



**Massachusetts Bay  
Transportation Authority**

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# **FY20 Preliminary Itemized Operating Budget**

**March 11, 2019**



## Disclaimer: Forward Looking Statements

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The materials provided in this presentation contain statements related to our future business and financial performance and future events or developments involving the MBTA that may constitute forward-looking statements. These statements may be identified by words such as "expect," "look forward to," "anticipate" "intend," "plan," "believe," "seek," "estimate," "will," "project" or words of similar meaning. We may also make forward-looking statements in other reports, in presentations, in material delivered to bondholders and in press releases. In addition, our representatives may from time to time make oral forward-looking statements. Such statements are based on the current expectations and certain assumptions of MBTA management, of which many are beyond MBTA control. These are subject to a number of Challenges, uncertainties and factors, including, but not limited to those described in disclosures. Should one or more of these Challenges or uncertainties materialize, or should underlying expectations not occur or assumptions prove incorrect, actual results, performance or achievements of MBTA may (negatively or positively) vary materially from those described explicitly or implicitly in the relevant forward-looking statement. MBTA neither intends, nor assumes any obligation, to update or revise these forward-looking statements in light of developments which differ from those anticipated.



## Agenda

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- 1. Timeline and Statutory Requirements**
- 2. Path to FY20 Proposed Deficit**
- 3. Board Requested Follow Up Items**
- 4. Preliminary Budget and Vote Language**
- 5. Appendix – FY20 Operating Budget Detail**



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## Operating Budget Timeline

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- MARCH 11:**            **Scheduled FMCB vote to release FY20 Preliminary Itemized Budget to MBTA Advisory Board**
  
- APRIL 8:**            Scheduled FMCB vote to release Final Itemized Budget to MBTA Advisory Board
  
- APRIL 15:**          Statutory deadline for FMCB to approve FY20 Budget



## FMCB Enabling Legislation

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### **Under Section 203 of Chapter 46 of the Acts of 2015, the FMCB is to:**

*"Establish 1- and 5-year operating budgets, beginning in fiscal year 2017, which are balanced primarily through a combination of internal cost controls and increased own-source revenues"*

*"Establish separate operating and capital budgets each with clearly designated revenue sources and uses and establish policies and procedures to ensure that no funds are commingled between operating and capital budgets"*



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## Path to FY20 Budget incorporates Service Enhancements

	<i>(in millions)</i>
<b><u>FY20 Deficit (Baseline before Trade-Offs)</u></b>	<b>(\$74.0)</b>
<b>Cost Saving Initiatives</b>	
Rationalization of Existing Open Positions	\$6.5
Commuter Rail Extra Work	\$3.5
Other Cost Saving (Materials/Supplies, Uber/Lyft)	\$6.5
<b>Subtotal Cost Saving Initiatives</b>	<b>\$16.5</b>
<b>Service Enhancements</b>	
Better Bus Project	(\$4.5)
Capital Workforce Expansion	(\$3.5)
Other Enhancements (Customer Communications, RL/OL, etc.)	(\$4.0)
<b>Other Strategic Investments</b>	<b>(\$3.0)</b>
<b>Subtotal Enhancements and Investments</b>	<b>(\$15.0)</b>
<b>Revenue Opportunities</b>	
Proposed Fare Increase	\$32.0
Advertising Initiative	\$5.0
Investment Income	\$4.0
Other Revenue (Reimbursement, Corp Pass, Real Estate)	\$7.0
<b>Subtotal Revenue Initiatives</b>	<b>\$48.0</b>
<b>FY20 Preliminary Budget</b>	<b>(\$24.5)</b>



## Revenue and cost saving initiatives to impact deficit

### Options for Closing \$74M Budget Gap

**Cost Saving Initiatives  
(\$16.5M)**

**Service Enhancements  
\$12M**

**Other Strategic  
Investments  
\$3M**

**Revenue Opportunities  
(\$48M)**

- Rationalization of Existing Open Positions (\$6.5M)
- RIDE Uber/Lyft Pilot Changes (\$1.5M)
- Material and Supply Management Process (\$5M)
- Commuter Rail Scope Changes (\$3.5M)
- Better Bus Project (\$4.5M)
- FY20 Projected Capital Hiring – Operating Impact (\$3.5M)
- Customer Communications Contract (\$1.5M)
- Additional Orange Line / Red Line Operators (\$1M)
- AFC 1.0 Continued System Support (\$0.5M)
- Technology Investments (\$1M)
- Expand MBTA property insurance coverage (\$1M)
- Additional Warehouse Rent for Capital Spares (\$0.5M)
- Outside Counsel Resources (\$1M)
- Internal System Support (\$0.5M)
- Proposed Fare Increase (\$32M)
- Reimbursement Initiatives (\$3M)
- Increase Income via short-term investments (\$4M)
- Maximize Advertising Revenue beyond digital live-boards (\$5M)
- Real Estate Lease/License Review (\$2M)
- Corporate Pass Program (\$2M)





