MBTA FY 2009 OPERATING BUDGET OVERSIGHT REPORT

Final Report
To The MBTA Advisory Board
On The

MBTA FISCAL YEAR 2009 BUDGET REQUEST

May 29, 2008

FINAL REPORT
TO THE MBTA ADVISORY BOARD

MBTA FISCAL YEAR 2009 BUDGET REQUEST

Submitted by the

MBTA Advisory Board Finance Committee

May 29, 2008

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PREFACE

The MBTA Advisory Board Finance Committee transmits the enclosed report for your consideration.

The committee wishes to thank the MBTA for its efforts in responding to requests for supporting documentation and for attending committee meetings.

The committee also acknowledges the invaluable budget analysis the Advisory Board staff has provided in preparation for this report.

Massachusetts Bay Transportation Authority
Statement of Revenue and Expense
FY 2009 Budget Request

Approved May 29, 2008 by the MBTA Advisory Board: The Massachusetts Bay Transportation Authority's fiscal year 2009 budget for total revenues of $1,435,706,228 and total expenses of $1,455,020,976 with the expected short fall of $19,914,748 to be made up from the Authority's deficiency fund ($15,000,000) and capital maintenance fund ($4,314,748).

	FY 08 Approved Budget	FY 09 Budget Request	Advisory Board Changes	FY 09 Approved Budget
REVENUE				
Operating Revenues				
Rapid Transit Revenue	200,721,218	205,237,445	-	205,237,445
Commuter Rail Transit Revenue	137,252,578	138,625,103	-	138,625,103
Surface Transit Revenue	84,569,409	85,837,950	-	85,837,950
School, Senior & Paratransit Revenue	7,555,977	7,782,656	-	7,782,656
Advertising and Consession Revenue	11,000,000	13,500,000	-	13,500,000
Revenue from Real Estate Operations	37,362,808	40,904,119	-	40,904,119
Total Operating Revenue	**478,461,990**	**491,887,273**	**0**	**491,887,273**
Non-Operating Revenue				
Interest Income	3,800,000	4,000,000	-	4,000,000
Non-Opps. Income	20,800,000	15,262,344	-	15,262,344
Funds from Federal Government	8,000,000	8,000,000	-	8,000,000
Utility Reimbursements	2,800,000	3,051,000	-	3,051,000
Total Non-Operating Revenue	**35,400,000**	**30,313,344**	**0**	**30,313,344**
Revunue from Dedicated Sources				
Funds from Local Governments	142,913,229	146,486,059	-	146,486,059
Revenue Receipts from Sales Tax Trust	755,982,210	767,019,551	-	767,019,551
Total Dedicated Revenues	**898,895,439**	**913,505,610**	**0**	**913,505,610**
TOTAL REVENUES	**1,412,757,429**	**1,435,706,228**	**0**	**1,435,706,228**
EXPENSES				
Operating Expenses				
Wages	358,513,203	357,722,598	-	357,722,598
Fringe Benefits				
Pensions	48,729,488	44,853,979	-	44,853,979
Healthcare	108,106,413	112,776,771	-	112,776,771
Group Life	1,714,381	1,714,381	-	1,714,381
Disability Insurance	63,820	63,819	-	63,819
Worker's Comp	10,829,028	10,829,027	-	10,829,027
Other Fringe Benefits	290,414	290,414	-	290,414
Total Fringe Benefits	169,733,543	170,528,392	0	170,528,392
Payroll Taxes				
FICA	27,422,880	27,362,380	-	27,362,380
Unemployment	1,133,214	908,214	-	908,214
Total Payroll Taxes	28,556,094	28,270,594	0	28,270,594
Materials, Supplies and Services	163,796,729	182,943,232	-	182,943,232
Casualty & Liability	16,235,693	15,735,693	-	15,735,693
Purchased Commuter Rail Services	241,619,981	266,176,063	-	266,176,063
Purchased Local Service Subsidy	57,537,130	61,531,256	-	61,531,256
Financial Service Charges	1,728,960	4,328,960	-	4,328,960
Total Operating Expenses	**1,037,721,333**	**1,087,236,788**	**0**	**1,087,236,788**
Debt Service Expenses				
Interest (All)	229,305,914	245,716,876	-	245,716,876
Principal Payments	126,200,476	102,567,312	-	102,567,312
Lease Payments	18,793,577	19,500,000	-	19,500,000
Total Debt Service Expenses	**374,299,967**	**367,784,188**	**0**	**367,784,188**
TOTAL EXPENSES	**1,412,021,300**	**1,455,020,976**	**0**	**1,455,020,976**
Net Revenue (expense)	**736,129**	**(19,314,748)**	**0**	**(19,314,748)**
Deficiency Fund	-	15,000,000	-	15,000,000
Capital Maintance Fund	-	4,314,748	-	4,314,748
Net Revenue in Excess of Expenses	**736,129**	**0**	**0**	**0**
Fare Recovery Ratio	41.45%	40.24%		40.24%
Revenue Recovery Ratio	49.52%	48.03%		48.03%

