

2013: The Year of Transportation Funding?

By Erica H. Mattison

February, 2013

Prepared for the Massachusetts Sierra Club

10 Milk Street, Suite 632

Boston MA 02108

www.sierraclubmass.org

2013: The Year of Transportation Funding?

Executive summary

Public transportation plays a key role in the Massachusetts' economy. For those who value a convenient, cost-effective, environmentally sound way to get around, Massachusetts is an attractive place to work, live, and visit. But in order to care for existing public transportation infrastructure and expand options, state leaders must make decisions about how to generate a sufficient amount of revenue. Spending too little on transportation in recent decades has gotten us into our current situation. The Massachusetts Bay Transportation Authority (MBTA) is held back by its staggering debt, and new revenue sources need to be established to ensure that the MBTA can provide safe, timely, and convenient service.

Foreward – From Phil Sego, Mass Sierra Club

There's a common misconception that the MBTA's debt is a result of mismanagement, poor planning, and out of control expenses. Upon even the most basic investigation, one can see that the source of the MBTA's debt problem wasn't caused by any of these factors. The reality is that the Big Dig and longtime neglect to properly fund the system are the culprits.

One needs to remember that the MBTA cannot be self-sufficient or generate profits. All types of transit, including roads, rail, and air, depend on government assistance. The volatility of the MBTA's income stream coupled with the overburdening them with a crushing debt that they never had the ability to pay has weakened the system.

The state is at a crossroads. Further neglect will have a devastating impact on the MBTA's ability to provide adequate service to the region. With the economy of the entire region dependent on the MBTA's ability to properly function, the economic outlook will undoubtedly be quite grim.

Massachusetts, We Have a Problem

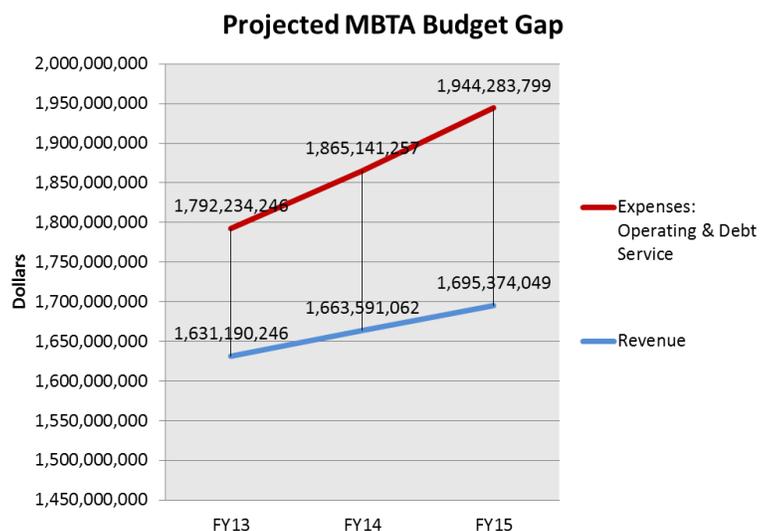
Maintaining and expanding the Commonwealth's transit system is an important step for growing the state's economy, linking residents to jobs, and meeting environmental targets, such as the reduction of greenhouse gas emissions.¹ The MBTA services 175 communities with a combined population of almost 4.7 million people.² On a daily basis, the Red Line carries approximately as many people through Boston and Cambridge as Interstate 93, but reliability, convenience, and capacity are hindered due to antiquated trains and an outmoded signal system that restricts train frequency.³

The trains on the Orange Line are all over 30 years old--well past their normal life expectancy--and are breaking down on a daily basis.⁴ Some Red Line trains are even older, having been delivered back in 1970."

Ask people familiar with the MBTA, and they will tell you that debt and insufficient funding are major problems the agency faces. But just how big a role do these play, and how did these issues develop? Not as many people know the answer to those questions.

