Massachusetts Taxpayers Foundation

333 Washington Street | Suite 853 | Boston, MA 02108 | 617.720.1000
www.masstaxpayers.com

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The Looming Fiscal Fiasco for the MBTA

Introduction

The MBTA has made important strides. It increased its operating staff by 1,200 since June 2022 and has improved its handling of safety and service issues that have plagued the Authority for several years. However, it still has a long uphill climb. The FY 2025 budget estimates the Authority needs approximately 8,000 operating personnel to run current service levels and support all safety initiatives, meaning that it must increase headcount by another 1,000 or more from the latest figures (Appendix).[1] That comes at a cost.

This summer, the MBTA will submit to the Federal Transit Administration (FTA) two workforce reports that will make the Authority's dilemma more clear. This month, the MBTA will submit to the FTA the final draft of its workforce assessment plan (WFA) detailing the number of personnel needed to safely and reliably maintain and operate the current system.[2] Later this summer, the MBTA must also submit to the FTA a five-year Recruiting and Hiring Plan that includes how the Authority plans to fill operations, maintenance, and capital project delivery positions to address the findings of the WFA.[3]

Failure to provide the MBTA with sufficient resources needed in FY 2026 to meet its workforce needs or failure by the MBTA to hire sufficiently to meet these workforce projections will get the full attention of the FTA, put the transit system at risk, and damage Boston's economic recovery.

The stakes can't get much higher.

After decades of underinvestment with disastrous consequences, lawmakers must deliver recurring and reliable revenues that account for the MBTA's operating budget projections. Budget gaps in FY 2020 – FY 2025 were solved with one-time federal funds and MBTA reserves, but those

[1] FY 25 Preliminary Budget, May 9, 2024 and Workforce Management Department, May 9, 2024.
[2] The MBTA's workforce assessment plan is in response to an FTA finding that staffing levels are inadequate to "carry out current rail transit operations and maintenance in addition to executing capital program activities", Introduction to Workforce Assessment, December 7, 2023, Slide 3. The MBTA acknowledges that additional personnel needs could impact budget shortfalls.
[3] *FTA Response to MBTA's 9-29-2023 Relief Request*, November 6, 2023

resources are nearly exhausted. Now the impending challenge is a $700 million budget shortfall in FY 2026 that could grow to $900 million by FY 2029.

So, here's the hard part – the timing matters.

Finding sufficient revenues for the MBTA and other transportation has proven to be an unsolvable political equation. If not, lawmakers would have fixed this problem decades ago. Identifying and delivering resources 12 months from now poses an equally daunting challenge as many revenue options would take far longer to implement and collect.

Furthermore, the MBTA needs to know by the fall whether sufficient resources will be available. Otherwise, it may be forced to take steps to close gaps on the spending side. This means suspending hiring, leaving vacant positions open, and potentially making service cuts which would impede if not undo progress to date.

Given the stakes and the urgency, we suggest that lawmakers resolve the MBTA's FY 2026 budget gaps this calendar year. The most straightforward approach would be to commit to maintaining FY 2025 House funding for the MBTA in FY 2026 and dedicate $100 million of FY 2024 surtax collections over $1 billion to the MBTA for its FY 2026 budget. As demonstrated later in this brief, this approach would largely address the MBTA's budget gap through FY 2026 and provide time for longer-term solutions.

It is past time to tackle this prolonged challenge.

Long-Term Budget Shortfalls Threaten MBTA Services

The MBTA has managed budget gaps since the early days following Forward Funding. Countless reports dissected the causes and commented on the risky policy decisions used to balance operating budgets.[4]

The story is complicated and yet simple. The simple part is that the MBTA has not been fully funded while expenses have outpaced revenue growth, causing structural deficits over the past two decades.

The complicated part is two-fold: 1) the MBTA has been pushed for years to expand and upgrade services without corresponding funds to pay the costs[5], and 2) the myriad of short-term solutions used by the MBTA to close budget gaps caused staff shortages, inadequate maintenance spending, and substantial underinvestment in infrastructure.

