



Massachusetts Bay Transportation Authority

FY25 Preliminary Budget

MBTA Board of Directors

May 9, 2024

Mary Ann O'Hara

FY25 Budget Introduction and Recap

In January 2024 two presentations were given showing the History of Funding for the MBTA and the 5-year Pro Forma Presentation

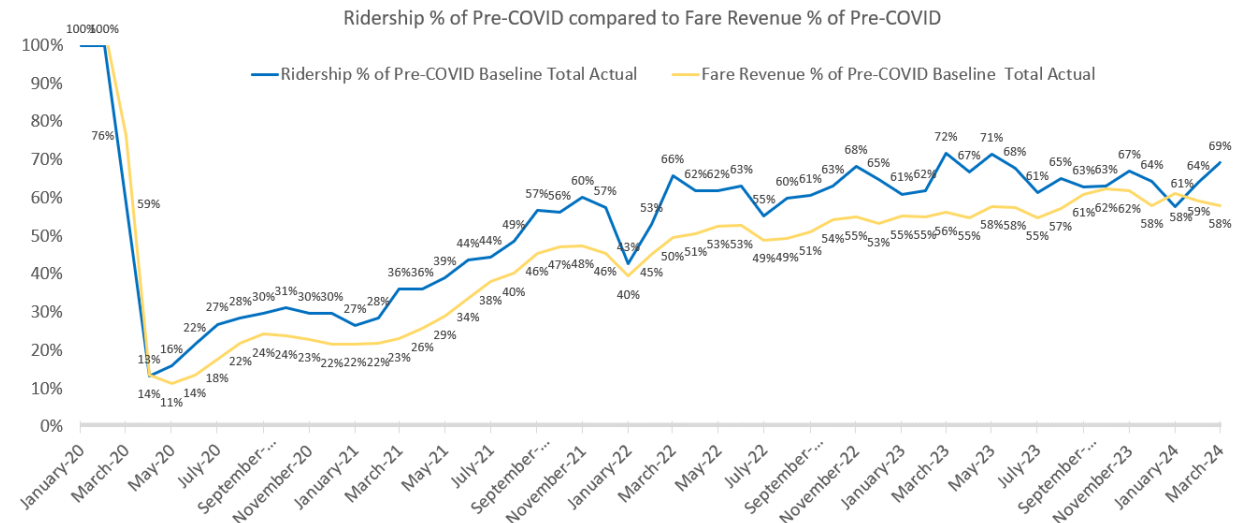
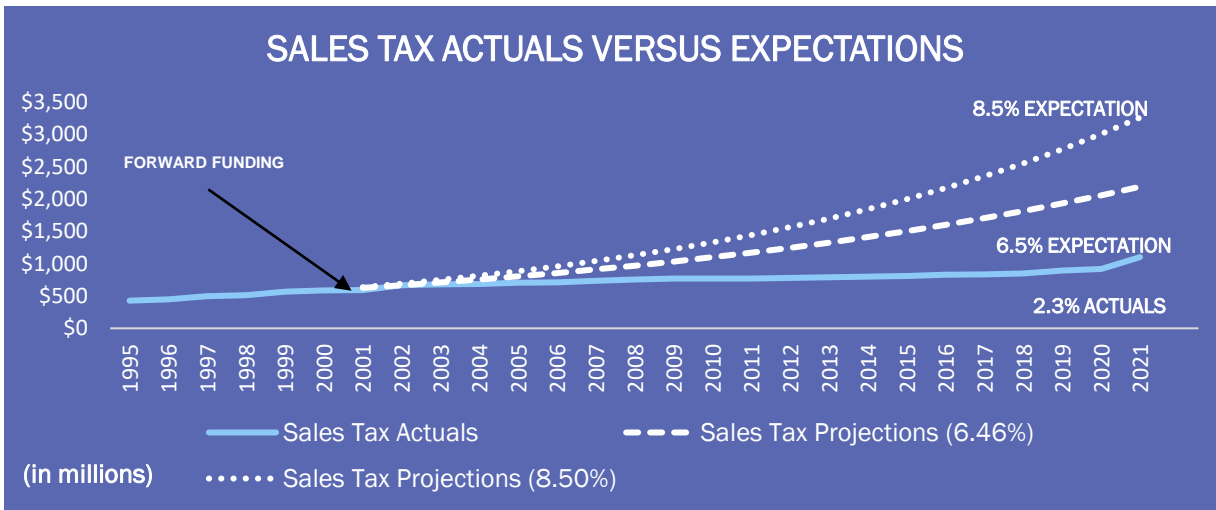
- History of Funding Summary

- Sales tax growth is below Forward Funding assumptions of between 8.5% – 6.5%. **Actuals were 2.3% leading to a \$8.9B - \$15.5B revenue shortfall**
- MBTA assumed \$4B in debt as part of the Big Dig and Court Mitigation, dramatically increasing MBTA expenses

- Pro Forma Summary

- Ridership has not recovered to pre-pandemic levels which increases the existing structural deficit
- Fare revenues currently at 59%, approximately \$300M annual losses, increasing the existing structural budget deficit
- The Fiscal Cliff is approaching in FY26, with projected deficits of \$696M and limited deficiency funds available to offset the gap

Larger versions of these charts are available in the appendix



FY25 Budget Summary

- Seeking Board vote to submit Preliminary FY25 Itemized Budget to the MBTA Advisory Board
- There is a structural deficit of \$307M in the FY25 which balanced by using the deficiency fund
- Continuing to implement annual savings targets, which will be \$93M in FY25
- Utilizing 5307/5337 federal formula funds for preventative maintenance to balance the FY25 operating budget

Revenue

- ✓ **Updated modal ridership projection** for FY25 fare revenue model
- ✓ **Incorporating one-time state funding** assistance proposed in the Governors H2. Budget Recommendation
- ✓ Including funding for **Income Eligible Fare program**
- ✓ **Sales tax** revenue estimate based on state consensus revenue projections
- ✓ **Utilize additional federal revenues** to balance the FY25 operating budget (5337/5307)
- ✓ **Utilize Deficiency Fund** reserve to balance operating budget gap in FY25, as outlined in the January 2024 five-year Pro Forma outlook

Additional Investments

- ✓ Continuing to hire existing vacancies to address **critical safety and maintenance initiatives**
- ✓ Maintaining high-level commitment to **recruitment and retention efforts**
- ✓ Ensuring funds for the rollout of **AFC 2.0**
- ✓ Committing to **Transportation of the Future** by funding **South Coast Rail** and **the Climate & Environmental Policy Team** to address the Commonwealths climate change goals
- ✓ Rolling out the **Income Eligible Fare Program**

FY25 Revenue Summary & Assumptions

- **\$247M (10%) increase in total revenue** compared to FY24 budget
- **Fare revenue** and **Other operating revenue** (parking, advertising, real estate, etc.) decrease consistent with current ridership, fare, and own source revenue trends
- **Sales tax revenue** at consensus state tax estimates under Governor’s FY25 H.2 budget recommendation to Legislature
- **Contract Assistance** includes \$187M plus \$127M in additional assistance proposed in the Governors H2 budget recommendation
- **State assistance** includes \$45M for the Income Eligible Fare Program proposed in the Governors H2 budget recommendation
- **Federal revenue** reflects drawing down \$191M in 5307/5337 preventative maintenance funds to support preventative maintenance activities in the operating budget

Line Item	FY24 Budget (\$M)	FY25 Budget (\$M)	FY24 vs. FY25 (\$M) Increase	FY24 vs. FY25 % Increase
Revenue from Transportation	418	403	(15)	-4%
Other Operating Revenue	82	80	(3)	-3%
Total Operating Revenue	501	483	(18)	-4%
Dedicated Sales Tax	1,463	1,465	2	0%
Contract Assistance	187	314	127	68%
Dedicated Local Assessments	188	193	5	2%
Federal Revenue and 5307/5337 Preventative Maintenance Funds	31	191	160	509%
Additional State Assistance (Operating Only)	73	45	(28)	-39%
Other Income	23	23	-	
Total Non-Operating	1,966	2,231	265	13%
TOTAL REVENUES	2,467	2,714	247	10%

