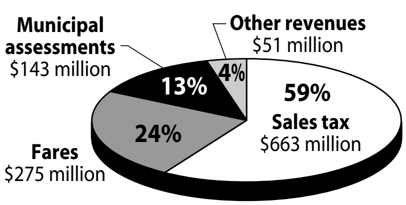
Keep the MBTA within its Financial Means

Just two years after its adoption, the MBTA's financing mechanism known as forward funding is at risk. The oldest public transportation system in the country, the T faces a huge maintenance and modernization backlog. At the same time, it is under pressure to build a host of expensive new lines. It cannot afford to do both given the fiscal constraints to which it must rightly adhere.

In fiscal year 2001, the Commonwealth adopted a dramatic shift in the way it finances the Massachusetts Bay Transportation Authority. After more than 80 years of open-ended reimbursement to the T for expenses it had already incurred, the MBTA was put on a diet of dedicated revenues and transformed into an independent state authority whose bonds are no longer backed by the Commonwealth. Combined with system revenues, these funds form the financial limits within which it must function.

Under forward funding, the MBTA receives 20 percent of state sales tax revenue plus assessments on the 175 cities and towns the T serves (see graph). The success of this new financing mechanism relies on two key assumptions: that the MBTA will achieve productivity improvements of 2 percent per year, and that capital spending decisions will be based more on financial calculus than political pressure. But mandated service expansions, growing maintenance needs, and rising labor costs are placing unbearable pressure on the new funding approach.

MBTA revenue sources



Rapid expansion

Measured in annual revenue vehicle miles, the MBTA grew faster than any other major American transit system in the decade between 1988 and 1998. That growth has continued, with recently completed commuter rail lines to Newburyport, Plymouth, and Worcester. Service began this summer on the Washington Street branch of the new Silver Line. A second branch, the South Boston Piers Transitway, is scheduled to begin operating next year.

Expansion has brought many benefits, but has come at a staggering cost. Today, almost a third of the T's operating budget is devoted to servicing the massive debt used to finance construction of the new lines. No comparable system is burdened with so much debt.

And the MBTA can't look forward to focusing exclusively on putting its fiscal house in order once the South Boston Transitway is completed. As part of a 1991 agreement to offset the air quality impacts of increased traffic the new Central Artery would support, the Commonwealth committed the MBTA to constructing a series of new projects including a tunnel connecting the two branches of the Silver Line, extending the Green Line to Somerville, extending the Blue Line to connect with the Red Line at Charles Station, and restoration of the Greenbush commuter rail line to the South Shore and trolley service on the Arborway branch of the Green Line. Completing all these so-called mitigation projects would cost at least $2.5 billion.

There is no realistic scenario under which the MBTA can invest the annual $505 million necessary to maintain current levels of good repair and have any funds at all left over for expansion over the next decade.

Construction costs represent only part of the true cost of expansion. Since MBTA fare box revenues cover less than half the cost of operating a bus or rail line, each new line also increases operating costs. The new Silver Line and proposed Greenbush and New Bedford/Fall River commuter rail lines would add more than $35 million to the T's annual operating expenses.

As the MBTA grapples with seemingly endless expansion demands, it is also facing daunting maintenance and modernization needs. In 1999, an internal MBTA study identified $3.2 billion in deferred projects. It went on to estimate that eliminating the backlog would require an annual maintenance and modernization investment of more than $800 million over the next decade. Just maintaining current infrastructure without eliminating the backlog was estimated to cost $505 million per year. Current annual maintenance and modernization spending is about $350 million.

Even that level of investment in maintaining the core system is unsustainable. To pay off its massive debt, the MBTA's finance plan calls for total capital spending to shrink to $254 million by 2010.

An honest accounting of future MBTA revenues and expenses shows that the T cannot afford both the planned expansions and required system maintenance. According to the Massachusetts Taxpayers Foundation, there is no realistic scenario under which the MBTA can invest the annual $505 million necessary to maintain current levels of good repair and have any funds at all left over for expansion over the next decade. Even rapidly rising sales tax receipts, projected 2 percent annual operating cost savings, and a slower than expected decrease in debt issuance would not produce surpluses that could be devoted to expansion. Only by combining the rosiest revenue scenarios with continued under-funding of maintenance provides any funds for expansion—and even that leaves only enough to complete one of the many new lines the T is expected to build in coming years.

High labor costs

Expansion is not the only threat to the T's fiscal health. Measured either by cost per mile or per hour of service, the MBTA is the most expensive transit system in America to operate. Depending on how you do the math, labor accounts for between 55 percent and two-thirds of total costs. Wages are among the highest in the country for virtually every class of employees, but the real problem is benefits and work rules.

In 1980, management rights legislation was enacted that preserved the T's right to subcontract, prohibited the T from bargaining away the right to hire part-time employees, and increased management authority over employee assignments. Today, the right to hire part-timers is all that remains. Passage of the Pacheco anti-privatization law in 1993 essentially eliminated the right to subcontract. Any faint hope that remained was extinguished by language in the 1998 contract between the T and its biggest union—a contract that also provided raises of more than 20 percent over five years.

A 1995 amendment to the management rights legislation took way much of the MBTA's control over employee assignments. Today, outdated work rules result in the T having more employees than it needs and incurring unnecessary overtime costs. Overall, they increase labor costs by 10 to 20 percent.

Recommendations

- MBTA operating expenses, as well as capital expenditures for maintenance and modernization, must not exceed system revenues plus the public subsidies established under the forward funding law.
- Planned expansions, including the Central Artery mitigation requirements, cannot be supported by the current combination of system and dedicated revenues. Expansion costs should be borne by the Commonwealth.
- The Commonwealth should attempt to renegotiate the 1991 mitigation requirements, which would cost billions to build and add tens of millions to operating costs. In addition to being financially unrealistic, the mitigation project may not be appropriate for current transit needs.
- As recommended by the MBTA Blue Ribbon Committee on Forward Funding, installation of an automated fare collection system should have the highest priority within the capital plan. This system will decrease costs, increase revenues, and improve customer service.
- The legislature should restore the MBTA management rights and give the MBTA the tools it needs to keep costs under control. That means repealing or amending the Pacheco anti-privatization law. Absent that, the T should be exempted from the law, as the Massachusetts Water Resources Authority is now.

For more information on the MBTA's fiscal realities, see the study "MBTA Capital Spending: Derailed by Expansion?" produced by the Massachusetts Taxpayers Foundation in conjunction with Pioneer Institute, **http://www.pioneerinstitute.org/crg/publications/crg_mbta.cfm.** The study recently received the Government Research Association's 2002 Award for Most Distinguished Research.