The impacts are unmistakable.

Employers, commuters, and important components of the Boston economy are now paying the price of a failed transit system – safety incidents, slow and unreliable services, poor track and power conditions, insufficient workforce to operate and maintain the system, and a staggering

[4] See for example *MBTA: Increasing Fiscal Strains Threatening Success of Forward Funding*, Massachusetts Taxpayers Foundation, November 12, 2003, *The T: The End of Its Line*, MTF, March 11, 2015, and *MBTA: A History of Funding*, the MBTA, January 2024.

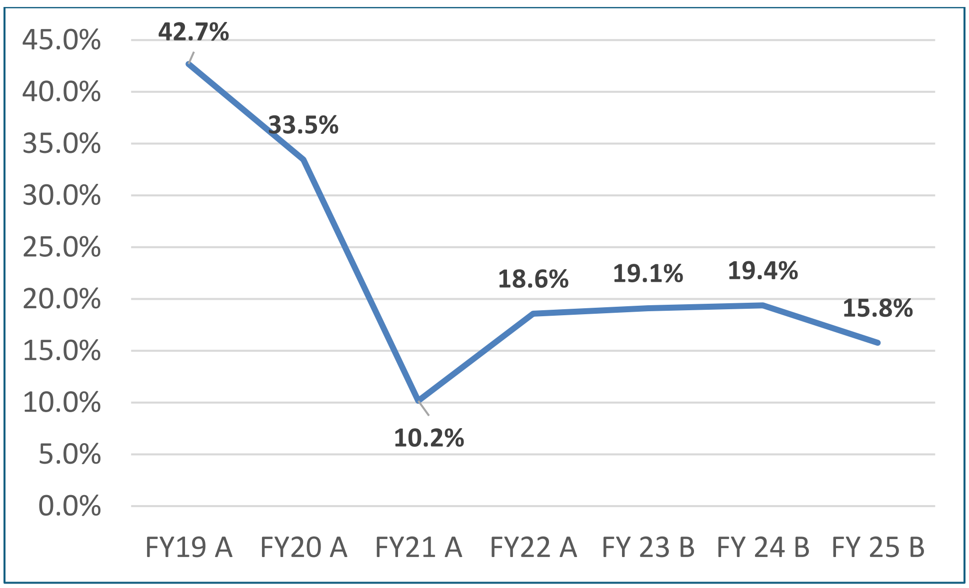
[5] *MBTA: A History of Funding, the MBTA*, January 2024, slides 8-10.

$24.5 billion investment backlog where 64 percent of MBTA assets are not in a state of good repair, including 55 percent of its rolling stock.[6]

The MBTA's already insufficient resources were further depleted by the impacts of the pandemic. Ridership fell 70 percent in early FY 2021 and farebox revenues plummeted $500 million for the fiscal year compared to FY 2019. In FY 2025, fare revenues are projected to be approximately $300 million[7] less than FY 2019, meaning that the primary revenue tool the MBTA controls is not a realistic option to address its resource shortfall.

Remote work, higher housing costs, and an unreliable transit system perpetuate this drop in fare revenues. As shown below, the farebox recovery ratio[8] has plummeted from 42.7 percent in FY 2019 to a projected 16 percent in FY 2025. The trendline suggests that fare revenue recovery remains years away. This means that not only do other resources have to support growing MBTA costs, but they must also replace lost fare revenues for the foreseeable future.

Farebox Recovery Ratio, FY 2019 – FY 2025



Further, the MBTA can no longer downsize staffing to cut costs without jeopardizing the level of service it can provide as directed by the FTA.[9]

The intervention by the FTA in 2022 has led the MBTA to increase its headcount by 20 percent and make numerous operational investments to fix safety issues across the organization. As the MBTA works to increase staffing by 2,000+ from FY 2022 levels,[10] new collective bargaining agreements, combined with costs to recruit, train, and retain personnel, have raised operating costs

[6] *Capital Needs Assessment and Inventory*, MBTA, November 16, 2023.
[7] Depending on the revenue impacts of the new low-income fare program.
[8] Fairbox recovery ratio equals the percentage of operating expenses paid for by passengers.
[9] *Safety Management Inspection*, USDOT, Federal Transit Administration, August 31, 2022, p. 36.
[10] See *Ticket to Transformation? Evaluating the MBTA's Efforts to Bolster its Workforce*, April 2, 2024, Massachusetts Taxpayers Foundation.