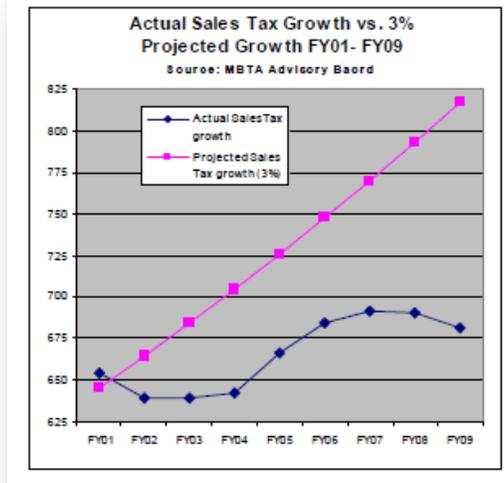
Forward Funding

In 2000, the Legislature devised a "forward-funding" plan.⁵ The aim of the legislation was to make the MBTA fiscally responsible and more efficient by providing a set amount of financing to it each fiscal year, and obligating it to end each year with a balanced budget.⁶ There were two key components that have since contributed to financial woes for the MBTA: 1) the state dedicated 20% of all Massachusetts sales taxes receipts to the MBTA and 2) the state shifted billions in Commonwealth debt from the state to the MBTA.⁷



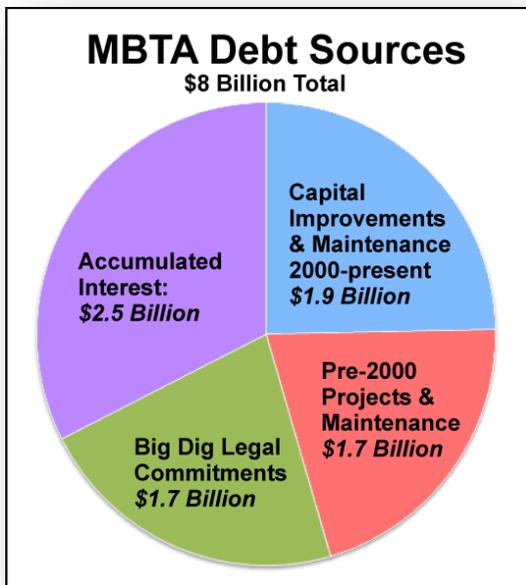
State Sales Tax Revenues Lower than Expected

The sales tax serves as the MBTA’s primary funding source.⁸ As it became clear that actual sales tax revenues were not living up to projections, the MBTA’s financial prospects took on a dismal appearance.⁹ Sales tax collections grew at an average of 6.5% annually from 1990 to 2000, but since 2000, have only risen 1%.¹⁰ This has amounted to a gap of hundreds of millions of dollars since the start of Forward Funding.¹¹



Mounting Debt

The MBTA is faced with principal and interest payments on \$5.2 billion in debt that consume nearly 30% of its annual operating budget.¹² The MBTA is constrained in its ability to meet the needs of the Commonwealth, in large part due to the fact that almost all of the revenue from fares goes to paying off debt.¹³



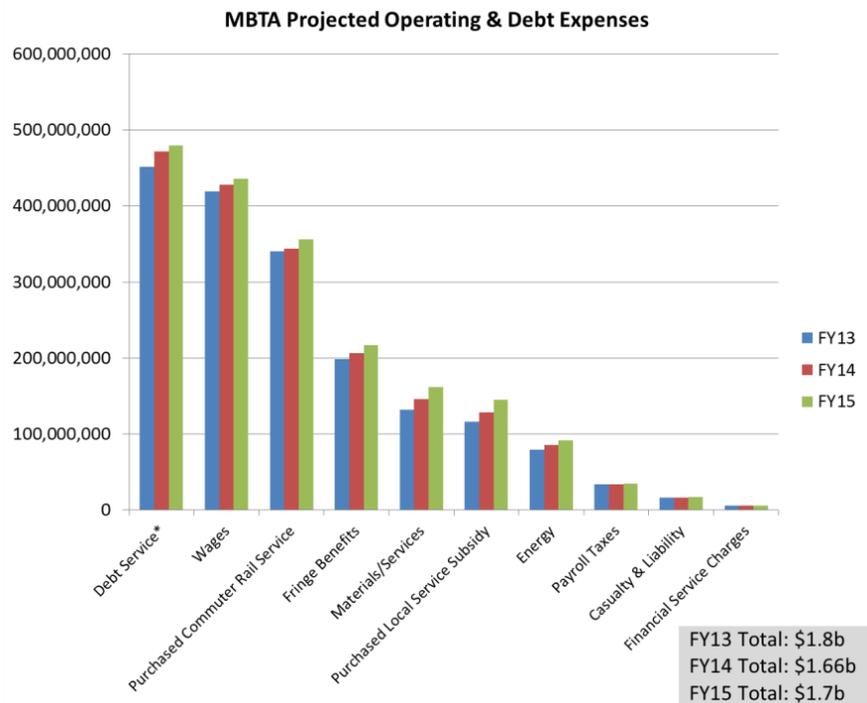
Prior to Forward Funding, the MBTA did not issue debt for major projects.¹⁴ Rather, the Commonwealth borrowed for transit projects on behalf of the MBTA and paid back these debts.¹⁵ With Forward Funding came the ability of the MBTA to issue debt and the duty to pay it back.¹⁶