1. BUDGET OVERVIEW

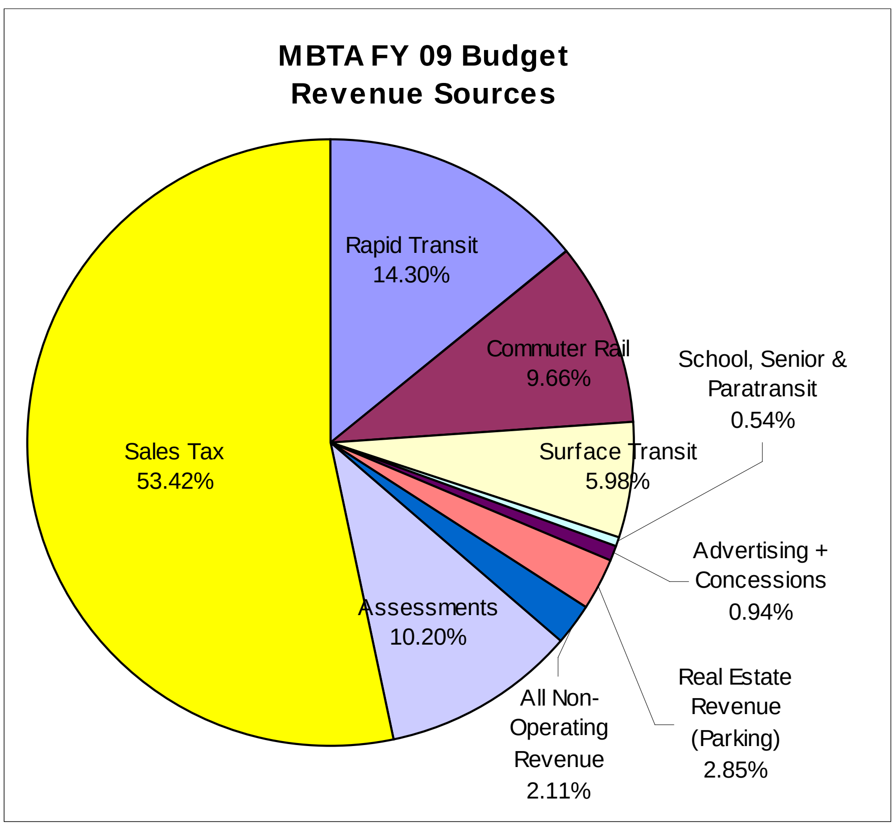
On March 18, 2008 the MBTA presented its fiscal year 2009 budget request to the full Advisory Board. CFO and Deputy General Manager Jonathan Davis outlined a budget that projected total expenses of $1,455,020,976 and revenues of $1,435,706,228. The FY 2009 budget is 3.05% greater than the FY 2008 approved budget. Implicit in the FY 2009 budget is a restructuring of $55 million in debt to reduce the overall expenses line item.