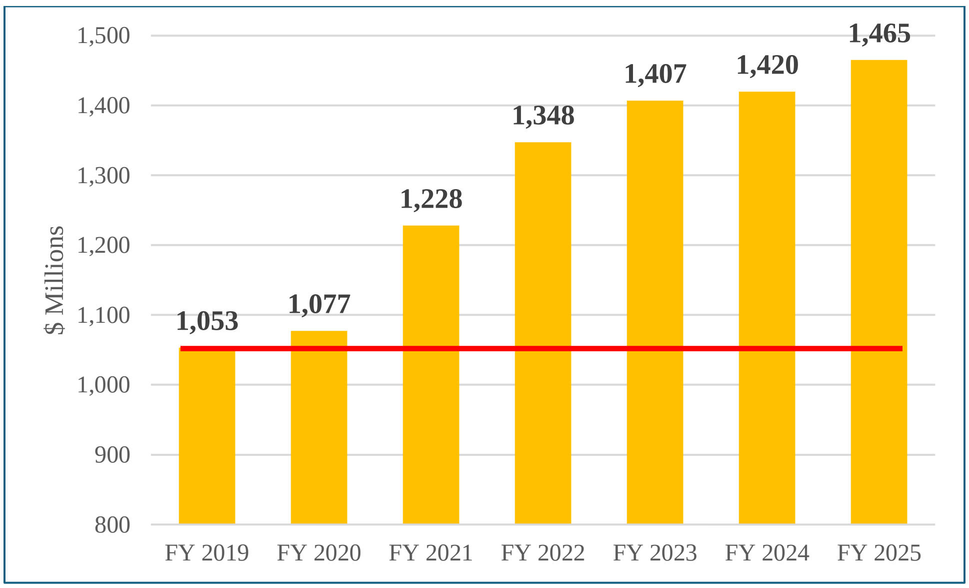
by hundreds of millions of dollars. What's missing – again – are the corresponding recurring resources to balance budgets.

Temporary Relief – Critical but Fleeting

Two sources of funds – federal relief aid and sales tax revenues – provided over $3.5 billion to help the MBTA close sizable budget shortfalls in FY 2020 through FY 2025. Federal relief funds of approximately $2 billion[11] were especially crucial to avoid budget cuts in FY 2021 and FY 2022 that would have substantially reduced MBTA services and capital investments.

Faster than forecasted growth in sales tax revenues in FY 2021 – FY 2023 increased transfers to the MBTA by $1.5 billion, which are expected to top $1.465 billion in FY 2025[12], or over $400 million more than the $1.05 billion in FY 2019.

Sales Tax Revenue Transfer to MBTA, FY 2019 – FY 2025



These revenues recur because each year the MBTA receives at least the same amount of sales tax transfers as the previous year.[13]

As shown below, the change in sales tax transfers in FY 2021 and FY 2022 jumped 14 percent and 9.7 percent respectively, providing the MBTA with about $200 million more in annual ongoing state resources than would have been expected prior to the pandemic. Unfortunately, state sales tax revenues through March 2024 are below FY 2023 and appear to have returned to their long-term growth rate of 1 – 2 percent. If sales tax revenues continue to underperform, the MBTA will