Unlike peer agencies, the MBTA lacks a dedicated revenue stream for debt service, which means that maintenance needs compete with debt service payments.¹⁷

Two-thirds of the MBTA’s debt was assigned to it by the Commonwealth, including \$1.8 billion in Big Dig related debt.¹⁸ A lawsuit calling for the state to comply with federal air pollution standards resulted in a mitigation settlement, which compelled the state to move ahead with numerous transit projects to offset the increased pollution from the Big Dig vehicular travel.¹⁹ Among the projects are the new Silver Line, Greenbush commuter rail, and improvements to the Orange and Blue Lines.²⁰ The Romney administration agreed to take on capital costs associated with future transit expansion projects, but there is still a problem because revenues are insufficient for the MBTA to meet the increased operating costs that go along with an enlarged system.²¹

Additional (Unsustainable) Funding Sources

The MBTA deficit for FY14 is estimated at \$132 million.²² A 2011 report by Transportation For Massachusetts advanced the idea that our transportation woes are due to persistent insufficient levels of investment.²³ A history of relying on federal monies to fund transportation has obscured the true cost of maintaining and growing our infrastructure.²⁴ Also, through Grant Anticipation Notes (GANs), Massachusetts often pays for transportation projects by pledging future revenues, similar to putting charges on a credit card.²⁵ This enables the state to pledge now and pay later, but means that paying off interest detracts from the state’s ability to put more funds into projects.²⁶



*Debt Service includes: Interest, Principal, and Lease Payments.

Source: MBTA Pro Forma FY13-FY16, available at http://www.mbta.com/uploadedfiles/About_the_T/Fare_Proposals_2012/Proforma%20FY13-FY16.pdf

Growing Operating Expenses

Since 2000, the Boston-area consumer price index has increased 33%, but the MBTA's operating costs have climbed by 65%.²⁷ Operating expenses for energy, fuel, and health care have increased sharply, and there has been a 400% increase in expenses associated with operating THE RIDE service over the last decade.²⁸ The MBTA's operating costs have also increased as a result of expanded services, such as the opening of Silver Line I and II, the addition of Quincy Commuter Boat Service, and the opening of the Greenbush Commuter Rail Line in 2007.²⁹

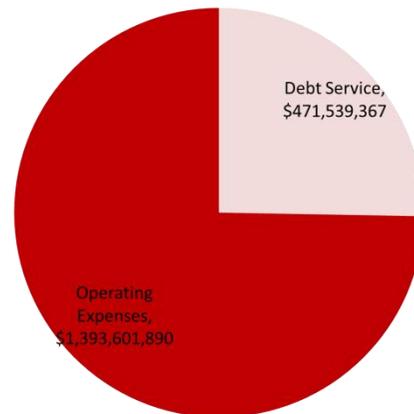
Through personnel changes, automated fare collection, single person train operation, and reduced overtime spending, the MBTA has reduced operating costs by millions in recent years; however, the Authority is still left with an annual gap of well over \$100 million.³⁰

Despite financial difficulties, the MBTA has implemented a number of service improvements since the 2007 fare increase.³¹ Two years later, in 2009, Massachusetts reorganized and streamlined its transportation agencies, including the T, by eliminating duplicating functions and centralizing essential services under the umbrella of MassDOT. Among other reforms, the MBTA eliminated retirement after 20 years' service and obtained less expensive medical care for its workers. At the time, the mantra from the legislature to the T was 'reform before revenue'; now it's time for the legislature to deliver.

Potential Solutions

For years, think tanks and advocacy organizations have convened studies and conversations about how to foster financial stability for the MBTA, as well as regional transit authorities. From 2000-2012, the MBTA has issued four fare increases.³² In 2013, the MBTA's new General Manager is advocating for a different approach, since cutting services and raising fares still would not generate enough savings or revenue to adequately address the MBTA maintenance

FY14 MBTA Expenses: Operating vs. Debt Service



backlog.³³ So where do we go from here? Recommendations over the years have been relatively consistent and provide guidance for potential actions for 2013.