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## Board requested follow up items from March 4 FMCB meeting

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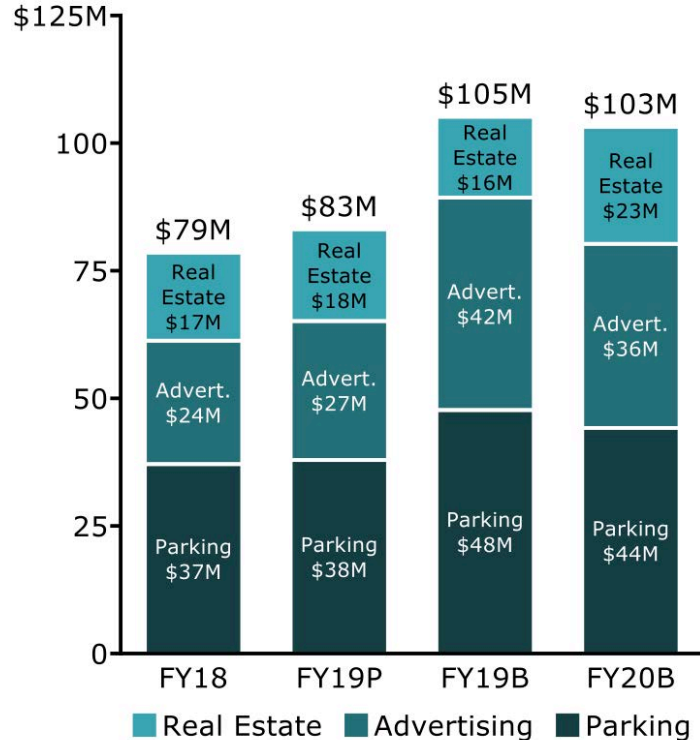
- A. Own Source Revenue Targets (Revenue)**
- B. Uber/Lyft Costs (Cost Saving)**
- C. Operating Workforce (Cost Saving)**
- D. Materials and Supplies (Cost Saving)**
- E. Better Bus Project (Investment)**
- F. Capital Workforce Expansion (Investment)**



## A. OWN SOURCE REVENUE: Consistent year-over-year growth with achievable FY20 budget targets

### OWN SOURCE REVENUE

MBTA Own Source Revenue (\$M)



### BACKGROUND

- Incremental FY20 revenue from advertising and real estate initiatives included in current budget
- Authority defines own source revenue as real estate, advertising and parking
  - Corporate pass revenue is fare revenue, not own-source
  - Investment income shown in non-operating 'other' revenue, not own-source

#### Parking (FY19)

- Dynamic repricing has led to increased occupancy (+5% over FY18)
- Facility conditions in lots & garages have improved

#### Advertising (FY19)

- Revenue 13% higher than FY18 (Digital revenue +49%)
- 700 digital panel installation nearly complete; driving revenue growth