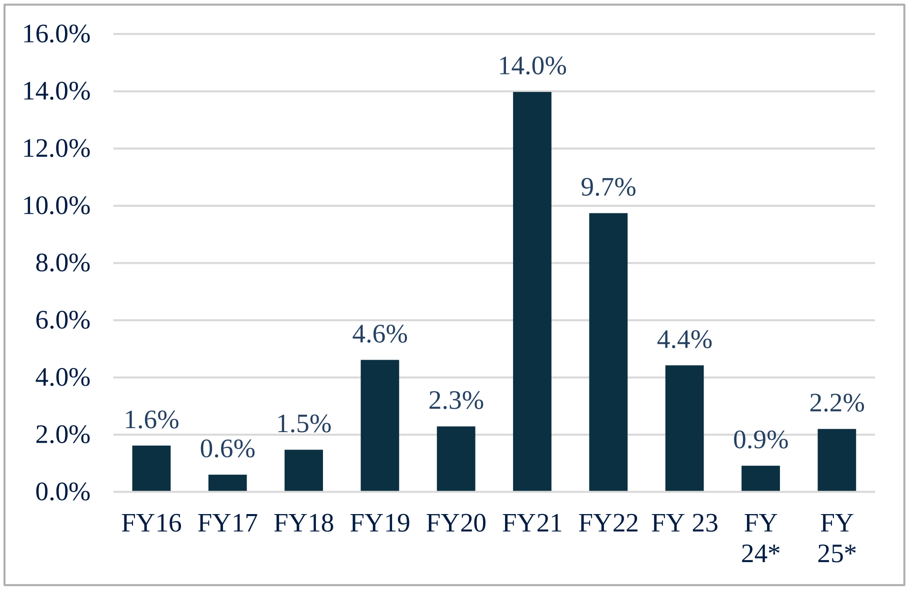
[11] Cares Act ($827 million), CRRSSA ($301 million), ARP ($845 million), and FEMA reimbursement funds ($60 million)

[12] Sales tax revenues are certified by the Comptroller. FY 2024 figure is from the April 2024 certification. The MBTA projects FY 2025 sales tax revenues to grow 2.2 percent over FY 2024.

[13] See *April 2024 Certification of MBTA Dedicated Sales Tax Revenues for the Fiscal Year Ending June 30, 2024*, March 27, 2024.

not be able to rely on significant increases to help close projected budget gaps beginning in FY 2026.

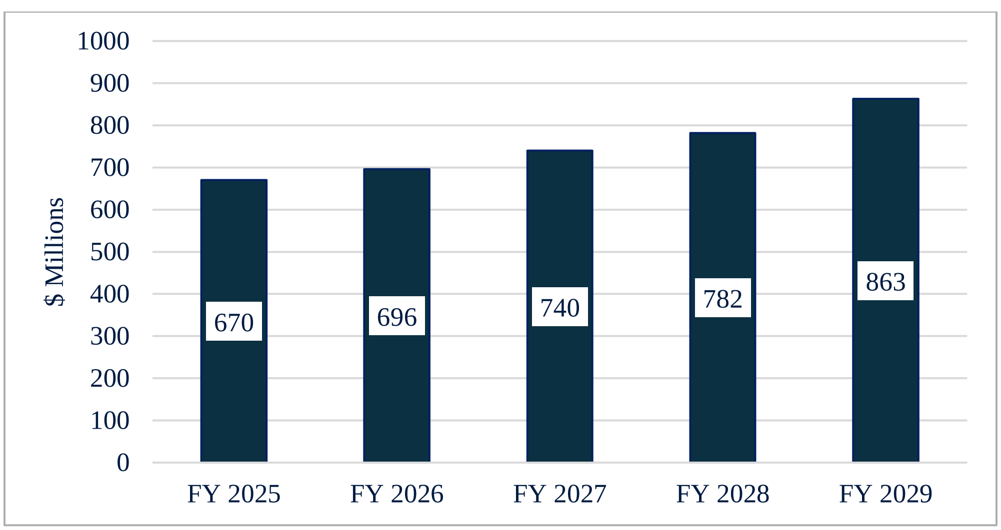
Year-Over-Year Change in MBTA Sales Tax Revenues, FY 2016 – FY 2025



The MBTA's FY 2025 Budget

The MBTA's FY 2025 budget gap is a precursor to the challenges of the next four years (FY 2026 – FY 2029). As shown in the chart below, the revised $670 million shortfall estimated by the MBTA in FY 2025 showcases the looming budget challenges that could rise to $900 million in FY 2029 as expenses are projected to grow nearly five times faster than revenues.