- In 2006, a report by the Urban Land Institute Boston District Council stated that the MBTA would not be able to meet the increasing demand for transit-oriented development projects without immediate debt relief to meet its operating expense needs.³⁴
- In 2007, MASSPIRG supported the Massachusetts Transportation Finance Commission recommendation to relieve the MBTA of \$1.8 billion of debt associated with Central Artery/Tunnel commitments.³⁵
- In 2009, the MBTA Advisory Board recommended that the Commonwealth take back its \$3.3 billion in debt.³⁶ It is not unprecedented for the state to take on an Authority's debt – the state absorbed billions of dollars in debt when disbanding the Massachusetts Turnpike Authority in 2009.³⁷
- In 2010, a Blue-Ribbon Summit on Financing the Massachusetts Bay Transportation Authority (MBTA) and Regional Transit Authorities (RTAs) generated recommendations by experts, including:
 - debt relief is an essential part of the conversation about how to put the MBTA in a better place;
 - everyone needs to share in shouldering the costs (transit users and non-user beneficiaries, alike); and
 - reform opportunities and new revenue sources that support transit should be pursued simultaneously.³⁸
- In 2011, the Transportation for Massachusetts coalition echoed the sentiment that “Reform is not a substitute for revenue.”³⁹ The group also called for leaders to convene a public dialogue about transportation needs and options for meeting them, in order to achieve broad-based support.⁴⁰

- In 2012, a staff attorney at Conservation Law Foundation advocated for the legislature to provide sufficient funding or relieve the T of the debt the state assigned to the Authority in 2000.⁴¹ Michael Widmer, president of the Massachusetts Taxpayers Foundation, expressed concern about continual requests for taxpayers to “bail out the MBTA,” and advocated for changes to the cost structure of the MBTA that would provide lasting impact.⁴² Legislators, too, looking ahead to the 2013-14 legislative session, expressed the need for an approach to transportation funding that would secure a more stable position for the MBTA and other agencies.⁴³
- And most recently, Governor Deval Patrick’s 2013 State of the State address highlighted the need to take action to address transportation demands.⁴⁴ His plan calls for a \$1 billion annual investment in the Commonwealth’s transportation system to maintain current transportation assets and implement additional transportation projects across the state.⁴⁵ These projects include: improving highway interchanges; increasing annual funding for Regional Transit Authorities; resurfacing several major roads; completing the Green Line extension into Somerville and Medford; providing a rail connection between Springfield and Boston, Boston and Hyannis, and Pittsfield and New York City; replacing antiquated buses and Red, Orange, and Green Line trains; completing the South Coast rail extension; and expanding South Station.⁴⁶

Conclusion

The MBTA is an important part of the Massachusetts economy and a key to the Commonwealth’s future success as a place to do business, reside, and visit. To provide adequate service, the financing structure needs to be re-worked and the debt issue needs to be dealt with. Bold leadership in 2013 can set the stage for a more sustainable public transportation system. Public concern about the MBTA’s financial situation has been growing in recent years. By working with advocates to further raise awareness about the MBTA’s financial situation, public policy leaders can shore up substantial public support for measures that set up the Authority, and region, for long-term success.

About the Author

The researcher and author, Erica H. Mattison, is a May 2013 Juris Doctor Candidate at Suffolk University Law School in Boston, MA.

¹ Rafael Mares and Stephanie Pollack, Blue-Ribbon Summit on Financing the Massachusetts Bay Transportation Authority and Regional Transit Authorities, Meeting Summary, at 7, Nov. 1, 2010, in the Egan Research Center, Raytheon Amphitheater at Northeastern University, http://nuweb9.neu.edu/dukakiscenter/wp-content/uploads/BlueRibbon_Summary.pdf

² Blue-Ribbon Summit on Financing the MBTA and RTAs: Background on the Finances of the MBTA and Regional Transit Authorities, Nov. 1, 2010, <http://www.clf.org/wp-content/uploads/2011/04/Background-on-the-Finances-of-the-MBTA-and-Regional-Transit-Authorities.pdf>

³ Eric Moskowitz, *How T Entered a Tunnel of Debt*, Boston Globe, Feb. 05, 2012, <http://www.bostonglobe.com/metro/2012/02/05/how-entered-tunnel-debt/QxA4Y0NN5TNRZYAXo0RoML/story.html>

⁴ Eric Moskowitz, *MBTA mechanics keep old subway cars rolling*, Boston Globe, Jul. 8, 2012, <http://www.bostonglobe.com/metro/2012/07/07/working-against-time-wellington-team-keeps-old-mbta-cars-service/1NFyTGJaanXEIyiKxg8hGL/story.html>

⁵ Brian Kane, *Born Broke*, MBTA Advisory Board, 1 (Apr. 2009), http://www.mbta.com/uploadedfiles/Documents/Financials/Born_Broke.pdf.