#### Real Estate (FY19)

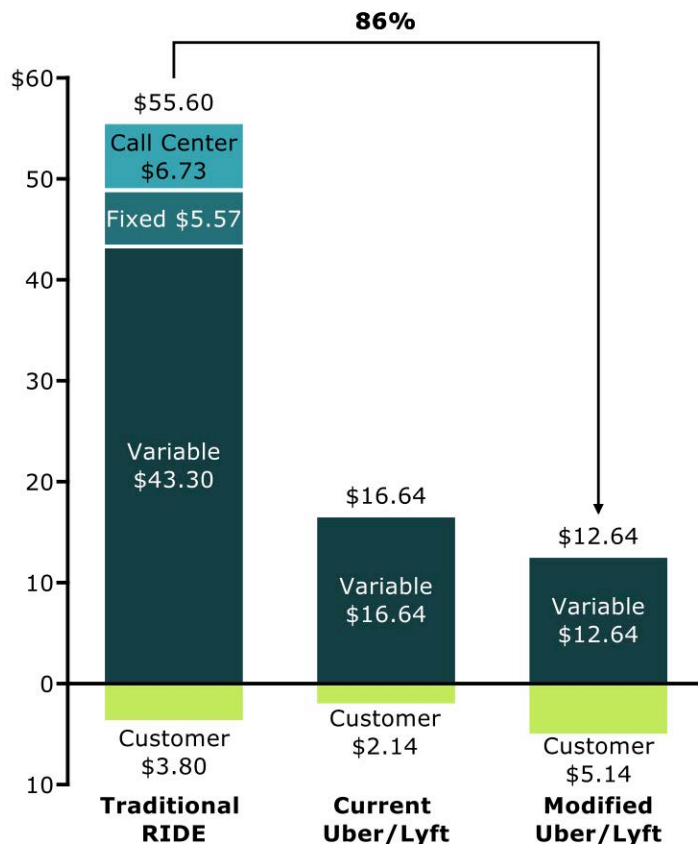
Revenue +4% over FY18

\*Parking revenue is net of securitization



## B. THE RIDE: On-Demand Pilot vs. Traditional RIDE Per-Trip Cost Analysis

### RIDE COST PER TRIP



### BACKGROUND

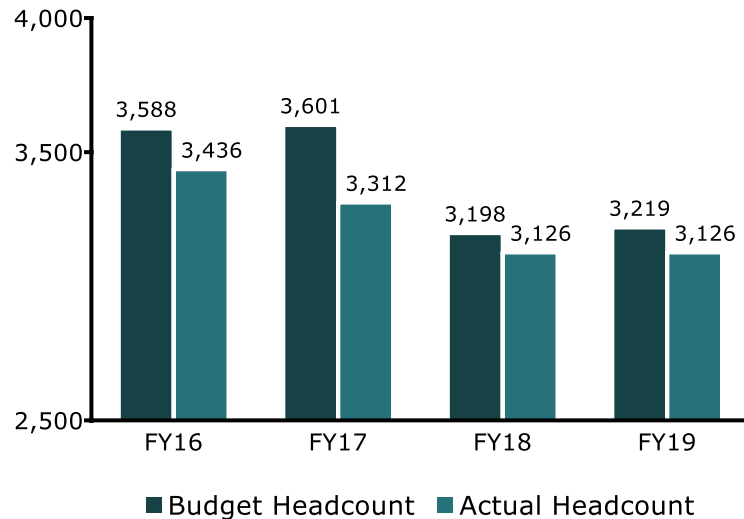
- All MBTA variable costs are inclusive of the average customer fares / co-pays
- Actual customer cost per trip by mode:
  - › Traditional RIDE Fare
    - » Avg. \$3.80
    - » \$3.30 regular / \$5.60 for premium
  - › Current Pilot Co-Pay
    - » Avg. \$2.14
    - » \$1.00 Shared Trip / \$2.00 Non-Shared Trip
  - › Proposed Pilot 2.0 Co-Pay
    - » Avg. \$5.14
    - » \$3.00 Shared Trip / \$6.00 Non-Shared
- MBTA maximum subsidy stays the same for Pilot trips at \$40.00 / trip
- Changes are expected to save the MBTA \$1.6M



## C. OPERATING WORKFORCE: Rationalize open position list based on priority and ability to hire

### OPERATING HEADCOUNT

Operating Positions  
Budget vs Actual



### BACKGROUND

- Prioritization of hiring needs and consideration of hiring lag will allow \$6.5M in wages and fringe to be reallocated in FY20 budget
- Req list does not include bus transportation
- Current speed of hiring keeps pace with attrition but not budget:
  - Non-capital hires YTD: 264
  - Non-capital separations YTD: 244
- Requisitions reflect challenge to add staff:
  - 40% of Reqs have been open for 90+ days
  - 20% of Reqs have been open for 120+ days
- Goal is to pare back FY20 open req list by 25-35 positions and account for lag in hiring
  - These positions are not being eliminated
- Implementation of a workforce planning tool a priority of Human Resources in FY20