MBTA Projected Budget Shortfall, FY 2025 – FY 2029



The MBTA's FY 2025 plan, presented to the Audit and Finance Subcommittee in May, shifts $191 million in federal matching funds from capital spending to operations[14], transfers the remaining $307 million from its reserves, and based on the Governor's proposal, receives $172 million in appropriations from income surtax revenues, $45 million of which would be used to replace fare revenues from a low-income fare discount program. Combined, this would eliminate the budget gap in FY 2025. But this is just a one-time fix, effectively delaying but not addressing the operating budget shortfall.

The House and Senate Differ on MBTA Funding

The House budget plan increases operating resources by $120 million over the Governor's proposal to cover existing challenges, including FTA safety investments, setting up an MBTA Academy to help build a long-term talent pipeline, and funds for climate resiliency of the rails and stations.

In contrast, the Senate plan provides approximately $15 million less than the MBTA's FY 2025 budget anticipated, due to less support for means-tested fares – and $135 million less than the operating support in the House proposal.

FY 2025 MBTA Funding Proposals

Category	FY 2024 GAA	FY 2025 - Governor	FY 2025 - House	FY 2025 - SWM
Contract Assistance	187	314	315	314
Safety Reserves	0	0	65	0
Means Tested Fares	5	45	20	23
Workforce/Academy	20	0	40	0
Resilient Rails	0	0	35	0
Ferry Service	**0**	**0**	**5**	**7.5**
Operating Budget	**212**	**359**	**480**	**344.5**
Capital Budget	**180**	**0**	**75**	**24.5**
Total	**392**	**359**	**555**	**369**

The Senate does not include $140 million in support for safety issues, workforce needs, or climate-resilient rails and stations offered by the House. This means that the MBTA would need to find $15 million in cost savings in FY 2025 to balance its budget, which could cause disruptions in hiring and service levels.

Which Brings us to the $700 Million Shortfall in FY 2026

As noted, the MBTA's projected FY 2026 budget builds on the initial FY 2025 gap, jumping to approximately $700 million. What's different in FY 2026 is that if the MBTA receives funding levels proposed by the Governor or Senate, it will have exhausted its reserves, will forgo a projected $50 million or more in revenues from the fare discount program, all without additional

[14] The most recent budget plan uses "5307/5337 federal formula funds for preventative maintenance to balance the FY25 operating budget."

fare revenue as a realistic option. Instead, it would have to either rely on the Legislature to find $700 million or begin the risky path of staffing and service reductions to cut costs and further cannibalize capital resources to boost operating revenues.

Budget Solves for FY 2025 & FY 2026

	House		SWM	
	FY 2025	**FY 2026**	**FY 2025**	**FY 2026**
MBTA Reserves	307	0	307	0
Federal 5307/5337 Funds	191	0	191	0
Income Surtax	292	292	157.5	157.5
State Contract Assistance	127	127	127	127
Safety Reserves	65	65	0	0
Means Tested Fares	20	20	23	23
Workforce/Academy	40	40	0	0
Resilient Rails	35	35	0	0
Ferry Service	5	5	7.5	7.5
Total	**790**	**292**	**656**	**158**
Shortfall	**670**	**696**	**670**	**696**
Gap	**120**	**(404)**	**(15)**	**(539)**

The MBTA's budget gap will depend largely on the level of surtax support provided. *If* the Legislature provides the same package of resources as the House's FY 2025 plan, the FY 2026 budget gap tops $400 million. If, however, funding for the MBTA in FY 2026 resembles the Senate's FY 2025 budget, the gap widens to nearly $550 million.