A. Revenue

MBTA FY 2009 Revenues

Operating Revenues	491,887,273
Non-Operating Revenues	30,313,344
Assessments	146,486,059
Sales Tax Revenues	797,019,551
Total	**1,435,706,228**

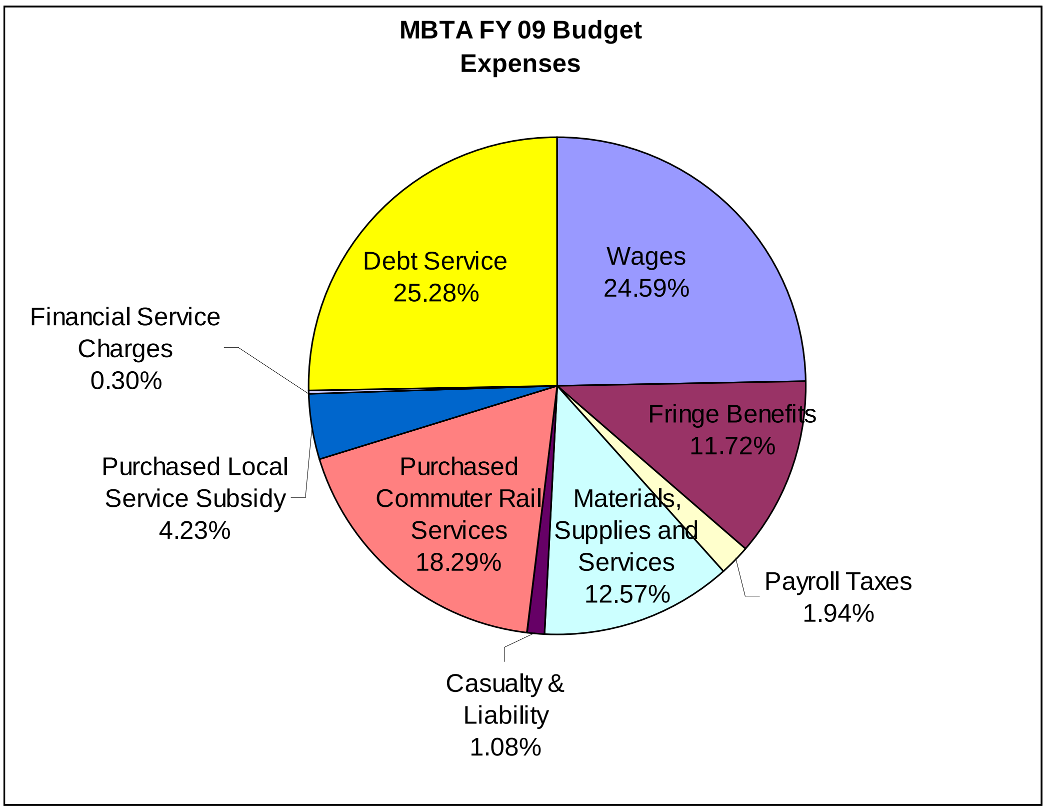
Projected operating revenues are $13.4 million (2.81%) greater than budgeted for FY08 and reflect increased ridership on all modes as commuters turn to public transportation in the face of increased gasoline prices. Non-operating revenue is budgeted to decrease by $5 million (-26.62%) than budgeted for FY08 primarily due to a virtual halt to all real estate sales. Assessment revenue is scheduled to increase by $3.5 million (2.5%) over the FY 08 budget, while sales tax receipts will grow by 1.46%, an increase of $11 million over FY08. Both the assessment and sales tax revenue figures have been certified by the Commonwealth.



B. Expenses

MBTA FY 2009 Expenses

Wages	357,722,598
Fringe Benefits	170,528,392
Payroll Tax	28,270,594
Materials, Supplies, Services	182,943,232
Causality & Liability	15,735,693
Purchased Commuter Rail	266,176,063
Purchased Local Service Subsidy	61,531,256
Financial Service Charges	2,600,000
Debt Service	367,784,188
Total	**1,455,020,976**



The Authority is seeking a net increase of $42,999,676 (3.05%) over the FY08 expense budget. The Authority's wage budget is lower than in FY08 by $790,605 which reflects an overall decrease in headcount and overtime. Correspondingly, with the exception of health care costs, overall fringe benefits are also down by more than $3.8 million. The entire fringe benefit category is up by $794,849 (0.47%) over FY08. The largest driver of the increase is the rising cost of fuel to keep revenue vehicles operating. These increases are felt in the Material, Supplies and Services, Purchased Commuter Rail Services and Purchased Local Services line items.