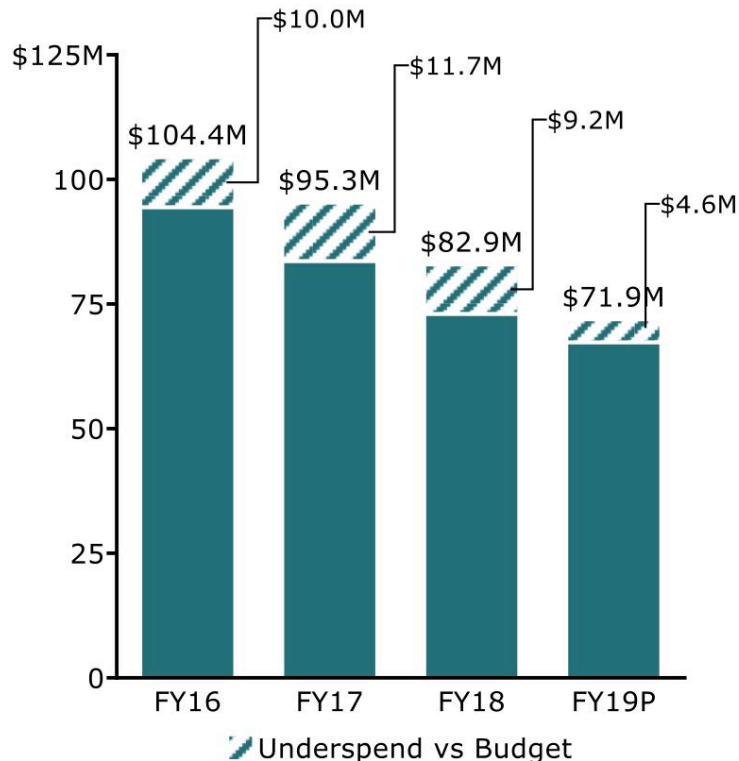
\*Bus operators not included in headcount. VE transferred to capital budget. Data as of January 31.



## D. MATERIALS AND SUPPLIES: Consistent underspend to be rationalized in FY20 budgets

### MATERIALS SPEND

Material/Supply Budget vs Actual  
FY16 - FY19P



### BACKGROUND

- Authority spend across materials, supplies, uniforms and fuel is consistently below budget
  - Average underspend was 15% since FY16
- Strategic investments will cause this trend to continue in FY20. Examples include:
  - Enterprise fuel management system
  - Remanufactured parts initiative
  - Digitized training (e.g. ROW)
  - Increased inventory storage capacity (e.g. Southampton garage)
  - Obsolescence and disposition/auction of parts
  - Electronic payment processing vs checks
- Focus departments include operations maintenance, technology, commuter rail, treasury and environmental

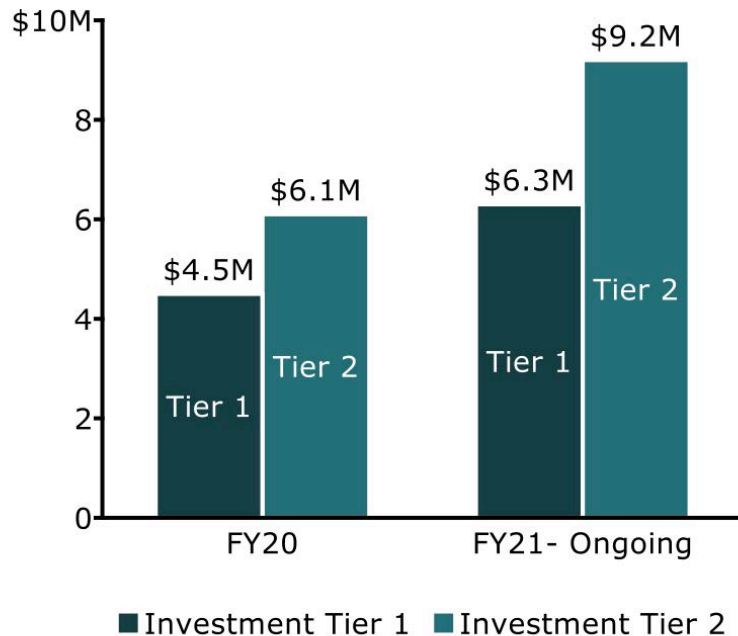
*\*Warehouse and vendor management to provide more in-depth update on Mancon performance at upcoming meeting*



## E. BETTER BUS PROJECT: Investment steps up after FY20 as FTEs are fully phased into the project

### BETTER BUS INVESTMENT

Annual Spend by Tier



### BACKGROUND

#### FY20 Budget Impact:

- Investment of \$4.5M in FY20 will be used to onboard 30 new FTEs during fall rating (Tier 1)
- Smaller FY19 spend accounts for time to hire, training and phasing
- No corporate overhead or OCC overhead included

#### Investment Impact:

- Improved off-peak service on top forty routes / corridors (based on greatest need)
- 90% OTP, SDP frequency, SDP span of service (for 20 routes)
- Investment in FTEs to coincide with workforce modernization, trial dispatching pilot and network redesign