Clearly, both House and Senate commitments in FY 2025 fall well short of FY 2026 needs. Further, neither spending plan is assured for FY 2026 leaving the MBTA to determine how long it can commit to resource-intense investments in staffing, safety, and services versus when it needs to pivot to draconian cuts to balance a budget gap of several hundreds of millions.

The Timing of a Solution is Critical

If the plan to fund the MBTA relies on a stand-alone bill or part of the FY 2026 budget, the Authority will not know whether future resources will be available until well into 2025. As it has done so many times in the past, faced with a budget gap and no certainty of state budget support, the MBTA will have little choice but to revisit budget-cutting options this fall that could reverse the gains it has made in hiring and service and safety improvements.

Previous budget decisions have included freezes in hiring, truncated services, and a shift of state and federal funds from capital to operating uses. The MBTA's experience in FY 2022 provides an illustration of how the MBTA would be forced to address an unsolved budget gap. In 2021 when confronted with a substantial loss in fare revenues in FY 2022 and before the American Rescue Plan was signed into law, the Fiscal and Management Control Board asked for options to resolve an estimated $655 million shortfall for the upcoming fiscal year.

Just as with the plan in place today, the MBTA had exhausted all its reserves to balance the FY 2021 budget and was unable to raise fares because the MBTA Fiscal and Management Control Board voted in 2020 for no fare increases until service hours and ridership on all bus and rapid transit lines returned to 2019 levels. That left the MBTA with a list of scenarios it estimated would save between $400 million and $814 million. Many of these suggestions have been used over the past two decades with detrimental consequences. The list included:

- Capital Budget Impacts
    - Capital Salaries: shift personnel working on capital programs to the capital budget, saving an estimated $134 million.
    - Federal Formula Funds: shift between $146 million and $380 million in Section 5307 Urbanized Area Formula funds from capital uses to operational needs.[15]
- Operating Budget Impacts
    - Cut Spending in FY 2021: build reserves for FY 2022 saving $50 million to $75 million and up to $150 million if necessary.
    - Headcount Freeze: no additional personnel, would replace vacancies.
    - Hiring Freeze: no hiring, stop all advertised positions, do not replace vacancies.
    - Service Level Planning: develop reduced service packages that align with ridership saving between $60 million and $150 million.
    - Refinance Debt: refinance parking bonds.
    - Delay Board-approved policy initiatives including the bus transformation program.

The options listed above make clear that with ridership and fares at such relatively low levels, the MBTA's budget tools are limited. In the past, the MBTA has turned to shifting operating costs to its capital budget while moving federal matching funds to operating costs – both of which have undermined capital spending, operational priorities, and asset conditions.

On the expense side, reductions are also from previous playbooks. Cuts to staffing through hiring freezes, reduced spending of maintenance on transit systems, and delays in initiatives have all been employed in the past with dire consequences we live with today. Both the 2019 Safety Review Panel and the FTA cited staffing shortages as a primary reason for safety issues and a deteriorated safety culture.

If the MBTA were to adopt similar measures in order to balance its FY 2026 budget, the T's nascent turnaround, now in its early stage, would abruptly end and any hard-won credibility with employers, riders, and the FTA would vanish.

Such an outcome not only puts the MBTA at risk but also undermines Boston's economic recovery from vacant office buildings, closed retail establishments, and reduced vibrancy in downtown Boston. Put differently, Boston cannot recover if the MBTA doesn't work.

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[15] 49 U.S.C. 5307(a)(2): This section specifies that funding for urbanized areas with a population of 200,000 or more is available for transit capital and operating assistance. It details that federal resources can be used for various activities such as planning, engineering, design, evaluation of transit projects, capital investments in bus-related activities, fixed guideway systems, associated transit improvements, workforce development activities, and certain expenses related to mobility management program

Recommendation – FY 2026 Funding

The Department of Revenue estimates that income surtax revenues in FY 2024 reached $1.8 billion through April suggesting that the total will likely exceed $2 billion in FY 2024 or $1 billion more than the spending cap used in the FY 2024 budget. In round numbers, that would mean $850 million, or 85 percent of the excess $1 billion would be deposited into the Education and Transportation Innovation and Capital Fund.