*Table compares FY24 Board approved budget to FY25 preliminary budget assumptions
Revenue assumptions for the 5307/5337 Preventative Maintenance Funds are pending review and approval*

FY25 Spending Summary & Assumptions

- **\$293M (11%) increase in total expenses** relative to the FY24 Budget
- **Wages and benefits** increase due to significant Collective Bargaining (CBA) increases (7% in FY24, 4% in FY25), and continuing to fill existing vacancies to address Safety, Maintenance and Service goals
 - 8,086 operating budget positions, 443 (6%) above FY24 budget
- **Materials & Services (M&S)** includes \$22M for AFC 2.0, \$13M for Track Improvement Plan, and increases from inflationary pressures
- **Commuter rail** includes fixed price contractual cost increase and additional scope changes for South Coast Rail service (\$27M)
- **RIDE** includes CBA increases for drivers (\$14M) and projected increases in ridership from Income-Eligible Fare program (\$17M), offset by \$45M additional revenue proposed in the Governors H2 Budget Recommendation
- **Debt service** capitalizes interest using bond proceeds from FY23, is consistent with obligations from capital borrowing costs, and manages the overall stability of long-term debt portfolio

Line Item	FY24 Budget (\$M)	FY25 Budget (\$M)	FY24 vs. FY25 (\$M) Increase	FY24 vs. FY25 % Increase
Regular Wages	640	744	104	16%
Overtime	44	59	14	32%
Fringe Benefits	353	434	81	23%
Total Wages & Fringe	1,037	1,237	200	19%
Materials	74	85	11	14%
Services	270	312	42	16%
Utilities	61	54	(7)	-12%
Fuel	20	18	(2)	-8%
Contract Cleaning	40	42	2	4%
Risk & Liability Insurance	34	40	6	16%
Total Materials & Services	499	550	51	10%
Commuter Rail	523	578	56	11%
RIDE	127	158	31	24%
Ferry	22	26	4	19%
LSS	4	5	1	39%
Total Contracted Services	675	767	92	14%
Total Operating Expenses	2,211	2,554	343	16%
Debt Service	517	467	(50)	-10%
Total Expenses	2,728	3,021	293	11%

Table compares FY24 Board approved budget to FY25 preliminary budget assumptions

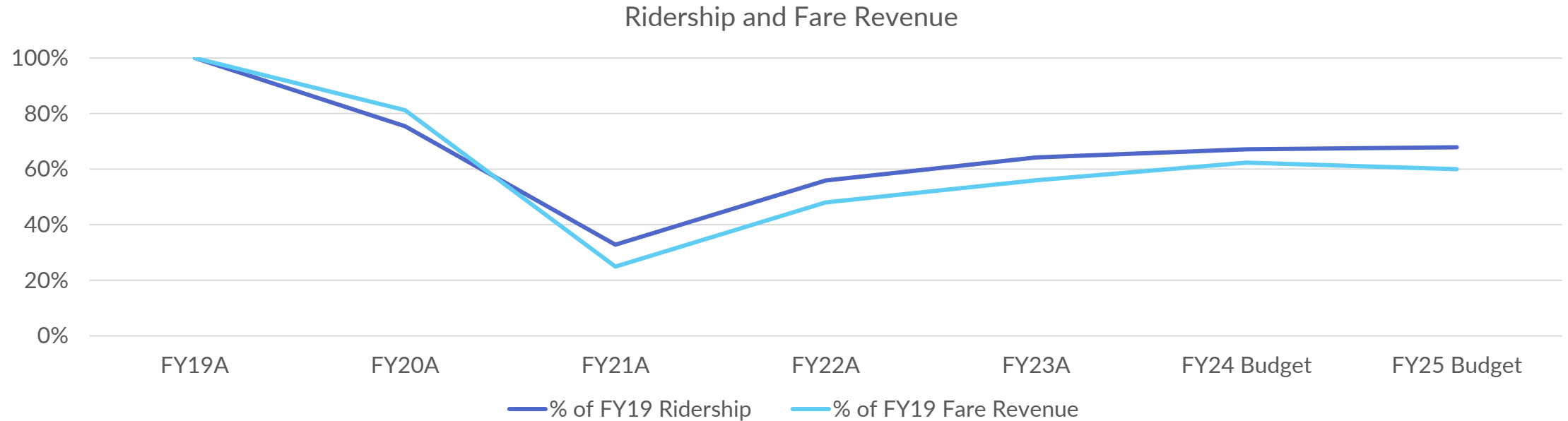
FY25 Net Revenue Summary & Assumptions

- **\$307M deficiency fund transfer** required to balance the FY25 Operating Budget
- **\$247M (10%) revenue increase** driven by \$172M additional revenues in the Governors H2 Budget Proposal and \$191M in federal 5307/5337 preventative maintenance funds applied to operating budget, offset by projected fare and own source revenue losses (\$18M) due to track improvement plan and other pass program changes
 - The \$172M from the Governors H2 Budget Recommendation is included in the FY25 Budget
- **\$293M (11%) expense increase** due to hiring and CBA increases, South Coast Rail, AFC 2.0 and critical maintenance and improvement needs of the Commuter Rail and Track Improvement Program
- **Efforts are underway to identify and attain a \$93M savings target** to help offset future use of the deficiency fund

Line Item	FY24 Budget (\$M)	FY25 Budget (\$M)	FY24 vs. FY25 (\$M) Increase	FY24 vs. FY25 % Increase
Operating Revenue	501	483	(18)	-4%
Non-Operating Revenue	1,966	2,231	265	13%
Total Revenue	2,467	2,714	247	10%
Operating Expenses	2,211	2,554	343	4%
Debt Service	517	467	(50)	-10%
Total Expenses	2,728	3,021	293	11%
Net Revenue	(261)	(307)	(46)	18%
Deficiency Fund Transfer	261	307	46	18%
Net Revenue Inc. Def Fund	(0)	(0)	(0)	-

*Table compares FY24 Board approved budget to FY25 preliminary budget assumptions
Balancing the FY25 budget is contingent on a financing deal that is pending approval*

Since the pandemic, fare revenue has recovered at a slower rate than ridership



	FY19A	FY20A	FY21A	FY22A	FY23A	FY24 Budget	FY25 Budget
Ridership (Trips Taken)	361.9 M	273.1 M	118.7 M	202.4 M	232.4 M	245.6 M	248.3 M
<i>% of FY19 Ridership</i>	100%	75%	33%	56%	64%	67%	68%
Fare Revenue	\$671.7 M	\$545.7 M	\$167.1 M	\$322.3 M	\$376.4 M	\$418.5 M	\$403.0 M
<i>% of FY19 Fare Revenue</i>	100%	81%	25%	48%	56%	62%	60%

