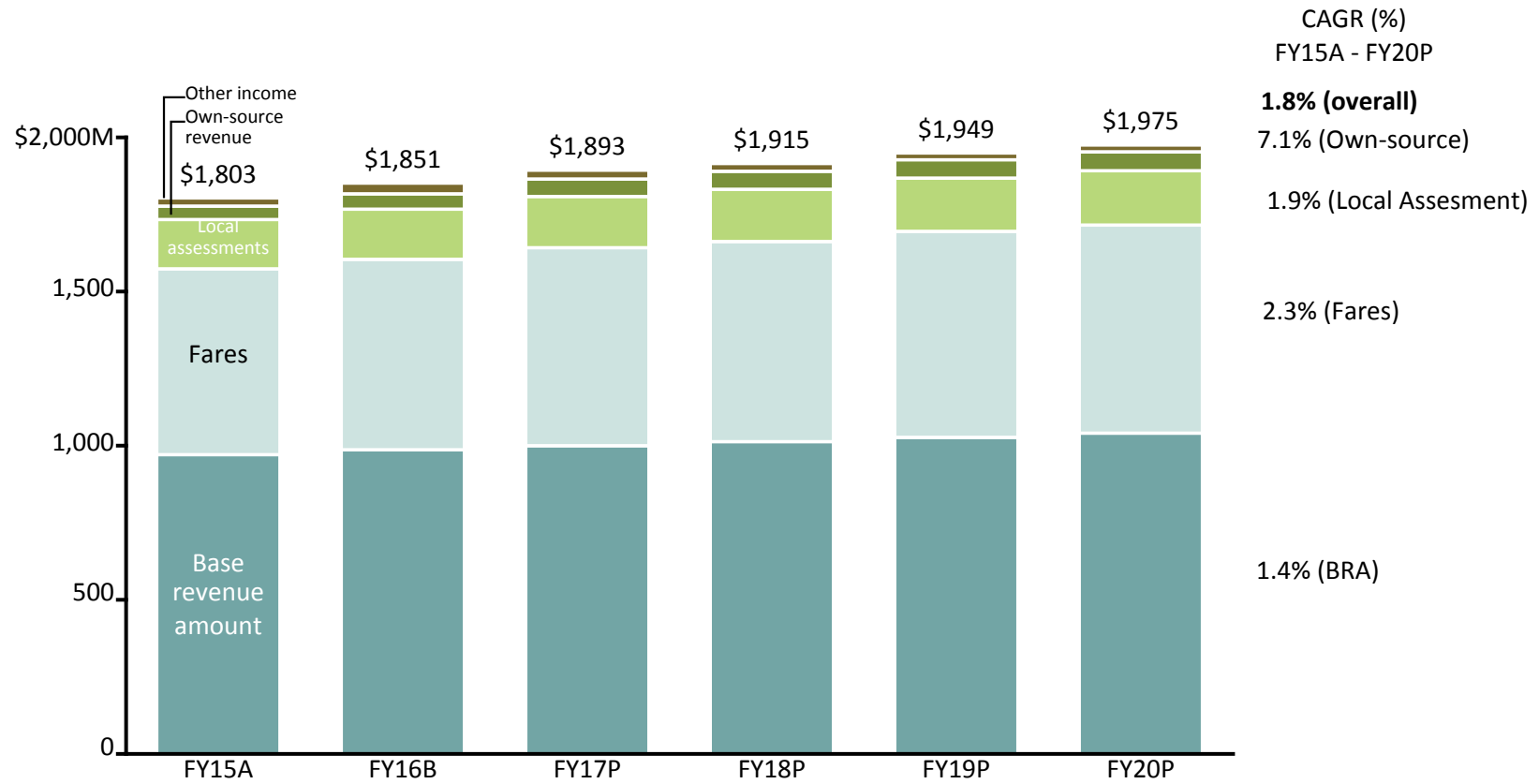
TOP 5 PEER TRANSIT AGENCY BUS OPERATOR HOURLY WAGE COMPARISON



Bus Operators Top Hourly Wage Rates

Source: Source: John A. Dash & Associates, 2015 analysis of top rates for national collective bargaining agreements

Revenue growth is projected at 1.8% FY15:FY20 in the status quo pro forma



Source: Source: John A. Dash & Associates, 2015 analysis of top rates for national collective bargaining agreements