MBTA FY 2009 Operating Budget Increase Request

Purchased Commuter Rail Services	24,556,082	57.11% of total increase
Materials, Supplies, Services	19,146,503	44.53%
Purchased Local Service Subsidy	3,994,126	9.29%
Financial Service Charges	2,600,000	6.05%
Fringe Benefits	794,849	1.85%
Payroll Taxes	(285,500)	(0.66%)
Casualty & Liability	(500,000)	(1.16%)
Wages	(790,605)	(1.84%)
Debt Service	(6,515,779)	(15.15%)
Total	**42,999,676**	**100%**

The debt service budget, overall, is $6,515,779 less than was budgeted in FY08. This is because principal payments due in FY09 are being pushed out into future years. This represents a one-time deferral of expense to balance the budget, and should not be considered savings.

MBTA FY 2008 Debt Service Budget Request

	FY 2008	**FY 2009**	**Inc/(Dec)**
Interest	229,305,914	245,716,876	16,410,962
Principal	126,200,476	102,567,312	(23,633,164)
Leases	18,793,577	18,793,577	706,423
Total	**374,299,967**	**367,784,188**	**(6,515,799)**

FY 2009 is the fourth year since forward funding in which the Authority is budgeting a deficit, which the Authority proposes to cover with $19,314,748 from its "rainy day" funds including $15,000,000 from the deficiency fund and $4.3 million from the capital maintenance fund.

C. The Review Process

The Finance Committee met four times to consider the Authority's FY09 budget submission. Staff of the MBTA, including the CFO, budget director and numerous department heads met with the committee to present their departmental needs and answer questions. As in past years, the Finance Committee was provided all of the requested budget review materials and additional information, and would like to thank the Authority for the timeliness and quality of those items.

2. DISCUSSION

A. Revenue

Total revenue is budgeted to increase by 1.62% in FY09 or $22.9 million over FY 08's budget.

Operating Revenue

Operating revenues will increase by $13.4 million of which farebox revenues comprise $7.38 million. Ridership increases throughout the system, especially on the subway lines and bus network will drive these revenue enhancements. Bus revenue is projected to increase by $4.5 million (2.25%), while subway revenues will also rise by $1.27 million (1.5%) due to increased ridership. Commuter rail revenue is projected to increase by 1.0%, or $1.37 million. Revenue from the special category for secondary school students, senior citizens and persons with disabilities is projected to increase by 3%, or $226,679.

Advertising & concession revenue and revenue form real estate operations are also counted as operating revenue, although not as farebox revenue. Advertising and concessions revenue will increase by 22.73% from $11 million in FY 08 to $13.5 million in FY09 due to a contractual increase between the MBTA and its advertising partners. Revenue from real estate operations, which includes parking revenue, will increase by 9.48%.

Operating Revenue	FY08 Budget	FY09 Budget	% Δ 08-09	$ Δ 08-09
Fare Box	430,099,182	437,483,154	1.72%	7,383,972
Advertising & Concessions	11,000,000	13,500,000	22.73%	2,500,000
Real Estate Revenue	37,362,808	40,904,119	9.48%	3,541,311
Total	**478,461,990**	**491,887,273**	**2.81%**	**13,425,283**

Non-Operating Revenue

Total non-operating revenues are $5.08 million lower than budgeted in FY08. Although interest income is expected to grow slightly, and utility reimbursements will increase by nearly 9%, revenue from the non-operations income line item is projected to decrease by $5.5 million. Non-operations income is comprised of revenue from the sale of Authority property. Because of the soft real estate market it is unlikely that any property deals will be conducted in FY09. The Authority is examining a new policy of preferring leasing over outright sale.

Non-Operating Revenue	FY08 Budget	FY09 Budget	% Δ 08-09	$ Δ 08-09
Interest Income	3,800,000	4,000,000	0.87%	200,000
Non-Operating Income	20,800,000	15,262,344	-24.13%	(5,537,656)
Federal Funds	8,000,000	8,000,000	0.00%	0.00
Utility Reimbursements	2,800,000	3,051,000	1.09%	251,000
Total	**35,400,000**	**30,313,344**	**-22.17%**	**(5,086,656)**

Dedicated Revenue

Dedicated revenues will increase by $14.6 million (1.63%) comprised of an increase of $3.57 (2.5%) million in assessments and $11.03 million (1.46%) in sales tax revenue. The growth in sales tax revenue, the single largest source of funding for the Authority, is less than half of what was envisioned when forward funding was implemented.