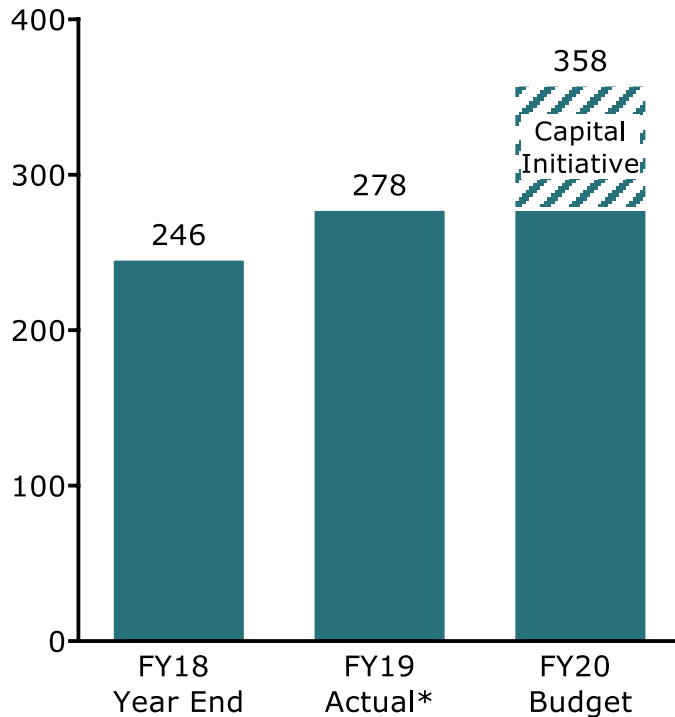
Source: MBTA Internal Data



## F. CAPITAL WORKFORCE EXPANSION (Phase 1): Hiring of eighty capital employees with associated fringe costs

### CAPITAL WORKFORCE

Capital Department  
Headcount



### BACKGROUND

#### **FY20 Budget Impact:**

- Fringe costs (pension, healthcare, etc.) approximately \$3.5M for an additional 80 capital employees
- Wages will not hit operating budget - to be paid using non-debt capital funding sources
- All 80 employees are net new hires (no transfers or backfills)

#### **Phase I Department Needs (80 FTEs):**

- Chief Engineer's Office
  - › Asset Management (5), Quality Management (5), Infrastructure Engineering and Planning (5), Vehicle Engineering (5)
- Capital Delivery
  - › Program and Project Management (25)
- Transit Services
  - › E&M (10), Vehicle Maintenance (10) and Transport (8)
- Capital Planning and Program Oversight (7)

\*Transfer of 20 Vehicle Engineering FTEs to Capital Budget in FY19. Data as of January 31.





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## FY20 Preliminary Itemized Operating Budget