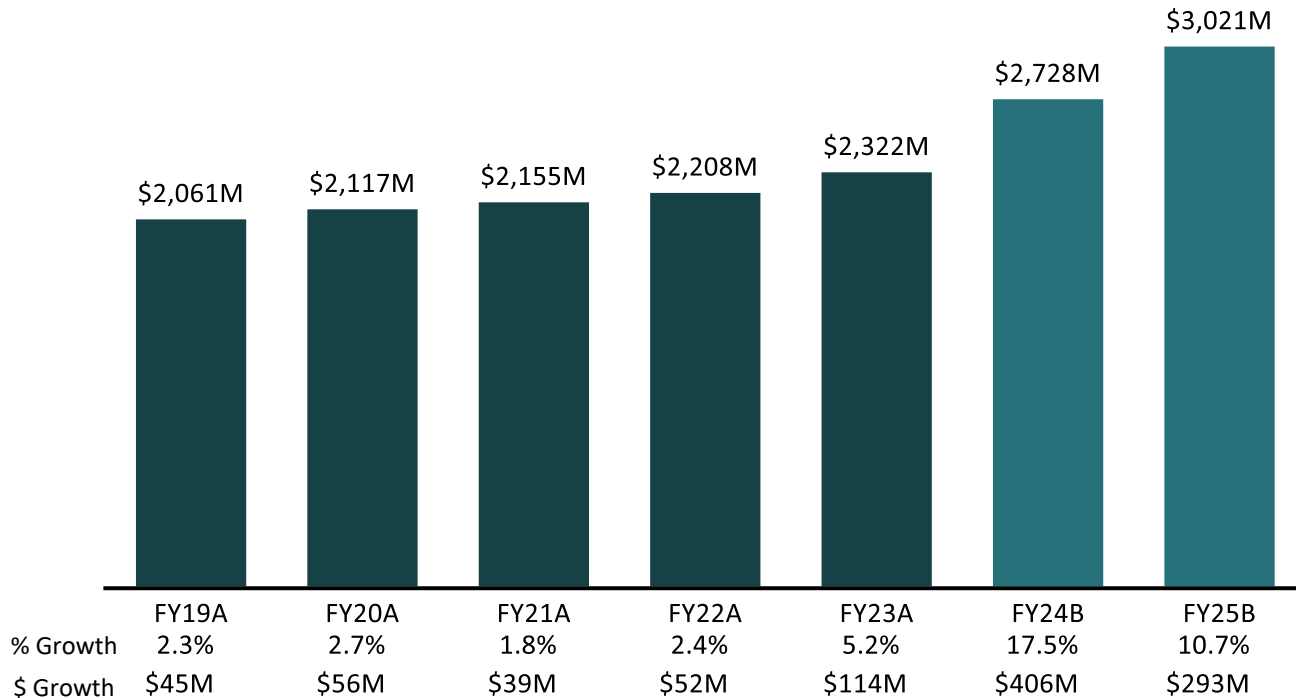
NOTE: FY25 Fare Revenue projected to decrease due to Track Improvement Program and Sumner Tunnel Renovation

FY25 Expense Growth

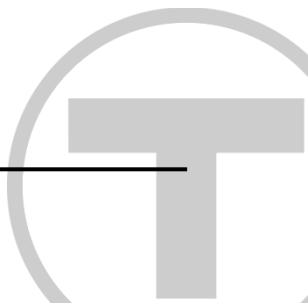
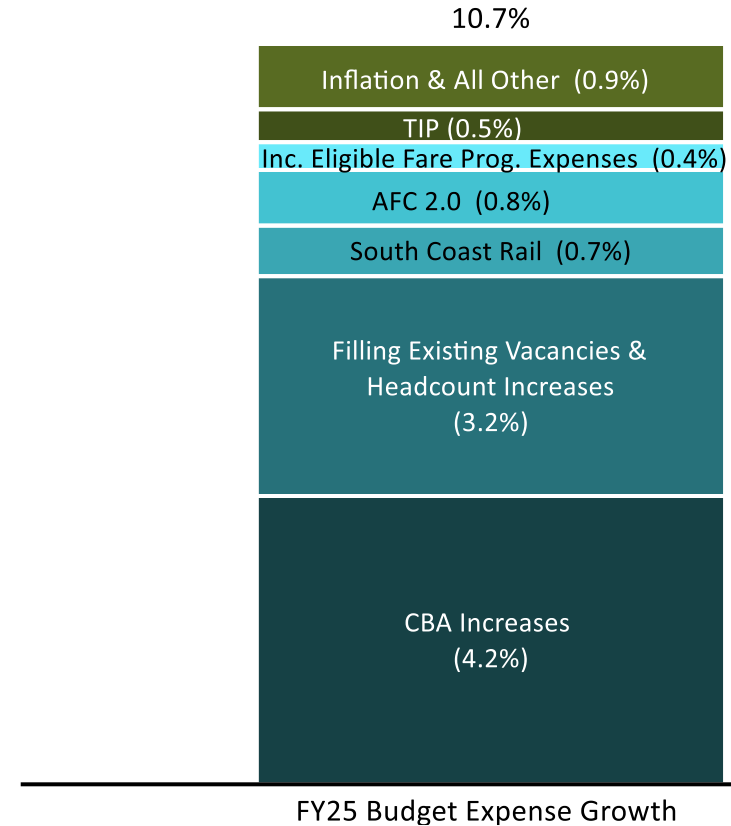
- **FY25 expenses grow by 10.7% (\$293M), driven primarily by CBA Increases (\$114M) and increased hiring (\$87M) which account for 7.4% of the increase**
 - Service expansions (\$20M) and new programs (\$46M) account for 2.4% of the YOY increase
 - Inflation & All Other (\$26M) account for 0.9% of the YOY Increase

