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News Release

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MTF Report: Urgent Need for MBTA Fiscal Reform

In a major report released today, the Massachusetts Taxpayers Foundation warned that legislative action on MBTA fiscal reform is urgently needed to limit the T's drain on state taxpayers, to help deal with the state's capital crisis, and to protect the Commonwealth's credit rating.

Citing the rapidly escalating costs of supporting the T, MTF's report, *The Third Rail: Financing the MBTA*, concluded: "A relic of a long-gone age, the singularly arcane system for financing the MBTA grows more dysfunctional and more costly with each passing year." Under the present system, the state essentially gives the T a blank check and pays whatever the T spends up to 18 months after the fact, without the accountability required of every other state agency.

A reform proposal contained in the House's recently approved fiscal 2000 budget would completely overhaul the system for financing the MBTA and limit the T's impact on the state's coffers. The Senate did not address the issue in its version of the budget, so MBTA fiscal reform will be one of the most critical questions facing the budget conference committee. Without serious structural reform, MBTA expenditures will continue to grow, and so too will the costs of repairing the T's finances—in just the past two years the price tag for reform has increased by over $100 million.

"Fixing the T's finances is one of the last pieces of unfinished business in the long process of putting the state's fiscal house in order," said MTF President Michael J. Widmer. "While both the state's finances and the economy are still strong, the Commonwealth has a tremendous—and almost certainly fleeting—opportunity to correct the T's fiscal problems. Reaching agreement this year is crucial. If we fail to take action now, it could be a decade or longer before we have another chance."

The report concluded that "the signs of the utter breakdown of the system of financing the MBTA are everywhere":

< Commonwealth spending on the MBTA is rising dramatically, with the state facing annual double-digit increases in support despite the strong efforts of the T's management to control costs. The growth in the debt service subsidy has averaged 12 percent a year for the last decade. The T's operating deficit, the basis for the state's operating subsidy, increased by $60 million, or 27 percent, in 1998.

< The state's share of MBTA costs has soared to almost two-thirds of the authority's annual budget, compared to the roughly 10 percent share borne by the state in the early 1970s. Taxpayers will contribute over $600 million in state taxes to subsidize the T in fiscal 2000, almost triple the amount paid by riders.

< While the burden on taxpayers continues to grow, MBTA riders enjoy the lowest fares among the largest transit systems in the country, and the proportion of T costs paid by riders has plummeted from about 60 percent three decades ago to scarcely 25 percent today.

< The T operates under the black cloud of a huge—and growing—$825 million cash shortfall that must be refilled annually with short-term loans from private lenders and the Commonwealth, creating an ever larger deficit on the state's balance sheet and generating interest costs approaching $50 million a year.

< The mechanism for assessing cities and towns that receive direct MBTA service is rife with inequities: Nearly 100 communities that benefit from the T's services, including more than 50 that receive direct service, pay no assessments, imposing an unfair cost on the 78 communities that do pay.

< Because of the T's heavy financial dependence, the state must also guarantee the authority's bond issues, adding to the Commonwealth's debt load and its own capital funding crisis.

With no incentives built into the current system to control costs and increase revenues, the unrestrained growth in T spending will eat up more and more resources that could be directed to other important state priorities. The precarious mechanism for financing the T—with its heavy reliance on short-term borrowing—will continue to be seen by bond rating agencies as a major structural flaw in the Commonwealth's finances, depressing our bond rating. MBTA bonds issued with Commonwealth backing will continue to add to the state's debt load and limit the state's ability to issue its own capital bonds.

The MTF report recommended that the following elements be included in a fiscal reform plan:

Shift to Forward Funding The most basic step in reforming the MBTA's finances is to end the arcane practice of reimbursing the authority 18 months after the fact for whatever it spends, effectively giving the T an unlimited line of credit. Determining the level of state support in advance would require the T to keep costs within its budget like every other state agency.

Provide A Fixed, Dedicated Revenue Source The current open-ended state subsidies should be replaced with a fixed level of support, creating new incentives for the T to manage costs and increase revenues. The House proposes that one cent of the state's sales tax be dedicated to the T. Rather than facing endless automatic cost increases based on the T's spending, the taxpayers' contribution would grow only as fast as the growth in sales tax revenues. This level of growth—an average of five percent over the last ten years—would strike a prudent balance between covering the T's capital needs and protecting the taxpayer from unlimited cost increases.

Increase Fares and Other System Revenues Modest fare increases need to be adopted to keep the MBTA on a sound fiscal footing and restore a degree of balance to a system in which the taxpayers pay an ever-rising share of the costs. Under the House proposal, the current base subway fare of 85 cents—unchanged since 1991 and the lowest in the nation—would likely increase to $1 right away and to $1.25 over five years. Even then, the T's riders would still be paying less than users of other major transit systems, and the T would still be one of the most heavily subsidized systems in the country.

The Foundation disagrees with more extreme proposals to prohibit fare increases on the one hand or to double fares on the other. While modest increases would spread the T's costs more fairly between taxpayers and riders and would have minimal impacts on ridership, excessive fare increases would be counterproductive, discouraging transit use and undermining many of the economic and environmental benefits the T provides.

Make Assessments Reasonable and Equitable The state's hit-or-miss system of assessing cities and towns for T service should be changed to make assessments simpler and fairer. By expanding the base to include each city and town in reasonable proximity to T services, the assessments on communities that currently pay could be significantly reduced and the allocation of assessments would be clearly tied to the level of benefit each city and town enjoys.

Founded in 1932, the Massachusetts Taxpayers Foundation is an independent, nonprofit organization which conducts research and policy analysis on state and local taxes, government spending and the economy. Dedicated to the public interest, MTF ranks as one of the largest and most effective organizations of its kind in the country. The Foundation has earned three national awards in the past three years for its work on capital spending, business costs, and managing the state's surpluses.