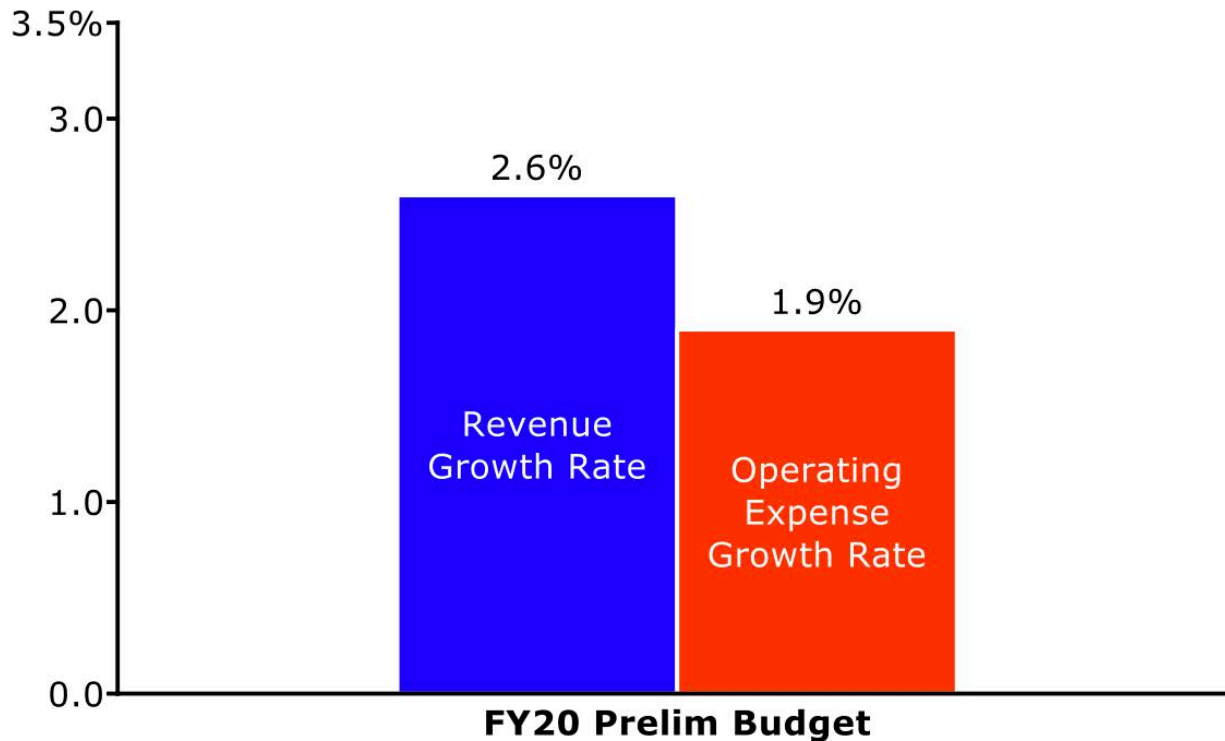
	(\$M)	FY19 BUDGET RECAST	FY20 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE
<b>REVENUES</b>	Operating Revenues	\$758.4	\$810.3	\$51.9	6.8%
	Non-Operating Revenues	\$1,275.1	\$1,274.7	(\$0.4)	0.0%
	<b>Total Revenues</b>	<b>\$2,033.4</b>	<b>\$2,085.0</b>	<b>\$51.6</b>	<b>2.6%</b>
<b>EXPENSES</b>	Wages, Benefits and Payroll Taxes	\$770.5	\$789.7	\$19.2	2.5%
	Non-Wage	\$817.4	\$828.9	\$11.5	1.4%
	<b>Operating Expenses</b>	<b>\$1,587.9</b>	<b>\$1,618.6</b>	<b>\$30.7</b>	<b>1.9%</b>
	<b>Debt Service</b>	<b>\$482.0</b>	<b>\$490.9</b>	<b>\$8.9</b>	<b>1.9%</b>
	<b>Total Expenses</b>	<b>\$2,069.2</b>	<b>\$2,109.5</b>	<b>\$40.3</b>	<b>1.9%</b>
	<b>Structural Deficit</b>	<b>(\$36.5)</b>	<b>(\$24.5)</b>	<b>(\$12.0)</b>	<b>-32.9%</b>

\*Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures



## FY20 preliminary budget maintains required operating expense ratio (OER) with revenue growth exceeding expense growth

Operating Expense Ratio



Note: Operating Expense Ratio (OER) is the ratio between the projected FY20 Operating Expense Growth Rate and Revenue Growth Rate. Operating expense growth does not include incremental debt service. FMCB has been tasked with ensuring Revenue Growth exceeds Operating Expense Growth.



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## Preliminary Budget Vote for Today

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- That the General Manager is hereby authorized and directed to submit the Preliminary FY20 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 FY20 Itemized Budget will be submitted to the Fiscal Management and Control Board no later than April 15, 2019 in accordance with Section 20 of Chapter 161A of the Massachusetts General Laws.



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## FY20 revenue from all sources up 2.6%, driven by additional fare revenue

	(\$M)	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
<b>OPERATING</b>	Fares, all modes	\$664.7	\$696.5	\$31.8	4.8%	• Fare Increase
	Own-Source Revenue	\$83.2	\$103.2	\$20.0	24.0%	• Advertising and Real Estate initiatives
	Other Operating	\$10.5	\$10.6	\$0.1	0.1%	
	<b>Operating</b>	<b>\$758.4</b>	<b>\$810.3</b>	<b>\$51.9</b>	<b>6.8%</b>	
<b>NON-OPERATING</b>	Dedicated Sales Tax	\$1,032.0	\$1,063.0	\$30.9	3.0%	• Adjustment per statute
	Dedicated Local Assessment	\$170.1	\$174.4	\$4.3	2.5%	• Adjustment per statute
	Other	\$72.9	\$37.4	(\$35.6)	-48.8%	• Exclude FY19 one-time revenues
	<b>Non-Operating</b>	<b>\$1,275.1</b>	<b>\$1,274.7</b>	<b>(\$0.4)</b>	<b>0.0%</b>	
<b>Total Revenues</b>		<b>\$2,033.4</b>	<b>\$2,085.0</b>	<b>\$51.6</b>	<b>2.6%</b>	

\*FY19P represents year-end projections for Fiscal 2019

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## FY20 wages and benefits increase modestly due to CBA and pension contribution