Historical Expense Growth

Increased headcount drives expense growth

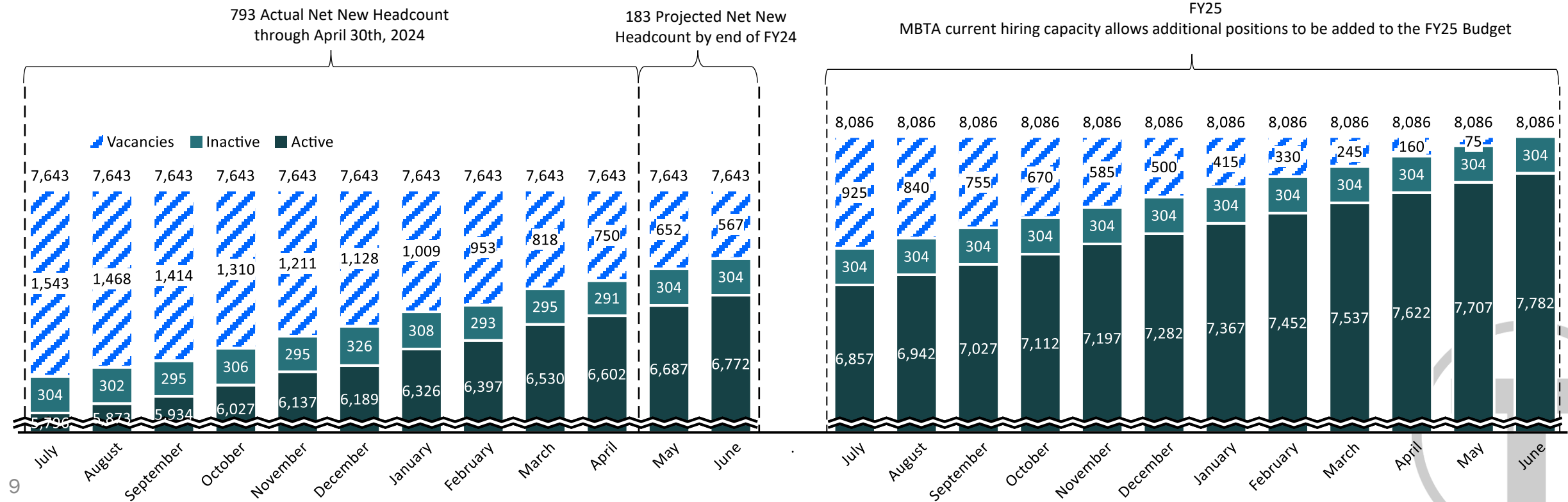


Incremental Expense Increases



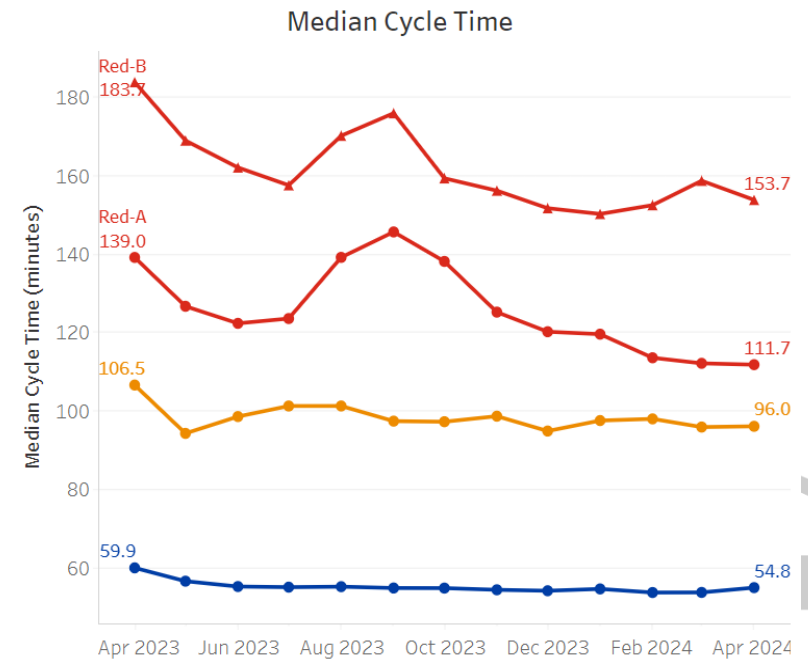
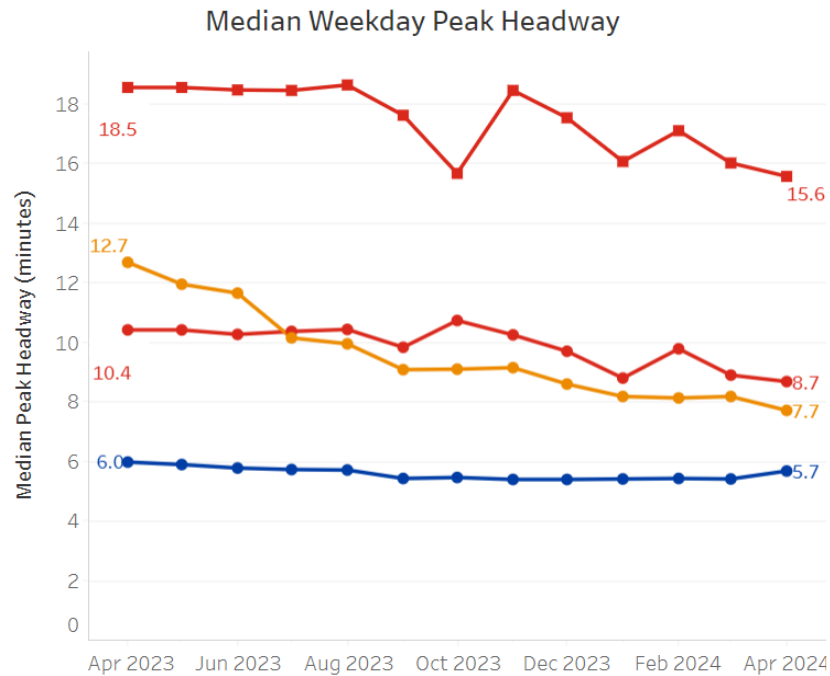
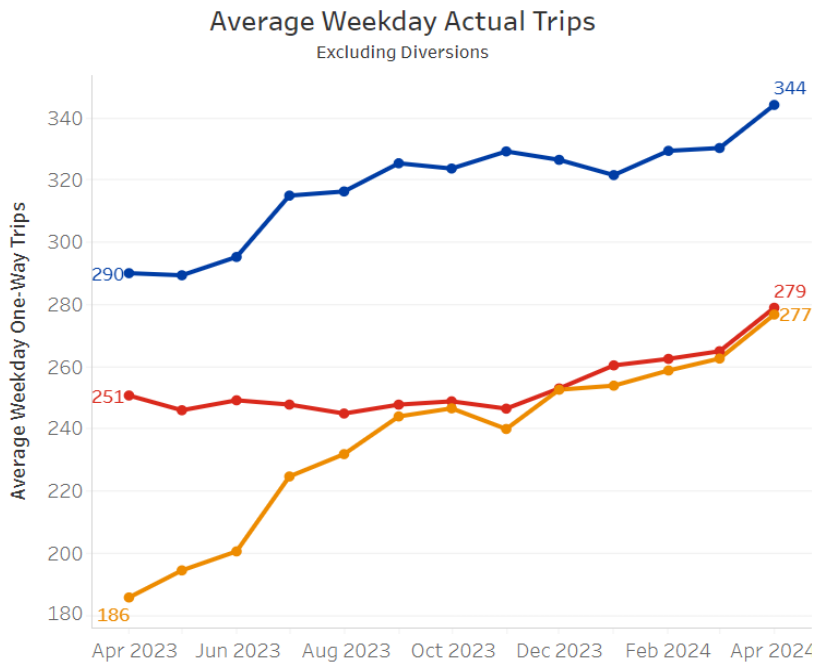
FY25 Headcount

- MBTA’s hiring capacity improvements allow for 443 new positions to be added to the FY25 budget
 - 300 centralized positions to be distributed as necessary to provide flexibility in addressing critical safety, service, and maintenance needs
 - 143 positions added to the budget to convert primarily IT contractors to full time employees, accommodate transfers from capital to operating budget, and account for reorganized MBTA management structure
- MBTA pace of hiring allows more budget positions to be filled by the end of FY25, assuming qualified candidates are found for specialized positions
- Results from the Workforce Assessment will not be available until Summer 2024, and are excluded from the FY25 budget



Additional Funding & Workforce Support Accelerates Improvements

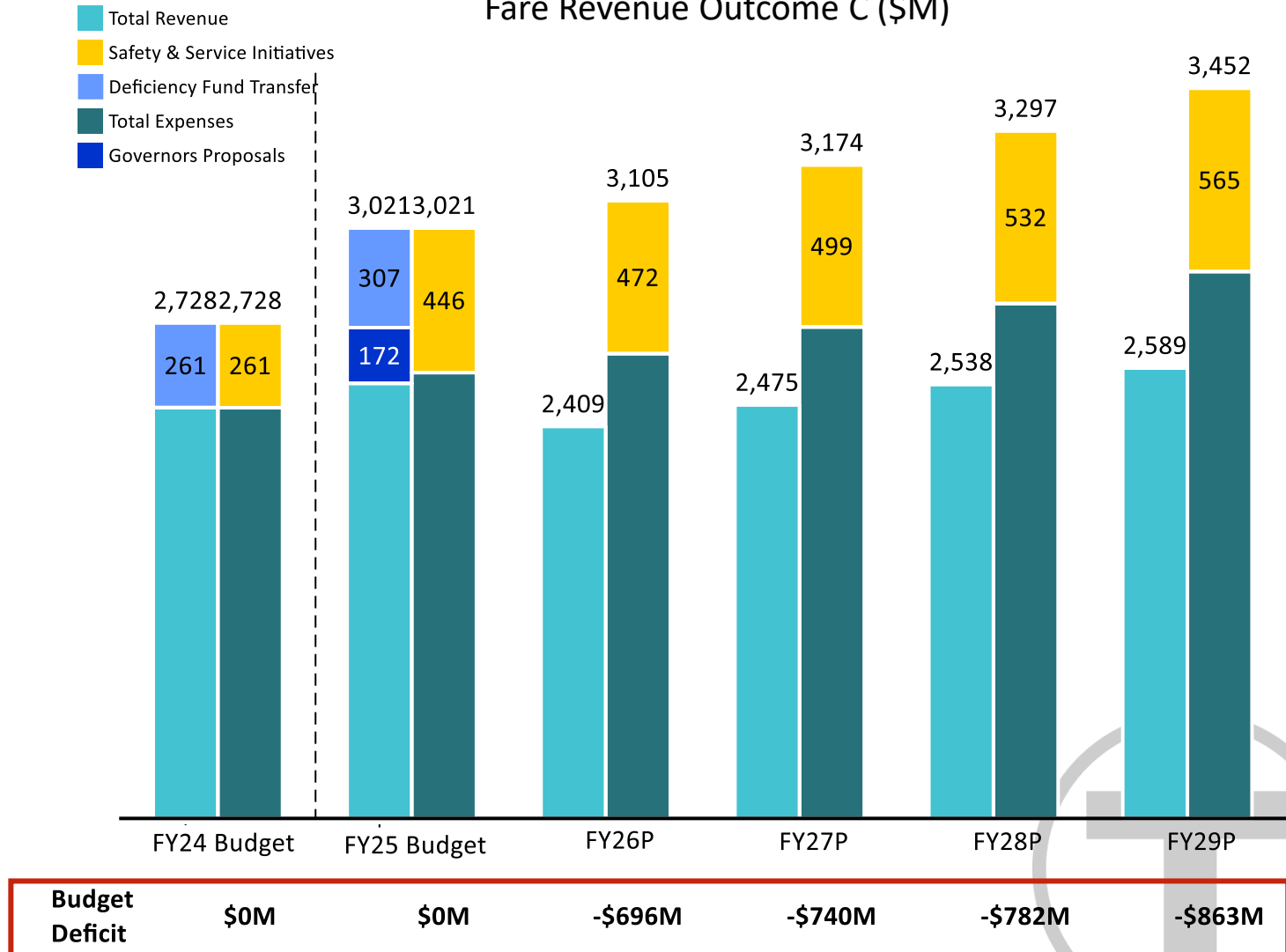
- **Heavy Rail** service has increased due to decreased cycle times from removing speed restrictions and delivery of new train cars
- **Light Rail** service is increasing due to decreased cycle times from removing speed restrictions and increased hiring
- **Bus** reliability and service expected to improve as dropped trips decrease due to increased hiring and historic L589 CBA agreement
- In FY25, service is expected to continue improving on all modes



