To: Transportation Finance Commission

From: Michael J. Widmer, Chair, Transit Subcommittee

Subject: Interim Report of Transit Subcommittee

Date: March 10, 2005

The Transit Subcommittee of the Transportation Finance Commission met on February 18 and has another meeting scheduled for March 18 at 10:00 am at the offices of the Massachusetts Taxpayers Foundation, 333 Washington St., Suite 853, Boston.

The February 18 meeting was well attended and produced a wide-ranging discussion of financial issues facing the MBTA and the RTAs. The subcommittee will work with EOT, MBTA and RTA staff to complete its report after the March 18 meeting. In the interim, we offer the following preliminary observations and conclusions.

I. Existing Agency Mission

A. Mission: What is the core purpose of the agency?

B. Objectives: What are the agency's objectives? Are they consistent with the mission and with the internal and external environments?

For much of the past two decades, the T has focused on expanding its system as widely as possible. The financial implications of those expansions – an enormous debt burden, operating deficits and deferred maintenance and modernization needs – are now major factors contributing to the T's financial difficulties. The T needs to refocus its objectives on improving the quality of existing services, building ridership, and attaining fiscal stability.

Public transportation customers view transit as an essential service; therefore, the transit organizations must provide service to those who use it. However, the public should understand that transit benefits non-users as well, and the Massachusetts economy is highly dependent upon transit. Continued expansion of the T promises a host of transportation, economic and environmental benefits. Extending the reach of the T's services should remain a major focus of the state's transportation planning and capital spending.

However, the T's ability to finance its capital program under the forward funding fiscal reforms is limited by the finite state subsidies it now receives, and by the need to control spending on debt service, which already consumes 30 percent of the T's budget. With the total cost of the outstanding Artery mitigation projects in excess of $3 billion and a $2.7 billion backlog of deferred repair and replacement needs, the T cannot afford to build the proposed expansion projects without putting the entire transit system at risk – either by sacrificing critical maintenance and modernization of the existing system, or by incurring an ever-higher mountain of debt and pushing the Authority toward insolvency.

If the Commonwealth is committed to completing the Artery mitigation projects – whether the current set of projects or substitutes – it will have to identify new ways to fund them. The T must focus its limited capital resources on the upkeep of the existing system while the

Commonwealth assumes responsibility for expansion as part of a comprehensive, statewide transportation investment strategy.

II. Revenues - FY 2006 - 2010

A. Estimated revenues available to fund operations and maintenance from all sources (taxes, user charges, federal, other) under current policies

The T's May 2004 Finance Plan projects $6.8 billion in revenues available to cover operations and debt service between FY06 and FY10. Of the $6.8 billion total, $4.7 billion will be required to cover projected operating costs.

Source	$ M
Sales Tax	$3,854
Assessments	715
Fares	1,884
Non-Fare	358
Total	$6,811

However, sales tax revenues in FY06 are now projected to come in below the levels forecast in the Finance Plan due to slow growth in sales and low inflation rates. The subcommittee will work with the T to update the revenue projections.

B. Estimated revenues available to fund debt service from all sources under current policies over next five years

Of the $6.8 billion total, $2.1 billion is projected to be available for debt service.

1. **Of the revenues available to fund debt service, the amount needed to pay debt service on bonds and notes that have already been issued**

   Of the $2.1 billion available for debt service, $1.76 billion will be required for bonds already issued at the time of the May 2004 Finance Plan.

2. **Of the revenues available to fund debt service, the estimated amount available to support new bond issues**

   Of the $2.1 billion available for debt service, less than $400 million will be available for debt service on new bonds

3. **Estimated amount of new bonds that could be issued over the next five years with available revenues**

   The MBTA plans to issue $1.42 billion in bonds to finance its capital plan between FY05 and FY10.

C. Other sources of funding for capital projects available over next five years, such as federal aid, operating surpluses, funds set aside for pay-as-you-go capital spending, unrestricted reserves and private sector investments

Source	$ B
Revenue Bond	$1.42
Federal	1.31
Pay-Go, Other	0.23
Total	$2.96

The T projects $1.3 billion in federal capital funds between FY05 and FY10 assuming that federal aid in the reauthorization legislation will be equal to the levels provided by the current authorization. The T also projects to spend about $230 million in pay-as-you-go capital funds, state funds, and project revenues over the same period.

Federal formula capital funds for the T and RTAs cover 80% of projects costs, while discretionary federal new starts funds now cover only 50%. Nearly all RTA capital costs are 80% federally funded; state match provided with proceeds of bonds issued under the bond cap. RTAs receive substantial federal operating revenues. MBTA federal operating revenues are minor and are used for capital.