	(\$M)	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
<b>WAGES</b>	Regular Wages	\$451.7	\$469.7	\$18.0	4.0%	• CBA impact, continued headcount management
	Overtime	\$47.4	\$34.1	(\$13.3)	-28.1%	• Continued management focus
	<b>Wages</b>	<b>\$499.1</b>	<b>\$503.7</b>	<b>\$4.7</b>	<b>0.9%</b>	
<b>BENEFITS AND TAXES</b>	Pension <sup>^*</sup>	\$102.9	\$116.2	\$13.3	13.0%	• Forecast ARC
	Health	\$103.8	\$103.9	\$0.2	0.2%	• Average GIC growth of 3%, offset by lower headcount
	<i>Retiree Health</i>	\$43.3	\$43.4	\$0.1	0.1%	
	Health & Welfare Fund	\$11.8	\$11.9	\$0.1	0.9%	
	Other Fringes	\$12.8	\$12.5	(\$0.3)	-2.3%	• Driven by regular wages
	Payroll Taxes	\$40.2	\$41.4	\$1.2	2.9%	• Driven by regular wages
	<b>Benefits and taxes</b>	<b>\$271.4</b>	<b>\$285.9</b>	<b>\$14.6</b>	<b>5.4%</b>	
<b>Total Wages, Benefits and Taxes</b>		<b>\$770.5</b>	<b>\$789.7</b>	<b>\$19.2</b>	<b>2.5%</b>	

<sup>^</sup>FY18 pension expense is an estimate and will not be finalized until MBTRF and its actuaries complete their 12/2017 investment valuation.

\*Pension includes Main Fund, Police, Deferred Compensation Supplement, 401(a) MBTA Match



## Non-wage operating expenses increase slightly year-over-year

	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION	
<b>MATERIALS AND SERVICES</b>	Materials	\$44.6	\$43.4	(\$1.2)	-2.8%	• Inventory initiative
	Services	\$119.6	\$123.8	\$4.2	3.5%	• Flexible contracts
	Utilities	\$41.8	\$41.2	(\$0.6)	-1.4%	• Little change due to long term contracts
	Fuel	\$16.6	\$14.7	(\$1.9)	-11.5%	
	Contract Cleaning	\$25.7	\$27.4	\$1.7	6.6%	• Contract extension related
	Uniform	\$2.6	\$2.1	\$0.4	-16.9%	• Stable headcount and prices
	<b>Materials and Services</b>	<b>\$250.9</b>	<b>\$252.6</b>	<b>\$1.7</b>	<b>0.7%</b>	
<b>INSURANCE</b>	<b>Insurance Premiums and Damages</b>	<b>\$13.1</b>	<b>\$14.3</b>	<b>\$1.2</b>	<b>9.8%</b>	• Property coverage

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## Non-wage operating expenses continued

	(\$M)	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
<b>COMMUTER RAIL</b>	Fixed Price	\$327.3	\$335.1	\$7.8	2.4%	• Annual contract escalation
	Extra Work and Services	\$45.4	\$45.1	(\$0.3)	-0.6%	• Pared back extra work
	Fuel	\$29.4	\$29.4	\$0.0	0.0%	
	PRIAA	\$9.3	\$9.3	\$0.0	0.0%	
	<b>Commuter Rail</b>	<b>\$411.4</b>	<b>\$418.9</b>	<b>\$7.5</b>	<b>1.8%</b>	
<b>LOCAL SERVICE</b>	THE RIDE	\$116.3	\$115.2	(\$1.1)	-1.0%	• Software to enhance productivity
	Ferry	\$14.9	\$16.5	\$1.6	11.0%	• New contract
	LSS Other	\$3.0	\$3.2	\$0.1	4.6%	
	<b>Local Service</b>	<b>\$134.2</b>	<b>\$134.9</b>	<b>\$0.7</b>	<b>0.5%</b>	
<b>OTHER</b>	<b>Financial Service Charges</b>	<b>\$7.8</b>	<b>\$8.1</b>	<b>\$0.3</b>	<b>3.6%</b>	
	<b>Non-Wage Expenses:</b>	<b>\$817.4</b>	<b>\$828.9</b>	<b>\$11.5</b>	<b>1.4%</b>	

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## Debt service to increase modestly in Fiscal 2020