Dedicated Revenue	FY08 Budget	FY09 Budget	% Δ 08-09	$ Δ 08-09
Assessments	142,913,229	146,486,059	2.50%	3,572,830
Sales Tax	755,982,210	767,019,551	1.46%	11,037,341
Total	**898,895,439**	**913,505,610**	**1.63%**	**14,610,171**

Revenue Recovery Ration

The revenue recovery ratio (calculated as operating and non-operating income divided by operating expenses) is projected at 48.03% in FY09 down from a high of 49.52% in FY08. The 2001 Governor's Blue Ribbon Commission's report on the MBTA recommended a goal of 50% revenue recovery ratio. This calculation does not include debt service costs.

B. Operating Expense

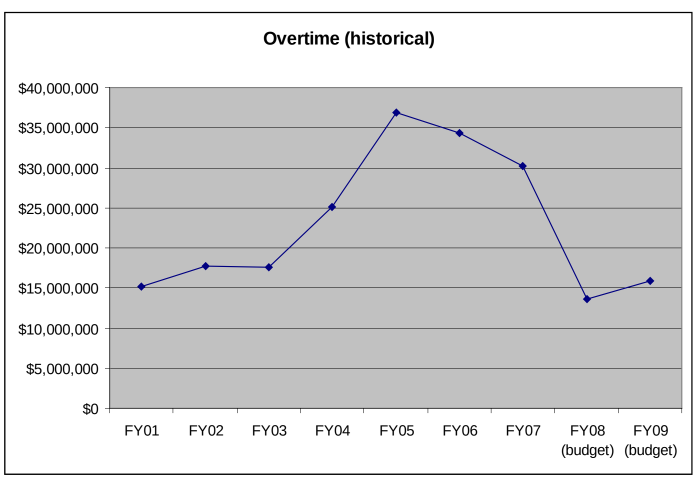
Wages

The wage line item is projected to decrease by $3,174,571 compared to the FY08 budget. This is a decrease of 0.92%. Based on the actual wage bill of the Authority from FY's 2001 – 2007 and the budgeted amounts for FY's 08 and 09, the average annual wage increase is 2.86%, meaning that this year's wage budget is well below the historical average.

At the time of this report it is unknown what the final FY08 wage bill will be. The Authority is currently in binding arbitration with one of its unions over their compensation package for FY08 - FY10. This arbitration may be retroactive to FY07. Any retroactive pay must come from the FY09 budget, thus making any budget projection difficult, and adding pressure to a budget already in fragile balance.

Overtime

Overtime is projected to increase by $2.38 million compared to the FY08 budget, meaning that the comprehensive wage and overtime line item will decrease by $790,606 from last FY's budget. This is an increase of 17.58% over the same line item in FY08; however that line item was down 55% from the FY before that. Based on the actual overtime bill of the Authority from FY's 2001 – 2007 and the budgeted amounts for FY's 08 and 09, the average annual overtime increase is 6.15%.. Even though the overtime budget is up for FY09, it is still less than was budgeted in any year between FY02-FY07.



Headcount

The MBTA's net headcount is down 47 fulltime positions (-47) which affect the operating budget. There is a slight increase in positions charged to the capital budget. The total workforce of the Authority charged to the operating budget for FY09 is projected at 5927 (5322 full-time and 605 part-time), down from 5957 in FY08. Over half of the Authority's departments will see their headcounts decrease under this budget.

Departments with headcount reductions (fulltime)

• Bus Operations	-28
• Subway Operations	-21
• Treasurer/Controller	-8
• Systemwide Modernization	-7
• Systemwide Maintenance & Infrastructure	-3
• Operations Support	-2
• General Counsel	-2
• Diversity	-2
• Planning	-2
• Interagency	-2
• Chief Operating Officer Staff	-1
• Systemwide Accessibility	-1
• Environmental Affairs	-1
• Budget Office	-1
• Human Resources	-1
• Marketing	-1
• System Safety	-1
Total	**-85**

Departments requesting headcount increases (fulltime)

• Vehicle Procurement	15 (13 shifting from capital budget)
• Police	8 (6 paid from DHS grant for 3 years)
• Operations Planning & Scheduling	5
• Materials	4
• Commuter Rail Supervision	2
• ITD	2
• Customer Care Center	2
Total	**38**

Absenteeism

The MBTA Advisory Board has closely tracked the MBTA's trends in absenteeism in recent years. On average, MBTA employees were absent (unexcused) 17.59 days in calendar year 2006. This is an increase from CY 06 (16.01) and the highest rate since 2003 when the rate was an astonishing 21.61- a month's worth of working days.