These funds can be used for one-time investments for education and transportation spending, indicating that $425 million would be available for transportation pay-go capital investments.

In order to assure the MBTA that funds will be available to close the FY 2026 $700 million shortfall, the Legislature should consider taking the following steps in calendar year 2024:

- Use the House FY 2025 proposed $293 million in surtax spending for the MBTA as the baseline for FY 2026.
- Shift the $75 million in capital spending for climate-resilient tracks and stations in FY 2025 to operating support in FY 2026.
- Appropriate at least $100 million from the Education and Transportation Innovation and Capital Fund to the MBTA for pay-go capital spending. This would reduce the MBTA's use of federal matching funds in its operating budget from $191 million in FY 2025 to no more than $100 million in FY 2026.

Between the MBTA's goal of finding $93 million in potential savings and the House FY 2025 budget proposal, the MBTA should be able to set aside approximately $100 million in reserves for FY 2026.

FY 2026 MBTA Budget Shortfall

FY 2026	
MBTA Shortfall	-696
Fed Funds (5307/5337)	100
MBTA Reserves	100
House FY 2025 Surtax Funds	293
House – Shift Capital to Operating	75
Pay-Go from Innovation and Capital Fund	100
MBTA Budget Shortfall	**-28**

Recommendation – Performance Indicators

Many moving parts must come together if the MBTA is to achieve a successful turnaround and it's important for lawmakers and policymakers to monitor progress.

Several indicators that should be made public and tracked include:

- **The Workforce Assessment**: the MBTA should present its findings and recommendations of the workforce assessment plan submitted to the FTA that include changes in headcount requirements, service levels, and any impact on current cost and budget gap projections for FY 2026 – FY 2029.
- **Hiring and Staffing Progress**: included in monthly updates to the Board, the MBTA should present the current actual headcount, the net monthly increase to its operations staffing, the updated gap with the workforce assessment plan, and an updated schedule to meet FTA staffing directives.
- **MBTA's FY 2026 Budget Preparation**: The MBTA should release its budget preparations and options under deliberation to balance the $700 million gap *as they are developed* so that lawmakers and policymakers are aware of the timing and implications.

Key Questions

Stakeholders must consider several vexing questions over the next six months:

1. **The timing**: can the MBTA be assured the fiscal resources it needs will be available *before* it is forced to freeze hiring and reduce spending to balance FY 2025 and FY 2026 budgets?

The Legislature would have to agree in calendar year 2024 to devote additional income surtax revenues to MBTA operations to assure the MBTA that more draconian budget decisions for FY 2026 could be avoided. This commitment could be similar in nature to the agreement to dedicate $250 million in income surtax revenues to the Commonwealth Transportation Fund for potential capital investments.

2. **The reaction**: How might the FTA respond to an MBTA hiring freeze with a headcount well below the workforce analysis it presents to the FTA this summer?

The FTA directed the MBTA "*to conduct a workforce analysis to determine the level of operations, maintenance, and capital project delivery that its workforce can sustain, particularly in key technical, supervisory, and engineering positions*."[16] The FTA is currently awaiting the MBTA's analysis that will document the number of personnel required to provide full services safely and reliably.

Should the MBTA abandon the hiring initiatives to meet its stated workforce analysis headcount because it lacks sufficient resources, it should be expected that the FTA will intervene and direct the MBTA to reduce services, as it has in the past, to levels that it believes the MBTA can support.

[16] FTA Final Report, p. 36.

3. **The response**: at what point would the MBTA reduce services to comply with FTA safety directives?

Absent a compelling plan to meet its stated headcount requirements in the very near term, the MBTA would be forced to reduce services to a level that complies with the FTA's directives with minimal delay.

APPENDIX

MBTA Headcount, Actual v Budgeted, FY 2022 – FY 2029

Projections Do Not Include MBTA's Forthcoming Workforce Assessment