⁶ *Id.*

⁷ *Id.*

⁸ MBTA, MBTA Fare and Service Changes 5 (Jan. 2012), http://www.mbta.com/uploadedfiles/About_the_T/Fare_Proposals_2012/MC12149%20Fare%20Increase%20Booklet_v7.pdf.

⁹ Kane, *supra* note 5.

¹⁰ MBTA, *supra* note 8.

¹¹ *Id.*

¹² *Id.* at 2.

¹³ Moskowitz, *supra* note 4.

¹⁴ Kane, *supra* note 5.

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.* at 16

¹⁸ *Id.*

¹⁹ John Larson and Eric Bourassa, *Derailed By Debt: Unhealthy Choices The MBTA Will Be Forced To Make In FY2009 - FY2013 3* (MassPIRG Education Fund, Fall 2007), <http://www.masspirg.org/sites/pirg/files/reports/MASSPIRG-MBTA-Funding-1.3.pdf>.

²⁰ *Id.*

²¹ Stephanie Pollack, *On the Right Track: Meeting Greater Boston's Transit and Land Use Challenges 23* (Urban Land Institute Boston District Council, May 2006), <http://www.reconnectingamerica.org/assets/Uploads/bestpractice165.pdf>.

²² Eric Moskowitz, *MBTA wants funding; no cuts, fare hikes for now, New chief hopeful of legislative remedy in next two months*, Boston Globe, Dec. 26, 2012, <http://www.bostonglobe.com/metro/2012/12/26/mbta-ridership-increases-again-november/VCsgv9phzhIWohxujV41cL/story.html>.

²³ T4MA, *Maxed Out: Massachusetts Transportation At A Financing Crossroad, A Primer From Transportation For Massachusetts 13* (Oct. 2011), <http://www.T4ma.Org/Sites/Default/Files/Uploads/Documents/Maxed%20out.Pdf>.

²⁴ *Id.* at 14.

²⁵ *Id.*

²⁶ *Id.*

²⁷ MBTA, *supra* note 8, at 5.

²⁸ *Id.* at 2.

²⁹ *Id.* at 3.

³⁰ *Id.* at 4.

³¹ *Id.* at 7-10.

³² MBTA, http://mbta.com/fares_and_passes/charlie/?id=24359 (Last visited Jan. 21, 2013); Lisa DeCanio, *12 Years of MBTA Budget Woes: Was The T Born Broke?*, BostInno, Jan. 11, 2012, <http://bostinno.com/all-series/12-years-of-mbta-budget-woes-was-the-t-born-broke/>.

³³ Moskowitz, *supra* note 22.

³⁴ Pollak, *supra* note 21.

³⁵ Larson and Bourassa, *supra* note 19, at 1.

³⁶ Kane, *supra* note 5, at 17.

³⁷ Moskowitz, *supra* note 3.

³⁸ Mares and Pollack, *supra* note 1, at 7.

³⁹ T4MA, *supra* note 23, at 14.

⁴⁰ *Id.* at 19.

⁴¹ Rafael Mares, *Response to OpEd: The Real Fast Track to Trouble*, Conservation Law Foundation (Jul. 5, 2012), <http://www.clf.org/blog/tag/mbta/>.

⁴² Peter Howe, *Protesting MBTA Fare Hikes*, New England Cable News, Mar. 29, 2012, http://www.necn.com/03/29/12/Protesting-MBTA-fare-hikes/landing_newengland.html?blockID=679568&feedID=7512.

⁴³ Will Brownsberger (Feb. 5, 2012), <http://willbrownsberger.com/globe-story-on-mbta-debt/>.

⁴⁴ Governor's Office, Governor Patrick Calls For Increase Tax To Support Investments in Education, Transportation (Jan. 17, 2013), <http://www.mass.gov/governor/pressoffice/pressreleases/2013/0116-state-of-commonwealth.html>.

⁴⁵ Governor's Office, Governor Patrick Highlights Need For Transportation, Education Investments to Grow Economy in Central Massachusetts & Beyond (Jan. 18, 2013), <http://www.mass.gov/governor/pressoffice/pressreleases/2013/0118-investments-in-central-ma.html>.

⁴⁶ Massachusetts Budget and Policy Center, *A First Look at the Governor's Proposals on Education, Transportation, and Revenue* (Jan. 18, 2013), http://www.massbudget.org/report_window.php?loc=first_look_proposals_fy14.html.