D. Identify legal, organizational and administrative issues that affect agency's revenues

Transit agencies need net new revenues to finance capital investments. Creative financing schemes that use existing revenues in new ways will not be sufficient. So-called "one-time" revenues derived from real estate transactions or debt refinancing do not provide stable long-term revenue sources. Debt restructuring has been done to balance budgets rather than create additional capacity for capital investments.

RTAs expect to do well under current federal reauthorization proposals because their characteristics are more similar to southern and western areas more than northern urban systems. New federal funding formulas are likely to favor southern and western states.

The Commonwealth needs to consider the possibility that this could be the last reauthorization – federal funding could be eliminated due to deficits and moves to push costs to the states.

RTAs have made deep cuts in service in response to level state funding. PVTA, for example, has gone from 13 million trips per year to 9.2 million. Service cuts have reduced fare revenues more than costs because a large portion of costs are fixed.

E. Can the revenue sources and/or capital structure adjust to the conditions in the external environment?

A weak economy, with population declines, job losses, mergers and sluggish tax revenue growth, makes it more difficult to support major investments in transportation. However, an effective transportation system is critical to future economic growth.

Priority should be given to improving service in the areas that are the engines of the state's economic growth. Future economic trends – where growth will be, which industries – needs to be a major factor in priority setting for the T and RTAs. This is currently done only to a limited extent. RTAs/RPAs have done analyses of future demand, e.g., growth in the elderly population. MAPC's 25-year forecasts are reflected in the analysis of projects for the T's Program for Mass Transportation.

III. Obligations FY 2006 - 2010

A. Estimated cost of operations and routine maintenance over next five years

The T's May 2004 Finance Plan projects operations and maintenance costs of $4.7 billion between FY06 and FY10.

B. Estimated cost of addressing backlog of deferred maintenance, repair and replacement projects, including summary of significant projects

The T's State of Good Repair analysis identifies a one-time backlog of deferred maintenance, repair and replacement projects of $2.7 billion and estimates that the T would have to spend $450 million annually just to keep even. Addressing the backlog over 20 years and keeping up with new needs would require spending an average of $570 million annually.

C. Estimated cost of enhancement and expansion projects - under construction or planned - including summary of significant projects

The T's FY05-FY10 capital plan includes $233 million for projects that make investments in the existing system to enhance service for riders as well as to attract more riders to the system. The most significant efforts under the enhancement program are the North Station Superstation project, the Fairmount Corridor Improvements project, and new parking initiatives.

The T's capital plan includes $503 million for expansion projects, including $310 million for the Greenbush commuter rail line and $175 million for completion of the Silver Line Phases I and II and planning and design for Silver Line Phase III. Funding for construction of Phase III, estimated to total $780 million, is not included in the capital plan.

Other major expansion and enhancement projects which are legally required as environmental mitigation for the Central Artery or otherwise under active consideration but not funded in the T's current capital plan would cost an estimated $7.3 billion.

Central Artery Transit Commitments	$ M
Silver Line Phase III - Construction	$780
Green Line Arborway restoration	85
Green Line extension to Medford	461
Blue Line/Red Line connector	237
Orange Line signals and vehicles	268
Subtotal	$1,831
Other Major Projects	
Fairmount line improvements	$59
New Bedford-Fall River commuter rail	850
Blue Line extension to Lynn	493
Blue Line extension Lynn to Salem	364
Urban Ring Phase I - Crosstown buses	100
Urban Ring Phase II - Bus Rapid Transit	625
Urban Ring Phase III - Rail	3,000
Subtotal	$5,490
Total	$7,321

D. Estimated annual net operating and maintenance costs (or savings) resulting from capital projects that will be completed over next five years

The T's May 2004 Finance Plan projects that completed capital projects will increase annual operating costs by approximately $30 million per year. The total impact between FY06 and FY10 is a projected $151 million.

E. Identify legal, organizational, administrative, planning and project selection issues that affect agency's obligations

The Commission needs to focus on operating costs and shortfalls in addition to capital costs and shortfalls. Inability to cover their operating costs led to the demise of the private railroads.

Transportation service providers have been impacted by the loss of transportation programs and funding. In most cases, the transportation need is not eliminated; clients are merely shifted to other programs or the trips are not made. For example, Medicaid transportation passes were eliminated.

The RTAs are preparing an analysis of the gap between current funding and the costs of providing expanded services, including the level of service provided before recent cuts. Urbitran, the consultant doing the study, is examining human services, elderly and second/third shift employment transportation needs. A draft report should be available in late April 2005. Specific federal funding for welfare-to-work transportation provided through the Department of Transitional Assistance was eliminated two years ago.