FY24 – FY29 Pro Forma Recap

- The FY25 Operating Budget utilizes the deficiency fund and relies on additional state appropriations to balance
- After implementation of FY25 budget, the MBTA will introduce a **~\$93M savings target** to accrue over the course of the fiscal year (July 1, 2024 – June 30, 2025). The savings will be deposited into the deficiency fund to help offset the projected budget gap in FY26. The following actions will be taken to achieve this target:
 - Review of professional services and consulting contracts to see where reductions can be made
 - Identifying efficiencies between departments
- As the MBTA continues to hire front line workers, accelerate maintenance, and build back to pre-pandemic service levels, ***identifying ~\$93M in savings becomes harder to accomplish***
- Deficiency fund balance and cash reserves available in FY25 will depend on numerous factors including fare revenue, FY24 potential favorability, and hiring and attrition rates.
- Looking ahead to FY26 and beyond, structural budget gaps of \$696M - \$863M are projected as expense growth outpaces revenue growth, creating the need for a long-term funding solution

FY24 – FY29 Projected Revenues & Expenses
Fare Revenue Outcome C (\$M)



FY25 Preliminary Budget Vote

- That the General Manager is hereby authorized and directed to submit the Preliminary FY25 Itemized Budget, in the name and on behalf of the Authority, to the MBTA Advisory Board; and
- That following the Advisory Board review, a Final FY25 Itemized Budget will be submitted to the MBTA Board of Directors no later than June 15, 2024, in accordance with section 20 of chapter 161a of the Massachusetts General Laws as amended by chapter 56 of the acts of 2020

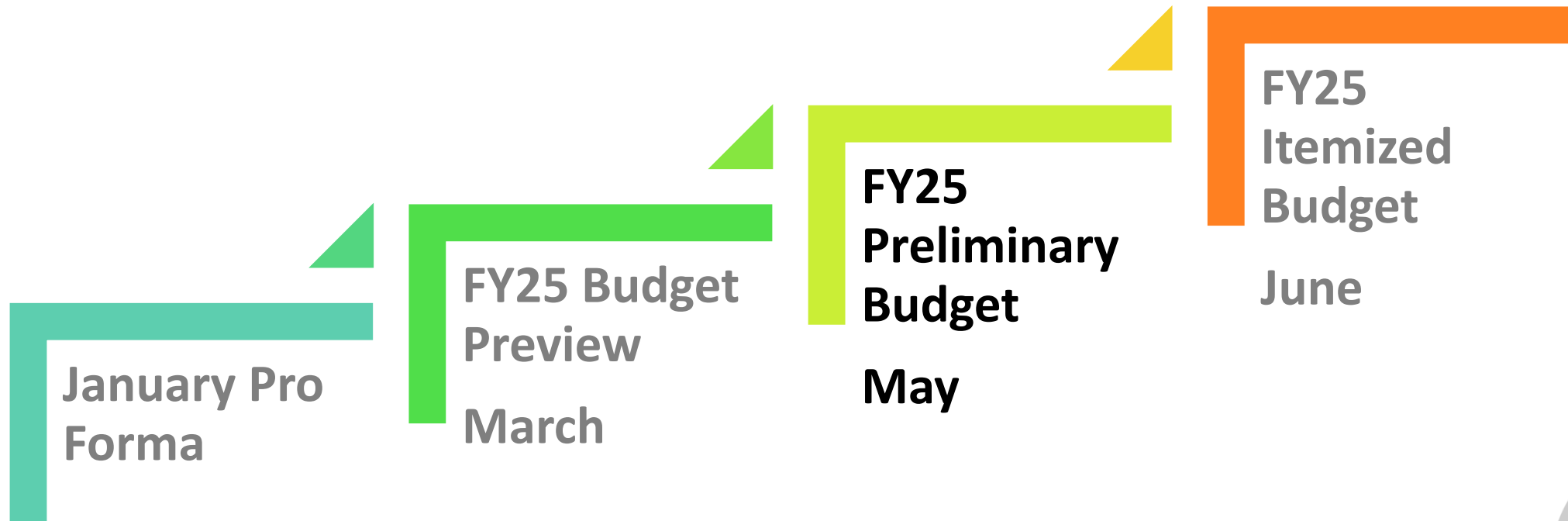


Appendix

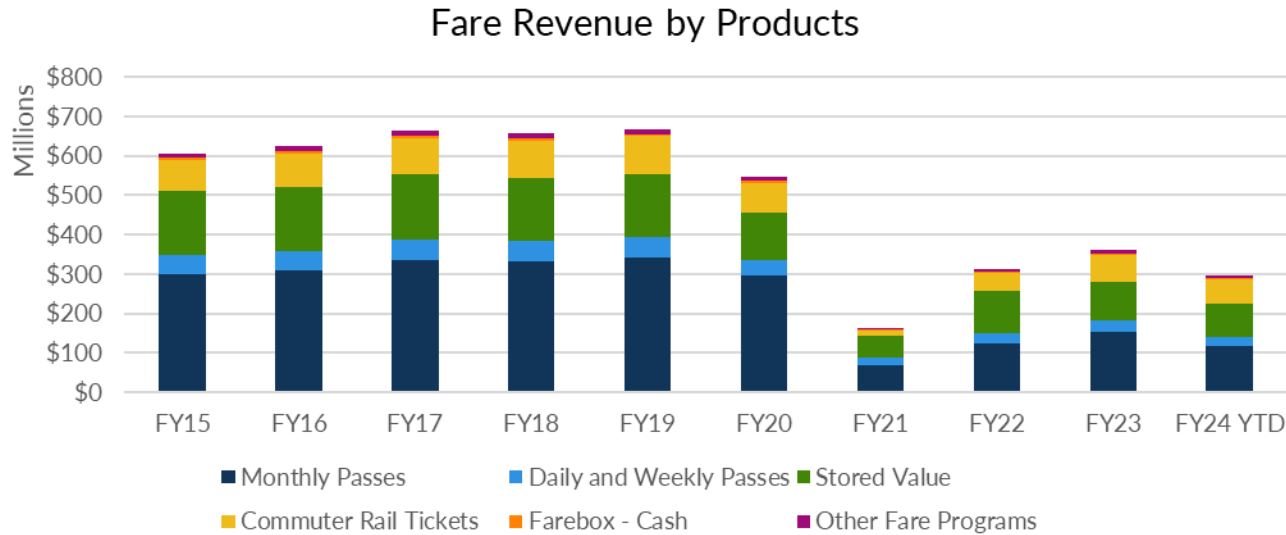


FY25 Budget Presentations

- Beginning with the January Pro Forma, several budget presentations will be made to the Board prior to the approval of the FY25 budget
- Additionally, Finance has and will continue to provide quarterly updates on FY24 actual spending and revenue and variances to budget