Absenteeism	CY03	CY04	CY05	CY06	CY07
Annual Average Days	**21.61**	**17.34**	**15.76**	**16.01**	**17.59**

Fringe Benefits & Pensions

The FY08 budget transfer seeks authorization from the Advisory Board to reduce its budgeted amounts for the various line items that constitute the fringe benefits category by $9.4 million. Taken into account, the new FY08 budgeted fringe benefit category totals $160,309,566. For FY09 the Authority requests a budget of $170,528,391, an increase of $10.2 million or 6.37%. With the exception of pension contributions, all line items within the category will increase.

Fringe Benefits	FY08 actual	FY09 budget	$ Δ 08-09	% Δ 08-09
Pensions	44,856,272	44,853,979	-2,293	-0.01%
Healthcare	103,726,841	112,776,771	9,049,930	8.72%
Group Life	1,639,124	1,714,381	75,257	4.59%
Disability Insurance	60,990	63,819	2,829	4.64%
Worker's Comp	9,817,655	10,829,027	1,011,372	10.30%
Other Fringe Benefits	208,684	290,414	81,730	39.16%
Total	**160,309,566**	**170,528,391**	**10,218,825**	**6.37%**

Since 2001 the fringe benefit line has risen annually by an average of 7.12%.[1] This budget's increase is less than the decade's average.

The MBTA's contribution to the main pension fund will be almost unchanged from FY 2008. While the number of pension-eligible retirees is expected to increase before the end of CY 2008 due to legislative mandate, the strong average performance of the retirement fund's investments are expected to cover its obligations without further funding from the Authority's operating budget. Furthermore, the Authority is completely caught up in its obligatory payments into the retirement fund, which lagged in past years.

The funds budgeted for pension expenses also include contributions to the Police Pension Plan, the Executive Deferred Compensation plan and an annual Medicare supplement.

Materials, Supplies, and Services

Included in the FY08 budget transfer document was an increase in this line of $2,101,757 from $163,796,729 to $165,898,486. Based on this, the FY09 budget request of $182,943,232 is a $17 million + increase, or 10.27%. The high cost of fuel is to blame. The week the MBTA submitted their budget to this Board (first week of March 2008) the average cost of gasoline in Massachusetts was $3.112. The first week of May 2008 (the last week for which data is available), the price was $3.603 per gallon, a difference of $0.491 per gallon.[2]

Material, Supplies, & Services	FY06 actual	FY07 actual	FY08 actual	FY 09 budget
Total Cost	$134,304,402	$145,355,389	$165,898,486	$182,943,232

[1] Calculation based on actual costs FY01-08 and budgeted amount for FY09.
[2] US Department of Energy, Energy Information Administration. http://tonto.eia.doe.gov/oog/info/gdu/gasdiesel.asp

% increase on previous FY	10.34%	8.23%	14.13%	10.27%

The Authority's existing fuel hedge expires at the end of the current FY. According to statements given to the Finance Committee, MBTA officials believe that entering into a long-term hedge contract at the present time is not in the best interest of the Authority.

Purchased Commuter Rail Services

The FY08 budget transfer also requested an increase in this line item of $5.7 million (2.37%) from $241,619,981 to $247,343,268. The FY09 budget is greater than this amount by $18.8 million or 7.61%. Part of this increase is the contractual cost increase in the MBCR contract, and part is the added cost to the Authority for MBCR to run the Greenbush service for a full year. However, the biggest driver of this cost increase is the rising price of fuel. Under the MBCR contract the Authority is responsible for fueling the locomotives. MBTA commuter rail operations staff told he Finance Committee that the cost of train fuel increased by more than $1 per gallon between the time the budget was drafted and the time the met with the committee.

At the last full Board meeting commuter rail operations staff and staff from MBCR including its GM James O'Leary discussed problems commuter rail experienced with on-time performance in the final months of calendar year 2007. All staff assured Board members that OTP was trending positively in 2008. Furthermore, Board members were assured that heating and air conditioning issues would not be repeated in the summer, fall and winter of 2008/2009.