The MBTA has done a good job reducing its headcount, particularly at the management level, and controlling wage and benefit increases, but is still hobbled by restrictive work rules. Management rights that were eliminated should be restored.

The Pacheco Law inhibits competitive contracting for most services that could reduce costs.

A report from EOT to the Legislature identified potential savings for the T and RTAs through joint procurements and shared resources. The report was required by the same transportation restructuring legislation that created the Finance Commission. The Commission could support implementation of the recommendations by endorsing the report.

The MBTA's Ride Program budget is currently about $40 million and demand for RIDE services continue to grow. There is consensus at the MBTA that the program provides an important service, and is politically very sensitive to general performance as well as service cuts. A portion of the program's growth is attributable to funding cuts for other transportation services, which has caused these riders to shift to the MBTA. Also, the MBTA eligibility requirements may be more liberal and fares ($2) lower than those applied in non-MBTA communities. The T should consider tightening eligibility standards for The Ride.

The 2½ percent cap on RTAs' increases in operating costs creates disincentives to expand services and is not necessary to control state costs. The cap should be lifted.

Forward funding of RTAs would save 1.6% of costs currently spent on interest on revenue anticipation notes. The Commission should consider the RTA proposal to use "excess" Registry fees to pay for forward funding against other proposals to use same funds.

RTAs have largely maintained their assets and do not have the same state of good repair issues as the T.

The MBTA and RTAs are not subject to same legal liability limitations as other state agencies – "tort reform" would reduce insurance costs.

IV. Funding Shortfalls - FY 2006 - 2010

A. Estimated funding shortfall (or surplus) for operations and routine maintenance, i.e., II.A. – (III.A + III.D)

The T's May 2004 Finance Plan projects that operating revenues will be adequate to cover operating costs with minor surpluses between FY06 and FY10. However, the T is projecting a deficit of $16 million in its FY06 operating budget. The subcommittee will work with the T to update the long-term projections for operating revenues and costs.

B. Estimated funding shortfall (or surplus) for capital investments, i.e., (II.B.3. + II.C.) – (III.B. + III.C.)

The T's May 2004 Finance Plan projects that operating revenues will be adequate to cover debt service on bonds that, together with expected federal funds and other sources, will fund the spending in the T's capital plan. However, planned spending will not cover all of the T's capital priorities.

Spending on deferred maintenance, repair and replacement projects in the T's capital plan is not sufficient to meet the targets included State of Good Repair (SGR) analysis. Assuming that all non-expansion spending in the capital plan addresses SGR needs, the T plans to spend an average of $409 million annually on SGR between FY05 and FY10. Meeting the SGR analysis' target of $570 million would require spending an additional $160 million per year, or $800 million total between FY06 and FY10.

The cost of outstanding Central Artery commitments that are not funded in the T's capital plan totals approximately $1.8 billion. Other major expansion and enhancement projects that are not legally required but are under active consideration would total at least $5.5 billion more.

V. Ideas for Addressing Funding Shortfalls - FY 2006 - 2010

A. Cost savings, additional revenues and/or improved services through use of technology, e.g., automated fare collection

Automated fare collection should increase ridership and reduce revenue leakage. RTAs and private feeder buses should use the same system. RTAs have their own AFC systems that allow riders to pay for parking with same card, and the T's system should have the same capability. A statewide pass program good for transit, parking and transportation services provided by the MBTA, the RTA's and private bus carriers would work better and would attract ridership. The RTAs are investigating the possibility of a statewide AFC card. The Commonwealth should consider a statewide AFC/ETC system – one card for all fares and tolls.

Automated fare collection is unlikely to pay for itself unless it produces savings as well as new revenues. Redeploying token booth clerks as station greeters will reduce potential savings.

An MBTA revenue enhancement strategy should prioritize increasing off-peak ridership, particularly on rail modes. Off-peak discounts on lines that have additional capacity, such as commuter rail at mid-day, would increase ridership and revenues. Adding riders during off-peak periods increases revenues without increasing costs since the cost of providing service is already being incurred. Discounts offer less potential on rapid transit lines that are at or near capacity most of the time.

The RTAs strategy could (subject to adequate operating funds) prioritize restoration of off-peak services that have been cut, particularly on Saturdays/Sundays. RTA member communities are clamoring for such service. BAT and other RTAs have implemented such a program, and it works well. In Western Massachusetts, the 'G-Link' between Greenfield and Gardner is doing standing room business. RTAs are constantly evaluating the mix of services they provide to identify unmet needs and instances of oversupply so that service delivery can be adjusted. RTAs operating buses might be able to adjust service more readily than can a large transit authority operating rapid transit and light/heavy rail assets – but the universal goal for all transit providers is to fill the off-peak seats. For the MBTA, this is especially critical to commuter rail operations.