Riders have shifted away from monthly passes and instead opted for stored value and single tickets



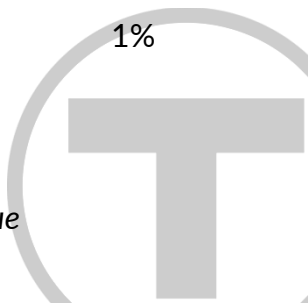
- The most popular fare products remain:
 1. Monthly Subway/Bus pass (23% in FY19 → 22% in FY23) ¹
 2. Stored value via CharlieCard (16% in FY19 → 24% in FY23) ¹
 3. Monthly Commuter Rail pass – all zones (24% in FY19 → 13% in FY23) ¹
 4. One-way / round-trip Commuter Rail tickets (9% in FY19 → 13% in FY23) ¹
- Before the pandemic, the MBTA generated almost half of its fare revenue from monthly passes.
- Post-pandemic, purchases of stored value and one-way / round-trip tickets have returned faster than monthly passes – reflecting the decreased frequency with which riders use the T.

¹ % of total fare revenue before adjustments

% of Total Fare Revenue (Before Adjustments)

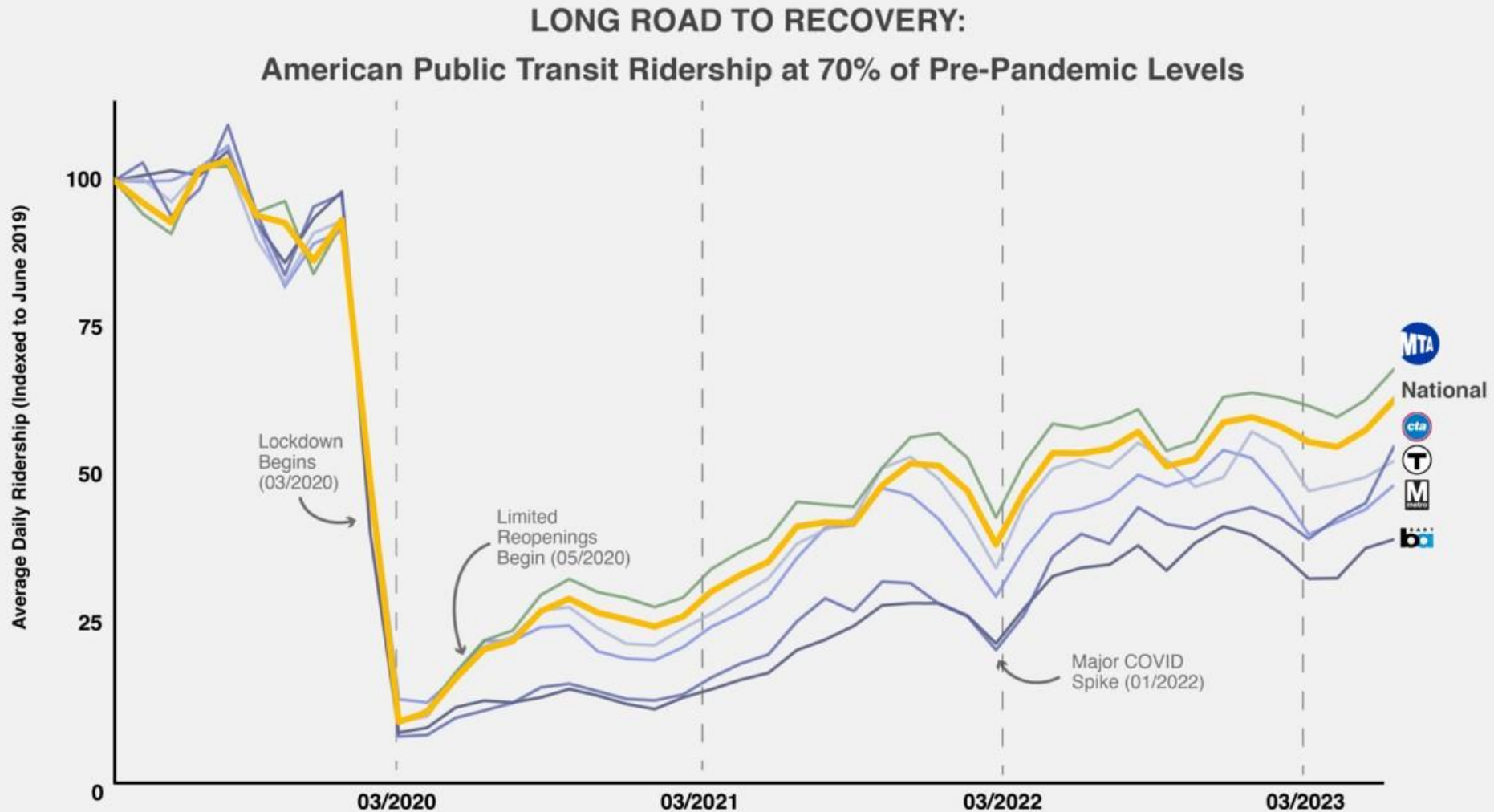
	FY19	FY23
Monthly Pass <i>Full- and reduced-fare LinkPass, local bus pass, inner / outer express bus pass, commuter rail pass, and commuter boat pass</i>	51%	42%
Stored Value	24%	27%
Commuter Rail Tickets	14%	18%
Daily and Weekly Passes	7%	9%
Other Fare Programs <i>RIDE and Commuter Boat Programs & Cape Flyer Sales</i>	2%	3%
Farebox - Cash	1%	1%

See Appendix for detailed breakdown of fare revenue



Peer Transit Agencies Show Similar Ridership Trends

Ridership data through Spring 2023 for peer agencies



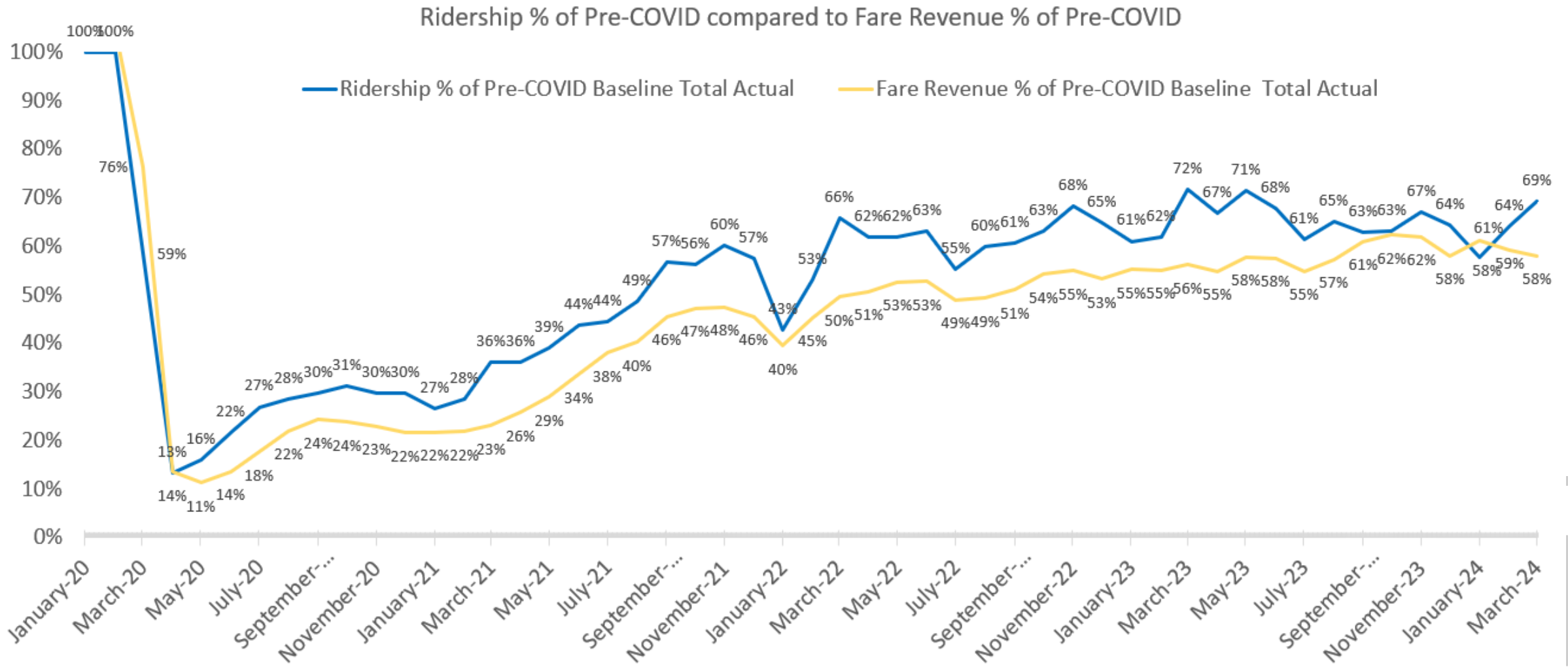
SOURCE: American Public Transportation Association |
MTA | CTA | MBTA | WMATA | BART OpenData
Data Indexed to June 2019.