Purchased Com. Rail Services	FY08 actual	FY09 budget	$ Δ 08-09	% Δ 08-09
Total	**247,343,268**	**266,176,063**	**18,832,795**	**7.61%**

Purchased Local Services

Similar to the Materials, Supplies and Services and Purchased Commuter Rail Services line items, the Purchased Local Services line item also increased in FY08 over its budget. The original FY08 budget amount of $57,537,130 was increased by $2,266,370 to $238,378,070, a 3.94% increase. The FY09 budget seeks a $1.7 million increase on this amount; a 2.89% increase. This increase is also the result of increased fuel prices for The RIDE and double-digit ridership growth.

Purchased Local Service Subsidy	FY08 actual	FY09 budget	$ Δ 08-09	% Δ 08-09
Total	**59,803,500**	**61,531,256**	**1,727,756**	**2.89%**

C. Debt Service

The MBTA currently carries more than $8 billion in total debt, including over $5 billion in principal and $3 billion in interest. In FY09 that translates into budgeted debt service expenses of $367,784,188, a decrease of the FY08 of over $6.5 million. Part of the FY08 budget transfer requested an increase of a little more than $9 million in interest payments and an equal reduction in principal payments. Based on these changes the FY09 budget calls for reduced principal payments of $14.56 million (12.43%) and a slight increase in interest payments (3.08%).

This $14.56 million decrease in principal payments is one of the stop-gap tools the Authority is using this year to fill its $75 million deficit. It is part of a concerted effort to address its structural deficit for funding its core transit obligations. Postponing principal payments now only increases the total debt costs in the long-run, even if interest rates are lowered. This is not a sustainable method of funding transit.

Lease payments will increase by $706,423 over the FY08 budget as well. These payments go towards the leasing of police cars, RIDE vehicles, non-revenue vehicles, and retail sales terminals supporting the CharlieCard program.

Debt Service Expenses	FY08 actual	FY09 budget	$ Δ 08-09	% Δ 08-09
Interest (All)	238,378,070	245,716,876	7,338,806	3.08%
Principal Payments	117,128,320	102,567,312	(14,561,008)	-12.43%
Lease Payments	18,793,577	19,500,000	706,423	3.76%
Total	**374,299,967**	**367,784,188**	**(6,515,779)**	**-1.74%**

The Authority has implemented a number of debt reduction strategies in order to reduce debt service costs for FY09. These initiatives include an advance synthetic fixed rate refunding ($11.6 million) and a debt restructuring ($28.4 million). The Authority will also delay the issuance of new money by using commercial paper to fund capital projects which is projected to save $5.0 million. A current refunding is also planned for FY09 that will reduce debt service costs by up to $10 million in FY09, but will increase debt service costs overall in the long-term. These four debt management initiatives reduced the FY09 debt service costs by $55 million from $422.8 million to $367.8 million, but increase costs in future years.

Debt Management Initiative FY 09 Budget	
Beginning FY09 Debt Service Obligation	**$422,800,000**
Management Initiatives	
Advanced Synthetic Fixed Rate Refunding	$-11,600,000
Debt Restructuring	$-28,400,000
Commercial Paper Issue Delay	$-5,000,000
Debt Service Refunding	$-10,000,000
Debt Service Budgetary "Savings"	$-55,000,000
New FY09 Debt Service Obligation	**$367,800,000**

Recommendations

Last year the Finance Committee wrote: "The MBTA is in the middle of a fiscal crisis that has no end in sight. The past three years have been extremely difficult because of the lack of adequate resources. Without these resources, the Authority must husband what funds it has and ensure that they can wring maximum value out of each dollar." The Committee recognized then that the resources available to the MBTA could not keep pace with the increases we all knew were coming. Fuel costs were rising, the MBTA was negotiating with its unions for a new contract and there was no real expectation of strong growth in the sales tax revenue stream that could soften the blow for the Authority. As it turns out, the Committee was optimistic.

Sales tax revenues grew at an anemic 1.5%; less even than the average since the advent of forward funding of 1.6% and far less that the once conservative assumption that sales tax growth would average 3% a year. Had sales tax growth met expectations, the MBTA would be receiving $817 million for FY09 instead of the $767million it will receive. Had this revenue stream performed as expected over time, the MBTA would have received an additional $200 million since FY2000. Fuel costs have skyrocketed, and the Authority paid an additional $9.5 million in fuel costs in FY08 even with a fuel hedge in place. That hedge expires at the end of the fiscal year and the full force of the increase in the market price will hit the MBTA. The increase in farebox revenue due to commuters leaving their cars and taking the MBTA will not offset the increase in fuel costs.