B. Sources of new revenues from internal sources, e.g., new or increased user charges, real estate development, advertising

The Commonwealth should consider using highway toll revenues as a funding source to subsidize mass transit. Tollpayers benefit from transit due to reduced traffic congestion. This would be a concrete example of a multi-modal, integrated system. The state needs to break down silos where revenues from each transportation mode are used only for that mode. New York is a model – the Triboro Bridge and Tunnel Authority substantially subsidizes the MTA. Tolls should be an option for all major highway projects, and the Commonwealth should consider tolling Rt. 3 North. Toll revenues could be used to finance a state transportation infrastructure bank.

The state needs to tighten the limits on use of gas taxes and Registry fees. Currently a substantial portion is used to fund general operations, e.g., state police.

The Commission should compare fare recovery ratios to industry benchmarks. The MBTA's goal is 40%, but the actual ratio is less. NYC Transit realizes 50%, one of the highest farebox recovery ratios in the country.

The RTAs need operating dollars to provide Saturday and Sunday service. The demand for weekend service is strong and the additional fare revenues generated could potentially cover costs.

C. Sources of new revenues from external sources, e.g., state/local taxes, federal aid, tax increment financing, special assessments, public-private partnerships

Federal revenues. Federal reauthorization now before Congress is critical and needs an all-out effort by the state. EOT and the T are undertaking an initiative to maximize federal transit revenues for human services transportation.

President Bush recently signed an Executive Order creating the Federal Transit Administration's United We Ride Program. This initiative brought together 62 federal agencies with the common goal of providing transportation more efficiently, eliminating overlap in human services transportation and creating cost savings. EOT is drafting a similar Executive Order to accomplish these objectives in the Commonwealth. Secretary Grabauskas has initiated an EOT/MBTA joint project to identify ways in which the regional transit authorities and transit agencies can collaborate in the provision of transportation.

The Commission should hear from Bill Millar, APTA, who is knowledgeable on federal funding for transit.

Assessments. The Commission should consider restructuring MBTA local assessments. Under forward funding, assessments on MBTA member communities can only rise 2.5% in any year. Therefore, there is no significant financial disincentive for a community to lobby for more intensive or expansive service. The assessment formula for MBTA communities is population based and does not directly relate to levels of service received. Total assessments are set in statute and 2005 is the last year of local assessment reductions mandated by the forward funding legislation.

RTA funding is currently structured differently than the MBTA's. Each RTA is subject to a Proposition 2 ½ exemption. RTA member communities must, by formula, contribute not less than 25% of the net cost of service. Cities and towns in RTA districts consider transit spending to be a form of economic development. RTA assessments are a potential model for the T.

Tax increment financing. TIF is a technique for capturing part of the growth in property values caused by improved transportation. A portion of the incremental tax revenue is used to help pay for the project. The new Boston convention center was financed with TIF. TIF is a potential technique for funding part of the costs of new commuter rail lines and other services that have a direct impact on property values. However, local governments are highly dependent on property taxes and will resist diverting a portion of their revenues to paying for transit, even though they would not have received those revenues without the new line. Cities and towns also already pay assessments for services and will object to TIF as paying twice.

Innovative regional transportation finance mechanisms have been easier to implement in regions where councils of government or county government structures exist. It is easier to leverage financing for projects that are truly regional because the governance structure vests critical powers and responsibilities at the regional, or county level. This model is closer to the actual 'spread of benefits' generated by transportation infrastructure projects. While most of the New England region has a functioning county system, the role of Massachusetts's county-level government has been very limited. Further, Massachusetts state and local government is organized to promote 'home-rule.' While an authority may be structured for delivery of transportation services to a number of cities and towns, the client base is comprised not only of transportation consumers but also each municipality.

Benefit Assessments. In this model, a formula using square footage, number of employees, etc., is used to allocate the benefits of improved transportation to businesses/institutions (and potentially residents) in the new service area. The beneficiaries pay assessments in proportion to their share of the benefits to help pay for the project. Downtown business improvement districts are an example. BIDs have been implemented to finance capital improvements in about 34 other states.

Benefit assessments are most applicable in areas with strong employment and job growth that would benefit substantially from improved transportation, e.g., the Longwood Medical Area and the Urban Ring. The willingness of Longwood businesses to put up $6 million for transportation improvements is a positive sign.

Business improvement districts are often unrated and have credit problems. Quasi-governmental issuers of tax-exempt debt such as Mass Development might be better able to issue debt on behalf of transit benefit assessment districts. Funds from business associations such as Longwood could go into a reserve to help secure the debt.