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Post-Pandemic Ridership Patterns Begin to Solidify

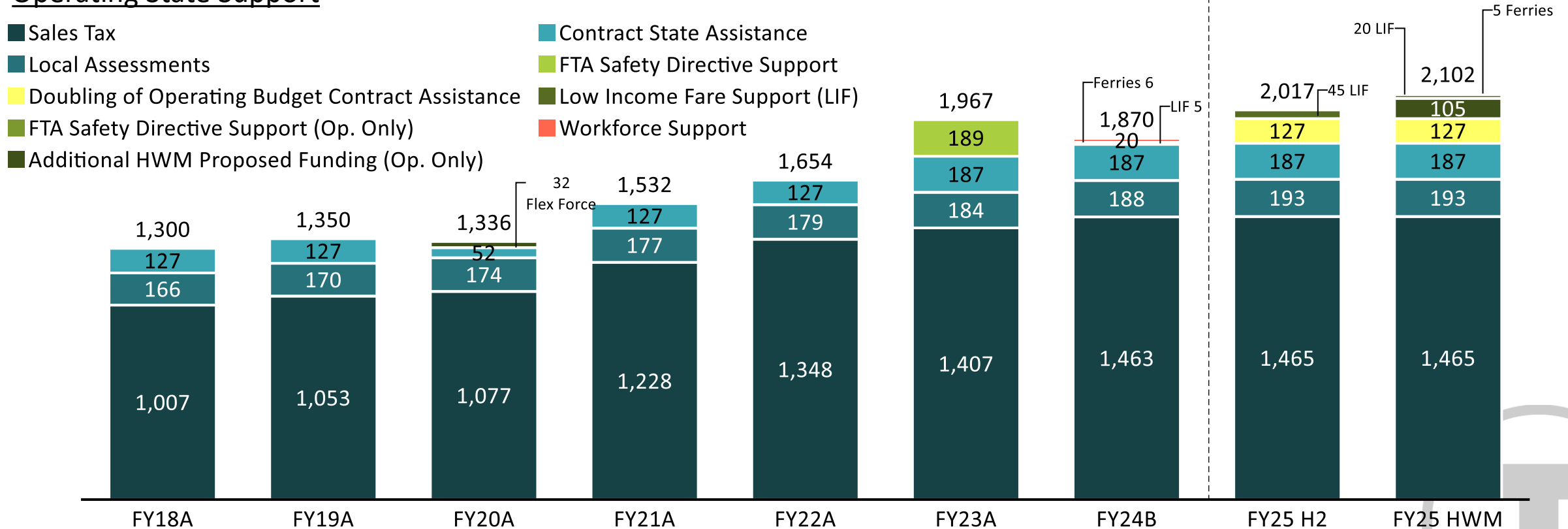
- Ridership and fare revenue recovery has leveled off, peaking at 72% of pre-pandemic levels for ridership and 62% for fare revenue



Recap of State Support for the MBTA

- Additional state support has directly contributed to improvements in the MBTA's hiring capabilities, accelerating the completion of FTA Safety Directives, service delivery and maintenance goals, and preparing the MBTA to expand service via South Coast Rail, Bus Network Redesign and additional ferry routes

Operating State Support

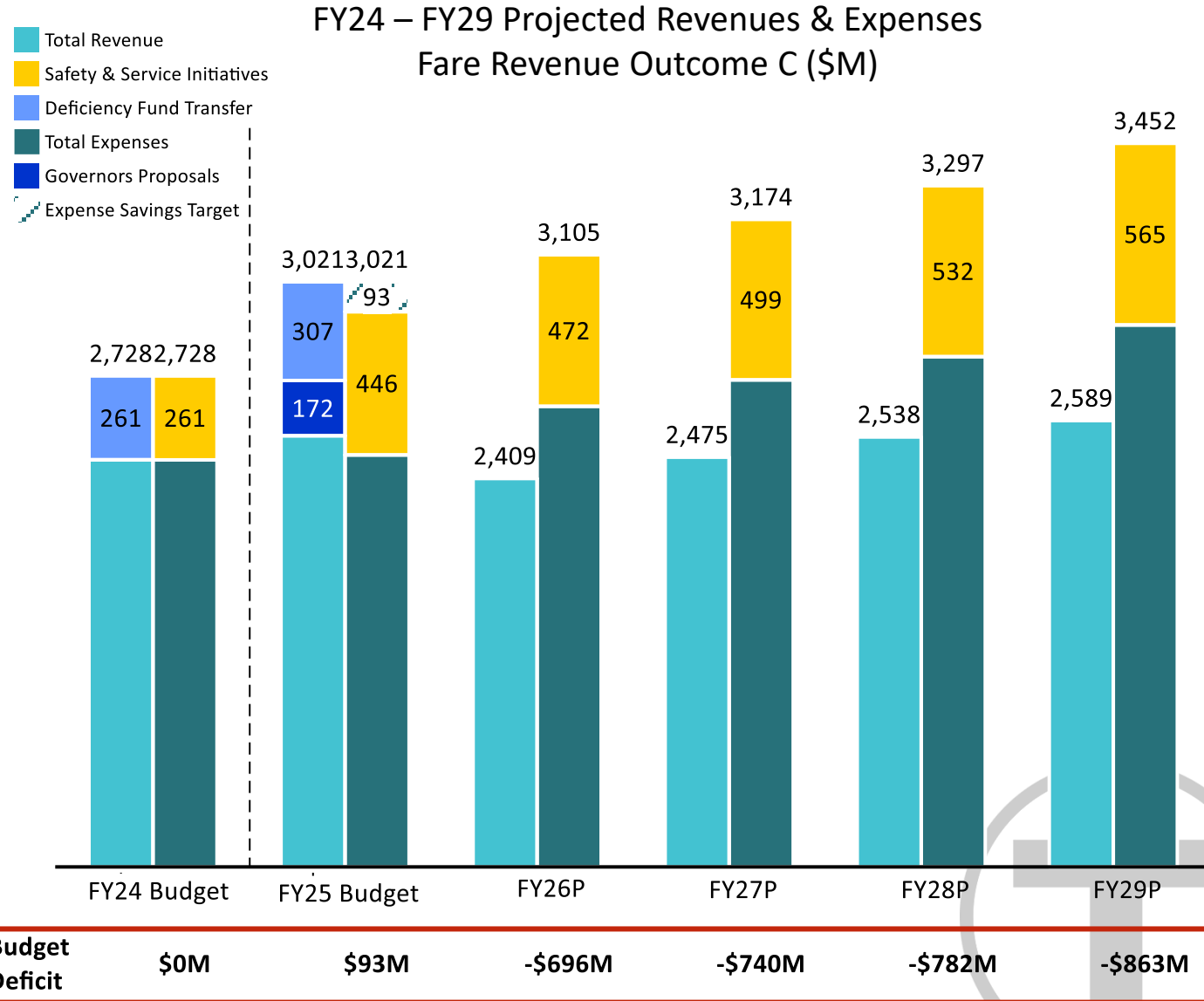


Note: State capital support is excluded from this chart. \$189M in FY23 is only the operating portion of the \$378M FTA Safety Directive Support