	(\$M)	FY19 PROJ	FY20 BUDGET	\$ VARIANCE	% VARIANCE	EXPLANATION
<b>DEBT SERVICE</b>	Interest	\$215.8	\$214.1	(\$1.8)	-0.8%	• Interest rates stabilizing
	Principal	\$266.2	\$276.9	\$10.7	4.0%	• Per amortization schedule
	<b>Debt Service</b>	<b>\$482.0</b>	<b>\$491.0</b>	<b>\$9.0</b>	<b>1.9%</b>	

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## FY20 Cost Savings Initiatives

TYPE	OPTION	DESCRIPTION	Deficit Impact
<p><b>Pending FMCB Discussion (Savings)</b></p> <p><b>\$16.5M</b></p>	<p>RIDE On-Demand Pilot Uber/Lyft</p>	<p>Pilot amendments should include: 1) Increase cost per trip; 2) Require ridesharing to match RIDE practices; 3) Simplify and increase pilot trips. (\$1.5M)</p>	
	<p>Rationalization of Existing Open Positions</p>	<p>Authority has 157 open positions as of February 25. Average Req has been open for more than 100 days. Prioritize current hire list, eliminate approx. 20% of existing open positions and discount for hiring lag. (\$6.5M)</p>	
	<p>Materials/Supplies Management</p>	<p>Improving cycle counts, utilizing new capacity and strategically reducing consumption of materials. (\$5M)</p>	
	<p>Commuter Rail Extra Work</p>	<p>Rationalize extra work (reduce on-call mechanical and engineering support) and scope changes. (\$3.5M)</p>	



## FY20 Service Enhancements

TYPE	OPTION	DESCRIPTION	Deficit Impact
<b>Committed (Costs)</b>  <b>\$2M</b>	Customer Experience / Communications	Advertising and media for paid external media campaigns and other customer communications. (\$1.5M)	↑
	AFC 1.0 Support	Support existing fare system. Spare parts and end of life costs increasing for hardware and software. (\$0.5M)	↑
	Better Bus Project	Additional operators and maintenance staff to support enhanced service on forty key bus routes. (\$4.5M)	↑
<b>Pending FMCB Discussion (Expense)</b>  <b>\$10M</b>	Capital Hiring Initiative	Operating (fringe) cost associated with a substantial (80 employee) increase to capital workforce. (\$3.5M)	↑
	RL/OL Operators	Additional operators to support orange line and red line service upon receipt of new cars. (\$1M)	↑
	Various Technology Investments	Tablets and WiFi for bus operations/scheduling, HASTUS maintenance/upgrades, and enhancements to customer systems including M-Ticket, Smart Bus, Transit Master & Pay-by-Phone etc. (\$1M)	↑



## FY20 Other Strategic Investments

TYPE	OPTION	DESCRIPTION	Deficit Impact
<b>Committed (Costs)</b>  <b>\$1.5M</b>	Property Insurance Policy	Expanding property policy to address gaps and enhance coverage. (\$1M)	↑
	Rent for Additional Warehouse Space	New warehouse space required for capital spares associated with MBTA vehicle procurements. (\$0.5M)	↑
<b>Pending FMCB Discussion (Expense)</b>  <b>\$1.5M</b>	Outside Counsel	Additional resources to support complex MBTA projects, contract disputes and labor relations negotiations. (\$1M)	↑
	Internal Systems Support	Additional system administrators, help desk specialists and support for intranet. (\$0.5M)	↑



## FY20 Revenue Initiatives

TYPE	OPTION	DESCRIPTION	Deficit Impact
<b>Committed (Revenue)</b>  <b>\$11M</b>	Reimbursement Initiative	Deployment of a risk management system to ensure timely submission, tracking and receipt of insurance payments. Formalization of warranty reimbursements across maintenance divisions. Expansion of prompt pay program in receivables group. (\$3M)	↓
	Investment Income	Maximize investment income while remaining in compliance with MBTA Investment Policy. (\$4M)	↓
	Real Estate	Review portfolio of licenses and leases, and increase rates where possible. Scrub TOD pipeline. (\$2M)	↓
	Corporate Pass	Maximize corporate pass revenue, net of cannibalization from fare vending machines. Full year of re-branded Perq. (\$2M)	↓
<b>Pending FMCB Discussion (Revenue)</b>  <b>\$37M</b>	Fare Increase Proposal	Average of 6.3% across all fares. If adopted the increase would take effect July 1, 2019. State law allows the MBTA to raise fares at regular, modest increments, limiting increases to once every 2 years and a cap of no more than 7% for each increase. (\$32M)	↓
	Advertising Initiative	Maximize advertising revenue beyond digital live boards, using existing and new space across the MBTA footprint. (\$5M)	↓