As with any organization the size and scope of the MBTA there are savings and efficiencies that can be garnered through better management. The Authority needs to make more progress on employee absenteeism. The Authority needs to continue its focus on preventing fare evasion. The Authority needs to continue to bring energy and innovation to its operations to be sure that they are getting the most value out of their limited funds. This discipline will bring benefits today and in the long term. But we note that the MBTA cannot "manage" its way out of this crisis. One look at the budget proposal shows that the twin drivers of the current problems are poor sales tax revenue performance and growth in costs beyond the control of the Authority.

The Committee would have preferred to find ways to reduce the amounts the Authority wanted to access from the reserve accounts. The MBTA does not have adequate cash reserves under any circumstances and we would have rather seen these savings found from another source. The reality is that fuel costs have risen significantly since this budget was sent to us in March. The fuel line items for bus, commuter rail and the RIDE are already millions of dollars under funded and the fiscal year has not begun yet. The wage line item, which the MBTA carefully preserved with strong controls on headcount growth, will likely grow significantly as well. The decision of the arbiter between the MBTA and the unions is due in June and, barring a miracle, the Authority will see significant increases that it cannot afford.

The Authority has embraced the recommendations of the Transportation Finance Commission in many ways. They are moving personnel from the capital budget to the operations budget because it is sound financial practice to do so. Recent legislation requires that future MBTA retirees must pay 15% of their health care costs. Other labor concessions are being negotiated with the transit unions. But other recommendations cannot move forward until the Commonwealth takes the Transportation Finance Commission's bipartisan advice and takes responsibility for the estimated $1.8 billion in Central Artery/Tunnel Project obligations that properly belong to the state.

The MBTA Advisory Board has asked the Legislature to address the issue of debt relief. We have written letters, supported legislation and raised the issue consistently. The Board notes with disappointment that while the Legislature has voted to expand MBTA services, it has done nothing to address the certain disaster the Authority faces in the immediate. Had the Legislature acted when the issue was first raised, the Authority would be in far better fiscal shape than it is today. As it is, the choice now belongs to the Legislature and the Administration: Correct the structural funding problems, relieve the MBTA of the Commonwealth's debt or be responsible for deep service cuts.

The Finance Committee does not recommend any reductions to the budget submitted by the Authority because of the challenges the MBTA faces in the coming months. The Finance Committee recommends that the full Advisory Board direct the staff to draft legislation, working with all parties, which directly addresses the issue of debt relief for the MBTA. The staff is further directed to contact both the Legislative and Executive Branches to make members aware of the depth of the problem and solicit support of a solution.

On May 29, 2008 the full MBTA Advisory Board adopted this report with the following additional recommendations:

The MBTA Advisory Board believes that any the depletion of the Authority's strategic cash reserves is troubling. Press reports and other evidence indicates that ridership throughout the system is increasing. With this increased ridership fare revenue should also increase over the projected levels for FY20. If at all possible, funds should be preserved in the deficiency funds as well as in the capital maintenance funds. Special consideration by the Authority should be given to using any increased fare-box revenue to preserve these strategic reserve funds.

The MBTA Advisory Board is gravely concerned about the prospects of draconian cuts in service in FY09 unless there is legislative action on the issue of debt relive. The Board fears that at this time of increased ridership when new customers are coming into the system, the inability of the Commonwealth to act may jeopardize not only retaining these new riders but also risks forcing the Authority to cut service across the entire system. Although certainly affected by the on going gas crisis, the MBTA is the solution to the high cost f gasoline and driving and the Board fears that service cuts might be necessary just at the time the T is needed most.

The MBTA Advisory Board calls on the members of the MBTA Board of Directors, members of the Massachusetts General Court and the Governor and members of his administration to address the structural deficiencies in the way in which the MBTA is funded. They must work together with each other and with all stakeholders including the members of this organization to solve the MBTA's revenue and debt problems and ensure that Eastern Massachusetts continues to have a world class pubic transportation system.