FY24 – FY29 Pro Forma Recap

FY25 Savings Target Included

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- Deficiency fund balance and cash reserves available in FY25 will depend on numerous factors including fare revenue, FY24 potential favorability, and hiring and attrition rates.
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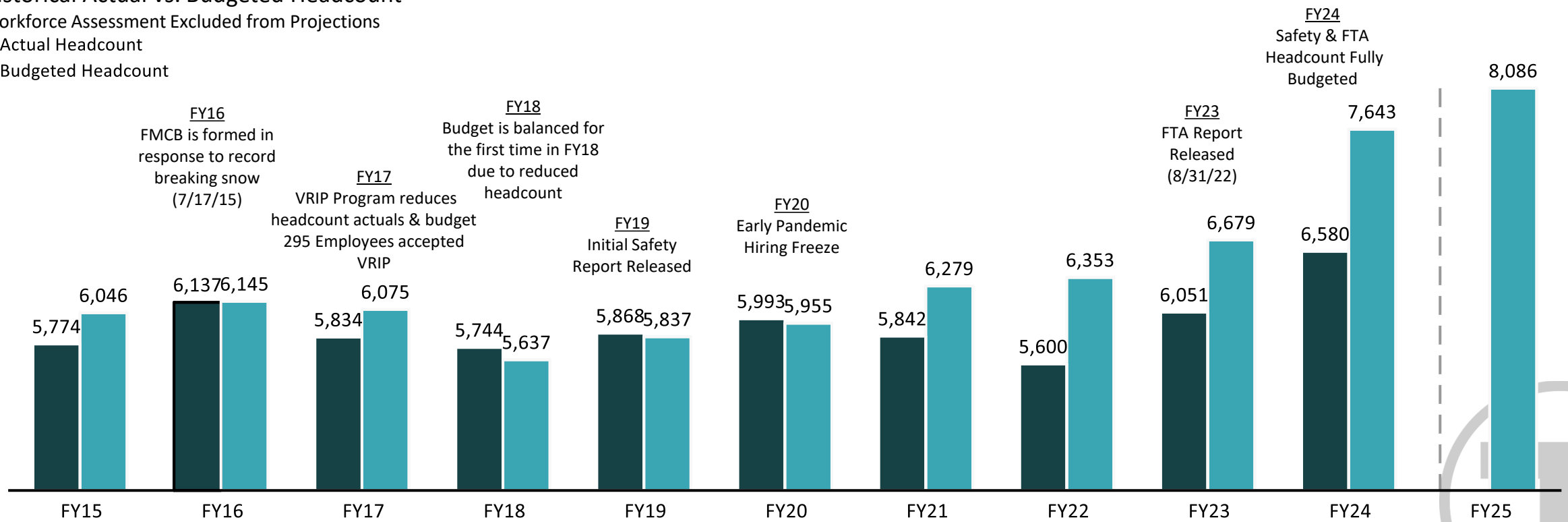
Supporting New Service & Initiatives

- Supporting New Service and Safety Initiatives has required a significant staffing investment
- MBTA hiring accelerates after years of level or decreasing headcount, despite a challenging labor market
- Historical focus on balancing the budget (achieved in FY18) reduced headcount to levels deemed insufficient by Safety & FTA report increased safety incidents

Historical Actual vs. Budgeted Headcount

Workforce Assessment Excluded from Projections

- Actual Headcount
- Budgeted Headcount



First FMCB Budget

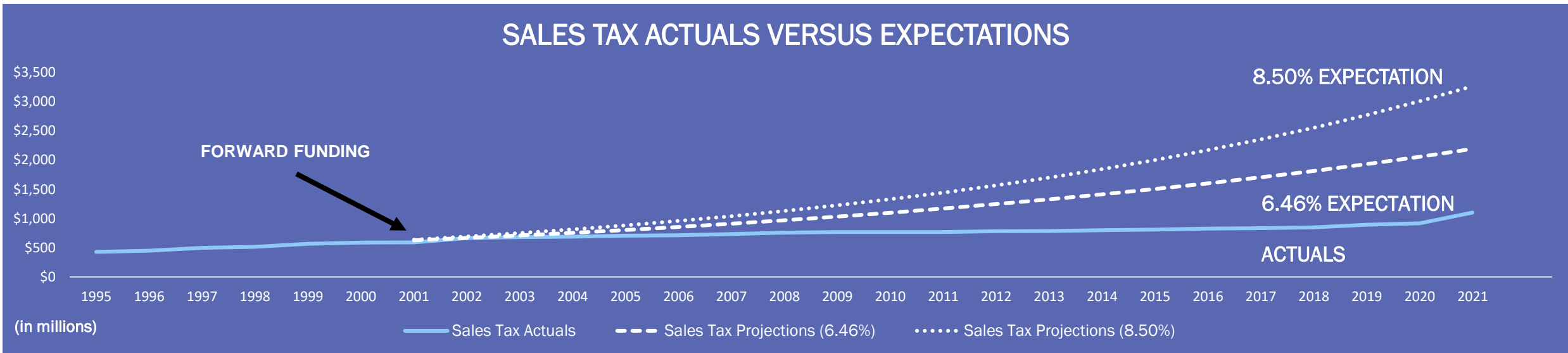
Draft for Discussion & Policy Purposes Only

Forward Funding Sales Tax Performance

In 2000, the Commonwealth established “Forward Funding” to fix what was perceived as ungoverned spending by the MBTA.

- With Forward Funding, the MBTA receives one percent of the statewide sales tax (6.25%) and local assessments that were conditioned upon payment of the debt service on these obligations.

Sales tax revenue grossly underperformed expectations in the first 20 years, growing at an average annual growth rate of 2.29% instead of the anticipated 6.46% - 8.50%, which resulted in **\$8.9-\$15.5 billion of lost revenue in nominal dollars** as compared to expectation.



Per Agency Budget Solves

- Peer agencies receive additional state funding, reduce expenses, and drawdown reserves to balance their FY25 budgets

WMATA

- All three jurisdictions, D.C., Maryland, and Virginia each provided hundreds of millions of dollars of **additional funding to help meet the fiscal year 2025 budget gap.**
- Metro found **\$50 million in cost efficiencies.**
- Customers will see a 12.5% fare increase, which keeps fares in line with inflation.

SEPTA

- Additional state (\$161M) and local (\$24M) funding **(Total: \$185M) in accordance with Governor's budget proposal**
- Drawdown on Service Stabilization Fund (\$76M) to fill the remaining budget gap
- Lottery revenues to fund Shared Ride Program (equivalent to the MBTA's RIDE program)
- Of proposed FY2025 expenses, 21% covered by revenues, 79% covered by subsidies**

NYMTA

- Additional payroll taxes and licensing revenue from casinos dedicated to MTA to solve structural budget deficit
- 4% fare increases proposed every 2 years for the next 6 years, offset by \$65M annual revenue provided by the state to offset the burden on riders
- MTA committed to saving \$500 million in recurring operating costs, starting with \$100 million 2023, **\$400 million in 2024, growing to \$500 million in 2025**

